



City Council Report

Date: December 8, 2014
To: City Council
Through: Kari Kent, Deputy City Manager
From: Jodi Sorrell, Transit Services Director
Subject: Transportation Project Advancement Notes (TPANs) Funding Agreement for Gilbert Road Light Rail Extension Council District 4

Strategic Initiatives



Purpose and Recommendation

To request that City Council authorize the City Manager to enter into the Transportation Project Advance Agreement between the City of Mesa (Mesa), Valley Metro Rail, Inc. (METRO), the City of Phoenix (Phoenix) and the Maricopa Association of Governments (MAG). This Agreement provides for terms under which Mesa may issue Transportation Project Advancement Notes (TPANs) to advance funds to extend light rail transit (LRT) to Gilbert Road, subject to the adoption of a Council resolution to issue the first series of TPANs, possibly in the summer/fall of 2015 in order to avoid delays in design and construction.

Background:

Extending light rail is a lengthy process that includes planning, environmental, design, right-of-way acquisition and construction. This process can take 10 or more years to complete. In Mesa, the extension to Gilbert Road began in 2009 when this extension was established as a Council priority. At the same time, MAG approved the consideration of the 1.9 mile LRT extension to Gilbert Road.

Following these approvals, the Council authorized funding for a planning study for this extension in 2011. The following year, Council approved funding for the environmental assessment, which received a finding of no significant impact in November 2013. During the course of these studies, the City identified why the extension of light rail to Gilbert Road is a priority:

- Provides for a better use of limited transportation dollars
- Provides better access from L202, US60 as well as central and east Mesa
- Provides opportunity for redeveloping portions of Main Street from just east of Mesa Drive to Gilbert Road
- Provides for a better site for a long-term park & ride lot at Gilbert Road

- Improves transit access for nearby residents with access to a growing regional LRT system

At this point in the process, funding for the design, right-of-way and construction of the Project had not been identified. However, in the fall of 2012 MAG approved a policy to allow federal funds in the MAG Arterial Life Cycle Program to be repurposed to fund the Gilbert Road LRT extension. MAG then approved a major amendment to the Regional Transportation Plan (RTP) to add the Project to the Plan.

After the Project was added to the RTP, Mesa entered into a series of agreements with METRO to complete early Project development activities using federal funds advanced by MAG. These early project development activities included Preliminary Engineering which began in 2013. Then in May of this year, Council approved a second advance from MAG to begin procuring the services of a design consultant, construction manager at risk contractor, initiating real estate acquisition, initiating final design, pre-construction services and other Project activities. To date Mesa has received advances for the Project totaling about \$5.7 million (\$5.4 million in federal funding and a City local match of \$327,282).

Discussion:

The TPAN agreement is a complex document that governs nearly all aspects of the Project and serves as an umbrella over other agreements that are required by the Federal Transit Administration. Provided below is an outline of the primary provisions of the agreement.

Responsibilities of the Parties. Establishes the responsibilities of the parties for the Project. Phoenix is the designated grant recipient for federal funds and will assist in the coordination of federal funding for Project repayment. METRO will manage design and construction activities. MAG will assist with flexing federal funding. Mesa will work with all three entities to coordinate the Project and to advance the interim funding for the Project as well as acquire right-of-way.

Financial Procedures. The section details the financial procedures to be followed for the various phases of the Project. The City determines whether to issue the TPANs for the TPAN funded phases. Additionally, METRO must submit annual requisition requests to Mesa for funding the next fiscal year's Project phase. Upon approval, Mesa would transfer TPAN proceeds to METRO for approved budgeted Project costs. Project expenses would only be funded if approved in advance through a requisition request. These procedures provide a greater measure of control over Project expenditures.

Project Financing. The Project is funded in the MAG RTP and Arterial Life Cycle Program with federal transportation funds that were originally programmed for street improvements. These funds were then repurposed through a major amendment to the MAG RTP for the Project. The projects that were repurposed can be found in Attachment A. Since the funding in the MAG program does not line up with the timing needed for light rail construction, Mesa will advance funding for the Project to

Phoenix and then METRO through the issuance of TPANs. These notes would then be repaid with federal funds designated for the Project in the MAG RTP currently programmed in federal fiscal years 2016 to 2024. This financing is similar to the approach used to accelerate SR 24.

Cost Estimate and Advance Repayment. The total Project cost is now estimated at about \$161.7 million in year of expenditure dollars for design, right-of-way, construction, transit center, LRT vehicles and interest expense. The estimate, developed during Preliminary Engineering, is based on 20% to 25% design for the various Project activities. It includes a contingency of 19.9% and \$20.1 million for three LRT vehicles to serve the extension pursuant to METRO's policy on vehicle acquisition adopted late last year.

The other cost component of the Project is the interest expense to finance the Project advance through the issuance and repayment of TPANs, which is estimated to be about \$14.7 million over the life of the financing for a total Project cost of about \$161.7 million. The previous cost estimate of several years ago was approximately \$140 million, but that estimate did not include the added cost of LRT vehicles.

As indicated above, repayment of Mesa's advance would come from repurposed federal transportation funds set aside in the RTP for the Project. Total federal funding for the Project in the MAG RTP is about \$153.4 million (2011\$), plus Mesa's local match of about \$9.2 million and pass through funds of \$2 million for the transit center. Therefore total funds available for repayment would be about \$164.6 million.

Contingencies and Residual Funds. Finally, based on the financial analysis and Project cost estimates, there is roughly \$2.9 million remaining that is allocated for the Project after the estimated TPAN debt service is paid. These residual funds are in addition to the 19.9 % Project contingency. Project financing calls for principal repayment to begin two to three years after federal funds are programmed to become available. This is done in case there is a delay in when federal funds are actually received versus when the funds are scheduled to become available. The TPANs will also include a call feature to allow the notes to be repaid earlier if the federal funds become available according to the expected repayment schedule as programmed in the MAG RTP.

Fiscal Impact:

The City has received several advances of federal grants to fund early project development through June 2015. These funds will be used over the next year for final design, right-of-way acquisition and other early project activities. These advances total about \$5.7 million although Mesa has expended less than \$1 million of these advances thus far.

The advances outlined above are interest free and have delayed the need to issue TPANs until next year, which reduces Project interest expenses. The City would be responsible to repay funds expended from these advances if the LRT extension to Gilbert Road is not completed, per the grant agreements.

The TPANs will be issued in a series of two or more. The City will need to issue the first series of TPANs and advance the funds to the city of Phoenix and then to METRO no later than summer/fall of 2015 in order to avoid delays in design and construction of the Project.

Entering into this agreement does not obligate the City to issue TPANs for the Project. The Transportation Project Advance Agreement provides that Mesa may terminate the agreement prior to issuing the TPAN if Mesa determines that it does not wish to proceed further with the Project. Issuing TPANs and proceeding with the Project requires adoption of a Council resolution to sell the TPANs for the Project. Therefore, there is no additional fiscal impact with authorizing the execution of this agreement.

Next Steps:

It is anticipated that early Project development activities funded with advances of federal funds from MAG will be completed in the summer of 2015. To fund the remainder of the Project would require the issuance of TPANs. The current Project schedule calls for issuing the first series of TPANs in the summer/fall of 2015 to fund right-of-way acquisition, design and other Project activities through summer of 2016.

When the Project is ready to proceed with construction, Mesa would then need to issue the second series of TPANs. It is anticipated this would take place in the summer of 2016.

Coordinated with:

The Project agreement has been coordinated with the City Attorney's Office, Financial Services Department, Office of Management and Budget, Transportation Department, Engineering Department, Valley Metro Rail, Maricopa Association of Governments and the City of Phoenix.

ATTACHMENT A: Repurposed Mesa Arterial Street Projects			
RTP Project	Total amount of STP-MAG Funding (FY 2013 ALCP 2011\$)	Years of Funding	Reason For Exchange for GRE
Baseline Rd.: Power Rd. to Ellsworth Rd.	\$ 8,935,601	2016	1) Project is substantially complete and remaining improvements will be completed by adjacent property developers
Baseline Rd.: Ellsworth Rd. to Meridian Rd.	\$ 9,361,106	2016, 2017	1) Project is substantially complete and remaining improvements will be completed by adjacent property developers
Country Club Dr./Brown Rd.: Intersection Improvements	\$ 4,029,722	2017-2019	3) Project is not needed in the planned time horizon due to a change in the rate and pattern of development
Crismon Rd.: Ray Rd. to Germann Rd.	\$ 12,326,562	2016-2018	1) Remaining improvements will be completed by adjacent property developers
Germann Rd.: Ellsworth Rd. to Signal Butte Rd.	\$ 12,795,322	2016-2019	1) Remaining improvements will be completed by adjacent property developers
Guadalupe Rd.: Power Rd. to Hawes Rd.	\$ 8,789,743	2021-2023	1) Project is substantially complete and remaining improvements will be completed by adjacent property developers
Guadalupe Rd.: Hawes Rd. to Crismon Rd.	\$ 8,921,370	2018-2019	1) Project is substantially complete and remaining improvements will be completed by adjacent property developers
Guadalupe Rd.: Crismon Rd. to Meridian Rd.	\$ 7,558,111	2018-2019	1) Project is substantially complete and remaining improvements will be completed by adjacent property developers
Higley Rd. Parkway: SR 202L to Brown Rd.	\$ 8,581,650	2020-2021	2) Project is not feasible due to concerns over neighborhood impacts
Higley Rd. Parkway: Brown Rd. to US 60	\$ 8,581,521	2021-2022	2) Project is not feasible due to concerns over neighborhood impacts
Higley Rd. Parkway: US 60 to SR-202L Grade Separations	\$ 22,490,292	2021-2024	2) Project is not feasible due to concerns over neighborhood impacts
McKellips Rd./Power Rd.: Intersection Improvements	\$ 3,393,384	2017-2019	1) Project is substantially complete and remaining improvements will be completed by adjacent property developers
McKellips Rd./Val Vista Dr.: Intersection Improvements	\$ 2,910,774	2016-2018	1) Project is substantially complete and remaining improvements will be completed by adjacent property developers
Meridian Rd.: Baseline Rd. to Ray Rd.	\$ 17,223,818	2017-2018	3) Project is not needed in the planned time horizon due to a change in the rate and pattern of development
Meridian Rd.: Ray Rd. to Germann Rd.	\$ 12,721,129	2019-2020	3) Project is not needed in the planned time horizon due to a change in the rate and pattern of development
Thomas Rd.: Gilbert Rd. to Val Vista Dr.	\$ 4,745,938	2020-2021	3) Project is not needed in the planned time horizon due to a change in the rate and pattern of development
	\$ 153,366,043		