



**Board Report**

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**PLANNING AND PROGRAMMING COMMITTEE  
OCTOBER 18, 2017  
EXECUTIVE MANAGEMENT COMMITTEE  
OCTOBER 19, 2017**

**SUBJECT: FINANCIAL FORECAST UPDATE AND BASELINE  
FOR THE LONG RANGE TRANSPORTATION PLAN**

**ACTION: RECEIVE AND FILE**

**RECOMMENDATION**

RECEIVE AND FILE financial forecast update.

**ISSUE**

This report provides an update of the Financial Forecast for the Long Range Transportation Plan (LRTP), providing a financial baseline for the pending update of that plan. Importantly, it illustrates how existing commitments - coupled with key assumptions regarding investment priorities - impacts Metro’s estimated capacity to deliver transportation services, projects and programs. Attachment A provides more detailed financial information to support the findings in this report. Key among those is that while this baseline suggests that current commitments can be achieved-including operating the existing transit system, addressing state of good repair projected needs, and honoring all Measure R and M commitments as outlined in their respective Ordinances--, there are potential challenges should major assumptions shift in the future.

**DISCUSSION**

**BACKGROUND**

The Financial Forecast (Forecast) provides a funding framework for operation and maintenance of the Metro transportation system, as well as new capital financial commitments. It includes assumptions for all available resources and is prepared in accordance with the funding and timing requirements in Metro's sales tax ordinances and Board policies, along with state and federal regulations. This Forecast is a part of the LRTP update and will provide a financial baseline for evaluating different assumptions and the resulting impacts on our financial capacity.

This Financial Baseline forecast covers the 40-year period from FY 2018 through FY 2057. It is important to note that long-range forecasts are exactly that - estimates based on the best available

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information at the time the forecast is produced. As such, it is expected to change as new information is obtained. The forecast does, however, provide valuable parameters to guide Board or other formal actions representing financial commitments - for example adopted capital investment programs, multiple or single year budgets, or grant approvals. A future recommended next step is to develop a 10-year term investment program that would be adopted by the Board, informed by the first 10 years of the long-range financial forecast.

### Prior Forecast

The Forecast is periodically updated and presented to the Board. The Forecast presents Metro's long-range financial outlook for existing LRTP priorities and other Board-approved costs, which supports the region's Regional Transportation Plan/Sustainable Communities Strategy, coordinated by SCAG (Southern California Association of Governments, the region's Metropolitan Planning Organization). The Forecast also supports the Transportation Improvement Program required for federal funding access, as well as federal grant applications, such as the Capital Investment Grants program (including New Starts).

The last Forecast update was presented to the Board in June 2016 (2016 Update), prior to the adoption of Measure M, as an assessment of the impacts of the then potential ballot measure. Since that time, in addition to the passage of Measure M, there have been significant changes to the assumptions included in the 2016 Update. One such change, in addition to the passage of Measure M, is the Road Repair and Accountability Act (2017, known as SB 1). SB 1 is the first state gas tax increase since 1994.

### Key Financial Assumptions

In order to provide a financial baseline to the LRTP, the Forecast is built on core financial assumptions, including priorities that align with the existing LRTP, as well as Metro policies related to those commitments. The LRTP priority commitments are summarized as follows: 1) Metro must fully fund its operations and maintenance; 2) Metro must ensure an appropriate level of State of Good Repair funding, especially as new federal regulations are still being implemented; and 3) Metro must meet all of the commitments it has under Measures R and M. Other commitments that need to be funded were discretionary, priority-setting decisions made by the Board up until this particular forecast was finalized (August 2017).

### Ten-Year Snapshot

Because any funding forecast becomes less accurate over time, staff has provided a more detailed assessment of financial capacity, for the first 10 years of the evaluation period. Over the next ten years, funding appears sufficient to meet all of our current, estimated system-wide operating and capital commitments, on their existing planned schedules. The Forecast assumes Metro will continue to operate the current level of bus service and an increasing level of rail and Bus Rapid Transit (BRT) service, as new rail and BRT lines are opened. It includes the wide range of capital projects and sub-regional programs specified under Metro's voter-approved ordinances. Further, it includes the cost to maintain and replace Metro's existing assets and future assets to support new rail and BRT lines. The cost of these commitments requires that Metro strategically utilize existing and expected future

local, state, and federal funding resources. However, while SB 1 will help maintain these commitments, there are some existing and potential challenges to this plan. SB 1 is estimated to provide as much as \$5.9 billion of new funding for Metro over the next ten years. While the increase to state fuel taxes can offset estimated project and program costs, approximately half of the estimated revenues is competitive, and therefore less dependable than funds distributed by formula (Attachment A, page 9).

In this Forecast, there are no changes to federal funding assumptions, which currently estimate approximately \$11.9 billion in federal funds in the first ten years (page 11, Attachment A), almost half of which is discretionary. While this level of discretionary federal funding is consistent with Metro's past grant awards, the current Administration does not presently support the Capital Investments Grant programs (including Federal Transit Administration/FTA New Starts grants), which provides \$5.6 billion in the first ten years of the Forecast. Additionally, proposed congressional appropriation levels, while still pending, are lower than previously authorized under the FAST Act.

#### Ten-Year Snapshot - Costs

Since the 2016 Update, sales tax forecasts have been lowered due to slowing economic activity. In parallel, expanded commitments have been attached to Metro priority project and program areas. The cost of major Metro capital projects has increased compared to previous estimates, and additional capital projects have been approved. Staff also notes those cost considerations not yet included in the baseline, i.e., anticipated funding for potential large-scale projects currently under evaluation for this ten-year period, such as electrification of the bus system or proposed operational improvements to the Blue Line.

In addition to these capital expenses, there have been changes to the operating cost assumptions. Rightsizing of transit service and/or fare structure is assumed in the Forecast to improve fare revenue recovery.

#### State of Good Repair

The financial plan in the Forecast includes \$36.3 billion in “state of good repair” replacement and repair costs, based on the Metro Transit Asset Management database for existing assets in service, as well as estimates for new infrastructure that will be placed in service in the future (Attachment A, page 14). This amount does not include a contingency amount. A best practice is to provide for a contingency.

#### LRTP Financial Capacity

All combined revenues are used to fully fund the assumed priority expenditures, as noted previously, for the existing and expanded system (Attachment A, pages 16-17). There is limited unassigned fund and debt capacity in the baseline assumptions. Specifically, the Forecast includes \$41.0 billion of sales tax- and grant-backed debt financing over forty years. The future debt service is expected to increase steadily over time to match the aggressive, proscribed project delivery schedule. The Forecast's debt service is capped by Metro Debt Policy maximums.

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Using these assumptions, Measures R and M project and program delivery commitments can be fulfilled under baseline assumptions, including projected inflationary impacts. However, as there is limited funding capacity, any addition of new projects or acceleration of existing projects or programs will require one or more of the following trade-offs:

- Additional debt financing - if available;
- Cost offsets through innovations, scope changes, or delivery efficiencies;
- Reassessment of investment priorities; and/or
- New, unanticipated revenues.

## **FINANCIAL IMPACT**

The LRTP Financial Model is essential to the long-range planning activities of the agency to maximize funding for Los Angeles County transportation projects and to manage project and system costs over the 40-year planning horizon.

The Forecast's financial plan is predicated on: a stable sales tax growth; containment of operating and capital costs, including right-sized fare revenue; and reliable contributions from federal and state funding partners. Any significant loss in revenue or cost increases will likely require offsetting action, such as application of cost containment policies or delay to capital project(s).

### **Impact to Budget**

The LRTP Financial Model has no impact to the FY 2018 budget.

## **NEXT STEPS**

Staff will continue to monitor and update the Financial Forecast as actual data are realized and projections revised, including sales tax receipts; federal and state funding levels; any new Board-approved projects; operating results; and the annual budget.

As part of the LRTP update, staff recommends preparation of financial scenarios and sensitivity analyses that evaluate the impacts of alternative assumptions against the Forecast baseline.

Metro Office of Management and Budget (OMB) is in the process of preparing a 10-year budget. Aligned with that effort, staff recommends a 10-year strategy (Short Range Transportation Plan/SRTP) for approval by the Metro Board in June 2018 as part of the series of actions related to the LRTP. The SRTP would refine investment priorities for the near term, which is the most restricted investment period as envisioned in the baseline forecast. It would also provide mechanisms to address the needs of unfunded or underfunded, large scale capital projects under consideration, as well as create a framework to assess application of the acceleration/deceleration policy before the Board for action next month.

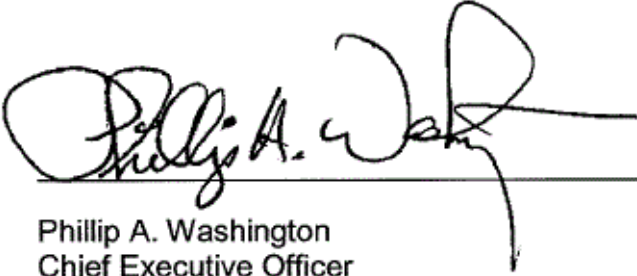
## **ATTACHMENTS**

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Attachment A - 2017 LRTP Update: The Baseline Financial Forecast

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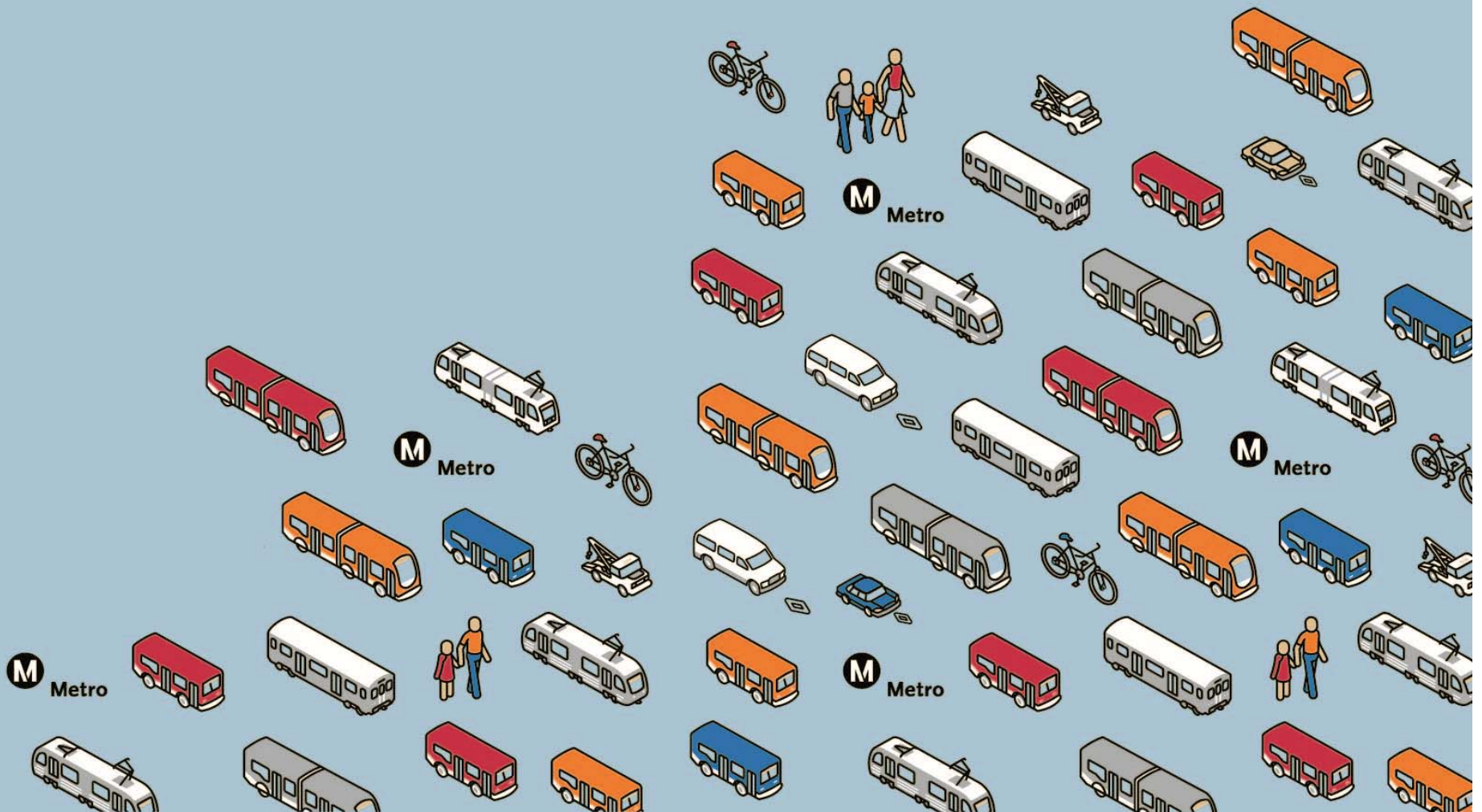
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Phillip A. Washington  
Chief Executive Officer

# ATTACHMENT A

## Long Range Transportation Plan

### 2017 Update – The Baseline Financial Forecast Details



## Purpose of the LRTP Financial Forecast

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- **Metro's long range financial outlook**
  - Guides LRTP development of long range investment plan for operation of transportation system and capital projects
  - Prepared in accordance with sales tax ordinances and Board policies and guidelines
- **Supports Transportation Improvement Program and Long Range Transportation Plan (LRTP)**



## L RTP Financial Baseline

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- This Financial Forecast provides the financial baseline for the L RTP Update
- Baseline refers to Metro's current and known future operations, maintenance, and capital financial commitments
  - Assumes these to be the priority investments for projected financial capacity
- Allows Metro to evaluate different assumptions regarding investment priorities, and subsequent impact on financial capacity

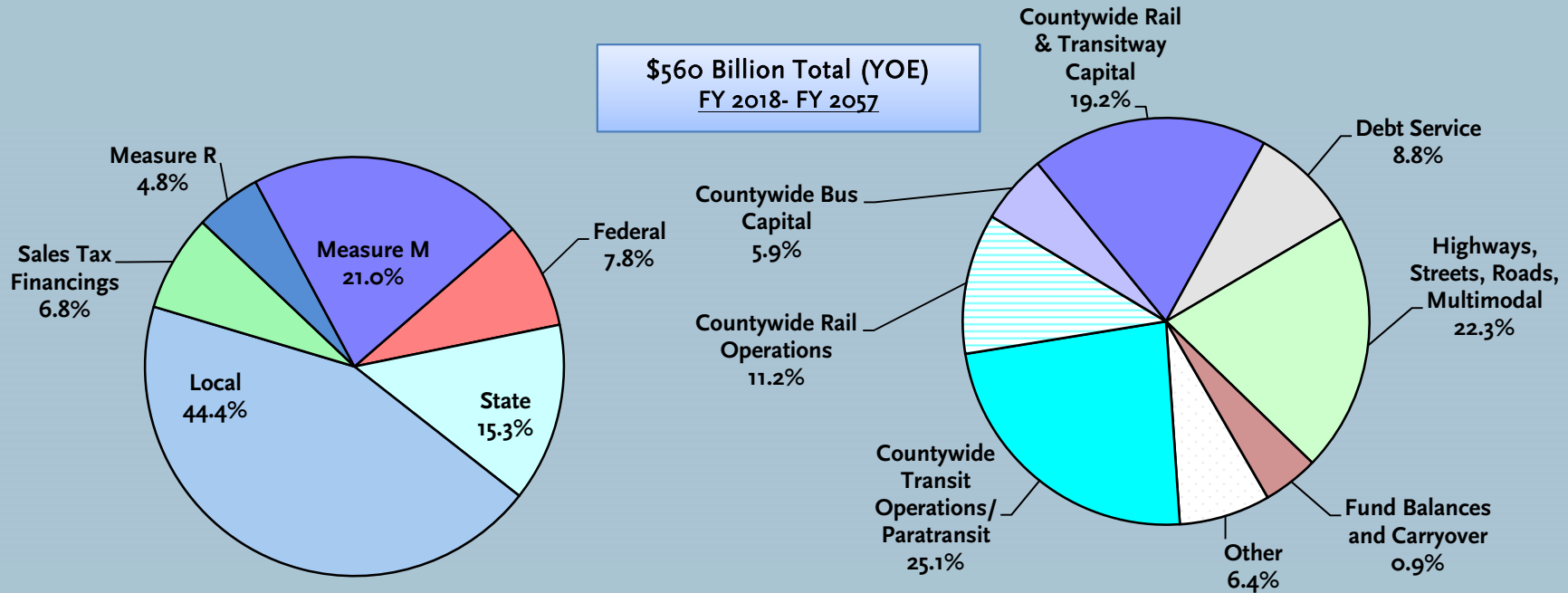




# Funding and Uses (40-year) - \$560B Total

Countywide Revenues FY 2018 – FY 2057

Countywide Expenditures FY 2018 – FY 2057



- Major Transit and Highway Capital Projects
- Capital Funding Programs
- Bus and Rail Revenue Service Hours
- State of Good Repair
- Metro Administrative Support



## 2017 Financial Baseline Key Assumptions

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- **Fully fund the following priorities:**
  - Operations
  - State of Good Repair (SGR) Needs
  - Prior Commitments (Measures R & M)
- **Debt Issued to Support Cash flow for Existing Commitments**



## 2017 Financial Snapshot: First 10 Years

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- Over the next 10 years, funding appears sufficient to meet estimated system-wide operating and capital costs (on planned schedule)
  - Lowered aggregate sales tax forecast due to slowing economic activity
  - Board-approved adjustments of \$2.4 billion – cost increases and new projects are addressed
  - Recent increase in State fuel taxes (SB1) will help offset lower local revenue and higher costs
  - Federal funding assumptions are relatively unchanged



## Board-Approved Adjustments Added to Baseline Expenditures (since June 2016 update)

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Category	Amount (millions)
1) Addition of Sub-regional Equity Program	\$1,196.0
2) Cost adjustments based on approved LOPs (aggregate)	428.7
3) New projects/Other (e.g., North San Fernando Valley BRT, Westside Purple Line Ext.3)	759.1
<b>Total</b>	<b>\$2,383.8</b>

## Potential Projects & Costs

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- The financial baseline does not include costs or funding for potential large-scale projects that are currently under evaluation as first 10-year investments (partial list)
  - Electrification of bus system
  - Link US redesign of Union Station
  - Wye improvements to Blue and Expo lines
  - Centinela Grade Separation
  - Additional Tier 1 Express Lanes
  - Rail Operations Center (ROC) expansion



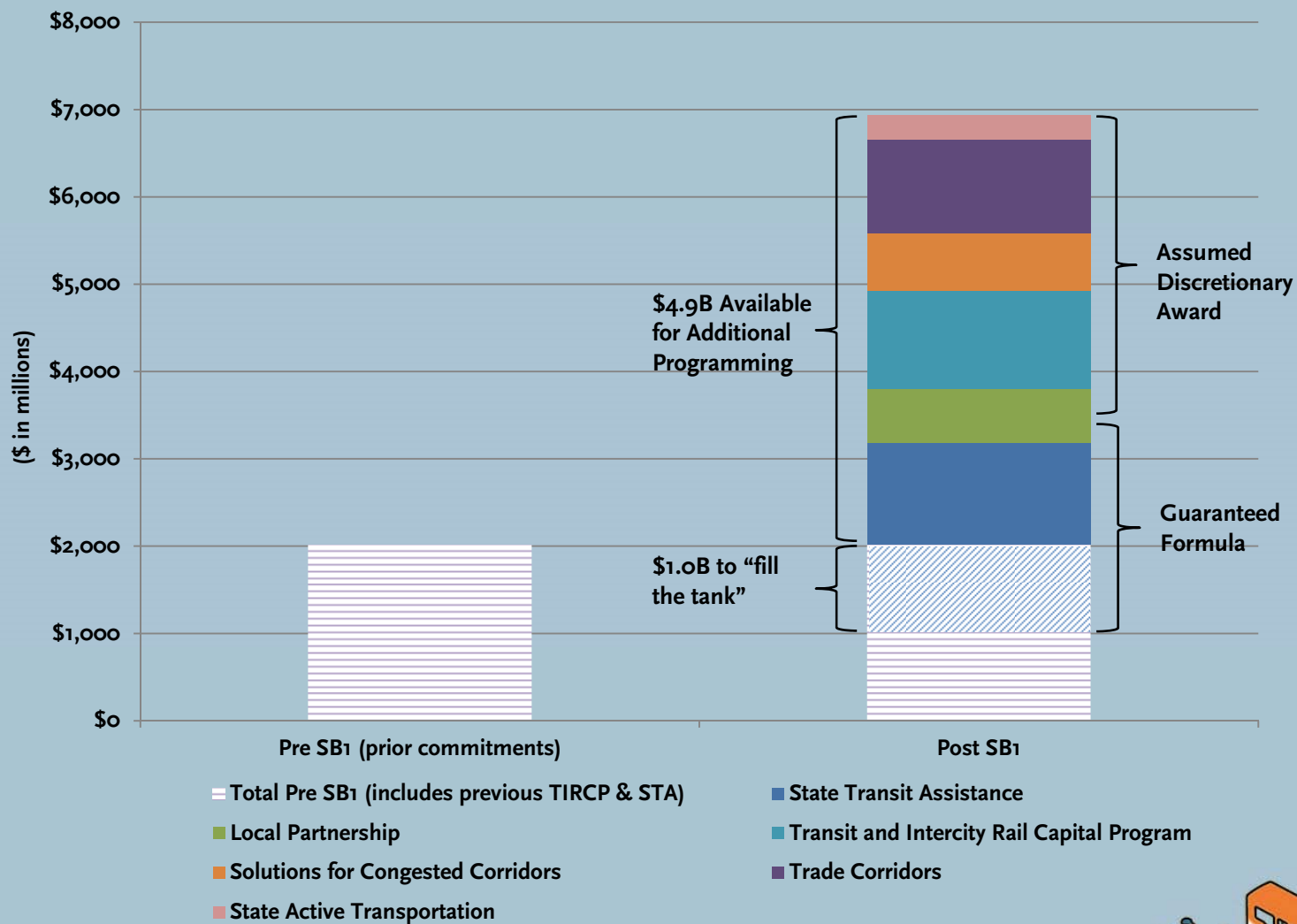
## SB1 Impact

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- **The State-approved increase in fuel and other transportation taxes is expected to direct as much as \$5.9 billion for Metro over the next ten years (estimated from State-based forecasts)**
  - Provides for both operating and capital investments
  - Formula share is \$2.5B; Competitive is assumed to be \$3.4B
    - Metro's capture of State discretionary programs is based on past performance & criteria
  - \$1.0B of SB1 anticipated capacity needed to “fill the tank” for prior State commitments

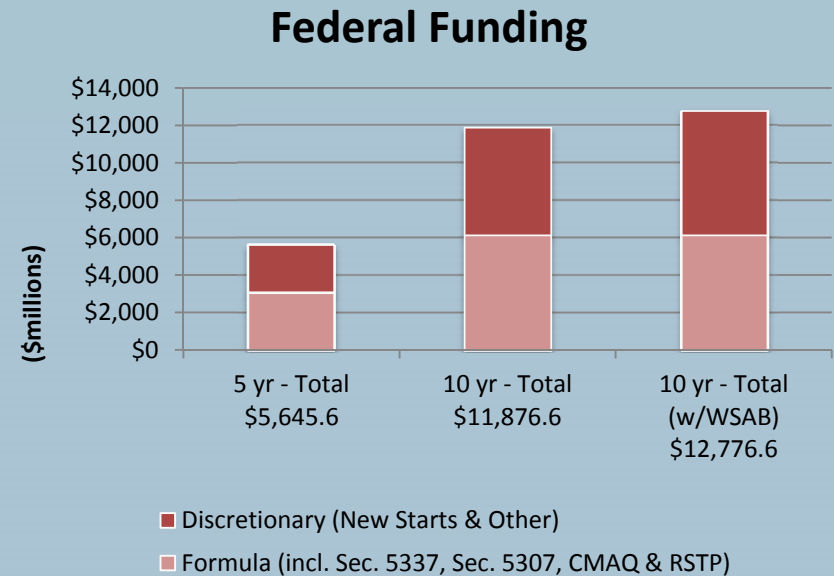


# SB1 Impact (10 years)



# Federal Funding Outlook (10 years)

- Financial baseline includes \$2.0 billion New Starts funding in FY18-FY22 (5 years)
  - Regional Connector
  - Purple Line Section 1
  - Purple Line Section 2
  - New funding for Purple Line Section 3
- New Starts funding over ten years:
  - \$3.5 billion adding Sepulveda Pass Phase 2
  - Would be \$4.4 billion if adding accelerated West Santa Ana Branch (WSAB) Phase 2 gap closure schedule

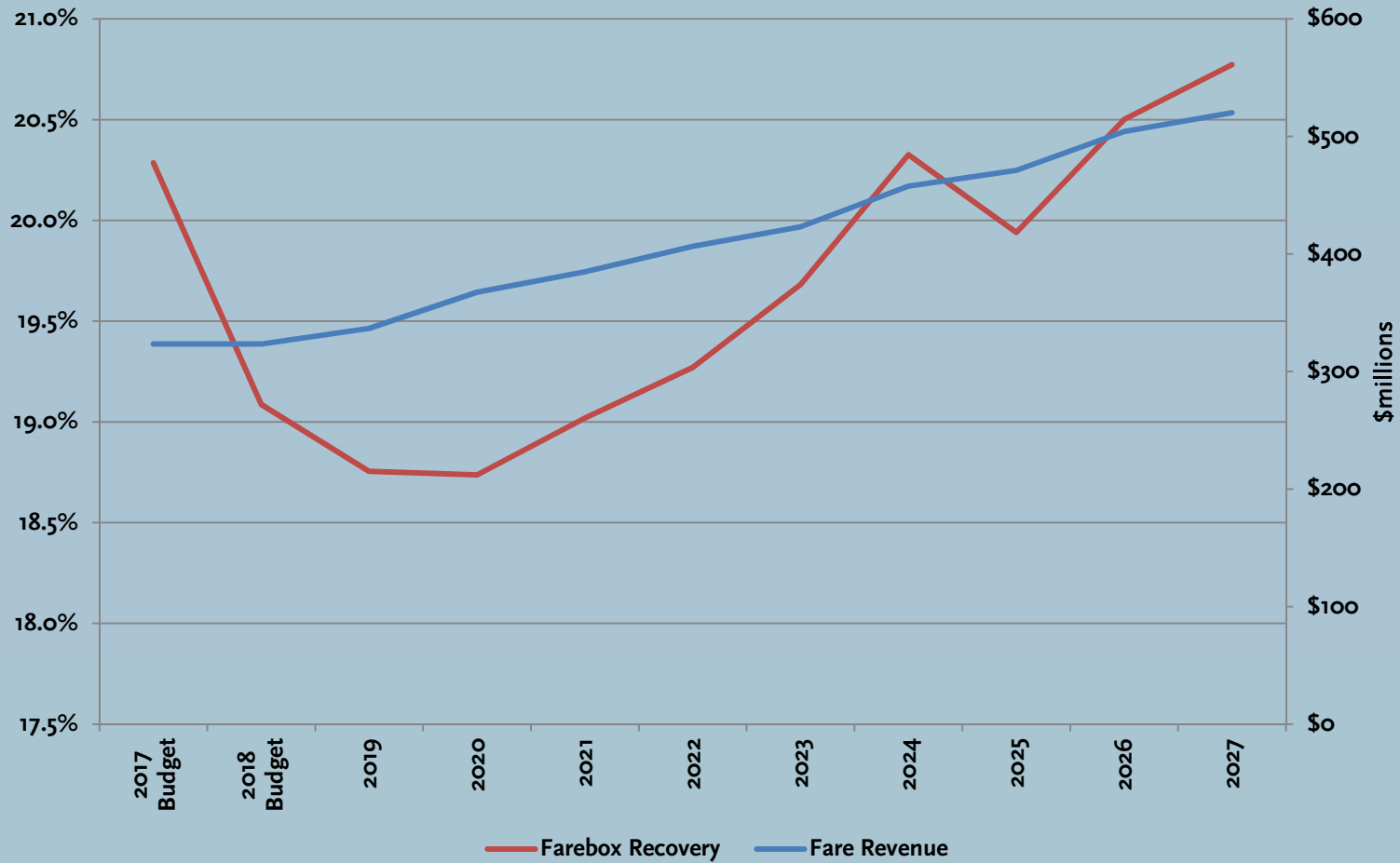


\*Other includes TIGER & INFRA





# Fares and Farebox Recovery (10 years)



## Fares and Farebox Recovery (10 years)

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- Farebox recovery estimated at 19.1% in FY18 budget
- Fare revenues projected to grow from \$323 million to \$520 million over 10 years
  - Farebox recovery is related to both ridership and fare revenue
  - With regard to ridership, Metro has launched a Bus Reimagining Study to potentially restructure the system
  - “Right-sized” fare structure is assumed in order to track revenue growth



## State of Good Repair (40 years)

- Financial Forecast includes \$36.3 billion of “state of good repair” (i.e., replacement and repair) costs
  - Costs based on Metro Transit Asset Management (TAM) database (for existing assets in service)
  - SGR estimates attached to new infrastructure are extrapolations of TAM data

Category	(\$mil) FY18-FY57
Rail Facilities	\$49
Heavy Rail Vehicles	1,671
Light Rail Vehicles	6,141
Rail - Existing Lines	8,069
Rail - New Lines*	4,491
Bus Fleet	12,153
Bus Facilities	3,718
<b>Total</b>	<b>\$36,292</b>

\*includes vehicles & BRT lines



## Debt Financing

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- **Financial baseline includes \$41.0 billion of sales tax-and grant-backed debt financing over forty years**
  - Future debt service expected to increase steadily over time to match aggressive project delivery schedule
  - Debt service capped by Debt Policy maximums
  - Retirement of existing Prop A and Prop C debt offsets future cash flow impact



# L RTP Baseline Forecast Assumptions (40 Years)

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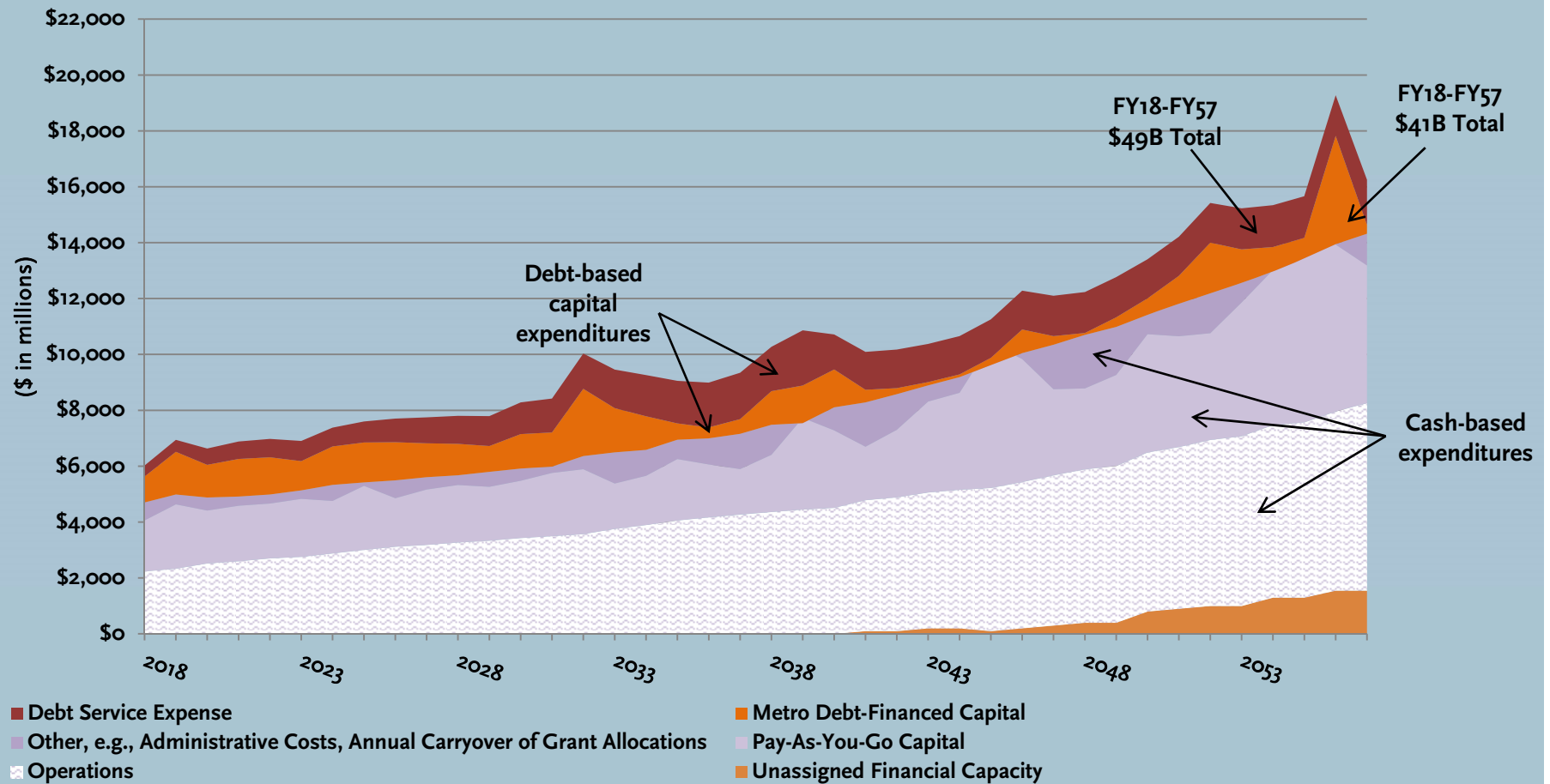
All combined revenues used to fully fund the following assumed priority expenditures:

- Operations associated with existing and expanded system
- Sustaining and maintaining existing system and SGR projects for expanded system
- Capital Programs attached to the following commitments:
  - Measure R Projects & Programs
  - Measure M Projects & Programs

There is very limited unassigned fund or debt capacity in the baseline assumptions



# Long Range Baseline Expenditure Forecast



## Baseline Funding Capacity Takeaway

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- **All Measure R and M commitments can be fulfilled under baseline assumptions**
  - This includes inflationary impacts to costs over 40 year period



## Baseline Funding Capacity Takeaway

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- However, any addition of new projects or acceleration of existing projects or programs will require one or more of the following trade-offs:
  - Additional debt financing
  - Cost offsets through innovations, scope changes, or delivery efficiencies
  - Reassessment of investment priorities
  - New, unanticipated revenues





## Managing Risks

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- **Financial baseline is predicated on:**
  - Stable sales tax growth
  - Containment of operating and capital costs and right-sized fare revenue
  - Reliable contributions from Federal and State funding partners
- **Any significant loss in revenue or cost increases will require offsetting action**
  - Apply cost containment policies (Measure R and M)
  - Delay capital project start-up date



## Next Steps

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- **Metro staff will continue to monitor and update the long range financial forecast conditions**
  - Sales tax receipts
  - Federal and State grants
  - Board-approved changes
  - Annual budget
- **As part of the LRTP, staff will recommend financial scenarios and sensitivity analyses**
  - Evaluate alternative assumptions and their impacts against the baseline



## Next Steps (continued)

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- **Recommend a 10-year strategy that identifies and allocates funding consistent with the LRTP investment plan**
  - Refines priorities for most restricted investment period
  - Provides mechanisms to address currently unfunded, large scale capital projects under consideration
  - Creates framework to assess acceleration/deceleration policy

