



U.S. Department  
of Transportation  
**Federal Transit  
Administration**

REGION IX  
Arizona, California,  
Hawaii, Nevada, Guam  
American Samoa,  
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Mr. Nathaniel Ford  
Executive Director  
San Francisco Municipal Transportation Agency  
City and County of San Francisco  
One South Van Ness Ave, 7th Floor  
San Francisco, CA 94103

**JAN 07 2010**

Re: Approval to Enter Final Design  
Central Subway Light Rail Transit Project

Dear Mr. Ford:

The Federal Transit Administration (FTA) is pleased to inform you that the San Francisco Municipal Transportation Agency's (SFMTA) request to enter final design (FD) for the Third Street Light Rail Transit, Phase II, Central Subway Project (Central Subway) is approved. This approval to initiate Final Design is a requirement of Federal transit laws governing the New Starts Program (49 U.S.C. Section 5309(e)(6)).

Although the SFMTA and Central Subway project have met the standards to advance into FD, FTA is concerned about the ability of SFMTA to maintain its equipment and system in a state of good repair. SAFETEA-LU requires agencies to demonstrate the ability to maintain and operate the public transit system after implementation of the proposed project without requiring a reduction in existing levels of public transportation service. Based upon FTA's review of SFMTA's bus and rail fleet management plans and the twenty year financial plan, FTA cannot at this time determine SFMTA's ability to do this. Thus, FTA is requiring that SFMTA develop and implement a financial plan demonstrating that construction and operation of the Central Subway project will not adversely affect current transit operations or reduce state of good repair expenditures. This plan must be provided to FTA before it will consider awarding an FFGA for the project.

With this FD approval, SFMTA has automatic pre-award authority to incur costs for FD activities, demolition, and other non-construction activities such as the procurement of rails, ties, commodities, and other specialized equipment. SFMTA should contact the FTA Region IX office for a determination of whether any other proposed non-construction activity falls within the automatic pre-award authority granted with FD approval.

In addition, in accordance with FTA's Final Policy Guidance on New and Small Starts, published September 2, 2009, SFMTA has automatic pre-award authority to procure vehicles and perform utility relocation since NEPA has already been completed. FTA reminds SFMTA that the procurement of vehicles must comply with all Federal requirements including, but not limited to, competitive procurement practices, the Americans with Disabilities Act, and Buy America. FTA encourages SFMTA to discuss the procurement of vehicles with FTA prior to exercising the pre-award authority.

This pre-award authority does not constitute any FTA commitment that future Federal funds will be approved for this project or any element of the project. As with all pre-award authority, all Federal requirements must be met prior to incurring costs in order to retain eligibility for future FTA grant assistance. This approval also does not constitute approval to start any physical construction activity other than those highlighted above without the issuance of a Letter of No Prejudice.

### **Financial Capacity Assessment**

The current capital cost estimate for the project is \$1,578.3 million in Year of Expenditure dollars. SFMTA is seeking \$942.2 million in New Starts funds (60 percent). Please be advised that, consistent with FTA's established policy, the amount of New Starts funding is fixed at the time of entry into FD. Thus, \$942.2 million represents the maximum amount of New Starts funds provided by FTA for the Central Subway, should an FFGA be approved.

Based on a financial capacity assessment of SFMTA, FTA expects SFMTA to accomplish the following activities during FD, prior to consideration of the project for an FFGA:

- As noted previously, submit a financial plan demonstrating that SFMTA can obtain the necessary operating and maintenance funding so that the Central Subway project will not deplete funding for current transit operations, or negatively impact the state of good repair for existing transit operations in all modes. The plan should use realistic assumptions on growth in revenues and costs that are in line with historical experience;
- Develop a plan to assure funding is available in the event that Federal funding for the Central Subway project is delayed or project cost increases occur. SFMTA's current financial plan indicates that any gaps in funding will be bridged by a short-term line of credit and/or other various funding sources that may be available. However, SFMTA has not analyzed its financing options, identified revenue sources that could be used to back debt, or estimated its debt capacity. In addition, no formal commitments of the other potential sources of revenue have been made by SFMTA's funding partners; and
- Secure commitments for all non-federal funds for the project. This includes identifying and obtaining commitments for \$164.1 million in proposed funding that remains unspecified and uncommitted.

## Required Project Management Activities

FTA and its PMOC reviewed the project scope, cost and schedule and undertook a formal risk assessment. A final report was issued in October 2009. Based upon this review, FTA expects SFMTA to accomplish the following activities during FD, prior to consideration of the project for an FFGA:

- SFMTA should update the capital cost estimate based upon a “bottom up” review, current industry construction cost forecasts, actual project staffing, and information obtained from construction bids received.
- The current project schedule assumes that City of San Francisco agencies will streamline the permitting process and that there will be timely third party agreements. SFMTA must obtain all third party agreements and a memorandum of understanding between the various City agencies agreeing to expedite permitting.

The Central Subway Project is a high risk project located in a densely populated urban center. It is the largest, most complex project ever undertaken by SFMTA. Thus, SFMTA will need to manage project risk in a diligent and comprehensive manner. Below are the actions that must be taken by SFMTA and approved by FTA before an FFGA will be considered:

- Revision of the Project Execution Plan and Risk Management Plan;
- Expansion of the secondary mitigation list, including detailed estimates of both cost and schedule and identification of dates when the mitigation must be exercised;
- Addition of dates to all risks on the Risk Register, including notations of when the risk must be mitigated before that mitigation can no longer be accomplished;
- Addition of dates to the Risk Allocation Matrix and indication when that allocation approach must be completed; and
- Address all other recommendations as directed by FTA and the PMOC.

SFMTA must update its Rail and Bus Fleet Management Plans to include a comprehensive schedule for system-wide replacements, overhaul or repair of all bus and rail vehicles, and repair of damaged vehicles and equipment. The fleet management plans must be reconciled with the financial plan so that the financial plan identifies the necessary funding sources to meet replacement needs identified in the fleet management plans. Below are specific issues that must be addressed in the fleet management plans prior to FTA’s consideration of an FFGA for the project:

- SFMTA must provide FTA with more detail on the scope, schedule, and cost of heavy repairs, preventive maintenance, and running repairs;
- SFMTA must document its ability to maintain adequate spare ratios;
- SFMTA must demonstrate that it has procedures and processes in place to ensure that federally-funded vehicles currently on long term hold and those that may be placed on hold in the future following accidents or other irreparable damage will be returned to service on a timely basis;
- SFMTA must describe any necessary expansion of maintenance or storage facilities, and any new facilities that may be needed based upon the fleet size and schedules; and

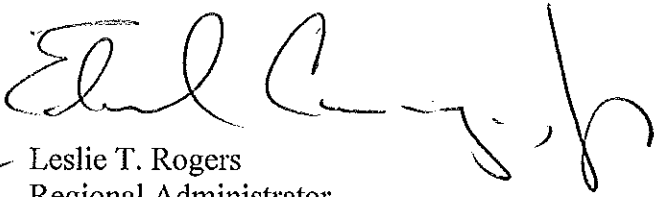
- SFMTA must explain the maintenance and reconstruction programs for historic streetcars and cable cars separately since these are unique fleets.

As FD progresses, SFMTA must update the Safety and Security Management Plan to provide a higher level of detail, describe testing and security procedures based upon the revenue operations date of the latest project schedule, and obtain certification of the plan by the California Public Utilities Commission.

In summary, SFMTA must take steps to demonstrate adequate financial capacity to construct the project as well as maintain current system operations; a state of good repair of existing vehicles and infrastructure; and the project management ability and technical capacity to successfully design and construct the Central Subway project before FTA will consider the project for an FFGA.

FTA looks forward to continuing to work with you on this important transit project. If you have any questions, please call me at (415) 744-3133 or Jeff Davis at (415) 744-2594.

Sincerely,

  
For Leslie T. Rogers  
Regional Administrator