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Memorandum

TO: Partnership Board DATE: November 3, 2008

FR: Alix Bockelman and Glen Tepke W. I.

RE: T2035 Update on Transit Capital and Operating Projections

This memo 1) outlines changes to the T2035 transit capital and operating projections since these items were last reviewed with the Partnership Board in February 2008, 2) presents the proposed distribution of the $6.4 billion in T2035 discretionary revenues directed by the Commission to addressing transit capital shortfalls, and 3) proposes a change to the Transportation 2035 policy to include STA Revenue-Based Spillover as a source of revenue to cover transit operating and capital shortfalls.

These three items were reviewed with the Transit Finance Working Group at their meeting on October 1, and, after taking the comments of TFWG members into account, a revised Spillover proposal was presented to the Partnership Technical Advisory Committee on October 27. PTAC accepted all three items.

Revisions to Transit Operating and Capital Projections

Operating - T2035 Operating Cost and Revenue Projections

The T2035 transit operating projections presented to the Board in February (refined projections were reviewed with PTAC and TFWG in March and April, respectively), and incorporated in the draft financially constrained element adopted by the Commission in July, included a projected 25-year operating surplus for VTA of $2.1 billion. Since then, VTA has revised its sales tax revenue projections based on a new economic forecast from the Center for the Continuing Study of the California Economy. Because of the compounding effect of near-term changes in revenue projections over a 25-year period, the revision reduces VTA's projected surplus to $144 million. In addition, Sonoma County Transit (SCT) staff identified a correction to their operating cost projections that increased their costs and decreased their operating surplus over the 25-year planning period by approximately $92 million. Attachment A is the revised summary of transit operating shortfalls.

Capital – Impact on T2035 Transit Capital Shortfalls

Since projected operating surpluses were counted as revenues available for meeting projected transit capital needs, the revision to the operating surplus projections for VTA and SCT affects the size of the region's projected transit capital shortfall, and the proposed distribution of T2035 discretionary funds to help cover the shortfalls.

The projections presented to the MTC Commission included a total capital shortfall of $21.6 billion and a Score 16 shortfall of $12.2 billion. The revisions to the projected operating surpluses increased these figures to $23.6 billion and $13.2 billion, respectively. VTA's projected capital shortfall increased from $362 million to $2.4 billion, and its Score 16 shortfall increased from $0 to $962 million. The SCT correction increased SCT's projected capital shortfall from $0 to $72 million, but did not result in a Score 16 shortfall. Attachment B summarizes the revised transit capital dedicated revenues, needs and shortfalls by operator.

Proposed Distribution of T2035 Transit Capital Discretionary Funding

In its adopted Draft Financially Constrained Investment Plan, the Commission elected to devote $6.4 billion of the $31.6 billion in projected discretionary revenues to addressing transit capital shortfalls. The Commission's policy direction was to cover all of the region's revenue vehicle needs first, and as much as possible of other Score 16 needs, such as fixed guideway and major systems. After accounting for projected dedicated capital revenues, the regional revenue vehicle shortfall was $4.1 billion, leaving $2.3 billion for other Score 16 needs, which is approximately 25% of the other Score 16 shortfall.

In keeping with the Commission's policy direction, MTC staff proposes to distribute the $6.4 billion in projected T2035 discretionary revenues as follows. The $4.1 billion for revenue vehicle needs would be distributed to operators with projected Score 16 shortfalls in proportion to each operator's share of the total revenue vehicle shortfall for those operators. The $2.3 billion for other (non-vehicle) Score 16 needs would be distributed to operators with projected Score 16 shortfalls in proportion to each operator's share of the total other (non-vehicle) Score 16 shortfall for those operators. Attachment C details the proposed distribution of the T2035 discretionary revenues.

It is important to note that these Transportation 2035 funding assignments are based on projections of aggregate needs and revenues over 25 years; actual programming will vary year to year and will take into account actual revenues, and project eligibility and readiness.

T2035 will include a transit maintenance project which combines projected needs and funding for operations and capital for each large operator, with smaller operators combined into a single regional project. Attachment D summarizes the capital and operating needs and revenues, and the maintenance project totals by operator.

Policy Discussion: Assignment of Spillover Revenues

As a reminder, the Transportation 2035 revenues include $3.2 billion in Spillover revenues in the financially constrained element of the Plan. The assumptions of Spillover revenue are based on current law with only 50% of total Spillover funds available to transit; however, as seen this year, there continues to be unpredictability from year-to-year on the availability of these funds.

When this was discussed with the Partnership Board in February 2008, it was proposed that Revenue-Based Spillover funds would be treated as committed while the Population-Based funds net of existing commitments were proposed as discretionary. Currently, Revenue-Based Spillover revenues are unassigned in Transportation 2035, meaning that they are part of the revenues but are not assumed to cover the costs for specific projects or program categories. In other words, currently these funds act as a reserve for yet-to-be-determined transit purposes.

MTC staff is proposing an alternative approach that would revisit these assumptions about Spillover revenues. The proposal below, based on input from the Transit Finance Working Group, would direct any Revenue-Based Spillover for an operator in the following priority order:

- To cover any projected operating shortfalls.
- To cover non-score 16 capital rehabilitation shortfalls.
- To unassigned reserve.

The table below summarizes how this policy would affect the projected shortfalls for Bay Area operators. We welcome your feedback on this proposal. If this policy is supported, we will make necessary changes moving toward the final development of Transportation 2035, including an update to Attachments A-D described above.

DRAFT T2035 Impact of Spillover on Transit Operating & Capital Shortfalls ***(In Inflated $1,000,000s)***

	25-Year Shortfall Before Spillover			Potential Spillover Revenue	25-Year Shortfall After Spillover		
	Operating	Capital			Operating	Transit Capital	
	Baseline	Total	Score 16		Baseline	Total	Score 16
LARGE OPERATORS							
1. AC Transit	$115	$664	$232	$250	$0	$529	$232
2. BART	$0	$9,956	$6,434	$575	$0	$9,381	$6,434
3. Caltrain	$0	$2,040	$1,029	$104	$0	$1,936	$1,029
4. Golden Gate Transit (inc. MCTD contract)	$287	$442	$235	$101	$186	$442	$235
5. SamTrans	$1,322	$463	$115	$104	$1,219	$463	$115
6. SF MTA	$2,034	$7,191	$3,809	$771	$1,263	$7,191	$3,809
7. VTA	$0	$2,370	$962	$336	$0	$2,034	$962
SUBTOTAL LARGE OPERATORS	*$ 3,758*	*$ 23,126*	*$ 12,815*	*$ 2,241*	*$ 2,668*	*$ 21,975*	*$ 12,815*
SMALL OPERATORS							
SUBTOTAL SMALL OPERATORS	*$ 545*	*$ 553*	*$ 361*	*$60*	*$ 532*	*$ 535*	*$ 361*
TOTAL LARGE & SMALL OPERATORS	$ 4,303	$ 23,679	$ 13,177	$ 2,301	$ 3,200	$ 22,510	$ 13,177
DIFFERENCE (BEFORE-AFTER)					$ 1,103	$ 1,169	$ -