People's Transportation Plan and Miami-Dade Transit
FY 2016 Pro Forma Review

January 29, 2016

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EXECUTIVE SUMMARY

Background

The Citizens' Independent Transportation Trust (CITT) tasked IMG Rebel along with Planning & Economics Group (the "Team") to review and analyze Miami-Dade Transit (MDT) Pro Forma for FY 2016 (the "Pro Forma"). The Pro Forma is a Microsoft Excel spreadsheet that reflects inflows and outflows relating to:

(i) The People's Transportation Plan (PTP) funds, including PTP sales tax revenue, transfers to loan repayments, transfer to municipalities, and transfers to MDT operating fund.

(ii) MDT's operations, including transit proprietary revenue and transit operating expenses.

(iii) State and federal grants to MDT, including formula grants, state of good repair grants, local option gas tax, etc.

(iv) MDT's debt service for both existing and future bond issuances, and capital expenditures and bus replacement leasing plan.

Unlike the pro forma developed in February 2015, which was only a 5-year projection, the Pro Forma projects a longer study period and anticipates several bond issuances over its 40-year timeline.

Terms not defined in this report carry the meaning ascribed to them in the Pro Forma.

Key Assumptions and Analysis

The Pro Forma uses the values from the "FY 2016 Proposed Budget" of MDT as anchors and then increases both revenues and expenses going forward. Continuing on this, OMB has tried to ensure that the budget information ties more closely with the financial and fund structures of both the PTP and MDT's funds.

- **PTP Sales Tax**

The FY 2016 estimate of "PTP Sales Tax" is $251 million, calculated at 95% of the total estimated PPT Sales Tax. After FY 2016, PTP Sales Tax is expected to grow 3.5% annually, based on countywide assumption on growth in sales tax. As PTP Sales Tax growth rate assumptions lie at the core of the annual Pro Forma, the Team recommends that OMB include more detailed explanation of PTP Sales Tax growth rate assumptions in the Pro Forma and conduct downside sensitivities.

Future PTP Sales Tax transfers for MDT's operations are based on actual collections. Currently, PTP Sales Tax amount transferred to MDT's operations consists of hard-coded values calculated to balance PTP funds. The estimated transfers of PTP Sales Tax for MDT's operations are not sufficient to balance MDT funds i.e. to cover the difference between MDT's revenues and expenses. In fact, MDT's reliance on PTP Sales Tax for operating expenses decreases, as the PTP Sales Tax is used for funding capital projects. In lieu of PTP Sales Tax funds, the "Countywide General Fund" contributions to MDT's operations are increased.

Past pro formas contained planned reduction in service or required additional revenue as balancing amounts to cover the difference between MDT's revenues and expenses. The Pro Forma does not contain a specific line item for reduction in service or required additional revenue calculations, but is balanced by assuming "Extraordinary Adjustment in General Fund Support" between FY 2017 and FY 2021. Extraordinary Adjustment in General Fund Support amounts to $87 million during this period. If the PTP Sales Tax projections do not materialize, then the amount required from Extraordinary Adjustment in General Fund Support will increase. The reliance on Countywide General Fund rather than on planned service reduction or additional revenues represents a policy change in handling the shortfall in MDT's revenues.

- **MDT's Revenues and Expenses**

MDT's revenue from "Bus, Rail, and STS Fares and Fees" is estimated to be $117.6 million in FY 2016. The Pro Forma assumes an annual fare increase indexed to the consumer price index (CPI). Ridership is assumed to grow at 0.5% annually but adjusted to reflect reduction in ridership due to fare increases. Fare increases are implemented only in increments of $0.25, which means that actual fare increases are less frequent than yearly. For instance, the first three fare increases after FY 2016 are made at intervals of five years and thereafter the implementation of fare increases becomes more frequent, with fare increases every two years toward the end of the projection period. Historically, fare increases have been assumed to be made every three years. In this context, it is pertinent for OMB and MDT to be cognizant of the challenges of frequent fare increases.

"MDT Operating Expenses" consists of several line items including salary, overtime, benefits, group health, and other operating expenses. For FY 2016, salary, overtime, and benefits are budgeted to be $178.5 million, $36.8 million, $31.2 million, respectively. Salary, overtime, and benefits grow annually at 2.5%, based on the countywide assumption for similar expenses. Other Operating expense funded by MDT operating revenues and PTP Sales Tax Transfer to MDT is budgeted to be $66.7 million in FY 2016; thereafter, it grows annually between 2.3% and 2.4%, derived from Congressional Budget Office (CBO) information.

On October 21, 2015, the CITT voted to approve a resolution reaffirming PTP's original intent to use PTP Sales Tax funds for the expansion and improvement of the transit system and programs included in the PTP. Additionally, the resolution also called to reduce reliance on PTP Sales Tax for MDT's operations, within the next three to original PTP projects, as included in the five-year forecast in the "Adopted FY 2016 Miami-Dade County Budget" and the MDT's FY 2015 financial pro forma. The impacts of the resolution are not included in the Pro Forma.

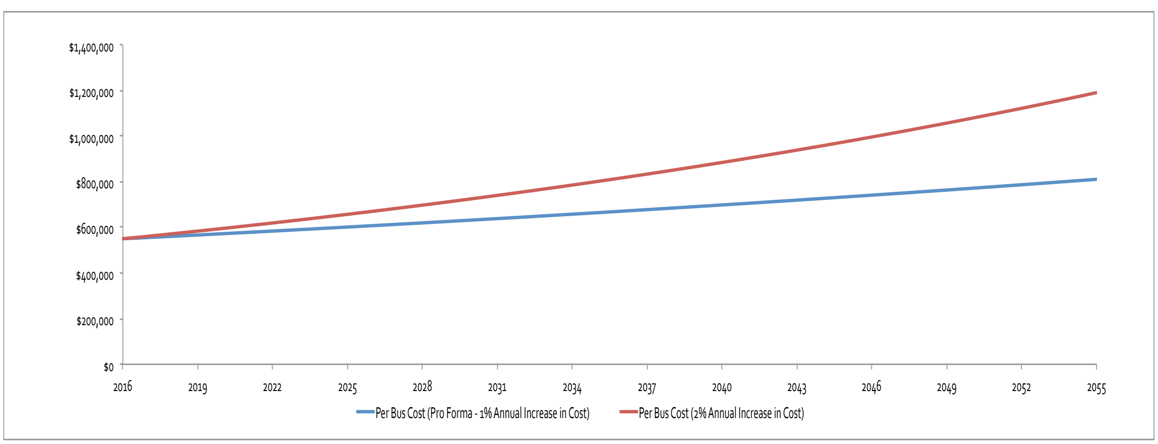
- **Capital Plan and Bus Replacement**

The Pro Forma contains a detailed schedule of MDT's capital expenditures, including improvements related to fiber optic repairs, track and guideway rehabilitation, and a new inter-modal center at Earlington Heights, among others. The total capital expenditure is $4.40 billion between FY 2016 and FY 2055. $2.84 billion worth of capital expenditure is for projects in the "Infrastructure Renewal Plan" (IRP) and original list of PTP projects, and is financed through ten periodic bond issues between FY 2016 and FY 2054 amounting to $2.72 billion along with existing balance of $217 million.

Previous pro formas did not contain a specific bus replacement plan, but based bus replacement on availability of funds rather than identified needs to meet service requirements. The Pro Forma breaks from that pattern by including a specific plan. MDT's bus replacement plan begins with 300 buses and replaces 150 buses every year until the current fleet of 750 buses are replaced, with the cycle repeating thereafter. In the course of 40 years in the Pro Forma, 3,000 buses will be replaced

The Team observed that the growth rate of bus replacement cost is 1%. In contrast to the average percentage (2.39%) increase in the CPI used by OMB for fare increases, this is a low growth rate. The Team increased the growth rate of bus costs to 2% to determine the scale of impact. This increase can entail a difference in nominal bus replacement cost of about $460 million over the next 40 years for replacing 3,000 buses. Based on the timing of bus replacement, the average difference in cost per bus is $76,000. Consequently, the Team recommends that historical growth rate in expenses be monitored and updated accordingly, as even minor changes in the growth rate assumptions can have significant implications for future expenses.

Figure 1: Bus Purchase Expense Growth Rates



- **Debt Service and Future Debt Issuances**

All existing debt service amounts in the Pro Forma are absolute values derived from previously agreed bond debt service structure. In addition to the existing debt, the Pro Forma contains several new bond issuances with an assumed interest rate of 6% and repayment duration of 30 years.

In the Pro Forma, debt service coverage ratio (DSCR) calculations from FY 2016 to FY 2055 are shown to be above the required minimum of 1.50x, ranging from 1.50x to 5.23x. Please note that the debt service is based on PTP bond issuances, which includes financing of PWWM projects. It can be noticed that the coverage ratio is at the minimum required level in FY 2021, which poses challenges for OMB and MDT. The coverage ratios however improve in the long-term. This will require MDT to re-evaluate future PTP debt issuances, especially in the short-term if PTP Sales Tax collections are below current expectations. The Team recommends MDT to monitor and address this issue.

Figure 2: Senior Debt Service Coverage Ratio

Conclusions and Recommendations

The Team's conclusions and recommendations from its review and analysis of the Pro Forma are as follows:

- The growth rates overall appear reasonable, including for PTP Sales Tax. However, as growth rate assumptions lie at the core of the annual Pro Forma, the Team recommends more detailed explanation of growth rate assumptions is provided and that growth rates are continuously monitored.
- The Pro Forma also relies on forecasts that remain constant throughout the 40-year timeline, such as grants and reimbursements, interest earnings, etc. These also should be tracked consistently from year-to-year and updated to reflect current economic reality. PTP Interest Earnings for example, despite accounting for a very small portion of total revenues, should be based on the opening account balance every year.

- Debt service coverage should continue to accommodate both existing and future debt obligations. Current DSCR calculations reflect thin coverage in the early years that will improve over time. MDT should re-evaluate debt issuances and continuously evaluate PTP Sales Tax projections.
- The Pro Forma's current long-term timeline, now 40 years, should continue in order to maintain the holistic picture of PTP and MDT's financial health, and to anticipate and plan for potential financial challenges beyond the near-term timeframe.
- Historical growth rate in expenses should continue to be monitored and updated accordingly, particularly with regards to the bus replacement plan, as even small changes in cost growth rates can have big implications on funding shortages.
- Bus fleet needs should continue to be monitored, as MDT should avoid relying on future transit corridors replacing bus lines, unless they are further along in the planning process.

Figure 3: 10-year Summary of PTP and MDT Pro Forma[1]

Revenue (Dollar in Thousands)	FY 2016 - FY 2055	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenues											
Carryover in PTP Revenue Fund	24,440,427	37,083	11,366	-	-	-	-	-	4,095	12,387	24,959
Carryover in MDT Operating Fund	9,822	3,940	5,882	-	-	-	-	-	-	-	-
Bus, Rail, and STS Fares and Fees	6,445,592	117,642	118,230	118,821	119,415	128,040	128,680	129,324	129,970	130,620	138,653
MDT Other Revenues	589,800	14,745	14,745	14,745	14,745	14,745	14,745	14,745	14,745	14,745	14,745
Interagency Revenues	101,520	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538
PTP Revenue Fund Interest Earnings	4,000	100	100	100	100	100	100	100	100	100	100
Grant Funds and Subsidies											
Federal Capital Grants	5,479,517	127,014	95,263	103,272	97,082	91,880	91,881	92,625	94,941	97,314	99,747
Federal Bridge Inspection Grant	40,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Federal Buy America Bond Subsidy	107,104	5,878	5,878	5,878	5,878	5,878	5,878	5,829	5,660	5,483	5,299
State Capital Grant	47,647	30,213	2,131	6,003	3,650	5,650	-	-	-	-	-
State Block Grant	995,427	20,362	20,566	20,771	20,979	21,189	21,401	21,615	21,831	22,049	22,270
State JPA Grants	198,240	4,956	4,956	4,956	4,956	4,956	4,956	4,956	4,956	4,956	4,956
State Disadvantage Trust Fund Program Grant	350,640	8,766	8,766	8,766	8,766	8,766	8,766	8,766	8,766	8,766	8,766
Local Revenues											
Maintenance of Effort (MOE) - Countywide General Fund	21,158,391	173,745	179,826	209,034	254,299	267,188	290,004	311,793	322,706	334,001	345,691
Extraordinary Adjustment in General Fund Support	86,911	-	22,139	36,665	3,853	13,009	11,245	-	-	-	-
PTP Sales Tax	21,203,263	250,777	259,554	268,639	278,041	287,772	297,844	308,269	319,058	330,225	341,783
Capital Improvement Local Option Gas Tax	1,020,571	18,808	19,090	19,376	19,667	19,962	20,261	20,565	20,873	21,186	21,504
Capital Revenues											
Carryover in PTP Capital Expansion Reserve Fund	11,724,486	64,866	63,465	70,338	77,355	84,023	88,548	92,227	96,739	102,116	108,388
Carryover in MDT Capital Projects Fund	4,839,015	119,124	169,604	-	90,833	221,398	155,149	105,025	42,641	-	183,825
Planned Future Bond Sales	2,724,869	189,981	-	248,938	227,424	-	-	-	-	227,369	-
Municipal Capital Contributions	577	577	-	-	-	-	-	-	-	-	-
Bus Replacement Financing Plan	2,000,589	-	166,650	84,158	85,000	85,850	-	-	-	-	-
Fund Transfers											
Intrafund Transfer to PTP Capital Expansion Reserve from PTP Revenue	853,078	10,414	8,958	7,017	6,668	4,525	3,679	4,512	5,377	6,272	7,199
Transfer of PTP Loan Repayment from MDT Operating Fund	60,873	26,678	34,195	-	-	-	-	-	-	-	-
Total PTP and MDT Revenues	**104,482,359**	**1,229,207**	**1,214,902**	**1,231,015**	**1,322,249**	**1,268,469**	**1,146,675**	**1,123,889**	**1,095,996**	**1,321,127**	**1,331,423**

Expenses (Dollar in Thousands)	FY 2016 - FY 2055	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Expenses											
MDT Operating Expenses	33,999,607	437,571	446,551	455,960	465,651	479,058	492,951	507,354	522,294	537,799	553,897
MDT Capitalization Expenses (Preventative Maintenance)	4,968,354	84,738	80,845	82,670	84,421	86,212	88,045	89,921	91,841	93,806	95,818
Grant Funded Operating Expenses	238,240	5,956	5,956	5,956	5,956	5,956	5,956	5,956	5,956	5,956	5,956
Capital Expenses											
MDT Capital Expenses	4,423,951	231,375	205,243	204,086	132,837	97,529	74,221	85,653	66,614	68,238	69,910
Bus Replacement Purchasing Program	2,000,589	-	166,650	84,158	85,000	85,850	-	-	-	-	-
PTP Capital Expenses	13,900	11,815	2,085	-	-	-	-	-	-	-	-
Contributions and Transfers											
Transfer to Existing Municipalities	4,240,655	50,155	51,911	53,728	55,608	57,554	59,569	61,654	63,812	66,045	68,357
Transfer to New Municipalities	636,094	7,523	7,787	8,059	8,341	8,633	8,935	9,248	9,572	9,907	10,253
South Florida Regional Transportation Authority Contribution	169,400	4,235	4,235	4,235	4,235	4,235	4,235	4,235	4,235	4,235	4,235
Transfer to Office of the CITT	158,397	2,350	2,409	2,469	2,531	2,594	2,659	2,725	2,793	2,863	2,935
Transfer to Public Works and Waste Management	69,509	2,939	3,012	3,088	3,165	1,000	1,025	1,051	1,077	1,104	1,131
Transfer to PTP Capital Expansion Reserve	853,078	10,414	8,958	7,017	6,668	4,525	3,679	4,512	5,377	6,272	7,199
Debt Service Expenses											
Loan Repayment for Existing Service	60,873	26,678	34,195	-	-	-	-	-	-	-	-
Current PTP Debt Service Program	2,656,555	102,356	102,362	99,876	99,882	99,888	99,890	99,845	99,664	99,472	99,263
Future PTP Debt Service Program	3,763,732	-	-	18,261	18,261	36,346	52,868	52,868	52,868	52,868	52,868
Bus Replacement Lease Payments	2,118,657	-	21,582	32,481	43,489	54,607	54,607	54,607	54,607	54,607	54,607
MDT Rezoning Bonds	34,814	784	784	784	784	784	784	784	784	784	784
Total PTP and MDT Expenses	**60,406,405**	**978,889**	**1,144,565**	**1,062,828**	**1,016,829**	**1,024,771**	**949,424**	**980,413**	**981,494**	**1,003,956**	**1,027,213**

[1] Titles of some line items in the summary have been modified for better and clearer description, and to make them consistent with the terms used in this report. The summary is intentionally restricted from FY 2016 to FY 2025.

1 BACKGROUND AND INTRODUCTION

The Citizens' Independent Transportation Trust (CITT) tasked IMG Rebel along with Planning & Economics Group (the "Team") to review and analyze the People's Transportation Plan (PTP) and Miami-Dade Transit (MDT) Pro Forma for FY 2016 (the "Pro Forma"). The Office of Management and Budget (OMB) developed the Pro Forma with inputs from MDT. MDT's inputs primarily related to the values from the draft budget adopted by the Miami-Dade County (the "County") Board of County Commissioners (BCC) for FY 2016.

In February 2015, OMB and MDT prepared a 5-year pro forma. The Team recommended that a long-term (ranging from 25-30 years) Pro Forma be prepared to ensure that MDT's long-term financial health is reviewed. The projection period for the Pro Forma is 40 years. As part of the Pro Forma review, the Team: (i) analyzed the Pro Forma, (ii) conducted discussions with OMB and MDT to understand the background to key assumptions and calculations, and (iii) produced this report with key findings of the analysis.

Section 2 of the report elaborates the methodology followed in developing the Pro Forma. Section 3 highlights the key assumptions and section 4 contains the Team's analysis of key considerations arising from the Pro Forma review. Finally, section 5 contains the Team's conclusions and key recommendations.

Please note that capitalized terms not defined in this report carry the meaning ascribed to them in the Pro Forma.

2 PRO FORMA METHODOLOGY

This section contains an overview of the methodology used in the Pro Forma. The Pro Forma is a Microsoft Excel spreadsheet with calculations prepared in four key sets of calculations rolled up into a summary worksheet. Please see Appendix 1 for the summary. The calculation worksheets reflect inflows and outflows relating to:

(v) The PTP funds, including PTP sales tax revenue, transfers to loan repayments, transfer to municipalities, and transfers to MDT operating fund.

(vi) MDT's operations, including transit proprietary revenue and transit operating expenses.

(vii) State and federal grants to MDT, including formula grants, state of good repair grants, local option gas tax, and others.

(viii) MDT's debt service for both existing and future bond issuances, and capital expenditures and bus replacement leasing plan.

PTP funds-related calculations reflect the amount of PTP Sales Tax and corresponding expenses. Other revenues included are loan repayments from MDT and interest earnings. The expenses include debt service payments, financing of bus replacement, and transfers to other agencies and municipalities.

MDT operations-related calculations reflect revenues and expenses associated with MDT operations including PTP Sales Tax available to MDT, MDT's operating revenues, other local revenues, and revenues from state and federal grants. The expenses include MDT's operating expenses, transfers, and loan repayments.

State and federal grants-related calculations provide a summary of state and federal grant funds received and payments made with grant funds. MDT debt service calculations present a summary of debt service payments relating to the several bond issuances.

The Pro Forma uses values from the "FY 2016 Proposed Budget" of MDT as anchors and then increases both revenues and expenses going forward. Continuing on this, OMB has tried to ensure that the budget information ties more closely with the financial and fund structures of both the PTP and MDT's funds. Unlike the pro forma developed in February 2015, which was only a 5-year projection, the Pro Forma projects a longer study period and anticipates several bond issuances over its 40-year timeline. Overall, the Pro Forma presents actual results for FY 2014, budgeted and projected values for FY 2015, values from the planned budget FY 2016, and projections from FY 2017 through FY 2055.

OMB has provided additional worksheets in the Pro Forma to capture and track financial information from the PTP Capital Expenditure Reserve, MDT Capital Grant Fund, MDT Non-Capital Grant Fund, MDT Capital Fund, and Public Works and Waste Management (PWWM) PTP Capital Fund. A summary aggregating the financial information developed from each individual fund sheets is included in the Pro Forma (see Appendix 1). This summary aggregates financial information to the highest level categories, but nets out inter and intra-fund transfers. Finally, a new "Smart-view" sheet has been included, which ensures consistency of the Pro Forma with the County's Hyperion budgeting system and RFRO budget reporting system.

3 KEY ASSUMPTIONS

This section lays down the key assumptions in the Pro Forma that are broken down into two categories relating to:

i. PTP funds, including PTP sales tax revenues, transfers to agencies and municipalities, and debt service and bus replacement lease payments.
ii. MDT's operations and grants, including local revenues, operating revenues and expenses, and MDT's capital and non-capital grants.

On October 21, 2015, the CITT voted to approve a resolution reaffirming PTP's original intent to use PTP Sales Tax funds for the expansion and improvement of the transit system and programs included in the PTP. Additionally, the resolution also called to reduce reliance on PTP

Sales Tax for MDT's operations, within the next three to five years to a level below operating expenses attributable to original PTP projects, as included in the five-year forecast in the "Adopted FY 2016 Miami-Dade County Budget" and the MDT's FY 2015 financial pro forma. The impacts of the resolution are not included in the Pro Forma.

3.1 PTP Funds

3.1.1 PTP Sales Tax

The FY 2016 estimate of "PTP Sales Tax" is $251 million, calculated at 95% of the total estimated PPT Sales Tax. After FY 2015-2016, PTP Sales Tax is expected to grow 3.5% annually, based on countywide assumption on growth in sales tax.

3.1.2 Transfers to Agencies and Municipalities

For FY 2016, PTP Sales Tax "Transfer to Public Works and Waste Management", "Transfer to Existing Municipalities," and "Transfer to New Municipalities" are estimated to be $2.9 million, $50.2 million, and $7.5 million, respectively. Transfer to Existing Municipalities is calculated as 20% of PTP Sales Tax, whereas Transfer to New Municipalities is calculated based on 3% of PTP Sales Tax.

Transfer to Public Works and Waste Management, which are funds dedicated to fund some major highway and road improvements, in addition to neighborhood projects on a "pay-as-you-go" basis, grow annually at 2.5%. "Transfer to Office of the CITT" is projected to increase annually at 2.5% from a beginning value of $2.4 million in FY 2016.

3.1.3 Capital Plan

The Pro Forma contains a detailed schedule of MDT's capital expenditures, including improvements related to fiber optic repairs, track and guideway rehabilitation, and a new inter-modal center at Earlington Heights, among others. The total capital expenditure is $4.40 billion between FY 2016 and FY 2055. $2.84 billion worth of capital expenditure is for projects in the "Infrastructure Renewal Plan" and original list of PTP projects, and is financed through ten periodic bond issues between FY 2016 and FY 2054 amounting to $2.72 billion along with existing balance of $217 million.

All existing debt service amounts in the Pro Forma are absolute values derived from previously agreed bond debt service structure. In addition to the existing debt, ten new bond issuances are expected, which are as follows:

• FY 2016: $189.99 million	• FY 2018: $248.94 million	• FY 2019: $227.42 million

• FY 2024: $227.37 million	• FY 2029: $254.97 million	• FY 2034: $285.61 million
• FY 2039: $322.79 million	• FY 2044: $366.64 million	• FY 2049: $418.28 million
• FY 2054: $183.77 million		

As explained above, the proceeds from the bond issuances pay for capital expenditures and the bond issuances are timed to keep all funds balanced. Debt service on future bonds issuances begin two years after the issuance due to interest capitalization. The repayment term of future bond issuances is 30 years and interest rate assumed is 6%. Debt service of bond issuances is paid from PTP Sales Tax. Given that the Pro Forma's projection period ends in FY 2055, all the debt service for bond issuances of FY 2029 and later years are not captured in the Pro Forma. Ending balance of PTP fund in FY 2055 is $2.38 billion, which indicates that there will mostly be sufficient funds to service the debts.

Previous pro formas did not contain a specific bus replacement plan, but based bus replacement on availability of funds rather than identified needs to meet service requirements. The Pro Forma breaks from that pattern by including a specific plan for MDT's bus replacement in which 150 buses are replaced every 9 to 12 years and replacement costs of the buses are amortized through 10 lease payments ("Bus Replacement Lease Payments").

3.2 MDT's Operations and Grants

3.2.1 Countywide Local Revenues

The "Maintenance of Effort" (MOE) funded by "Countywide General Fund" is budgeted to be $173.8 million in FY 2015-2016 and expected to grow at 3.5% annually. The "Capital Improvement Local Option Gas Tax" is a tax levy of up to three cents imposed by the County on each gallon of motor fuels sold. This local source of revenue is expected to increase from $18.8 million in FY 2015 - 2016 to $19.1 million in FY 2017, growing annually at 1.5%.

3.2.2 Operating Revenues

MDT's revenue from "Bus, Rail, and STS Fares and Fees" is estimated to be $117.6 million in FY 2015-2016. The Pro Forma assumes an annual fare increase indexed to the consumer price index (CPI). Ridership is assumed to grow at 0.5% annually but adjusted to reflect reduction in ridership due to fare increases.

"Other Revenue" that includes advertising, permitting, and joint development, is estimated to be $14.75 million in FY 2015-2016 and the same amount for the remainder of the 40-year Pro Forma. Similarly, "Interagency Revenues (County, Municipal, and SFRTA)" is assumed to remain constant during the Pro Forma period at $2.5 million annually.

3.2.3 MDT's Operating Expenses

"MDT Operating Expenses" consists of several line items including salary, overtime, benefits, group health, and other operating expenses. For FY 2016, salary, overtime, and benefits are budgeted to be $178.5 million, $36.8 million, $31.2 million, respectively. Salary, overtime, and benefits grow annually at 2.5%, based on the countywide assumption for similar expenses.

Other Operating expense funded by MDT operating revenues and PTP Sales Tax Transfer to MDT is budgeted to be $66.7 million in FY 2015-2016; thereafter, it grows annually between 2.3% and 2.4%. OMB explained that these growth rates are derived from Congressional Budget Office (CBO) information.

3.2.4 Capital and Non-capital Grants

For FY 2016, "Federal Capital Grants" are $127 million, after which they reduce to $95.2 million in FY 2017, as previous years' unallocated grant money for buses and bus facilities ($9.1 million) and discretionary grants ($0.39 million) are removed. Total Federal Capital Grants vary between $95.2 million and $91.9 million until 2021, when the previous years' unallocated formula grants expire. After 2021, Federal Capital Grants increases annually at a rate of 2.5%.

"Federal Bridge Inspection Grant", a non-capital grant, is estimated to be $1 million in FY 2016, and remains constant throughout the 40-year Pro Forma. This amount is used to cover annual bridge inspection funded from Federal Transit Administration. "State Block Grant" is estimated to be $20.2 million in FY 2016 and growing at 1% annually. "State JPA Grant" which funds various transit corridors in the County, totaled $5 million in 2016 and remains constant for the remainder of the 40-year Pro Forma. "State Disadvantage Trust Fund Program Grant" from the State Transportation Disadvantage Trust Fund, are $8.8 million and also remain constant throughout the 40-year Pro Forma.

4 ANALYSIS

4.1 PTP Sales Tax Growth Rate

PTP Sales Tax growth rate of 3.5% annually is based on countywide assumption on growth in sales tax. In FY2013-2014 pro forma, the growth rates ranged from 3% (short-term of 5 years) to 4.5% (long-term beyond immediate 5 years). In the 5-year pro forma developed in February 2015, the growth rate assumed was 3.5%. In the Pro Forma, the long-term growth rate is 3.5%. As PTP Sales Tax growth rate assumptions lie at the core of the annual Pro Forma, the Team recommends that OMB include detailed explanation of PTP Sales Tax growth rate assumptions in the Pro Forma and conduct of downside sensitivities.

Future PTP Sales Tax transfers for MDT operations are based on actual collections. Currently, PTP Sales Tax amount transferred to MDT operations is hard-coded values calculated to balance PTP funds. The estimated transfers of PTP Sales Tax for MDT operations are not sufficient to balance MDT funds i.e. to cover the difference between MDT's revenues and expenses. In fact, MDT's reliance on PTP Sales Tax for operating expenses decreases, as the PTP Sales Tax is used for funding capital projects. In lieu of PTP Sales Tax funds, Countywide General Fund contributions are increased.

Past pro formas contained planned reduction in service or required additional revenue as balancing amounts to cover the difference between MDT's revenues and expenses. The Pro Forma does not contain a specific line item for reduction in service or required additional revenue calculations, but is balanced by assuming "Extraordinary Adjustment in General Fund Support" between FY 2017 and FY 2021. Extraordinary Adjustment in General Fund Support amounts to $87 million during this period. If the PTP Sales Tax projections do not materialize, then the amount required from Extraordinary Adjustment in General Fund Support will increase. The reliance on Countywide General Fund rather than relying on planned service reduction or additional revenues represents a policy change in handling the shortfall in MDT's revenues.

4.2 PTP Interest Earnings

The Team observed that "PTP Revenue Fund Interest Earnings" of PTP fund balances are a constant $100,000 throughout the 40-year Pro Forma. It was noted that interest represent an extremely small portion of PTP and MDT revenues for FY 2014, and therefore a constant dollar assumption was accepted for now. Going forward, the Team recommends that interest be calculated on the opening balance with an appropriate interest rate assumption.

4.3 Transit Fare Increase and Demand Elasticity

In the Pro Forma, fare increases are estimated annually based on indexation to CPI. However, fare increases are implemented only in increments of $0.25, which means that actual fare increases are less frequent than yearly. For instance, the first three fare increases after FY 2016 are made at intervals of five years and thereafter the implementation of fare increases becomes more frequent, with fare increases every two years toward the end of the projection period. Historically, fare increases have been assumed to be made every three years. In this context, it is pertinent for MDT to be cognizant of the challenges of frequent fare increases.

Reduction in ridership as a result of fare increases is incorporated in the Pro Forma by reference to demand elasticity. It was indicated that the demand elasticity associated with fare increases was derived from American Public Transportation (APTA) standards.

4.4 Parts Expenditure Reduction and Overtime Savings Rate

The Pro Forma incorporates expense reduction in the form of "Parts Expenditure Reduction" and "Overtime Expense Reduction" as a result of new bus replacement plan. Overtime savings rates are set to increase from 6.7% for FY 2017 to 10% by FY2019 and thereafter, while the parts savings rate is anticipated to increase from 3.33% in FY2017 to 10% by FY 2019 and thereafter. MDT explained that addressing the increasing costs to employee overtime and bus parts associated with aging fleet was a top priority for the FY 2016 Budget development process. As the older buses are replaced with newer ones, OMB and MDT anticipate these expenditures will return to historical levels.

Based on the Team's discussions with OMB and MDT, it appears the newer bus fleet will effectively reduce the material and labor costs associated with a reduction in reactive or frequent preventative maintenance. The Team recommends that these expenditure reduction levels be closely monitored and associated forecasts be adjusted annually, particularly if the newer buses feature different technology such as liquefied natural gas or maintenance management systems that are less familiar to maintenance staff.

4.5 Debt Service and Debt Issuance

The Team identified an error in the debt servicing of FY 2016 bond. While the debt service calculation is based on 30-year repayment period, the debt service amounts were included for 39 years. That is, debt service was included for nine more years than required. It was acknowledged that this issue would be rectified going forward.

Referencing the debt issuance schedule, the Team inquired about the basis for the two-year separation between the first two debt issuances in FY 2018 and FY 2020 and the five-year separation for all remaining debt issuances. It was explained that it has prepared a schedule for issuing debt based on keeping all funds in balance, rather than in responding to the year-to-year needs of a capital program. From a financial planning perspective, the Team finds this approach acceptable.

4.6 Bus Replacement and Leasing Plan

The Team observed that there appeared to be no growth in the quantity of buses replaced over time in the Pro Forma, assuming a 9 to 12-year replacement cycle. It was explained that the replacement plan begins with 300 buses and replaces 150 buses every year until the current fleet of 750 buses are replaced, with the cycle repeating thereafter. In the course of 40 years in the Pro Forma, 3,000 buses will be replaced.

In each replacement cycle only 750 buses are replaced, which indicates that the Pro Forma assumes no increase in bus fleet capacity. In response to the Team's query on this issue, it was explained that their fleet needs are monitored every year and the current assumption is that the growth will be flat, as their peak vehicle requirement is currently 20% less than their total fleet. Moreover, as some bus corridors are replaced with transit (e.g. Beach corridor, Kendall corridor, etc.), fewer vehicles will be needed.

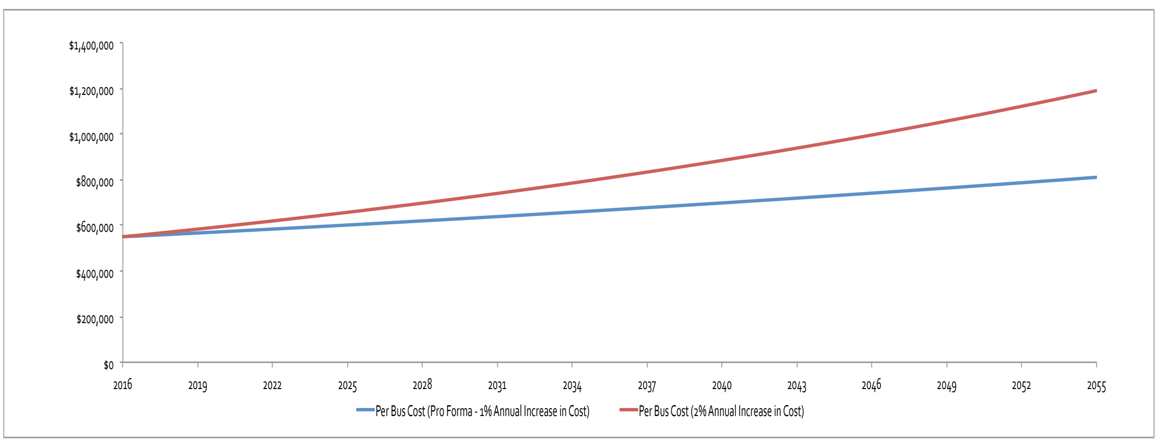
While The Team agrees that the rationale for growth is sound, it is recommended that bus fleet needs continue to be monitored and that future transit corridors replacing bus lines not be considered unless MDT is further along in the planning process.

4.7 Bus Purchase Expense Growth Rate

The Team observed that the growth rate bus replacement cost is 1%. In contrast to average percentage (2.39%) increase in the CPI used for fare increases, this is a low growth rate. It was explained this increase in bus replacement costs was assumed as a starting point in the Pro Forma but may be revised in the future based on the type of replacement buses, technology used, and the manufacturer involved.

The Team increased the growth rate of bus costs to 2% to determine the scale of impact. This increase can entail difference in nominal cost of bus replacements of about $460 million over the next 40 years for replacing 3,000 buses. Based on the timing of bus replacement, the average difference in cost per bus is $76,000. Consequently, the Team recommends that historical growth rate in expenses be monitored and updated accordingly, as even minor changes in the growth rate assumptions can have significant implications for future expenses.

Figure 4: Bus Purchase Expense Growth Rates

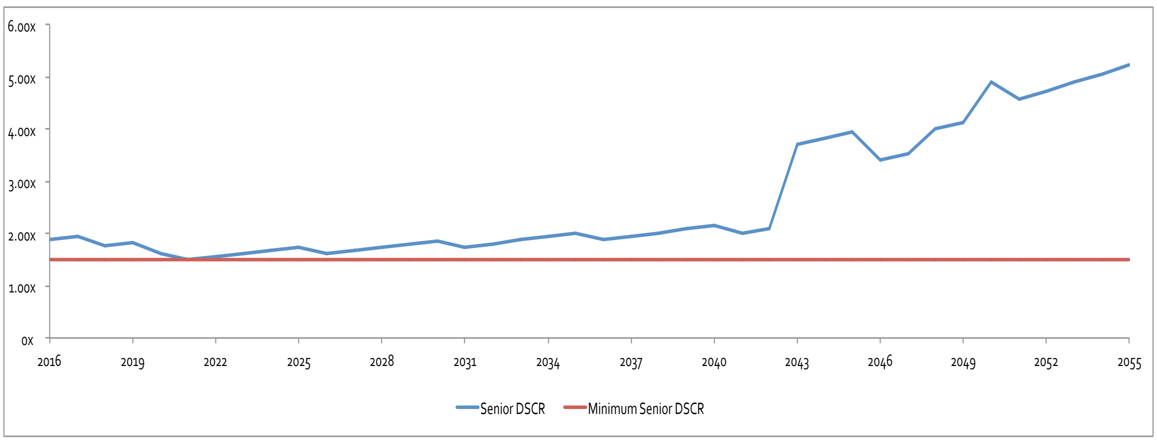


4.8 Debt Service Coverage Ratio

The County has issued PTP Sales Tax bonds that are backed by PTP Sales Tax revenues net of transfers to municipalities. From the Pro Forma and bond issuance documents, the Team understands that the minimum required debt service coverage ratio (DSCR) on senior obligations is 1.50x. All existing bond issuances are senior obligations. In the pro forma developed in February 2015 debt service payable on future bond issuances were not included. The Team has recommended including details on future debt issuances. Additionally, the Team had recommended developing a pro forma with a longer (25 to 30 years) timeline to assess long-term funding issues. The decision to include future debt issuances and increase this year's Pro Forma's projection period to 40 years now provides a better reflection of the financials.

In the Pro Forma, DSCR calculations from FY 2016 to FY 2055 are shown to be above the required minimum of 1.50x, ranging from 1.50x to 5.23x. Please note that the debt service is based on both PTP bond issuances and PWWM-related debt service. It can be noticed that the coverage ratio is at the minimum required level in FY 2021, which poses challenges for MDT. The coverage ratios however improve in the long-term. This will require MDT to re-evaluate future PTP debt issuances, especially in the short-term if PTP Sales Tax collections are below current expectations. The Team recommends that MDT monitor and address this issue.

Figure 5: Senior Debt Service Coverage Ratio



The above DSCR calculation is based on a gross pledge of PTP Sales Tax net of transfers to municipalities, which follows the legal pledge of the financing documents. It does not take into account MDT's operating expenses and funding shortfalls to meet MDT's operating expenses.

5 CONCLUSIONS AND RECOMMENDATIONS

The Team's conclusions and recommendations from its review and analysis of the Pro Forma are as follows:

- The growth rates overall appear reasonable, including for PTP Sales Tax. However, as growth rate assumptions lie at the core of the annual Pro Forma, the Team recommends more detailed explanation of growth rate assumptions is provided and that growth rates are continuously monitored.
- The Pro Forma also relies on forecasts that remain constant throughout the 40-year timeline, such as grants and reimbursements, interest earnings, etc. These also should

be tracked consistently from year-to-year and updated to reflect current economic reality. PTP Interest Earnings for example, despite accounting for a very small portion of total revenues, should be based on an opening account balance.

- Debt service coverage should continue to accommodate both existing and future debt obligations. Current DSCR calculations reflect thin coverage in the early years that will improve over time. MDT should re-evaluate debt issuances and continuously evaluate PTP Sales Tax projections.
- The Pro Forma's current long-term timeline, now 40 years, should continue in order to maintain the holistic picture of PTP and MDT's financial health, and to anticipate and plan for potential financial challenges beyond the near term timeframe.
- Historical growth rate in expenses should continue to be monitored and updated accordingly, particularly with regards to the bus replacement plan, as even small changes in cost growth rates can have big implications on funding shortages.
- Bus fleet needs should continue to be monitored, as MDT should avoid relying on future transit corridors replacing bus lines, unless they are further along in the planning process.

APPENDIX 1

Figure 6: 10-year Summary of PTP and MDT Pro Forma[2]

Revenue (Dollar in Thousands)	FY 2016 - FY 2055	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenues											
Carryover in PTP Revenue Fund	24,440,427	37,083	11,366	-	-	-	-	-	4,095	12,387	24,959
Carryover in MDT Operating Fund	9,822	3,940	5,882	-	-	-	-	-	-	-	-
Bus, Rail, and STS Fares and Fees	6,445,592	117,642	118,230	118,821	119,415	128,040	128,680	129,324	129,970	130,620	138,653
MDT Other Revenues	589,800	14,745	14,745	14,745	14,745	14,745	14,745	14,745	14,745	14,745	14,745
Interagency Revenues	101,520	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538	2,538
PTP Revenue Fund Interest Earnings	4,000	100	100	100	100	100	100	100	100	100	100
Grant Funds and Subsidies											
Federal Capital Grants	5,479,517	127,014	95,263	103,272	97,082	91,880	91,881	92,625	94,941	97,314	99,747
Federal Bridge Inspection Grant	40,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Federal Buy America Bond Subsidy	107,104	5,878	5,878	5,878	5,878	5,878	5,878	5,829	5,660	5,483	5,299
State Capital Grant	47,647	30,213	2,131	6,003	3,650	5,650	-	-	-	-	-
State Block Grant	995,427	20,362	20,566	20,771	20,979	21,189	21,401	21,615	21,831	22,049	22,270
State JPA Grants	198,240	4,956	4,956	4,956	4,956	4,956	4,956	4,956	4,956	4,956	4,956
State Disadvantage Trust Fund Program Grant	350,640	8,766	8,766	8,766	8,766	8,766	8,766	8,766	8,766	8,766	8,766
Local Revenues											
Maintenance of Effort (MOE) - Countywide General Fund	21,158,391	173,745	179,826	209,034	254,299	267,188	290,004	311,793	322,706	334,001	345,691
Extraordinary Adjustment in General Fund Support	86,911	-	22,139	36,665	3,853	13,009	11,245	-	-	-	-
PTP Sales Tax	21,203,263	250,777	259,554	268,639	278,041	287,772	297,844	308,269	319,058	330,225	341,783
Capital Improvement Local Option Gas Tax	1,020,571	18,808	19,090	19,376	19,667	19,962	20,261	20,565	20,873	21,186	21,504
Capital Revenues											
Carryover in PTP Capital Expansion Reserve Fund	11,724,486	64,866	63,465	70,338	77,355	84,023	88,548	92,227	96,739	102,116	108,388
Carryover in MDT Capital Projects Fund	4,839,015	119,124	169,604	-	90,833	221,398	155,149	105,025	42,641	-	183,825
Planned Future Bond Sales	2,724,869	189,981	-	248,938	227,424	-	-	-	-	227,369	-
Municipal Capital Contributions	577	577	-	-	-	-	-	-	-	-	-
Bus Replacement Financing Plan	2,000,589	-	166,650	84,158	85,000	85,850	-	-	-	-	-
Fund Transfers											
Intrafund Transfer to PTP Capital Expansion Reserve from PTP Revenue	853,078	10,414	8,958	7,017	6,668	4,525	3,679	4,512	5,377	6,272	7,199
Transfer of PTP Loan Repayment from MDT Operating Fund	60,873	26,678	34,195	-	-	-	-	-	-	-	-
Total PTP and MDT Revenues	**104,482,359**	**1,229,207**	**1,214,902**	**1,231,015**	**1,322,249**	**1,268,469**	**1,146,675**	**1,123,889**	**1,095,996**	**1,321,127**	**1,331,423**

Expenses (Dollar in Thousands)	FY 2016 - FY 2055	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Expenses											
MDT Operating Expenses	33,999,607	437,571	446,551	455,960	465,651	479,058	492,951	507,354	522,294	537,799	553,897
MDT Capitalization Expenses (Preventative Maintenance)	4,968,354	84,738	80,845	82,670	84,421	86,212	88,045	89,921	91,841	93,806	95,818
Grant Funded Operating Expenses	238,240	5,956	5,956	5,956	5,956	5,956	5,956	5,956	5,956	5,956	5,956
Capital Expenses											
MDT Capital Expenses	4,423,951	231,375	205,243	204,086	132,837	97,529	74,221	85,653	66,614	68,238	69,910
Bus Replacement Purchasing Program	2,000,589	-	166,650	84,158	85,000	85,850	-	-	-	-	-
PTP Capital Expenses	13,900	11,815	2,085	-	-	-	-	-	-	-	-
Contributions and Transfers											
Transfer to Existing Municipalities	4,240,655	50,155	51,911	53,728	55,608	57,554	59,569	61,654	63,812	66,045	68,357
Transfer to New Municipalities	636,094	7,523	7,787	8,059	8,341	8,633	8,935	9,248	9,572	9,907	10,253
South Florida Regional Transportation Authority Contribution	169,400	4,235	4,235	4,235	4,235	4,235	4,235	4,235	4,235	4,235	4,235
Transfer to Office of the CITT	158,397	2,350	2,409	2,469	2,531	2,594	2,659	2,725	2,793	2,863	2,935
Transfer to Public Works and Waste Management	69,509	2,939	3,012	3,088	3,165	1,000	1,025	1,051	1,077	1,104	1,131
Transfer to PTP Capital Expansion Reserve	853,078	10,414	8,958	7,017	6,668	4,525	3,679	4,512	5,377	6,272	7,199
Debt Service Expenses											
Loan Repayment for Existing Service	60,873	26,678	34,195	-	-	-	-	-	-	-	-
Current PTP Debt Service Program	2,656,555	102,356	102,362	99,876	99,882	99,888	99,890	99,845	99,664	99,472	99,263
Future PTP Debt Service Program	3,763,732	-	-	18,261	18,261	36,346	52,868	52,868	52,868	52,868	52,868
Bus Replacement Lease Payments	2,118,657	-	21,582	32,481	43,489	54,607	54,607	54,607	54,607	54,607	54,607
MDT Rezoning Bonds	34,814	784	784	784	784	784	784	784	784	784	784
Total PTP and MDT Expenses	**60,406,405**	**978,889**	**1,144,565**	**1,062,828**	**1,016,829**	**1,024,771**	**949,424**	**980,413**	**981,494**	**1,003,956**	**1,027,213**

[2] Titles of some line items in the summary have been modified for better and clearer description, and to make them consistent with the terms used in this report. The summary is intentionally restricted from FY 2016 to FY 2025.