Metropolitan Transportation Commission
Programming and Allocations Committee

May 13, 2009 **Item Number 3a**

Resolution No. 3908: Transit Capital Priorities Process and Criteria

Subject: FY 2009-10 through FY 2011-12 Transit Capital Priorities Process and Criteria

Background: The Transit Capital Priorities (TCP) Process and Criteria are the MTC programming guidelines for distributing the Federal Transit Administration (FTA) Section 5307 Urbanized Area and 5309 Fixed Guideway Modernization (FG) formula funds to eligible transit operators in the region. Under current policy, these funds, totaling approximately $350 million annually, are programmed for transit capital replacement and rehabilitation projects, preventive maintenance and ADA-related operating assistance.

The recommended three-year transit program totals just over $1 billion. Based on the forecast of needs and revenues on a year-by-year basis, staff is proposing several new policy elements to address the upcoming large vehicle procurements as well as the current economic downturn affecting transit operators. The significant elements of the proposal are summarized below and explained further in the attached memorandum:

1) Include $150 million vehicle reserve to address upcoming significant vehicle procurements;
2) Dedicate $50 million to address budget challenges over three-year period;
3) Revise fixed guideway caps to acknowledge vehicle replacement priority and to account for relative needs and multi-year flexibility.

Issues:

1) The following concerns were expressed by several operators about the policy elements:
   - Vehicle replacement first policy: requires underfunding fixed guideway needs through the imposition of fixed guideway project caps;
   - Fixed guideway cap proposal and whether it adequately captures ferry needs; and
   - Economic Reserve: reduces funding for other capital projects.

2) The Federal transit formula funds in questions constitute the first three years of the next surface transportation authorization which has not yet been enacted. It is conceivable that Congress could make significant changes to the structure and amounts of funding made available for these purposes in the legislation ultimately adopted.

3) During the development of the regional ARRA funding proposal, several advocates recommended that the flexible set-aside formula be based solely on ridership. This proposal continues the current framework for both flexible set-aside as well as the preventive maintenance reserve, which is 50% based on ridership and 50% based on revenue factors.

Recommendation: Information Only – Final for June action.

Attachments: Executive Director Memorandum

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METROPOLITAN
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Memorandum

TO: Programming and Allocations Committee DATE: May 13, 2009

FR: Executive Director W.I.: 1512

RE: Draft Transit Capital Priorities Process and Criteria for FY 2009-10 through FY 2011-12: MTC Resolution No. 3908

Background

The Transit Capital Priorities (TCP) Process and Criteria are the MTC programming guidelines for distributing the Federal Transit Administration (FTA) Section 5307 Urbanized Area and 5309 Fixed Guideway Modernization (FG) formula funds to eligible transit operators in the region. Under current policy, these funds, totaling approximately $350 million annually, are programmed for transit capital replacement and rehabilitation projects, preventive maintenance and ADA-related operating assistance.

The current TCP Process and Criteria, MTC Resolution 3841, Revised, covers programming for FY 2008-09. This item presents a draft policy for FY 2009-10 through FY 2011-12, MTC Resolution 3908, for the Committee's consideration. Staff will present the final proposed policy, as well as a proposed TCP program for FY 2009-10 and preliminary programs for FY 2010-11 and FY 2011-12, to the Committee at your meeting on June 10, with a recommendation that the Commission adopt the policy and program at their meeting on June 24.

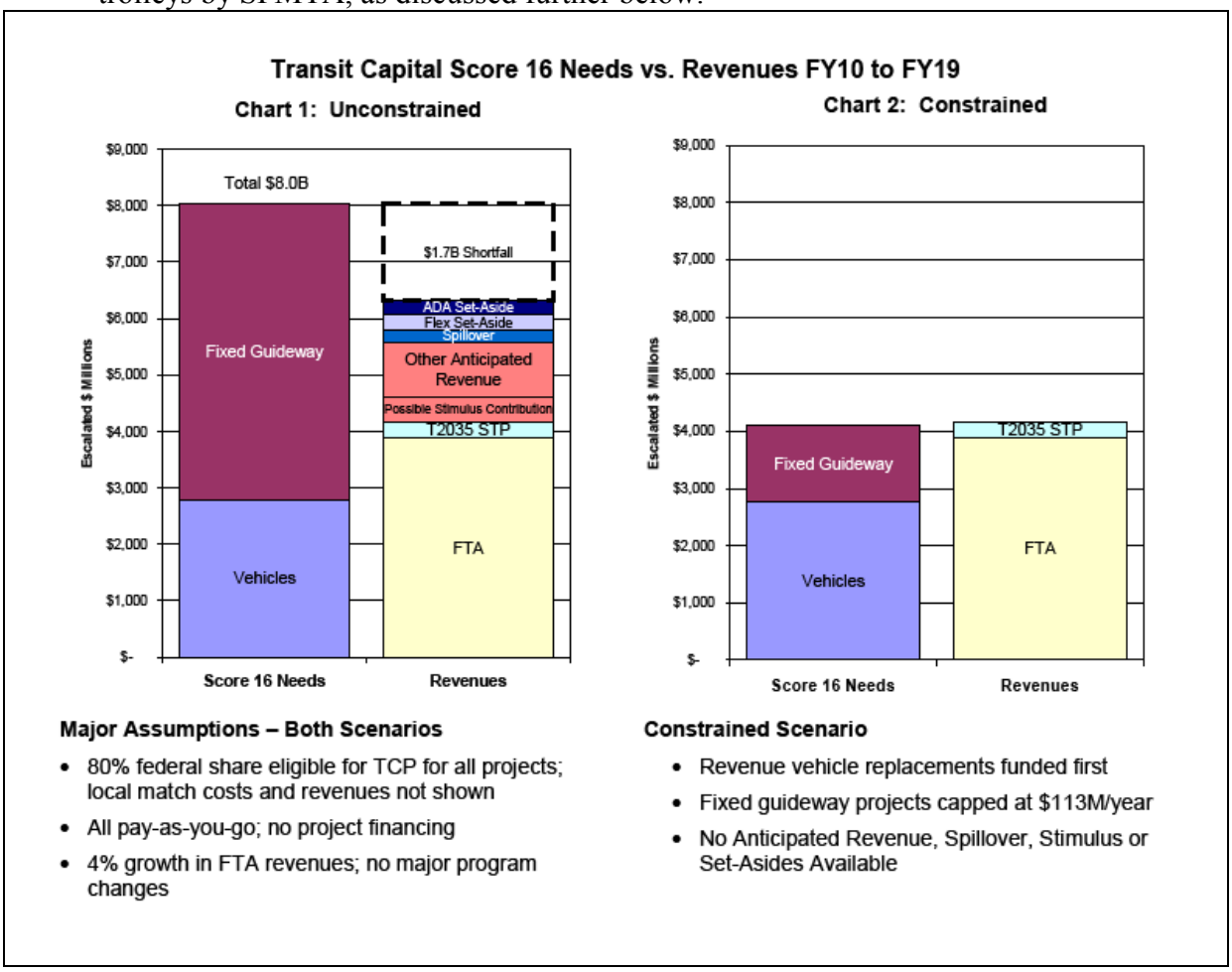
Financial Picture: A 10-Year Look

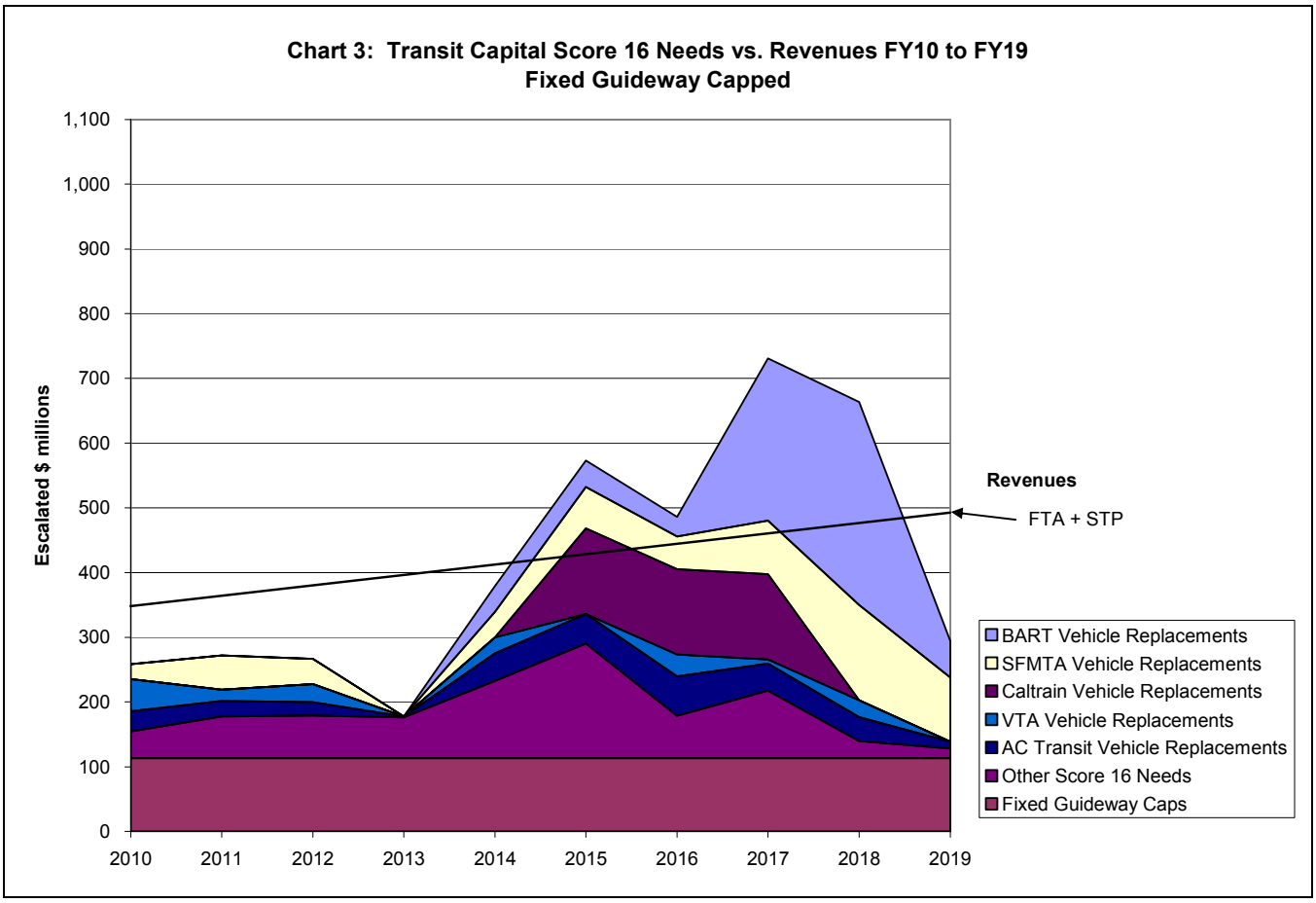
Staff has been working over the last year with the transit operators through the Partnership's Transit Finance Working Group (TFWG) to update the policy for programming TCP funds for FY 2009-10 through FY 2011-12. A key part of this process was the development of a regional 10-year Capital Improvement Program (CIP) to assess the region's ability to fund its transit capital replacement and rehabilitation needs, consistent with the long-range plan just adopted – Transportation 2035. The CIP was derived from the 25-year transit capital need projections developed for Transportation 2035, which were based on operators' data on their capital assets aggregated into a Regional Transit Capital Inventory.

The charts on pages 2 and 3 illustrate the results of the CIP projections for the region's highest ranked transit capital priorities, referred to as Score 16, for FY 2010 to FY 2019. Score 16 projects include the replacement of revenue vehicles, including buses, railcars and ferries; fixed guideway needs, including track and bridge rehabilitation, train control and traction power systems, and ferry overhauls, dock rehabilitation, and dredging; and communications systems.

Generally, the charts depict three main points:

1. **Shortfalls still exist for Score 16:** Chart 1 shows that even considering all possible revenues – including "anticipated" funding identified in Transportation 2035 – the region still has a $1.7 billion shortfall as compared to all Score 16 needs over the ten-year period. This is consistent with the 25-year projected transit capital shortfall in the long-range plan.
2. **Vehicle First Policy Requires Caps for Fixed Guideway:** Chart 2 implements the vehicles first policy of Transportation 2035 for all known federal revenues and that fixed guideway projects can only be funded at roughly 25% of the need, or $113 million annually. The TCP policy caps the total amount of funding provided for fixed guideway needs so sufficient funding remains to cover all vehicle replacement needs.
3. **Capital Needs are Uneven from Year to Year:** Chart 3 shows that while the total revenues equal total needs (with fixed guideway caps applied), the needs are not distributed evenly over the ten year period. Revenues are projected to exceed capped needs from FY 2010 through FY 2013, but projected needs exceed revenues by wide margins from FY 2014 through FY 2018. This is due primarily to major upcoming vehicle procurements, including replacement of railcars by BART and Caltrain, and trolleys by SFMTA, as discussed further below.





Major Issues and Recommendations
Based on the forecast of needs and revenues, including the imbalances on a year-by-year basis, staff is proposing several new policy elements to address the vehicle procurements and the current financial pressures on many operators operating budgets. The significant elements of the proposal are summarized below and explained further below:

1) Include a $150 million vehicle reserve to address upcoming significant vehicle procurements;

2) Dedicate $50 million to address budget challenges over the three-year period;

3) Revise the fixed guideway caps to acknowledge vehicle replacement priority and to account for relative needs and multi-year flexibility.

Adoption of these policy changes would result in a three-year TCP program as shown in the table at the top of page 4.

Near-Term FTA Program: Three Years (FY2010 - FY2012)
Escalated $ millions, 80% Federal share, fixed guideway and vehicle procurements capped, flexible and ADA set-asides not shown

	FY09-10	FY10-11	FY11-12	3-Year Total
Regional Totals				
Revenue Vehicles	$145.5	$149.8	$147.0	$442.3
Fixed Guideway Caps	113.0	113.0	113.0	339.0
Non-FG Score 16 Systems	0.0	9.4	6.8	16.1
Proposed Vehicle Procurement Reserve	12.0	63.0	75.0	150.0
Proposed Preventive Maintenance Funding	50.0			50.0
Total Proposed Program	$320.5	$335.2	$341.7	$997.4

1. Reserve for Major Vehicle Procurements. The region faces major vehicle replacement needs over the next decade:

- BART is planning to replace its entire fleet at a cost of roughly $2.7 billion,
- Caltrain is replacing its diesel trains with electric vehicles (contingent on electrification of the Caltrain line) for approximately $500 million, and
- SFMTA is scheduled to replace its electric trolley fleet at a total cost of about $400 million.

MTC staff has been working with BART to develop a financing plan for the BART project, and the CIP projections assume that the region will dedicate approximately $730 million in FTA funds to the first phase of the project over the next ten years. The first phase funds approximately $1 billion of the total project, and includes all project development work, prototypes and testing, and an initial order of at least 200 vehicles. Staff will be presenting the full BART finance plan to the Committee in the coming months; however, this TCP policy is based on a commitment to this project phasing plan. Staff will also work with Caltrain and SFMTA to develop detailed approaches to funding their projects. The CIP projections assume that all other vehicle replacements throughout the region are funded.

Recommendation: The proposed TCP policy includes a vehicle procurement reserve which will direct approximately $150 million of revenues from the three-year FY10-FY12 program to help meet the future peak expenditures for the major vehicle procurement projects. Specific policies for programming the reserve funds will be presented to the Committee in future amendments to the TCP policy.

It should be noted that the ferry operators generally do not support the vehicle first policy in that it requires underfunding fixed guideway needs through the imposition of fixed guideway project caps. Project caps are discussed further below.

2. Preventive Maintenance Reserve. The regional TCP policy makes replacement and rehabilitation of transit capital assets the top priority for funding. Operating costs, including routine preventive maintenance, are considered lower priorities in the current TCP scoring

framework, with the expectation that these costs will be funded by other sources. However, transit operators are facing severe operating budget shortfalls due to the elimination of State Transit Assistance (STA) and the reduction of sales tax revenues in the current recession, leading to fare increases and service cuts across the region.

Staff surveyed operators regarding budget shortfalls and need for preventive maintenance funding in the FY10-FY12 program. While operators expressed some support for additional flexibility in the coming three years, they generally did not want funding for preventive maintenance to take precedence over the region's critical capital needs. It was also noted that the American Recovery and Reinvestment Act funds already provided a short-term source of funding for preventive maintenance.

Recommendation: Staff is recommending a measured approach to using TCP funds to address operating shortfalls: dedicating approximately $50 million over the three-year program as flexible funding that can be used for any eligible project, including preventive maintenance.

Operators would also have flexibility in terms of when to request the flexible funds. These funds would be in addition to the current 10% flexible set-aside, and would be distributed to operators using the flexible set-aside formula, which is based on relative ridership and FTA revenue generation.

It should be noted that BART and Golden Gate transit staff did not support any level of funding for the preventive maintenance reserve, and thought high-scoring capital needs should take priority given the region's transit capital shortfall.

3. Fixed Guideway Project Caps. As discussed above, fixed guideway project caps, which limit funding for fixed guideway rehab project categories to specified amounts for each operator each year, are a key element of the TCP policy. Based on the projected revenues and vehicle needs in the CIP, total funding for fixed guideway needs would have to be limited to an average of $113 million per year to ensure sufficient funding to meet vehicle replacement needs.

Recommendation: The proposed policy update would distribute fixed guideway funding in proportion to each operator's share of the projected fixed guideway needs. In addition, greater flexibility would be provided – rather than separate caps for three to five categories of projects, each operator would have a single cap that could be allocated to any eligible fixed guideway project.

To protect operators from large swings in cap amounts from the current policy, caps would be adjusted so that no operator's caps were less than 90% of the average amount of their fixed guideway programming over the last four years.

Concerns with this approach were expressed by ferry operators who felt their replacement and rehabilitation needs were underrepresented in the regional inventory, and tying caps to recent

programming penalized smaller operators with more uneven year-to-year needs than larger rail operators. Staff worked with the ferry operators to ensure their needs were fairly represented in the inventory, and will work to adjust caps on an annual basis to meet major project needs to the extent possible within the financial constraints of the program.

Other Program Elements
In addition to the policy elements discussed above, staff is proposing the following:

- Three-year Program – adopt a program for FY2009-10, and preliminary programs for FY2010-11 and FY2011-12, to assist with multi-year budgeting efforts. However, initially only the FY10 program would be added to the region's Transportation Improvement Program. The preliminary programs for FY11 and FY12 would be revisited and potentially revised based on new information regarding federal authorization and project financing plans.

- Conservative FTA Revenue Projections – assume 2% revenue growth for FY10, and 4% each year thereafter; the lower rate for the first year allows a buffer against the uncertainty of the upcoming authorization of a new transportation bill.

- New Eligible Operators – add Petaluma Transit to the program since it has completed the process of becoming an FTA grantee; continue to program funds including fixed guideway caps to WETA contingent on the adoption of the Transition Plan required by SB976.

- Optimize Vehicle Life Cycle – allow bus operators to optimize fleet replacement cycles based on vehicle condition and keep the savings if replacements are not needed at 12 years.

Recommendation
Staff recommends that the Programming and Allocations Committee accept this report for informational purposes. Staff will present the final proposed policy, as well as a proposed TCP program for FY 2009-10 and preliminary programs for FY 2010-11 and FY 2011-12, to the Committee at your meeting on June 10, with a recommendation that the Commission adopt the policy and program at its meeting on June 24.

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Steve Heminger

Attachments
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