



## Board Report

File #: 2015-1717, File Type: Program

Agenda Number: 55.

### REGULAR BOARD MEETING DECEMBER 3, 2015

**SUBJECT: METRO'S SHARE OF THE SOUTHERN CALIFORNIA REGIONAL RAIL AUTHORITY'S (METROLINK) PURCHASE OF 2 NEW LOCOMOTIVES AND THE LEASE OF BNSF RAILWAY'S (BNSF) LOCOMOTIVES**

**ACTION: APPROVE FUNDING ACTIONS**

#### **RECOMMENDATION**

AUTHORIZE AND APPROVE the appropriation of:

- A. \$3.0 million in Measure R 3% - Metrolink Capital funds as match to \$9.9 million in State grant funds for the **procurement of 2 locomotives**; and
- B. an amount not to exceed \$3.3 million of Proposition C 10% - Commuter Rail funding in support of **Metrolink's temporary lease of up to 40 BNSF locomotives**.

#### **ISSUE**

Metrolink has requested Metro share for the purchase of two new locomotives and the temporary lease of up to 40 BNSF Locomotives (Attachment A).

#### **DISCUSSION**

##### Locomotive Procurement

During 2015, Metrolink received Metro supported grants from the State of California in the amount of \$41 million in Transit and Intercity Rail Capital Program (TIRCP) funds and up to \$58.85 million in Carl Moyer funds from the Southern California Air Quality Management District (SCAQMD) for the procurement of up to 20 new low emission Tier 4 locomotives.

The action requested in recommendation A provides the necessary local match to the State TIRCP funds for 2 Metro requested locomotives to provide the necessary equipment capacity for future service expansion in Los Angeles County.

The total cost of the two locomotives, including necessary inspections and project management is \$12.9 million. With the leveraging of State funding, Metro's contribution requirement is reduced to

\$3.0 million, or 23% of the costs of the 2 locomotives. Metrolink has previously exercised an option for 17 of 20 locomotives and the remaining option on 3 locomotives expires on January 31, 2016.

Lease of BNSF Locomotives

Metrolink currently operates, in accordance with standard industry practice, in a Push/Pull configuration. In one direction the locomotive is the lead vehicle and “pulls” the train while in operation. In the reverse direction the locomotive “pushes” the train set which is operated by the Engineer in a specially configured cab car at the opposite end of the train. In September 2015, Metrolink determined that, temporarily, pending a review of the cab cars in their fleet, and in an abundance of caution, a locomotive should be the lead vehicle in both directions of operation. In October, Metrolink entered into a lease agreement with the BNSF to lease 40 General Electric (GE) AC4400CW Locomotives in order to equip their fleet accordingly.

Metrolink’s original request of Metro was for a total of \$9.8 million in new FY16 authority. Under the direction of the Chief Executive Officer, Metro staff has met on multiple occasions with our colleagues at Metrolink to review all options available to address this extraordinary funding request including: an extensive review of the cost estimates provided by Metrolink, other non-Metro funding sources that might be available, capacity within the FY16 approved Metrolink budget, and the availability of previously Board approved but unused Metro funding to Metrolink.

Since the receipt of the vehicles, Metrolink has been engaged in extensive field testing of the equipment in order to refine their initial cost estimates. Based on this testing, available operations data have identified costs savings in several areas that are anticipated to reduce costs to the member agencies.

The revised proposed funding of Metro’s FY16 participation in the lease and operation of the locomotives is:

Original Request:	\$ 9.8 million
Identified Savings:	\$(3.5) million
Application of Previously Approved But Unused Funding:	\$(3.0) million
Revised Request:	\$ 3.3 million

**DETERMINATION OF SAFETY IMPACT**

Both the procurement of new locomotives and the lease of BNSF locomotives will increase the safety of Metrolink passengers.

## **FINANCIAL IMPACT**

The adoption of staff recommendations outlined above would increase Metro's FY16 contribution to Metrolink by a total of \$6.3 million. As Metro's membership in the Joint Powers Authority represents a multi-year commitment, future contributions will be addressed during the Board's consideration of the FY17 Budget.

Funding for this item consists of \$3.3 million in Proposition C 10% Commuter Rail funds and \$3.0 million in Measure R 3% Metrolink Rail Capital funds.

## **ALTERNATIVES CONSIDERED**

The Board could choose not to support Recommendation A above to procure new locomotives. This alternative is not recommended as Metro supported the Metrolink application for funding; the new locomotives provide significant environmental benefits compared to the current fleet; and additional equipment would be needed to address future service expansion in Los Angeles County.

The Board could also choose not to support Recommendation B above for the temporary lease of 40 additional BNSF locomotives. This alternative is not recommended as the addition of the locomotives within the operating cycle will provide an increased measure of safety for our passengers until a final determination has been made on the operating capacities of the current fleet of Cab cars.

## **NEXT STEPS**

Metro staff continues to meet with Metrolink staff to address outstanding funding issues, including all previously approved and appropriated funds for Capital Expansion, Rehabilitation, or Operations, and ensure the highest current priorities are being addressed.

Metro staff continues to develop a policy for Board approval on future funding and operations planning for Metrolink.

Staff is in the process of developing the Cost/Benefit analysis as directed by the Board.

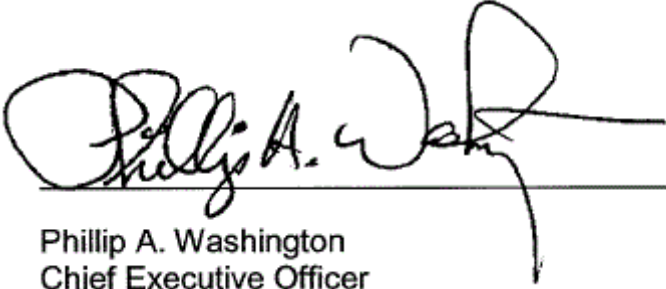
Metrolink has committed to provide Metro with a financial plan in February demonstrating their commitment to the return of Metro's \$18 million loan to Metrolink.

## **ATTACHMENTS**

Attachment A - Letter from Metrolink requesting additional funding

Prepared by: Drew Phillips, Director, Budget. (213) 922-2109

Reviewed by: Nalini Ahuja, Executive Director, Finance & Budget



Phillip A. Washington  
Chief Executive Officer

November 30, 2015

Phillip Washington, Chief Executive Officer  
Los Angeles County Metropolitan Transportation Authority  
One Gateway Plaza, 25<sup>th</sup> Floor  
Los Angeles, CA 90012

RE: Locomotives (BNSF Lease and Expansion Purchase)

Dear Mr. Washington,

Thank you for your letter dated October 19, 2015 regarding Metrolink's request for additional FY 2015-16 (FY16) funding for the BNSF locomotives lease. Metrolink has worked closely with all of our member agency partners to address their concerns raised about the lease and associated costs. Three of the member agencies' Boards have approved budget amendments for their share and one agency will take an item to their Board in early December.

Over the past several weeks, Metrolink staff have discussed on multiple occasions with Metro staff potential opportunities within FY16 and prior years' authorized funding to address the BNSF lease costs. Potential opportunities discussed include the following areas:

- Deferred revenue – \$3-4 million is available to apply to Metro's share of the BNSF costs.
- Rehab funding – approximately \$1 million balance of eligible funding identified but would require defunding projects scheduled for completion in early 2016. This is not being considered further at this time.
- Fuel cost estimates – likely possible to reduce in future update of cost estimates.
- Capitalization of certain BNSF lease costs – not appropriate since assets are not owned.
- FY16 operating budget – projected \$7 million in fuel savings already used to offset BNSF costs, otherwise on budget overall based on first quarter actuals.
- Operating surplus – confirmed no surplus from prior years.
- Delayed PTC implementation – Metro requested to consider removing PTC from the BNSF locomotives to reduce costs. Metrolink is very far along in PTC implementation. Metrolink already has PTC equipment on the existing fleet and is operating PTC on all Metrolink-owned lines. We are currently in revenue service demonstration and we are working closely with the FRA to obtain final certification. Not having the entire fleet PTC-equipped would put our entire PTC program at risk and would impact our safety plan.
- Status of \$18 million loan – Metrolink will provide Metro with a repayment plan by January 2016.



- Allocation formulas – At the Metrolink member agencies CEO meeting on November 20, 2015, the CEOs agreed to a study of all funding allocation formulas in the coming months.

As you know, Metrolink acted swiftly to lease the BNSF locomotives as an immediate and intermediate measure out of an abundance of caution for the safety of our riders. Since receiving Metrolink Board authorization to proceed with the lease in early October, numerous tests on the locomotives have been conducted and we have obtained new operations data. We have refined the cost estimates based on available operations data and identified cost savings in several areas that will reduce the anticipated costs to all of the member agencies.

As a result of the discussions outlined above, the amount of additional FY16 funding required at this time for Metro's share of the BNSF locomotives lease costs is reduced from \$9.8 million to \$3.3 million:

Metro cost:	\$9.8 million
Cost savings:	-\$3.5 million
Deferred revenue:	-\$3.0 million
Metro net cost:	<u>\$3.3 million</u>

As previously communicated, Metrolink requests Metro Board action before the end of the calendar year authorizing an amount not to exceed \$3.3 million for the BNSF locomotives lease and associated costs.

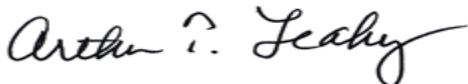
In addition, Metrolink and Metro staff met to discuss potential sources of funding for the purchase of two F125 locomotives for future expansion of service in LA County. If an option is exercised to purchase these locomotives by January 31, 2016, the total cost is \$12.9 million. This purchase would be subsidized by State grants, and Metro's share is \$3.75 million. Metrolink staff identified a balance of project funds that can be used for this purpose, which would reduce the funding needed to \$3.0 million:

Total cost:	\$12.9 million
Subsidy:	-\$9.15 million
Project balances:	-\$0.75 million
Metro cost:	<u>\$3.0 million</u>

Metrolink requests Metro Board action before the end of the calendar year authorizing an amount not to exceed \$3.0 million for the purchase of the two expansion locomotives.

I look forward to continuing to work with you and your staff to address these important matters. We appreciate your consideration of taking these matters to the Metro Board for approval.

Sincerely,



Arthur T. Leahy  
Chief Executive Officer

# Item # 55: Request For Metrolink Funding

Metro Board Meeting  
December 3, 2015



**Metro**

## **Recommendation A**

Authorize and approve \$3.0 million in Measure R 3% - Metrolink Capital funds as match to \$9.9 million in State grant funds for the procurement of 2 locomotives

- Metro supported Metrolink's grant application to the State
- New locomotives provide significant environmental benefits versus current equipment
- Provides capacity for future service expansion within Los Angeles County



## Recommendation B

Authorize and approve \$3.3 million in Proposition C 10% - Commuter Rail funding in support of Metrolink's temporary lease of up to 40 BNSF locomotives.

- Under the direction of the CEO, staff worked extensively with Metrolink to review potential financial alternatives to the original request while continuing to honor Metro's commitment to safety.

Original Request:	\$ 9.8 M
Identified Savings	\$(3.5) M
Previously Approved but Unapplied Funding	\$(3.0) M
Revised Request	\$ 3.3 M

