Los Angeles County
Metropolitan Transportation
Authority
One Gateway Plaza
3rd Floor Board Room
Los Angeles, CA

File #: 2021-0698, **File Type:** Informational Report **Agenda Number:** 42.

REVISED
REGULAR BOARD MEETING
DECEMBER 2, 2021

SUBJECT: WEST SANTA ANA BRANCH FUNDING PLAN AND P3 ASSESSMENT UPDATE

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the:

A. West Santa Ana Branch (WSAB) Funding Plan; and

B. WSAB P3 Assessment Update.

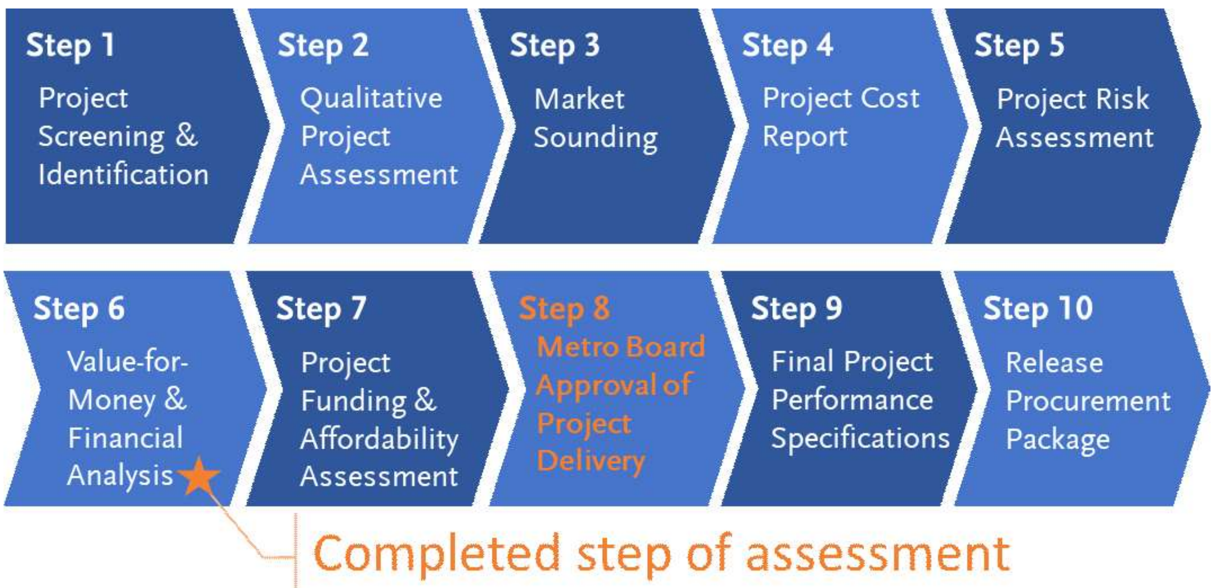
ISSUE

Metro released a draft environmental report (Draft EIS/EIR) for the West Santa Ana Branch Transit Corridor (WSAB) project in July 2021. The Draft EIS/EIR project cost estimates for the alternatives, based on 15% level of design, are higher than the prior estimate in the Measure M Ordinance and Long-Range Transportation Plan. The entire project's cost from the southern terminus to downtown Los Angeles increased from $4.0 billion to $8.567 billion. Because of the increase in cost, there is a significant funding gap. Metro staff is following the steps outlined in the Unified Cost Management Policy to address the increase and develop a proposed funding plan and schedule. The alternatives for addressing the cost increase include seeking additional federal funding, seeking additional state funding, and scope reductions (segmenting or phasing the project). Additional local funding was also reviewed.

BACKGROUND

The WSAB project is a 19-mile corridor that Metro is evaluating for a new light rail transit line that would connect southeast LA County to downtown Los Angeles. The Measure M Ordinance identified the cost of a “FY28” segment from Artesia to the C Line (Green) at $1 billion and a “FY41” segment to downtown Los Angeles at approximately $3 billion (in 2015 dollars). Metro staff identified funding for the FY28 segment, including allocated Measure R and M sales tax and a $300 million State cap-and-trade grant, which has been awarded to Metro. The Draft EIS/EIR includes cost estimates for the segment to the C Line ranging as high as $2.346 billion (Alternative 4, in 2020 dollars, based on 15% level of design) and from Artesia/Pioneer Station to Union Station at $8.567 billion (Alternative 1a), including a maintenance facility. The Draft EIS/EIR identifies a segment of the project from Pioneer to the Slauson (A Line) station as the Staff Preferred Alternative (SPA).

In 2016, LA County voters approved Measure M, which indicated that Metro could deliver the WSAB project through a public private partnership (P3). Metro also received several Unsolicited Proposals for P3 delivery of the project, which demonstrated both private sector interest and potential benefits to Metro. Since then, staff have developed a collaborative and interdepartmental process to identify, develop, evaluate, and implement procurement methods for Metro's major capital projects. WSAB has completed Step 6 of this process, as shown below. This process aims to identify the project delivery strategy with the lowest potential lifetime risks and costs for the WSAB project. The Eno Center recently recommended such a formal, evidence-based evaluation process to reduce cost and schedule risk in their report *Saving Time and Making Cents: A Blueprint for Building Transit Better*. The recently passed Infrastructure Investment and Jobs Act requires such an evaluation for all projects with budgets in excess of $750 million that seek TIFIA loans.



DISCUSSION

The Draft EIS/EIR cost estimates in 2020 dollars are shown below:

Alt 1A (Pioneer to Downtown)	Alt 3 (Pioneer to Slauson)	Alt 4 (Pioneer to Green Line)
$8.567B	$4.902B	$2.346B

The proposed funding strategy would address the financial shortfall, with a more aggressive federal New Starts grant strategy.

The funding plan includes approximately $3.15 billion of additional New Starts for Alternative 3. The amount of the New Starts request is limited to less than 50% of the cost of the project in order to garner a rating from the Federal Transit Administration above the minimum threshold. The existing State cap-and-trade grant award is used for the Alternative 3 segment and $850 million more in State funds is needed to complete the SPA to Slauson. Value capture is not yet included as a secured source but Metro and the cities on the project corridor will continue to pursue their development. This process involves the cities and county and extensive analysis, which can take multiple years and can be used for the required 3% local agency contribution. The funding plan allows for completion of the project to Slauson as early as FY35 to FY38, in advance of the Measure M Ordinance FY41 date. This estimated schedule based on funding availability could be advanced if new funding is available. The estimated construction schedule independent of funding availability delivers the project as early as FY33 to FY35.

The balance of the project to downtown LA could be addressed with segmenting or phasing of future sections of the project and additional New Starts funding, State grants, and local sales tax, including Measure M designated for the Central City Area, which encompasses downtown LA. However, a detailed funding strategy and timing for the downtown LA segment will depend on the ultimate cost, alignment, and mode, which have yet to be determined. Based on the cost for Alternative 1A in the Draft EIS/EIR and funding availability, the segment to downtown LA could be completed as early as FY44 to FY53. But this estimated schedule will change depending on the ultimate features of the segment to downtown LA. This proposed plan is comparable to the approach taken by Metro with the Westside Purple Line Extension, which has 3 sections and was awarded separate New Starts grants for each section. A detailed funding plan for the SPA Alternative 3 and full alignment to downtown that shows the annual capital costs and funding by sources is included as Attachment A.

<u>New Starts Strategy</u>

The use of New Starts on the FY28 segment is a change from the 2020 Long Range Transportation Plan (LRTP) that the Board adopted in September 2020. The LRTP includes a $1 billion cost estimate for the FY28 segment, and a New Starts grant was not needed to fund this segment.

New Starts is a competitive program under the federal Capital Investment Grants (CIG) program and the amount that Metro can expect to receive is limited by the total amount of New Starts funding that the federal government appropriates, the maximum grant awards and annual payments from the New Starts program, Metro's current and planned share of New Starts, the New Starts rating of the project assigned by the Federal Transit Administration (FTA), and the project's readiness.

The CIG program, which encompasses New Starts, currently receives $2.3 billion per year in federal appropriations, and this is used to fund 13 projects nationwide that have New Starts grant agreements. The largest active New Starts grant is $1.3 billion for the Metro Westside Purple Line Extension Section 3. The annual CIG appropriation has increased to $4.6 billion with the recent passage of the Infrastructure Investment and Jobs Act (i.e., the 2021 Bipartisan Infrastructure Bill). The amount of the New Starts request is limited to less than 50%, as this is expected to increase the New Starts rating above the minimum threshold.

The overall New Starts ratings have a project justification and a financial capacity assessment component. A subcomponent of the financial capacity assessment, which involves a review of Metro's multiyear financial forecast, is the reasonableness of assumptions, and this constrains the amount of New Starts that Metro can assume for WSAB and other Metro projects. An excessive amount of assumed New Starts would tend to lower the rating.

State Funding

The proposed funding plan relies on a substantial amount of additional, future funding from the State, which provides needed non-federal match dollars for the planned New Starts grants. Metro staff will target existing grant programs funded from ongoing State excise taxes and other sources, as future grant cycles are made available, and monitor any new or one-time funding that may arise as part of the State budget.

Local Funding

WSAB has funding from both the Measure R and Measure M ordinances, which are included in the proposed funding plan for the segment to the C Line, segment to Slauson, and segment to downtown LA. Additional local funding is assumed from Proposition A and C sales tax and Measure M 3% local agency contributions. Other funds available along the corridor, including the Measure M multi-year subregional programs and city local return sales tax are not assumed as a separate funding source, as the subregions and cities have the discretion to use these funds for other purposes (including to help fund the 3% local agency contributions).

Value capture is identified as an unsecured local funding source given the uncertainty over the amount of funding, if any, that can be generated for WSAB. Nevertheless, Metro staff and the cities along the WSAB corridor are evaluating the formation of new taxing districts for funding of the project, and in the event future funding arises, it can be used to close the project funding gap, and/or offset or supplement the local funding, or provide funds for enhancements or other additional costs of the project. Metro staff estimated in August 2020 (Board report #2020-0335, Attachment B - Value Capture Assessment), that the WSAB corridor has the potential to generate up to $5.957 billion of tax increment revenue over 45 years, which has a present value of $2.3 billion (The present value gives an indication of the amount that can be debt financed; however, the total of any actual debt financings would be less due to uncertainty over the tax increment projections and timing of any financing).

P3 Finance and Market Sounding

Metro has also prepared a draft P3 delivery model for the project that would include private sector investment and finance with a goal of opening the Staff Preferred Alternative (SPA) to the public within 10 years of a Record of Decision (ROD) from FTA and right of way agreement with Union Pacific Railroad (UPRR). This delivery method, which continues to be updated and reviewed, would include approximately $2 billion of private financing and equity, which Metro would repay with interest over time. Potential investors could include pension funds and environmental, social, and governance (ESG) funds. It also includes a Pre-Development Agreement (PDA) style opportunity to complete the line in Downtown LA.

Metro has prepared a draft evaluation comparing the total costs, including long term operations, maintenance, and state of good repair costs, of Design-Build and P3 delivery of the SPA. This evaluation has assumed a separate Construction Manager/General Contractor (CM/GC) contract for delivery of certain critical early scope items, such as UPRR relocation. Right of way (ROW) acquisition and UPRR relocation costs account for a significant portion of the total capital cost of this project, and Metro cannot transfer these costs to the private sector, under this conceptual approach. By procuring these items through a CM/GC method, Metro could potentially reduce the project's overall cost and schedule risk.

After incorporating risk adjustments and anticipated inflation costs, the CM/GC+P3 model is projected to cost Metro less over the life of the project when compared to the CM/GC+DB model. These potential savings result from the contractual model that requires the P3 contractor to meet specific requirements throughout the project lifecycle in order to receive payment from Metro. As the P3 contractor would take on debt and investments that they must repay, they are incentivized to open and operate the transit line at the customer experience levels that Metro specifies in order to be paid and meet their own payment obligations. Furthermore, under a potential P3, Metro would only pay the contractor for a portion of the total design and construction costs during that project phase. The P3 contractor would only receive full payment for these costs if they continued to operate and maintain the system over a 30-year term at Metro's specified service levels. This contrasts from traditional Design-Build delivery, where Metro pays in full for construction progress, regardless of the ultimate operational service levels or quality. In addition, the P3 procurement process would include performance specifications that would encourage submission of innovative alternative technical concepts that could improve service quality and customer experience, while also reducing costs. P3 delivery, as envisioned in the conceptual P3 model, requires additional upfront effort from Metro to develop an enforceable and commercially viable contract. Staff are available to provide more detailed briefings on the methodology and results of the assessment upon request.

In September 2021, Metro conducted a market-sounding by reviewing this potential project delivery method with nearly twenty design-build, engineering, operators, investment, and financial firms in confidential one-on-one sessions. The firms viewed this proposed delivery model as being an optimal model for both Metro and the marketplace. Firms appreciated that Metro had learned the lessons from its own experience and that of other agencies nationwide.

While firms understood the funding challenges, they suggested that a P3 could conceptually finance the gaps in funding and warned that segmenting the project into separate contracts would likely result in higher costs and integration challenges. Firms that would undertake the design-build work nearly unanimously recommended that Metro seek to begin the CM/GC process as soon as possible to remove risk elements from the design-build work. Alternatively, some firms suggested using a full PDA, especially if negotiations with UPRR became protracted, to identify significantly different technical solutions that would reduce interfaces with UPRR compared to those already analyzed during the environmental process.

Staff also presented Metro's labor strategy for the project, whereby a P3 contractor would be required to negotiate comparable agreements with Metro's existing labor unions. Firms viewed this type of requirement as industry standard and encouraged Metro to provide as much clarity as possible on this approach to the market in advance of the procurement. Throughout the sessions, firms emphasized the importance of Metro committing to a clear project scope and achieving project readiness before issuing a P3 procurement. Achieving project readiness on WSAB includes the aforementioned labor strategy, a clear process for UPRR negotiations, a ROW acquisition strategy, an Early Works strategy, a funding plan, and a ROD from the FTA. A summary of the P3 evaluation and recent market sounding effort are included in Attachment C.

EQUITY PLATFORM

The WSAB project will provide a fixed guideway transit option that is a new high-quality transit investment intended to serve the predominantly minority and low-income populations within the project area (as defined in the Draft EIS/EIR). Most of the transit service in the project area is local bus with limited express buses, which operate on the congested roadway network. Minority residents are 66% of the total project area population and 25% of project area residents live below poverty, which is higher than the LA County average of 17%. The entire corridor has been identified as an environmental justice corridor.

WSAB is anticipated to significantly reduce travel times and Vehicle Miles Traveled (VMT) in the project area, which is expected to result in air quality, safety, and livability improvements for the project area, including Equity Focus Communities in Bellflower, Paramount, and Lynwood.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The WSAB project supports Strategic Plan Goal 1: Provide high-quality mobility options that enable people to spend less time traveling. WSAB will provide light rail transit from the City of Artesia to downtown LA and intersect with the existing Metro A and C Lines. The WSAB corridor includes the county's most densely developed, historically underserved, and environmental justice communities, with transit-dependent populations that lack access to a reliable transit network. The area is currently served by buses that operate along a heavily congested freeway and arterial network and have limited connections to the Metro rail system. The WSAB project will provide mobility and travel options that reduce dependence on auto travel, increase mobility, reduce travel times on local and regional transportation networks, and accommodate population and employment growth.

NEXT STEPS

Metro staff is continuing to work with FTA staff to pursue the environmental clearance of the project in light of the estimated cost of each segment or phase and the amount of funding from federal, State, and local sources, and will present the locally preferred alternative to the Metro Board in early 2022. Metro staff will proceed with the steps needed to secure federal and State grant funding, including the initial request for New Starts (referred to as the "request to enter project development").

Metro will continue to update its assessment of delivery methods for this project as the project scope, negotiations with UPRR, other project elements, and construction and financial marketplaces evolve.

An important next step is to align the committed and anticipated available project funding, including any additional funding from the Infrastructure Investment and Jobs Act, with the anticipated costs of the delivery method in order to determine project affordability. Staff intends to return to the Board in Summer 2022 with a recommended delivery method for the project in order to release the procurement immediately following FTA's issuance of a ROD. Should Metro choose to begin a P3 procurement, we would incorporate the price proposals from contractors into the existing assessment in order to ensure that Metro is getting the best value for money for LA County. Metro would have the ability to choose an alternative method of delivery should the costs be higher than expected.

…Attachment

Attachment

Attachment A - Funding Plan
Attachment B - Value Capture Assessment
Attachment C - WSAB P3 Assessment Update

Prepared by: Andrew Quinn, Interim Senior Director, Special Projects, Office of Extraordinary Innovation, (213) 418-3207
Meghna Khanna, Senior Director, Countywide Planning & Development, (213) 922-3931
Wil Ridder, EO, Countywide Planning & Development, (213) 922-2887
Craig Hoshijima, EO, Countywide Planning & Development, (213) 928-3384
Laurie Lombardi, SEO, Countywide Planning & Development, (213) 418-3251

Reviewed by: James de la Loza, Chief Planning Officer, (213) 922-2920
Joshua Schank, Chief Innovation Officer, (213) 922-7447
Nalini Ahuja, Chief Financial Officer, (213) 922-3088

Stephanie N. Wiggins
Chief Executive Officer