

Valley Metro® Rail Inc. – Phoenix, AZ

Annual Comprehensive Financial Report

FISCAL YEAR ENDED JUNE 30, 2023



VALLEY METRO RAIL, INC.

Phoenix, Arizona

Annual Comprehensive Financial Report

For the fiscal year ended

June 30, 2023

**Prepared by:
Finance Division**

Valley Metro®

Rail System Fact Sheet

ABOUT VALLEY METRO RAIL

Valley Metro Rail is responsible for the planning, design, construction and operations of the region’s light rail and streetcar system, serving more than ten million total passengers in fiscal year 2023.

The initial 20-mile light rail line opened on December 27, 2008. Two extensions began service by spring 2016, adding six more miles and connecting downtown Mesa to northwest Phoenix. In 2019, the line extended 1.9 miles east to the new Gilbert Rd/Main St light rail station, where there are additional transit connections. The 50th St/Washington station also opened in 2019 with enhanced accessibility features, including advanced pedestrian detection crosswalk signals, wider platforms and gently sloped entries.

Each of the 38 light rail stations were designed with significant consideration given to the desert sun and heat. Twelve park-and-rides provide 4,488 parking spaces along 28 miles. Artwork is also an integral part of the urban system, reflecting the history and culture of local neighborhoods. Each light rail vehicle has a comfort capacity of 175 passengers and features state-of-the-art technology designed for the urban desert climate.

In May 2022, the rail system added a new mode with the opening of streetcar. Traveling along a three-mile route in Tempe, the streetcar makes 14 stops. As the Valley’s first modern streetcar line, it adds to the comprehensive transit network in Tempe. Currently, streetcar makes two connections to the light rail system providing regional access for travelers. A future extension of streetcar farther east into Mesa is also being studied.

The rail system in metro Phoenix continues to expand, with two extensions under construction: Northwest Extension Phase II and South Central Extension/Downtown Hub. The Capitol Extension, which will extend light rail west to the State Capitol from downtown Phoenix, is currently in the planning phase. Also in the planning phase is the I-10 West Extension, which is a 9.4 mile expansion of light rail to west Phoenix. A study to evaluate high-capacity options in west Phoenix to 99th Avenue is also underway.



RAIL SYSTEM OVERVIEW

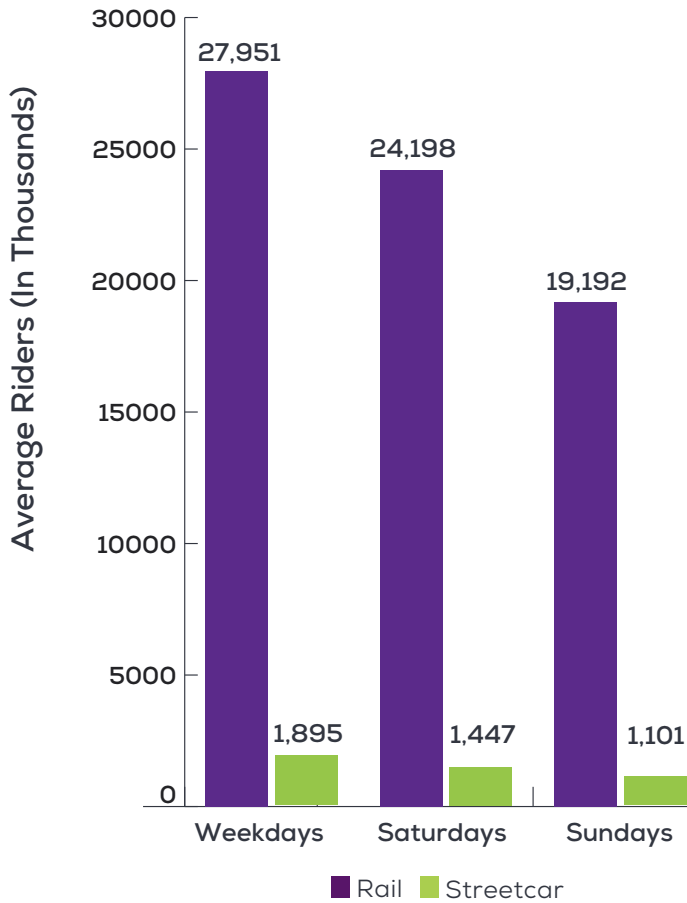
- Number of miles: 28
- Number of stations: 38
- Number of vehicles: 59
- Number of parking spaces: 4,488
- Total travel time: 97 minutes
- Cost to ride: \$2.00 per ride
\$4.00 1-Day Pass



FIVE BUSIEST RAIL STATIONS

1. 19th Ave/Dunlap
2. Gilbert Rd/Main St
3. Montebello/19th Ave
4. 19th Ave/Camelback
5. 44th St/Washington

DAILY AVERAGE RIDERS



Total rail ridership– 9,498,986
Total streetcar ridership– 622,208

STREETCAR SYSTEM OVERVIEW

- Number of miles: 3
- Number of stops: 14
- Number of vehicles: 6
(when fleet is complete)
- Total travel time: 43 minutes
- Cost to ride: Free



FIVE BUSIEST STREETCAR STOPS

1. Rural/Apache Blvd
2. Dorsey/Apache Blvd
3. Paseo Del Saber/Apache Blvd
4. College Ave/Apache Blvd
5. 9th St/Mill Ave

OPERATIONS

Valley Metro Rail operates 365 days a year, with light rail trains arriving every 15 minutes and streetcars arriving every 20 minutes during peak travel hours. Operations costs are supported by rail member cities, passenger fares and advertising (light rail only).

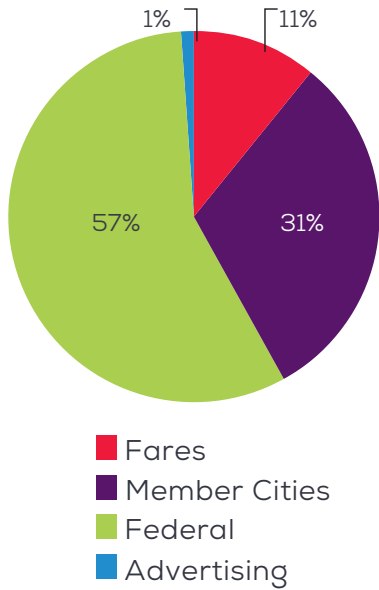
Rail service is coordinated with bus service to provide a regional transit network for customers. Transit passes can be purchased on the Valley Metro app, at light rail station fare vending machines located at each station, online or from retail outlets valley-wide. Security officers have a continual presence on the system. Passengers on light rail will be asked at random for proof of payment. Violators are subject to fines ranging from \$50 to \$500 and can even lose their transit privileges.

Customer Experience Coordinators help riders on the rail system, providing a welcoming presence and aiding with wayfinding and purchasing correct fare.

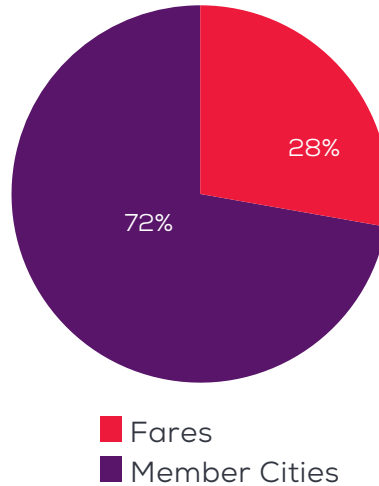
The Valley Metro Rail system connects the region to the cities of Phoenix, Tempe and Mesa. It provides connections to work, education and entertainment. There are many sports, shopping, restaurants and arts and culture destinations along the line. Valley Metro Rail also connects to Phoenix Sky Harbor International Airport with PHX Sky Train® at the 44th St/Washington station.

Rail is a catalyst for jobs and economic development with \$176.1 billion in public and private sector investment since 2008 along the light rail and streetcar corridors.

RAIL FUNDING SOURCES



STREETCAR FUNDING SOURCES



FUTURE EXPANSION

Five high-capacity extensions are planned or under construction to create a 50-mile system by 2030. The Valley Metro Rail Board of Directors sets the policy direction for the system with the intent of advancing regional public transit in the Valley.





Valley Metro Rail, Inc.

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Fiscal Year Ended June 30, 2023

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INTRODUCTORY SECTION

The Introductory Section includes Valley Metro Rail's transmittal letter, policy organizational chart, and list of appointed officials



The 36th Annual Clean Air Campaign Awards and Luncheon, held on Friday, October 20, 2023 at the Omni Tempe Hotel at ASU in Tempe, AZ, was a great success. Guests enjoyed music from Gaetano, a lively keynote address from Danny Zelisko, and the humor of Sean McLaughlin from AZ Family, who served as master of ceremonies.



November 13, 2023

To Chairman and Members of the Valley Metro Rail, Inc. Board of Directors:

The annual comprehensive financial report of Valley Metro Rail, Inc. (VMR) for the fiscal year ended June 30, 2023, is hereby submitted in accordance with the requirements of the Bylaws and Board directives. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position, results of operations and cash flows of VMR. All disclosures necessary to enable the reader to gain an understanding of VMR's activities have been included.

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The independent auditors, CliftonLarsonAllen LLP., whose report is included herein, have audited the basic financial statements and related notes. As stated in the independent auditors' report, the goal of the independent audit was to provide reasonable assurance that the basic financial statements of VMR as of and for the fiscal year ended June 30, 2023, are free from material misstatement. The independent audit involved examining, on a test basis; evidence supporting the amounts and disclosures in the financial statements; assessing accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon their audit, that there was a reasonable basis for rendering an unmodified opinion that the basic financial statements of VMR for the fiscal year ended June 30, 2023, are fairly presented, in all material respects, in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

Additionally, VMR is required to have an independent audit of expenditures of federal awards received (Single Audit) by VMR directly from federal agencies or passed through to VMR by other governmental entities during the fiscal year. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on VMR's internal controls and compliance with legal requirements having a direct and material impact on major programs, with special emphasis on internal controls and compliance requirements

involving the administration of major federal awards. The results of VMR's Single Audit for the fiscal year ended June 30, 2023, found no instances of material weakness in the internal control structure or significant violations of applicable laws and regulations with respect to major programs. The auditors' reports on internal controls and compliance with applicable laws and regulations are included in a separately issued Single Audit Report.

The financial statements are prepared and presented in conformity with accounting principles generally accepted in the United States of America. More information about the presentation can be found in Management's Discussion and Analysis (MD&A) beginning on page 5 and discussed in the notes to the financial statements beginning on page 17. This transmittal letter is designed to complement MD&A and should be read in conjunction with it.

THE FINANCIAL REPORTING ENTITY

VMR was established in October 2002 as a public nonprofit corporation to manage the design, construction and operation of the Light Rail Transit (LRT) and Streetcar System within the Phoenix Metropolitan Area. Membership is governed by a Joint Powers Agreement and the By-Laws of the corporation. Current membership consists of the cities of Phoenix, Tempe, Mesa, and Chandler.

During the fiscal year 2023, a four-member Board of Directors governed VMR, consisting of the mayors or the designated representatives from each member city. The Board of Directors establishes overall policies for management and administration of the LRT and Streetcar System, provides oversight over the design, construction and operation of light rail and streetcar, and receives and disburses funds and grants from federal, state, local, and other funding sources. A Chief Executive Officer, appointed by the Board of Directors, is responsible for the day-to-day management of the organization.

Funding Milestones

On November 2, 2004, the voters of Maricopa County approved Proposition 400, the continuation of the transportation excise tax, for a twenty-year period, beginning in calendar year 2006 and ending December 2025. A major milestone in transportation funding and service in the region, the proposition had unanimous support from the mayors of all the cities in the region and the Maricopa County Board of Supervisors, the Maricopa Association of Governments Regional Council, and the Arizona Department of Transportation.

In August 2015, Phoenix voters approved Proposition 104, which extended the city's dedicated transportation tax sunset from 2020 to 2050. In addition, it raised the tax rate from 0.4% to 0.7%. The revenues are intended to support a variety of transportation projects in the City of Phoenix, including many light rail transit projects.

In August 2023, Governor Hobbs signed the enabling legislation passed by the legislature that will allow the extension of Proposition 400 (Prop 400E) to go to Maricopa County voters in fall 2024. After the previous Governor's veto and a record-setting legislative session, this is a noteworthy accomplishment. The version of Prop 400E that is going to voters is a compromise that does keep our bus, rail and paratransit services whole, allowing us to maintain service levels for our many riders, workers, students and families who rely on our system. If passed by the voters, the extension of Proposition 400 will provide the capacity for growth with a greater share of regional transportation sales tax revenues being dedicated to public transit (from 33.3% to 37%). The enabling legislation does, however, prohibit the regional transportation sales tax monies from being used on light rail and streetcar expansion projects. While this will present challenges for our planned light rail and streetcar extensions, including the current Capitol Extension alignment, we are committed to moving these projects forward with local and federal funding opportunities with our city and federal partners.

LOCAL ECONOMIC CONDITION AND OUTLOOK

VMR serves the cities of Phoenix, Tempe, Mesa and Chandler that are centrally located in Maricopa County, Arizona. These cities collectively encompass approximately 760 square miles. Together they form a significant portion of the greater metropolitan Phoenix area, which is the economic, political, and population center of Arizona.

The combined four cities have grown from 2.35 million residents in the year 2012 to 2.62 million residents in 2022, an increase of approximately 11.5% in the last ten years. The four cities' population represents over 58% of the total Maricopa County population. According to projections published in September 2023 by the University of Arizona, Economic and Business Research Center Greater Phoenix Economic Council, population in the region is projected to grow at 1.6% each year for the next three calendar years more than four times the national rate, growing from 5.13 million in 2023 to 5.37 million in 2026.

Despite significant increases in consumer price inflation in the Phoenix area as compared to the national average, economic projections for the Phoenix area remain optimistic. Projections published in September 2023 by the University of Arizona, Economic and Business Research Center indicate personal income for the Phoenix area is forecasted to increase by 6.6%, retail sales growth of 3.5% and non-farm employment of 2.3% in calendar year 2024. Residential permits are projected to continue to decrease by 8.8% over the same period.

Sales tax projections prepared by Arizona Department of Transportation forecast revenues to grow by 3.21% in fiscal year 2024.

FINANCIAL CONTROLS

Accounting and Administrative Controls

As previously noted, VMR's management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of VMR are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. VMR's internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a sub-recipient of federal financial assistance, VMR is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control structure is subject to periodic evaluation by management and by VMR's independent auditors. As part of VMR's Single Audit, tests were made of the internal control structure and of its compliance with applicable laws and regulations, including those related to federal awards.

Although this testing is limited in scope and is not sufficient to support an opinion on VMR's internal control system or its compliance with laws and regulations, the audit for the year ended June 30, 2023, disclosed no material internal control weaknesses or material violations of laws and regulations. The audit of VMR's compliance with requirements applicable to each major federal program and internal control over compliance resulted in an unmodified opinion of compliance and noted no material weaknesses in internal controls.

Budgetary Systems and Controls

The objective of the budgetary controls maintained by VMR is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Directors. The by-laws require a balanced budget to be adopted by the VMR Board each fiscal year. The level of budgetary control, i.e., the level at which expenditures cannot legally exceed appropriations, is the total operating budget. VMR maintains budgetary control by conducting monthly evaluations of expenditures against appropriations and through close monitoring of revenues. Encumbrance accounting is not utilized.

In addition to the annual budget, VMR also prepares a Five-Year Capital Program and Operating Forecast and the Transit Life Cycle Plan (TLCP) update. The five-year forecast uses the annual budget information as a base and extends it an additional four years to

provide information about the anticipated schedule, costs, and revenues. The TLCP outlines the sources and uses of funds for specific regionally supported planning and capital projects through fiscal year 2026.

For each major capital construction project, VMR regularly reports the project budget status showing by project element the budget amount versus actual expenditures, and forecasted cost at completion. Should anticipated contractual costs appear to exceed the Board approved project budget, VMR staff will seek Board action to adjust project scope or approve additional funding. During construction, significant issues are addressed in narrative reports included in the project progress report submitted to the Board on a quarterly basis.

Current Light Rail Passenger Operations

The total LRT System encompasses approximately 27.3 miles with the cities of Phoenix, Tempe, and Mesa sharing the responsibility for funding the operating and maintenance (O&M) costs. Costs are currently shared based on the proportion of track miles constructed within each city.

Current Streetcar Operation

The total Streetcar System encompasses 3 miles within the City of Tempe. City of Tempe is responsible for funding the operating and maintenance (O&M) costs.

MAJOR INITIATIVES – Design/Construction of Light Rail and Modern Streetcar

Northwest Extension-Phase II

The 1.6-mile Northwest Extension-Phase II will extend light rail west on Dunlap Avenue from 19th Avenue, north on 25th Avenue and across I-17 on Mountain View Road with a terminus on the west side of the freeway near the former Metrocenter Mall area. The project also includes three new stations, including the system's first elevated station, and a park-and-ride transit center. Valley Metro and City of Phoenix continue to provide direct financial assistance to locally owned, small businesses immediately adjacent to construction activities along the corridor with the Small Business Financial Assistance Program (SBFAP). The project is expected to open for revenue service in January 2024.

South Central/Downtown Hub Extension

The 5.5-mile South Central Light Rail Extension project will connect with the current light rail system in downtown Phoenix and operate south on Central avenue to Baseline road. The project will contain 8 stations and two park-and-rides. The South-Central corridor is one of the seven project areas identified by the U.S. Department of Transportation for inclusion in its Ladders of Opportunity Transportation Empowerment Pilot (LadderSTEP) program.

The LadderSTEP pilot program aims to build and restore connections, develop workforce capacity and catalyze neighborhood revitalization through planned transportation projects. Valley Metro and City of Phoenix continue to provide direct financial assistance to locally owned, small businesses immediately adjacent to construction activities along the corridor with the SBFAP. The project is expected to open for revenue service in 2025.

Capitol Extension

The Capitol Extension will connect the existing light rail system from downtown Phoenix to the Arizona State Capitol. The capitol extension was approved by the Phoenix City Council and the VMR Board in 2016. In August 2023, Governor Hobbs signed SB 1102, legislation that enables the extension of Proposition 400, the regional half-cent transportation sales tax, to be presented to voters in November 2024. SB 1102 also included language prohibiting the construction of the light rail adjacent to the State Capitol's legislative and executive buildings as previously approved. Valley Metro will work with the City of Phoenix, the Federal Transit Administration and the neighboring community to assess route alternatives and develop a locally preferred alternative that serves community goals and connects with the future I-10 West Light Rail Extension Project. The project team will present the proposed alternative route options for community input.

I-10 West Extension

In 2016, the Phoenix City Council and the Valley Metro Board of Directors approved a phased approach to what was then known as the Capitol/I-10 West Extension. Phase I, is now known as the Capitol Extension. Phase II, is now known as the I-10 West Extension. The I-10 West Extension is a 9.4-mile extension project that will connect the greater west valley with the current light rail system. The I-10 West Extension will extend light rail along I-10 to Desert Sky Transit Center. Valley Metro plans to begin preliminary engineering for the project in late 2023.

OTHER INFORMATION

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Valley Metro Rail, Inc. for its annual comprehensive financial report for the fiscal year ended June 30, 2022.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

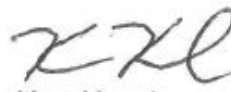
A Certificate of Achievement is valid for a period of one year only. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine eligibility for another certificate.

Acknowledgments

The preparation of this report could not have been accomplished without the dedicated service of VMR's Finance staff. Support provided by the Board of Directors is invaluable and appreciated.

Respectfully submitted,


Jessica Mefford-Miller
Chief Executive Officer


Ken Kessler
Chief Financial Officer

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Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Valley Metro Rail, Inc.
Arizona

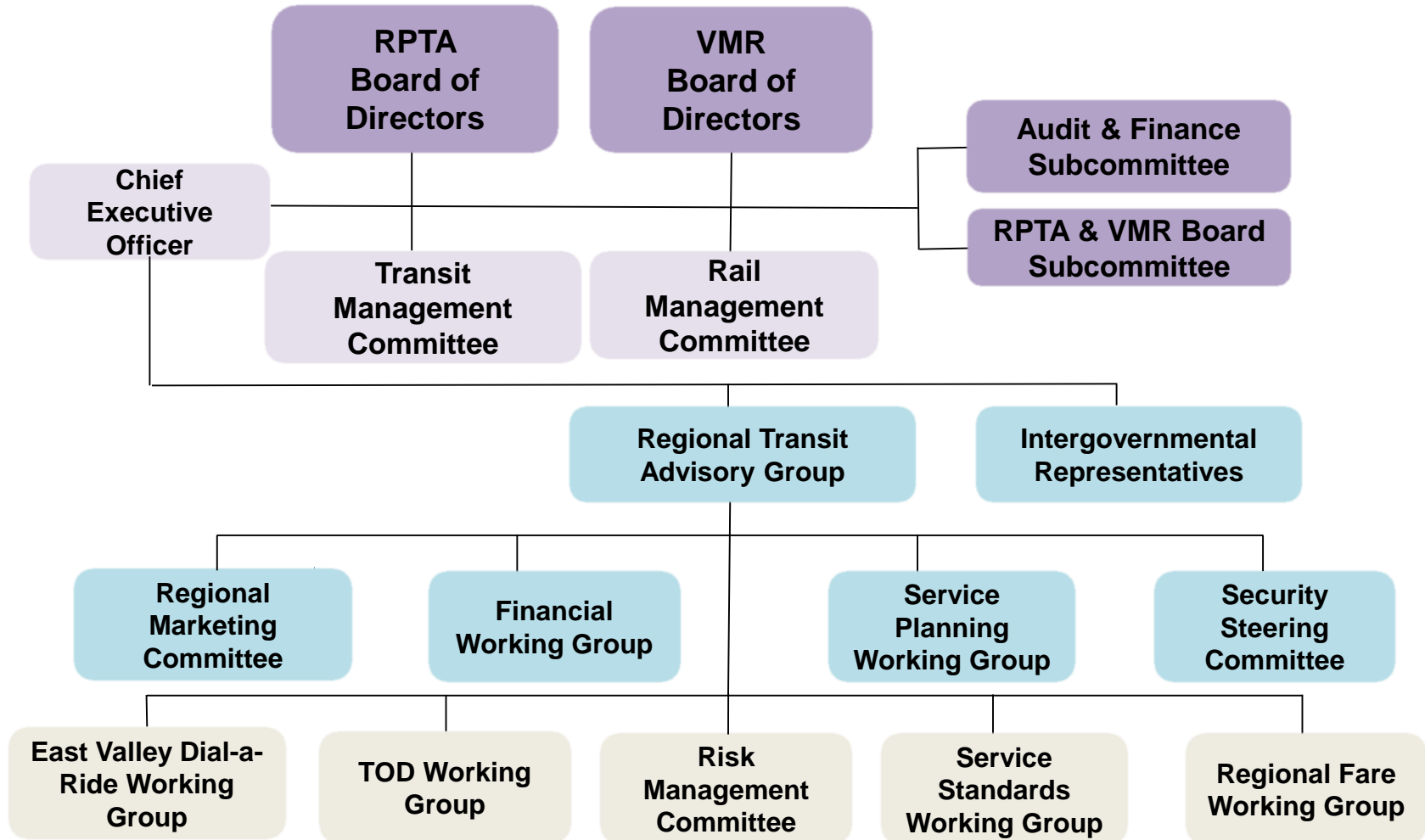
For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO

Valley Metro Organization



VALLEY METRO RAIL, INC.
List of Appointed Officials
Fiscal Year Ended June 30, 2023

Board of Directors

Board Chairman	Vice Mayor Jennifer Adams, Tempe
Vice Chairman	Vice Mayor Laura Pastor, Phoenix
Board Member	Vice Mayor Francisco Heredia, Mesa
Board Member	Councilmember O.D. Harris, Chandler

Executive Management Team

Chief Executive Officer	Jessica Mefford-Miller
Chief of Staff	Melissa Boyles
Director, Government Relations	Alexis Tameron Kinsey
Chief Legal Officer	Michael Wawro
Chief Administrative Officer	Jim Hillyard
Chief of Capital Development, Interim	Trevor Collon
Director, Communication and Strategic Initiatives	Hillary Foose
Director, Human Resources	Penny Lynch
Chief Financial Officer	Ken Kessler
Director, Safety, Security, and Quality Assurance	Adrian Ruiz
Chief Auditor	Sebrina Beckstrom
Chief Maintenance Officer	Darren Curry
Chief Transportation Officer	Mike Pal

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FINANCIAL SECTION

The Financial Section includes the Independent Auditor's Report, Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to the financial statements.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Valley Metro Rail, Inc.
Phoenix, Arizona

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Valley Metro Rail, Inc. (VMR), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise VMR's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Valley Metro Rail, Inc., as of June 30, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of VMR and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about VMR's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 VMR's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about VMR's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise VMR’s basic financial statements. The Schedule of Operations – Budget to Actual are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule of Operations – Budget to Actual is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and statistical section but does not include the basic financial statements and our auditors’ report thereon. Our opinion on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2023, on our consideration of VMR’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 VMR’s 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 VMR’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
November 13, 2023

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Phoenix Rising FC is the next Valley sports team to join Valley Metro as a Rail Ride partner. That means the fans win with every game by scoring a ride on Valley Metro with their match ticket. Phoenix Rising ticket holders may travel to matches on matchdays up to four (4) hours before the start time of the match until the end of the transit service day. Their digital ticket is valid light rail fare. This allows them to travel to restaurants and other destinations along the line before and after matches thanks to the Rail Ride partnership.

Valley Metro Rail, Inc.

Management's Discussion and Analysis

As management of Valley Metro Rail, Inc. (VMR), we offer this narrative overview and analysis of the financial activities of VMR for the fiscal year ended June 30, 2023. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i – vii of this report. This discussion and analysis is designed to (1) assist the reader in focusing on significant financial issues, (2) provide an overview of VMR's financial activity, (3) identify changes in VMR's financial position, (4) identify any material deviations from the financial plan (adopted annual budget), and (5) identify other issues or concerns.

Financial Highlights

- Passenger fare Revenues increased by \$1.7 million as a result of increases to ridership and front-door boarding and full fare inspection on light rail vehicles during the entire fiscal year 2023. In fiscal year 2022, rear-door boarding and limited fare inspection occurred from July of 2021 through September of 2021 in an effort to protect passengers from COVID-19. Full fare inspection did not resume until October of 2021. As a result fare collections were reduced in the first quarter of 2022 compared to the prior year.
- Passenger operations service expenses increased by \$11.7 million as a result of increases in liability insurance costs and contractual service costs and a full year of streetcar operations as compared to two (2) months in the prior year.
- Four (4) new light rail vehicles were conditionally accepted from the supplier. As a result a \$20.6 million transfer of non-depreciable assets - construction in progress to depreciable assets - revenue vehicles was recorded.
- Ongoing costs for the Northwest Extension-Phase II and South Central Extension/Downtown Hub rail expansion projects resulted in an increase of \$301.5 million to non-depreciable assets - construction in progress. Funding required to support these two capital projects was received from the City of Phoenix, Public Transportation Funding, and from the U.S. Department of Transportation are reported as capital contributions.
- Cash and cash equivalents decreased by \$110.0 million primarily as a result of the costs associated with the Northwest Extension-Phase II and South Central Extension/Downtown Hub rail expansion projects.
- Unearned revenues decreased by \$130.3 million as advance funding received from the City of Phoenix for capital projects was recognized as capital contributions from member cities for the local match obligation of the capital projects resulting in a decrease in the unearned revenue compared to the prior year fiscal year.
- VMR received \$37.2 million in federal support for rail operations reported as non operating receipts of federal grant funding from the American Rescue Plan Act (ARP) to support ongoing eligible Rail Operations costs and lost revenue associated with the COVID-19 pandemic.
- The Small Business Financial Assistance Program (SBFAP) along the South Central Extension/ Downtown Hub and Northwest Extension Phase II light rail projects continues to deliver grants to small, locally-owned businesses along those corridors. These grants support small businesses during construction and lay the groundwork for their continued success during future operations. Valley Metro spent \$0.6 on this program and transit oriented development during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

VMR's financial statements are presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). GAAP requires that the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A). The financial section of the Annual Comprehensive Financial Report for VMR consists of this discussion and analysis and the basic financial statements. This report also contains other supplementary schedules presented after the basic financial statements. VMR's basic financial statements include a statement of net position; a statement of revenues, expenses and changes in net position; a statement of cash flows; and the notes to the financial statements. VMR's financial statements are prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board (GASB).

Fund Financial Statements – VMR is presented as an enterprise fund. Enterprise funds are used for activities that primarily serve customers outside the governmental unit. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or conditions. Funds are used to ensure and demonstrate compliance with finance-related legal requirements as well as for managerial control to demonstrate fiduciary responsibility over the assets of VMR.

The statement of net position presents information on all of VMR's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of VMR is improving or deteriorating.

The statement of revenues, expenses and changes in fund net position presents information showing how the agency's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected grant revenues).

Notes to the Financial Statements – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements and should be read with the financial statements. The notes can be found beginning on page 17.

Enterprise Operations – VMR was formed in October 2002 by the cities of Glendale, Mesa, Phoenix and Tempe as a public nonprofit corporation to manage design, construction and operation of the Light Rail Transit (LRT) System within the metropolitan area. The City of Chandler became the fifth contributing member in April of 2007. During Fiscal Year 2020 the City of Glendale elected to discontinue its membership in VMR reducing the total member cities from five to four. The member cities pay for their share of VMR's operating expenses based on expense allocation methods approved in the by-laws of VMR. See Note 1 for a summary of VMR's significant accounting policies.

FINANCIAL ANALYSIS OF VMR

The following tables and analysis discuss the financial position and changes to the financial position for VMR as a whole as of and for the year ended June 30, 2023, with comparative information for the previous period.

Net Position – Net position may serve over time as a useful indicator of VMR's financial position. The following table reflects the condensed Statement of Net Position as of June 30, 2023, compared to the prior period.

VMR's Condensed Statement of Net Position
As of June 30, 2023 and 2022
(in thousands of dollars)

	2023	2022	Change	Percent Change
Current and other assets	\$ 318,950	\$ 384,466	\$ (65,516)	(17.0)%
Noncurrent assets				
Lease receivable	2,397	—	2,397	100.0 %
Capital Assets, not being depreciated	1,050,075	765,008	285,067	37.3 %
Capital Assets, net of accumulated depreciation	1,450,578	1,496,016	(45,438)	(3.0)%
Leased Assets, net of accumulated amortization	15,406	17,474	(2,068)	(11.8)%
Total assets	<u>2,837,406</u>	<u>2,662,964</u>	<u>174,442</u>	<u>6.6 %</u>
Current Liabilities	176,386	101,690	74,696	73.5 %
Noncurrent Liabilities	125,879	280,098	(154,219)	(55.1)%
Total liabilities	<u>302,265</u>	<u>381,788</u>	<u>(79,523)</u>	<u>(20.8)%</u>
Deferred inflows of resources	3,548	—	3,548	100.0 %
Net Investment in Capital Assets	2,498,919	2,254,849	244,070	10.8 %
Unrestricted	32,674	26,762	5,912	22.1 %
Total Net Position	<u><u>\$ 2,531,593</u></u>	<u><u>\$ 2,281,611</u></u>	<u><u>\$ 249,982</u></u>	<u><u>11.0 %</u></u>

Total net position represents the sum of VMR's unrestricted net position plus net investment in capital assets. The largest portions of the Net Investment in Capital Assets are the light rail system capital assets. It is not VMR's intention to sell these assets and they are therefore not available for future spending. In FY 2023 net position increased \$250.0 million largely due to the addition of the construction in progress for South Central/Downtown Hub Extension (\$177.0 million), Northwest Extension-Phase II (\$121.2 million). These increases were offset by depreciation expenses of \$66.6 million.

There was a 17.0% or \$65.5 million decrease in current and other assets. The largest changes were a decrease in cash and cash equivalents of \$109.6 million and an increase in due from other governments of \$40.0 million. Cash and cash equivalents decreased as primarily as a result of cash outflows for costs of the Northwest Extension-Phase II and South Central Extension/Downtown Hub rail expansion projects. The increase in due from other governments is primarily due to changes compared to the prior year of a \$55.2 million decrease in the amount of federal monies due from City of Phoenix for federally reimbursable costs at June 30, 2023 compared to the prior year, a \$80.0 million increase in public transportation funding due from Regional Public Transportation Authority(RPTA), and a \$14.2 million increase in the amount due from City of Tempe for light rail and street car funding. The increase in public transportation funding due from RPTA was primarily

caused by an increase in PTF owed for the local match contribution on South Central Extension/Downtown Hub.

There was a 10.5% or \$239.5 million increase in noncurrent assets. The largest changes were a \$285.1 million increase in capital assets, not being depreciated and a \$45.4 million decrease in capital assets, net of accumulated depreciation. The increase in construction in progress included capital costs for Northwest Extension-Phase II and South Central Extension/Downtown Hub rail expansion projects capitalized as construction in progress as the two projects were not completed at June 30, 2023. The changes in construction in progress also included capital costs associated with four (4) new light rail vehicles that were conditionally accepted from the supplier and were transferred from non-depreciable assets - construction in progress to depreciable assets - revenue vehicles. The \$45.4 million decrease in capital assets, net of accumulated depreciation, is the net of capital additions, changes in accumulated depreciation, and asset disposals, see Note 5 - Capital Assets for additional details.

There was a 73.5% or \$74.7 million increase in current liabilities primarily caused by unearned revenues reported as a current liability instead of a non-current liability as it was in fiscal year 2022. Unearned revenues decreased by \$130.3 million as advance funding received from the City of Phoenix for capital projects was recognized as capital contributions from member cities for the local match obligation of the capital projects and as a decrease in the unearned revenue. The remaining balance is expected to be used as the local match obligation on the South Central Extension/Downtown Hub project.

There was a 55.1% or \$154.2 million decrease in noncurrent liabilities primarily caused by changes to due to other governments. Due to other governments increased by \$58.3 million because of advance funding received from City of Phoenix assisting in the financing of the South Central Extension/Downtown Hub rail expansion project.

CHANGES IN NET POSITION

The following table compares the changes in net position, revenues and expenses, of VMR for the current fiscal year and the previous period.

VMR's Changes in Net Position
Fiscal year ended June 30, 2023 and 2022
(in thousands of dollars)

	2023	2022	Change	Percent Change
Operating Revenues:				
Passenger Fares	\$ 6,904	\$ 5,158	\$ 1,746	33.9 %
Regional Capital Rebuild Revenue	1,552	3,104	(1,552)	(50.0)%
Other Revenues	1,061	1,150	(89)	(7.7)%
Operating Revenues	<u>9,517</u>	<u>9,412</u>	<u>105</u>	<u>1.1 %</u>
Operating Expenses:				
Administrative	3,441	3,746	(305)	(8.1)%
Passenger Operations Service	66,093	54,396	11,697	21.5 %
Regional Capital Rebuild Program	3,090	5,208	(2,118)	(40.7)%
Depreciation	66,618	61,408	5,210	8.5 %
Lease amortization	1,926	1,939	(13)	(0.7)%
Operating expenses	<u>141,168</u>	<u>126,697</u>	<u>14,471</u>	<u>11.4 %</u>
Operating Loss	(131,651)	(117,285)	(14,366)	12.2 %
Non-operating revenues (expense)	54,244	41,548	12,696	30.6 %
Deficiency before Capital Contributions	<u>(77,407)</u>	<u>(75,737)</u>	<u>(1,670)</u>	<u>2.2 %</u>
Capital Contributions	327,389	377,782	(50,393)	(13.3)%
Increase in Net Position	<u>249,982</u>	<u>302,045</u>	<u>(52,063)</u>	<u>(17.2)%</u>
Net Position, July 1	<u>2,281,611</u>	<u>1,979,566</u>	<u>302,045</u>	<u>15.3 %</u>
Net Position, June 30	<u>\$ 2,531,593</u>	<u>\$ 2,281,611</u>	<u>\$ 249,982</u>	<u>11.0 %</u>

Total operating revenues increased by \$0.1 million, or 1.1% primarily as a result of changes in passenger fare and regional capital rebuild revenues. Passenger fare revenues increased by \$1.7 million or 33.9% as a result of increases to ridership and front-door boarding and full fare inspection on light rail vehicles during the entire fiscal year 2023. In fiscal year 2022, rear-door boarding and limited fare inspection occurred from July of 2021 through September of 2021 in an effort to protect passengers from COVID-19. Full fare inspection did not resume until October of 2021. As a result fare collections were reduced in the first quarter of 2022. Regional capital rebuild revenues decreased as a result of decreases in regional capital rebuild expenses caused by deferring capital projects scheduled in fiscal year 2023 to fiscal year 2024.

Operating expenses increased by \$14.5 million or 11.4% primarily as a result of changes in passenger operations service, regional capital rebuild program, and depreciation expenses. Passenger operations service expenses increased by \$11.7 million as a result of increases in liability insurance costs and contractual service costs and a full year of streetcar operations as compared to

two (2) months in the prior year. The regional capital rebuild program expenses decreased by \$2.1 million as a result of deferring capital projects scheduled in fiscal year 2023 to fiscal year 2024. Depreciation expense increased by \$5.2 million primarily as a result of two items 1) depreciation on current year asset additions and 2) a full year of depreciation on the Tempe Streetcar and 5 light rail vehicles added last year. The assets only received a partial year of depreciation in the previous fiscal year as they were placed into service during the year.

Non-operating revenues and expenses increased by \$12.7 million or 30.6% primarily as a result of changes to contributions from member cities, public transportation funds(PTF), receipts from federal grants, and concurrent non project activities(CNPA). Contributions from member cities increased by \$18.1 million or 65.3% primarily as a result of increased contributions for rail and streetcar operations and security and member funded concurrent non project activities. Compared to the prior year member contributions increased by \$6.7 million for rail and streetcar operations and security due to increased liability insurance and contractual services costs and costs for a full year of streetcar operations as compared to two (2) months in the prior year. Contribution from members to fund CNPA expenses increased by \$9.3 million as a result of new City of Phoenix funded CNPA projects during construction of the South Central Extension/Downtown Hub project. PTF increased by \$3.3 million or 28.3% as a result of increases in PTF reimbursable expenses for system wide improvement projects, CNPA projects during construction of the South Central Extension/Downtown Hub project, and a decrease in PTF reimbursable expenses for future project planning. Receipts from federal grants increased by \$3.5 million or 9.6%. The change was primarily the result of a \$2.7 million increase in federal support from the American Rescue Plan Act to support ongoing eligible Rail Operations costs and lost revenue associated with the COVID-19 pandemic and a \$0.7 million increase in federal support for future project development. CNPA costs increased by \$9.2 million or 131.2% as a result of an increase in CNPA costs during construction of South Central Extension/Downtown Hub project because of new CNPA projects and decrease in CNPA costs for Northwest Extension-Phase II as CNPAs projects occurring last fiscal year were completed.

Capital contributions totaling \$327.4 million major components include Federal Transit Administration (FTA) capital grants of \$121.1 million, public transportation funds of \$95.7 million and capital member contributions of \$110.1 million. FTA capital grants was used to reimburse eligible costs associated with capital projects (Northwest Extension-Phase II, South Central Extension/Downtown Hub, Tempe Streetcar), rail and streetcar vehicle acquisition costs, and state of good repair activities projects. Public transportation funding was used to reimburse costs of capital projects (Northwest Extension-Phase II, South Central Extension/Downtown Hub, Tempe Streetcar, OMC Expansion), rail and streetcar vehicle acquisition costs, and provide funding for the final debt service payment of the advance bond proceeds. Member city capital contributions included funding from City of Phoenix for Northwest Extension-Phase II and South Central Extension/Downtown Hub projects and funding from City of Mesa for milestone payments on rail vehicles purchased as part of the Gilbert Road Extension project.

CAPITAL ASSETS AND LONG TERM DEBT**Capital Assets:**

The following table provides a breakdown of capital assets of VMR at June 30, 2023, with comparative information for the previous period. Additional information on VMR's capital assets may be found in Note 5.

VMR's Capital Assets, Net of Depreciation or Amortization
As of June 30, 2023 and 2022
(in thousands of dollars)

	2023	2022	Change	Percent Change
Buildings	\$ 61,726	\$ 64,289	\$ (2,563)	(4.0)%
Prefabricated Buildings	39	—	39	100.0 %
Guideway	746,461	765,550	(19,089)	(2.5)%
Bridges	31,783	33,834	(2,051)	(6.1)%
Operation Control Center	6,973	7,410	(437)	(5.9)%
Passenger Stations and Facilities	108,947	114,586	(5,639)	(4.9)%
Park and Ride Facilities	7,500	10,819	(3,319)	(30.7)%
Bus Shelter	180	257	(77)	(30.0)%
Electric Power Substations	189,857	200,705	(10,848)	(5.4)%
Signal and Communication System	82,373	89,760	(7,387)	(8.2)%
Computers and Software	31	53	(22)	(41.5)%
Revenue Vehicles	165,170	155,722	9,448	6.1 %
Non-Revenue Vehicles	680	501	179	35.7 %
Site Improvements	38,509	40,545	(2,036)	(5.0)%
Tenant Improvements	121	164	(43)	(26.2)%
Equipment	10,228	11,821	(1,593)	(13.5)%
Construction in Progress	1,050,075	765,008	285,067	37.3 %
Leased Asset - Buildings	15,406	16,993	-1,587	(9.3)%
Net Capital Assets	<u>\$ 2,516,059</u>	<u>\$ 2,278,017</u>	<u>\$ 238,042</u>	<u>10.4 %</u>

As of June 30, 2023, VMR had \$2.5 billion in capital assets, net of accumulated depreciation and amortization. Asset categories decreased as a result of annual depreciation, additional information about useful lives can be found in Note 1 - Summary of Significant Accounting Policies and a schedule of changes to accumulated depreciation can be found in Note 5 - Capital Assets. There was also a \$20.6 million transfer of non-depreciable assets - construction in progress to depreciable assets - revenue vehicles as four (4) new light rail vehicles were conditionally accepted from the supplier. Construction in progress had a net change of \$285.1 million primarily as a result of ongoing costs for the Northwest Extension-Phase II and South Central Extension/Downtown Hub rail expansion projects. Refer to Note 5 - Capital Assets for more information regarding the capital assets.

Long Term Debt:

In April 2015, the VMR and RPTA Boards amended the interagency LRT Program Agreement whereby RPTA holds an interagency receivable for PTF bond proceeds advanced to VMR to fund LRT capital projects. In FY 2023, the final payment of \$3.9 million due for the PTF Advance Bond Proceeds occurred. See Note 10 - Due to RPTA PTF Advance Bond Proceeds for details.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

VMR's adopted fiscal year 2024 capital budget is \$340.0 million, down \$183.5 million from fiscal year 2023's adopted budget. The primary causes for the decrease are a \$89.1 million decrease in budgeted South Central Extension/Downtown Hub construction in fiscal year 2024 and \$97.6 million decrease in budgeted costs for Northwest Extension Phase II as the project is winding down construction activity with revenue service planned for January 2024. Background on the capital projects may be found in the Statistical Section commencing on page 41.

On the operating side, VMR's FY 2024 budget is 89.0 million, up \$9.9 million versus FY 2023 adopted budget. Revenue operations costs are up \$5.9 million to \$72.5 million in FY 2024 mainly due to Northwest Extension II revenue operations beginning in January 2024, combined with contractual and personnel increases related to labor market challenges. Security is \$13.2 million, up \$2.9 million primarily due to Northwest Extension II service operating for half a year and annual contractual increases with the contractor providing security and fare inspection services.

**Comparison of Annual Expenditure Budgets
Fiscal Year 2024 vs. 2023**

<u>Uses of Funds</u>	<u>FY 2024 Adopted (\$,000)</u>	<u>FY 2023 Adopted (\$,000)</u>	<u>Change (\$,000)</u>
Operating			
Revenue Light Rail Operations & Maintenance	\$ 66,233	\$ 60,788	\$ 5,445
Revenue Streetcar Operations & Maintenance	6,263	5,821	442
Light Rail Security	12,224	9,342	2,882
Streetcar Security	1,007	966	41
Agency Operating	3,304	2,234	1,070
Total Operating	<u>89,031</u>	<u>79,151</u>	<u>9,880</u>
Future Project Development	\$ 19,092	\$ 15,107	\$ 3,985
South Central	224,132	313,260	(89,128)
Northwest Phase II	55,905	153,482	(97,577)
Tempe Streetcar	100	10,619	(10,519)
Gilbert Road Extension	1,315	2,027	(712)
Capitol Extension	12,898	—	12,898
OMC Expansion	—	1,090	(1,090)
Systemwide Improvements	9,385	12,890	(3,505)
State of Good Repair	\$ 17,192	\$ 15,074	\$ 2,118
Total Capital	<u>340,019</u>	<u>523,549</u>	<u>(183,530)</u>
Total Uses of Funds	<u>\$ 429,050</u>	<u>\$ 602,700</u>	<u>\$ (173,650)</u>

FINANCIAL CONTACT

The financial report is designed to provide a general overview of VMR's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to Valley Metro's Chief Financial Officer, Valley Metro Rail, Inc., 101 North 1st Avenue, Suite 1400, Phoenix, Arizona 85003.



Valley Metro riders now have a new, easy way to pay with the addition of mobile fare! Mobile fare is now available in the Valley Metro app. To access mobile fare, customers need to download the Valley Metro app and create an account with a valid email address. Riders can purchase passes by adding a payment method, including Apple and Google pay options. The 1-Ride and 1-Day passes are available for both full and reduced fare. The pass must be scanned when entering the bus or at the light rail platform to be activated. Only activated passes serve as valid fare.

Valley Metro Rail, Inc.
Statement of Net Position
June 30, 2023
(in thousands of dollars)

Assets

Current Assets:

Cash and Investments	\$ 16,174
Receivables	188
Due from Other Governments	272,167
Inventory	26,089
Lease receivable	1,161
Lease interest receivable	1
Other Assets	3,170
Total Current Assets	<u>318,950</u>

Noncurrent Assets:

Lease receivable	2,397
Capital Assets, not being depreciated	1,050,075
Capital Assets, net of accumulated depreciation	1,450,578
Leased Assets, net of accumulated amortization	15,406
Total Noncurrent Assets	<u>2,518,456</u>

Total Assets 2,837,406

Liabilities

Current Liabilities:

Accounts Payable	52,050
Lease Liability	1,814
Insurance Reserves	976
Due to Other Governments	22,764
Member Cities Deposits	18,513
Lease Interest Payable	18
Unearned Revenue	80,251
Total Current Liabilities	<u>176,386</u>

Noncurrent Liabilities:

Due to Other Governments	111,905
Lease Liability	13,974
Total Noncurrent Liabilities	<u>125,879</u>

Total Liabilities 302,265

Deferred inflows of resources

Deferred Inflows Related to Leases 3,548

Net Position

Net Investment in Capital Assets	2,498,919
Unrestricted	32,674
Total Net Position	<u>\$ 2,531,593</u>

The accompanying notes to the financial statements are an integral part of this statement.

Valley Metro Rail, Inc.

Statement of Revenues, Expenses, and Changes in Fund Net Position

Fiscal Year Ended June 30, 2023

*(in thousands of dollars)***Operating Revenues:**

Passenger Fares	\$	6,904
Regional Capital Rebuild Revenue		1,552
Other Revenues		1,061
Total Operating Revenues		<u>9,517</u>

Operating Expenses:

Administrative		3,441
Passenger Operations Service		66,093
Regional Capital Rebuild Program		3,090
Depreciation		66,618
Lease Amortization		1,926
Total Operating Expenses		<u>141,168</u>

Operating Income (Loss)(131,651)**Non-Operating Revenue / (Expense):**

Contributions from Member Cities		45,773
Public Transportation Funds		14,943
Receipts from Federal Grants		39,763
Other Planning Revenues		1,000
Future Project Development		(8,873)
Private Utilities Relocations		(10,079)
Small Business Assistance Program and Transit Oriented Development		(551)
Capital Conveyance to Member Cities		(5,218)
Capital Conveyance to RPTA		(3,911)
Contribution to RPTA		(722)
Concurrent Non Project Activities		(16,291)
Lease Income		10
Lease Interest Income		1
PTF Interest Expense		(1,331)
Gain (loss) on Disposal of Capital Assets		135
Impairment Loss of Capital Assets		(655)
Other Non-Operating Revenues		250
Total Non-Operating Revenues/ (Expense)		<u>54,244</u>

Deficiency Revenues under Expenses(77,407)**Capital Contributions:**

Capital Contributions from Member Cities		110,124
Public Transportation Funds Capital		95,744
Federal Transit Administration Capital Grants		121,149
Other Capital Contributions		372
Total Capital Contributions		<u>327,389</u>

Changes in Net Position

249,982

Net Position, Beginning of Period2,281,611**Net Position, End of Period**\$ 2,531,593

The accompanying notes to the financial statements are an integral part of this statement.

Valley Metro Rail, Inc.
Statement of Cash Flows
Fiscal Year Ended June 30, 2023
(in thousands of dollars)

Cash Flows from Operating Activities

Receipts from Fare Revenues	\$ 6,988
Receipts from Regional Capital Rebuild Program	1,552
Other Revenues	669
Payments for Payroll Related Expenses	(25,109)
Payments to Suppliers	(56,866)
Net Cash Provided by Operating Activities	<u>(72,766)</u>

Cash Flows from Non-Capital Financing Activities

Receipts from Member Cities	39,686
Receipts from Regional Public Transportation Authority	19,035
Receipts from Federal Non-Capital Grants	47,807
Receipts from Maricopa Association of Governments	645
Payments for Concurrent Non Project Activities	(16,991)
Payments for Future Project Development	(6,662)
Payments for Small Business Assistance and Transit Oriented Development	(893)
Payments for Private Utility Relocations	(3,096)
Capital Conveyance to Member Cities	(5,218)
Capital Conveyance to RPTA	(4,962)
Contributions to RPTA	(722)
Net Cash Used in Non-Capital Financing Activities	<u>68,629</u>

Cash Flows from Capital and Related Financing Activities

Capital Contributions from Member Cities	103,338
Receipts from FTA Capital Grants	175,243
Receipts from Regional PTF for Capital	34,090
South Central Extension Advance Funding Obligation	58,954
Payments for Capital Assets	(476,542)
(Payments) Receipts on Leases or SBITAs	(945)
Net Cash Provided by Capital and Related Financing Activities	<u>(105,862)</u>

Net Decrease in Cash and Cash Equivalents

(109,999)

Cash and Cash Equivalents, Beginning of Year

126,173

Cash and Cash Equivalents, End of Year

\$ 16,174

Cash and Cash Equivalents

Cash and Investments \$ 16,174

Restricted Cash and Investments —

Total Cash and Cash Equivalents

\$ 16,174

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities

Operating Loss \$ (131,651)

Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:

Depreciation 66,618

Lease Amortization 1,926

Valley Metro Rail, Inc.

Statement of Cash Flows (Concluded)

Fiscal Year Ended June 30, 2023

(in thousands of dollars)

Lease interest expense recorded in operating expenses	125
Contribution from RPTA recorded in operating revenues	(316)
(Increase) Decrease in Assets:	
Accounts Receivable	71
Due from Other Governments	(17,868)
Inventory	(2,783)
Other Assets	(198)
Increase (Decrease) in Liabilities	
Accounts Payable	(1,244)
Due to Other Governments	12,500
Insurance Reserves	54
Net Cash Provided by Operating Activities	<u>\$ (72,766)</u>
 Noncash Transactions affecting Financial Position	
Capital Contributions from Member Cities	\$ 16,001
Capital Conveyance removed from Construction in Progress	(4,504)
Advance PTF Revenue and Bond interest payment	5,245

The accompanying notes to the financial statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

The accounting policies of Valley Metro Rail, Inc. (VMR) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

For the year ended June 30, 2023, VMR implemented the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, which (1) defines a subscription-based information technology arrangement (SBITA); (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Due to the contractual agreement with the Regional Public Transportation Authority (RPTA) as described in Note 1a, VMR and RPTA have joint agreements with various vendors that include SBITAs. These arrangements are funded by both entities based on usage. All assets and liabilities related to joint SBITAs agreements are recorded in RPTA's financial statements while VMR records contributions toward the subscription payments only. Total amounts for subscription and lease payments are classified as Contribution to RPTA on VMR's financial statements as a result of the implementation of this new standard.

All GASB issued statements that had an effective date for implementation for the year ended June 30, 2023 were considered in the preparation of the financial statements; however, there were no additional GASB statements that impacted the financial statements or presentation for the fiscal year ended June 30, 2023.

a. Financial Reporting Entity

In October 2002, the city councils of Glendale, Mesa, Phoenix and Tempe approved the formation of a government entity with a nonprofit status by the name of Valley Metro Rail, Inc. The nonprofit corporation was organized under A.R.S. 11-952 and 40-1152. The initial members entered into a Joint Powers Agreement which provides that this corporation be organized as the instrumentality to plan, design, construct, and operate the Light Rail Transit Project ("LRT"). Prior to October 2002, the Regional Public Transportation Authority (RPTA) performed these roles.

VMR contracts with the RPTA for certain administrative functions, including personnel, HR administration, and computer support services. All VMR staff is hired and employed by RPTA but works solely under the direction of Valley Metro Rail, Inc., and its Board of Directors, through a contractual arrangement with RPTA.

The Board of Directors of VMR is solely responsible for the governance of LRT and VMR is not a component unit of RPTA; economic resources received by VMR are entirely for the direct benefit of VMR, and RPTA is not entitled to and has no ability to otherwise access any of the economic resources received or held by VMR.

b. Financial Statements

These financial statements are presented in accordance with Government Accounting Standards Board (GASB) and all applicable GASB Statements. VMR is engaged only in business-type activities and is required to present the financial statements required for enterprise funds which are part of proprietary funds. VMR does not report any component units.

c. Basis of Presentation

Proprietary funds account for activities of VMR similar to those found in the private sector, where cost recovery and the determination of net income is useful or necessary for sound fiscal management. The focus of proprietary fund measurement is upon the determination of operating income, changes in net position, financial position and cash flows. Currently, the VMR is classified as a stand-alone Enterprise fund.

d. Measurement Focus and Basis of Accounting

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position are reported using the flow of economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency, which may result in disallowance in subsequent periods.

All of VMR's activities are accounted for in a single proprietary or business-type fund. Proprietary funds distinguish operating revenues and expenses from non-operating items and capital contributions. Operating revenues and expenses generally result from providing services and producing and delivering goods in connecting with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as either non-operating revenues and expenses or capital contributions.

e. Cash and Investments

State statutes authorize VMR to invest in obligations of the U.S. Treasury and any of its agencies, corporations or instrumentalities, collateralized repurchase agreements, certificates of deposit, and the Local Government Investment Pool. VMR's investments are stated at fair value. Fair value is based on quoted market prices as of the valuation date.

VMR considers short-term investments in mutual fund-money markets, U.S. Treasury bills and notes with maturities of three months or less at acquisition date to be cash equivalents.

f. Receivables

Management analyzes receivables periodically to determine the adequacy of the allowance for doubtful accounts. There is no current provision required for possible bad debts.

g. Inventory

Inventories consist of expendable supplies held for consumption. Inventories are valued at cost using the average cost method. Inventories are expensed when the resources are used.

h. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaids are recorded as assets and the expense is recognized when the assets are consumed or used. The prepaid items are included in Other Assets on the Statement of Net Position.

i. Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year.

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2023

Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

VMR capitalizes all costs incurred in connection with the construction of capital projects. The costs for the non-federal agency operating, Rail Operations, and the LRV Regional Capital Rebuild program (considered maintenance for capitalization purposes) costs are recorded as annual operating expenses.

VMR is not the legal owner of any land. The land required for the LRT system is acquired and owned by the Member Cities and is the subject of a long-term use agreement between each City and VMR. Land, subject to the above agreement, is recorded on the books of member cities. If a member city submits a reimbursement for real estate purchases, the cost is paid to the city through federal and regional sources. At fiscal year end, the cost is removed from the books and “conveyed” back to the member city.

The costs included as construction in progress consist primarily of project administration, engineering, construction management, facility construction, equipment procurement, and other costs related to construction. No depreciation is provided on construction in progress until construction is completed and the assets are placed in service.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Useful Life (Years)</u>
Buildings	40
Prefabricated Buildings	10
Guideway	50
Bridges	30
Operation Control Center	30
Passenger Stations and Facilities	15-30
Park and Ride Facilities	15
Electric Power Substations	25
Signal and Communication System	10-20
Revenue Vehicles	25-30
Equipment	5-15
Furniture and Fixtures	7
Non-Revenue Vehicles	10
Computers and Software	3-10
Tenant Improvements	5-10
Site Improvements	5-10
Bus Shelter	10

j. Leases and Subscription-Based Information Technology Arrangements

Leases - As lessee, VMR recognizes lease liabilities with an initial, individual value of \$50,000 or more. VMR uses its estimated incremental borrowing rate to measure lease liabilities unless it can readily determine the interest rate implicit in the lease. VMR's estimated incremental

borrowing rate is based on historical yields obtained from the Municipal Bond Information Service for investment grade tax-exempt governmental bonds plus 75 basis points.

As lessor, VMR recognizes lease receivables with an initial, individual value of \$50,000 or more. If there is no stated rate in the lease contract (or if the stated rate is not the rate VMR charges the lessee) and the implicit rate cannot be determined, VMR uses its own estimated incremental borrowing rate as the discount rate to measure lease receivables. VMR's estimated incremental borrowing rate is calculated as described above.

Subscription-Based Information Technology Arrangements - VMR recognizes subscription liabilities with an initial, individual value of \$500,000 or more. VMR uses its estimated incremental borrowing rate to measure subscription liabilities unless it can readily determine the interest rate implicit in the lease. VMR's estimated incremental borrowing rate is calculated using the same methodology as leases as described above. Due to the contractual agreement with the Regional Public Transportation Authority (RPTA) as described in Note 1a, VMR and RPTA have joint agreements with various vendors that include SBITAs. These arrangements are funded by both entities based on usage. All assets and liabilities related to joint SBITAs agreements are recorded in RPTA's financial statements while VMR records contributions toward the subscription payments only. Total amounts for subscription and lease payments are classified as Contribution to RPTA on VMR's financial statements as a result of the implementation of this new standard.

k. Allocation of Costs to Member Cities

Design and construction costs for the Light Rail Extensions that comprise the System are allocated to the member cities as follows:

- i) Regional design and construction costs are allocated based upon the Design and Construction Miles percentage method as stated in the bylaws of the corporation. The components of the LRT that are currently classified as "regional" are light rail vehicles, the maintenance and storage facility, operations control center, bridge structures, and regional park-and-ride lots.
- ii) Local design and construction costs are allocated to the member cities within whose boundaries the LRT Component designed or constructed will be located. Design and construction costs that are not classified as regional are deemed to be local.
- iii) Design and construction costs for future LRT extensions are funded based upon Design and Construction Agreements which are executed in accordance with the adopted Regional Transit Life Cycle Plan (TLCP). Each construction project of a light rail extension has a different funding structure based on the TLCP. Under the Design and Construction project agreement for each extension, a Member City may be required to fund a local match as part of project funding, if the project is located within its jurisdiction. The remaining funding comes from Federal and regional monies.

If a member city's share of the LRT costs for a fiscal year is determined to be less than \$50,000, such member city's share of the LRT costs shall be \$50,000. The purpose of the Minimum Cost is so that all member cities will contribute to payment of the overhead expense of the Corporation for matters such as the cost of meetings of the Board of Directors, administrative support to the Board of Directors, and support to member cities by the Rail Program Staff.

Passenger Operations Service Expenses for Light Rail Operations are funded by the Member Cities according to the ratio of LRT route mileage currently in service. Costs related to fare inspection, on-board security and park-and-ride security are considered regional costs. Member Cities may also contribute amounts to fund local security within their respective jurisdictions.

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2023

Passenger Service Operations Expenses, including on board security, for Tempe StreetCar are funded by the City of Tempe.

I. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting financial period. Actual results could differ from these estimates.

m. Net Position

VMR's net position consists of unrestricted net position and net investment in capital assets. Net investment in capital assets, which is capital assets, net of related debt, is separately reported because capital assets make up a significant portion of net position.

2. Budgetary Basis of Accounting

An annual budget of revenues and expenses is prepared and adopted by the Board of Directors each fiscal year. According to the By-Laws of Valley Metro Rail, Inc. annual operating and capital budget is required. The legal level of budgetary control is the total annual appropriated budget. The annual budget is adopted on the accrual basis. Encumbrance accounting is not used and all appropriations lapse at year end. Depreciation expense and lease amortization expense are not included in the annual budget. Prior to final adoption, a proposed budget is presented to the Board of Directors for review and public comment is received. Final adoption of the budget must be on or before June 30 of each year.

A schedule of actual operating revenues and expenses versus original budget and final budget is presented as other supplementary information. See Page 31.

3. Cash and Investments

Cash deposits and investments at June 30, 2023, consisted of the following
(in thousands of dollars):

Cash on Hand and in Bank	\$	15,198
Insurance Trust Fund		976
Total Cash and Investments	<u>\$</u>	<u>16,174</u>

VMR has deployed Ticket Vending Machines (TVM's) which contain coin and bill vaults to accommodate the purchase of fares. At June 30, 2023, the total cash contained in the coin and bill vaults totaled \$192 thousand.

VMR's bank deposits at June 30, 2023, had a carrying value of \$15.0 million and the bank ledger balance was \$15.2 million. The difference of \$161 thousand represents deposits in transit and outstanding checks. Of the bank balance, \$750 thousand is covered by federal depository insurance and \$14.4 million is collateralized 102% by securities held by the pledging financial institution in VMR's name.

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2023

The Self Insurance Reserve Trust Account totaling \$976 thousand was covered by collateral held by the pledging financial institution in VMR's name. It is invested within Money Market Funds with Wells Fargo that are measured at amortized cost.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of bank failure VMR's deposits may not be returned. VMR does not have a deposit policy for custodial credit risk. All of VMR's bank deposits, except the restricted cash with bank, are in non-interest bearing accounts.

Interest Rate Risk – VMR's formal investment policy limits the type of investment as a means of managing its exposure to fair value losses arising from increasing interest rates. During FY 2023 all investment durations were shorter than 90 days.

Credit Risk – State Statutes and VMR's Investment Policy authorize VMR to invest in bank demand deposit accounts and obligations of the U.S. Treasury.

Concentration of Credit Risk – VMR's Investment Policy limits the total investments by type of account including, General Operating, Imprest Fund, Self-Insurance Reserve and TVM Credit Card. At June 30, 2023, VMR maintains all available cash in these accounts.

4. Accounts Receivable and Due From Other Governments

All receivable balances at June 30, 2023 are displayed on the financial statements and are expected to be collected in full; therefore, an allowance for uncollectibles has not been recorded.

Due from other governments consists of Federal receivables due from the City of Phoenix as Grantee of Federal Funds, PTF receivable due from Regional Public Transportation Authority (RPTA), project funding receivables due from cities of Mesa, Phoenix and Tempe and miscellaneous receivables due from Arizona State University and Maricopa Association of Governments (*in thousands of dollars*).

City of Phoenix (Grantee of Federal Funds)	\$	84,112
Public Transportation Funding		165,141
City of Mesa		47
City of Phoenix		8,629
City of Tempe		14,171
Arizona State University		12
Maricopa Association of Governments		55
Total Due from Other Governments	\$	<u>272,167</u>

Public Transportation Funding is discussed more fully in Note 16.

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2023

5. Capital and Lease Assets

Capital and lease asset and construction in progress activity for the year ended June 30, 2023 were as follows (in thousands of dollars):

	Balances, June 30, 2022	Increases	Decreases	Transfers and Adjustments	Balances, June 30, 2023
Nondepreciable assets:					
Construction in Progress	\$ 765,008	\$ 306,387	\$ (737)	\$ (20,583)	\$ 1,050,075
Depreciable/Amortizable assets:					
Buildings	102,532	—	—	—	102,532
Prefabricated Buildings	—	41	—	—	41
Guideway	954,445	—	—	—	954,445
Bridges	61,516	—	—	—	61,516
Operation Control Center	13,104	—	—	—	13,104
Passenger Stations and Facilities	169,020	—	—	—	169,020
Park and Ride Facilities	49,791	—	—	—	49,791
Bus Shelter	772	—	—	—	772
Electric Power Substations	271,211	—	—	—	271,211
Signal and Communication System	143,169	—	—	—	143,169
Computers and Software	2,071	7	(1,160)	—	918
Furniture and Fixtures	898	—	—	—	898
Revenue Vehicles	274,906	—	—	20,583	295,489
Non-Revenue Vehicles	4,078	452	—	—	4,530
Site Improvements	44,794	59	—	—	44,853
Tenant Improvements	342	—	—	—	342
Equipment	28,832	97	(1,405)	—	27,524
Right-To-Use Lease Assets - Buildings	19,413	—	—	(155)	19,258
Total depreciable/amortizable assets at historical cost	<u>2,140,894</u>	<u>656</u>	<u>(2,565)</u>	<u>20,428</u>	<u>2,159,413</u>
Less accumulated depreciation/amortization for:					
Buildings	(38,243)	(2,563)	—	—	(40,806)
Prefabricated Buildings	—	(2)	—	—	(2)
Guideway	(188,895)	(19,089)	—	—	(207,984)
Bridges	(27,682)	(2,051)	—	—	(29,733)
Operation Control Center	(5,694)	(437)	—	—	(6,131)
Passenger Stations and Facilities	(54,434)	(5,639)	—	—	(60,073)
Park and Ride Facilities	(38,972)	(3,319)	—	—	(42,291)
Bus Shelter	(515)	(77)	—	—	(592)
Electric Power Substations	(70,506)	(10,848)	—	—	(81,354)
Signal and Communication System	(53,409)	(7,387)	—	—	(60,796)
Computers and Software	(2,018)	(27)	1,158	—	(887)
Furniture and Fixtures	(898)	—	—	—	(898)
Revenue Vehicles	(119,184)	(11,135)	—	—	(130,319)
Non-Revenue Vehicles	(3,577)	(273)	—	—	(3,850)
Site Improvements	(4,249)	(2,095)	—	—	(6,344)
Tenant Improvements	(178)	(43)	—	—	(221)
Equipment	(17,011)	(1,632)	1,347	—	(17,296)
Right-To-Use Lease Assets - Buildings	(1,939)	(1,926)	—	13	(3,852)
Total accumulated depreciation/amortization	<u>(627,404)</u>	<u>(68,543)</u>	<u>2,505</u>	<u>13</u>	<u>(693,429)</u>
Total capital assets being depreciated/amortized	<u>1,513,490</u>	<u>(67,887)</u>	<u>(60)</u>	<u>20,441</u>	<u>1,465,984</u>
Business-type activities, capital assets, net	<u>\$ 2,278,498</u>	<u>\$ 238,500</u>	<u>\$ (797)</u>	<u>\$ (142)</u>	<u>\$ 2,516,059</u>

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2023

6. Member Cities' Deposits

The member cities advance monies to cover the cost of operations plus the federal and local share of project costs. In addition, unpaid expenses to be funded by member contributions are accrued for each city. A summary of member cities' deposits at June 30, 2023 follows (*in thousands of dollars*):

City of Chandler	\$	145
City of Glendale		142
City of Mesa		1,916
City of Peoria		37
City of Phoenix		11,202
City of Tempe		5,071
	\$	<u>18,513</u>

7. Leases

Valley Metro Rail, Inc. (VMR) has several leasing arrangements, summarized below.

Lessee activities

Beginning on July 1, 2014, VMR entered into a new contract to lease office space for a 12 year term which included 57,007 square feet of building space including parking. Further, beginning on December 1, 2017, VMR entered into a new contract to lease additional office space for the 14th Floor of the building for a 8.5 year term (with a five year extension option) which included 13,242 square feet of building space. The remaining liability for this lease is \$15.8 million as of June 30, 2023. Right to use assets, net of amortization for these leases is \$15.4 million as of June 30, 2023. Interest expense recognized on these leases was \$244 thousand for fiscal year ended June 30, 2023. Of the \$244 thousand in interest expense, \$125 thousand is recorded in Administrative expenses, \$59 thousand is recorded in Passenger Operations Service and \$60 thousand is recorded in Future Project Development. Principal payments totaling \$1.8 million were recognized in year ended June 30, 2023. Final payment on these leases is expected in fiscal year 2031.

Beginning on November 1, 2021, VMR and RPTA entered into a new contract to lease data center space for five years (with a three year extension option). This contract is funded by both VMR and RPTA. The asset and liability associated with this contract were recorded by both VMR and RPTA in fiscal year 2022. The asset and liability will be recorded by RPTA only, starting in fiscal year 2023 while VMR will continue to contribute a portion towards the lease payments. RPTA will record the full liability on its financial statements and record a lease contribution for VMR contribution toward payments. Therefore the beginning balances for this lease asset having an ending balance of \$142 thousand at June 30, 2022 and the beginning lease liability having an ending balance of \$144 thousand at June 30, 2022 have been reduced as shown in Note 5 and in table in the next page.

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2023

VMR's schedule of future payments included in the measurement of the lease liability is as follows (in thousands of dollars):

Fiscal Year ending June 30:	Principal	Interest	Total
2024	\$ 1,814	\$ 218	\$ 2,032
2025	1,877	190	2,067
2026	1,940	162	2,102
2027	1,972	134	2,106
2028	2,001	105	2,106
2029 - 2031	6,184	134	6,318
	<u>\$ 15,788</u>	<u>\$ 943</u>	<u>\$ 16,731</u>

Summary of Long-Term Lease Liability

	Balance July 1, 2022	Additions	Reductions	Transfers and Adjustments	Balance June 30, 2023	Due within 1 year
Lease payable - Buildings	<u>\$ 17,686</u>	<u>\$ —</u>	<u>\$ (1,754)</u>	<u>\$ (144)</u>	<u>\$ 15,788</u>	<u>\$ 1,814</u>

Starting in FY 22/23, Office Space and Parking was combined as these are both Building lease assets.

Lessor activities

Beginning on June 28, 2023, VMR, as a lessor, entered into a lease agreement involving advertisements on light rail vehicles and light rail stations that ends on June 30, 2026. The total amount of inflows of resources, including lease revenue, interest revenue, and other lease-related inflows, recognized during the fiscal year was \$3.6 million. The contract includes terms and conditions for variable payments that are not included in the measurement of the lease receivable. Per the contract, \$1.3 million will be paid to VMR annually or 65% of contractor's net advertising revenues, whichever is greater.

8. Subscription-Based Information Technology Arrangements

VMR and RPTA have entered into joint subscription-based information technology arrangements (SBITAs) involving:

- Office productivity software
- Access management security software
- Data visualization and business intelligence software
- Collaboration for chat, video conferencing, and file sharing software
- Email and calendaring for business communication software
- Diagramming and vector graphics software

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2023

- Workflow automation software
- Enterprise resource planning and human resources software that integrates finance, human resources, procurement, business processes
- Physical asset maintenance software
- Cybersecurity software
- Geographical information software

All assets and liabilities related to joint SBITA agreements are recorded in RPTA's financial statements while VMR records contributions toward the subscription payments only. Total amounts for subscription and lease payments are classified as Contribution to RPTA on VMR's financial statements and were \$722 thousand for the fiscal year 2023.

9. Due to Other Governments

As mentioned in Note 1, VMR contracts with RPTA for administrative functions, including personnel, HR administration, and computer support services. All VMR staff is hired and employed by RPTA but works solely under the direction of VMR and its Board of Directors through a contractual arrangement with RPTA. As of June 30, 2023, VMR owed RPTA \$2.9 million for payroll and fringe benefits and \$19.2 million to reimburse shared contractual services. Both amounts are expected to be repaid to RPTA next fiscal year.

The \$664 thousand due to City of Phoenix in current liabilities is mostly for reimbursement of city expenses related to the fare collection system modernization project. The \$18 thousand due to City and Mesa and the \$13 thousand due to City of Tempe are for quarterly station and vehicle advertising revenues.

On May 20, 2015, Valley Metro Rail entered into an agreement with the City of Phoenix for funding for the South Central Extension/Downtown Hub. The agreement was amended on January 6, 2021 for the City of Phoenix to provide advance Federal Transit Administration (FTA) funding to Valley Metro Rail. The terms specify the amount to advance in an amount not to exceed \$329.8 million. At June 30, 2023, the total amount due to City of Phoenix is \$110.6 million. This amount is due after the completion of the capital project (estimated completion year is 2024). There are no finance charges associated with the advance funding. For this agreement, VMR did not pledge assets as collateral for the debt. There are no terms specified in the agreement related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses.

The \$1.4 million due to the Federal Transit Administration is for insurance and disposal proceeds recognized prior to FY22 that may be applied to offset future federally eligible purchases. The fiscal year 2024 Board approved budget did not include usage of the disposal proceeds. Therefore, it is a noncurrent liability.

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2023

Total Due to Other Governments is as follows (*in thousands of dollars*):

Payroll and Fringe Benefits	\$ 2,894
Reimburse shared contractual services	19,175
Due to RPTA	<u>22,069</u>
Due to City of Phoenix	664
Due to City of Mesa	18
Due to City of Tempe	13
Total Due to Other Governments (Current Liabilities)	<u>\$ 22,764</u>
Due to City of Phoenix	\$ 110,553
Due to Federal Transit Administration	1,352
Total Due to Other Governments (Noncurrent Liabilities)	<u>\$ 111,905</u>

10. Due to RPTA PTF Advance Bond Proceeds

During FY15, VMR and RPTA Boards amended the inter-agency LRT Program Agreement, whereby RPTA held an inter-agency receivable from VMR for the advance of bond proceeds. In order to accelerate planning, design and construction of the Light Rail Capital Projects as identified in the Regional Transportation Plan, RPTA advanced bond proceeds prior to the collection of sales tax proceeds necessary to fund the debt service payments.

The inter-agency payable to RPTA of the Advance Bond Proceeds was paid from the collection of PTF Sales Taxes by RPTA on VMR's behalf. As the debt service payments were made, VMR recorded PTF revenue-capital contributions and reduced the note payable. In addition, VMR recorded each fiscal year, the VMR portion of the bond interest expense of the 2009 bond issue and the 2014 bond issue according to the debt service schedules. The beginning balance on this debt at July 1, 2022 was \$3.9 million. During the year there was no increase and a \$3.9 million decrease in Advance Bond Proceed Debt. The balance at June 30, 2023 is \$0. There were no terms specified in the debt agreement related to the significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses. This advance was a direct borrowing from RPTA.

Valley Metro Rail, Inc.

Notes to the Financial Statements (Continued)

Fiscal Year Ended June 30, 2023

11. Contractual and Other Commitments

VMR has entered into various contractual agreements for engineering services, project management, construction administration, light rail vehicles, construction, operations services, legal information technology, legal, marketing, government relations and finance services and artists. At June 30, 2023, VMR had remaining contractual commitments for these services aggregating approximately \$675.7 million. These commitments have not been recorded in the accompanying financial statements. Only the currently payable portions of these contracts have been included in accounts payable in the accompanying financial statements.

As of June 30, 2023:
(in thousands of dollars)

Contract	Commitment	Spent-to-date	Remaining
Operations and Maintenance	\$ 271,814	\$ 122,330	\$ 149,484
Northwest Extension II Construction Manager	276,013	243,026	32,987
South Central Extension Construction Manager	844,407	560,140	284,267
Tempe Streetcar Construction Manager	122,225	120,357	1,868
Public Art Program	4,572	2,794	1,778
Northwest Extension II Utilities	12,742	8,039	4,703
South Central Extension Utilities	46,453	28,334	18,119
Light Rail Vehicles	141,913	106,222	35,691
Streetcar Vehicles	36,187	29,724	6,463
Planning, Construction, and Design	238,819	105,414	133,405
Information Technology Contracts	10,449	7,541	2,908
Legal, Marketing, Human Resources, Government Relations, and Finance Contracts	6,626	2,589	4,037
	<u>\$ 2,012,220</u>	<u>\$ 1,336,510</u>	<u>\$ 675,710</u>

12. Risk Management

VMR is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to contracted labor; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. VMR purchases insurance coverage for property, general liability, excess liability, automobile liability, umbrella liability, public entity employment practices liability, public entity management liability, boiler and machinery, crime, inland marine, owner's protective professional indemnity, environmental site protection, contractor's environmental protection and excess liability. In addition, the RPTA purchases workers' compensation, employee life insurance, health and dental insurance coverage for all LRT full-time employees. Settled claims for these risks have never exceeded commercial insurance limits.

VMR has received notice of general liability claims related to its operations. VMR's commercial insurance policies provide coverage against losses arising from the claims subject to policy deductible amounts. Such claims are evaluated and specific reserves are established to cover VMR's contingent risk of loss pending settlement with the parties involved. At June 30, 2023 the Reserve for General Liability Claims totaled \$1.0 million.

13. Contingencies

As a subrecipient of federal grant monies, amounts passed through or receivable from other agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although VMR expects such amounts, if any, to be immaterial.

14. Lawsuits

VMR is a party to a number of various types of lawsuits, many of which normally occur in governmental operations. The ultimate outcome of the actions is not determinable, however, VMR management believes that the outcome of these proceedings, either individually or in the aggregate, will not have a materially adverse effect on the accompanying financial statements.

15. Related Party Transactions

All of the four member cities of VMR's Board of Directors are also member cities of the sixteen-member RPTA Board of Directors. The Board members of the cities of Chandler, Mesa, Phoenix, and Tempe represent their cities on both Boards. VMR has entered into contracts with the RPTA for certain administrative functions, including personnel, administration, financial and accounting services, purchasing, and computer support services. All VMR staff is hired and employed by RPTA but works solely under the direction of the VMR and its Board of Directors, through a contractual arrangement with RPTA. All payroll related expenses (excluding pension related expenses) are paid by RPTA and RPTA charges VMR for all contracted payroll related expenses (excluding pension related expenses). For the period July 1, 2022 through June 30, 2023, VMR incurred costs of \$30.7 million for services provided by RPTA. At June 30, 2023, VMR recorded a receivable from RPTA in the amount of \$165.1 million and a payable to RPTA in the amount of \$22.1 million.

In September 2010, the VMR Board authorized the Chief Executive Officer (CEO) to enter into a sublease with the Regional Public Transportation Authority (RPTA) for a portion of the office space currently leased and occupied by VMR. See Note 7. The sublease contract commenced in December 2010 and ended in 2016. Office space lease costs were paid by VMR monthly to the landlord and then prorated and charged to RPTA based on square footage used by RPTA. In July 2014, a new contract with the landlord was made for a 12 year period and in December 2017, another contract to add square footage space was made for an 8.5 year period. In both of these contracts, RPTA continues to make payments based on square footage per the RPTA Board approval. However as there is no additional sublease agreement, the payments from RPTA to VMR do not meet the GASB 87 criteria and are therefore recorded as revenues during the year. The total RPTA payments over the 144-month period are estimated to equal \$7.5 million. During the fiscal year 2023 RPTA payments for the space, including additional storage fees, taxes common area maintenance and parking totaled \$0.9 million.

16. Public Transportation Funding

In November 2004, the voters of Maricopa County approved Proposition 400, the continuation of the transportation tax, for a twenty-year period beginning in calendar year 2006. On August 14, 2006, VMR and RPTA executed an intergovernmental agreement (IGA) that formally designated VMR as Lead Agency to plan, design, and construct the light rail transit (LRT) program. Among other things, the IGA specifies that RPTA will reimburse VMR, from the Public Transportation Fund, for eligible incurred expenses.

Valley Metro Rail began receiving Public Transportation Funding (PTF) in March 2006. These monies are used to reimburse private utility companies for costs incurred in the relocation of non-prior rights utilities, to reimburse Member Cities for their share of local costs incurred in connection with the acquisition of certain regional transportation assets, and to fund the local share of future light rail extensions as designated in the Regional Transportation Plan.

The Regional Public Transportation Authority (RPTA) manages the PTF which is held in a Savings Account designated for LRT program expenses. RPTA also sells bonds as needed to fund LRT program expenses and uses this PTF Savings Account for Debt Service.

In June 2009, the RPTA issued Transportation Excise Tax Revenue Bonds in the amount of \$100.1 million. A portion of the 2009 Series Bonds will pay or reimburse LRT capital expenditures as designated in the Regional Transportation Plan. As of June 30, 2023, the 2009 Series Bond expenditures to date for the LRT program totaled \$55.0 million on a cash basis.

In January 2014, the RPTA issued Transportation Excise Tax Revenue Bonds in the amount of \$115.0 million. The 2014 Series Bonds will pay or reimburse LRT capital expenditures as designated in the Regional Transportation Plan. As of June 30, 2023, the 2014 Series Bond expenditures to date for the LRT program totaled \$135.4 million on a cash basis.

In April 2016, the RPTA issued Transportation Excise Tax Revenue Refunding Bonds in the amount of \$22.6 million. The 2016 issue will advance refund part of the tax-exempt portion of the 2009 Series Bonds.

In June 2019, RPTA issued Refunding bonds in the amount of \$22.7 million. The 2019 issue will refund part of the taxable portion of the 2009 Series Bonds.

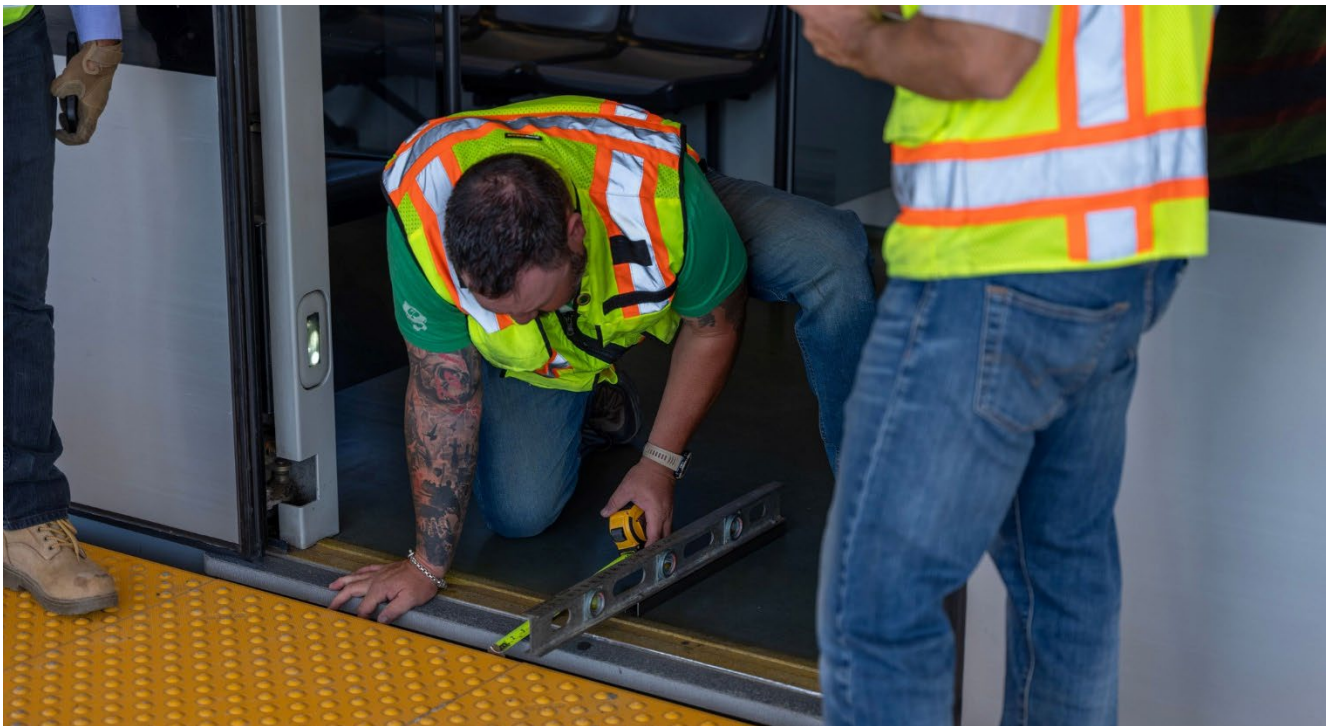
17. Unearned revenues

The City of Phoenix has contributed \$344.3 million of monies to support the ongoing South Central Extension/Downtown Hub Project (Project). The \$344.3 million included an advance of the full City of Phoenix local matching obligation of \$233.7 million. The remaining \$110.6 million is advance funding that will be repaid to Phoenix at the completion of the Project and has been reported as a non-current liability - Due to Other Governments, see Note 9 for additional information. The \$233.7 million was recorded as unearned revenue at the time of receipt. As project expenses are incurred local matching revenues were recognized as Capital Contributions from Member Cities resulting in a reduction of the unearned revenue balance. As of June 30, 2023, \$80.3 million of the unearned revenue remained.



OTHER SUPPLEMENTARY INFORMATION

This Section includes the Schedule of Operations – Budget and Actual.



Vehicle and system testing has officially begun along the Northwest Extension Phase II Light Rail project in preparation for the safe start-up of service in early 2024. Trains began moving along Dunlap and 25th Avenues and across the I-17 at Mountain View Road to the end-of-line at the redeveloping Metrocenter Mall area. Testing ensures that the tracks, power and communication systems are installed and functioning properly.

Valley Metro Rail, Inc.

Schedule of Operations - Budget and Actual

Fiscal Year Ended June 30, 2023

(in thousands of dollars)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Over (Under)
	Original	Final		
Sources of Funds:				
Net Contributions From Member Cities	\$ 71,193	\$ 114,434	\$ 155,897	\$ 41,463
Passenger Fares	5,038	5,038	6,904	1,866
Federal Transit Administration Grants	305,769	345,746	160,912	(184,834)
Public Transportation Funds - Sales Tax	112,764	135,912	106,994	(28,918)
MAG/RPTA Grants	1,000	1,000	1,000	—
Other Revenues	570	570	745	175
Total Sources of Funds	496,334	602,700	432,452	(170,248)
Uses of Funds:				
Operating Activities				
Revenue Operations	70,130	70,130	61,322	(8,808)
Streetcar Operations	6,787	6,787	5,754	(1,033)
Regional Capital Rebuild Program	5,623	5,623	2,698	(2,925)
Future Project Development	15,107	15,107	9,166	(5,941)
Agency Operations	2,234	2,234	2,065	(169)
Sub Total Operating Activities Use of Funds	99,881	99,881	81,005	(18,876)
Capital Projects:				
South Central	253,812	290,264	179,854	(110,410)
Northwest Extension Phase II	105,781	152,528	123,249	(29,279)
Gilbert Road Capital Project	2,027	2,027	218	(1,809)
Tempe Streetcar Extension	5,566	10,575	2,651	(7,924)
State of Good Repair - Capital Maintenance	9,451	9,451	1,025	(8,426)
Non-Prior Rights Utilities Relocations	—	—	10,079	10,079
Systemwide Improvements	12,890	12,890	6,533	(6,357)
Operations & Maintenance Center Expansion	149	1,090	756	(334)
Concurrent Non Project Activities	6,777	23,994	19,719	(4,275)
Sub Total Capital Projects Use of Funds	396,453	502,819	344,084	(158,735)
Total Uses of Funds	496,334	602,700	425,089	(177,611)
Excess of sources of funds over uses of funds Budgetary Basis	\$ —	\$ —	\$ 7,363	\$ 7,363

Explanation of Differences between Budgetary Basis and GAAP Basis

Total Uses of Funds - Budgetary Basis	\$ 425,089
Total Operating Expenses - GAAP Basis	(141,168)
Budgetary Operating Expenses in Excess of GAAP Operating Expenses	\$ 283,921
Capital Projects Before Debt Service (Budgeted expenses not recorded to expense for GAAP basis)	\$ 344,084
Future Project Development (Budgeted expenses in Operating above but in Non-operating expenses in the Financial Statements)	9,166
State of Good Repair - Capital Maintenance (Budgeted expenses above but in Operating expenses in the Financial Statements)	(392)
Rail Operations Capital Assets (GAAP expenses not included in budgetary basis)	56
Rail Operations Impairment Loss of Capital Assets (GAAP expenses not included in budgetary basis)	655
Systemwide Improvements operating expenses (Budgeted expenses in Capital projects above but in Operating expenses in the Financial Statements)	(1,384)
GASB Statement No. 87, Leases, and GASB Statement No. 96, Subscription Based Information Technology Agreements adjustment (GAAP expenses not included in budgetary basis)	280
Depreciation (GAAP expenses not included in budgetary basis)	(66,618)
Leases Amortization (GAAP expenses not included in budgetary basis)	(1,926)
Total Reconciling Items	\$ 283,921

* Public Transportation Funds - Sales Tax, as presented in this schedule, excludes Public Transportation Funds revenue received for Advance Bond Proceeds principal reduction and interest expenses of \$3.9 million and \$1.3 million respectively. See Note 10 for details.

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STATISTICAL SECTION

The Statistical Section includes selected financial and demographic information regarding Valley Metro Rail including financial trends, demographic and economic information, and operating information.

Statistical Section

Annual Comprehensive Financial Report

Fiscal Year Ended June 30, 2023

This part of Valley Metro Rail, Inc. (VMR) comprehensive financial report presents information as a context for understanding what the information in the financial statements, footnotes, and supplementary information says about VMR's overall financial condition. VMR's principal activities consist of planning, designing constructing and operating light rail transit system in Maricopa County, Arizona.

Contents	Page
Financial Trends	33
These schedules contain trend information to help the reader understand how VMR's financial performance and well-being have changed over time.	
Revenue Capacity	N/A
VMR's principal source of operating revenues are contributions from Member Cities. With respect to capital projects, VMR receives federal grants and utilizes Public Transportation Funds administered by the Regional Public Transportation Authority (RPTA). (Refer to Note 16 on Page 30 in the Notes to the Financial Statements section.)	
Debt Capacity	36
These schedules include outstanding debt by type and percentage of debt to income and population in Maricopa County. There are not specific pledged revenues and not debt limits so these schedules have not been included.	
Demographic and Economic Information	38
These schedules offer demographic and economic indicators to help the reader understand the environment within which VMR's financial activities take place.	
Operating Information	41
These schedules contain service and infrastructure data to help the reader understand how the information in VMR's financial report relates to the services VMR provides and the activities it performs.	

Valley Metro Rail, Inc.
Net Position by Component
FY 14 through FY 23
(in thousands of dollars)

Business-type Activities	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Investment in Capital Assets										
Construction in Progress (1)	\$ 141,245	\$ 198,400	\$ 12,781	\$ 62,358	\$ 183,222	\$ 322,989	\$ 367,046	\$ 713,605	\$ 765,442	\$1,050,075
Buildings	\$ 84,795	\$ 82,231	\$ 79,668	\$ 77,105	\$ 74,541	\$ 71,978	\$ 69,415	\$ 66,852	\$ 64,289	\$ 61,726
Prefabricated Buildings (5)										39
Guideway (2)	503,337	492,026	602,666	656,197	648,787	622,567	681,299	660,070	741,467	729,321
Bridges	50,238	48,188	46,137	44,087	42,036	39,986	37,935	35,885	33,834	31,783
Operation Control Center	10,903	10,466	10,030	9,593	9,156	8,719	8,720	7,847	7,410	6,973
Passenger Stations & Facilities	83,259	79,861	98,895	94,734	90,574	100,661	114,626	109,278	114,586	108,947
Park and Ride Facilities	25,907	23,239	26,981	23,870	20,760	17,649	17,457	14,138	10,819	7,500
Bus Shelter	—	—	720	643	565	488	411	334	257	180
Electric Power Substations	69,210	65,661	115,394	109,694	103,955	98,217	145,158	137,224	200,705	189,857
Signal and Communication System	35,165	32,739	73,140	68,439	63,803	68,817	82,796	76,778	89,760	82,373
Computers & Software	131	—	601	455	164	76	58	80	53	31
Furniture & Fixtures	—	—	—	—	—	—	—	—	—	—
Site Improvements	11	3,173	2,952	2,807	2,722	2,343	1,964	1,585	40,545	38,509
Tenant Improvements	—	—	—	—	335	292	249	207	164	121
Revenue Vehicles	170,655	161,863	151,451	144,205	135,413	126,540	117,666	115,153	155,722	165,170
Support/Service Vehicles	—	—	—	—	—	—	—	—	—	—
Non-Revenue Vehicles	824	719	943	840	785	710	645	694	501	680
Equipment	5,969	5,079	9,767	9,120	8,591	8,237	8,319	7,039	11,821	10,228
Leased Asset - Buildings (3) (4)									17,474	15,406
Subtotal Investment in Capital Assets	\$1,181,649	\$1,203,645	\$1,232,126	\$1,304,147	\$1,385,409	\$1,490,269	\$1,653,764	\$1,946,769	\$2,254,849	\$2,498,919
Restricted	—	—	—	—	—	—	—	—	—	—
Unrestricted	12,654	12,102	12,737	14,438	14,228	20,871	10,558	32,073	26,762	32,674
Total business-type activities net position	\$1,194,303	\$1,215,747	\$1,244,863	\$1,318,585	\$1,399,637	\$1,511,140	\$1,664,322	\$1,978,842	\$2,281,611	\$2,531,593

Source: Valley Metro Rail, Inc. Finance Division

- (1) In FY 13, FY 14, and FY15 Construction In Progress is shown net of the Northwest Extension Advance Funding Obligation. Further, in FY15 Construction in Progress is shown net of the RPTA PTF Advance Bond Proceeds. In FY20 Construction in Progress is shown net of Retainage Payable, restricted cash with escrow agent, construction related payables and receivables.
- (2) Starting in FY 15/16 Guideway is shown net of the Northwest Extension Advance Funding Obligation and the RPTA PTF Advance Bond Proceeds. In FY 18/19, and FY19/20 Guideway is shown net of City of Mesa FTA advance obligation. In FY19/20 Guideway is shown net of FTA Advance obligation, Retainage Payable, restricted cash with escrow agent, and construction related payables and receivables. In FY21/22 and FY22/23 Guideway is shown net of construction related payables and receivables and lease liability.
- (3) Starting in FY 21/22 Governmental Accounting Standards Board Statement 87, Leases, was implemented and leased asset values were added to the statement of net position. Each category of asset is shown in the attached schedule net of the associated lease liability.
- (4) Starting in FY 22/23, Leased Asset Office Space and Leased Asset - Parking were combined as Leased Asset - Buildings as these are both building lease assets.
- (5) Prefabricated buildings are a new asset class beginning in FY 22/23.

Valley Metro Rail, Inc.
Changes in Net Position
FY 14 through FY 23
(in thousands of dollars)

	<u>FY 14</u>	<u>FY 15</u>	<u>FY 16</u>	<u>FY 17</u>	<u>FY 18</u>	<u>FY 19</u>	<u>FY 20</u>	<u>FY 21</u>	<u>FY 22</u>	<u>FY 23</u>
Operating Revenues										
Contributions from Member Cities	\$ 16,804	\$ 16,591	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Passenger Fares	12,505	12,832	13,461	13,363	11,911	11,071	8,340	1,559	5,158	6,904
Federal Transit Administration Operating Grants	2,400	2,135	—	—	—	—	—	—	—	—
Regional Capital Rebuild Revenue	—	305	420	—	310	222	3,586	3,194	3,104	1,552
Other Revenues	1,731	3,272	1,157	1,144	1,140	1,113	1,082	473	1,150	1,061
Total Operating Revenues	<u>33,440</u>	<u>35,135</u>	<u>15,038</u>	<u>14,507</u>	<u>13,361</u>	<u>12,406</u>	<u>13,008</u>	<u>5,226</u>	<u>9,412</u>	<u>9,517</u>
Operating Expenses										
Administration and Planning Services	8,840	9,129	324	479	1,672	2,930	4,577	1,671	3,746	3,441
Passenger Operations Service	31,260	31,289	35,076	41,487	43,021	47,150	50,292	53,336	54,396	66,093
Regional Capital Rebuild Program	—	881	678	—	500	762	3,192	3,679	5,208	3,090
Depreciation	38,912	39,014	45,679	48,010	49,987	50,550	56,053	56,090	61,408	66,618
Lease amortization (1)	—	—	—	—	—	—	—	—	1,939	1,926
Total Operating Expenses	<u>79,012</u>	<u>80,313</u>	<u>81,757</u>	<u>89,976</u>	<u>95,180</u>	<u>101,392</u>	<u>114,114</u>	<u>114,776</u>	<u>126,697</u>	<u>141,168</u>
Operating Income (Loss)	<u>(45,572)</u>	<u>(45,178)</u>	<u>(66,719)</u>	<u>(75,469)</u>	<u>(81,819)</u>	<u>(88,986)</u>	<u>(101,106)</u>	<u>(109,550)</u>	<u>(117,285)</u>	<u>(131,651)</u>
Non-Operating Revenues (Expense)										
Contributions from Member Cities	—	—	21,294	29,836	32,077	37,626	45,892	14,340	27,696	45,773
Public Transportation Funds	6,626	10,527	6,138	6,139	9,105	15,835	10,014	9,659	11,649	14,943
Federal Transit Administration Non-Operating Grants	454	—	3,452	2,894	1,888	14,026	5,462	45,762	36,270	39,763
Other Planning Revenues	—	—	644	503	1,003	1,000	1,000	1,000	1,000	1,000
Future Project Development	—	—	(8,531)	(11,190)	(10,585)	(12,434)	(8,282)	(8,887)	(8,815)	(8,873)
Private Utilities Relocations	(14,877)	(5,120)	(1,530)	(39)	(2,743)	(2,030)	(4,437)	(9,811)	(9,291)	(10,079)
Small Business Assistance Program and Transit Oriented Development (3)	—	—	—	—	—	—	—	—	(570)	(551)
Capital Conveyance to Member Cities	(9,950)	(3,883)	(1,277)	(4,030)	(5,681)	(1,658)	(4,238)	(20,399)	(5,320)	(5,218)
Capital Conveyance to RPTA	—	—	—	—	—	—	—	(2,187)	(3,018)	(3,911)
Contribution to RPTA (2)	—	—	—	—	—	—	—	—	—	(722)
Concurrent Non Project Activities	—	—	—	—	(1,568)	(1,381)	(3,552)	(116)	(7,045)	(16,291)
Lease Income (1)	—	—	—	—	—	—	—	—	—	10
Lease Interest Income (1)	—	—	—	—	—	—	—	—	—	1
Interest on Capital Funding Obligation	(1,642)	(552)	—	—	—	(42)	(239)	(17)	—	—
PTF Interest expense	—	(8,120)	(2,986)	(2,860)	(2,643)	(2,416)	(2,165)	(1,901)	(1,623)	(1,331)
Gain (loss) on Disposal of Capital Assets	—	—	—	—	—	—	—	(248)	(3)	135
Impairment Loss of Capital assets	—	—	—	—	—	—	—	—	—	(655)
Other Non-Operating Revenues (Expenses)	16	—	—	—	—	—	—	177	618	250
Total Non-Operating Revenues (Expense)	<u>(19,373)</u>	<u>(7,148)</u>	<u>17,204</u>	<u>21,253</u>	<u>20,853</u>	<u>48,526</u>	<u>39,455</u>	<u>27,372</u>	<u>41,548</u>	<u>54,244</u>

Capital Contributions

Valley Metro Rail, Inc.
Changes in Net Position
FY 14 through FY 23
(in thousands of dollars)

Contributions from Member Cities	51	25	731	45,250	33,186	50,225	77,065	113,069	14,826	110,124
Public Transportation Funds Capital	86,209	29,895	59,028	5,609	35,910	32,848	77,308	96,492	55,481	95,744
Federal Transit Administration Capital Grants	27,564	43,849	18,872	76,984	72,886	68,890	60,391	187,137	307,475	121,149
Other Capital Contributions	—	—	—	95	36	—	69	—	—	372
Total Capital Contributions	<u>113,824</u>	<u>73,769</u>	<u>78,631</u>	<u>127,938</u>	<u>142,018</u>	<u>151,963</u>	<u>214,833</u>	<u>396,698</u>	<u>377,782</u>	<u>327,389</u>
Increase (Decrease) in Net Position	<u>\$ 48,879</u>	<u>\$ 21,443</u>	<u>\$ 29,116</u>	<u>\$ 73,722</u>	<u>\$ 81,052</u>	<u>\$ 111,503</u>	<u>\$ 153,182</u>	<u>\$ 314,520</u>	<u>\$ 302,045</u>	<u>\$ 249,982</u>

Source: Valley Metro Rail, Inc Finance Division

- (1) In FY21/22, Valley Metro Implemented GASB Statement 87 resulting in reporting of lease amortization, lease income, and lease interest income.
- (2) Starting in FY22/23 all lease (GASB Statement 87) and SBITA (GASB Statement 96, Subscription Based Information Technology Arrangement) contribution payments to RPTA are recorded in financial statement line item "Contribution to RPTA"
- (3) Starting in FY22/23 financial statement line item "Small Business Assistance Program" was expanded to include Transit Oriented Development expenses.

Valley Metro Rail, Inc.
 Outstanding Debt by Type
 Last Ten Fiscal Years
 (in thousands of dollars)

Business-type Activities			
Fiscal Year Ended June 30	Direct Borrowing from City of Phoenix	Percentage of Personal Income	Per Capita
2022	\$ 51,599	0.02 %	11
2023	110,553	(1)	(1)

Source: The source of this information is Valley Metro Rail's financial records for debt data by year. The source for personal income and population in Maricopa County is the audited FY2022 Maricopa County Annual Comprehensive Financial Report.

- (1) Personal income data for Maricopa County and population estimates were not yet available for 2023. Therefore, Percentage of Personal Income and Per Capita could not be calculated for this period.

Valley Metro Rail, Inc.

Debt Service Cost Per Capita

Last Ten Fiscal Years

(in thousands of dollars)

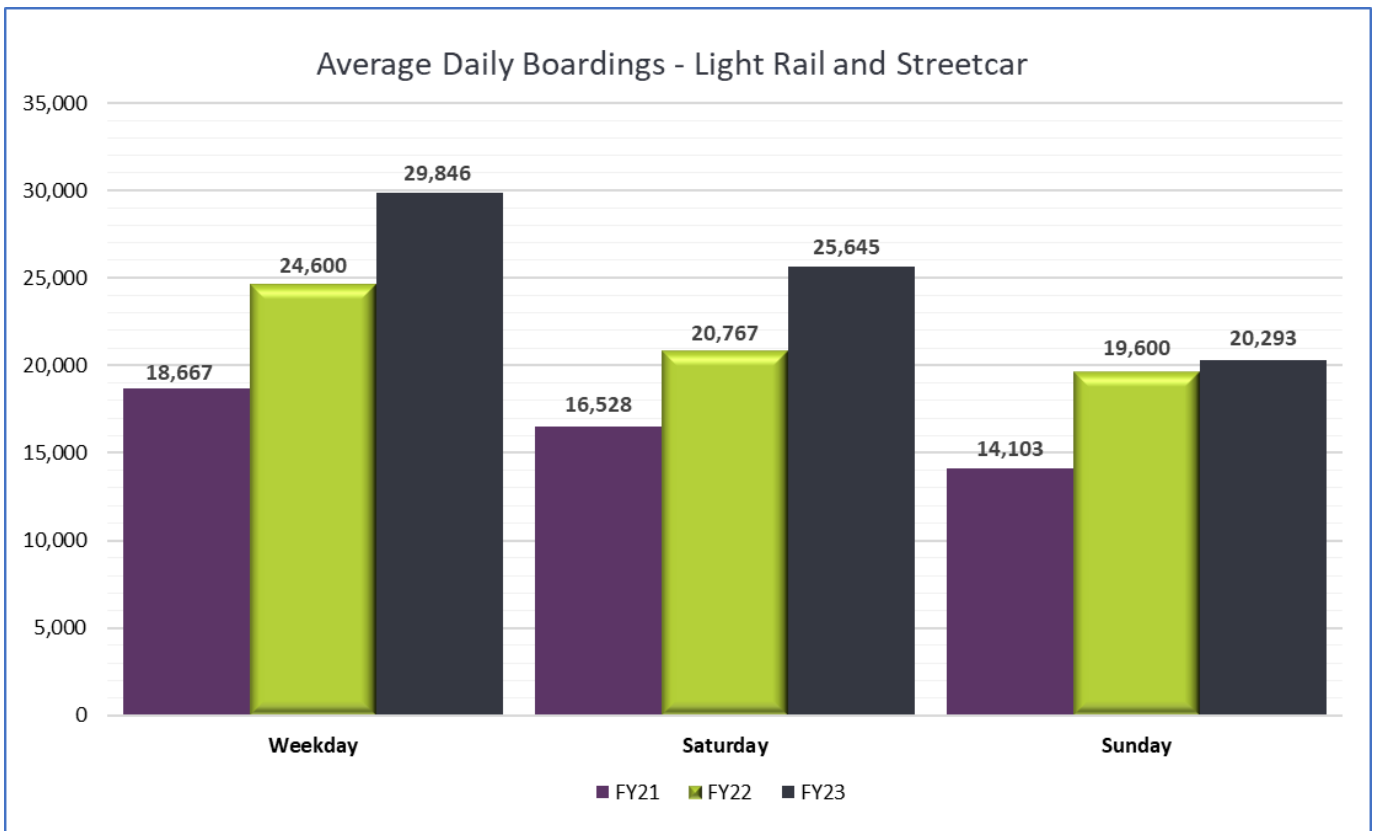
Fiscal Year Ended June 30	Direct Borrowing from City of Phoenix				Maricopa County		
	Principal	Interest	Total Cost	Percentage of Personal Income	Per Capita	Population (1)	Income (1)
2022	\$ 51,599	—	\$ 51,599	0.02%	11	4,507,419	268,713,717
2023	110,553	—	110,553	—	—	—	—

Source: The source of this information is Valley Metro Rail's financial records for debt data by year. The source for personal income and population in Maricopa County is the audited FY2022 Maricopa County Annual Comprehensive Financial Report.

(1) Personal income data for Maricopa County and population estimates were not yet available for 2023. Therefore, Percentage of Personal Income and Per Capita could not be calculated for this period.

Light Rail, Streetcar, and Bus

<u>Fiscal Year</u>	<u>Boardings</u>	<u>Change</u>
2014	72,137,268	-1.7%
2015	70,759,847	-1.9%
2016	67,352,825	-4.8%
2017	65,958,074	-2.1%
2018	66,784,913	1.3%
2019	64,380,334	-3.6%
2020	52,528,517	-18.4%
2021	27,337,550	-48.0%
2022	31,854,221	16.5%
2023	34,880,822	9.5%



Source: Regional Public Transportation Authority

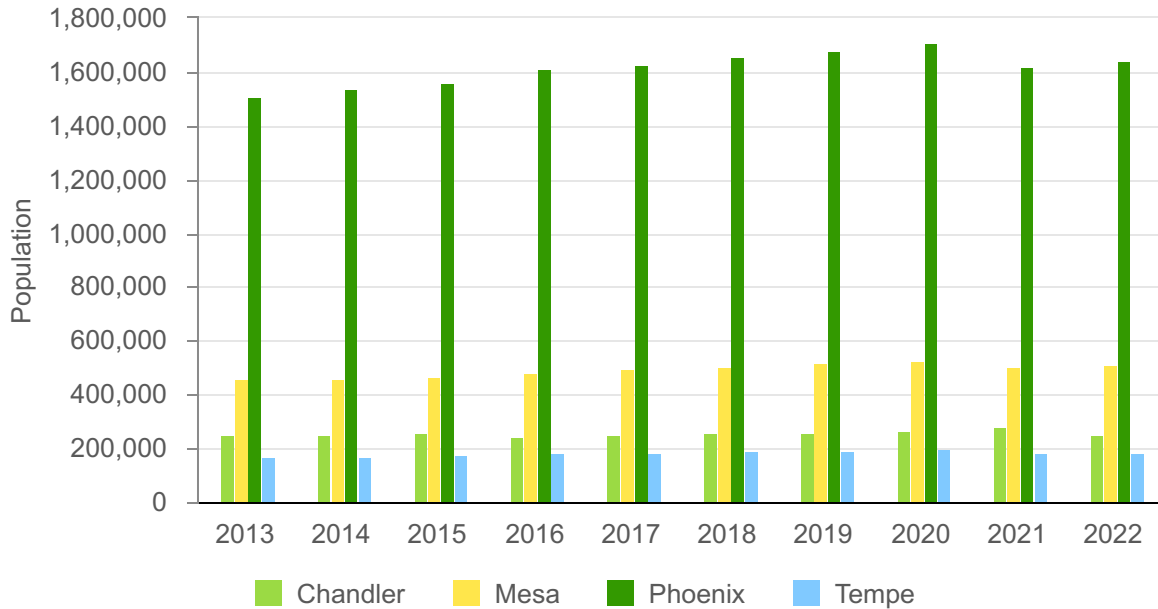
Valley Metro Rail, Inc.

Population Growth

Ten Years from 2013 to 2022

<u>Year</u>	<u>Chandler</u>	<u>Mesa</u>	<u>Phoenix</u>	<u>Tempe</u>
2013	250,394	458,347	1,512,442	168,883
2014	254,276	464,704	1,537,058	172,816
2015	260,828	471,825	1,563,025	175,826
2016	247,477	484,587	1,615,017	182,498
2017	253,458	496,401	1,626,078	185,038
2018	257,165	508,958	1,660,272	192,364
2019	261,165	518,012	1,680,992	195,805
2020	265,398	528,159	1,708,127	200,402
2021	279,458	509,475	1,624,569	184,118
2022	280,711	512,498	1,644,409	185,950

Valley Metro Rail, Inc
Member Cities' Population Growth



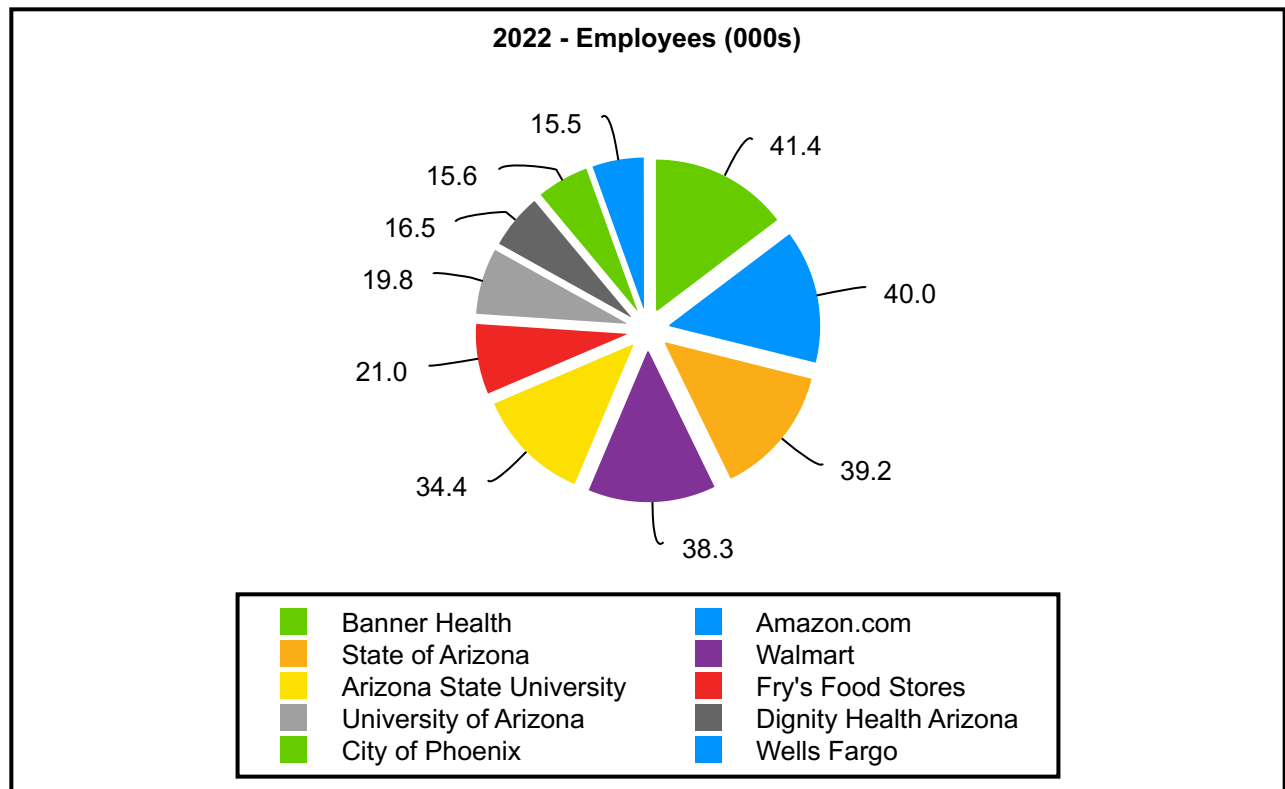
Sources: Maricopa Association of Governments
US Census Bureau

Year 2022 is the most current year available.

Valley Metro Rail, Inc.

Top Employers in Maricopa County
For the Year 2022 and Nine Years Ago

Employer	2022			2013		
	Employees	Rank	% of Total	Employees	Rank	Total
Banner Health	41,435	1	1.79 %	25,126	3	1.45 %
Amazon.com	40,000	2	1.73 %			
State of Arizona	39,172	3	1.69 %	52,076	1	3.00 %
Walmart	38,309	4	1.65 %	31,837	2	1.84 %
Arizona State University	34,421	5	1.49 %	12,222	8	0.71 %
Fry's Food Stores	21,012	6	0.91 %			
University of Arizona	19,823	7	0.86 %			
Dignity Health Arizona	16,525	8	0.71 %			
City of Phoenix	15,645	9	0.68 %	14,983	4	0.86 %
Wells Fargo	15,500	10	0.67 %	13,679	5	0.79 %
Maricopa County				13,308	6	0.77 %
Intel Corporation				11,000	10	0.63 %
Bank of America				12,500	7	0.72 %
JPMorgan Chase & Co.				11,407	9	0.66 %
Total for Principal Employers	281,842		12.18 %	198,138		11.43 %
Total Employment in Maricopa County	2,314,882			1,733,535		



Source: The Phoenix Business Journal, Book of Lists
Workforce Informer Arizona at www.workforce.az.gov for total employed in Maricopa County

Note: The information for FY 2023 was not available.



PROJECTS



SOUTH CENTRAL EXTENSION/ DOWNTOWN HUB

TITLE



LIGHT RAIL EXTENSION

TYPE

FACT SHEET / Q4 2023
valleymetro.org/southcentral

About the Project

The South Central Extension/Downtown Hub will connect with the current light rail system in downtown Phoenix and operate south on Central Avenue to Baseline Road. The project also includes a light rail transit hub in downtown Phoenix, new stations and public art.

Light rail has proven to generate economic prosperity for historically underserved communities in metro Phoenix. Light rail makes the unique offerings of South Phoenix more accessible to others, attracting new customers, businesses and jobs to the area.



**South Central Extension/
Downtown Hub Community Office**
5040 S. Central Avenue
Phoenix, AZ 85040
602.687.8585

Monday - Friday 9 a.m. - 5 p.m.
Saturday by appointment

PROJECT STATUS

- Station finishes and art installation continue in the Downtown Hub.
- Underground utility work, mill work and track installation continue south of I-17.
- Detailed construction activity descriptions and schedule information are available at valleymetro.org/southcentral or through the Construct VM app.
- Free business consulting and marketing opportunities continue to be offered to businesses affected by construction, including the community celebration, Fiesta on Central and a holiday direct mail flyer sent to area residents. More information is available at valleymetro.org/southcentral under the Business Assistance section.



NEXT STEPS

- Downtown station canopy installation and special track-work will begin later this year.

COST FORECAST*

	PROGRAMMED	EXPENDED	% EXPENDED	FORECAST
Construction	\$872,370,790	\$584,867,910	67%	\$872,370,790
Utilities	\$47,628,789	\$17,457,738	37%	\$47,628,789
Right of Way	\$47,034,197	\$16,434,340	35%	\$47,034,197
Design/Management	\$302,208,702	\$136,679,649	45%	\$302,208,703
Vehicles	\$75,845,855	\$54,762,911	72%	\$75,845,855
TOTAL	\$1,345,088,334	\$810,202,548	60%	\$1,345,088,334

*Estimated as of August 2023

To receive weekly email updates, contact your Community Outreach Coordinator. For more information, please visit valleymetro.org/southcentral.

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SOUTH CENTRAL EXTENSION/ DOWNTOWN HUB

TITLE



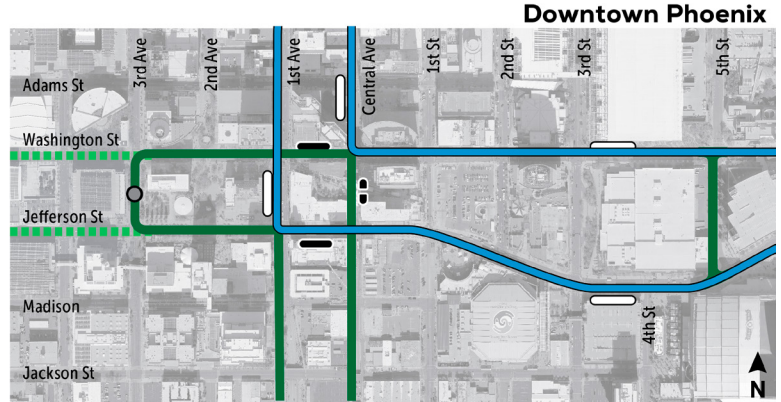
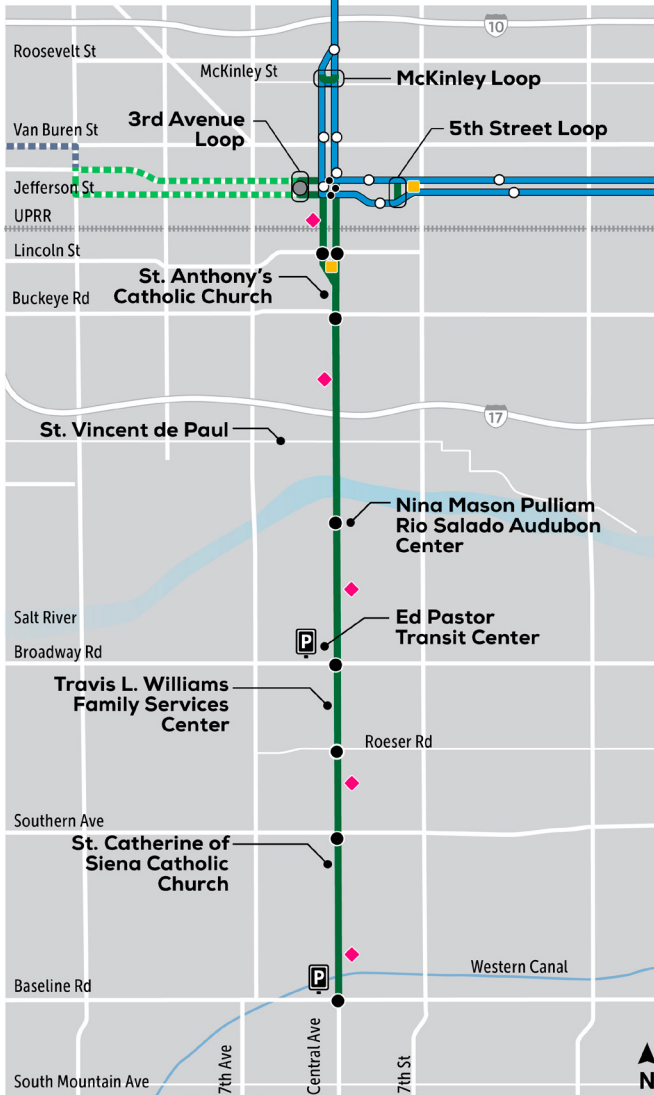
PROJECTS

LIGHT RAIL EXTENSION

TYPE

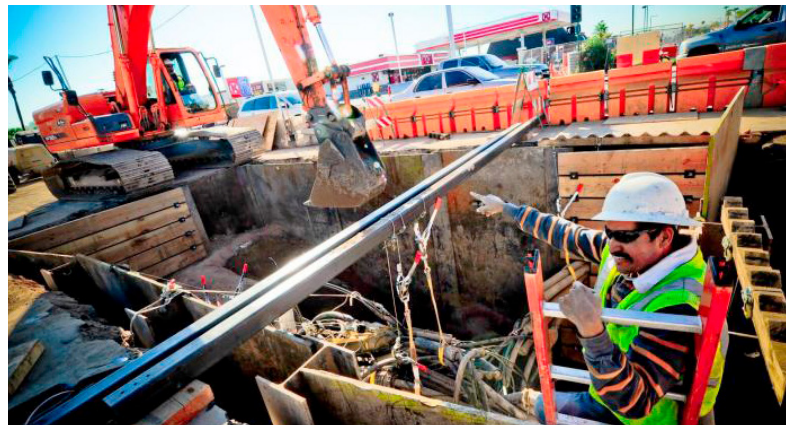
FACT SHEET / Q4 2023
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ROUTE MAP



LEGEND

- Valley Metro Rail/Station Platform
- South Central Light Rail Extension/Station Platform
- Special Use Platform (no regular service)
- Park-and-Ride
- Capitol Extension
- I-10 West Extension
- Traction Power Substation (TPSS)
- Signal Building



PROJECT SCHEDULE*



2012 - 2017

PLANNING



2017 - 2019

DESIGN



2019 - 2024

CONSTRUCTION



2024

COMPLETION

*Dates are approximate and subject to change.



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Download the Construct VM app for real-time construction information.



NORTHWEST EXTENSION PHASE II

TITLE



LIGHT RAIL EXTENSION
TYPE

FACT SHEET / Q4 2023

valleymetro.org/northwest2

PROJECT STATUS

- The final configuration of Dunlap Avenue traffic now comprises three eastbound lanes and two westbound lanes. Please be aware of ongoing landscape restoration work, which may require occasional lane reductions in specific areas.
- Train testing has begun. Please be safe and pay attention to traffic and pedestrian signals when crossing the light rail tracks.
- Stations, parking structure and transit center construction continues and will be completed in September 2023.
- 25th and Dunlap avenues, Mountain View Road and Metro Parkway roadwork continues and will be completed in September 2023.
- I-17 light rail bridge work, which includes track and station infrastructure, continues and will be completed in September 2023.
- Overhead Catenary System (OCS) poles and wiring construction is anticipated to be completed in September 2023.
- KMJV has begun restoring the Temporary Construction Easement (TCE) area for the properties along the construction alignment. This work will be completed in October 2023.

About the Project

Phase II of the Northwest Extension will extend light rail west on Dunlap Avenue from 19th Avenue, then north on 25th Avenue and across I-17 on Mountain View Road with a terminus on the west side of the freeway near Metrocenter Mall.

At the end-of-line, the Metrocenter Station will be the first elevated station in Valley Metro's light rail system. The existing transit center will relocate below the elevated station. A four story park-and-ride garage adjacent to the transit center will provide access to the station.



Crews are working at night to perform "dead wire" testing. The wires are not energized and are being tested for height and clearance to ensure proper contact points to power the light rail train when in operation.



NEXT STEPS

- Light rail system testing will continue through late 2023. The project is anticipated to be completed and ready for revenue service in early 2024.

COST FORECAST*

Description	Programmed	Expended	%Expended	Forecast
Construction	\$285,939,210	\$251,612,954	88%	\$285,939,210
Utilities	\$19,640,600	\$8,034,894	41%	\$19,640,600
Right-of-Way	\$27,973,550	\$10,671,221	38%	\$27,973,550
Design/Mgmt	\$67,771,435	\$55,961,369	83%	\$67,771,435
TOTAL	\$401,324,795	\$326,280,438	81%	\$401,324,795

*Estimated as of August 2023.



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Northwest Extension Phase II construction hotline: 602.254.RAIL (7245)
To subscribe to weekly email updates, contact Michael Book.
For more information, please visit valleymetro.org/northwest2.



NORTHWEST EXTENSION PHASE II

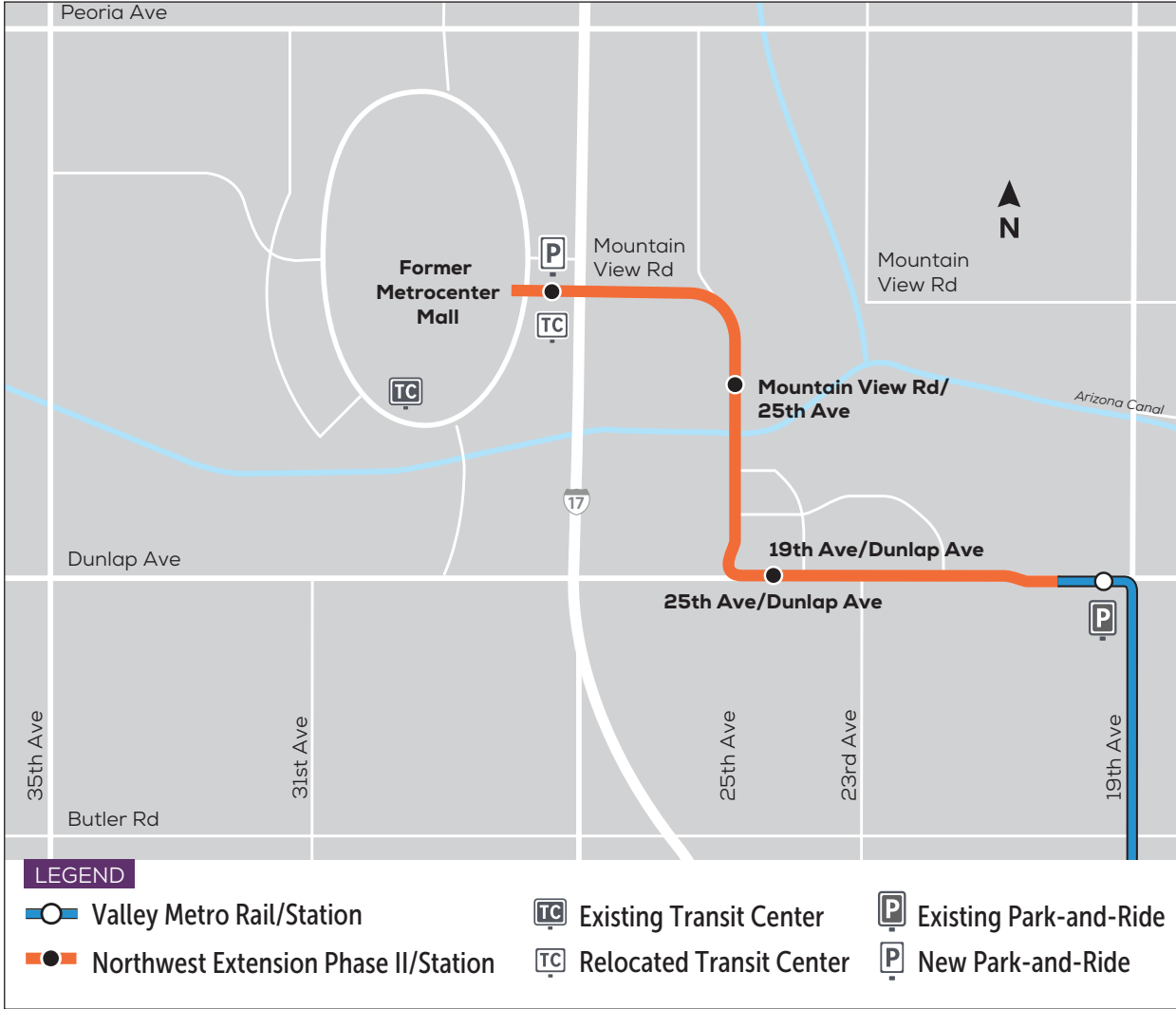
TITLE



LIGHT RAIL EXTENSION
TYPE




FACT SHEET / Q4 2023
valleymetro.org/northwest2

ROUTE MAP



PROJECT SCHEDULE



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Download the **Construct VM** app for real-time construction information.

Valley Metro Rail, Inc.

Design & Construction Milestones

PRE-INCORPORATION ACTIVITIES

November 2000 - Final light rail alignment approved

February 2001 - Project opens community office for the public

September 2001 - City of Phoenix purchases first property for the light rail system at Camelback Road and 3rd Avenue.

December 2001 - Project receives first recommended rating from the Federal Transit Administration (FTA) in its New Starts Report.

October 2002 - Valley Metro Rail, Inc. is incorporated.

VALLEY METRO RAIL, INC. ACTIVITIES

July 2003 - METRO receives formal approval from the FTA for the light rail project to enter the Final Design phase. The approval allows designers to finalize the construction plans during the coming months, begin utility relocation, and request early approval to begin purchasing light rail vehicles and construction materials.

August 2004 - The METRO board approves the METRO Business Outreach Plan to help minimize the impacts of light rail construction on businesses located along the light rail transit alignment.

November 2004 - A groundbreaking ceremony is held for the reconstruction of an access bridge over the Grand Canal at 48th Street that leads to the light rail Maintenance and Storage Facility.

January 2005 - Full Funding Grant Agreement signed for the Central Phoenix East Valley (CPEV) Light Rail Project. (20 mile initial operating segment)

April 2005 - METRO Max program launched, business support program encouraging residents to patronize businesses impacted by light rail construction.

March 2007 - Phoenix City Council approves funding for Northwest Extension.

December 2008 - Central Phoenix East Valley Light Rail Project (Initial 20 Mile Segment) construction completes on-time and within budget.

January 2009 - Rail Passenger Operations commence; ridership planned for 26,000 passengers per day reaches over 40,000 daily passengers in April 2009.

March 2010 - Mesa City Council approves a 3.1-mile extension of the LRT system.

October 2010 - Tempe City Council approves Mill Avenue Alignment for modern streetcar.

October 2011 - Valley Metro receives a \$1.0 million federal grant to conduct an Alternatives Analysis on the South Central Phoenix Corridor.

June 2012 - Phoenix City Council approves funding plan to accelerate Northwest Extension Project.

July 2012 - Phoenix City Council approves the 11-mile Phoenix West Extension Project light rail alignment.

October 2012 - Project Construction Grant Agreement signed for the Central Mesa Extension Project.

January 2013 – Groundbreaking of the Northwest Extension light rail construction adding 3.2 miles to existing 20 mile system.

November 2013 – Valley Metro received the Finding of No Significant Impact (or FONSI) from the FTA completing the federal environmental assessment for the 1.9-mile Gilbert Road light rail extension.

April 2015 – Valley Metro Rail completes solar panel installation at the Operations and Maintenance Center, reducing electrical costs and dependence on the metropolitan grid.

January 2015 – On Saturday, January 31, Valley Metro Rail served the 2015 Superbowl activities reaching a historic ridership record with 126,000 boardings.

August 2015 - Valley Metro opens the 2.81 mile Central Mesa LRT Extension, serving downtown Mesa and extending the light rail line to nearly 23 miles.

March 2016 - Valley Metro opens the 3.28 mile Northwest LRT Extension, serving North Phoenix and extending the light rail line to 25.4 miles.

April 2019 - Valley Metro opens 50th Street Station the first completed project using Phoenix voter-approved Transportation 2050 funds. This is the first new station within the 26 mile Valley Metro Rail corridor. It is also the first station to have enhanced accessibility features, as well as a permanent tribute to Arizona Congressman Ed Pastor.

May 2019 - Valley Metro opens the 1.9 mile Gilbert Road LRT Extension, serving Mesa and extending the light rail line to 28 miles.

Valley Metro Rail, Inc.

Design & Construction Milestones

July 2021 - The Valley Metro Operations and Maintenance Center expansion project was substantially completed providing additional capacity to properly operate and maintain light rail and streetcar as the system expands and new revenue vehicles are added to the fleet.

May 2022 - Valley Metro opens the first modern streetcar line in Tempe. The 3-mile streetcar line serves one of the highest transit ridership centers in the region and connects riders to neighborhoods, major business centers, and regional events and destinations.

Source: Valley Metro Rail, Inc. Finance Division



101 North First Avenue | Suite 1400 | Phoenix, AZ 85003 | valleymetro.org