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LOCALLY PREFERRED ALTERNATIVES REFINEMENT: FINANCIAL STRATEGY REPORT



East-West
Transit Study
RideKC



CONTENTS

Introduction	1
Implementation Timeline	2
Capital Cost	3
Capital Funding Options.....	4
Federal Sources.....	4
Capital Investment Grants – New Starts.....	4
Other Discretionary Federal Grants	6
Debt Financing	7
Local Match.....	7
Transportation Development District	7
New County or Regional Funding Source	8
Direct Contributions.....	8
Capital Funding Milestones.....	9
Operating Cost	10
Operating Funding Options.....	10

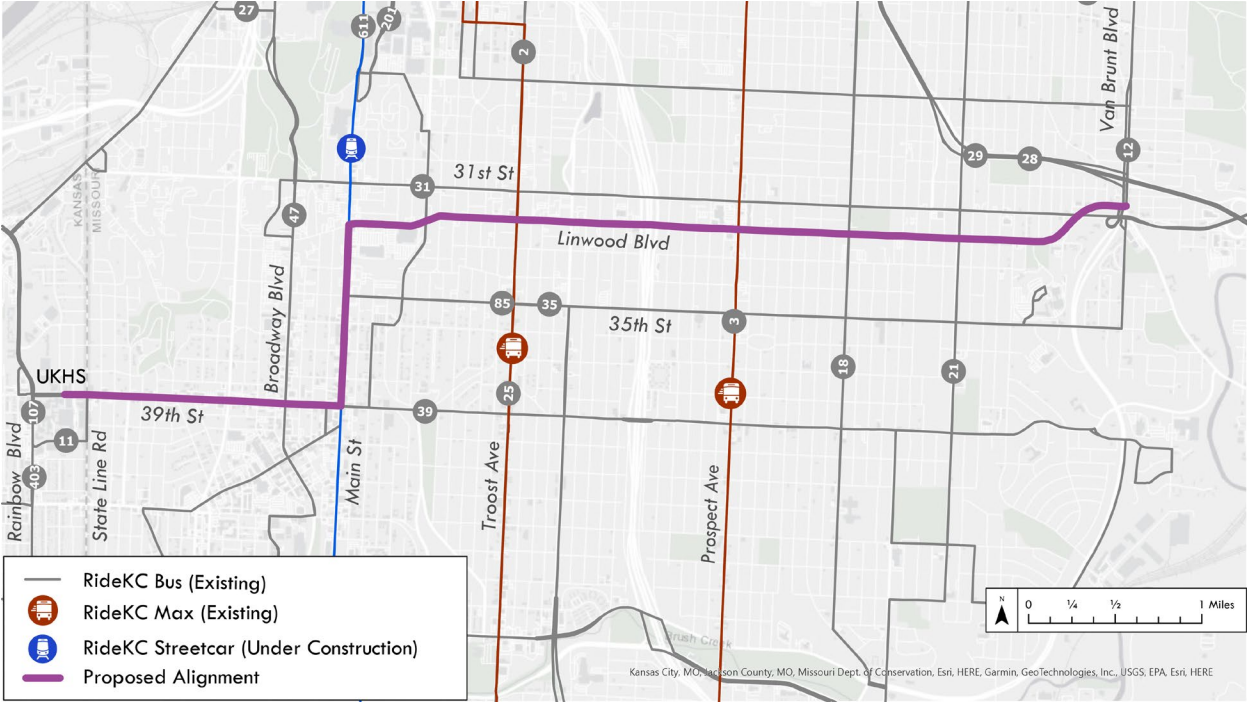
Financial Strategy

INTRODUCTION

In May 2023, the Kansas City Area Transportation Authority (KCATA), in cooperation with project partners across state lines, evaluated an east-west, high-capacity transit connection between The University of Kansas Health System (UKHS) and a terminus on the east side of Kansas City, MO. The vision for the East-West Corridor is to create a fast, efficient, and attractive public transit service that aligns with existing Streetcar and MAX services. As an economic investment for the greater Kansas City area, the corridor would strengthen the RideKC transit network. Through the study process, which included both public engagement and technical evaluation, the study identified a set of alternatives for evaluation, followed by a preferred alignment and mode, for a high-capacity transit connection. The May 2023 recommendation was a Streetcar project with the alignment shown in Figure 1. From west to east, the alignment will follow 39th Street, Main Street, Linwood Blvd and terminate at Linwood and Van Brunt/Hardesty Avenue.

This current effort, Phase 1.5, the Locally Preferred Alternative Refinement, continues the work of Phase 1 completed in May 2023. It further defines the East-West Streetcar project including the station locations, service plan, local route modifications, ridership, and capital and operating costs. These elements are documented under separate cover. This report addresses the funding strategy for the project based on current estimates of cost and potential ridership.

Figure 1. Final Recommended Streetcar Alignment



IMPLEMENTATION TIMELINE

Development of the streetcar from feasibility study through environmental review, design, construction, testing, and start of service is anticipated to be 9-10 years based on past experience (see Table 1). Phase 1 of project planning is complete, with the current Phase 1.5 further defining technical details of a locally preferred alternative (LPA). The next step will be two to three years of preliminary engineering and environmental review; two to three years of final design; and approximately four years for construction, testing, and commissioning of the project before it opens for service in approximately 2032.

Table 1. Anticipated Streetcar Implementation Timeline

Activity	Years
Preliminary Engineering and Environmental Review	2024-2026
Final Design	2026-2028
Construction	2029-2032
Opening Year	2032

CAPITAL COST

A service operating plan and conceptual engineering for stations and a vehicle maintenance facility defined during this phase of the study were used to develop a conceptual opinion of probable construction costs (OPCC), which is documented in detail in a separate memorandum with supporting calculations. Present-day costs were inflated to years of expenditure (YoE) assuming a 5% annual inflation rate. The cost estimate in both 2023 and YoE dollars are summarized in Table 2. **The estimated current year project cost is \$947.1 million (2023 dollars) including all project development costs. In YoE dollars, the cost is approximately \$1,268.7 million.**

Table 2. Opinion of Probable Construction Cost

Segment	Track Miles	2023 Cost	YoE Cost
31 st & Van Brunt to Prospect	3.53	\$240.0 M	\$321.4 M
Prospect to Main	3.49	\$240.9 M	\$322.7 M
Linwood & Main Intersection	1.07	\$79.4 M	\$106.3 M
39 th & Main Intersection	0.65	\$63.5 M	\$85.0 M
Main to State Line	2.28	\$169.7 M	\$227.2 M
State Line to UKHS	0.22	\$48.7 M	\$65.3 M
VMF Option 2	N/A	\$104.9 M	\$140.8 M
Total	11.24	\$947.1 M	\$1,268.7 M

Note:

Costs are based on conceptual planning efforts to date. No field work or detailed engineering has been performed. Utility relocation allowances are used; other line items are high-level and typically accounted for as an allowance or parametrically. Cost are subject to change and represent current market conditions. Track miles reflect the cost of new or reconstructed revenue track and do not include existing track miles along the Main Street Extension between Linwood and 39th Street that will be used for East-West route operations.

The capital cost shown in Table 2 is broken into six component segments, plus a separate cost item for the vehicle maintenance facility (VMF). Each segment cost includes a prorated share of project-wide costs for vehicles, professional services, and project contingency. The cost of the VMF represents VMF “option 2”, the most expensive of three conceptual VMF costs that were developed for three candidate VMF sites, to be conservative.

The capital cost of \$947.1 million was “annualized” based on assumed useful lives of all capital components. The annualization methodology was based on the ratio of total capital cost to annualized capital cost from the Kansas City Streetcar Main Street Extension project, which used a factor of 1/23.0 to convert from total cost to annualized cost. Applying this same factor to the current year cost of the East-West Streetcar results in an annualized capital cost of \$41.3 million. This value is used in the New Starts project rating described in the next section.

CAPITAL FUNDING OPTIONS

For a project of this magnitude, both federal and non-federal funding will be needed. A number of significant federal funding opportunities exist, but will also require non-federal contributions of several hundred million dollars. This section outlines both federal and non-federal funding options for further consideration as the project advances.

Federal Sources

Capital Investment Grants – New Starts

The Capital Investment Grant (CIG) program is the primary discretionary grant program for major transit capital investments administered by the Federal Transit Administration (FTA). The CIG program is subdivided into three project categories each with its own eligibility and evaluation criteria: New Starts, Small Starts, and Core Capacity. New Starts, designated for new transit corridors with a capital cost of greater than \$400 million or a federal contribution of greater than \$150 million, would be the applicable funding category for this project. New Starts is statutorily limited to 60% of the total project cost. Other federal funding sources can be used together with New Starts, but the total federal share cannot exceed 80%. To be conservative, **the analysis in this report assumes a New Starts share of the project funding would be limited to 50% of the capital cost.**

Securing a New Starts grant entails a multi-year partnership with the FTA rather than a one-time application. The process begins with a formal entry into the program, the first phase of which is Project Development (PD). Upon acceptance into PD, projects may begin incurring expenses that will eventually be counted toward the non-federal match requirements for the grant program.

To ultimately qualify for a New Starts grant, the project must be rated against 9 criteria, which are grouped into two categories: Project Justification (consisting of 6 criteria) and Local Financial Commitment (consisting of 3 criteria). It must score as a Medium or better in both categories to be eligible for funding. The evaluation criteria are defined in the Capital Investment Grant Policy Guidance document published by the FTA.¹ The project will first be rated by the FTA against the New Starts evaluation criteria during the PD phase. An estimated rating was prepared based on current project definition and planning-level estimates of project cost and ridership. This rating is summarized in Table 3.

As shown, **the project is estimated to achieve a Medium-Low rating based on the current criteria. Based on the current project definition, estimated costs and ridership, and FTA evaluation criteria, the project would not qualify for New Starts.** However, there are two reasons why the project should continue to consider New Starts as a potential key funding source:

1. The Land Use rating, while based on five quantitative sub-components, is technically a qualitative rating. FTA has discretion to rate the project based on other qualitative criteria such as limited parking along the corridor and the presence of major trip generators.
2. Significant changes to the New Starts rating criteria are anticipated in the coming years, and are likely to be in effect prior to this project receiving its first rating. While it is not yet known how

¹ <https://www.transit.dot.gov/sites/fta.dot.gov/files/2023-01/CIG-Policy-Guidance-January-2023.pdf>

the new criteria will change from the current ones, it is anticipated that FTA will provide a greater emphasis on equity-focused projects such as this one.²

Ultimately, if the project is not able to qualify for New Starts as currently defined, there may also be opportunities to advance a shorter minimum operable segment (MOS) that captures the majority of the ridership while significantly reducing cost. This should be further explored as the project advances.

Most of the Project Justification criteria – those based on ridership and land use – are driven by the project itself, and cannot be changed without changing the definition of the project. However, the Economic Development criterion is one that local project sponsors can and must take additional action to influence through complementary planning processes and local policy or program adoption. The project will be rated on the likelihood of producing ancillary economic development outcomes along its route, as measured by supportive plans and policies addressing growth management, transit-oriented development (TOD), zoning, station-area land use planning, and affordable housing. FTA's standards in evaluating these criteria increase as the project advances – in other words, more progress on development and implementation of supportive plans and policies is expected as the project advances toward construction.

To maximize the economic development rating, supportive planning should begin even prior to entry to PD, such as the development of station-area plans, draft zoning and TOD ordinances, housing inventories, and development of anti-displacement policies. These should be included as part of the advanced planning study and continue through PD. Close coordination with the City of Kansas City, MO, and the Unified Government of Wyandotte County and Kansas City, KS, will be needed as many of the applicable policies are within the jurisdiction of local city government. For the purposes of this analysis, a Medium rating has been assumed for Economic Development, but work must begin in earnest to ensure this rating is achieved.

² FTA issued *Proposed Capital Investments Grants (CIG) Policy Guidance* on April 5 after this document was developed but prior to its finalization. This updated guidance is the most significant update since 2013. It informs how FTA evaluates and rates candidate projects as an input to the agency's decision to execute a CIG funding agreement. FTA is accepting industry comment on the *Policy Guidance* through June 4, after which additional changes may occur. Initial assessments of the updated guidance indicate that it is highly favorable to the Project.

Table 3. Estimated New Starts Project Justification Rating Based on Current Rating Criteria

Project Justification Criterion	Value	Rating	Value Needed for Higher Rating	Notes
Mobility Improvements (Annual trips on project, trips by zero-car households weighted double)	3,129,282	Medium-Low	> 5,000,000 for Medium	Rating unlikely to change
Cost Effectiveness (Annual cost per trip on the project)	\$23.94	Low	< \$15.00 for Medium-Low	Rating unlikely to change
Annual trips on the project	2,201,161			
Annualized capital cost	\$41,261,168			1/23 of total cost
Annualized O&M cost	\$11,424,883			
Congestion Relief (New weekday linked transit trips)	2,132	Medium-Low	> 2,500 for Medium	Could increase to Medium
Environmental Benefits Monetized environmental benefits per annualized project cost	-0.1%	Medium-Low	> 0.0% for Medium	Could increase to Medium
Land Use		Medium-Low		Rating is qualitative, informed by 5 quantitative measures; could change
Employment served by the system	12,452	Low	40,000 for Medium-Low	Rating unlikely to change
Average population density (persons/square mile)	3,633	Medium-Low	5,759 for Medium	Rating unlikely to change
CBD typical parking cost	\$5	Medium-Low	> \$8 for Medium	Rating unlikely to change
CBD spaces per employee	1.23	Low	< 0.4	Rating unlikely to change
Corridor legally binding affordable housing proportion / average of project counties	2.95	High	N/A, already highest rating	Rating unlikely to change
Economic Development	N/A	Medium	N/A	Assumed qualitative rating; not evaluated
Total		Medium-Low		Three increased rating points needed to get to an overall Medium

Other Discretionary Federal Grants

In addition to the CIG program, over the past 15 years the U.S. Department of Transportation (USDOT) has also received annual appropriations for competitive infrastructure grants administered through a program currently known as RAISE (and previously known as BUILD, and prior to that TIGER). While available funding levels and evaluation criteria have varied over time, currently RAISE grants may be awarded for up to \$25 million. RAISE grants have frequently been used to fund transit investments and are likely a promising potential funding source, albeit a significantly smaller one than CIG. RAISE grants

can also be awarded for planning. This project received a 2023 RAISE grant to complete the preliminary engineering and environmental review phase.

RAISE capital grants require that the project provide a benefit-cost analysis (BCA); like CIG, it is advisable that the project be self-rated by the local project sponsor prior to pursuing a grant to evaluate the likelihood of being viewed as a strong applicant.

Debt Financing

The Transportation Infrastructure Finance and Innovation Act (TIFIA) program can support the financing of major transportation infrastructure projects. The program offers flexible financing options and competitive interest rates, extended repayment terms, and flexible debt structuring. To qualify for financing, projects must meet certain criteria, including demonstrating a dedicated revenue stream to repay the loan, have a significant public benefit, and be of regional or national significance.

Local Match

Assuming that the project successfully pursues New Starts funding, it is likely that up to half of the project capital cost will still need to be raised from non-federal sources. This equates to between \$500-\$700 million in local match, the majority of which would need to be available during the construction phase (currently assumed to be the years 2029-2032). If this local match were provided through a bond with a 25-year term at a 3.5% interest rate, it would require annual debt service of between \$30-\$43 million annually. For context, the current 3/8% Kansas City sales tax to support KCATA is estimated to generate approximately \$37 million in the 2023-2024 fiscal year.

The remainder of this section describes options that have been or could be considered for generating this local match.

Transportation Development District

The initial Kansas City Streetcar starter line and its subsequent Main Street Extension received the majority of local funding for both capital and operating costs through the creation of a Transportation Development District (TDD).³ The original starter line TDD comprised a boundary of approximately 1/3-mile radius around the project, within which a 1% sales tax and a special property tax assessment were collected. A second TDD, the Main Street TDD, which replaced the starter line TDD, comprises a larger boundary in which a 1% annual sales tax is collected, and a narrower boundary in which a special property tax assessment is collected. The sales tax boundary is approximately 1.8 miles wide, running from the state line to Campbell Street or I-29; the special assessment boundary, similar to the starter line TDD, encompasses a 1/3-mile radius around the project.

After analysis in this phase, a TDD is not an option that will move forward as a candidate funding source in the same manner used for the Main Street Streetcar line. It is unlikely to offer the same magnitude of funding that was available for the starter and Main Street projects. However, it could potentially be viable as a supplemental funding source for the East-West Streetcar or the existing TDD could be replaced with a new boundary. The project team came to this conclusion for several reasons:

³ <https://kcstreetcar.org/wp-content/uploads/2021/05/Final-TDD-Page-2021.pdf>

1. Nearly 40% of the East-West project corridor is already within the Main Street TDD's sales tax boundary; and the remaining portions of 31st Street and Linwood Avenue not currently within the boundary are largely residential with limited sales tax revenue potential.
2. Similarly, the special assessment boundary of the Main Street TDD already passes through the corridor and likely captures much of the highest revenue potential parcels already. Extension west to the state line could generate some revenue potential; extension east would impact predominantly lower-income residential areas, both limiting the revenue potential and introducing undesirable equity outcomes.
3. The most economically productive property along the corridor, UKHS, is both a public facility (and thereby tax exempt) and also located outside Missouri, likely requiring a separate mechanism for any potential contributions (see next section).

If the existing Main Street TDD were to be replaced with a new TDD, the Main Street TDD would be dissolved and replaced with a larger TDD boundary and expanded project scope inclusive of the East-West Streetcar capital and operating costs. Similar to the limitations with a new standalone TDD, this option may be unlikely to generate the entirety of the local funding required for the East-West Streetcar Project. However, depending upon the expanded boundary size and financial performance, it may be another option for funding a share of the project capital and operating cost, a phase of the overall project scope, or the operating costs alone.

New County or Regional Funding Source

As the region evaluates potential expansion of its regional transit system and the potential to replace piecemeal current funding with a dedicated, regional funding source such as a new sales or property tax dedicated to transit, this Project should be considered as a likely investment of that new funding source. Such investment could contribute to the capital cost, operating cost, or both.

Direct Contributions

Major employers and economic generators along the corridor should be considered for sourcing direct contributions to the capital costs of the project. The private contribution amount may be derived through a formula, such as in proportion to the project length, capital cost, or contributing ridership.

CAPITAL FUNDING MILESTONES

To meet the timeline shown in Table 1, each subsequent phase should be scheduled and funded to avoid gaps and delays. A more detailed project development schedule and funding strategy will be developed in advanced planning.

Project development is likely to require approximately \$20 million, including advanced planning, NEPA, preliminary engineering, and coordination with the FTA (assuming a New Starts grant). Federal grants may be available to cover planning, including RAISE planning grants of up to \$25 million.

Final Design will require approximately \$50 million to bring the project to the start of construction, plus additional soft costs for project management, ROW acquisition, etc. While project development and final design expenses are eligible to be counted toward the local match for a federal New Starts grant, they would need to be initially funded through non-New Starts sources and only eligible for reimbursement after the project secures a full funding grant agreement (FFGA), with reimbursement payments coming through annual appropriations during (and potentially continuing after) the construction phase.

If pursuing New Starts funding, the project will need to identify and **secure at least 30% of its total local match by the end of the Project Development phase, or potentially \$150-\$200 million by 2026**. The project would need to **secure its full local match by the end of Final Design (2028-2029), potentially another \$350 million or more**, prior to obtaining the FFGA.⁴

⁴ These estimates assume a 50% local match on an \$800 million total project cost.

OPERATING COST

In current year dollars, the estimated annual operating and maintenance (O&M) cost of the project is approximately \$11.4 million per year (2023 dollars). The basis of this estimate, driven by assumed unit operating cost and detailed service planning, is documented under separate cover, and represents the following key assumptions:

- Weekday service: 19-hour service span (20 hours on Fridays), with 10-12-minute headways for 16 hours and 20-minute headways for the remaining early morning and late evening hours.
- Weekend service: 20-hour service span on Saturdays, 19 hours on Sundays, with 15-minute headways for 15 hours and 30-minute headways for the remaining early morning and late evenings hours.
- One-way running times of between 33-37 minutes, depending on direction and time of day.
- Unit operating cost of \$250.38 per revenue-hour, which is based on the Kansas City Streetcar plus a 20% contingency.

No reduction in existing bus service is incorporated in this cost estimate; if existing service is scaled back, there would be some net cost savings.

Applying Congressional Budget Office projected inflation rates for 2024 through 2032,⁵ the likely opening day annual O&M cost, assuming a 2032 service launch, is approximately \$14.0 million/year.

Operating Funding Options

There are generally no federal funding programs specifically for operating expenses. An exception is the FTA 5307 funding program that allows a portion of the source to be used for operating expenses such as preventative maintenance. Based on the program's formula funding, the East-West service would increase the allocation of funding from that program, which could be applied to Streetcar operations. However, given the limitation of 5307 funding and federal funding generally, it is assumed that streetcar operations would need to be locally funded.

O&M costs for the current Streetcar and the under-construction Main Street Extension come primarily from the aforementioned TDD. Additionally, the City of Kansas City provides approximately \$2 million/year toward O&M costs from the City's Public Mass Transit (PMT) Sales Tax – this tax also funds a substantial portion of the KCATA bus system.

The East-West Streetcar likely will also require a mix of O&M funding sources, potentially including:

- A new regional transit funding tax (local, county, or multi-county sales, property or income) to help fund both the capital and operating costs.
- Expansion of the TDD may be considered, with the caveats described previously in the Capital Funding Options section of this report (see page 7). It may be more appropriate as an O&M funding source than for capital costs, given the limitations on funding potential.
- The Kansas City PMT Sales Tax may be utilized, at least to cover part of the operating cost if efficiencies can be identified with existing east-west bus service currently operating in the

⁵ Retrieved December 24, 2023: <https://www.cbo.gov/system/files/2023-06/57054-2023-06-LTBO-econ.xlsx>

project corridor and funded by this same source. To fully fund the service with this existing funding source could require service reductions elsewhere.

- A direct contribution to cover Kansas-side operating costs may be obtained through intergovernmental agreement between the Kansas City Streetcar Authority and the Unified Government of Wyandotte County and Kansas City, Kansas (UG), and/or UKHS. This is similar to how KCATA currently provides service in Wyandotte County through agreement with the UG.