

**Board Report**

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**2<sup>nd</sup> REVISED**  
**CONSTRUCTION COMMITTEE**  
**JANUARY 17, 2019****SUBJECT: METRO GOLD LINE EXTENSION TO CLAREMONT****ACTION: APPROVE RECOMMENDATION****RECOMMENDATION**

DIRECT the Chief Executive Officer to pursue finalize negotiations with the Gold Line Authority to ensure the extension of the Foothill Alignment to Pomona station as a first phase, consistent with the provisions of Board-adopted Measure R and Measure M Unified Cost Management Policy.

**ISSUE**

At the December 2018 meeting, the Board approved Motion #40 by Solis, Fasana, Garcetti, Najarian and Barger, that the CEO report back to the Board in January 2019 with options for initial funding to extend the first phase of the Gold Line Extension to Claremont beyond La Verne to Pomona, along with a funding strategy for the second phase consisting of Claremont and Montclair.

**DISCUSSION**

The Gold Line Extension to Claremont is a proposed light rail transit (LRT) line starting from the existing Metro Gold Line Azusa station. The project is environmentally cleared for a new LRT service from Azusa to Montclair. The project development and construction is managed by the Metro Gold Line Foothill Extension Construction Authority (Construction Authority). Consistent with the Metro Board action on the 2009 Long Range Transportation Plan, the project was prioritized in the 2016 Measure M Ordinance and Expenditure Plan for \$1.02 billion in Measure M funds at the beginning of the Measure M program. Additionally the project was prioritized for state discretionary funds resulting in an award of \$249 million of Transit and Intercity Rail Capital Program (TIRCP) funds. In July 2017 Metro and the Construction Authority entered into a funding agreement (Foothill Extension Phase 2B Funding Agreement -- Glendora to Claremont) for \$1.36 billion covering Metro's commitment of the \$1.02 billion in Measure M, \$249 million in TIRCP, and \$96 million in Measure R savings from the Foothill Extension Phase 2A project. Any project cost increases that follow execution of the funding agreement are governed by the Metro Measure R and Measure M Unified Cost Management Policy (Policy) adopted by the Metro Board in July 2018.

The Construction Authority received construction bids this year that exceed the budget for the project by \$570 million. Because of this cost increase, the Construction Authority intends to reduce the initial

scope of the project and end the line at La Verne - two stops short of Claremont - and begin operations in 2025. The Construction Authority Board has approved their plan to restructure the construction contract under the shorter segment to La Verne, with an option to extend the project to Claremont and Montclair should funding become available. However, the Board's position stipulated in Motion #40 is that a first segment extend at least to the planned Pomona station. A working cost estimate from the Construction Authority for that additional segment beyond La Verne station totals roughly \$230 million.

This report addresses the provisions of the Metro Measure R and Measure M Unified Cost Management Policy, as this policy guides the management of Measure M projects that experience cost increases, and the Funding Agreement between Metro and the Construction Authority relating to the Glendora to Claremont segment of the project. This includes options to fund the project to Pomona and a strategy to fund the project to Claremont. This report does not include options to fund the Claremont to Montclair segment of the project, as this would involve funding from San Bernardino County and is outside the control of Metro.

#### Unified Cost Management Policy

The funding agreement between Metro and the Construction Authority identifies the requirements of the parties to the agreement in the event of a cost increase. The agreement specifically states that the Construction Authority will comply with the Unified Cost Management Policy as adopted and amended by the Metro Board and, in the event of a funding shortfall, the Construction Authority agrees to pursue and provide the funding needed to complete the project. The Metro Board adopted the updated Measure R and Measure M Unified Cost Management Policy in July 2018, and this policy should be considered as it identifies the process for addressing a cost increase, including the funding that should be considered. Per the policy, Metro must consider, in descending order, the following steps in the event of a funding shortfall.

- 1) Scope reductions;
- 2) New local agency funding resources;
- 3) Value Engineering;
- 4) Other cost reductions within the same transit or highway corridor;
- 5) Other cost reductions within the same sub-region; and finally,
- 6) Countywide transit or highway cost reductions or other funds will be sought using pre-established priorities.

Because of these steps, this report focuses on potential cost reductions and new local revenues. Even though the construction funding and a Life of Project Budget (LOP) for the Gold Line Extension to Claremont project has been achieved, via Measure M funding commitments and the supporting Funding Agreement with the Construction Authority, as a Metro priority, the policy does not make Metro funding for project cost increases a priority.

#### Funding Options to Pomona

The proposed funding plan considers the requirements of both the Unified Cost Management Policy and the provisions of the Funding Agreement.

### *Cost Reductions*

*Beyond new revenue sources for the project, Metro has identified potential cost reductions that may reduce the amount of funding needed to extend the project to Pomona and Claremont. Metro staff estimates that Metro's costs attributable to the project (including staff time, vehicles, and contingency) could be reduced by \$74 million. Betterments on the project could be removed from the scope, lowering the project cost by \$5 million. The Construction Authority has recently estimated that value engineering could lower the project cost by \$54 million. In total, Metro staff estimates that \$133 million in cost reductions could be achieved on the extension of the project from Azusa to Pomona. Potential additional cost savings related to downsized parking requirements may also be considered.*

### *Local Funding*

The project is eligible for both Measure M and Measure R funding and is allocated, per the Funding Agreement, 100 percent of the available funding identified in the respective sales tax ordinances. The Gold Line Foothill Extension project has been a Metro funding priority and as such was allocated \$1.754 billion in Measures M and R. The Measure R funding is the balance of unspent funds from the related Gold Line to Azusa project. Additional Measure M or Measure R funding would involve the amendment of the ordinances and diversion of funding from other identified or programmed Metro uses.

Measure M also includes funding for several multi-year subregional programs (MSP) within the San Gabriel subregion, and this geographic region encompasses the project. The MSP subregion (represented by its Council of Governments) could allocate a portion of the funding for the project. There are two transit-eligible MSP programs with funding available beginning Fiscal Year (FY) 2018: the Bus System Improvement Program and Subregional Equity Program. Metro expects to program \$4.8 million of the Bus Improvement MSP funding to the subregion in FY 2024 to FY 2028, which could be contributed to the project. Further, Metro has assigned \$199 million for the Subregional Equity Program that would be available to the San Gabriel Valley subregion, funded from Measure M, beginning in FY 2043. To utilize this funding for the project, it would need to be accelerated. In order to mitigate the impact of accelerating the funds on other Metro projects and programs, the funding could be "discounted" or reduced (assuming the funds are advanced using debt financing), resulting in approximately \$66.2 million for project construction. Supporting administrative actions to access subregional equity funds need to be developed.

Measure M, as well as Measure R and Propositions A and C, provide "local return" funding to the five cities with project stations. The four cities attached to the Pomona segment will receive an estimated ~~\$237~~ \$210 million of local return over the ten year period FY 2020 to FY 2029 and could contribute a portion to the project. If the cities contributed 25%, ~~\$59.3~~ \$52.4 million would be available for the project.

In addition, the cities can potentially contribute additional funding for the cost increase through value capture financings at areas surrounding each new station. This would involve the creation of a new taxing district, such as the "benefit assessment district" that Metro utilized for the initial segment of the Red Line subway. A city-established benefit assessment district or comparable entity could

potentially generate \$10 million at each station by leveraging future tax revenue, and legislative authority currently exists to do so.

*State Funding*

The State has already granted the project \$249 million (Los Angeles County portion to Claremont) through the Transit and Intercity Rail Capital Program. Additional state discretionary funding (where Metro would compete for the funding) for a Pomona or Claremont extension is not probable, given the project has experienced a cost increase and potential scope reduction.

Metro does receive quasi-formula funding from the State through the Regional Improvement Program (RIP) and Local Partnership Program (LPP). Metro has programmed all of the projected RIP funding through FY 2036. The LPP program may have approximately \$50 million of funding available over the next ten years (through FY 2029) that could be allocated to the project, subject to the provisions of the existing Unified Cost Management Policy and Funding Agreement with the Construction Authority. Due to other programming commitments, LPP funding capacity has been identified specifically for the funding strategy to Claremont with recognition that the Construction Authority has up to 24 months following the initial contract award through Pomona to exercise the option to Claremont.

*Federal Funding*

The project was not cleared through the federal environmental process and is not currently eligible for federal grant funding.

The following table shows that the aggregate of new local revenues and cost reduction options total ~~\$303.3~~ \$296.4 million, a combination of which should be sufficient to fund the extension of the project to Pomona.

<b>Gold Line Extension – Azusa to Pomona Potential Funding Sources/Cost Reduction (\$ in millions)</b>		
<b>Options</b>	<b>Amount</b>	<b>Year Available</b>
Multi-Year Subregional Program	\$4.8	2024
Subregional Equity Program*	66.2	2020
Local Return (25% of total; FY 2020 to 2029)**	52.4	2020
Value Capture Financings	40.0	2024
Scope Reductions/Value Engineering	133.0	2019
<b>Total</b>	<b>\$296.4</b>	

\* Represents “discounted” value of \$199 million assumed to be available to San Gabriel Valley subregion beginning in 2043, which totals 33% of the 2043 value.

\*\* Represents 25% of the ~~\$237~~ \$210 million cumulative Measures M and R and Propositions A and C Local Return funds, estimated for the 5.4 project corridor cities (Glendora, San Dimas, La Verne, and Pomona) located within this segment.

Funding Strategy to Claremont

In order to fund the additional cost of extending the project to Claremont, future local return revenue could be allocated to the project. A debt financing of 25% of future local return revenue assigned to Claremont - the only corridor city for this remaining segment - could produce an additional ~~\$168.3~~ \$19.6 million. The extension would add one station with value capture potential of \$10 million; parking reductions may also be considered. Should Metro contribute regional funding to the cost increase, \$50 million of LPP funds are projected to be available. The new local and regional revenues suggested here total ~~\$228.3~~ \$79.6 million and could not be sufficient to fund the project extension to Claremont by FY 2029. Thus variations on these funding assumptions or other sources would need to be found. The Construction Authority has recognized that the terms of their procurement would provide up to 24 months following the initial contract award to exercise the contract option to Claremont and Montclair providing additional time for specific funding decisions to be made.

<b>Gold Line Extension – Pomona to Claremont Potential Funding Sources/Cost Reduction (\$ in millions)</b>		
<b>Options</b>	<b>Amount</b>	<b>Year Available</b>
Local Return (25% of total; FY 2030 to 2055)	\$19.6	2029
Value Capture Financings	10.0	2024
Local Partnership Program (State funds)	50.0	2026
<b>Total</b>	<b>\$79.6</b>	

Consistency with Metro’s Equity Platform

The delivery of the Gold Line Extension with a first phase to Pomona is significant to both Metro’s Equity Platform and the State TIRCP funding award as the City of Pomona is the most disadvantaged community along the corridor according to state-recognized Disadvantaged Communities criteria.

**DETERMINATION OF SAFETY IMPACT**

There are no safety impacts resulting from this Board report.

**FINANCIAL IMPACT**

There are no financial impacts or impact to budget resulting from this Board report. Metro staff will return to the Board with specific financial impacts of any funding options that the Board may exercise in the future.

**IMPLEMENTATION OF STRATEGIC PLAN GOALS**

Ensuring the delivery of the Gold Line Extension with a first phase to Pomona will assist in

implementing the following goals of the Metro Vision 2028 Strategic Plan:

- Goal #1: Provide high-quality mobility options that enable people to spend less time traveling.
- Goal #3: Enhance communities and lives through mobility and access to opportunity.

**ALTERNATIVES CONSIDERED**

As part of the assessment of local funding options, Metro staff recognizes that all of the cities across the Gold Line Extension corridor are receiving new local transportation funding through the passage of Senate Bill 1 (SB 1) in 2017. The current annual estimate of these funds by city for FY 2018/19 is presented below. While these funds are eligible for use on the Gold Line Extension, they do not present the same opportunity for debt financing within the required contract period of the Gold Line Extension. As new, flexible funding for the cities, these funds can offset the direct use of any Local Return from Propositions A and C or Measures R and M on the project.

FY 2018/19 SB 1 Local Streets and Roads (LSR) Funding

City	SB 1 LSR Funding
Claremont	\$606,117
Glendora	880,237
La Verne	555,068
Pomona	2,598,581
San Dimas	572,754
<b>Total</b>	<b>\$5,212,757</b>

Source: <http://www.californiacityfinance.com/LSR1805.pdf>

**NEXT STEPS**

Staff will work with the San Gabriel Valley Council of Governments, local agencies and the Construction Authority to explore funding opportunities to extend the first phase of the Gold Line Extension to Claremont beyond La Verne to Pomona, along with a funding strategy for the second phase consisting of Claremont as outlined in this report. Staff will coordinate with San Bernardino County and the Construction Authority to support their development of an option to Montclair.

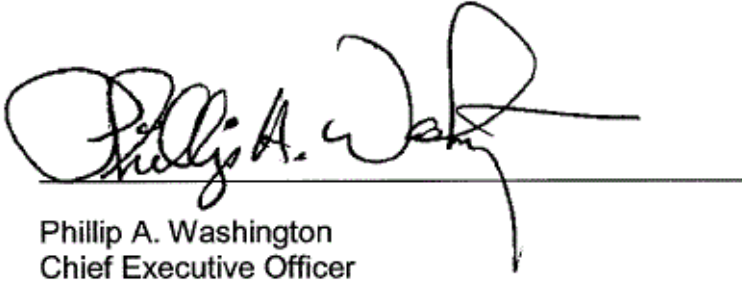
**ATTACHMENTS**

Attachment A - Board Motion #40

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