

Transportation Advisory Board
of the Metropolitan Council of the Twin Cities

ACTION TRANSMITTAL No. 2016-58

DATE: November 17, 2016
TO: TAC Funding and Programming Committee
 Steve Peterson, Manager of Highway Planning and TAB/TAC Process
PREPARED BY: (651-602-1819)
 Joe Barbeau, Senior Planner (651-602-1705)
SUBJECT: Regional Solicitation Inflation Adjustment
REQUESTED ACTION: Recommend an inflation adjustment, if needed, for Regional Solicitation projects
RECOMMENDED MOTION: That TAC Funding & Programming Committee recommend to TAC an inflation adjustment, if needed, for Regional Solicitation projects

BACKGROUND AND PURPOSE OF ACTION: As part of the Regional Solicitation process, TAB must determine whether an inflation adjustment should be added to project awards. When applicants apply to the Regional Solicitation, the cost estimates are prepared in current year dollars (2016). However, projects are programmed for 2017, 2018, 2019, 2020, and 2021. For the 2014 Regional Solicitation, TAB approved a 2% annual inflation factor so that projects programmed for 2017 received an additional 4%, 2018 projects received an additional 6%, and 2019 projects received an additional 8%.

For other recent TAB actions such as the 2014 CMAQ solicitation or the July 2016 funding reallocation, no inflation was given to the projects.

The following table displays the amount of funding available for distribution through the 2016 Regional Solicitation by year.

Regional Solicitation Funds Available for 2017-2021*

Source of Regional Solicitation Funds	2018	2019	2020	2021	Total
FAST Act Funding			\$89,387,700	\$89,387,700	
Remaining 2018/2019 Funds After July 2016 Reallocation	\$12,743,948	\$6,871,033			
Trail Projects (Withdrawal and Scope Change)	\$404,720				
Transit Project Close Out Under Budget**	\$353,855				
Hennepin County Trail Scope Change Reduction***	\$2,119,000				
Totals	\$15,621,523	\$6,871,033	\$89,387,700	\$89,387,700	\$201,267,965

*There is also \$1.2M for Innovative Travel Demand Management (TDM) projects that is available in 2018/2019 that was set aside by TAB in the 2014 Regional Solicitation for this purpose.

**There is some flexibility in the program year for these transit funds.

***Funds officially available by the end of 2016

STAFF ANALYSIS: Staff has analyzed two separate approaches that are described below:

Option 1: Do not adjust project awards for inflation

While inflation has been added to selected projects in the past, a different approach may be warranted for this Regional Solicitation. More projects were submitted for the 2016 Regional Solicitation and the average amount requested by each project increased compared to the 2014 Regional Solicitation. The combination of these two factors may result in a higher number of projects not being awarded funding. This impact will be most strongly felt in the Roadways and Transit modal areas because of an increase in the number of applications received (e.g., an increase of Roadway Modernization projects from 21 to 35 and an increase in Transit Modernization projects from 1 to 13).

An analysis of the 2014 Regional Solicitation was completed to determine the effect on the number of projects selected if no inflation adjustment had been provided and those extra funds were used to fund additional projects within that same mode. The total inflation given to projects in the 2014 Regional Solicitation was approximately \$12 million. If the inflation from each project would have remained in its same mode, five additional projects could have been funded (two bridge projects, one transit project, and two bike/pedestrian projects).

For the 2016 Regional Solicitation, Option 2 (2% inflation/year) would result in a net loss of approximately \$15 million of additional projects compared to Option 1 (0% inflation). Based on TAB's modal ranges, Option 2 would result in a loss of approximately one to two roadway projects (\$9 million), one transit project (\$4 million), and one to two bike/pedestrian projects (\$2 million).

As a parallel to another funding program, the ongoing Highway Safety Improvement Program (HSIP), whose projects will be approved in January 2017, determined that they would not give an inflation increase to selected projects. This decision was made because of the high demand for HSIP funds and the desire to fund a higher number of vitally important safety projects.

Option 2: Apply an 8% inflation adjustment for 2020 projects and a 10% inflation adjustment for 2021 projects

MnDOT's Office of Project Management and Technical Support tracks historic and forecasted inflation rates. MnDOT suggests for 2% inflation for 2017, 7% inflation for 2018 and 2019, 6% for 2020, and 5% for 2021. Given the project applications were prepared in 2016 dollars, increases in inflation would occur from 2016 to 2021, depending on the assigned program year. Using MnDOT's forecasts, a project with a program year of 2020 would get 22% inflation, a project in 2021 program year would get 27%.

In the past, the TAB considered the forecasted levels provided by MnDOT, but usually sets the inflation levels lower for two reasons: 1) the fact that these were forecasts; and 2) use of high inflation levels reduced the number of projects that might be selected.

A more reasonable approach would be to use the Federal Reserve's present "target" for inflation, 2% per year. Using this rate would result in project awards being increased by 8% for 2020 and 10% by 2021. The large majority of the Regional Solicitation funds are for 2020 and 2021. Given the limited funding available for earlier years, no inflation would be recommended for projects in 2017, 2018, or 2019, if Option 2 were selected. It should be noted that adding inflation adjustment to projects will reduce the total number of projects selected.

RELATIONSHIP TO REGIONAL POLICY: The Regional Solicitation is a key responsibility of the TAB. The Regional Solicitation is part of the Metropolitan Council's federally required continuing, comprehensive and cooperative transportation planning process for the Twin Cities Metropolitan Area.

ROUTING

TO	ACTION REQUESTED	DATE COMPLETED
TAC Funding & Programming Committee	Review & Recommend	
Technical Advisory Committee	Review & Recommend	
Transportation Advisory Board	Review & Adopt	
