



April 5, 2021

To: Executive Committee
From: Darrell E. Johnson, Chief Executive Officer
Subject: Measure M2 2020 Update: Next 10 Delivery Plan

A handwritten signature in blue ink, appearing to read "Darrell E. Johnson", is positioned to the right of the "From:" line.

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 was recently conducted to account for updates to the Measure M2 sales tax revenue forecast, external funding assumptions, and project cost estimates. In December 2020, the Board of Directors was presented with options to manage the impacts of the changes. Based on feedback, staff has updated the Measure M2 Next 10 Delivery Plan. The goals are to ensure fulfillment of the Measure M2 commitments, maintain fiscal sustainability, and strive to deliver transportation benefits early. The results of this effort are presented to the Board of Directors for review and approval.

Recommendations

- A. Adopt the 2020 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 (TIP) for the Measure M2 (M2) one-half cent sales tax to be collected for 30 years. The M2 TIP defines the 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 TIP 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 TIP. This effort began with expedited delivery plans of M2 projects and programs. 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 2019.

OCTA receives annual updates to the M2 sales tax revenue forecasts. On October 26, 2020, the 2020 M2 sales tax revenue forecast of \$11.6 billion was presented to the Board, which is a \$1.8 billion decrease from what was assumed in the 2019 Next 10 Plan. The lower forecast is attributed to the economic impacts of the coronavirus (COVID-19) pandemic and represents the lowest forecast since M2 inception.

A report on construction market conditions key indicators analysis and forecast was presented to the Board on November 9, 2020. This provided insight on potential construction cost drivers that could affect the Next 10 Plan. The report indicated that OCTA might experience a moderate cost environment in 2021 and 2022, with the potential for a tighter construction market in 2023.

On December 14, 2020, staff presented delivery options for Board consideration and discussion to address the substantial decrease in M2 sales tax revenue. The options assessed were predicated on OCTA's ability to deliver the entire M2 TIP through 2041. The critical consideration in evaluating the options was to ensure that near-term project commitments do not jeopardize OCTA's ability to deliver M2 as promised to voters. The Board directed staff to refine the option that balanced OCTA's ability to maintain progress on near-term projects, ready additional projects for delivery, and optimize the level of debt financing that would be required to support this approach. In addition, the Board also approved the adjustment of the Next 10 Plan timeframe from fiscal year (FY) 2016-17 through FY 2025-26 to FY 2020-21 through FY 2029-30. Lastly, with the uncertainties of COVID-19, the Board requested that staff await the release of the sales tax revenue information through December 2020 before presenting the updated Next 10 Plan.

On March 8, 2021, staff provided an update to the Board on sales tax revenue receipts through December 2020. The data showed that sales tax collections are consistent with the projections presented to the Board in October 2020, and that the total forecasted M2 sales tax revenues remain at \$11.6 billion.

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.

Per Board direction, the 2020 update of the Next 10 Plan, included as Attachment B, maintains progress on near-term projects and readies additional projects for delivery while optimizing the level of debt financing. The 2019 Next 10 Plan served as the baseline to define prior commitments. The 2020 Next 10 Plan also incorporates the Board-approved \$11.6 billion M2 revenue forecast, along with revised external revenue assumptions and refined project estimates. Given the new timeframe and financials, the Next 10 Plan deliverables were also reviewed and updated; they are included in Attachment C.

The 2019 Next 10 Plan included a significant allowance for economic uncertainties to ensure OCTA can sustain financial fluctuations. Through this strategic financial planning, the 2020 Next 10 Plan confirms that the M2 TIP remains deliverable. The update also continues to maintain prudent annual ending balances and an economic uncertainties allowance. An M2 cash flow summary chart showing a positive ending balance through 2041 is included as Attachment D.

Looking to the future, sales tax revenues will continue to fluctuate due to unpredictable changes in the economy, but changes in revenues 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, taking advantage of competitive construction market conditions, and pursuing external grant to supplement M2 funds.

The following sections provide a brief overview of what is included in the 2020 Next 10 Plan.

M2 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 TIP, which have been subdivided into 30 project segments for delivery purposes. As of December 2020, 12 project segments have been completed, five are in construction, and seven are initiating design/readying for construction. The remaining six project segments are currently in project development.

The 2020 Next 10 Plan incorporates the Board's direction in December 2020 to keep the freeway projects that were advanced in 2019 on track and proposes to deliver 14 project segments through construction by FY 2029-30. In particular, the 2019 Next 10 Plan included the delivery of Project F: State Route 55 (SR-55) between Interstate 5 (I-5) and State Route 91 by 2028. Initially, the 2020 M2 sales tax revenue forecast made delivery of this project, as planned in 2019, a challenge. Five factors allow for the 2020 Next 10 Plan to overcome some financial hurdles to be able to continue project delivery progress.

1. OCTA secured \$140 million of state funding for Project F: SR-55 from Interstate 405 to I-5. The infusion of these funds in the near-term provides greater financial flexibility.
2. Revised bond interest rate assumptions provide OCTA with improved financial capacity.
3. Project cash flows were refined and resulted in a more even distribution of costs.
4. The 2019 Next 10 Plan included an allowance for economic uncertainties in the long term. The increased bond issuance assumed in the 2020 Next 10 Plan is made possible by accessing a portion of the economic uncertainties in future years when anticipated project costs are lower.
5. The 2020 Next 10 Plan maintains one bond issuance in 2023; however, the amount has increased by approximately \$275 million from the 2019 Next 10 Plan.

The 2020 Next 10 Plan will result in 26 of 30 freeway segments to be complete by 2030 when considering projects completed in the first decade of the plan. This outcome fulfills the goal of delivering project benefits early, despite multiple extraordinary financial events that have affected M2 revenues. The 2020 Next 10 Plan update ensures that the four remaining M2 Freeway Program projects will be delivered by 2041. These projects will continue to be reevaluated for an earlier delivery as the Next 10 Plan is reviewed annually.

Included in the M2 Freeway Program is the Environmental Mitigation Program. With the seven mitigation properties already purchased and 12 restoration projects completed, or underway, recurring costs are for management and support, as well as an annual deposit of approximately \$2.9 million to fund a non-wasting endowment. The 2020 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 time frame for full funding. Current projections indicate that OCTA remains on track to meet the endowment target of \$46.2 million in FY 2027-28.

Streets and Roads Program

The M2 streets and roads elements are programmatic and can 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 local roadway bottlenecks and close gaps in the 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 2020 Next 10 Plan will continue to provide funding to local jurisdictions to improve and maintain streets. 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).

Metrolink service continues to be greatly impacted by COVID-19. The FY 2020-21 budget for the Metrolink operating subsidy is based on 45 weekday trips, which is a reduction of nine weekday trips due to the impact of COVID-19 to ridership. In November 2020, Metrolink implemented further service reduction to 41 weekday trips. While the \$64.6 million of Coronavirus Aid, Relief and Economic Security Act funds (approved by the Board in July 2020) have helped

offset fare revenue shortfalls in the near term, Metrolink service relies on an operating subsidy, which OCTA funds through M2. Federal funding is also used to offset some of the capital costs of the service. Depending on Metrolink ridership, recovery projections, and future service level assumptions, maintaining pre-COVID-19 service or expansion of service may no longer be feasible. With the reduced revenue forecast, the 2020 Next 10 Plan assumes the operating subsidy to maintain current service levels. OCTA will continue to actively engage with Metrolink and other member agencies and monitor ridership levels and the corresponding financial impacts to M2.

Project S funds the capital and long-term operating cost of the OC Streetcar. The reduced revenues do not impact the delivery of the OC Streetcar. Yet, the amount of funding available to extend the reach of Metrolink service will decrease from nearly \$800 million in the 2019 Next 10 Plan to approximately \$628 million available for capital and operations of any future extensions to Metrolink.

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 as that minimum level of funding did not contemplate significant decreases in sales tax revenues. As such, OCTA proactively addressed this dual requirement with an early amendment to the M2 Ordinance to provide additional funding.

Both Project V and Project W are funded on a pay-as-you-go basis. Although the majority of Project V services remain suspended due to COVID-19, OCTA continues to communicate with cities to help preserve grant funds and assess future service resumption. Through Project W, OCTA will continue 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 2020 Next 10 Plan continues to commit to annual Tier 1 calls. The next Tier 2 call is anticipated in 2022, with future calls determined based on local jurisdiction interest and 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 key risks highlighted below.

- **Funding** – The COVID-19 pandemic added a new layer of uncertainty for sales tax revenues. While an allowance for economic uncertainties provides some financial security, additional revenue fluctuations will need to be carefully monitored. In addition, state and federal priorities continue to shift, which affect future external funding opportunities for the M2 Freeway Program. Current external funding commitments are assumed in the M2 cash flow for the 2020 Next 10 Plan, but the prospects of future revenues for highway projects are low.
- **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, 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.

Summary

Staff has reviewed and updated the Next 10 Plan with the \$11.6 billion forecast, revised external funding, and refined project costs. Despite the lower forecast, prudent financial decisions to date result in a delivery plan that fulfills OCTA's commitment to the voters of Orange County. The 2020 updated Next 10 Plan is presented for Board review and approval.

Attachments

- A. Measure M Investment Summary
- B. 2020 Update, Next 10 Delivery Plan, 2021-2030, Draft
- C. 2020 Updated Next 10 Delivery Plan – Ten Balanced Deliverables
- D. 2020 Updated Next 10 Delivery Plan, M2 Program Cash Balance

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