A G E N D A   R E P O R T

TO: Members of Eco-Rapid Transit

FROM: Michael Kodama, Executive Director

DATE: June 12, 2019

SUBJECT: **UPDATE AND/OR ACTION REGARDING WEST SANTA ANA BRANCH**

Public comments on items on the agenda will be taken at the time the item is called and are limited to 3 minutes per speaker

ISSUE

Eco-Rapid Transit staff will provide an update and seeks your guidance regarding West Santa Ana Branch.

BACKGROUND

In February 2013, Southern California Association of Governments (SCAG) approved an Alternative Analysis (AA) to connect Los Angeles and Orange Counties along a 34-mile long corridor from Union Station in Los Angeles County to the City of Santa Ana in Orange County.

In 2015, Metro conducted a West Santa Ana Branch (WSAB) Technical Refinement Study that built upon the SCAG analysis with a focus on the 20-mile Los Angeles County segment. Metro is now in the next level of planning and is in the Environmental Impact Statement (EIS)/Environmental Impact Report (EIR) process to prepare the corridor for light rail.

Per Measure M and Metro's Long Range Transportation Plan (LRTP) financial forecast, as amended, the Project has a $4 billion (B) (2015$) allocation of funding (comprised of Measure M and other local, state, and federal sources). Per Measure M, funding becomes available in two cycles. The first funds are available for FY 2028 ($1 billion) and the next set of funds are for FY 2041 ($3 billion). Recent project capital costs is estimated at $6.5 to $6.6B (in 2018$). This project also has over $300 million in SB1 funds.

Through the efforts of Eco-Rapid Transit, Gateway Cities COG and our elected representatives, WSAB is part of part of the '28 by '28 initiative that can accelerate the project with potential delivery in time for the 2028 Olympics.

Last month, the Metro Board of Directors discussed financial forecast, use of alternative public and private financing, and constructability analysis relating to the '28 by '28 Initiative. Metro staff began discussions related to funding plans for the four pillar projects, which includes WSAB.

Based on current funding and financing assumptions, the acceleration of the pillar projects will require funding for capital, debt service, and operations much sooner than currently planned and will cause a **funding shortfall** unless this funding gap is addressed with new revenues, revenues diverted from other Metro uses, or the deferral of projects.

The pillar projects could be funded on an accelerated schedule if a significant amount of new sources are implemented. **The Pillar Projects Financial Forecast is being prepared as an alternative to the baseline Metro system-wide, or Long Range Transportation Plan (LRTP) financial forecast, which is the multiyear funding plan for all Metro projects, programs, and services.**

The Metro Board Report anticipated to be discussed in July, will address the potential for improvement to pillar project schedules based on timely reviews by third parties (such as our local Eco-Rapid Transit members) to reduce review cycle times and work collaboratively with Metro staff.

As part of the July Metro Board Report, it is anticipated that Metro staff will identify opportunities to reduce overall duration by working on multiple project phases concurrently. Preliminary engineering could begin earlier in the planning phase and overlap with development of the environmental document, given there are some risks associated with that approach. Utility relocations, resolving geotechnical unknowns and tunneling segments will also be key to completing on time and within budget. This is a new process that can accelerate the WSAB project and requires significant early planning and collaboration among Metro and all of us.

Be aware that the complexity of the pillar projects may make them candidates for Minimum Operating Segments in order to build as much of the project as possible to meet at least a portion of the mobility goals in time for the Olympics.

RECOMMENDATION

It is recommended that the Board:

1. Discuss information presented and offer action items; and/or
2. Receive and file the item

Los Angeles County
Metropolitan Transportation
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One Gateway Plaza
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Los Angeles, CA

File #: 2019-0224, **File Type:** Informational Report **Agenda Number:** 40.

CONSTRUCTION COMMITTEE
EXECUTIVE MANAGEMENT COMMITTEE
MAY 16, 2019

SUBJECT: STATUS REPORT ON FINANCIAL FORECAST TO DELIVER TWENTY-EIGHT BY '28

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE status report on financial forecast to deliver the Twenty-Eight by '28 Initiative.

ISSUE

This item is a status report in response to a Board request (Motion 32.4, #2019-0108) during the Board meeting on February 2019 regarding the financial forecast, use of alternative public and private financing, and constructability analysis relating to the Twenty-Eight by '28 Initiative. Metro staff has initiated development of the funding plans for the pillar projects identified in Motion 32.4 per Board direction. Based on current funding and financing assumptions the acceleration of the pillar projects will require funding for capital, debt service, and operations much sooner than currently planned and will cause a funding shortfall unless this funding gap is addressed with new revenues, revenues diverted from other Metro uses, or the deferral of projects. The pillar projects could be funded on an accelerated schedule if a significant amount of new sources are implemented, including, but not limited to, new federal funding, tax-credit bonds, and new local revenues like transportation network company (TNC) fees. Metro can facilitate this by seeking the creation of new funding sources that could ultimately accelerate the pillar projects, and be incorporated in future funding plans.

BACKGROUND

Motion 32.4 requests a report on a financial forecast that prioritizes the following four "pillar projects"; assumes public private partnership (P3) efficiencies but not use of local return revenues; public and private financing not in Metro's existing "toolbox"; and a constructability analysis of the four pillar projects that includes scope, costs, risks, use of alternative modes, and timelines.

Pillar Projects (Measure M Opening Date)

- Gold Line Eastside Extension Phase 2 (FY 2035)
- Green Line Extension to Torrance (FY 2030)

- Sepulveda Transit Corridor (FY 2033)
- West Santa Ana Branch to Downtown LA (FY 2028, FY 2041)

DISCUSSION

Status of Financial Forecast

Metro staff has initiated development of the funding plans based on the provided Board direction. A Pillar Projects Financial Forecast is being prepared that attempts to identify a viable funding plan for the four projects. The Pillar Projects Financial Forecast is being prepared as an alternative to the baseline Metro system-wide, or Long Range Transportation Plan (LRTP) financial forecast, which is the multiyear funding plan for all Metro projects, programs, and services.

Key assumptions being made include: all pillar projects are completed by FY 2028, the cost of each of the pillar projects is the same as initially estimated in the Measure M Expenditure Plan (Metro staff is aware that the preliminary cost estimate for certain project alternatives is higher than the Expenditure Plan, but any such alternative has not yet been approved by the Board), local sales tax funding is limited by the respective Expenditure Plan, the use of funds is consistent with Metro Board policy, and state and federal funding are limited to existing grant programs and estimated availability to Metro.

Metro Board Policies

Board-adopted policies guide the use of Measure R and Measure M funds and may need to be considered in the acceleration of funding. The "**Fiscal Responsibility Policy**" adopted in May 2011, requires among other things, that interest from debt issued for a Measure R project that is accelerated in comparison to its April 2010 LRTP schedule is allocated to the project as a cost. This reduces the amount available for capital spending as the Measure R funding amount for each project in the Expenditure Plan is capped and the allocation of interest takes away from this amount. This policy affects 3 of the 4 pillar projects (Gold Line Eastside Extension Phase 2, Green Line Extension to Torrance, and Sepulveda Transit Corridor) and may reduce the amount of Measure R available for capital costs.

The "**Early Project Delivery Strategy Policy**" approved in November 2017 establishes criteria that are to be applied in determining if a Measure M project can be delivered faster than scheduled in the Expenditure Plan. In general, projects can be accelerated as long as others are not negatively impacted. In addition, the Board is to review multiple criteria, including the use of new revenue, partnering, streamlining of process, and use of innovations, and determine if the project should be accelerated.

Metro staff is evaluating individual pillar project schedules and has identified critical challenges that will require assistance from the Board in order to remain on accelerated schedules. Specifically, Metro will need assistance from the Board to help with expediting typical federal and state review cycles involving multiple iterations lasting many months to a more collaborative process lasting weeks. This is an area wherein changing typical processes can have immediate positive impacts to completing our pillar projects on schedule. Staff will provide the Board with more detailed information to assist with these critical challenges in the coming weeks and provide recommendations at the July 2019 Board.

Some of the pillar projects provide new revenue and innovations. However, the acceleration of all of the projects will likely require a significant increase in debt and a diversion of revenue from other Measure M projects and programs, and may negatively affect the ability to deliver these projects and programs.

Potential Financial Forecast Results
The acceleration of the pillar projects will reduce inflation cost, but also reduce the opportunity to realize state and federal grant funding, as well as Measure M inflation funding. The amount of grant funding that Metro forecasts to be available is based on the estimated total amount statewide and nationwide, with a proportion allocated to Metro. It may not be possible to advance grant funding when needed for the accelerated projects because the total amount available to the granting agencies each year is limited and may be allocated to other eligible grantees (i.e., Metro cannot assume a grant expected to be available 15 years from now will be awarded during the next two or three years). Metro staff will evaluate if a more aggressive proportional allocation of grant funding to Metro is warranted.

The amount of Measure M available for the pillar projects can be increased for inflation. However, if the project is accelerated a portion or all of the inflation may be eliminated, as the Measure M Ordinance provides for inflation only if less than 2/3rds of the funding is spent before FY 2027.

The acceleration of the pillar projects - all new light or heavy rail lines - will result in operating costs that must be paid starting in FY 2028 or FY 2029. This will add $200 million to $300 million of additional costs each year, paid 5 to 13 years sooner than in the LRTP financial forecast, and will need to be funded from operating funds. Although some of this cost will be paid from fares, the balance must come from local sales tax, state funding, and federal funding that is eligible for operations (e.g. Proposition A 35% Transit, Proposition C 40% Discretionary, Transportation Development Act, Section 5307, CMAQ). These funds are currently allocated or programmed in the LRTP financial forecast for other uses, including vehicle replacements and midlife overhauls, and the reallocation of funding for operations may result in additional debt financing or deferral of capital expenditures.

The Metro LRTP financial forecast includes all foreseeable and reasonably expected revenues and allocates virtually all of these to Board-approved projects, programs, and services. The acceleration of the pillar projects will require funding for capital, debt service, and operations much sooner than currently planned and will cause a funding shortfall. This funding gap needs to be addressed with new revenues, revenues diverted from other Metro uses, or the deferral of projects. Any new revenues will exclude local return and congestion pricing (and transportation network company fees, as discussed herein), and may require that Metro advocate for additional funding from newly created funding sources.

<u>P3 Efficiencies</u>
Metro staff is continuing to evaluate the potential for efficiencies, or cost savings that may be realized through the use of P3, rather than a design-build model, to deliver any of the pillar projects. Case study and survey information demonstrate that P3s can offer cost savings for capital, operations, and repair and replacement.

As noted in the Twenty-Eight by ‘28 Financing/Funding White Paper (#2019-0089), however, every infrastructure market and project is different, and there are many variables specific to each market, project, and contract that influence the extent to which project savings are achieved, if at all. To the extent that cost efficiencies are assumed on a specific project, they must be justified by technical engineering analysis.

At this time, staff cannot yet confirm any specific technical concepts for any of the pillar projects that could be achieved through P3 delivery that, if implemented, would result in significantly different costs for any of the pillar projects. This is in large part because the pillar projects identified for P3 delivery are not far enough along in the planning process to have gone through sufficient design to support the development of a detailed cost estimate, which is required to determine any potential cost savings. For the same reason, the baseline costs that would be a reference or benchmark for the P3 efficiencies are still rough, order of magnitude estimates.

Without technically justifiable project-specific P3 efficiencies identified by the July 2019 report to the Board, there is not sufficient certainty to assume cost savings as part of Metro’s Pillar Projects Funding Forecast. Doing so would add significant risks to Metro as we may pursue the delivery of a major capital project with an unsupportable cost estimate, or conversely lack of funding, and this could stop or significantly hamper a project’s delivery.

New Public and Private Financing

The funding plans will include new revenues that are not currently available to Metro, as described in our January 2019 report (#2019-0011) to the Board on the Re-imaging of LA County Initiative. The new revenues include toll revenues from a future express lanes network and value capture financings. The Board’s direction from February 2019 is to exclude congestion pricing revenue from the funding plans for accelerated projects.

Metro staff also recommends excluding revenue from transportation network company (TNC) fees. Such a fee would be assessed on companies like Uber and Lyft to be used for Metro transportation purposes (the state has enacted a statewide TNC fee starting in FY 2020 but the revenue is limited to services for the disabled). Similar to the rationale for excluding other revenues from the Pillar Projects Financial Forecast that do not currently exist or have not yet been enacted, assuming that TNC revenue is available would subject Metro to risks that the revenues are not realized and the project cannot be completed. Prior to assuming TNC fees will accrue to Metro we must have legal authorization and an agreed-upon fee structure.

Metro staff is pursuing the development of additional new revenues or funding sources, including the reconsideration of “Build California Green Bonds,” which is a proposed state tax credit bond that could provide Metro with significant debt interest savings. However, the proposed bonds have not been enacted and it is uncertain if they will be available to Metro, and in what amounts they will be supported by investors. Because the bonds and a market for bonds do not currently exist, we do not recommend including these in the Pillar Projects Financial Forecast, which could rely on such financing as soon as three or four years in the future.

There are proposals at the federal level to increase funding for transportation, including a new infrastructure bill that would award agencies like Metro that have a significant amount of local funding, and a potential alternative to the large “New Starts” program called “Expedited Project Delivery” that would make federal capital funds available more expeditiously. Unfortunately these federal funding sources are either not enacted or reliable, having no federal budget allocation or history of funding projects.

The pillar projects could be funded on an accelerated schedule if a significant amount of new sources are implemented, including new federal funding, tax-credit bonds, and new local revenues like TNC fees. Metro can facilitate this by seeking the creation of new funding sources that could ultimately accelerate the pillar projects, and we may be able to incorporate these in our funding plans in the future.

<u>Constructability Analysis</u>
Metro staff has been advancing constructability of the four pillar projects per item D of the February Board Motion. The project teams are developing scopes, schedules, cost estimates, risk analyses, and P3 status for the respective projects. In order to provide a comprehensive response to the motion, staff is also identifying opportunities, wherever possible, to accelerate these projects to support an opening for revenue service by the end of FY2028.

All four pillar projects are in the planning and environmental phase and scheduled to be environmentally cleared over the next four years and transition into engineering, design and construction. In order for some of these projects to have a chance of completion and revenue operations by 2028, the environmental and engineering work must be accelerated for construction to begin no later than calendar year 2023. Any additional requirement imposed on these projects will have a material effect on realizing this goal. Challenges during the construction phase and interactions with third parties such as multiple cities along the alignment and a shared corridor with other governmental and private entities may also impact the schedule.

Project scopes, schedules, cost estimates and risk analyses for the pillar projects are currently well under way. Staff will come back to the Board in July to provide a detailed status for each project related to the specifics identified in the motion.

In general, the initial critical path for achieving construction start is the environmental clearance, preliminary engineering and procurement processes that lead to award of construction contracts. The Board can help accelerate these initial phases as they are highly dependent on local, state and federal stakeholders to provide timely review and approval of environmental documents, conceptual design, cost estimates and preliminary engineering.

The July Board Report will address the potential for improvement to pillar project schedules based on timely reviews by third parties. Metro has optimized our own internal processes, but we have less control over the timeliness of responses from our partners. Therefore, support from the Board is critical to encourage our federal, state and local partners to reduce review cycle times and work collaboratively with Metro staff to resolve questions or concerns as they arise.

Staff is evaluating the current pillar project schedules to identify potential efficiencies in the design and construction phases. As part of our July Board Report, staff will identify opportunities to reduce overall duration by working on multiple project phases concurrently. Preliminary engineering could begin earlier in the planning phase and overlap with development of the environmental document, given there are some risks associated with that approach. Utility relocations, resolving geotechnical unknowns and tunneling segments will also be key to completing on time and within budget. In addition, the complexity of the pillar projects may make them candidates for Minimum Operating Segments in order to build as much of the project as possible to meet at least a portion of the mobility goals in time for the Olympics. Minimum Operating Segments are typically prepared as part of the environmental review phase and are disclosed and analyzed for public, stakeholder and Board consideration.

FINANCIAL IMPACT

This is an information item and does not have a direct financial impact on Metro. The implementation of accelerated funding for major capital projects would have a financial impact on Metro, and these impacts will be identified in the event the Board considers approval of the funding plans.

Impact to Budget

This is an information item and does not impact the FY 2019 budget.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

This item helps ensure fiscal responsibility in how funding determinations are made and transparency in the agency's investment decisions (Goal #5).

NEXT STEPS

Metro staff will continue the development of a financial forecast and constructability analysis of the four pillar projects, consistent with Board direction, and report back with a year-by-year potential financial forecast to deliver Twenty-Eight by '28, prioritizing the four pillar projects for the July 2019 Board meeting.

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