



Board Report

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2nd REVISED
PLANNING AND PROGRAMMING COMMITTEE
NOVEMBER 20, 2019
EXECUTIVE MANAGEMENT COMMITTEE
NOVEMBER 21, 2019

SUBJECT: MEASURE R ORDINANCE PRELIMINARY 10-YEAR REVIEW AND POTENTIAL AMENDMENTS

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE the Measure R Ordinance Preliminary Ten-Year Review and Potential Amendments.

ISSUE

The Measure R Ordinance (“Ordinance”) permits the Board to amend the Ordinance not more than once every ten years, beginning in 2020, to transfer sales tax revenue between the transit and highway capital subfunds. This Board item provides preliminary staff findings regarding the transfer. In addition, information is given on possible additional amendments to transfer funding among existing projects or add funding for new projects.

No recommendations for amendments to the Ordinance are being made at this time.

BACKGROUND

The Measure R Ordinance, which became effective in January 2009, identifies the allowable uses for the 0.5% countywide sales tax that funds Metro capital projects and transit operations. The Ordinance created both transit and highway capital subfunds that receive a percentage of the Measure R sales tax revenue and fund the capital projects listed on the Expenditure Plan (Attachment A of the Ordinance). One of the capital projects is a Capital Project Contingency (“Contingency”). Per the Ordinance, the Contingency is to be used, among other things, to pay interest on debt.

DISCUSSION

The amount available for Contingency is currently estimated to be significantly lower than identified in

the Expenditure Plan, as the total amount of Measure R sales tax is less than initially anticipated. The following table shows the current estimate of Contingency (from the November 2019 Short Range Financial Forecast, or “2019 Financial Forecast”) versus the amount in the Expenditure Plan. Contingency has decreased from \$3.3 billion to \$694 million for transit and \$2.6 billion to \$1.1 billion for highway (based on actual receipts and the most recent forecast of sales tax revenue over the 30-year term of Measure R, minus total spending for all other capital projects identified in the Expenditure Plan).

Measure R Capital Project Contingency Expenditure Plan vs. 2019 Financial Forecast 30-Year Totals (Fiscal Years 2010 to 2039)		
(\$ in millions)	Expenditure Plan	2019 Financial Forecast
Transit Capital Projects	\$ 10,514	\$ 10,514
Transit Capital Project Contingency	\$ 3,276	\$ 694
Total Transit Revenue (35%)	\$ 13,790	\$ 11,208
Highway Capital Projects	\$ 5,304	\$ 5,304
Highway Capital Project Contingency	\$ 2,576	\$ 1,101
Total Highway Revenue (20%)	\$ 7,880	\$ 6,405

Metro has issued debt payable from the transit capital subfunds, and this outstanding debt has and will continue to accrue interest. No debt has yet been issued that is payable from the highway capital subfund. In the 2019 Financial Forecast, an additional \$3.5 billion of debt is estimated to be needed to complete the projects in the Measure R Expenditure Plan, payable from both transit and highway capital subfunds. As shown in the table below, the total estimated interest payable from transit debt including outstanding debt is \$2.0 billion. For highway debt the total interest payable is \$513 million. The amount of transit interest payable exceeds the amount available for Contingency.

Measure R Debt Interest Outstanding and Planned Debt Issuance (2019 Financial Forecast)	
(\$ in millions)	Interest Payable
Outstanding Transit Debt	\$ 1,360
Planned Transit Debt	\$ 662
Total Transit Debt	\$ 2,022
Outstanding Highway Debt	\$ -
Planned Highway Debt	\$ 513
Total Highway Debt	\$ 513

Given the amounts allocated to capital projects in the Expenditure Plan (other than the Contingency)

there is insufficient future sales tax revenue to pay the transit interest, including planned future transit debt. This may require a transfer of funds from the highway to transit capital subfund.

The amount of the transfer cannot be determined precisely now as it will depend on actual sales tax receipts and debt issuances over the next 20 years. If sales tax is higher or lower than forecasted, this may cause less or more future debt issues and resulting interest. In addition, there are three transit projects (Expo II, Purple Line Extension, Airport Metro Connector) that are not currently allocated the total amount of Measure R identified in the Expenditure Plan. In the 2019 Financial Forecast, the Measure R surplus on these projects is being used to pay interest on the debt issued for the projects (in accordance with the Board-approved “Fiscal Responsibility Policy,” recommendation A, May 2011). Two of the projects are not yet completed and may require additional Measure R funding. The Purple Line Extension will likely require additional Measure R funding for an expanded Division 20.

At this time, a future \$500 million transfer is estimated to be needed from highway to transit. However, the transfer is not needed immediately, as there are sufficient Measure R sales tax receipts and debt capacity to fund the transit capital projects on schedule over the next 10 years without the transfer. Staff recommends that any transfer is postponed. The timing and amount of the transfers will be monitored annually and a future recommendation will be provided to the Board when the need to make a transfer appears more definitive.

Transfer of Funds to Other or New Projects

In addition to the possible transfer of highway and transit Contingency, several Measure R projects have not fully utilized all Measure R funding in the Expenditure Plan, and the funding for these projects could potentially be transferred to other existing or new projects. The Metro Board has adopted policies that affect the future transfer of funds, including the aforementioned Fiscal Responsibility Policy, as amended. This policy requires that interest on debt is allocated to the project financed, reducing the surplus, or if the project is accelerated, offsetting the amount spent on capital costs. For any transfer for a new or augmented project, a proportional amount of the Contingency is also transferred. These and other policy requirements will need to be followed, in consideration of the Ordinance provisions and contractual obligations related to Metro debt financing.

The following projects may have surpluses that could be transferred.

- **Interstate 5 North Capacity Enhancements from SR-14 to Kern County Line (Truck Lanes):** \$410 million in Expenditure Plan. Current project under development ends at Parker Rd. Approximately \$267 million of Measure R available for future project. Funds may be needed for current project if cost increases. Any surplus would be eligible for uses identified by the subregion.
- **Interstate 405, I-110, I-105, and SR-91 Ramp and Interchange Improvements (South Bay):** \$906 million in Expenditure Plan. Approximately \$92 million spent through fiscal 2019. Use of funds determined in conjunction with South Bay subregion. Funds could be transferred for transit or other uses of regional benefit.

Projects were funded prior to the passage of Measure R. The surplus has been either programmed after 2029 through previous Board action, or on new projects identified by the subregion with Metro approval.

- **San Fernando Valley North-South Rapidways (Canoga Corridor):** \$182 million of Measure R transit funds available. Currently programmed for use after 2029.

The following project, which was expected to be completed with a Measure R surplus, will have the Measure R funding used instead of Proposition C 25% sales tax funds that were programmed for the project prior to the adoption of Measure R. This was approved by previous Board action (~~#2015-1763~~) (~~#2017-1763~~). The Proposition C 25% “replacement credits” have been programmed after 2029 in the Board-adopted short range transportation plan.

- **Interstate 5 Capacity Enhancement from I-605 to Orange County Line, from SR-134 to SR-170, and Carmenita Road Interchange Improvement:** \$108.4 million of Measure R surplus, or replacement credits, allocated to West Santa Ana Branch per Expenditure Plan. A total of \$122.9 million of Measure R surplus programmed after 2029. All or a portion of the surplus may be needed if the project cost increases, or to address the impact of prior scope reductions.

Findings

As discussed herein, the following are key findings of this report.

- A transfer of Measure R funds, estimated to be \$500 million, from the highway to transit capital subfund appears necessary. The actual transfer can be postponed and not affect the immediate funding of transit or highway capital projects.
- Staff will monitor the status of the transfer requirement annually and make a future recommendation should a transfer be needed.
- Several Measure R projects have actual or forecasted surplus Measure R revenues. Prior Board action has programmed much of the surplus after 2029.
- Staff will monitor the status of the projects and report back to the Board when they can be officially closed and the funding can be reprogrammed. The existence of surplus funds may not be confirmed at this time.
- For the South Bay highway program, staff will work with the South Bay subregion and determine if the subregion recommends closing the remaining funding in this program and reprogram the funds to another project or projects of regional benefit.

FINANCIAL IMPACT

This is an informational item and does not have a direct financial impact.

Impact to Budget

There is no direct impact to the FY20 budget.

IMPLEMENTATION OF STRATEGIC PLAN GOALS

This item helps ensure fiscal responsibility in how funding determinations are made and transparency in the agency's investment decisions (Goal #5).

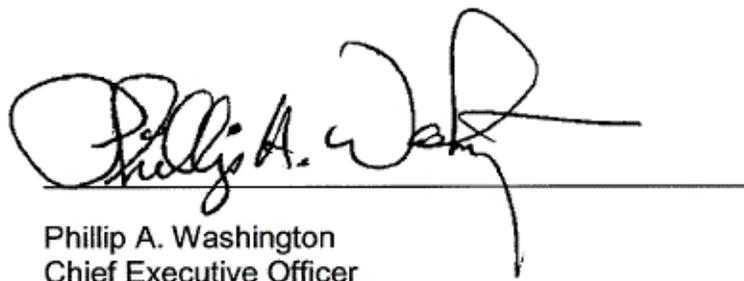
NEXT STEPS

Subsequent to the filing of this Board item, Metro staff will seek feedback from the Board and stakeholders, and may bring forward specific amendments to the Ordinance for the Board's approval. Metro staff will concurrently develop a detailed amendment process that identifies the steps and responsibilities required to identify and potentially implement amendments to the Measure R Ordinance.

Any amendment would require 2/3 Board approval and notification to the cities and county.

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Phillip A. Washington
Chief Executive Officer

Measure R Ordinance Preliminary 10-Year Review and Potential Amendments Agenda Item #7

Executive Management Committee
November 21, 2019



Background

- **Measure R sales tax revenue can be transferred between transit and highway capital subfunds with Board approval**
- **Capital Project Contingency is used to pay interest on debt**
- **Measure R Ordinance permits Board to amend Ordinance NO MORE than once every 10 years**

Expenditure Plan vs 2019 Forecast

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Potential Transfers

- **A \$500M transfer from highway to transit may be needed for debt interest**
- **Projects with Measure R funding surplus**
 - **Previously funded projects (prior to Measure R)**
 - **Proposition C funds (replacement credits) to be used instead of Measure R**
 - **Any surplus is eligible for use within subregion; may be needed for final cost of project**

Potential Surplus

Projects with potential Measure R surplus
<ul style="list-style-type: none">• I-5N enhancements from SR-14 to Kern County Line
<ul style="list-style-type: none">• I-405, I-110, I-105, and SR-91 Ramp and Interchange Improvements
Previously funded projects
<ul style="list-style-type: none">• San Fernando Valley N/S Rapidways (Canoga Corridor)
Replacement Credits
<ul style="list-style-type: none">• Interstate 5 Capacity Enhancement from I-605 to Orange County Line, from SR-134 to SR-170, and Carmenita Road Interchange Improvement

Summary

- **Potentially insufficient future sales tax revenue to pay for transit interest**
- **Precise amount of transfer will depend on actual sales tax receipts and debt issuances**
- **Any project surplus is eligible for use by subregion; depends on project completion and ultimate cost**