Item 6

METROPOLITAN
TRANSPORTATION
COMMISSION

Joseph P. Bort MetroCenter
101 Eighth Street
Oakland, CA 94607-4700
Tel: 510.464.7700
TDD/TTY: 510.464.7769
Fax: 510.464.7848

Memorandum

TO: Bay Area Partnership Board

DATE: October 3, 2005

FR: Steve Heminger, MTC

RE: **Balance of FY 2005-06 through FY 2007-08 FTA Formula Funds**

I. Background

In March, MTC made a call for projects to program three years of Federal Transit Administration (FTA) formula funds totaling roughly $925 million based on pre-SAFETEA authorization revenue estimates. The call for projects resulted in a surplus of funds. Eligible project costs considered for programming totaled only $732 million. This left $193 million in surplus funds for future programming. Given the significant transit shortfalls identified in Transportation 2030, this was an unexpected result. The surplus of funds could be attributed to the following factors, which appear to have converged within this upcoming three-year programming window:

- Many operators are still coping with recession-induced operating shortfalls requiring service reductions. This has forced operators to defer fleet and other capital replacements.
- Most operators have delayed bus replacements until engine technology catches up with California Air Resource Board (CARB) fleet emissions standards.
- The Transportation 2030 projected transit capital shortfall is based on total, uncapped need. FTA funding programming eligibility rules assume project funding at the lower capped levels.
- Transit capital needs in the region are cyclical in nature. Based on the 10-year Transit Capital Priorities (TCP) data, the next significant spike in capital replacement is anticipated in FY 2013-14.
- Some transit properties do not have the capability to accurately develop their capital need over a longer time horizon. Therefore, data submitted for longer-term analysis may not have reflected actual shorter term needs.

With the passage of SAFETEA, preliminary revenue estimates indicate that urbanized areas with fixed guideway generations will realize roughly $19 million more than what had been assumed under the pre-SAFETEA revenue estimates. Included in this balance are other minor adjustments associated with the final FY 2004-05 appropriations. Urbanized areas without fixed guideway revenue generations will experience minor reductions in anticipated revenues totaling roughly $2 million.

Table 1 provides a summary of surplus funds available by year and urbanized area based on pre-SAFETEA revenue estimates and Table 2 provides a summary of surplus funds available based on MTC's revised revenue estimates made after SAFETEA was signed into law. Note that adjustments to these urbanized areas and other urbanized areas that do not have surpluses will be made when the annual appropriations are released for each of the three years, FY 2005-06 through FY 2007-08. Score 16 commitments will be prioritized for funding prior to distributing the balance of FTA formula funds.

Table 1: Pre-SAFETEA Surplus Fund Balance

Urbanized Area	SF-Oakland	San Jose	Concord	Antioch	Livermore	Petaluma	Total
FY 2006-07	90,115,972	0	12,093,563	2,656,416	624,806	587,030	106,077,786
FY 2007-08	68,353,508	0	13,394,178	4,843,652	628,274	0	87,219,611
Total	158,469,480	0	25,487,741	7,500,068	1,253,080	587,029	193,297,397

Table 2: Post SAFETEA Surplus Fund Balance

Urbanized Area	SF-Oakland	San Jose	Concord	Antioch	Livermore	Petaluma	Total
FY 2006-07	90,335,553	(1,404,178)	12,484,100	2,442,894	481,866	479,604	104,819,839
FY 2007-08	82,443,482	2,302,489	15,528,757	5,196,543	623,325	(3,136)	106,091,460
Total	172,779,035	898,311	28,012,857	7,639,437	1,105,191	476,468	210,911,299

The Bay Area Transit general managers met on July 18th to discuss programming options for the surplus fund. The options included:

a) Follow the TCP policy and fund lower scoring projects in score order
b) Secure funds for future high scoring capital needs
c) Lift TCP policy program caps
d) Distribute the balance of funds based on the TCP 10% flexible set-aside amount
e) Fund regional transit connectivity and efficiency projects
f) Fund transitional costs for transit consolidation

MTC staff also proposed a $1 million off-the-top contribution for use in developing a better transit capital inventory for the region.

On July 18th, the general managers of the region's transit properties met and developed a proposal that increased Caltrain's caps to $13 million for two fixed guideway project categories, resulting in an additional $11 million. This amount is split between the San Francisco-Oakland UA (67%) and San Jose UA (33%) based on the TCP policy. The proposal also set-aside $1 million to develop a better transit capital inventory. Under the proposal, the balance of the surplus funds are split 80% distributed to operators based on the TCP flexible set-aside formula, and 20% held in reserve for future high-scoring capital projects.

Two key issues emerged after the July 18th general managers' meeting that were discussed at the August 1st Partnership Board Meeting:

1) The release of CARB's public hearing notice announcing possible changes to the Diesel Path of the Transit Fleet Rule; and
2) Transit security concerns arising out September 11th and exacerbated by the recent London subway bombings.

As a result of these issues, it was decided at the August 1st Partnership Board meeting to postpone a decision until after further consideration of potential CARB and security needs. It should be noted that the CARB public hearing was originally scheduled on September 15th but the item was deferred until the October 20th CARB meeting.

II. Issues for Discussion

Possible Changes to the Transit Fleet Rule

On October 20th, the California Air Resources Board will consider one of three options:

- Align the CARB heavy-duty diesel transit bus engine emission standard with the national standard (and CARB truck standard).
- Eliminate the diesel path and require that operators' bus procurements consist of 85% alternative fuel buses starting in 2007 through 2015.
- Take no action and maintain existing emission standards (which would preclude California bus operators from purchasing buses until at least 2010 when the national standard aligns with the state standard and buses meeting the 0.2 gbhp NOx standard are targeted to be available). Note that most Bay Area operators' retrofitted/repowered vehicles so as to avoid new bus purchases between 2004 and 2007.

The California Transit Association (CTA) has organized numerous meetings between Bay Area operators and CARB board members to discuss the issues that will be heard at the October 20th CARB public hearing. The CTA has also organized statewide conference calls to discuss potential strategies in preparation of this public hearing. MTC organized a region-wide conference call and, on October 11th, will participate with Bay Area operators in a statewide strategy meeting. Given the environmental group and national gas industry advocacy to eliminate the diesel path altogether, it is the consensus of Bay Area operators to support a "take no action" strategy, rather than alignment. It should be noted that if the "take no action" approach is agreed to by the CARB Board, it is unlikely that Bay Area operators will incur immediate capital costs, although some expenditures on additional Cleaire filters may be necessary to satisfy the CARB Board that the region is doing all it can to minimize diesel emissions. Also, beginning in 2010, most operators will have significant bus replacement needs and the region may wish to reserve additional funds for this purpose.

Regional Transit Security

The events of September 11th and subsequent attacks on transportation systems prompted FTA to embark on a national security risk assessment of transit operators. This information was used, in part, to formulate the requirements for the Department of Homeland Security Grant requirements. These requirements include developing a *regional vision* for prioritizing the funds. The regional vision developed in conjunction with operators designated to receive

Homeland Security funds entails five goals that the eligible operators used to develop a list of priorities.

The list of priority projects, which is not for public release, totals approximately $63 million. Given that Bay Area Operators received $9 million in Homeland Security funds, MTC anticipates that funds will continue to trickle into the region, and at this rate could reach perhaps $36 million through FY 2007-08. This amount is sufficient to fund roughly half the high priority needs identified.

MTC Recommendation

Attachment 1 shows the July 18th general managers' proposal using the distribution prior to revenue and programming adjustments resulting from SAFETEA, and Attachment 2 shows the proposed revised distribution with the aforementioned adjustments made. The MTC staff recommendation maintains the general managers' general financial approach for distributing the surplus funds (Attachment 2) with the following new programming conditions:

1) First priority for the $39 million set-aside for future high priority capital needs will be programmed to projects related to meeting changes, if any, to CARB's Transit Fleet Rule or for addressing other projects needed to reduce diesel bus emissions;

2) Second priority for the $39 million set-aside will be programmed to high priority security needs not otherwise funded by Office of Homeland Security grants;

3) Third priority for the $39 million set-aside will be programmed to other unexpected score 16 needs.

4) No projects will be included in the Transportation Improvement Program (TIP) until the CARB Transit Fleet Rule issues have been resolved.

5) The Partnership will consider whether transit security needs, or some element of security, should be increased to score 16 during the next TCP discussions.

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