



**November 6, 2017**

**To:** Executive Committee  
**From:** Darrell Johnson, Chief Executive Officer  
**Subject:** Measure M2 Updated Next 10 Delivery Plan

A handwritten signature in blue ink, appearing to read "Darrell Johnson", is written over the "From:" line of the email header.

**Overview**

The Measure M2 Next 10 Delivery Plan was approved on November 14, 2016, incorporating the 2016 revenue forecast with a plan for continued acceleration of the delivery of Measure M2 freeway, streets and roads, transit, and environmental projects through the year 2026. In response to the lower 2017 revenue forecast, staff reviewed the Next 10 Delivery Plan and updated the revenue, bonding assumptions, project costs and schedules, and identified adjustments needed to ensure continued delivery of the Measure M2 projects and programs as outlined. The status of this effort is presented to the Board of Directors.

**Recommendations**

- A. Adopt the Measure M2 updated Next 10 Delivery Plan with revised financial assumptions.
- B. Direct staff to identify cost-effective alternatives that meet the intent of the Measure M2 scope as projects advance through project development for Board of Directors consideration.

**Background**

Expedited delivery of Measure M2 (M2) began in 2007 and has continued to date in an effort to bring transportation improvements to the public as early as possible. The 2008 Great Recession, as well as continued changes in the amount of actual sales tax revenues collected, have resulted in a reduction of the M2 sales tax revenue forecast. In response, the Orange County Transportation Authority (OCTA) Board of Directors (Board) proactively revised the forecasting methodology and adjusted delivery plans to ensure the M2 Plan of projects and programs are implemented as promised to the voters.

The initial strategy to overcome the drop in M2 revenues for the freeway program included reliance on external revenues rather than a self-sustaining approach, as originally designed. This strategy, combined with availability of one-time state and federal grants, and effective use of bonding, allowed OCTA to capitalize on competitive construction market forces to continue expedited delivery of all M2 Program elements.

On November 14, 2016, with the adoption of the Next 10 Delivery Plan (Next 10 Plan), the Board directed staff to bring in local revenues through the allocation of net excess 91 Express Lanes revenue, in an amount not to exceed the project costs for eligible projects. The two eligible projects are on State Route 91: Project I, between State Route 55 (SR-55) and State Route 57, and Project J, between SR-55 and the Riverside County line. Project I was designated as a priority project for advancement into the next phase with the adoption of the Next 10 Plan.

### ***Discussion***

On September 11, 2017, the Board received a presentation on the 2017 sales tax revenue forecast of \$13.5 billion. The 2017 forecast is \$700 million lower than the 2016 forecast of \$14.2 billion. Staff incorporated the new revenue forecast as well as information available to date on project cost and schedules, into the M2 cash flow for each of the M2 Program elements. While a reduction in revenues affects the M2 Program as a whole, in most areas within the M2 Plan, programs can be scaled based on available revenues. The area where this is not possible is in the freeway program, due to set scopes for project delivery. The net forecasted freeway program revenues in the 2016 revenue forecast was \$5.67 billion. The updated 2017 revenue forecast is \$5.40 billion. This results in a net freeway program loss in forecasted revenues of \$272 million.

### **Next 10 Cash Flow Update**

The Next 10 cash flow incorporates the revised revenue forecast of \$13.5 billion, as well as the confirmed contribution from the Transportation Infrastructure Finance and Innovation Act (TIFIA), in the amount of \$153.9 million, which is the M2 share of the \$629 million TIFIA loan. This amount is a direct benefit to the M2 portion of the Interstate 405 Improvement Project, as the loan will be repaid with toll revenues and not with M2. Project cost estimates and assumptions for future competitive and formula programs were also updated and incorporated.

The cash flow also assumes the availability of a viable amount of discretionary federal and/or state funds from 2017 to 2041, and makes specific assumptions about near term grants such as New Starts and Cap-and-Trade. Additionally, per the Board's direction, the cash flow also includes net excess 91 Express Lanes revenue within the freeway program for projects on the 91 corridor (as defined by the 91 Express Lanes governing legislation), in an amount not to exceed the total cost of Project I and Project J.

While the adopted Next 10 cash flow assumed \$463 million, which was less than the total of the two projects and only the amount needed at the time, with the additional revenue reduction in the freeway program, the revised cash flow now assumes the full cost of the two projects, which is estimated at \$748 million. These changes, along with revised bonding assumptions, result in a delivery plan that remains tight but is solvent. Attachment A shows the Next 10 Plan updated M2 Program cash balance by year, between now and 2041. The chart reflects a positive ending balance in all years and indicates that the full program (through 2041) is deliverable. A balanced plan not only allows OCTA to secure favorable bond ratings when financing but also allows OCTA to weather reasonable changes to cost or revenues. With a solvent cash flow, the Next 10 Plan deliverables have been adjusted based on updated project information and available revenue, and are included as Attachment B. The complete updated Next 10 Plan is included as Attachment C.

#### Future Outlook

On September 11, 2017, the Board was presented with a Next 10 Market Conditions Forecast and Risk Analysis Report conducted by Dr. Wallace Walrod and Dr. Marlon Boarnet, who are both respected local economists. As presented, the consultant's analysis identifies a strong potential for OCTA to experience an increasing cost environment during the Next 10 Plan delivery years. This will likely be one of the major challenges affecting the delivery of M2 and the Next 10 Plan.

The consultant's recommendations include a consistent message that OCTA should continue to accelerate projects to the fullest extent possible. Additionally, it was recommended that OCTA keep a close watch on identified economic triggers to respond to changes as needed. With acceleration already built into

the Next 10 Plan, the risk of an increasing cost environment puts additional pressure on OCTA to identify and capture external funds to augment the plan where possible.

The Board directed staff to develop a plan to monitor and track key early warning indicators and provide OCTA information on changes to the risk factors. Staff is working with the consultant to determine the indicators to track. These may include building permits, construction employment and wages, the number of project bidders and trends in bid amounts, construction commodity costs, executive opinion, and consumer sentiment. A summary of the monitoring effort will be presented to the Board at a minimum annually and, if noteworthy, more frequent updates will be provided through the M2 quarterly progress reports.

#### Actions to Protect M2 Delivery

In order to mitigate cost pressures, OCTA's Project Controls Department monitors and adjusts project cost escalation assumptions according to market trends. Project Controls makes use of schedule control, cost control, progress reporting, and change management to effectively monitor and control project escalation and execution. Imbedded in the Next 10 Plan are cost assumptions based on trends in the California Department of Transportations' (Caltrans) Construction Cost Index. Higher cost assumptions are included on some elements of projects based on assessed potential risk.

In the event of continued lower sales tax revenue projections or increasing costs, staff is taking the following steps to protect delivery of M2 projects moving forward.

- Analyze freeway commitments listed in the M2 Plan, and work with Caltrans and District 12 staff to identify cost-effective alternatives that meet the intent of the M2 scope as projects advance through project development,
- Work diligently to seek Caltrans' cooperation and support to contain projects costs by minimizing right-of-way impacts, scope changes (beyond Measure M commitments), and schedule delays,
- Seek Caltrans' support to enter into a joint agency master agreement for greater transparency, accountability, and containment to agreed-upon scope, schedule and budget,
- Aggressively seek external funding (i.e., SB 1 {Chapter 5, Statutes of 2017}, etc.) to augment the Next 10 Plan and mitigate risk,

- Monitor the risks associated with the changing environment using key triggers identified in the Next 10 Market Conditions Forecast and Risk Analysis, and report to the Board annually,
- Incorporate conservative project escalation factors into project cost estimates to ensure accuracy in project cash flows, given the potential for a cost-increasing environment.

***Summary***

In response to the latest revenue forecast, staff reviewed the Next 10 Plan and updated the revenues, bonding assumptions, project costs and schedules into the M2 cash flow. The update identified some adjustments required to ensure continued delivery of the M2 projects and programs as outlined. The updated Next 10 Plan is presented for Board review and approval.

***Attachments***

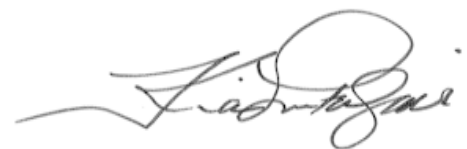
- A. 2017 Updated Next 10 Plan, M2 Program Cash Balance
- B. Next 10, Updated November 2017 Plan Deliverables
- C. Draft Updated, Next 10 Delivery Plan, 2017-2026

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