

**Bay Area Infrastructure Financing Authority
Network and Operations Committee**

March 8, 2023

Agenda Item 5b

**BAIFA Resolution No. 53 – Bay Area Infrastructure Financing Authority (BAIFA)
Reserves Policy**

Subject:

Request for approval of BAIFA Resolution No. 53 adopting the BAIFA Reserves Policy beginning Fiscal Year (FY) 2024-25.

Background:

Per California Streets and Highway Code §149.7, reserves for the development, maintenance, repair, rehabilitation, improvement, reconstruction, administration, and operation of the toll facility are considered eligible direct expenses to be funded by revenues generated from the operation of the CTC-Authorized BAIFA Express Lanes Facility (“Facility”). BAIFA’s authorized Facility includes 285 miles of high occupancy toll lanes and is comprised of five freeway routes: Interstate 80 (“I-80”) in Alameda, Contra Costa and Solano counties, Interstate 680 (“I-680”) in Solano and Contra Costa counties, Interstate 880 (“I-880”) in Alameda County, State Route 84 (“SR-84”) in Alameda County and State Route 92 (“SR-92”) in Alameda County. To date, the Contra Costa I-680 Express Lanes and Alameda I-880 are in operation, while the Solano I-80 Express Lanes are under construction.

BAIFA’s Reserves Policy creates three reserves: (1) the Operations & Maintenance (O&M) Reserve, (2) the Emergency Reserve, and (3) the Capital Repair and Replacement (R&R) Reserve. The Reserves Policy sets forth appropriate levels of financial reserves for the Facility to ensure financial stability, mitigate financial risks such as revenue shortfalls or unanticipated costs, and maintain the long-term sustainability of the Express Lanes program, ensuring that the program can adapt to changing circumstances and maintain its operations over time. The Reserves Policy identifies the replenishment amount and conditions of fund withdrawal for each of the three reserves. The Reserves Policy was developed based on BAIFA’s annual Operating and Capital Budget adoption, and the 10-Year Financial Plan, which projects O&M and R&R needs of the Facility between FY 2023-24 and 2032-33.

1. Operations & Maintenance (O&M) Reserve:

The purpose of the Operations & Maintenance (O&M) Reserve is to safeguard funding for budgeted O&M expenses of the Facility in the event of revenue shortfalls, interruptions in revenue collection due to non-physical impacts (e.g., pandemic, public evacuation, cybersecurity breach etc.), or to fund unanticipated O&M expenses.

Generally, O&M expenses are classified as variable (i.e., costs incurred on a transaction basis) and fixed (i.e., costs incurred as part of the enterprise business activities). Fixed O&M expenses include costs such as salaries and benefits, overhead, audit and accounting costs, utility payments, toll system maintenance, roadway maintenance, etc. These costs are considered necessary to maintain operations of the Express Lane enterprise, regardless of transaction volume.

Therefore, the O&M Reserve is equal to twelve (12) months of fixed O&M expenses, which include essential operating needs of the Facility. The fixed O&M expenses are calculated by staff based on the adopted BAIFA Annual Operating Budget for such Fiscal Year.

2. Emergency Reserve:

The purpose of the Emergency Reserve is to safeguard funding for reconstruction, repair and operations of the Facility in the event of a major emergency. Major emergencies include natural Act of God disasters (e.g., earthquake, flood, extreme winds, subsidence, wildfire etc.) and manmade disasters (catastrophic accident, terrorist attack etc.).

The Emergency Reserve holds no less than \$25 million as an extraordinary loss account solely for the purpose of funding major emergency reconstruction, repair, and operations of the Facility. If needed, the Emergency Reserve will be supplemented by the Capital Repair and Replacement (R&R) Reserve.

3. Capital Repair and Replacement (R&R) Reserve:

The purpose of the Capital Repair and Replacement (R&R) Reserve is to safeguard funding for budgeted R&R expenses of the Facility. R&R activities include rehabilitation of the Facility's infrastructure and equipment, which generally have a lifecycle between six and ten years for toll equipment and 10 to 40 years for civil assets.

R&R expenditures are cyclical and have high sunk costs, particularly the Roadside Toll System and civil pavement activities. Coupled with the varying operational go-live dates of different corridors and segments, BAIFA must accumulate adequate reserves to fund these projects.

The Capital R&R Reserve would be equal to the maximum total of three (3) consecutive years of anticipated R&R costs, as identified in the BAIFA 10-Year Financial Plan. Funds from the Capital R&R Reserve would be used and withdrawn to fund anticipated capital rehabilitation and lifecycle replacement costs, as determined in BAIFA's Express Lane Rehabilitation Budget or to fund major emergency reconstruction and repair of any of the Facility's infrastructure and equipment, supplementing the Emergency Reserve.

Next Steps:

The timing of filling and replenishing reserves is affected by factors such as cash flow needs, reserve levels, and fund availability. Initially, we would distribute the existing accumulated revenue equally among the three reserves. Subsequently, we would recommend continuing to add to the reserves until they reach full capacity and consistently replenish them as they are drawn down. This will be done as part of the annual budget process, and is subject to Authority approval as part of that process.

Recommendations:

Staff recommends that this Committee refer BAIFA Resolution No. 53 – Reserves Policy, to the Authority for approval.

Attachments:

- Attachment A: PowerPoint
- Attachment B: BAIFA Resolution No. 53



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