



SACOG Board of Directors

Item # 15-9-5 Action

September 10, 2015

Approve Regional Funding Program Targets in 2015

Issue: How should the SACOG Board address the reduction in State Transportation Improvement Program (STIP) Funds, as announced by the State, within the SACOG four-county 2015 Regional Funding Program?

Recommendation: The Transportation Committee unanimously recommends that the Board approve Option 3, as described below, for final programming target amounts for the 2015 Regional Funding Program.

Committee Action/Discussion: SACOG staff has been actively engaged in tracking ongoing discussions related to the STIP within the special session of the legislature and at the California Transportation Commission (CTC). On August 27th the CTC took action and adopted a “Zero STIP” fund estimate. While the Special Session has had substantial discussion related to stabilizing the STIP and exploring transportation revenue options, actions have not occurred on a timeframe to impact the current 2016 STIP fund estimate and consequently provide a guarantee of future STIP funds for SACOG’s 2015 regional funding program. CTC and Caltrans have noted, however, a willingness to readdress the STIP fund estimate in the future should substantial legislation come forward, either by the end of the current legislative session on September 11, or in the 2016 session. While there is the possibility of new STIP funding through a later STIP augmentation or new STIP, these state actions will not change the December 15, 2015, deadline for regional agencies to submit the reprogramming of their existing STIP funds.

During the August cycle, SACOG staff sought input from the Committees on how the Board should address the reduction in STIP funds. The item introduced potential options including targeted and general program reductions, maintaining the original targets with a third year of federal apportionments, and new project delivery strategies not mutually exclusive of the other options. Direction was given by the Board Committees for staff to continue to monitor the Special Session and CTC dialogue and then return in September with a further update on legislative information and funding options for the 2015 Flexible Funding Round.

Attachment A describes three options the Transportation Committee considered in setting the funding targets. Option 3 was the staff recommendation and was unanimously agreed upon by the Transportation Committee.

Option 1 simply reduces the 2015 Regional Funding Program Fund Estimate to reflect the Zero STIP. There are multiple variations to this option possible, with two of them described in more detail in Attachment A. One of these variations is to take the entire 30 percent funding reduction out of the Regional/Local funding program, which is most closely tied to the STIP. The other option variation reduces the funding target proportionally for all competitive regional programs to accommodate for the Zero STIP impact.

While the Option 2 approach, which involves programming up to an additional year of federal funds, allows more projects to be guaranteed programming during the 2015 regional funding round, there are numerous drawbacks to the option. Arguments against this approach include the fact that the Board previously adopted funding guidelines that assumed two years of federal funding and local agency sponsors may have

approached the call for projects differently if they knew more funding would be programmed through the current funding round. Furthermore, there is a high degree of uncertainty in various federal and state funding policy areas that result in risks for locking in programming commitments further into the future. Uncertainties include future federal funding levels, state legislative actions, and how the Cap & Trade funding programs may evolve to provide more leveraging opportunities.

Limiting the funding targets to only two years of federal funds in this cycle also protects the option for the Board to make policy changes for the next regional funding program rounds. The MTP/SCS update process identified priorities that could be advanced further in program redesigns, including an increased emphasis on place-making and fix-it-first investments, such as a new Complete Streets program that better links road rehabilitation and multimodal mobility needs in communities with supportive land uses.

Alternatively, Option 3 is a hybrid of the other two. In this option, projects are recommended for funding up to the original funding target amount totals, but these projects are separated into two categories. These would distinguish between those guaranteed programming, identified in a Tier 1 list, and those that are not guaranteed programming, identified in a Tier 2 list. The budget total of \$38.8 million for the Tier 2 project list would be equivalent to the loss of STIP funding that needs to be reflected in the final funding target amounts. The number of Tier 2 projects that could ultimately receive funding would then be dependent upon a combination of factors: future STIP funds, loan repayments, and tighter project delivery policies that emphasize “use it or lose it” strategies. In Option 3, staff would rank projects in the Tier 2 list by priority, up to the total amount of funding available by program. Projects left unfunded on the Tier 2 list by the time of the next regional funding program round would not be guaranteed programming and would be required to compete again in a later regional funding program round.

Option 3, as recommended by the Transportation Committee, includes an additional \$11,131,500 in non-competitive funding commitments such as exchange, planning and monitoring, and transportation control measures. As referenced in the April 2015 Board item, \$1 million in SACOG Managed Funds is additive to the funding available and is applied to the non-competitive portion of the Community Design program.

It should be noted that each of the funding target options assume that the Zero STIP has the greatest impact on the Regional/Local Program. Because of this, the final project selection efforts for this program require a high degree of attention in the final rounds of analysis to shape the staff recommendations. Following the initial round of review of by the Program’s working group, many projects fell within a broad middle range based on the performance outcomes against which they were evaluated. Emphasizing the Board-adopted Regional/Local program goals (see Attachment B) in the final analysis is an opportunity to further distinguish project scores and refine the final staff funding recommendations.

Approved by:

Mike McKeever
Chief Executive Officer

MM:RDV:ds
Attachments

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Funding Program Target Options

The “Zero STIP” results in \$38.8 million less in available competitive funding than the estimate approved by the Board in April. As discussed in the staff report, the original estimate assumed new STIP funds to program based on historical averages for SACOG. In light of the Zero STIP just adopted by the California Transportation Commission (CTC), three funding target options have been prepared for Board discussion.

It should be noted that negative impacts from any of the three options could be partially mitigated through tighter project delivery policies that emphasize “use it or lose it” strategies. Effectively implementing such strategies could result in the recirculation of funding later to new projects. For example, the Board could make conditions on any project awards that require sponsors to meet the milestones in their project applications or risk the reprogramming of any unallocated portion of their funding award. If there is interest by the Board in tighter project delivery policies, the pros and cons of various “use it or lose it” strategies will be brought forward for discussion in the October Board committee cycle.

Option 1: Reduce the 2015 Regional Funding Program Fund Estimate to reflect the drop in available revenue

This option simply reduces the regional funding target to reflect the Zero STIP. Tables 1 and 2 describe two variations of Option 1 that can be considered two ends of a range. On one end of the range, Option 1-A, the entire reduction comes out of the Regional/Local program while at the other end of the range, Option 1-B, reduces all competitive regional programs proportionately to accommodate the estimated 30 percent reduction in revenue.

1-A) Reduce available funding within the Regional/Local program by approximately 30 percent to accommodate the loss of revenue. Table 1 shows the impact of this option by funding program compared to the anticipated target presented to the SACOG Board in April. This option puts the reduction entirely on the Regional/Local program because it is the program that is most closely tied to the STIP.

Table 1: Option 1-A, Take the Entire Reduction out of the Regional/Local Program*

	Requested Funding	Original Targets April 2015	New Targets: Reduced STIP	Difference
Community Design	\$28,615,000	\$17,997,000	\$17,997,000	0
Bicycle & Pedestrian	\$52,380,910	\$11,570,000	\$11,570,000	0
Regional/Local	\$276,403,558	\$98,986,000	\$60,191,000	(\$38,795,000)
TOTAL	\$357,399,468	\$128,553,000	\$89,758,000	(\$38,795,000)

*Non-competitive funding commitments such as exchange, planning and monitoring, and transportation control measures are \$11,131,500.

1-B) Reduce available funding across all competitive regional programs proportionately to accommodate the loss of revenue. Table 2 shows the impact of this option by funding program compared to the anticipated target presented to the SACOG Board in April. This approach moderates the negative impact to the Regional/Local program, which has the largest amount of funding requested.

Table 2: Option 1-B, Reduce Programs Proportionally to Accommodate the Reduction *

	Requested Funding	Original Target April 2015	New Target: Reduced STIP	Difference
Community Design	\$28,615,000	\$17,997,000	\$12,566,000	(\$5,431,000)
Bicycle & Pedestrian	\$52,380,910	\$11,570,000	\$8,078,000	(\$3,492,000)
Regional/Local	\$276,403,558	\$98,986,000	\$69,114,000	(\$29,872,000)
TOTAL	\$357,399,468	\$128,553,000	\$89,758,000	(\$38,795,000)

*Non-competitive funding commitments such as exchange, planning and monitoring, and transportation control measures are \$11,131,500.

Discussion of Option 1 by program:

The Community Design Program seeks to promote the implementation of the regional Blueprint principles through the construction of improvements in the public right-of-way.

The impacts of Option 1-A and 1-B can be considered in terms of projects that could potentially receive funding. For example, this program has two competitive award categories:

- 1) conventional funding projects ranging in size from \$300,000 to \$4 million (average request of \$2 million) and Pre-construction \$150,000-\$500,000 (average request of \$500,000; and
- 2) Complete Streets projects ranging in size from \$1.5 million-\$4 million (average request of \$2 million).

A reduction in this program of approximately \$5.5 million, as shown in Table 2, could result in the net loss of two conventional or complete streets-focused construction projects or 10 average pre-construction projects. The Community Design Working Group developed three tiered lists noting the possibility of a reduced fund estimate.

The Bicycle & Pedestrian Program is intended to support the efforts of local agencies to construct infrastructure with walking, bicycling, and transit use as primary transportation considerations, and to provide facilities for walking and biking within and between the communities of the Sacramento region.

The impacts of Option 1-A and 1-B can be considered in terms of projects that could potentially receive funding. For example, the average competitive project in this program was \$1.5 million. A reduction in this program of approximately \$3.5 million, as shown in Table 2, could result in the net loss of 2 -3 projects.

The requested amount noted in Tables 1 and 2 is inclusive of projects that choose to compete in the State and Regional Active Transportation Program. This amount will decrease when the

results of those two programs are finalized. The Working Group developed a priority order list for this program.

The *Regional/Local Program* promotes projects that provide regional benefits and that develop and maintain the regional transportation network. The net difference between Option 1-A and Option 1-B for this program is \$8,923,000. The average cost of a Regional/Local project is \$3-4 million. The variation between the options is an average of two or three project funding requests.

Option 2: Maintain the Draft 2015 Regional Funding Program Fund Estimate through Programming Future Year Revenue

This option involves programming up to a third year of federal RSTP and CMAQ apportionment to maintain the amount of revenue in the draft funding targets from April. It would be similar to the approach taken in the prior funding round in 2013 when three years of federal funds were programmed. In this approach, SACOG's estimated federal apportionment would be programmed an additional year into the future, in this case through FFY 2019/20.

While the Option 2 approach that involves programming up to an additional year of federal funds allows more projects to be guaranteed programming during the 2015 regional funding round, there are numerous drawbacks to the option. Arguments against this approach include the fact that the Board previously adopted funding guidelines that assumed two years of federal funding and local agency sponsors may have approached the call for projects differently if they knew more funding would be programmed through the current funding round. Furthermore, there is a high degree of uncertainty in various federal and state funding policy areas that result in risks from locking in programming commitments further into the future. Uncertainties include future federal funding levels, state legislative actions, and how the Cap & Trade funding programs may evolve to provide more leveraging opportunities. Limiting the funding targets to only two years of federal funds in this cycle also protects the option for the Board to make large policy changes later to the regional funding programs. Among the priorities identified through the MTP/SCS update process that could be advanced further in program redesigns is an increased emphasis on place-making and fix-it-first investments, such as a new Complete Streets program that better links road rehabilitation and multi-modal mobility needs in communities with supportive land uses.

In Option 2, SACOG federal programming would extend out five years for most programs, risking a negative impact on the size and timing of the next competitive regional funding round.

Table 3: Option 2, Maintain the Draft Funding Target by Programming Future Funds*

	Original Targets	New Targets:	Difference
Community Design	\$17,997,000	\$17,997,000	\$0
Bicycle & Pedestrian	\$11,570,000	\$11,570,000	\$0
Regional/Local	\$98,986,000	\$98,986,000	\$0
TOTAL	\$128,553,000	\$128,553,000	\$0

*It should be noted that Table 3 could be scaled to a smaller portion of available federal funds such as 25% or 50% to preserve flexibility. Additionally, the funds could be targeted to specific programs.

Non-competitive funding commitments such as exchange, planning and monitoring, and transportation control measures are \$11,131,500.

Option 3: Create a Tier 1 and Tier 2 Project List

This option can be considered a hybrid of Options 1 and 2. In this option, projects are recommended for funding up to the original funding target amounts, but these projects are separated into two categories that distinguish between those guaranteed programming in a Tier 1 list, and those that are not guaranteed programming, in a Tier 2 list.

While the Tier 1 funding targets reflect the same \$38.8 million reduction from the other funding target options described, staff analysis suggests that there is a possibility that some, if not all, of this funding gap could be closed over the next two years through a combination of a STIP augmentation, loan repayments, and tighter project delivery policies that emphasize “use it or lose it” strategies.

The distribution of Tier 1 funding targets in Table 4 reflects reductions in all three programs. The change is greatest in the Regional/Local program because it is most impacted by the Zero STIP now, but also has the greatest upside later from new funding that could come through a STIP augmentation and tighter “use it or lose it” project delivery strategies.

Table 4: Option 3, Tier 1 Target*

	Requested Funding	Original Target April 2015	New Target: Tier 1 Only	Difference: Original & Tier 1 Only
Community Design	\$28,615,000	\$17,997,000	\$15,297,450	(\$2,699,550)
Bicycle & Pedestrian	\$52,380,910	\$11,570,000	\$9,834,500	(\$1,735,500)
Regional/Local	\$276,403,558	\$98,986,000	\$64,626,050	(\$34,359,950)
TOTAL	\$357,399,468	\$128,553,000	\$89,758,000	(\$38,795,000)

Non-competitive funding commitments such as exchange, planning and monitoring, and transportation control measures are \$11,131,500.

In Option 3, staff would rank projects for the Tier 2 list by priority up to the total amount of funding available by program. The priority ranking is important because the revenues supporting the Tier 2 project list are not as certain as those supporting the Tier 1 list. Projects left unfunded on the Tier 2 list by the time of the next regional funding program round would not be guaranteed programming and would be required to compete again through a new call for projects. As displayed in Table 5, the combination of a Tier 1 and Tier 2 would be equivalent to the original funding targets.

Table 5: Option 3, Tier 2 Target & Tier 1+2 Summary*

	Requested Funding	Original Targets, April	New Targets: Tier 1 Only	New Targets: Tier 2 Only	Difference: Original & Tiers 1+2
Community Design	\$28,615,000	\$17,997,000	\$15,297,450	\$2,699,550	\$0
Bicycle & Pedestrian	\$52,380,910	\$11,570,000	\$9,834,500	\$1,735,500	\$0
Regional/Local	\$276,403,558	\$98,986,000	\$64,626,050	\$34,359,950	\$0
TOTAL	\$357,399,468	\$128,553,000	\$89,758,000	\$38,795,000	\$0

*Non-competitive funding commitments such as the RSTP exchange, planning and monitoring, and transportation control measures are \$11,131,500.

While each of the three options would benefit from tighter project delivery policies that emphasize “use it lose it” strategies, an advantage of Option 3 over the other options is that it includes the creation of a prioritized list of projects (Tier 2) that could be drawn upon if/when funds become available through project delivery failures. In the other options, project delivery savings would simply free up revenues to go towards future regional funding rounds.

Goals of the 2015 Regional/Local Funding Program

The SACOG Board sets the goals for the regional funding programs at the beginning of each funding round. The 2015 Goals listed below were adopted by the SACOG Board on April 16, 2015 for the Regional/Local Program, and included in the application and guidelines released later that month.

Emphasize Cost-Effective Programming Decisions

The constrained federal and state funding environment calls for placing an even greater emphasis on making the most cost-effective programming decisions, which is achieved by maximizing performance outcomes and minimizing project costs. Priority will be given to projects for which the sponsor has already funded the initial phases with its own resources (i.e., environmental, design and/or right-of-way).

Fix It First: Asset Management and Maintaining a State Of Good Repair

Local and state transportation budgets are strained under the weight of stagnant revenues, the loss of gas tax buying power and growing deferred maintenance costs, reducing the ability of member agencies to operate and maintain existing facilities and services. The 2015 Regional/Local Program will continue to focus regional support on the maintenance of federal-aid eligible transportation facilities. Investment priorities include fix it first projects that address:

1. complete streets/corridors elements that serve an existing or forecasted demand,
2. innovative cost-effective practices to extend the life of existing assets, such as the use of recycled asphalt or rolling stock rehabilitation, and
3. planning and budgeting studies to better manage existing assets, such as Pavement Management Systems and Transit Asset Management Plans.

Focus on Small or Medium-Sized Capital Projects

The Regional/Local Funding Program is an important source of capital funding. As in past funding cycles, capital projects providing regional benefits have been awarded funds through the Regional/Local program. A challenge for this policy priority is the limited number of projects that can be funded if the programming revenue is severely constrained. For the federal and state funds that are available, the emphasis will be on small- and medium- sized projects. Project performance outcomes will be assessed relative to the funding request amount.

Leverage Regional Funds for Near-term Project Development

Funding from competitive programs likely to appear in the near future need to have “shelf ready” capital projects that are deliverable and thereby ready to utilize funding. A relatively small but strategically allocated portion of the total revenue may go to early project development efforts for projects included within the next 10 years of the 2012 MTP/SCS.