Measure A Highway Capital Improvement Program FY2016-FY2025

Purpose

The TA Strategic Plan 2014-2019 identified a funding shortfall in the financial need forecast for the highway program; current and projected Measure A revenues are likely insufficient to deliver the pipeline of projects currently in progress though completion. In response to this finding, the TA began work in early 2015 to develop a Capital Improvement Program (CIP) for the Highway Program to better assess funding requirements for upcoming highway projects in San Mateo County.

The following goals were set for the development of the Highway CIP:

1) Assess projected costs vs. revenue over a 10-year period from FY2016 through FY2025 and the cumulative implications

2) Provide context for future investment decisions

3) Identify key issues and present policy considerations for further study

Methodology

A review of other transportation sales tax authorities within the San Francisco Bay Area revealed that they have approved Expenditure Plans that include specific highway projects that are to be funded. These Expenditure Plans only provide funding for highway projects specifically listed; those not listed will not receive funding unless the Expenditure Plan is revised. These sales tax authorities do not necessarily need to develop a separate CIP, however they do need to ascertain the timing of the funding needs for the specific projects.

The TA's approach in the development of the CIP was to work with eligible highway project sponsors, including individual cities and City/County Association of Governments of San Mateo County (C/CAG), to collect project information for potential highway projects that will likely be in need of funding over the next ten years. The CIP did not financially constrain projects submitted for evaluation, and no particular prioritization was given to any of the submitted projects. The primary purpose was to understand and assess, at a high level, the magnitude of the highway program needs and the amount of revenue shortfall that may exist at a given point in time. Given that project scope, cost, and schedule information was collected in 2015, it was acknowledged that this information would be subject to change over time.

High-level order of magnitude financial results of the Highway CIP were presented to the TA Board in August 2015. Updates to individual projects, made in coordination with the project sponsors, were last incorporated in January 2016, and are reflected in the latest results that are incorporated within this report.

Presentation of Highway CIP Information

Project costs, based on fiscal year of commitment need, are included in the TA Highway CIP. This list of highway projects was generated from a combination of:

- Project sponsor responses to a Letter of Interest in early 2015 for the development of the Highway CIP
- Highway Program Call for Projects (CFP) applications from the 2012 and 2015 funding cycles

The following assumptions were used in the development of the Highway CIP:

- Measure A revenue projections increase at an annual rate of 2.5 percent from the FY 2016 adopted budget. This matched the sales tax revenue estimates used by the State of California Department of Finance (DOF).
- Other non-Measure A funding sources listed within the CIP either represent sources of committed sponsor match to awarded Measure A funds, or sources that sponsors have indicated they intend to pursue but have not necessarily secured.
- An annual inflation rate of 2.2 percent was used for project costs, consistent with past project cost escalation rates used by the Metropolitan Transportation Commission (MTC) in preparing the Regional Transportation Plan (RTP), Plan Bay Area.

The Highway CIP includes only project costs that were identified at the time it was prepared; any new, yet to be identified projects that may materialize in the future are not reflected in the current CIP.

Order of Magnitude Results

The Highway CIP presents the following key findings:

10-Year Identified Costs (FY 2016-FY2025)

- Key Congested Area (KCA) projects: $555.3 million
- Supplemental Roadway (SR) projects: $1,031.7 million
- Total Project Costs: $1,587.0 million

10-Year Funding Projections (FY 2016-FY 2025)

- Measure A Highway Program: $352.5 million
  - KCA funding $229.8 million
  - SR funding $122.7 million
- Other non-Measure A Funds: $278.4 million
- Total Funding $630.9 million

10-Year Shortfall (FY2016-2025)

- Total Project Costs: $1,587.0 million
- Total Projected Funding: $631.0 million
- Total Shortfall $956.0 million
  - KCA project shortfall $251.52 million
  - SR project shortfall $704.44 million

Further detail is provided in *Exhibit A: Summary of Costs by Project*, and *Exhibit B: Summary of Identified Project Costs vs. Funding*, enclosed as part of this report.

The primary difference between the January 2016 CIP and the version previously presented to the TA Board in August 2015 is on the project cost side. Projected project costs have increased by approximately $300 million, further exacerbating the magnitude of the identified shortfall. The bulk of the increase is attributed to the completion of high-level cost estimates from preliminary planning studies that identified rough order of magnitude construction costs for interchanges at US 101 and SR 92, and SR 92 and Delaware Avenue. Previously, those estimates were not available.

An analysis of the impact of the revenue shortfall reveals that the TA will likely not have sufficient revenues to fund all of the potential project needs to be submitted during the next Highway Call for Projects (CFP), which is anticipated to be released early FY2018. It is also projected that there will be insufficient revenue available to continue funding just the projects that are already in the Measure A-funded pipeline based on revenue that is projected to be available through 2026.

<u>Need to Revisit Past Policy Guidance</u>

Based on the results of the Highway CIP, there is a need to revisit funding guidelines pertaining to:

1) The "pay as you go" approach, allocating funds based on collected revenue for highway funding calls, as well as

2) Adherence to the funding goals for other matching funds of 50 percent for projects in the Key Congested Areas (KCA) subcategory and 30 percent for projects in the Supplemental Roadways (SR) category.

While the TA has historically allocated Highway Program funds based on collected revenues, the amount of New Measure A revenue currently projected to be available through FY 2018 may only be approximately $50 million (a final estimate will be confirmed prior to the release of the next funding call) with the projected funding commitment need for projects in the Highway CIP anticipated to be in excess of $400 million through calendar year 2019. Other matching funds that project sponsors have informed the TA might be available for the next call, as well as the full timeframe of the Highway CIP, fall far short of the 50 percent KCA and 30 percent SR funding goals.

The TA Strategic Plan states the advancement of funding may be considered if it is a more economically and fiscally prudent means of delivering high priority projects at a lower cost (adjusted for inflation), as compared to waiting and implementing projects on a pay-as-you-go approach. While the goals for other matching funds ensure better leveraging of Measure A funds, with the reduction in funding available from the STIP and discretionary federal STP/CMAQ funds being programmed primarily for non-highway transportation projects by MTC, the attainment of the matching funding goals for all highway projects may no longer be realistic.

Other Key Issues

In addition to the overall funding shortfall that exists, the following issues should be considered for the delivery of projects:

- A significant portion of the identified funding commitment need is for design and right of way costs. Should design and right of way costs be programmed and allocated only after a credible funding plan for construction is presented to the TA? Once the TA funds right of way acquisition, it has a vested interest in the successful completion of the project through construction.

- While there is flexibility in the amount of funding that can be allocated with each funding call between the KCA and SR subcategories of the Highway Program, consideration is needed for the percentage caps set by the TEP, which must be met by the end of the Measure. The projected shortfall in the SR category is substantially greater than the KCA category and includes critical projects such as the US 101 Managed Lane Project.

- The length of inactivity for projects with allocated funds should be reviewed. If there is no substantial activity on a project for five years or more, should reallocation of funds to other active projects be considered? There are four projects that were programmed a total of $16 million from the 2012 Highway CFP in October 2012 that have yet to either meet conditions to obtain a funding allocation or incur any expenses against allocated funds and they will soon be approaching the five year time limit. Should these revenues be made available for future CFPs?

Policies/Strategies for Consideration

In light of the magnitude of the projected revenue shortfall, the following funding options can also be considered:

- Advance highway funding by debt financing against future highway program revenue through the life of the Measure A Highway Program

- Require sponsors to provide a funding match

- Continue to work with public and private partners on innovative financing strategies

The demand for funding will continue to increase during the next several funding cycles as many projects in the Measure A pipeline progress from the early phases of work through the final stages of project implementation. Six of the largest projects have remaining unfunded needs in excess of $100 million each. The following different CFP approaches can potentially be used to better manage program delivery and give priority to:

- Fund projects that are already in the Measure A pipeline first, while reserving a small set-aside for new projects
- Fund projects that are already in the Measure A pipeline located in areas of greatest congestion and safety first, while reserving a small set-aside for new projects [1]
- Fund design and right of way only after a credible funding plan is provided for construction
- A combination of the alternative approaches listed above

[1] In September 2016, the Board approved funding for the preparation of a State Highway System Congestion and Safety Performance Assessment for San Mateo County in conjunction with the City/County Association of Governments of San Mateo County (C/CAG).