



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Ristow

**SUBJECT: DIRIDON TO AIRPORT
CONNECTOR PROJECT
GRANT FUNDING**

DATE: April 29, 2024

Approved

Date

5/6/24

INFORMATION

BACKGROUND

The San José Diridon Station to Airport Connector (Connector) would provide quick, reliable, transit service connecting Diridon Station and San José Mineta International Airport. The Connector will use automated electric transit vehicles on a new dedicated guideway.

On April 19, 2022, City Council approved an ordinance allowing the Connector to use alternative project delivery methods for procurement and contracts. The ordinance allows the use of the pre-development agreement (PDA) process for project development and a design-build-finance-operate-maintain agreement for construction. The City issued a request for proposals in May 2022 that included a multi-step PDA.

In February 2023, the City issued notice selecting the San José Connection Partners (Connection Partners) as the preferred proposer. On April 18, 2023, City Council approved and authorized funding for Phase 1 of the PDA. At the April 18, 2023 meeting, City Council and project staff discussed the multi-step PDA process and funding strategy, including the pursuit of grant funds. This memorandum lays out the timeline and decision-making structure of the PDA and how the funding strategy fits into that timeline.

ANALYSIS

The Connector project is a large, long-range transportation capital project and its planning, design, evaluation, and construction process spans many years. The City will learn more about costs, benefits, and impacts as it progresses through planning, design, and environmental review. The City built in an assessment and decision point at the end of each stage to review new and changed information and decide whether to continue moving forward. This “stage gate” process happens at the end of each phase of the project, as outlined below:

- Project Shaping/Feasibility Study – appraise the opportunity and business case;
- Scope Selection and Development – preliminary design and environmental review;
- Execution Planning – negotiation of final financial agreement/operating agreement and preparation for construction.

These stage gates are included in the PDA as Phases 1 through 3 and in the Implementation Agreement, as shown in the below **Figure**. This structure brings the project back to City Council at each stage, to inform City Council and for City Council to decide on whether to further the project into the next stage.

Figure – PDA Phases



Funding Strategy

A project of this magnitude requires a funding strategy with increasing levels of specificity as it matures. In August 2020, City Council directed staff to advance the Connector along two parallel paths: 1) a traditional public project and 2) a public-private partnership. The City successfully included the Connector into the regional transportation plan, Plan Bay Area 2050 (adopted in 2021). Also, in 2021, staff secured a funding agreement with the Santa Clara Valley Transportation Authority. The agreement provided \$2.5 million to create the request for proposals and PDA.

During the April 18, 2023 City Council meeting, members of the City Council encouraged staff to consider various funding avenues to reduce the financial burden on the City. As such, over the past year, staff has been evaluating potential state and federal funding sources. State and federal transit programs provide funds that generally would otherwise not be sought by the City, and thus do not compete with other City priorities. Staff proposes to seek grant funding beginning in May 2024 for Phase 2. Potential grant programs include the Innovative Finance and Asset Concession Grant Program, National Infrastructure Project Assistance program (Mega Program), and Consolidated Rail Infrastructure and Safety Improvements. Applying now will enable a relatively smooth transition from Phase 1 to Phase 2, if the City Council and Connection Partners elect to continue the Connector into Phase 2.

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The City Council will decide whether to enter Phase 2 in late summer or early fall 2024. Given the lengthy application and award processes, City staff would remove our application from consideration if the City Council decides not to move forward with the project. City staff will clearly articulate, in all materials and requests for support, that we are in an early stage of an innovative public-private partnership project and that our City Council has decision points at each project phase whether to move forward into the next step. This is the most prudent course of action, to be transparent with the public and potential funders while ensuring that external funding sources can be brought forward to support the project.

/s/

JOHN RISTOW

Director of Transportation

For questions, please contact Brian Stanke, Senior Transportation Specialist, at brian.stanke@sanjoseca.gov or (408) 795-1834.