

June 3, 2011

TO: Members of the MAG Street Committee

FROM: Eric Anderson, Transportation Director

SUBJECT: Proposed ALCP Policy Change for Reimbursements Beyond Proposition 400

On February 16, 2011, MAG staff requested guidance from the Transportation Policy Committee (TPC) on rebalancing the Arterial Life Cycle Program (ALCP), which faced a \$245 million deficit of regional funds due to declining sales tax revenues. At the meeting, the TPC recommended a proportional reduction of remaining reimbursements in the ALCP based on each agency's original allocation of regional funds and emphasized that no new projects be added to the program until funding was restored to existing projects in the same manner funds were removed. The TPC also recommended that if revenues increased in the future, funding would be restored to the projects in proportion to each project's share of the reduction.

After the TPC made the recommendation, MAG staff and the agencies involved with the ALCP moved forward with the annual update to program the fiscal year (FY) 2012 ALCP. To meet the required reduction, agencies were given the opportunity to delete, consolidate, and/or reprioritize programmed reimbursements. Member agencies submitted several requests to advance construct projects before 2026, the expiration of the Proposition 400 sales tax, and to request regional reimbursement in Phase V (Fiscal Years 2027-2031) possibly from the next voter-approved regional transportation tax. This type of request creates a financial liability for the region beyond the expiration of the approved regional transportation sales tax.

#### PHASE V PROJECT & FUNDING

Actual and projected revenues from Proposition 400 have declined over the past few years. To address the reduction in revenues, projects were deferred to Phase V (FY 2027 – 2031) in the Freeway, Transit, and Arterial Life Cycle Programs to maintain the fiscal balance of the respective programs. For the Freeway and Transit Life Cycle Program, both the project construction schedule and the required funding were shifted to Phase V. This means that the policy deliberations for a new regional transportation tax can consider whether the deferred projects should be constructed or not. For the ALCP, however, the current policy allows jurisdictions to advance construct the projects while reimbursements are in a later Phase. Continuing to allow this for projects seeking reimbursement in Phase V, creates an unfunded liability. This implies that the region may have an obligation to fund these reimbursements from a future regional tax since the project is already completed.

Based on the input that MAG has received from the ALCP lead agencies, about 62 percent of the projects in Phase V of the draft ALCP would already be complete and would seek reimbursement only in Phase V. The Phase V reimbursements for these projects constructed in advance of Phase V total about \$150 million. The expectation from member agencies is that these projects may be a priority for the next round of regional transportation funding even though the projects will have already been constructed.

*The advance construction of arterial projects is consistent with the ALCP Policies and Procedures; however, the practice differs from projects in the Freeways and Transit Life Cycle Programs. Additionally, allowing projects to be advanced constructed and reimbursed in Phase V (FY 2027 – 2031) creates future obligations for the extension of Proposition 400. To date, it is uncertain if a subsequent regional funding source will be approved by the voters, if it will have an arterial street component, or if the current ALCP projects would represent the highest priorities for the region at the time of the planning for a post-Proposition 400 regional transportation tax.*

*MAG staff is recommending that the ALCP Policies and Procedures be modified to clarify that projects in Phase V of the ALCP and the reimbursements in Phase V for projects constructed in Phases I – IV are not considered to be priorities for future new regional funding sources. Furthermore, if existing funding sources for the Proposition 400 ALCP program are higher in the future, then the funding for projects and/or reimbursements for which funding was reduced to balance the ALCP program will be restored in the same proportion as the reductions were made.*

*For questions or comments, please contact me at 602.254.6300 or via email at [eanderson@azmag.gov](mailto:eanderson@azmag.gov).*