



RESOLUTION COMMITTING UP TO \$150 MILLION IN ADDITIONAL REGIONAL IMPROVEMENT PROGRAM FUNDS, WITH CONDITIONS, TO THE SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY'S CENTRAL SUBWAY PROJECT TO COVER POTENTIAL COST OVERRUNS BEYOND THE \$1.578 BILLION BASELINE PROJECT COST

WHEREAS, The San Francisco Municipal Transportation Agency's (SFMTA's) Central Subway Project will extend the T-Third light rail line (also known as the Initial Operating Segment (IOS) of the Third Street Light Rail Project) north from King Street along Fourth Street, entering a tunnel north of Bryant Street, crossing beneath Market Street, and running under Stockton Street to Stockton and Washington Streets; and

WHEREAS, The Central Subway was one of the major capital projects in the Prop B program that was grandfathered into the Prop K Expenditure Plan that was approved by San Francisco voters in 2003; and

WHEREAS, The Prop K Expenditure Plan requires that all major capital projects submit a baseline budget, schedule and funding plan for approval by the Authority Board, which will support the Authority's efforts to monitor project progress, including cost and schedule trends and the project's financial status; and

WHEREAS, On March 30, 2010, through Resolution 10-51, the Authority Board adopted a baseline scope, schedule, budget and funding plan for the Central Subway Project; and

WHEREAS, On February 15, 2011, through Resolution 11-44, the Authority Board adopted an amended baseline funding plan for the Central Subway Project that closed the remaining funding gap; and



WHEREAS, The updated full funding plan for the \$1.578 billion Central Subway project is shown in Attachment 1; and

WHEREAS, The funding plan assumes \$942.2 million in Federal Transit Administration (FTA) New Starts funds representing about 60% of the project's funding plan; and

WHEREAS, The SFMTA is currently targeting December 2011 for FTA approval of a Full Funding Grant Agreement (FFGA), which is the FTA's official commitment of federal New Starts funds to the project and is a necessary milestone that signals the project's ability to move into the construction phase; and

WHEREAS, Receipt of the FFGA requires the fulfillment of many deliverables (e.g., securing all of the capital funding for the project, completing final design, and budgeting for the increase in operating funds from the project), which are identified in the roadmap (i.e. a list of deliverables and corresponding deadlines) for receiving the FFGA that was jointly developed by the FTA and the SFMTA; and

WHEREAS, As required by the roadmap the SFMTA recently submitted a financial plan for the project to the FTA; and

WHEREAS, The FTA's review of the project's financial plan involves a determination as to whether the project has a full funding plan and a financial capacity assessment that includes evaluation of the SFMTA's plans to ensure that it can meet the cash flow needs of the project in the event that some of the funding is delayed or if costs increase over the baseline; and

WHEREAS, These sensitivity tests are part of the FTA's FFGA approval process; and

WHEREAS, The SFMTA needs to have a plan in place to address delay in state funds (e.g. Prop 1A High-Speed Rail Connectivity funds) as well as potential delays in federal New Starts funds, which, even after the FFGA is approved, are subject to annual congressional appropriations; and



WHEREAS, The FTA has requested that a plan be in place to address potential cost overruns of up to 10% of the overall project cost, which equates to about \$150 million; and

WHEREAS, On the issue of cost overruns, it is important to note that the Central Subway project team, including the Authority and the FTA, conducted four 4-day sessions to perform a detailed risk analysis of the project and as a result, the FTA recommended adding \$200 million to the budget, bringing it to the current total \$1.578 billion cost, and extending the schedule by 21 months to account for all the perceived risks; and

WHEREAS, With proper project management mechanisms in place, there should be little risk of cost overruns above and beyond a project budget which already includes properly estimated risk; and

WHEREAS, We have been working with the SFMTA and other funding partners for the Central Subway to develop a strategy that addresses all three issues affecting additional demand on project funds: cost overruns, delays in state bond fund availability, and delays in availability of federal funds; and

WHEREAS, After considerable evaluation we concluded that the Authority is best positioned to provide a commitment of an additional \$150 million in State Regional Improvement Program (RIP) funds that will address the FTA's question about potential cost overruns; and

WHEREAS, In order to lower the risk of that commitment to an acceptable level, Authority staff proposed conditions on this action as shown in Attachment 2; and

WHEREAS, The SFMTA has confirmed it will accept the proposed conditions in Attachment 2, and in support of Condition #1, at its April 19 meeting, the SFMTA Board approved the project's baseline scope, schedule, budget, funding plan and ground rules for financial management; and



WHEREAS, The Authority's commitment of up to \$150 million in additional RIP funds is contingent on other funding partners providing assurances that they can secure bridge financing to cover delays in the availability of both state bonds and federal funds earmarked for the project in time to meet the FTA's deadline at the end of April; and

WHEREAS, At its April 19, 2011 meeting, the Plans and Programs Committee reviewed the proposed action and unanimously recommended approval of the staff recommendation; now, therefore, be it

RESOLVED, That the Authority commits up to \$150 million in additional RIP funds, with conditions (shown in Attachment 2), to the Central Subway project to provide supplemental assurances to the FTA in support of the SFMTA's plan to cover potential cost overruns beyond the \$1.578 billion baseline project cost.

Attachments

1. Central Subway Full Funding Plan (Updated April 2011)
2. Conditions for Authority's Commitment of Additional State RIP Funds to the Central Subway Project

Attachment 1
Central Subway Full Funding Plan
Updated: April 2011

| Source ² | Type | Status | Project Phases ¹ | | | | Total by Status | TOTAL |
|---|---------------|-------------------|-----------------------------|----------------------|---------------------|------------------------|------------------------|------------------------|
| | | | PE/ENV | PS&E | ROW | CON | | |
| 5309 New Starts ³ | Federal | Allocated | \$36,936,758 | \$35,478,726 | \$0 | \$0 | \$72,415,484 | \$942,200,000 |
| | | Programmed | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | | Planned | \$0 | \$20,000,000 | \$0 | \$849,784,516 | \$869,784,516 | |
| CMAQ ^{4,5} | Federal | Allocated | \$6,025,000 | \$12,540,145 | \$0 | \$4,959,855 | \$23,525,000 | \$41,025,000 |
| | | Programmed | \$0 | \$0 | \$0 | \$17,500,000 | \$17,500,000 | |
| | | Planned | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Prop 1B-MTA ⁶ | State | Allocated | \$0 | \$0 | \$3,249,497 | \$2,821,231 | \$6,070,728 | \$207,792,000 |
| | | Programmed | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | | Planned | \$0 | \$3,020,243 | \$14,139,210 | \$184,561,819 | \$201,721,272 | |
| Prop 1B- MTC ⁶ | State | Allocated | \$0 | \$8,834,306 | \$3,249,497 | \$2,916,197 | \$15,000,000 | \$100,000,000 |
| | | Programmed | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | | Planned | \$0 | \$3,389,547 | \$14,139,210 | \$67,471,243 | \$85,000,000 | |
| RIP ^{4,7} | State | Allocated | \$0 | \$0 | \$0 | \$0 | \$0 | \$68,278,000 |
| | | Programmed | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | | Planned | \$0 | \$0 | \$0 | \$68,278,000 | \$68,278,000 | |
| Prop 1A High Speed Rail Connectivity ⁸ | State | Allocated | \$0 | \$0 | \$0 | \$0 | \$0 | \$61,308,000 |
| | | Programmed | \$0 | \$0 | \$0 | \$27,090,000 | \$27,090,000 | |
| | | Planned | \$0 | \$0 | \$0 | \$34,218,000 | \$34,218,000 | |
| Prop 1B- SLPP ⁷ | State | Allocated | \$0 | \$0 | \$0 | \$0 | \$0 | \$19,722,000 |
| | | Programmed | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | | Planned | \$0 | \$0 | \$0 | \$19,722,000 | \$19,722,000 | |
| TCRP | State | Allocated | \$5,000,000 | \$9,000,000 | \$0 | \$0 | \$14,000,000 | \$14,000,000 |
| | | Programmed | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | | Planned | \$0 | \$0 | \$0 | \$0 | \$0 | |
| Prop K ⁴ | Local | Allocated | \$4,142,132 | \$27,418,669 | \$0 | \$15,479,025 | \$47,039,826 | \$123,975,000 |
| | | Programmed | \$0 | \$0 | \$0 | \$76,935,174 | \$76,935,174 | |
| | | Planned | \$0 | \$0 | \$0 | \$0 | \$0 | |
| | Totals | Allocated | \$52,103,890 | \$93,271,846 | \$6,498,994 | \$26,176,308 | \$178,051,038 | \$1,578,300,000 |
| | | Programmed | \$0 | \$0 | \$0 | \$121,525,174 | \$121,525,174 | |
| | | Planned | \$0 | \$26,409,790 | \$28,278,420 | \$1,224,035,578 | \$1,278,723,788 | |
| | | | \$52,103,890 | \$119,681,636 | \$34,777,414 | \$1,371,737,060 | \$1,578,300,000 | |

Attachment 1
Central Subway Full Funding Plan
Updated: April 2011

¹ Acronyms used for project phases include: PE/ENV - Preliminary Engineering/Environmental Documentation, PS&E - Plans, Specifications & Estimates or Final Design, ROW - Right of Way, CON - Construction. For the purposes of this table, construction includes procurement (e.g. vehicles).

² Acronyms used in this column include: CMAQ - Congestion Mitigation and Air Quality Improvement Program, MTC - Metropolitan Transportation Commission, RIP - Regional Improvement Program, SFMTA - San Francisco Municipal Transportation Agency, SLPP - State-Local Partnership Program and TCRP - Traffic Congestion Relief Program.

³ The \$20 million in planned funds for the PS&E phase of the project is subject to Congressional approval in federal Fiscal Year 2010/11. It was recommended as part of the FTA's New Starts report released in December 2009.

⁴ In January 2008, the Authority working with MTC and SFMTA brokered a fund swap of \$4 million in FY 2008/09 RIP funds programmed to Central Subway for an equivalent amount of CMAQ funds for the subject project. The swap gave SFMTA quicker access to the funds than would have been possible with the delay in available RIP funds. The \$4 million in CMAQ funds count toward the Authority's RIP commitment to the project. The RIP funds helped MTC address eligibility issues for a regional project. In November 2008, the Authority approved a swap that traded \$2,025,000 in FY 2008/09 Prop K funds for an equivalent amount of CMAQ funds to help SFMTA meet timely use of funds deadlines for three separate Regional Bike and Pedestrian Program (RBPP) projects (Res. 09-25), without any negative impacts to the Central Subway Program.

⁵ In September 2010, SFMTA brokered a fund swap of \$17.5 million in CMAQ funds from AC Transit for an equivalent amount of Section 5307 federal transit funds. SFMTA then released an equivalent amount of Prop 1B funds from the Central Subway project to transit rehabilitation projects that were previously funded with the swapped Section 5307 funds and used the CMAQ funds for the Central Subway project. In February 2011, SFMTA brokered a similar \$17.5 million CMAQ/Prop 1B fund swap with AC Transit that is pending MTC approval (anticipated in May 2011).

⁶ Both SFMTA and MTC have committed to dedicating these Prop 1B funds to the project. However, availability of Prop 1B funds is subject to the state's ability to sell bonds and therefore SFMTA will need to build some flexibility into the project's funding plan to account for possible delays. At its January 18, 2011 meeting the SFMTA Board committed to programming a total of \$225.5 million of its Prop 1B funds to the project. That amount was reduced by \$17.5 million to reflect the February 2011 CMAQ/Prop 1B swap referenced in footnote #5.

⁷ In November 2005, through Resolution 06-30, the Authority committed to prioritizing its RIP funds to four major capital projects, including the Central Subway. This commitment of RIP funds stems from the 2001 Regional Transportation Plan. A total of \$88 million is yet to be programmed given the ongoing state budget crisis and its impacts on the STIP. The Authority and SFMTA are working together to find ways to ensure that funds are available to the project when needed in the event that RIP funds are delayed. In March 2011, through Resolution 11-47, the Authority Board committed all of San Francisco's \$19.722 million in SLPP funds to the Central Subway project, thereby reducing the RIP commitment to \$68.278 million.

⁸ In May 2010, the California Transportation Commission adopted the program of projects for Prop 1A High Speed Rail Connectivity Funds, which included programming \$27 million for the construction phase of the Central Subway project. Availability of Prop 1A funds is subject to inclusion in the state budget and the state's ability to sell bonds. At its January 18, 2011 meeting the SFMTA Board committed to programming the entire share of Prop 1A funds (\$61 million) to the project.

Attachment 2
Conditions for Authority's Commitment of
Additional State RIP Funds to the Central Subway Project

The Authority's proposed commitment of up to \$150 million in additional State Regional Improvement Program funds to the Central Subway Project to provide supplemental assurances to the Federal Transit Administration in support of the San Francisco Municipal Transportation Agency's (SFMTA's) plan to cover potential cost overruns beyond the \$1.578 billion baseline project cost is contingent upon SFMTA approval of the following conditions:

1. The SFMTA Board shall adopt the same baseline scope, schedule, and cost/funding plan for the Central Subway project as adopted by the Authority Board, including the Ground Rules for Financial Management. (Note: only the baseline funding plan has been amended since the Authority's original baseline adoption in March 2010.)
2. To improve accountability, quality control, and transparency, by May 1, 2011, the Executive Director/Chief Executive Officer shall assign responsibility for Central Subway financing, funding, and grants management – along with the resources necessary to carry out these tasks – to grants management personnel who will report and be accountable directly to the Central Subway Program Manager.
3. The SFMTA agrees to provide all funding allocation request packages and programming requests for the Central Subway project to Authority staff for review and concurrence prior to submitting the materials to the administering agency (e.g. Caltrans, CTC, FTA). Authority staff will respond to the SFMTA within 3 business days.
4. The SFMTA agrees to bi-weekly check-ins with Authority staff and the Authority's project management oversight consultant regarding the project's funding and financing plan, grant management, and related funding matters.



Memorandum

Date: 04.15.11 **RE:** Plans and Programs Committee
April 19, 2011

To: Plans and Programs Commissioners Campos (Chair), Chu (Vice Chair), Avalos, Chiu, Wiener and Mirkarimi (Ex Officio)

From: Maria Lombardo – Chief Deputy Director for Policy and Programming *mel*
Lee Saage – Deputy Director for Capital Projects *LS*

Through: José Luis Moscovich – Executive Director *José Luis*

Subject: **ACTION** – Recommend Commitment of Up to \$150 Million in Additional State Regional Improvement Program Funds, with Conditions, to the Central Subway Project to Provide Supplemental Assurances to the Federal Transit Administration in Support of the San Francisco Municipal Transportation Agency's Plan to Cover Potential Cost Overruns Beyond the \$1.578 Billion Baseline Project Cost

Summary

The San Francisco Municipal Transportation Agency (SFMTA) is currently targeting December 2011 for Federal Transit Administration (FTA) approval of a Full Funding Grant Agreement (FFGA) for the Central Subway project. A FFGA is the FTA's official commitment of federal New Starts funds to the project and it is a necessary milestone that signals the project's ability to move into the construction phase. As shown in Attachment 1, the project's funding plan includes \$942 million in federal New Starts funds, equivalent to 60% of the funding for the \$1.578 billion project. One of the key milestones in seeking a FFGA is having a full funding plan for the project, which the SFMTA was able to develop in coordination with the Authority and the Metropolitan Transportation Commission (MTC) and submit to the FTA in February. FTA's review of the project's financial plan involves a determination as to whether the project has a full funding plan and a financial capacity assessment that includes evaluation of the SFMTA's plans to ensure that it can meet the cash flow needs of the project in the event that some of the funding is delayed or if costs increase over the baseline. These sensitivity tests are part of the FTA's FFGA approval process. The SFMTA has been working with the Authority, the City, and other funding partners to develop a strategy to respond to FTA's request that a plan be in place to address both potential cost overruns of up to 10% of the overall project cost, about \$150 million, and potential delays in the availability of funds. The SFMTA needs to have a solid plan in place by the end of the month to keep the project on track to receive approval of the FFGA in December. In order to leverage assurances from other funding partners, the Authority is proposing to commit up to \$150 million in additional state Regional Improvement Program (RIP) funds to cover potential cost overruns equivalent to 10% of total baseline project costs. Other funding partners will need to address how to secure bridge financing to cover delays in the availability of both state bonds and federal funds earmarked for the project. The proposed action by the Committee will therefore be contingent on securing those assurances in time for the Authority Board meeting of April 26. In addition, the conditions attached to this specific Authority commitment of RIP funds are shown in Attachment 2, and have already been agreed upon by the SFMTA. **We are seeking a recommendation to commit up to \$150 million in additional State RIP funds, with conditions, to the Central Subway project to provide supplemental assurances to the FTA in support of the SFMTA's plan to cover potential cost overruns beyond the \$1.578 billion baseline project cost.**

BACKGROUND

The San Francisco Municipal Transportation Agency's (SFMTA's) Third Street Light Rail Project is being implemented in two phases: Phase 1 includes the Initial Operating Segment (IOS), which entails the construction of a light rail line from Fourth and King Streets to Bayshore Boulevard and Sunnydale Avenue in Visitation Valley along the Third Street Corridor, and construction of the Muni Metro East

Light Rail Vehicle Maintenance and Operations Facility (MME). The IOS started revenue service in January 2007 and the MME started operations in September 2008. Prop B (predecessor to Prop K) and Prop K sales tax dollars funded the majority of the project, along with other state (i.e., Regional Improvement Program (RIP)) and federal funds programmed by the Authority. A critical piece of the funding plan for the IOS was ensuring that sales tax, other local and non-federal funds spent on the IOS count toward the minimum 20% local match requirements for federal New Starts funds for the Central Subway.

Phase 2 of the Third Street Light Rail Project, known as the Central Subway, will extend service north from King Street along Fourth Street, entering a tunnel north of Bryant Street, crossing beneath Market Street, and running under Stockton Street to Stockton and Washington Streets. A surface station will be provided near Brannan Street, and underground stations will be located at the Moscone Center, Union Square, and Chinatown.

On November 26, 2008, the Federal Transit Administration (FTA) approved the final Supplemental Environmental Impact Statement/Supplemental Environmental Impact Report for the Central Subway project. In September 2009, the SFMTA completed the preliminary engineering phase and on January 8, 2010, the FTA gave the SFMTA permission to enter the final design phase.

After meeting these critical project milestones, in March 2010, the Authority Board approved Resolution 10-51, adopting a baseline budget (i.e., cost estimate), schedule and funding plan for the Central Subway project. This action was consistent with the requirements in the Prop K Expenditure Plan for major capital projects, which are not subject to the 5-Year Prioritization Program (5YPP) requirement that applies to the programmatic categories in the Expenditure Plan, but require adoption of a baseline budget by the Authority Board. Adoption of a baseline budget, schedule and funding plan is an essential project management tool for both the SFMTA and the Authority, supporting the Authority's efforts to monitor project progress, including cost and schedule trends and the project's financial status. In addition, the baseline budget, schedule, and funding plan help the Authority to better forecast and manage financing needs for the Prop K program, since the Central Subway project, because of its size, is one of the primary drivers affecting the timing and size of debt issuance. Furthermore, because the Central Subway is a grandfathered Prop B project, it is not assessed financing costs for advancing sales tax funds. Instead, the financing cost from the advancement of funds for the Central Subway project must be borne by the entire Prop K program, resulting in less revenue being available for other Prop K projects and programs. Assessing performance against a baseline budget is therefore essential to the Authority's ability to forecast project needs and impacts on the Prop K program, and to shape its strategy for debt issuance and management.

Since adoption of the baseline project budget last year, the Authority has only updated the funding plan to close the project funding shortfall, or reflect funds swaps that held the project harmless or left it better off by providing access to funds sooner. Since the Committee last acted on the funding plan in February, to eliminate the funding shortfall, the plan has been updated to reflect Board approval of the swap of State-Local Partnership Program (SLPP) and RIP funds between the Presidio Parkway and the Central Subway (Resolution 11-47, approved 03.25.11) and a swap of federal Congestion Management and Air Quality Improvement (CMAQ) program and Prop 1B funds involving the SFMTA, the Metropolitan Transportation Commission (MTC), and AC Transit. MTC is anticipated to approve this swap in May 2011.

Authority's Existing Funding Commitment: As shown in Attachment 1, the Authority has committed a total of \$232 million in Prop K, SLPP, Traffic Congestion Relief Program (TCRP) and RIP funds to the Central Subway project or about 15% of the \$1.578 billion project budget. (Just over \$6 million of this

amount has been swapped out and replaced with federal CMAQ funds. See Attachment 1, footnote 4 for details). All \$14 million in TCRP funds have been allocated to the project. The Prop K commitment, of which \$76.9 million remains to be allocated, is consistent with current programming in the 2009 Strategic Plan. We are working with the SFMTA to reprogram the \$19.7 million in SLPP funds from the Presidio Parkway project to the Central Subway project. We are submitting materials to the California Transportation Commission this month to request these changes. The remaining portion of our funding commitment is the \$68.3 million in RIP funds, which we have not yet been able to program due to the impact of the ongoing state budget issues on the timing of availability of RIP funds.

The purpose of this memorandum is to seek a recommendation to commit up to \$150 million in additional State RIP funds, with conditions, to the Central Subway project to provide supplemental assurances to the FTA in support of the SFMTA's plan to cover potential cost overruns beyond the \$1.578 billion baseline project cost.

DISCUSSION

Full Funding Grant Agreement: The SFMTA is currently targeting December 2011 for FTA approval of a FFGA for the Central Subway project. A FFGA is the FTA's official commitment of federal New Starts funds to the project and it is a necessary milestone that signals the project's ability to move into the construction phase. The FFGA does not guarantee a given amount of New Starts funding every year. Instead, it is a commitment that the FTA will recommend funding consistent with the FFGA in each year's federal budget. The actual amount available will be subject to the annual congressional appropriation process. Receipt of the FFGA requires the fulfillment of several deliverables, such as securing all of the capital funding for the project, completing final design, and budgeting for the increase in operating funds from the project.

The FTA and the SFMTA developed a roadmap (i.e. a list of deliverables and corresponding deadlines) for receiving the FFGA. The road map includes submitting a full funding plan to the FTA by February 2011 to support the anticipated FFGA approval at the end of the calendar year. The SFMTA was able to meet the February deadline by working with its funding partners, namely the Authority and the MTC to close the project's funding shortfall and demonstrate commitment of all the identified funding sources. As shown in Attachment 1, the project's funding plan includes \$942 million in federal New Starts funds, equivalent to 60% of the funding for the \$1.578 billion project. The project will need the FFGA in order to proceed to the main construction phase.

Risk Management Plan: As we mentioned at the February Committee meeting, the SFMTA is currently refining its financial risk management plan that will provide a sufficient cushion to enable the project to keep moving despite possible delays in availability of funds. This is part of the larger risk management plan that covers all areas of risk for the project. The SFMTA has indicated that it is considering a suite of strategies to help address funding-related risks. These strategies include cost savings resulting from careful management of project costs, bid cost savings stemming from the favorable bid climate, assessment of the overall Central Subway project contingency when the FTA allows this to be reduced, looking at alternate fund sources that are available sooner, and establishing a short-term financing plan.

FTA's review of the project's financial plan involves a determination as to whether the project has a full funding plan and a financial capacity assessment that includes evaluation of the SFMTA's plans to ensure that it can meet the cash flow needs of the project in the event that some of the funding is delayed or if costs increase over the baseline. These sensitivity tests are part of the FTA's FFGA approval process. The SFMTA has been working with the Authority and other funding partners to respond to FTA's request that a plan be in place to address both potential cost overruns of up to 10%

of the overall project cost, which equates to about \$150 million and potential delays in the availability of funds. The SFMTA needs to have a solid plan in place by the end of the month to keep the project on track to receive approval of the FFGA in December.

On the issue of cost overruns, it is important to note that the Central Subway project team, including the Authority and the FTA, conducted four 4-day sessions to perform a detailed risk analysis of the project. As a result, the FTA recommended adding \$200 million to the budget, bringing it to the current total \$1.578 billion cost, and extending the schedule by 21 months to account for all the perceived risks. With proper project management mechanisms in place, there should be little risk of cost overruns above and beyond a project budget which already includes properly estimated risk. Still, given the current climate in Washington, D.C., we understand FTA's desire for supplemental assurances that the project's financial plan is solid.

We do believe that the FTA is correct about the need to plan for funding availability delays. The full funding plan for the project includes over \$436 million in unallocated State Prop 1A, Prop 1B Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA), Prop 1B SLPP and RIP funds. Given the ongoing state budget crisis and its impact on the State's ability to issue bonds, it's a virtual certainty that not all the State funds will be available when needed to support the project's cash flow needs. The SFMTA must also plan for delays in availability of federal New Starts funds, which are going to be subject to annual Congressional appropriations and larger decisions about the federal budget.

We have been working with the SFMTA and other funding partners for the Central Subway to develop a strategy that addresses all three issues affecting additional demand on project funds: cost overruns, delays in state bond fund availability, and delays in availability of federal funds.

After considerable evaluation we conclude that the Authority is best positioned to provide a commitment of an additional \$150 million in State RIP funds that will address FTA's question about potential cost overruns. In order to lower the risk to an acceptable level, we have proposed conditions on that action. Discussions are ongoing with the other funding partners for the project, leading to an expected agreement on how to address the issue of delay in availability of state and federal funds. In order to arrive at a comprehensive solution, all three issues must be addressed. The Authority's commitment is therefore intended to catalyze action by all funding partners in time to meet the FTA deadline at the end of April, and it is contingent on those actions.

We are proposing this commitment of additional RIP funds because of the need to satisfy FTA, but on the expectation that cost overruns will not materialize at this level. Having to actually spend RIP funds for cost overruns at this level would have a serious negative impact on the Authority's ability to program funds to a future generation of San Francisco transportation projects. Indeed, the Authority's proposed commitment, would represent about 3.5 biennial cycles of RIP programming in addition to our existing \$159 million remaining RIP commitments to Central Subway, Presidio Parkway, Caltrain Electrification, and the Downtown Extension to a Rebuilt Transbay Terminal. Prioritizing the next \$150 million to the Central Subway would extend our RIP commitments to close to 2030, based on average programming levels in the 2010 cycle. The RIP is the only source of discretionary funds that we can use to leverage Prop K, particularly to fund large system expansion projects. We would likely otherwise program these funds to the next generation of transit expansion/improvement projects being prioritized through the San Francisco Transportation Plan. There is far more demand for transportation funds than available revenues. Thus, we propose making the commitment of additional RIP funds to the Central Subway contingent upon the SFMTA's acceptance of the conditions listed in Attachment 2, which are intended to protect our current and future (i.e., RIP) financial commitments to the project and to San Francisco's

transportation program. The SFMTA has already confirmed it will accept the proposed conditions and has calendared approval of the project's baseline scope, schedule, and cost/funding plan at its April 19 meeting.

The Central Subway project is the City's highest-priority transit project. Through years of effective advocacy and support from the legislative delegation in Washington, D.C., it is now poised to receive its FFGA. With the change in political climate in D.C., however, it is important to ensure that every aspect of the project's profile, particularly its funding plan, is fully documented and supported, to demonstrate that the project is indeed a worthy recipient of a major federal funding commitment. We believe that the strategy we're developing, in cooperation with the SFMTA and other funding partners will deliver just that message, and position the project very favorably to secure the FFGA.

We are seeking a recommendation to commit up to \$150 million in additional State RIP funds, with conditions, to the Central Subway project to provide supplemental assurances to the FTA in support of the SFMTA's plan to cover potential cost overruns beyond the \$1.578 billion baseline project cost.

ALTERNATIVES

1. Recommend commitment of up to \$150 million in additional State RIP funds, with conditions, to the Central Subway project to provide supplemental assurances to the FTA in support of the SFMTA's plan to cover potential cost overruns beyond the \$1.578 billion baseline project cost.
2. Recommend commitment of up to \$150 million in additional State RIP funds, with conditions, to the Central Subway project to provide supplemental assurances to the FTA in support of the SFMTA's plan to cover potential cost overruns beyond the \$1.578 billion baseline project cost, with modifications.
3. Defer action, pending additional information or further staff analysis.

CAC POSITION

Due to the time sensitive nature of this item, we are presenting it directly to the Plans and Programs Committee at its April 19 meeting. The CAC will be briefed on this item at its April 27 meeting.

FINANCIAL IMPACTS

There would be no impacts on the Authority's adopted Fiscal Year 2010/11 budget or on future budgets associated with the recommended action.

RECOMMENDATION

Recommend commitment of up to \$150 million in additional State RIP funds, with conditions, to the Central Subway project to provide supplemental assurances to the FTA in support of the SFMTA's plan to cover potential cost overruns beyond the \$1.578 billion baseline project cost.

Attachments:

1. Central Subway Full Funding Plan
2. Conditions for Authority's Commitment of Additional State RIP Funds to the Central Subway Project