



DATE: February 13, 2015 (Revised February 18, 2015)
TO: TAC Funding & Programming Committee
FROM: Carl Ohrn
SUBJECT: Regional Solicitation Funding Level Adjustments

I. Introduction:

The regional solicitation process is now at the point where specific funding levels need to be established. This step in the process clarifies the level of federal funds by program that will be available in 2017, 2018 and 2019. While the money will not be allocated based on funding programs, the funding levels need to be established using the program categories. TAB has decided that project selection will be based on three modal categories: roadways, including multi-modal elements, bicycle and pedestrian facilities, and transit and TDM. Once the projects are selected, the appropriate funding source will be assigned to each project. The level of funds used is consistent with FY 2016-2019 STIP Guidance recorded in a January 30, 2015 memo from Mark Gieseke, Director, MnDOT's Office of Transportation System Management.

II. History:

The "authorized" funding level set by Congress has to be adjusted for two reasons: adjust to "obligation limits" and account for inflation. Similar adjustments have been made to past solicitations and taken through the TAC process for TAB consideration. The approximate level of funds available was reported to potential applicants when the Regional Solicitation was sent out to give some idea of how likely a project might be funded.

While MAP 21 has been extended by Congress, no federal funds are available for the years of the solicitation. This is the same situation the region has faced many times as it solicited for future year funds. Unless the solicitation proceeds on the belief there will be funds available, projects will not be ready to be implemented.

III. Process:

Recorded below are the two adjustments that need to be made to determine the appropriate solicitation amounts by year.

1. Obligation Level. While Congress “authorizes” a certain level of funding the federal government does not deliver these amounts. In the past, the “obligation” level has ranged from 80% to 90%. Based on recent experience, MnDOT recommends the region assumes 90% of the authorization level be used (see attached table). All of the funding categories have been reduced by 10% in Table 1 other than the 2017 STP funds, since they have been previously adjusted to the obligation level. The 2018/2019 Regional Solicitation funds have an authorization level of \$174.14 million and an obligation of \$156.72 million.
2. Inflation. The second adjustment that has been made in past solicitations is to adjust the funds to account for inflation. Given that project applications are submitted four or five years before contracts are let, the TAB increases the allocated federal funds for selected projects to account for inflation.

MnDOT’s Office of Project Management and Technical Support tracks historic and forecasted inflation rates. The forecasted rate MnDOT suggests for 2015 is 5%, for 2016, 2017, 2018 it is 4%, and for 2019 it is 3%. Given the project applications were prepared in 2014 in current dollars, increases in inflation would occur for 2015 to 2017, 2018, and for 2019. For a project with a program year of 2018 using MnDOT’s forecasts, the total inflation would be 17%, for 2019 program year it would be 20%.

In the past, the F&PC considered the forecasted levels provided by MnDOT but usually set the inflation levels lower. The committee did not accept the full amount of forecasted inflation for two reasons; 1) the fact that these were forecasts; and 2) the result of using high inflation levels reduced the number of projects that might be selected.

When the 2017 TAP Solicitation was issued, a 4% inflation factor was approved. When the TAC considered the process to allocate 2017 CMAQ funds, they chose not to make any adjustment for inflation.

Assuming the F&PC will be called on to make the initial recommendation on inflation levels as it has done in the past, staff is bringing this memo to the committee to help make that recommendation. Staff has made the adjustments shown on the attached table using a 4% inflation for the 2017 funds and an annual inflation rate of 2% per year for each additional year. The Federal Reserve’s present “target” for inflation is 2%. This would mean a 2018 project federal request would be increased by 6% and for 2019 by 8%. As a comparison, the 2011 solicitation increased the federal request for 2015 and 2016 by 9% and 11% respectively.

Once the recommended projects are selected and the program years are determined the “capped” federal funding levels will be set given the increases of 4%, 6% or 8%.

The past practice has been to add inflation only for construction projects. The capital costs of buses used in applications are inflated to year of purchase by the applicant. This is done based on either long term purchase agreements for buses or by the bus manufacturer that adds an inflation factor for each year into the future.

Transit operations are made up of salaries for the most part and the increases were not assumed as significant so they were not inflated. In addition, salary increases, in many

cases, are set in contracts. So inflating project estimates for transit operations was not felt necessary.

Construction has not been included in many transit expansion projects in the past other than park-and-ride facilities. Recently, highway and arterial BRT projects have become more common and involve construction and equipment purchases. Staff is suggesting that if these construction and equipment costs are broken out in the applications, the costs will be inflated. Transportation System Management projects will be similarly treated, construction and equipment costs will be inflated.

Funds need to be set aside for TMOs and TDM in 2018 and 2019. Since a large portion of TMO's and TDM expenditures are made up of salaries, this funding level should not be inflated.

IV. Funding Levels Assumed by Source:

The attached table records by year the funds the region can expect and the level of funds to be allocated by these various programs. Since projects will be submitted and ranked given the modal categories, these program funding levels will only be used internally.

V. Funding Ranges by Modal Categories

Table 2 records the 2018/2019 range of funds that might be allocated for each of the three modal categories using the historic funding ranges as adopted by the TAB.

TABLE 1
Revenue Source Adjustments (in millions) *

Funding Program	Authorization Levels	Obligation Level (90%)	Adjustment for Inflation – 4% for 2017, 6% for 2018, 8% for 2019
STP UG			
2017	\$ ---	\$ 17.95**	\$ 17.23
2018	\$ 49.8	\$ 44.82	\$ 42.13
2019	\$ 47.2	\$ 42.48	\$ 39.1
CMAQ			
2017	\$ 5.0	\$ 4.5	\$ 4.32
2018	\$ 30.7	\$ 27.63	\$ 25.97
2019	\$ 30.7	\$ 27.63	\$ 25.42
TAP			
2018	\$ 7.87	\$ 7.08	\$ 6.65
2019	\$ 7.87	\$ 7.08	\$ 6.51
2018/2019 Reg. Sol. Totals	\$ 174.14	\$ 156.72	\$ 145.78
Highway HSIP			
2017	\$ 9.22	\$ 8.3	\$ 7.64
2018	\$ 9.22	\$ 8.3	\$ 7.47

* Highway HSIP funds are not allocated through the Regional Solicitation process but are included so adjustments for inflation are made consistently with MnDOT's process.

** This is the 2017 STP obligation level as of November 2014 based on projects dropped or moved in the program and is subject to change.

TABLE 2
2018-2019 Modal Funding Levels *

	Roadways Including Multimodal Elements	Transit and TDM Projects	Bicycle and Pedestrian Facilities	Total
Modal Funding Levels	Range of 48%-68% of Funds	Range of 22%-32% of Funds	Range of 10%-20% of Funds	100%
	Range of \$69.97-\$99.13 M	Range of \$32.07-\$46.65 M	Range of \$14.58-\$29.16 M	\$145.78 M

* 2017 STP and CMAQ funds are not included in the 2018-2019 Modal Funding levels. The TAB selected projects for 2017 Transit/CMAQ and TAP funding previously and determined the 2017 STP and System Management/CMAQ funds would be allocated to roadway as part of the 2018/2019 Regional Solicitation but not included in the 2018/2019 Modal Funding levels.

Highway HSIP funds are not included in these calculations.