



Board Report

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**PLANNING AND PROGRAMMING COMMITTEE
NOVEMBER 20, 2019
EXECUTIVE MANAGEMENT COMMITTEE
NOVEMBER 21, 2019**

SUBJECT: TWENTY-EIGHT BY '28 PILLAR PROJECTS QUARTERLY UPDATE

ACTION: RECEIVE AND FILE

RECOMMENDATION

RECEIVE AND FILE quarterly update on the Twenty-Eight by '28 Initiative pillar projects.

ISSUE

This item is an ongoing status report of the pursuit of the Twenty-Eight by '28 Initiative with a focus on the four identified "pillar projects." In addition, this item responds to Board requests during the July 2019 quarterly update to establish a Metro task force, provide additional detail on specific strategies to accelerate the projects, identify the tipping point where projects cannot be delivered, and determine what is not financially feasible.

BACKGROUND

The Reimagining of LA County staff report, which identified assumptions and priorities to deliver the Twenty-Eight by '28 Initiative, was submitted to the Board in February 2019 and recommended quarterly status reports. The Metro Board provided direction in response to The Reimagining of LA County report to prioritize the four pillar projects and prepare a financial forecast and constructability analysis. Staff submitted the pillar projects financial forecast and constructability analysis to the Board in July 2019. This report represents the third quarterly status report to the Board.

DISCUSSION

This report provides an update on the pillar projects baseline planning schedule (Attachment A) and strategies that staff is pursuing to accelerate the pillar projects. In particular, we are providing information on the recommended Metro task force, project updates, specific acceleration strategies, tipping points, and what is not feasible.

Establish a Task Force

Metro staff set up a task force comprised of representatives of our CEO, including Office of Extraordinary Innovation), Government Relations, Program Management, Finance, Countywide Planning and Development, and Operations departments. The task force has met, identified action items, and contributed to the update and development of detailed strategies to accelerate the pillar

projects.

Provide Updates Including Value Capture Strategy

Metro Countywide Planning and Development initiated a value capture strategy that was presented to the Board in July 2019. The goal of the strategy is to identify and implement value capture mechanisms for development of Metro assets. Staff is working with real estate and financial consultants on this effort and has issued a Request for Proposals to the Countywide Planning and Development consultant bench. Proposals were received at the end of October 2019.

*Tipping Point Where Projects Cannot Be Accelerated/
What is Feasible and Does Not Usurp Other Projects?*

Staff reported in July 2019 that the pillar projects must begin construction no later than calendar year 2023 to have a chance of completion and revenue operations by 2028. From a financial standpoint, the July 2019 report identified a \$3.3 billion funding shortfall for capital, interest cost related to an additional \$10.0 billion of debt financing, and a funding shortfall for operations of \$1.2 billion (over a 10 year period). If the 2023 date is not met or new funding for the shortfall is not obtained, this will have a material effect on realizing the acceleration.

It should be noted that the identified funding gap is based on the pillar project capital costs as estimated in 2016 for the Measure M Expenditure Plan. Should the actual costs of the pillar projects differ, this will directly affect the amount of the capital funding shortfall.

How Can Staff and the Board Cut the Project Development Process?

There are several critical path, project development tasks needed to achieve construction start - environmental clearance, preliminary (i.e. pre-procurement) engineering, and procurement. As reported in July 2019, Metro staff and the Board can help accelerate the project development by working with local, state and federal stakeholders to provide timely review and approval of environmental documents, conceptual design, cost estimates and preliminary engineering. General strategies that Metro has undertaken to expedite the project development process include:

- Developing phasing strategies which will help accelerate projects from current schedules developed in the Measure M Expenditure Plan;
- Accelerating and integrating the project development/engineering and environmental schedules for each project - getting projects ready for implementation;
- Working with the task force to develop a funding strategy for “best case” project acceleration for all four pillar projects;
- Engaging technical advisors to assist with scheduling, preliminary design, and procurement;
- Engaging P3 financial advisors to prepare business case and value for money assessments;
- Seeking state grant funding in advance of final design and construction;
- Seeking CEQA reform to exempt or reduce state environmental requirements for transit projects;
- Seeking expedited federal capital investment grant funding; and
- Funding FTA capacity to support review of Metro projects.

Note that each strategy may not be applicable to all projects.

Metro staff has also initiated the development of an action plan to identify additional items that can help reduce the duration and number of iterations for regulatory agency reviews and approvals. The action plan will be presented as part of the next quarterly status report.

Detail on Specific Strategies

The following table lists the strategies that staff is currently implementing to accelerate each of the pillar projects.

LA Metro Pillar Projects Strategies to Accelerate Projects	
Gold Line Eastside Extension Phase 2	
Strategies Being Pursued:	<ul style="list-style-type: none"> • Limit environmental review to state CEQA
Progress to Date:	<ul style="list-style-type: none"> • Developed funding plan that does not rely on federal dollars
Potential Benefit:	<ul style="list-style-type: none"> • Reduces time required for federal review
Green Line Extension to Torrance	
Strategies Being Pursued:	<ul style="list-style-type: none"> • Pursue SB1 state funding
Progress to Date:	<ul style="list-style-type: none"> • State awarded \$231.3 million in 2018
Potential Benefit:	<ul style="list-style-type: none"> • Provides sufficient construction funding at current cost estimate; will mitigate impact of Measure M restriction on construction funding prior to FY26
Sepulveda Transit Corridor	
Strategies Being Pursued:	<ul style="list-style-type: none"> • Enter into pre-development agreement (PDA) • Pursue accelerated state and federal grant funding • Add resources to FTA to support NEPA review process
Progress to Date:	<ul style="list-style-type: none"> • RFP for PDA to be issued in 2019, with goal of commencing P3 delivery in 2025 • Working with FTA to identify accelerated grant funding availability • Funded additional FTA resources
Potential Benefit:	<ul style="list-style-type: none"> • PDA goal of balancing project costs, performance, and key risks particularly on an accelerated schedule • Accelerated grant funding to support early construction costs • Increased staff available for FTA review of Metro projects

West Santa Ana Branch to Downtown LA	
Strategies Being Pursued:	<ul style="list-style-type: none"> • Develop accelerated schedule that overlaps key activities • Identify funding strategy to accelerate funds • Procure a design-build-finance-operate-maintain P3 • Identify a range of scope options that are likely to be feasible • Pursue accelerated state and federal grant funding • Add resources to FTA to support NEPA review process
Progress to Date:	<ul style="list-style-type: none"> • Obtained SB 1 funds in advance of final design and construction • Hired technical advisors to assist with accelerated project scheduling, preliminary design, and P3 procurement • Reduced the level of pre-procurement preliminary design to support innovation • Hired P3 financial advisors to prepare comprehensive business case, value for money assessment, and P3 procurement strategy • Pursuing Initial Operating Segment with plan for subsequent delivery of full project scope • Working with FTA to identify accelerated funding availability • Funded additional FTA NEPA review resources
Potential Benefit:	<ul style="list-style-type: none"> • Condensed, accelerated schedule minimizes project development time • Conceptual design and engineering strategy supports earlier procurement and innovation in final design • P3 delivery can add time efficiencies and potentially reduce costs and enhance financial capacity • Accelerated grant funding reduces funding gap • Increased staff available for FTA review of Metro projects

When Would a Bond Rating Downgrade Occur?

Most of the bonds that Metro issues to finance capital projects have ratings from Standard & Poor’s and Moody’s. The Metro sales tax bonds are “senior-lien,” which means they are paid before any other Metro indebtedness. As shown in the following table, the senior-lien bonds carry ratings of AAA and Aa1, which are of the highest credit quality for a transit agency. Bond ratings that are “investment grade” range from BBB- (lowest quality) to AAA (highest quality).

LA Metro Senior-Lien Sales Tax Bond Ratings As of October 2019		
Bond Issue Type	Standard & Poor’s	Moody’s
Proposition A First Tier Senior Lien Bonds	AAA	Aa1
Proposition C Senior Sales Tax Revenue Bonds	AAA	Aa1
Measure R Senior Sales Tax Revenue Bonds	AAA	Aa1
Measure M Senior Sales Tax Revenue Bonds	*	*

*To be determined; bonds not yet issued or rated.

One factor in determining the rating is “debt service coverage,” which is the number of times that revenues pledged to repay the debt exceed the debt payments. Metro has maintained debt service coverage that is, on average, 3 to 4 times the debt payments. The rating agencies have stated in their assessment of Metro debt that if debt service coverage were to decrease to an amount lower than historically achieved, this would be a factor leading to a downgrade, or lowering, of the rating. Under the pillar projects financial plan, the debt service coverage for Measure M debt would be 2.5 times in FY 2028, much lower than the baseline financial forecast of 4.7, and would create a risk of a future downgrade.

Projects That Get People to and from Olympic Venues

There are six areas, or “parks” in LA County where Olympic venues are located: Sepulveda Basin, UCLA, downtown LA, Inglewood, Carson Stub Hub Center, and Long Beach. Of the four pillar projects, the Sepulveda Transit Corridor may have a station at UCLA and get people directly (i.e., within walking distance) to an Olympic venue. The other three pillar projects do not have planned stations at Olympic venues. However, the pillar projects would connect to existing Metro transit that does get to an Olympic venue. The Gold Line Eastside Extension Phase 2 will connect to Union Station, and the Green Line Extension to Torrance and West Santa Ana Branch to downtown LA will connect to the Blue Line, as well as to the to-be-opened Crenshaw Line, in addition to various bus connections. A map showing the Olympic venues in relation to the pillar projects is attached to this report (Attachment B).

Financial Feasibility

In July 2019, Metro staff prepared a pillar projects financial forecast that attempts to fund delivery of the pillar projects by FY28. The pillar projects financial forecast showed a funding gap for capital and operating costs, and without additional yet-to-be-identified funding, it would be difficult to support the

accelerated schedule. The funding gaps occur because the planned funding for the pillar projects needs to be accelerated and it is not possible to accelerate all of the funding within certain financial constraints. The financial forecast also utilized a significant amount of debt, and the repayment of debt impacts funding for other Metro purposes. Metro is now developing an action plan to create new funding that can address the pillar projects funding gap.

FINANCIAL IMPACT

This is an information item and does not have a direct financial impact on Metro. The implementation of accelerated funding for major capital projects would have a financial impact on Metro, and these impacts will be identified in the event the Board considers approval of the funding plans.

Impact to Budget

This is an information item and does not impact the FY 2020 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).

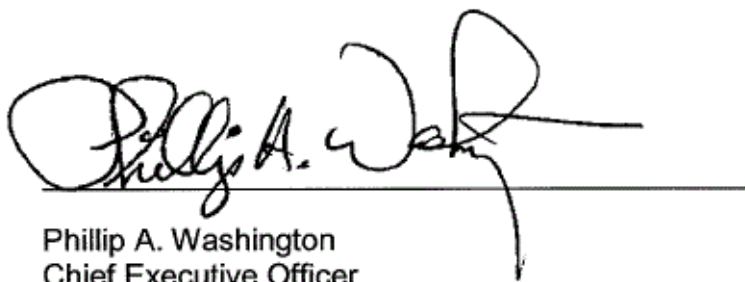
ATTACHMENTS

Attachment A - Pillar Projects Baseline Planning Schedule

Attachment B - Pillar Projects Connectivity to 2028 Olympic Venues

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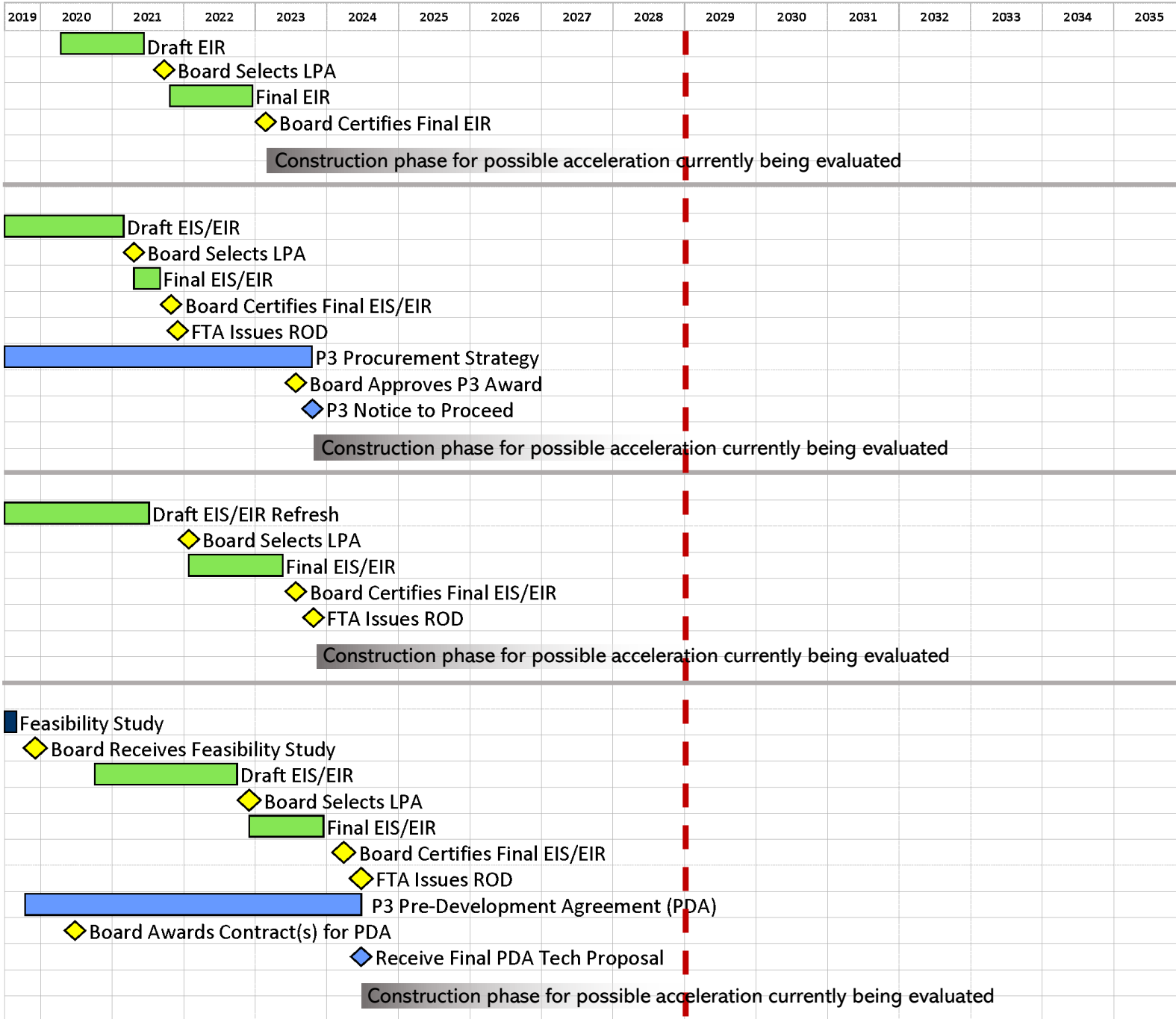
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Phillip A. Washington
Chief Executive Officer

Pillar Projects Baseline Planning Schedule

Measure M Opening Dates
3-year window



FY 2030 – 2033

FY 2028 – 2031
(Initial Segment
Slauson to
Artesia)

FY 2041 – 2044
(Second Segment)

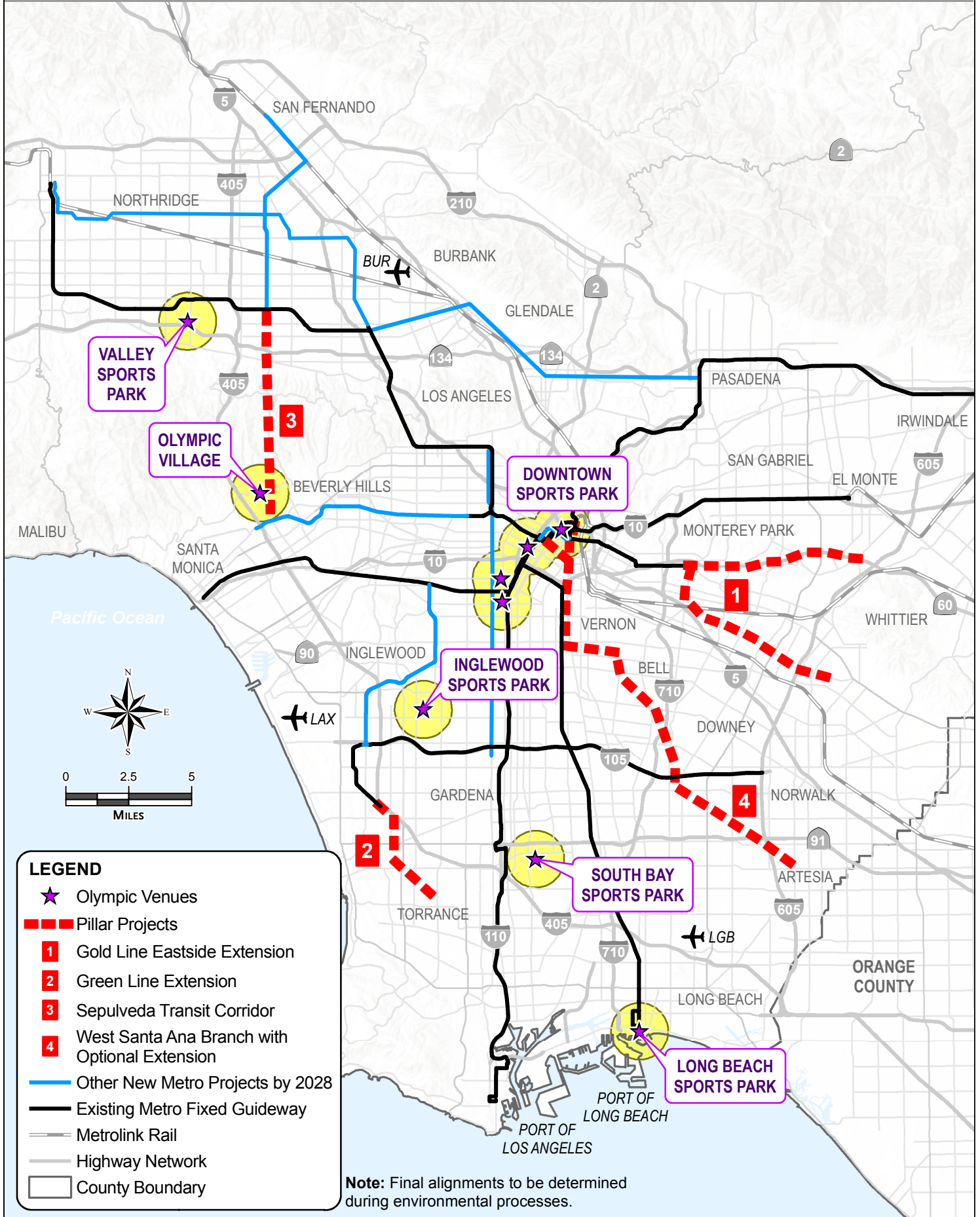
FY 2035 – 2038
(Initial Segment)

FY 2057 – 2060
(Second Segment)

FY 2033 – 2036
(Initial Segment)

FY 2057 – 2060
(Second Segment)

28x28
Target



LEGEND

- ★ Olympic Venues
- Pillar Projects
 - 1 Gold Line Eastside Extension
 - 2 Green Line Extension
 - 3 Sepulveda Transit Corridor
 - 4 West Santa Ana Branch with Optional Extension
- Other New Metro Projects by 2028
- Existing Metro Fixed Guideway
- Metrolink Rail
- Highway Network
- County Boundary

Note: Final alignments to be determined during environmental processes.

Twenty-Eight by '28 Pillar Projects

Quarterly Update

Agenda Item #5

Planning and Programming
November 20, 2019



Overview

This is the third quarterly status report to the Board on the financial forecast and constructability analysis of the four pillar projects

- Task force**
- Value capture strategy**
- What is feasible and does not usurp?**
- Project development process**
- Impact on bond rating**
- Accessibility to and from Olympic venues**
- Financial feasibility**

Pillar Projects Update

Establish a Task Force

- Cross-departmental staff have met, identified action items, and reported strategies to accelerate the pillar projects

Update on Value Capture Strategy

- Staff is hiring market experts to identify value capture opportunities

Where projects cannot be accelerated/What is feasible?

- Pillar projects must begin no later than 2023
- Capital and operating funding shortfall

Pillar Projects Update (cont.)

Expediting project development process

- Using phased strategies; integrating project development/engineering and environmental schedules for each project
- Engaging technical advisors for design and procurement; financial advisors for alternative project delivery and financing

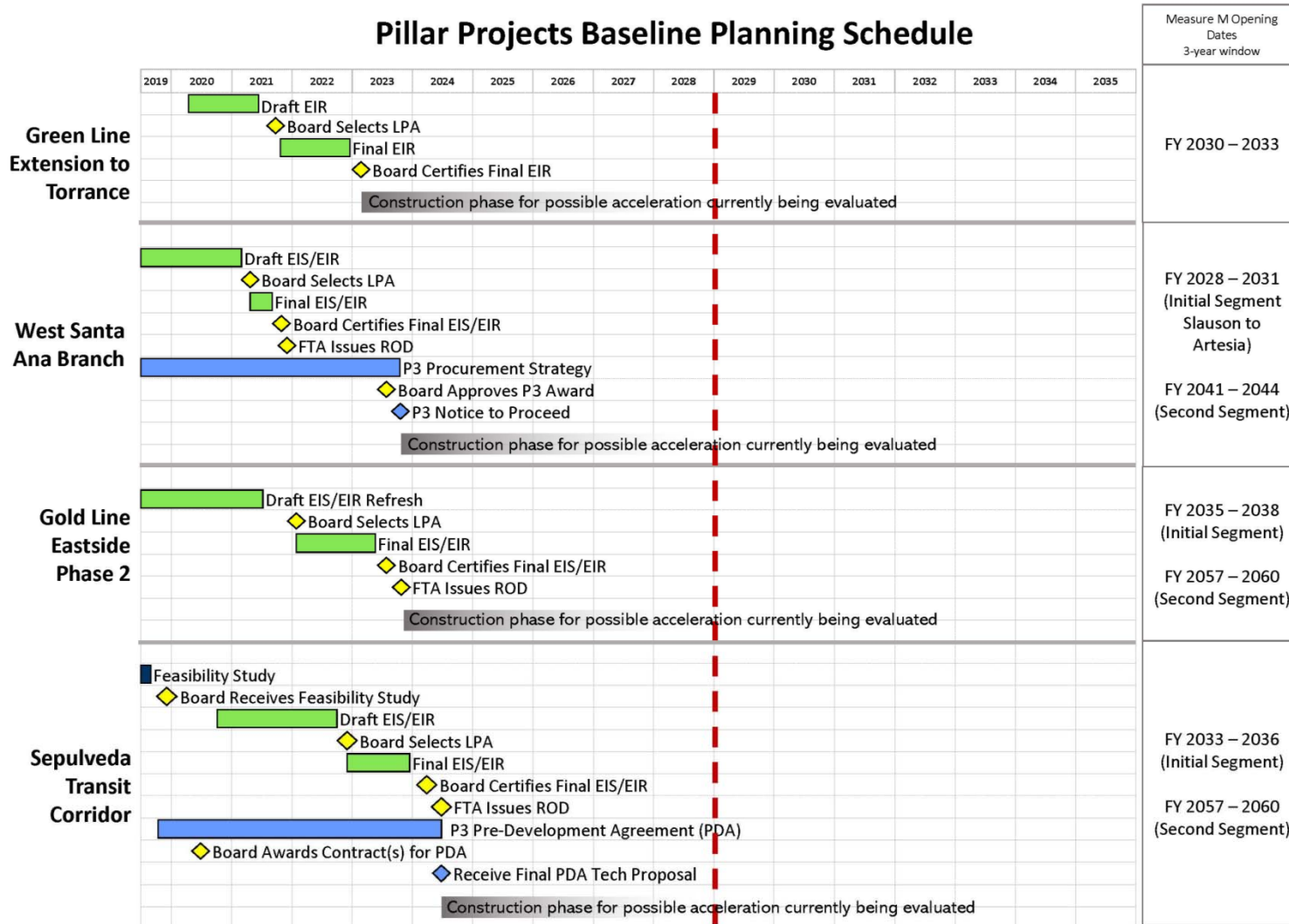
Impact on bond rating

- Current senior-lien bond issues carry AAA and AA1 ratings and debt service coverage of 3x to 4x
- Under the pillar projects financial plan, debt service coverage would be 2.5x in FY 2028

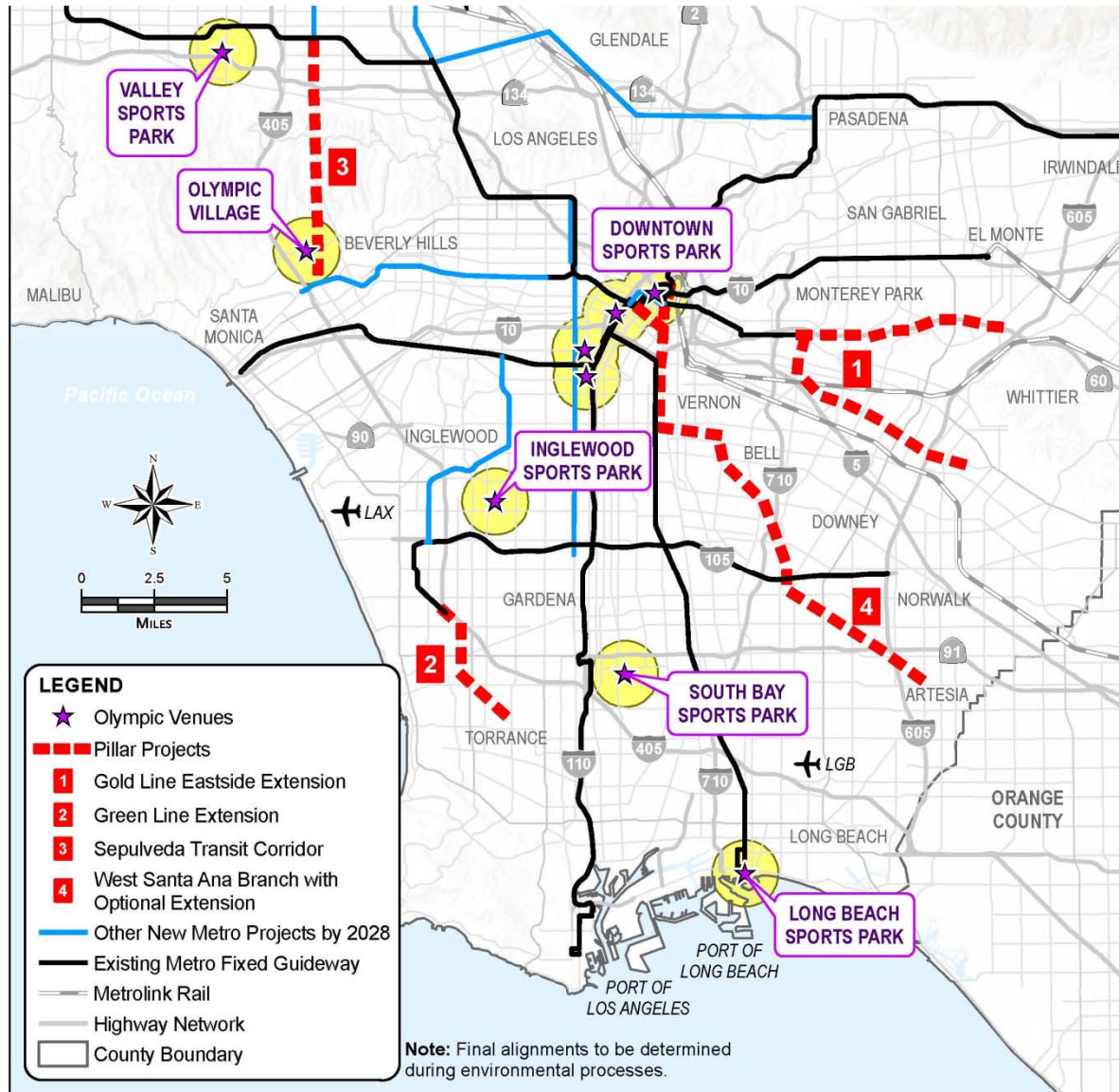


Pillar Projects Update (cont.)

Pillar Projects Baseline Planning Schedule



Pillar Projects Update (cont.)



Summary

- **Staff has implemented several initiatives to accelerate the pillar projects and will pursue an action plan on additional steps**
- **Any acceleration will require that the pillar projects begin construction in 2023**
- **There is a funding shortfall for the capital and operating cost of the pillar projects, based on Expenditure Plan cost estimates**
- **The higher amount of debt used to accelerate the projects may impact the ratings on Metro senior lien bonds**

