



PLANNING AND PROGRAMMING COMMITTEE

November 17, 2004

**SUBJECT: CTC-PROPOSED GARVEE BOND FOR INTERSTATE 5/
CARMENITA INTERCHANGE RIGHT-OF-WAY PURCHASES**

**ACTION: APPROVE THE CTC PROPOSAL TO INCLUDE ADDITIONAL
RIGHT-OF-WAY PURCHASES IN GARVEE BOND**

RECOMMENDATION

- A. Approve the inclusion of \$166 million, including \$19.1 million in State matching funds, for Interstate 5/Carmenita Interchange Right-of-Way purchases in a state Grant Anticipation Revenue Vehicle (GARVEE) bond that the California Transportation Commission (CTC) has proposed for this Interstate 5 project.
- B. Approve the contingent programming of \$19.1 million of Proposition C 25% funding as local match, if the State is unable to provide state-only funding to match the bond.

ISSUE

Caltrans is ready to advance the Interstate 5/Carmenita Interchange project into the right-of-way acquisition phase. However, the CTC forecasts little or no State Transportation Improvement Program (STIP) funding allocations for right-of-way purchases in FY 2005. Caltrans also now estimates right-of-way costs for this project to be \$181 million, or about \$67 million more than the \$114 million that the Board, CTC and Congress had already approved for the right-of-way phase of the project. Caltrans and CTC staff jointly recommended that the State of California pay for the entire right-of-way phase, including the \$67 million cost increase, with a GARVEE bond.

FINANCIAL IMPACT

The action recommended in this Board Report will have no impact on the FY 2005 Budget. The GARVEE financing will require issuance costs of 2% or \$2.9 million and annual debt service payments of approximately \$16.7 million. The debt service payments would be coupled with \$6.9 million in previous annual GARVEE bond debt service for Los Angeles County. Together, they would become the first priority for Los Angeles County's future annual STIP allocations for the eleven-year term of the bond. The total of \$23.6 million represents approximately 12% of Los Angeles County's future estimated STIP county share target. Since 2002, Los Angeles County has received only GARVEE bond proceeds for STIP projects, as the CTC has suspended all other allocations.

The following Caltrans assumptions were used for this GARVEE financing proposal:

- A 3.50% interest rate (the first GARVEE bond received a 3.03% rate);
- An 11-year term;
- Principal of \$147 million available immediately for project expenditures; and,
- State-only match of \$19.1 million

The use of \$19.1 million in Proposition C 25% funding is not authorized at this time. If Caltrans is unable to identify matching funds from STIP sources, then staff will return to the Board for authorization and a budget amendment as required.

POLICY IMPLICATIONS

The recommendation will aid Caltrans in its efforts to keep the Interstate 5 Carpool Lane from the Orange County line to Interstate 605 project, now estimated at \$865 million, on schedule. The figure includes the recommended cost increase for the I-5/Carmenita right-of-way. The project is expected to generate extensive economic benefits for Los Angeles County, including construction jobs, overall economic productivity gains, and generation of additional tax revenues. Beyond the economic effects of the construction program itself, other benefits develop due to the increased efficiency of the Interstate 5 Freeway, which now carries 357,000 vehicles per day and is projected to carry 518,000 per day when the project is complete. The 518,000 vehicles per day when completed will include 36,000 trucks.

OPTIONS

Short of canceling the entire \$865 million, I-5 Carpool Lane project, the Board has the following options:

- The Board could decide not to support the right-of-way cost increase and ask Caltrans to re-scope the entire I-5 project to deliver it within the already approved budget; or,
- The Board could decide not to proceed with the CTC proposal to use the GARVEE bonds and instead use its own Proposition C 25% bond capacity.

Staff does not recommend the first option because it would delay the entire I-5 Corridor project and quite possibly require that the environmental process be re-opened to determine the path forward for the newly down-scoped project. Such delays will escalate costs to such an extent that they may outweigh any savings gained and undermine the sensitive negotiations between Caltrans and the communities involved.

Staff also does not recommend the second option because certain opportunities could be missed. At its September 2004 meeting, the Board acted to strategically deploy Proposition C 25% bond proceeds to deliver this project and others on time. If Proposition C 25% funds are not used at this juncture, the Board preserves its ability to quickly respond to other needs as they arise in other parts of its Los Angeles County's transportation improvement program. Furthermore, GARVEE proceeds may very well be the only way to commit and draw down significant amounts of state transportation funding, given the continuing State General Fund deficit. Finally, the proposal has the added benefit of funding the anticipated right-of-way cost increase.

BACKGROUND

At its February 2004 meeting, the Board of Directors approved the Los Angeles County Transportation Improvements Program (TIP), which included \$114 million in capital and support costs for the Interstate 5/Carmenita Interchange Right-of-Way acquisition. At that time, a cost increase of \$52 million was added to the original right-of-way estimate of \$62 million. The increase results from two underlying causes. First, real estate prices have risen dramatically in Southern California since the first right-of-way estimate was determined in July 1998. Second, estimates of relocation costs have also risen dramatically as Caltrans has come to better understand the nature of the businesses that have to be relocated.

In proposing the GARVEE bond approach to the Interstate 5 right-of-way issue, Caltrans is responding to a serious cash-flow problem in the State Highway Account. In fact, the CTC originally suspended all allocations of STIP funds in December 2002 and has not been able to restart them, even after adopting a revised 2004 STIP that significantly delayed projects. A GARVEE bond is a tax-exempt debt instrument financing mechanism issued by the State, and it is backed by annual federal appropriations for federal-aid transportation projects. Once issued, the bond would be repaid from future year allocations of Los Angeles County STIP funds for the eleven-year term of the bond.

In authorizing the use of GARVEE financing for California, the State Legislature intended to accelerate funding for construction of critical transportation infrastructure projects that would provide congestion relief benefits to the public significantly sooner than would be possible using traditional funding mechanisms. Financing proceeds can be used for the costs of right-of-way and/or construction of highway or other transportation projects that are eligible under Title 23 of the United States Code and meet all federal requirements. Projects for bond selection must have their environmental clearances and project designs completed, be designated for GARVEE financing by the CTC, and be eligible for advance construction using GARVEE financing through the Federal Highway Administration. GARVEE financing relies on future federal-aid funding for debt repayment.

NEXT STEPS

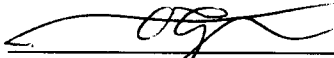
With Board approval, staff will proceed to implement the financial plan outlined herein and will proceed according to the following schedule:

CTC Publicly Notices STIP Amendment	December 9, 2004
CTC Approves STIP Amendment	January 2005
CTC Allocates GARVEE Bond Funds	Spring 2005
State Treasurer Issues GARVEE Bond	Spring 2005
Caltrans Begins Right-of-Way Purchases	Spring 2005

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