November 9, 2004

TO: Members of the Transportation Policy Committee

FROM: Eric J. Anderson, Transportation Director

SUBJECT: OVERVIEW OF THE ARTERIAL LIFE CYCLE PROGRAM POLICIES AND PROCEDURES

The Regional Transportation Plan (RTP), approved by the Regional Council and funded by the passage of Proposition 400, includes $1.464 billion for arterial street related projects. For several months, workshops have been held with members of the MAG Transportation Review Committee (TRC), intergovernmental representatives and other MAG member agency staff to develop the details for implementing the Arterial Life Cycle Program (ALCP). On November 10, 2004, another workshop will be held to further refine the program. The TRC is scheduled to review the arterial program at their November 23, 2004 meeting.

To receive early input from the TPC, an overview of the draft *ALCP Policies and Procedures* as developed to date will be provided at the November meeting. After further consultation with members of MAG committees, and needed legal review of some aspects such as templates for legal agreements to be employed in the program, it is anticipated that action will be taken by the TPC in 2005.

BACKGROUND

House Bill 2456 (February 2004) requires "budgeting processes" for the freeway/highway and arterial streets/intersections modes in the RTP be adopted to ensure that the estimated costs for projects in each mode do not exceed the total amount of revenues estimated to be available for that mode (28-6352). HB 2292 contains a similar requirement for the public transportation mode. The Arizona Department of Transportation (ADOT) is to administer the "life cycle program" for freeways and highways, as they have done in the past. The Regional Public Transportation Authority (RPTA) will administer the transit/rail component. MAG will develop and administer the new program for arterial projects.

HB 2456 established a number of other requirements that must be considered in the design and implementation of the life cycle programs. An annual report on the RTP is required (28-6354). Periodic performance audits (28-6313) of the RTP as well as annual financial audits of half-cent funded projects in the RTP are required (28-6356). An enhancement policy is established that limits the types of project features that may be funded by precluding any "addition that exceeds generally accepted engineering or design standards for the specific type of facility" (28-6351 and 28-6353). Any change that would "materially increase costs" must be submitted to the regional planning agency (MAG) for approval (28-6353). Funds cannot be transferred between modes (28-6308).

The RTP allocates $1.464 billion in 2002 dollars to the arterial program over the twenty-year horizon of the RTP, of which $863 million are half-cent funds. The balance is made up of federal funds ($105 million in Congestion Mitigation and Air Quality (CMAQ) funds, and $497 million in Surface Transportation Program (STP) funds. Projects receiving federal funding must comply with certain federal regulations that affect the implementation process. Funding in the amount of $1.3 billion is provided in the RTP for sixty-two arterial street projects that cost individually in the range of $5 million to $71 million each. A total of $113 million is provided for street intersection projects, which range in costs from $2.3 million to $7 million each. Intelligent transportation system (ITS) projects receive $50 million in the ALCP program. A 30% local match is required in the RTP for all ALCP projects.

GENERAL APPROACH

Lead Agency Designations & Project Agreements: Historically, MAG funds projects that are then implemented (designed and constructed) by MAG member agencies. This basic structure would not change with the new ALCP.

In the ALCP, MAG would sign a project agreement with a Lead Agency to be established for each project, defining the scope of work and schedule for the project in consideration for the regional funding. The Lead Agency would design, acquire right-of-way as needed, and construct the project, and generally take the lead on all aspects of the project. The Lead Agency would typically be the local jurisdiction in which the project is located.

For projects that extend into more than one jurisdiction, the local agencies involved would need to agree on the Lead Agency. Alternatively, the project may be subdivided along jurisdictional or other lines following a technical study process to determine appropriate subdivisions and corresponding funding allocations. The technical process is needed as right-of-way or structural needs and costs may be greater in one section of a corridor than another. A simple prorating of funds, for example by length of the project in each jurisdiction, may lead to one or more sections being under-funded, which would not meet voter expectations if the overall project cannot be completed as presented in the RTP and Proposition 400.

The project agreement approach is needed to provide better certainty that the project will be completed as committed in Proposition 400 and the RTP. Cost increases, for example, would be the responsibility of the Lead Agency and local jurisdictions, all of which would be signatories to the agreement. The agreements would be comprehensive. Note that a memorandum of understanding (MOU) may be used to bridge to a full project agreement, for example to guide the conduct of a design concept study that will be used to develop a more detailed scope of work and cost allocations to be incorporated into the more formal project agreement that is subsequently developed.

MAG Committee Process: Any material changes to the program and projects (scope, schedule and budget) would need to go through the MAG Committee process, typically involving the Transportation Review Committee, Management Committee, Transportation Policy Committee and Regional Council. Other committees or bodies may be involved on a case-by-case basis, for example, the Streets Committee for technical issues, or the Citizens Transportation Oversight Committee for information and discussion following the

consultation requirements set forth in HB 2456. Changes to the arterial program are not considered "major amendments" as defined in HB 2456.

Fixed Regional Budgets: The regional funding contribution to a project budget would be fixed at the amount specified in the RTP. This simplifies the life cycle management requirements for the program, effectively precluding cost overruns for the regional budget. This approach also recognizes that local jurisdictions will have primary responsibility for project scoping, design, right-of-way acquisition and construction and therefore will be in the better position to control costs.

Reallocation of Unused Project Funds: Any regional funds remaining after an ALCP project is completed may be reallocated to another ALCP project in the same geographic area and serving the same general population. Funds may be unused, for example, if the original project budget proved to be more than was needed for the project, or if some costs associated with the project were not eligible for reimbursement, such as a project component determined to be an enhancement under HB 2456.

The ALCP reallocation policy effectively means that all funds for a project in a given general location as committed to voters in Proposition 400 and the RTP will go to that general area, although it may take more than one project for that to be accomplished.

Allocation of Federal Funds: Projects receiving federal funds will be subject to the federal process for implementing projects, which include, for example, required environmental, utility and right-of-way clearances. These projects may accordingly take longer to implement. With $602 million in federal funds, some projects will necessarily receive federal funding. It is anticipated the available federal funding will be allocated first to projects volunteered by their respective lead agencies to receive the funding; projects that may require federal funding in the future, for example, for upgrades; and larger projects, on the basis that their impacts may be greater, their timelines longer and more able to absorb delays in the process, and a fewer total number of projects would be impacted. Availability of funding by year will also be a consideration.

Reimbursement Basis: Funding will be provided on a reimbursement basis, commensurate with progress. A self-certification approach is anticipated in which local jurisdictions provide assurances that the work has been completed as invoiced and the invoices are for eligible expenses as defined in the ALCP. Prior work on Phase I ALCP projects will be recognized and reimbursed or credited toward the local match providing eligibility criteria are met and the regional budget is not exceeded.

Eligible Projects: In keeping with HB 2456, eligible expenditures will be restricted to design, right-of-way, and construction. They will also be limited to capacity and safety projects in general. Directly related projects, such as ITS, would also be eligible.

Reporting Requirements: Reporting will be required at least annually, in support of the annual report required for the RTP under HB 2456. Additional reporting and information retrieval requirements will apply in support of the audits required under HB 2456.

Potential Audit Considerations: Requirements for the performance audits and the financial audits will differ. Overall approaches for addressing financial and other aspects of the life

cycle programs for the RTP may be addressed in a broader process than just the arterial program. However, it is anticipated that program may need to address due diligence, including completion of the project as specified in the RTP (length, number of lanes added, other) for the cost specified; procedural issues (for example, verification of expenditures against allowable costs, and monitoring of project implementation); disposition of excess funds or capital (for example, right-of-way); audit compliance (process); meeting voter expectations; and other factors.

Performance audits would also benefit from the collection of before and after data for each project. This may be addressed on a project-by-project basis or be addressed in a periodic regional study, for example, to collect traffic volume and speed data for all regional projects.

WORK TO DATE

Four workshops have been held since April 2004 with members of the MAG Transportation Review Committee (TRC), intergovernmental representatives and other interested parties. A partial draft *Policies and Procedures* document has been developed. First drafts of a template for a Memorandum of Understanding (MOU) and the outline for a standard Design Concept Report have been developed.

Several related staff meetings for the other life cycle programs and the RTP have also been held. Workgroups addressing general coordination of the programs, financial/accounting and other aspects of the life cycle programs have been established.

NEXT STEPS

A fifth workshop with members of the TRC and intergovernmental representatives is scheduled for November 10, 2004. It will focus on the development of an initial draft program of specific projects for the upcoming FY 2006-2010 Transportation Improvement Program (TIP), which is scheduled for completion in draft form in January 2005.

Comments received at the November MAG committee meetings and the workshop will be incorporated into a revised draft *Policies and Procedures* document. The draft template for the MOU will be revised and used as the basis for developing a template for a project agreement. Legal review will be required of the template for the MOU and project agreement, and this is anticipated to take place or be initiated in the first quarter of 2005.

Approval of the draft *Policies and Procedures* and associated templates are expected to be brought through the MAG committee process in the first half of 2005. MOUs and Project Agreements with MAG member agencies can then be developed for Phase I RTP projects.

Please contact Chris Voigt (602-452-5026 or cvoigt@mag.maricopa.gov) or me if you have any questions.

Attachment

c: MAG Intergovernmental Representatives
MAG Transportation Review Committee