



Board Report

File #: 2019-0630, **File Type:** Informational Report

Agenda Number: 8.

**PLANNING AND PROGRAMMING COMMITTEE
NOVEMBER 20, 2019**

SUBJECT: 2019 SHORT RANGE PLANNING MODEL UPDATE

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE information on the 2019 Short Range Financial Forecast planning model, which identifies the high-level planning and programming of funds.

ISSUE

The Long Range Transportation Plan Financial Forecast (LRTP Financial Forecast) and 2019 Short Range Financial Forecast (2019 SRFF), which is the first 15-years of the LRTP Financial Forecast, is Metro's plan for funding capital that is updated and presented to the Board annually. The 2019 LRTP Financial Forecast will be used to program funds in the Transportation Improvement Program (TIP) and as the financial baseline for the pending LRTP update.

BACKGROUND

Metro maintains a 40-year LRTP Financial Forecast, which is a financial plan focusing on all Metro capital projects and programs. The plan assumes known and potential local, state, and federal revenue to meet the capital needs.

The 2019 SRFF represents the first 15-years of the LRTP Financial Forecast. The 2019 SRFF includes Board-approved spending included in the adopted transportation plans (2009 LRTP, and 2014 Short Range Transportation Plan, or "SRTP"), Measure R and Measure M sales tax ordinance Expenditure Plans, separate Board action, and the adopted budget, using the baseline construction schedules that have been approved by the Board, including those that are identified in the Measure M Expenditure Plan. Spending on bus and rail operations is estimated by Metro staff assuming the same level of bus service as today and future rail ridership based on when new rail lines open and service need based on rail ridership projections.

Revenues from Metro's local sales tax measures and state and federal grants are estimated by Metro staff using supporting forecasts from economists and state and federal agencies. The 2019 SRFF programs future funding to projects and programs and assigns grant funding (as needed based on the regulatory requirements of each grant source) in the federally-mandated TIP. The federal funds need to be included in the TIP to be eligible for receipt.

Existing Board policies, including those in the adopted LRTP and SRTP, the “LRTP Priorities” (April 2011), and “Measure R Fiscal Responsibilities” (May 2011), guide the Financial Forecast assumptions and require the reporting of fund assignments back to the Board.

DISCUSSION

The 2019 SRFF shows the following Metro cash flows and proposed programming of funds and are included in Attachment A.

- sales tax, operating revenue, grant revenue, and debt financing;
- expenditures for Metro capital, operations, and subsidies; and
- Enterprise Fund cash flows.

Future funding actions such as grant applications and TIP programming should generally align with the 2019 SRFF to ensure that funding decisions consider the availability of funding and the needs for all eligible Board-approved spending.

The 2019 SRFF shows a viable plan to fund all Board-approved projects and programs, given assumed sales tax growth, farebox recovery (i.e., fares offsetting operating costs), capital cost estimates, identified projects in the capital program, and state and federal grant receipts.

Going forward, as Metro implements the Measure R and Measure M capital plans, the 2019 SRFF shows a growing amount of debt and use of cash balances, which will reduce Metro’s liquidity and debt capacity. Metro also faces cost pressures from higher bus and rail operating expenses, increases in the estimated cost of major capital projects, the acceleration of existing projects, and the addition of new projects that will require additional funding resources. Staff is working to manage these factors and will be making presentations to our Board during the next several months to allow Metro to successfully execute its wide-ranging capital program.

Capital Costs

Metro has programmed funding in the LRTP Financial Forecast for the various capital projects and programs based on estimated costs that have been approved by the Board, including those in the Measure M Expenditure Plan. Some of the cost estimates are very detailed, for those projects that have received construction bids or have gone through a detailed design, while others are very preliminary, as the project may not yet be well defined. The actual costs will be driven by many factors, and if higher, could potentially involve additional Metro debt financing and/or the consideration of funding from other Metro priorities.

During FY 2019, Metro experienced cost increases exceeding \$100 million on several major transit and highway projects. The preliminary cost estimate for some large-scale Metro capital projects is trending higher. In addition, Metro is moving capital projects forward during a highly active construction period in Los Angeles County. The ongoing construction demand is placing upward pressure on unit costs for land, labor, and materials that are incurred as part of Metro construction and may result in higher than anticipated project costs.

Over and above the Board-approved capital projects and programs, Metro continues to identify new capital needs. Some projects that have been identified in concept and may be presented to the Board for funding include:

- Re-scoped Division 20 turnback facility
- Electrification of the bus system by 2030
- Rail Operations Center (ROC) expansion
- I-210 Median Barrier
- Additional Tier 1 Express Lanes

Metro has not identified funding for these projects in the LRTP Financial Forecast model, and the projects will require new local, state, and/or federal sources, additional debt financing, or spending reallocated from other planned Metro projects. The financial feasibility and impact of each of these projects will be evaluated if and when the projects are submitted to the Board for approval.

State and Federal Grants

Metro benefits from state and federal grant funding and has historically been successful in competing for the discretionary components of this funding. Metro received state and federal grant awards in April and May 2018 of \$1.7 billion through the SB-1 and INFRA grant programs. However, Metro must continue to succeed in obtaining new discretionary state and federal grant funding in order to complete the planned capital program. The 2019 SRFF assumes ongoing state and federal grant receipts over the next 15 years totaling \$23.7 billion.

As part of the assumptions of federal discretionary grants, the 2019 SRFF includes project specific assumptions of New Starts funding under the Federal Transit Administration Section 5309 Capital Investment Grant (CIG) program. These assumptions are consistent with the “Local, State, Federal, Other Funding” amounts incorporated in the 2016 Measure M Expenditure Plan. Over the coming months Metro staff will return to the Board with a focused assessment of project priorities for all of the CIG programs and strategies to position priority projects for these funding opportunities. This will include an assessment of opportunities under the traditional CIG programs including New Starts, Small Starts, and Core Capacity as well as under the Expedited Project Delivery (EPD) Pilot Program.

Risk Assessment

To aid in the Board’s evaluation of future decisions, Metro’s CEO and staff will return to the Board in the Spring of 2020 to quantify the impact of Metro’s primary financial risks and prepare hypothetical scenarios of potential upside and downside outcomes of our revenues and costs and the resulting impacts. We look forward to that discussion.

DETERMINATION OF SAFETY IMPACT

Approval of this item will have no negative impact to the safety standards of Metro.

FINANCIAL IMPACT

Impact to Budget

This item does not involve the expenditure of funds and has no impact to the FY 2020 budget. The 2019 SRFF programming of funds are generally consistent with the adopted FY 2020 budget.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

This item supports the adopted Metro Vision 2028 Strategic Plan Goal #5, which seeks to “Provide responsive, accountable, and trustworthy governance within the Metro organization.” The SRFF helps ensure fiscal responsibility in how fund assignments are made and transparency in the agency’s investment decisions.

NEXT STEPS

The programming of funds in the 2019 SRFF will be the basis for planned grant funding to Metro projects and programs. This grant funding includes state and non-Capital Investment Grant (CIG) federal discretionary funding as presented to the Board in the September 2019 report on state and federal funding opportunities and strategies. Metro staff will return to the Board over the coming months with a focused assessment of project priorities for the CIG programs and strategies to position priority projects for these funding opportunities.

Metro staff will include the programming of planned federal formula, approved state formula, and approved state and federal discretionary grant funding in the TIP. The projects with these fund assignments must be included in the TIP to be eligible for federal grant assistance.

In addition, the LRTP Financial Forecast, which extends the 2019 SRFF over 40 years, will be used as the financial forecast for the LRTP update. This includes assumptions regarding projects, schedules, costs, and funding amounts. The Draft LRTP will be presented to the Board in Spring 2020.

ATTACHMENTS

Attachment A - Short Range Financial Forecast (FY 2020 to FY 2034)

Attachment B - Project Profiles

Prepared by: Craig Hoshijima, DEO, 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
Richard Clarke, Chief Program Management Officer, (213) 922-7557
Nalini Ahuja, Chief Financial Officer, (213) 922-3088