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METRO'S 28 BY 2028 PLAN:
A CRITICAL REVIEW
XI. METRO WILL NOT HAVE THE REVENUE OR THE DEBT CAPACITY TO UNDERTAKE MANY OF THE PROPOSED 28 PROJECTS

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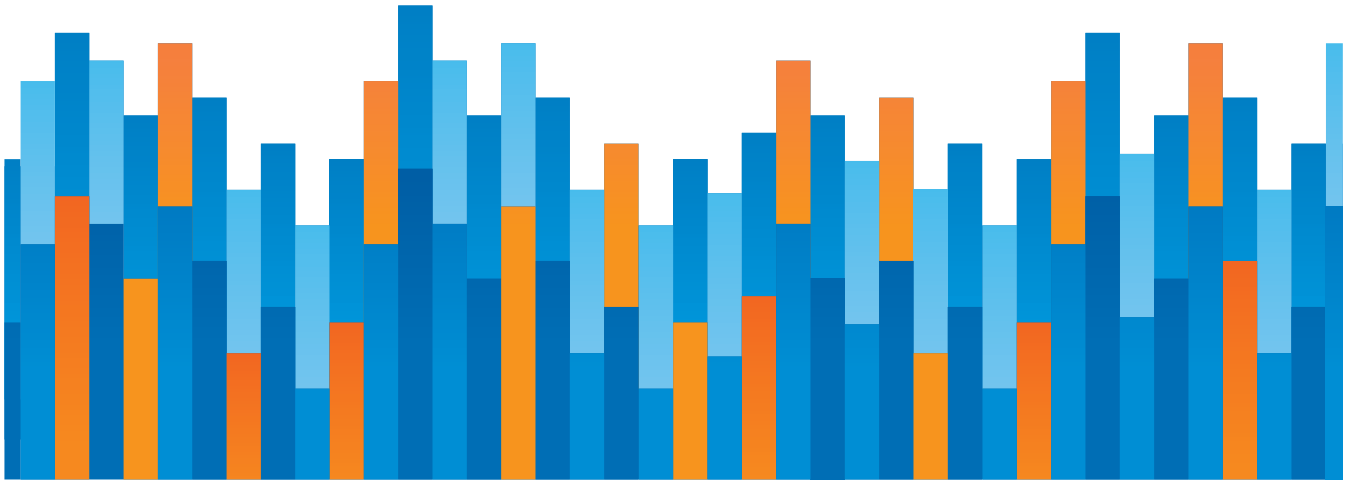

XI. METRO WILL NOT HAVE THE REVENUE OR DEBT CAPACITY TO UNDERTAKE MANY OF THE PROPOSED 28 PROJECTS

Metro's past performance exhibits a number of patterns that also appear in the *28 by 2028 Plan*. Together, the previous Briefs are the foundation for why the *28 by 2028 Plan* is not a feasible option; many of the 28 construction projects will not be completed by 2028. If Metro continues building new rail lines as it now proposes, ridership will continue to decline.

1. Metro has consistently overstated future sales tax revenues. The agency's past record includes forecasts that averaged almost three times the actual revenues received a decade or more later. (See Brief VII: "Metro Overstates Sales Tax Revenues.")
2. Metro has frequently understated the costs of major transportation capital projects. Costs often exceed Metro's original projections by hundreds of millions or even a billion dollars. (See Brief VIII: "Metro Understates Transportation Project Costs.")
3. Metro's long-range plans fail to build the long lists of major rail transit construction projects that it promises, generally producing only a small fraction of these projects within the projected time frame. Less than half of the 11 rail projects shown on the original 1980 Proposition A Map have a single mile of passenger rail in service today, and many of the others have not been fully completed even after four decades, and even after the passage of three additional Los Angeles County half-cent sales taxes. (See Brief IV: "Metro's Long Range Plans Overpromise and Underdeliver.")
4. Metro's projections of congestion pricing revenues are overstated by a wide margin relative to comparable projects. Any revenues Metro receives will not begin to accrue until long after the July 1, 2020 *Plan* schedule, and will be, at best, a small fraction of what Metro has shown in the *Plan*. (See Brief IX: "Metro's Congestion Pricing Revenue Estimates Are Not Credible.")
5. Metro's projection of savings from the utilization of public-private partnerships may well produce savings, but only a small portion of what are projected in the *28 by 2028 Plan*. (See Brief X: "Metro's Public-Private Partnership Revenue Estimates Are Not Creditable.")

THE 28 BY 2028 PLAN WILL FAIL

The agency's long and consistent record of over-promising and under-performing undercuts the credibility of Metro's projections in the *28 by 2028 Plan*. The *Plan* is built on a foundation of high revenue projections that will not be realized. As a result, there is no practical possibility that Metro will be able to complete all of the 28 projects in the *Plan*.

Metro's record of major ridership changes demonstrates that when Metro focuses on rapid construction of new rail lines, transit ridership drops significantly, but when Metro devotes a relatively small portion of its resources to increasing and improving bus service, and either keeps fares constant or reduces fares, total transit ridership increases substantially. Still, Metro remains committed to its long-standing practice of favoring allocation of financial resources and attention to rail construction. (See Briefs V.A, V.B, and VI, "Improving Bus Service and Reducing Fares Have Greatly Increased Transit Use in Los Angeles Three Times," "Why Has Metro Been Losing Ridership Since 2007? And What Can It Do to Reverse This Trend?," and "Labor/Community Strategy Center *vs.* Los Angeles County Metropolitan Transportation Authority," respectively.) The construction schedules are optimistic, and slip as projects proceed and shortfalls emerge. (See Brief IV, "Metro's Long Range Plans Overpromise and Underdeliver.") This leaves the agency with an incentive to try and mitigate project delays by shifting resources away from bus operations toward construction.

Allowing bus service to wither harms Los Angeles County bus riders, particularly the large number of residents who have only very limited or no other transportation options for meeting daily mobility requirements. This includes the great majority of rail passengers, who must use Metro bus service to access Metro rail lines, and the Los Angeles economy as a whole. (See Brief III, "Metro's Transit Ridership is Declining.")

METRO'S PLANNED RIDERSHIP DROPS WILL BECOME UNPLANNED

Unless Metro changes the way it does business and invests more resources in bus service, its current ridership downturn will get worse. The two most recent major downturns in total Metro ridership, which began in Fiscal Year 1985-1986 (FY86) and FY08, each occurred after a significant long-term upward trend in Metro ridership. This time, the continuing downturn includes the very serious 21% ridership reduction that has occurred from FY07 through FY18. The first six months of FY19 have delivered a 3.9% reduction compared to the same months the prior year.[1]

[1] Author's analysis of data from Metro. Interactive Estimated Ridership Stats. http://isotp.metro.net/MetroRidership/Index.aspx

Perversely, Metro is planning for a further reduction in ridership. The *FY19 Adopted Budget*[2] projects a 5.2% ridership decline in total and for bus and rail individually from FY18 to FY19, which it is accomplishing by reducing bus revenue service miles (RSM) by 5.1% and increasing rail's by 1.3%. These statistics are somewhat misleading because the Blue Line is undergoing substantial rebuilding during FY19, and its RSM are budgeted to be reduced 4%—with the reduced rail service being replaced by bus service.[3]

Table 1 compares Metro *Adopted Budgets* for FY07, the most recent peak year, to that for FY19. The reduction in average operating speed is mostly due to increased congestion, but also due in part to some services being shifted from bus to rail as new rail lines and extensions (Expo Line, Gold Line Eastside, and San Gabriel Valley) were opened. Under National Transit Database reporting requirements, revenue service miles includes layover/recovery time at the end of trips when the bus is not in motion, so the operating speed of buses is higher than what appears in **Table 1.** Also, as bus service is converted from line-haul service to a rail station feeder/distributor role, bus speeds slow as buses go off route and wait at stations for passengers to board and alight at rail stations not located at a bus route terminus.

Table 1: Metro Bus Budgeted Service Provided and Consumed, *Adopted Budgets FY07 and FY19*

Description	FY07	FY19	% Change
Revenue Service Miles	95,169,000	74,691,000	(21.5)%
Revenue Service Hours	7,751,000	7,110,000	(8.3)%
Unlinked Passenger Trips (UPT)	386,260,000	281,648,000	(17.1)%
Passenger Miles	1,447,716,000	1,160,382,000	(19.8)%
Boardings per Hour	49.8	39.6	(20.5)%
Average Passenger Load	15.2	15.5	2.0%
Average Trip Length	3.7	4.1	10%
Average Operating Speed (mph)	12.3	10.5	(14.8)%

Source: Metro 2007 and 2019 Budgets

The most disappointing item in **Table 1** is the 17% reduction in unlinked passenger trips, which is very much driven by the 22% reduction in revenue service hours (RSH). This is nothing new for Metro. As we presented in Brief V.A, "Improving Bus Service and Reducing Fares Have Greatly Increased Transit Use in Los Angeles Three Times," while rail ridership increased 27.9 million in annual UPT from FY07 to FY18, bus UPT fell 132.2 million over the same period—over four-and-one-half times as much.

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2 *Metro FY 2019 Adopted Budget*. Appendix I: Service Statistics, pages 50-51. http://media.metro.net/about_us/finance/images/fy19_adopted_budget.pdf

3 Metro. "New Blue Improvements Project." https://www.metro.net/projects/new-blue-line-improvements/

The state enabling legislation for what became Measure R in 2008 AB 2321 [Feuer, 2008] had a specific requirement, now codified as PUC §130350.5(b)(3), that the 20% of Measure R funds dedicated to bus service had to be used to *increase* Metro's spending on bus services. This legal requirement notwithstanding, this has not been Metro's practice.

To date, Metro's very expensive commitment to increasing rail transit construction has had a profoundly adverse impact on transit service, particularly bus service, and total ridership. Worse, there is a very real danger that, when the *28 by 2028 Plan* collapses, the future impacts on ridership will be far worse.

In Briefs III, IV, V.B, and VI, "Metro's Transit Ridership is Declining," "Metro's Long Range Plans Overpromise and Underdeliver," "Why Has Metro Been Losing Ridership Since 2007? And What Can It Do to Reverse This Trend?," and "Labor Community Strategy Center vs Los Angeles Metropolitan Transportation Authority," respectively, we have documented how Metro responds when one of its long-range plans reaches the point where there must be a public acknowledgment that it is no longer viable. In the past, Metro's approach has been to start as many rail (and road and other) projects as it can, as soon as possible, and borrow heavily to finance their construction. When the revenue projections fall short and project costs exceed budgets, Metro announces that there must be changes, which include:

- Reducing bus services operated
- Increasing fares
- Shifting bus operating resources to try and salvage some construction schedules
- Announcing some promised rail projects must be delayed
- Possibly interrupting some major construction projects and stopping mid-way
- Urgent efforts to find sources of additional funding

This has been standard procedure for Metro in the past, but could be particularly problematic this time if Metro proceeds with all three P3 construction projects proposed in the *Plan*, which have a total budget of $16,466.0 million.

THE IMPLICATIONS OF PUBLIC PRIVATE PARTNERSHIPS

These contracts will almost certainly include very strong protections for the private partners. A P3 concessionaire would require these protections as a condition for agreeing to the deal. These protections would shield private partners from the risk of project cancellation. Since Metro is evidently planning on using availability payments, the private P3 parties would be paying out billions

of dollars for the construction of these projects in exchange for Metro's commitment to make the availability payments years later, likely after the projects enter revenue service.

Under this scenario, the private P3 party will have to use a large portion of its borrowing capacity to finance Metro's construction, backed by the promises of Metro's future payments. These private parties will take all necessary steps to ensure that either the availability payments are strongly guaranteed, with a significant delay/cancellation fee add-on, or else insist on a termination clause requiring immediate payment from Metro. If these private parties do not take these steps, they may not have sufficient credit available to undertake other projects for other clients. In short, they might no longer be in business.

Until the details of the proposed P3 agreements are provided by Metro, the exact provisions will not be clear. What is certain is that any potential P3 partners will subject Metro to the same type of credit-worthiness evaluation presented here, will come to the same general conclusions, and will take every step necessary to protect their own interests.

To date, borrowing in its own name to finance the construction of major rail and road projects has meant that, when Metro's shortfalls occurred, the agency had to stop borrowing and start shifting its remaining financial resources to support existing projects, programs, construction, and operations. P3s are a very worthwhile tool when used properly, but obligations to private partners diminish Metro's flexibility to adjust when its inevitable funding shortfalls occur. The P3 projects will have to be protected. If Metro gets too deeply into P3 commitments too quickly, then the negative consequences of an economic downturn could be far worse than Metro experienced during the last two recessions. This time the reduction in bus service miles and hours will start not from a high point but from a low point, and fare increases will make it more difficult for low-income riders to afford transit. Because the transit system will be less useful for these riders, those that have the minimum resources needed to afford a car will shift from transit to driving.

In the past, when economic downturns have occurred, Metro had to delay starting new rail projects. In many cases, this meant that the projects were no longer viable until Metro went back to the voters and secured another transit sales tax. During the downturn of the mid/late 1990s, Metro cancelled two projects after spending over $150 million on them—the Red Line MOS-3 Eastside and Mid-City—and halted work on the Pasadena Gold Line.

If the *28 by 2028 Plan* is executed, there will be far more projects under construction than ever before, and if the three P3 projects are among the first started, attempting to delay or terminate projects will be very difficult and very expensive.

Los Angeles County transit service and ridership have decreased since the current downward trend in ridership began in FY08. Given the current low point in ridership, the prospect of Metro deliberately placing itself in a fiscal posture that is certain to further diminish service to riders is very questionable, even disturbing.

CONCLUSIONS

1. Metro has:

- Overstated future sales tax revenues,
- Understated the costs of major transportation capital projects,
- Relied on long-range plans that fail to produce the set of major rail transit construction projects they promise,
- Overstated congestion prospective pricing revenues identified in the *28 by 2028 Plan*, and
- Overstated the *28 by 2028 Plan*'s projected savings from the utilization of public-private partnerships.

2. There is no practical possibility that Metro will be able to complete all of the 28 projects in the *Plan*. The most important open question is how badly the *Plan* will fail, and how soon.

3. Metro is planning for further reductions in ridership. The *FY19 Adopted Budget* projects a 5.2% ridership decline in total and for bus and rail individually from FY18 to FY19.

4. If Metro commits to three P3 construction projects at the level proposed in the *Plan*, which have a total budget of $16,466.0 million, the agency will have less flexibility to interrupt construction because of obligations to private partners that have capital at risk.

5. When the *28 by 2028 Plan* collapses, Metro's current ridership downturn will get much worse, and the effects will be greater than in the past.