

MEMORANDUM

TO: Board of Directors

FROM: Michael T. Burns, General Manager

DATE: August 20, 2008

SUBJECT: BART Operating Costs

On August 7, 2008 the VTA Board received a memo from the BayRail Alliance (BRA). In response to the memo and questions raised by Board Member Kishimoto, I have attached a technical memo from AECOM Consult, dated August 19, 2008, which supports their previous conclusion that revenue from the 1/8-cent sales tax is sufficient to cover the BART on-going costs with reserve.

I would like to highlight key points of comparison and clarification between the AECOM Consult analysis and spreadsheet provided by Bay Rail Alliance.

- Collection of additional 1/8-cent sales tax revenue dedicated to SVRT Extension operations and ongoing capital expenses is projected to begin approximately four years prior to revenue operations of the SVRT Extension. Revenue collected during this period—an estimated \$220 million—will serve as an important cushion between revenue collected from the 1/8 cent sales tax and VTA's annual obligation to BART. In addition, interest earnings on the 1/8-cent sales tax fund balance contribute significantly to the projected 2036 closing cash balance. The BRA numbers do not reflect this.
- To the extent that the proposed 1/8-cent sales tax does not equal the amount that VTA is obligated to advance to BART on a quarterly basis, VTA will draw from the reserve that will accrue between the institution of the sales tax and commencement of SVRT operations.
- The BRA spreadsheet assumes that all excess revenues would accrue to BART. This would not be the case and it ignores a key point of the agreement that VTA and BART must agree on funds in excess of capital contingency needs. The AECOM Consult analysis assumes levels of capital contingency that would be expected for a brand new system, which VTA is providing on the extension. The SVRT Extension capital program is structured to provide sufficient capital facilities on opening day through the 2030 design year.

- Therefore, additional investment in capital infrastructure (including vehicles, shop capacity, and automatic fare collection equipment) beyond the maximum annual capital reserve contribution of 30% will unlikely be necessary to serve projected ridership. The allocation of the capital reserve funds to capital projects will require agreement between VTA and BART on the annual capital improvement program for the SVRT Extension.
- In addition to revenue from the proposed 1/8-cent sales tax and SVRT farebox revenue, there are additional sources included in full flow of funds between VTA and BART. Operating revenues include parking and advertising revenues. Capital sources of funds include federal transit grants from the Section 5309 Fixed Guideway Modernization and Section 5307 Urbanized Area Formula programs. These funds provide further opportunities for covering operating, maintenance and capital contingency increases. See the attachment for details.

AECOM Consult has successfully provided financial analysis for transit agencies with similar projects and for projects that have successfully received New Starts funding. AECOM Consult has supported FTA in establishing professional standards for financial planning. Their work is based on years of experience in performing cost analysis on major transportation projects throughout the country.

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Memorandum

Date: August 19, 2008
To: Carolyn Gonot, VTA
From: Nathan Macek, AECOM Consult
Subject: Response to BayRail Alliance Memo to VTA Board Regarding Proposed 1/8-cent Sales Tax Increase

This memorandum is written in response to the BayRail Alliance August 7, 2008 "Memo to the VTA Board regarding the proposed 1/8-cent tax increase."

According to the BayRail Alliance, revenue from a new 1/8-cent sales tax will be insufficient to fund VTA's annual subsidy payment to BART. The BayRail Alliance analysis focuses on the mechanism by which VTA makes routine payments to BART, \$12 million per quarter in FY02 dollars, growing annually on the basis of Santa Clara County sales tax receipts. The BayRail Alliance memo states, "BART will only remit funds back to VTA if the mandatory payment and passengers can completely cover the operating cost plus the 30 percent maximum capital reserve contribution. For the first 15 years, BART can keep the excess revenue beyond the maximum 30 percent capital contribution unless both parties agree that VTA has contributed enough to support BART's infrastructure. In simple terms, there cannot be surpluses for VTA resulting from the proposed 1/8-cent sales tax."

This statement overlooks an important caveat. Section IV.F.5 of Comprehensive Agreement states that "during the first 15 years of SVRT Extension Operation, VTA will not receive revenues in excess of the required maximum 30 percent capital reserve fund allocation unless mutually agreed levels of revenue vehicles, shop capacity, and AFC [automatic fare collection] equipment have been provided by VTA to support actual and projected ridership levels for the next five year period." Therefore, upon mutual agreement between BART and VTA, funds in excess of the maximum 30 percent capital reserve fund contribution may be remitted to VTA. The proposed SVRT Extension capital program is structured to provide sufficient capital facilities on opening day and through the 2030 design year. Therefore, additional investment in capital infrastructure (including vehicles, shop capacity, and AFC equipment) will likely be unnecessary to meet projected ridership. Ongoing negotiation between BART and VTA regarding the annual scope of the SVRT Extension capital program will be essential, as these projections will determine the extent to which excess capital revenues may be remitted to VTA.

The BART Operating Subsidy analysis prepared by AECOM Consult demonstrates that if the 1/8-cent sales tax is in place VTA would be able to fund its payment obligations to BART for the SVRT Extension, including direct and fixed indirect operating and maintenance (O&M) costs and the capital reserve contribution. Per the terms of the agreement, VTA will be credited for farebox revenue, other operating revenues (including parking and advertising revenue attributable to the SVRT Extension) and federal transit formula funds. This flow of funds may be summarized as follows:

- VTA makes a payment to BART equal to approximately 31 percent of 2000 Measure A 1/2-cent sales tax revenue;
- From this payment, the SVRT Extension O&M costs, including direct and fixed O&M costs, are funded;
- VTA is credited with operating revenues the SVRT Extension generates, including fare revenue, advertising income, and parking income.
- The difference between VTA's payment to BART plus SVRT operating revenues credited to VTA and SVRT Extension O&M costs is applied as SVRT capital sources of funds.
- In addition, federal transit formula funds are applied as SVRT capital sources of funds.

- Capital sources of funds fund a capital reserve contribution. Capital sources of funds equaling up to 30 percent of SVRT Extension O&M costs are credited to a Capital Reserve Fund. Capital sources of funds in excess of 30 percent of SVRT Extension O&M costs are either credited to an Excess Capital Reserve Fund or refunded to VTA's SVRT Operating Tax Fund.

When all sources and uses of funds are applied, the revenue projected from VTA's proposed 1/8-cent sales tax measure would be sufficient for VTA to meet its quarterly tax payment obligations to BART, providing full funding of SVRT Extension O&M costs and capital reserve fund requirements.

Furthermore, collection of the additional 1/8-cent sales tax revenue is projected to begin approximately four years prior to revenue operation of the SVRT Extension. Revenue collected during this period—an estimated \$220 million—will serve as an important cushion between revenue collected from the 1/8-cent sales tax and VTA's annual obligation to BART. In addition, interest earnings on the 1/8-cent sales tax fund balance contribute significantly to the projected 2036 closing cash balance. Furthermore, it should be noted that according to the ballot language approved by the VTA Board of Directors at its August 7, 2008 meeting, the projected 1/8-cent sales tax fund cash balance must be fully applied to O&M and ongoing capital costs associated with the SVRT Extension project and may not be diverted to fund other purposes.

Summary of Other SVRT BART Extension Project Revenues

VTA may receive additional revenue from other sources, including concession, fiber optic and advertising revenue; and parking revenues from parking fees and parking fines. In addition, federal transit formula grants, including Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization funds, that VTA receives because of the operation of the SVRT BART Extension in Santa Clara County could be allocated to and used to meet VTA's financial responsibilities for ongoing capital costs.

Other Potential Operating Revenue Sources

An estimation of two revenue sources that could be used for operations of the BART extension, advertising and parking, are described below.

- **Advertising Revenue:** Advertising revenue is calculated on the basis of incremental SVRT riders, multiplied by BART's FY08 budgeted advertising revenue per passenger (per BART's FY08 Short-Range Transportation).
- **Parking Revenue:** Parking revenue is calculated on the basis of planned SVRT parking spaces, with an opening day figure of 5,000, growing by 500 spaces annually from 2021 to 2030, and holding steady at 10,000 spaces from 2030 onward. Revenue from parking spaces is annualized at 280 days annually. The average revenue per space per day is assumed to equal \$3.00, which is escalated by projected CPI.

Other Capital Revenue Source - Federal Transit Formula Grant Program

For on-going capital costs, VTA may use the federal transit formula program grants, including Section 5307 Urbanized Area Formula Funds and Section 5309 Fixed Guideway Modernization funds. Federal transit formula grant revenue is awarded on the basis of SVRT incremental annual revenue vehicle miles and incremental directional route miles. Congress may amend these programs at any point in the future as part of a future authorization of federal surface transportation policy. Currently, these funds are distributed through Metropolitan Transportation Commission (MTC).

The revenue sources are summarized in the attached table by year of receipt.

Summary of Other BART Extension Project Revenues
(millions of \$)

Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Potential Operating Revenues										
Advertising Revenue	\$ 0.88	\$ 0.94	\$ 1.01	\$ 1.07	\$ 1.13	\$ 1.21	\$ 1.27	\$ 1.34	\$ 1.42	\$ 1.49
Parking Revenue from SVRT stations	\$ 5.68	\$ 5.84	\$ 6.05	\$ 6.20	\$ 7.01	\$ 7.91	\$ 8.76	\$ 9.66	\$ 10.68	\$ 11.61
Federal Formula Programs - Capital										
Federal Section 5307 Program Grants (see note)	\$ 8.63	\$ 9.30	\$ 10.02	\$ 10.79	\$ 11.61	\$ 12.48	\$ 13.42	\$ 14.42	\$ 15.49	\$ 16.63
Federal Section 5309 Program Grants (see note)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14.33	\$ 15.27	\$ 16.28

Year	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Potential Operating Revenues										
Advertising Revenue	\$ 1.57	\$ 1.66	\$ 1.75	\$ 1.83	\$ 1.92	\$ 2.01	\$ 2.10	\$ 2.20	\$ 2.27	\$ 2.36
Parking Revenue from SVRT stations	\$ 12.67	\$ 13.80	\$ 14.94	\$ 16.05	\$ 16.51	\$ 16.83	\$ 17.22	\$ 17.64	\$ 17.76	\$ 18.08
Federal Formula Programs - Capital										
Federal Section 5307 Program Grants (see note)	\$ 17.84	\$ 19.13	\$ 20.52	\$ 21.99	\$ 23.56	\$ 25.23	\$ 27.02	\$ 28.91	\$ 30.94	\$ 33.09
Federal Section 5309 Program Grants (see note)	\$ 17.35	\$ 18.48	\$ 19.69	\$ 20.97	\$ 22.33	\$ 23.77	\$ 25.30	\$ 26.93	\$ 28.66	\$ 30.49

Note: The Federal Section 5307 and 5309 Program Grants are for capital projects only. Within the Bay Area, the Metropolitan Transportation Commission restricts the funds to capital projects related to maintenance and rehabilitation.