



Board Report

File #: 2015-0450, File Type: Motion / Motion Response

Agenda Number: 5/19.

**REVISED**  
**FINANCE, BUDGET AND AUDIT COMMITTEE**  
**PLANNING AND PROGRAMMING COMMITTEE**  
**JUNE 17, 2015**

**SUBJECT: FISCAL STABILITY OVERVIEW AND FUNDING COMMITMENTS INVENTORY (2014 SHORT RANGE TRANSPORTATION PLAN FINANCIAL UPDATE)**

**ACTION: APPROVE THE SUMMARY OF DELEGATED CHIEF EXECUTIVE OFFICER FUND TYPE ASSIGNMENTS**

**RECOMMENDATION**

APPROVED:

- A. the summary of delegated Chief Executive Officer fund type assignments; and
- B. receiving and filing this information as a **response to Motion 5.1 which directed staff to undertake a Fiscal Stability Overview and Funding Commitments Inventory**, subject to further review and validation.

**ISSUE**

In March 2015, the Board of Directors approved motion 5.1, directing staff to undertake a Fiscal Stability Overview and Funding Commitments Inventory (Attachment A, hereafter “the Motion”). In response to that Motion staff is providing all of the attached information, including the SRTP Financial Forecast Update. The SRTP is a ten-year action plan identifying project priorities, schedules and a financial forecast of costs and available resources for the FY2015-2024 time frame.

**DISCUSSION**

Strategic Financial Planning and Programming (formerly “Capital Planning”) is responsible for recommending the programming of countywide transportation funds to the Metro Board of Directors, including securing them in a strategic manner that enables the Metro Board to accomplish the Long Range Transportation Plan (LRTP). As part of that responsibility, it provides financial forecasts for the use of these funds, such as the SRTP, which categorizes and prioritizes near-term projects identified in the Board-adopted LRTP. These documents drive the statutorily required Transportation Improvement Program for Los Angeles County.

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Fiscal Stability and Funding Commitments Inventory in SRTP

The Motion requests a consolidated budgetary statement on all Metro Transit Projects, as well as other comprehensive financial information. That information is provided in detail, in the SRTP, a summary of which is included in the March 31, 2015 Countywide Financial Forecasting Model (hereinafter “the SRTP Model”). The SRTP Model is the only financial modeling comprehensive enough to create the Fiscal Stability Overview and Funding Commitment Inventory requested in the Motion. The Motion specifically requests a consolidated budgetary statement on “all Metro Transit Projects.” That list, which is included in Attachment B, is based on “all transportation projects,” not just “transit.” The distinction is important to provide a complete view, as the table is constrained to available funding and represents a reliable record of the Board’s entire multi-modal commitment, as opposed to a subset of those commitments. Attachment B includes funding only controlled by Metro, unlike the SRTP which contains Countywide funds.

The information requested in 1.a. of the Motion for Life-of-Project (LOP) budgets can be found in the SRTP Model (per Attachment C) which has been provided to each Board Office under separate cover. LOP budgets are approved by the Board usually at the time of construction or bid award. Therefore, projects in the financial forecast that are not yet under construction do not have current/approved LOP budgets. However, all major transit and highway projects in the SRTP do have estimated total project costs. Additional project and program estimated shortfall information requested as part of 1.b. is located in the SRTP Model and attached here in Attachment D. On lines 59 (D-1 Operations) and 170 (D-2, Capital and Rehabilitations), one can see the estimated shortfalls. It is noted here that putting the shortfall on these pages of the SRTP model is arbitrary. As we show in Attachment K, the placement has yet to be determined by the Metro Board of Directors.

The Motion (item 1.c) requests a list of estimated costs for approved or pending “betterments” for capital projects funded with Propositions A, Proposition C and Measure R since the 2009 LRTP. A list of all additions is included in the list of betterments in Attachment E. No distinction is made in the attachment between a “betterment” approved by the Metro Board and a “cost increase” approved by the Metro Board.

Existing and Planned Debt Remains within Policy Constraints

The information requested in item 2 regarding an inventory of debt has been identified by Treasury and can be found in Attachment F. The debt inventory and capacity is managed by Treasury, recorded, and well managed for all bond issuances. The programmed debt service commitments pertaining to Proposition A, Proposition C, and Measure R can be found in the SRTP Model (shown in Attachment G). This includes detail from Proposition A, Proposition C and Measure R along with Transportation Infrastructure Finance and Innovation Act (TIFIA) loan proceeds for each eligible project and Capital Grant Receipt Revenue Bonds. The programmed debt strategy was developed in response to Metro Board of Directors directions and based on a planned debt strategy that allows projects to be efficiently developed and constructed.

The Debt Policy Maximums (Attachment H) are specified in the Metro Debt Policy; but it is important to distinguish this from funding availability because the need for operating and other funds exceed the debt limits as a constraint. The operating constraint is important to the FTA in evaluating our

ability to operate what is built relative to the context of all of our financial commitments. This distinction is important because it demonstrates our comprehensive understanding of the commitments Metro makes to FTA to assure them that we can maintain and operate the system they are helping to fund and that we can do it at a very high level of competence. To demonstrate this commitment to fiscal responsibility, the Metro Board of Directors implemented a distinct Measure R bond interest policy, the adherence to which is identified in Attachment H-2, page 1, Total column, line 35.

### Planning for Policy Objectives and Other Financial Needs

The Call for Projects is a long standing effort by the Board to facilitate policy setting by motivation instead of penalty. It has been extremely successful, as specifically noted in an independent third-party audit of the 2013 Call process, completed in June 2014. This audit report gave the Call process high marks, in particular, noting that the Call process is well organized, identifies clear goals (improve mobility, maximize person throughput, reduce vehicle miles traveled, and reduce greenhouse gas emissions), includes clear procedures, and has strong internal controls. Agencies across the nation and around the world request copies of our application package to use as a model in developing their own competitive programming processes. Each year in June, staff presents a comprehensive list for recertification and/or deobligation of Call for Projects awards, which includes June 2015. Additionally, Attachment I provides the listing of the Call for Projects in the SRTP Model.

The Motion requests the needs of Bus and Rail Operations and the State of Good Repair (Attachment J). As a result of comprehensive state-of-the art planning, almost all future needs were captured. Some unplanned needs have recently emerged and are addressed in the SRTP update. Metro is well positioned to meet existing and future needs, provided that the organization remains within certain financial constraints.

The Motion requests a specific 3-column table included as Attachment K. One of the requested components is the shortfall by the project line item. There is no way to identify where a shortfall should be located in the SRTP without very specific priorities adopted by the Metro Board of Directors. It is important to note that any existing shortfall is not a result of the projects and costs approved in the 2014 SRTP, but instead are a result of some unanticipated expenses approved by the Metro Board of Directors, as shown in Attachment E. As a result of these actions, there is currently a forecasted backlog of funding commitments which will need to be resolved in a fiscally responsible manner going forward.

Specific responses to each of the elements of the Motion as provided by Strategic Financial Planning and Programming and referenced above are indexed in the following table:

### Fiscal Stability Overview and Funding Commitments Inventory

Action Element	Data Request	Data Source	Attachment
5.1	Metro Approved Board Motion	Motion language attached for reference	A
1.	Consolidated budgetary statement on all Metro Transportation Projects and Programs	March 31, 2015 Countywide Financial Forecasting Model, "Uses Overview" (Page 5) included as Attachment B	B
a.	Life of Project Budgets	March 31, 2015 Countywide Financial Forecasting Model (Pages 224 to 444)	C
b.	Estimated Projected Capital, Operations, and Rehabilitation Shortfall for Each Project		D-1 D-2
c.	Estimated Costs for Approved and Pending "Betterments" for Projects Approved Since 2009 LRTP	See Board Action Column in Attachment E	E
2.	Inventory of Debt and Debt Service Commitments Pertaining to Proposition A and C and Measure R	Compiled by Metro Treasury Department	F
	<ul style="list-style-type: none"> <li>Programmed debt issuance for existing projects and programs</li> </ul>	March 31, 2015 Countywide Financial Forecasting Model, "Summary of New Debt Financing" (Page 75) and "Summary of New Debt Financing-Innovative Financing" (Page 78)	G
	<ul style="list-style-type: none"> <li>Debt Policy Maximum in Each Sales Tax Measure Debt Issuance Category</li> </ul>	March 31, 2015 Countywide Financial Forecasting Model, "Debt Policy Conformance" (Page 83)	H
	<ul style="list-style-type: none"> <li>Fiscal Responsibility Policy for Measure R Capital Project Contingency Funds</li> </ul>	Measure R Debt Service Cap Analysis	H-2
3.	Grant Agreements and Future Plans for Funding the Call for Projects Program	March 31, 2015 Countywide Financial Forecasting Model, Call for Projects list (Pages 445 to 455).	I
4.	Bus and Rail Operations, State of Good Repair	March 31, 2015 Countywide Financial Forecasting Model, Bus Operations section (Pages 224 to 239) and "Transit Corridor Operations Summary" (Page 265)	J
N/A	Each Project and Program Funded through the Three Existing Sales Tax Measures (3-column chart)		K
April 2011	Metro Amended Board Item	Item 11, Minutes of Metro Board Meeting	L
April 2011	Fiscal Stability Overview and Funding Commitments Inventory Presentation	LRTP Financial Update	M

### Prior Board Policy Actions Requiring this Follow-Up

In April 2011 the Board authorized the Chief Executive Officer to negotiate and execute funding contracts or agreements as needed with Los Angeles County jurisdictions, agencies or other entities to provide funds programmed as authorized, consistent with the priorities of the LRTP and this report. This authorization allows Metro to strategically assign federal, state and local funds to maximize the use of all available dollars. The ability to act quickly on these issues enables Metro and its staff to take advantage of new funding opportunities, revenue increases, and cost savings on existing programs. Any delay to ready-to-go projects could expose Metro and project sponsors throughout Los Angeles County to construction cost increases that would further reduce our capital programming capacity. The Board directed staff to periodically report back when moving funding to support Board approved projects and programs (Attachment L).

In December 2014, as part of a Board Report on the FY 2016 Budget Development process, the Board received a Financial Forecast Overview of the SRTP. That overview indicated that key improvements that are under construction are forecasted to cost \$14 billion, and since its adoption the Board has received more than \$1.4 billion in additions and updates to the Plan, not previously included. Increases to the SRTP have continued since that December 2014 report, and are currently calculated at more than \$1.8 billion. An updated presentation is included as Attachment M. The current fund programming strategy for largest Metro projects by dollar value, including both approved and proposed fund adjustments, can be found in the Appendix B to Attachment M. Any other project detail is available upon request. Staff is using the same process as past reporting to update programming and to continue to be consistent with the LRTP.

Attachment M provides the Board with a detailed financial context for the potential impact of a funding shortfall, as well as identifying the cash flow needs to meet existing SRTP priorities. As indicated, there has been a cumulative effect of various program and project increases. Specifically, a \$900 million shortfall is currently identified, about 1.6% of the total Metro controlled program of over \$54 billion through FY 2024.

## **NEXT STEPS**

Given the extensive nature of the information provided, as well as the need for components from other departmental areas, Finance and Treasury staff will require additional time to analyze and validate this report. Strategic Financial Planning and Programming staff will continue to update the Metro Board of Directors with any information needed to further supplement or clarify the overview or inventories provided.

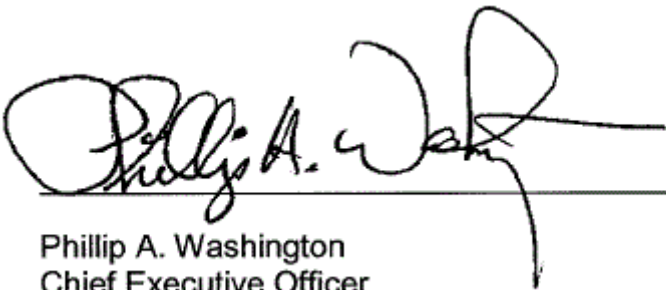
In September 2015 Metro will apply for \$1.187 billion grant from the Federal New Starts program and a loan for \$307 million from the Federal Transportation Infrastructure and Finance Innovation Act (TIFIA) for the Westside Purple Line Extension Section 2 project. A requirement for these applications is a comprehensive review and evaluation of Metro's agency-wide financial plan by the Federal Transit Administration (FTA) and the Federal TIFIA Office. To secure a New Starts rating of medium or better, Metro must submit a balanced financial plan to FTA and TIFIA, requiring that we develop a credible strategy for closing the funding gaps identified in this report.

## **ATTACHMENTS**

- Attachment A - Motion 5.1
- Attachment B - Consolidated Budgetary Statement for all Metro Transportation Projects and Programs
- Attachment C - Life of Projects Budgets
- Attachment D - Estimated Projected Capital, Operations, and Rehabilitation Shortfall for Each Project
- Attachment E - Estimated Costs for Approved and Pending "Betterments"
- ~~Attachment F - Inventory of Debt and Debt Service Commitments Pertaining to Proposition A and C and Measure R~~
- Attachment F - Inventory of Debt and Debt Service Commitments Pertaining to Proposition A and C and Measure R
- Attachment G - Summary of New Debt Financing
- Attachment H - Debt Policy Maximum (Conformance)
- Attachment H-2. Measure R Bond Interest Policy
- Attachment I - Call for Projects List
- Attachment J - Bus and Rail Operations, State of Good Repair
- Attachment K - Sales Tax Measures Project and Program Funding (A, C & R)
- Attachment L - Motion Amending Board Item 11 in April 2011
- Attachment M - Presentation on Fiscal Stability Overview and Funding Commitments Inventory

Prepared by: Gloria Anderson, Director, (213) 922-2457  
Kalieh Honish, Deputy Executive Officer, (213) 922-7109  
William Ridder, Executive Officer, (213) 922-2887  
David Yale, Managing Executive Officer, (213) 922-2469

Reviewed By: Martha Welborne, Chief Planning Officer  
Nalini Ahuja, Executive Director, Finance and Budget (213) 922-3088



Phillip A. Washington  
Chief Executive Officer