Division of Transit and Rail
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DATE: January 10, 2020
TO: Transit and Rail Advisory Committee
FROM: Nate Vander Broek, Division of Transit & Rail
SUBJECT: Projected Surpluses/Deficits to 2045, Statewide and by TPR

Purpose
This memorandum summarizes the initial projections of annual funding surpluses and/or deficits statewide and by transportation planning region and seeks a discussion on potential policy options.

Action
Informational and discussion only, no action required.

Background
These projections are one component of the financial analysis conducted by High Street Consulting Group (HSCG) staff — with guidance and input from CDOT Division of Transit & Rail (DTR) and Felsburg, Holt & Ullevig (FHU) staff — that will be incorporated into the Statewide Transit Plan update.

These projections were prepared using:
1. A rich dataset from the FTA National Transit Database (NTD);
2. Results of a detailed online survey of Colorado transit providers conducted by Fehr & Peers staff; and
3. State of Good Repair (SGR) data on the existing statewide fleet of transit vehicles from the Colorado Transit & Rail Awards Management System (COTRAMS).

In addition, HSCG staff augmented the data with information known about the new dedicated mill levies for the Roaring Fork Transportation Authority (RFTA) and for the San Miguel Authority for Regional Transportation (SMART).

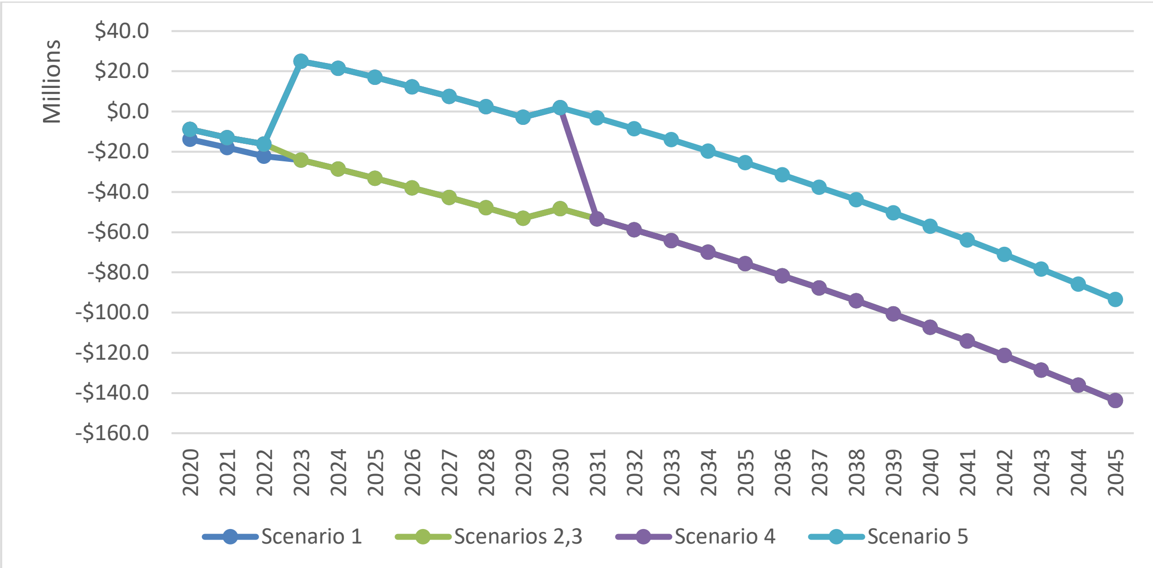
Assumptions

1. Annual growth in major Federal Transit Administration (FTA) revenue sources: 2.0%
2. Annual growth in farebox revenues: 2.0%
3. Annual growth in revenues generated by RFTA and SMART mill levies: 3.0%
4. Annual operational cost inflation: 2.8% (median annual growth of the Denver-Aurora-Lakewood CPI-U)
5. Annual capital cost inflation: 2.8%
6. Number of years to eliminate State of Good Repair (SGR) backlog: 10
7. SB 17-267 revenue split 25%/75% to CDOT and TPRs, respectively
8. Other potential state funding split 10%/90% to CDOT and TPRs, respectively
9. SB 17-267 revenue and other potential state funding allocated to TPRs *pro rata* by the percentages corresponding to the Total column of the table presented on page 66 of the December 2019 Statewide Transportation Advisory Committee (STAC) packet
10. 100% of SB 17-267 and other potential state funding allocated to capital improvements
11. An agency's projected annual capital expenditure is equal to the aggregate value of straight-line depreciation of all its vehicles plus the annual amount of funding required to replace all vehicles operating beyond their service lives within ten years. From 2020 to 2022, expenditures by TPR are increased by the amount of SB 17-267 revenue allocated to partner projects in that TPR.

These assumptions can be changed easily in the financial model underpinning these projections. Surplus and gap figures in the later years of this analysis are especially sensitive to assumptions around compounding cost inflation.

Details
Statewide Scenarios
- Scenario 1: Base Program (FASTER, FTA, and Bustang farebox revenue only)
- Scenario 2: Scenario 1 + SB 09-228, Multimodal Options Fund (MMOF) and Volkswagen Settlement Fund
- Scenario 3: Scenario 2 + Senate Bill 267 funding through 2022
- Scenario 4: Scenario 3 + $50m annual other potential state revenue through 2030
- Scenario 5: Scenario 3 + $50m annual other potential state revenue through 2045

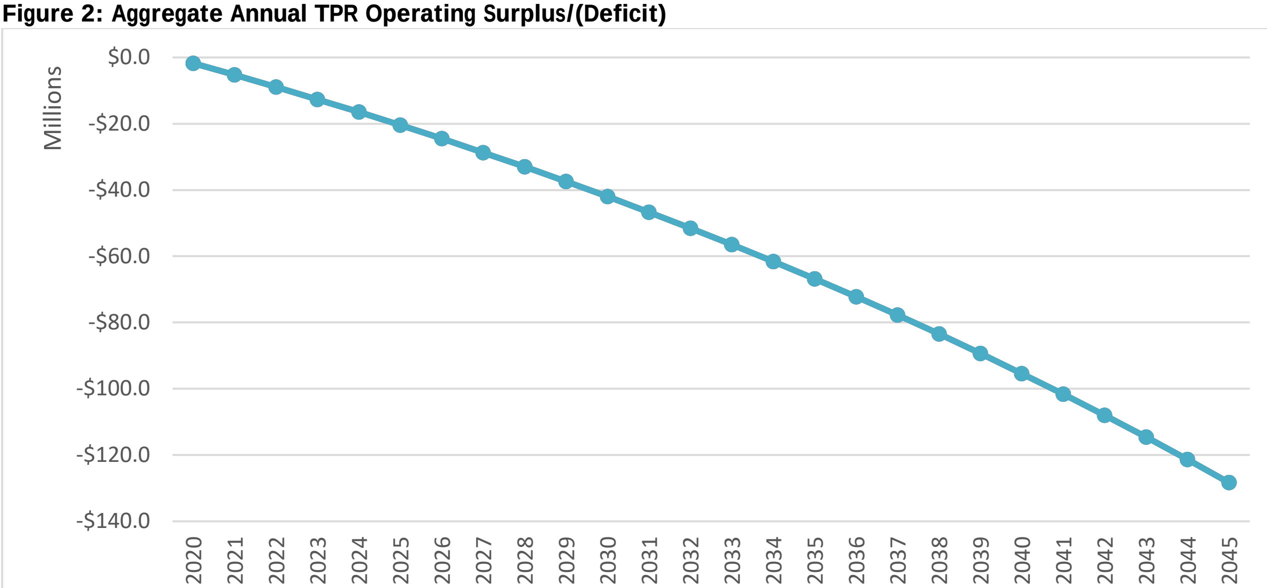
Figure 1: Statewide Aggregate Annual Transit Funding Surplus/(Gap)



In the current-law scenario (Scenario 3), Colorado is presently in deficit with respect to the amount of aggregate funding needed to maintain the level of service in prior years This outcome is the result of three years of compounding cost inflation between 2017 (the most recent year in which FTA National Transit Database data was available) and 2020. The approximately $7.0 million reduction in the statewide gap from 2029 to 2030 is caused by the final retirement of the SGR backlog, which in 2019 stood at $76.7 million statewide for non-major-urban providers.

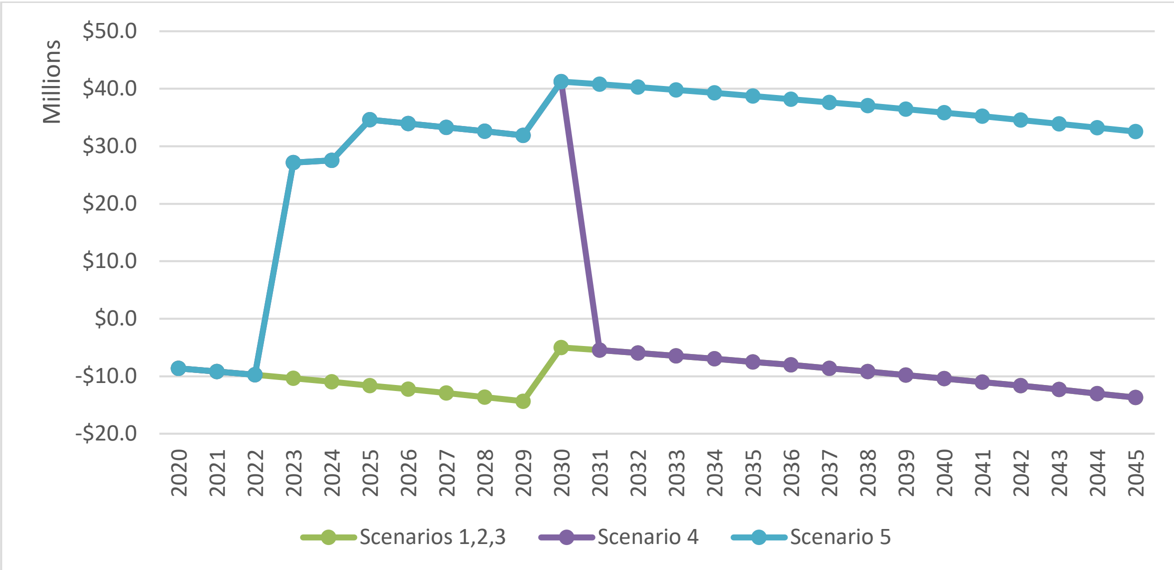
In the most optimistic scenario (Scenario 5), where the annual $50 million allocated to transit from Senate Bill 17-267 continues through 2045, the statewide transit system's finances enter a persistent and growing deficit in 2031. The general downward trend in the statewide transit system's projected fiscal position over time is due to the compounding effects of cost inflation assumptions for operations and capital.

Figure 2: Aggregate Annual TPR Operating Surplus/(Deficit)



Whereas the statewide transit system is currently breaking even from an operational perspective, cost inflation averaging 2.8% per year will erode the system's operational position over time, leading to annual deficits with respect to the current level of service on the order of $130.0 million per year by 2045. These figures are inclusive of fare revenues increasing 2.0% per year.

Figure 3: Aggregate Annual TPR Capital Surplus/Deficit



Under current law (Scenario 3), the statewide transit system's capital funding sources are more adequate than its operational funding sources, but not sufficient to cover the cost of replacing all transit vehicles at the end of their service lives. It should be noted that this analysis does not account for the cost of replacing facilities or other non-vehicle capital items over time. Therefore, it understates the full capital costs of maintaining the existing level of service over time.

Table 1: Projected Operating Deficits by TPR

TPR	Surplus/(Deficit)
Central Front Range	$ (109,100,600)
Eastern	$ (13,391,200)
Grand Valley	$ (3,713,300)
Greater Denver Area	$ (63,778,700)
Gunnison Valley	$ (152,937,900)
Intermountain	$ (983,578,500)
North Front Range	$ (5,853,000)
Northwest	$ (80,957,500)
Pikes Peak Area	$ (5,001,600)
Pueblo Area	$ (8,324,900)
San Luis Valley	$ (5,459,800)
South Central	$ (13,536,900)
Southeast	$ (9,014,500)
Southwest	$ (41,934,300)
Upper Front Range	$ (9,894,300)
All TPRs	**$(1,506,477,000)**

If the $50 million annually allocated to transit through Senate Bill 17-267 is made permanent by the General Assembly (Scenario 5), this analysis projects significant statewide capital surpluses through the forecast horizon with respect to what is needed to keep the fleet in a state of good repair. Given the large projected operational deficits (shown by TPR in **Table 1** above) this analysis suggests it may be worthwhile for policymakers to consider directly supporting operations with any future general-purpose revenue allocated to transit.

Discussion

If the $50 million annually were made available for operations instead of only to capital projects, what policies or procedures should be considered for use of these funds? Some options include:

1. **Call for Operating Projects Option.** In this scenario, agencies would submit an administration/operating application during our annual (or biannual) Call for Operating Projects. CDOT would review applications and award projects, with the award amount potentially using a funding methodology, such as our current 5311 methodology

that assigns funds based on the size of the agency, the number of trips provided, the total revenue miles and total revenue hours. If awarded, an agency may be responsible for a portion of the operating and administration costs, such as 50% of the operating costs and 20% of the administration costs, though this split could change since we are not using federal funds.

2. **Partnership Option.** In this scenario, an agency would not apply for operating funds through our Call for Operating Projects. Instead, an agency would reach out to CDOT with a project idea. CDOT would fund the project *if* the project and agency met statewide standards, such as helping to create a statewide network, agreeing to coordinate with other agencies and using appropriate software that allows for best coordination possible, ensuring all routes are GTFS-enabled, equipping vehicles with the technology that improve coordination and tracking, and using vehicles that meet CDOT's standards (such as vehicles that were acquired through CDOT's price agreement). These statewide standards are goals of our new Connecting Colorado initiative.
3. **MMOF-Style Option.** In this scenario, an agency would request operating funds through a similar process as we currently use for Multimodal Options Funds (MMOF), where an agency completes an application to be later reviewed and awarded by the TPR or MPO. A new set of goals and eligibility requirements may be set up for these funds. Current MMOF goals include projects that benefit seniors by making aging in place more feasible, better fixed route service in rural areas and improved mobility for persons with disabilities. Current eligible MMOF projects include operating costs for fixed-route or on-demand transit service, TDM programs, projects improved by new technologies, and planning studies. TPRs and MPOs would be in charge of project selection, with the Transportation Commission providing oversight of the process. Local match could be determined in a similar process to the MMOF where counties or municipalities having a specific poverty rate could be eligible for reduced or no local match requirement.
4. **Combination/New Option.** An option could be created that includes a combination of the options above, or is entirely unique.

<u>Next Steps</u>

Using the information discussed during the January 10 TRAC, Transit Planning will continue to further refine and analyze the impacts of different funding scenarios over the next 25 years that will create the best outcome for both operations and capital projects, as well as define a policy of awarding and distributing funds if operations becomes eligible for future state funds.

<u>Attachments</u>

None