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### PLANNING AND PROGRAMMING COMMITTEE MARCH 17, 2021

**SUBJECT: 2021 SHORT RANGE TRANSPORTATION PLAN FINANCIAL FORECAST PLANNING ASSUMPTIONS**

**ACTION: RECEIVE AND FILE**

#### **RECOMMENDATION**

RECEIVE AND FILE the 2021 Short Range Transportation Plan Financial Forecast Planning Assumptions.

#### **ISSUE**

The Financial Forecast identifies the near-term projects and programs that Metro can fund in its Short Range Transportation Plan (SRTP). The forecast is dependent on many planning assumptions and these are being presented to the Board for review and input so that an updated Financial Forecast can be submitted for adoption as part of the SRTP.

#### **BACKGROUND**

The Long Range Transportation Plan (LRTP) was adopted by the Board in September 2020 and details how Metro will plan, build, operate, and maintain the Los Angeles County transportation system in the next 30 years. Metro must adopt a financially constrained LRTP to remain eligible for federal and state funding. The SRTP will be an action plan for the LRTP that recommends near-term implementation steps over a fifteen-year timeframe (FY22 to FY36) and reflects needed recalibrations due to the current COVID-19 pandemic.

The Financial Forecast identifies what can be funded in the SRTP and will determine how Metro programs its funding to specific uses. Metro takes action to pursue the funding based on the programming in the Financial Forecast, last adopted as part of the 2020 LRTP. Board input on the planning assumptions, particularly in the areas that the Board can influence, will identify the Board's policy direction and allow staff to complete the Financial Forecast.

#### **DISCUSSION**

The following are key planning assumptions to be included in the SRTP update, and the impact these have on the Financial Forecast. The Metro Board will adopt the key planning assumptions, including

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fares, tolls, project prioritization, discretionary new projects, and service levels as part of the SRTP adoption.

1. Sales tax forecast: The sales tax revenue projections use the FY22 budget amount then a forecast from UCLA Anderson School. The estimated FY22 budget amount of \$865 million for each of the four Metro sales taxes is 6 percent less than assumed in the LRTP. The UCLA forecast has annual growth in the subsequent three years of 5 to 10 percent. But this will likely change in the next forecast available in July 2021, as the significantly lower short-term economic activity predicted in the forecast did not occur. The forecast determines the amount of capital, transit operations subsidy, and state of good repair that can be funded. Due to the lower estimated sales tax in comparison to the LRTP, reductions in capital and operating expenditures are needed, which could involve the delay of major capital projects and state-of-good-repair, and or fewer bus service hours.
2. State grants: The State transportation funding created from Senate Bill 1 (SB1) is based on a statewide estimate from the State Department of Finance. Future SB1 funding for Metro is lower in comparison to the LRTP for programs funded from fuel consumption (e.g., State Transit Assistance) but relatively unchanged for those that are fixed and adjusted for inflation. The Financial Forecast assumes Metro receives a percentage of the statewide estimate of discretionary and formula grants. The amount Metro receives from the longstanding State Transportation Improvement Program (STIP) and other State grant programs is based on historical awards. No new grant programs are assumed. The grants fund approximately 5 to 10 percent of Metro's total capital program, operating subsidy, and state of good repair. For individual projects, SB1 grants fund up to 30 percent.
3. Federal grants: Federal grant amounts are assumed to be the same, in real dollars, as provided under the previous multiyear reauthorization bill, the FAST Act. No new grant programs are assumed. The grants fund about 10 percent of Metro's total capital program, operating subsidy, and state of good repair. For individual projects, New Starts and other federal grants fund up to 50 percent. The projects that receive future New Starts funding are unchanged from the LRTP and Measure M Expenditure Plan and there is no assumed additional funding to Metro from other federal Capital Investment Grants (e.g., Expedited Project Delivery, Core Capacity, Small Starts). This could change if the Board takes action to fund specific projects prior to the completion of the SRTP Financial Forecast later in 2021. Should new or increased grant funding be made available through future federal legislation or other action, Metro will aggressively pursue this funding, as demonstrated by our prior success obtaining the most New Starts funding nationwide. Since 2015, Metro has received approximately \$9 billion in competitive federal, State, and TIFIA grants
4. Fares: Fare revenue assumed is equal to the FY22 budget amount, which is significantly down from prior years because of lower transit ridership, then recurring increases that attain a 30% farebox recovery in 30 years. The farebox recovery assumption is consistent with the 2020 LRTP, 2009 LRTP, and financial plans submitted to the Federal Transit Administration in support of transit projects funded by Measure R and Measure M sales tax ordinances. Fares pay approximately 20 percent of transit operations. A lower fare assumption would require offsetting decreases in costs from service reductions or lower per unit costs, or alternative

sources of revenue. A credible approach to lower unit costs or the generation of a stable, alternative source of operating revenue has not yet been identified. New or strategic projects and the resulting impact on fares are not included. Strategic projects like the Fareless System Initiative will be added subject to future Board approval.

5. **Toll revenues:** Revenues assumed are lower for the existing I-10 and I-110 segments due to reduced traffic flows. Future revenues are expected to recover and equal the amount estimated pre-COVID. The tolls fund the expansion of the ExpressLanes network. The assumed timing of each segment is based on financial feasibility as the previously completed segments fund future segments. The estimated net tolls after paying the costs of the network are not currently sufficient to fund other Metro capital projects or local projects adjacent to the network.
6. **Capital project costs:** Project costs assumed are equal to those in the adopted LRTP, or from separate Board actions (e.g., contract awards, “life of project” budgets) taken after the LRTP. The project costs are generally the same as the Measure R and M Expenditure Plans. Potentially higher project costs, which may have been determined as part of engineering, feasibility, environmental, or other studies, but where the Board has not yet formally recognized or approved the costs are not in the Financial Forecast. In the event the Board recognizes a higher project cost, a separate funding plan will be developed for Board approval and incorporated into the Financial Forecast. This could require tradeoffs, including the deferral, reduction, or elimination of other SRTP projects, or the inclusion of a new revenue source.
7. **Capital project schedule:** Major capital projects are assumed to be completed on the same schedules as the LRTP, and these are generally the same as the earliest Start Date in the Measure M Expenditure Plan. However, the planned completion of future capital projects, not already under construction, could be delayed for lack of available revenue, including the capacity to issue debt within existing Board policy. Measure M projects may be delayed up to 3 years after the earliest Start Date because of limited financial capacity. The first project to be delayed will be the first project that cannot be funded. The funding of projects will be reassessed each year when the Financial Forecast is updated and could change depending on overall Metro spending and revised revenue estimates.
8. **New projects:** If not in the LRTP, projects have been added only if the Board subsequently approved them or are otherwise mandated or supported by Board action, and these include NextGen changes to bus operations, the conversion to zero-emission buses, and an ExpressLanes network.
9. **Strategic projects:** No other new projects are included, except for any planning, environmental, pre-engineering, design, or other work that the Board has approved. The cost to construct or otherwise fund and implement projects including LINK US Phase 2, NextGen capital investments, Expanded ESOC, Centinela Grade Separation, Accelerated Measure M Projects, Rail-to-River, Congestion Pricing, Better Bus, Customer Experience, and the Fareless System are not in the Financial Forecast and no funding has been identified or programmed for these projects. In the event the Board pursues any of these projects, a separate funding plan will be

developed for Board approval and incorporated into the Financial Forecast. This could require tradeoffs, including the deferral, reduction, or elimination of other SRTP projects, or addition of a new revenue source.

10. Bus service level: Bus service could be modified in comparison to the LRTP because of lower ridership since the start of the global pandemic. In February 2021, the Board directed full restoration of bus service hours in September 2021. In the future, Metro could consider a recommendation to adjust annual bus service hours from 7.0 million in FY20 (as adopted in the 2020 LRTP) to 6.2 million in FY23 and 6.5 million through FY36, based on the presumption that bus ridership does not return to pre-COVID levels and the amount of bus service that Metro can provide is financially constrained because of lower fare revenue and sales tax operating subsidy. We are seeking Board input on any targeted level of bus service hours given the actual and expected drop in ridership, fare revenue, and sales tax operating subsidy in comparison to the LRTP.
11. Rail service level: Rail service is consistent with the Metro budget, and the federally required Fleet Management Plan. The startup dates are tied to the SRTP schedule and reflect any assumed project delays. Most future rail service is unchanged from the LRTP.

### Preliminary Results

The financial impact to Metro from the global pandemic and resulting restrictions on business and other activities is still being assessed. Metro sales tax revenue in FY20 and FY21 (estimated) is lower than the LRTP, but the magnitude of the loss is much less than initially projected in 2020. However, the forecast of sales tax is still lower due to COVID and requires additional debt financing to keep priority projects on schedule. Future projects may need to be deferred, in concept, because of a shortage of local funding, but this can be reevaluated each year. State funding is down slightly in comparison to the LRTP, and federal funding is about the same, in real dollars. No new grants or other funding are assumed that are not already in the LRTP.

The SRTP includes new projects that are mandated or Board-supported. But potential cost increases and other new projects that the Board has not approved are not included in the Financial Forecast and would need to be evaluated and added going forward, case-by-case.

The amount of transit fares and assumed level of bus service in the Financial Forecast is based on expected ridership and financial capacity. The funding for transit operations is dependent on costs, which are driven by the level of service, and revenue from the sales tax subsidy and farebox. The amount of sales tax eligible for operations is fixed by the ordinance, and both the sales tax and fare revenue have substantially declined due to COVID. The decline in revenue has been offset by ad hoc federal stimulus funding, but this is not an ongoing or recurring source. The falloff in transit revenue and ridership is expected to continue at least in the short term, and some form of cost reduction or new recurring revenue stream is needed to address the imbalance.

### DETERMINATION OF SAFETY IMPACT

The 2021 Short Range Transportation Plan Financial Forecast Planning Assumptions will have no

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impact on safety. The projects, programs, and other infrastructure improvements funded in the Financial Forecast could improve safety for both users and non-users of transit.

## **FINANCIAL IMPACT**

There is no financial impact related to this receive and file.

## **IMPLEMENTATION OF STRATEGIC PLAN GOALS**

The Financial Forecast will support the SRTP, which is the implementation plan for the 2020 LRTP. The LRTP advances all five goals of Vision 2028, and the LRTP and SRTP will “operationalize” the Strategic Plan initiatives. The LRTP and SRTP advance the Strategic Plan performance outcome of increasing all non-solo driving mode share.

This item also supports the Strategic Plan Goal #5, which seeks to “Provide responsive, accountable, and trustworthy governance within the Metro organization.” The SRTP Financial Forecast helps ensure fiscal responsibility in how fund assignments are made and transparency in the agency’s investment decisions.

## **NEXT STEPS**

Board input is needed to complete the Financial Forecast and will allow staff to identify and obtain the funding to continue the delivery of capital projects and help assess the key risks to the forecast, including sales tax volatility, project cost increases, new projects, and the ongoing funding of transit operations.

Over the next several months, staff will incorporate any Board actions regarding project costs and any new projects to be included, the FY22 budget, the July 2021 sales tax forecast, and any changes to the prioritization of approved projects, assumed transit service level, and fare assumptions. The completed SRTP Financial Forecast will be presented to the Board in the fall of 2021.

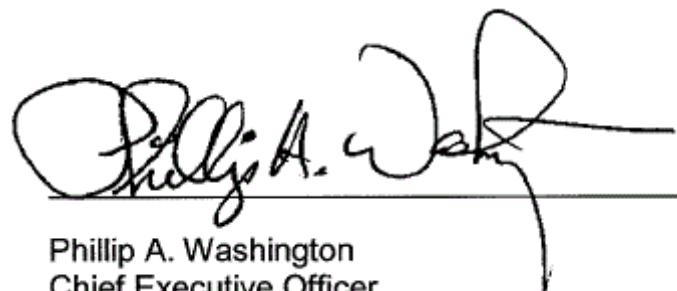
The other components of the SRTP will be prepared after the completion of the Financial Forecast.

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A handwritten signature in black ink, appearing to read "Phillip A. Washington". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the "n" in "Washington". Below the signature, there is a thin horizontal line.

Phillip A. Washington  
Chief Executive Officer

# 2021 Short Range Transportation Plan Financial Forecast Planning Assumptions

March 2021

# Background

- 2020 L RTP approved in September, next steps are:
  - Strategic project list, Financial forecast update, Prioritized actions, Implementation roadmap
- The Short Range Financial Forecast (SRFF):
  - is dependent on key assumptions of future revenues, costs, and transit service levels

# Key Assumptions

| Revenues                           | Costs                               |
|------------------------------------|-------------------------------------|
| • UCLA Anderson sales tax forecast |                                     |
| • FY21 State DOF forecast          |                                     |
| • Extension of FAST Act            |                                     |
| • LRTP farebox recovery            |                                     |
| • No congestion pricing            |                                     |
| • No new value capture             |                                     |
| • Adhere to Metro Debt Policy      |                                     |
| New Projects                       | Service Levels                      |
| • Bus electrification              |                                     |
| • Next Gen service changes         |                                     |
| • Express Lanes network            |                                     |
|                                    | • Bus service hours post-COVID      |
|                                    | • Rail service per LRTP, fleet plan |
|                                    | • Express Lanes pre-COVID           |

# Cost Increases and New Projects

- Updated costs will be disclosed at key milestones – e.g., environmental report, life-of-project budget
- Cost increases are guided by Metro policy

# Preliminary Results

- Revenue and ridership down significantly
- Future projects are assessed annually as they go through project development
- Potential cost increases and other new projects are not included but will need to be addressed
- Funding transit operations is dependent on level of service and available funds

# Next Steps

- Metro staff and Board to confirm:
  - Budget and updated sales tax forecast
  - Transit service level
  - Fare assumptions updated per Board direction
- Staff to present results to Board by end of 2021