M E M O R A N D U M

TO: Mayor and Council

FROM: T.C. Broadnax, City Manager
Robert Goode, Assistant City Manager
Ed Van Eenoo, Chief Financial Officer

DATE: December 5, 2024

SUBJECT: I-35 Cap & Stitch Funding Strategy

The purpose of this memo is to provide Mayor and Council with additional information regarding the Cap and Stitch Funding Strategy briefing shared at work session on Tuesday, November 19, 2024 (Item B1) and provide new information on the funding commitment timing.

Funding Commitment Deadline can be Delayed

The Texas Department of Transportation (TxDOT) has informed us that the deadline to secure a funding source for the roadway elements has been extended to March 2025 given the recent delay of their pump station contract award. With this development, staff will be withdrawing agenda items 49 (design funding) and 50 (commitment to fund roadway elements for caps) from your December 12th Council meeting with the intent to bring them back at one of your March Council meetings. Items 11, 51, and 52 will remain on the agenda since they are related to funding from the State Infrastructure Bank (SIB) and the US Department of Transportation Neighborhood Access and Equity Grant.

Scenario Costs for All Phases (1 through 5) and Additional Scenario

Staff provided 5 potential scenarios as a starting point for your consideration, identifying cost estimates for phases 1-3 (roadway elements, cap decks, and minimum amenities) for each scenario. During discussion Council requested that staff provide cost estimates for later phases as well (phase 4 enhanced landscaping, and phase 5 buildings). Please see the updated table below with this additional information. As discussed, staff proposes pursuing external partnerships (public/private partnerships, philanthropy, etc.) as a strategy to help secure funding for amenity phases.

Additionally, staff has provided an additional "Scenario 6" in the table below for your reference. This scenario provides costs by phase for the provision of 3 full size caps downtown (Cesar Chavez to Fourth Street, Fourth to Seventh Streets, and 11th to 12th Streets) as well as two full size caps between 38th1/2 Street and the Red Line crossing. This scenario eliminates, as discussed in the work session, the Holly Stitch, the stitch south of Cesar Chavez, and the cap north of the Red Line.

SCENARIOS *All include Cesar Chavez-4th due to grant funding* *Design fees are approximate pending verification from TxDOT	SCENARIO 1 **2 Downtown Caps** (full size) • C. Chavez – 4th • 11th/12th	SCENARIO 2 **3 Downtown Caps** (full size) • C. Chavez -4th • 4th - 7th • 11th/12th	SCENARIO 3 **3 Downtown Caps** (800') **+** **1 Northern Cap** (800') • C. Chavez-4th (800') • 4th - 7th (800') • 11th/12th • 1 Northern Cap (800')	SCENARIO 4 **2 Downtown Caps** (full size) **+** **1 Northern Cap** (full size) • C. Chavez-4th • 11th/12th • 1 Northern Cap	SCENARIO 5 **3 Downtown Caps** (full size) **+** **1 Northern Cap** (800') • C. Chavez-4th • 4th - 7th • 11th/12th • 1 Northern Cap (800')	SCENARIO 6 **3 Downtown Caps** (full size) **+** **2 Northern Cap** (full size) • C. Chavez-4th • 4th - 7th • 11th/12th • 2 Northern Caps (full size)	Full Vision Plan (all caps and stitches, full size)
Phase 1. Roadway Elements **(Dec. 2024)**	$49M+ $6M* Design = $55M	$78M + $8M* Design = $86M	$99M + $10M* Design = $109M	$114M+ $10M* Design = $124M	$122M+ $11M* Design = $133M	$203M+ $16M* Design = $219M	$265M+ $19M Design = $284M
Funding Needed	**$0**	**$5**	**$39**	**$43**	**$52**	**$138**	**$203**
Phase 2. Future Deck **(Dec. 2025 – 2032+)**	$184M	$244M	$278M	$299M	$315M	$472M	$613M
Funding Needed	**$93**	**$179**	**$202**	**$234**	**$250**	**$407**	**$548**
Phase 3. Min. Amenities (trees/grass only) **(2031+)**	$75M	$102M	$119M	$113M	$144M	$195M	$235M
Funding Needed	**$75**	**$102**	**$119**	**$113**	**$144**	**$195**	**$235**
Phase 4-5. Full Landscape Amenities and Buildings **(2031+)**	$87M	$137M	$150M	$130M	$180M	$242M	$263M
Funding Needed	**$87**	**$137**	**$150**	**$130**	**$180**	**$242**	**$263**
Total	***$401M***	***$569M***	***$656M***	***$666M***	***$772M***	***$1,128M***	***$1,395M***
Total Funding Needed	***$255***	***$423***	***$510***	***$520***	***$626***	***$982***	***$1,249***

Impact of Cap Removal on the Proposed East Avenue Trail

During discussion, Council requested clarification on the potential impact to the proposed East Avenue Trail if caps are reduced or removed.

The East Avenue Trail is a proposed north/south bicycle and pedestrian trail that would serve as a connecting element between each of the caps along the four miles of the Cap & Stitch corridor. As a marquee piece of new city trail infrastructure, it would connect users to the Butler Trail along Lady Bird Lake, as well as to the Red Line Parkway. The East Avenue Trail is a proposed "betterment" to the TxDOT planned shared use path (SUP) along the east side of the I-35 corridor between Lady Bird Lake and 15th Street, then switching sides to run along the west side of the corridor past Manor Road. Where the planned 8- to 10-foot TxDOT SUP runs adjacent to a cap or stitch, the path may be expanded to a wider trail (up to 24 feet) by using the cap decks for the needed space. This additional cap space allows for a generous trail with separated "lanes" for cyclists and pedestrians as well as robust landscaping and shade adjacent.

If Council recommends reducing or eliminating caps along the corridor, this could impact the expanded width for the proposed East Avenue Trail in locations where there is not enough TxDOT right-of-way for the desired 24-foot pathway and adjacent shade trees, as the caps provide space to accommodate the widened facility where TxDOT right-of-way is constrained.

City staff will begin design collaboration with TxDOT on the proposed East Avenue Trail betterment in early 2025. This process will identify locations where it is feasible to expand the width of the trail from the TxDOT 8- to 10- foot width within TxDOT right-of-way. As cap amenity design efforts proceed, designs will integrate the desired trail widening into cap design plans where TxDOT right-of-way is not adequate. The East Avenue Trail betterment request within TxDOT right-of-way will be a separate financial commitment from the City of Austin outside of the Cap & Stitch Funding decisions currently before Council and is anticipated to be addressed using existing funds from prior sidewalk and/or urban trail bond funds.

Contingency and Escalation Assumptions Used in Cost Estimates

TxDOT estimates for construction of roadway and deck elements (phases 1-2) include a 20% contingency to account for potential cost increases. City estimates for amenity costs (phases 3-5) include a 3.4% annual cost escalation until 2032, the assumed date for the City's first amenity construction contract, as well as a 20% contingency.

Verification of TxDOT's Cost Estimates

Per Council request, staff will independently review and verify TxDOT's 30% cost estimates in the coming weeks. However, Council should be aware that these 30% cost estimates will continue to evolve throughout the design process (60%, 90%, and 100%) and will ultimately be confirmed and set when the Capital Express Central project is let for construction (late-2026) and a contractor is identified. The contractor will determine the final price via their construction bid.

Neighborhood Access & Equity (NAE) Grant Project and Scope Extent

The City asked FHWA in October 2024 if the Federal NAE funds ($105M) for the Cesar Chavez to Fourth Street Cap could be more broadly applied across the I-35 Cap & Stitch corridor to fund the City's unmet Phase 1 Roadway Element needs. On October 22, 2024, FHWA staff provided the following written response, confirming that the City is indeed obligated to construct the original 3 blocks of cap structure submitted in our grant application:

> *"We appreciate the grantee's interest in expanding the potential cap to 8 blocks from the awarded 3 blocks. For this change to be approved,* ***the grantee would still need to deliver 3 blocks of cap structure over I-35 according to the application and award letter.*** *We can't approve a scope change including the additional 5 blocks of substructure without the 3 blocks of associated deck, tunnel elements and amenities. It is too big of a risk to build substructure with the NAE grant without the above ground connecting elements committed also."*

Because cost estimates to construct the roadway elements, deck, and basic amenities for the full cap between Cesar Chavez to Fourth Street exceed the Federal award (the costs for full build is $225M total), staff concluded that there would not be funds remaining to spend outside of the project extent.

Subsequently, City and TxDOT staff convened a second meeting with FHWA to explore the option of reducing the grant project area to 800' for cost savings. On November 8, 2024, FHWA provided the City and TxDOT additional clarification from the Office of the Secretary that the $105M NAE funds need to deliver a completed Cesar Chavez to 4th Street cap (roadway elements, the deck, and minimal amenities), however, the City can reduce the grant funded project area down to an 800' cap if desired, to better match available resources:

> *"The proposed concepts of César Chávez Street to 4th Street with 800 feet tunnel segments provides a cap consistent with the application materials and the award, and this portion of the scope change can be approved… Some amenities need to be included and funded in the project. The amenities do not need to include the entire list below, but the cap needs some basic amenities as to be safe, functional, and accessible for the communities connected by the project. The basic amenities or landscaping can provide simple usable and accessible open space for gathering on and crossing the cap for interim use until the additional amenities can be completed."*

The response from the Office of the Secretary suggested that if there are funds leftover from the completed cap project, NAE surplus funds could be applied on another cap. However, the cost estimates for roadway elements, deck, and basic amenities for an 800' cap ($168M) exceed the grant award and will leave no funds remaining that could be allocated to other cap locations along the corridor. Staff concluded therefore that the possibility of extending grant funds beyond the obligated Cesar Chavez to Fourth Street cap is not viable even with reducing the cap to 800 feet.

City Funds due to TxDOT

As stated earlier, the deadline for City Council to commit funding for the roadway elements that you determine will move forward has been shifted until March 2025. Payment for design for those locations will be due at that time. . The payment for constructing the roadway elements is targeted for summer of 2026 but that will depend on the how the tunnel and pump station projects are progressing.

The City must also submit payment for portions of the Cesar Chavez to Fourth Street cap structure not covered by the $105M Federal grant. That funding gap is $25M for the 800-foot reduced option, and $66M for the full cap option. TxDOT has indicated that they may be amenable to a slightly later payment date for this Cesar Chavez to Fourth Street funding gap, as cap decks will not be constructed until late in their construction timeline.

Role of Hancock-Cherrywood Design Assistance Team Study

The Hancock-Cherrywood Area Framework is a community-driven initiative to leverage the TxDOT Capital Express Central project and City of Austin's Cap and Stitch program to craft a vision for the approximately 60 acres between the Fiesta site and Hancock Center. On May 30, 2024, Council passed Resolution 20240530-170 to support the community's application for the Architects Foundation Design Assistance Team (DAT) grant to provide design services and technical assistance regarding the area surrounding the Hancock-Cherrywood I-35 cap, Red Line, and other adjacent areas.

The DAT will evaluate and make recommendations on potential future land use and economic development scenarios that could support a potential Red Line station and a possible cap-deck park. These economic development scenarios may be informed by the Value Capture Analysis City Financial Services staff have developed, which suggests that revenue generated from value capture tools is likely best suited for funding cap amenities (phases 3-5). FSD staff will share their value capture study separately in the coming week for Council review.

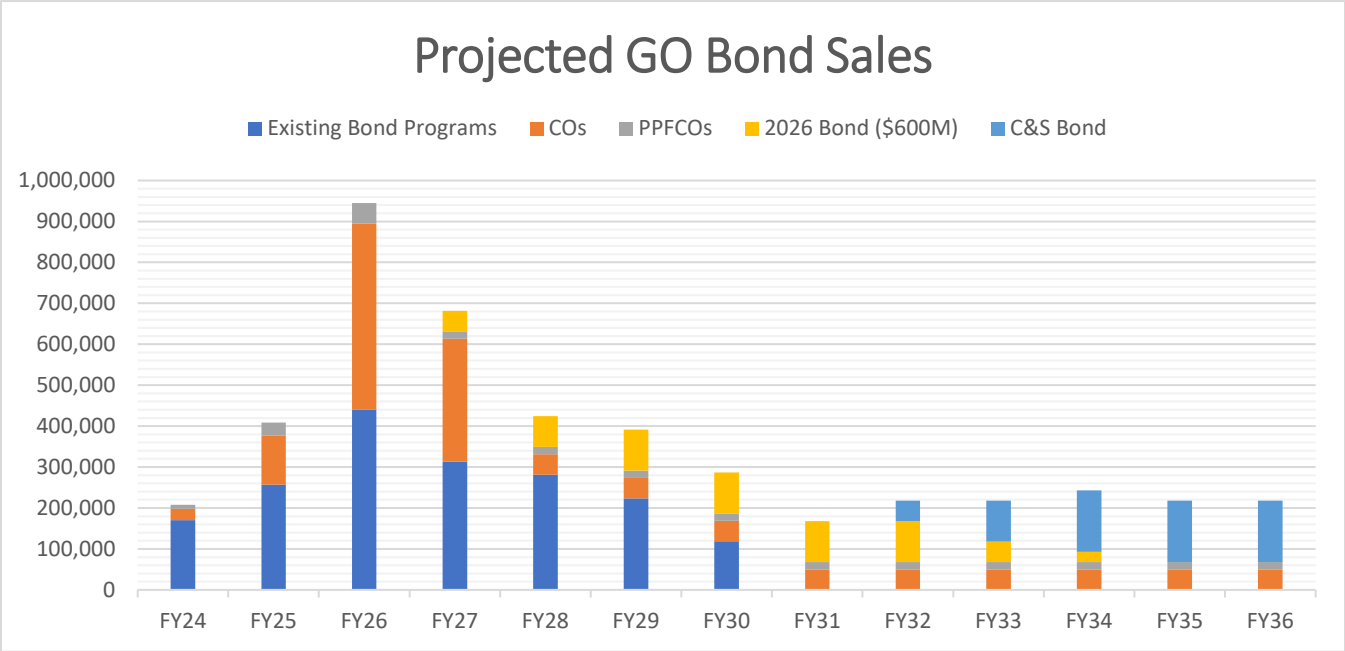
If Council decides to reduce the extents of the northern cap options on December 12, 2024, the DAT Study can proceed with their land use and economic development scenarios, accordingly.

Additional Context for Cap Scoring Matrix

Staff is available to walk through the quantitative and qualitative factors summarized in the cap scoring matrix shared with you during work session, in the event you have any questions about these details. This includes providing additional materials showing pedestrian and bicycle access opportunities and constraints to potential caps, details behind the Federal Benefit-Cost Analysis (BCA), as well as the analysis conducted by FSD staff measuring adjacent redevelopment potential and on-cap revenue generation potential.

Debt Funding Requirements and Impact

During the November 19th work session, Council discussed the impact that Cap and Stitch debt requirements might have on the City's credit rating as well as the impact on bonding capacity for a prospective 2026 bond program. To provide Council with more background on these topics, staff completed a detailed analysis of existing debt requirements, known future requirements, additional bonds required to implement Cap and Stitch Scenario 6 (3 full size caps downtown – Cesar Chavez to Fourth Street, Fourth to Seventh Streets, and 11th to 12th Streets – and two full size caps between 38th1/2 Street and the Red Line crossing), and an assumed $600 million for a 2026 bond program. Staff then developed an estimated bond sale schedule for the next twelve years as shown in the graph on the next page. To better manage the City's debt metrics over time, bond sales for future phases of the Cap and Stitch program were assumed to begin no sooner than FY2032.



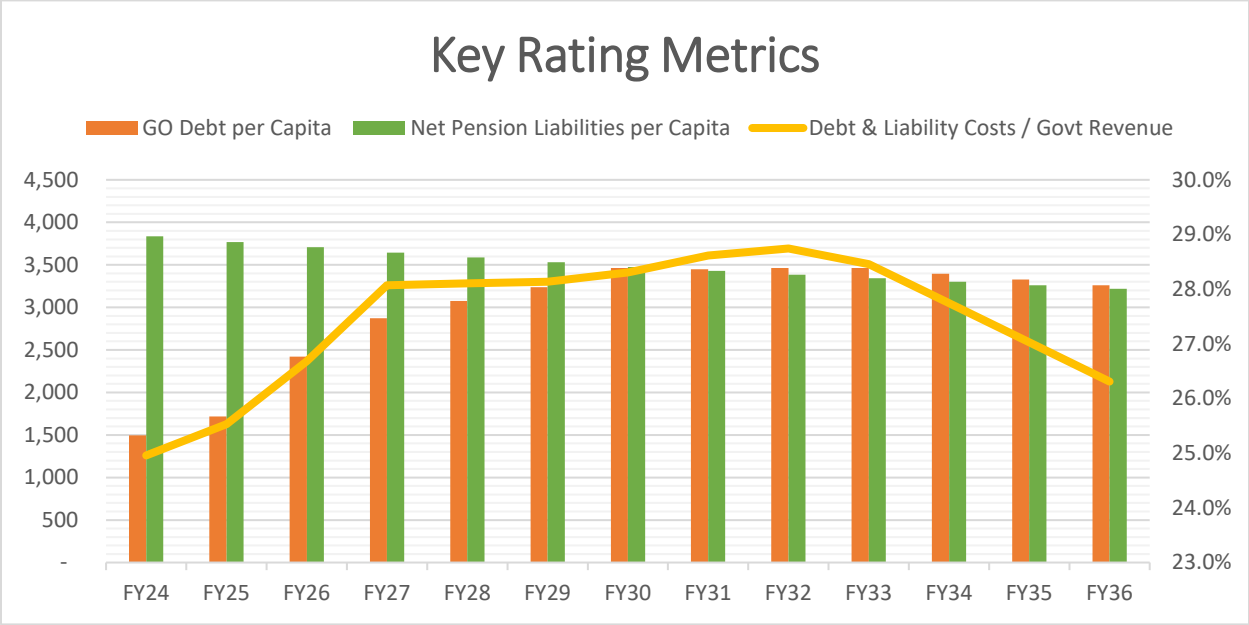
Next, staff calculated the impact of the assumed bond sale schedule on several key financial metrics used by rating agencies in evaluating the City's credit profile. The metrics analyzed were:

1. General Obligation (GO) Debt per Capita,
2. Debt and Liability Costs to Government Revenue, and
3. Net Pension Liabilities per Capita.

As shown in the graph on the next page, GO Debt per Capita under the assumed bonding structure is projected to increase substantially over the next decade, while Net Pension Liabilities per Capita is projected to decline. Combined, these two metrics are projected to increase from approximately $5,331 per Capita in 2024 to an estimated $6,480 per Capita in 2036, a 21.6% increase. Over that same time, the ratio of Debt and Liability Costs to Government Revenue is projected to increase more modestly, from its current level of 25% to a peak of 28.7% in FY32, prior to dropping back to 26.3% in FY36. Note that the projected increases in this ratio will be lower if efforts to implement reforms to the Austin Firefighters Retirement Fund are successful.

Another key metric to consider is the ratio of GO debt to Assessed Property Value, for which Council has an approved financial policy. Over the 10-year time horizon, this metric is projected to stay below the Council approved policy threshold of 2 percent in all years, reaching an estimated maximum of 1.4 percent in FY30. While staff considers this policy goal an important consideration in managing the City's debt position, it is not presently a factor used by any of the three major credit rating agencies.

Staff also analyzed the impact of the projected bond sale schedule on the typical homeowner, defined as the owner of the median-valued homestead within the City of Austin boundaries of Travis County. In current dollars, every $100 million of bonds issued increases the debt service tax bill for the typical homeowner by $13.78 annually. Therefore, a $600 million 2026 bond program, once all bonds have been issued, is estimated to cost the typical homeowner $82.71 annually, in today's dollars. Projected bond issuances over time for the Cap and Stitch Scenario 6 are estimated at approximately $1 billion, with an estimated cost to the typical homeowner of $137.86 annually, in today's dollars. Please note that these bonds will be issued over a 10 to 15-year period, meaning that the projected monetary impact to taxpayers will likewise be over an extended period, not all at once.



In conclusion, staff projects an overall weakening of the City's financial rating metrics under the modeled parameters over the next 10 years. Although this dynamic will put pressure on the City's credit rating, the overall credit profile of the City—taking into account the strength of the local economy, stringent and comprehensive financial policies, conservative budgeting practices, and an experienced financial management team—will remain favorable, albeit with the possibility of a one-notch downgrade in the years ahead. Maintaining a high credit rating is important as higher ratings result in lower borrowing costs. For context, the City's current ratings are AAA from Standard and Poor's (highest possible), AA+ from Fitch (second highest), and Aa1 from Moody's Investors (second highest). Finally, it is important to point out that in the context of the City's credit rating, there is an interplay between the amount of funding available for the Cap and Stitch project and the amount available for a 2026 bond program. Spending more on one reduces the amount available for the other. Alternatively, reducing funding for one or both priorities would help to alleviate pressure on the City's credit.

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