



METROPOLITAN
TRANSPORTATION
COMMISSION

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Memorandum

TO: Planning and Operations Committee
FR: Executive Director
RE: Resolution 3434 Update

DATE: December 12, 2002
W.L.:

This memorandum provides a one-year update on the status of the Resolution 3434 transit expansion projects.

Historic Agreement Forged in 2001 Background

As part of the 2001 Regional Transportation Plan (RTP), the Commission approved a historic agreement on Bay Area transit expansion over the next several years. Resolution 3434 – the successor plan to Resolution 1876 – identified 19 rail and bus projects as priority for transit expansion. Roughly \$9.7 billion in funding was identified for \$10.5 billion in project costs. The plan included an array of funding from federal, state, and local sources and matched funds to projects based on competitiveness and eligibility. The result is a plan that includes more than 11 unique fund sources delivering 19 projects, a reflection of the varied resources and transportation needs that exist in the region. Attachments A and B illustrate the project locations. Attachment C summarizes Resolution 3434's funding strategy.

Many heralded Resolution 3434 because of its wide support in the region and its ability to focus advocacy efforts for competitive funding, such as Federal New Starts, to specific projects to increase the region's likelihood of success. Staff agrees it was an achievement to reach consensus on priority expansion projects but also acknowledges that project monitoring and future regional decisions will likely be necessary to ensure that projects are delivered in a timely manner. To that end, this is the first of the planned annual updates to keep the region's eye on the ultimate target – implementation of revenue service for all of the projects outlined in Resolution 3434.

Recent Activities and Events

Given the economic downturn of the past few years, it should come as no surprise that financial capacity and revenue projections will need to be reviewed in the 2004 update to the RTP. Conversely, on a more positive front, there are new revenue sources – approved and scheduled for voter approval – that were not considered at the time of Resolution 3434's adoption. Finally, project sponsors have made progress in several areas including project alternative selection, environmental review, and obtaining necessary federal approvals.

Economic Recession

Following a period of sustained economic growth, the Bay Area has experienced unprecedented declines in sales tax revenues. These decreases were more pronounced in four counties – Alameda, San Francisco, San Mateo, and Santa Clara – where the high-tech sector has a more significant presence. Sales tax revenues comprise roughly 40% of the overall funding strategy for fully-funded Resolution 3434 projects, and comprise a significantly higher share of up to 60% for some individual projects. While this reliance on local revenue makes the Bay Area more competitive for state and federal funding, it also underscores the expansion plans’ sensitivity to local economic downturns.

It is important to note that, in general, the 25-year revenue projections underlying Resolution 3434 were conservative and should over the entire period smooth out economic cycles. Therefore, the total revenue estimated could well be generated over the 25 years but not at the same rate in the early years as had been previously anticipated. The likely result, therefore, will not be an inability to deliver projects but a slower delivery timeframe unless aggressive debt financing strategies are employed.

Even prior to the economic recession becoming so entrenched, there was an acknowledgement by staff and project sponsors – as noted in the terms and conditions to Resolution 3434 – that financing costs (and any cost increases) were not included in the funding strategy and would have to be borne by the project sponsors. This agreement highlighted the fact that the revenue stream was over 25 years and that earlier project delivery would likely require additional financial resources. The recession could further delay project delivery because revenues in the early years do not match earlier projections. Attachment D illustrates the estimated annual revenues for Resolution 3434 as compared to the desired project completion schedules as submitted by the project sponsors. The misalignment highlights that future discussions will be needed to either bring revenues forward using debt financing strategies or make decisions about project sequencing.

New Revenue Options

There have been some bright spots in an otherwise gloomy revenue picture: the approval by the voters of Proposition 42 in March 2002, which will permanently dedicate a portion of the sales tax on gasoline that had previously gone to the general fund to transportation, and the consideration of several future bond and voter measures to increase transportation funding.

The enactment of Proposition 42 translates into roughly \$5.8 billion in additional revenues to the Bay Area over the life of the 25-year RTP, or an increase of 75% over existing discretionary or “Track 1” dollars. Of this amount, \$2.6 billion augments the Bay Area share of the State Transportation Improvement Program and \$1 billion augments the State Transit Assistance program – both of which could be important to speed capital project delivery or to complement existing operating funds to provide expanded transit service. The new revenues will begin to flow in fiscal year 2008-09. It is worth noting that this new revenue source also will be subject to recessionary swings, not only because it is pegged to gasoline sales but also due to the ability of the Governor and Legislature to suspend its provisions in a “fiscal emergency.”

Also on the horizon are a 2003 bill to increase the bridge tolls on state-owned toll bridges, a new transportation infrastructure fund that could provide for transportation projects, new and renewed county and transit district sales tax authorizations, and a 2004 statewide bond initiative to construct high-speed rail between Los Angeles and the Bay Area. Each of these revenue proposals could bring additional funds to the Bay Area for the regional transit expansion program.

While most projects were fully funded at the time of Resolution 3434 adoption, the revenue options outlined above provide three important opportunities for these projects:

- 1) substitute more secure revenues for those that are less secure because funds require competition or discretionary action;
- 2) swap new revenues that may be generated earlier for those that may not be generated until a late-time horizon; and
- 3) provide resources for covering subsequent project cost increases and anticipated finance costs. In addition, these new revenues could close the gap for the \$0.8 billion in project shortfalls identified in Resolution 3434.

Attachment E summarizes the schedule and anticipated revenue, where known, for the various upcoming legislative and ballot measures.

Project Status

With near-term revenue uncertainty in the foreground, project sponsors have moved forward with environmental and preliminary design work. For the projects that were still in the conceptual phases at the time of Resolution 3434 approval, the past year has been busy with technical and policy advisory committee meetings to complete project alternative selection. Some projects are in the environmental impact review process while others have obtained necessary project approvals or funding allocations. The varied project work phases are a benefit for the region in terms of cashflow. If all projects were on the same schedule, a financing strategy would be nearly impossible.

Staff has examined the current status of each project in depth, including revenue detail, capital cost detail by phases, project schedules, and recent actions and key issues of interest. Project scheduling is depicted in Attachment D. Other specific highlights include:

- The Muni Third Street New Central Subway and BART to San Jose extension projects were granted federal approval to move into preliminary engineering;
- The Caltrain Express and Regional Express Bus projects were allocated all of the Traffic Congestion Relief Program funds and are in the construction and vehicle procurement stage;
- A project alternative was selected for the BART/East Contra Costa Rail Extension project, which is an extension of rail transit service from Pittsburg/Bay Point BART station to Byron using existing Union Pacific Railroad right of way and diesel multiple unit vehicles (the "eBART" alternative);

- MTC adopted a strategy for prioritizing AC Transit's Enhanced Bus projects in advocacy efforts for FTA Section 5309 Bus Discretionary funds;
- Preliminary engineering and preparation of procurement documents began in July 2002 for the BART to Oakland Airport project;
- The Draft Environmental Impact Report (EIR)/Environmental Impact Statement (EIS) was released for the Transbay Terminal/Downtown Extension project in October 2002 with expected approval in the summer of 2003;
- AB 224 was enacted into law and created the Sonoma Marin Rail Transit (SMART) District. The 12-member SMART Board will govern the district and operate and manage a passenger rail system through Sonoma and Marin counties once additional funding is secured.

Operating Fund Commitments

Resolution 3434 and its policy companion, Resolution 3357, required that project sponsors demonstrate financial capacity for operations and maintenance of expanded services. In addition, the financial capacity determination required that core bus services not be adversely affected. At the time of Resolution 3434's adoption, all sponsors had submitted financial plans for operating the services. The changing economic situation places additional constraints on operating funding and, therefore, MTC will be monitoring closely changes to projected operating revenues and the financial capacity for operating and maintaining Resolution 3434 projects. At a minimum, evaluations of annual Short Range Transit Plans submitted by the sponsors must include specific financial analyses targeted to Resolution 3434 projects. This information will provide valuable input to the 2004 RTP process, which will incorporate an overall update and possible revision to the Resolution 3434 funding strategy.

Because many transit agencies are in the midst of reviewing operating plans given the economic downturn, and most project schedules assume revenue service does not begin until 2007 and later, we expect to have a better understanding of the overall operating revenue environment for next year's Resolution 3434 annual update. Specific issues that will need to be addressed in the coming year include:

- Overlapping with Resolution 3434 criteria, the Federal New Starts program contains specific requirements that project sponsors provide an operating financial plan that demonstrates the ability to operate and maintain the existing system, as well as the envisioned transit expansion project. Recent FTA correspondence to VTA (for the BART to San Jose project) underscores this need in particular given the recent sharp decline in sales tax revenue base and resultant budget shortfalls. Though its operations were not affected as drastically this past fiscal year, SF Muni will have also to develop the same operating plan for the New Central Subway project in a similarly difficult economic climate.
- The voters' narrow rejection in November of a property tax increase to finance BART seismic retrofit needs places this critical infrastructure investment in deeper competition with extension projects for limited discretionary revenues. As well, fare revenue declines are placing increasing burdens on the agency's ability to sustain existing levels of service.

- On the other hand, there are new opportunities for sales taxes and other revenue prior to 2007 when new Resolution 3434 services are envisioned to come on line. The challenge will be to secure operating revenue as part of the expenditure plans for those potential new funds.

As part of the 2004 RTP update, all Resolution 3434 sponsors will be required to recommit to, and if necessary revise, a financial strategy to ensure that both the base service levels (especially core bus services) as well as the new extensions can be operated and sustained.

Supportive Land Use Policies

Resolution 3357 and 3434 established land use as an evaluation criterion for transit expansion projects, providing a higher score rating to projects that had urban as opposed to rural population and employment densities along bus/rail corridors. The evaluation required that projections of densities conform to the 2024 regional model unless supportive land use policy commitments were provided from appropriate local jurisdictions.

At the time of Resolution 3434, MTC staff recognized the significant opportunity for additional transit-oriented development associated with these transit expansion projects. In fact a study by University of California, Berkeley professors estimated that 12.2 square miles of vacant land and 43.5 square miles of “re-cyclable” land was available near the proposed project stations for transit-oriented development. Building on this opportunity, MTC and ABAG have been working over the last year on the Smart Growth project that outlines a footprint for significantly increased densities around new and existing transit corridors. In addition, other strategies are being considered that would strengthen the link between Resolution 3434 investments and land use policies. Among the strategies are:

- Work with Congestion Management Agencies and local jurisdictions on station area planning to enhance high density development near planned transit stations; and
- Focus the expanded Transportation for Livable Communities (TLC) and Housing Incentive Program (HIP) on Resolution 3434 stations and nodes.

As well, project sponsors themselves can take an active role in furthering supportive land use policies around future stations. On December 5, 2002, the BART Board of Directors adopted a new extensions policy that contains guidelines assigning high priority to future extensions that take advantage of high residential and employment density around station sites. This action directly supports the Commission’s land use policies in Resolution 3434. In several recent Resolution 3434 project presentations to MTC staff, there was emphasis on recent community outreach and planning related to smart growth and transit oriented development. Next year, we expect to have more specific policies adopted as well as individual project progress reports related to supportive land use policies.

Opportunities for Regional Involvement

As noted at the outset, this annual update is meant to highlight issues and opportunities for discussion in order to keep the Resolution 3434 projects on track. Based on recent presentations by project sponsors as well as a more thorough analysis of project cash flows, the region will need to confront the issue that project expenditures are expected to exceed available revenues in the near-term, based on current schedules. In this regard, MTC staff will explore innovative

financing strategies where possible and avenues to assist project sponsors with expediting project delivery. As you may recall, Resolution 3434 assumed bond financing as the mechanism to access as early as possible Regional Measure 1 and AB 1171 bridge toll revenues included in the funding strategy matrix.

In addition, may also be instances where MTC's programmatic approach to Resolution 3434 implementation can identify opportunities for individual project sponsors to enter into funding swaps, based on timing and 'color of money' funding needs. Recent project presentations also highlighted potential coordination opportunities in technology selection and joint procurement for Federal Railroad Administration (FRA) diesel multiple units. Further, station and track upgrades often benefit multiple rail operators and should be monitored in a regional context.

Upcoming Decisions and Next Steps

While there has been a lot of change in the past year, staff is not recommending any revisions to Resolution 3434 at the present time. Instead, this annual report should provide input to the following discussions expected over the next year:

- Proposition 42: priority setting for Regional Transportation Improvement Program and State Transit Assistance funding.
- Various revenue proposals such as \$3 Bridge Toll, High Speed Rail, Sales Tax Reauthorizations: local jurisdictions, legislators, and transit operators will likely be discussing priorities for these revenue proposals and closing the existing shortfall, providing a more secure and near-term funding stream, and offsetting finance costs for Resolution 3434 projects.
- Majority Vote for Local Taxes - given heavy reliance on local sales taxes, especially for operating funds, the Commission should advocate for legislation to enable a simple majority or 55% vote approval for transportation measures.
- TEA 21 Reauthorization: the Commission should lay the groundwork for the two New Starts projects - BART to San Jose and Muni Central Subway - and establish AC Transit Enhanced Bus as the region's primary priority for Section 5309 Bus Discretionary funds. We also must protect funding for the BART to SFO project until the federal commitment is fully met.

Attachment F is a funding matrix that identifies possible new revenue options for Resolution 3434 projects that will likely meet the eligibility criteria. As a reminder, new revenue options for fully funding projects suggest opportunities to advance funding, swap less secure sources, and address project cost increases and financing costs.

Changes to project funding or scope as a result of the above decision points will be incorporated into Resolution 3434 with a revision during the 2004 RTP update.

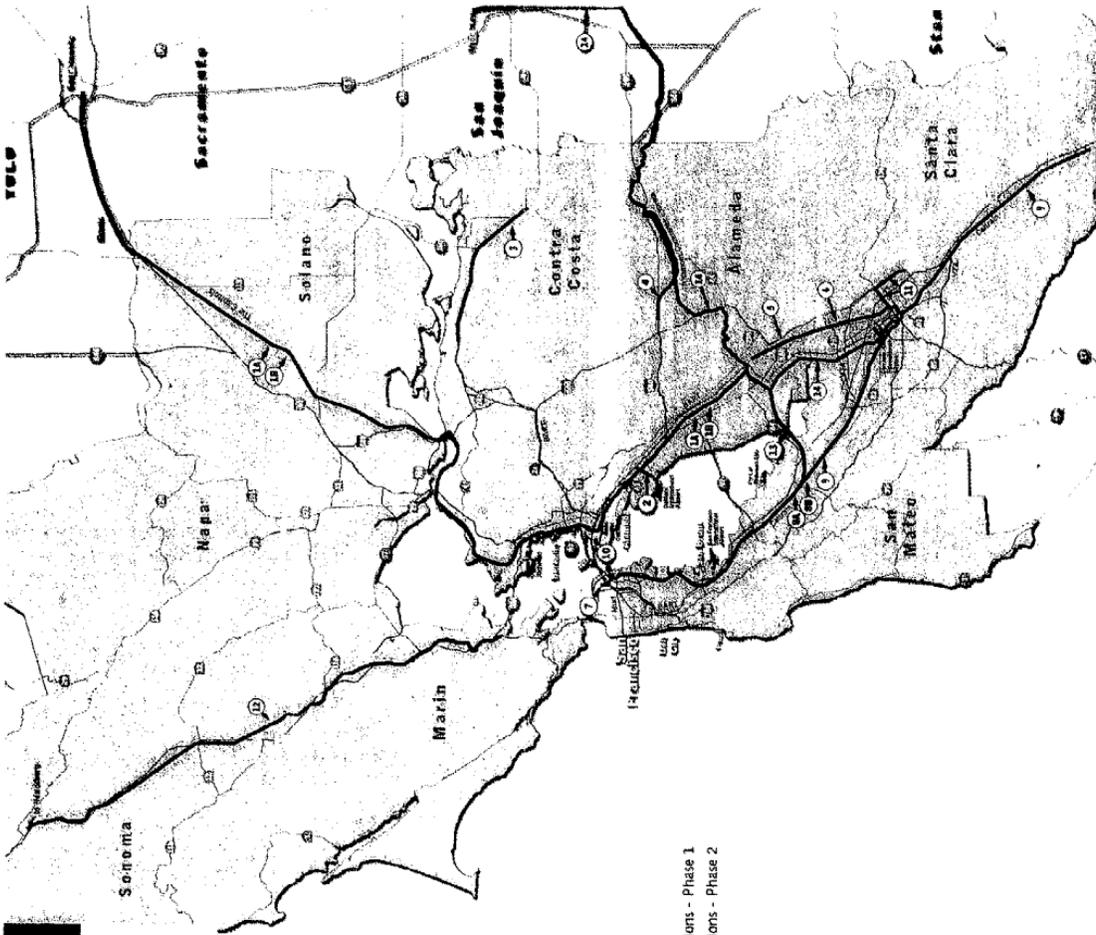


Steve Heminger

Attachment A

**Resolution 3434
Regional Transit
Expansion Program**

**Recommended
Rail Expansion
Projects**



Legend

- Rail-proposed
- Rail-existing
- Light Rail-existing

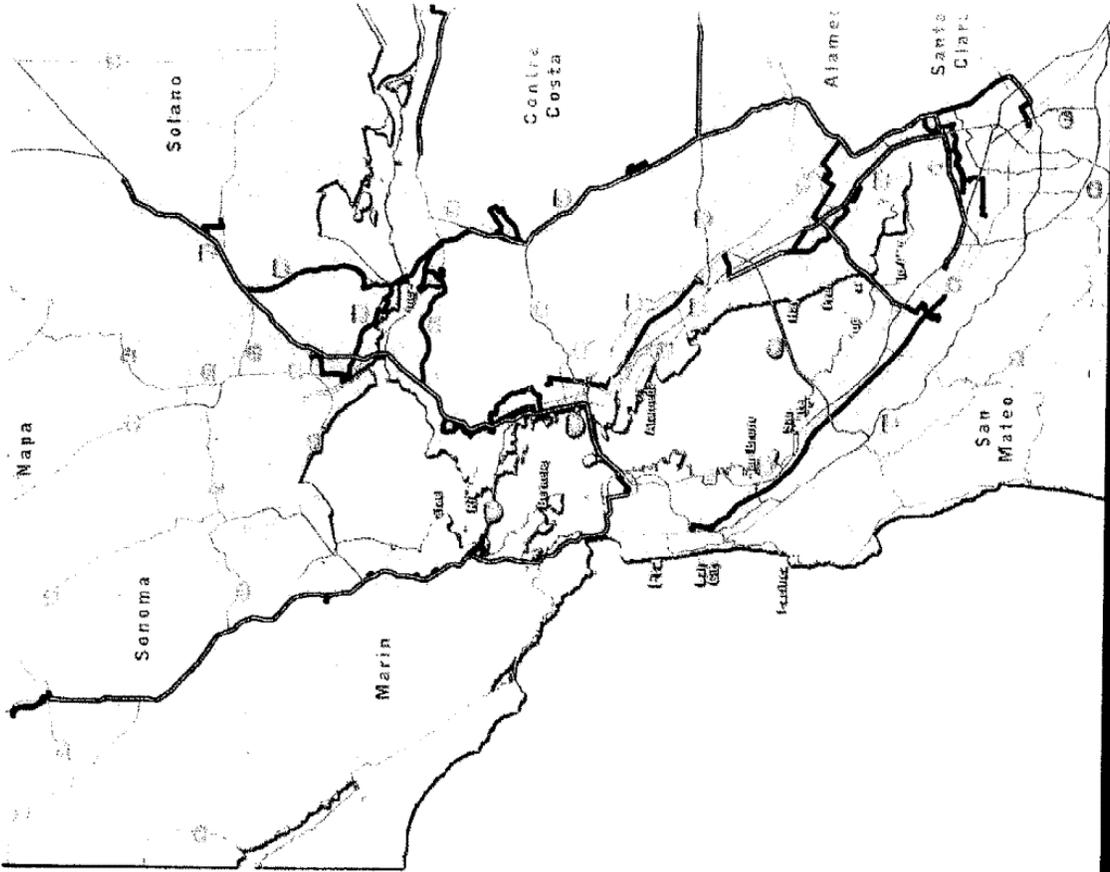
Rail Projects

- 1A Capitol Corridor Intercity Rail - Increased Service and Additional Stations - Phase 1
- 1B Capitol Corridor Intercity Rail - Increased Service and Additional Stations - Phase 2
- 2 BART - Oakland Airport Connector
- 3 BART/East Contra Costa rail
- 4 BART/Tri-Valley rail
- 5 BART - Fremont to Warm Springs
- 6 BART - Warm Springs to San Jose
- 7 Muni - Third St. Corridor LRT - Central Subway
- 8A Caltrain - Express Service - Phase 1
- 8B Caltrain - Express Service - Phase 2
- 9 Caltrain - Rapid Rail / Electrification
- 10 Caltrain - Downtown San Francisco Extension/Transbay Terminal
- 11 Santa Clara VTA LRT - Downtown / East Valley - Phases 1 and 2
- 12 Sonoma-Marin Rail
- 13 Dumbarton Bridge Rail Service
- 14 Allamont Commuter Express (ACE) - Increased Service

Attachment B

**Resolution 3434
Regional Transit
Expansion Program**

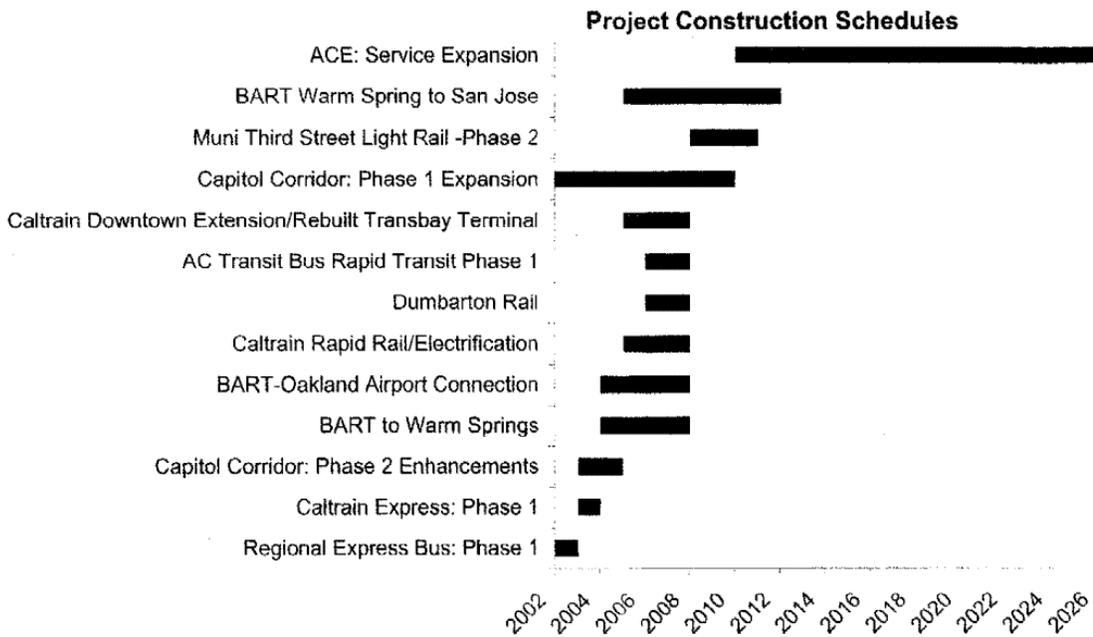
**Express and
Rapid Bus
Routes**



Legend

-  Regional Express Bus Program — Phase 1
-  AC Transit Enhanced Bus — Oakland/San Leandro
-  AC Transit Enhanced Bus — Hesperian/Foothill/MacArthur

Attachment D: Comparison of Tentative Project Schedules and Anticipated Revenue Generation

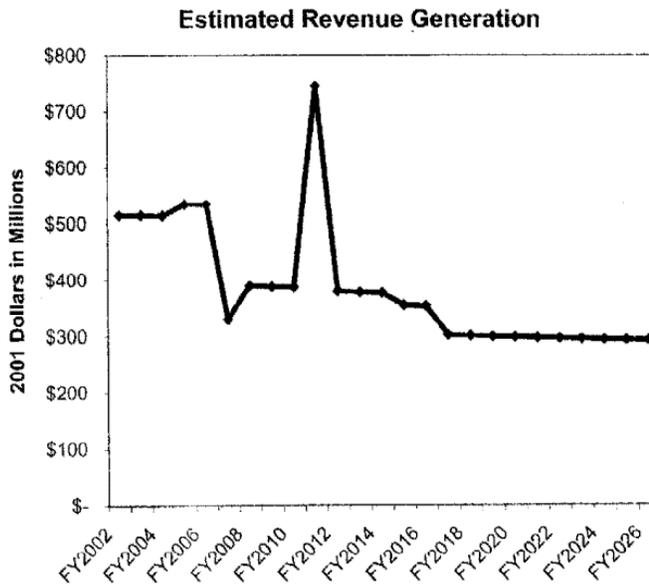


Notes:

1. Significant revenue drop in 2007 is a result of TCRP funds being available primarily in 2002-2006.
2. Spike in funds in 2011 is assumed bond proceeds for AB 1171 toll funds.

Assumptions:

Most revenues assumed to be evenly distributed across the 25-year period. Exceptions for RTIP, TCRP, and AB 1171 funds that are assumed available in the earlier years for the Resolution 3434 projects.



Attachment E: Key Provisions of Potential State and Local Revenue Proposals

Proposal	Estimated Vote Date	Funding Amount	Eligibility Requirements
ACA 11	March 2004	Revenue generated approximately \$1 billion in 2006-07, \$1.3 billion in 2007-08, \$1.6 billion in 2008-09, etc.	<ul style="list-style-type: none"> 50% of funds allocated to state infrastructure improvements; 50% to local governments. State share is for "acquisition, construction, rehabilitation, modernization or renovation of infrastructure that is owned or to be acquired by the state." Local share is for "acquisition, construction, rehabilitation, modernization or renovation of infrastructure that is owned or to be acquired by local governments including cities, counties, special districts, but not school districts or community colleges. Legislature shall provide a method for the annual allocation of these funds to local governments.
\$3 Toll	March 2004	\$125 million annually	Undetermined. Likely that only transit projects will be included in plan unless road/fwy project can be shown to benefit transit service.
High Speed Rail	November 2004	\$9 billion provided to construct initial phase of HSR (from San Francisco to Los Angeles) and \$950 million for supporting rail infrastructure, \$760 million of which is for commuter/urban rail, \$190 million for intercity rail.	PRISM formula used to distribute \$760 million to rail operators for capital improvements to improve rail connectivity. Bay Area operators likely to receive roughly \$440 million in the following shares: ACE (\$18 million); BART (\$285 million); Caltrain (\$46 million); Miami (\$69 million); and VTA (\$21 million).
<i>Sales Tax Authorizations</i>			
San Francisco County	November 2003	Not available	As determined in the expenditure plan currently under discussion
Contra Costa County	November 2004	Not available	As outlined in the expenditure plan developed.
Marin County	2004	Not available	As outlined in the expenditure plan developed.
San Mateo County	November 2004	Not Available	As outlined in the expenditure plan developed.
Solano County	Failed in 2002; possibly retry in 2004	\$800 to \$1 billion over 20-years	As outlined in the expenditure plan developed.
SMART District Sales Tax	2004	Not Available	Operating and capital costs associated with SMART rail service to be outlined in the expenditure plan developed.
BART Property Tax	Nov. 2004	Not Available	As outlined in the expenditure plan developed.