



METROLINK®

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED JUNE 30, 2018 & 2017**



**SERVING THE CALIFORNIA COUNTIES OF:
LOS ANGELES, ORANGE, RIVERSIDE, SAN BERNARDINO & VENTURA**

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**SOUTHERN CALIFORNIA
REGIONAL RAIL AUTHORITY**

A Joint Exercise of Powers Agreement Among:

Los Angeles County Metropolitan Transportation Authority
Orange County Transportation Authority
Riverside County Transportation Commission
San Bernardino County Transportation Authority
Ventura County Transportation Commission

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2018 and 2017

Prepared by:
Finance Department

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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

For Fiscal Years Ended June 30, 2018 and 2017

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YOU WHERE YOU WANT TO GO.
METROLINK CONNECTIONS

INTRODUCTORY



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METROLINK.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
900 Wilshire Blvd. Suite 1500 Los Angeles, CA 90017

metrolinktrains.com

December 31, 2018

The Board of Directors
Southern California Regional Rail Authority
900 Wilshire Boulevard, Suite 1500
Los Angeles, CA 90017

Dear Board Members:

Submitted herewith is the Comprehensive Annual Financial Report (CAFR) of the Southern California Regional Rail Authority (SCRRA) for the fiscal year ended June 30, 2018, with comparative information for the fiscal year ended June 30, 2017.

This report consists of management's representations concerning the finances of SCRRA. Management is responsible for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established a comprehensive system of internal controls that is designed both to protect SCRRA's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of SCRRA's basic financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh its benefits, SCRRA's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. We assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects. The enclosed data reports the financial position and results of operations of the business-type activity of SCRRA, an enterprise fund. Disclosures necessary to allow the reader to understand SCRRA's basic financial activities have been included.

Moss Adams LLP, a firm of licensed certified public accountants, has audited SCRRA's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of SCRRA for the fiscal year ended June 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, the evidence supporting the amounts and disclosures in the basic financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based upon the audit, Moss Adams LLP concluded that SCRRA's basic financial statements for the fiscal year ended June 30,

2018 are fairly presented in conformity with GAAP. The report of independent auditors is presented as the first component of the financial section of this report.

The independent audit of SCRRA's basic financial statements was part of a broader, federally mandated Single Audit, under the guidelines of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), designed to meet the requirements of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report on the fair presentation of the financial statements in accordance with GAAP, with a special emphasis on internal controls. Tests of transactions and account balances are performed to ensure that the information presented in the basic financial statements, and notes thereof, is accurate. In addition, SCRRA must prepare a Schedule of Expenditures of Federal Awards, which is considered supplementary financial information and is unique to recipients of federal assistance. It details all the federal assistance expended by the recipient during the year, categorized by federal program. The resulting schedules and audit results are available in SCRRA's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is intended to complement the MD&A and should be read in conjunction with it. SCRRA's MD&A can be found immediately following the report of the independent auditors.

Profile of the Agency

During the late 1980s, several agencies conducted studies and developed plans for commuter rail transportation in the Southern California region. These efforts gained momentum with the passage of local sales tax measures for transportation in Riverside and San Bernardino counties, and in 1990, in Los Angeles and Orange counties. In June 1990, at the request of local officials, the California State Legislature enacted Senate Bill 1402, Chapter 4 of Division 12 of the Public Utilities Code. This bill required the county transportation commissions of Los Angeles, Orange, Riverside, and San Bernardino to jointly develop a plan for regional transit services within the multi-county region. Many of the supporters of commuter rail worked on State rail bond measures that passed in November 1990, and which, combined with local sources and other State funds, provided for the purchase of rail rights-of-way and construction of what was to become the Metrolink system.

In June 1991, following an eight-month cooperative planning effort, the four transportation commissions mentioned above, in conjunction with the Ventura County Transportation Commission, Los Angeles-San Diego Rail Corridor Agency, and Southern California Association of Governments, produced a report entitled, "Southern California Commuter Rail, 1991 Regional System Plan." The report outlined plans for a system to connect Southern California with six commuter rail lines comprised of more than 400 miles of track and 60 stations by 1995. This ambitious plan would define what is now the nation's third largest commuter rail system.

In August 1991, SCRRA, a regional Joint Powers Authority (JPA), was formed. Voting members with their respective number of votes are the Los Angeles County Metropolitan Transportation Authority (LACMTA), four votes; Orange County Transportation Authority (OCTA), two votes; Riverside County Transportation Commission (RCTC), two votes; San Bernardino County Transportation Authority (SBCTA), two votes; and Ventura County Transportation Commission (VCTC), one vote. Ex-officio members of SCRRA include the Southern California Association of Governments (SCAG), the San Diego Association of Governments (SANDAG), and the State of California Department of Transportation (Caltrans).

SCRRA is a separate entity apart from any Member Agency, each of which has an independent board. The Member Agencies and other public entities provide transportation within the counties serviced by SCRRA. SCRRA is not considered to be a component unit of any other reporting entity.

SCRRA's purpose is to plan, design, construct, and administer the operation of regional commuter rail lines serving Los Angeles, Orange, Riverside, San Bernardino and Ventura counties. SCRRA named the regional commuter rail system "Metrolink." The first three lines (San Bernardino, Santa Clarita, and Ventura) started operation in October 1992. The Riverside Line was added in June 1993, and the Orange County Line that extends 19 miles into northern San Diego County was added in April 1994. The sixth line, Inland Empire-Orange County, the nation's first suburb-to-suburb commuter rail line, was added in October 1995. In May 2002, the 91 Line was added to provide an alternative to Inland Empire and western Orange County commuters traveling through Fullerton and into Los Angeles. During 2006/07, Metrolink carried its hundred-millionth passenger and opened its 55th station, maintaining its place as one of the fastest growing commuter rail systems in the nation.

In June 2016, the 91 Line was extended to Perris Valley to provide service to an additional section of the Inland Empire. On December 16, 2017, the new San Bernardino Downtown station was added to increase regional mobility. The new Burbank Airport-North station (Antelope Valley Line) opened for revenue service on May 14, 2018, expanding Metrolink's train-to-plane connectivity by providing additional daily access directly to the Hollywood Burbank airport.

Metrolink continues to connect the Southern California region, giving people access to jobs and new housing opportunities, while providing significant benefits to improving the efficiency of the transportation system and air quality. Metrolink was the first passenger railroad in the nation to complete implementation of Positive Train Control (PTC) technology and submit for federal certification. Metrolink launched mobile ticketing in 2016 and modified its fare system to improve ridership. Metrolink also began replacing its aging locomotive fleet with emission-reducing Tier 4 locomotives. With these changes, SCRRA continues its role as the established leader for safety among commuter rail systems in the United States.

The Metrolink commuter rail system's six-county service area encompasses approximately 2,300 square miles, with a population of over 20 million, and provides service over 534 route miles. Each year, Metrolink trains travel 2.8 million miles, and 60% of Metrolink riders travel across county lines. Most notably, Metrolink takes cars off the freeways because 82% of Metrolink riders have an automobile, but choose to take the train, thereby helping to reduce congestion on the region's freeways.

Economic Condition and Outlook

For the past five years, SCRRA's annual ridership has averaged 11.6 million passengers and receives approximately 40% of its operations funding from fares and other operating revenues. The balance of its funding comes from its Member Agencies. The majority of sources for transportation funds in these counties are local sales taxes (with the exception of Ventura County), State Rail Bond funds, State Transit Assistance funds, State Highway Account funds, State Transit Capital Improvement funds, and Federal Transit Administration Capital funds.

SCRRA's revenue sources are sensitive to the economic conditions of the Southern California region, and State funding is influenced by statewide economic conditions. The toll of the recession in California has been most visible in the labor markets. However, the unemployment rate has trended down since the end of 2010. California's unemployment rate has decreased from 11.7% in June 2011 to 4.1% in June 2018. Similarly, the unemployment rate in the counties Metrolink serves has dropped from a high of 12.2% in 2010 to 4.8% in 2018.

Southern California's growing transit needs provide an opportunity for additional rail services through the six counties served by Metrolink. Our new \$875.7 million Transit Intercity Rail funding from the Southern California Optimized Rail Expansion (SCORE) program responds to this growth opportunity with a series of transformative service recommendations to be implemented in 2023 and 2028. Metrolink will offer the only high speed, long-distance transit service to 2028 Summer Olympic venues located across the region, including Anaheim Honda Center for volleyball; Lake Perris for rowing and canoe sprints; Bonelli Regional Park in San Dimas for mountain biking; and the Sepulveda Dam for archery, equestrian riding, and long-distance canoeing. SCRRA is working closely with our member agencies on the implementation of these projects aimed at ancements will have a dramatic impact in improving service recovery and reliability for existing service.

Long-term Financial Planning

Proactive financial planning is a critical element for SCRRA's success as it builds for the future. SCRRA staff reviews revenues and expenditure projections to ensure expectations are realistic and goals are achievable. In today's economic environment, SCRRA, along with governmental agencies at all levels, continues to face a number of challenges with respect to funding. As an agency without a direct base of significant discretionary revenues, SCRRA must rely heavily on the contributions, both operating and capital, of its funding

partners, each of which face multiple priorities. Thus, their challenges become SCRRA's challenges.

The federal government provides funding through various surface transportation programs. The Fixing America's Surface Transportation (FAST) Act was enacted in December 2015, and provides long-term funding for surface transportation. It will maintain current program structures and funding shares between highways and transit while increasing funding by eleven percent over five years. In May 2017, SCRRA was awarded a \$3.2 million grant from the Federal Railroad Administration for Positive Transit Control for implementation of security enhancements.

In April 2017, the State of California enacted Senate Bill 1 (SB 1), a landmark transportation funding bill that will generate new revenues to repair and maintain the state highway system and local roads, improve trade corridors, and support public transportation. Incremental sales tax on diesel fuel, a phased-in gas tax increase, and vehicle registration fees supply the funding for SB 1. There are multiple SB 1 programs, including State Rail Assistance (SRA), the State Transit Assistance (STA) program, the Transit and Intercity Rail Capital Program (TIRCP), and Trade Corridors and Solutions for Congested Corridors that can help support Metrolink commuter rail operations, state of good repair, and new capital improvements. During FY 2018, Metrolink was awarded \$1.2 billion and anticipates receiving another \$300 million for the SCORE vision; \$875.7 million of these funds will be used to complete the first installment of SCORE. These funds can be leveraged to secure other local, state, and federal funding to achieve the full SCORE vision.

At the regional level, SCRRA supports the South Coast Air Quality Management District's (SCAQMD) mission statement and strives to assist in the promotion of clean air in Southern California. In partnership with SCAQMD, SCRRA is working towards the reduction of locomotive emissions through the acquisition of 40 Tier 4 locomotives, some of which were delivered in FY 2017 and FY 2018, with the balance arriving through FY 2020.

At the county/Member Agency level, portions of their respective county sales taxes and state and federal grants are directed to SCRRA. Future renewals of sales taxes, new sales taxes, or additional new revenue beyond SB 1 may provide opportunities for funding. The continued pursuit of dependable, reliable, and predictable funding sources remains an ongoing and significant priority for SCRRA in order to ensure and improve both current and future operations and the necessary capital infrastructure.

As a part of the FY18/19 budget, the SCRRA Board approved an additional \$3.9 million investment in the agency's marketing program. Staff has implemented a strategy that takes a localized approach by line and focuses all marketing campaigns on attracting new riders, retaining current riders, and recapturing former riders. There has been a growth in ridership following the Board approved 25% promotional discount fare. The Antelope Valley, Orange County and 91/PV lines were up this year compared with the same period last year, showing increases of 5%, 3.8%, and 3.6%, respectively.

There has been a growth in ridership following the 25% discounted fare funded by the Los Angeles County Metropolitan Transportation Authority (Metro) and the San Bernardino County Transportation Agency (SBCTA). The San Bernardino Line experienced a ridership increase of 8.1%. The Antelope Valley Line continues to see ridership increases, with a 7.1% ridership increase.

Major Initiatives

In the past year, SCRRA achieved a number of significant milestones:

- Positive Train Control (PTC) is the centerpiece of Metrolink’s unwavering focus on safety, providing protective collision avoidance and over-speed prevention. Metrolink was the first in the nation to implement PTC. Metrolink is one of only two commuter railroads to achieve PTC in-service on all the train lines that it services and manages.
- Continued improvements to online ticketing include the ability to use mobile device tickets to “scan-through” to Metro Rail services.
- The new San Bernardino Downtown Station was added in December 2017 to increase regional mobility.
- The new Burbank Airport-North (AV Line) Station was opened for revenue service in May 2018, expanding Metrolink’s train-to-plane connectivity.
- The Metrolink Marketing Department again earned AdWheel awards, as follows:
 - 1st Place – Tier 4 Kickoff (Educational – Special Event)
 - 1st Place – Bike to Work Campaign (Ridership – Social Media)
- Received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for the FY 2017 Comprehensive Annual Financial Report.
- Maximized utilization of newly available Federal Preventive Maintenance funds to supplement Member Agency subsidies through inter-Agency planning.
- Metrolink was awarded \$875.7 million in SB 1 Transit and Intercity Rail Capital Program (TIRCP) funding from the Southern California Optimized Rail Expansion (SCORE) program.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Southern California Regional Rail Authority for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2017. To be awarded a Certificate of Achievement, SCRRA published an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable program requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. However, we believe our current CAFR continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The CAFR is a collaborative effort by SCRRA staff and its independent auditors. We wish to acknowledge the willingness to expend the effort necessary to ensure the financial information contained herein reflects the highest professional standards. Special thanks are extended to the SCRRA Finance Department, in particular Senior Managers of Finance Alex Barber and Thelma Bloes, Senior Accountants Jerri Stoyanoff and Roger Pak, Accountant I Emily Truong, Finance Analysts II Rupa Parameswaran and Edison Abrenica, Finance Analyst I Elizabeth Martinez, and Business Analyst II Isabella Kang, who are to be commended for their high level of performance. Special thanks also to our Internal and External Auditors, Executive Management, and staff for their assistance and continued support. Their commitment and support is vital for the final completion of the CAFR in a timely manner.

Special appreciation is extended to the Board of Directors for their leadership in providing a vision that will ensure SCRRA is prepared for the challenges and opportunities of the future.

Respectfully,



Ronnie Campbell
Chief Financial Officer

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METROLINK COMMUTER RAIL SYSTEM



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**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
BOARD OF DIRECTORS**

As of June 30, 2018

MEMBERS

ALTERNATES

Riverside County Transportation Commission (RCTC)

Andrew Kotyuk, (*Chair*)
Council Member
City of San Jacinto
RCTC Board

Brian Berkson*
Mayor Pro Tem
City of Jurupa Valley
RCTC Board

Debbie Franklin
Council Member at Large
City of Banning
RCTC Board of Directors

Adam Rush*
Council Member
City of Eastvale
RCTC Board of Directors

Ventura County Transportation Commission (VCTC)

Brian Humphrey (*Vice-Chair*)
Citizen Representative
VCTC Board

Ginger Gherardi
Mayor
City of Santa Paula
VCTC Board

Los Angeles County Metropolitan Transportation Authority (Metro)

Ara Najarian (*2nd Vice-Chair*)
Council Member
City of Glendale
Metro Board

Walter Allen III
Mayor Pro Tem
City of Covina
Metro Appointee

Kathryn Barger
Supervisor, 5th District
Los Angeles County Board of Supervisors
Metro Board

Roxana Martinez
Metro Appointee

Paul Krekorian
Council Member, 2nd District
City of Los Angeles
Metro Board

Borja Leon
Metro Appointee

Hilda Solis
Supervisor, 1st District
Los Angeles County Board of Supervisors
Metro Board

Vivian Romero
Council Member
City of Montebello
Metro Appointee

**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
BOARD OF DIRECTORS**

As of June 30, 2018

MEMBERS

ALTERNATES

San Bernardino County Transportation Authority (SBCTA)

Larry McCallon
Mayor
City of Highland
SBCTA Board

R. Carey Davis*
Mayor
City of San Bernardino
SBCTA Board

Alan Wapner
Mayor Pro Tem
City of Ontario
SBCTA Board

Ray Marquez*
Council Member
City of Chino Hills
SBCTA Board

Orange County Transportation Authority (OCTA)

Shawn Nelson
Supervisor, 4th District
Orange County Board of Supervisors
OCTA Board

Laurie Davies*
Council Member
City of Laguna Niguel
OCTA Board

Gregory Winterbottom
Public Member
OCTA Board

Richard D. Murphy*
Council Member
City of Los Alamitos
OCTA Board

Ex-Officio Members

Southern California Association of Governments (SCAG):

Art Brown
Council Member
City of Buena Park

State of California:

Carrie Bowen
District Director,
Caltrans District 7

Paul Marquez
Deputy District Director for Planning,
Caltrans District 7

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**SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
MANAGEMENT TEAM**

As of June 30, 2018

EXECUTIVE LEADERSHIP TEAM

| | |
|--|-----------------------|
| Chief Executive Officer | Arthur T. Leahy |
| Deputy Chief Executive Officer | Elissa K. Konove |
| Chief of External Affairs | Patricia Torres Bruno |
| Chief Financial Officer | Ronnie Campbell |
| Chief Operating Officer | Gary Lettengarver |
| Deputy Chief Operating Officer, Dispatch and Operator Services | Rod Bailey |
| Deputy Chief Operating Officer, Planning Project and Delivery | Kimberly Yu |
| Deputy Chief Operating Officer, PTC and Engineering | Darrell Maxey |

LEGAL COUNSEL

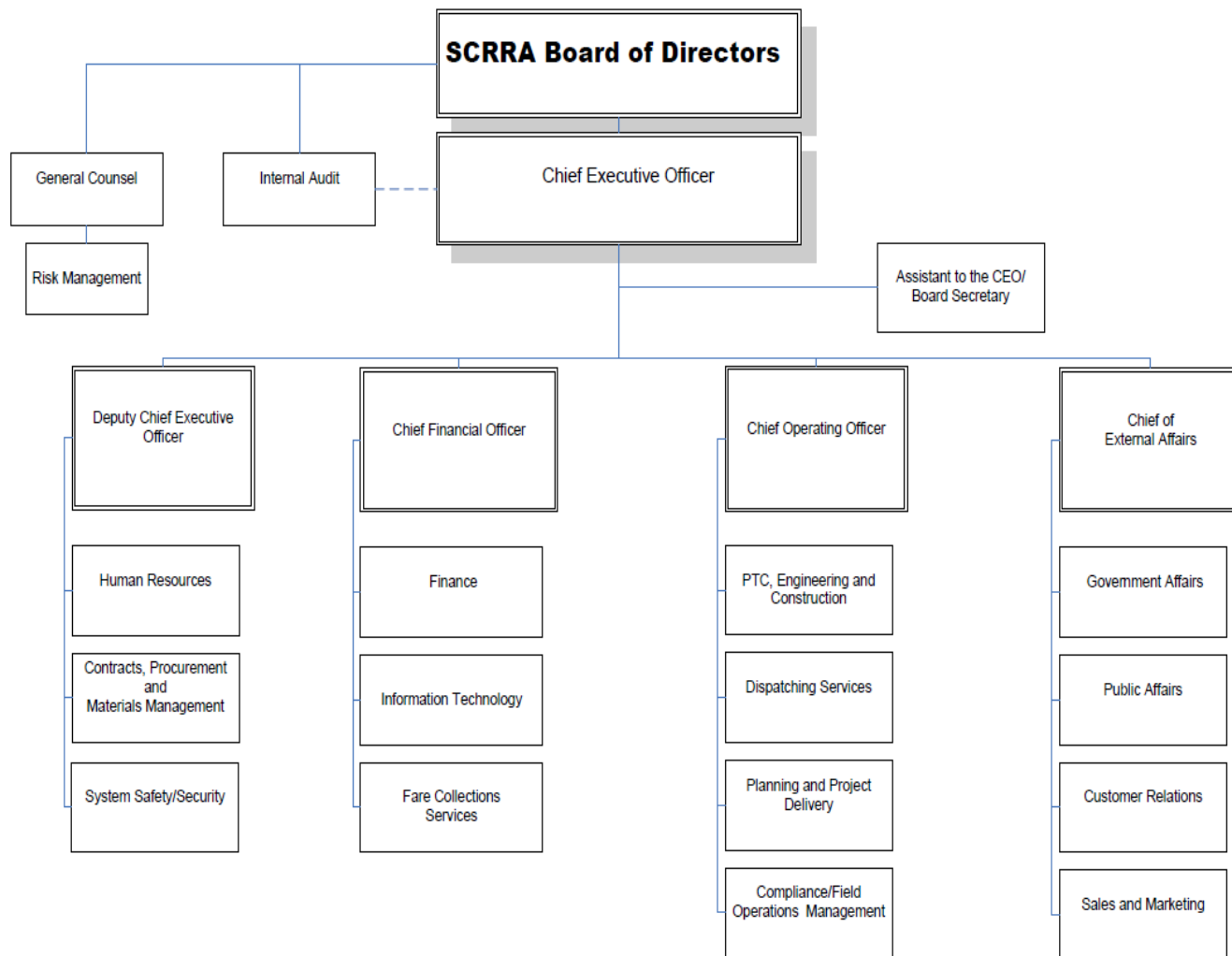
| | |
|------------------------------|-------------------|
| General Counsel | Don O. Del Rio |
| Associate General Counsel | Geoffrey Forgione |
| Senior Counsel, Risk Manager | William Garrett |

INTERNAL AUDIT

| | |
|-----------------------|--------------------|
| Senior Manager, Audit | Elisabeth Lazuardi |
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Southern California Regional Rail Authority
 Fiscal Year 2017-2018 Organizational Structure
 As of June 30, 2018



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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Southern California
Regional Rail Authority**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

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MISSION STATEMENT

Metrolink is a premier regional rail system, including commuter and other passenger services, linking communities to employment and activity centers. Metrolink provides reliable transportation and mobility for the region, leading toward more livable communities. Metrolink accomplishes its mission by providing technically superior and safe operations, customer focus and accessibility, dependable, high quality service, cost-effective and high-value service, strategically located network of lines and stations, integration with other transit modes, environmental sensitivity and community involvement and partnerships with both public and private sectors.

The Heart of Metrolink Mission to Excellence

To provide safe, efficient, dependable and on-time transportation service that offers outstanding customer experience and enhances quality of life.

FINANCIAL



METROLINK.

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Report of Independent Auditors

The Board of Directors
Southern California Regional Rail Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Southern California Regional Rail Authority (SCRRA), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise SCRRA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern California Regional Rail Authority as of June 30, 2018 and 2017, and the respective changes in its financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in note 1 to the basic financial statements, SCRRA adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective July 1, 2017. The beginning of year net position has been adjusted for this change. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis on pages 4 through 11, basis for condition measurement under the modified approach for infrastructure, schedule of changes in net pension liability and related ratios, schedule of contributions – pensions, schedule of changes in net other post-employment benefits liability and related ratios, and schedule of contributions – other postemployment benefits on pages 47 through 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the SCRRA's basic financial statements. The other information, such as the introductory, statistical sections, and schedule of unearned revenue and advances on capital purchases, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory, statistical sections, and schedule of unearned revenue and advances on capital purchases have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2018, on our consideration of SCRRA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SCRRA's internal control over financial reporting and compliance.

Moss Adams LLP

Los Angeles, California

December 31, 2018

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis For the years ended June 30, 2018 and 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

INTRODUCTION

The following discussion and analysis of the financial performance and activity of Southern California Regional Rail Authority (SCRRA) is offered to the reader to provide an introduction to and understanding of the basic financial statements of SCRRA for the years ended June 30, 2018 and 2017. This Management's Discussion and Analysis (MD&A) is presented in conjunction with the letter of transmittal, the basic financial statements, required supplementary information, and statistical information.

The basic financial statements include (1) the Balance Sheets, (2) the Statements of Revenues, Expenses and Changes in Net Position, (3) the Statements of Cash Flows, and (4) Notes to the Basic Financial Statements. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States as promulgated by the Governmental Accounting Standards Board (GASB).

The Balance Sheets provide information about the nature and amounts of investments in assets, liabilities, and deferred outflows and inflows of resources of SCRRA, with the residual of these elements being reported as net position.

The Statements of Revenues, Expenses and Changes in Net Position provide information about SCRRA's changes in net position and account for the current year's revenues and expenses. The statements present SCRRA's operations during the period, which can be used to determine how the agency funded its costs.

The Statements of Cash Flows provide information about SCRRA's cash receipts, disbursements, and net changes in cash resulting from operating, financing, and investing activities.

The notes to the basic financial statements provide information that is essential to understanding the financial statements, such as SCRRA's accounting methods and policies, details of cash and investments, employee benefits, lease transactions, and future commitments and contingencies of the Authority and information about other events or developing situations that could materially affect SCRRA's financial position.

The required supplementary information provides details concerning SCRRA's infrastructure assets and progress in funding its obligation to provide pension and other post-employment benefits to its employees.

The supplementary information provides additional detail about unearned revenue and advances on capital purchases by Member Agencies.

FINANCIAL REPORTING ENTITY

SCRRA is an independent entity created in August 1991 through a joint exercise of powers agreement (JPA). SCRRA began operating the "Metrolink" regional commuter rail system in October 1992. As part of the JPA, the Member Agencies (Los Angeles County Metropolitan Transportation Authority [LACMTA], Orange County Transportation Authority [OCTA], Riverside County Transportation Commission [RCTC], San Bernardino County Transportation Authority [SBCTA], and Ventura County Transportation Commission [VCTC]) acquired the rail network in existence at the time the JPA was established for use in Metrolink's commuter rail operations. This initial railroad network is not included

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis For the years ended June 30, 2018 and 2017

in SCRRA's railroad network capital assets as the Member Agencies retain title and ownership of those assets. As part of the JPA, however, SCRRA is responsible for related maintenance and operation of members' assets and rail right-of-way used in its operations.

In addition, certain members retain responsibility to maintain segments of their railroad network. Metrolink's railroad network consists of capital assets created as a result of new capital construction and major capital improvement projects. Currently there are 538 route miles with 62 stations in the Metrolink system throughout Los Angeles, Orange, Riverside, San Bernardino, Ventura, and San Diego counties.

The governing body of SCRRA is a Board of Directors comprised of 11 members appointed by the voting members of the JPA. The Member Agencies with their respective number of votes are as follows:

| | |
|---|---|
| Los Angeles County Metropolitan Transportation Authority (LACMTA) | 4 |
| Orange County Transportation Authority (OCTA) | 2 |
| Riverside County Transportation Commission (RCTC) | 2 |
| San Bernardino County Transportation Authority (SBCTA) | 2 |
| Ventura County Transportation Commission (VCTC) | 1 |

SCRRA is not considered to be a component unit of any other reporting entity.

CONDENSED FINANCIAL INFORMATION

The following sections discuss the significant changes in SCRRA's financial position for the fiscal years ended June 30, 2018, June 30, 2017, and June 30, 2016. An analysis of major economic factors and industry trends that have contributed to these changes is provided. For purposes of the MD&A, summaries of the financial statements and various exhibits presented are in conformance with SCRRA's financial statements. For more information regarding SCRRA's capital assets, please refer to Note 4 of the Notes to Basic Financial Statements.

TOTAL ASSETS DISTINGUISHED BETWEEN CAPITAL, OTHER ASSETS, AND DEFERRED OUTFLOWS OF RESOURCES (in thousands)

| | <u>2018</u> | | <u>2017</u> | | <u>2016</u> | |
|---|---------------------|------|---------------------|------|---------------------|------|
| Current assets | \$ 155,035 | 10% | \$ 115,621 | 8% | \$ 102,264 | 7% |
| Capital assets, net | 1,349,335 | 84% | 1,368,158 | 88% | 1,370,625 | 88% |
| Other noncurrent assets | <u>85,742</u> | 5% | <u>65,369</u> | 4% | <u>79,284</u> | 5% |
| Total assets | 1,590,112 | | 1,549,148 | | 1,552,173 | |
| Deferred outflows of resources | <u>8,326</u> | 1% | <u>6,570</u> | 0% | <u>4,096</u> | 0% |
| Total assets and deferred outflows of resources | <u>\$ 1,598,438</u> | 100% | <u>\$ 1,555,718</u> | 100% | <u>\$ 1,556,269</u> | 100% |

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis For the years ended June 30, 2018 and 2017

The following is more detailed information about SCRRA's capital assets:

CAPITAL ASSETS (in thousands)

| <u>ASSET TYPE</u> | <u>2018</u> | | <u>2017</u> | | <u>2016</u> | |
|--|-------------------------|----------|-------------------------|----------|-------------------------|----------|
| Land, easements, and infrastructure assets | \$ 676,117 | 50% | \$ 670,345 | 49% | \$ 670,345 | 49% |
| Construction in progress | <u>76,385</u> | 6% | <u>149,010</u> | 11% | <u>108,976</u> | 8% |
| Total non-depreciable capital assets | <u>752,502</u> | 56% | <u>819,355</u> | 60% | <u>779,321</u> | 57% |
| Rolling stock, net | 306,503 | 23% | 295,895 | 22% | 310,004 | 23% |
| Building and improvements, net | 97,771 | 7% | 102,424 | 7% | 110,692 | 8% |
| Positive train control, net | 138,125 | 10% | 142,001 | 10% | 159,552 | 12% |
| Infrastructure assets | 44,451 | 3% | - | 0% | - | 0% |
| Other, net | <u>9,983</u> | 1% | <u>8,483</u> | 1% | <u>11,056</u> | 1% |
| Total depreciable capital assets, net | <u>596,833</u> | 44% | <u>548,803</u> | 40% | <u>591,304</u> | 43% |
| Total capital assets, net | <u>\$ 1,349,335</u> | 100% | <u>\$ 1,368,158</u> | 100% | <u>\$ 1,370,625</u> | 100% |

Fiscal Year 2018 Compared to 2017. At June 30, 2018, net capital assets totaled \$1,349.3 million and were \$18.8 million or 1.4% lower than the prior year. This decrease was primarily due to \$72.6 million lower construction in progress (CIP) as completed projects were placed in service, which increased depreciable asset's base, \$4.7 million lower building and improvements and \$3.9 million lower positive train control (PTC), resulting from higher depreciation and amortization. These decreases were offset by \$44.5 million in new track and signal infrastructure assets, a net increase of \$10.6 million in rolling stock, \$5.8 million for a new radio frequency, and \$2.0 million for new optic reader and mobile ticketing software.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, net capital assets totaled \$1,368.2 million and were \$2.5 million or 0.2% lower than the prior year. This decrease was primarily due to additions of \$40.7 million in construction in progress and \$0.5 million in positive train control (PTC), support vehicles, computer and other equipment that were offset by an increase of \$43.5 million in depreciation and amortization. The increase of \$40.7 million in Construction in Progress included major projects such as \$18.2 million in Tier 4 locomotive acquisitions, \$6.1 million in radio spectrum acquisition, \$4.0 million for Vincent/Acton platform addition and siding extension, and \$2.9 million for Empire Avenue widening.

TOTAL LIABILITIES DISTINGUISHED BETWEEN CURRENT AND NONCURRENT LIABILITIES, AND DEFERRED INFLOWS OF RESOURCES (in thousands)

| | <u>2018</u> | | <u>2017</u> | | <u>2016</u> | |
|---|-------------------|------|-------------------|------|-------------------|------|
| Current liabilities | \$ 180,342 | 79% | \$ 130,698 | 79% | \$ 139,267 | 80% |
| Noncurrent liabilities | <u>45,274</u> | 20% | <u>34,411</u> | 19% | <u>28,268</u> | 16% |
| Total liabilities | 225,616 | | 165,109 | | 167,535 | |
| Deferred inflows of resources | <u>1,401</u> | 1% | <u>2,649</u> | 2% | <u>6,591</u> | 4% |
| Total liabilities and deferred inflows of resources | <u>\$ 227,017</u> | 100% | <u>\$ 167,758</u> | 100% | <u>\$ 174,126</u> | 100% |

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis For the years ended June 30, 2018 and 2017

The following is more detailed information about liabilities and deferred inflows of resources by type:

| LIABILITIES AND DEFERRED INFLOWS OF RESOURCES BY TYPE (in thousands) | <u>2018</u> | | <u>2017</u> | | <u>2016</u> | |
|--|-----------------------|----------|-----------------------|----------|-----------------------|----------|
| Accounts payable and accrued liabilities | \$ 77,367 | 34% | \$ 48,406 | 29% | \$ 58,838 | 33% |
| Advances for construction and retention payable | 14,619 | 6% | 11,202 | 7% | 13,386 | 8% |
| Unearned revenue | 85,845 | 38% | 67,619 | 40% | 53,828 | 31% |
| Other current liabilities | 845 | 0% | 1,691 | 1% | 1,620 | 1% |
| Note payable | - | 0% | - | 0% | 8,000 | 5% |
| Compensated absences | 3,671 | 2% | 3,565 | 2% | 3,253 | 2% |
| Net pension liability | 11,773 | 5% | 10,151 | 6% | 7,232 | 4% |
| Other postemployment benefits liability | 17,496 | 8% | 12,175 | 7% | 12,178 | 7% |
| Claims and judgments payable | <u>14,000</u> | 6% | <u>10,300</u> | 6% | <u>9,200</u> | 5% |
| Total liabilities | 225,616 | | 165,109 | | 167,535 | |
| Deferred lease proceeds | - | 0% | - | 0% | 3,333 | 2% |
| Deferred inflows | <u>1,401</u> | 1% | <u>2,649</u> | 2% | <u>3,258</u> | 2% |
| Total liabilities and deferred inflows of resources | <u>\$ 227,017</u> | 100% | <u>\$ 167,758</u> | 100% | <u>\$ 174,126</u> | 100% |

Fiscal Year 2018 Compared to 2017. At June 30, 2018, total liabilities and deferred inflows of resources equaled \$227.0 million and were \$59.3 million or 35.3% higher than the prior year. This increase was primarily due to \$29.0 million higher accounts payable and accrued liabilities related to Tier 4 clean technology locomotive orders, ongoing rail rehabilitation projects, rent and security, \$18.2 million more unearned revenue resulting from receipt of advance funding from Member Agencies for budgeted operating expenditures which were partly paid from federal preventive maintenance funding, and \$3.4 million higher advances for construction and retention payable for various projects with third-party vendors. Additional increases included \$5.4 million in liability for other postemployment benefits resulting from the implementation of GASB 75, and a \$3.7 million increase in higher claims and judgments payable based on SCRRA's periodic review of risk exposures.

Fiscal Year 2017 Compared to 2016. At June 30, 2017, total liabilities and deferred inflows of resources equaled \$167.8 million and were \$6.4 million or 3.7% lower than the prior year. This decrease was primarily due to the \$8.0 million final repayment of a note payable SCRRA has obtained from LACMTA in December 2011 for the purchase of 20 additional railcars and the \$3.3 million completion of amortization of deferred lease proceeds. Additional decreases included \$10.4 million of lower accounts payable and accrued liabilities resulting from full payment of outstanding FY 2016 operations services and locomotive acquisition obligation and \$2.2 million of lower advances for construction and retention payable for various projects. These decreases were offset by \$13.8 million increase in unearned revenue resulting from receipt of advance funding from Member Agencies for budgeted operating expenditures that did not materialize, \$2.9 million increase in net pension liability resulting from CalPERS' actuarial valuation, and \$1.1 million increase in claims and judgments based on SCRRA's periodic review of risk exposures.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis
For the years ended June 30, 2018 and 2017

**TOTAL NET POSITION DISTINGUISHED BETWEEN AMOUNTS INVESTED IN
CAPITAL AND UNRESTRICTED (in thousands)**

| | <u>2018</u> | | <u>2017</u> | | <u>2016</u> | |
|----------------------------|-------------------------|-----------|-------------------------|-----------|-------------------------|-----------|
| Invested in capital assets | \$ 1,349,335 | 98% | \$ 1,368,157 | 99% | \$ 1,370,625 | 99% |
| Unrestricted | <u>22,086</u> | <u>2%</u> | <u>19,803</u> | <u>1%</u> | <u>11,518</u> | <u>1%</u> |
| Total net position | <u>\$ 1,371,421</u> | 100% | <u>\$ 1,387,960</u> | 100% | <u>\$ 1,382,143</u> | 100% |

Total net position this year decreased by \$16.5 million, or 1.2% lower from the prior year primarily due to changes in capital assets attributable to lower construction in progress (CIP) and higher depreciation, resulting from completed CIP projects that were placed in service.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND
CHANGE IN NET POSITION (in thousands)**

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|---------------------|
| Operating revenues and expenses: | | | |
| Operating revenues | \$ 124,657 | \$ 115,674 | \$ 127,232 |
| Operating expenses | <u>352,050</u> | <u>314,324</u> | <u>317,893</u> |
| Operating loss | <u>(227,393)</u> | <u>(198,650)</u> | <u>(190,661)</u> |
| Non-operating revenues and expenses: | | | |
| Subsidies and grants | 142,400 | 129,498 | 127,173 |
| Net (loss) gain in fair value of investments | (42) | (61) | 8 |
| Amortization of deferred gain on lease/leaseback | - | 3,333 | 205 |
| Interest income | 12 | 61 | 233 |
| Interest expense | (-) | (216) | (590) |
| Net gain (loss) on disposal of capital assets | <u>(8,330)</u> | <u>16</u> | <u>(256)</u> |
| Total non-operating revenues, net | <u>134,040</u> | <u>132,631</u> | <u>126,773</u> |
| Loss before capital grants and subsidies | <u>(93,353)</u> | <u>(66,019)</u> | <u>(63,888)</u> |
| Capital grants and subsidies | <u>82,311</u> | <u>71,836</u> | <u>82,270</u> |
| Change in net position | <u>(11,042)</u> | 5,817 | 18,382 |
| Net position, beginning of year | 1,387,960 | 1,382,143 | 1,363,761 |
| Cumulative effect of change in accounting principle | <u>(5,497)</u> | <u>-</u> | <u>-</u> |
| Net position, end of year | <u>\$ 1,371,421</u> | <u>\$ 1,387,960</u> | <u>\$ 1,382,143</u> |

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis For the years ended June 30, 2018 and 2017

The following information is about revenues and expenses by major source:

REVENUES AND EXPENSES BY MAJOR SOURCE (in thousands)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|-------------------|
| Revenues: | | | |
| Fares | \$ 82,676 | \$ 83,398 | \$ 84,506 |
| Other operating revenues | 41,981 | 32,276 | 42,726 |
| Grants and subsidies | 224,711 | 201,334 | 209,443 |
| Other non-operating revenues | <u>12</u> | <u>3,410</u> | <u>446</u> |
| Total revenues | <u>\$ 349,380</u> | <u>\$ 320,418</u> | <u>\$ 337,121</u> |
| Expenses: | | | |
| Train operations | \$ 169,131 | \$ 175,618 | \$ 172,310 |
| Maintenance-of-way | 43,172 | 38,596 | 39,558 |
| Rehabilitation and renovation - capital | 39,598 | 20,815 | 25,406 |
| Other operating expenses | 100,149 | 79,295 | 80,619 |
| Non-operating expenses | <u>8,372</u> | <u>277</u> | <u>846</u> |
| Total expenses | <u>\$ 360,422</u> | <u>\$ 314,601</u> | <u>\$ 318,739</u> |

Fiscal Year 2018 Compared to 2017: At June 30, 2018, revenues totaled \$349.4 million and were \$29.0 million or 9.0% higher than the prior year. This increase is primarily due to \$23.4 million more in grants and subsidies, \$4.2 million in insurance recoveries, and \$5.2 million higher revenues from third party projects that were offset by \$3.4 million lower other non-operating revenues resulting primarily from completion of amortization of deferred lease/lease back proceeds. Fare revenue decreased by \$0.7 million, or 0.9% from the prior year.

Expenses totaled \$360.4 million and were \$45.8 million or 14.6% higher than the prior year. This increase is primarily due \$20.9 million in higher other operating expenses resulting from insurance, bad debt, and depreciation expenses, \$18.8 million in higher rehabilitation and maintenance costs on railcars and equipment, and \$4.6 million higher maintenance-of-way expenses.

Fiscal Year 2017 Compared to 2016: At June 30, 2017, revenues totaled \$320.4 million and were \$16.7 million, or 5.0% lower than the prior year. This decrease was primarily due to \$10.5 million lower other operating revenues from third party projects and \$8.1 million lower grants and subsidies. Fare revenue decreased by \$1.1 million, or 1.3% from the prior year.

Expenses totaled \$314.6 million and were \$4.1 million, or 1.3% lower than the prior year. This decrease was primarily due to \$4.6 million lower capital program costs, \$1.3 million lower other operating expenses and \$1.0 million lower maintenance-of-way expenses that were offset by \$3.3 million higher train operation expenses due to increased service hours.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis
For the years ended June 30, 2018 and 2017

CAPITAL ASSETS

INFRASTRUCTURE ASSETS – MODIFIED APPROACH

SCRRA elected to use the modified approach in reporting its railroad network (track, tunnel and bridge structures, and signals and communications). Under the modified approach, infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as certain requirements (which are disclosed in the accompanying basic financial statements and required supplementary information) are met. One such requirement is that the infrastructure be maintained at an established condition level. In accordance with generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board, a full condition assessment must be performed on all infrastructure assets every three years.

Management seeks to maintain infrastructure above the minimum required level approved by the Board and above minimum standards required by the Federal Railroad Administration. In FY 2018, SCRRA estimated the amount needed to maintain or preserve the infrastructure asset to be \$56.6 million. Actual expenses were \$86.8 million. In FY 2017, SCRRA estimated the amount needed to maintain or preserve the infrastructure assets to be \$67.6 million. Actual expenses were \$55.8 million. See Required Supplementary Information, Note 1 for more information.

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

Metrolink ridership has continued to grow to approximately 11.7 million in annual boardings as a result of stronger economic conditions, variability in vehicle fuel costs and strong job markets. The region's employment base continues to grow with the unemployment rate at one of its lowest levels in decades.

SCRRA's commitment to provide a reliable commute that enhances quality of life is the cornerstone of its planned purchase of 40 low emission F125 locomotives at approximately \$280 million in projected costs. Delivery of 15 locomotives was made through June 2018, with the remainder expected to be delivered through FY 2020. SCRRA continues to seek additional funding to improve rail service and increase reliability in an effort to reduce driving, better serve commuters, and draw them off congested freeways and onto public transportation.

The FY 2018 budget included \$359.7 million in new and outstanding project authorization with \$144.0 million allocated to rehabilitation projects and \$215.7 million to new capital projects. SCRRA is responsible for ensuring overall safety and dependable performance of its railroad network asset, the right-of-way and everything that travels upon it. Projects are selected based on the principle of minimizing and managing risks associated with network system failure including rail vehicle equipment

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Management's Discussion and Analysis
For the years ended June 30, 2018 and 2017

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

FY 2019 ADOPTED BUDGET

The FY 2019 budget includes \$481.3 million in new and outstanding project authority. Of this amount, \$246.4 million is allocated to rehabilitation projects and \$234.9 million is allocated to new capital projects.

MEASURE M

On November 8, 2016, Los Angeles County voters approved Measure M, a half-cent transportation sales tax measure placed on the ballot by the Los Angeles County Metropolitan Transportation Authority (Metro) Board of Directors. This measure calls for a sustained funding approach for a variety of transit and highway projects, roadway improvements, pedestrian and bike paths, paratransit services for the disabled, and affordable fares for seniors. The passage of Measure M will provide billions of dollars for commuter rail and transit operations, and projects to keep buses, trains, and facilities in good repair. Metrolink will receive up to 2% of this half-cent sales tax over the life of the measure.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of SCRRA's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Southern California Regional Rail Authority, 900 Wilshire Boulevard Suite 1500, Los Angeles, CA 90017.

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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Balance Sheets

June 30, 2018 and 2017

(Dollar Amounts in Thousands)

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Assets and deferred outflows of resources: | | |
| Current assets: | | |
| Cash and investments | \$ 97,162 | \$ 51,432 |
| Due from other agencies, net of allowance for uncollectible accounts of \$2,264 and \$1,657, respectively | 29,285 | 42,495 |
| Prepaid expenses | 817 | 1,039 |
| Trade and other receivables, net of allowance for uncollectible accounts of \$3,747 and \$351, respectively | 12,495 | 5,783 |
| Inventory | 15,276 | 14,872 |
| Total current assets | <u>155,035</u> | <u>115,621</u> |
| Noncurrent assets: | | |
| Restricted cash and investments | 51,430 | 39,373 |
| Due from other agencies, net of current | 34,312 | 25,996 |
| Capital assets: | | |
| Non-depreciable | 752,502 | 819,355 |
| Depreciable, net of accumulated depreciation of \$468,803 and \$430,171, respectively | 596,833 | 548,803 |
| Total noncurrent assets | <u>1,435,077</u> | <u>1,433,527</u> |
| Total assets | <u>1,590,112</u> | <u>1,549,148</u> |
| Deferred outflows of resources | 8,326 | 6,570 |
| Total assets and deferred outflows of resources | <u>\$ 1,598,438</u> | <u>\$ 1,555,718</u> |
| Liabilities, deferred inflows of resources and net position: | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 77,367 | \$ 48,406 |
| Advances for construction | 12,253 | 9,519 |
| Retention payable | 2,366 | 1,683 |
| Unearned revenue and advances on capital purchases | 85,845 | 67,619 |
| Other current liabilities | 845 | 1,691 |
| Compensated absences | 1,666 | 1,605 |
| Claims and judgments payable | - | 175 |
| Total current liabilities | <u>180,342</u> | <u>130,698</u> |
| Noncurrent liabilities: | | |
| Net pension liability | 11,773 | 10,151 |
| Other postemployment benefits liability | 17,496 | 12,175 |
| Compensated absences | 2,005 | 1,960 |
| Claims and judgments payable | 14,000 | 10,125 |
| Total noncurrent liabilities | <u>45,274</u> | <u>34,411</u> |
| Total liabilities | <u>225,616</u> | <u>165,109</u> |
| Deferred inflows of resources | 1,401 | 2,649 |
| Net position: | | |
| Investment in capital assets | 1,349,335 | 1,368,157 |
| Unrestricted | 22,086 | 19,803 |
| Total net position | <u>1,371,421</u> | <u>1,387,960</u> |
| Total liabilities, deferred inflows of resources and net position | <u>\$ 1,598,438</u> | <u>\$ 1,555,718</u> |

See accompanying notes to basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statements of Revenues, Expenses and Changes in Net Position

For the years ended June 30, 2018 and 2017

(Dollar Amounts in Thousands)

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Operating revenues: | | |
| Fares | \$ 82,676 | \$ 83,398 |
| Dispatching | 2,144 | 2,078 |
| Third-party agreements | 22,641 | 17,503 |
| Maintenance of way | 12,792 | 12,387 |
| Public liability and property damage recovery | 4,210 | 5 |
| Miscellaneous | 194 | 303 |
| Total operating revenues | <u>124,657</u> | <u>115,674</u> |
| Operating expenses: | | |
| Train operations | 169,131 | 175,618 |
| Maintenance-of-way | 43,172 | 38,596 |
| Rehabilitation and renovation - capital | 39,598 | 20,815 |
| Third-party agreements | 24,508 | 19,602 |
| Insurance | 9,748 | 11,018 |
| Provision for claims, judgments and other | 3,893 | 1,197 |
| Public liability and property damage | 10,205 | 3,775 |
| Depreciation | 47,786 | 43,703 |
| Bad debt expense | 4,009 | - |
| Total operating expenses | <u>352,050</u> | <u>314,324</u> |
| Operating loss | <u>(227,393)</u> | <u>(198,650)</u> |
| Non-operating revenues (expenses): | | |
| Subsidies and grants - trains and maintenance of way | 124,737 | 112,711 |
| Subsidies and grants - public liability and property damage | 17,663 | 16,787 |
| Net reduction in fair value of investments | (42) | (61) |
| Amortization of deferred gain on lease / leaseback | - | 3,333 |
| Interest income | 12 | 61 |
| Interest expense | - | (216) |
| Net (loss) gain on disposal of capital assets | (8,330) | 16 |
| Total non-operating revenues, net | <u>134,040</u> | <u>132,631</u> |
| Loss before capital grants and subsidies | (93,353) | (66,019) |
| Capital grants and subsidies | <u>82,311</u> | <u>71,836</u> |
| (Decrease)/Increase in net position | (11,042) | 5,817 |
| Net position at beginning of year | 1,387,960 | 1,382,143 |
| Cumulative effect of change in accounting principle | <u>(5,497)</u> | - |
| Net position at end of year | <u>\$ 1,371,421</u> | <u>\$ 1,387,960</u> |

See accompanying notes to basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statements of Cash Flows

For the years ended June 30, 2018 and 2017

(Dollar Amounts in Thousands)

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|------------------|
| Cash flows from operating activities: | | |
| Cash received from fares | \$ 82,680 | \$ 82,958 |
| Cash received from dispatching and maintenance of way | 8,203 | 15,965 |
| Cash received from third-party agreements and public liability and property damage | 25,502 | 16,585 |
| Cash paid to employees | (41,127) | (38,589) |
| Cash paid to suppliers | (219,017) | (237,496) |
| Cash received from miscellaneous sources | 195 | 304 |
| Net cash used in operating activities | <u>(143,564)</u> | <u>(160,273)</u> |
| Cash flows from noncapital financing activities: | | |
| Operating subsidies and grants - trains and maintenance of way | 146,364 | 120,912 |
| Operating subsidies and grants - public liability and property damage | 17,663 | 16,787 |
| Net cash provided by noncapital financing activities | <u>164,027</u> | <u>137,699</u> |
| Cash flows from capital and related financing activities: | | |
| Capital grants and subsidies received | 78,770 | 89,852 |
| Construction and purchases of capital assets | (41,303) | (41,218) |
| Repayment of note payable | - | (8,000) |
| Interest paid | - | (216) |
| Net cash provided by capital and related financing activities | <u>37,467</u> | <u>40,418</u> |
| Cash flows from investing activities: | | |
| Net change in cash equivalents | (101) | 47 |
| Sale / maturity of investments | (42) | (61) |
| Net cash used in investing activities | <u>(143)</u> | <u>(14)</u> |
| Net increase (decrease) in cash and investments | 57,787 | 17,830 |
| Cash and investments at beginning of year | <u>90,805</u> | <u>72,975</u> |
| Cash and investments at end of year | <u>\$ 148,592</u> | <u>\$ 90,805</u> |
| Reconciliation to cash and investments on the Balance Sheets: | | |
| Cash and investments | \$ 97,162 | \$ 51,432 |
| Restricted cash and investments | 51,430 | 39,373 |
| Total cash and investments on the Balance Sheet | <u>\$ 148,592</u> | <u>\$ 90,805</u> |

See accompanying notes to basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statements of Cash Flows, Continued
For the years ended June 30, 2018 and 2017
(Dollar Amounts in Thousands)

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (227,393) | \$ (198,650) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation | 47,786 | 43,703 |
| Bad debt | 4,009 | - |
| (Increase) decrease in: | | |
| Due from other agencies | 5,857 | (934) |
| Prepaid expenses | 221 | (20) |
| Trade and other receivables, net | (6,599) | 1,327 |
| Inventory | (404) | 5,368 |
| Increase (decrease) in: | | |
| Accounts payable and accrued liabilities | 28,963 | (10,432) |
| Compensated absences | 107 | 312 |
| Advances for construction | 2,734 | (1,694) |
| Claims and judgments payable | 3,700 | 1,100 |
| Unearned revenue | (140) | (257) |
| Other post employment benefits | (176) | (3) |
| Other liabilities | (847) | 71 |
| Net pension liability and related changes in deferred outflows and inflows of resources | 891 | (164) |
| Net OPEB liability and related changes in deferred outflows and inflows of resources | (2,273) | - |
| Total adjustments | <u>83,829</u> | <u>38,377</u> |
| Net cash used in operating activities | <u>\$ (143,564)</u> | <u>\$ (160,273)</u> |
| Noncash investing, capital and financing activities: | | |
| Amortization of deferred gain on lease / leaseback | \$ - | \$ 3,333 |
| Net gain (loss) on disposal of capital assets | (8,331) | 16 |

See accompanying notes to basic financial statements.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Southern California Regional Rail Authority (SCRRA) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. SCRRA's significant accounting policies are described below.

A. Financial Reporting Entity

In June 1990, the California Legislature enacted Senate Bill 1402, Chapter 4 of Division 12 of the Public Utilities Code. This bill required the transportation commissions of the Counties of Los Angeles, Orange, Riverside, San Bernardino, and Ventura to jointly develop a plan for regional transit services within the multi-county region. The Southern California Regional Rail Authority (SCRRA) was established on August 1, 1991 through a Joint Exercise of Powers Agreement (JPA) among the following public agencies (Member Agencies):

- Los Angeles County Metropolitan Transportation Authority (LACMTA)
- Orange County Transportation Authority (OCTA)
- Riverside County Transportation Commission (RCTC)
- San Bernardino County Transportation Authority (SBCTA)
- Ventura County Transportation Commission (VCTC)

SCRRA's independent governing Board consists of 11 members appointed by the Member Agencies, as follows:

| | |
|--|---|
| Los Angeles County Metropolitan Transportation Authority | 4 |
| Orange County Transportation Authority | 2 |
| Riverside County Transportation Commission | 2 |
| San Bernardino County Transportation Authority | 2 |
| Ventura County Transportation Commission | 1 |

The purpose of SCRRA is to plan, design, construct, and administer the operation of regional commuter rail lines serving the counties of Los Angeles (L.A.), Orange, Riverside, San Bernardino, Ventura, and northern San Diego. The operation of the commuter rail lines is referred to as Metrolink. Its services include the operation of seven commuter rail passenger lines, as follows:

- San Bernardino Line – running from San Bernardino to L.A. Union Station
- Antelope Valley Line – running from Lancaster to L.A. Union Station
- Ventura County, Burbank Airport/Downtown Line – running from Oxnard to L.A. Union Station
- Orange County Line – running from Oceanside to L.A. Union Station
- Inland Empire-Orange County Line – running from San Bernardino to Oceanside
- 91/Perris Valley Line – running from South Perris to L.A. Union Station via Fullerton
- Riverside Line – running from Riverside to L.A. Union Station via City of Industry

Passenger fares, dispatching and maintenance-of-way revenues, Member Agency operating and capital subsidies, and State and federal grant programs fund the SCRRA. The Member Agencies and other public entities provide transportation within the counties served by SCRRA. SCRRA is not considered a component unit of any other reporting entity. As required by U.S. GAAP, the accompanying basic financial statements include all financial activities of SCRRA.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

In accordance with GAAP, SCRRA has considered all potential organizations for which the nature and significance of their relationships with SCRRA are such that exclusion would cause SCRRA's financial statements to be misleading or incomplete. The GASB has established criteria to be considered in determining financial accountability. These criteria include appointing the majority of an organization's governing body and (1) the ability of SCRRA to impose its will on that organization or (2) the potential for that organization to provide specific benefits to, or impose specific financial burdens on SCRRA. Based on these criteria, there are no other organizations or agencies that should be included in these basic financial statements.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The accompanying basic financial statements of SCRRA have been prepared in conformity with GAAP as promulgated by GASB, the accepted standard setting body for establishing governmental accounting and financial reporting principles, and the State Controller's *Minimum Audit Requirements and Reporting Guidelines*.

SCRRA distinguishes operating revenues and expenses from non-operating items. All revenues and expenses not meeting the definitions noted below are reported as non-operating revenues and expenses. Operating revenues and expenses generally result from providing goods and services, and producing and delivering goods in connection with SCRRA's principal ongoing operations. SCRRA's principal operating revenues include passenger fares charged for commuter rail services, dispatching fees, third-party agreements, and maintenance-of-way revenues.

C. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of revenues and expenses. Actual results could differ from those estimates and assumptions.

D. Effects of New Accounting Pronouncements

SCRRA adopted the following GASB statements in the fiscal year ended June 30, 2018:

GASB Statement No. 75

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve information related to postemployment benefits (generally healthcare benefits). This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

For fiscal years commencing after June 15, 2017, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, became effective and replaced the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The cumulative effects of applying the provisions of GASB Statements No. 75 have been reported as an adjustment to the beginning net position for the year ended June 30, 2018, in accordance with Statement No. 75. The cumulative effect of this adjustment to net position is a decrease of \$5.5 million.

GASB Statement No. 82

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, No. 68, and No. 73. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement did not have a significant impact on SCRRA.

GASB Statement No. 85

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement did not have a significant impact on SCRRA.

GASB Statement No. 86

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement did not have a significant impact on SCRRA.

SCRRA is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

GASB Statement No. 83

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for legally enforceable liabilities associated with the retirement of tangible capital assets. This Statement is effective for periods beginning after June 15, 2018.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

GASB Statement No. 84

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. It establishes criteria for identifying fiduciary activities, the focus of which generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement is effective for periods beginning after December 15, 2018. This Statement is not expected to have a significant impact on SCRRA.

GASB Statement No. 87

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for periods beginning after December 15, 2019.

GASB Statement No. 88

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. This Statement clarifies which liabilities governments should include when disclosing information related to debt. Debt is defined, for purposes of disclosure in notes to the financial statements, as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in the notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subject acceleration clauses. The Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. This Statement is effective for periods beginning after June 15, 2018.

GASB Statement No. 89

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. One of the objectives of this Statement is to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement is effective for reporting periods beginning after December 15, 2019.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

GASB Statement No. 90

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement is effective for reporting periods beginning after December 15, 2018. This Statement is not expected to have a significant impact on SCRRA.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position

1. Cash and Investments

Cash and investments consist of cash in demand deposit accounts and investments in the State Treasurer's Local Agency Investment Fund (LAIF), money market funds, and treasury reserves. Note 2 provides information about SCRRA's deposits and investments, interest sensitive investments, and the credit quality of the investments held at year-end. Investments are presented at fair value.

Cash and cash equivalents are considered to be cash on hand, amounts in demand deposits, and short-term investments with original maturities of three months or less from the date acquired by SCRRA.

2. Restricted Cash and Investments

Restricted cash and investments represent advanced funds received whereby constraints have been either (1) imposed by the creditors, grantors, contributors, or laws and regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.

3. Due from Other Agencies and Trade Receivables

SCRRA establishes an allowance for doubtful accounts, which reflects a reasonable estimate of accounts receivable that management deems uncollectible. Using the June 30th final accounts receivable aging report, SCRRA calculates a reserve balance equal to 50% of aged receivable amounts that are over 120 days outstanding.

4. Prepaid Expenses

Payments made to vendors for expenses that will benefit future periods beyond the fiscal year end are recorded as prepaid expenses.

5. Inventory

Inventory consists of railroad operating spare parts that are recorded when purchased and expensed when used. SCRRA maintains inventory for rolling stock, track, and signal maintenance. SCRRA's inventory is valued using the lower of average cost or market. SCRRA continues to test its inventory for obsolescence and the reserve for obsolescence for FY17 and FY18 was \$3.9 million.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

6. Capital Assets

Capital assets reported by SCRRA include land, buildings, vehicles, rolling stock, equipment, right-of-way easements, positive train control (PTC), fare collection equipment, and the Metrolink railroad network. As part of the JPA, the Member Agencies acquired the rail network in existence at the time of the creation of the JPA for use in SCRRA's commuter rail operations. The initial railroad network is not included as part of Metrolink's railroad network. The Member Agencies retained title and ownership to those assets.

As part of the JPA, SCRRA is responsible for the related maintenance and operation of members' assets and rail right-of-way used in operations. Additionally, certain agencies retain responsibility to maintain segments of their railroad network. SCRRA's railroad network consists of capital assets created as a result of new capital construction and major capital improvement projects and are recorded in the financial statements as SCRRA infrastructure. Capital assets are defined by SCRRA as assets with an individual cost of at least \$5,000 and a minimum useful life of greater than one year.

Purchased or constructed capital assets are valued at cost where records are available and at estimated fair value where no records exist. Assets donated to SCRRA are valued at fair value on the date received. Costs related to the acquisition of easement rights are recorded as part of capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Buildings and improvements, rolling stock, depreciable infrastructure/railroad network, vehicles, fare collection equipment, and computer and other equipment are depreciated using the straight-line method over the following useful lives:

| Asset Description | Useful Life |
|--|-------------|
| Building and improvements | 10-30 years |
| Rolling stock | 20-30 years |
| New railroad network | 20 years |
| Fare collection systems and Positive Train Control | 10 years |
| Computer and other equipment | 3-10 years |
| Support vehicles | 5-7 years |

SCRRA defines historical infrastructure and new railroad network as basic physical assets that allow SCRRA to function. These assets constitute the Metrolink railroad network (tracks, tunnel and bridge structures, and communications signals). The new railroad network assets are depreciated on a straight-line basis, using a useful life of 20 years. On historical infrastructure, SCRRA has elected to use the modified approach as defined by GASB Statement No. 34.

Pursuant to the modified approach to accounting for infrastructure assets, SCRRA has committed to preserving and maintaining its railroad network at an appropriate condition level as determined by the Board of Directors. Consequently, no depreciation expense is reported for the capital assets comprising the historical railroad network, nor are amounts capitalized in connection with improvements that lengthen the lives of those capital assets, unless those improvements also increase their service capacity. SCRRA maintains an inventory of its railroad network infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. In addition, SCRRA makes annual estimates of the amount that must be expended to preserve and maintain the railroad network at the predetermined condition level.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

7. Compensated Absences

Substantially all employees earn paid time-off (PTO) for vacation, illness, and certain other qualifying absences each pay period. The number of hours accrued is generally based on length of service not to exceed three times an employee's annual accrual. When employees reach their maximum accrual balance, they will not continue to accrue PTO hours until their PTO accounts are below the maximum accrual balance. A liability for compensated absences has been accrued in the accompanying basic financial statements.

8. Deferred Lease Proceeds

Deferred lease proceeds represent the balance of the deferred gain recorded from the fiscal years 1999 and 2003 lease/leaseback transactions (Note 7). The deferred gains were being amortized in proportion to the amortization of the lease payments on a straight-line basis. The remaining amount of unamortized gain was recognized in its entirety during FY 2017 in the accompanying statement of revenues, expenses and changes in net position.

9. Unearned Revenue and Advances on Capital Construction

Unearned revenues arise when SCRRA receives resources before it has a legal claim to them, such as when grant monies are received prior to the incurrence of the qualifying expenses or when advances on capital construction are received. In addition, Member Agencies contribute funds in advance for their annual operating subsidy. In subsequent periods, when SCRRA has met all eligibility requirements, the liability for unearned revenue is removed from the statement of balance sheets and the revenue is recognized.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions and pension expense, information about the fiduciary net position of SCRRA's California Public Employees' Retirement System (CalPERS) plan (Plan), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

11. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the SCRRA Retiree Healthcare Plan (Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

12. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of balance sheets reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

In addition to liabilities, the statement of balance sheets reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

13. Components of Net Position

Net position is reported in one of three categories:

Investment in Capital Assets – groups all capital assets, including infrastructure, into one component of net position. Accumulated depreciation reduces the balance of this category.

Restricted – consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, netting to zero dollars for the years ended June 30, 2018 and 2017.

Unrestricted – represents net position that is not restricted for any project or purpose.

14. Use of Restricted/Unrestricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, SCRRA's policy is to apply restricted resources first.

F. Revenues and Expenses

1. Third-Party Agreements

SCRRA receives revenues from third-party agreements – items such as charter train services, construction of major capital facilities on behalf of third parties, and flagging services provided by SCRRA for the safety of non-SCRRA personnel accessing the rail right-of-way. SCRRA recognizes revenue in the period to the extent of eligible expenses incurred. Any fees determined to be nonrefundable are recognized as revenue upon receipt.

2. Operating and Maintenance Agreements

SCRRA operates Metrolink services through the use of several operating agreements with various vendors. Under these operating agreements, services are provided for the maintenance of track, structures, communications signals and equipment, and rolling stock maintenance, as well as outsourced staffing for the operation of passenger train services.

3. Operating and Non-operating Revenues and Expenses

Operating revenues are those revenues that are generated from SCRRA's primary operations and generally include passenger fares charged for commuter rail services, dispatching fees, third-party agreements, and maintenance-of-way revenues. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to SCRRA's primary operations. All other expenses are reported as non-operating expenses. Revenues are recognized when earned and expenses are recorded when incurred.

G. Reclassifications

Certain amounts presented in the 2017 financial statements have been reclassified to be consistent with the current year's presentation. Such reclassifications have no effect on the increase in net position as previously reported.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

2. CASH AND INVESTMENTS

SCRRA's Investment Policy (Investment Policy) sets forth the investment guidelines for all funds of SCRRA. The Investment Policy conforms to California Government Code (Code) Section 53600 et. seq. The authority to manage SCRRA's investment program is granted by the Board of Directors. Pursuant to Section 53607 of the California Government Code, the Board of Directors annually appoints the Chief Financial Officer as Treasurer and approves SCRRA's Investment Policy. The Treasurer is authorized to delegate this authority as deemed appropriate. No person may engage in investment transactions except as provided under the terms of the Investment Policy and the procedures established by the Treasurer.

The Investment Policy requires that investments be made with the prudent person standard, that is, when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the Treasurer and designated staff will act with care, skill, prudence, and diligence under the circumstances then prevailing, including but not limited to, the general economic conditions and the anticipated needs of SCRRA.

A. Authorized Investments

SCRRA's Investment Policy is adopted annually by the Board of Directors in accordance with California Government Code Section 53601, and has as its objectives the following (in order of priority):

- **Safety of Principal:** Safety of principal is the foremost objective of SCRRA. Each investment transaction shall seek to ensure capital losses are avoided, whether from institutional default, broker-dealer default, or erosion of market value of securities.
- **Liquidity:** Liquidity is the second most important objective of SCRRA. It is important the portfolio contain investments for which there is an active secondary market and which offer the flexibility to be easily sold at any time with minimal risk of loss of either the principal or interest based upon then prevailing rates.
- **Total Return:** SCRRA's portfolio shall be designed to attain a market-average rate of return through economic cycles.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

Under provisions of SCRRA’s Investment Policy, the Treasurer may invest in the following types of investments:

| | |
|---|--|
| U.S. Treasuries | Direct obligations of the United States and securities that are fully and unconditionally guaranteed as to the timely payment of principal and interest by the full faith and credit of the United States; U.S. Treasury coupon and principal Separate Trading of Registered Interest and Principal of Securities (STRIPS). |
| Federal Agencies and U.S. Government Sponsored Enterprises | Senior debt obligations, participation certificates, or other instruments of, or issued by or guaranteed by, the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), the Federal Home Loan Bank (FHLB), the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Farm Credit Bank (FFCB), the Student Loan Marketing Association (SLMA or Sallie Mae), the Government National Mortgage Association (GNMA or Ginnie Mae), the Small Business Administration (SBA), the Export-Import Bank of the United States, or the U.S. Department of Housing and Urban Development. Any federal agency or U.S. Government Sponsored Enterprise security not specifically mentioned above is not a permitted investment. |
| State of California and Local Agency Obligations | Registered state warrants, treasury notes, or bonds of the State of California and bonds, notes, warrants, or other forms of indebtedness of any local agency within California. |
| Bankers Acceptances | Bankers acceptances with a maximum term of 180 days. |
| Commercial Paper | Prime commercial paper with a maximum term of 180 days. |
| Negotiable Certificates of Deposit | Negotiable certificates of deposit with a maximum term of 270 days, issued by a nationally- or state-chartered bank or state or federal association or by a state licensed branch of a foreign bank. |
| Repurchase Agreements | Repurchase agreements with a maximum term of one year that comply with statutory requirements, are documented by a written agreement, are fully collateralized by delivery to an independent third-party custodian or the counterparty’s bank’s trust department or safekeeping department. |
| Medium-term Maturity Corporate Securities | Corporate securities with a maximum term of 5 years, rated AA (the Government Code allows A ratings or better) or better by a nationally recognized rating service. |
| Money Market Funds | Shares of beneficial interest issued by diversified management companies (commonly called money market funds), subject to certain conditions and limitations. |
| Other Mutual Funds | Shares of beneficial interest issued by diversified management companies (commonly called mutual funds), subject to certain conditions and limitations. |
| Mortgage or Asset-backed Securities | Mortgage pass-through securities, collateralized mortgage obligations, mortgage-backed or other pay-through bonds, equipment and other mortgage and consumer receivable pass-through certificates, or consumer receivable-backed bonds with a maximum stated final maturity of 5 years, subject to the credit rating of the issuer. |

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

| | |
|--|---|
| Investment Agreements | Investment agreements are permitted with any bank, insurance company, or broker-dealer, subject to certain limitations. |
| State of California Local Agency Investment Fund (LAIF) | LAIF is a pooled fund maintained by the State of California and managed by the State Treasurer. |
| Variable and Floating Rate Securities | Variable and floating rate securities, which are restricted to investments in permitted Federal Agencies and U.S. Government Sponsored Enterprises securities, with a final maturity not to exceed 3 years. |
| Derivatives | Derivatives are to be used as a tool for bona fide hedging investments only where deemed appropriate. |

All investments, unless otherwise specified, are subject to a maximum stated term of 5 years.

In accordance with Section 53651 of the California Government Code, SCRRA cannot invest in inverse floaters, range notes, or interest-only strips that are derived from a pool of mortgages, or in any security that could result in zero interest accrual if held to maturity. The limitation does not apply to investments in shares of beneficial interest issued under the Investment Company Act of 1940 that are authorized investments under Section 53601 of the California Government Code.

The following is a summary of cash and investments as of June 30, 2018 and 2017 (in thousands):

| | | |
|---------------------------------|------------------|------------------|
| | <u>2018</u> | <u>2017</u> |
| Cash and investments | \$ 97,162 | \$ 51,432 |
| Restricted cash and investments | <u>51,430</u> | <u>39,373</u> |
| Total cash and investments | <u>\$148,592</u> | <u>\$ 90,805</u> |

Restricted cash and investments for the years ended June 30, 2018 and 2017 are summarized as follows (in thousands):

| | | |
|---|------------------|------------------|
| | <u>2018</u> | <u>2017</u> |
| Unexpended Proposition 1B funds (Note 6): | | |
| Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA) | \$ 15,032 | \$ 20,324 |
| California Transit Security Grant Program (CTSGP) | 20,728 | 8,687 |
| California State Transportation Agency State Rail Assistance (CalSTA SRA) | 1,612 | - |
| Low-Carbon Transit Operations Program (LCTOP) | <u>1,763</u> | <u>801</u> |
| Total unexpended Proposition 1B funds | 39,135 | 29,812 |
| Advances for construction | 12,253 | 9,519 |
| Other | <u>42</u> | <u>42</u> |
| Total restricted cash and investments | <u>\$ 51,430</u> | <u>\$ 39,373</u> |

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

B. Risk Disclosures – Deposits

As of June 30, 2018 and 2017, the Federal Deposit Insurance Corporation (FDIC) covered \$250,000 of the bank balance. The California Government Code Section 53652 requires California financial institutions to secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by governmental entities by pledging first trust deed mortgage notes having a value equal to 150% of a governmental unit's total deposit.

C. Investment Valuation

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GASB Statement No. 72 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. The standard describes three levels of inputs that may be used to measure fair value, as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

D. Risk Disclosures – Investments

Investments are subject to a number of risks, as follows:

1. Interest Rate Risk

Interest rate risk is the potential loss due to the fair value of an investment falling due to interest rates rising. At June 30, 2018 and 2017, SCRRA did not hold investments that are “highly sensitive to interest rate fluctuations,” as defined by GASB Statement No. 40. As a means of limiting exposure to fair value losses arising from increasing interest rates, SCRRA’s investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs.

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2. Credit Risk

Credit risk is the risk that an issuer will not fulfill its obligation to the holder of the investment.

Money market funds and other mutual funds must be rated AAA (or equivalent highest rating) by two of the three largest nationally recognized rating agencies. Mortgage or asset-backed securities must be rated AAA (AA, according to the Government Code) by a nationally recognized rating agency. The Local Agency Investment Fund (LAIF), administered by the State of California, has a separate investment policy, governed by Government Code Sections 16480-16481.2, that provides credit standards for its investments. SCRRA's money market is classified as a level 1 asset.

The following schedules indicate the credit and interest rate risks as of June 30, 2018 and 2017, respectively. The credit ratings listed are from Moody's Investor Services and Standard & Poor's. Certain investments, such as obligations that are backed by the full faith and credit of the United States Treasury, are not subjected to credit rating (in thousands).

| June 30, 2018 | Interest Rate Range | Credit rating Moody's/ S&P | Maturity | | | | Carrying value as of 6/30/2018 |
|--------------------------------|---------------------------|----------------------------------|------------------|----------------|-----------------|--------------|--------------------------------------|
| | | | Under 30 Days | 31-180 Days | 181-365 Days | 1-5 Years | |
| In custody of Treasurer: | | | | | | | |
| Cash and cash deposits: | | | | | | | |
| Cash on hand | | | | | | | \$ 459 |
| Cash in banks | | | | | | | 98,193 |
| Money market funds | | | | | | | 3,773 |
| Total cash and cash deposits | | | | | | | <u>102,425</u> |
| Investments held by Treasurer: | | | | | | | |
| Local Agency Investment Funds | 1.07% - 1.90% | Not rated | \$42,421 | | | | 42,421 |
| Fuel Hedge Agreement | | Not rated | 3,746 | | | | 3,746 |
| Total cash and investments | | | | | | | <u>\$148,592</u> |
| <hr/> | | | | | | | |
| June 30, 2017 | Interest Rate Range | Credit rating Moody's/ S&P | Maturity | | | | Carrying value as of 6/30/2017 |
| | | | Under 30 Days | 31-180 Days | 181-365 Days | 1-5 Years | |
| In custody of Treasurer: | | | | | | | |
| Cash and cash deposits: | | | | | | | |
| Cash on hand | | | | | | | \$ 437 |
| Cash in banks | | | | | | | 51,107 |
| Money market funds | | | | | | | 3,721 |
| Total cash and cash deposits | | | | | | | <u>55,265</u> |
| Investments held by Treasurer: | | | | | | | |
| Local Agency Investment Funds | 0.59% - 0.98% | Not rated | \$35,540 | | | | 35,540 |
| Total cash and investments | | | | | | | <u>\$ 90,805</u> |

3. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, SCRRA will not be able to recover the value of its investments or collateral securities that are in the possession of outside party. SCRRA has investment securities held by LAIF and Royal Bank of Canada.

4. Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investor's holdings in a single issuer. SCRRA diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name to 5%. Investments in LAIF are not subject to this limit on credit concentration; however, SCRRA limits the percentage of the portfolio that can be invested in any one federal agency or government-sponsored enterprise security to 30%.

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E. External Investment Pool

SCRRA invests in the California Local Agency Investment Fund (LAIF), a State of California external investment pool that is not rated. The pool is valued using pricing models that maximize the use of observable inputs for similar securities that make up the investment pool, which includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

SCRRA reports its investment in LAIF at the fair value amount provided by LAIF. The fair value of LAIF was calculated by applying a factor of 0.998126869 and 0.998940671 at June 30, 2018 and 2017, respectively, to the total investments held by LAIF. As of June 30, 2018 and 2017, SCRRA had \$42.5 million and \$35.6 million invested in LAIF, respectively, with fair value at \$42.4 million and \$35.5 million, respectively.

F. Fuel Hedge

SCRRA partially hedges its fuel cost exposure using financial hedges. The goal of the hedging program is to minimize the budget risk resulting from the purchase of fuel on a spot basis and to seek overall low fuel cost in the long-term while managing budget risk. SCRRA contracts with a third-party, R.J. O'Brien (RJO), to manage its assets, with the funds being held by Royal Bank of Canada Wealth Management (RBC).

SCRRA's fuel hedge program is classified as a level 3 asset.

The table below summarizes six active ultra-low sulfur diesel (ULSD) hedges in whole dollars:

| Counterparty | RBC/RJO | RBC/RJO | RBC/RJO | RBC/RJO | RBC/RJO | RBC/RJO |
|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Trade Date | 1/23/2018 | 1/24/2018 | 1/25/2018 | 6/20/2018 | 6/22/2018 | 6/27/2018 |
| Contract Price per gallon | \$2.04 | \$2.06 | \$2.06 | \$2.12 | \$2.13 | \$2.19 |
| Effective Date | 9/1/2018 | 9/1/2018 | 9/1/2018 | 9/1/2018 | 9/1/2018 | 9/1/2018 |
| Date of Sale | 6/7/2018 | 6/7/2018 | 6/7/2018 | 8/30/2018 | 8/30/2018 | 8/30/2018 |
| Sale Price per gallon | \$2.18 | \$2.18 | \$2.18 | \$2.25 | \$2.25 | \$2.25 |
| Fair Value Increase/(Decrease) | \$0.14 | \$0.12 | \$0.12 | \$0.13 | \$0.11 | \$0.06 |

The monthly settlements are based on the daily prices of the ULSD whereby SCRRA will receive a payment or make a payment to the counterparty. As of June 30, 2018, the total outstanding value of the ULSD contracts was 1.26 million gallons with a positive fair market value of \$2.7 million.

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3. DUE FROM OTHER AGENCIES

The amounts due from other agencies consist of construction costs, capital grants and subsidized receivables, and operating subsidies based on expenses incurred on their behalf. The table below summarizes the total amounts due from other agencies as of June 30, 2018 and 2017 (in thousands):

| | <u>2018</u> | <u>2017</u> |
|---|------------------|------------------|
| Third-party agreements | \$ 6,079 | \$ 4,377 |
| Subsidies and grants – federal, State, and local: | | |
| Los Angeles County Metropolitan Transportation Authority (LACMTA) | 13,972 | 32,621 |
| Orange County Transportation Authority (OCTA) | 546 | 2,638 |
| Riverside County Transportation Commission (RCTC) | 1,831 | 2,589 |
| San Bernardino County Transportation Authority (SBCTA) | 2,247 | 2,859 |
| Ventura County Transportation Commission (VCTC) | 28 | 1,185 |
| California Department of Transportation (Caltrans) | 19,787 | 18,258 |
| California Office of Emergency Services (CAL OES) | 63 | - |
| South Coast Air Quality Management District (SCAQMD) | 10,084 | - |
| Federal Transit Administration (FTA) | 11,054 | 2,849 |
| Federal Railroad Administration (FRA) | 170 | 253 |
| Other | <u>-</u> | <u>2,519</u> |
| Total due from other agencies | 65,861 | 70,148 |
| Allowance for uncollectible accounts | <u>(2,264)</u> | <u>(1,657)</u> |
| Total due from other agencies, net | <u>\$ 63,597</u> | <u>\$ 68,491</u> |
| | | |
| | <u>2018</u> | <u>2017</u> |
| Due in one year | \$ 29,285 | \$ 42,495 |
| Due in more than one year | <u>34,312</u> | <u>25,996</u> |
| Total due from other agencies, net | <u>\$ 63,597</u> | <u>\$ 68,491</u> |

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4. CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2018 and 2017, is as follows (in thousands):

| | June 30, 2016 | Additions | Transfers/ Deletions | June 30, 2017 | Additions | Transfers/ Deletions | June 30, 2018 |
|--------------------------------------|---------------------|-------------------|-------------------------|---------------------|--------------------|-------------------------|---------------------|
| Non-depreciable capital assets: | | | | | | | |
| Land | \$ 168 | \$ - | \$ - | \$ 168 | \$ - | \$ - | \$ 168 |
| Easement and intangible | 2,413 | - | - | 2,413 | - | 5,772 | 8,185 |
| Construction in progress | 108,976 | 40,758 | (724) | 149,010 | 35,963 | (108,588) | 76,385 |
| Railroad network | <u>667,764</u> | <u>-</u> | <u>-</u> | <u>667,764</u> | <u>-</u> | <u>-</u> | <u>667,764</u> |
| Total non-depreciable capital assets | <u>779,321</u> | <u>40,758</u> | <u>(724)</u> | <u>819,355</u> | <u>35,963</u> | <u>(102,816)</u> | <u>752,502</u> |
| Depreciable capital assets: | | | | | | | |
| Building and improvements | 177,848 | - | - | 177,848 | 151 | 3,491 | 181,490 |
| Positive train control (PTC) | 176,556 | 25 | 80 | 176,661 | - | 14,865 | 191,526 |
| Rolling stock | 582,840 | - | - | 582,840 | - | 16,860 | 599,700 |
| Fare collection systems | 16,436 | - | - | 16,436 | 289 | 1,073 | 17,798 |
| Computer and other equipment | 18,297 | 70 | 644 | 19,011 | 426 | (533) | 18,904 |
| Support vehicles | 5,989 | 382 | (193) | 6,178 | 502 | 2,521 | 9,201 |
| Railroad network, depreciable | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>47,017</u> | <u>47,017</u> |
| Total depreciable capital assets | <u>977,966</u> | <u>477</u> | <u>531</u> | <u>978,974</u> | <u>1,368</u> | <u>85,294</u> | <u>1,065,636</u> |
| Less accumulated depreciation for: | | | | | | | |
| Building and improvements | (67,156) | (8,268) | - | (75,424) | (8,298) | 3 | (83,719) |
| Positive train control (PTC) | (17,004) | (17,656) | - | (34,660) | (18,741) | - | (53,401) |
| Rolling stock | (272,836) | (14,109) | - | (286,945) | (14,715) | 8,463 | (293,197) |
| Fare collection systems | (12,689) | (1,579) | - | (14,268) | (1,587) | 127 | (15,728) |
| Computer and other equipment | (12,021) | (1,708) | - | (13,729) | (1,508) | 3,082 | (12,155) |
| Support vehicles | (4,956) | (382) | 193 | (5,145) | (371) | (2,521) | (8,037) |
| Railroad network, depreciable | <u>(-)</u> | <u>(-)</u> | <u>-</u> | <u>(-)</u> | <u>(2,566)</u> | <u>-</u> | <u>(2,566)</u> |
| Less accumulated depreciation | <u>(386,662)</u> | <u>(43,702)</u> | <u>193</u> | <u>(430,171)</u> | <u>(47,786)</u> | <u>9,154</u> | <u>(468,803)</u> |
| Total depreciable assets, net | <u>591,304</u> | <u>(43,225)</u> | <u>724</u> | <u>548,803</u> | <u>(46,418)</u> | <u>94,448</u> | <u>596,833</u> |
| Capital assets, net of depreciation | <u>\$ 1,370,625</u> | <u>(\$ 2,467)</u> | <u>\$ -</u> | <u>\$ 1,368,158</u> | <u>(\$ 10,455)</u> | <u>(\$ 8,368)</u> | <u>\$ 1,349,335</u> |

SCRRA elected to use the modified approach, as defined by GASB Statement No. 34, for infrastructure reporting for its original railroad network. As a result, no accumulated depreciation expense has been recorded for this original network. During FY18, SCRRA added additional railroad network, that is not a part of the GASB 34 original railroad network, and as such will be depreciable. A more detailed discussion of the modified approach is presented in the Required Supplementary Information section of this report.

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Notes to Basic Financial Statements
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5. LONG-TERM OBLIGATIONS

A summary of changes in long-term obligations for the years ended June 30, 2018 and 2017, is as follows (in thousands):

| | June 30, 2017 | Increases | Decreases | June 30, 2018 | Current portion |
|---------------------------------|----------------------|---------------------|-----------------------|----------------------|---------------------|
| Claims and judgments | \$ 10,300 | \$ 3,870 | (\$ 170) | \$ 14,000 | \$ - |
| Compensated balances | 3,565 | 1,054 | (948) | 3,671 | 1,666 |
| Note payable | - | - | (-) | - | - |
| Net pension liability | 10,151 | 1,622 | (-) | 11,773 | - |
| Other postemployment benefits | <u>17,672</u> | <u>-</u> | <u>(176)</u> | <u>17,496</u> | <u>-</u> |
| Total | <u>\$ 41,688</u> | <u>\$ 6,546</u> | <u>\$ 1,294</u> | <u>\$ 46,940</u> | <u>\$ 1,666</u> |
| Current portion | | | | <u>(1,666)</u> | |
| Total long-term obligations | | | | <u>\$ 45,274</u> | |
| | | | | | |
| | June 30, 2016 | Increases | Decreases | June 30, 2017 | Current portion |
| Claims and judgements | \$ 9,200 | \$ 1,169 | (\$ 69) | \$ 10,300 | \$ 175 |
| Compensated balances | 3,240 | 1,139 | (814) | 3,565 | 1,605 |
| Note payable | 5,000 | - | (5,000) | - | - |
| Net pension liability | 7,232 | 2,919 | - | 10,151 | - |
| Other postemployment benefits | <u>12,178</u> | <u>-</u> | <u>(3)</u> | <u>12,175</u> | <u>-</u> |
| Total | <u>\$ 36,850</u> | <u>\$ 5,227</u> | <u>(\$ 5,886)</u> | <u>\$ 36,191</u> | <u>\$ 1,780</u> |
| Current portion | | | | <u>(1,780)</u> | |
| Total long-term obligations | | | | <u>\$ 34,411</u> | |

Note Payable – In November 2010, SCRRA exercised option number four related to the rolling stock procurement that secured 20 additional railcars. In December 2010, the LACMTA Board of Directors approved a plan to enter into a loan agreement with SCRRA for the purpose of providing funding necessary for exercising the option to purchase the additional railcars. On December 15, 2011, SCRRA and LACMTA formally entered into and executed a promissory note in the amount of \$18.0 million to assist with the cash flow of the railcar purchase. The promissory note accrued interest at 3.52% compounded monthly and payable annually, with principal due and payable on June 30, 2017. SCRRA used funds from the California Transit Security Grant Program (Prop 1B) to pay the note and related interest. A prepayment of \$10.0 million was made against the note in FY 2016. The balance of the note was paid in full in FY 2017.

For the fiscal year ended June 30, 2017, SCRRA incurred interest expense of \$216 thousand. SCRRA incurred \$0 interest expense in FY18 as a part of this payable.

Other Postemployment Benefits – Balance as of June 30, 2016 has been increased from \$12,175 (see balance sheets) by a cumulative change in accounting principle of \$5,497 (see statements of revenues, expenses, and changes in net position) as a result of the implementation of GASB 75.

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Notes to Basic Financial Statements
For the years ended June 30, 2018 and 2017

6. UNEARNED REVENUE AND ADVANCES ON CAPITAL PURCHASES

The SCRRA Member Agencies contribute the funds necessary to carry out its purposes consistent with the Board-adopted budget and cost sharing formula in addition to funds derived from operations and grants. A preliminary budget for the following fiscal year is submitted to Member Agencies by May 1 of each year and the SCRRA Board must adopt the final budget no later than June 30 of each year. Once SCRRA's annual budget is approved by the Board, each Member Agency pays the annual operating subsidy in advance and on a quarterly basis. An operating surplus indicates that Member Agencies' operating subsidies exceed their share of actual operating revenues earned and expenses incurred by SCRRA during the year. Conversely, an operating deficit indicates that operating subsidies are less than the Member Agencies' share of actual operating revenues earned and expenses incurred by SCRRA; however, an operating deficit does not result to a receivable from Member Agencies. Any operating surplus or deficit remains an unearned revenue, unless otherwise designated by the Member Agencies.

Unearned revenue also includes capital subsidies, which are advances from member agencies for capital-related projects. Capital subsidies are recognized to the extent of expenses incurred. Remaining subsidies are maintained in unearned revenue until such time as expenses are incurred. In addition, unearned revenue activities include funds such as Proposition 1B (Prop 1B), The Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA), the California Transit Security Grant Program (CTSGP), the California State Transportation Agency State Rail Assistance Program (CalSTA SRA) and the Low Carbon Transit Operations Program (LCTOP), which for accounting purposes, are treated in the same manner as previously described. These funds are received through assignment from various Member Agencies or directly to SCRRA as the primary recipient. See the description of Proposition 1B, CTSGP, CalSTA SRA and LCTOP funds following the unearned revenue activity schedule.

Unearned revenue activity for the years ended June 30, 2018 and 2017, is as follows (in thousands):

| | <u>2018</u> | <u>2017</u> |
|--|------------------|------------------|
| Unearned revenue and advances on projects, beginning of year | \$ 67,619 | \$ 53,828 |
| Subsidies invoiced: | | |
| Operating | 124,587 | 125,202 |
| Capital | 30,065 | 7,703 |
| Federal operating subsidies | 22,284 | - |
| Public liability and property damage | 17,663 | 16,787 |
| Other | - | 475 |
| Subsidies recognized: | | |
| Operating | (115,935) | (112,618) |
| Capital | (21,268) | (14,204) |
| Federal operating subsidies | (22,284) | - |
| Public liability and property damage | (18,883) | (16,880) |
| Other | (140) | (130) |
| Uses of operating surplus | 2,664 | (2,898) |
| Capital surplus | (1,820) | - |
| Interest allocation | 524 | 235 |
| Adjustment –VCTC/LACMTA swap | 769 | 4,316 |
| Adjustment –VCTC/LACMTA fund exchange | <u>-</u> | <u>5,803</u> |
| Unearned revenue and advances on projects, end of year | <u>\$ 85,845</u> | <u>\$ 67,619</u> |

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Proposition 1B – The Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA) is a part of the State of California’s Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act), approved by California voters as Proposition 1B on November 7, 2006. A total of \$19.9 billion in general obligation bonds was authorized for issuance, the proceeds of which were deposited into the state’s PTMISEA fund for specified purposes, including grants for transit system safety, security, and disaster response projects. Of this amount, \$3.6 billion was made available to project sponsors in California for allocation to eligible public transportation projects over a 10-year period. Proposition 1B funds can be used for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, or rolling stock procurement, rehabilitation or replacement.

California State Transportation Agency State Rail Assistance Program (CalSTA SRA)– The California State Transportation State Rail Assistance program funds projects that improve rail service for passengers on commuter rail and intercity rail systems in California. Funding for this program comes from Senate Bill 1 (SB 1), the Road Repair and Accountability Act of 2017, which directs a 0.5% portion of new diesel sales tax revenue and allocates half to commuter rail providers and the other half to intercity rail corridors. The majority of program funding is directed by statutory formula to rail operators, with guidelines defining process and timeline for agencies to obtain funding. The SRA Guidelines currently permit commuter operators to apply for a cumulative total of \$10.5 million of funding through FY 2019-2020

California Transit Security Grant Program (CTSGP) – Senate Bill 88 of the 2007 Statutes appropriates funds from Proposition 1B to the California Transit Security Grant Program maintained by the California Governor’s Office of Emergency Services (Cal OES, formerly CalEMA), to fund grants for eligible purposes. Eligible activities include construction or renovation projects that are designed to enhance the security of public transit stations, tunnels, guideways, elevated structures, or other transit facilities and equipment.

Low Carbon Transit Operations Program (LCTOP) – The Low Carbon Transit Operations Program is one of several programs that is part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill (SB) 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emissions and improve mobility, with a priority on serving disadvantaged communities. Approved projects in the LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance, and other costs to operate those services or facilities. SB 862 (Statutes of 2014) appropriated \$25 million for LCTOP for FY 2015 and it continuously appropriates 5% of the annual auction proceeds in the Greenhouse Gas Reduction Fund for LCTOP each year thereafter.

Proposition 1B (Prop 1B), CTSGP, CalSTA SRA and LCTOP activity during the fiscal years ended June 30, 2018 and 2017, was as follows (in thousands):

| | <u>2018</u> | <u>2017</u> |
|--|------------------|------------------|
| Unexpended funds, beginning of year | \$ 29,812 | \$ 37,051 |
| Funds collected | 15,753 | 7,703 |
| Expenses incurred | (6,954) | (15,176) |
| Interest revenue earned on unspent funds | <u>524</u> | <u>234</u> |
| Unexpended funds, end of year | <u>\$ 39,135</u> | <u>\$ 29,812</u> |

Additional information about unearned revenue and advances on capital purchases by Member Agency is presented as unaudited Supplementary Information following the Required Supplementary Information (RSI).

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7. LEASE/LEASEBACK

In April 1996, SCRRA's Board entered into an agreement to lease 94 coach and cab cars and 31 locomotives and simultaneously entered into a sublease agreement with the lessee to lease them back. SCRRA received proceeds of approximately \$193.9 million of which it used approximately \$152.3 million to prepay future lease payments and defease part of its obligation. This prepayment amount was sufficient to cover the loan amount taken by the lessee through the years 2012 and 2014 for the locomotives and the cars, respectively. In addition, the Board invested approximately \$21.2 million in U.S. Zero Coupon Treasury strips. The Treasury strips will mature at values sufficient to cover all remaining lease payments due under the lease agreement as well as amounts necessary to exercise the repurchase options. As a result, all obligations under this lease/leaseback transaction are defeased in substance. Accordingly, the related debt and investments have been excluded from SCRRA's financial statements.

In July 2003, SCRRA entered into a restructured agreement related to the 1996 transaction (1996-A). The restructuring included 92 coach and cab cars related to the original 1996 transaction; two of the cars in the original transaction were damaged beyond repair in previous years. As a result of this 1996-A restructuring, SCRRA received proceeds of approximately \$2.9 million. The total net gain of \$19.1 million recognized by SCRRA from this lease/leaseback agreement was fully amortized in FY 2013.

In August 2002, SCRRA entered into a lease agreement to lease 27 railcars and 4 locomotives and simultaneously entered into a sublease agreement with the lessee to lease them back. SCRRA received proceeds of approximately \$93.8 million, of which it used \$75.3 million and \$11.2 million for debt and equity defeasance, respectively. This amount was sufficient to cover all lease payments due under the agreements and to exercise the repurchase options. Accordingly, the related debt and investments have been excluded from SCRRA's financial statements. The debt and investments will mature in FY20. The gain recognized by SCRRA from the defeased lease financing agreement was approximately \$6.1 million for railcars and \$1.1 million for locomotives. This lease was terminated by agreement of all parties in June 2017. Therefore, the unamortized gain was fully recognized as of June 30, 2017.

Amortization for the years ended June 30, 2018 and June 30, 2017 was \$0 and \$3,332,878, respectively.

8. RISK MANAGEMENT

SCRRA is exposed to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under SCRRA's risk management program, SCRRA retains risk for up to \$5.0 million for each public liability claim, up to \$100,000 for each property damage claim, with a special equipment retention of \$2.0 million per occurrence. Claims in excess of these amounts are covered by an insurance policy up to an annual aggregate of \$275.0 million. During the prior three years, no claims were incurred in excess of insurance coverage.

SCRRA is fully insured for workers' compensation claims through Liberty Mutual Insurance Co., consistent with applicable law. Construction-related accidental loss risk is transferred to SCRRA's contractors through contract agreements. During the past three years, no excess claims were incurred.

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Changes in the balances of claims liabilities for the years ended June 30, 2018, 2017, and 2016, are as follows (in thousands):

| | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|------------------|------------------|-----------------|
| Balance, beginning of year | \$ 10,300 | \$ 9,200 | \$ 11,225 |
| Claims incurred and changes in estimate for claims of prior periods | 3,870 | 1,169 | (1,323) |
| Claims payments | <u>(170)</u> | <u>(69)</u> | <u>(702)</u> |
| Balance, end of year | <u>\$ 14,000</u> | <u>\$ 10,300</u> | <u>\$ 9,200</u> |
| | | | |
| Due in one year | \$ 0 | \$ 175 | \$ 342 |
| Due in more than one year | <u>14,000</u> | <u>10,125</u> | <u>8,858</u> |
| | | | |
| Total claims liabilities | <u>\$ 14,000</u> | <u>\$ 10,300</u> | <u>\$ 9,200</u> |

9. OPERATING LEASES

SCRRA is committed under various leases for building, office space, and equipment. These leases are considered for accounting purposes to be operating leases. Lease expense for the years ended June 30, 2018 and 2017, totaled \$2.6 million and \$5.1 million, respectively.

Following is a schedule of lease commitments for the next 5 years and thereafter (dollars in thousands):

| <u>Year Ended June 30</u> | |
|---------------------------|------------------|
| 2019 | \$ 719 |
| 2020 | 1,039 |
| 2021 | 1,267 |
| 2022 | 1,309 |
| 2023 | 1,233 |
| 2024 – 2028 | 5,035 |
| 2029 – 2033 | 6,126 |
| 2034 – 2038 | <u>1,724</u> |
| | |
| Total Lease Commitments | <u>\$ 18,452</u> |

In 1993, SCRRA entered into a cancelable easement agreement with Union Station providing permanent station access to pedestrians and Metrolink trains. The agreement requires SCRRA to pay a percentage of the station maintenance costs. The percentage share for 2018 was 24%.

10. RETIREMENT BENEFITS

A. General Information about the Pension Plan

Plan Description – All qualified permanent and probationary employees are eligible to participate in the SCRRA Miscellaneous Plan, an agent multiple-employer defined benefit pension plan administered by the California Public Employees’ Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers.

Benefits Provided – All regular SCRRA employees classified as full-time, as well as part-time regular employees and temporary SCRRA workers who work 1,000 or more hours per year, are required to participate in CalPERS. SCRRA’s pension plan provides retirement and disability benefits, annual cost-of-living adjustments (COLA), and death benefits to plan members and beneficiaries through CalPERS. Benefits are based on years of credited service, equal to one year of full-time employment,

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and vest after five years of service. These benefit provisions and all other requirements are established by State statute and SCRRA Board action.

SCRRA employees are entitled to an annual retirement benefit, payable monthly for life, the amount of which is based on a formula which varies depending on the employee’s retirement plan, date of hire, and participation in a public retirement plan prior to SCRRA employment. On January 1, 2013, the Public Employees’ Pension Reform Act of 2013 (PEPRA) took effect. PEPRA distinguishes between so-called “classic” employees, who were in a public retirement plan (not necessarily CalPERS) prior to January 1, 2013, and “new” employees, who first became a member of a public retirement plan on or after January 1, 2013.

A summary of SCRRA’s benefits is provided below:

| | <u>Miscellaneous</u> | |
|-------------------------------------|-----------------------------|--------------------------------|
| | Prior to January 1, 2013 | On or After January 1, 2013 |
| Retirement Age | 60 | 62 |
| Benefit Formula | 2.0% | 2.0% |
| Average Highest Compensation Period | 36 months | 36 months |
| Maximum % of Final Compensation | No max | No max |
| COLA | 2.0% | 2.0% |

Covered Employees – At June 30, 2017, the most recent information available, the following employees were covered by the benefit terms for the plan:

| | <u>Miscellaneous</u> |
|--|----------------------|
| Inactive employees or beneficiaries currently receiving benefits | 128 |
| Inactive employees entitled to but not yet receiving benefits | 222 |
| Active employees | <u>232</u> |
| Total | <u>582</u> |

Contribution Requirements – Section 20814(c) of the California Public Employees’ Retirement Law requires that employer contribution rates for all public employers be determined on an annual basis by the CalPERS actuary and shall be effective on July 1 following notice of a change in the rate. Funding contributions for the plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to fund the costs of benefits earned by employees during the year, with an additional amount to pay down any unfunded accrued liability. SCRRA is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

The required employer contribution rates for fiscal years 2018 and 2017 were 10.341% and 10.528% of covered payroll, respectively, resulting in \$1.88 million and \$2.26 million, respectively, being recognized by CalPERS as employer contributions.

Pension Plan Financial Reports – SCRRA’s pension plan does not issue a stand-alone financial report; however, CalPERS issues an audited Schedule of Changes in Fiduciary Net Position by employer and plan, which is available at the following link: www.calpers.ca.gov.

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B. Net Pension Liability

SCRRA's net pension liability for the plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 and rolled forward to June 30, 2017 using standard update procedures.

Assumptions and Other Inputs – A summary of significant assumptions and other inputs used to measure the total pension liability is shown below:

| | |
|----------------------------------|---|
| Valuation Date | June 30, 2016 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Discount Rate | 7.15% |
| Inflation | 2.75% |
| Salary Increases | Varies by entry age and service |
| Investment Rate of Return | 7.50% net of pension plan investment expenses; includes inflation |
| Retirement Age | Probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 1997 to 2011. |
| Mortality Rate Table | The mortality table was developed based on CalPERS' specific data and the CalPERS 2014 Experience Study. The table includes 20 years of projected mortality improvements using Society of Actuaries Scale BB. |
| Post-Retirement Benefit Increase | Contract COLA up to 2.00% until purchasing power protection allowance floor on purchasing power applies, 2.00% thereafter. |

Discount Rate – The discount rate used to measure the total pension liability was 7.15% for the plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the test revealed the assets would not run out. Therefore, the current 7.15% discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations, as well as the expected pension fund (Public Employee's Retirement Fund, or PERF) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one-quarter of one percent.

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Notes to Basic Financial Statements

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The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board, effective on June 30, 2017.

| Asset Class | Asset Allocation | Real Return 5 years (a) | Real Return 10 years (b) |
|---------------------|----------------------|-------------------------|--------------------------|
| Public Equity | 48.3% | 11.6% | 4.3% |
| Global Fixed Income | 19.4% | 3.4% | 6.5% |
| Inflation Sensitive | 7.8% | (2.1%) | 0.0% |
| Private Equity | 8.0% | 11.5% | 9.3% |
| Real Estate | 11.2% | 10.0% | (0.9%) |
| Liquidity | 4.8% | 0.4% | 1.3% |
| Other | <u>0.5%</u> | 0.0% | 0.0% |
| Total | <u>100.0%</u> | | |

(a) An expected inflation of 2.5% used for this period

(b) An expected inflation of 3.0% used for this period

Fiduciary Net Position – SCRRA’s pension plan does not issue stand-alone financial reports. Information about the elements of the pension plan’s basic financial statements is not directly available. However, SCRRA’s plan constitutes a portion of the CalPERS PERF, for which a Statement of Fiduciary Net Position – Fiduciary Funds is included in the CalPERS Comprehensive Annual Financial Report, located at the following link: www.calpers.ca.gov. The accompanying Notes to the Basic Financial Statements disclose information related to the basis of accounting, including the policies with respect to benefit payments and the valuation of pension plan investments.

C. Changes in Net Pension Liability

A schedule of changes in the Net Pension Liability for the period ended June 30, 2018 is presented below (in thousands):

| | Increase (Decrease) | | |
|---|-------------------------|------------------------|--------------------------------|
| | Total Pension Liability | Fiduciary Net Position | Net Pension Liability/ (Asset) |
| Balance as of June 30, 2017 | \$ 60,036 | \$ 49,885 | \$ 10,151 |
| Changes during the year: | | | |
| Service cost | 3,461 | | 3,461 |
| Interest on total pension liability | 4,563 | | 4,563 |
| Changes of assumptions | 3,938 | | 3,938 |
| Differences between expected and actual experience | (770) | | (770) |
| Contributions – employer | | 2,267 | (2,267) |
| Contributions – employees | | 1,650 | (1,650) |
| Net investment income | | 5,726 | (5,726) |
| Benefit payments, including refunds of employee contributions | (2,229) | (2,229) | - |
| Administrative expense | - | (73) | 73 |
| Net changes | 8,963 | 7,341 | 1,622 |
| Balance as of June 30, 2018 | \$ 68,999 | \$ 57,226 | \$ 11,773 |

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Notes to Basic Financial Statements
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Sensitivity of Net Pension Liability to Changes in the Discount Rate – The following table presents the net pension liability of SCRRA for the plan, calculated using the current discount rate for the plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands):

| | |
|----------------------------------|------------------|
| Discount rate 1% lower | 6.15% |
| Net Pension Liability | \$ 21,753 |
| | |
| Current discount rate | 7.15% |
| Net Pension Liability | \$ 11,773 |
| | |
| Discount rate 1% higher | 8.15% |
| Net Pension Liability | \$ 3,569 |

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, SCRRA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

| | Deferred Outflows of <u>Resources</u> | Deferred Inflows of <u>Resources</u> |
|---|--|---|
| Pension contributions subsequent to measurement date | \$ 1,884 | \$ - |
| Changes of assumptions | 3,043 | (331) |
| Differences between expected and actual experience | - | (973) |
| Net difference between projected and actual earnings on pension plan investments | <u>647</u> | <u>-</u> |
| | | |
| Total | <u>\$ 5,574</u> | <u>(\$ 1,304)</u> |

The amount reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows (in thousands):

| Measurement Period Ending <u>June 30</u> | Deferred Outflows/(Inflows) of <u>Resources</u> |
|---|--|
| 2018 | \$ 333 |
| 2019 | 1,239 |
| 2020 | 947 |
| 2021 | (133) |

11. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description and Benefits Provided – In addition to providing the retirement benefits described above, SCRRA provides postemployment healthcare benefits. The SCRRA Retiree Healthcare Plan (Plan), an agent multiple-employer defined benefit plan, provides healthcare benefits to eligible retirees and their dependents through the California Public Employees’ Retirement System healthcare program (PEMHCA), in accordance with agreements and memoranda of understanding between SCRRA, its management employees, and unions representing SCRRA employees, to employees who retire directly from SCRRA through CalPERS at the minimum age of 50 with at least 5 years of CalPERS service or disability. The Plan was created by action of the SCRRA Board of Directors to administer medical insurance benefits for eligible retirees and their dependents, and it can be amended through subsequent action of SCRRA’s Board of Directors.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

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SCRRA pays 80% of the medical premium for the most extensive plan and 90% of the medical premium for all other plans to eligible retirees who retire directly from SCRRA. SCRRA does not provide retiree dental, vision, or life insurance benefits.

Cost of living adjustment (COLA) –The SCRRA Board approved a 2% COLA increase for fiscal year 2018, effective on July 1, 2017.

Contributions – The benefit generally ceases upon death of the retiree or surviving spouse. The actuarially-determined contributions (ADC) for the fiscal years ended June 30, 2018 and 2017, were \$2.67 million and \$2.59 million, respectively, based on the June 30, 2017 actuarial valuations. The actual contributions for the years ended June 30, 2018 and 2017 were \$2.8 million and \$2.6 million, respectively.

Employees Covered by Benefit Terms – At June 30, 2017, the measurement date, the following numbers of participants were covered by the benefit terms:

| | <u>Count</u> |
|--|----------------|
| Inactive employees or beneficiaries currently receiving benefits | 106 |
| Inactive employees entitled to but not yet receiving benefits | 16 |
| Active employees | <u>262</u> |
| Total | <u>384</u> |

Net OPEB Liability – SCRRA’s net OPEB liability was based on a measurement period of July 1, 2016 through June 30, 2017. The total OPEB liability used as a basis to calculate the net OPEB liability was based on actuarial valuation as of June 30, 2017.

Actuarial Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---------------------------|--|
| Valuation Date | June 30, 2017 |
| Measurement Date | June 30, 2017 |
| Actuarial Cost Method | Entry Age Normal |
| Discount Rate | 6.75% |
| Inflation | 2.75% per annum |
| Salary Increases | Aggregate, 3%; merit, CalPERS 1997-2015 Experience Study |
| Investment Rate of Return | 6.75% |
| Mortality Rate Table | The mortality table was developed based on CalPERS’ specific data and the CalPERS 2014 Experience Study. The table includes 20 years of projected mortality improvements using Society of Actuaries Scale MP-2017. |
| Healthcare Cost Trends: | |
| Non-Medicare Cost Trend | 7.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years. |
| Medicare Cost Trend | 6.5% for 2019, decreasing to an ultimate rate of 4.0% in 2076 and later years. |

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Notes to Basic Financial Statements
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Expected Long-Term Rate of Return – CALPERS’ expected rate of return based on Strategy 1 is shown below:

| <u>Asset class component</u> | <u>Target Allocation</u> | <u>Expected Real Rate of Return</u> |
|--|--------------------------|-------------------------------------|
| Public Equity | 57% | 4.82% |
| Fixed Income | 27% | 1.47% |
| TIPS | 5% | 1.29% |
| Commodities | 3% | 0.84% |
| REITs | 8% | 3.76% |
| Assumed long-term rate of inflation | | 2.75% |
| Assumed long term investment expenses | | n/a |
| Expected long-term rate of return, rounded | | 6.75% |
| Discount rate | | 6.75% |

Discount Rate – The discount rate used to measure the total OPEB liability was 6.75%. The SCRRA Retiree Healthcare Plan is a funded plan because of its participation in the CalPERS California Employers’ Retiree Benefit Trust (CERBT), a Section 115 trust fund dedicated to prefunding other postemployment benefits for all eligible California public agencies. SCRRA’s plan constitutes a portion of the CERBT.

A schedule of changes in Net OPEB Liability for the period ended June 30, 2018, is presented below (in thousands):

| | <u>Increase (Decrease)</u> | | |
|--------------------------------------|---------------------------------|-----------------------------------|---------------------------------------|
| | <u>Total OPEB Liability</u> | <u>Fiduciary Net Position</u> | <u>Net OPEB Liability/(Asset)</u> |
| Balance as of June 30, 2017** | <u>\$ 22,337</u> | <u>\$ 4,665</u> | <u>\$ 17,672</u> |
| Changes during the year: | | | |
| Service cost | 1,336 | - | 1,336 |
| Interest on total OPEB liability | 1,565 | - | 1,565 |
| Contributions – employer* | - | 2,590 | (2,590) |
| Contributions – employees | - | - | - |
| Net investment income | - | 490 | (490) |
| Benefit payments and refunds* | (973) | (973) | - |
| Administrative expense | - | (3) | 3 |
| Net changes | <u>1,928</u> | <u>2,104</u> | <u>(176)</u> |
| Balance as of June 30, 2018 | <u>\$ 24,265</u> | <u>\$ 6,769</u> | <u>\$ 17,496</u> |

* Includes \$1.6 million contribution to the trust, and \$0.8 million cash benefit payments and \$0.2 million implied subsidy benefit payments (both paid outside of the trust).

** Balance as of June 30, 2016 has been increased from \$12,175 (see balance sheets on page 13) by a cumulative change in accounting principle \$5,497 (see statements of revenues, expenses, and changes in net position on page 14).

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Notes to Basic Financial Statements
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Sensitivity of Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates – The following present the net OPEB liability of SCRRA, as well as what SCRRA’s net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate (in thousands):

| | |
|------------------------------|------------------|
| Discount rate 1% lower | 5.75% |
| Net OPEB Liability | \$ 20,833 |
| | |
| Current discount rate | 6.75% |
| Net OPEB Liability | \$ 17,496 |
| | |
| Discount rate 1% higher | 7.75% |
| Net OPEB Liability | \$ 14,746 |

The following presents the net OPEB liability of SCRRA, as well as what SCRRA’s net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate (in thousands):

| | |
|---|------------------|
| Healthcare cost trend rate 1% lower | |
| Net OPEB Liability | \$ 14,395 |
| | |
| Current healthcare cost trend rate | |
| Net OPEB Liability | \$ 17,496 |
| | |
| Healthcare cost trend rate 1% higher | |
| Net OPEB Liability | \$ 21,329 |

OPEB Expense – For the year ended June 30, 2018, SCRRA recognized an OPEB expense of \$2.5 million.

| | <u>Deferred Outflows of Resources</u> | <u>Deferred (Inflows) of Resources</u> |
|--|---|--|
| Net difference between projected and actual earnings on plan investments | \$ - | \$ (97) |
| Employer contributions made subsequent to measurement date | 2,784 | - |
| Total | <hr/> \$ 2,784 | <hr/> \$ (97) |

| <u>Measurement Period Ending June 30</u> | <u>Deferred Outflows/(Inflows) of Resources</u> |
|--|---|
| 2019 | \$ (24) |
| 2020 | (24) |
| 2021 | (24) |
| 2022 | (25) |
| Thereafter | - |

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Notes to Basic Financial Statements
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12. COMMITMENTS AND CONTINGENCIES

Litigation – SCRRA is a defendant in various lawsuits. Although the ultimate outcome of each lawsuit is not presently determinable, in the opinion of SCRRA’s legal counsel, the resolution of these matters will not have a material adverse effect on SCRRA’s financial condition.

Grant Adjustments – Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenses that may be disallowed by the grantor cannot be determined at this time, although SCRRA expects such amounts, if any, to be immaterial.

Service and Maintenance Agreements – SCRRA’s operator services are provided by National Railroad Passenger Corporation (Amtrak). The current agreement expires June 2020.

SCRRA’s rolling stock is maintained through the use of an equipment maintenance agreement with an independent contractor (Bombardier, Inc.). The eight-year agreement awarded to Bombardier, Inc., expires June 2025.

SCRRA maintains infrastructure through various maintenance agreements with independent contractors. The track and structures are maintained under an agreement with Veolia Transportation Maintenance and Infrastructure, Inc. (VTMI), which expires June 2020. Communications and signals are maintained under an agreement with Mass Electric Communications, which expires June 2020.

Tier 4 clean air locomotives – SCRRA is under contract to purchase 40 Tier 4 locomotives at a cost of approximately \$252.0 million through FY20.

13. RELATED PARTY TRANSACTIONS

Member Agencies under the Joint Powers Agreement (LACMTA, OCTA, VCTC, RCTC, and SBCTA) contribute operating subsidies to SCRRA. SCRRA’s independent governing Board consists of 11 members appointed by the Member Agencies (see notes 3, 5, and 8).

The operating subsidies invoiced by SCRRA for the years ended June 30, 2018 and 2017, were \$124.7 million and \$125.2 million, respectively. Self-insurance reserve subsidies invoiced by SCRRA for the years ended June 30, 2018 and 2017, were \$17.6 million and \$16.8 million, respectively. Capital subsidies invoiced by SCRRA for the years ended June 30, 2018 and 2017, were \$7.7 million and \$30 million, respectively.

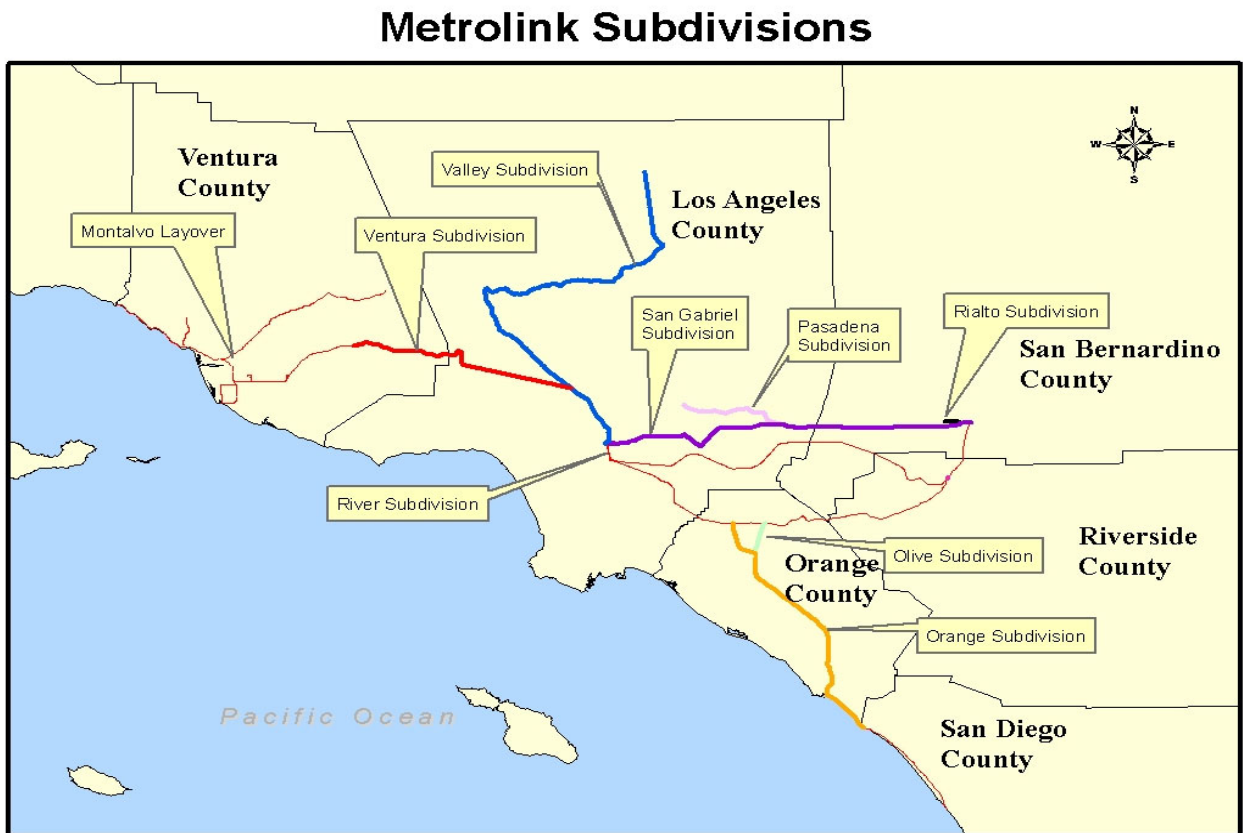
SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information
For the years ended June 30, 2018 and 2017

1. THE METROLINK RAILROAD NETWORK

GASB 34 defines and distinguishes infrastructure assets as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. As part of the Joint Exercise of Powers Agreement (JPA), the Member Agencies acquired the rail network in existence at the time of the JPA for use in Metrolink commuter rail operations. This railroad network is not included as part of Metrolink's railroad network capital assets. The Member Agencies retain title and ownership to those assets. As part of the JPA, Metrolink is responsible for the related maintenance and operation of members' assets and rail right-of-way used in operations. In addition, certain members retain responsibility to maintain non-operating segments of their railroad network. Metrolink's infrastructure consists of capital assets created as a result of new capital construction and major capital improvement projects, and includes 538 miles of track, 893 bridges and tunnels, and 695 signal and communication devices. The service area for this network covers approximately 2,300 square miles with a population of more than 18 million.

As shown below, the Metrolink railroad network expands over a six-county Southern California area:



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Required Supplementary Information
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A. Modified Approach for Infrastructure

Southern California Regional Rail Authority's (SCRRA) has elected to use the modified approach in reporting its Metrolink railroad network. Under the modified approach, infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as two requirements are met. *First*, the government manages the eligible infrastructure assets using an asset management system that has the following characteristics:

- Have an up-to-date inventory of eligible infrastructure assets
- Perform condition assessments of the eligible infrastructure assets every three years and summarize the results using a measurement scale
- Estimate each year the annual amount necessary to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government

Second, the government must document that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government. If eligible infrastructure assets meet all requirements and are not depreciated, all expenditures made for those assets (except for additions and improvements) are expensed in the period incurred. Additions and improvements to eligible infrastructure assets are capitalized. Additions or improvements increase the capacity or efficiency of infrastructure assets rather than preserve the useful life of the assets.

The condition of the railroad network is measured using the SCRRA Railroad Management System Assessment. The networks and subsystems are track, structures, bridges, tunnels, signals, and communications.

B. Condition Assessment Data

Governmental accounting standards require that a condition assessment be performed on all infrastructure assets every three years. As an approved alternative to conducting a system-wide assessment every three years, SCRRA has chosen to create a Metrolink Rehabilitation Plan (MRP) that thoroughly assesses the condition of SCRRA's key infrastructure assets. The MRP provides a "boots on the ground" approach to the scope and associated costs for both the current backlog and annual costs required to keep the railroad infrastructure at a state of good repair.

C. Basis for Condition Measurement and Measurement Scale

The SCRRA Board adopted the SCRRA Transit Asset Management Plan (TAM Plan) in 2016 with the following overarching goal; "To ensure that a transit agency's assets are maintained and operated in a consistent, measurable state of good repair. The TAM Plan provides guideposts by which an agency can track progress toward a mature, data driven asset management system. During 2018, Metrolink also introduced the Metrolink Rehabilitation Plan (MRP) which is an element of the TAM Plan to better define infrastructure rehabilitation needs.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information
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A team of SCRRA staff and consultants completed a yearlong comprehensive analysis to thoroughly assess the condition of SCRRA's infrastructure assets. These assessments were compiled and documented in the MRP. Based on these assessments within the MRP, the team was able to determine when these assets must be rehabilitated or replaced to support safe, reliable, high-quality and efficient services across SCRRA's rail network.

The MRP is the first report commissioned by SCRRA's engineering department to thoroughly assess the condition of SCRRA's key infrastructure components. This plan focuses on structures, tracks, systems and maintenance vehicles, rolling stock, and facilities. It provides recommendations for the rehabilitation efforts required to ensure safe and reliable operation. SCRRA's major infrastructure assets include: Bridges, Tunnels, Culverts, Track, Turnouts, Grade Crossings, Non-revenue Maintenance of Way (MOW) Vehicles, Signal Control Points, Intermediate Signals, Stations, Communication Sites with Positive Train Control (PTC) Antennas, Train Control Centers with Computer-aided Dispatch/PTC, Maintenance Facilities, Pomona Campus Facilities, Layover Yards, Locomotives, and Passenger Cars.

At the direction of SCRRA, infrastructure rehabilitation work was broadly organized into the following rehabilitation categories:

Backlog – This rehabilitation category covers a wide range of deferred rehabilitation on assets that are currently obsolete, exceed the age of useful life or a condition assessment indicates is due for rehabilitation. The risks for continuing to defer backlog work are significant and could result in failure.

State of Good Repair – This rehabilitation category indicates the recommended level of normalized annual rehabilitation budgeting required to maintain the railroad in a state of good repair. An asset under State of Good Repair is able to perform its manufacture design function, not pose an unacceptable identified safety risk, and its life cycle investment needs are met.

Special Projects – In addition to backlog and annual rehabilitation expenditures, there's also special rehabilitation projects that are needed in order to keep assets in state of good repair. This includes future rolling stock procurements to replace current fleet, converting current locomotives to be low emissions compliant, major passenger car overhauls to extend the useful life, and large bridge and tunnel projects. These special projects are typically significant one-time expenditures.

The key findings of the MRP include the condition and cost estimates for existing infrastructure Backlog, recommended State of Good Repair, and Special Projects. SCRRA's MRP outlines four general approaches to estimating backlogs and state of good repair needs: (1) age, (2) condition, (3) performance, and (4) comprehensive assessment (age, condition, and performance).

Based on these four approaches, SCRRA was able to prioritize reinvestment and rehabilitation needs by tiers. Tier 1 as the highest priority, Tier 2, and Tier 3 as the lowest priority. Guideways and Bridges, Trackwork and Ballasts, PTC and Roadway Crossings have been designated as Tier 1 needs for the first draft of the MRP.

D. Estimated Maintenance and Preservation Costs

To ensure consistency in reporting, effective 2012, management prepared a five-year strategic capital program plan to more discretely identify the minimum annual costs required to maintain or preserve its infrastructure assets.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

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For the years ended June 30, 2018 and 2017

The estimated and actual annual amounts of infrastructure maintenance and preservation costs needed to achieve the minimum railroad condition index standard, which include maintenance-of-way, rehabilitation, and renovation capital expenses, for the past 5 years are as follows (in thousands):

| Year Ended <u>June 30</u> | Estimated <u>Amount</u> | Actual <u>Amount</u> |
|------------------------------|----------------------------|-------------------------|
| 2018 | \$56,600 | \$86,888 |
| 2017 | 67,643 | 55,817 |
| 2016 | 94,982 | 59,092 |
| 2015 | 73,220 | 45,681 |
| 2014 | 56,029 | 42,789 |

2. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

Following is a schedule of changes in net pension liability (in thousands) and related ratios:

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|------------------|------------------|------------------|------------------|
| Total Pension Liability | | | | |
| Service cost | \$ 3,461 | \$ 2,990 | \$ 2,930 | \$ 2,687 |
| Interest on total pension liability | 4,563 | 4,233 | 3,904 | 3,572 |
| Difference between expected and actual experience | (771) | (559) | (218) | - |
| Change in assumptions | 3,938 | - | (994) | - |
| Change in benefits | - | - | - | - |
| Benefit payments, including refunds of employee contributions | (2,229) | (2,071) | (1,895) | (1,633) |
| Net change in total pension liability | 8,962 | 4,593 | 3,727 | 4,626 |
| Total pension liability, beginning | <u>60,036</u> | <u>55,443</u> | <u>51,716</u> | <u>47,090</u> |
| Total pension liability, ending (a) | <u>\$ 68,998</u> | <u>\$ 60,036</u> | <u>\$ 55,443</u> | <u>\$ 51,716</u> |
| Plan Fiduciary Net Position | | | | |
| Contributions – employer | \$ 2,267 | \$ 2,084 | \$ 1,807 | \$ 1,674 |
| Contributions – employee | 1,650 | 1,445 | 1,338 | 1,262 |
| Net investment income | 5,726 | 245 | 1,039 | 6,747 |
| Benefit payments | (2,229) | (2,071) | (1,895) | (1,633) |
| Administrative expense | (74) | (29) | (54) | - |
| Net change in plan fiduciary net position | 7,340 | 1,674 | 2,235 | 8,050 |
| Plan fiduciary net position, beginning | <u>49,885</u> | <u>48,211</u> | <u>45,976</u> | <u>37,926</u> |
| Plan fiduciary net position, ending (b) | <u>\$ 57,225</u> | <u>\$ 49,885</u> | <u>\$ 48,211</u> | <u>\$ 45,976</u> |
| Net pension liability, ending (a) – (b) | <u>\$ 11,773</u> | <u>\$ 10,151</u> | <u>\$ 7,232</u> | <u>\$ 5,740</u> |
| Plan fiduciary net position as a percentage of total pension liability | 82.94% | 83.09% | 86.96% | 88.90% |
| Covered payroll | \$ 22,149 | \$ 20,506 | \$ 19,658 | \$ 17,547 |
| Net pension liability as a percentage of covered payroll | 53.15% | 49.51% | 36.79% | 32.71% |

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information
For the years ended June 30, 2018 and 2017

Benefit changes – The amounts above do not include any liability impact that may have resulted from plan changes that occurred after June 30, 2016. This applies for voluntary benefit changes, as well as any offers of Two Years Additional Service Credits (a.k.a. Golden Handshakes).

Change in assumptions – GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The discount rate of 7.65% used for the June 30, 2015 measurement date (for use in FY 2016) is without reduction of pension plan administrative expense. There were no changes in the rate for the June 30, 2016 measurement date (for use in FY 2017). The discount rate of 7.15% was used for the June 30, 2017 measurement date (for use in FY 2018).

Because GASB Statement No. 68 was implemented in FY 2015, it is not possible to present a 10-year comparison of changes in net pension liability and related ratios.

3. SCHEDULE OF CONTRIBUTIONS PENSION

Following is a schedule of contributions
(in thousands):

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-----------------|-----------------|-----------------|-----------------|
| Actuarially-determined employer contribution | \$ 2,266 | \$ 2,084 | \$ 1,806 | \$ 1,674 |
| Contributions in relation to the actuarially-determined contributions | <u>(2,266)</u> | <u>(2,084)</u> | <u>(1,806)</u> | <u>(1,674)</u> |
| Contribution deficiency (excess) | <u>\$ _____</u> | <u>\$ _____</u> | <u>\$ _____</u> | <u>\$ _____</u> |
| Covered payroll | \$ 22,149 | \$ 20,505 | \$ 19,658 | \$ 17,546 |
| Contributions as a percentage of covered payroll | 10.23% | 10.16% | 9.19% | 9.54% |

The actuarial methods and assumptions used to set the actuarially-determined contributions for the June 30, 2017 measurement date were from the June 30, 2017 actuarial valuation.

Information about that valuation is presented below:

| | |
|-------------------------------|--|
| Valuation Date | June 30, 2015 |
| Actuarial Cost Method | Entry age normal, level percentage of payroll |
| Amortization Method | Level percent of payroll |
| Remaining Amortization Period | 20 years remaining for 2017/18 |
| Asset Valuation Method | Investment gains and losses spread over 5-year rolling period |
| Discount Rate | 7.25% |
| General Inflation | 3.00% |
| Medical Trend | Non-Medicare – 7.0% for 2017, decreasing to an ultimate rate of 5.0% in 2021 and later years Medicare – 7.2% for 2017, decreasing to an ultimate rate of 5.0% in 2021 and later years |
| Mortality Improvement | Mortality projection Scale MP-2014, modified to converge to ultimate rates in 2022 |

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information
For the years ended June 30, 2018 and 2017

4. SCHEDULES OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, SCRRA will present information for available years.

A schedule of changes in total OPEB liability is presented below (in thousands):

| | |
|---|------------------|
| | <u>2018</u> |
| Service cost | \$ 1,336 |
| Interest | 1,565 |
| Difference between actual and expected experience | - |
| Assumption changes | - |
| Benefit payments, including refunds | (973) |
| Changes in benefit terms | <u>-</u> |
| Net Changes | 1,928 |
| Total OPEB liability, beginning of year | \$ <u>22,337</u> |
| Total OPEB liability, end of year | \$ <u>24,265</u> |

A schedule of changes in plan fiduciary net position is presented below (in thousands):

| | |
|--|-----------------|
| | <u>2018</u> |
| Contributions – employer | \$ 2,590 |
| Contributions - employee | - |
| Net investment income | 490 |
| Benefit payments, including refunds | (973) |
| Administrative expenses | (3) |
| Other changes | <u>-</u> |
| Net Changes | 2,104 |
| Plan Fiduciary Net Position, beginning of year | \$ <u>4,665</u> |
| Plan Fiduciary Net Position, end of year | \$ <u>6,769</u> |

| | |
|--|-------------|
| | <u>2018</u> |
| Net OPEB Liability | \$ 17,496 |
| Fiduciary Net Position as a percentage of the Total OPEB Liability | - |
| | 27.9% |
| Covered Employee Payroll* | \$ 23,691 |
| Net OPEB Liability as a percentage of Covered Employee Payroll | 74% |

*Determined for the 12-month period ended June 30, 2017 (Measurement Date)

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Required Supplementary Information
For the years ended June 30, 2018 and 2017

5. SCHEDULE OF OPEB CONTRIBUTIONS

Following is a schedule of employer contributions (in thousands):

| | |
|---|-----------------|
| | <u>2018</u> |
| Actuarially-determined employer contribution | \$ 2,674 |
| Contributions in relation to the actuarially-determined contributions | <u>(2,784)</u> |
| Contribution deficiency (excess) | <u>(\$ 110)</u> |
| Covered payroll | \$ 24,746 |
| Contributions as a percentage of covered payroll | 11.25% |

The actuarial methods and assumptions used to set the actuarially determined contributions for the June 30, 2017 measurement date were from the June 30, 2017 actuarial valuation. Information about that valuation is presented below:

| | |
|-------------------------------|---|
| Valuation Date | June 30, 2015 |
| Actuarial Cost Method | Entry age normal, level percentage of payroll |
| Amortization Method | Level percent of payroll |
| Remaining Amortization Period | 20 years remaining for 2017/18 |
| Asset Valuation Method | Investment gains and losses spread over 5-year rolling period |
| Discount Rate | 7.25% |
| General Inflation | 3.00% |
| Medical Trend | Non-Medicare – 7.0% for 2017, decreasing to an ultimate rate of 5.0% in 2021 and later years. Medicare – 7.2% for 2017, decreasing to an ultimate rate of 5.0% in 2021 and later years |
| Mortality Improvement | Mortality projection Scale MP-2014, modified to converge to ultimate rates in 2022 |

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STATISTICAL



METROLINK®

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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statistical Section Overview

This section of the Southern California Regional Rail Authority’s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority’s overall financial health.

| Contents | Page |
|--|-------------|
| FINANCIAL TRENDS | |
| These schedules contain trend information to help the reader understand how the Authority’s financial performance and well-being have changed over time. | 57 |
| REVENUE CAPACITY | |
| These schedules contain information to help the reader assess the Authority’s most significant revenue sources, capital contributions, fares, and member operating subsidies. | 58 |
| DEMOGRAPHIC AND ECONOMIC INFORMATION | |
| This schedule offers demographic and economic indicators to help the reader understand the environment within which the Authority’s financial activities take place. | 62 |
| OPERATING INFORMATION | |
| These schedules contain service and infrastructure data to help the reader understand how the information in the Authority’s financial report relates to the services the Authority provides and the activities it performs. | 63 |

Changes in Net Position, Net Positions by Component and Percentages of Operating Costs Covered by Revenues
Last Ten Fiscal Years

(Dollar amounts in thousands)

| | 2018* | 2017* | 2016* | 2015* | 2014* | 2013* | 2012* | 2011 | 2010 | 2009 | 2008 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|
| Change in net position/net assets: | | | | | | | | | | | |
| Net position/net assets at beginning of year | \$ 1,387,960 | \$ 1,382,143 | \$ 1,363,761 | \$ 1,362,880 | \$ 1,315,972 | \$ 1,240,785 | \$ 1,122,909 | \$ 1,003,971 | \$ 883,540 | \$ 811,956 | \$ 765,926 |
| Increase in net position/net assets | (16,539) | 5,817 | 18,382 | 881 | 46,908 | 75,187 | 117,876 | 118,938 | 120,431 | 71,584 | 46,030 |
| Net position/net assets at end of year | \$ 1,371,421 | \$ 1,387,960 | \$ 1,382,143 | \$ 1,363,761 | \$ 1,362,880 | \$ 1,315,972 | \$ 1,240,785 | \$ 1,122,909 | \$ 1,003,971 | \$ 883,540 | \$ 811,956 |

Net position/net assets by component:

| | | | | | | | | | | | |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|------------|------------|------------|
| Net investment in capital assets | \$ 1,349,335 | \$ 1,368,157 | \$ 1,370,625 | \$ 1,338,723 | \$ 1,336,221 | \$ 1,293,357 | \$ 1,183,590 | \$ 1,084,887 | \$ 970,148 | \$ 847,802 | \$ 777,488 |
| Unrestricted | 22,086 | 19,803 | 11,518 | 25,038 | 26,659 | 22,615 | 57,195 | 38,022 | 33,823 | 35,738 | 34,468 |

% of operating costs covered by revenues and operating grants. Operating costs are net of depreciation, gas tax, third-party agreements, rehabilitation and renovation-capital and rolling stock lease.

| | | | | | | | | | | | |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 43.20% | 42.65% | 44.80% | 48.41% | 52.22% | 52.49% | 56.54% | 56.87% | 57.97% | 54.97% | 60.43% |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|

- * Net assets replaced with net position as a result of GASB 63 implementation in fiscal year 2012-2013

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Position

Last Ten Fiscal Years
(Dollar amounts in thousands)

| | YEARS ENDED JUNE 30 | | | | | | | | | |
|---|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Operating revenues: | | | | | | | | | | |
| Fares | \$ 82,676 | \$ 83,398 | \$ 84,506 | \$ 83,111 | \$ 85,673 | \$ 84,360 | \$ 79,986 | \$ 74,171 | \$ 69,343 | \$ 73,057 |
| Dispatching | 2,144 | 2,078 | 2,194 | 2,516 | 2,488 | 2,598 | 2,957 | 3,079 | 3,071 | 3,111 |
| Third-party agreements | 22,641 | 17,503 | 26,951 | 21,355 | 26,676 | 28,630 | 26,548 | 11,183 | 20,642 | 17,407 |
| Maintenance of way revenues | 12,792 | 12,387 | 12,437 | 12,991 | 11,726 | 14,299 | 13,432 | 12,902 | 11,875 | 11,107 |
| Gas tax revenue | - | - | - | - | 1,684 | 10,101 | 10,235 | 10,300 | 8,484 | 7,832 |
| Public liability and property damage recovery | 4,210 | 5 | 576 | 3,183 | 3,164 | 40 | 32 | 76 | 82 | 380 |
| Interest and other income | 194 | 303 | 568 | 2,172 | 393 | 352 | 375 | 368 | 823 | 478 |
| Total operating revenues | \$ 124,657 | \$ 115,674 | \$ 127,232 | \$ 125,328 | \$ 131,804 | \$ 140,380 | \$ 133,565 | \$ 112,079 | \$ 114,320 | \$ 113,372 |
| Nonoperating revenues: | | | | | | | | | | |
| Member agency operating subsidies | \$ 124,737 | \$ 112,711 | \$ 111,264 | \$ 94,632 | \$ 80,972 | \$ 71,503 | \$ 59,080 | \$ 59,151 | \$ 57,446 | \$ 55,612 |
| Member agency self insurance reserve | \$ 17,663 | \$ 16,787 | \$ 15,099 | \$ 15,625 | \$ 16,273 | \$ 18,066 | \$ 17,850 | \$ 19,612 | \$ 21,217 | \$ 15,479 |
| Insurance recoveries | - | - | - | - | - | - | - | - | - | 2,500 |
| Operating grants | - | - | - | - | - | - | - | - | - | 135 |
| Net gain (loss) on disposal of capital assets | (8,330) | 16 | (256) | (1,895) | (603) | - | - | 127 | - | (1,624) |
| Interest and other income | (30) | 3,117 | (144) | 727 | 1,771 | 1,202 | 1,068 | 1,285 | 2,512 | 1,508 |
| Total nonoperating revenues | \$ 134,040 | \$ 132,631 | \$ 126,773 | \$ 109,089 | \$ 98,413 | \$ 90,771 | \$ 77,998 | \$ 80,175 | \$ 81,175 | \$ 73,610 |
| Capital grants and subsidies | \$ 82,311 | \$ 71,836 | \$ 82,270 | \$ 56,485 | \$ 86,203 | \$ 119,222 | \$ 173,476 | \$ 199,238 | \$ 188,336 | \$ 136,656 |
| Operating expenses: | | | | | | | | | | |
| Train operations and support | \$ 169,131 | \$ 175,618 | \$ 172,310 | \$ 158,796 | \$ 151,575 | \$ 147,556 | \$ 129,860 | \$ 120,297 | \$ 115,248 | \$ 120,680 |
| Maintenance of way | 43,172 | 38,596 | 39,558 | 34,230 | 29,867 | 29,313 | 24,127 | 30,687 | 24,289 | 22,931 |
| Rehabilitation and renovation - capital | 39,598 | 20,815 | 25,406 | 23,256 | 11,782 | 11,214 | 34,282 | 66,941 | 57,209 | 54,135 |
| Gas tax expense | - | - | - | - | 1,684 | 10,101 | 10,235 | 10,300 | 8,484 | 7,832 |
| Third-party agreements | 24,598 | 19,602 | 24,864 | 19,031 | 26,607 | 29,779 | 26,561 | 11,460 | 19,545 | 17,641 |
| Insurance and liability claims | 13,641 | 12,215 | 10,311 | 19,142 | 15,100 | 15,650 | 17,520 | 12,826 | 19,263 | 14,231 |
| Public liability and property damage | 10,205 | 3,775 | 1,686 | 2,600 | 1,173 | 1,746 | 1,848 | 1,466 | 2,130 | 4,252 |
| Other | 4,009 | - | - | - | - | - | - | - | - | - |
| Depreciation & amortization | 47,786 | 43,703 | 43,758 | 26,646 | 31,724 | 30,927 | 22,730 | 18,577 | 17,432 | 10,352 |
| Total operating expenses* | \$ 352,050 | \$ 314,324 | \$ 317,893 | \$ 283,681 | \$ 269,512 | \$ 275,686 | \$ 267,163 | \$ 272,554 | \$ 263,400 | \$ 252,054 |
| Increase (decrease) in net position | (11,042) | 5,817 | 18,382 | 7,221 | 46,908 | 75,187 | 117,876 | 118,938 | 120,431 | 71,584 |
| Cumulative effect of change in accounting principle** | (5,897) | - | - | (6,340) | - | - | - | - | - | - |
| Fares as a percentage of total operating revenues | 66.3% | 72.1% | 66.4% | 66.3% | 65.0% | 60.1% | 59.9% | 66.2% | 60.7% | 64.6% |

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Sources of Capital Contributions

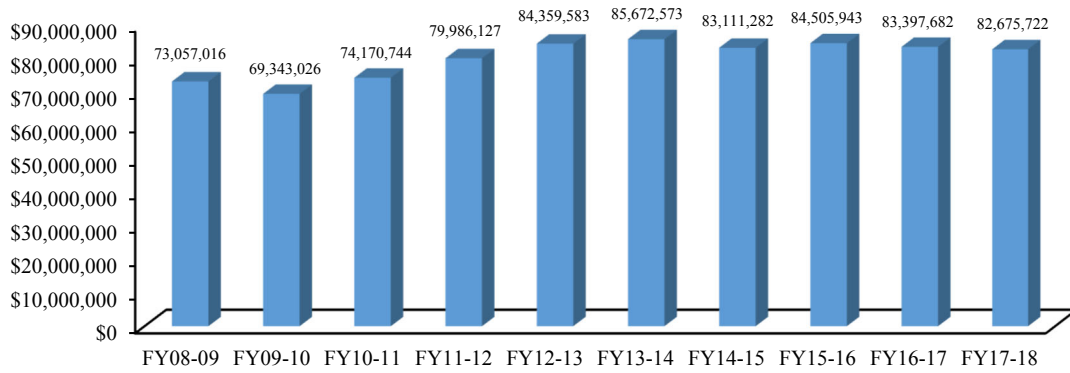
Last Ten Fiscal Years
(Dollar amounts in thousands)

| | YEARS ENDED JUNE 30 | | | | | | | | | |
|--|---------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Amtrak | (80) | - | - | - | 6,518 | - | - | - | - | - |
| FEMA, FHWA | 26,875 | 15,758 | 31,734 | 15,862 | 15,700 | 9,669 | 26,800 | 16,968 | 34,999 | 50,491 |
| Federal Transit Administration | 21,472 | 37,213 | 29,997 | 28,620 | 43,594 | 70,046 | 86,062 | 40,767 | 25,674 | 19,602 |
| State of California | 21,810 | 16,066 | 10,264 | 4,127 | 14,601 | 20,442 | 8,507 | 16,631 | 37,597 | 26,611 |
| L.A.C. Metropolitan Transportation Authority | 961 | 656 | 119 | 1,331 | 2,495 | (579) | 41,599 | 104,915 | 83,223 | 32,933 |
| Orange County Transportation Authority | (31) | 368 | - | 836 | 162 | 12,586 | 40 | 2,385 | 177 | 200 |
| Riverside County Transportation Commission | 1,677 | 907 | 426 | 631 | 348 | 539 | 1,059 | 4,161 | 1,841 | 2,403 |
| San Bernardino County Transportation Authority | 42 | - | - | 2 | - | 22 | 31 | 311 | 99 | (40) |
| Ventura County Transportation Commission | 9,585 | 788 | 9,788 | 1,676 | 2,785 | 847 | 4,943 | 7,711 | 4,563 | 4,393 |
| Other capital (CMAQ, AQMD, FRA) | | | | | | | | | | |
| Total capital contributions | \$ 82,311 | \$ 71,836 | \$ 82,270 | \$ 56,485 | \$ 86,203 | \$ 126,085 | \$ 173,476 | \$ 199,238 | \$ 188,337 | \$ 136,655 |

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Subsidy / Passenger Mile

PASSENGER FARES: 2008-09 THROUGH 2017-18

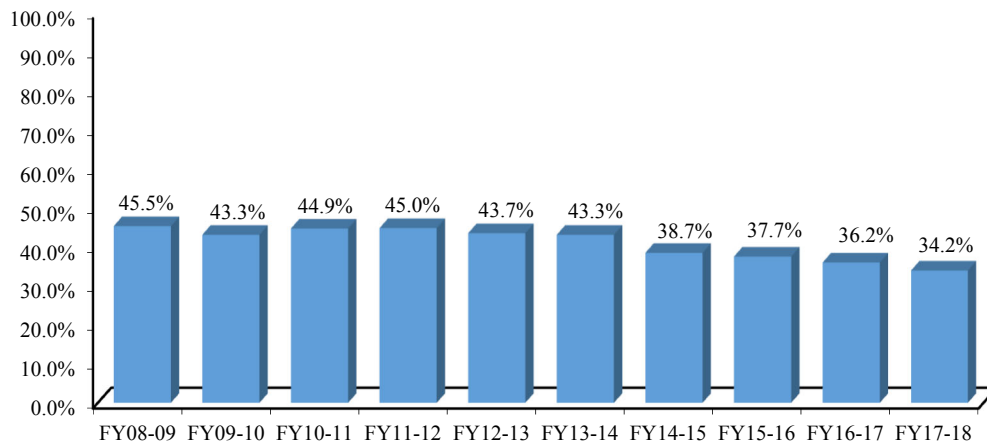
PASSENGER FARES



FAREBOX RECOVERY RATIO: 2008-09 THROUGH 2017-18

Farebox recovery is a ratio of fare revenue to direct operating expenses (train operations, maintenance-of-way, including extraordinary maintenance, claims and insurance; excludes gas tax exchange funds, rolling stock lease, third-party activity, and depreciation). The decrease in farebox recovery ratio is due to the decrease in passenger fares and increases in direct operating expenses.

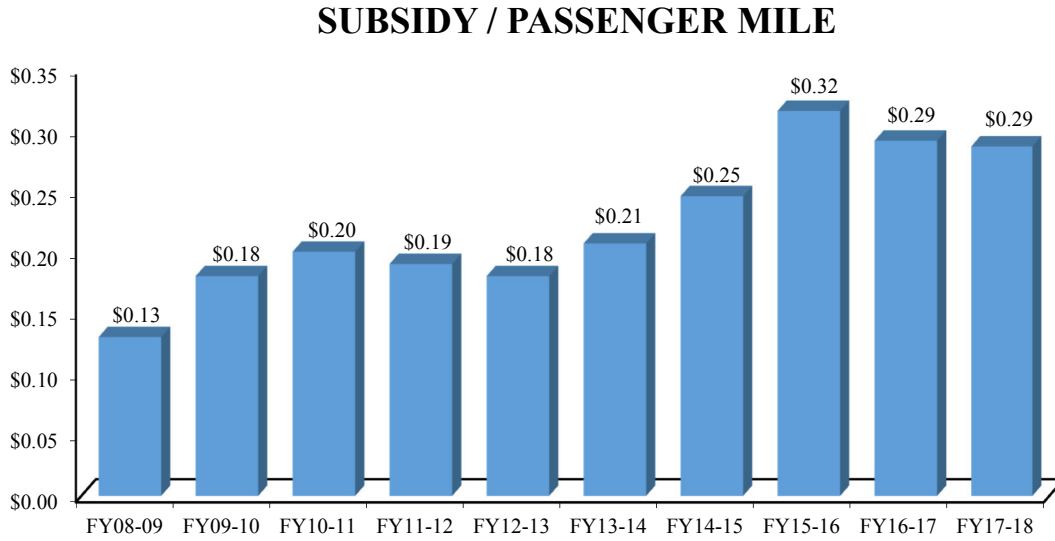
FAREBOX RECOVERY RATIO



SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Subsidy / Passenger Mile

SUBSIDY/PASSENGER MILE: 2008-09 THROUGH 2017-18

Subsidy per passenger mile is a measure of public funding provided for each passenger mile of travel.



SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Demographic and Economic Information

Last Ten Fiscal Years

| | 2018 | 2017 | 2016 | YEARS ENDED JUNE 30 | | | | | | |
|--|------|------------|------------|---------------------|------------|------------|------------|------------|------------|------------|
| | | | | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | |
| Population for Counties Served | | | | | | | | | | |
| Los Angeles County | * | 10,163,507 | 10,150,558 | 10,123,248 | 10,072,695 | 10,018,604 | 9,956,152 | 9,885,998 | 9,824,490 | 9,787,400 |
| Orange County | * | 3,190,400 | 3,177,703 | 3,160,576 | 3,136,750 | 3,113,649 | 3,085,386 | 3,053,465 | 3,017,116 | 2,987,177 |
| Riverside County | * | 2,423,266 | 2,386,522 | 2,352,080 | 2,321,738 | 2,291,406 | 2,264,804 | 2,235,890 | 2,202,001 | 2,146,725 |
| San Bernardino County | * | 2,157,404 | 2,137,131 | 2,120,794 | 2,104,038 | 2,086,732 | 2,076,601 | 2,062,381 | 2,041,234 | 2,013,960 |
| Ventura County | * | 854,223 | 851,096 | 848,925 | 844,749 | 840,175 | 835,143 | 830,990 | 825,298 | 815,130 |
| Total Population for Counties Served | * | 18,788,800 | 18,703,010 | 18,605,623 | 18,479,970 | 18,350,566 | 18,218,086 | 18,068,724 | 17,910,139 | 17,750,392 |
| Unemployment Rates for Counties Served | | | | | | | | | | |
| Los Angeles County | * | 4.7 | 5.2 | 6.6 | 8.2 | 9.8 | 10.9 | 12.2 | 12.5 | 11.6 |
| Orange County | * | 3.5 | 4.0 | 4.4 | 5.5 | 6.6 | 7.9 | 9.1 | 9.7 | 8.7 |
| Riverside County | * | 5.2 | 6.1 | 6.7 | 8.2 | 9.9 | 11.6 | 13.2 | 13.8 | 13.1 |
| San Bernardino County | * | 4.9 | 5.7 | 6.4 | 8.0 | 9.8 | 11.4 | 12.9 | 13.5 | 12.7 |
| Ventura County | * | 4.5 | 5.2 | 5.6 | 6.6 | 7.9 | 9.1 | 10.2 | 10.8 | 9.6 |
| Average Unemployment Rates for Counties Served | * | 4.6 | 5.2 | 5.9 | 7.3 | 8.8 | 10.2 | 11.5 | 12.1 | 11.1 |
| Per Capita Income for Counties Served | | | | | | | | | | |
| Los Angeles County | * | 58,419 | 56,851 | 55,366 | 52,130 | 49,010 | 49,459 | 46,439 | 43,569 | 41,869 |
| Orange County | * | 65,400 | 62,763 | 61,178 | 57,110 | 54,594 | 55,296 | 51,469 | 49,740 | 46,813 |
| Riverside County | * | 39,261 | 37,827 | 36,603 | 34,732 | 33,383 | 32,707 | 32,179 | 30,685 | 30,451 |
| San Bernardino County | * | 38,816 | 37,514 | 36,245 | 34,218 | 32,404 | 31,703 | 31,051 | 29,557 | 29,122 |
| Ventura County | * | 59,178 | 56,846 | 55,594 | 52,925 | 50,363 | 49,937 | 48,025 | 45,885 | 44,479 |
| Average Per Capita Income for Counties Served | * | 52,215 | 50,360 | 48,997 | 46,223 | 43,951 | 43,820 | 41,833 | 39,887 | 38,547 |

* Estimates for CY 2018 have not been released as of 11/27/2017
Source: U.S Census Bureau, U.S Department of Commerce Bureau of Economic Analysis, U.S Department of Labor Bureau of Labor Statistics, and SCRRRA's Fact Sheet

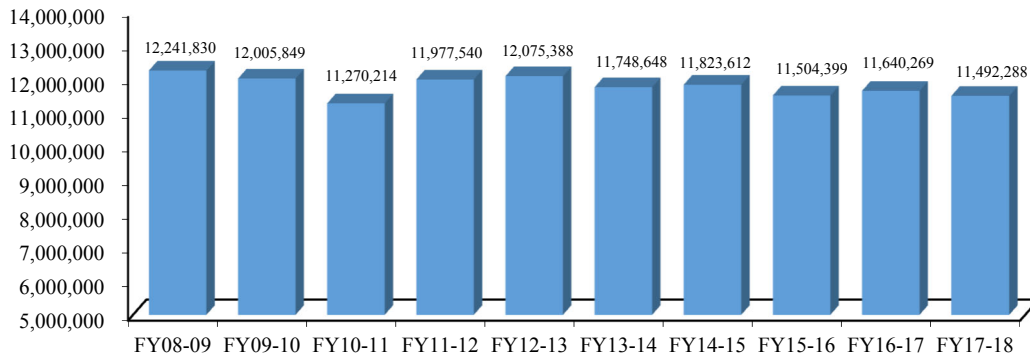
SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Ridership, Annual and Average Weekday

RIDERSHIP: 2008-09 THROUGH 2017-18

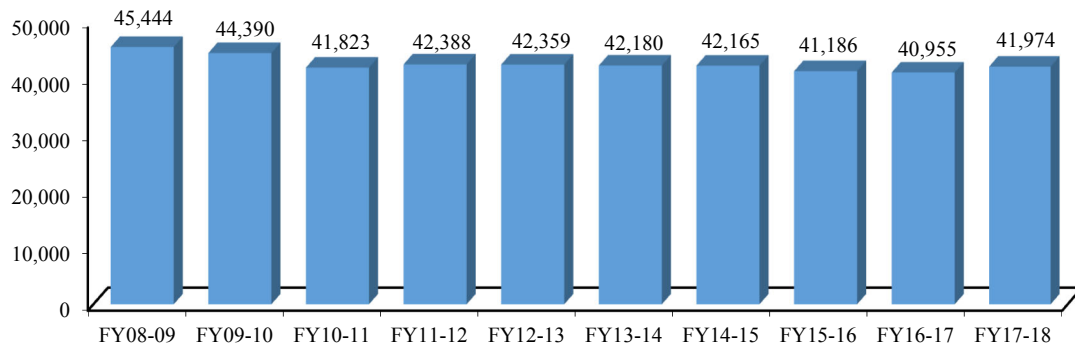
During twenty-five years of Metrolink operations, ridership grew steadily with slight declines in FY 2007 and FY 2008 through FY 2011. In FY 2008, record fuel prices helped drive a significant increase in ridership. During the latter part of FY 2008 through FY 2011, ridership steadily declined, due in large part to the continued weakened economic conditions in the Southern California region as well as nationwide.

The following charts show the number of passengers carried for each of the last ten fiscal years and the average weekday ridership, based on unaudited conductor counts.

ANNUAL RIDERSHIP



AVERAGE WEEKDAY RIDERSHIP

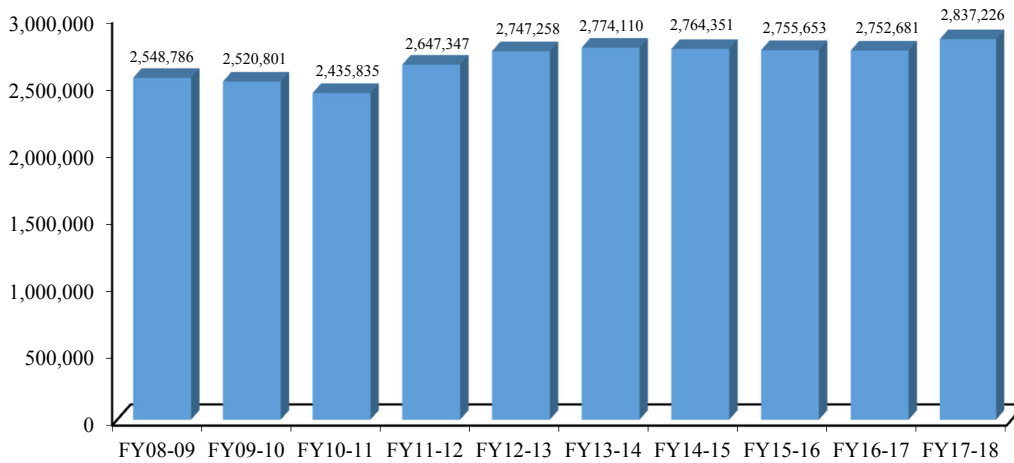


SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Total Train Miles

TOTAL TRAIN MILES: 2008-09 THROUGH 2017-18

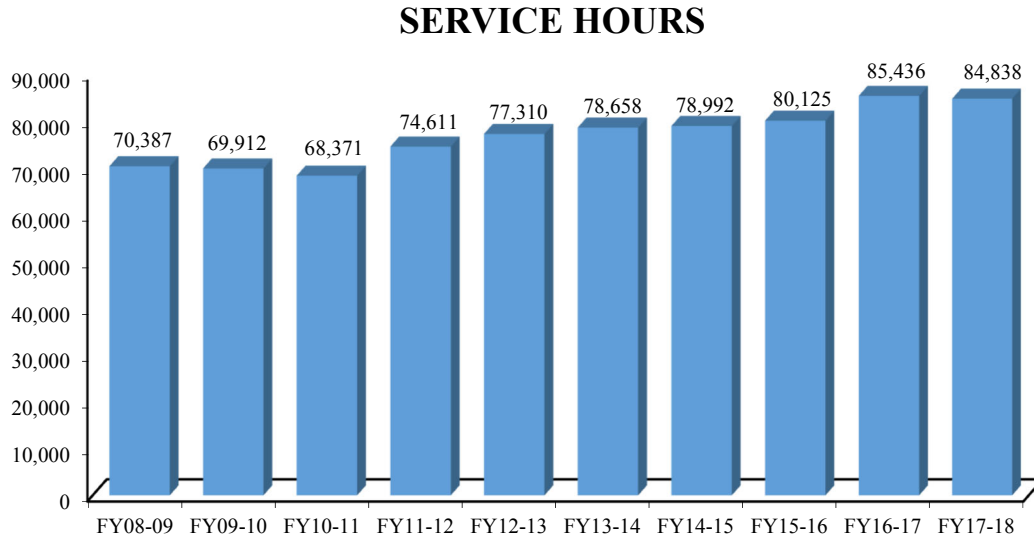
Until FY 2010, total train miles realized annual yearly increases due to additions of new trains, routes, and train schedules, as well as modifications to existing schedules. These modifications have enhanced overall service and efficiency. Several additional emergency services were started after the Northridge earthquake and many have been retained. In May 2002, the 91 Line was opened, linking Riverside, Fullerton, and downtown Los Angeles. In addition to the 91 Line, additional trains and extended service (including new weekend service) were added to the Antelope Valley line and San Bernardino line. As a result of the decline in ridership and increased operating costs, weekend service was reduced on the Inland Empire Orange County (IEOC) and Orange County lines.

TOTAL TRAIN MILES

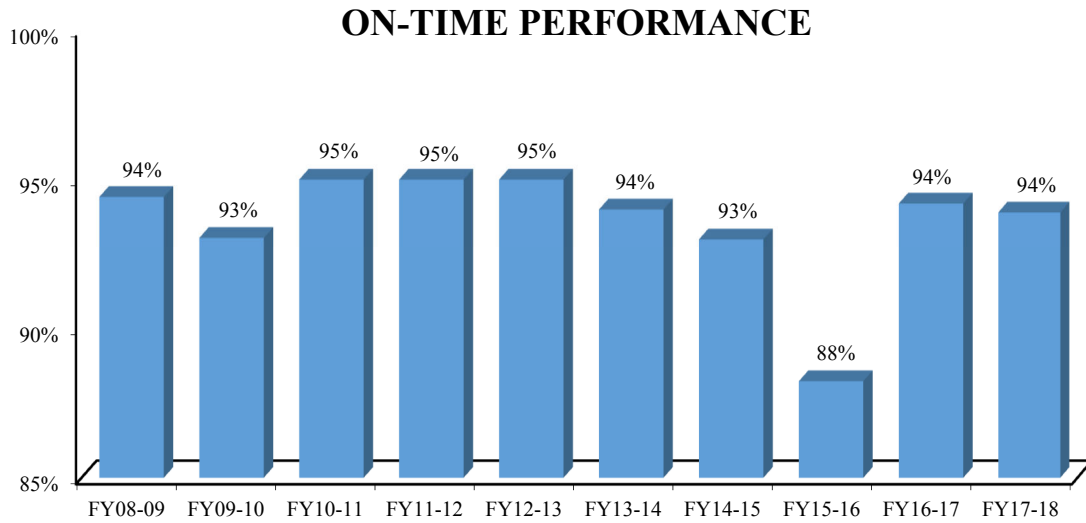


SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Service Hours and On-Time Performance

SERVICE HOURS: 2008-09 THROUGH 2017-18



ON-TIME PERFORMANCE: 2008-09 THROUGH 2017-18



SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Miscellaneous Statistics

June 30, 2018

(Dollar Amounts in Thousands)





| | | |
|---------------------------------------|--|---------------|
| Date of Formation | August 1991 | |
| Form of Government | Joint Powers Authority | |
| Purpose | To plan, design, construct and administer the operation of regional passenger rail lines. | |
| Member Agencies | Los Angeles County Metropolitan Transportation Authority Orange County Transportation Authority Riverside County Transportation Commission San Bernardino County Transportation Authority Ventura County Transportation Commission | |
| Counties Served | Los Angeles County Orange County Riverside County San Bernardino County Northern San Diego County Ventura County | |
| Fleet and Other Infrastructure | Locomotives | 60 |
| | Passenger Cars | 258 |
| | Ticket Vending Machines | 124 |
| | Public At-Grade Crossings | 282 |
| | Pedestrian At-Grade Crossings | 111 |
| | Undergrade Crossings | 96 |
| | Overgrade Crossings | 156 |
| 2018-19 Operating Budget | Operations | \$210,055 |
| | Maintenance-of-Way | <u>41,301</u> |
| | Total | \$251,356 |

Source: SCRRRA's FY18 Q4 Fact Sheet and operating budget

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY
Ticket Categories

A variety of tickets and passes are available for Metrolink passengers. The type of ticket best suited for you will depend on how often you plan to ride Metrolink. All tickets are good for a free transfer from Metrolink to participating, directly connecting transit.

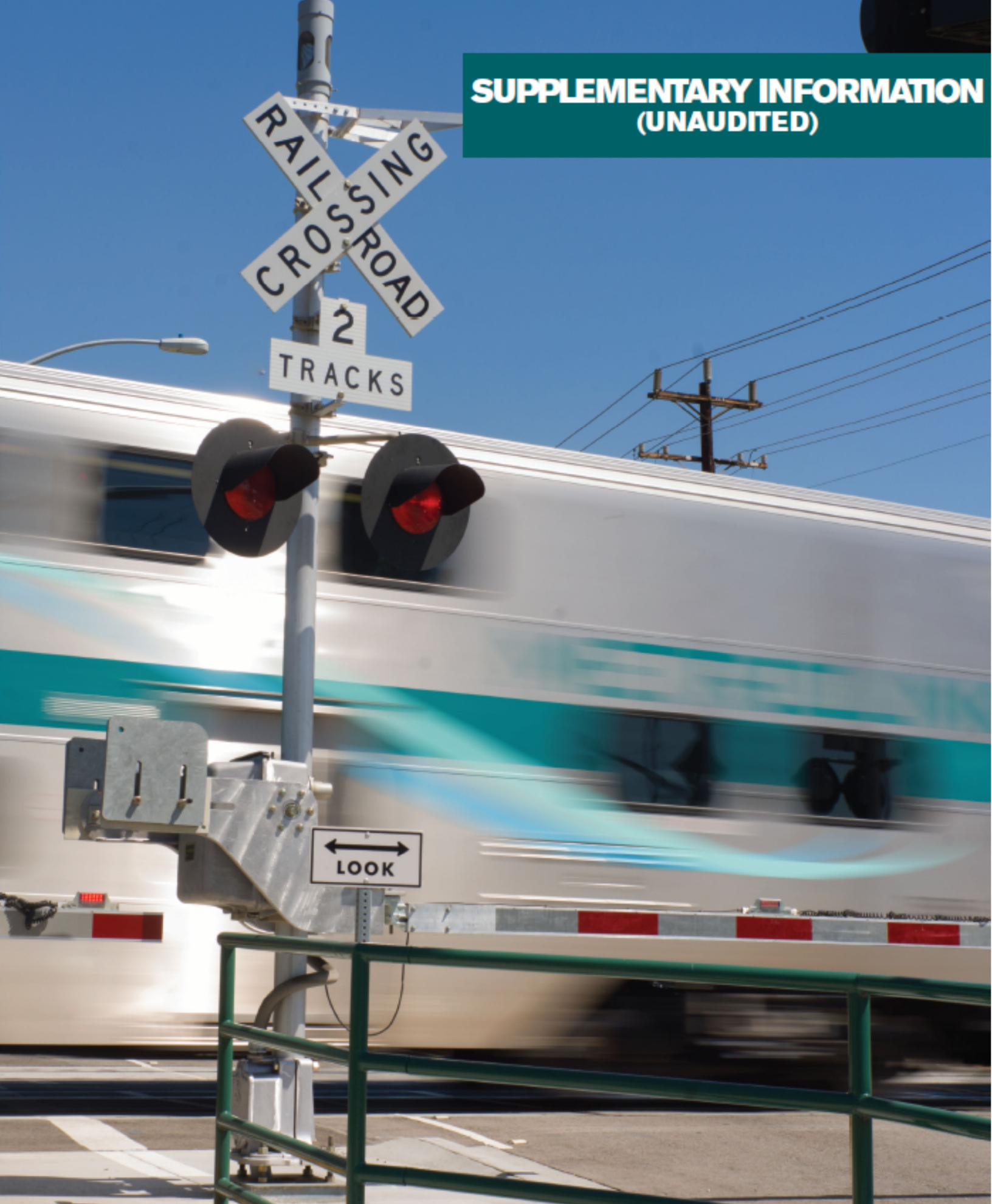
Round-Trip Tickets, 7-Day Passes, and Monthly Passes offer increasing discounts off the One-Way price.

| TYPES OF TICKETS | | | |
|---|--|---|--|
|  <p>One-Way Ticket Valid for a single one-way trip from the origin station to the destination station. Trip must begin on the date and prior to the expiration time printed on the ticket. Expiration time is three hours from the time of purchase.</p> |  <p>Round-Trip Ticket Valid for a round-trip on the same day between the origin and destination stations. Travel must begin within three hours from time of purchase and end that same day.</p> |  <p>7-Day Pass Valid for unlimited travel during a consecutive seven-day period between station pairs, starting on the day the pass is purchased.</p> |  <p>Monthly Pass Valid for unlimited travel between the origin and destination stations during the calendar month printed on the pass. Monthly Passes are sold from the 25th of the prior month, to the 14th of the current month.</p> |
| <p align="center">Multi-Line Ticket Option</p> <p>Some Metrolink tickets and Monthly Passes can be used on more than one line. This gives people who live or work near stations on two different lines more trains to choose from.</p> <ul style="list-style-type: none"> Monthly Passes and tickets on the San Bernardino and Riverside Lines can be used for travel on any of three lines (Between stations of equal or lesser distance, as long as the origin or destination station is in Riverside or San Bernardino County). | | | |
| <p align="center">Advance Purchase Ticket</p> <p>You can now also buy One-Way or Round-Trip tickets for a future date, up to 1 year in advance. All you need to do is select the Advance Purchase option and choose the date you wish to travel and which ticket type you want. There is one difference between a ticket purchased for same-day travel and an Advance Purchase Ticket: the Advance Purchase Ticket will not have an expiration time printed on it, but it is still valid and can be used at any time on the day you chose to travel.</p> | | | |

| TYPES OF FARES | | | |
|--|---|---|---|
| <p>Adult</p> <ul style="list-style-type: none"> Ages 19 to 64 Weekdays and weekends regular fare | <p>Youth</p> <ul style="list-style-type: none"> Ages 6 to 18 Weekdays-Regular Fare and Round-Trip Tickets excluding Weekend Day Pass | <p>Child</p> <ul style="list-style-type: none"> Ages 5 and under ride free Three children ride free with an adult using a valid ticket-each additional child pays Youth Fare | <p>Senior</p> <ul style="list-style-type: none"> Ages 65 and over 50% off One-Way or Round-Trip Ticket 25% off Monthly/7-Day Pass Please present photo ID with date of birth |
| <p>Disabled</p> <ul style="list-style-type: none"> 50% of One-Way or Round-Trip, and 25% off Monthly/7-Day Pass Access Services ID Card Holders ride at no cost Please present proof of eligibility upon request-LA County Transit Operators, Association ID, Medical ID, DMV/placard, Personal Care Attendants must have a valid Metrolink PCA card if assisting a person with disability. | <p>Students</p> <ul style="list-style-type: none"> 15% off all Metrolink tickets available through Metrolink | <p>School Group Travel</p> <ul style="list-style-type: none"> Discount fares for groups of 15 or more students, ages 5-18 One adult chaperone required per five children ages 5-13 Reservations required six weeks prior to travel date. Call 800-371-LINK(5465) Limited space available \$3 per person | <p>Recreational Group Travel</p> <ul style="list-style-type: none"> For groups of ten or more people, max 50 Tickets cost \$10 per person, all ages Reservations must be made at least three weeks in advance. Call 800-371-LINK(5465) Limited space available |

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**SUPPLEMENTARY INFORMATION
(UNAUDITED)**



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SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Supplementary Information (Unaudited)
For the years ended June 30, 2018 and 2017

UNEARNED REVENUE AND ADVANCES ON CAPITAL PURCHASES

The SCRRA Member Agencies contribute the funds necessary to carry out its purposes consistent with the Board-adopted budget and cost sharing formula in addition to funds derived from operations and grants. A preliminary budget for the following fiscal year is submitted to Member Agencies by May 1 of each year and the SCRRA Board must adopt the final budget no later than June 30 of each year. Once SCRRA's annual budget is approved by the Board, each Member Agency pays the annual operating subsidy in advance and on a quarterly basis.

An operating surplus indicates that Member Agencies' operating subsidies exceed their share of actual operating revenues earned and expenses incurred by SCRRA during the year. Conversely, an operating deficit indicates that operating subsidies are less than the Member Agencies' share of actual operating revenues earned and expenses incurred by SCRRA; however, an operating deficit does not result to a receivable from Member Agencies. Any operating surplus or deficit remains an unearned revenue, unless otherwise designated by the Member Agencies.

Unearned revenue also includes capital subsidies, which are advances from member agencies for capital-related projects. Capital subsidies are recognized to the extent of expenses incurred. Remaining subsidies are maintained in unearned revenue until such time as expenses are incurred. Also included within unearned revenue activity are Proposition 1B (Prop 1B), California Transit Security Grant Program (CTS GP), California State Transportation Agency State Rail Assistance Program (CalSTA SRA) and Low Carbon Transit Operations Program (LCTOP) funds, which for accounting purposes, are treated in the same manner as previously described. These funds are received through assignment from various Member Agencies or directly to SCRRA as the primary recipient. See the description of Proposition 1B, CTS GP, CalSTA SRA and LCTOP funds following the unearned revenue activity schedule.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Supplementary Information (Unaudited)
For the years ended June 30, 2018 and 2017

Unearned revenue activity for the years ended June 30, 2017 and 2018, is as follows (in thousands):

| | <u>LACMTA</u> | <u>OCTA</u> | <u>RCTC</u> | <u>SBCTA</u> | <u>VCTC</u> | <u>OTHER</u> | <u>TOTAL</u> |
|--|------------------|------------------|-----------------|------------------|-------------------|------------------|------------------|
| Unearned revenue, June 30, 2016 | \$ 11,287 | \$ 7,245 | \$ 1,222 | \$ 4,859 | (\$ 9,691) | \$ 38,906 | \$ 53,828 |
| Subsidies invoiced: | | | | | | | |
| Operating | 63,009 | 24,232 | 16,117 | 12,887 | 8,957 | - | 125,202 |
| Public liability and property damage | 8,989 | 4,062 | 1,228 | 1,954 | 554 | - | 16,787 |
| Capital | - | - | - | - | - | 7,703 | 7,703 |
| Other | 475 | - | - | - | - | - | 475 |
| Subsidies recognized: | | | | | | | |
| Operating | (57,458) | (20,782) | (14,442) | (11,203) | (8,733) | - | (112,618) |
| Public liability and property damage | (9,039) | (4,085) | (1,234) | (1,965) | (557) | - | (16,880) |
| Capital | 182 | 920 | (31) | 517 | (63) | (15,729) | (14,204) |
| Other | 4 | - | - | - | - | (134) | (130) |
| Uses of operating surplus | (385) | (1,682) | (831) | - | - | - | (2,898) |
| Interest allocation | 9 | - | - | 2 | 1 | 223 | 235 |
| Adjustment – FY16 expense reallocation | (198) | (80) | 181 | (174) | 271 | - | - |
| Adjustment – VCTC/LACMTA swap | - | - | - | - | 4,316 | - | 4,316 |
| Adjustment – VCTC/LACMTA fund exchange | - | - | - | - | 5,803 | - | 5,803 |
| Unearned revenue, June 30, 2017 | \$ 16,875 | \$ 9,830 | \$ 2,210 | \$ 6,877 | \$ 858 | \$ 30,969 | \$ 67,619 |
| Subsidies invoiced: | | | | | | | |
| Operating | 62,092 | 23,949 | 16,363 | 12,934 | 9,250 | - | 124,587 |
| Public liability and property damage | 9,418 | 4,290 | 1,342 | 2,026 | 586 | - | 17,663 |
| Capital | - | - | - | - | - | 30,065 | 30,065 |
| Federal Subsidies | - | 6,000 | - | 9,000 | 7,284 | - | 22,284 |
| Subsidies recognized: | | | | | | | |
| Operating | (58,352) | (21,116) | (15,774) | (12,157) | (8,535) | - | (115,935) |
| Public liability and property damage | (10,069) | (4,587) | (1,434) | (2,166) | (627) | - | (18,883) |
| Capital | (221) | - | - | (190) | 45 | (20,900) | (21,268) |
| Other | - | - | - | - | - | (140) | (140) |
| Federal Subsidies | - | (6,000) | - | (9,000) | (7,284) | - | (22,284) |
| Operating surplus activity | (3,238) | (24) | (533) | 7,133 | (675) | - | 2,664 |
| Capital surplus activity | (1,132) | (1,149) | 24 | 962 | (41) | (485) | (1,820) |
| Interest allocation | 21 | - | - | 2 | 2 | 499 | 524 |
| Adjustment – FY18 VCTC/LACMTA swap | - | - | - | - | 769 | - | 769 |
| Unearned revenue, June 30, 2018 | \$ 15,394 | \$ 11,193 | \$ 2,198 | \$ 15,421 | \$ 1,632 | \$ 40,008 | \$ 85,845 |
| Unearned revenue component: | | | | | | | |
| Operating surplus/(deficit) | 3,238 | 2,536 | 497 | 636 | 675 | - | 7,581 |
| Preventive maintenance surplus | - | 6,000 | - | 9,000 | 7,284 | - | 22,284 |
| Capital projects and surplus | 12,156 | 2,657 | 1,701 | 5,785 | (6,327) | 40,008 | 55,980 |
| Unearned revenue, June 30, 2018 | \$ 15,394 | \$ 11,193 | \$ 2,198 | \$ 15,421 | \$ 1,632 | \$ 40,008 | \$ 85,845 |

Proposition 1B – The Public Transportation Modernization, Improvement, and Service Enhancement Account Program (PTMISEA) is a part of the State of California’s Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006 (Bond Act), approved by California voters as Proposition 1B on November 7, 2006. A total of \$19.9 billion in general obligations bonds was authorized for issuance, the proceeds of which were deposited into the PTMISEA fund for specified purposes, including grants for transit system safety, security, and disaster response projects. Of this amount, \$3.6 billion was made available to project sponsors in California for allocation to eligible public transportation projects over a 10-year period. Proposition 1B funds can be used for rehabilitation, safety or modernization improvements, capital service enhancements or expansions, new capital projects, or rolling stock procurement, rehabilitation or replacement.

SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY

Supplementary Information (Unaudited)
For the years ended June 30, 2018 and 2017

California Transit Security Grant Program (CTSGP)– Senate Bill 88 of the 2007 Statutes appropriates funds from Proposition 1B to the California Transit Security Grant Program maintained by the California Governor’s Office of Emergency Services (Cal OES, formerly CalEMA), to fund grants for eligible purposes. Eligible activities include construction or renovation projects that are designed to enhance the security of public transit stations, tunnels, guideways, elevated structures, or other transit facilities and equipment.

California State Transportation Agency State Rail Assistance Program (CalSTA SRA) – The California State Transportation Agency State Rail Assistance program funds projects that improve rail service for passengers on commuter rail and intercity rail systems in California. Funding for this program comes from Senate Bill 1 (SB 1), the Road Repair and Accountability Act of 2017, which directs a 0.5% portion of new diesel sales tax revenue and allocates half to commuter rail providers and the other half to intercity rail corridors. The majority of program funding is directed by statutory formula to rail operators, with guidelines defining process and timeline for agencies to obtain funding. The SRA Guidelines currently permit commuter operators to apply for a cumulative total of \$10.5 million of funding through FY 2019-2020

Low Carbon Transit Operations Program (LCTOP) – The Low Carbon Transit Operations Program is one of several programs that is part of the Transit, Affordable Housing, and Sustainable Communities Program established by the California Legislature in 2014 by Senate Bill (SB) 862. The LCTOP was created to provide operating and capital assistance for transit agencies to reduce greenhouse gas emissions and improve mobility, with a priority on serving disadvantaged communities. Approved projects in the LCTOP will support new or expanded bus or rail services, expand intermodal transit facilities, and may include equipment acquisition, fueling, maintenance, and other costs to operate those services or facilities. SB 862 (Statutes of 2014) appropriated \$25 million for LCTOP for FY 2015 and it continuously appropriates 5% of the annual auction proceeds in the Greenhouse Gas Reduction Fund for LCTOP beginning in FY 2016.

Proposition 1B (Prop 1B), CTSGP, CalSTA SRA and LCTOP activity during the fiscal years ended June 30, 2018 and 2017, was as follows (in thousands):

| | PTMISEA | | | | | CTSGP | CalSTA SRA | LCTOP | TOTAL | |
|--|----------|------|------|--------|--------|-----------|------------|----------|----------|-----------|
| | LACMTA | OCTA | RCTC | SBCTA | VCTC | | | | | |
| Unexpended funds | | | | | | | | | | |
| June 30, 2016 | \$ 923 | \$ - | \$ - | \$ 186 | \$ 156 | \$ 28,939 | \$ 4,306 | \$ - | \$ 2,541 | \$ 37,051 |
| Funds collected | - | - | - | - | - | - | 7,703 | - | - | 7,703 |
| Costs incurred | 241 | - | - | (1) | (64) | (10,262) | (3,340) | - | (1,750) | (15,176) |
| Interest revenue on unspent funds | 9 | - | - | 2 | 1 | 193 | 18 | - | 11 | 234 |
| Unexpended funds, June 30, 2017 | \$ 1,173 | \$ - | \$ - | \$ 187 | \$ 93 | \$ 18,870 | \$ 8,687 | \$ - | \$ 802 | \$ 29,812 |
| Funds collected | - | - | - | - | 44 | - | 13,164 | 1,607 | 939 | 15,753 |
| Costs incurred | (220) | - | - | (189) | - | (5,200) | (1,344) | - | (2) | (6,954) |
| Interest revenue on unspent funds | 21 | - | - | 2 | 2 | 249 | 220 | 4 | 26 | 524 |
| Unexpended funds, June 30, 2018 | \$ 974 | \$ - | \$ - | \$ - | \$ 139 | \$ 13,919 | \$ 20,727 | \$ 1,611 | \$ 1,765 | \$ 39,135 |