MARICOPA ASSOCIATION of GOVERNMENTS
302 North 1st Avenue, Suite 300 Phoenix, Arizona 85003
Phone (602) 254-6300 FAX (602) 254-6490
Email: mag@mag.maricopa.gov Website: www.mag.maricopa.gov

May 1, 2012

TO: Members of ALCP Working Group
Members of the Transportation Review Committee

FROM: Christina Hopes, Transportation Planner II

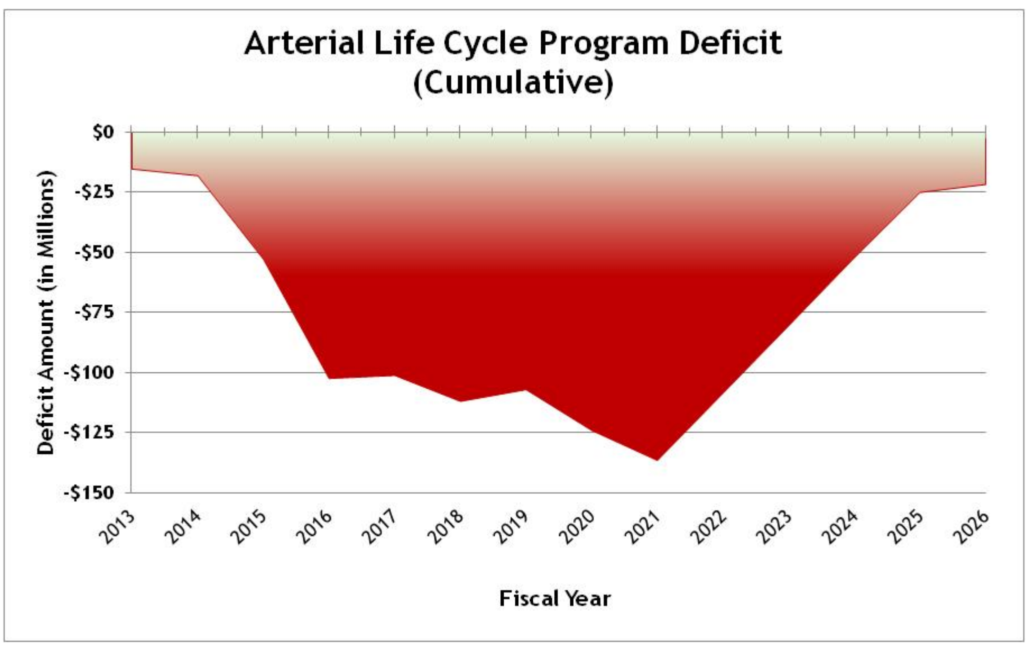
SUBJECT: DRAFT FISCAL YEAR 2013 ARTERIAL LIFE CYCLE PROGRAM DEFICIT

MAG Staff has received multiple requests that programmed reimbursements in the Draft Fiscal Year (FY) 2013 Arterial Life Cycle Program (ALCP) be restored to the same fiscal years listed in the adopted FY2012 ALCP. Annually, MAG updates the ALCP based on revised revenue forecasts, program expenditures, and project schedule changes. During the update process, reimbursements may shift due to availability of program funds[1]. At this time, MAG is unable to accommodate requests to restore funding to the fiscal years listed in the adopted FY2012 ALCP due to a deficit of program funds.

OVERVIEW

Starting in FY2013, there is a deficit of program funds projected in the Arterial Life Cycle Program. The deficit is the result of decline in anticipated revenues and an increase in program expenditures. Figure 1 illustrates the forecasted program deficit for the period between FY2013 and the expiration of the half-cent transportation sales tax in FY2026.

FIGURE 1



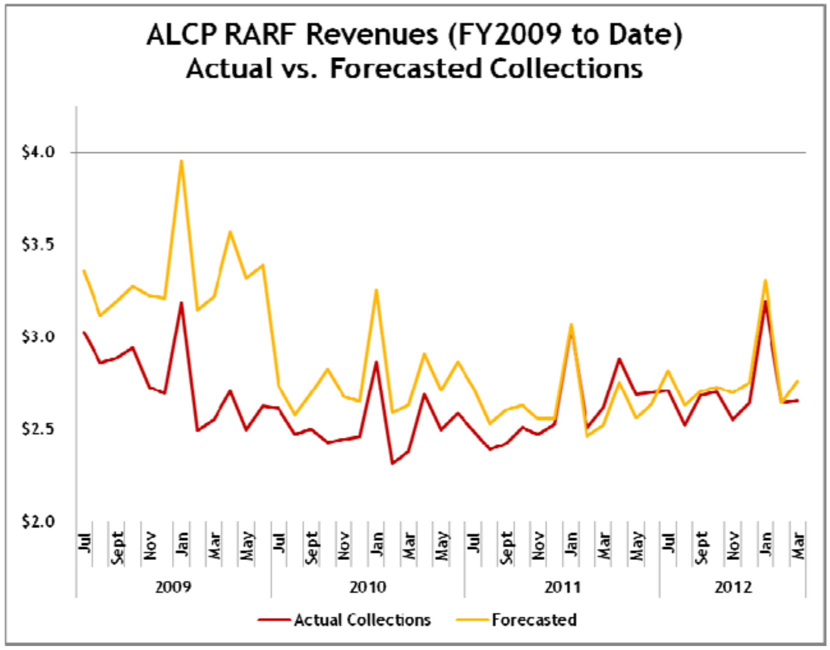
** Figure compares forecasted revenues to programmed reimbursements in the FY13 Draft ALCP. Bonding not included in revenue calculations*

[1] Section 200.C of the ALCP Policies and Procedures adopted by the MAG Regional Council on December 9, 2009.

DECLINING REVENUES

Regional Area Road Fund (RARF) collections have steadily declined over the last several years due to the state of the economy. Decreased revenue collections resulted in a deficit of program funds in the Arterial Life Cycle Program (ALCP) and $201 million in programmed reimbursements were removed from the program to-date in an effort to restore the fiscal balance to the program. In November 2011, the revised RARF revenue forecast was released and was incorporated into the revenue stream in the Draft FY2013 ALCP. The revised forecast indicated the continued decline in revenue collections, which resulted in an immediate negative impact on the program.

FIGURE 2

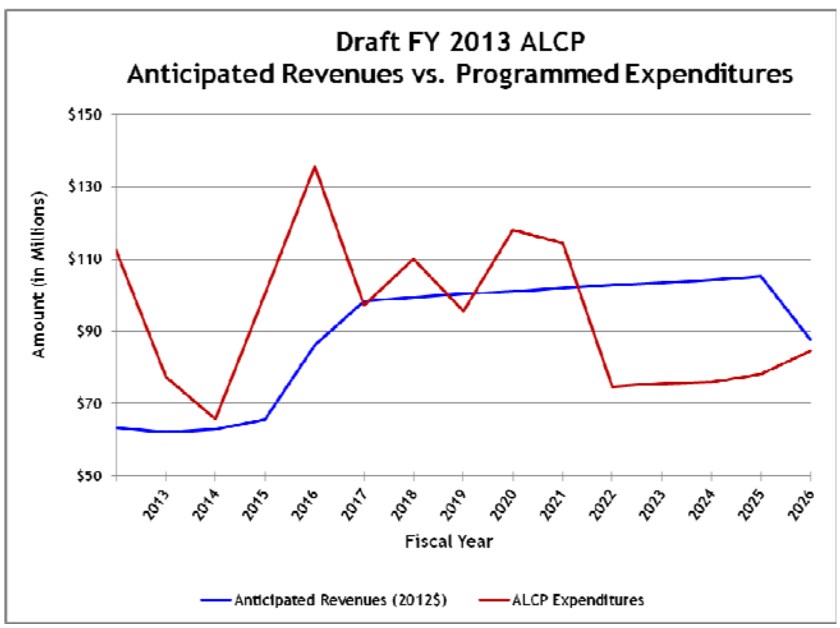


For the last several years, actual revenue collections have been below the forecasted amounts. Figure 2 illustrates the forecasted and actual RARF revenue collection between FY 2009 and March 2012.

INCREASED EXPENDITURES

The Regional Transportation Plan (RTP) adopted in 2003 established the regional reimbursements for projects programmed in the ALCP. Original project budgets were expressed in 2002 dollars. During the annual update, MAG Staff inflates remaining budgets carried forward to the next year to account for the past year's inflation[2]. Inflating programmed reimbursements increases program expenditures.

FIGURE 3



Over the past few years, inflation has steadily increased while program revenues have steadily decreased. In 2011 and 2012, programmed reimbursements were inflated an average of 2.5%. Figure 3 illustrates the difference between anticipated program revenues from all sources (RARF, STP, CMAQ) and programmed expenditures in the Draft FY2013 ALCP.

[2] Per Section 240 of the ALCP Policies and Procedures adopted by the MAG Regional Council on December 9, 2009.

DECREASED BONDING CAPACITY

MAG Staff rebalances the ALCP annually to ensure the fiscal constraint of the program. The rebalancing process includes a review of the program cashflow, which is affected by actual/forecasted revenues, reimbursements paid, programmed reimbursement, bond funds, and debt service payments. The decrease in forecasted revenues reduced the bonding capacity in the program. Historically, bonding has been a key element to avoid deferring programmed reimbursements to a later year in the program.

REBALANCING EFFORTS

MAG delayed the release of draft of the FY13 ALCP while staff actively worked on strategies to maintain the fiscal balance of the program. After extensive analysis, MAG decided to release the draft, *which is not fiscally balanced*, for member agency review. Three scenarios to balance the draft have been developed and are discussed below.

> *Scenario 1: Bonding & Inflation*
> Bonding is one finance mechanisms used by MAG Staff to advance programmed reimbursements in the ALCP. However, the debt service associated with bonding places a burden on program revenues since the interest cost for the bonds are an additional cost to the ALCP. Annually, MAG Staff programmed reimbursements are adjusted to keep up with inflation. In the last two years, programmed reimbursements have been inflated an average of 2.5% annually. Inflation also places a burden on programmed revenues. Under Scenario 1, MAG would use bonding to advance programmed reimbursements to the greatest extent possible. It should be noted that programmed reimbursements would be deferred due to a deficit of program funds under this option. In addition, $30-45 million would need to be removed from the program to restore the balance of program funds.
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> *Scenario 2: No Bonding*
> The debt service associated with bonding places a burden on program revenues. Under Scenario 2, debt service expense would be eliminated. Lead Agencies can anticipate programmed reimbursements to be deferred between four to six years on average under this Scenario. In addition, $10-15 million in programmed reimbursements would need to be deferred from the program to restore the fiscal balance of the ALCP.
>
> *Scenario 3: No Bonding & No Inflation*
> Annually, MAG Staff programmed reimbursements are adjusted to keep up with inflation. Scenario 3 would operate the same as Scenario 2; however, programmed reimbursements would not be adjusted for inflation. Under this Scenario, reimbursements would be deferred to a lesser extent than Scenario 2 because the burden on the program would be reduced. It is estimated that up to $5 million in programmed may need to be removed from the program to restore the fiscal balance to the ALCP.

The ALCP is funded from three revenue sources: the half-cent sales tax (RARF), Surface Transportation Program Funds, and Congestion Mitigation and Air Quality Program Funds. During each annual update, the funding sources assigned to reimbursements may change in an effort to maximize the use of available resources. All programmed reimbursements, regardless of funding source, will be affected by the preferred Scenario recommended by the ALCP Working Group.

ALCP WORKING GROUP MEETING

On May 22, 2012, MAG Staff will conduct an ALCP Working Group meeting to discuss proposed scenarios to balance the Draft FY2013 Arterial Life Cycle Program. Member Agencies are encouraged to develop and propose alternative scenarios to balance the program.

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