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*Public Policy Advisors to Industry and Government*

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## **MEMORANDUM**

TO: Jacki Bacharach  
FROM: Don Camph  
RE: MTA “30/10” Initiative

### Introduction

Los Angeles Mayor and MTA Board member Villaraigosa has proposed, and the MTA Board has adopted, a plan to accelerate the construction of the 12 Measure R and Long Range Transportation Plan (LRTP) transit projects and complete them by fiscal year 2019. The adopted 2009 LRTP has these 12 projects complete over the next 30 years. The LRTP and “30/10” project schedules and sequencing is shown below (this table is replicated from the LA Metro staff report on this issue):

### **Revenue Operation Date**

<b>#</b>	<b>Project</b>	<b>LRTP</b>	<b>30/10</b>
1	San Fernando Valley North-South Canoga	2013	2013
2	Exposition Phase II	2015	2015
3	Gold Line Foothill Extension (from Pasadena)	2017	2014
4	East San Fernando Valley North-South Corridor	2018	2018
5	Crenshaw - LAX	2018	2016
6	Regional Connector	2019	2017
7A	Subway Extension to Westwood - Segment 1	2019	2017
7B	Subway Extension to Westwood - Segment 2	2026	2017
8	West Santa Ana Branch	2027	2018
9	Green Line Extension to LAX	2028	2018
10	Eastside Extension from East Los Angeles	2035	2017
11	Green Line Extension - South Bay	2035	2018
7C	Subway Extension to Westwood - Segment 3	2036	2017
12	San Fernando Valley I-405	2039	2018

Accelerating the implementation of Measure R transit projects (and highway projects as well) is an idea that, on the face of it, would seem worthy. After all, who can argue with bringing the associated mobility, safety and air quality benefits to the people of Los Angeles years, even decades, earlier than planned?

That said, as the South Bay Cities Council of Governments considers the issue, two thoughts should be kept in mind:

- From a South Bay perspective, the SBCCOG should assure itself – and seek credible assurances from the MTA – that its interests and priorities will be protected.
- More globally, it is important that the “30/10” plan be carefully thought out and vetted so that it has the best chance for success.

In that spirit, this memo identifies certain issues that we believe warrant further public discussion and resolution.

### Project Sequencing

In the staff report it says (Recommendation 1.c.) that “MTA Shall complete projects accelerated through 30/10 in the same sequence as the adopted Long Range Transportation Plan.” As shown above, this is not entirely accurate:

- Two projects (Eastside Extension from East Los Angeles and Subway Extension to Westwood - Segment 3) in fact leapfrog ahead of the Green Line Extension to LAX; and,
- One of those projects (Subway Extension to Westwood - Segment 3) moves in front of the Green Line Extension – South Bay.

The bottom line is that the Green Line extension to LAX and the Green Line Extension - South Bay would be last to be completed (2018). Being at the end of the line is not a good place to be and leaves the South Bay completely at risk.

Further, if the Metro staff recommendation regarding sequencing is read literally and if it is the table in the staff report, as reproduced above, that governs, this would mean that the Green Line projects could not be completed unless and until all the other projects are completed first, including, *inter alia*, Segment 3 of the Subway Extension to Westwood (2017). But there is no guarantee that all the other projects will be completed on the schedules proposed, and it's not reasonable to hold relatively simple (compared to the regional connector and the subway) projects like the Green Line extensions hostage to the others.

Recommendations: The table should be revised to reflect the same sequencing as in the LRTP, as per the Metro staff recommendation. In addition, a proviso should be added that projects can progress on a project-readiness basis if projects further up the list stall, are delayed or are canceled.

### Cost Overruns

A second issue is that of cost overruns. Metro's track record in adhering to project budgets is less than perfect, and it is not implausible to imagine that projects closer to the front of the line

will require substantially more funds than currently forecast. It's also not unreasonable to assume that those higher ranked projects will be made whole at the expense of lower ranking projects (in this case, the Green Line projects).

Recommendation: A proviso should be added that says that MTA shall develop a full-funding plan for each project within the 30/10 framework and, further, that each funding plan will be firewalled from all the others, so that if one project incurs substantial cost increases it will not absorb funds from other projects.

### MTA Bonding Capacity

It is not known what kind of impact the 30/10 Plan would have on MTA's bonding capacity and credit rating (and therefore, its cost of capital). As part of the South Bay Measure R Highway Implementation Plan development, we will be looking at the pros and cons of bonding the South Bay's Measure R highway funds. Ultimately, however, it would be MTA that would have to issue bonds on the South Bay's behalf. Accordingly, it is possible that the 30/10 Plan could negatively impact the South Bay from a program finance perspective.

Recommendation: Request a meeting with MTA financial planning staff to gain a better understanding of how the 30/10 Plan may impact the south Bay's Measure R bonding opportunities.

### Operating Funds

The 2009 MTA 30-year LRTP was "financially constrained" in that its financial plan showed all anticipated revenues for the 30-year period as being committed for transit capital and operating costs as well as highway projects, local return funding to cities, etc. The 30/10 Plan seeks to advance the date by which the listed projects will begin revenue service. It is envisioned that lines would open anywhere from 2 to 21 years sooner than in the LRTP.

But lines that open early must also be operated for the additional period, and since all of MTA's rail lines incur annual operating deficits, some source of funding to fund these deficits will need to be identified. The total amount of additional funding required for the 30-year period is likely to be in the hundreds of millions of dollars, yet the 30/10 Plan does not identify a source for these funds, nor in fact does it even discuss this issue. If history is any guide, when the MTA is in need of money to fill budget gaps, it does not bode well for other transportation priorities around the County.

Recommendation: The MTA should produce a 30-year "sources and uses of funds" spreadsheet that makes it clear how it intends to fund both the capital and operating requirements of the 30/10 Plan.

### Cost Savings May Prove Illusory

The 30/10 Plan is basically designed to accelerate the transit capital program and, in the process, reduce project costs by avoiding years of inflation and taking advantage of today's favorable

bidding environment. In addition, since substantial borrowing is envisioned in 30/10, the project cost savings would be at least partially offset by the cost of debt service. Further, while the construction market is soft at present, there is no assurance that it will be so a few years from now when major contracts would be let under the 30/10 Plan.<sup>1</sup> Finally, one might even speculate that by concentrating so many projects in such a short time frame, the MTA will *de facto* be eliminating the “soft market” of which it hopes to take advantage.

Recommendation: We actually have no recommendation other than to suggest that, should the 30/10 Plan go forward, the SBCCOG should exercise a high level of vigilance to ensure its interests are protected.

### Institutional Capacity

The MTA’s track record in delivering large transit projects has been less than perfect. Recent cost increases and schedule delays on the Exposition Line project are an example. In fact, the MTA staff report that accompanied the 30/10 recommendations to the Metro Board acknowledges that:

“MTA would have to under-go reorganization in order to deliver the 30/10 program by building in-house planning, finance, and construction management and oversight capacity and/or relying more heavily on the private sector. MTA as currently organized would be challenged to deliver the current LRTP transit program or the 30/10 program.”

Long-time observers of the MTA feel that this is, at best, an understatement of the degree of challenges the MTA would face in “re-inventing” itself to meet the 30/10 challenge.

### Conclusion

As discussed above, there are concerns about the 30/10 plan from a South Bay perspective but also from a countywide perspective. While the goal of the plan is laudable, we think care should be taken not to raise public expectations prematurely and without a thoroughly flesh-out and vetted plan. In short, the MTA and supporters of 30/10 should be careful not to promise more than can be planned, financed, delivered and operated. When the plan is ready for prime time – which candidly it is not yet – and when the South Bay’s concerns have been addressed, then that will be the point at which the SBCCOG should consider really getting behind the idea. In the interim, the SBCCOG should try to engage the MTA and others in serious and meaningful dialogue in an attempt to address the issues and find a satisfactory path forward.

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<sup>1</sup> Our understanding is that Caltrans has estimated that such favorable conditions will have largely disappeared by around 2012.