Metro

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Board Report

Los Angeles County
Metropolitan Transportation
Authority
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Los Angeles, CA

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PLANNING AND PROGRAMMING COMMITTEE
FEBRUARY 20, 2019
EXECUTIVE MANAGEMENT COMMITTEE
FEBRUARY 21, 2019

SUBJECT: THE RE-IMAGINING OF LA COUNTY: MOBILITY, EQUITY, AND THE ENVIRONMENT

ACTION: APPROVE RECOMMENDATIONS

RECOMMENDATIONS

APPROVE:

A. the baseline assumptions and priorities (proposed sacred items) for The Re-Imagining of LA County as described in Attachment A and listed as follows:

1. NextGen - The results of the NextGen Bus Service Study must not be compromised to advance capital investments;

2. State of Good Repair (SGR) - To guard against increased maintenance and operations costs and deterioration in service reliability, customer experience, and safety performance, Metro must commit to preserving annual State of Good Repair allocations as a baseline assumption. This will ensure the capital funding level of $475 million per annum for State of Good Repair;

3. Propositions A and C - Maintain the current debt limits for Propositions A and C. Prop A and Prop C revenues are a primary funding source for Operations. The budget committed one-third of Prop A and C revenues to Operations for FY18 and FY19 and the commitment is expected to increase over the next decade as state of good repair expenses rise;

4. Protect Metro's debt covenants - Ensure the funding plan protects Metro's debt covenants to avoid impairing or adversely affecting the rights of bondholders. Issuing large sums of debt significantly increases repayment risk to bondholders;

5. Unfunded Ancillary Efforts - Ensure funding for the following projects needed to support implementation and uphold the integrity of existing Metro transportation system:

   a. Division 20 ($699 M) - Division 20 expansion will provide the overnight storage and maintenance space for the additional subway cars being acquired for the Purple Line extension;

b. Combined Rail Operations Center (ROC)/Bus Operations Center (BOC) ($190 M) - a new ROC/BOC is essential for the safe and effective operations of the transit system;

c. Maintenance & Material Management System-M3 ($50 M) - the new M3 is imperative for the effective management of the state of good repair program;

d. Train radio for existing subway system ($75 M) - a new train radio system is essential for the safe and effective operations of the expanded rail network;

e. I-210 Barrier Wall ($200 M) - the intrusion problem on I-210 along the Gold Line must be solved for the long-term safety and reliability of the system;

B. The commitment to the goal to convert to an all-electric bus fleet by 2030 as a baseline assumption and priority (sacred item); and

C. The Staff Recommendations on Strategies to Pursue “The Re-Imagining of LA County” (Attachment B).

ISSUE

At its September 2018 meeting, the Board approved Motion 4.1 (Attachment C) by Directors Solis, Garcetti, Hahn, and Butts which directed the CEO to adopt and approve as policy the Twenty-Eight by ’28 Initiative. The Motion also directed a report back on a financial and funding plan in February 2019, with an update on the development in December 2018. This Board item also responds to the Motion by requesting approval of the baseline assumptions (proposed sacred items) for the funding/financial plan. More importantly, this response goes beyond the request made in the original Motion by proposing solutions for the eradication of congestion in LA County, drastically reducing the region’s carbon footprint and combatting climate change, increasing transit frequency and capacity, realizing equity, and being in a position to be the first major region in the world that could offer free transit services. So, staff chooses to think bigger than the original Motion and rebrand our endeavor as “The Re-imagining of LA County: Mobility, Equity, and the Environment.” This item also asks the Board to approve staff recommendations on strategies to pursue the “Re-imagining of LA County” (Attachment B).

BACKGROUND

The Metro Board approved the Twenty-Eight by ‘28 Initiative project list in January 2018, which includes 28 highway and transit projects totaling $42.9 billion (YOE) in infrastructure investment, with the goal of completing the projects in time for the 2028 Olympic and Paralympic Games. Eight of the 28 projects are currently slated for completion outside the 2028 timeframe. In September 2018, Board Motion 4.1 (Solis, Garcetti, Hahn, Butts) directed the CEO to develop a Twenty-Eight by ‘28 Funding Plan.

In December 2018, Metro CEO Phillip Washington responded to Motion 4.1 by presenting an overview of the status of Measure M, parameters of the Measure M Ordinance that govern schedule acceleration, and an initial framework for developing a Twenty-Eight by ‘28 Program Financing/Funding Plan. The agency is currently meeting or exceeding the Measure M schedule on all projects while also moving forward on additional projects not included in Measure M, such as Link US, MicroTransit, the aerial tram to Dodger Stadium and the environmental process on behalf of the City of Los Angeles for the Arts District Station for the Red/Purple Line subway.

In an effort to proactively and responsibly manage project delivery, the Board adopted two separate policies to guide delivery of the Measure M program. The Board approved an Early Project Delivery Policy in November 2017 with categories to evaluate whether a project is a good candidate for acceleration. The Board also adopted a Cost Management Policy in July 2018 to establish cost controls to successfully deliver projects.

To deliver the projects included in the original initiative, the agency sought to identify $26.2 billion for the planning, design, construction, operations and maintenance of the eight projects that are currently outside the 2028 schedule. During his December 2018 report to the Board, CEO Washington outlined several items that should be considered core baseline assumptions that will not be compromised for any future financing/funding plan to accelerate the eight projects. Those “sacred items” include the NextGen Bus Plan, State of Good Repair projects, maintaining current debt limits on Propositions A & C, honoring covenants with bondholders, and projects of systemwide importance, specifically Division 20, a combined rail/bus operations center, a new M3 system, a new train radio for the subway system, and the I-210 Barrier Replacement Project.

Staff identified a number of potential funding and financing strategies for the Board’s consideration to identify the funding needed to complete the projects in the original initiative. Each item was assigned a risk level of high, medium or low and the amount of revenue or financing anticipated in the 10-year timeframe through 2028. These strategies, documented in the original Financing/Funding Plan White Paper (Attachment A), fall into four major categories:

1. Debt
2. Increase Revenues from Existing Sources
3. Reduced Expenditures
4. Generate Revenue from New Sources

DISCUSSION

Baseline assumptions and priorities (proposed sacred items) for the package of strategies used to deliver The Re-Imagining of LA County.

The above listed recommended baseline assumptions and priorities (proposed sacred items) were also described in the Twenty-Eight by ’28 White Paper (Attachment A). These investments must be preserved for the integrity of the future system.

Conversion to All-Electric bus fleet by 2030 as a Baseline Assumption and Priority

Staff acknowledges the Metro Board’s commitment to improving air quality in the southern California region by converting to an all-electric bus fleet by 2030. To support this goal, staff recommends approval from the Board to include this investment as a baseline assumption and priority.

Strategies to Pursue "The Re-Imagining of LA County"

The matrix in Attachment B provides additional information on the timing of earliest revenue/cost savings realization for each strategy. It also describes for Board consideration, the Metro Staff recommendations for each strategy. Detailed explanations and rationale are provided below.

1. **Change debt policy - Not recommended**
   The original initiative faces a funding issue, not a financing issue. Issuing additional debt for the original initiative will encumber future revenue sources to service that debt. This may prohibit Metro from delivering remaining projects in Measure M on schedule, as mandated by statute. Metro should continue to issue debt as anticipated in our capital plan and on a project basis, when dedicated funding sources are available for the project and when actual projects costs are to be incurred (during construction). Issuing debt too far in advance of construction can violate IRS rules, putting the tax-exempt status of Metro's bonds in jeopardy and potentially incurring substantial costs for non-compliance.

2. **Increase Revenues from Existing Sources**
   a. **Increase fares - Not recommended**
      Fare right-sizing is not recommended as a funding mechanism for the 8 accelerated projects. Metro is currently engaged in a study to simplify and right-size our fare structure. Staff will return to the board in June 2019 with results of the study.

   b. **Advertising - Recommend to pursue**
      Staff recommends moving forward with advertising and corporate sponsorships to generate additional revenue. This will require the adoption of a policy on corporate sponsorships.

   c. **Toll Revenues (ExpressLanes) - Recommend to pursue**
      This proposal aims to withdraw or lend available fund balance from existing ExpressLanes enterprise fund for capital and/or operating costs. Future ExpressLanes revenue could also be leveraged. Available amount is dependent on future toll revenue and operating cost growth and potential competing uses. May be restricted to uses within the I-10 and I-110 corridors.

      Projected toll revenues, including debt financing, in excess of new ExpressLanes capital and operating cost. Funding will be used for other projects in the ExpressLanes network corridor. Projected toll revenues are based on increased occupancy requirements and dual lanes.

   d. **Local, State and Federal Funding**
      Multi-Year Subregional Program - Recommend to pursue
      The Multi-Year Subregional Programs (MSP) carry a 10-year total of $846.4M in funding for the subregions that have Twenty-Eight by '28 projects: Central City, Gateway Cities, South Bay, San Gabriel Valley and Westside. This proposal asks the subregions to agree to allocate their MSP funding to accelerate projects in their areas.

      Local return - Recommend to pursue

This proposal asks local jurisdictions to use their Local Return funding to accelerate projects that have shortfalls. This proposal affects cities and unincorporated county areas that directly benefit from the projects and requires agreements with each.

Federal funding assumptions - Recommend to pursue
This strategy proposes a more aggressive approach to securing additional federal funding participation. While there is limited additional capacity to draw upon for future Federal grant opportunities, this assumes maximizing the $400M annual draw down amount through 2027. As new grant opportunities are announced, Metro would pursue additional funds, where applicable to advance The Re-Imagining of LA County.

State funding assumptions - Recommend to pursue
This strategy proposes a more aggressive approach to securing additional state funding participation. Timeline of funds are based on the State's grant programs cycles. This would require reconfiguring of existing SB 1 programs to generate more funds for Los Angeles County. Many of the SB 1 programs are discretionary. Attaching formulas beneficial to Los Angeles would ensure a larger proportion of funds to Los Angeles.

3. **<u>Reduced Expenditures</u>**
   a. **Transit Operations - Electric bus - conform to state mandate of 2040 rather than 2030 - Not recommended**
   This strategy would slow down the bus fleet electrification effort to meet the 2040 deadline rather than accelerate it to 2030. While this is not recommended to offset costs for The Re-Imagining of LA County, staff recommends holding to the 2030 timeline and moving this initiative to baseline assumptions list, as this is a critical strategy to meet our broader environmental and sustainability goals.

   b. **BikeShare Program - Not recommended**
   Metro considered transferring the management, oversight, and expansion of the BikeShare program to the City of LA to free up cash flow for accelerating projects. Transferring this program to LADOT would not necessarily eliminate the cost to Metro.

   c. **P3 Opportunities - Recommend to pursue**
   Metro is already pursuing public-private partnership opportunities on three of the eight projects identified for potential acceleration. While P3 project delivery has the potential to deliver savings on project costs, the more compelling value is in the cost and schedule certainty, which allows for more predictability in the annual budget process.

4. **<u>Generate Revenue from New Sources</u>**
   a. **Legislative Strategies**
   White House Task force - Approved by Board to pursue under Legislative Program
   In December 2018, Metro staff proposed pursuing the creation of a White House Task Force on the 2028 Olympic and Paralympic Summer Games. Similar efforts in the past resulted in the federal government providing $1.4 billion for highway and transit infrastructure projects to support the Olympic Games held in the United States: 1984

Summer Olympics in Los Angeles, 1996 Summer Olympics in Atlanta, and the 2002 Winter Olympics in Salt Lake City. This proposal has been included and approved in the 2019 Federal Legislative Program.

b. **Value Capture - Recommend to pursue**
Value capture can add new local revenues to help accelerate the projects through the creation of taxing districts around and adjacent to the stations (on West Santa Ana Branch, Sepulveda Transit Corridor, and Eastside Extension). The property owners could approve a new tax or assessment that would be paid over time and leveraged with debt financing to fund the project acceleration cost. Alternatively, the local governmental entities could approve a tax increment district that would divert incremental property and potentially other local taxes to the new district, and this tax increment could support a debt financing (subject to voter approval) to fund project acceleration, or fund accelerated operating costs.

c. **Congestion Pricing - Recommend to pursue all concepts/models**
This strategy proposes to investigate the feasibility and framework for conducting congestion pricing pilots with the intent to expand the program in the most traffic-clogged parts of LA County. Three different models would be explored as part of the study: cordon pricing, corridor pricing, and vehicle miles traveled (VMT) pricing. The study will include extensive outreach, including the creation of an Advisory Council. Congestion pricing offers a compelling mobility solution that can also generate substantial revenues that can be used for transit operations and capital construction. When implemented thoughtfully, it can also significantly improve equity by providing more frequent and reliable mobility options for the most disadvantaged citizens in LA County.

At the January 24, 2019 Board meeting, Motions 43.1 (Butts) and 43.2 (Solis, Garcetti, Dupont-Walker, Butts and Hahn) were presented and approved. Motion 43.1 asked Metro staff to respond to seven clarifying questions, some related to the scope and framework of a proposed Congestion Pricing Feasibility Study and others related to Twenty-Eight by ’28 project costs savings and impacts to initiatives such as the NextGen Bus Study. Staff have prepared responses to the various parts of Motion 43.1 in a separate Board Receive and File report (File ID 2019-0083). The response includes a detailed plan for the feasibility study, should the Board approve pursuing this recommended strategy as part of the Re-Imagining LA County Plan. The contents of Motion 43.1 and the related response are provided in Attachment D to this report.

Motion 43.2 focused attention on equity as it relates to the proposed Congestion Pricing Feasibility Study. The motion was comprised of five parts that asked staff to develop an Equity Strategy for the study, engage a variety of experts and stakeholders, and defer congestion pricing implementation until the feasibility study, including the Equity Strategy, is complete. The responses to Motion 43.2 are provided in a separate Board Receive and File report (File ID 2019-0055). The contents of Motion 43.2 and the related response are provided in Attachment E to this report.

d. **New Mobility Fees - Recommend to pursue both concepts**
The shared mobility device strategy proposes to impose fees on devices, such as scooters, for the use of public rights-of-way.

Staff also proposes to explore the levying of fees for Transportation Networking Company (TNC) trips originating in Los Angeles County as a mechanism for managing demand on our streets and highways.

Both of these proposals would require building support throughout the state for transferring regulatory and taxation authority from the California Public Utilities Commission (CPUC) to Metro.

Metro staff has developed a proposed plan to provide more detailed information regarding the timeline and key activities to pursue a New Mobility service fee in LA County, if the Board approves this recommended strategy as part of the Re-Imagining LA County Plan. The proposed plan is provided in Attachment F to this report.

DETERMINATION OF SAFETY IMPACT

This motion response has no direct impact on safety at this time. However, the approval of the baseline assumptions and strategies, as recommended for approval, will support safe and reliable operations of the transit system in the long-term.

FINANCIAL IMPACT

Approval of the recommended baseline assumptions and priorities will ensure funding for those items in Metro's annual budgets and their inclusion in long-term financial forecasts.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

These baseline priorities for funding are consistent with the goals of Metro, as stated in the 10-year Vision 2028 Strategic Plan. Vision 2028 made an explicit commitment to prioritize significant investments to improve bus service. It goes on to say that, when revenue projections are short of expectations, existing service continuity and state of good repair must take precedence over other investments.

Vision 2028 also describes a desire to seek state and federal funding to help us accelerate projects and commits to improving mobility in ways that can raise revenue, such as congestion pricing and TNC regulation.

IMPLEMENTATION OF EQUITY PLATFORM

The Re-imagining initiative, as it is more broadly defined beyond Twenty-Eight by '28, explicitly addresses approaches and priorities that would advance the mobility needs of the County's most vulnerable riders. The "sacred items," particularly those addressing Next Gen recommendations, State of Good Repair, and protections on Propositions A and C, ensure that the foundation of LA Metro's transit system, upon which many of our most underserved community members depend, is not compromised to accelerate construction. In addition, the potential for a significantly more robust funding source through strategies such as congestion pricing can enable benefits, such as free transit, to these same underserved communities in ways unimaginable with traditional approaches. The Metro staff and Board must remain committed to Equity as a key evaluative lens as we consider all potential strategies for delivering The Re-Imagining of LA County.

ALTERNATIVES CONSIDERED

The Metro Board of Directors may decide not to approve the recommendations for baseline assumptions and strategies to pursue for The Re-Imagining of LA County. This is not recommended as this would cause assumptions for Metro's short-range financial planning to be discretionary and subject to actions on a project by project basis, missing the opportunity to achieving regional mobility goals from the perspective of the system as a whole.

NEXT STEPS

If the recommendations are approved, Metro staff will proceed with pursuing the recommended strategies for potential funding for The Re-Imagining of LA County. Metro staff will also incorporate the baseline assumptions in future financial plans.

ATTACHMENTS

Attachment A - Twenty-Eight by '28 Program Financing/Funding Plan White Paper
Attachment B - Staff Recommendations on Strategies to Pursue "The Re-imagining of LA County" (formerly Twenty-Eight by '28)
Attachment C - Motion 4.1
Attachment D - Motion 43.1 and Response to Motion 43.1 (File ID 2019-0083)
Attachment E - Motion 43.2 and Response to Motion 43.2 (File ID 2019-0055)
Attachment F - LA Metro New Mobility Service Fee Plan

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