# Chapter 5
# Financial Considerations

## Section 5.1 Introduction

This chapter describes the financial assumptions of the proposed alternatives, including the capital, operating, and maintenance costs; the financial feasibility; and local financial commitment.

FTA is approving the circulation of this Supplemental Draft EIS with a preliminary financial plan, in recognition of the project's inclusion in the adopted *2009 Regional Transportation Plan for the San Francisco Bay Area*, and as support for the public dialogue on the project and its financial plan. Financial plans indicate that the Light Rail Alternative will need additional revenue in order to be constructed and operated in the time frame described. The financial plan described in the Supplemental Draft EIS is based on financial projections and governmental actions that are not yet finalized. A feasible financial plan will need to be prepared to advance the project into a federally approved Transportation Improvement Plan.

## Section 5.2 Cost Summary

The estimated capital, operating, and maintenance costs associated with the Light Rail Alternative are summarized below. The estimates are based on the latest local unit cost information available for the types of construction and procurement items. These costs are inclusive of engineering, contingencies, and reserves.

### Capital Costs

The estimated capital costs for the Light Rail Alternative are $272 million in 2009 dollars and are not escalated to represent year-of-expenditure dollars. The design option that does not include an Ocala Station results in a cost savings of $5 million. Capital costs consist of costs for trackway and structures, stations and park-and-ride lots, systems (electrification, communications, automatic train control equipment), and construction management. It also includes contingency or add-on costs to address project changes during construction.

### Operating and Maintenance Costs

The estimated operating and maintenance costs of the proposed alternatives for 2018 are shown in Table 5-1 and Table 5-2. These costs are based on the service and fleet assumptions described in Chapter 2, *Alternatives Analysis*, and were prepared using VTA's operating and maintenance cost model. The model uses systemwide operating statistics for each mode operated by VTA.

**Table 5-1. Estimated Annual Operating and Maintenance Costs of the Proposed Alternatives for 2018 (Year of Expenditure Dollars)**

| Alternative | Operating and Maintenance Costs | Incremental Costs vs. No-Build |
|---|---|---|
| No-Build Alternative | $399,730,000 | -- |
| Light Rail Alternative | $402,790,000 | $3,050,000 |
| Source: AECOM 2010. | | |

**Table 5-2. Estimated Annual Operating and Maintenance Costs of the Proposed Alternatives for 2018 (Base Dollars)**

| Alternative | Operating and Maintenance Costs | Incremental Costs vs. No-Build |
|---|---|---|
| No-Build Alternative | $316,160,000 | -- |
| Light Rail Alternative | $318,580,000 | $2,410,000 |
| Source: AECOM 2010. | | |

The No-Build Alternative includes light rail in the Santa Teresa to Alum Rock, Almaden, and Winchester to Mountain View corridors, and bus services. For the Light Rail Alternative, the annual operating and maintenance costs are projected to increase by $3,050,000 in year of expenditure dollars and $2,410,000 in base year dollars compared to the No-Build Alternative. Additional revenues will be needed to fund the increase in annual operating and maintenance costs.

## Section 5.3 Financial Feasibility and Local Financial Commitment

The Light Rail Alternative is estimated to cost $272 million to construct. The $272 million needed to fund the Light Rail Alternative may come from local, state, federal, and other sources. The Supplemental Draft EIS is being prepared so the Light Rail Alternative would be eligible to receive federal funds (e.g. FTA formula funds).

Although not currently included in the funding plan, these federal funds could be programmed in the future to address funding shortfalls or desired project augmentation.

## Measure A 0.5-Cent Sales Tax

On November 7, 2000, voters in Santa Clara County approved a 30-year 0.5-cent sales tax for transit purposes. The 2000 Measure A tax took effect on April 1, 2006, and provides funding for capital and operating expenditures. The sales tax measure specified the allocation of the funds to various projects, including Downtown/East Valley. The Preferred Investment Strategy for Downtown/East Valley includes three separate corridors: Santa Clara/Alum Rock, Capitol Expressway, and BRT on Monterey Highway. The Measure A funds for Downtown/East Valley may be used for all three corridors.

## Existing Systemwide Funding Sources

An analysis of VTA's financial capacity to build, operate, and maintain the Light Rail Alternative, while continuing to operate and maintain the existing bus, light rail, and paratransit service over the next 20 years, indicates that there is a structural deficit that needs to be addressed to improve VTA's long-term financial stability. This analysis is based on a series of assumptions relative to existing systemwide funding sources, including sales tax revenues, passenger fares, and federal Section 5307 formula funds, and is documented in the Short Range Transit Plan, adopted in February 2010 (Santa Clara Valley Transportation Authority 2010).

## Funding Issues

The financial plan for construction and operation of the Light Rail Alternative is based on a number of assumptions about future conditions. Although the best efforts are made to forecast the future and to be conservative, under certain circumstances actual conditions could differ from forecasts. The following describes several risks to the Light Rail Alternative, including the financing plan, that could increase costs and/or decrease funding and thereby require corrective actions by VTA in order to ensure construction and operation of a light rail extension.

- **Variability in Sales Tax Revenues.** VTA is heavily reliant on local sales tax revenues for both the implementation of capital projects and the operation of its transit services. Historically, sales tax-based revenues accounted for approximately 80 percent of VTA's annual operating revenues, making it the single most important determinant of VTA's financial strength. Historically, sales tax revenues have enjoyed healthy and steady growth, even through the recession of the early 1990s. Growth, however, was substantially reduced during the economic downturn in Santa Clara County during the early 2000s when many high technology and internet related businesses experienced declining revenues. Even accounting for that recession, the average annual growth rate in the county's permanent ½ -cent sales tax was strong over the period from 1978 through

2007—approximately 5.9 percent. The current recession has again depressed local economic activity and reduced sales tax receipts. The full effects of the recession have not yet been ascertained.

Future sales tax revenue forecasts do not anticipate that pre 2008 high annual rates of growth will continue. For the permanent ½ -cent tax and Measure A ½ -cent sales tax, the projected average annual growth rate from 2009 to 2038 is just over 1.9 percent. Despite the more conservative projections compared to historic growth, it is possible sales tax revenue growth will not reach these levels. The current economic downturn has reduced sales tax revenue in 2008 and 2009 to below expected levels, and 2010 could be another low or no-growth year. An extended recession—and unexpected future downturns—could leave VTA with shortfalls in funding for capital projects and operations, and require either further cutbacks in programmed levels of expenditures or replacement of sales tax revenues by another source of funding.

- **Lower Ridership/Lower Fare Revenues**. Lower operating revenues from passenger fares could result from either VTA not escalating fares to keep pace with inflation or slower than anticipated ridership growth. Currently fares offset about 14 – 15 percent of VTA's operating costs. It is projected that fares will offset about 30 percent of VTA's future operating costs for bus and rail service. The risk is that VTA Operations might need to be curtailed in order to bring operating revenues more in line with operating costs.
- **Higher than Anticipated Capital Program Costs**. Higher than estimated costs, not just for the Light Rail Alternative but also for other VTA transit capital programs, could place the agency's financial plan at risk. Market conditions could change from those assumed in cost estimates and programming documents and result in construction costs escalating faster than revenues. VTA will need to either reduce costs, possibly by cutting back programs, or augment revenues through new sources of funding for transit.
- **Excessive Schedule Delays.** Construction costs for a project could escalate over time and therefore be higher for a project completed beyond the current schedule. The resulting increase in the capital costs of a project will need to be offset by additional revenues, or a reduction in the project scope.
- **Loss or Shortfalls in Other Funding Sources.** In the event the Capitol Expressway Corridor project is not awarded federal funding, the financial plan for the project will be adversely affected. Alternate sources of funding, possibly from local, regional, or state initiatives, will need to be secured to carry out a light rail alternative and/or other VTA projects.

## Potential New Funding Sources

To address the long-term projections for operational funding needs and resources, VTA will need additional operating revenues. Several potential funding sources have been identified. However, before pursuing some of them, selected legislative actions may be needed to help make them a reality. Potential sources for these new revenues, which could be considered by the VTA Board, include the following:

- **Extending the Local Sales Tax.** VTA's Measure A sales tax for transit capital expansion projects is currently scheduled to sunset on April 1, 2036. With voter approval, this tax could be extended beyond the 2036 sunset date to provide additional funds for transit expansion programs, including CELR. Funds enabled beyond April 1, 2036 could be borrowed against to provide accelerated funding for capital programs.
- **HOT Lanes Revenues.** Currently, VTA and Caltrans are in the process of implementing High Occupancy Toll (HOT) lanes on SR-85 and U.S. Highway 101 in Santa Clara County. This new revenue source for VTA is being developed as part of a regional initiative led by the Metropolitan Transportation Commission to construct and operate toll facilities throughout the San Francisco Bay Area. Any proceeds not applied to cover the operations and maintenance and debt service costs for the HOT facilities may be applied to provide transit services in adjacent corridors. VTA anticipates the application of a portion of these revenues to provide eligible transit services in the County.
- **Broadening the Sales Tax Base.** The California state legislature has explored a number of options for increasing revenues, one of which is broadening the sales tax base to include certain professional services. The prospects for legislative action in the near-term do not appear promising, given the controversial nature of this approach. However, given that an increasingly higher percentage of personal income is being spent on non-taxable transactions, the concept of broadening the sales tax base will continue to be a part of political discussions. Broadening the sales tax base would require a $^2/_3$-vote of both houses of the legislature.
- **Joint Development.** VTA has statutory authority to pursue joint development in conjunction with transportation projects under Assembly Bill No. 1937. There may be opportunities for joint development at some of the light rail stations, which could yield both capital funding and on-going operational support.
- **Benefit Assessment Districts.** On October 11, 2003, the Governor signed legislation (Assembly Bill No. 935) that gives VTA the authority to assess fees on property owners within a half-mile of any existing or proposed rail transit station. With the concurrence of a majority of the affected property owners and the appropriate local jurisdiction, the proceeds generated from such assessments could be used to build, maintain, operate, and improve a rail transit station or stations located within a particular benefit assessment district.
- **Proposition 42.** This proposition provided a new state source of transportation funding, including supplemental State Transportation Improvement Program funds beginning in 2009. Since these funds are not currently committed, it is assumed that a portion could be used to supplement the Measure A sales tax.
- **Regional Gas Tax.** The MTC is empowered to place a regional gas tax on the ballot of up to $0.10 per gallon. Such a tax measure, as the law currently stands, requires a $^2/_3$-vote to pass.

This page intentionally left blank.