MEMORANDUM

TO: Miles E. Moss, P.E., Chairperson and Members,
Citizens' Independent Transportation Trust

CC: Nan Markowitz
Maria Johnson

FROM: Lou Wolinetz and Isabel Gonzalez-Jettinghoff

DATE: July 22, 2008

SUBJECT: **Status Report on MDT's Financial Plan for the New Starts Application**

Background

The County has prepared a pro forma for the transit system that is to be the financial basis for both the development and operation of the transit system, as well as for the New Starts application for federal funding for the North Corridor rail line. The formal name of the pro forma is the Orange Line Phase 2: North Corridor Metrorail Extension Financial Plan – 30 Year Operating Plan. The pro forma and the County Manager's 18-page memo describing the assumptions, conclusions, and implications of the pro forma were presented by County staff to the Board of County Commissioners (BCC) on Thursday, July 17, 2008.

The pro forma presents a 30-year outlook of revenues and expenses for MDT, including the People's Transportation Plan (PTP) priority projects. This financial plan, as presented to the BCC, will be submitted to the Federal Transit Administration (FTA) at the end of July as part of MDT's New Starts funding application for the North Corridor. The schedule presented in the memorandum to the BCC calls for MDT to submit an update report to FTA on the FY 2010 New Starts Program on July 30, 2008, and for the submission of the Financial Plan and backup to FTA on August 1, 2008. The FY 2010 New Starts Report is due to FTA on September 5, 2008.

It is important to note that even though the July 17, 2008 financial plan will be submitted to the FTA, the BCC did not approve any of the assumptions and fee increases on which it is based. The County Manager stated that the BCC does not need to approve these items prior to the submission of the New Starts application, and that they can be acted on at the September 2nd BCC meeting. The BCC members voiced support for a discussion of MDT's financial status and the revenue and expenses assumptions affecting the future funding for public transit in Miami-Dade County at a workshop where stakeholders, including the Citizens' Independent Transportation Trust (CITT), would participate to analyze the impact of different alternatives.

In preparation for the CITT Pro Forma Workshop, the IMG/PEG Team reviewed the financial plan and its assumptions and summarized them below. We had a short period of time to do this work because we received the County's Manager's memorandum and accompanying pro forma on July 15, 2008. The project team requested a copy of the model that generated the pro forma on July 17, 2008, and received an incomplete copy on July 18. The incomplete copy of the pro forma model did not show the basis for the information presented by the County Manager. A more complete model, including a summary of key assumptions, was received on July 20.

Chronic funding issues

The County Manager's memo described several chronic funding issues:

1. Lack of funding for infrastructure renewal of approximately $20 million annually.

2. The percent of passengers paying full fare is only 25 percent – each passenger receives an average subsidy of $2.46 per boarding.

3. Currently, approximately 33 percent of all boarding passengers pay no fare – these passengers are subsidized an average of $3.96.

4. 42 percent of passengers use discount passes.

5. The estimated fare box revenue of $91.4 million for FY 2007-08 recovered only approximately 21 percent of the operating and maintenance cost of MDT.

Key assumptions in the pro forma

The key assumptions applied in developing the pro forma are the following:

1. Bus service miles will be 28.1 million miles compared to 27 million miles existing at the time the surtax was initiated.

2. A fare increase of $0.50 will take place in FY 2009, followed by $0.25 in years 2022, 2027, 2032, and 2037.

3. Parking fees will increase to $10 in FY 2009. This amount will increase to $15 in FY 2017, and $20 in FY 2027.

4. There will be a single accounting system for operation and maintenance expenses of the system in FY 2009, which means that there would not be a separation of O&M expenses between the old and the new system.

5. Operating expenses are based on a new "unit cost" model developed by MDT's consultant that allows each individual cost area to be linked to a level-of-service cost driver such as revenue vehicle miles, revenue vehicle hours, peak vehicle route miles, and other drivers.

6. The Surtax funds are assumed to remain flat in years 2009 and 2010 at $187.5 million, increasing modestly in years 2011 and 2012, and over 5 percent every year starting in 2013.

7. The Local Option Gas Tax is assumed to increase by $0.02 effective FY 2012.

8. The PTP Loan is eliminated is FY 2009 and there is no provision for it to be repaid.

9. A General Fund Loan to offset MDT's existing cash deficits becomes effective in FY 2008 and repayment will start with a payment of $5.8 million in FY 2008, and annual payments of $6.2 million starting in FY 2009 and continuing until FY 2017 when the debt is paid.

10. The Surtax contribution to the municipalities is phased out starting in FY 2015. Contributions to the municipalities will end after the year 2017. The County would assume the debt service that the municipalities have incurred.

11. The North Corridor Metrorail Extension is scheduled for completion in FY 2017, with a projected capital cost estimate of approximately $1.4 billion.

12. The East-West Corridor Metrorail Extension is scheduled for completion in FY 2024, at a projected cost of $2.5 billion.

13. The Phase 2 North Corridor and Phase 3 East-West Corridor federal share will not exceed $100 million in any given year. The total amount of federal funds available for the North Corridor would be $700 million, or 50 percent of the project costs. The federal funds assumed for the East-West are estimated at 50 percent of the total project costs, with the remaining non-federal share being split evenly between FDOT and MDT.

14. An Infrastructure Renewal Program for the existing system in the amount of $1.2 billion is included, as well as the Infrastructure Renewal Program for the Orange Line in the amount of $552.4 million.

15. Bond issuance and commercial paper using Surtax revenues is included in the financial plan. Bonds are issued in the year of the capital expense. Interest-only payment for 15 years of the payback schedule and interest and principal payments to commence after the interest only period for 25 years. Commercial paper is used for a period of 30 years, payments due twice a year. The rate used is 5 percent.

16. The financial plan incorporates an increase in the contribution from the General Fund, over and above the already scheduled maintenance of effort, of $5.4 billion over 30 years.

Conclusions

The pro forma shows that if all of the assumptions prove to be valid, the financing of both components of the Orange Line, both North and East-West, would be feasible. However, some of the assumptions embedded in the pro forma are tenuous:

1. The elimination of surtax funding to municipalities would require an Ordinance change and possibly a redefinition of service within the municipalities such as circulators.

2. The $0.02 increase per gallon in the local option gas tax starting in 2012 conflicts with some BCC members’ expressed intent to decrease the current gas tax.

3. Surtax revenues are projected to increase substantially after 2012 – over five percent per year, which calls for a major rebound in the economy and continued growth in the face of major development limitations facing Miami-Dade County such as water supplies and Urban Development Boundary constraints.

4. There will be a bus fare increase of $0.50 per boarding beginning in the coming fiscal year, while members of the BCC have expressed the opinion that such an increase will not be approved.

5. The BCC have historically been reluctant to fund the transit system at a level greater than the maintenance of effort level, indicating that the additional $5.4 billion assumed to be available may not be realized.

6. Some of the financing calls for payment of interest only during the first few years, followed by much larger payments including principal later, which is a very highly leveraged and risky financing scheme.

7. The decision not to repay the loan from the Surtax to MDT would require a change in law, inasmuch as the terms of the loan were stipulated in County Ordinance 05-148.

8. While we have received only limited details of the financing plan, it appears to be aggressive. For example, a long-term commercial paper program is assumed with no discussion of whether it is realistic to have a letter of credit (LOC) to support such a program. Particularly in light of the current issues in the financial markets, the terms of the proposed financing are critical to analyzing the feasibility of the pro forma.

The most significant aspect of the assumptions applied in developing the pro forma is that the feasibility of the Orange Line depends on all of them being implemented. Most contemporary feasibility analysis includes the recognition of the uncertainty and risk associated with assumptions both individually and collectively, and the principle that there is usually more overall downside risk than upside. Therefore, the probability that all of the key assumptions applied in developing the pro forma will be realized is low.

Implications to the CITT

There are several important implications to the CITT associated with the County Manager's memorandum and the pro forma:

1. The unification, or blending, of Surtax revenues with other revenues used to fund transit operation and maintenance appears to be somewhat consistent with the concept suggested by the CITT in late 2006, whereby the Surtax would fund operation and maintenance based simply on the availability of Surtax revenues after setting aside funds sufficient to develop the priority projects of the PTP, and the Surtax funds could be used for any purpose determined by MDT. This concept was approved by the BCC in Resolution 320-08. However, the CITT concept did place a ceiling on the amount of Surtax funds available for operation and maintenance for the purpose of reserving funds for development of the PTP, while the pro forma does not.

2. If the unification of Surtax revenues with other revenues includes capital project development, it will be impossible to account for the contributions or benefits to the transit system from the Surtax. This would eliminate the County's ability to demonstrate the relationship between the Surtax revenues and the development of the PTP; also, the unification of Surtax revenues for development would render obsolete the CITT's approval of specific PTP projects because there would be no specific projects associated with the Surtax funding.

3. If the Federal Transit Administration rejects Miami-Dade County's New Starts application, the CITT would need to reconsider PTP project priorities.