



December 6, 2021

To: Executive Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Measure M2 2021 Update: Next 10 Delivery Plan

Overview

The Measure M2 Next 10 Delivery Plan aims to strategically deliver Measure M2 freeway, roadway, transit, and environmental projects through fiscal year 2030. A comprehensive review of the M2 Next 10 Delivery Plan was recently conducted to incorporate updates to the Measure M2 sales tax revenue forecast, external funding assumptions, and project cost estimates. As a result of this review, staff has prepared the 2021 update of the Measure M2 Next 10 Delivery Plan, which continues to ensure the realization of Measure M2 commitments, maintain fiscal sustainability, and strive to deliver transportation benefits early. The recommended updates are presented to the Board of Directors for review and approval.

Recommendations

- A. Adopt the 2021 Measure M2 Next 10 Delivery Plan.
- B. Direct staff to continue to monitor revenue and project cost shifts that could affect the delivery plan and return to the Board of Directors with changes if necessary.

Background

On November 7, 2006, Orange County voters, by nearly 70 percent, approved the Renewed Measure M Transportation Investment Plan (Plan) for the Measure M2 (M2) one-half cent sales tax for a period of 30 years. The M2 Plan defines the general scope of the programs and projects that are to be delivered, which includes four primary elements: freeways, streets and roads, transit, and environmental programs. The M2 Plan summary page is included as Attachment A.

The Orange County Transportation Authority (OCTA) is committed to fulfilling the promises made to voters in the M2 Plan. This effort began with expedited delivery plans of M2 projects and programs. The delivery plans validate OCTA's ability to deliver the entire slate of M2 plan elements and outline a near-term work plan to promote effectiveness and efficiency. To date, the Board of Directors (Board) has adopted three delivery plans: Early Action Plan in 2007, M2020 Plan in 2012 (intended to go through 2020 but replaced in 2016 to address changes in M2 revenues), and the Next 10 Delivery Plan (Next 10 Plan) in 2016, which was last updated in 2020. The most recent Next 10 Plan spans fiscal year (FY) 2020-21 to FY 2029-30.

OCTA receives annual updates to the M2 sales tax revenue forecasts. On September 27, 2021, the 2021 M2 sales tax revenue forecast of \$13.2 billion was presented to the Board, which is a 13.8 percent, or a \$1.6 billion dollar increase from what was assumed in the 2020 Next 10 Plan. While the coronavirus (COVID-19) pandemic negatively impacted sales tax revenue through the first half of FY 2020-21, the second half of the FY showed tremendous growth as the Orange County economy began emerging from the pandemic. Though restaurants, gas stations, and brick and mortar retail continued to be impacted in FY 2020-21, the impacts were more than offset by increased online purchases and the benefit of collecting sales tax on out-of-state online purchases. As a result, sales tax collections for FY 2020-21 grew by 8.6 percent to \$345 million, which is the highest annual sales tax collection for M2. Future year annual growth rates are forecasted to average approximately 3.38 percent. While this forecast indicates recovery, the 30-year forecast is still \$200 million less than the pre-pandemic 2019 forecast.

OCTA also monitors construction market conditions key indicators to provide insight on potential construction cost drivers that could affect projects delivered within the Next 10 Plan timeframe. On October 11, 2021, the fall market conditions update was presented to the Board. The report indicated that OCTA may experience a high inflationary cost environment from 2022 through 2024.

Discussion

The Next 10 Plan, as well as prior delivery plans, were developed based on three fundamental principles: fulfill the commitment to voters, ensure fiscal sustainability, and implement projects and programs effectively and expeditiously. First, the annual review of the Next 10 Plan tests and validates whether the complete M2 Program can be delivered consistent with the commitments promised to voters. Second, financial analysis of the latest revenue forecast and project cost information ensures that the rate of expenditures is financially sustainable and that M2 can withstand economic fluctuations over the life of M2 through 2041. Third, the Next 10 Plan aims to implement projects and programs effectively and expeditiously so the public can realize the benefits of M2 as early as possible.

The 2021 update of the Next 10 Plan, included as Attachment B, incorporates the \$13.2 billion 2021 M2 revenue forecast, revised external revenue assumptions, and refined project estimates. Through this effort, OCTA is able to confirm that the M2 Plan remains deliverable, continue progress on near-term projects according to expedited schedules, and prepare additional projects for delivery while optimizing the level of debt financing. Additionally, prudent annual ending balances are maintained along with an economic uncertainties allowance. An M2 cash flow summary chart showing a positive ending balance through 2041 is included as Attachment C. Progress to date on the Next 10 Plan deliverables are included as Attachment D.

Looking to the future, sales tax revenues and market pressures will continue to fluctuate due to unpredictable changes in the economy. OCTA will also need to monitor and manage regulatory risks. However, these uncertainties do not alter the M2 project and program scopes. Some of the strategies that OCTA will continue to employ to uphold voter-commitments include using innovative project delivery methods, managing the scope and cost of remaining freeway projects in conjunction with the California Department of Transportation, working proactively with stakeholders and communities, continuing to closely monitor market conditions, and pursuing external grants to supplement M2 funds.

The following sections provide a brief overview of what is included in the 2021 Next 10 Plan.

Freeway Program

While the majority of M2 programs can be scaled as sales tax collections fluctuate, the M2 Freeway Program cannot, due to defined project scopes. The M2 Freeway Program consists of 13 projects listed in the M2 Plan, which have been subdivided into 30 project segments for delivery purposes.

The 2021 Next 10 Plan will continue the progress on the freeway projects advanced in the 2019 Next 10 Plan. As of June 2021, 13 project segments have been completed, four are in construction, and six are initiating design/readying for construction. The remaining seven project segments are currently in various stages of project development. With this progress, OCTA remains on track to complete 26 of the 30 freeway projects, effectively 86 percent of the M2 Freeway Program by FY 2029-30. This outcome fulfills the goal of delivering project benefits early, despite multiple extraordinary financial events that have affected M2 revenues. The 2021 Next 10 Plan also reviewed the four remaining M2 Freeway Program projects. These projects are planned to be delivered by 2041 and will be reevaluated annually as part of the Next 10 Plan for earlier delivery.

For the 2021 Next 10 Plan, two changes in financial assumptions merit additional attention.

- The 2021 Next 10 Plan reduces the amount of the planned single bond issuance in 2023 from \$575 million in the 2020 Next 10 Plan to \$200 million. This is due to the projected increase in M2 revenues and the refinement of project expense cash flows.
- The 2021 Next 10 Plan allows for economic uncertainty to account for the forecasted high inflationary cost environment in 2022, 2023, and 2024. Additionally, the updated sales tax revenue forecast also increases the long-term allowance for economic uncertainties, which provides additional security to weather economic fluctuations.

Included in the M2 Freeway Program is the Environmental Mitigation Program. OCTA has purchased seven mitigation properties and is addressing the balance of the freeway program mitigation needs through the restoration of 12 publicly owned properties. The 2021 Next 10 Plan accounts for the recurring costs for the management and support of the program, as well as an annual deposit of approximately \$2.9 million to fund a non-wasting endowment. The 2021 Next 10 Plan confirms that OCTA will be able to continue endowment deposits of \$2.9 million annually; the performance of the endowment fund may affect the timeframe for full funding. Current projections indicate that OCTA remains on track to meet the endowment target of \$46.2 million in FY 2027-28, and regular reports on the status of the endowment are provided to the Board as a standalone item.

Streets and Roads Program

The M2 streets and roads elements are programmatic and scale to available revenues. The M2 Streets and Roads Program includes three programs: Regional Capacity Program (RCP {Project O}), Regional Traffic Signal Synchronization Program (RTSSP {Project P}), and the Local Fair Share Program (Project Q). The RCP makes funding available on an annual basis as a resource to local agencies to address roadway bottlenecks and close gaps in the regional roadway network. The RTSSP provides ongoing funding support to ensure a network of 2,000 intersections across the County remain coordinated to minimize stop-and-go traffic. Lastly, the 2021 Next 10 Plan will continue to provide flexible funding to local jurisdictions to improve and maintain streets or other local transportation needs including bike trails, sidewalks, or community transit services. The assumptions for the funding of the three programs remain on a “pay-as-you-go” basis. This will ensure annual call for projects (call) for Project O and Project P, as well as a reliable, flexible funding source for local jurisdictions for transportation improvements through 2041.

Transit Program

The M2 Transit Program includes funding for Metrolink operations, station and infrastructure improvements (Project R), implementation of the OC Streetcar (Project S), expanded mobility for seniors and persons with disabilities (Project U), funding for community-based transit circulators (Project V), and enhanced passenger amenities for Orange County's busiest transit stops (Project W).

In March and November 2020, Metrolink implemented temporary service reductions due to COVID-19 impacts to ridership. When considering additional service changes, staff will review Metrolink ridership and future service level assumptions to be consistent with forecasts with the intention of sustaining M2 funds through 2041. The 2021 Next 10 Plan cash flow assumes that OCTA can restore service to near pre-pandemic levels as early as FY 2022-23. Restoration of some service is anticipated to begin in early 2022. OCTA will continue to actively engage with Metrolink and other member agencies and monitor ridership levels and the corresponding financial impacts to M2.

Another recent impact to Metrolink in Orange County is the railroad track stabilization effort in the City of San Clemente. In September 2021, a failing slope severely degraded the railroad track structure. OCTA owns the railroad right-of-way in the affected area, and through an agreement Metrolink operates and maintains the railroad on behalf of OCTA. Metrolink has performed the majority of the emergency repair work with contract forces on behalf of OCTA. These repairs are being funded from the commuter rail fund, which is where allocated M2 funds for Project R are transferred. More enduring treatments are in the early stage of planning to ensure the stability of the tracks in this area. Future updates to the plan will need to consider the financial implications of the additional track improvement needs.

Project S funds the capital and long-term operating cost of the OC Streetcar, which is slated for completion within the Next 10 Plan timeframe. As a requirement of the federal funding/full funding grant agreement and normal project delivery due diligence, OCTA has been working with the Federal Transit Administration to conduct a comprehensive project risk, cost, and schedule assessment. The results of this effort are anticipated to be presented to the Transit Committee on December 9, 2021, and to the Board on December 13, 2021. The increase in anticipated M2 revenues additional federal formula funds and one time federal New Starts supplemental funding allow OCTA to handle potential cost increases for capital delivery of Project S. In addition, the amount of funding through 2041 for any future extensions to Metrolink will increase from approximately \$625 million in the 2020 Next 10 Plan to approximately \$738 million for capital and operating expenses.

Project U is made up of three programs: Senior Mobility Program, Senior Non-Emergency Medical Transportation Program, and Fare Stabilization Program. While all three programs adjust to available revenue, the Fare Stabilization Program requires a minimum level of funding. This presented a challenge because that minimum level of funding did not contemplate significant decreases in sales tax revenues. As such, OCTA proactively addressed this requirement with an early amendment to the M2 Ordinance to provide additional funding by transferring the savings from completed transit projects to this program. The 2021 M2 Next 10 Plan projects adequate and stable funding for these programs for the duration of the M2 program.

Both Project V and Project W are funded on a pay-as-you-go basis. Although many Project V services remain suspended due to COVID-19, OCTA continues to communicate with cities to support services as they reinstate and help preserve grant funds. Through Project W, OCTA will continue to have the capacity to invest in amenities at the County's busiest transit stops for the duration of the M2 program.

Environmental Cleanup Program

The Environmental Cleanup Program (ECP) also adjusts to available revenues and is funded on a pay-as-you-go basis. ECP projects prevent the flow of trash and debris into waterways. The 2021 Next 10 Plan assumes continued commitment to annual water quality spot-improvement grants. Funding for larger scale, system-level improvements are assumed to occur in 2024, with future grant opportunities based on project success, local jurisdiction interest, and detailed cash flow analysis.

Key Risks and Actions to Protect M2 Delivery

While the M2 Program continues to demonstrate financial stability, OCTA remains cognizant and continues to monitor delivery risks. A table of risks is included on pages six through eight in Attachment B, with two of the key risks highlighted below.

- **Funding** – While the 2021 sales tax revenue forecast of \$13.2 billion is good news, it is still \$200 million less than the pre-pandemic 2019 sales tax revenue forecast. Coupled with the high inflationary cost environment forecasted for 2022 through 2024, a significant amount of risk remains as increases in expenses could net out the forecasted increase in revenues. Current external funding commitments are assumed in the M2 cash flow for the 2021 Next 10 Plan, but prospects of future revenues for highway projects are uncertain. State transportation policies continue to shift towards projects that reduce automobile travel, which could affect access to future state funding opportunities for the M2 Freeway Program. These

policies are more suited for the advancement of transit projects where OCTA has more flexibility in defining the scale of project scopes. However, external funding opportunities for transit capital projects are contingent on defined project scopes. Future updates of the Next 10 Plan may include these projects and are dependent on progress of project development activities. In addition, emerging federal policies are in development. The recently passed Infrastructure Investment and Jobs Act of 2021 bill includes funding programs that will infuse a significant amount of federal dollars into transportation improvements which could support highway projects and reduce some risk for sales tax revenue fluctuations in the near term.

- **Regulatory Risks** – Current state planning and project approval policies place great emphasis on reducing travel by automobile and encourage project alternatives that promote short trips where possible, such as travel by transit, bicycling or walking, and use of zero-emission vehicles. These requirements will affect the project environmental review process. The majority of M2 freeway projects, where this risk could manifest itself, have obtained the necessary approvals, but if the approvals require a review or revision, these new requirements could impact delivery.

Updated revenue assumptions and commitments result in a delivery plan that ensures the M2 promises to voters are upheld. This balanced plan not only allows OCTA to maintain current commitments but will also allow OCTA to weather reasonable changes to cost or revenues in the future while reducing reliance on debt financing.

Summary

Staff has reviewed and updated the Next 10 Plan with the \$13.2 billion forecast, revised external funding, and refined project costs. Strategic financial decisions to date result in a delivery plan that fulfills OCTA's commitment to the voters of Orange County. The 2021 updated Next 10 Plan is presented for Board review and approval.

Attachments

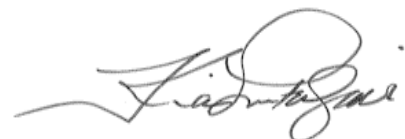
- A. Measure M Investment Summary
- B. 2021 Update, Next 10 Delivery Plan, 2021-2030, Draft
- C. 2021 Updated Next 10 Delivery Plan, Measure M2 Program Cash Balance
- D. 2021 Updated Next 10 Delivery Plan, Progress on Deliverables

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