Los Angeles County
Metropolitan Transportation Authority

West Santa Ana Branch Transit Corridor

Final EIS/EIR Appendix F: Funding and Financing for the West Santa Ana Branch Project

Metro

Final EIS/EIR Appendix F:

Funding and Financing for the West Santa Ana Branch Project

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Final Environmental Impact Statement/ Environmental Impact Report

LEAD AGENCIES: Federal Transit Administration of the U.S. Department of Transportation; Los Angeles County Metropolitan Transportation Authority

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1.1 Introduction

This appendix identifies the committed and planned funding for the Locally Preferred Alternative (LPA) identified by the Metro Board of Directors at the January 19, 2022, board meeting after circulation of the Draft Environmental Impact Statement/Environmental Impact Report (EIS/EIR). Metro has committed funding for the Project through two separate voter-approved sales tax ordinances and has also been awarded state grant funding. In addition, Metro has allocated planned local, state, and federal funding for the Project as part of its Long Range Transportation Plan (LRTP) Financial Forecast and Measure M Expenditure Plan in amounts sufficient for the initial estimated capital and operating costs of the Project.

The *original* Measure M Expenditure Plan identified funding for two segments: a 6.6-mile fiscal year 2028 (FY28) segment was to be constructed from the southern terminus to the existing Metro C (Green) Line (Alternative 4 from the Draft EIS/EIR, first segment), and the 12.7-mile fiscal year 2041 (FY41) segment was intended to complete the Project north to downtown Los Angeles. The LPA differs from the original Expenditure Plan because while the ultimate northern terminus of this Project remains the same—Los Angeles Union Station—the LPA extends the originally planned first segment by 8.2 miles from the Metro C (Green) Line to the Slauson/A Line Station for a total of 14.5 miles.

1.2 WSAB Funding Commitments and Timing

Local funding for the Project is included in both the Measure R and Measure M sales tax ordinances. The ordinances identify minimum funding amounts from the respective sales tax and start dates when the funds are eligible to be expended or for use on construction.

1.2.1 Measure R

This measure, approved by voters in November 2008, requires that $240 million of Measure R sales tax revenue be expended on the West Santa Ana Branch Corridor transit capital costs, no sooner than fiscal year 2015. Additional funding relating to surplus funds on the “Interstate 5 Capacity Enhancement from I-605 to Orange County Line” highway project (the surplus created due to the passage of the ordinance), currently estimated at $108.4 million, is also to be expended on the Project along with a small amount of administrative funding. The Measure R sales tax ends in 2039.

1.2.2 Measure M

This measure was approved by voters in November 2016 and included two West Santa Ana Transit Corridor light rail transit projects, one for each segment. The ordinance required that no less than $535 million of Measure M sales tax revenue be spent on transit capital costs of the FY28 segment and $900 million on the FY41 segment for a combined total of $1,435 million. The Measure M sales tax revenue is eligible for construction spending in fiscal year 2022 and can be increased for inflation if a sufficient amount is expended after fiscal year 2026. The Measure M sales tax does not have an end date.

1.2.3 State Funding

Metro applied for, and was granted, $300 million from the State of California through the Transit and Intercity Rail Capital Program (TIRCP) for the West Santa Ana Branch in 2018. The grant will be used for construction of the LPA. The state has also awarded the Project $18.5 million from the Local Partnership Program, and these funds are being used for pre-construction and planning activities. The state appropriated additional TIRCP funds to Metro as part of Senate Bill 125, which was enacted in July 2023. Metro has discretion on the proposed uses of these funds and submitted an Allocation Package request to the state on December 27, 2023, to allocate to this Project $200,560,082 out of the balance remaining of $499,909,177, which the California State Transportation Agency estimates will be distributed to Metro in FY 2024-25.

1.2.4 Other Planned Local, State, and Federal Funding

Metro has allocated planned, or expected, future local, state, and federal funding through its LRTP Financial Forecast to pay the estimated capital and operating cost of the West Santa Ana Branch, as well as all other Metro Board-approved projects and programs. Planned funding includes local sales tax that is eligible for transit capital (Proposition C 25% Transit Related Streets and Highways, Proposition C 40% Discretionary, and Proposition A 35% Rail Development), city contributions equal to 3% of the project cost that are required by the Measure M ordinance, and future planned grant requests through the state TIRCP and federal Congestion Mitigation and Air Quality Improvement (CMAQ) and New Starts programs.

Table 1.1 summarizes the amount of committed and planned funding for the LPA from local, state, and federal sources and the first year the funds are available for expenditures.

Table 1.1. West Santa Ana Branch Committed and Planned Funding Sources

	Source	Year Approved	Funding Amount	Year Available*
Locally Preferred Alternative (Slauson/A Line (Blue) to Pioneer Station) Fiscal Years 2022-2035	Measure R	2008	$240.0 million plus $108.4 million surplus highway funds plus $0.5 million admin	2015
	Measure M	2016	$1,383.0 million	2022
	Other Local		$1,053.0 million	2020
	State Grants	2018	$819.1 million	2019
	Federal Grants		$3,400 million	2027
	Other Federal		$163 million	2025
	Total		$7,167 million	

Source: Metro, Funding Plan Estimate as of January 2024
Note: *As specified in the sales tax ordinance or assumed in the Long Range Transportation Plan Financial Forecast

1.2.5 Operating Funds

Metro receives transit operations-eligible funding from a range of longstanding local, state, and federal sources and plans to use these funds for operating costs of the Project.

Primary local sources are the percentage allocation of each of Metro's sales tax ordinances that are to be used for operations-eligible costs: Proposition A 35% Rail Development, Proposition C 40% Discretionary, Measure R 5% Rail Operations, and Measure M 20% Transit Operations and 5% Rail Operations. Metro also receives rail operating revenue from fares, advertising, and other miscellaneous sources. State funding includes the State Transit Assistance and Low Carbon Transit Operations Program that are allocated to Metro by formula for eligible uses. Federal funding for Metro rail operations is primarily comprised of Federal Transit Administration (FTA) Section 5337 State of Good Repair, which is also allocated to Metro by formula, and CMAQ grants, which are also allocated to the region by formula.

1.3 Additional Funding and Financing Sources

Because the scope and cost of the LPA are greater than the initial Measure M Expenditure Plan estimates, additional funding must be allocated or obtained in the absence of value engineering or scope reductions. These additional funding sources are described in the following sections.

1.3.1 FTA New Starts

The LPA could produce ridership and other outcomes that will result in sufficient ratings needed for FTA award of this grant. Metro completed an independent assessment of the New Starts project justification rating in April 2021, and the Metro Board identified the Project as one of two next priorities for New Starts and authorized Metro to request entry into the New Starts project development phase. Metro was accepted into the project development phase in February 2022.

1.3.2 Expedited Project Delivery (EPD)

The EPD pilot program is intended to expedite funding of capital investment grants, including New Starts. FTA has announced that it will award up to eight grants, subject to funding availability. In November 2018, Metro submitted an expression of interest to FTA for funding from the EPD program for the West Santa Ana Branch to fund up to 25% of project costs. Metro can continue to pursue EPD funds for the Project in tandem with a New Starts request given the grants are not mutually exclusive.

1.3.3 Public Private Partnership (P3)

Metro is considering pursuing a P3 delivery option that is expected to include financing provided by the P3 developer. The private financing would be an alternative to Metro financing and potentially transfer repayment risk to the developer and increase Metro's debt capacity. However, the private financing is not expected to materially increase funding for the Project in comparison to the amounts shown in Table 1.1.

1.3.4 Transportation Infrastructure Finance and Innovation Act (TIFIA)

Metro or any future P3 developer may use TIFIA as a debt vehicle that can reduce interest cost and provide greater repayment flexibility. Any such interest savings may marginally increase Metro's debt capacity but is not expected to significantly increase funding for the Project.

1.3.5 Capital Grant Receipt/Sales Tax Backed Revenue Bonds

Metro can issue bonds secured by anticipated future grant/sales tax revenues. Any such interest savings may marginally increase Metro's debt capacity but could accelerate funding for construction needs even if the expected revenues are not expected to be received until a later date.

1.3.6 State Sources

Metro continues to be eligible for a range of existing state formula and competitive grant programs funded by the Road Repair and Accountability Act of 2017 (Senate Bill 1), which increased fuel and other taxes, as well as programs that predate this bill. Metro may request additional funding from the state given the expanded project scope.

1.3.7 Other Sources

Metro can reallocate local funding between the approved and future segment of the Project, which could provide more funding for the LPA. Any reallocation would be subject to an overall financial capacity assessment, as several of the local sales taxes can be and are used on other Metro Board-approved projects and programs. Additional local funds may also be made available if the Metro Board approves an amendment to the Measure M or Measure R Expenditure Plan to transfer funds as a result of a surplus or reallocation. However, there are limitations to when a transfer can occur, and it is uncertain how much funding could potentially be available. Another source of additional local funds could come from an increase in the 3% local agency contribution that is required by the Measure M and Measure R ordinances (due to the higher project cost), and value capture, should cities along the project corridor choose to implement this. Metro staff is working with the cities to implement value capture financings to help fund the Project, but the ultimate success of value capture and the amount made available for the Project is unknown and uncertain.

1.4 Next Steps

Metro will continue to refine its cost estimates for the LPA and take steps to align available funding. In the coming year, staff will work with FTA through the project development process and finish work on the Project's Final EIS/EIR. Staff anticipates Metro Board Certification of the final EIR, along with consideration of project delivery method (P3 or other method) in June 2024, and will then approach the FTA to obtain a Record of Decision in July 2024.

1.5 Risk and Uncertainties

The Draft EIS/EIR was circulated, and the Metro Board identified Alternative 3 at the January 19, 2022, Board meeting as the LPA. The alternative identified by the Metro Board is financially constrained, and Metro staff have been working to identify and commit available funding that can meet the most current estimated capital and operating costs of the Project.

There are risks to funding the LPA, as the amount of funds that Metro has either committed through its sales tax ordinances and awarded state grants or reasonably planned as part of its financial planning process may not be sufficient to pay the cost of the Project or limit Metro's ability to fund the future segment because the costs are significantly higher than initially estimated. This may involve seeking potential funding sources included in this appendix and any new sources that become available.

1.5.1 Project Cost Uncertainties

If more refined cost estimates for the LPA increase and exceed available funding, Metro will evaluate value engineering and scope reductions that may reduce the project cost.

1.5.2 Funding Uncertainties

Financial uncertainties are primarily related to the amount of funding needed (as the ultimate project cost is not yet known) and the availability of future state and federal grants. The largest potential funding risk could be for a future New Starts or EPD request. The success of the grant request will depend on the Project's outcomes to meet grant rating criteria, and for Metro to demonstrate the financial capacity to build and operate the Project. Metro has been awarded four active New Starts grants, and this experience will increase the likelihood of submitting a strong grant application and ultimately securing the funds.

Risks are also associated with Metro's local funding. The Measure M sales tax, if reallocated to the LPA, would reduce the ability to fund the future downtown segment. The use of other Metro local sales taxes is subject to limits, including debt capacity constraints, and should future sales tax growth be lower or competing borrowing needs be greater than currently anticipated, this would reduce the amount of funding available for the LPA.