



# City Council Report

**Date:** January 7, 2019  
**To:** City Council  
**Through:** Scott J. Butler, Deputy City Manager  
**From:** Jodi Sorrell, Transit Services Director  
**Subject:** First Amendment to the Amended and Restated Transportation Project Advance Agreement to Extend Light Rail to Gilbert Road Council District 4

## **Purpose and Recommendation**

To request that the City Council authorize the City Manager to enter into the First Amendment to 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 amendment provides the City authority to use City transportation funds to advance funding to METRO to complete the Gilbert Road Light Rail Extension as an alternative to issuing a note or bond for this purpose. The extension is scheduled for completion in the spring of 2019.

## **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 years or more to complete. In Mesa, the Gilbert Road extension began in 2009. The City Council used traffic analysis and transit ridership data to determine that Gilbert Road performed better than Mesa Drive as an end-of-line location.

The City worked with MAG and METRO to add the Gilbert Road extension to the MAG Regional Transportation Plan and develop an approach for funding the project. The funding approach included repurposing portions of the regional funds programmed for Mesa projects in the MAG transportation plan to instead fund the Gilbert Road extension.

The approach also included developing the Transportation Project Advance Agreement in 2014 to allow the City to finance the Project by issuing a Transportation Project Advancement Note (TPAN) to advance funding for a portion of the Project. This agreement was then amended and restated in 2015 to provide authority for the City to receive an advance of \$32.4 million in federal funds for the Project from MAG. This advance required repayment with other federal funds programmed for the Project beginning in 2019. The agreement was also revised to allow for additional future advances from MAG to the Gilbert Road extension.

Recent advances to the Project from MAG, however, have far exceeded expectations. Advances to the Gilbert Road extension now total nearly \$90 million in federal funds from MAG. These funds became available because a number of other projects in the region experienced delays. These advances to the Project are interest free and assist the MAG region in obligating these federal funds.

### **Discussion**

Given the magnitude of the MAG advances, City staff has determined that it is no longer necessary to issue a Transportation Project Advancement Note (TPAN) to advance funding needed to finish the Project. Instead, the proposed amendment would authorize the City to advance up to \$20.3 million of City transportation funds to METRO for the Project. The City advance is then reimbursed as federal funds programmed for the Project in the MAG transportation plan become available in June of 2020 and 2021.

However, it is anticipated that the annual advances received from MAG will likely continue and repayment of the City advance will likely be sooner than currently programmed. Reimbursement of the City advance will be reduced by the 5.7% local match required for the use of the federal funds for the Project. Also, the City will receive reimbursement for interest earning lost on the advance for the time prior to repayment.

In addition, instead of advancing the full amount needed to complete the Project, the proposed amendment provides for the City to simply fund advances for monthly Project expenses as needed beginning in January of 2019. This approach will save the City issuance and carrying costs associated with issuing a TPAN.

To put this into context, when the Project was first developed the expectation was that the City would need to issue a note of about \$139 million with an interest expense of about \$14.7 million to fund the completion of the Project. With MAG's assistance in advancing funds to the Project the funding gap has been dramatically reduced. Now, the City advance is projected to be about \$20.3 million and the interest expense has been reduced to \$1.2 million.

After years of working and coordinating with our regional partners and contractors, it is anticipated that construction will be completed early 2019. Following the completion of construction, system testing will be initiated and a Project opening date is projected for May 2019.

**Alternatives**

The City could choose not to approve the proposed amendment to the Transportation Advance Agreement which provides the option to use City transportation funds to fund Project completion. The City would still be obligated to issue TPANs in accordance with the current funding agreements. This option is not recommended as the City would not realize the cost savings associated with this proposed funding alternative.

**Fiscal Impact**

When the Project was first developed the financial analysis projected that the City would need to issue a TPAN of about \$139 million with an interest expense of about \$14.7 million. With MAG's assistance in advancing funds, the City advance is projected to be about \$20.3 million and the interest expense has been reduced to \$1.2 million.

The proposed amendment to the TPAA will further reduce financing costs to the City by not issuing a Transportation Project Advancement Note and instead using City transportation funds.

**Coordinated With**

This amendment to the TPAA has been coordinated with the City Attorney's Office, Financial Services Department, Office of Management and Budget, Transportation Department, Valley Metro Rail, Maricopa Association of Governments and the City of Phoenix.