

**NORTH COUNTY
TRANSIT DISTRICT**



Quarterly Financial Report

For the Period
October 1– December 31, 2017
(Q2 of FY 2018)

NORTH COUNTY TRANSIT DISTRICT (NCTD) FINANCIAL PERFORMANCE

Statements of Net Position, similar to the balance sheet of for-profit entities, provides a picture of the District's net position as of a specific point in time. The net position for NCTD is stated as; total assets plus deferred outflows of resources, less total liabilities less deferred inflows of resources. This Quarterly Performance Report provides the unaudited Statements of Net Position for NCTD as of December 31, 2017, and June 30, 2017. Items of note from these statements as of December 31, 2017 are as follows:

- Total assets of \$612.7 million
 - Cash and investments balance of \$43.5 million
 - Investment in regional transit system with net capital assets of \$493.7 million
- Total liabilities of \$110.2 million
- Net position of \$513.7 million
 - Unrestricted portion of net position is \$20 million, which includes a \$15.0 million Board Reserve Fund

Statements of Revenues, Expenses, and Changes in Net Position, similar to the income statement of for-profit entities, provides a summary of the District's financial performance over a period of time. Financial performance is presented on this statement in three sections: (1) Operating Surplus or Loss which includes operating components such as fare revenues, and lease and advertising revenues less operating expenses and depreciation, (2) Surplus or Loss Before Capital Contributions which includes grant revenues used for operations and investment income and debt related expense, and (3) Change in Net Position which incorporates grant revenues used for the capital program.

This Quarterly Performance Report provides the unaudited Statements of Revenues, Expenses, and Changes in Net Position for the six months ended December 31, 2017 as compared to the prior year's six months ended December 31, 2016, and a separate statement comparing the six months ended December 31, 2017 against the operating budget for the same period. Items of note from these statements are as follows.

FY 2018 Budget Versus FY 2018 Actual (6 months)

- Operating revenues compared to budget are \$1,264,407 lower (8.51%) primarily due to lower fare revenue, less billings for shared use of the right of way and carbon credit revenue budgeted but not yet earned.
- Operating grants revenues are over budget by \$1,843,150 due mostly to receipts of TransNet revenues of \$1,480,566 that were not included in the FY 2018 budget related to the Sprinter debt service.
- Operating expenses (not including depreciation) were \$1.7 million under budget, due primarily to law enforcement services being \$362K less than budget, legal costs \$291K less than budget and other professional services \$343K less than budget due to timing of expenses for professional services. Salaries and benefits were \$141K less than budget due to open staff positions and insurance and claims costs were \$302K less than budget.

FY 2018 Actual versus FY 2017 Actual (6 months)

- Key scope changes for the FY 2018 Actual compared to the FY 2017 Actual include:
 - Code Enforcement Officers transitioned from direct NCTD employees (salary and fringe budget category decreased by \$794,780 to Bombardier employees (purchased transportation budget category) increased by \$865,622 for the six months ended December 31, 2017 as compared to the FY 2017 budget for the same period. Actual results for the six months show a savings in salaries and benefits related to Code Enforcement of \$743,255 while Bombardier costs for the train attendants were \$761,192.
 - MV Transportation assumed revenue operations for BREEZE, LIFT, and FLEX service from First Transit on July 1, 2018 results in an increase in the FY 2018 budget of \$2,757 as compared to FY 2017 budget for the same six-month period. Actual results for the first six months show an increase of \$1.3 million over FY 2017.
 - A reduction in Bombardier administrative cost due to a negotiated reduction of profit and loss ratio resulted in administrative expense related to the rail contract being \$2.1 million less for the first six months of FY 2018 as compared to the same period for FY 2017.
 - Depreciation charge of \$30 million for FY 18 compared to \$0 for FY 17 based on internal change in business process to accrue depreciation over the course of the fiscal year rather than at the end of the year.
- Operating revenues decreased over prior year levels by \$776,629 (5.40%), driven mostly by a decrease in fare revenue of \$646,368. Total ridership for the six months ended December 31, 2017 was lower by 4.17% compare to the prior period. In addition, the estimated loss of revenue due to the November 50% discount on Coaster Monthly and 30-Day Passes was approximately \$60K.
- The farebox recovery ratio for the six months ended December 31, 2017 was 16.3% compared to 18.2% for the same period in the prior year. Total operating recovery ratio (which is defined as all non-grant operating revenues divided by the total operating expense or \$13,776,112 divided by \$50,074,016) for the six months ended December 31, 2017 was 27.5% compared to 29.3% for the same period in the prior year.
- Operating expenses (not including depreciation) were higher by \$430,763 (0.9%) compared to the prior year. This net amount is comprised mostly from a decrease in salaries wages and benefits of \$1 million, an increase in services of \$1.7million, and a decrease in materials and supplies of \$250k.

The lower salaries, wages and benefits expense is due in large part to an approximately \$700K reduction in fringe benefit costs as compared to the prior period related to pension funding. The District chose to reduce the pension liability in one annual payment instead of paying this expense monthly to take advantage of the prepayment discount. The annual payment was accounted as a reduction in the District's pension liability. Other salary and fringe savings were related to open positions and accounted for approximately another \$300K reduction in expense.

The higher professional services expense of \$1.7 million was mostly due to an increase of \$574K in law enforcement services from the San Diego Sheriff's Department, and the Oceanside and Escondido Police. In addition, on December 18, 2016 Supplemental Agreement No. 1 with Bombardier took effect, which increased monthly costs for facilities maintenance by approximately \$120K (\$720K over 6 months).

The lower materials and supplies expense were due to lower costs for diesel fuel and natural gas as compared to prior year.

- Operating surplus (net of depreciation) is \$2.4 million for the six months ended December 31, 2017 as compared to \$1.8 million for the same six months of the prior year.

**STATEMENTS OF NET POSITION (UNAUDITED)
DECEMBER 31, 2017 AND JUNE 30, 2017**

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
ASSETS		
Current assets		
Cash and investments	\$ 43,514,351	\$ 47,751,770
Investments w ith fiscal agent	2,790,237	2,787,017
Accounts receivable	5,592,738	7,565,531
Grants receivable	33,905,063	32,203,983
Parts and supplies inventory	3,387,031	3,387,031
Prepaid expenses	2,989,747	2,793,247
Restricted assets	4,132,521	4,566,396
Total current assets	<u>96,311,688</u>	<u>101,054,975</u>
Noncurrent assets		
Capital assets		
Nondepreciable capital assets	203,527,181	199,244,192
Depreciable capital assets, net of accumulated depreciation	312,896,071	342,233,504
Total capital assets	<u>516,423,252</u>	<u>541,477,696</u>
Total assets	<u>612,734,939</u>	<u>642,532,671</u>
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated decrease in fair value of interest rate sw ap	3,875,822	4,041,646
Outflow s of resources as related to pension	7,451,386	7,451,386
Total deferred outflow s of resources	<u>11,327,208</u>	<u>11,493,032</u>
LIABILITIES		
Current liabilities payable from current assets		
Accounts payable	14,183,052	19,613,224
Accrued liabilities	546,961	679,047
Deposits payable	794,474	802,929
Unearned grant revenue - due w ithin one year	5,831,556	5,831,556
Certificates of participation - due w ithin one year	1,250,000	1,200,000
Claims payable - due w ithin one year	449,854	449,854
Compensated absences - due w ithin one year	510,220	575,231
Total current liabilities payable from current assets	<u>23,566,116</u>	<u>29,151,841</u>
Noncurrent liabilities		
Certificates of participation - due in more than one year	24,300,000	25,550,000
Claims payable - due in more than one year	703,940	629,668
Compensated absences due in more than one year	154,129	146,090
Net other post employment benefits obligation	2,015,404	2,015,404
Unearned grant revenue - due in more than one year	21,195,839	19,938,061
Net Pension liability	34,372,641	36,017,964
Negative fair value of interest rate sw ap	3,875,822	4,041,646
Total noncurrent liabilities	<u>86,617,775</u>	<u>88,338,833</u>
Total liabilities	<u>110,183,891</u>	<u>117,490,674</u>
DEFERRED INFLOWS OF RESOURCES		
Inflo w s of resources as related to pensions	143,000	143,000
NET POSITION		
Net investment in capital assets	493,663,488	517,514,713
Restricted for capital projects	50,495	50,495
Unrestricted	20,021,273	18,826,821
Total net position	<u>\$ 513,735,256</u>	<u>\$ 536,392,029</u>

*Prepared by management and unaudited-Statements are materially accurate but may not foot due to rounding

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
CURRENT YEAR VS. PRIOR YEAR
(UNAUDITED) ***

	FY18 Actual YTD December 31, 2017	FY17 Actual YTD December 31, 2016	Variance from Prior Year	Variance %
OPERATING REVENUES				
Fare Revenue	\$ 7,770,374	\$ 8,416,742	\$ (646,368)	-7.68%
Advertising and right-of-way	5,001,580	5,063,050	(61,470)	-1.21%
Lease and sublease revenue	748,118	841,137	(93,020)	-11.06%
Other revenue	73,538	49,309	24,229	49.14%
Total operating revenues	13,593,609	14,370,238	(776,629)	-5.40%
OPERATING EXPENSES				
Vehicle operations	24,688,750	21,358,462	3,330,288	15.59%
Vehicle maintenance	7,719,827	6,867,155	852,671	12.42%
Non-vehicle maintenance	6,039,219	5,540,096	499,123	9.01%
Administration	9,526,740	12,997,786	(3,471,045)	-26.70%
Right-of-way operations	2,568,693	3,348,967	(780,274)	-23.30%
Depreciation	30,020,978	-	30,020,978	
Total operating expenses	80,564,207	50,112,465	30,451,742	60.77%
Operating loss	(66,970,598)	(35,742,227)	(31,228,371)	87.37%
NONOPERATING REVENUES (EXPENSES)				
Operating grants	39,638,912	37,879,625	1,759,287	4.64%
Investment income	148,406	146,778	1,628	1.11%
Debt related expense	(453,386)	(501,916)	48,530	-9.67%
Gain/(loss) on disposal of capital assets	34,097	-	34,097	
Total nonoperating revenues	39,368,030	37,524,487	1,843,542	4.91%
Income (loss) before capital contributions	(27,602,568)	1,782,261	(29,384,829)	-1,648.74%
CAPITAL CONTRIBUTIONS				
Capital grants	4,945,796	11,626,507	(6,680,712)	-57.46%
Total capital contributions	4,945,796	11,626,507	(6,680,712)	-57.46%
Change in Net Position	(22,656,773)	13,408,768	(36,065,540)	-268.97%
NET POSITION				
Beginning of year	536,392,029	567,585,842	(31,193,813)	-0.05%
End of year	\$ 513,735,256	\$ 580,994,610	\$ 67,259,354	0.12%

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**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
ACTUAL VS. BUDGET
(UNAUDITED) ***

	FY18 Actual YTD December 31, 2017	FY18 Budget YTD December 31, 2017	Variance from Budget	Variance %
OPERATING REVENUES				
Fare Revenue	\$ 7,770,374	\$ 8,298,030	\$ (527,656)	-6.36%
Advertising and right-of-way	5,001,580	5,256,286	(254,706)	-4.85%
Lease and sublease revenue	748,118	848,450	(100,332)	-11.83%
Other revenue	73,538	455,250	(381,712)	-83.85%
Total operating revenues	<u>13,593,609</u>	<u>14,858,016</u>	<u>(1,264,407)</u>	<u>-8.51%</u>
OPERATING EXPENSES				
Vehicle operations	24,688,750	24,261,562	427,188	1.76%
Vehicle maintenance	7,719,827	7,597,751	122,075	1.61%
Non-vehicle maintenance	6,039,219	6,590,433	(551,214)	-8.36%
Administration	9,526,740	11,302,219	(1,775,478)	-15.71%
Right-of-way operations	2,568,693	2,497,113	71,580	2.87%
Depreciation	30,020,978	-	30,020,978	
Total operating expenses	<u>80,564,207</u>	<u>52,249,078</u>	<u>28,315,129</u>	<u>54.19%</u>
Operating loss	<u>(66,970,598)</u>	<u>(37,391,062)</u>	<u>(29,579,536)</u>	<u>79.11%</u>
NONOPERATING REVENUES (EXPENSES)				
Operating grants	39,638,912	37,795,762	1,843,150	4.88%
Investment income	148,406	100,000	48,406	48.41%
Debt related expense	(453,386)	(504,700)	51,314	-10.17%
Gain/(loss) on disposal of capital assets	34,097	-	34,097	
Total nonoperating revenues	<u>39,368,030</u>	<u>37,391,062</u>	<u>1,976,968</u>	<u>5.29%</u>
Loss before capital contributions	<u>(27,602,568)</u>	<u>-</u>	<u>(27,602,568)</u>	
CAPITAL CONTRIBUTIONS				
Capital grants	4,945,796	-	4,945,796	
Total capital contributions	<u>4,945,796</u>	<u>-</u>	<u>4,945,796</u>	
Change in Net Position	<u>\$ (22,656,773)</u>	<u>\$ -</u>	<u>\$ (22,656,773)</u>	
NET POSITION				
Beginning of year	536,392,029	536,392,029		
End of year	<u>\$ 513,735,256</u>	<u>\$ 536,392,029</u>		

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Quarterly Investment Report for the Quarter Ended December 31, 2017

Pursuant to NCTD Board Policy No. 9 – *Investment Policy* (Board Policy No. 9), the Chief Financial Officer, acting as District Treasurer, submits a quarterly investment report to the Board. This report includes a listing of the current investment portfolio, the compliance or non-compliance of the investments with the investment policy, and the ability of the investment portfolio to provide the necessary liquidity to meet the expenditure requirements of the District for the next six months.

Cash and Investments	Book value	Market value	Annual Investment yield
State of California Local Agency Investment Fund (LAIF)	\$35,351,774	\$35,351,774	1.20%
Bank of America checking	\$7,941,159	\$7,941,959	0.35%
Total Cash and Investments	\$43,292,933	\$43,292,933	1.04%

The LAIF investment is liquid, and funds may be accessed for immediate needs.

As required by Board Policy No. 9, the Treasurer certifies that the investment portfolio is in compliance with the District Board of Directors investment policy. The Treasurer also certifies that the investment portfolio provides necessary liquidity to meet District expenditures for the next six months, provided that grant-funding authorities continue to disburse funds to the District on a timely basis.

The variance between cash and investments per this report and the Statement of Financial Position as of December 31, 2017 amount for Cash and Investments, reflects cash held in TVMs, Petty Cash and other non-investable amounts reported as cash for financial statement purposes.