File #: 2017-0695, **File Type:** Informational Report **Agenda Number:** 7.

FINANCE, BUDGET AND AUDIT COMMITTEE
NOVEMBER 15, 2017

SUBJECT: FISCAL YEAR 2017 (FY17) - PRELIMINARY YEAR END FINANCIAL REPORT

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE status report on the Preliminary Fiscal Year 2017 (FY17) Year End Financial Report.

ISSUE

This report summarizes Metro's financial performance for FY17 through the end of the year. Financial performance through the end of the year demonstrates Metro's ability to deliver safe and reliable transportation services within budget.

For purposes of this report, the budgeted amounts reflect the reforecasted budget as of April 2017. The budgeted numbers are within the Board authorized amounts and bounded by the legally controlled fund levels. All data in this report is based on preliminary FY17 year end data.

DISCUSSION

A. Summary of Revenues and Expenses

		YTD June 30, 2017			
	Revenues / Expenses ($ in millions)	**Budget**	**Actual**	**Variance**	**% of Budget**
1	Sales Tax and Operating Revenues	$ 3,236.1	$ 3,352.5	116.5	103.6%
2	Reimbursement Revenues [1]	$ 2,791.7	$ 2,651.2	(140.5)	95.0%
3	Total Expenses/Expenditures	6,027.8	5,254.6	773.2	87.2%
4	Revenues Over/(Under) Expenses	**$ -**	**$ 749.2**	**$ 749.2**	

[1] Includes federal, state and local grant, bond proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdown, and prior year commitment.

Overall for FY17 the agency delivered $5.2 billion worth of services of which $3.4 billion came from sales tax and operating revenues and $2.7 billion from resources based on reimbursement from grant and debt financing. Sales tax and operating revenues exceeded the budget by $116.5 million while reimbursement revenues ended short of the budget by $140.5 million. Total expenses of $5.2 billion came in under the budgeted amount of $6.0 billion resulting in a $773.2 million variance. The net result leads to a favorable position of $749.2 million.

B. Summary of Revenues

		YTD June 30, 2017			
	Source ($ in millions)	**Budget**	**Actual**	**Over / (Under) Budget**	**% of Budget**
1	Sales Tax, TDA & STA Revenues				
2	Proposition A	$ 780.0	$ 789.4	$ 9.4	101.2%
3	Proposition C	780.0	789.3	9.3	101.2%
4	Measure R	780.0	787.9	7.9	101.0%
5	Transportation Development Act	390.0	393.9	3.9	101.0%
6	Subtotal Sales Tax & TDA Revenues	2,730.0	2,760.5	30.5	101.1%
7	State Transit Assistance Fund	52.9	74.0	21.2	140.1%
8	**Subtotal Sales Tax, TDA & STA Revenues [1]**	**$ 2,782.9**	**$ 2,834.5**	**$ 51.7**	**101.9%**
9	Operating & Other Revenues				
10	Passenger fares	$ 323.4	$ 313.1	$ (10.3)	96.8%
11	Toll Revenue	60.0	72.1	12.1	120.2%
12	Advertising	25.1	23.9	(1.1)	95.5%
13	Union Station	8.0	10.4	2.3	128.7%
14	Bike Revenue	1.7	0.5	(1.2)	27.1%
15	Parking Unit	1.1	0.2	(1.0)	14.6%
16	Low Carbon Fuel Standard Sales	0.4	8.2	7.8	2024.1%
17	Investment Income	2.0	11.7	9.7	585.2%
18	Other Income [2]	31.5	78.1	46.5	247.6%
19	**Subtotal Operating & Other Revenues**	**$ 453.2**	**$ 518.0**	**$ 64.8**	**114.3%**
20	**Total Sales Tax & Operating Revenues**	**$ 3,236.1**	**$ 3,352.5**	**$ 116.5**	**103.6%**
21	**Reimbursement Revenues [3]**	**$ 2,791.7**	**$ 2,651.2**	**$ (140.5)**	**95.0%**
22	**Total Revenues**	**$ 6,027.8**	**$ 6,003.8**	**$ (24.0)**	**99.6%**

[1] Actual Proposition A, Proposition C, Measure R, and TDA Revenues represent amounts released by the State Board of Equalization for the fourth quarter. The actual for STA represents amounts released by State Controller's Office for the fourth quarters.
[2] Includes CNG tax credits, lease revenues, vending, and other miscellaneous revenues.
[3] Includes federal, state and local grant, bond proceeds, Transportation Infrastructure Finance and Innovation Act (TIFIA) loan drawdown, and prior year commitment.

- Sales Tax, TDA & STA Revenues

Sales Tax and TDA revenues for FY17 came in $30.5 million, 1.1% higher than the reforecasted budget, reflecting economic growth as Metro forecasted for the region.

State Transit Assistance (STA) revenue is dependent upon actual consumption of diesel fuel combined with changes in fuel price. The information presented below reflects actuals for the year end, which translates into much higher than expected diesel fuel usage and related STA revenue.

- Passenger Fare Revenue

  Passenger fare revenues of $313.1 million are lower than the reforecasted budget by $10.3 million, primarily due to lower than expected boardings. Fare revenue per Boarding continues to be steady as $0.78/per boarding. Metro is aware of the situation and are working to turn around the trend by improving route efficiencies and increasing security presence on the system to enhance our customer's experience and attract riders.

- Toll Revenue

  Metro ExpressLanes toll revenue of $72.1 million exceeded the budget by $12.1 million. The variance is the result of better than anticipated patronage of the Metro ExpressLanes, which has seen traffic volume increases by over 3.2 million trips (approximately 8%) from FY16. State law requires the net toll revenues generated from the Metro ExpressLanes be reinvested in the corridors from which they were derived, pursuant to a board approved expenditure plan.

- Advertising, Union Station, Bike Program and Parking Revenue

  Total revenues for this category are slightly lower than budgeted by $1.0 million which is the net product of several subcomponents:

  - Metro's bus and rail operating advertising revenue is close to forecast. The projected revenue of advertisement for parking, property wrap and bike rack have not generated the revenue as planned in FY17.
  - The net revenue for park and ride permit was less than expected because of higher than anticipated contractor service charges. In addition, the projected pilot parking revenues weren't implemented until April 2017, experiencing a delay of six months.
  - Bike share program and bike locker/hub revenue came in lower than expected due to lower than expected usage. FY17 winter was one of the rainiest seasons on record for the last 7 years, causing ridership and revenue to dip below our forecast.
  - Union Station operating revenue is higher than budget due to better parking revenue and common area maintenance expense recoveries.

- Low Carbon Fuel Standard (LCFS) Credit Revenue

  The sale of LCFS credit budget is based on market conditions. For FY17 Metro had only budgeted for the Southern CA Edison rebate for the Green Fund. Metro executed three direct sales of LCFS credit bringing in $8.2 million of revenue which significantly exceeded the conservative budget estimate of $0.3 million. These sales were timed to take advantage of market conditions favorable to Metro's interests. These revenues are used to reimburse the sustainability program's initial investment and its on-going program cost.

- Investment Income

  Investment income of $11.7 million exceeded the budget by $9.7 million. The higher than anticipated balances are the result of slower than expected cash/investment balance draw-downs to pay for capital projects, call for projects and subsidies during the period. Metro continues to invest unused funds according to the Board approved investment policy.

- Other Income

  Other income of $78.1 million exceeded the budget by $46.5 million. Several factors are at play to explain the better than expected results:

  - One-time sale for $24 million of Metro's interest in the 1st and 2nd promissory notes secured against Grand Central Square (unbudgeted). This revenue was unplanned/unbudgeted and is offset by the debt service expense required to defease the notes.
  - Calendar Year 2016 Federal CNG credits of $8 million were recognized in FY17 via retro legislative action in early calendar year 2016 (which was after Metro's FY17 budget was adopted). These credits are programmed in the FY18 budget.
  - The remaining variances are due to several revenue streams performing better than budgeted. These sources include better than expected TAP card fees, one- time sale proceeds of asset retirements, residual land sale related to the Orange Line, termination of two defeased leases, grant management fees and wifi revenue generated from the subway operations.

- Resources Based On Reimbursement

  The actual reimbursements ended the year below budget by $140.5 million, or 95.0% of budget. These resources are recognized on a reimbursement basis driven by actual expenditure activities. Details of the related expenses can be found in the *"Summary of Expenditures"* section of this report.

C. Summary of Expenditures

Overall, the FY17 expenditures totaled $5.25 billion or 87.2% of the $6.03 billion budget, presenting an underrun of $773.3 million.

		YTD June 30, 2017			
	Program Type ($s in millions)	**Budget**	**Actual**	**Under/(Over) Budget**	**% of Budget**
1	Metro Transit - Operations and Maintenance	$1,612.6	$1,597.8	$14.8	99.1%
2	Metro Transit - State of Good Repair	367.5	316.7	50.8	86.2%
3	Transportation Infrastructure Development	2,199.7	1,607.1	592.6	73.1%
4	Subsidy Funding Programs	1,071.0	1,011.9	59.1	94.5%
5	Congestion Management	120.5	77.6	42.9	64.4%
6	Regional Rail	154.2	137.4	16.8	89.1%
7	General Planning & Programs	121.3	101.5	19.8	83.7%
8	Debt Service	322.0	361.1	(39.1)	112.2%
9	Audit, County Counsel and Government Relations	59.0	43.3	15.6	73.5%
10	**Grand Total**	**$6,027.8**	**$5,254.6**	**$773.3**	**87.2%**

- Metro Transit - Operations and Maintenance

  The Metro Transit - Operations and Maintenance Program delivered actual Revenue Service Hours (RSH) of 7.57 million hours while spending within the budget at 99.1%. Bus was underspent by $35.2 million or 96.9% of the budget due to lower than expected RSH while rail was overspent by $22.7 million or 104.8% of the budget due to the new security contract as approved by the Board.

- Metro Transit - State of Good Repair (SGR)

  The Metro Transit - State of Good Repair Program ended the year at $50.8 million under budget or 86.2% of budget spent. The variance is primarily as a result of aggressive cash flow projections for Rail Vehicle Maintenance projects and Blue Line Wayside projects.

- Transportation Infrastructure Development

  The Transportation Infrastructure Development program totaled $1.6 billion or 73.1% of the $2.2 billion budget. $80 million of the $592.6 million variance is due to the EXPO Line which included invoice timing issues related to Rail Vehicles Acquisitions and ongoing final claim settlements and closeout. The remaining $512.6 million is largely due to Measure R transit construction projects from Westside Purple Line Extensions 1,2 and 3 for invoice and schedule delays resulting in a cumulative $431 million underrun between the 3 projects.

- Subsidy Funding Programs

  Subsidy programs came in at 94.5% of the budget with an underrun of $59.1 million due to delays in drawdowns of programmed funds for regional transportation projects which includes highways.

- Congestion Management

  The Congestion Management Program totaled $77.6 million which is 64.4% of the total budget. The variance is due to invoice timing and delays in the Atkinson and I-105 PA/ED contracts for ExpressLanes. Caltrans has over a six month lag for billing of regular maintenance and California Highway Patrol (CHP) has a four month invoicing lag. The additional variance is also due to the delay of planned operational improvements: beacons, Earthcam & data segmentation, which will be implemented in FY18.

- Regional Rail

  The Regional Rail program consists of subsidies to Metrolink and Metro directed capital projects and studies spent $137.4 million of the $154.2 million budget or 89.1% of the total budget spent. Total Metrolink expenditures were $6.4 million. Metro directed regional rail expenditures were under budget by $10.4 million due primarily to the impact of four projects: The delayed NTP for the Bob Hope Airport Metrolink station and the current year deferral of three projects (Doran St Grade Separation, Bob Hope Pedestrian Bridge, Branford).

- General Planning and Programs

  The General Planning and Programs ended the year at $101.5 million which is 78.5% of the budget of $129.3 million. The variance is primarily due to invoice delays for multiple planning projects including the Union Station Renovation Plan and schedule delays in Project Westlake/Macarthur (Phase B).

- Debt Service

  The debt principal and interest expenses were $361.1 million of the $322.0 million budget which is 112.2% spent. The overrun of $39.1 million is contributed by two primary factors: 1) A new Measure R bond issued in November 2016 in the amount of $522.1 million with approval of the Board and the associated payment and 2) the overrun in CRA bond debt service due to retirement for the CRA 2002 and 2007 bonds. This payment overrun is partially offset by a one-time sales revenue generated form Grand Central Square.

- Audit, County Counsel and Government Relations

  Audit, County Counsel and Government Relations spent $43.3 million of the $51.0 million budget. This program consists of activities that provide legally required oversight and support for the agency as well as efforts to administer Measure R and Measure M.

NEXT STEPS

Staff will update the Board as necessary if there are significant changes from the finalized financials since this report is based on preliminary year-end data.

Staff will continue to monitor the financial performance throughout FY18 and will provide quarterly updates to the Board. There will also be efforts to enhance the financial report to include Key Performance Indicators (KPIs) which continues to strengthen the fiscal discipline in this agency and enforces accountability.

Prepared by: Linda Wang, Sr. Manager, (213) 922-2464
Irene Fine, Deputy Executive Officer, (213) 922-4420
Perry Blake, Executive Officer, (213) 922-6171
Melissa Wang, Senior Executive Officer, (213) 922-6024

Reviewed by: Nalini Ahuja, Chief Financial Officer, (213) 922-3088

Phillip A. Washington
Chief Executive Officer