Review of the People's Transportation Plan and Miami-Dade Transit FY 2014-2015 Pro-Forma

Citizens' Independent Transportation Trust

April 15, 2015

- Pro Forma Review
  - Background and Methodology
  - Key Findings
- Key Assumptions
- Analysis
- Recommendations

Background and Methodology

- IMG Rebel and Planning & Economics Group (the "Team") was tasked by Citizens' Independent Transportation Trust to review and analyze the People's Transportation Plan and Miami-Dade Transit (MDT) FY 2014-15 Pro-Forma (the "Pro-Forma") received on January 27, 2015.
- The Office of Management and Budget (OMB) developed the Pro Forma with input from MDT.
- The Team conducted the following tasks:
  - Analyzed the Pro Forma;
  - Conducted discussions with OMB and MDT to understand the background to key assumptions and calculations; and
  - Developed a written report and this presentation with key findings of the analysis.

Background and Methodology

- The Pro Forma uses values from MDT's FY 2014-2015 adopted budget as anchors and then increases both revenues and expenses by a percentage going forward.
  - Previously, MDT's pro forma was developed using several bottom-up calculations, which provided a breakdown of the key components of various line items. This approach is not followed in the Pro Forma.
- The Pro Forma has a five-year timeline as opposed to a longer (about 30 years) timeline used in the past. Reasons for the changed approach include:
  - Staff transition at OMB and time constraints to appropriately develop a pro forma longer than five years.
  - Since there were no bond issuances anticipated in FY 2014-2015, a long-term pro forma needed for bond issuances was not developed.
- Some key elements are not yet incorporated in the Pro Forma, including:
  - Complete costs and savings of replacing MDT's aging fleet of diesel buses with leased compressed natural gas (CNG) buses.
  - Financial implications of a proposed debt refinancing in FY 2014-2015.

Key Findings

- While the growth rates overall appear reasonable, including for PTP Sales Tax, lack of detail on expense items, including "Other Operating" costs, and the uncertainty about current labor union negotiations, make the cost side of the Pro Forma uncertain.
  - For instance, while fuel prices have been very low, in the last year, it is unclear how much the Other Operating expense category assumes that these low prices will continue.
- The Pro Forma shows a funding gap of around $146 million over the next five years, even if fares are increased twice in the next five years.
- The analysis of the coverage ratios for PTP Sales Tax-funded bonds suggests that issuing bonds based on the current PTP Sales Tax forecasts would not be possible, without an additional funding source and/or a pledge from the Miami-Dade County (the "County").
- The Pro Forma should have a longer timeline (25-30 years) and provide detailed breakdown of the various line items.
- Incorporating elements of proposed debt refinancing and CNG bus program will ensure completeness of the Pro Forma.

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Key Assumptions

- PTP Sales Tax is expected to grow at 4% in FY 2014-2015, and at 3.5% annually thereafter.
- Overall, MDT's operating expenses are expected to grow at 2.4%. "Salary" and "Fringe" grow at 3.5% annually.
- Fare increases are expected in FY 2015-2016 and FY 2017-2018, resulting in additional revenue of $15.6 million.
- The Pro Forma incorporates the elimination of 3.5% increase in maintenance of effort (MoE) for FY 2014-2015.
- Two new bond issuances are expected in FY 2015-2016 and FY 2017-2018 of $431 million and $165 million, respectively.
- The Pro Forma assumes constant levels of employment and service (subject to potential service cuts).
- The Pro Forma assumes bus leasing rather than purchasing, which reduces debt service costs.

Key Assumptions and Changes From Previous Years

Key Assumptions				
Variable	**FY 2011-2012**	**FY 2012-2013**	**FY 2013-2014**	**FY 2014-2015**
Fare Increases	Fare increases in 2014 and 2018 and every 3 years thereafter. Each fare increase is $0.25	Unchanged from FY 2012	Unchanged from FY 2012	Fare increases in 2016 and 2018. Fare increase expected in 2015 was rejected, and therefore, fare increase is expected in 2016
PTP Sales Tax Revenue	PTP Sales Tax revenue growth rate of 4.5% in FY 2012, 3% from FY 2013-2016, and 4.5% per year thereafter	PTP Sales Tax revenue growth rate of 2.13% in FY 2013, 3% for FY 2014-2017, and 4.5% per year thereafter	PTP Sales Tax revenue growth rate of 3% in FY 2015-2019, and 4.5% per year thereafter	PTP Sales Tax revenue growth rate of 4% in FY 2014-2015, and 3.5% per year thereafter
New Revenue Sources	Includes new revenue sources such as 2 cents of Local Option Gas Tax and additional millage revenue	Unchanged from FY 2011-2012	"Additional Local Revenue or Service Cut" is expected from FY 2015 onwards - $192 million from FY 2015-2019 and $2.6 billion from FY 2015-2042	"Additional Local Revenue / Service Cut" of $146 million from FY 2016-2019.
Bus Operating Level	Constant levels of employment and bus service over the 30-year forecast period (29.2 million revenue miles for bus)	Constant level of employment (3235 employees) and bus service (29.1 million revenue miles for bus) over 30-year forecast period	Unchanged from FY 2013	Unchanged from FY 2012-2013
Operating Expenses	Annual average growth rate of 3.6%	Average annual growth rate of 3.41% Fuel and energy increase at 1.5% in FY 2013, 1.8% in FY 2014, 2% in FY 2015, 2.2% in FY 2016 and 2.5% per year thereafter	Average annual growth rate of 3.13% Average annual growth rate of fuel and lubricants is 2.41% and labor and salaries is 3.85%	Average annual growth rate of 2.4%. "Salary" and "Fringe" growing at 3.5% annually
Rail and Public Works Department	Financed with 30-year debt at 6% interest rate	Unchanged from FY 2011-2012	Unchanged from FY 2011-2012	Information not available
Bus Financing	Replacement buses financed as 10-year lease-to-own at 6% interest rate	Unchanged from FY 2011-2012	Unchanged from FY 2011-2012	Unchanged from FY 2011-2012

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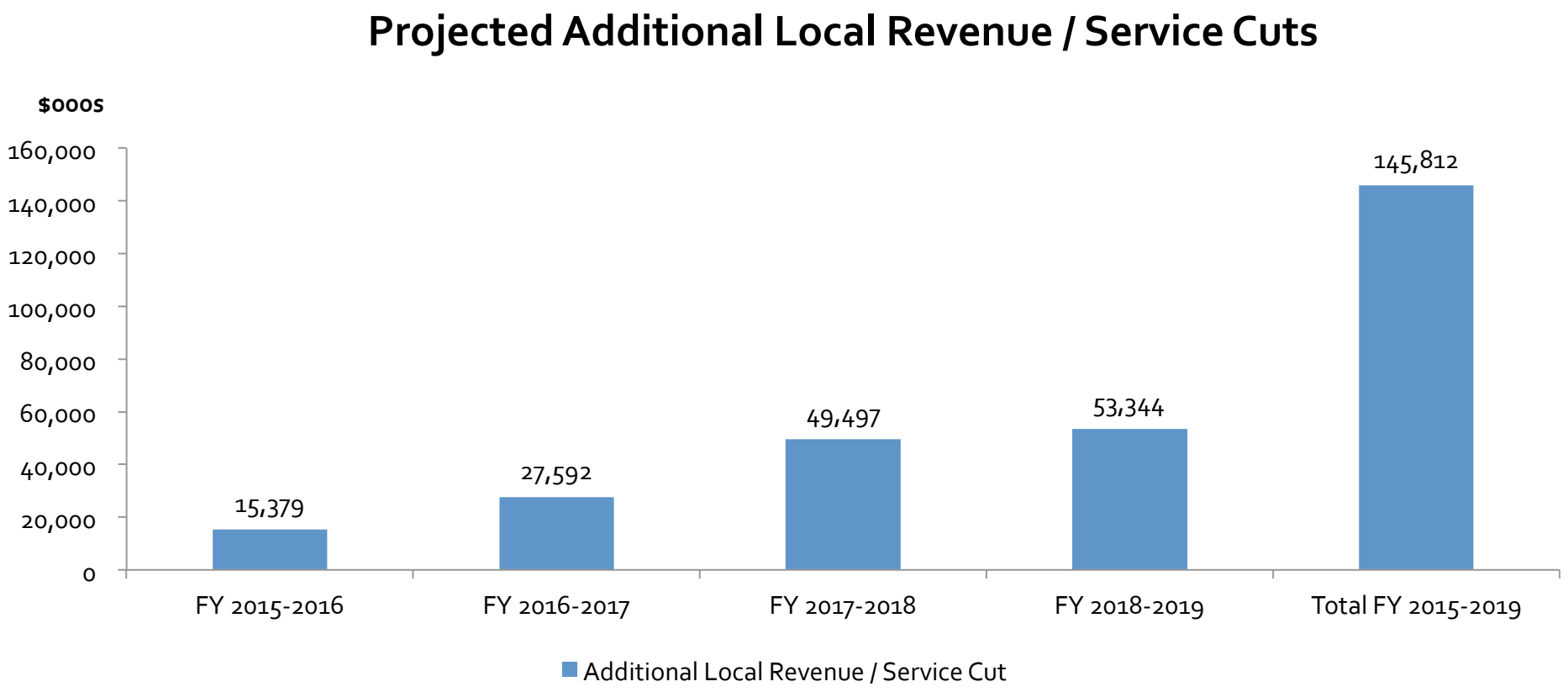
Fare and fee increases were rejected in FY 2014-2015. As a result, two fare increases are needed in the next five years.

Elimination of Fare Increases and STS Fee in FY 2014-2015

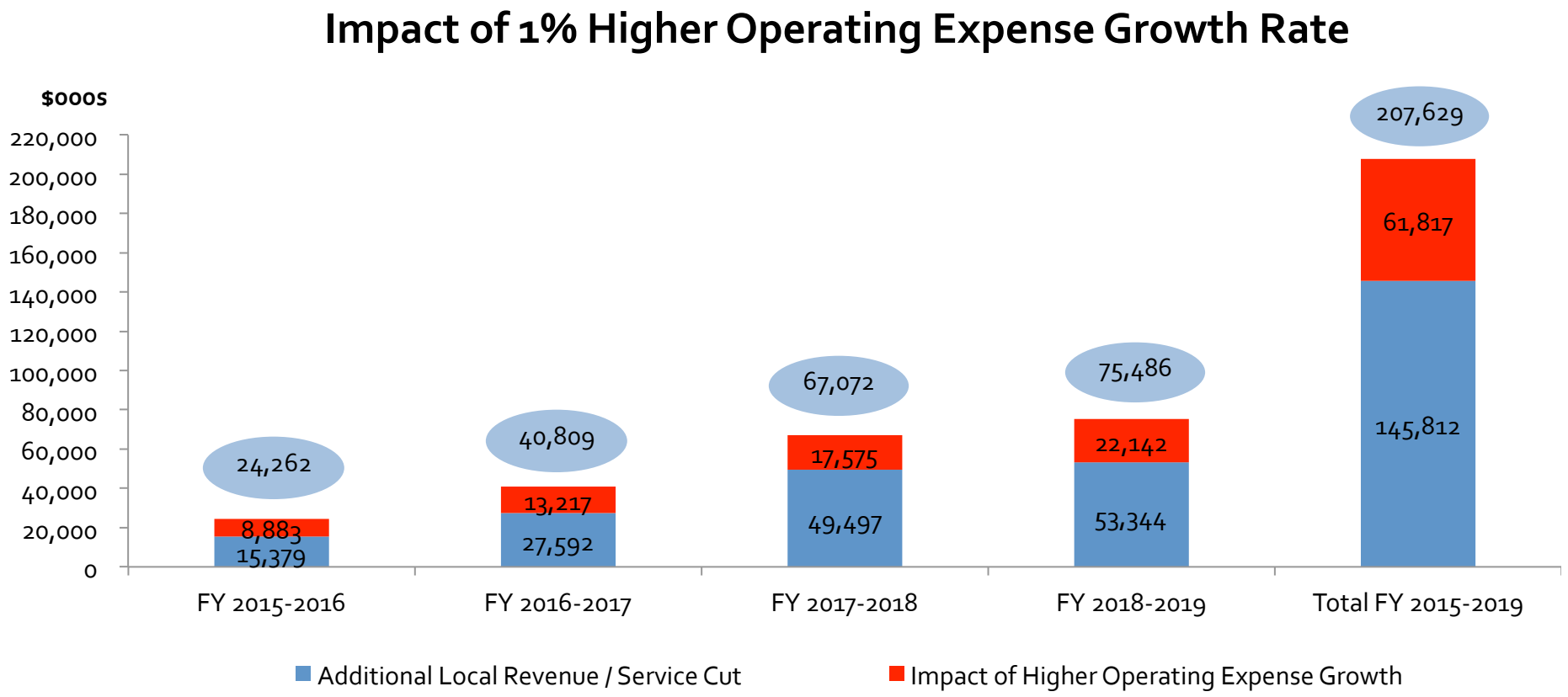
- In the next five years, there are two fare increases to raise $15.6 million in revenues. In the absence of fare increases, new funding source needs to be identified or there needs to be a cut in services.

Despite fare increases, there is a need for additional local revenue or service cuts to the tune of $146 million.



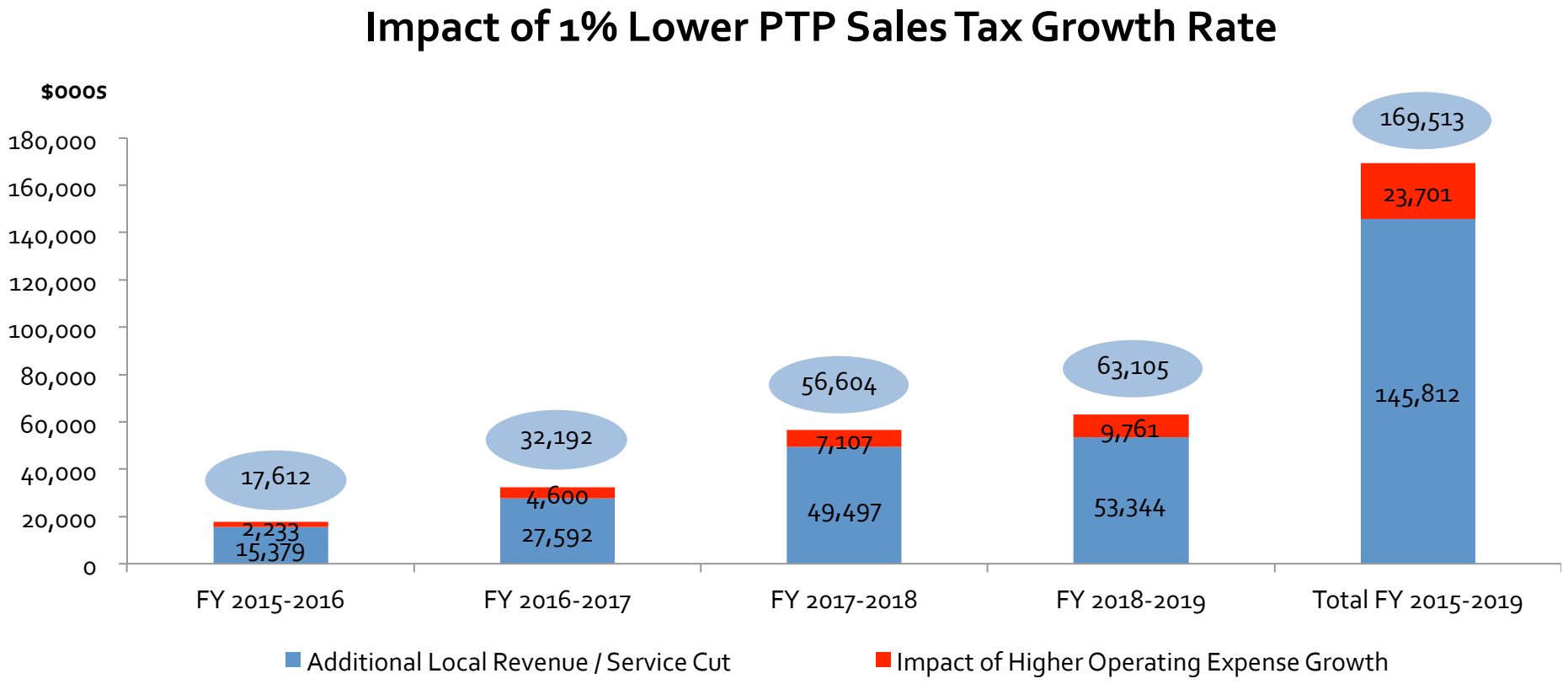
- Ongoing negotiations between the County and the Transport Workers Union (TWU) over health and other benefits contribution by the County may further increase MDT's operating expenses.

At 1% higher operating expense growth rate, additional local revenue or service cuts go up to $208 million.



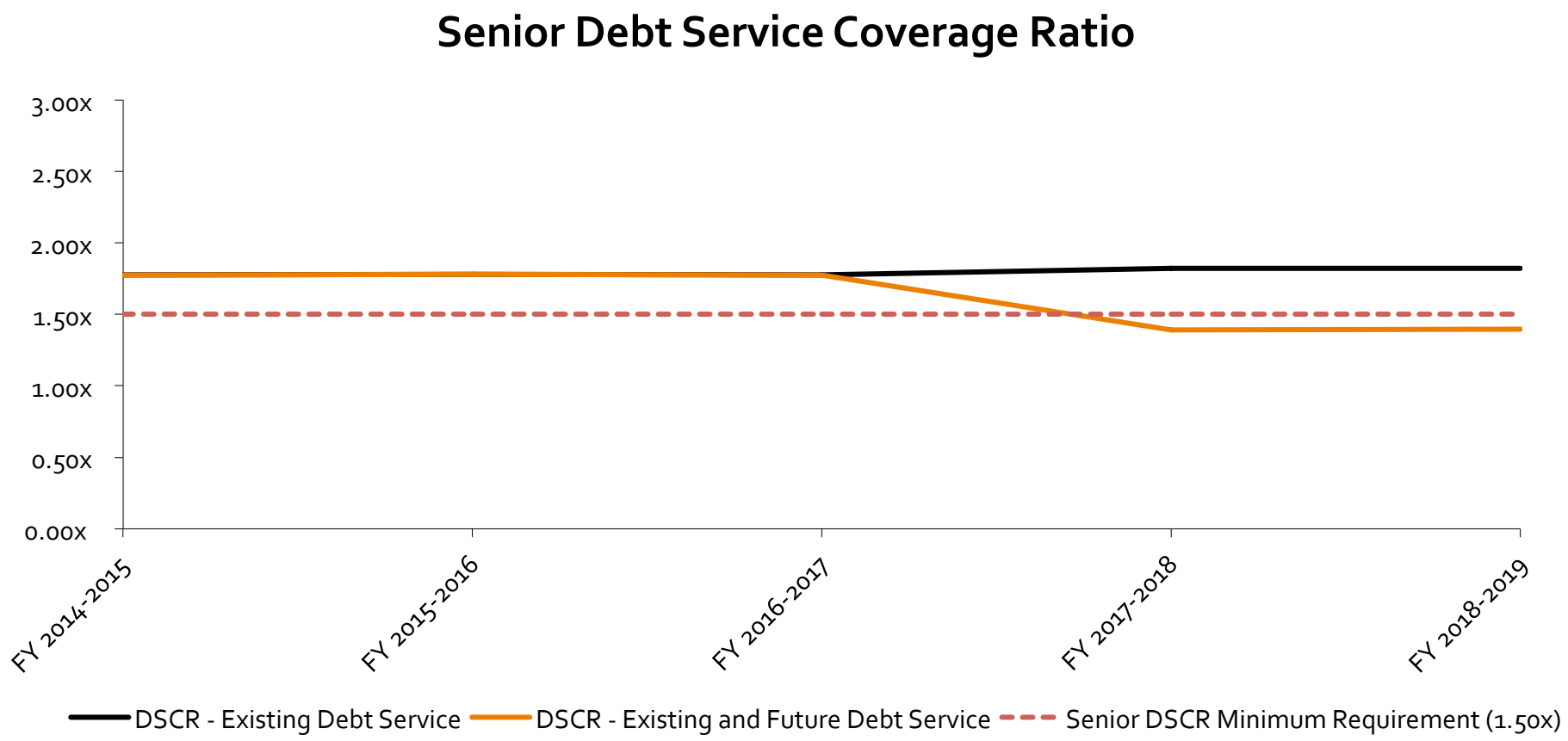
- If MDT's operating expenses grow annually at 3.4% rather than the assumed 2.4%, then MDT needs a further $62 million of additional local revenue or service cuts during FY 2015-2019, taking the overall amount to $208 million.

At 1% lower PTP Sales Tax growth rate, additional local revenue or service cuts go up to $170 million.



- If the PTP Sales Tax annual growth rate decreases by 1%, from 3.5% to 2.5%, MDT requires a further $24 million of additional local revenue or service cuts, taking the total during FY 2015-2019 to $170 million.

Senior DSCR calculated with future debt issuances is below the minimum requirement of 1.50x.



- Senior DSCR in the Pro Forma was originally based only on existing debt service. The Team recalculated DSCR including debt service on future bond issuances.
- Additionally, Senior DSCR is based on PTP Sales Tax revenues and does not account for MDT's operating expenses and funding shortfalls.

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Recommendations

- In the future, it will be important to secure breakdown of various line items in the Pro Forma (or background to calculations) and revert to a long-term (25-30 years) Pro Forma in order to better understand and analyze the financial health of PTP and MDT.
- While the Pro Forma does not contain specific information, the Team believes that it is important to incorporate details on MDT's bus replacement plans.
  - MDT is also exploring the option of leasing compressed natural gas (CNG) buses along with contracting out maintenance and infrastructure.
  - Complete costs and savings associated with the CNG conversion program are not included in the Pro Forma.
- The Team understands that the County is planning to refinance debt in FY 2014-2015, which is currently not represented in the Pro Forma. Implications of debt refinancing should be incorporated in the Pro Forma.