MEMO

To: **Jean Moreno, City of Glendale**

From: **Valley Metro**

Date: **June 2, 2017**

Re: **West Phoenix/Central Glendale Transit Corridor Study Update**

The West Phoenix/Central Glendale (WPCG) project continues in the planning process. The purpose of this memo is to provide an update on the project status and potential funding of the project.

The regional Transit Life Cycle Program (TLCP) is undergoing its annual update and is expected to be approved by the Valley Metro Board of Directors later this month. The TLCP tracks regional rail and bus transit projects to ensure revenues and expenditures are balanced for the life of Proposition 400 funding. The WPCG is included in the TLCP and continues to be scheduled for a 2026 opening. To meet this opening date, construction would occur between 2022 and 2026 and major capital expenditures would occur in that time frame.

Funding Update

Funding for the project includes federal, regional (Proposition 400), and local funding from Phoenix and Glendale. The current capital cost estimate for the 7-mile "Leading Alternative" that was presented to the public in 2016 is $890M (YOE$). The approximate project funding breakdown as included in the most recent TLCP is:

Federal – 58%
Regional – 8%
Glendale – 13%
Phoenix – 21%

Federal funding for the project is through the Capital Investment Grant (CIG) program administered by the Federal Transit Administration (FTA) and Congestion Mitigation and Air Quality (CMAQ) program. The process to obtain federal funding includes an extensive analysis of the project to meet multiple criteria established in federal law and implemented by FTA. Once the FTA has determined that the project has sufficiently met those criteria, the funding is committed through a Full Funding Grant Agreement (FFGA) with the FTA. To meet the funding schedule associated with the project, an FFGA is anticipated in 2022.

President Trump is expected to release his FFY 2018 budget next week. In a pared down version ("skinny") budget released in March, the President proposed the elimination of several federal programs for FFY 2018, including the Capital Investment Program (CIG). The President's budget is sent to Congress as a blueprint of his priorities, and Congress ultimately determines federal funding levels through the annual appropriations process. Many times, Congress amends or even ignores the President's proposed budget. For instance, Congress recently passed the FFY 2017 omnibus appropriations bill that was in direct opposition to the President's proposal and funds several new CIG grant agreements, including the Tempe Streetcar.

The CIG program has existed for decades and was most recently reauthorized as part of the Fixing America's Surface Transportation (FAST) Act in late 2015. The legislation was approved by a large, bipartisan majority. Projects are under development throughout the country with an expectation of federal funding through the CIG program, including several projects in the regional TLCP. While the future of this program is not certain, there are bipartisan efforts nationwide to keep the program funded. In the 2017 budget, Congress appropriated an amount in excess of the FAST Act totals, and may continue to do so in the future. The funding landscape is fluid at this time, and is expected to continue to evolve in the coming years before the FFGA for the WPCG project is expected to be received in 2022.

Currently, $72.6M (YOE$) in regional funds are programmed for this project. Regional funds are eligible to be used for bridges, park and ride facilities, vehicles, non-prior rights utilities, public art, and maintenance facilities. The 7-mile Leading Alternative includes additional costs which are eligible for regional funding but which are not currently programmed; this amount is estimated to be about $41M (YOE$). These unprogrammed regional costs are assumed to be covered by local funds, allocated proportionally to the cities, within the TLCP. This has been the practice for other projects in the region.

The rail program baseline financial model currently shows a surplus fund balance of approximately $74M. Some of the surplus funds may be available to be programmed to meet the unprogrammed regional costs and relieve the local funding sources. Any decision regarding the allocation of regional funds to this project will be made by the regional partners as a group.

End of Line Options

At the request of the City of Glendale, Valley Metro conducted an analysis of multiple project lengths within the Glendale portion of the project. A variety of end-of-line options between 43rd and about 61st Avenues was assessed for costs and federal funding competitiveness. Overall, it was concluded that any of these options could be competitive for federal funds under the current FTA CIG program. Table 1 lists the end-of-line options and associated preliminary cost information.

Grand Avenue Crossing

At the May 2016 City Council workshop, a resolution was passed that included direction to evaluate a potential Grand Avenue crossing as part of the project. Valley Metro conducted this analysis and concluded that a variety of options to cross Grand Avenue would be feasible. The additional costs related to the lengthening of the project across Grand Avenue are shown on the attached Table 1 as the 61st Avenue end-of-line option.

Cash Flow Requirements

At the present time, construction of this project is scheduled to be completed in 2026. In order to meet this schedule, certain activities such as utility relocation and right-of-way acquisition will need to begin as early as 2021, perhaps two years before federal funding is received. Accordingly, local and regional funding will be required to cover the capital expenditures incurred for these activities until they can be reimbursed by the Federal Government, which normally is not available until actual construction begins. The cities and region would be reimbursed with federal funds after the execution of a FFGA. In past projects, Valley Metro has issued bonds to cover these costs. These bonds are repaid either through federal reimbursement or cash flow from regional tax receipts under Prop 400. With the relatively short time frame until Prop 400 funding program expires in 2025, it is not fiscally sound to issue bonds that will need to be paid in less than five years. Accordingly, Valley Metro will not issue bonds, but will rely on existing fund balances and local funding to cover these upfront costs. Glendale staff has told us that funding these upfront costs will negatively impact the GO program prior to construction. Ongoing analysis is occurring to identify (1) funding scenarios that are within Glendale's cash flow capabilities; (2) reevaluation of the spending timeline to mitigate risk on the project; and (3) potential short term financing options to manage cash flow.

Given the estimated timeframe for receiving a FFGA in 2022 or 2023, Glendale has several options to consider:

- Opt to fund expenses incurred prior to the FFGA through the GO program or other sources such as the issuance of Transportation Project Advancement Notes (TPAN), bond proceeds, or other financing mechanisms.
- Delay utility, right-of-way acquisition, and construction activities until after the FFGA execution. This would reduce the need for upfront costs but may delay the scheduled completion beyond 2026, and could impact the construction duration and overall cost of the project.

Valley Metro will work collaboratively with Glendale staff to further analyze and develop the funding options to meet the needs of the community.

O&M Costs

Operating costs have been estimated for each of the end-of-line scenarios in Table 1. As shown on Table 1, the estimated operating costs vary depending on length. These estimates are net costs, and assume a farebox recovery rate of 25%. The current farebox recovery rate for the entire system is about 40%; 25% is considered to be a conservative estimate and is consistent with assumptions for other light rail extensions under development within the region.

Table 1: Evaluation of EOL Options - Preliminary Results in YOE$M

EOL Location	Estimated Total Capital Cost	Estimated Phoenix Share of Capital Costs *(Portion of unprogrammed regional[2] included in total)* [3]	Estimated Glendale Share of Capital Costs *(Portion of unprogrammed regional[2] included in total)*	Programmed Regional Share	Estimated Federal Share	Estimated Net Operating Costs (Glendale only)	Suitable for Storage Tracks	Serves Activity Centers	Bus System Connectivity	Comments
43rd Ave/Glendale	$660M	$149.6M (*3.6M*)	$32.4M (*2.4M*)	$72.6M	$405M	$1.6M (1 mile)	●	○	●	- Presents a variety of future extension options(to north or west)
47th Ave/Glendale	$720M	$158.6M (*9.6M*)	$53.4M (*6.4M*)	$72.6M	$435M	$2.5M (1.5 miles)	●	○	◐	- Redevelopment opportunity at city-owned site
51st Ave/Glendale	$820M*	$173.6M (18.6M)	$88.4M (12.4M)	$72.6M	$485M	$3.3M (2 miles)	●	○	●	- Supports beet sugar factory redevelopment
55th Ave/Glenn	$865M	$177.9M (23.4M)	$106.6M (15.6M)	$72.6M	$508M	$4.1M (2.5 miles)	◐	◐	●	- Walk access to the heart of downtown Glendale
58th Ave/Glenn	$890M*	$182.6M (24.6M)	$114.4M (16.4M)	$72.6M	$520M	$4.9M (3 miles)	◐	●	●	- Heart of downtown Glendale - Serves civic center and public facilities - Could utilize existing parking garage for PnR
61st Ave/Glenn	$1,000M*[1]	$195.4M (35.4M)	$156.6M (23.6M)	$72.6M	$575M	$5.7M (3.5 miles)	●	◐	●	- Crosses Grand Ave (longest project) - Serves Glendale High School

● Good ◐ Fair ○ Poor

A large portion (in excess of 30%) of the current preliminary capital cost estimate is contingencies (allocated and unallocated) and allowances. This is typical for this phase of the project. Uncertainties would be reduced as project definition is advanced through design. **These costs are developed for the purposes of project planning only. The estimates of the regional share may be updated as part of the annual TLCP update process.**

*Capital cost estimates with an asterisk are from built-up cost estimates based on conceptual designs and therefore of higher confidence. The other estimates are derived from these built-up costs.

[1] There is a range of options for crossing Grand Avenue that would vary in cost. While some analysis has been completed of this crossing, no determination of a preferred option has occurred.

[2] Unprogrammed Regional Share is determined based on the estimated costs in excess of the $72.6M currently budgeted in the TLCP and certain assumptions about utilities. The unprogrammed regional share is assigned to the cities in proportion with the overall costs for the project within each city. Utility cost information would be better known as further design and utility investigations are completed.

[3] Although the Phoenix portion of the project does not vary in length, the share of capital cost does. This reflects the variable federal funds applied to the project. Although the federal New Starts contribution is based on 50% of the capital, the CMAQ funds programmed for the project are a fixed amount. As the project length changes, CMAQ is spread over more or fewer miles.