



November 6, 2023

To: Executive Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Measure M2 2023 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. 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 information. As a result of this review, staff has prepared the 2023 update of the Measure M2 Next 10 Delivery Plan. The 2023 update verifies the realization of Measure M2 near-term commitments through fiscal year 2032, maintains fiscal sustainability, and strives to deliver transportation benefits expeditiously to the benefit of the Orange County community. The draft update is presented to the Board of Directors for review and approval.

Recommendations

- A. Adopt the 2023 Measure M2 Next 10 Delivery Plan.
- B. Direct staff to continue to work with Metrolink to develop a financially sustainable service plan.
- C. 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 through 2041. The M2 Plan defines the general scope of the programs and projects that are to be delivered within four primary categories: 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 delivering the programs and projects in the M2 Plan, fulfilling the promises made to voters. Fulfilling this commitment began with the development of delivery plans to expedite the implementation of M2 projects and programs. The delivery plans validate OCTA's ability to deliver the M2 Plan consistent with commitments to voters, outline a near-term work plan to promote effectiveness and efficiency, establish a common understanding among M2 stakeholders, set a baseline upon which future changes are measured, and provide the basis for the preparation of OCTA's budgets and financial plans for capital projects. To date, the Board of Directors (Board) has adopted three types of delivery plans:

- The 2007 Early Action Plan to mobilize the M2 Plan;
- The 2012 M2020 Plan to outline a delivery plan through 2020;
- The 2016 Next 10 Delivery Plan (Next 10 Plan), which replaced the M2020 plan and addressed economic changes and impacts to M2 Plan delivery.

Since 2016, the Next 10 Plan has been regularly updated. The latest update of the Next 10 Plan was presented to the Board in November 2022 and spanned fiscal year (FY) 2022-23 to FY 2031-32. The draft 2023 update of the Next 10 Plan maintains the same time frame. The Next 10 Plan is intended to be a living document with delivery time frames that shift every two years to ensure the outlook on revenues, project costs, and delivery schedules remain current and provides a path forward.

OCTA receives annual updates to the M2 sales tax revenue forecasts; the most recent update was presented to the Board on October 9, 2023. Sales tax collections for FY 2022-23 grew by 3.35 percent to \$439 million, which is the highest annual sales tax collection for M2. Despite this, the 2023 M2 sales tax revenue forecast is estimated to be \$14.8 billion, which represents a 1.3 percent decrease from what was assumed in the 2022 Next 10 Plan. In the long term, the revenue forecasts assume an annual average growth rate of approximately 3.3 percent. While a reduction in sales tax revenues affects the M2 Program as a whole, in most areas of the M2 Plan, programs can be scaled to available revenues.

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 9, 2023, the fall market conditions analysis and forecast which was presented to the Board, indicated a potential for a return to a normal inflationary environment due to a gradual decline of inflation in the near term.

Discussion

The 2023 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 Plan can be delivered consistent with the commitments to voters. Second, financial analysis of the latest revenue forecast and project 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 2023 update of the Next 10 Plan, included as Attachment B, incorporates the \$14.8 billion 2023 M2 sales tax revenue forecast, programmed external revenues, and refined project information. Through this effort, OCTA can confirm that the M2 Plan remains deliverable; however, this update continues to emphasize that Metrolink operations require close monitoring. Additional details on Metrolink are included under the transit section of this report. The 2023 update also continues progress on near-term projects and prepares additional projects for delivery while optimizing the level of debt financing, which assumes no additional bond issuances through 2041. An M2 cash flow summary chart reflecting prudent annual ending balances through 2041 is included as Attachment C.

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 commitments. 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 2023 Next 10 Plan outlines an investment of approximately \$5.6 billion to improve the local transportation system from FY 2022-23 through FY 2031-32 (Attachment C); the planned deliverables along with progress to date are included as Attachment D. The following sections provide a brief overview of what is included in the 2023 Next 10 Plan.

Freeway Program

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 included projects have defined project scopes and cannot be scaled to available revenue. As of June 2023, 13 project segments have been completed, five are in construction, and eight are initiating design/readying for construction. The remaining four project segments are currently in various stages of project development. With this progress, OCTA remains on track to complete 27 of the 30 freeway projects, effectively 90 percent of the M2 Freeway Program by 2030, ten years in advance of the M2 Plan horizon. This outcome fulfills the goal of delivering project benefits early, despite extraordinary financial and regulatory challenges.

Included in the M2 Freeway Program is the Environmental Mitigation Program. OCTA has purchased seven properties and is addressing the balance of the freeway program mitigation needs through restoration projects on 12 publicly owned properties. The 2023 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 to maintain the purchased properties. While 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. 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 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 Local Fair Share Program will continue to provide flexible funding to local jurisdictions to improve and maintain streets or for other local transportation priorities including bicycle trails, sidewalks, or community transit services. The assumptions for the funding of the three programs remain on a pay-as-you-go basis. The 2023 Next 10 Plan assumes annual calls for projects (call) for Project O and Project P, as well as provide 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).

Close monitoring of Metrolink operations is necessary to ensure sustainability through 2041. Metrolink ridership recovery continues to struggle, which impacts farebox revenues and cost recovery. To exacerbate this shortfall, operating costs have also increased. Metrolink has maintained approximately 85 percent of pre-pandemic service levels in order to manage costs while also working on campaigns to attract more riders and studies to enhance crew and equipment efficiency. Without changes in service levels, ridership growth, and operations and rehabilitation costs, the current service cannot be sustained beyond FY 2031-32. Staff has identified and is proposing to program Transit and Intercity Rail Capital Program formula funds to help sustain Metrolink service. If this is approved in the coming months, the infusion of external funds is anticipated to extend Metrolink operations through FY 2037-38. OCTA will continue to actively engage with Metrolink and the other member agencies to monitor ridership levels and the financial impacts to M2.

Railroad track stabilization efforts in south Orange County have become a major focus area given its importance to continued operation of Metrolink in Orange County. To date, OCTA has invested \$12 million of M2 funds along with \$16 million of state and federal funds to ensure the safety of the railroad track. While emergency work has been completed and service has resumed, long-term solutions need to be developed to ensure the ability to provide rail service in this portion of the County. In partnership with key stakeholders, a planning study is currently underway to identify and evaluate short- and medium-term solutions with the goal of protecting the rail line in place. A separate study will follow to evaluate potential long-term solutions which may include relocation of the rail line. The lead agency for the long-term study has not been identified. As these studies progress, future updates to the Next 10 Plan will incorporate more current information.

Project S, transit extensions to Metrolink, funds the capital and long-term operating cost of the OC Streetcar, which is slated to be operational in 2024/early 2025. In addition, the amount of funding through 2041 for any additional extensions to Metrolink has been updated and is estimated to be approximately \$704 million in the current plan.

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, which presented a challenge when sales tax revenues significantly decreased. OCTA proactively addressed this challenge with an early amendment to M2 Ordinance No. 3 to provide additional funding by transferring the savings from completed transit projects to this program. The 2023 Next 10 Plan projects adequate and stable funding for all three Project U programs through 2041.

Both Project V and Project W are funded on a pay-as-you-go basis. OCTA continues to communicate with local cities to support successful Project V services and evaluate opportunities for future service additions. The next Project V call for project is anticipated for issuance in late 2023. Through Project W, OCTA will continue to have the capacity to invest in amenities at the County's busiest transit stops.

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 2023 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

Delivering a major program such as M2 is not without challenges. OCTA remains cognizant and continues to monitor delivery risks. A table of risks is included on pages six through eight in Attachment B, with the two key risks highlighted below.

- Financial – The 2023 sales tax revenue forecast of \$14.8 billion represents a slight decrease. While this may not affect the M2 programs that can scale to available revenue, programs that cannot do so easily, such as Metrolink, may be impacted. Additionally, 18 years of M2 delivery remain; fluctuations in economic conditions may affect future sales tax revenue forecasts.

Current external funding commitments are assumed in the M2 cash flow for the 2023 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 currently programmed, as well as 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 developing plans to sustain the ongoing operational cost of such services as the grants primarily fund the initial capital costs. Future updates of the Next 10 Plan may include outcome of transit project development activities.

- **Regulatory** – 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. This risk is compounded by the fact that the current rules do not permit OCTA to take credit for M2-funded services such as regional rail service or community-based transit circulators.
- **Climate** – Over the past several years, coastal storm surges, combined with several other environmental factors, have damaged the Los Angeles – San Diego - San Luis Obispo rail corridor. These events have required increased maintenance and emergency repairs to stabilize the rail infrastructure. The emergency repairs have also led to intermittent service loss and delays. Although the affected portion of the railroad tracks in the City of San Clemente is located in Orange County, this rail corridor is vital for State-supported intercity rail (Pacific Surfliner), freight connection to the Port of San Diego, and plays a strategic role in the operations of Camp Pendleton. The long-term solution will require collaboration from key stakeholders to develop and implement. OCTA will be an active participant in the process; future implications to M2 with respect to service levels or costs are unknown at this time.

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 \$14.8 billion sales tax revenue forecast, revised external funding, and refined project information. Strategic financial decisions to date result in a delivery plan that fulfills OCTA's commitment to the voters of Orange County. The 2023 updated Next 10 Plan is presented for Board review and approval.

Attachments

- A. Measure M Investment Summary
- B. 2023 Update, Next 10 Delivery Plan, 2023-2032, Draft
- C. 2023 Updated Next 10 Delivery Plan, Measure M2 Investments
- D. 2023 Updated Next 10 Delivery Plan, Progress on Deliverables

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