28 by 2028 Financial Plan

– Laying the Groundwork

December 6, 2018

Metro

Presentation Contents

- Background
- Challenge Statement
- Status of 28 x 2028 Projects
- Measure M Parameters
- 28 x 2028 Funding Challenges
- Potential Funding/Financing Tools
- Call to Action Recommendations
- Next Steps
- Final Thoughts

Metro

Background

- The Metro Board approved the 28 x 2028 Initiative in January 2018, which includes 28 highway and transit projects totaling $42.9 billion (YOE) with the goal of completion in time for the 2028 Olympic and Paralympic Games
- 20 of those projects are already slated for completion by 2028
- Per Motion 4.1 (Solis, Garcetti, Hahn, Butts) in September 2018, the Board directed the CEO to develop a 28 x 2028 funding plan
- $26.2 billion is the funding that would need to be advanced to accelerate delivery of the other 8 projects by 2028

Metro

Challenge Statement

- Design a funding/financing plan to advance $26.2 billion for the planning, design, construction, operation and maintenance of the 8 projects in the 28 x 2028 Initiative that are currently outside of the 2028 schedule

Metro®

Report Card on Voter-Approved Measure M

- As stewards of taxpayer dollars, Metro has a responsibility and accountability to the voters
- We are meeting or exceeding the Measure M schedule on all projects
- In addition, we are moving forward on additional projects beyond Measure M
  - Link US (only partially funded)
  - Micro Transit
  - Aerial tram to Dodger Stadium
  - Arts District Station Environmental (on behalf of City of LA)

Metro

28 x 2028 Report Card

- The 28 projects are in various stages of development:
  - 7 in the Planning stage
  - 8 in the Environmental stage
  - 7 in the Final Design stage
  - 6 in the Construction stage
  - 0 in the Operations and Maintenance stage
- The life of a project takes many years with some key stages of project development:

Life of a Project

Measure M Parameters

- 8 projects have original Measure M delivery dates post 2028

I-105 ExpressLanes	Sepulveda Transit Corridor
I-710 South (Early Action)	Gold Line Eastside Extension
SR57/60 Interchange	West Santa Ana Branch
I-405 South Bay Curve	South Bay Light Rail Extension

- All 8 projects are in development, despite having completion dates beyond 2028
- Any schedule acceleration is currently governed by the Measure M Ordinance

Metro

Measure M Ordinance Parameters

- The Measure M Ordinance does allow for acceleration
  - An amendment to the "Schedule of Funds Available" is required (when Measure R and M funds become available for projects)
  - Acceleration of projects is allowed by a 2/3 vote of the Board <u>if no funding reductions or schedule delays to other major or multi-year subregional projects</u>
  - Metro is required to hold a public meeting on proposed amendments and provide notice at least 30 days prior to the meeting and a copy of proposed amendments to the County and all 88 cities
- Prior to a Board vote, any proposal to accelerate a project must be reviewed by the Measure M Independent Taxpayer Oversight Committee

Metro

Measure M Early Project Delivery

- Board approved an Early Project Delivery Policy in November 2017
- Policy evaluates when projects can be accelerated in order to comply with the Ordinance
- Four categories of strategic inputs evaluate whether a project is a good candidate for acceleration

Accelerator Category	Points
Funding	30
Partnerships	30
Process	25
Innovations	15

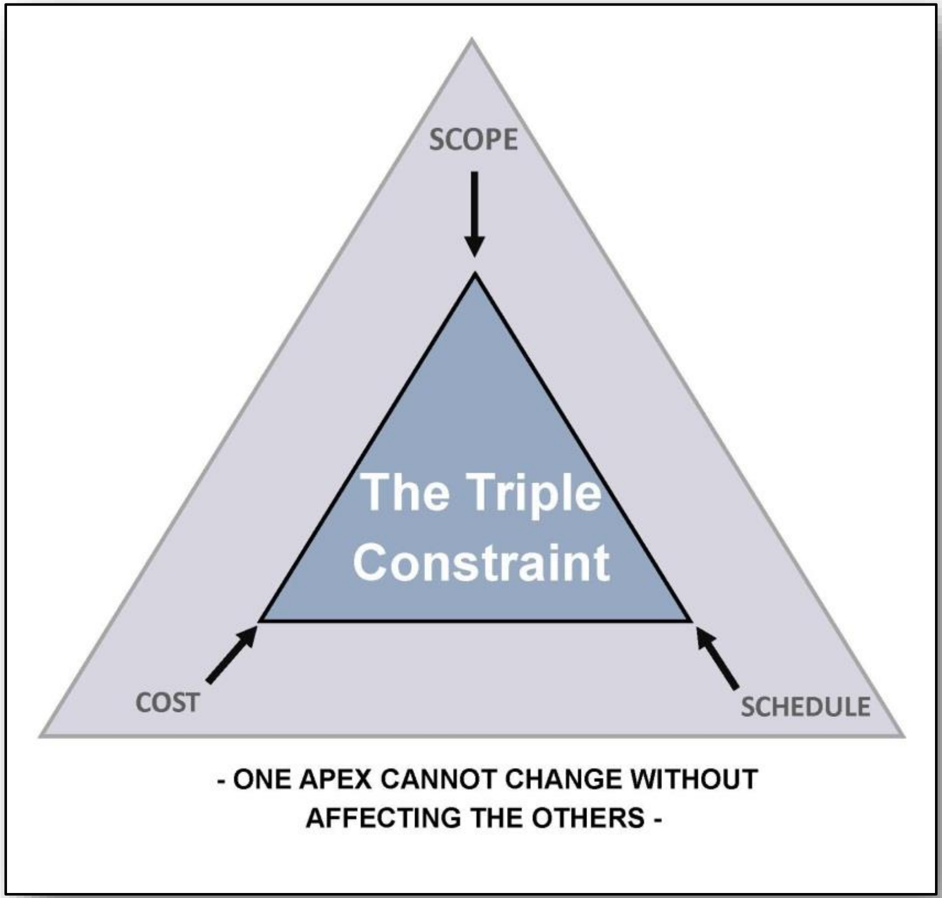
Metro

Measure M Cost Management Policy

- Board approved a Cost Management Policy in July 2018 to establish cost controls to successfully deliver projects
- If there are increases to a project cost estimate, the Board must approve a plan of action to address the issue prior to the project moving forward using the following methods:
    1. Scope Reductions
    2. New local agency funding resources
    3. Value engineering
    4. Other cost reductions within the same transit/highway corridor
    5. Other cost reductions within the same subregion
    6. Countywide transit/highway cost reductions or other funds using pre-established priorities

Metro

Measure M Cost Management Policy



Metro

28 x 2028 Funding Challenges

- To accelerate all 8 projects that have original delivery dates after 2028 Metro must advance $26.2 billion

Funding Gap Discussion	Amount in Billions (YOE)
Total Project Cost for 28 by 2028	$ 42.9
-) 20 Projects in Progress with Funding Plans Identified	19.2
Remaining 8 Project Construction Cost to be advanced	**23.7**
O&M Expense for Earlier Revenue Operations	2.2
Pre Revenue Service Cost	0.1
SGR Accrual	0.2
Total Non Construction Cost to Advance the 8 Remaining Projects	**2.5**
Total Planned Funding Gap to Advance 28 by 2028	**$ 26.2**

Metro

Staff Recommended Baseline Assumptions

- There are items that staff believes are sacred and should not be deferred in order to accelerate the 8 projects
  - **NextGen Bus Plan** – allow the results of NextGen to be implemented
  - **State of Good Repair** – maintain $475 million/year to accommodate the 10% backlog
  - **Props A & C** – maintain current debt limits to ensure funds are reserved for operations
  - **Bondholder Agreements** – honor covenants with bondholders
  - **Ancillary Projects** – ensure funding is in place for these current unfunded projects (Division 20, combined rail/bus operations center, M3 system, train radio for existing subway system, I-210 barrier)
    - The majority of these are necessary to operate the expanded system

Metro

Potential Tools to Advance Funding

- Staff has identified four major areas that can contribute to advancing the $26.2 billion necessary to complete 28 x 2028:

1. Debt
2. Increase Revenue from Existing Sources
   - Fares
   - Toll (Express Lanes)
   - Advertising
   - Funding (Local, State and Federal)
   - Legislative Strategies
3. Reduce Expenditures
   - Extend Electrification of Bus Fleet to Match State Mandate
   - P3 Opportunities
   - Bikeshare Program (Transition to City of LA)
4. Generate Revenue from New Sources
   - Value Capture
   - New Mobility Fees
   - Congestion Pricing

Metro

Risk Allocation Matrix (RAM)

- The Risk Allocation Matrix (RAM) is a list of strategies that have each been assigned a risk level of high, medium or low
- The table below summarizes the risk levels and total value identified for each level:

H	Financial and legal risks high Violation of sales tax ordinances Significant risk to agency and public	$65.3 billion – 129.1 billion
M	Some financial and legal risk to agency Impact to agency and public, but mitigation efforts available	$16.5 billion
L	Minimal impact to agency and public	$4.1 billion

Metro

28 x 2028 Risk Allocation Matrix

DEBT		
Issue additional debt within current policy for capital categories only	M	$6,700,000,000
Issue additional debt by bonding for capital categories only to the maximum permitted by the Additional Bonds Test (ABT) and assume an ABT of 1.5x for Measure M	H	$10,800,000,000
INCREASE REVENUES FROM EXISTING SOURCES		
Fare Revenues		
Increase fares by 10%	L	$302,614,000
Increase fares by 15%	M	$453,921,000
Increase fares by 20%	H	$605,228,000
Increase fares by 25%	H	$756,535,000
Advertising		
Expanded Advertising and Corporate Sponsorship	L	$1,000,000,000
Toll Revenues		
Toll revenue from new ExpressLanes (EL) Conservative projected revenues	L	$399,000,000
Toll revenue from new ExpressLanes (EL) High projected revenues	H	$798,000,000

Metro

28 x 2028 Risk Allocation Matrix – Cont'd

INCREASE REVENUES FROM EXISTING SOURCES		
Funding		
Multi-Year Subregional Funds by impacted subregions on 8 accelerated projects	M	$846,400,000
Local Return funds by impacted cities on 8 accelerated projects	H	$2,689,427,629
Require 3% of accelerated costs to be funded by cities' Local Return	H	$711,000,000
Increase Federal funding share from 15.4% to 19.2% (FFGA for WPLE3)	M	$983,200,000
Increase Federal funding share from 15.4% to 22.1% (Expands total New Starts Drawdown across WPLE, WSAB, and Sepulveda)	H	$1,965,700,000
Increase State funding share from 11.8% to 14.5% - across various 2028 projects	M	$700,400,000
Increase State funding share from 11.8% to 17.9% - across various 2028 projects	H	$1,695,500,000
Legislative Strategies		
Increase the percentage of Cap and Trade Funds allocated to public transit	M	$600,000,000
Reconfigure existing SB 1 programs to generate more funds for Los Angeles County	H	$1,000,000,000

Metro

28 x 2028 Risk Allocation Matrix – Cont'd

REDUCE EXPENDITURES		
Extend Electrification of Bus Fleet		
Electric bus - conform with state mandate of 2040 rather than 2030	L	$350,000,000
Bikeshare Program		
Bikeshare Program	M	$87,500,000
P3 Opportunities		
Explore P3 opportunities	M	$5,100,000,000

Metro

28 x 2028 Risk Allocation Matrix – Cont'd

GENERATE REVENUES FROM NEW SOURCES		
Legislative Strategies		
Seek to back the creation of a White House Task Force on the 2028 Olympic and Paralympic Summer Games	L	$2,000,000,000
Value Capture		
Value Capture financings - (Variety of locations)	M	$93,000,000
Value Capture financings - (Desirable locations)	H	$370,000,000
Congestion Pricing		
Congestion Pricing - Cordon Pricing	H	$12,000,000,000
Congestion Pricing - VMT Pricing	H	$103,500,000,000
Congestion Pricing - Corridor Pricing (10 corridors)	H	$52,000,000,000
New Mobility Fees		
Shared Devices - Fee at $1 per device per day	M	$580,000,000
Levy a fee on TNC - Fee of $0.20	M	$401,000,000
Levy a fee on TNC - Fee at $2.75	H	$5,500,000,000

Metro

Debt Capacity Analysis

For Capital Funds only

Capacity Analysis Table		
Issue Type	**Additional Capacity under Debt Policy(1)**	**Additional Bonds Test (ABT) Capacity (Measure M 1.5x ABT)**
Proposition C Highway (25%)	$1.8 billion	$3.8 billion
Measure R (35%) – Transit Capital	$1.3 billion	$1.4 billion
Measure R (20%) – Highway	$1.8 billion	$2.4 billion
Measure M (35%) – Transit Construction	$6.0 billion	$7.0 billion
Measure M (17%) – Highway	$3.0 billion	$3.5 billion
Total Capacity	**$14.0 billion**	**$18.1 billion**
Debt needed for Capital Base plan for 10 yrs.	**$7.3 billion**	**$7.3 billion**
Available Debt Capacity	**$6.7 billion**	**$10.8 billion**

All Measure R and Measure M debt issuance must go to their respective oversight committees for a finding of benefit.

(1) Represents the project fund proceeds generated by leveraging up to the full amount of revenues currently allowed under LACMTA's Debt Policy for each bondable category.
(2) Debt service assumes the full amount issued in year one, 5% par bonds and a 30 year amortization.

- Increases annual debt service to $1.4 billion(2), 21% of FY19 budget.
- May trigger ratings downgrades.
- Decline in sales tax revenue may result in paying debt service with funds intended for operating the system.

- Increases annual debt service to $1.7 billion(2), 26% of FY19 budget.
- May trigger ratings downgrades.
- Maximum leverage removes Metro's ability to borrow to respond to any unforeseen events.
- Decline in sales tax revenue may result in paying debt service with funds intended for operating the system.

Metro

Debt Assumptions for Capacity Analysis Table
Dated Date of new money issuances July 1 of each year beginning 7/1/2019 through 7/1/2028
New money issuances under capacity analyses structured as 30-year level debt service
Issuance expenses for new money issuances assumed at $500,000 costs of issuance and $2.50/bond for underwriter's discount.
No debt service reserve fund funded in connection with new money issuances.
New money issuances assume 5% coupon and yield equal to the 25-year historical average of 30-year AAA GO MMD.
Sales tax revenues for FY2019 based on 2019 budget ($844 million). Sales tax revenues assumed to grow annually at 3.5%

Debt Policy/Debt Affordability

- Potential impacts of increasing the debt capacity by $4.1 billion include:
  - Rating downgrades
  - Debt service payments that exceed 20% of annual budget
  - Declining sales tax receipts may require using revenue intended for operating the system to pay debt service
  - Eliminates reserve of debt capacity that may be needed to meet emergencies
  - Reductions in current agency services, programs and projects

Metro

Prudent Financial Policy

- On November 19, 2018, Fitch Rating Agency announced that it upgraded Metro Issuer Default Rating from AA to AA+.
- In their report, Fitch noted that it does not expect the Authority to leverage to the Additional Bonds Test.
- Rather, Fitch expects the Authority to comply with voter-approved spending allocations and Board policies that require much of the sales tax revenues to be spent on operations and uses other than debt service, limiting leveraging of the revenue stream.

Metro

Local Return &Multi-Year Subregional Guidelines

- 27 local jurisdictions directly benefit from the 8 accelerated projects
- These cities have the flexibility to direct funds to these projects from the Local Return and Multi-Year Subregional Programs
- The 10-year forecast for Local Return Funding for these 27 cities is $2.7 billion
- Local Return investments to deliver projects earlier translates into earlier and longer term economic benefits for those communities

Metro®

Public-Private Partnership (P3) Assumptions

- Public-private partnerships can provide project cost and schedule certainty and potential savings on capital, operations and maintenance and state of good repair
  - Capital Cost Savings
    - DBFOM procurements in the U.S. have achieved cost savings through competitive pricing, design innovation and avoided cost inflation
  - Operations & Maintenance/State of Good Repair Cost Savings
    - Lower O&M costs and lower escalation rates reduce cumulative costs during operations
    - P3 developers generally perform SOGR work earlier and more frequently, optimizing lifecycle investments

Metro

Potential Metro P3s

- Metro has two ways to consider public-private partnership opportunities:
  - Through evaluation of Unsolicited Proposals
  - By assessing potential P3 value through internal analysis
- So far, Metro is considering P3s on three projects:
  - West Santa Ana Branch Light Rail Corridor (unsolicited proposal)
  - Sepulveda Transit Corridor (unsolicited proposal)
  - East San Fernando Valley Light Rail Corridor (internal analysis)
- All three projects have the potential to save $5.1 billion

Metro®

State and Federal Funding Assumptions

- State and federal funds are limited by funding availability each year
- Awards are based on eligibility and estimated future availability of funds
- State and federal funding is programmed into Measure M projects and projected to be awarded as funds are available
- Advancing of funding would require that either more total funds are available, or Metro receives an increasing share

Metro

State and Federal Funding Comparisons

- The below table shows how the total percentage and amount of state and federal funding could increase for the 28 x 2028 program with different assumptions:

Funding Type	Current Assumptions		Medium-Risk Assumptions		High-Risk Assumptions	
Federal	15.4%	$2.658B	19.2%	$3.642B	22.1%	$4.624B
State	11.8%	$2.048B	14.5%	$2.748B	17.9%	$3.743B
Local	72.8%	$12.585B	66.3%	$12.585B	60.1%	$12.585B
TOTAL		**$17.292B**		**$18.975B**		**$20.953B**

Metro®

New Revenue Primer – Mobility Fees

- Transportation Network Companies (TNCs) utilize demand-responsive travel options and profit from public investments in roads and infrastructure
- Some cities and states have started levying fees or taxes on TNC trips to generate revenue, manage congestion, regulate the industry and provide more transportation equity
- Ride-hailing companies are protective of their data, but based on general estimates of the number of rides, fees could generate $25-350 million annually
- Taxing new mobility trips should be used in carefully targeted ways designed to reduce single-occupancy travel

New Revenue Primer – Congestion Pricing

- Congestion Pricing charges higher fees for roadway use when demand is high and lower or zero fees when demand is low
- Congestion Pricing can be a challenge to implement due to political viability, technical issues and privacy and equity concerns
- Several areas have implemented various forms of congestion pricing with varying degrees of success
- Metro's ExpressLanes program is the only congestion pricing pilot implemented to date in LA County

Metro

New Revenue Primer – Congestion Pricing

- There are three conceivable ways congestion pricing could be implemented in LA County:
  - **Cordon Pricing ($12B)**– Creates a boundary around a central district and charges vehicles to cross that boundary. The fee can go up or down based on demand, or be set at a specific rate for peak versus off-peak times.
  - **VMT Pricing ($103.5B)** – Charges drivers based on Vehicle Miles Traveled (VMT) and can charge variable prices based on location and time of day.
  - **Corridor Pricing ($52B)** – New concept yet to be implemented, prices all lanes on roads within a specific high-traffic congestion corridor that has a viable public transit alternative. Fees would be based on miles traveled within the corridor.
- While congestion pricing faces barriers, it can prove to be highly popular while generating substantial revenues for transit and make a significant improvement in equity and added transit improvements for riders, especially on the bus system.

Metro

Board Call to Action

- The Board is in a unique position to aid in the development of a 28 x 2028 funding plan
- Call to Action recommendations:
  - Approve staff recommended “stakes in the ground”
  - Minimize scope increases for 28 x 2028 projects
  - Include in the 2019 Federal Legislative Plan a request for the establishment of a White House Task Force on Transportation Infrastructure Support for the 2028 Games
  - Continue to support and explore the use of innovative project delivery approaches, such as P3’s
  - Advocate for additional state and federal funding to support acceleration of projects
  - Direct staff to move forward on programs for TNC Regulation and Congestion Pricing
  - Propose special legislation to streamline local permitting processes

Final Thoughts

- These bold actions, especially our congestion pricing initiative, could position the agency to lead the way in a number of regional benefits and outcomes:
  - Drastically reducing the region's carbon footprint and combatting climate change
  - Eradicating congestion
  - First major city in the world that could offer free transit services and in time for the 2028 Games
  - Completing all 28 x 2028 projects
  - Increasing transit frequency and capacity
  - Realizing equity
  - Beware of contractor capacity pressures

Next Steps

- **January 2019**
  - Staff will provide timelines for each strategy after receiving feedback
  - Board will provide direction on the funding/financing tools to proceed with a 28 x 2028 funding plan

- **February 2019**
  - Staff will present a 28 x 2028 funding plan that incorporates Board-directed policy and financing strategies

Questions?

Metro