



Board Report

File #: 2020-0824, File Type: Plan

Agenda Number: 9.

FINANCE, BUDGET AND AUDIT COMMITTEE JANUARY 20, 2021

SUBJECT: I-105 EXPRESSLANES PROJECT

ACTION: APPROVE RECOMMENDATION

RECOMMENDATION

AUTHORIZE the Chief Executive Officer (CEO) to:

APPROVE the submittal of a Letter of Interest (LOI) to the United States Department of Transportation (USDOT) for a Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) loan for the I-105 ExpressLanes Project and pay related fees and expenses.

ISSUE

The I-105 ExpressLanes Project (105 Project) is the next ExpressLanes project in line to be constructed in Los Angeles County. The project is also part of the 2017 LACMTA Countywide ExpressLanes Strategic Plan (ELSP) which has it included as a Tier 1 Project. The cost to construct dual ExpressLanes on I-105 is estimated to be \$676 million. The 105 Project currently has \$175 million in Measure M funding and was recently awarded \$150 million from the Solutions for Congested Corridor Program (SCCP), which leaves a funding gap of \$351 million. As a result, staff is looking at options to fill this funding gap including applying for a TIFIA loan. The first step towards obtaining a commitment of TIFIA credit assistance is the submittal of a LOI to the USDOT. The TIFIA loan will be secured by toll revenues from the 105 Project without any additional support from Measure M or other Metro sales taxes.

BACKGROUND

Staff is currently working to prepare the financing plan for 105 Project. Metro staff recommends submission of a LOI for TIFIA credit assistance to fill a portion of the funding gap for the 105 Project. Metro released the draft Environmental Impact Report/Environmental Assessment (EIR/EA) for the 105 Project in May 2020. The EIR/EA is expected to be finalized in early 2021. While construction for the 105 Project is not expected to begin until 2023, the financing process for TIFIA can take 18-24 months.

DISCUSSION

Metro and Caltrans are currently in the environmental phase of the 105 Project. As part of this phase, cost estimates have been prepared that estimate the cost to construct the 105 Project to be \$676 million if constructed by 2026. Measure M provides \$175 million, SCCP provides \$150 million, which results in a funding gap of \$351 million.

Concurrent with the preparation of the draft EIR/EA, Metro also prepared an Investment Grade Traffic and Revenue (T&R) Study for the 105 Project. The Investment Grade T&R estimates potential toll revenue and is the most thorough, detailed type of T&R that can be prepared. An Investment Grade T&R is generally required by rating agencies and investors in order to evaluate the financial performance of a project. Based on Metro staff review of the T&R and meetings with Metro's financial advisor Sperry Capital, staff believes that the projected toll revenue generated by the 105 Project are sufficient to secure debt necessary to fill the \$351 million funding gap.

The amount of Federal TIFIA credit assistance typically does not exceed 33 percent of total reasonably anticipated eligible project costs. Preliminary project costs identified in the environmental document total \$676 million. The exact terms for the loan are negotiated between the USDOT and the borrower, based on the project economics, the cost and revenue profile of the project, and any other relevant factors.

If the USDOT confirms the 105 Project's eligibility and the LOI, and approves the loan application and final terms, staff will return to the Metro Board of Directors for final approval to execute the loan agreement.

Key activities in pursuing a TIFIA loan for the 105 Project include:

- Drafting and submitting a LOI
- Obtaining a preliminary credit rating opinion letter
- Developing a TIFIA-specific and project-specific financial model
- Making an oral presentation to TIFIA
- Submitting a TIFIA application, if invited to do so by TIFIA
- Negotiating terms of the credit agreement with TIFIA

If TIFIA financing is secured, the remaining 105 Project funding gap will be financed through toll revenue-backed bonds to be sold in the tax-exempt municipal bond market. If TIFIA financing is not secured, Metro will be required to issue additional toll revenue-backed obligations with less desirable payment terms and rates.

DETERMINATION OF SAFETY IMPACT

This action will have no impact on safety for Metro.

FINANCIAL IMPACT

The TIFIA LOI is the first step towards securing a TIFIA loan. Loans under the TIFIA program remain attractive relative to tax-exempt municipal bonds due to current market conditions and flexible

financing terms. TIFIA loans bear an interest rate which tracks long-term U.S. Treasury rates irrespective of the credit rating. Staff expects this loan to be paid from toll revenues and to have a subordinate position, consistent with Metro's prior TIFIA financings, for repayment of the loans after Metro's planned senior toll revenue-backed transaction, making the TIFIA loan rate comparatively more attractive. TIFIA loans also provide more flexibility on how the funds are used compared to traditional tax-exempt municipal bonds. TIFIA loans can be structured with financing terms which include allowing interest to be capitalized (accrued and added to the loan balance) until after project substantial completion, an interest-only early payment period, and deferred principal repayment, among other favorable terms.

Since 2012, Metro has closed four TIFIA loans, which were all repayable from Measure R 35% funds: \$545.9 million for the Crenshaw/LAX Transit Corridor project, \$160.0 million for the Regional Connector project, and \$856.0 million for the Westside Purple Line Extension Phase I and \$307.0 million for Phase II. Metro completed an early repayment of its TIFIA obligations in August 2020 through the issuance of the Measure R Junior Subordinate Sales Tax Revenue Refunding Bonds, Series 2020-A.

After submitting the LOI, Metro may be invited to continue in the TIFIA process. If Metro decides to continue in the TIFIA process, Metro will need to reimburse the USDOT for the costs of the outside advisors who advise TIFIA on the transaction on determining a project's eligibility, credit analysis and loan negotiations. USDOT typically requests a preliminary fee of \$250,000 to initiate review of Metro's application. Funding of the \$250,000 preliminary fee is included in the FY21 Budget and will use eligible Measure M funds to pay the TIFIA fees.

IMPACT TO BUDGET

Eligible Measure M funding for the I-105 ExpressLanes will pay the preliminary TIFIA fees.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

The Metro Vision 2028 Strategic Plan identifies five goals to guide Metro's work and initiatives. This Board action supports the following goals.

Goal 1: Provide high-quality mobility options that enable people to spend less time traveling.

The purpose of the 105 Project, as well as the existing I-110 and I-10 ExpressLanes and other projects identified in the ELSP, is to actively manage traffic through dynamic pricing of roadway capacity to optimize traffic flow and provide faster, more reliable trips. A TIFIA loan will allow the project to proceed with low interest rates, flexible repayment terms, option to defer loan draws and interest payments, and no obligation upon Metro to draw any of or all of the loan at any given time.

Goal 2: Deliver outstanding trip experiences for all users of the transportation system.

A key benefit of Metro's ExpressLanes is improved corridor performance through a reduction in recurring peak period congestion and travel times, as well as an increase in average speeds, throughput, and reliability for freight shipments and travelers.

Goal 5. Provide responsive, accountable, and trustworthy governance within the Metro organization.

TIFIA has been shown to achieve more flexible financing terms and better costs, supporting Goal 5.2 to exercise good public policy judgment and sound fiscal stewardship.

ALTERNATIVES CONSIDERED

The Board could delay submission of the TIFIA LOI. This is not recommended as the TIFIA process requires 18-24 months or more and loans are provided on a first come-first served basis. Delaying submission of the TIFIA LOI could result in a delay in securing funding for construction of the project increasing the cost and delaying a valuable mobility option.

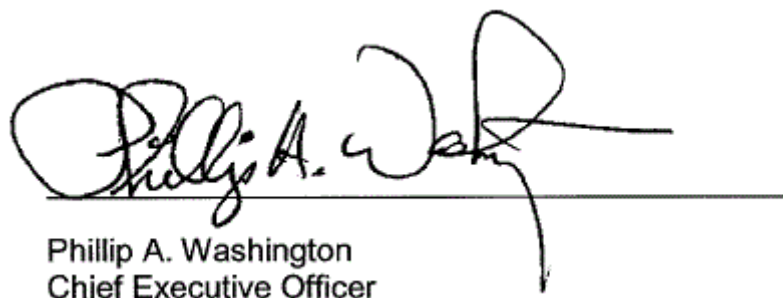
The Board could decide not to approve submitting the TIFIA LOI. This is not recommended because, in the current market environment, access to the TIFIA Loan may provide Metro with a lower cost alternative to tax-exempt municipal bonds as well as more flexible financing terms. Should market conditions change, the Metro Board of Directors can change course later in the TIFIA loan process.

NEXT STEPS

Staff will prepare and submit a TIFIA Letter of Interest for the I-105 Project to USDOT and will keep the Board apprised of subsequent steps. Staff is also working to determine the next steps of the 105 Project including the preparation of final design and construction delivery method. Staff expects to return to the Board in May 2021 with additional details.

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