

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
11	08/10/09	Open	Information	07/28/09

Subject: Funding Status of DNA MOS-1 and South Sacramento Corridor Phase 2 Projects

ISSUE

Funding status of the DNA MOS-1 and the South Sacramento Corridor Phase 2 Projects in light of current economic conditions.

RECOMMENDED ACTION

None. Information only.

FISCAL IMPACT

None. Information only.

DISCUSSION

RT has two significant regional projects in line for federal, state and/or local funding from many of the same sources. Economic conditions have declined since the onset of both projects which may require shifting of funds between projects in order to achieve desired delivery dates of one or both. The purpose of this presentation is to provide the Board with information on the current funding situation relative to both projects.

Downtown-Natomas-Airport, Minimal Operable Segment, Phase 1 (MOS-1) is a project to extend a 1.1 mile segment of single track and construct two light rail stations. The purpose of the project is to bring light rail from downtown Sacramento through the future Rail Yards Development and the Richards Boulevard Redevelopment Area (Township 9). MOS-1 is the first of three project phases planned to ultimately bring light rail from downtown Sacramento through the Natomas area to the Sacramento International Airport. Service is anticipated to commence in October, 2010. RT has solicited bids for a design/build contract to complete final design and construction of MOS-1. Bids were due on August 4, 2009 and scheduled to be reviewed by August 6, 2009. The completion of MOS-1 will be funded solely with local funding. ~~with the project estimate at \$39.8 million. The current engineers estimate for the design/build contract is \$30.6 million with project administration, construction management and contingency estimated at \$9.2 million.~~ **The engineers' estimate for the project is \$43,880,882 plus project development costs.** These estimates will be revised and provided after the August 6th bid evaluation. The estimated design/build bid, and administration, **construction management and contingency** costs are incorporated into the revised project estimate below.

Funding sources for DNA MOS-1:

Local: Measure A Plan of Finance (proposed)	\$30,440,000
State and Local Partnership (Prop.1B) funds (proposed)	4,771,000
Reverse transfer SSCP2	<u>2,100,000</u>


TOTAL FUNDS POTENTIALLY AVAILABLE FOR DNA PROJECTS **\$37,311,000**

~~Estimated design/build contract:~~ ~~\$30,600,000~~

Approved:


General Manager/CEO

Presented:


Chief Financial Officer & AGM Engineering and Construction
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~~Project Administration, Construction Management, and Contingency~~ ~~\$ 9,200,000~~
~~Projected Funding Balance/(Shortfall) :~~ ~~\$ (2,489,000)~~

Less:

Expended project development costs for MOS-1: (1,774,270)

Local match for Federal funds for MOS-2 & 3: (1,248,575)

Estimated total project cost for MOS-1: (43,880,882)

Projected Funding Balance/(Shortfall): (\$ 9,592,727)

South Sacramento Corridor Phase 2 (SSCP2) Light Rail Extension is a project to extend light rail from the terminus of South Line Phase 1 (the Blue Line) at Meadowview Station to Cosumnes River College (CRC). The project would add approximately 4.3 miles of double track to the RT system and includes four stations located at Morrison Creek, Franklin Boulevard, Center Parkway, and Cosumnes River College. This addition will bring transit options to 1,781 households in the study area without private transportation and 3,811 households below the poverty level. The project addresses highway congestion that is expected to increase up to 34% on Highway 99 by 2025, and 77% on Interstate Highway 5 in the same timeframe.

SSCP2 is in the Federal New Starts program. RT is currently awaiting approval from the Federal Transportation Administration (FTA) to enter Final Design (FD), which is a precursor to negotiating a Full Funding Grant Agreement (FFGA) with FTA to secure Federal funding of 50% of the project cost, currently estimated to be \$270 million. Total Federal New Starts funding for the project is expected to be \$135 million. Transit service is expected to commence in late 2012.

Discussion of Financial Capacity Assessment (FCA) and Alternative Financing Plan

The FTA has routinely performed FCA's on New Starts projects before finalizing negotiations on the FFGA. Last year, the FTA stepped up the FCA process by requiring a full FCA before approving a request to enter FD, and again before finalizing negotiations on the FFGA. RT is one of the first New Starts projects to face this requirement. RT has been working with FTA's consultant since January 2009, to provide information on RT's financial condition, stability, and ability to afford to build and maintain the SSCP2 project as well as the rest of the RT system over the course of construction and beyond. RT has provided numerous runs of the Financial Forecasting Model (FFM), fully refined with up-to-date changes based on the adopted budgets over the review period, including FY 2009 as conditions changed, and then subsequently with the adoption of the budget for FY 2010. Changes in service and fares were folded into the model runs. RT has also included SACOG in the FFM review process and aligned the assumptions in the FFM with regional revenue projections and available funding sources such as CMAQ.

Unfortunately, in addition to the declining economy and its effect on RT's financial condition overall, the State of California's instability and inability to assure the availability of Traffic Congestion Relief Program (TCRP) funding for the SSCP2 project within the programmed timeframe has delayed the FCA review process. In order to satisfy the FTA consultant's concerns

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on whether enough funding would be available for the project if TCRP funding does not materialize, RT has developed an alternative financing plan with the assistance of RT's Financial Advisor, Peter Ross. The alternative financing plan will draw on RT's ability to issue Certificates of Participation (COPs) against future fare revenues. RT's capacity to issue COPs currently exceeds the \$58 million level of funding anticipated from TCRP. A debt service schedule has been developed and included in the FFM provided to FTA's consultant. The model assumes that FTA will pay one-half the debt service on the alternative financing plan over the course of project construction. After construction is complete and the line is in service, RT will be responsible for the full debt service cost. RT's expectation is that when TCRP funding becomes available, RT will use the funds to early defease, or pay off, the alternative financing undertaken to complete the SSCP2 project.

The burden of additional debt service on RT's current operating projections is a serious consideration in evaluating RT's financial capacity. Current estimates are that if RT undertakes alternative financing for SSCP2, it will occur in FY 2011. Based on cash flow estimates, that is when additional funds will be required if TCRP funding is unavailable; the current strategy will be to wait as long as possible to issue COPs in order to minimize the debt service. Any additional funding that is made available to SSCP2 will reduce the pressure on the required level of alternative financing and in so doing, will reduce the amount of debt service RT will ultimately be required to pay from operations. Staff continues to explore whether debt service can continue to be paid from any remaining contingency funding on the project following completion.

South Sacramento Corridor Phase 2 Proposed Project Grants Status

Funding Source	Amount	Notes
Federal		
CMAQ*	\$ 7,100,000	Partially expended.
5309 New Starts Funding	135,000,000	\$4.4 million earmark appropriated Jan. 08 (staff will apply for this grant in FY10); \$7 million earmark appropriation for Federal Fiscal Year (FFY) 2009; \$40 million earmark appropriation for FFY 2010; balance subject to competitive award process.
State*		
STIP	4,307,000	Due to unavailability of State funding in FY2009, CTC is changing program year from FY2009 to FY2010 or FY2011.
TCRP <i>or Alternative Financing</i>	66,000,000	\$3.0 million partially expended. \$5.1 million transferred in FY2010 from NEC project. Allocation of balance subject to State budget process or will be replaced with COP alternative financing plan.
Local*		
Laguna CFD	1,481,000	Partially expended.
Vineyard Financing Plan and other Developer Fee	4,744,000	Partially expended; received designation of funding in FY2009.
Measure A	30,439,000	\$6.7 million allocation partially expended; transferred \$8.4 million from NEC 2009 and 2011 POF funds to this project; <i>Budgeted amount anticipates restoring \$2.1 million to DNA MOS-1 transferred in '09 to meet timeliness of expenditure requirements of STA.</i>
Prop 1 B PTMISEA	17,543,340	Subject to availability of State funding. Application to supplement Measure A Plan of Finance requests.

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Prop 1 B SLPP	3,229,000	Proposed by STA as supplemental Measure A funding.
State Transit Assistance	156,660	Partially expended.
Grand Total	\$270,000,000	

*Local match

Key Funding Sources and Availability of Funds:

Measure A. Measure A is the countywide one-half percent sales tax levied to fund a comprehensive program of roadway and transit improvements, including highway, street, and road construction; highway, street, and road maintenance; bus and light rail capital and operations; improved transportation services for elderly and handicapped persons; and transportation-related air quality programs. The Sacramento Transportation Authority bonds against future revenues from this initiative to provide capital funding for projects throughout the region.

In the most recent round of funding discussions with STA, RT's Measure A allocations were cut significantly. In an effort to gain support and in the spirit of full disclosure, RT's plans to shift funding between projects were candidly discussed with STA prior to the release of the final draft of Measure A allocations. Shifting funds between projects on the plan of finance is allowed by STA.

The alternative financing plan for SSCP2 and the need to relieve the pressure on the size of the issue was also thoroughly discussed with STA. Following those discussions, STA made decisions on funding allocations and cut the full \$2.49 million previously designated for NEC from RT's allocation, which is thus no longer available for SSCP2. The DNA MOS-1 allocation was cut by \$5.9 million, before the bid results had even been received, immediately putting that project at risk and eliminating the possibility of transferring funding to SSCP2 as described in the meeting. RT protested the cuts by letter to STA and at a meeting of regional project managers held to discuss funding needs and the allocations. The result was the most recent Measure A allocation proposal which cut the secure Measure A allocation on both DNA MOS-1 and SSCP2 even further, while "supplementing" the total funding with State and Local Partnership (SLPP) proceeds which are based on the State's ability to issue bonds under Prop. 1B.

Table 1 illustrates the change in funding allocations between projects for the next STA financing plan through 2011. On the 2nd Draft, the NEC project was funded in outer years, in the July 16 Draft, it was eliminated.

Table 1

Funding Allocation Levels (millions)	Original		Base Case		2nd Draft		July 16 Draft	
	Meas. A	SLPP	Meas. A	SLPP	Meas. A	SLPP	Meas. A	SLPP
DNA MOS 1	\$38.875		\$36.575		\$32.739		\$30.440	\$ 4.771
SSCP2	\$31.152		\$33.252		\$32.539		\$32.539	\$ 2.429
NEC	\$ 2.676		\$ 2.676		0		0	

Original – RT's funding expectations

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Base Case – Earliest STA allocation worksheet in financing updates

2nd Draft – STA allocations circulated prior to project manager workshop

July 16 Draft – STA allocations presented to the STA Board and public after project manager workshop

Prop. 1B – State-Local Partnership Program (SLPP). SLPP is part of the \$20 billion transportation infrastructure bond funded program approved by State voters in 2006. SLPP funding depends on the ability of the State to issue bonds. Funds under this program are available for eligible projects nominated by the applicant agency, which is Sacramento Transportation Authority (STA). STA proposes allocating \$8 million to RT. It is assumed the funds will be available between FY10 and FY12 for the DNA and South Line 2 projects. It is assumed STA and the California Transportation Commission (CTC) will approve all of RT's SLPP share for only the DNA and South Line 2 projects. SLPP funds require a one for one local match of taxes or developer fees dedicated to transportation projects. To date no SLPP funds have been allocated to either the DNA or South Line 2 project.

Prop 1B - Public Transportation, Modernization, and Service Enhancement Account (PTMISEA). PTMISEA is part of the \$20 billion transportation infrastructure bond funded program approved by State voters in 2006. PTMISEA funding depends on the ability of the State to issue bonds. The funding is formula based and is made available over a period of years. Part of the funding comes to RT directly and the rest which RT competes for is allocated to the Sacramento region. It is assumed that funding will be available in FY2010 to FY2012 for the direct allocation and FY2011 to FY2012 for the regional allocation. It is assumed the allocations will be comparable to the FY2008 Prop 1B funding levels, and that all that is available to RT in FY2010 to FY2012 will go to the South Line project. It is also assumed CTC and SACOG (for the regional allocation) will approve these allocations for the South Line project. To date no PTMISEA funds have been allocated to the South Line project.

TCRP (Traffic Congestion Relief Program). The State legislature designated \$70 million for the South Line 2 project under the 2000 TCR Act. This included \$4.0 million for project development costs and \$66 million in construction costs. The funds are not available until CTC allocates them to the project. To date CTC has allocated \$7 million TCRP funds to the South Line 2 project. In addition, in July 2009 CTC approved borrowing \$5.1 million TCRP funds for the South Line 2 project from an existing allocation on the RT's Northeast Corridor project. These funds will have to be repaid out of future TCRP allocations. It is anticipated additional TCRP funds will not be available to the South Line project until after FY2015.

STIP (State Transportation Improvement Program). CTC programmed \$4.307 million Public Transportation Account (PTA) funds for FY2010 for the South Line project. These funds must be used for design. The funds are not available until CTC approves an allocation. Given the State's current budget circumstances, it is uncertain if any PTA funds will be available in FY2010. If no funds are available in FY2010, it is assumed the funds will be reprogrammed into FY2011.

NNFF (North Natomas Financing Fund). *The NNFF was set up in 1992 to provide infrastructure funding to the developing North Natomas area. The plan is specific to North*

REGIONAL TRANSIT ISSUE PAPER

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Natomas. The Transit fee is one of several categories for infrastructure contained in the plan. The current plan limits the use of transit funding to five light rail stations and associated ROW acquisition. The plan is managed by the City with oversight by a committee of North Natomas developers. Requests to use NNFF money must be approved by City Council. RT staff is exploring options that may be available with NNFF funds, whether by modifying the use of transit funding or borrowing for DNA MOS-1.