



October 10, 2017

To: Taxpayer Oversight Committee Members
From: Alice Rogan, Director, OCTA Marketing and Public Outreach
Subject: **I-405 Improvement Project Background**

Overview

At the last Taxpayer Oversight Committee (TOC) meeting on August 8, 2017, during the public comments, a member of the public provided comments and a handout regarding the I-405 Improvement Project. In an effort to provide some clarity regarding the project's background, please consider the following project facts.

Background

The Orange County Transportation Authority (OCTA), in cooperation with the California Department of Transportation (Caltrans) is widening the San Diego Freeway (I-405) between State Route 73 (SR-73) and Interstate 605 (I-605). For years, the OCTA Board of Directors (Board) and staff have been working diligently to ensure this project will increase freeway capacity, improve traffic and interchange operations, and enhance road safety to meet state and federal standards.

During the past five years, the TOC has received regular updates on the development and progress of the I-405 Improvement Project. Construction is anticipated to commence early 2018 and staff will continue to provide the OCTA Board of Directors and the TOC with regular updates on the project as it continues moving forward.

Discussion

The I-405 Improvement Project (Project) will improve 16 miles of I-405 and includes adding one regular lane in each direction from Euclid Street to I-605 and making improvements to freeway entrances, exits and bridges. It also will construct the 405 Express Lanes from SR-73 to I-605. The new express lanes – incorporating the existing carpool lanes and connectors that opened in 2014 – will be two lanes in each direction.

Decision-Making Process

The project development process is comprehensive and involves multiple stakeholders such as OCTA, Caltrans, corridor cities, and the public at large. During the preliminary engineering/environmental study phase of the project, OCTA and Caltrans carefully studied the different build alternatives (working within the spirit of Measure M) and afforded public input through a robust public outreach process. This included outreach to the corridor cities through open house meetings and community meetings.

The final project alternative decision was a lengthy process and required extensive discussions between OCTA and Caltrans to come to agreement. While OCTA is responsible for the allocation of funds as the administrator of Measure M, Caltrans as the owner/operator of the state highway system, made the final decision on the ultimate build alternative.

On October 22, 2012, the OCTA Board recommended Alternative 1, which would have added a general purpose (GP) lane in each direction of I-405, as the locally preferred alternative (LPA) to Caltrans. Alternative 1 was consistent with the M2 project description approved by the voters and had an estimated total cost of \$1.3 billion. Caltrans did not support this recommendation.

On December 9, 2013, after numerous discussions with Caltrans, the Board reaffirmed the recommendation of Alternative 1 as the LPA to Caltrans and to address Caltrans' concern, directed that Alternative 1 be designed in a manner that does not preclude additional freeway capacity added by Caltrans in the future.

On July 25, 2014, Caltrans informed OCTA that Alternative 3 would be the Project preferred alternative selected and therefore rejected OCTA's recommendation. The Board directed staff to negotiate terms for a cooperative agreement with Caltrans to implement the Project preferred alternative in a two-phased approach.

If a phased approach to Project implementation was utilized, OCTA would construct Phase 1, which entailed adding one GP lane in each direction from Euclid Street to I-605, consistent with Measure M2 (M2) Project K. Caltrans would construct Phase 2, which entailed adding an additional lane in each direction that would combine with the existing high-occupancy vehicle (HOV) lane to provide dual tolled express lanes in each direction on I-405 from SR-73 to I-605. The additional cost of Phase 2 was estimated at approximately \$400 million, bringing the total cost of the project to \$1.7 billion.

On February 9, 2015, the Board directed the Chief Executive Officer to re-engage in discussions with Caltrans relating to the Phase 1 Design-Build Cooperative Agreement between OCTA and Caltrans. To ensure local control over how the express lane facility would be operated, the Board asked that an alternative option be brought back to them for consideration where OCTA would proceed as the lead agency for the full implementation of the Caltrans project preferred Alternative 3 with the clear understanding that Measure M would only fund the GP lane portion of the project and that the second HOV lane/Express lane facility would be funded separately.

Local Control

On April 27, 2015, the Board approved the terms and conditions negotiated with Caltrans that establish roles and responsibilities related to project delivery, funding and financing, operations, and the use of any net excess revenues generated by the Project. By taking on both the Phase 1 and Phase 2 projects as one, OCTA has been able to reduce the amount of time I-405 will be under construction and ensure that any potential excess toll revenues will be strategically reinvested back into the project area. These potential revenues must be locally utilized (according to AB2250) within the corridor for maintenance and operations, and specific projects will be a policy decision determined by a future OCTA Board instead of at the state level.

Project Scope and Bridge Reconstruction

In addition to adding a GP lane in each direction and express toll lanes within this 16-mile stretch, the Project will also affect a total of 32 structures, including overcrossings, culverts and tie-back walls (18 bridge/overcrossing replacements, eight new structures and six modified/widened structures). The bridges are being rebuilt to meet the standards outlined in the Master Plan of Arterial Highways which is specified in M2. The Project will also reconfigure interchanges; improve auxiliary lanes, arterials and drainage systems; add bike lanes and sidewalks in some areas; and replace/reconstruct soundwalls and retaining walls.

It is important to note that it would be impossible to add any new lanes without widening the bridges that go over the freeway. This means that even if this project was only implementing the GP lanes, the reconstruction of all the bridges and the additional work that comes with it would still have to be done. This is due to the bridge columns and abutments that are directly adjacent to the existing outside lanes. Please see the following photo, illustrating the proximity of the abutments to the current freeway lanes and the need for bridge reconstruction as a result of widening the freeway/adding lanes.



Existing I-405 at Springdale Street

Funding

Since the decision-making process took longer than expected, the total cost of the project had to be re-baselined to consider normal inflation factors since construction would be starting later than originally planned. Additionally, projects larger than \$500 million are required by the Federal Highway Administration (FHWA) to conduct a Cost Estimate Review (CER). The FHWA CER process identified the need to add additional contingencies for unassigned risk. As a result, the total project cost estimate was increased from \$1.7 billion to \$1.9 billion to deliver the identical scope assumed in Alternative 3. Since the original cost of Alternative 1 was \$1.3 billion and the original cost of Alternative 3 was \$1.7 billion, a proportional increase to both elements of the project was assumed when the total cost increased to \$1.9 billion (\$1.425 billion for the regular lane and \$475 million for the Express Lane).

In May 2016, the Board approved the initial 405 Express Lanes Toll Policy and preliminary finance plan. The finance plan contained the following sources of funds to pay for the \$1.9 billion in Project costs: M2 funds in the amount of \$1.145 billion, federal funds of \$45.648 million, state funds of \$82 million, and a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan secured by 405 Express Lanes toll revenues totaling \$627 million.

In late 2016, OCTA received authorization from the California Transportation Commission to use \$7.771 million in Transportation Corridor Improvement Funds (TCIF) for the Project.

Then, on July 26, 2017, OCTA secured a \$629 million federal loan for the Project. By taking advantage of the low-interest rate of 2.91 percent, the TIFIA loan is expected to save about \$300 million over the 35-year life of the loan as compared to traditional bond financing. The money saved also will allow the 405 Express Lanes to remain free to two-person carpools during non-peak hours when the express lanes open, a commitment made by OCTA. Lastly, since the \$629 million TIFIA loan will be paid back solely by tolls and the amount of the Express Lanes improvements is only \$475 million, the M2 program will realize a direct benefit of \$154 million to help fund the GP lane improvements.

Summary

Staff is providing the Taxpayer Oversight Committee (TOC) with I-405 Improvement Project information in an effort to provide some information regarding the project's background.

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