

**Metropolitan Transportation Commission
MTC Legislation Committee**

March 13, 2020

Agenda Item 6a

Senate Bill 1408 (Dodd): State Route 37 Toll Bridge Act

Subject: Authorizes tolls and bond financing on State Route 37 (SR 37) to make various improvements.

Background: SB 1408 (Dodd) authorizes tolling on SR 37 by an as-yet unnamed entity to help to fund interim congestion relief and longer-term resilience to flooding and sea-level rise. The bill authorizes the issuance of bonds and specifies coordination with the SR 37 Policy Committee on expenditures of toll revenue.

State Route 37 is a 21-mile roadway that extends from U.S. 101 in Novato to Interstate 80 in Vallejo and is a key east-west thoroughfare for commuters, freight and recreational travel. Handling traffic volumes of approximately 40,000 daily trips, the two-lane facility (one lane in each direction for an extended segment) experiences heavy congestion seven days a week. As a low-lying roadway, it has also experienced significant flooding and according to a study conducted by Solano Transportation Authority, portions of the highway could be inundated by sea-level rise by 2050.

SR 37 Policy Committee To address growing concerns about the corridor, the authorities of Marin, Napa, Solano and Sonoma Counties in 2015 signed a Memorandum of Understanding (MOU) to develop an expedited funding, financing and project implementation strategy for the reconstruction of SR 37 to withstand rising seas and storm surge while improving mobility and safety in the near term as well. MTC has been a partner in this effort dating back to 2017 when we helped fund a Corridor Improvement Plan, which has since evolved into a formal Caltrans Project Initiation Document.

In February 2019, the MOU governing the effort was expanded to include the Bay Area Toll Authority (BATA) and Caltrans, with both agencies having a formal role on the State Route 37 Policy Committee comprised of elected officials from each of the four north bay counties, as well as the staff-level Executive Steering Committee.

Interim and Ultimate Projects Under Development Extensive technical work has been done over the last four years to understand the options, develop priorities and reach consensus on the preferred path forward in the corridor. In the near-term, the focus is on congestion relief and providing better multi-modal options in the corridor. Commonly referred to as the “interim project,” design work is underway for Segment B, the 9-mile segment that runs from the intersection of SR 37 with State Route 121 to Mare Island. The proposed improvements would add a new lane in each direction and has a cost-estimate in the \$150-\$200 million range.

Over the long-term, the corridor will need complete reconstruction to make it resilient to sea-level rise. Adding in environmental enhancements deemed necessary to clear the project through the environmental review process in such an ecologically sensitive area, this “ultimate project,” has a preliminary cost estimate of \$4 billion.

Tolling to Help Pay for SR 37 Improvements Despite this significant price tag, there appears to be strong support in the north bay for ensuring this corridor remains viable over the long-term. As such, the SR 37 Policy Committee has been exploring the addition of tolls to help pay for the ultimate project for a number of years. In 2016, United Bridge Partners submitted an unsolicited proposal to fully privatize the facility and pay for the entire project with tolls. While this proposal was ultimately not accepted, the concept of adding tolls to the facility as a means to help pay for the ultimate project has been gaining momentum for a number of years. Interestingly, the roadway originated as a tolled facility, with tolls set at 35-cents when it first opened as the Sears Point Toll Road in 1928 operated by Golden Gate Ferry. The roadway was subsequently purchased by the State of California in 1938 and the tolls were removed.

Who Should Administer Tolls on SR 37? Notably, SB 1408 does not specify an agency to administer the tolls, leaving this key item to be filled in once consensus is reached. While our 2020 Advocacy Program recommended adding SR 37 as the 8th toll bridge under BATA’s enterprise, upon more detailed examination of this option in the last few months in preparation for the legislation, staff has determined that adding SR 37 to the BATA network poses significant risk to BATA’s credit rating, while also providing the SR 37 corridor a much more constrained tolling arrangement than could be structured in a stand-alone tolling system still administered at the regional level.

A key factor is that BATA bridges operate as a single system. Carving out special rules applicable to a new facility would violate this underlying principle and would contradict bond indentures of the existing BATA bonds. To comply with these bond indentures, if SR 37 were added as an 8th toll bridge, revenue from the first three dollars (Regional Measures 1-3) of tolls on SR 37 would be pledged to those programs and could not be reserved for SR 37. Similarly, if BATA were required to raise tolls in the future to address rehabilitation needs on any of the other seven bridges, revenue generated from that toll increase on SR 37 would go towards that purpose, rather than remain in the SR 37 corridor.

By the same token, if SR 37 were added to the BATA enterprise, even if the legislation narrowly circumscribed BATA’s responsibility for operation and maintenance and for completing the ultimate project, investors and bond rating agencies could consider flooding and the cost of the ultimate project as risks to the BATA enterprise as a whole, potentially causing a bond rating downgrade that would drive up borrowing costs and reduce the availability of toll revenue for transportation improvements.

Staff Recommendation Given the recent discussion of seamless mobility, including the Commission's interest in bringing more tolling functions under a regional umbrella, staff believes a good alternative to BATA as the entity to administer tolls on SR 37 could be the Bay Area Infrastructure Financing Authority (BAIFA), an existing joint powers authority of MTC and BATA which currently administers the regional express lanes in Alameda, Contra Costa and Solano Counties. An important consideration is that all of the technical and financial staffing expertise that exists now under BATA is similarly attached to BAIFA, and BAIFA already has a track record of operating toll facilities.

However, the current governance of BAIFA does not include the entire MTC/BATA governing board, and thus some of the north Bay Counties attached to SR 37 are not currently represented. As well, there are other regional financing needs at play at this time that similarly prompt a reassessment of BAIFA's current responsibilities and structure. Staff recommends we begin this assessment now, with the goal of completion this spring in time to inform the final version of SB 1408. In the meantime, we recommend a "support and seek amendment" position on the bill with suggested amendments we believe would be necessary to create the financial and operational structure needed to support tolling of SR 37 where the administration of toll collection and revenue bond financing would be handled at the regional level using existing staffing expertise.

Bill Positions: SR 37 Policy Committee – Support in Concept

Recommendation: Support and Seek Amendments / MTC Commission Approval

Attachment: None


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