



FINANCE AND BUDGET COMMITTEE
March 14, 2007

SUBJECT: FY07 SECOND QUARTER FINANCIAL PERFORMANCE

ACTION: RECEIVE AND FILE

RECOMMENDATION

Receive and file the FY07 second quarter Financial Performance Report.

ISSUE

This report discusses the financial performance of major programs for FY07.

DISCUSSION

SUMMARY OF SALES TAX REVENUES

Proposition A, Proposition C, Transportation Development Act (TDA), and State Transit Assistance (STA) sales taxes represent over 50% or \$1.6 billion of Metro's total budgeted revenues. Propositions A, C and the TDA funds are sales taxes that are distributed to Metro by the State Board of Equalization (SBE). Actual sales tax information is not available until two and one-half months after the end of the quarter.

Therefore, for the six months ended December 31, 2006, Propositions A & C, and TDA sales tax (excluding STA) revenues are projected to be at least \$826.7 million, which is approximately \$22.7 million or 2.8% more than the budgeted amount.

In January 2007, Metro received notice from the SBE that a major retailer (Home Depot) has elected to change their tax reporting period base data. Although this change should not have a material impact on overall annual tax revenues generated year-to-year, Metro (and other tax revenue recipients) may notice a slight change in distribution over the next couple of quarters.

STA revenues are sales taxes on gasoline and are distributed to Metro through the state of California Prop 42 process. STA actual revenues totaled \$96.4 million, which is \$62.5 million, or 184.0% more than budget. They were ahead of budget due to high price of gasoline during the past twelve months which created a windfall during FY06 which is collected and received by Metro in FY07.

For the six months ended December 31, 2006

(Dollars in Millions)	FY07			FY06 Actual	FY05 Actual
	Actual	Budget	Variance Over/ (Under)		
Sales Tax Revenue (excluding STA)	\$849.4	\$826.7	\$22.7	\$838.4	\$769.6

OUTLOOK OF SALES TAX REVENUES

In January 2006, as part of the Financial Standards, the Board adopted the 20-year historical average of 3.8% for sales tax growth as the assumption for the FY07 budget. Based on the actual sales tax information received so far it is anticipated that Proposition A, C & TDA revenues will come in higher than budget.

STA revenues will continue to be ahead of budget due to the Prop 42 windfall that was not anticipated at the time of budget adoption. Metro programs STA revenues to bus and rail operating and capital expenditures. Metro's portion of the total windfall is estimated to be \$108 million. These windfall STA funds have been swapped in FY07 with Proposition A funding. The deferred Proposition A revenues not used in FY07 will be programmed in the FY08 budget.

SUMMARY OF ENTERPRISE FUND

Operating revenues were \$6 million (4%) over the FY07 budget primarily due to increased boardings which exceeded the budget by 6%. The fare revenue per boarding was \$0.58 per boarding which was 2% below the budgeted \$0.59 per boarding.

Overall, operating expenses were \$12.6 million or 2% below budget. Wage savings of \$4 million from vacant positions is partially offset by added overtime for the remaining employees. Fringe benefits were over budget due to a prior year adjustment for post retirement medical benefits.

In connection with the FY06 audit, Metro's auditors, PricewaterhouseCoopers (PWC), noted that the assumptions used in calculating the liability for other post-employment benefits, aka retiree medical, needed to be updated. Based on PWC's analyses, we calculated that Metro should increase the post-employment liability by \$28 million to cover anticipated costs for existing retirees as well as active employees. As a result, Metro booked \$14 million of this liability (\$12.7 million to Enterprise Fund operating expense) in the first six months of FY07, and will book the remaining \$14 million over the remaining six months of FY07.

Fuel costs were also below budget \$7.5 million due to lower than anticipated prices for CNG. Professional, security and contract services were below budget \$8.4 million due to delays implementing new programs. All other expense categories were at or slightly below budget.

The combination of increased revenues and decreased costs creates an \$18.6 million variance in the year-to-date budget. The fare revenue variance is expected to remain positive for the remainder of the fiscal year. The fuel prices have begun to increase in recent months; therefore, it is uncertain what the price of natural gas will be as the nation recovers from a very cold winter. According to the departmental variance reports, the services expenditures are expected to be greater in the last six months of the fiscal year than the first six months.

Metro can expect to end the year at the adopted budget level for the Enterprise Fund operating expenses including satisfying the increased reserve requirements for post-employment benefits.

FY07 Enterprise Fund Actual vs. Budget

For the six months ended December 31, 2006

(Dollars in Millions)	Actual	Budget	Variance
Operating Revenue			
Fares	\$144.4	\$138.7	\$5.7
Other	8.7	8.4	0.3
Total	153.1	147.1	6.0
Operating Expenses			
UTU Labor	120.2	124.3	(4.1)
ATU Labor	59.1	57.7	1.4
AFSCME Labor	20.4	21.3	(0.9)
Non-Contract Labor	27.2	27.5	(0.3)
TCU Labor	15.1	15.1	0.0
Teamster Labor	2.3	2.2	0.1
Fringe Benefits	91.5	97.4	(5.9)
Unallocated Benefits--Prior Yr	12.7		12.7
Unallocated Benefits--Current Yr	5.2	-	5.2
Subtotal All Labor	353.7	345.5	8.2
Fuel	23.2	30.7	(7.5)
Propulsion Power	10.3	10.6	(0.3)
Parts	40.0	39.7	0.3
Security	30.3	31.5	(1.2)
Purchased Transportation	17.5	17.8	(0.3)
Contract Services	11.1	12.9	(1.8)
Professional Services	7.2	12.6	(5.4)
Workers' Comp	21.8	24.2	(2.4)
Insurance	24.3	24.3	-
Travel	0.1	0.1	-
Overhead	3.4	3.4	-
All Others	6.2	8.4	(2.2)
Total	549.2	561.7	(12.5)

Operating Expenses by Operating Project

San Fernando Valley Sector	66.5	63.2	3.3
San Gabriel Valley Sector	65.5	68.1	(2.6)
Gateway Cities Sector	60.0	63.7	(3.7)
South Bay Sector	68.0	72.9	(4.9)
Westside Central Sector	83.6	79.9	3.7
Orange Line	9.0	9.5	(0.5)
Bus Admin	25.0	25.3	(0.3)
Other Bus	57.4	65.1	(7.7)
Red Line	39.1	38.9	0.2
Blue Line	31.5	28.9	2.6
Green Line	18.3	18.0	0.3
Gold Line	18.3	19.2	(0.9)
Rail Admin	5.4	6.7	(1.3)
Other Rail	0.1	0.1	0.0
Regional	1.5	2.2	(0.7)
Total	\$549.2	\$561.7	(\$12.5)

SUMMARY OF PERFORMANCE MEASUREMENTS FOR BUS 2007

For the six months ended December 31, 2006

Performance Measurement – Bus & Orange Line	FY07			FY06 Actual	FY05 Actual
	Actual	Budget	Variance Over/ (Under)		
Bus Cost/Revenue Service Hour	\$109.8	\$114.4	(\$4.6)	\$105.9	\$103.0
Orange Line Cost/Revenue Service Hour	\$212.2	\$236.0	(\$23.8)	NA	NA
Bus Revenue Service Hours	3,776,820	3,833,369	-56,549	3,860,917	3,724,592
Orange Line Revenue Service Hours	41,555	42,083	-528	NA	NA
Bus Cost/Passenger Mile	\$0.6	\$0.6	(\$0.0)	\$0.6	\$0.5
Orange Line Cost/Passenger Mile	\$0.4	\$0.6	(\$0.2)	NA	NA
Bus Subsidy/Passenger Mile	\$0.4	\$0.4	(\$0.0)	\$0.4	\$0.4
Orange Line Subsidy/Passenger Mile	\$0.4	\$0.5	(\$0.1)	NA	NA
Complaints per 100,000 Boardings	3.1	3.3	-0.2	3.5	3.4
Traffic Accidents/100,000 Miles	3.7	3.4	0.3	3.3	3.3
New Workers Comp Claims per 200,000 Hours	12.4	13.9	-1.5	13.9	14.4
Mean Fleet Age in Years	7.3	7.2	0.1	7.0	6.6
Peak Bus/Base Bus	1.9	1.9	0.0	1.9	1.9

Note: FY06 Bus includes Orange Line

Discussion

Excluding unallocated benefits, bus costs per revenue service hour (RSH) were below the target by \$4.62 due to the under-expenditures in wages, fringe benefits, CNG, and services. Orange Line costs per RSH were below target for the same reasons plus right-of-way maintenance service delays. The delivery of bus RSH is at 98.5% of the total budgeted. Orange Line RSHs were 1.3% lower than target. The variances in cost per passenger mile and subsidy per passenger mile reflect lower than budgeted expenses, while carrying more passengers and collecting more fares than planned.

Complaints per 100,000 boardings were lower than the annual target and below last year. If the trend continues, the number will be below the annual target by year end.

Traffic accidents per 100,000 miles were slightly above target and worse than last year. This unfavorable trend is attributed in part to increased use of articulated buses in local service, particularly on Wilshire Boulevard.

New workers' compensation claims per 200,000 hours were lower than the annual budget and better than last year. The improvement is due to the ongoing safety program and safety meetings that focus on safety awareness and accident prevention.

SUMMARY OF PERFORMANCE MEASUREMENTS FOR RAIL 2007

For the six months ended December 31, 2006

Performance Measurement – Rail	FY07			FY06 Actual	FY05 Actual
	Actual	Budget	Variance Over/ (Under)		
Heavy Rail Cost/Vehicle Service Hour	\$212.9	\$211.4	\$1.5	\$303.7	\$279.8
Light Rail Cost/Vehicle Service Hour	\$530.7	\$528.5	\$2.2	\$378.5	\$349.4
Heavy Rail Cost/Passenger Mile	\$0.4	\$0.4	(\$0.0)	\$0.4	\$0.5
Light Rail Cost/Passenger Mile	\$0.5	\$0.5	(\$0.0)	\$0.5	\$0.7
Heavy Rail Subsidy/Passenger Mile	\$0.3	\$0.3	(\$0.0)	\$0.3	\$0.4
Light Rail Subsidy/Passenger Mile	\$0.4	\$0.4	\$0.0	\$0.4	\$0.6
New Workers Comp Claims per 200,000 Hours	7.8	9.9	-2.1	17.4	22.0
Light Rail Vehicle Accident Rate/100,000 Miles	0.6	0.4	0.2	0.4	0.2

Excluding unallocated benefits, rail expenses are \$2 million (1.8%) below budget. As a result of vehicle accidents and equipment failures, light and heavy rail vehicle service hours are 2.8% below budget. Therefore, unfavorable cost per hour variances are due to a greater reduction in hours, not an increase in costs. Greater than budgeted boardings and fare revenue resulted in favorable variances per passenger mile.

New workers' compensation claims exceeded budget slightly, but are significantly below last year. Light rail accidents were over the target and worse than the previous year. Transit Operations continues to focus on safety awareness programs to help reduce claims and accident rates.

SUMMARY OF CAPITAL PROGRAM

The attached capital program status report for the second quarter of FY07, shows the status of adopted life-of-project budgets and projected total costs-to-complete for each project. The projected costs-to-complete are provided by the project managers for each project and are updated quarterly.

The report identifies the projected life-of-project (LOP) budget status for each project. If the project exceeds the LOP budget but is under \$1 million, it is within the CEO's authority to transfer contingency to the project. If the LOP change causes the project to exceed \$1 million, the project manager is required to return to the Board for approval.

Major Construction

Major construction projects include construction of new fixed guideways, new rail car purchases, and other major infrastructure improvements. For the period ended December 2006, all adopted major construction projects are forecasted to be completed within the board approved life-of-project budgets.

The Orange Line continues with close-out activity, safety enhancements and landscaping completion activities. Settlement discussions continue with the contractor to resolve outstanding claims. The bikeway project adjacent to the Orange Line guideway and the Canoga Park and Ride lot are both nearing final construction and will move into the close-out phase.

The Metro Red Line Phase II Close out project completed a major milestone with settlement of the insurance claims resulting from the El Nino storms of 1997 and 1998. The Project Manager is reporting that the close-out activities will be completed for \$12.7 million, a reduction of \$2.5 million from the original estimate.

Metro has begun work on a Pasadena Gold Line close-out project to resolve all outstanding issues regarding Gold Line construction. A Board report will be prepared to provide details on actions required to successfully close out the construction project activities.

Detailed information on the major construction projects, such as the Eastside Extension of the Gold Line, is available through the individual project reports.

Bus Acquisitions

The major bus acquisition project during FY07 is for the procurement of 94 articulated buses. The procurement is on schedule with 45 buses received during the first and second quarters. No contract has been issued as yet for the ATV Bus Purchase (hybrid vehicles), causing delays to the project schedule. Metro continues to solicit proposals from vendors. The HCNG Demonstration project made

substantial progress with the first operational engine tested during the second quarter of FY07.

Bus Maintenance and Facilities

The largest bus maintenance project is the annual bus mid-life program at \$17 million for FY07. The project manager reports that 97 mid-life overhauls were completed in the first and second quarters and that 50 are planned for the third quarter.

The project manager for CP#202009, the Division Lighting Program has revised the forecast to reduce the estimated cost-to-complete the project. The project is scheduled for close-out in the third quarter and may experience a savings of \$65,702. Final reconciliation for the project will take place prior to the end of FY07 with any unused funds programmed into the FY08 capital program.

CP#202016 Temple and Beaudry Layover Facility was put on hold pending joint development considerations at the site. Staff will complete the environmental studies in January 2007. All further work is deferred. The funding for this project was through a Bus Operator's Subcommittee (BOS) allocation of federal funds. Metro will return to BOS to propose an alternate use for the grant funds.

One project, CP#202164 Install New Air-conditioning at Divisions 7 and 18, has exceeded the life-of-project budget authority by \$51,264. This increase is due to the contractor failing to perform their obligations under the contract. The contractor has been assessed liquidated damages to reimburse Metro for failing to perform. Any unreimbursed amounts will be transferred from contingency (within CEO authority).

CP#202205 Bauchet Street Storage Building has been put on hold pending upgrade of the property facilities. The construction of the storage building will be redesigned to accommodate the new requirements and the funding will be reprogrammed by Board action to the new facility.

All other projects are forecasted to be completed at or under the approved life-of-project budget.

Rail Capital Projects

CP#204046 Project Guardian was successfully completed as approved by the Board. The project currently reflects a cost overrun of \$508,640. This overrun is caused by labor charges incorrectly charged by Metro staff to the project number. When the labor charges have been reversed, the project will be under the Board approved life-of-project budget.

CP #205009 Crossing Gate Equipment Replacement was completed under the life-of-project budget. The savings of \$141,746 will be reprogrammed to the FY08 rail capital program.

Other Capital Projects

The Universal Fare System project and the Regional Clearinghouse Project (TAP) are continuing through FY07. Project management is reporting on the progress of both projects at the monthly Operations Committee meetings.

One Warehouse Project, CP#209015, Install Shipping Awning, is reporting completion at \$293,106 over the approved life-of-project budget. The Project Manager has determined that the inception-to-date charges include some incorrect charges which will be corrected. The project will be completed within the life-of-project budget.

SUMMARY OF GOVERNMENTAL FUNDS

The Governmental funds budget includes Special Revenue and General Fund programs and projects. The Special Revenue Fund includes all sales tax subsidies to other entities including Local Return to cities, Formula Allocation Procedure subsidies to municipal bus operators, Access Services, Metrolink Operating and Capital, the Incentive Program, and the Call for Projects.

A summary of the activity in the subsidies to others for the second quarter follows:

For the three months ended December 31, 2006

Description (Dollars in Millionss)	Actual	Budget	Variance Over/ (Under)
A & C Local Return	\$146.1	\$150.4	(\$4.3)
Prop A Bus FAP	\$31.2	\$33.1	(\$1.9)
Prop C Bus FAP	\$17.1	\$21.7	(\$4.6)
TDA Formula Subsidies	\$40.4	\$39.3	\$1.1
STA Subsidies	\$5.1	\$4.7	\$0.4
TDA Other Subsidies	\$7.8	\$12.8	(\$5.0)
Prop A Incentive	\$1.1	\$6.6	(\$5.5)
Metro Rapid Improvements	\$0.6	\$8.5	(\$7.8)
Regional Surface Transportation Projects (CFP)	\$11.2	\$33.9	(\$22.6)
Freeway Projects (CFP)	\$8.3	\$14.1	(\$5.8)
Local Traffic System (CFP)	\$7.1	\$14.3	(\$7.1)
Bus Capital (CFP)	\$0.3	\$4.0	(\$3.7)
Misc Call for Projects	\$0.9	\$1.2	(\$0.3)
Soundwalls Program	\$2.3	\$1.7	\$0.6
ASI	\$12.5	\$12.5	\$0.0
Metrolink Operating	\$15.8	\$24.9	(\$9.1)
Metrolink Capital	\$0.0	\$1.1	(\$1.1)
Regional EZ Pass	\$2.7	\$3.8	(\$1.1)
Immediate Needs; SHORE	\$1.3	\$3.0	(\$1.7)
Regional Grantee	\$0.8	\$4.8	(\$4.1)
Other Planning Projects	\$0.0	\$0.9	(\$0.9)
TOTAL	\$312.8	\$397.1	(\$84.3)

