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BOARD WORKSHOP
MAY 14, 2009

SUBJECT: MAJOR FINANCIAL ASSUMPTIONS FOR 2009 LONG RANGE TRANSPORTATION PLAN FOR LOS ANGELES COUNTY

ACTION: RECEIVE AND FILE MAJOR FINANCIAL ASSUMPTIONS

RECOMMENDATION

Receive and file the major assumptions for the financial forecast for the 2009 Long Range Transportation Plan (LRTP) for Los Angeles County.

ISSUE

The LRTP financial forecast through Fiscal Year 2040 is based on assumptions regarding revenues and costs. Key assumptions shown in Attachment A are sales tax growth rates, bonding and debt policy limits, State Transit Assistance funding, fare recovery ratio, leveraged federal funding, State Regional Improvement Program funding, federal formula funds, Metro Enterprise Fund costs, capital project cost escalation rates, and Metrolink subsidies. We will be using these assumptions to prepare a 2009 LRTP.

DISCUSSION

The Los Angeles County Metropolitan Transportation Authority (LACMTA) is responsible for transportation planning and programming in Los Angeles County, in accordance with Public Utilities Code Section 130051. Among other things, the LRTP sets the long-term direction necessary to proceed with project planning, design and engineering for projects that are candidates for future programming. State and federal transportation funding partners require that the LRTP cover a minimum twenty-year period.

The 2009 LRTP is a strategic guide for planning and programming projects and programs constrained by the funds forecasted to be available over the life of the LRTP. The 2009 LRTP financial forecast also is intended to show our potential capital program funding partners, at state, federal, and local levels, that we have the resources to meet our financial commitments going forward to the LRTP's 2040 horizon date. The major assumptions in Attachment A will be used to develop the LRTP financial forecast. These assumptions are based on current conditions, historical trends, and external independent forecasts where available.

ATTACHMENTS
A. Discussion Paper: Major Assumptions

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	Assumption Topic	Proposed Assumption	Comments
	REVENUES		
1	Sales Tax Growth (Proposition A, Proposition C, Measure R, TDA)	Growth rates are forecasted by the UCLA Anderson Forecast to be -5.59% in FY 09, -4.89% in FY 10. At the present time, UCLA has not released a forecast for FY 11 and beyond. We propose to assume that recovery begins FY 11 at 4.45%, increasing to 7.88% by FY 13 and then decreasing thereafter to result in a compound average of 3.57% from FY 08 through FY 40. Using these assumptions, the sales tax revenue decrease from the January 2009 draft LRTP forecast (referred to hereafter as the prior forecast) is approximately $6.6 B.	Historical 25-year compound average is 3.5%. Federal Transit Administration (FTA) will require growth to be consistent with this long-term history as a condition of rating any New Starts funding requests. The next UCLA long-term forecast for Los Angeles County will not be issued until Summer 2009. Past economic shocks have been followed by economic recoveries, often with high taxable sales growth.
2	Bonding and Debt Policy Caps (debt service % of revenue)	Substantial Propositions A and C bonding when needed at 5.5% interest rate; however, $6.6 B less sales tax revenue will decrease bonding capacity compared to prior forecasts. When needed, Metro Board will increase debt service policy caps to 75% for Proposition C 25% and 50% for Proposition C 10%. Any Measure R borrowing is limited due to the fixed project list and 30-year expiration of Measure R.	Currently, Proposition C 25% (highways) debt service cap is 60% and Proposition C 10% (commuter rail) debt service cap is 40%. Bonds are issued from Proposition C 40% (discretionary), Proposition A 35% (rail capital), Proposition C 25%, and Proposition C 10%. Higher caps than our assumed increase are not recommended since cash is required for debt service, Freeway Service Patrol, Rideshare, and Metrolink operations.

	Assumption Topic	Proposed Assumption	Comments
3	State Transit Assistance (STA) Funding	Per State law, no funding through FY 13. The State's original FY 09 amount of $306 M is a baseline level beginning FY 14. 2.1% annual increase thereafter. Result is a loss of $723 M over prior forecast. No Spillover is assumed.	STA has been extremely variable over the last several years. Per State law (SBX3 7, 2009), STA funding is suspended through FY 13.
4	Fare Recovery Ratio (fare revenue as percentage of operating costs)	Fare revenues as a percentage of total costs are assumed to achieve 33% by FY 15 and maintained thereafter in proportion to transit operating costs. Each 1% decrease from 33% would remove approximately $650 M from the LRTP from FY 10 through FY 40.	Fare recovery ratio is currently 27%. Prior forecasts had assumed that the ratio would grow to 30% then 33% by FY 15. Per Board action, fare increases are deferred for one year to FY 11 and senior/disabled/student fare increases are deferred for five years to FY 15. With the scheduled FY 11 fare change, the ratio is forecasted to be 29%.
5	Leveraged Federal Funds	$200 M average per year in assumed leveraged Federal funds are assigned first to the Westside Subway Extension and subsequently to the projects that would be the most competitive in the FTA New Starts process. Leadership from the Metro Board will be necessary to achieve this leveraged Federal funding assumption. Leveraged funds would include any added Federal funding above current assumptions from any sources including, but not limited to, Federal New Starts funds.	From 2005 through 2009, LA has received an average of 5.4% of the total national New Starts authorization. Since 1992, however, LA has averaged 7.4%. The American Public Transportation Association (APTA) is recommending a national New Starts funding level of $21.2 B for the next 6-year transportation act. If New Starts is funded at 80% of APTA's proposal, 7.4% would result in approximately $200 M per year for Los Angeles. While we do not know what national authorization level will be approved, we do know that transit infrastructure investment is economically beneficial. The President and Democratic leadership may put more emphasis on transit infrastructure funding, ultimately providing more New Starts or other transit-eligible funding.

	Assumption Topic	Proposed Assumption	Comments
6	Regional Improvement Program (RIP)	Same as prior forecast. No state gas tax increase. $900 M annual Statewide State Transportation Improvement Program (STIP) funding level. Los Angeles share: $150 M per year.	LA share is 16.7% of the STIP per State law.
7	Federal Formula Funds (regional) Congestion Mitigation and Air Quality (CMAQ) Regional Surface Transportation Program (RSTP) FTA Section 5307 Transit	Same as prior forecast. No federal gas tax increase. Due to expected improvement in air quality, CMAQ reduced beginning: FY 10 to $120 M, FY15 to $100 M, FY 20 to $80 M, and FY 26 to $60 M. RSTP for FY 10 is $114 M, 1.4% annual increase. Access Services, Inc. (ASI) receives 50% of the RSTP funds. FTA Section 5307 for FY 10 is $231 M, 1.4% increase annually thereafter.	FY 09 funding: CMAQ - $138 M. RSTP - $114 M. FTA Section 5307 - $231 M. See Leveraged Federal Funds (row 5) for the disposition of any assumed increases.

	Assumption Topic	Proposed Assumption	Comments
	EXPENDITURES		
A	Metro Enterprise Fund Costs	Consistent with proposed Metro FY 10 budget. Consumer Price Index (CPI) thereafter. Additional operating and capital maintenance costs for new rail lines.	Current annual CPI as of March 2009 is 1.6%.
B	Capital Project Cost Escalation Rates	1% for FY 10, 2% for FY 11, 3% thereafter. Represents an estimate based on Caltrans' California Construction Index history and Caltrans' recent experience.	The January 2009 forecast assumed 4% through FY 14 and 3% thereafter. From 1997 to 2003, the California Construction Index ranged from a low of -7.72% to a high of 8.24% with an average of 2.95%. Years 2004 through 2006 were abnormally high due to China's Olympics construction. In contrast to this, the Index was -6.95% for 2007 and -3.2% for 2008.
C	Metrolink	Up to 4% annual operations subsidy increase. Rehabilitation and capital cost subsidy increases limited to available Proposition C 10% cash and bonds and Measure R.	Funded with Proposition C 10% (Commuter Rail) and Measure R.