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Memorandum

TO: Partnership Board

DATE: February 29, 2008

FR: Theresa Romell, Programming and Allocations

RE: Transportation 2035 – Financial Assumptions and Cost Review/Risk Assessment

As discussed with the Partnership Board in September 2007, staff had proposed to adjust its approach to developing financial assumptions and performing cost review for major projects through the Transportation 2035 (T2035) planning effort. This memo further refines these approaches by:

1. Recommending a specific framework for the financially constrained envelope of T2035. The proposed approach strikes a balance between past practice of only including specific revenue sources in existence or statutorily authorized, and the more flexible federal requirement of revenues that are "reasonably expected to be available" within the Plan period.
2. Outlining a process and timeline for cost review and risk assessment for major capital projects in T2035.

The feedback from the Partnership Technical Advisory Committee was mostly supportive of the proposed approach with the exception of questions and concerns regarding the treatment of High Occupancy Toll (HOT) revenues.

Revenue Assumptions – Financially Constrained

Previous preliminary estimates of available transportation revenue for the T2035 Plan yielded approximately $212 billion over the twenty-five year Plan period. This amount included HOT lane revenue and assumed the rollover of existing sales tax revenue past their year of sunset up to 2033. Total revenue did not include the amount of revenue that would be expected to flow to the region if transit "spillover" funds were actually transferred as prescribed in the law and not diverted for other state purposes. Without HOT lane revenue and assumed rollovers, total available T2035 revenue would total roughly $201 billion. It is important to note that this lower revenue projection is based solely on statutorily authorized sources and does not take into account the average annual $0.4 billion that the region received in unexpected transportation revenues based on staff's 15-year retrospective analysis.

Staff is recommending the following changes to the financial constraint envelope, discussed in more detail below:

- Retain High Occupancy Toll (HOT) lane revenues, subject to additional regional dialogue;
- Add spillover revenues (the revenue-based component will be part of committed and the population-based piece net of the existing $62 million commitment will be part of discretionary);
- Add anticipated/unspecified revenues; and
- Eliminate sales tax rollovers from financial constraint.

<u>HOT Lane Revenue:</u> Initial feedback provided by the Commission at their RTP workshop on November 28th indicated their support for including revenue from planned HOT lanes, provided agreement is reached on revenue sharing and governance issues. These revenues will remain in the financial constraint element of the Plan unless there are indications that regional agreement cannot be achieved.

<u>Spillover:</u> Staff has reconsidered the exclusion of spillover funding from the financially constrained element of the Plan, and is proposing adding this revenue source to the total available RTP funding. As a reminder, current law only makes 50% of total spillover funds available to transit; however, there continues to be unpredictability from year-to-year – bolstered recently with the California Transit Association lawsuit ruling – staff proposes that these funds be treated with a degree of caution. As noted above, revenue-based funds are proposed as committed while the population-based funds net of existing commitments are proposed as discretionary.

<u>Anticipated / Unspecified Revenues</u>: As noted above, staff had undergone a retrospective analysis of past RTP projections including a review of unexpected revenues that had come to the region but had not been anticipated or included in RTP projections before they occurred. Over a 15-year period, the region has received an annualized amount of roughly $400 million dollars from these “unanticipated” fund sources. Examples of these revenue sources include TCRP, Proposition 42, non-formula Federal funds, and Proposition 1B funding. MTC staff believes it is reasonable to anticipate that additional unspecified revenues will become available to the region over the course of the RTP. Staff has also consulted with the federal agencies to confirm that inclusion of these “anticipated unspecified” revenues meets the criteria for inclusion in the financially constrained portion of the Plan. MTC staff generated an estimate of these unspecified revenues by projecting the $400 million figure, from FY 2014 – 2033, at a 3% annual growth rate. Over the course of the RTP, these revenues would total approximately $13 billion.

Because these revenues are unspecified, staff is recommending they remain flexible for planning purposes. From a timing perspective, staff is recommending these revenues begin in FY 2014; therefore, they would be available to build a shelf of projects as part of the plan, but would not be assumed to be available during the first five-year period for programming. Further, because of the timing uncertainty, staff proposes that these funds be for capital expenditures and not on-going operations.

<u>Sales Tax Rollovers:</u> While staff initially had incorporated revenue from reauthorized local option sales taxes in the financially constrained portion of the Plan, those revenues will be removed from the financially constrained element and reserved for the “vision” element of the Plan. In revisiting this issue, staff did not deem it appropriate to assume voter approved fund sources that typically include very specific expenditure plans in financial constraint before they are realized.

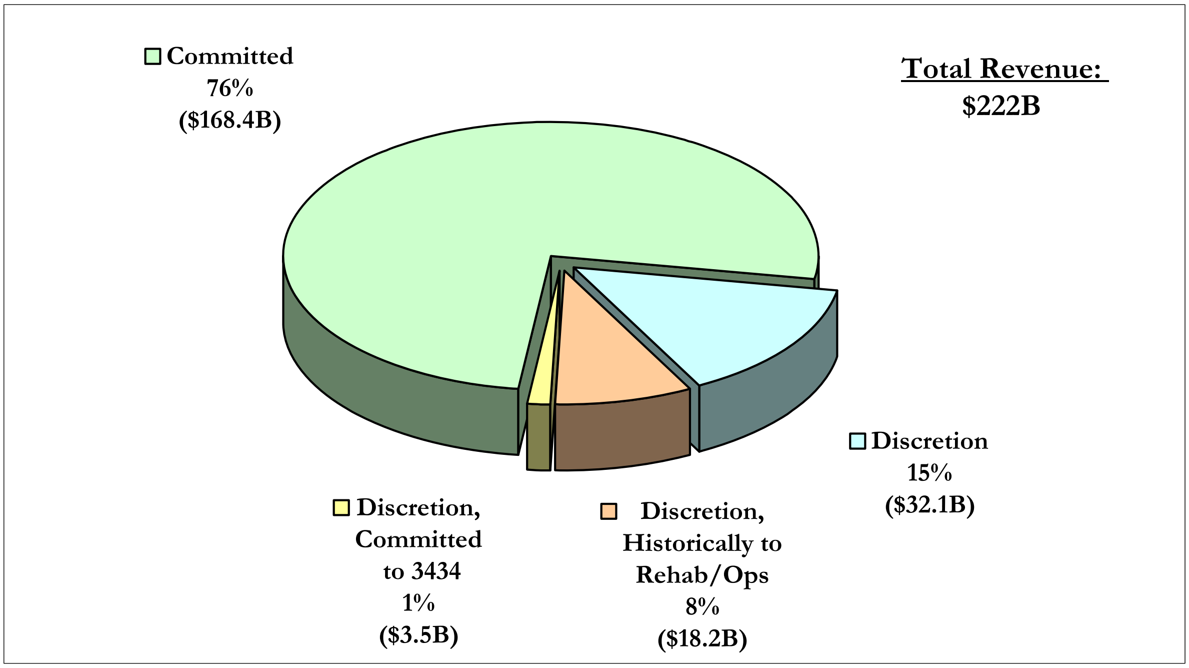
The table below summarizes the revenues that are currently planned for inclusion in the financially constrained portion of T2035:

Revised Preliminary T2035 Revenue (Financial Constraint):

Revenue Source	T2035 Revenue Contribution (Est.)
Traditional RTP Revenue Sources:	$200.8 Billion
HOT Revenue	$5.3 Billion
Anticipated "Unspecified" Revenue	$12.9 Billion
Spillover	$3.2 Billion
Total T2035 Financially Constrained Revenue:	**$222.2 Billion**

Under the proposal, the amount of revenue in the financially constrained portion of the plan that is discretionary is roughly $32 billion, as summarized in the chart below. The main discretionary sources include STP/CMAQ, STIP, HOT Revenue, Population-Based Spillover, "Anticipated Unspecified Revenue", and some FTA discretionary programs.

T2035 Revenue Breakdown:



Revenue Assumptions- Beyond Financially constrained
There are two categories of funds in this regard:

a) Near-term anticipated approvals
Revenues in the table below would be moved into the financially constrained portion of the Plan provided voters approve them in November (or authorized prior to 2009 in the case of the San Mateo County vehicle registration fee). The appropriate tax authorities should be prepared with expenditure plans in order to provide the distribution information of the revenue streams if and when they are approved.

Potential Revenue Sources for Financial Constraint:

Revenue Source	Maximum T2035 Revenue Contribution	Year Revenues Start
SMART District Tax (¼ cent)	$1.21 Billion	2009
Santa Clara / VTA (½ cent)	$8.72 Billion	2009
San Mateo County $4 Vehicle Registration Fee	$0.39 Billion	2009
High Speed Rail Bond	$0.4 Billion (amount subject to change through legislation)	2009

b) Longer-term potential approvals
Revenue streams that are not expected to got before the voters in the near future, but are potential revenue sources that may become available within the 25-year RTP period will considered as "second generation" funds, which could be associated with future delivery of elements of the Transportation 2035 vision element. The overall vision is expected to be a much broader, policy driven element than in past plans, linked to ultimate achievement of our adopted performance objectives and vision policies—which may require new revenues, but also new regulations, laws, or other manifestations such as new technologies. However, to the extent that the future revenues could help advance a defined piece of that vision, we could articulate those options. At this time, we believe that the regional gas tax best fits this description, which is estimated at $9.7 billion dollars over the life of the plan. Upcoming "investment trade-off" discussions will help frame what specific expenditures, if any, we want to link with this fund source.

Potential Future Revenue	Maximum T2035 Revenue Contribution
Regional Gas Tax Fee (10 cent)	$9.73 Billion

Cost Review and Risk Assessment
Per SAFETEA, starting December 11, 2007, revenue and cost estimates that support the long-range regional transportation plan must use an inflation rate(s) to reflect "year of expenditure dollars" based on reasonable financial principles and information. In addition, as part of MTC's federal certification process, Federal Highway and Transit Administrations (FHWA/FTA) requested that MTC take a more detailed look at the cost estimates to address concerns about financial plans for large-scale transportation projects.

Starting in March 2008, MTC staff and its consultant (BAMC) will perform a cost review and risk assessment of all operations and expansion projects proposed for consideration in the Transportation 2035 Plan. Staff will extract basic cost and project phase information from each project submitted as part of the call for projects. Our consultant will use a probabilistic risk model to identify the approximate risk level for a program of projects. Based on the risk assessment, we will identify the appropriate risk contingency by region, county, and/or program.

MTC and partner agencies will need to determine the appropriate level of risk for T2035. If we want a greater confidence level that a Plan project/program meets the financially constrained test and can be delivered in the estimated amount, we will need to assume a higher contingency.

Staff anticipates that this analysis will be completed by the end of April 2008.

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