

San Francisco Peninsula Rail Program

Memorandum

To: Executive Steering Committee

From: Alfonso Rodriguez – Project Director, TJPA
Dahlia Chazan – Deputy Chief for Planning, Caltrain
Jesse Koehler – Rail Program Manager, SFCTA

Date: July 21, 2023

Re: Item 5 – Update on DTX/The Portal Capital Investment Grant Request for Project Rating and Updated 20-Year Financial Plan

SUMMARY

The Federal Transit Administration (FTA) requires that projects seeking funding from the Capital Investment Grant (CIG) Program be formally evaluated, consistent with authorizing legislation and CIG policy guidance. In August 2023, the Transbay Joint Powers Authority (TJPA) plans to submit a rating request package to the FTA for the Downtown Rail Extension (DTX or The Portal). The rating request will be accompanied by required documentation, including an updated 20-year financial plan (Financial Plan), which will incorporate an adjusted capital cost estimate and updated ridership forecasting. The adjusted capital estimate reflects the outcome of the comprehensive risk review of The Portal conducted in Spring 2023, and the adjusted ridership forecasts reflect updated FTA guidance regarding preparation of these forecasts.

At its August 10, 2023, meeting, the TJPA Board will receive a presentation on the updated Financial Plan and capital cost estimate, consistent with this memorandum. At the same meeting, the TJPA Executive Director will seek Board authorization to submit the rating request to FTA. Following the rating submittal, the project plans this Fall to receive FTA's approval to enter the "Engineering" phase of the CIG process. At this milestone, the CIG funding amount will be established in absolute dollar terms, after which any cost increases would be a local responsibility. The timeline for required Engineering phase activities will also begin, establishing an outside deadline for completion of these activities.

BACKGROUND

On December 3, 2021, the FTA notified TJPA that The Portal had been admitted into the "Project Development" phase of the CIG process. Since that time, TJPA and the other partner agencies have continued to advance Project Development activities for the project under the

terms of the San Francisco Peninsula Rail Program Memorandum of Understanding (MOU), executed in 2020.

In February 2023, TJPA submitted an initial request to FTA to advance the project into the Engineering phase, which follows Project Development in the CIG process. This request was accompanied by project information, including the initial Financial Plan for The Portal. Since February, FTA and its Project Management Oversight Consultant (PMOC) have conducted a comprehensive risk review of The Portal, resulting in recommended adjustments to project schedule and cost. In May, FTA issued updated guidance regarding preparation of ridership forecasts for candidate CIG projects, which now must consider the impacts of Covid, as discussed further below.

In order to consider advancing the project into the Engineering phase, FTA must prepare an evaluation/rating of the project. In August 2023, TJPA plans to submit a rating request package to the FTA, with this package reflecting the outcomes of the risk review and the associated changes to project cost, schedule, and risk documentation, as well as revised ridership forecasts. Submitting this rating request in August will keep the project on track for inclusion in the White House's March 2024 budget recommendation and for completion of the CIG Full Funding Grant Agreement (FFGA) by Spring 2025.

At its January 20, 2023, meeting, the ESC received a report on the initial Financial Plan that was subsequently submitted to FTA. This memorandum summarizes the information planned to be submitted to FTA in August, discusses areas of refinement/change since February, and outlines next steps for the CIG process.

PROJECT DEFINITION

A number of adjustments to project scope are under consideration for inclusion in The Portal's project definition for the August submittal.

Service Plan and Rolling Stock

The initial Financial Plan completed in February reflected an assumed opening year service plan for Caltrain consisting of weekday service of four trains per peak hour per direction (pphpd) to Fourth and Townsend Station and the Transit Center. This level of Caltrain service can be provided with the new electric multiple unit (EMU) fleet that will be introduced to the Caltrain corridor when the Peninsula Corridor Electrification Project (PCEP) is completed in 2024, without triggering a need for additional rolling stock. Under this service scenario, a total of six trains pphpd would be provided on the Peninsula Corridor between Fourth and King/Townsend and San Jose, consistent with Caltrain's separate/existing FFGA with FTA for PCEP. Caltrain's diesel fleet would provide two trains pphpd to the surface 4th and King Station, with four EMU trains pphpd continuing to the Transit Center via the new underground Fourth and Townsend Station.

TJPA and Caltrain are considering the potential addition of one EMU trainset to The Portal project definition. Inclusion of the one trainset in The Portal project definition would enable Caltrain to operate six trains pphpd on The Portal in opening year. This higher level of service would also increase forecast ridership. With associated capital costs, the one trainset would add an estimated \$55 million to The Portal budget, with CIG funds sought for 49.4 percent of this cost.

Other Adjustments to Scope

The initial Financial Plan excluded the cost of maintenance-of-way vehicles and retrofits of Caltrain’s EMU fleet to allow level boarding at The Portal’s stations. Both of these items will be included in the August submittal, at a combined estimated additional cost of \$42 million including contingencies.

RISK REVIEW, SCHEDULE, AND CAPITAL COST ESTIMATE

The initial Financial Plan presented to the ESC and TJPA Board in Winter 2023 reflected a total capital cost estimate of \$6.68 billion in year-of-expenditure (YOE) terms. This estimate was exclusive of financing costs, which were preliminarily estimated at \$307 million on the basis of the overall estimate at that time (pre-risk review).

In Spring 2023, the PMOC completed its comprehensive risk review of the project on behalf of FTA. The review was facilitated in part through a multi-day risk workshop convened in May. The PMOC recommended: a modest increase in assumed escalation in 2025; and a 6-month increase in schedule to account for risks associated with items such as right-of-way acquisition, utility relocation, and railyard coordination. These changes result in a recommended \$407 million increase in cost, in order to maintain FTA’s required 65 percent level of cost confidence.

The below table presents the current working estimate for the adjusted capital cost of the project. This figure is subject to refinement, to reflect: the outcome of pending decision on trainset/service plan; and the completion of the updated Financial Plan, including re-estimation of financing costs based on the post-risk review cost estimate.

Cost Item	Billions of YOE\$
Capital Cost Estimate as of February 2023 (excluding financing costs)	\$6.68
Scope Adjustments (subject to pending decision-making)	\$0.1
PMOC-Recommended Changes	\$0.4
Financing Costs (to be re-estimated based on post-risk review cost estimate)	~\$0.3 - 0.4
Working Estimate of Adjusted Capital Cost (subject to refinement)	~\$7.5 - 7.6

CAPITAL FUNDING PLAN

The updated Financial Plan currently under preparation will revise the project's capital funding plan to account for the increase in capital costs and funding developments since February, including the award of TIRCP project development funds to the project. The CIG funding share will be maintained at 49.4 percent of capital cost.

For purposes of securing entry to the CIG Engineering phase, the project must have at least 30 percent of the non-CIG capital funds committed. The project currently has an estimated \$1.19 billion in committed funding, or approximately 31 percent of non-CIG funds.

The fully-committed capital funding plan must be in place prior to execution of the FFGA. This will require confirming currently planned sources, including remaining State funding, and securing new and/or expanded funding mechanisms. There are several potential additional funding sources under consideration for the project, including increased local sources, such as an extension to the Transbay Tax Increment mechanism.

PROJECT RATING

Under authorizing legislation and CIG policy guidance, FTA evaluates projects with respect to "Project Justification" and "Local Financial Commitment." In order to be recommended for funding, projects must achieve at least a "Medium" rating for both Project Justification and Local Financial Commitment. The Portal project team has developed preliminary estimates of anticipated ratings in both areas; however, the ratings will be formally established through FTA's review of project information submitted by TJPA.

Project Justification Rating and Ridership Forecast

The Project Justification rating is based on the following co-equal criteria: land use, economic development, mobility, cost-effectiveness, environmental benefits, and congestion relief.

In May 2023, FTA issued updated guidance to project sponsors. Most notable in this guidance was a requirement that project sponsors prepare and submit two sets of ridership forecasts: one forecast baselined from pre-pandemic conditions; and an additional forecast baselined from post-pandemic conditions. SFCTA, TJPA, and Caltrain are working to prepare these forecasts, working in consultation with FTA technical staff.

FTA will evaluate Project Justification by blending the pre- and post-Covid forecasts, specifically by assuming a modified post-Covid condition for the "current" year and average of pre-Covid and post-Covid forecasts for the horizon year of 2045. These changes will generally put downward pressure on some of the Project Justification criteria, due to the significant reductions

in ridership experienced by Caltrain and other regional transit agencies following the Covid pandemic. Initial internal analysis indicates that the project is expected to achieve an overall Project Justification rating of “Medium”.

Local Financial Commitment Rating

The Local Financial Commitment (LFC) rating is based on the following criteria: current capital and operating condition (25 percent); commitment of capital and operating funds (25 percent); and reasonableness of cost estimates and capital funding capacity (50 percent). In addition, projects receive a one-level “bump-up” if CIG share is 49.4 percent or less. The project team’s internal analysis of rating indicates an expectation of at least “Medium” for the LFC rating. FTA’s Financial Management Oversight Consultant (FMOC) will review the updated Financial Plan and recommend the LFC rating.

20-YEAR FINANCIAL PLAN

TJPA is currently leading the update to the Financial Plan, working in partnership with Caltrain and SFCTA. The updated Financial Plan will generally include the same components as described in the January 2023 report to the ESC on the initial Financial Plan. As discussed in that report, the Financial Plan provides a 20-year forecast of the sources and uses of capital funds and operations and maintenance (O&M) funds for both TJPA and Caltrain, for both the existing system and the implementation of The Portal.

Capital Plan

The Financial Plan will be updated to reflect new information and decisions, including the adjusted capital cost, capital funding plan, and scope adjustments described above.

Operations and Maintenance

The updated Financial Plan will reflect the outcome of the pending service plan decision described above. In addition, the Financial Plan will be updated to reflect current information and forecasts, including updated base information for TJPA and Caltrain. Finally, forecast fare revenues will be adjusted for consistency with revised ridership forecasts. As noted in the January 2023 ESC report, the allocation of incremental fare revenue is to be negotiated between Caltrain and TJPA, including the calculation of the increment.

NEXT STEPS

The staff and consultant team are advancing the work described above to prepare all required information for the rating request, including the Financial Plan, ridership forecasts, and rating templates. At its August 10, 2023, meeting, the TJPA Board will receive a presentation on the

updated Financial Plan and cost estimate, consistent with this memorandum. At the same meeting, the TJPA Executive Director will seek Board authorization to submit the rating request to FTA.

Following the rating submittal, the project plans this Fall to receive FTA's approval for The Portal to enter the "Engineering" phase of the CIG process. At this milestone, the CIG funding amount will be established in absolute dollar terms, after which any cost increases would be a local responsibility. The timeline for required Engineering phase activities will also begin, establishing an outside deadline for completion of these activities.

San Francisco Peninsula Rail Program Executive Steering Committee

Downtown Rail Extension (DTX) now also known as The Portal

Item #5: Update on DTX/The Portal Capital Investment Grant Request for Project Rating and Updated 20-Year Financial Plan

July 21, 2023



Overview

- Candidate CIG projects must be formally evaluated by TJPA, and must achieve a minimum rating to be eligible for funding.
- TJPA plans to submit a complete rating request to FTA in August, with updated project information:
 - Adjustments to project definition to reflect FTA input and other decisions
 - Updated 20-Year Financial plan, with capital cost estimate reflecting outcome of PMOC risk review
 - Revised ridership forecasts to reflect latest FTA reporting instructions
- ESC received report on initial 20-Year Financial Plan in January 2023.
 - This presentation summarizes work underway to prepare rating submittal and reviews areas of change since January.

Timeline Context for FTA Process

- December 2021: FTA admitted The Portal into the CIG Project Development process
- February 2023: TJPA submitted initial request to advance the project into the FTA Engineering phase
- Spring 2023: FTA PMOC conducted comprehensive risk review and recommended adjustments to capital cost
- May 2023: FTA released updated guidance for evaluation of CIG projects, including consideration of Covid's impact on transit ridership
- Summer 2023: The Portal project team preparing updated 20-Year Financial Plan and ridership forecasts
- August 2023: TJPA to submit complete request for rating to FTA
- Fall 2023: Project planned to enter FTA Engineering phase, establishing CIG funding amount in absolute terms
- Feb/Mar 2024: White House makes annual budget recommendations to Congress

Project Definition

A number of adjustments to project scope are under consideration for inclusion in The Portal's project definition for the August submittal.

- Service Plan and Rolling Stock:
 - February submittal assumed no rolling stock included in The Portal project definition
 - Caltrain and TJPA are considering the potential inclusion of one trainset
 - Inclusion of one trainset would enable Caltrain to provide 6 trains per peak hour per direction to the Transit Center on opening day
 - Estimated capital cost of approximately \$55 million
- Other Adjustments to Scope – FTA requires inclusion of two items not previously assumed:
 - Level-boarding retrofits to Caltrain fleet (\$31 million)
 - Electric maintenance-of-way vehicles (\$11 million)

PMOC Risk Review

- FTA PMOC conducted comprehensive risk review, including multi-day risk workshop in May 2023
- Substantial concurrence with project scope, cost, schedule, risk, and contingency
- PMOC has recommended:
 - Modest adjustment to escalation in 2025
 - 6-month increase in schedule to better account for risks such as ROW, utilities, and railyard coordination
- PMOC recommended increase in capital cost: \$407 million

Adjusted Capital Cost

- Below table presents the current working estimate for the adjusted capital cost of the project
- Figure is subject to refinement, to reflect:
 - Outcome of pending decision on trainset/service plan
 - Completion of the updated Financial Plan, including re-estimation of financing costs

Cost Item	Billions of YOES
Capital Cost Estimate as of February 2023 (excluding financing costs)	\$6.68
Scope Adjustments (subject to pending decision-making)	\$0.1
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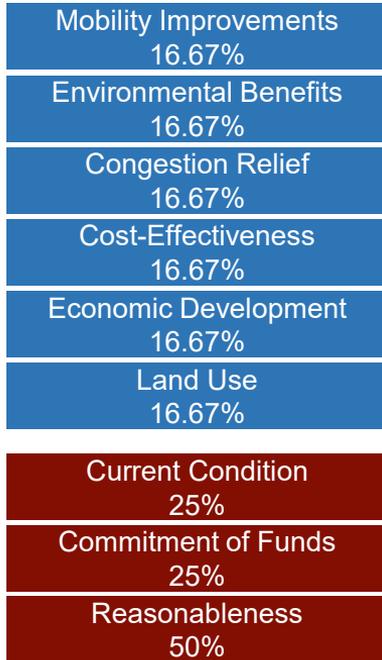
Capital Funding

Updated Financial Plan will revise the project's capital funding plan to account for the increase in capital costs and funding developments since February.

Component of Funding	Billions of YOES	
FTA Capital Investment Grant	~\$3.70 - 3.75	<i>49.4% of total</i>
Currently Committed Funds	~\$1.2	<i>31% of non-CIG</i>
Currently Budgeted Funds	~\$0.5	<i>14% of non-CIG</i>
Planned Funds	~\$2.10 - 2.15	
Total	~\$7.5 - 7.6	

FTA Project Rating Structure

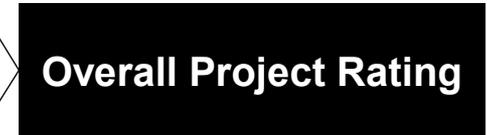
Individual Criteria Ratings



Summary Ratings



Overall Rating



Must be at least "Medium" for project to be eligible for FFGA

Project Justification Rating and Ridership Forecasts

- FTA guidance released in May 2023 requires project sponsors to prepare two sets of ridership forecasts:
 - “Pre-covid” forecast – baselined from 2019 conditions
 - “Post-covid” forecast – baselined from 2022 or 2023 conditions
- SFCTA, TJPA, and Caltrain are preparing these new forecasts, working in consultation with FTA technical staff
- FTA will evaluate Project Justification by blending “pre” and “post” forecasts:
 - Base year to equal post-Covid, plus a defined bump-up
 - Horizon year (2045) to be average of “pre” and “post”
- Revised approach will result in overall lower ridership and downward pressure on some of the underlying Project Justification criteria
- FTA will prepare formal rating evaluation
 - Internal analysis indicates expected Project Justification rating of “Medium”

Local Financial Commitment Rating

- FMOC will prepare LFC rating based on updated 20-Year Financial Plan
- Project will receive one level “bump-up” due to CIG funding share of 49.4%
- Internal analysis indicates expected LFC rating of at least “Medium”
- Important for “reasonableness” criterion to achieve at least Medium-Low rating to maintain summary LFC rating of at least Medium

20-Year Financial Plan

- Financial Plan documents sources and uses of funding for:
 - Capital and O&M
 - TJPA and Caltrain
 - Base system/infrastructure and The Portal
- Staff/consultant team currently updating Financial Plan to reflect changes since February:
 - Adjusted capital cost
 - Scope adjustments
 - Ridership forecasts

Next Steps

- August 10 TJPA Board:
 - Presentation on rating process/submittal and updates to Financial Plan
 - Authorization to submit rating request to FTA
- This fall – project to enter FTA Engineering Phase:
 - CIG funding amount locked – any subsequent increase is local responsibility
 - Timeline starts for completion of required Engineering activities
- Feb/Mar 2024: White House funding recommendations to Congress
- Spring 2025: planned date for FFGA execution

Questions?

