

ATTACHMENT SIX

DRAFT

2011 ANNUAL REPORT ON PROPOSITION 400

SUMMARY OF FINDINGS AND ISSUES

The *Draft 2011 Annual Report on the Status of the Implementation of Proposition 400* has been prepared by the Maricopa Association of Governments (MAG) in response to Arizona Revised Statute (ARS) 28-6354. ARS 28-6354 requires that MAG annually issue a report on the status of projects funded through Proposition 400, addressing project construction status, project financing, changes to the MAG Regional Transportation Plan, and criteria used to develop priorities. In addition, background information is provided on the overall transportation planning, programming and financing process. The key findings and issues from the 2011 Annual Report are summarized below.

MAG REGIONAL TRANSPORTATION PLAN

The MAG Regional Transportation Plan (RTP) provides the blueprint for the implementation of Proposition 400. By Arizona State law, the revenues from the half-cent sales tax for transportation must be used on projects and programs identified in the RTP adopted by MAG. The RTP identifies specific projects and revenue allocations by transportation mode, including freeways and other routes on the State Highway System, major arterial streets, and public transportation systems.

- During FY 2011, the life cycle programming process continued to face a difficult revenue picture. Efforts to re-establish balanced life cycle programs in each of major transportation modes were ongoing during FY 2011, but balanced programs had not been established by the end of FY 2011.

During FY 2010, a rebalancing of costs and revenues in the in the life cycle programs was accomplished. However, during FY 2011, as part of the annual program review process, revenue forecasts were updated and indicated that future revenues would be lower than had been estimated in FY 2010. This has resulted in a recurrence of an imbalance between projected costs and expected revenues in the life cycle programs. All three life cycle programs are dealing with lower sales and other tax revenues and a high level of uncertainty about future Federal transportation funding. MAG, ADOT and RPTA are jointly working on measures to reestablish balanced programs by the end of calendar year 2011.

- The results of the first Proposition 400 Performance Audit are expected during the fall of 2011.

As specified in A.R.S. 28-6313, a performance audit of the Regional Transportation Plan and projects scheduled for funding during the next five years is required every five years during the term of the Proposition 400 sales tax. The Auditor General has contracted with a nationally recognized independent auditor with expertise in evaluating multimodal transportation systems and in regional transportation planning to conduct the audit. It is anticipated that the results of the audit will be released in the fall of 2011. MAG is required to hold a public hearing on the audit findings and recommendations within forty-five days after the audit's release.

- The MAG Regional Transportation Plan was amended to reflect changes in transit funding sources, as well as changes to certain and freeway and transit projects.

On September 22, 2010, the MAG Regional Council approved amendment of the Regional Transportation Plan to incorporate public transit service adjustments resulting from reductions in revenues, including repeal of the LTAF by the Arizona State Legislature. Also on this date, the MAG Regional Council approved amendment of the Plan to reflect advancement of the construction of the Gateway Freeway (Santan Freeway to Ellsworth Road) from FY 2016 to FY 2012.

- A "Locally Preferred Alternative" for the Tempe South High Capacity Transit Segment in the Regional Transportation Plan was approved.

On December 8, 2010, the MAG Regional Council approved amendment of the Regional Transportation Plan to reflect a Locally Preferred Alternative (LPA) for the Tempe South High Capacity Transit Segment in the RTP. The LPA approved by the Regional Council for this segment was designated as a modern streetcar on a Mill Avenue alignment extending south from downtown Tempe to Southern Avenue, with a one-way, Mill Avenue/Ash Avenue loop in downtown Tempe. Additional transit improvements were also noted for future consideration through the regional transportation planning process.

- A modern street car illustrative project was added to the Regional Transportation Plan.

On December 8, 2010, the MAG Regional Council approved inclusion of a potential future modern street car east from Mill Avenue along Southern Avenue to Rural Road, as an Illustrative Transit Corridor in the Regional Transportation Plan.

HALF-CENT SALES TAX AND OTHER TRANSPORTATION REVENUES

The half-cent sales tax for transportation approved through Proposition 400 is the major funding source for the MAG Regional Transportation Plan (RTP), providing

over half the revenues for the Plan. In addition to the half-cent sales tax, there are a number of other RTP funding sources, which are primarily from State and Federal agencies.

- Fiscal Year 2011 receipts from the Proposition 400 half-cent sales tax were 3.4 percent higher than receipts in FY 2010.

The receipts from the Proposition 400 half-cent sales tax in FY 2011 totaled approximately \$308 million, corresponding to a 3.4 percent increase over FY 2010. This represents the first year-over-year increase in collections since FY 2007. However, the collections for FY 2011 remain 21.1 percent lower than those in FY 2007.

- Forecasts of Proposition 400 half-cent revenues are 23.7 percent lower for the period FY 2012 through FY 2026, compared to the 2010 Annual Report estimate.

Future half-cent revenues for the period FY 2012 through FY 2026 are currently forecasted to total \$7.0 billion. This amount is \$2.2 billion, or 23.7 percent, lower than the forecast for the same period presented in the 2010 Annual Report. It is worth noting that actual receipts for FY 2011 (\$308.4 million) were somewhat greater than had been forecasted in the current series (\$301.0 million). The Proposition 400 half-cent revenue forecasts will be updated again in the fall of 2011.

- Forecasts of total ADOT Funds dedicated to the MAG area for FY 2012 through FY 2026 are 3.5 percent lower than the 2010 Annual Report estimate.

The forecast for ADOT funds totals \$4.8 billion for FY 2012 through FY 2026, which is 3.5 percent lower than the 2010 Annual Report forecast. Due to its lesser rate of decline, this source is projected to exceed the funding provided by the half-cent sales tax to Freeway/Highway Life Cycle Program by 18.3 percent during FY 2012 -2026.

- Forecasts of total MAG Federal Transportation Funds for FY 2012 through FY 2026 are slightly lower compared to the 2010 Annual Report estimate.

The forecasted MAG Federal aid revenues for the period FY 2012 through FY 2026 total \$3.7 billion. This forecast is \$70 million, or 1.8 percent lower than that in the 2010 Annual Report for the same period.

- The nature and magnitude of future Federal transportation funding remains uncertain.

Federal funding for transportation has generally been reauthorized every six years. The latest reauthorization, the Safe, Accountable, Flexible, and Efficient Transportation Equity Act – A Legacy for Users (SAFETEA/LU), was signed into law in August 2005 and expired in September 2009. Since that time, Congress has maintained Federal transportation funding by means of continuing resolutions and extensions of SAFETEA/LU. The current extension runs through September 30, 2011. Given the growing sentiment toward austerity in Federal programs, the nature and magnitude of future Federal transportation funding, as well as any extensions of SAFETEA/LU, remains uncertain.

FREEWAY/HIGHWAY LIFE CYCLE PROGRAM

The Freeway/Highway Life Cycle Program (FLCP) extends through FY 2026 and is maintained by the Arizona Department of Transportation (ADOT) to implement freeway/highway projects listed in the MAG Regional Transportation Plan (RTP). The program utilizes funding from the Proposition 400 half-cent sales tax extension, as well as funding from state and Federal revenue sources.

- A number of major freeway/highway construction projects were completed, underway, or advertised for bids during FY 2011.

Completed

- I-10 (Verrado Way to Sarival Ave.): Additional general purpose lanes.
- I-10 (Sarival Ave. to Dysart Rd.): Additional general purpose lanes.
- I-10 (at Avondale Blvd.): Interchange improvements.
- I-17 (Indian School to I-10): S/B auxiliary lanes.
- US 60 (Loop 303 to 99th Ave.): Widen to six lanes.
- US 60 (99th Ave. to 83rd Ave.): Widen to six lanes.
- SR 74 (MP 13-15 and MP 20-22.): Add passing lanes.
- SR 85 (I-10 to Southern Ave.): Widen to four lanes.
- SR 87 (New Four Peaks Rd. to Dos S Ranch Rd.): Climbing lane.
- Loop 101/99th Ave. (I-10 to Van Buren Rd.): Street improvements.
- Loop 101 (at Beardsley/Union Hills): New traffic interchange.
- Loop 101 (at Chaparral Rd.): Interchange improvements.
- Loop 101 (Northern to Grand): S/B auxiliary lanes.
- Loop 101 (51st Ave. to 35th Ave.): E/B auxiliary lanes.
- Loop 303 (at Cactus Rd., Waddell Rd., and Bell Rd.): Crossroad improvements.
- Loop 303 (Happy Valley Rd. to Lake Pleasant Pkwy): Interim four-lane divided roadway.
- Loop 303 (Lake Pleasant Pkwy to I-17): Interim four-lane divided roadway.
- Loop 101 (at Olive Rd.): Interchange improvements.

Advertised for Bids or Under Construction

- SR 85 (at B-8/Maricopa Rd): Reconstruct intersection.
 - Loop 101 (I-10 to Tatum Blvd.): New HOV lanes.
 - SR143 (at Loop 202 Access Road): Interchange improvements.
 - Loop 202/Santan (Gilbert Rd. to I-10): New HOV lanes.
 - Loop 303 (at I-10): New freeway system interchange.
 - Loop 303 (Peoria Ave. to Mt. View Rd.): New 6- lane freeway.
 - MAG Region (Various Locations): Noise Walls.
- Cost estimates for projects in the Freeway Life Cycle Program were reduced by approximately \$253 million.

Cost estimates for a number of projects in the Freeway Life Cycle Program were reduced in the 2011 Annual report, totaling approximately \$253 million.

- Construction of the Gateway Freeway (Santan Freeway to Ellsworth Road) was advanced from FY 2016 to FY 2012.

On September 22, 2010, the MAG Regional Council approved amendment of the Regional Transportation Plan to advance the construction of the Gateway Freeway (Santan Freeway to Ellsworth Road) from FY 2016 to FY 2012. To advance the construction, the City of Mesa is issuing Highway Project Advancement Notes, which are secured by the city's excise tax. Since Mesa is issuing the debt, there is no impact in the freeway program's financing capacity.

- Lower revenue forecasts have resulted in the recurrence of an imbalance between costs and revenues in the Freeway Life Cycle Program.

During FY 2010, a rebalancing of costs and revenues in the FLCP was accomplished through project scope reevaluation, cost estimate adjustments, and schedule revisions. However, during FY 2011, as part of the annual program review process, revenue forecasts were updated and indicated that future revenues would be lower than had been estimated in FY 2010. This has resulted in a recurrence of an imbalance between projected costs and expected revenues in the FLCP, with a deficit of approximately \$453 million through FY 2026. This amounts to about six percent of the projected total expenditures for the period FY 2012-2026. MAG and ADOT are again jointly working on measures to reestablish a balanced FLCP, and it is anticipated that these efforts will produce a balanced program by the end of calendar year 2011.

ARTERIAL STREET LIFE CYCLE PROGRAM

The Arterial Street Life Cycle Program (ALCP) extends through FY 2026 and is maintained by the Maricopa Association of Governments (MAG) to implement arterial street projects in the MAG Regional Transportation Plan (RTP). The Program receives significant funding from both the Proposition 400 half-cent sales tax and Federal highway programs, as well as a local match component. Although MAG is charged with the responsibility of administering the overall program, the actual construction of projects is accomplished by local government agencies. MAG distributes the regional share of the funding on a reimbursement basis.

- During FY 2011, \$30 million in reimbursements were distributed to local governments from the Arterial Street Life Cycle Program

Five jurisdictions received reimbursements for project work during FY 2011 totaling over \$30 million. A total of ten project agreements were executed in FY 2011. In all, 49 project agreements have been executed to date. Lead implementing agencies deferred approximately \$41 million in Federal and regional reimbursements from FY 2011 to later years, due to project implementation and local funding issues.

- Continuing progress on projects in the Arterial Street Life Cycle Program has been maintained.

As of FY 2011, \$208 million has been disbursed and 28 ALCP projects have been completed. These projects have included arterial street widenings, capacity improvement projects, and intersection improvements throughout the MAG area. During FY 2011, project overview reports were prepared by the lead agencies for five projects in the ALCP. Since the inception of the program, 58 project overviews have been submitted to MAG.

- A \$196.5 million reduction in the Arterial Life Cycle Program through FY 2026 will be necessary.

In FY 2011, the half-cent sales tax revenue forecast was revised, and it was determined that a \$196.5 million reduction in the Arterial Life Cycle Program through FY 2026 would be necessary. To meet the required program reductions, MAG staff and member agencies are coordinating a reprogramming effort. It is anticipated that a fiscally balanced, FY 2012 Arterial Life Cycle Program will be considered for approval in September 2011.

TRANSIT LIFE CYCLE PROGRAM

The Transit Life Cycle Program (TLCP) is maintained by the Regional Public Transportation Authority (RPTA) and implements transit projects identified in the MAG Regional Transportation Plan. The RPTA maintains responsibility for administering half-cent sales tax revenues deposited in the Public Transportation Fund for use on transit projects, including light rail transit (LRT) projects. Although RPTA maintains responsibility for the distribution of half-cent funds for light rail projects, the nonprofit corporation of Valley Metro Rail, Inc. was created to oversee the design, construction and operation of the light rail starter segment, as well as future corridor extensions planned for the system.

- One new supergrid bus route and one new Bus Rapid Transit (BRT) were implemented in FY 2011 and several additional routes will start service during the next five years.

Routes Implemented During FY 2011:

- Arizona Avenue Arterial BRT (T5).
- Power Road (T63); Implemented as Route 184.

Routes Planned for Implementation During FY 2012 through FY 2016:

- Grand Avenue Limited (T13); Service start: FY 2013
- South Central Avenue Express (T26); Service start: FY 2015
- Scottsdale/Rural BRT (T25); Service start: FY 2016
- Arizona Avenue/Country Club Drive (T44); Service start: FY 2012.
- Elliot Road (T53); Service start: FY 2013.
- 59th Avenue (T40); Service start: FY 2014.
- McDowell/McKellips Roads (T61); Service start: FY 2014.
- Baseline Road (T45); Service start: FY 2015.
- University Drive (T69); Service start: FY 2016.

- Major steps were taken on implementing two High Capacity Transit/ Light Rail Transit extensions.

The Central Mesa LRT Extension is currently in the Small Starts Project Development (design) phase. This light rail transit extension will extend along Main Street from the end of line station for the CP/EV at Sycamore eastward to Mesa Drive. Construction is scheduled to be complete in FY 2016. The Tempe Streetcar locally preferred alternative was approved in FY 2011 and is currently in the Project Definition and Environmental Assessment phase. Construction is scheduled to be complete in FY 2016.

- During FY 2011, significant efforts were made to identify further bus system cost savings or to enhance operating revenues.

During FY 2011, major reductions in expenses were a result of identifying additional bus system operating revenues, which offset costs, lowering the amount subsidized by regional revenues. The net total of these cost changes amounts to approximately a \$299 million decrease. The TLCP bus system projects continue to be reevaluated and changes in project implementation and reductions in current service may be made based on actual revenues received.

- Estimated future Transit Life Cycle Program (TLCP) costs for FY 2012 to 2026 are not in balance with the projected future funds available.

Due to the continued economic downturn and the decrease in estimated future revenues, estimated TLCP costs for FY 2012 to 2026 are not in balance with projected future funds available, with a deficit of approximately \$581 million (2011 \$'s). A balance was achieved previously in FY 2010 by delaying the implementation of numerous projects and reducing the scope of many other projects, especially bus route frequencies. However, due to the continued economic downturn and the decrease in estimated future revenues that resulted, simply delaying future projects to balance the TLCP has become increasingly difficult.

During FY 2011, a significant effort was started to assess the TLCP funded services in operation. During FY 2012, after modifications to existing services are complete, RPTA/METRO will move forward with rebalancing the TLCP by adjusting future services and capital projects to meet the projected revenues. Public input will be solicited before any final decisions are made. It is anticipated that a balanced program will be identified by the end of calendar year 2011

- Federal discretionary funding for transit continues to be an important issue.

A large part of the funding for the LRT/HCT system is awarded by the US Department of Transportation through the discretionary "New Starts Program". The timing and amounts of light rail transit new start monies coming to the MAG region will be subject to a highly competitive process at the Federal level. Revenues from the Federal Transit Administration, beyond the "New Starts Program" for the LRT/HCT system, are a key source of revenues for the bus capital program. Continued pressure at the federal level to reduce spending could result in decreased federal revenues for the TLCP, which could put additional projects in jeopardy in the future.

PERFORMANCE MONITORING PROGRAM

The MAG Transportation System Performance Monitoring and Assessment Program has been established to provide a framework for reporting performance at the system and project levels, and serve as a repository of historical, simulated and observed data for the transportation system in the MAG Region.

- During FY 2011, the MAG Performance Measurement Report was updated.

During FY 2011, portions of the MAG Performance Measures Report were updated, including use of recently acquired traffic data from private sources. The per capital freeway vehicle-miles of travel (VMT) in the Phoenix-Mesa urbanized area has been trending slightly downward during the period 2007-2010. These trends are illustrative of the national and regional economic recession conditions during this period.