



# City Council Report

**Date:** October 19, 2015  
**To:** City Council  
**Through:** Scott J. Butler, Deputy City Manager  
**From:** Jodi Sorrell, Transit Services Director  
**Subject:** Amended and Restated Transportation Project Advance Agreement to Extend Light Rail to Gilbert Road; Amended agreement reflects \$32.4 million MAG Advance  
Council District 4

## Strategic Initiatives



## Purpose and Recommendation

To request that City Council authorize the City Manager to enter into the Amended and Restated Transportation Project Advance Agreement between the City, Valley Metro Rail (METRO), the City of Phoenix and the Maricopa Association of Governments (MAG). This amends and restates the existing Agreement to reflect an interest free advance of \$32.4 million from MAG to the Project and to facilitate possibly accepting additional advances from MAG in the future. The agreement also provides for issuing a Transportation Project Advancement Note (TPAN) to advance the remaining funds needed for the Gilbert Road extension.

## Background

Extending light rail is a lengthy process that includes planning, environmental work, design, right-of-way acquisition and construction. This process can take ten or more years to complete. In Mesa, the extension to Gilbert Road began in 2009 when the Project was established as a priority of the City Council.

At this point in the process, planning, environmental work and preliminary engineering have been completed. The City also worked for several years with MAG to add the Project to the MAG Regional Transportation Plan and develop an approach to financing it.

After the Project was added to the RTP, the City entered into a series of agreements with METRO to complete early project development activities using federal funds advanced to the Project by MAG. These early project development activities included preliminary engineering which began in 2013. Then in 2014, Council approved a second advance from MAG to begin procuring the services of a design

consultant, construction manager at risk to initiate final design, pre-construction services and other Project activities.

The procurement for the design consultant and construction manager at risk was then delayed until February of this year when legal challenges to the Project were resolved. These procurements will be completed later this month.

In developing the Transportation Project Advance Agreement last year, it was anticipated that the City would need to issue a Transportation Project Advancement Note (TPAN) this summer to fund final design, right-of-way acquisition and other preconstruction activities.

However, early this year, MAG began the process of reprogramming federal funds that had remained unobligated for several years due to delays experienced by several other regional transit projects. The Federal Transit Administration had expressed concerns to MAG regarding these unobligated funds. MAG was also concerned that a large amount of unobligated federal funds would make the region's future transit funding requests less competitive.

To address these concerns, MAG recently reprogrammed these unobligated federal funds including a \$32.4 million advance to the Gilbert Road LRT extension since the Project is ready to obligate. Repayment of the interest free advance would come from federal funds that are identified in the MAG Arterial Life Cycle Program for the Gilbert Road Project. Although funding identified for the Project in the MAG Arterial Life Cycle Program begins in fiscal year 2016, repayment of the advance is scheduled to begin in fiscal year 2019.

The interest free advance also means a reduction in the overall project cost of approximately \$8.8 million in interest expenses. The City's match of 5.7% of the overall project cost will also be reduced by approximately \$500,000.

## **Discussion**

Given the magnitude of the MAG advance and the potential for additional advances from MAG in the future, it was determined that the Transportation Project Advance Agreement would need to be revised. The original agreement included a number of provisions outlining the financing approach that involved issuing a series of TPANs.

With the approval of the resolution for this item, Council is authorizing the expenditure of 5.7% matching funds to be provided by the City for the remainder of the project. The total local match for the Project is estimated to be \$8.7 million based on the current estimated Project cost. Included within this overall local match is a local match of \$1.96 million for the \$32.4 million in Reprogrammed Funds (the advance) as well as a local match of an estimated \$5.7 million for the up to \$100 million in TPANs that are authorized (by a separate resolution) to be issued for the Project. Funds for the local match have been identified by the City Office of Management and Budget.

With the MAG advance, it is anticipated that a TPAN will still need to be issued in the future but for a lesser amount. Also, the TPAN proceeds are anticipated to be needed for construction only, and not for other project activities as outlined in the original agreement. Provided below is a summary of the primary provisions of the revised agreement:

**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. Since the funding in the MAG program does not line up with the timing needed for light rail construction, Mesa planned to advance funding for the Project through the issuance of a series of TPANs. With the MAG loan of \$32.4 million, the need to issue a TPAN has been delayed until 2016 and the issuance amount significantly reduced. Once issued, the TPAN note would then be repaid with federal funds designated for the Project in the MAG RTP programmed in federal fiscal years 2016 to 2022. The MAG advance would be repaid with federal funds for the Project in the MAG RTP in fiscal years 2019 to 2024.

**Cost Estimate and Advance Repayment.** The total Project cost has been reduced from an estimated \$161.7 million to an estimated \$152.7 million in year of expenditure dollars for the design, right-of-way, construction, transit center, LRT vehicles and interest expense. This estimate was developed through Preliminary Engineering and includes a contingency of 19.9%. The estimate is based on 20% to 25% design for the various Project activities. This estimate will change somewhat as final design is completed and a guaranteed maximum price is developed late next year. The current estimate also includes approximately \$20 million for three LRT vehicles to serve the extension pursuant to METRO's policy on vehicle acquisition.

The other cost component of the Project is the interest expense to finance the Project advance through the issuance and repayment of a TPAN, which is now estimated to be approximately \$5.65 million. The interest cost was reduced by approximately \$8.8 million with the \$32.4 million MAG advance.

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 approximately \$153.4 million (2011), plus pass through funds of \$2 million for the transit center and Mesa's local match of approximately \$8.7 million. Therefore total funds available for repayment would be approximately \$164.1 million.

**Contingencies and Residual Funds.** Based on the financial analysis and Project cost estimates, there is roughly \$11 million in funds allocated for the Project in the MAG RTP after the estimated TPAN debt service is paid. These residual funds are in addition to the 19.9 % Project contingency. In addition, the 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.

### **Alternatives**

The City Council could choose not to approve the amended and restated Transportation Project Advance Agreement. This alternative is not recommended as the City would not realize project savings of approximately \$9 million.

### **Fiscal Impact**

The City has received several advances of federal grants totaling approximately \$5.4 million to fund a number of project development activities. Thus far, approximately \$2 million of these funds have been expended. The remaining funds are currently being used for design, and other early project activities to prepare the documents to procure a contractor for final design and a construction manager at risk. These advanced funds are in addition to the \$32.4 million advance from MAG to fund the next phase of the Project. The City's match for the latest MAG advance is approximately \$1.96 million, which has already been set aside by the City's Office of Management and Budget.

As outlined above, the MAG advances are interest free, which reduces Project interest expenses. It is also important to note that 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.

Entering into this revised agreement does not obligate the City to issue a TPAN to complete the Project. A Council resolution would be needed to issue a TPAN for constructing the extension. The City also has the option to terminate the agreement prior to issuing the TPAN if Mesa determines that it does not wish to proceed further.

However, once the Project begins expending the \$32.4 million MAG advance over the course of about one year beginning this fall, it will become increasingly less practical for the City to terminate the Project. Termination of the Project would require the City to repay the expended federal funds.

### **Coordinated With**

This 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.