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South County Corridor Funding Strategies

Funding for the Stanislaus County South County Corridor (SCC) project is more than amassing the resources to build the project. Funding strategies are inextricably linked with the decisions on project phasing, project delivery, and procurement methods. All four elements impact one another; a decision on project phasing needs to incorporate project delivery, which in turn drives procurement. And, having the available funding to complete the phase enables delivery.

The estimated costs of delivering the South County Corridor at this early feasibility study phase, suggest that delivering the entire 18-mile corridor will cost between $300 and $350 million, in the similar ranges as the North County and SR-132 projects. While clearly a priority for Stanislaus Council of Governments (StanCOG), proceeding with the South County Corridor adds another large, complex regional project to StanCOG's overall transportation program. As a result, developing a flexible, scalable funding plan that meshes with potential phasing, delivery, and procurement options may help StanCOG manage this and other large infrastructure projects in Stanislaus County.

Because traffic volumes on the existing Stanislaus County Route J17 route are not yet at serious level of service "F" conditions, StanCOG has an opportunity to tailor a South County Corridor delivery strategy that matches available and anticipated funding, as well as explore alternative delivery and financing methods. In other words, the South County Corridor is more of a blank slate than other large regional projects in the county.

Developing the South County Corridor project will require finesse to balance the mobility and accessibility goals of StanCOG's 2014 Regional Transportation Plan /Sustainable Community Strategy (RTP/SCS) with its other stated goals, such as sustainable development, economic and community vitality, health and safety, and environmental quality. As a result, other objectives to be realized with the Corridor will likely yield other funding opportunities, as well as playing a role in the phasing and delivery methods.

The funding strategies for the South County Corridor are essentially in two camps: the first is a traditional, pay-as-you go approach to the project in which StanCOG gathers enough resources to initiate Project Approval and Environmental Documentation (PA&ED), then more resources for Plans Specifications and Estimates (PS&E), and then waits for sufficient funding for right-of-way acquisition and construction. The second approach is to pursue alternative delivery and funding options such as design-build or some form of public-private partnership that attempts to secure delivery earlier combined with repayment over time. At this point, both overall strategies would work for completing the entire project. However, phasing the project may make one strategy more attractive than the other, depending on the initial phase StanCOG pursues.

Presently the South County Corridor project has no official standing. It is not part of the StanCOG 2014 RTP/SCS. It is not part of the StanCOG 2015 Federal Transportation Improvement Program (FTIP). Short of amending the project into both the RTP/SCS and the FTIP within the next three years, the earliest the project could be programmed is in the 2018 RTP/SCS and 2019 FTIP. Both the RTP/SCS and FTIP assume existing local, state and federal funding, which currently do not look to yield sufficient resources to pay for the entire South County Corridor project. However, these existing sources could potentially be tapped for the PA&ED and PS&E phases of the project.

<u>Sources of Funding</u>

For a project of the scale of the South County Corridor a mix of funding will be required. Traditional sources include:

- *Local funding*: from impact and developer fees and local gas tax funds
- *State funding*: primarily, through Stanislaus County's State Transportation Improvement Program (STIP) shares
- *Federal funding*: primarily through programs such as the Highway Bridge Replacement and Rehabilitation Program (HBRRP)

While these traditional sources of funding serve as the foundation of the funding plan for the South County Corridor, additional sources of funding should be explored—and may become a higher priority for delivery of the SCC program. The traditional sources are unlikely to generate sufficient funding for the program and will need to be augmented by some or all of the following.

Grant Programs

Over the last few years the Legislature and the Brown Administration have established competitive grant programs to support specific transportation strategies. These grant programs could be tapped for specific elements of the SCC and be part of an overall funding plan that cobbles together a number of different funding sources.

- *State Active Transportation Program (ATP)*: The California Transportation Commission (CTC) is responsible for programming and allocating funds to support active transportation projects through the Active Transportation Program, a $215 million program in 2015. The active transportation elements (such as the proposed bicycle and pedestrian elements) of the SCC should be eligible for this program. While the ATP is a highly competitive program, the CTC has included regional priority projects in excess of $10 million, with many regional projects programmed in the $1 to $3 million-range. Two Turlock projects are included in the 2015 program for a combined state commitment of almost $1.1 million.

- *Trade Corridor Improvement Fund (TCIF) Program*: The Brown Administration and the CTC intend to continue the Trade Corridor Improvement Fund (TCIF) program, funding the program with truck weight fees and/or diesel fuel taxes. Both SB X1 and the Administration's transportation funding proposal would use those sources to fund the TCIF on an ongoing basis. The Administration has indicated a desire to provide $200 million to the TCIF annually. While final resolution of the TCIF funding source is dependent on the outcome of the Legislature's special session on transportation funding, it is likely that the goods movement elements of the SCC would be eligible for TCIF funding in the future.

- *Transit Capital*: The California Transportation Agency (CalSTA) is responsible for programming 10 percent of the state's cap and trade revenues annually to transit capital projects, which include bus-rapid guideways, as well as track, rolling stock, and buses. Should a bus-rapid guideway become an element of the SCC, StanCOG could tap this source of funding. CalSTA's program is also competitive. Clearly, agencies with additional funds to leverage CalSTA's funds are considered more competitive. However, CalSTA is also trying to target transit capital funding to rural counties, which often do not have a sales tax measure or other funding to match. In our experience, CalSTA is open and responsive to helping agencies compete for this program. One caveat is that additional legislation is required to extend CalSTA's program beyond 2020.

Fee Programs

Assessing fees on development, as well as vehicle registration, provides targeted funding sources that StanCOG and its member jurisdictions can control and channel to the SCC.

- *Regional Transportation Impact Fee*: The update of the County's Regional Transportation Impact Fee (RTIF) program in 2017 provides an opportunity to add the newly developed project definition and increase the fee and target a higher-level of funding to the SCC.

- *Targeted Developer Fees*: The cities of Patterson, Newman, and Turlock currently assess developer fees, which could be directed to the SCC, depending on the delivery schedule of specific segments of the SCC. Pursuing targeted developer fees is a balancing act between transportation and other infrastructure priorities. However, creating a direct nexus between the fees and the benefits of the improvements could be an important source of funding.
- *Vehicle Registration Fee:* StanCOG could pursue a vehicle registration fee to support the SCC or other capital projects. In 2009, the Legislature passed and the Governor signed SB 83 (Hancock) that allows countywide transportation planning agencies to place a local $10 vehicle registration fee for congestion management projects before the voters. In 2010 voters in several Bay Area counties used SB 83 to ask voters to approve local vehicle registration fees for transportation. Voters in Alameda, San Francisco, San Mateo, and Santa Clara Counties passed local $10 vehicle registration fees. Contra Costa County voters rejected the same fee. The Solano Transportation Authority board declined to ask the Solano County Board of Supervisors to put a vehicle registration fee measure on the ballot. San Mateo County's fee is on top of an existing local vehicle registration fee of $4. The annual amounts raised by the fee range from $5 million in San Francisco to $14 million in Santa Clara County.

Fee Districts

Fee districts apply the fee concept described above but in a specific geographic area and for specific purposes. The entire Corridor or specific segments of the Corridor could be placed within a fee district that raises revenue and leverages other sources of funding.

- *Community Facility District (CFD)*: A Mello-Roos District is an area where a special tax is imposed on those real property owners within a Community Facilities District. This district has chosen to seek public financing through the sale of bonds for the purpose of financing certain public improvements and services such as roads. Collecting an annual special tax paid by the property owners, most often on their property tax bill, pays off the bonds. Recent examples of cities using CFDs for major transportation infrastructure are improvements on I-5 in the city of Rancho Santa Margarita in Orange County and the Oakland Army Base reuse project in the City of Oakland. The voters in a CFD must agree to this tax by a 2/3rd majority.

- *Enhanced Infrastructure Financing District (EIFD)*: SB 628 (Beall) last year enables local governments to create Enhanced Infrastructure Financing Districts to finance infrastructure improvements with property taxes, similar to the old TIF districts that redevelopment agencies used before the elimination of redevelopment agencies in 2011. An EIFD approach could leverage the RTIF and targeted developer fees, as well as potential local option road charges.

Financing Programs

If StanCOG were to explore alternative delivery methods—design-build, design-build-finance-operate-maintain, and toll concession—then the agency may well also consider financing options like the California Infrastructure Bank or the federal TIFIA program. By virtue of establishing a "pay over time" strategy (as compared to "pay-as-you-go"), the agency could look to financing options that support delivering the SCC on an accelerated schedule. These financing instruments, especially if used for short-term debt, may allow time for repayment streams to develop further, lowering the cost of medium and long-term debt. It is important to note that financing is not a "free" source of funding; financing means that the lenders need to be repaid, often with the other sources of funding identified above.

- *California Infrastructure Bank Revolving Loan*: The Infrastructure State Revolving Fund (ISRF) Program provides financing to public agencies and non-profit corporations for a wide variety of infrastructure and economic development projects. ISRF Program funding is available in amounts ranging from $50,000 to $25,000,000, with loan terms of up to 30 years. Financing applications are continuously accepted. Eligible project categories include, but are not limited to, city streets, county highways, and state highways.

- *The Transportation Infrastructure Finance and Innovation Act (TIFIA)*: The U.S. Department of Transportation (DOT) administers the federal TIFIA program to provide federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance. TIFIA provides improved access to capital markets, flexible repayment terms, and potentially more favorable interest rates than can be found in private capital markets for similar instruments. TIFIA can help advance qualified, large-scale projects that otherwise might be delayed or deferred because of size, complexity, or uncertainty over the timing of revenues. The statutory maximum is 49% of eligible project costs for the assistance but 33% has been limit in practice. An eligible project must be included in the applicable State Transportation Improvement Program (STIP). Major requirements include a capital cost of at least $50 million (or 33.3 percent of a state's annual apportionment of federal-aid funds, whichever is less). Senior debt must be rated investment grade. The project also must be supported in whole or in part from user charges or other non-federal dedicated funding sources and be included in the state's transportation plan. Qualified projects are evaluated by the Secretary of U.S. DOT against eight statutory criteria, including among others, impact on the environment, significance to the national transportation system, and the extent to which they generate economic benefits, leverage private capital, and promote innovative technologies.

Additional Transportation Funding Measures

The following funding measures do not fit nicely into the categories described above; however, each contains elements of the other categories. For example, a sales tax measure is a broad-based revenue source applied countywide like a local vehicle registration fee. Express Lanes are a toll that only users of the SCC would play, similar to targeted fee or infrastructure fee district assessments. And, the road charge has the potential to become a source of basic state and local transportation funding, as well as a platform for specific fees associated with specific projects. These measures are also the key measures that all regional transportation planning agencies in California are examining to determine how their programs are funded in the future.

- *Transportation Sales Tax Measure*: Should StanCOG pursue a transportation sales tax measure, the South County Corridor could see a funding commitment as one of the large, regional priority projects. Again, the funding would likely not be sufficient to complete the entire 18-mile project, but could provide substantial resources to project development and construction of an initial segment.
- *Express Lanes*: Revenue from Express Lanes (also known as High Occupancy Toll or HOT Lanes) could be used to support transportation needs within Express Lane corridors after paying for Express Lane start-up and operating costs. SCC could be a designated Express Lane route. HOT Lanes are in place in Southern California and the Bay Area. A further discussion of HOT Lanes is found in the Alternative Delivery/Funding section.
- *Road Charges*: The Brown Administration and the CTC are pursuing a road charge demonstration project to examine the feasibility of generating vehicle-miles traveled (VMT) revenues. This strategy is in response to the increasing number of electrical vehicles and fuel- efficient vehicles that have negatively impacted the gas tax revenues. The Legislature and the Brown Administration, as well as the transportation community statewide, are already discussing the likelihood that a VMT charge is likely to be the next source of transportation funding. SB 1077 (DeSaulnier) calls for putting the pilot program in place by January 2017, using several thousand volunteers from across California who are willing to have their mileage recorded. The volunteers would not be assessed any actual fees during the pilot program. The 15-member panel created by the bill would guide the pilot project, analyze the results, and report findings to the Legislature by June 30, 2018. Senator Beall, among other legislators, has suggested that adoption of VMT charges is likely to occur in the middle of the 2020s. Road charges contain the potential for developing local option fees focused on particular improvements. By the time some of the elements of the SCC program are ready to go to construction, road charges may be coming on line. If so, then future SCC funding plans should examine scenarios that include local option road charges targeted to discrete elements of the SCC program.

Following are initial thoughts on how to apply the traditional and alternative delivery/alternative funding approaches to the SCC project.

Traditional Funding and Phasing

A traditional, pay-as-you go approach is a common and less risky way to fund and deliver the project. As mentioned above, this approach would entail StanCOG amassing funds for discrete delivery phases. This approach also means that the entire project will likely take more than ten years to complete. If history is any guide, the boom and bust cycles of transportation funding suggest that the traditional approach could result in an even longer time to complete.

Proceeding with an initial phase and funding only that phase is certainly a way to buy down the schedule uncertainty of pursuing the entire corridor as a complete project. By making the SCC a program of projects, project phases and stages can be matched to available funding, with completion of a particular phase yielding mobility benefits sooner.

As also described above, the existing local, state and federal funding sources do not appear to be robust enough to fund the SCC project. Having dedicated developer fees or a sales tax measure to fund the SCC would enable project phasing to proceed more quickly, as well as providing a significant match to leverage existing local, state and federal funding.

The match potential of measure funds would enhance StanCOG's ability to attract discrete funding sources such as those for *Active Transportation, Trade Corridors*, and *Transit Capital*. These programs place a priority on projects that leveraging state funds with other local, regional, and federal funding.

The current efforts of the Brown Administration and the Legislature's 1st Extraordinary Session on Transportation to raise transportation revenues through a mix of gas and diesel tax increases along with repayment of transportation loans to the state's general fund would certainly raise the funding tide for all transportation projects. While the emphasis of these efforts is on maintenance and rehabilitation, the increased transportation revenue would mean that jurisdictions would be able to redirect resources presently going into maintenance and rehabilitation to other projects.

However, given that the SCC does not yet have project standing, the real effect of an infusion of state funding is to clear the table of other StanCOG project priorities that would be able to go to construction ahead of the SCC. Presumably, the SCC would be in a better position to use available funding resources—especially developer fees and possible sales tax measure proceeds—if other large, regional projects are in construction.

Alternative Delivery/Funding

Pursuing private sector involvement in the delivery of the SCC is an option, should StanCOG wish to proceed with the SCC on a more expedited schedule. Involving the private sector as a delivery and funding/financing partner can help provide more schedule and funding certainty than the traditional approach. All design-build (DB); design-build-operate (DBO); and design-build-finance-operate-and-maintain (DBFOM) contracts require contractors to agree to a guaranteed price and schedule—or suffer significant financial penalties for increased cost and delays.

The Presidio Parkway project in San Francisco and the SR-91 Express Lanes in Orange County are examples of successful alternative delivery roadway projects in California. In addition, Santa Clara Valley Transportation Authority is exploring public-private partnership options for improvements to SR-156.

To the extent that StanCOG wants to transfer schedule and funding risk to the private sector, the agency will pay a premium for that risk. However, the upside is delivery of the SCC, or a phase of the program, earlier. Even with paying a premium for that risk, StanCOG could wind up with a finished project at a reduced cost over the traditional approach. The contractors for the Presidio Parkway project delivered the project on time (even with delays in proceeding to final construction due to permit challenges with the Presidio Park Trust) for $360.3 million, $128 million below the engineer’s estimate of $488 million.

An important aspect of alternative delivery and funding/financing is that the lifecycle costs of the facility are brought into the overall project delivery and financing plan. The availability payments paid to the contractor are based on the contractor’s meeting specific operations and maintenance performance metrics. The contractor has incentive to ensure that the facility is in excellent condition in order to receive the milestone payments. By taking on the responsibility for lifecycle costs the contractor is looking to build a facility that can be maintained easily. Traditional approaches often delay consideration of maintenance and rehabilitation until years after the facility is open.

The key to making alternative delivery and funding/financing work is two-fold: having a funding stream that can be pledged over time to repay the contractor for its work. So- called availability payment schemes generally last 30 to 50 years. The second key is ensuring that environmental clearance is achieved with a minimum amount of engineering design required.

The Regional Transportation Impact Fee and targeted developer fees—either discretely or combined in an Enhanced Infrastructure Financing District or Mello Roos District—could serve as the funding stream to cover availability payments. In addition, local option road charges would be another good source of availability payments. And, should Stanislaus County voters approve a transportation sales tax measure, funds available to the SCC could also be managed to support availability payments.

- *Design-Build:* Based on the discussion above, several sources of funding could serve as the basis of availability payments. In this way, StanCOG could essentially cash flow the SCC project. An availability payment scheme could support design-build, design-build-operate-maintain, and design-build-finance-operate-maintain delivery methods. The capital cost of SCC is on the lower side of the thresholds most design-build providers seek in a project. However, if the project is developed initially to be a commercial project, that is private sector led, sufficient interest will exist. Design-build is becoming a common delivery method throughout the Bay Area and Southern California.

- *HOT Lane:* The StanCOG RTP/SCS indicates that HOV lanes are a mobility and accessibility strategy. Our view is that sections of the SCC could incorporate HOV/HOT lanes. A high-occupancy toll (HOT) lane would enable solo drivers to pay to be in the lane to receive the travel-time savings of the lane. The passage of AB 194 (Frazier) this year removes the previous restrictions on transportation agencies pursuing HOT Lane projects. MTC is leading an effort in the Bay Area to develop HOT Lanes throughout the nine-county region. HOT Lanes are now in place in Alameda and Santa Clara Counties, with further expansion plans in those counties. Contra Costa County is planning for HOT Lanes as well. The HOT lane would produce some revenue that could be used to offset maintenance of the Corridor and perhaps pay for additional Corridor phases. Fees and a potential sales tax measure could provide the milestone and availability payments that would make the HOT lane attractive to alternative delivery contractors. Planning for a HOT Lane on the SCC will require design considerations to accommodate toll and general-purpose lanes. Consideration of a HOT Lane for the SCC is an issue for the next phase of the project.

- *Toll Concession:* Because the South County Corridor will be a county facility, the opportunity exists to consider whether the Corridor could be developed as a toll road.

While the projected traffic on the Corridor appears to be lower than what similar facilities would need to have to be viable toll roads, our suggestion is that StanCOG explore the potential of a toll concession to determine whether this approach is commercially viable. As with the HOT Lane, developer fees and a potential sales tax measure could serve as a financial and funding backstop to a toll concession to make this option more attractive. A road charge would also make the HOT Lane and Toll Concession more viable alternatives because of the ability to directly charge users of the SCC. As mentioned above, Santa Clara VTA is actively reviewing the possibility of SR-156 becoming a toll facility.

Project Delivery Strategies

	Traditional	Design-Build	DBFOM	Concession
Funding Approach	Pay as You Go	Pay as You Go, with Pay Over Time Option	Pay Over Time	PayOver Time
Schedule Impact on Project Delivery	Uncertain	Certain	Certain	Certain
Lifecycle Cost Considerations	Often not considered	Included	Included	Included
Risk Transfer	None, on agency	Shared	Primarily on Contractor	On Concessionaire

Sources of Funding Applied to Delivery Approaches

Source	DBB	DB	DBFOM	Concession
Local funding	X	X	X	X
State Grant Funding	X	X	X	X
Federal Grant Funding	X	X	X	X

Regional TIF	X	X	X	X
Targeted Developer Fees	X	X	X	X
Sales Tax Measure	X	X	X	X
CA Active Transportation	X	X	X	X
CA Trade Corridors	X	X	X	X
CA Transit Capital	X	X	X	X
Road Charges	X	X	X	X
Vehicle Reg Fee	X	X	X	X
Express Lanes (HOT)		X	X	X
Community Facility District	X	X	X	X
Enhanced Infra Fin District	X	X	X	X
CA Infra Bank Revolving Loan	X	X	X	X
TIFIA		X	X	X

DBB: Design-Bid-Build

DB: Design-Build

DBFOM: Design-Build-Finance-Operate-Maintain

Concession: Toll Road

Conclusion

These funding approaches are not mutually exclusive. In fact, it is likely that several may be viable for different aspects of the Corridor, especially if the Corridor becomes a program with a suite of project phases. . As the chart above shows, nearly all of the funding sources can be applied to the various project delivery approaches. And, as described at the beginning, specific funding approaches will work better than others depending on the phasing, delivery and procurement methods StanCOG wants to pursue.

Should StanCOG decide take the SCC to the next phase, which would most likely be the PSR phase, that PSR/PDS effort should examine further both the traditional and alternative delivery and funding strategies. Given that the SCC will likely be implemented during, or after, California transitions from gas tax to road charges to pay for transportation, StanCOG would be well served during the next phase to evaluate these funding approaches with this future in mind.