Review of the Miami-Dade Transit 2014 Pro-Forma

Miami-Dade Citizens' Independent Transportation Trust

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PLANNING & ECONOMICS GROUP

Project Overview

- IMG Rebel and Planning & Economics Group (the Team) was tasked by Citizens' Independent Transportation Trust to review and analyze the Miami-Dade Transit FY 2013-14 Pro-Forma (the Pro-Forma) received on November 18, 2013.
- The Team conducted the following tasks:
  - Review of the Pro-Forma;
  - Assessed the reasonableness of assumptions in the Pro-Forma;
  - Built a spreadsheet model to validate Pro-Forma results;
  - Conducted sensitivity and scenario analysis; and
  - Developed this report (the Report) with key findings of the analysis.
- In preparing this analysis, the Team relied on the Pro-Forma, discussions with Miami-Dade County officials and its independent research.

Key Findings

- Overall, even with tight budgets in the short-term, net cash flow is projected to be positive in the long-term, based upon the realization of MDT's operating revenue and expenditure assumptions. This point was made in CITT's analysis of the Pro-Forma presented at MPO Transportation Retreat on January 28, 2014.
- Operating challenges faced by MDT include the following:
  - Tight annual budgets that rely on additional expected revenue and reduction in expenses to balance the budget;
  - Negative annual cash flow in initial years, with surplus in later years realized through the above-mentioned additional revenue and reduction in expenses; and
  - Minimum debt service coverage ratio of 1.35x for PTP bonds violates bond covenant thresholds of 1.50x (senior debt) in several years starting in FY 2019
    - Debt coverage based only on Surtax revenue and does not account for MDT operating costs.

Key Findings

- Collective bargaining agreements negotiated last year continue to be in effect. Employment level remains constant but labor costs set to rise from about 60% to 72% of total MDT operating costs.
  - Employee salaries grow at an average annual growth rate of 3.9%.
  - Holiday pay/merit for bus driver of about $7 million is introduced in FY 2015.
- Long term capital program is a placeholder based on availability of funds.
- Beginning in 2016, some capital expenditures are to be deferred – amount of cumulative deferrals reaches about $490 million in 2017 and reduces to $150 million in 2019.
- Additionally, MDT is exploring the option of leasing compressed natural gas (CNG) buses along with contracting maintenance which includes required infrastructure. Costs and savings associated with this program are not included in the Pro-Forma.

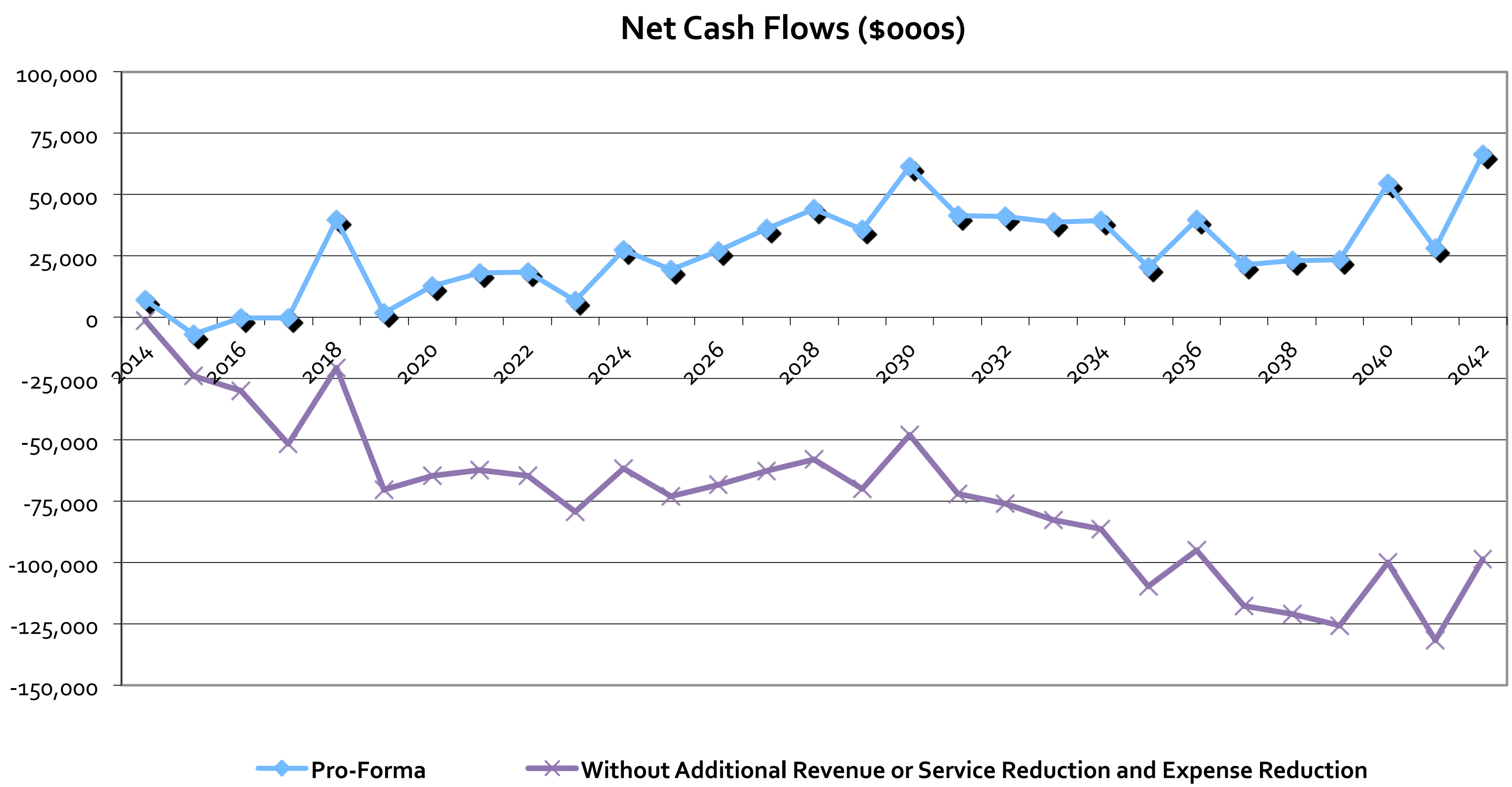
MDT Pro Forma Key Assumptions

- PTP Surtax long-term growth rate of 4.5%. It is 3.00% from FY 2015-2019.
- Average annual growth rate for MDT operating expenses of 3.15%.
- Constant levels of employment and bus service over 30-year forecast period with 3,235 MDT employees and about 29 million revenue per bus.
- Bus leasing approach rather than purchasing is proposed in the Pro-Forma, which reduces debt service costs.
- Additionally, the Pro-Forma makes the following key **assumptions** including additional source of revenue, reductions in expenses and furloughing.
    - Additional revenue of $192 million from FY 2015-2019 and $2.6 billion from FY 2015-2042.
    - Reductions in expenses of $38 million from FY2014-2018 and $355 million from FY 2014-2042.
    - Furloughing of $20 million in FY 2015.

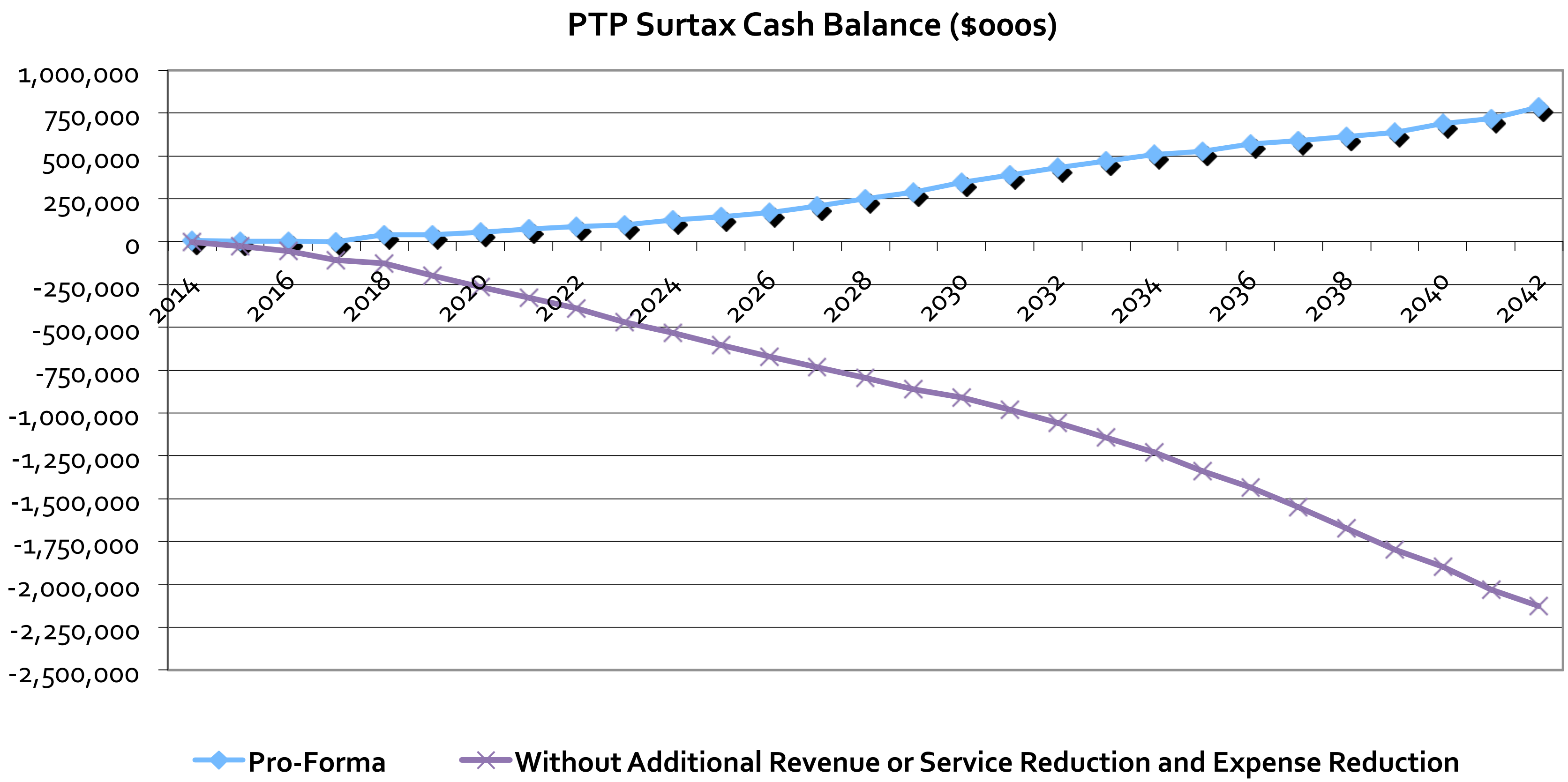
MDT Pro Forma Key Assumptions and Changes From Previous Years

Key Assumptions			
Variable	**FY 2012**	**FY 2013**	**FY 2014**
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
Surtax Revenue	Surtax revenue growth rate of 4.5% in FY 2012, 3% from FY 2013-2016, and 4.5% per year thereafter	Surtax revenue growth rate of 2.13% in FY 2013, 3% for FY 2014-2017, and 4.5% per year thereafter	Surtax revenue growth rate of 3% in FY 2015-2019, and 4.5% 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 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
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
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 labour and salaries is 3.85%
Rail and Public Works Department Finance	Financed with 30-year debt at 6% interest rate	Unchanged from FY 2011	Unchanged from FY 2011
Bus Financing	Replacement buses financed as 10-year lease-to-own at 6% interest rate	Unchanged from FY 2012	Unchanged from FY 2012

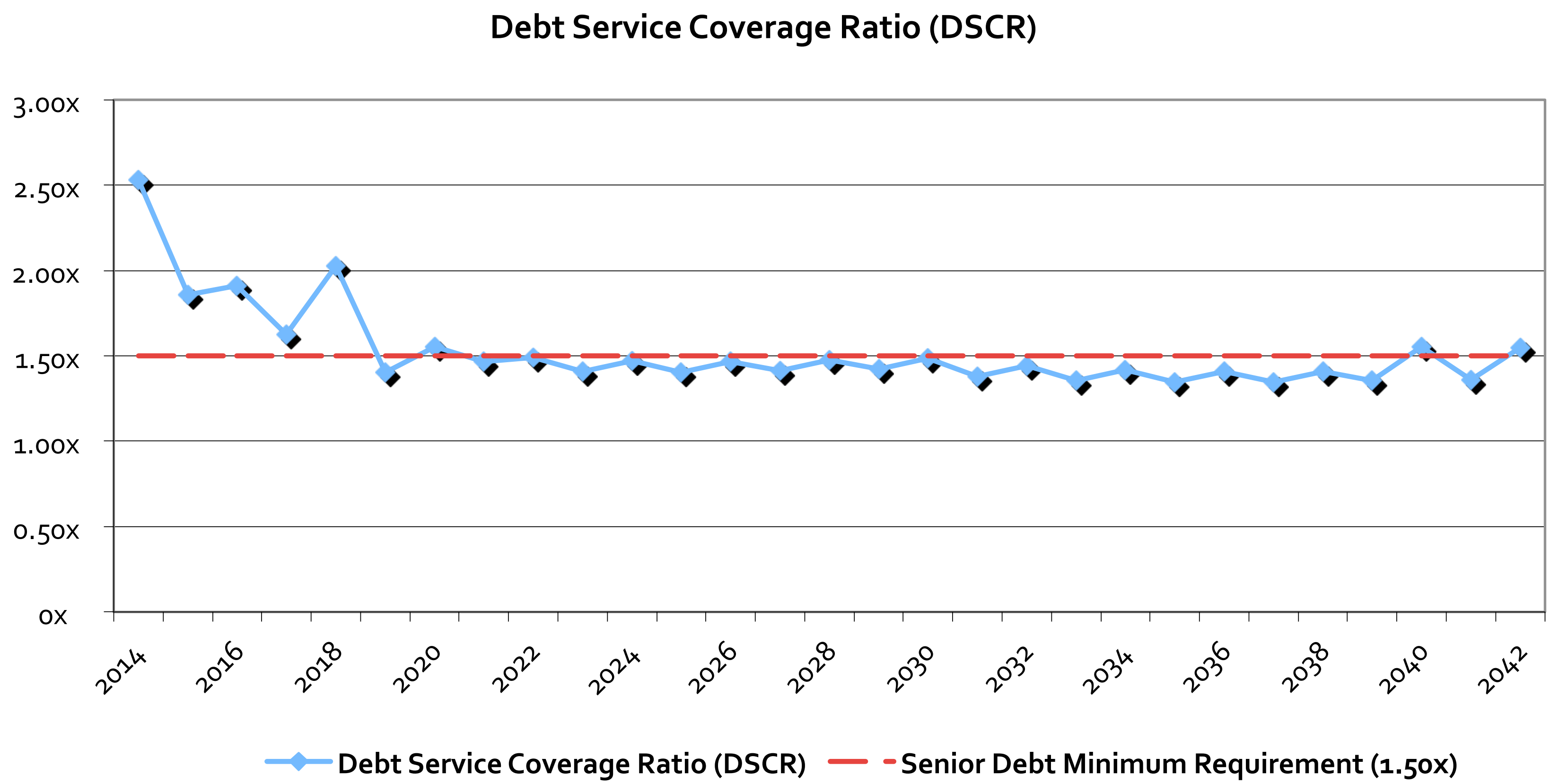
Pro-Forma Summary: Net Cash Flows



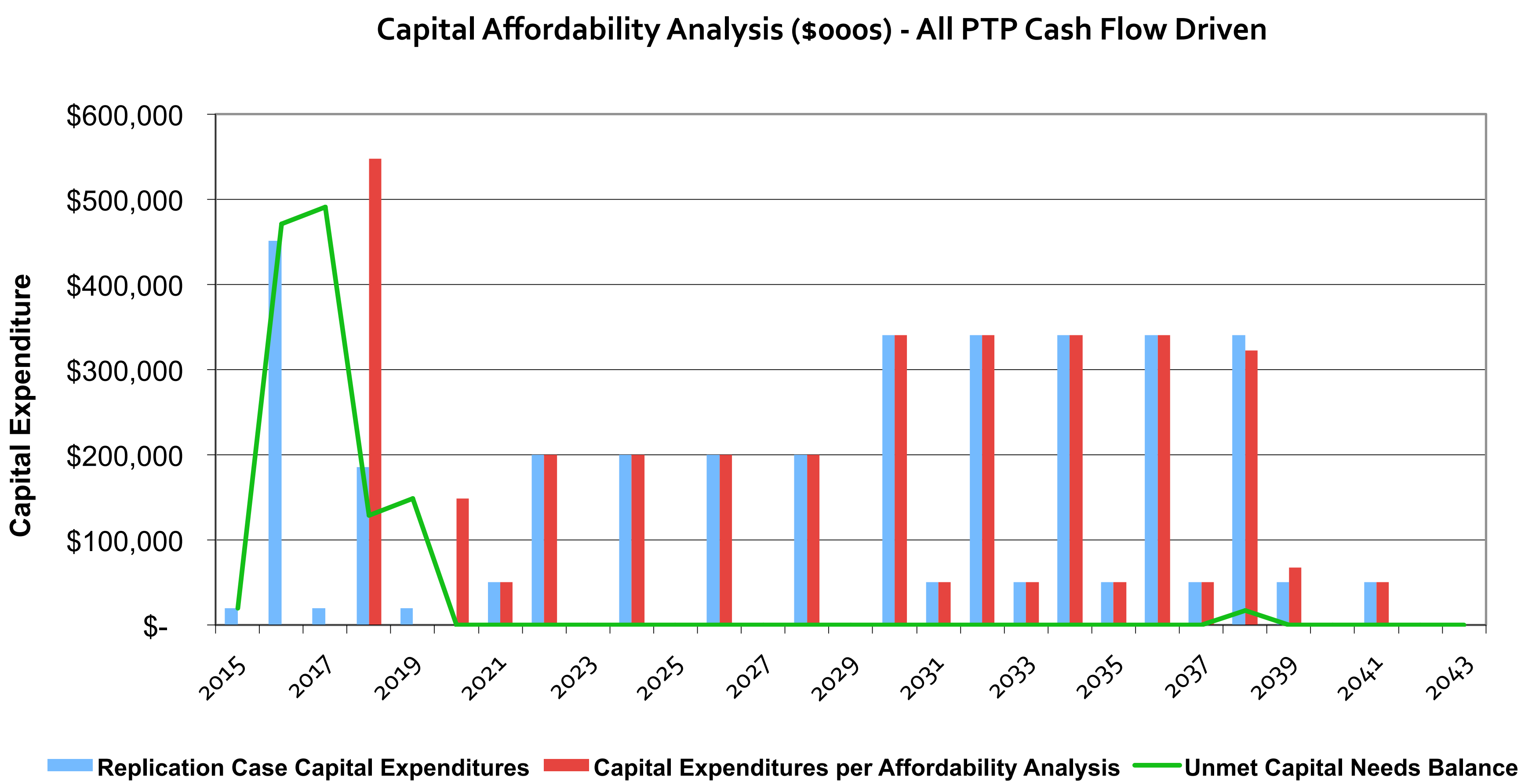
Pro-Forma Summary: Cash Balance



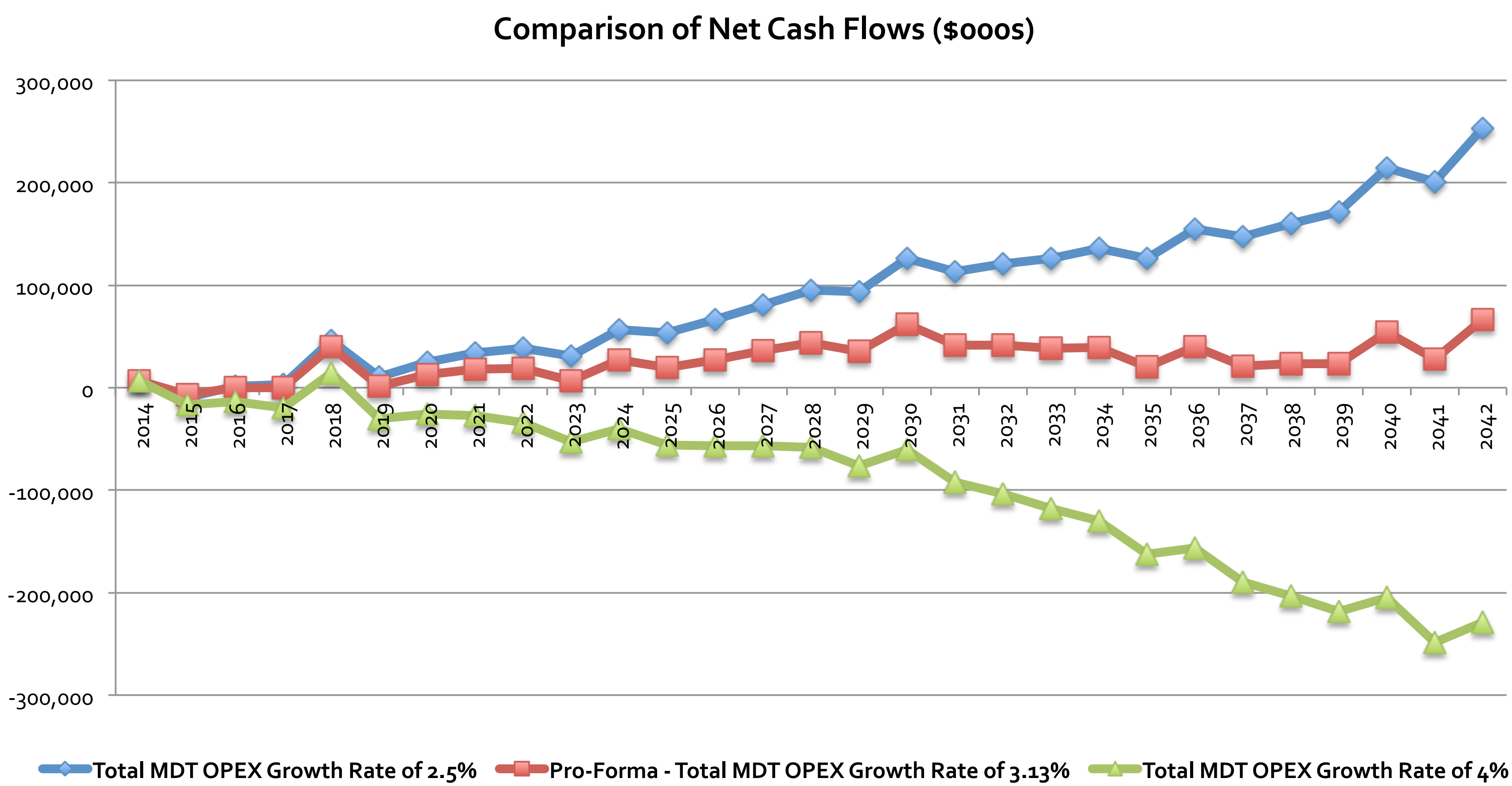
Pro-Forma Summary: Debt Service Coverage



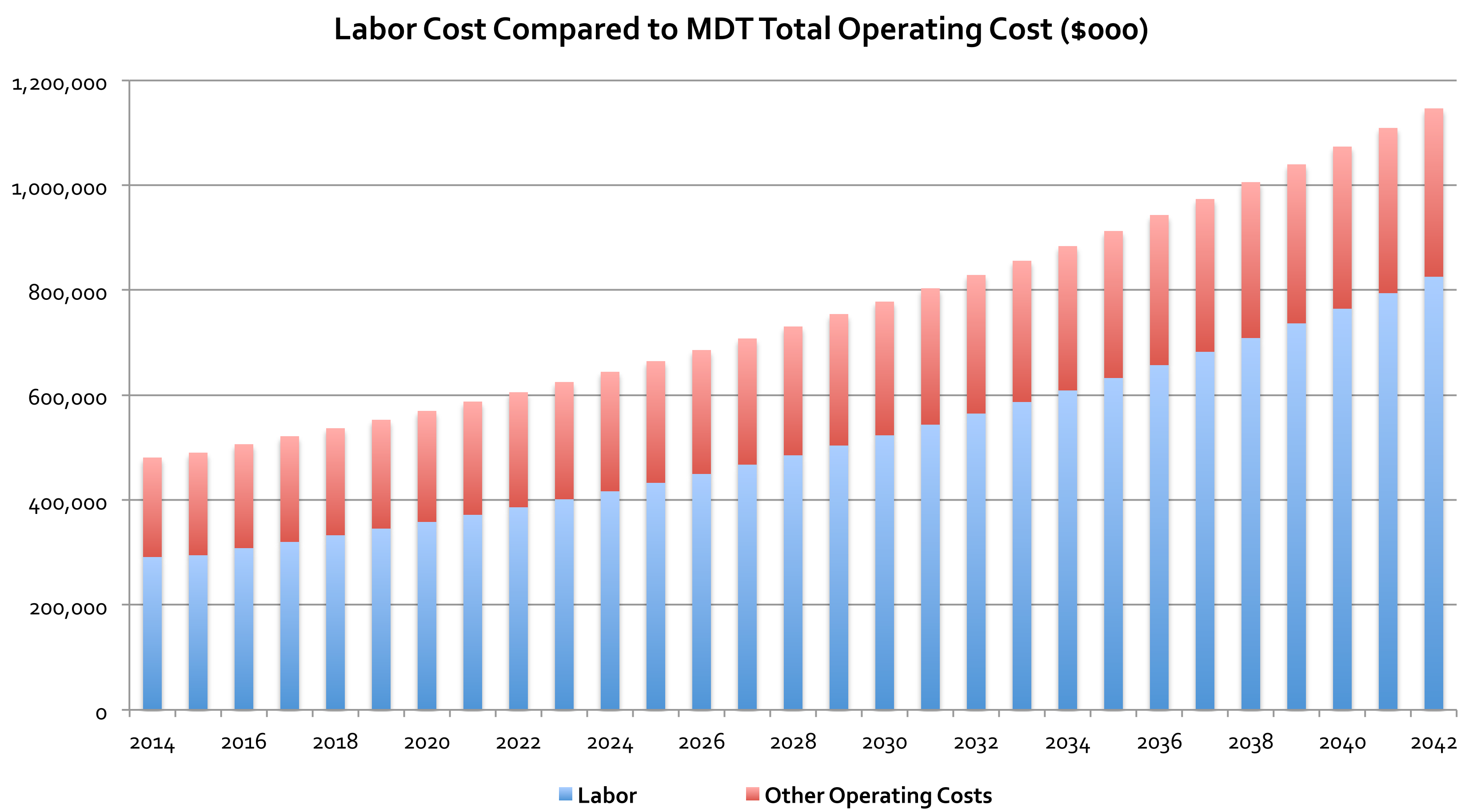
Capital Affordability: All PTP Operating Cash Flow and Payment of All Debt Service



Controlling Operating Costs is Critical



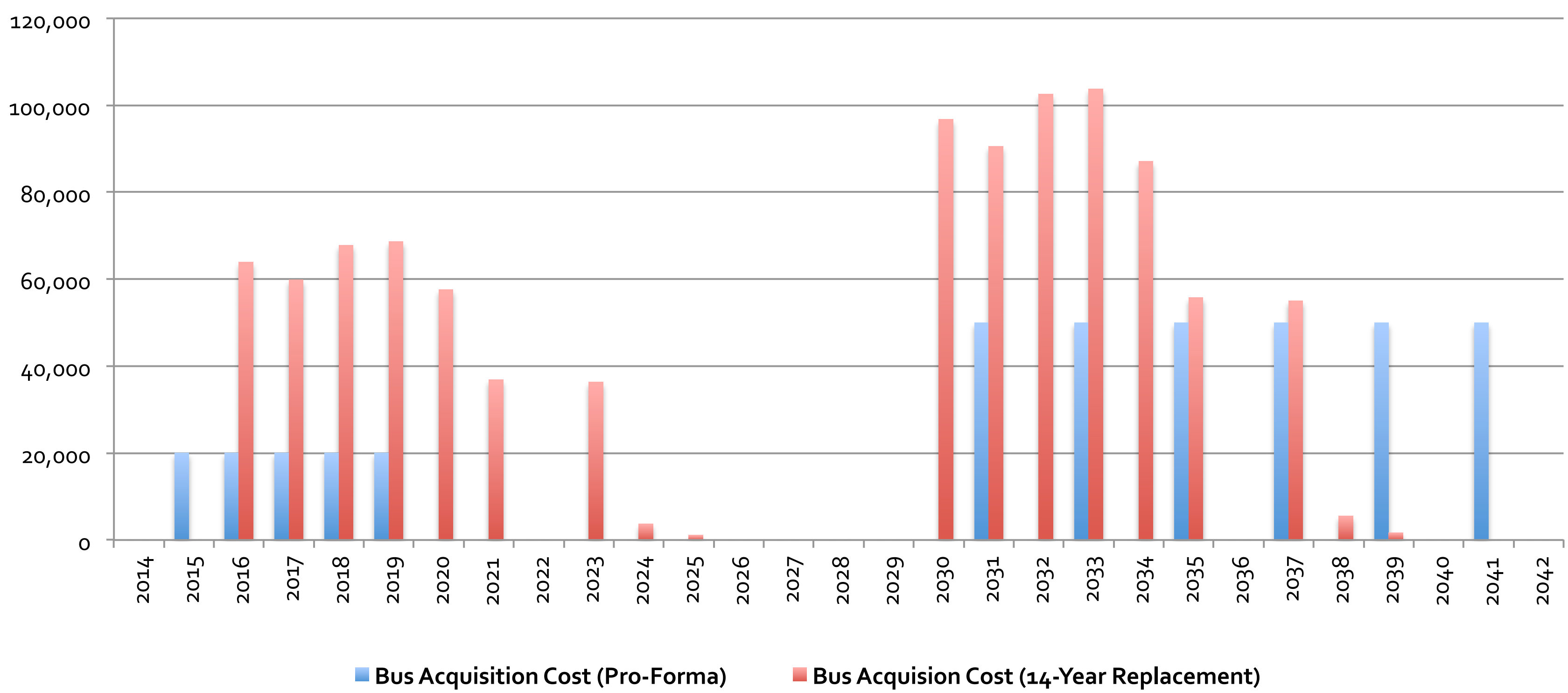
Labor Costs Projected to Rise From Around 60% of MDT Operating Cost to about 72%



Bus Replacement Based on Existing Bus Fleet Schedule Differs from the Pro Forma

- Based on 14-year life, replacement needs are more than twice the Pro-Forma bus lease expenditures, which is $400 million instead of $1 billion.

Bus Acquisition Expenditures ($000s)



CNG Conversions of Buses

- Since June 2013 MDT is exploring the option of converting its diesel rolling stock into CNG. The Pro-Forma does not currently incorporate costs of CNG conversion program.
- The County is in the process of issuing a request for qualifications from qualified proposers for inclusion in a pool to provide energy/fuel saving services to the County including CNG energy/fuel savings pool.
- The County intends to use the services of qualified proposers to minimize County's energy consumption and maximize energy savings through the use of CNG to power County's fleet of vehicles which includes transit buses.