



**BOARD OF DIRECTORS
MARCH 27, 2009**

**AGENDA ITEM NO. 09-03-10
ACTION REQUESTED - APPROVE**

**ANNUAL *TransNet* BUDGET AND
PLAN OF FINANCE UPDATE**

File Number 1200100

Introduction

The *TransNet* Plan of Finance (POF) is updated as necessary, but at least on an annual basis as part of the overall SANDAG budgeting process. The update summarized in this item was presented to the Independent Taxpayer Oversight Committee (ITOC) and Transportation Committee at their meetings in February and March 2009. The presentations focused on the major changes in the last year and emphasized the substantial changes in recent costs and revenues and their effects on the long-term financial projections for the program. The presentations also detailed the specific budget adjustments made in the current *TransNet* Early Action Program (EAP). The conclusion was that the recent downturn in sales tax revenues appears to be offset largely by a corresponding decrease in construction costs.

Recommendation

The Board of Directors is asked to approve the budget adjustments and the resulting *TransNet* Budget and Plan of Finance Update included in this report and its attachments.

The EAP was established to "jump-start" the implementation of several key projects prior to the beginning of the *TransNet* Extension Ordinance in 2008, with the objective of completing those projects within the first five to seven years of the new program. This visionary action has resulted in much progress on several EAP projects during the last three years and the issuance of the long-term bonds last year has allowed for this momentum to continue. The POF Update presented in this report reveals that the cost and revenue modifications made to the program approved last year results in a very similar outcome, and that staying the course on the current EAP program is still an appropriate strategy.

Discussion

Important Developments for the TransNet Program in the Past Year

State Bond Funding. SANDAG continued its efforts to secure additional funds from the \$19.9 billion Proposition 1B (Prop. 1B) state infrastructure bond measure. Staff has secured additional funds beyond the original \$432 million secured from the Prop. 1B Corridor Mobility Improvement Account (CMIA) program in 2007, to a total of \$825.8 million. However, recent budgetary difficulties have resulted in the inability of the State of California to issue bonds to support the Prop. 1B programs. Recent action by the SANDAG Board of Directors has implemented a plan that will manage funds within the EAP corridor projects to allow time for the state bonding process to resume. The updated POF presented here assumes that the bond funds will be restored in time to avoid consideration of applying additional *TransNet* funds that currently are not programmed. Should it become clear in the future that Prop. 1B bond funding will not be restored in time to avoid a substantial cash flow interruption, the POF would need to be updated to reflect the potential funding delays at that time.

Construction Cost De-escalation. After a recent period of unprecedented high rates of growth in construction costs from 2004 to 2007, SANDAG has seen an equally unprecedented decline in construction costs over the last year (Attachment 1). This has led to significantly reduced bid prices on several key EAP project construction contracts that have been let over this time period. In addition to adjustments to the current EAP projects, there has been a substantial revision (lowering) to the cost escalation assumptions for this POF update.

Changes to Sales Tax Revenue Projection. Unfortunately, the nation and the San Diego region continue to experience a downward trend in taxable retail sales and sales tax revenues from which *TransNet* sources of revenue are derived. FY 2008 *TransNet* receipts were 1.4 percent lower than FY 2007; using national level information from *Global Insights* as a guideline, staff's initial estimate was for FY 2008 to decline by 2.9 percent. Receipts for *TransNet* for the first quarter of the current fiscal year were nearly 4 percent less than the same period in the previous year. Using the *Global Insights* national level data as well as local data showing how the economy has been impacted by past severe recessions, staff expects the current economic slowdown to reduce sales tax receipts by 4 percent for FY 2009. The rate at which the national economy is declining is expected to slow during the last quarter of FY 2009 and begin to grow slowly during the first quarter of FY 2010; locally, the economy is expected to follow a similar trend, although San Diego will likely rise out of the recession ahead of the nation as a whole. From peak to trough on an annual basis, local sales tax receipts are expected to decline 5.4 percent. The national and local economies are not expected to fully recover from the downturn until calendar year 2011, while the transition to more normal rates of revenue growth may take three years (2013). Staff is expecting sales tax revenue to follow a similar path; staff is projecting growth of 2 percent in FY 2010, the first positive growth after two years of decline and off a much lower FY 2009 base year. These rates of growth have been reflected in the POF model for this update.

Cost and Revenue Projections

Costs

The SANDAG *TransNet* Program Office continues to work with the Corridor Directors and project teams to refine the costs and schedules for the EAP projects. The costs are updated to current year dollars and then escalated to the year of construction based on the revised construction escalation rates. These rates are adjusted every year based on industry trends. The rapid decline in construction costs this past year discussed previously, have resulted in lower costs for several EAP projects and a substantial revision to the assumed cost escalation for the program going forward as shown in the following table.

ASSUMED COST ESCALATION									
January 2008 POF Update	12.00%	8.00%	3.60%	3.60%	3.60%	3.60%	3.60%	3.60%	3.00%
Current POF Update	-	-3.00%	0.00%	2.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Revenues

The amount of state and federal funds assumed for the EAP are based on committed funds to date. In addition, the revenue forecast is based on a series of assumptions that can be summarized as follows:

For fiscal years covering the current Regional Transportation Improvement Program period (FY 2009 to FY 2013), federal and state funds are based on committed or authorized amounts. For future years, SANDAG estimated federal, state, and local transportation funds based on historic experience, including an assumption of a federal participation rate of 50 percent for New Starts and Small Starts for the major transit projects. SANDAG also substantially revised its assumptions to forecast *TransNet* sales tax receipts as discussed above and summarized in the following table.

Revenue Growth Rate	2008	2009	2010	2011	2012	2013	2014	2015	2016-2048
January 2008 POF Update	3.81%	7.17%	7.19%	7.21%	7.04%	6.87%	6.43%	6.30%	6.37%-4.54%
Current POF Update	-	-4.00%	2.00%	3.50%	3.50%	5.40%	5.35%	6.30%	6.37%-4.54%

It is anticipated that during the 40-year life of the *TransNet* program, there will be periods of high and low economic cycles, and that the program as presented in this updated POF has a reasonable expectation of fulfilling the Ordinance.

Capital Improvement Program Changes for FY 2010

The FY 2010 Capital Improvement Program (CIP) Budget for the *TransNet* Major Corridors Program includes a number of changes and adjustments when compared to the FY 2009 budget. During the last year, a total of eight new projects have been added. This is due to the newly created Prop. 1B Trade Corridors Improvement Fund (TCIF) program. On April 25, 2008, the Board accepted the Prop. 1B TCIF funding and created the Goods Movement Program.

Project development activities continued at an accelerated pace. As a result, the strategy for delivering planned transportation infrastructure has improved. A number of project splits are proposed with this year's budget update. This will improve the *TransNet* Project Office's ability to track and monitor program and project progress.

The recommended budget for this year's *TransNet* Major Corridors program totals \$5.567 billion. This represents a \$39 million (0.7%) increase from last year's FY 2009 budget of \$5.528 billion. This \$39 million increase is offset by a \$10 million contribution of state funding from the Traffic Congestion Relief Program towards the State Route (SR) 94 environmental document necessary for the completion of the South Bay Bus Rapid Transit (BRT) project and a \$30 million fair-share mitigation contribution towards the SR 76 East project.

A table summarizing the proposed budget changes can be found in Attachment 2, and a more detailed description of the proposed budget changes can be found in Attachment 3.

Cash Flow Assumptions

The cash flow assumption used in the model runs for this year's POF update is shown in Attachment 4. Cash flow through 2016 is defined by totaling the annual expenditure plans for each project. The cash flow assumption for the remaining period between 2016 and 2048 is developed as follows. The remaining project costs are totaled using the most recent cost estimate and assumptions. Cost estimates for many of the remaining projects are not available as there is no current work effort towards these projects. If cost estimates are not available, the budgets defined in the *TransNet* Extension Ordinance are escalated and used. Once the costs of the remaining projects are developed, costs are distributed across the remaining period, from 2016 to 2048. The remaining period is split into three timeframes and the cost of the remaining projects is distributed accordingly. The first period is allocated 25 percent of the remaining cost, the second period is

allocated 35 percent, and the third period is allocated 40 percent. An unequal distribution is assumed in order to balance the heavy demand on cash during the early years of the program as shown in Attachment 4.

Economic Stimulus Update

Details of the federal economic stimulus program (American Recovery and Reinvestment Act [ARRA] of 2009) are being developed. Further information is described in Agenda Item No. 11 of the March 27 Board agenda.

Once more is known regarding the actual amount of funding that will be allocated to *TransNet* EAP projects, staff will present options for amending mission critical projects into the FY 2010 budget. As was reported last month, this annual POF update does not include any assumptions regarding these funds. The POF update also assumes that Prop. 1B bond funds will be provided as currently programmed for the EAP projects.

Analysis of POF Update Results

The POF update presented in this report confirms that the action taken last year to keep all of the EAP projects on their current schedules can be maintained with very similar results. While the substantial downturn in sales tax receipts is cause of concern, the simultaneous decrease in construction costs over the past year has resulted in a counter-balancing development that generally reaffirms the conclusions of the POF update in 2008. The comparisons of the projected cash balance and assumptions for the January 2008 and February 2009 POF model runs are included in this report as Attachments 5 through 7. Continuing to move forward with the EAP and overall *TransNet* program will allow the momentum gained in these past three years to continue. By delivering a combination of finished construction projects, such as the Interstate 15 Managed Lanes Middle Segment and achieving critical development milestones on other projects, the region will be providing for the mobility needs of its citizens while continuing to successfully compete for the additional funds the program will need in the future.

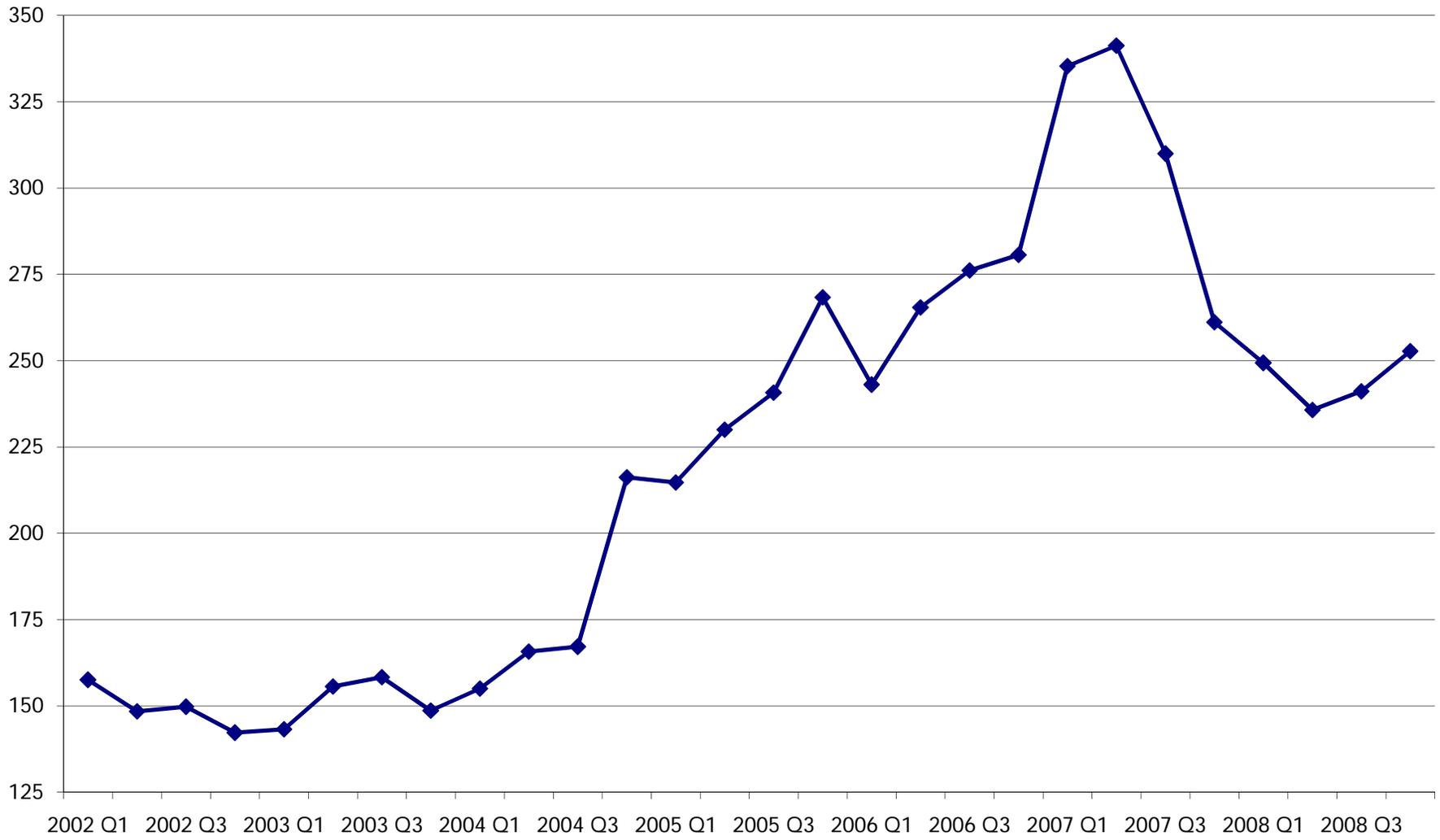
GARY L. GALLEGOS
Executive Director

- Attachments:
1. Caltrans Construction Cost Index
 2. Summary of Budget Adjustments
 3. Description of Proposed Budget Changes
 4. FY 2010 Plan of Finance: Cash Flow Assumption
 5. Projected Cash Balance for Current February 2009 *TransNet* POF Update
 6. Projected Cash Balance for Approved January 2008 *TransNet* POF Update
 7. Major Corridor POF Update Comparison (January 2008 vs. February 2009)

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Funds are budgeted in Work Element #1110200

Caltrans Construction Costs (12-Month Index)



Summary of Budget Adjustments

Proposed Changes between FY 2009 and FY 2010 CIP Budget for the *TransNet* Major Corridors Program
(\$thousands escalated to year of expenditure)

CIP #	Project Name	FY 2009 as Amended	FY 2010	FY2009/2010	Notes
1041501	Mid-Coast Transit	\$1,246,292	\$1,246,292	\$0	No change.
1041502	Super Loop	\$39,187	\$39,187	\$0	No change.
1200101	Project Office	\$21,586	\$23,855	\$2,269	Budget increase to handle increase to program size, see description.
1200102	Mid-Range Transit Plan	\$0	\$1,000	\$1,000	New project, see description.
1200200	Biological Mitigation	\$440,000	\$428,000	-\$12,000	Budget transfer to 1207602 per Board action on October 24, 2008; see description.
1200300	Habitat Conservation	\$48,062	\$48,062	\$0	No change.
1200501	Interstate 5 (I-5) North Coast (Environmental Document Only)	\$50,677	\$50,677	\$0	No change.
1200502	I-5 High Occupancy Vehicle (HOV) and Lomas	\$75,366	\$75,366	\$0	No change.
1201501	I-15 South Express Lanes	\$481,324	\$411,997	-\$69,327	Project split and budget transfer to 1201506, see description.
1201502	I-15 Middle Express Lanes	\$430,230	\$471,115	\$40,885	Budget increase to handle potential construction claims settlement, see description below.
1201503	I-15 North Express Lanes	\$248,685	\$218,427	-\$30,258	Budget decrease due to favorable construction bids, see description.
1201504	I-15 FasTrak®	\$23,872	\$23,872	\$0	No change.
1201505	I-15 Bus Rapid Transit (BRT) Stations: Rancho Bernardo, Sabre Springs, Del Lago	\$56,400	\$46,170	-\$10,230	Project split and budget transfer to 1201506, see description.
1201506	I-15 Mira Mesa Direct Access Ramp (DAR) and BRT Station	\$0	\$79,557	\$79,557	Project split and budget transfer from 1201501 and 1201505, see description.
1201507	I-15 Mid-City BRT Stations	\$31,922	\$21,631	-\$10,291	Project split and budget transferred to 1201509; see description.
1201508	I-15 BRT Vehicles and Planning	\$33,160	\$38,712	\$5,552	Budget increase due to increase in vehicle purchase price.
1201509	Downtown Stations	\$0	\$10,291	\$10,291	Project split and budget transfer from 1201507; see description.
1205202	SR 52 Widening: I-15 to Mast	\$62,369	\$44,245	-\$18,124	Budget decreased due to favorable construction bids.
1205203	SR 52 Extension	\$599,500	\$548,905	-\$50,595	Budget decrease due to favorable construction bids.
1207602	SR 76 Middle	\$244,228	\$244,228	\$0	No change.

CIP #	Project Name	FY 2009 as Amended	FY 2010	FY2009/2010	Notes
1207606	SR 76 East	\$167,750	\$225,544	\$57,794	Budget increase to match current cost estimate, fair-share contribution required; see description.
1210001	Blue Line Upgrades	\$110,500	\$114,695	\$4,195	Budget increase to match current cost estimate; see description.
1210002	Blue Line Vehicles	\$228,397	\$240,168	\$11,771	Budget increase to match current cost estimate; see description.
1220001	Orange Line Upgrades	\$53,923	\$57,756	\$3,833	Budget increase to match current cost estimate; see description.
1220002	Orange Line Vehicles	\$39,359	\$41,575	\$2,216	Budget increase to match current cost estimate; see description.
1239801	Sorrento to Miramar Double-Track	\$23,700	\$23,700	\$0	No change.
1240001	Mid-City Rapid	\$44,526	\$44,526	\$0	No change.
1280501	I-805 South (Environmental Document Only)	\$22,466	\$31,516	\$9,050	Budget increase due to cost increase; see description.
1280503	I-805 North (Environmental Document Only)	\$7,802	\$9,424	\$1,622	Budget increase due to cost increase; see description.
1280504	South Bay BRT	\$132,127	\$109,627	-\$22,500	Project split and budget transfer to 1280507 and 1280508; see description.
1280505	I-805 HOV/Carroll Canyon DAR	\$102,000	\$102,000	\$0	No change.
1280506	I-805 Auxiliary Lane at E Street	\$19,445	\$19,445	\$0	No change.
1280507	Otay to Sorrento: I-805 Bus-on-Shoulders	\$0	\$22,500	\$22,500	Project split and budget transfer from 1280504; see description.
1280508	SR 94: I-805 to Downtown (Environmental Document Only)	\$0	\$10,046	\$10,046	Project split and budget transfer from 1280504; see description.
1300601	San Ysidro Intermodal Yard	\$40,460	\$40,460	\$0	No change.
1300602	South Line Freight Capacity (San Ysidro Intermodal Mainline)	\$107,030	\$107,030	\$0	No change.
1300701	Port Access: 10th Avenue Terminal	\$67,200	\$67,200	\$0	No change.
1300702	Port Access: 32nd Street	\$118,460	\$118,460	\$0	No change.
1300703	Port Access: Civic Center Drive	\$3,260	\$3,260	\$0	No change.
1300704	Port Access: Bay Marina	\$2,380	\$2,380	\$0	No change.
1390501	SR 905: I-805 to Britannia	\$104,700	\$104,700	\$0	No change.
TOTAL		\$5,528,345	\$5,567,601	\$39,256	

Description of Proposed Budget Changes

Project Office (1200101)

It is proposed to increase the budget from \$21.6 million to \$23.9 million to handle the increased size of program. Over the course of the last year, a total of eight new projects have been added to the *TransNet* Major Corridors program. Program management activities continue to cost less than 1 percent of total program cost. The proposed *TransNet* Project Office budget represents four-tenths of one percent (0.4%) of the total *TransNet* Major Corridor program budget of \$5.5 billion. Project Office activities include the development and maintenance of the *TransNet* Dashboard (www.KeepSanDiegoMoving.com) used to report project progress and issues, project scheduling support, cost estimation support, risk assessment support, and consultant contract management.

Mid-Range Transit Plan (1200102)

The Mid-Range Transit Plan is a proposed new project that will bridge the gap between the long-term plan and near-term design issues. The long-range Regional Transportation Plan (RTP) provides a general framework for transit project implementation in the region. Individual projects focus on specific design issues necessary for project delivery. Currently, there is no established budget to focus on mid-range planning needs. A focus on mid-range planning needs will improve project interconnectivity and improve the uniformity of the project development process. Topics of study include: transit signal priority measures, station operation and maintenance, fleet procurement, interagency agreements, design guidelines and standards, service interoperation, parking requirements, and fleet maintenance. A total of \$1 million is proposed for this budget.

Biological Mitigation (1200200)

A total of \$12 million was transferred per Board of Directors action on October 24, 2008, from Biological Mitigation (1200200) to State Route (SR) 76 Middle (1207602). This was done in order to fund biological mitigation features that will be constructed as part of SR 76 Middle. These features include animal fencing and undercrossings to prevent and minimize road kill and habitat creation within the project limits.

Interstate 15 South Express Lanes/Bus Rapid Transit Stations/Mira Mesa Direct Access Ramp (1201501/1201505/1201506)

To improve project tracking and monitoring, it is proposed to split the Interstate 15 (I-15) South Express Lanes and Bus Rapid Transit (BRT) Stations projects and create a separate budget for the Mira Mesa Direct Access Ramp (DAR) and Transit Station. The I-15 BRT Stations at Rancho Bernardo (RB), Sabre Springs (SS), and Del Lago (DL) are scheduled to be open for service in 2009. The I-15 South Express Lanes are scheduled to be open to traffic in 2012. The Mira Mesa DAR and Mira Mesa BRT Station are not scheduled to be open to traffic until 2014. A total of \$79.6 million is proposed to be transferred from the I-15 South and BRT Stations budgets to the newly created budget for the I-15 Mira Mesa DAR and BRT Station (1201506).

I-15 Middle Express Lanes (1201502)

A \$40.9 million budget increase is proposed for I-15 Middle Express Lanes project to provide a contingency fund to handle potential construction claims settlement. As reported to the Independent Taxpayer Oversight Committee (ITOC) on April 9, 2008, Transportation Committee on

April 18, 2008, and Board on April 25, 2008, the I-15 Middle project contingency budget will be depleted leaving no reserve for handling construction related claims. It is recommended that the I-15 Middle contingency budget be increased by \$40.9 million to handle potential construction claims settlement. The actual value of the construction claims will not be known for many months as the settlement process can be lengthy. Although not expected, settlements above the contingency budget would require a future budget increase. Savings would be made available for other program needs through Board action. Construction claim contingencies are established for all other program projects.

I-15 North Express Lanes (1201503)

A decline in construction bid prices due to the economy resulted in bargain prices for I-15 North Express Lanes construction. One example includes a project to construct a portion of the I-15 North Express Lanes between Highland Road and Ninth Avenue. The engineer's estimate was \$53.2 million. The low bid submitted by FCI Constructors, Inc., in October 2008 was \$46.6 million. The I-15 North budget is proposed to be reduced by a total of \$30.3 million.

I-15 Mid-City BRT Stations/Downtown Stations (1201507/1201509)

In the FY 2009 budget, these two projects were combined. It is proposed to split this project into two distinct projects with the FY 2010 budget. The original concept for constructing the I-15 Mid-City BRT Station in the median of I-15 was determined to have safety and operation deficiencies by Caltrans. Since then, Caltrans, SANDAG, and the Metropolitan Transit System (MTS) have worked with the community to develop station options. These options were presented to the ITOC on November 12, 2008, Transportation Committee on November 7, 2008, and Board on November 21, 2008. These options will be developed, analyzed, and presented for public comment in the Draft Environmental Document in 2010. Depending on the alternative selected, significant additional funding would be required. This funding source has not been identified. The Downtown Stations are a necessary component of the I-15 BRT, South Bay BRT, and Mid-City Rapid Transit services. Because of the distinct and differing scopes of these projects, it is recommended that an individual budget be established for each. The proposed split, \$21.6 million for I-15 Mid-City BRT Station and \$10.3 million for Downtown Stations, is based on the original cost estimate for each.

SR 76 East (1207606)

At its October 24, 2008, meeting, the Board approved a budget adjustment to the SR 76 corridor projects. Funds were transferred from the SR 76 East and Biological Mitigation projects in order to fully fund the SR 76 Middle project. This action left a \$57.8 million shortfall on the SR 76 East project. It is recommended that the SR 76 East project budget be increased by \$57.8 million to \$225.5 million to cover this shortfall. Funding SR 76 East at \$225.5 million assumes a \$30 million fair-share contribution by development along the corridor for improvements to the SR 76/I-15 Interchanges.

Blue/Orange Line Upgrades and Vehicles (1210001/1210002/1220001/1220002)

The FY 2009 budget was established for these projects without the completion of any preliminary engineering. This series of projects will upgrade stations along the Blue and Orange Line for the accommodation of new low-floor vehicles. Now that some preliminary engineering has been completed, the scope and breadth of the necessary improvements are better understood. The proposed FY 2010 budget better reflects the true nature of the proposed work.

I-805 South Express Lanes—Environmental Document Only (1280501)

A \$9 million increase to the budget is proposed. The breadth and scope of the environmental document for the I-805 South Express Lanes is more extensive and costlier than originally anticipated. The total cost estimate for the environmental document for this project is estimated at \$31.5 million. Cost estimates for the express lanes still are being developed but costs range between \$1 billion and \$2 billion. Assuming the cost of the express lanes at \$1 billion, the cost of the environmental document stands at 3 percent of the total project cost. This is within the range of the cost of environmental documents for similar projects (i.e., I-5 North Coast).

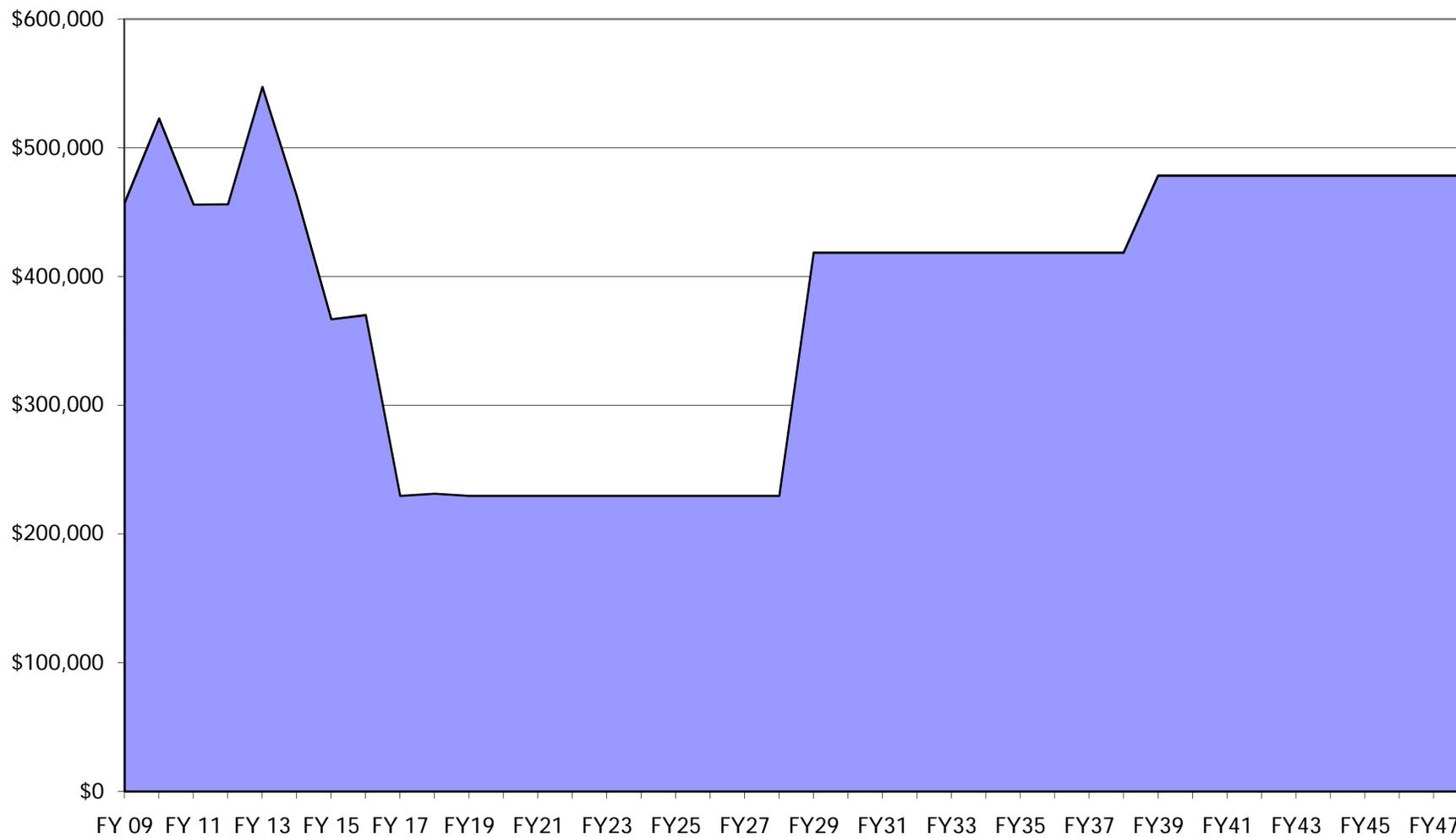
I-805 North Express Lanes —Environmental Document Only (1280503)

A \$1.6 million increase to the budget is proposed. The total cost for this environmental document is estimated at \$9.4 million. A number of complex scope changes including the development of a new interchange at Carroll Canyon Road have led to increased cost. This budget increase is recommended so the environmental document can be completed for this I-805 Express Lanes project.

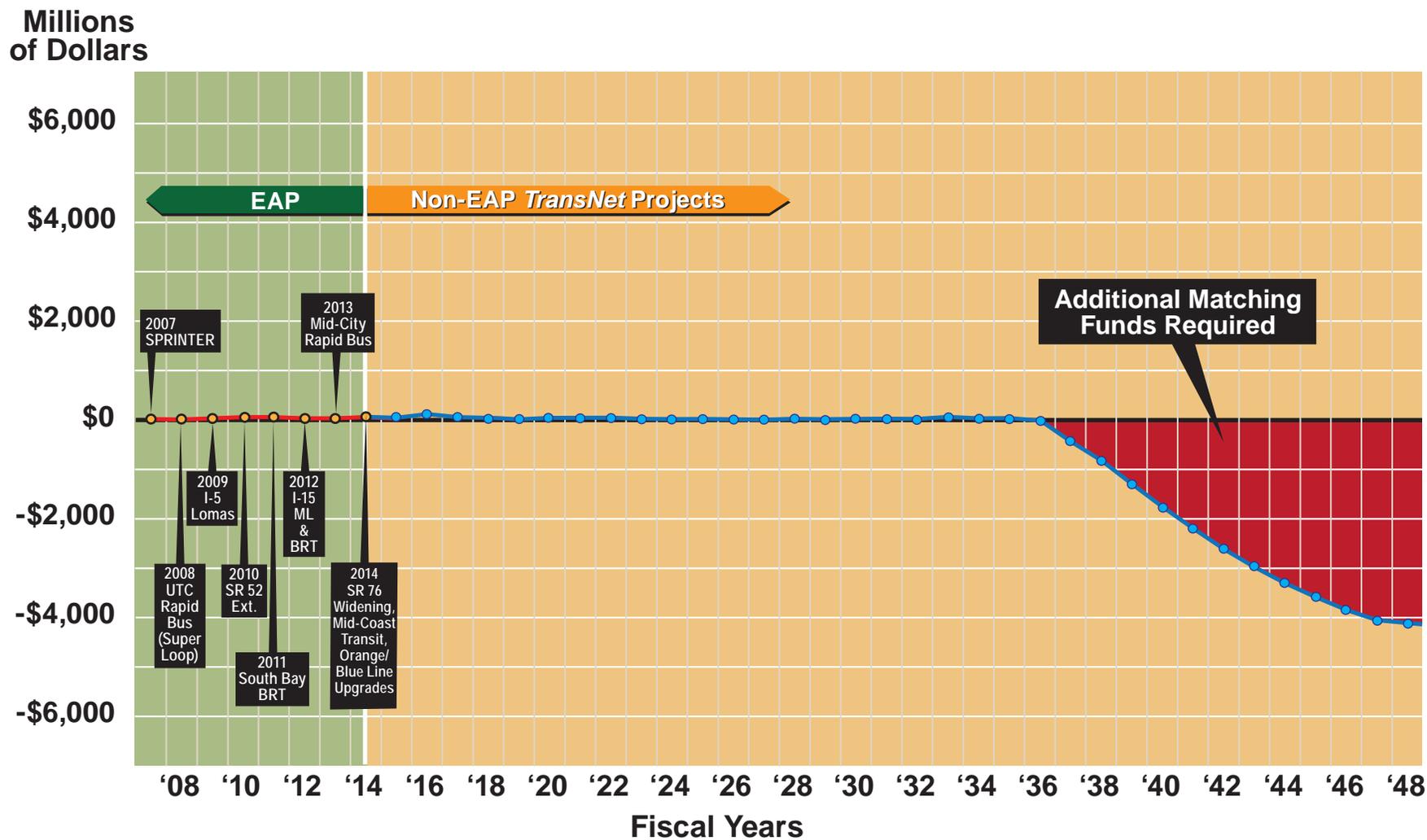
South Bay BRT/Otay to Sorrento Bus-on-Shoulders/SR 94 (1280504/1280507/1280508)

In the FY 2009 budget, these three projects were combined. It is proposed to split these projects into three distinct projects with the FY 2010 budget. This will improve tracking and monitoring activities as these three projects have different scopes and schedules. The net change to the project budget is an overall increase of \$10 million. This is offset by a Caltrans contribution of Traffic Congestion Relief Program funds totaling \$10 million.

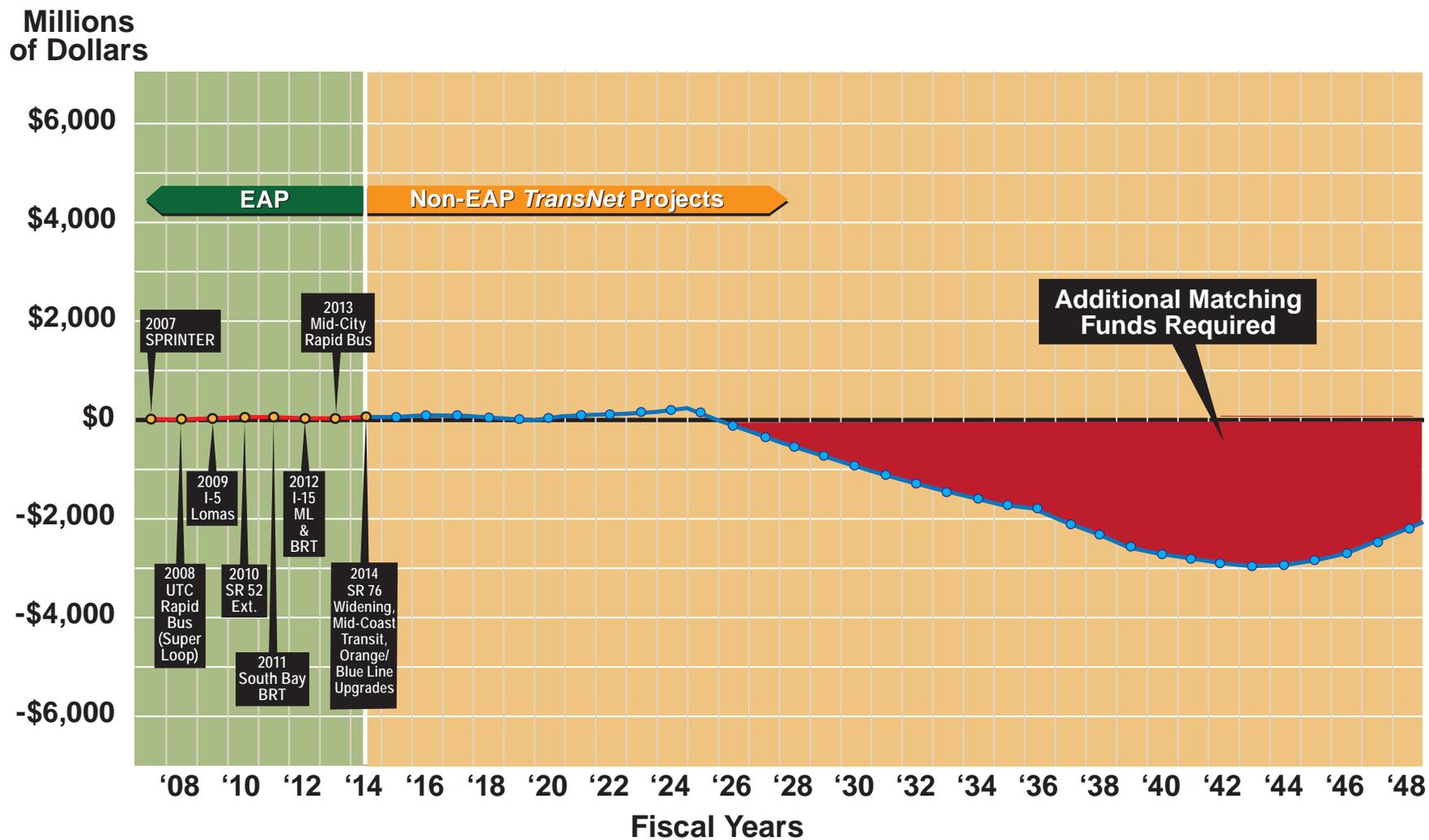
FY 2010 Plan of Finance: Cash Flow Assumption (\$thousands)



Current (February 2009) Plan of Finance: Hold EAP Schedules End Balance



Approved (January 2008) Plan of Finance: Hold EAP Schedules End Balance



Major Corridor Plan of Finance Update Comparison				
POF Update Year	EAP Completion (FY)	Negative Cash Flow (FY)	Additional Revenues Needed (escalated \$)	Present Value of Additional Revenues
Jan 2008 Approved	2014	2026	\$2.8 billion	\$1.2 billion (2006\$)
Feb 2009 Update	2016	2036	\$4.1 billion	\$1.3 billion (2008\$)