Agenda Item #5

MARICOPA ASSOCIATION of GOVERNMENTS

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TO: Members of the Transportation Policy Committee

FROM: Eileen Yazzie, Transportation Programming Manager

SUBJECT: ARTERIAL LIFE CYCLE PROGRAM DEFICIT AND SCENARIOS FOR BALANCING THE PROGRAM

Regional funding for the Arterial Life Cycle Program (ALCP) comprises three revenue sources: Surface Transportation Program (STP) funds, Congestion Mitigation and Air Quality (CMAQ) funds, and Regional Area Road Funds (RARF), otherwise known as the half-cent sales tax. In November 2010, the Arizona Department of Transportation (ADOT) released an updated RARF revenue forecast indicating a $2.2 billion reduction in forecasted revenues over the remaining life of the half-cent sales tax. Arizona Revised Statute 28-6303(E) allocated 10.5 percent of RARF revenues to the ALCP. Please refer to Attachment One for a comparison of the ALCP allocation of the RARF forecasts since 2003. The revised forecast resulted in a $232 million reduction since the 2009 forecast in projected revenues for the ALCP. Due to the decreased RARF revenue projections, the ALCP is no longer fiscally constrained, as required by Arizona Revised Statute 28-6352(B).

BACKGROUND

The Arterial Life Cycle Program (ALCP) began with the approval of the 2003 Regional Transportation Plan (RTP) and the passage of Proposition 400. These two actions solidified the region's commitment to funding street improvements in the region with 10.5 percent of the half-cent sales tax (RARF) and a portion of the regional federal funds. Unlike the transit and freeway life cycle programs, the RTP identified specific projects, fixed reimbursement budgets, and five-year phases for reimbursements per project for the ALCP.

In 2004 and 2005, the Transportation Policy Committee in conjunction with MAG staff and the ALCP Working Group developed the *ALCP Policies and Procedures (Policies)*, which provide guidance on the management and oversight of the ALCP. The *Policies* were initially approved in June 2005. Since then, subsequent updates to the *Policies* have occurred with the most recent update approved by the MAG Regional Council on December 9, 2009.

DEFICIT OF PROGRAM FUNDS

Since 2007, forecasted RARF revenues[1] have steadily decreased due to the economic downtown. In developing the fiscal year (FY) 2009 and 2010 ALCP, MAG relied on the ALCP Policies and Procedures and coordinated with the Lead Agencies to balance the program. In the FY 2009 ALCP, $22.4 million in programmed reimbursements were deferred to an unfunded year, 2027, in accordance with the Section 270.B of the *ALCP Policies and Procedures*, which states that "ALCP Projects may be delayed if there is a deficit of Program funds. ALCP Projects will be delayed in priority order of the ALCP."

In the FY 2010 ALCP, MAG coordinated with Lead Agencies to maximize the programming of federal funds (STP and CMAQ) to address decreasing revenues and avoid additional deferrals. During that rebalancing, any discretionary federal funds were programmed. The November 2010 RARF revenue forecast projected an additional $232 million reduction in revenues allocated to the ALCP causing programmed reimbursements to exceed forecasted revenues. As a result, the ALCP is not longer fiscally balanced as required by ARS 28-6352(B).

PROPOSED METHODS TO REBALANCE THE ALCP

Upon receipt of the revised forecast, MAG staff conducted analysis and determined that the ALCP, as currently programmed, would be out of balance starting in FY 2012. The analysis also indicated that an *estimated* $200 million in programmed reimbursements would need to be deferred to an unfunded year in the program to maintain the fiscal balance of the program. In addition to assessing the fiscal impact to the current program, MAG staff developed two alternative policy scenarios to balance the program, which are presented below. The ALCP Working Group input favored Scenario III which prorates the reduction proportionally across the Lead Agencies. Each Lead Agency would then work with their partners to determine how individual projects would be impacted. The figures presented in each scenario are estimates and are subject to change contingent on inflation, actual and estimated RARF revenues, federal funding levels, and bonding capacity.

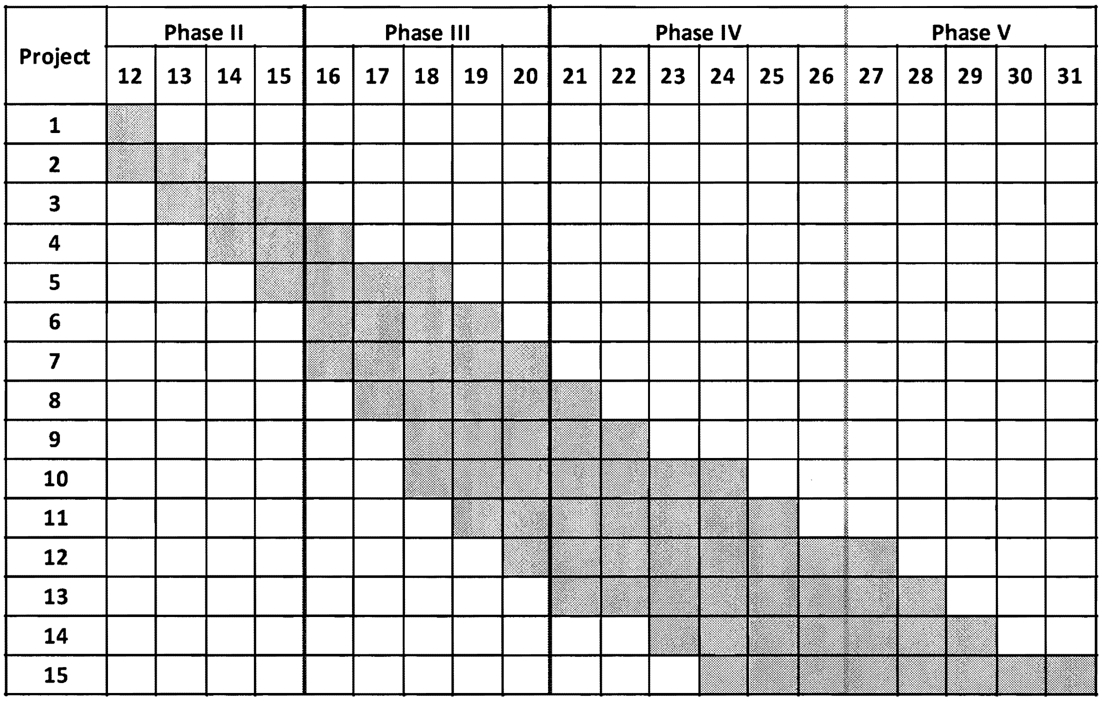
SCENARIO I: CURRENT POLICY

Under Scenario I, almost $200 million in programmed reimbursements would be deferred to an unfunded year in Phase V (2027-2031). Programmed reimbursements would be deferred in priority order of when the reimbursements were programmed, in accordance with the approved *Policies*. Beginning in 2012, project reimbursements are deferred in priority of the current program, and the majority of projects in Phase IV and some in Phase III would be deferred to an unfunded year/Phase V of the program.

Under the current policy, some Lead Agencies would be affected more so than other agencies depending on the programmed year/phase for reimbursement identified in the approved ALCP and RTP. Figure 1 provides a hypothetical illustration to demonstrate the impact to the program.

[1] Please refer to Appendix A for a comparison of select Regional Area Road Fund forecasts since November 2003.

FIGURE 1. ILLUSTRATION OF SCENARIO I



SCENARIO II: PROJECT PERCENTAGE-BASED REDUCTION

Under Scenario II, programmed reimbursements in FY 2012 through FY 2027 would be reduced per project by the percentage necessary to bring the ALCP into fiscal balance. Once the percentage reduction was applied to the project programmed reimbursements, then each agency will have the opportunity to make project changes (delete, consolidate, reprioritize programmed reimbursements, etc.) as consistent with the approved ALCP Policies and Procedures. Scenario II would be a change from the current policies. An example of Scenario II is provided below.

EXAMPLE

$200 million must be removed from the program. Currently, there is $1 billion in programmed reimbursements between FY 2012 and FY 2027.

200,000,000/1,000,000,000 = 20 percent

All programmed reimbursements between FY 2012 and FY 2027 will be reduced by 20 percent. After the initial reduction is applied, each Lead Agency will have the opportunity to make project changes (delete, consolidate, reprioritize programmed reimbursements, etc.) as consistent with the approved ALCP Policies and Procedures.

Preliminary estimates indicated that a 14 percent reduction in the remaining regional budgets would be required. The percentage reduction would apply to all programmed reimbursements in FY 2012 and onward, regardless of funding source. Table 1 summarizes the estimated impact of Scenario II by Lead Agency.

TABLE 1. ESTIMATED IMPACT OF SCENARIO II BY LEAD AGENCY

Lead Agency	Phase II	Phase III	Phase IV	Phase V	Total Regional Funds	Reduction Needed (14%)	Remaining Regional Funds
	(in Millions)						
Carefree	$ -	$ 5.4	$ -	$ -	$ 5.4	$ 0.8	$ 4.7
Chandler	$ 19.8	$ 57.5	$ 33.3	$ 2.4	$ 113.0	$ 15.8	$ 97.2
Gilbert	$ 51.6	$ 11.3	$ 59.5	$ 2.0	$ 124.3	$ 17.4	$ 106.9
Fountain Hills	$ 3.1	$ 2.6	$ -	$ -	$ 5.7	$ 0.8	$ 4.9
Maricopa County	$ 80.2	$ 201.7	$ 86.3	$ -	$ 368.2	$ 51.5	$ 316.6
Mesa	$ 52.2	$ 154.2	$ 237.4	$ 7.9	$ 451.7	$ 63.2	$ 388.5
Peoria	$ 30.7	$ -	$ 17.9	$ 2.7	$ 51.3	$ 7.2	$ 44.1
Phoenix	$ 99.3	$ -	$ 14.1	$ 2.4	$ 115.7	$ 16.2	$ 99.5
Scottsdale	$ 104.8	$ 138.8	$ 65.4	$ 5.1	$ 314.0	$ 44.0	$ 270.0
TOTALS	$ 441.6	$ 571.4	$ 513.9	$ 22.4	$ 1,549.4	$ 216.9	$ 1,332.4

**As programmed in the FY11 ALCP approved July 28, 2010*

SCENARIO III: LEAD AGENCY ALLOCATION BASED REDUCTION

Under Scenario III, each Lead Agency's allocation or "share" of the program would be applied to the reduction amount needed maintain the fiscal balance of the program. Previous reimbursements would be included in the determination of each agency's allocation; however, Lead Agencies would not be required to repay previous reimbursements, as consistent with the approved *Policies*[2]. Once each agency was notified of the necessary reductions each agency would have the opportunity to delete, consolidate, and/or reprioritize programmed reimbursements to meet the required reduction. An example of Scenario III is provided below.

EXAMPLE

$200 million must be removed from the program. City X was allocated 15 percent of the total funds in the ALCP.

$200,000,000*15 percent= $30,000,000

City X must reduce the City's total ALCP allocation by $30 million. The City may opt to reduce existing project budgets or make project changes (delete, consolidate, reprioritize programmed reimbursements, etc.) as consistent with the approved ALCP Policies and Procedures.

[2] Per Section 260.A.3, "Lead Agencies and other agency(ies)/jurisdiction(s) ... will not be liable to reimburse ... the Program if a Program deficit occurs in the future."

Table 2 details each agency's "share" by RTP Phase as well as the estimated impact to each Lead Agency.

TABLE 2. ESTIMATED IMPACT OF SCENARIO III BY LEAD AGENCY

Lead Agency	Phase I	Phase II	Phase III	Phase IV	Phase V	Total	% of ALCP	Estimated Reduction	Remaining Regional Funds
	(in Millions)								
Carefree	$ -	$ -	$ 5.4	$ -	$ -	$ 5.4	0.3%	$ 0.7	$ 4.7
Chandler	$ 26.7	$ 19.8	$ 57.5	$ 33.3	$ 2.4	$ 139.7	8.2%	$ 17.7	$ 122.0
Gilbert	$ 19.2	$ 51.6	$ 11.3	$ 59.5	$ 2.0	$ 143.6	8.4%	$ 18.2	$ 125.3
Fountain Hills	$ 0.4	$ 3.1	$ 2.6	$ -	$ -	$ 6.0	0.4%	$ 0.8	$ 5.3
Maricopa County	$ 34.4	$ 80.2	$ 201.7	$ 86.3	$ -	$ 402.6	23.6%	$ 51.1	$ 351.5
Mesa	$ 6.5	$ 52.2	$ 154.2	$ 237.4	$ 7.9	$ 458.2	26.8%	$ 58.2	$ 400.1
Peoria	$ 46.6	$ 30.7	$ -	$ 17.9	$ 2.7	$ 97.9	5.7%	$ 12.4	$ 85.5
Phoenix	$ -	$ 99.3	$ -	$ 14.1	$ 2.4	$ 115.7	6.8%	$ 14.7	$ 101.0
Scottsdale	$ 25.5	$ 104.8	$ 138.8	$ 65.4	$ 5.1	$ 339.5	19.9%	$ 43.1	$ 296.4
TOTALS	$ 159.3	$ 441.6	$ 571.4	$ 513.9	$ 22.4	$ 1,708.7	100.0%	$ 216.9	$ 1,491.8

**As programmed in the FY11 ALCP approved July 28, 2010*

ALCP WORKING GROUP

On December 9, 2010, the ALCP Working Group met to discuss the scenarios and other options to maintain the fiscal balance of the Arterial Life Cycle Program (ALCP). At the meeting, MAG staff answered questions regarding each scenario, and MAG Member Agencies discussed the possibility of adjusting the 70 percent (regional)/30 percent (local) split established in the *Policies.* Some member agencies proposed a different local match be established for federally funded projects due to the additional cost requirements incurred when following the federal process. At the meeting, the ALCP Working Group achieved a general consensus on the following points:

- Balancing of the program should be Lead Agency allocation based on the entire ALCP– Scenario III, which is a change in policy;
- If revenues increased in the future, the methodology to adjust the program should be consistent with the methodology applied during the rebalancing;
- Jurisdictions should have the opportunity to delete projects and reallocate regional funding to the remaining projects to ensure that projects are financially viable;
- MAG staff would review the current minimum local match policy of 30 percent for possible revisions to the existing policy;
    - o The ALCP Working Group would revisit the idea of a different local match requirement for federally funded projects and regional funded projects at a later meeting;
- MAG staff would review the bonding aspect of the program and determine if a no bonding scenario should be an alternative;

- MAG staff would amend the ALCP Policies and Procedures, as appropriate, to be consistent with the new policy direction provided by the Transportation Policy Committee and ALCP Working Group.
    - Once draft Policies and a draft ALCP are prepared, MAG staff would take both documents through the MAG Committee Process starting with the MAG Transportation Review Committee.
- MAG would be using the Congestion Management Process (CMP) to assist in the evaluation of ALCP projects.
    - MAG staff would provide the CMP Tool to each agency, upon request, for agency level analysis to determine what projects within a jurisdiction should be considered for reductions.

POLICY DIRECTION & NEXT STEPS

To move forward with the balancing of the ALCP, input from TPC is needed for the questions outlined below.

- What Scenario should the region apply to rebalance the ALCP?
- Are there any additional factors that should be taken into consideration when rebalancing the program?

After receiving guidance from the TPC, MAG staff will conduct an ALCP Working Group meeting to discuss the technical aspects of implementing the recommended policy. In addition, MAG staff will monitor federal funding levels in light of federal budget deficit concerns, coordinate with agency staff on project priorities, and develop the Draft FY 2012 Arterial Life Cycle Program. The current ALCP Policies and Procedures will be revised to reflect the TPC's guidance and the technical refinements recommended by the ALCP Working Group.

Please contact me with any questions at (602) 254-6300 or eyazzie@azmag.gov.

ATTACHMENT ONE: RARF Revenue Forecast Comparison

Per ARS 28-6303(E)(2), the ALCP is allocated 10.5 percent of RARF revenues collected. The table below provides a comparative analysis of the ALCP component of the Regional Area Road Fund (RARF) forecasts since 2003.

Fiscal Year	RARF REVENUE FORECAST (in Millions)								
	Nov. 2003 (Original)	Nov. 2007	Change from 2003	Nov. 2008	Change from 2003	Oct. 2009	Change from 2003	Nov. 2010 (Current)	Change from 2003
2011	49.5	51.0	1.5	45.3	(4.2)	33.8	(15.7)	31.6	(17.9)
2012	53.0	54.5	1.4	49.1	(3.9)	36.4	(16.6)	32.6	(20.5)
2013	57.0	58.2	1.2	53.1	(3.9)	39.8	(17.1)	34.4	(22.6)
2014	61.2	62.1	0.9	57.2	(4.0)	45.7	(15.6)	36.7	(24.6)
2015	65.8	66.2	0.4	61.5	(4.3)	51.7	(14.1)	39.3	(26.5)
2016	70.5	70.8	0.3	65.8	(4.7)	55.0	(15.4)	42.1	(28.4)
2017	75.6	75.6	0.0	70.4	(5.1)	58.5	(17.0)	44.9	(30.7)
2018	81.2	80.7	(0.4)	75.1	(6.1)	62.5	(18.7)	47.4	(33.8)
2019	87.2	86.1	(1.1)	79.7	(7.4)	66.5	(20.7)	50.3	(36.8)
2020	93.5	92.0	(1.5)	85.0	(8.5)	70.5	(23.1)	53.4	(40.1)
2021	100.4	98.3	(2.1)	90.5	(9.8)	74.7	(25.7)	56.2	(44.1)
2022	107.3	104.8	(2.6)	96.4	(10.9)	79.7	(27.6)	59.4	(48.0)
2023	115.0	112.0	(3.1)	102.8	(12.3)	84.4	(30.7)	62.8	(52.2)
2024	123.2	119.5	(3.8)	109.6	(13.6)	89.4	(33.8)	66.2	(57.0)
2025	132.3	127.2	(5.2)	116.8	(15.5)	95.0	(37.3)	69.9	(62.4)
2026	82.9	79.2	(3.7)	72.3	(10.6)	58.8	(24.1)	43.2	(39.7)
TOTAL	1355.6	1338.1	(17.5)	1230.6	(124.9)	1002.4	(353.2)	770.5	(585.1)