



Board Report

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Agenda Number: 14.

**FINANCE, BUDGET AND AUDIT COMMITTEE
OCTOBER 14, 2015**

SUBJECT: RESPONSE TO BOARD MOTION 6.1 (JUNE 2015) RELATED TO COMMUTER RAIL FUNDING IN LOS ANGELES COUNTY

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE:

- A) staff response to Board Motion 6.1 (Attachment A) related to **Commuter Rail Funding in Los Angeles County** adopted at the June 2015 Board meeting.
- B) status of \$18 million loan to Metrolink for rolling stock approved in FY11

ISSUE

Response to June 2015 Board Motion 6.1

As a part of the Board's consideration of staff's recommendation on Metrolink's FY16 budget request, the Board adopted Motion 6.1 directing the CEO to:

- 1) Develop a policy on the use of Metrolink-dedicated sources of funding; and
- 2) Work with Metrolink to identify projected Operating and Maintenance expenses through FY20; and
- 3) Request from Metrolink:
 - A. A current inventory and status of all New Capital, Capital Rehabilitation, and State of Good Repair projects; and
 - B. New projects expected over the next five fiscal years (through FY20); and
 - C. An inventory of all currently unfunded State of Good Repair and safety improvement needs for the Metrolink system within Los Angeles County; and
- 4) Provide a full accounting of all Regional Rail capital projects managed by Metro; and
- 5) Develop an ongoing short-range Metrolink program that plans out five years of funding commitments for Metrolink operations, maintenance, capital and state of good repair; and
- 6) Evaluate whether Metro or Metrolink should procure Architectural and Engineering (A&E) contracts.

An additional item within the motion instructed staff to defer, with limited exception, inclusion of

Proposition C 10% funding within the Call For Projects until the plans and policies referenced above have been reviewed and approved by Metro's Board of Directors.

This item addresses items 1 through 6 above and updates the Board on the status of a previous loan made to Metrolink. Staff has compiled the Board requested information as discussed below, summarized in Attachment B, and detailed in Attachments C (Metrolink's response), D (Regional Rail projects), and F (Metrolink item seeking the transfer of Regional Rail Projects to Metrolink).

DISCUSSION

1, 5) Policy on the Allocation of Metrolink Eligible Funding/Five Year Plan

Items 1 and 5 identify the Board's priority to initiate resource allocation policies and the planning and funding requirements to address the core Metrolink needs of Operations and Maintenance, Capital Rehabilitation/State of Good Repair, and Capital expansion.

Staff is currently developing a policy to address the various demands on Metrolink eligible funding in Los Angeles County. As directed by Metro's Board, this policy is being structured to specifically identify and estimate the availability of resources and identify Metrolink's core operating, safety, and State of Good Repair functions as the priority application of those resources.

As a member partner within the Joint Exercise of Powers Authority (JPA), Metro's Regional Rail staff is reaching out to Metrolink and the other member agencies to collaboratively address the provision of commuter rail services in Southern California. Regional Rail staff anticipates returning to the Board in the December/January time frame with a five-year outlook of expected demands on available resources including Metrolink Operating costs and service levels, Capital Expansion requirements, and Rehabilitation/State of Good Repair needs.

2) Five-Year Projections - Operating and Maintenance Expenses

Metrolink's Operating Budget projections for the next five years indicate a potential funding shortfall in the availability of operating funds from Proposition C 10% totaling approximately \$9.9 million, or 2% of Metro's estimated operating subsidy requirement. Metrolink included costs for both current and expanded levels of service. For illustration, summary data included in Attachment B reflects *current baseline service* levels excluding expansion.

Since FY12, Metro's budgeted operating subsidy contribution to Metrolink commuter rail service has increased a total of 63%, while service (as measured by train miles operated in Los Angeles County) has increased by approximately 7% over the same period. Operating expenses have increased by 27%, including the implementation of Positive Train Control (PTC), and revenues have grown very slowly as ridership has remained largely unchanged.

Metro and Metrolink staff have identified this growth in subsidy requirements as a priority issue, requiring continued discussions among Metro, Metrolink and our member agency partners as part of

the development of the FY17 Budget, and prior to any service expansion.

3A) Inventory and Status of Metrolink Current Budget Authority: Rehabilitation/State of Good Repair and Capital Expansion Projects

	Budget (\$ in millions)	Expended	Balance
Rehabilitation/State of Good Repair	\$ 60.5	\$ 25.4	\$ 35.1
Rotem Settlement/Reimbursement	12.6	1.4	11.2
Capital Expansion	39.6	21.9	17.7
	<u>\$ 112.7</u>	<u>\$ 48.7</u>	<u>\$ 64.0</u>

- **Rehabilitation/State of Good Repair**

The current budget authority for Metrolink's Rehabilitation/State of Good Repair program is \$60.5 million (as approved by Metro's Board over several years through FY15). A total of \$25.4 million (42%) is expected to be invoiced to Metro for work completed through June 30, 2015. The remaining Metro approved balance of \$35.1 (58%) million for Rehabilitation/State of Good Repair projects continues to remain available for drawdown.

Metrolink is in the process of reviewing their current portfolio of projects, prioritizing current budget authority to their highest priority projects and continues to work with Metro and the other member agencies to evaluate possible alternatives to address funding requirements

Through this process of re-prioritization Metrolink has identified locomotives as their highest priority need. Rather than attempt to rehabilitate older locomotives, Metrolink has indicated that because of the advanced age and heavy usage of the equipment, the purchase of new locomotives is the most efficient method of moving forward to ensure the safety and service reliability of their fleet.

To date, Metrolink has indicated that through the process of reviewing the remaining \$35.1 million discussed above, they have identified reprogramming opportunities that have resulted in approximately half (\$7.5 million) of Metro's required net contribution to the proposed locomotive purchase. However, Metro staff has not been apprised of the details of Metrolink's proposed reprogramming actions including specific project recommendations or the financial implications. We are also seeking clarity of the values reflected in Metrolink's FY14 Financial Statements regarding the makeup of \$11.7 million in Deferred (Unearned) Revenue attributed to Metro.

Finally, Metrolink has submitted a request to Metro seeking an additional \$7.25 million (Attachment E) in new funding to fund the balance of Metro's share of the procurement. Prior to any recommendation to Metro's Board, staff continues to seek further re-programming information, clarification, and input into the process to ensure only the highest priority projects are funded from current resources.

Staff continues to believe that the most prudent course of action remains to support the Board's action to defer Metrolink's FY16 Rehabilitation/State of Good Repair request of \$20 million based on

the current outstanding backlog of previously approved budget requests. For example, according to data received from Metrolink, of the \$16.4 million in the FY15 Metro Board approved budget authority, approximately \$66 thousand, or 0.4% has been committed to projects through the award of a contract.

As Metrolink continues to complete this process of re-evaluation and re-prioritization, and as approved projects demonstrate progress towards completion and delivery, Metro staff is committed to partner with Metrolink and the other member agencies and return to Metro's Board to identify additional resource requirements either through the FY17 budget or earlier, as appropriate.

Metrolink has indicated that they will provide Metro a detailed analysis over the next several weeks identifying the projects and funds they intend to seek authority to reprogram. Metrolink is also preparing for their board a detailed analysis of all member agencies proposed reprogramming actions.

- **Rotem Settlement/Reimbursement**

The Orange County Transportation Authority (OCTA) optioned the purchase of 22 Rotem rail cars for inter-county service which were later incorporated in the system-wide fleet. The member agencies reached an agreement that OCTA would be compensated for those cars used on a system-wide basis. Rather than a direct cash payment to OCTA, reimbursements were to be applied over five years towards OCTA's Rehabilitation/State of Good Repair contributions. Metro's total commitment for reimbursement equals \$19.9 million and through FY15 (Year 3), \$12.2 million has been allocated to Metrolink through Metro's budget process. Per data supplied by Metrolink, a total of \$1.4 million has been invoiced to date.

- **Capital Expansion**

The current budget authority for Metro's share of Metrolink's Capital Expansion program is \$39.6 million. A total of \$21.9 million (55%) has been invoiced. The remaining Metro approved balance of \$17.7 million is encumbered against existing and active projects, including Positive Train Control (PTC) and Vincent Siding and 2nd Platform.

3B) New Projects Expected over the next five fiscal years

Metrolink estimates Capital and Rehabilitation/State of Good Repair funding requirements of \$163.5 and \$135.6, respectively, for a total of almost \$300 million over the next five years, FY16-FY20. See Attachment B for a summary of the funding requirements and detailed listing of Metrolink's response in Attachment C.

3C) An Inventory of Unfunded Rehabilitation/State of Good Repair and safety improvements

Metrolink submitted an estimate of Unfunded Rehabilitation/State of Good Repair and safety improvement projects within Los Angeles County totaling \$149.4 million. According to Metrolink's submittal, some projects included in this estimate are also represented in the five-year projections

referenced above. See Attachment B for a summary and Attachment C for project details.

4) Regional Rail Capital Projects Managed by Metro

Metro's Regional Rail group manages Metro's relationship with Metrolink, the California High Speed Rail Authority, the LOSSAN Board of Directors, and implements projects designed to further those collective objectives.

The current budget authority for Regional Rail projects managed by Metro is \$906.5 million. The funding sources for these projects include:

- Local sales tax (primarily Measure R): \$83.0 million, and
- State, Federal and other sources: \$823.5 million

An additional contingency of \$11.2 million in State allocated funds remains to be formally applied to their corresponding eligible projects.

See Attachment B for a summary of the projects and Attachment D for more detailed information regarding each of the projects managed by Metro's Regional Rail group.

6) Evaluate whether Metro or Metrolink should procure Architectural and Engineering (A&E) contracts for commuter rail related projects in Los Angeles County

At its meeting of September 25, 2015, the Metrolink Board approved an item (Attachment F) that directed Metrolink staff to work with Metro staff to develop plans to transfer the management of commuter rail related capital projects currently under the management of Metro's Regional Rail group to the management of Metrolink.

Should both Metro and Metrolink Boards agree to the proposed transfer, staff will begin a transition plan through a Master Cooperative Agreement (MCA) for Metro Board review and potential approval that will address the means and methods that the two agencies will use to develop capital projects. The MCA will specifically identify, among other issues, the following:

- A transition plan for projects currently underway; and
- Communication protocols between the two agencies; and
- The funding responsibilities of Metro and the assignment of financial resources to Metrolink; and
- The financial obligations of Metrolink; and
- A plan for the cooperative oversight by both Metro and Metrolink on all approved capital improvement projects; and
- The coordinated interface of Metro and Metrolink with the California High Speed Rail Authority (CHSRA); and
- Necessary indemnifications; and
- Right-of-way (ROW) or other maintenance requirements subsequent to project completion.

Other Issues

Status of \$18 million loan to Metrolink

In October 2010, Metro's Board approved an urgency motion to loan up to \$18 million to Metrolink to finance the purchase of 20 additional Rotem commuter rail passenger cars. The terms of the agreement were that Metro would loan Metrolink up to \$18 million to provide working capital in order to secure a favorably priced contract option for additional vehicles. Thereafter, Metrolink would repay the loan to Metro, plus interest of 3.52% annually, using its eligible annual appropriation of Proposition 1B California Transportation Security Grant Program (CTSGP) funds received under a Letter Of No Prejudice (LONP). The terms stipulate that the loan will be repaid on or before June 30, 2017.

To date, through FY15 year end, Metrolink has made interest only payments to Metro totaling \$2.3 million. Staff has been working with Metrolink to establish a specific timetable and reimbursement plan. Please see Attachment G for Promissory Note.

FINANCIAL IMPACT

There is no current financial impact should the Board choose to Receive and File this report.

NEXT STEPS

Metro staff will continue to work with Metrolink to assess the funding needs, evaluate their budget requests, and identify additional funding, if needed. Metro staff continues to develop for Board review and approval a clear policy on the use of Metrolink-dedicated funds that will prioritize the use of funds for core Metrolink functions and determine the appropriate use of debt.

The following are key steps that staff will continue over the next several months:

- Continue to work with Metrolink and our partner member agencies to identify potential re-programming opportunities of previously approved yet unexpended funds
- Identify any potential funding gaps and possible alternative strategies
- Develop for Board approval a specific allocation policy of Metrolink eligible resources
- Work with Metrolink and our partner member agencies, to identify for Metro's Board, the five year requirements and resource availability for Metro's contributions to Metrolink Operations, Capital, and Rehabilitation/State of Good Repair needs
- Work with Metrolink to update the Board on a quarterly basis based on Board direction
- Work with Metrolink to identify a specific timetable and reimbursement plan to ensure the outstanding loan of \$18 million is repaid prior to its due date of June 30, 2017.

ATTACHMENTS

Attachment A - Board Motion 6.1 (As Amended)

Attachment B - Summarized information provided by Metrolink and Metro Regional Rail

Attachment C - Detailed Metrolink response to Metro's request for information

Attachment D - Detailed information of Metro Regional Rail Group

Attachment E - September 10, 2015 letter from Metrolink; re: Locomotive request for additional funding

Attachment F - Metrolink September 25, 2015 Board Item # 9 RE: Transferal of Specific Capital Projects in Los Angeles County

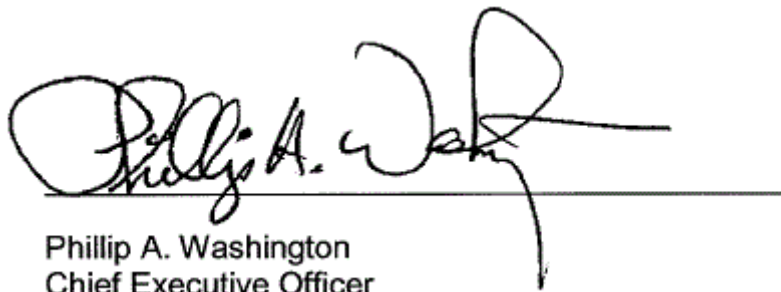
Attachment G - Promissory Note - Metrolink Rolling Stock Loan

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