



METROPOLITAN  
TRANSPORTATION  
COMMISSION

Agenda Item 4

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*Memorandum*

TO: Legislation Committee

DATE: July 2, 2010

FR: Executive Director

W. I. 1131

RE: Bay Area Express Lane Network: Next Steps

**Background**

There have been many developments since April 2009 when the Commission incorporated an 800-mile Bay Area Express Lane Network into *Transportation 2035: Change in Motion*, the region's long-range transportation plan. A great deal of planning and engineering work has been completed and significantly, a consensus has been established that a regional system of high-occupancy toll (HOT) lanes should exist in the Bay Area. However, a large number of challenges remain to be overcome before a functioning system is in place.

Most notable among these challenges, and one that we have very little control over, is the Bay Area's economy. The Great Recession, as it has been dubbed, resulted in a significant reduction in regional travel, which substantially alters the assumptions built into the original express lane network revenue projections. In addition, amendments taken during the legislative process to help advance AB 744 (Torrico) resulted in financial constraints and a multi-layered and complex governance model that significantly complicates implementation.

This memo outlines these developments and offers an alternative to AB 744 for authorizing an express lane network in the region.

**Requests for Further Amendments Were Problematic**

While AB 744 made it through the Assembly and to its final committee — the Senate Appropriations Committee — there was additional pressure for amendments that staff has ultimately concluded would exact too high a price. One of the interest groups requesting additional amendments was the Caltrans engineers union, Public Engineers of California Government (PECG), which sought to require that Caltrans be granted ultimate responsibility for design of the construction projects required to implement the network. MTC and our partner agencies were unwilling to accept this proposal due to the risks that the change would result in delays and higher costs.

In addition, despite repeated efforts to negotiate an acceptable compromise with environmental organizations, such a compromise was not forthcoming. Amendments requested included unrealistic funding set-aside requirements for public transit and the elimination of certain projects in Alameda, Santa Clara and Solano Counties from the network. Ultimately, the amendments would have significantly compromised the ability to finance the network.

**Existing Language in Bill Too Restrictive and Cumbersome**

Even if no further amendments were made to AB 744, we believe the current language in the bill is too restrictive in a number of respects. First, the financial community perceives the multi-layered decision-making structure, including the corridor working groups and Bay Area Express Lane Project Oversight Committee, as significantly diluting BATA’s control over toll rates — a key concern for bond rating agencies. In addition, amendments insisted upon by the Senate Transportation and Housing Committee restricted any bridge toll contributions to loans, further undermining the original financial model that was based on an express lane network that relied upon BATA’s excellent credit rating and used bridge tolls to help provide cash-flow in the short term and back-up revenue in the event that the express lane tolls were insufficient to meet bond obligations.

**Revenue & Cost Assumptions Have Changed**

In addition, due to the recession, some of the key assumptions affecting the potential revenues that would be generated by the network have changed substantially since the planning process began in 2005. For instance, there are now one million fewer jobs in the Bay Area than was projected in Projections 2003, which formed the basis of our revenue forecast in Transportation 2035. Fewer jobs means less congestion, which, in turn, reduces demand for the lanes. On the other hand, estimates of the cost of constructing the lanes have increased by \$1.4 billion since we adopted Transportation 2035. The table below summarizes the key factors leading to the revised cost estimate. As shown, a substantial portion of the increase is due to escalation costs resulting from a revision in the completion schedule from 2016 to 2021. In addition, the revised cost estimate is more comprehensive and includes support costs and right of way expenses that were not fully accounted for in the original estimate.

	<i>Transportation 2035 and 2009 Analysis</i>	<b>Updated Estimate</b>	
Revised schedule	Complete by 2016	Complete by 2021	+ \$600 M
Support costs	Not fully included	Fully included	+ \$500 M
ROW costs	Not estimated	Estimate included	+ \$300 M
		Total Increase	+ \$1,400 M

Given these various factors, staff recommends that the Commission pursue an alternative strategy for authorizing the express lane network.

**Pursue Network Under Existing Law**

Under current law (Streets and Highways Code Section 149.7), regional transportation agencies can apply to the California Transportation Commission (CTC) until December 31, 2011, for up to two express lane “facilities” in Northern California. Under changes made in AB 798 (Nava), 2009, the CTC has authority to approve these applications and authorize the use of tolls. MTC staff would work closely with Caltrans and the congestion management agencies over the next several months to determine the appropriate scope and phasing of the network to be submitted to CTC in 2011. One potential approach, illustrated in the attachment, would be a 460-mile network, estimated at approximately \$3 billion. This approach focuses on the I-80, I-580, I-680, I-880 and U.S. 101 corridors in Santa Clara and San Mateo and closes key gaps in the existing carpool lane network.

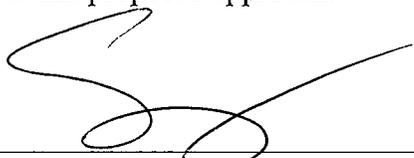
Factors that would be taken into consideration in developing the scope of the network would include: state of preparation, capital cost per mile, revenue per mile, and operational benefits. The ultimate network proposal would be presented for Commission consideration only after extensive consultation with our state and local partners.

In addition to getting the authority to develop an express lane network, MTC would need the ability to issue express lane revenue bonds in order to accelerate construction. While BATA already issues bridge toll bonds, MTC lacks bond issuing authority for state highway projects. One potential avenue to achieve this is through the newly-created California Transportation Finance Authority (CTFA), established by AB 798 (Nava). This new government body is empowered to review various types of public toll project proposals and may grant local and regional agencies the authority to issue toll revenue bonds. As shown in the proposed timeline below, this element of this proposal would occur after obtaining approval to develop the network from CTC.

**Plan B Timeline**

<b>2010</b>	Summer/Fall	Initiate review of program delivery and phasing
		Discussions with CTC and CTFA staff
		Start CTC application process under Streets & Highways Code 149.7
	September	I-680 Southbound Express Lane opens
<b>2011</b>	Spring	Route 237/I-880 Express Connector opens
	Summer	Submit application to CTC
	Fall	I-580 Eastbound Express Lane opens
<b>2012 or beyond</b>		Seek approval for financing and delivery from CTFA (AB 798) or CTC (SB 4)

The extensive work that MTC staff, commissioners and our partners invested in AB 744 (Torrice) was by no means a wasted effort — it serves as the foundation for Plan B. We especially would like to commend Assemblyman Torrico for his leadership and considerable efforts to secure passage of the bill. The goal is that this alternative approach will avoid some of the pitfalls of AB 744 by maintaining greater flexibility and thus, allowing for greater chance of success. Staff will be available at your meeting to answer any questions about this proposed approach.




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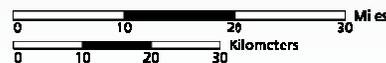
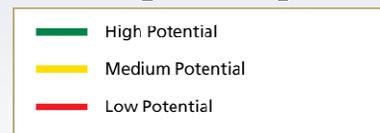
Steve Heminger

# Backbone Concept

460 lane miles  
\$3 billion capital cost\*

- Smaller network for initial authorization
- Emphasizes operational benefits, cost feasibility
- This example provides strong north-south connectivity

## Backbone Phasing Rating



Street base map © Thomas Bros. Maps. All rights reserved.  
MTC Graphics/pb — 5.26.2010

\* Escalated dollars