Chapter 6: Financial Plan

This chapter describes the local financial commitment of the Utah Transit Authority (UTA) to the Provo-Orem Bus Rapid Transit Project, and discusses the financial planning process used in the analysis to determine that commitment. This chapter presents the assumptions regarding sources and uses of funds, and it concludes with a discussion of the risks and uncertainties that could affect the financial performance of the project.

This financial plan is focused on the capital and operating costs for the transit portion of the Phase I Provo-Orem Bus Rapid Transit Project. The capital cost of the Phase I project is estimated at approximately $161 million in 2010 dollars. Of that, approximately $141 million is for rapid transit improvements and $20 million is for roadway improvements associated with general purpose travel lanes. The Utah Department of Transportation (UDOT) has agreed to fund the Phase I roadway improvements. UTA and UDOT have agreed to share the costs of the Phase II improvements. The Phase I and Phase II improvements are included in the fiscally constrained Long Range Transportation Plan. UDOT has programmed $4 million for the Phase I roadway improvements in the Statewide Transportation Improvement Plan.

UTA intends to request Section 5309 Small Starts funding from the Federal Transit Administration (FTA) for the Provo-Orem Bus Rapid Transit Project (Phase I transit portion). UTA is seeking $75 million from the Small Starts program, which is the full amount for which the project is eligible. UTA is working with the cities to identify the local funding match.

UTA's current capital program includes five major transit projects committed to as part of sales tax measures passed in Salt Lake County (Proposition 3) and Utah County (Opinion Question) in November 2006. This program is referred to as the FrontLines 2015 Program and includes the following transit projects:

- Mid-Jordan Light Rail Transit (LRT)
- West Valley LRT
- Utah County Commuter Rail
- Airport LRT
- Draper Transit Corridor project

All of the projects listed above are funded and under construction with the exception of the Draper project. The Draper project intends to request funding under the 5309 New Starts program.

6.1 FINANCIAL PLANNING PROCESS AND STRUCTURE

The first objective of the financial analysis was to estimate capital costs and project annual operating expenses and revenues from a base year to the design year. The analysis of the sources and uses of funds is conducted to determine whether there are funding shortfalls in either capital or operating budgets for the project. This information is necessary to establish that enough financial resources are available for each year of the planning horizon. This planning horizon period was 20 years, from 2010 to 2030.

The major elements of the financial analysis are:

- Sources of funds including farebox receipts, sales tax receipts, and federal sources
- Capital costs
- Operation and Maintenance (O&M) costs
- Risk associated with revenue and cost estimates

The calculation of costs and revenues depends on assumptions related to construction scheduling and phasing and the rate of growth in transit service expansion. This analysis is conducted in Year of Expenditure (YOE) dollars (current or inflated dollars) so debt financing can be accounted for.

6.2 SOURCES OF FUNDS

This chapter describes the baseline revenues available to UTA over the 2010–2030 period for planning, design, construction, and O&M and the assumptions used in the cash-flow model and analysis. UTA receives revenues from a number of federal, state, and local sources. These include revenues that are unrestricted as to their use, revenues that are restricted to O&M, and revenues that are restricted to use for capital projects. UTA typically commits its unrestricted revenues and its revenues restricted to O&M to cover its ongoing operating costs in advance of other expenditures. Any revenues beyond those needed for O&M are considered net revenues available for debt service and capital and are used for those purposes.

6.2.1 Sources of Revenues for O&M

The ongoing O&M costs of the UTA system and for future expansion projects are paid from revenues from the sources described in this section.

Bus and Rail Fares

Unrestricted operating revenues are derived from farebox receipts. Currently, UTA covers about 20 percent of its annual operating expenses from farebox receipts. Passenger fares contributed about $35.4 million to UTA's operating revenues in 2010, while operating expenses were $173.8 million. The amount was up from $33.5 million in 2009 and more than twice the farebox revenue received 10 years earlier. The projected revenue for passenger fares in 2011is $37.3 million, which is an increase of 5.4 percent over 2010. The increase in farebox revenue is due in large part to the large increase in additional service, boardings during the preceding 10 years and fare increases and fuel surcharges passed in 2008.

Over the 10-year period, the revenue per boarding also increased from $0.53 to $0.97. By 2030, the farebox revenue is projected to be $154.1 million. Average fare per boarding in 2030 for this scenario is $2.00. UTA's fare policy has been to move to a higher farebox recovery rate for both the bus and rail systems over time, and UTA continues to increase fares to cover both operating cost increases and to increase the percentage of operating cost supported by fare revenue.

Projections of farebox revenues are made by projecting the increase in fare per boarding and the growth in passenger boardings. Projections of passenger boardings are derived from the travel demand forecasts prepared for the long-range transportation plans and used throughout the project development process. There were more than 37 million annual total system-wide boardings in 2010. About 77 million total system-wide boardings are projected for 2030.

The trend in average fare per boarding over the past 10 years has been slightly less than a 5 percent increase. A continuation of that trend would result in a steady increase in farebox recovery. The increase in fares is less than 1 percent greater than assumed increases in costs, which adds to the net revenues available for debt service and capital.

With the addition of commuter-rail services to the UTA family of services, the financial plans must acknowledge the impact of commuter rail on system revenue projections and costs. Commuter-rail ridership projections assume that average commuter-rail fares will be twice the average regular fare. The higher fare is in line with the longer-distance trips and the resulting higher operating cost per passenger. The effect on the farebox revenue projections is a slightly higher fare per boarding when commuter rail is included. The 2008 increase in average fare per boarding reflects about $1.4 million in additional fare revenue from nearly 2 million additional commuter-rail passengers at twice the average fare. Going forward, commuter-rail fares will increase at the same rate as bus and light-rail fares.

Table 6-1 lists UTA's farebox receipts for the past 10 years and the estimate for 2010.

Table 6- 1: UTA Farebox Receipts

Year	Farebox Revenue	Growth Rate (%)
2010[a]	$35,383,000	5.5
2009	$33,530,449	.3
2008	$33,439,374	24.9
2007	$26,772,123	7.0
2006	25,013,649	-1.3
2005	$25,349,419	22.2
2004	$20,751,800	7.4
2003	$19,322,000	6.2
2002	$18,201,885	18.7
2001	$15,331,001	2.8
2000	$14,910,399	---

[a] *Estimated*

Source: UTA 2010

Variations in the farebox receipts are due to:

- 2002: The 18.7 percent increase is due to a ridership increase from opening of the University Extension LRT line.
- 2005: The 22.2 percent increase is due to a ridership increase for the LRT system, including the North-South line, University Line, and Medical Line.
- 2008: The 24.9 percent increase is due to a ridership increase from the opening of the FrontRunner North Commuter Rail Line.

Sales and Use Tax

The largest source of operating revenue for UTA is a local-option sales tax for mass transit, which is imposed within UTA's service area. Under Section 59-12-501 of the Utah Administrative Code, sales taxes are imposed on all retail sales of tangible personal property, services, and meals

purchased within each affiliated taxing district/jurisdiction, which includes Box Elder, Davis, Salt Lake, Tooele, Utah, and Weber counties. On November 7, 2006, Proposition 3 in Salt Lake County, a measure to raise the local-option sales tax for regionally significant transportation projects, was passed by 64 percent of voters. Also passed at that time was Utah County's Opinion Question, which was designed to increase transit funding in Utah County, specifically for commuter rail. The Opinion Question was passed by 69 percent of Utah County voters.

The current sales tax rate is 0.55 percent for Weber, Utah, Box Elder and Davis counties; 0.6785 percent for Salt Lake County; and 0.30 percent for Tooele and county. The revenue generated from this local-option sales tax is projected to be $173 million in 2010.

Table 6-2 lists UTA's sales and use tax receipts for the past 10 years and the estimate for 2010.

Table 6- 2: UTA Sales and Use Tax Receipts

Year	Sales Tax Revenue	Annual Growth Rate (%)	Compound Annual Growth Rate from 2000(%)
2010[a]	$173,458,000	0.9	11
2009	$171,854,169	-8.9	12
2008	$188,547,380	-1.6	15
2007	$191,688,539	38.4	17
2006	$138,546,093	13.7	14
2005	$121,832,629	8.8	14
2004	$111,982,133	7.8	16
2003	$103,869,244	0.1	19
2002	$103,783,931	10.0	29
2001	$94,382,300	51.7	52
2000	$62,233,044	---	---

[a] *Estimated*

Source: UTA 2010

The level of sales tax receipts depends on sales tax rates and the strength of the local economy, which can be somewhat volatile. For example, from 2000 to 2010, UTA's sales tax revenue increased at a compound annual growth rate of 11 percent. In 2009, sales tax revenue decreased 8.9 percent based the general economic downturn. This decreased the compound annual growth rate to 12 percent. Specific variations in sales and use tax receipts in Table 6-2 are due to:

- 2001: The 51.7 percent increase is due to a sales tax increase in Weber and Davis counties from 0.25 to 0.5 percent and Salt Lake County from 0.25 to 0.4375 percent.
- 2007: The 38.4 percent increase is due to a sales tax increase in Salt Lake County from 0.4375 to 0.62 percent and in Utah County from 0.25 to 0.5 percent

For 2011, sales tax revenue is projected to increase to about $178.6 million. Beyond 2011, sales tax revenues are assumed to grow slowly and roughly keep pace with population and employment growth and inflation, with revenues increasing by 2016 at an average of 5.25 percent from 2016 through 2030.

Federal Preventive Maintenance Grant Funds

For the purpose of this analysis, UTA is assumed to continue receiving federal funding for maintenance-related uses through 2030. Beginning in 1998, these funds were derived from the FTA Section 5307 (formerly Section 9) program and consisted of formula capital grant funds used for "preventive maintenance"–related activities. In accordance with FTA's direction, and as approved in UTA's 2011 projected budget, roughly $49.2 million in Section 5307 and 5309 capital grant funds will be available for preventive maintenance in 2011. Beginning with the next federal transportation authorization period, Section 5307 and 5309 revenues are assumed to grow at 3 percent per year to keep pace with the growth of formula funds.

Interest on Capital Reserves and Debt Service Reserve Fund

UTA maintains an operating reserve of 25 percent of estimated annual operating cost. This reserve fund accumulates interest from investments. The interest is assumed to accrue at a conservative rate of 3 percent from 2008 to 2030.

Other Sources of Operating Funds

Other sources of unrestricted operating funds consist of revenue from advertising, rents, and leases on right-of-way and manufacturer discounts taken. These ancillary revenues are usually small. The 2011projection is based on a 3 percent increase over 2010 and contract values such as for Advertising. Other revenues will increase annually at 3 percent through 2030, while joint development revenues are based on projections from our Joint Development department through 2020 and then increase at 3.75 percent from 2021 forward.

At this time, other sources of revenue are not apparent that could contribute substantial sums to the construction program or help to defray operations and maintenance expense to a large extent.

6.2.2 Sources of Revenues for Capital Costs

Ongoing capital expenditures for UTA's base system are projected to be financed from the existing capital revenue streams discussed in this section.

Net Revenues for Debt Service and Capital Costs and Capital Reserve

Net revenues for debt service and capital costs refer to the excess of annual operating revenues over annual operating costs. These revenues are pledged first to cover any outstanding debt service and then can be used for capital needs. Overall, throughout the 2008–2030 period, UTA will have positive net revenues available for these purposes that will be largely derived from increases in the local sales and use tax receipts.

UTA's capital reserve refers to its annual surplus of revenues over costs. For 2008, the beginning capital reserve is consistent with UTA's annual financial statements at close of business 2007. The capital reserve is computed after considering all costs and revenues.

FTA Section 5307 Capital (Formula)

Grant obligations through the FTA Section 5307 formula grant program assume first receipt of funds from UTA's existing and committed capital grants. For new FTA Section 5307 formula grant funds, three uses are assumed: (1) preventive maintenance, (2) planning for O&M-related

purposes, and (3) planning for capital (the last to be funded). For the 2008–2030 period, UTA's total annual Section 5307 funding is assumed to increase annually commensurate with the estimated formula grant allocations in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) of 2005. Beyond 2008, the level of these funds is assumed to increase 3 percent per year for inflation.

Section 5307 formula funds also would be available to be used toward UTA's capital costs for bus replacement and bus fleet expansion at an 80 percent federal participation level.

FTA Section 5309 Capital for Bus and Other Capital

FTA Section 5309 bus and other capital grants through 2007 were based on committed projects. When UTA's existing Section 5309 grants are completed, UTA assumes that it will receive, over the 2008–2030 period, a level of discretionary grant funding that is conservatively consistent with UTA's past grant levels from this program.

FTA Section 5309 Capital for BRT

FTA is authorized by Congress to fund the construction of Small Starts fixed-guideway systems through the discretionary authority granted in Section 5309 of Title 49 of the United States Code (49 USC 5309). FTA has the authority to provide discretionary grants up to $75 million for Small Starts projects that have been evaluated according to criteria established by Congress and have received a "medium" or higher rating. The total project cost must be less than $250 million to qualify for a Small Starts grant. The criteria include local financial commitment, land use, cost effectiveness, and other factors. FTA proposed new funding guidelines in January 2010; the guidelines state that funding for major transit projects will be based on livability issues such as economic development opportunities and environmental benefits in addition to the current criteria.

To date, UTA has received Full Funding Grant Agreements for four fixed-guideway projects: the North-South TRAX Line at $312.5 million, the University TRAX Line at $118.5 million, the Medical Center TRAX Line at $89.4 million, and the Weber County to Salt Lake Commuter-Rail Project at $611 million. UTA is seeking a combined $542 million in Section 5309 New Starts funding for the Mid-Jordan and Draper Transit Corridor project LRT extensions. The Mid-Jordan LRT extension is currently in the build phase, and a Full Funding Grant Agreement was received in January 2009. UTA has made a commitment to build, by 2015, the West Valley City and Airport LRT extensions as well as the FrontRunner South commuter-rail extension. The current total capital cost estimate for the five projects in the Transit 2015 Program is $2.85 billion.

UTA is seeking $75 million in Section 5309 Small Starts funding for the Provo-Orem Bus Rapid Transit Project.

Long-Term and Subordinate Bond Proceeds

As of December 1, 2010, UTA had eleven outstanding bonded debt obligations totaling $1,827,159,109. These debt obligations provided financing for the acquisition of certain rail rights-of-way a refunding of several bond issues bonds, initial financing for construction of the FrontRunner commuter-rail project and other FrontLines 2015 Program financing. The current bond obligations have differing interest rates with maturity dates ranging from 2010 to 2039.

UTA's statutory debt limit is 3 percent of the taxable value of all the taxable property in the transit district. This bonding limit is estimated to be $6.1 billion. UTA's practical capacity to bond is based on accepted ratios of current debt service payments to total sales tax receipts and to net revenue after operating costs.

UDOT

Other federal programs allow states to transfer highway funds to transit agencies for certain categories of projects. About $1.5 million is transferred annually to UTA, primarily for Congestion Mitigation and Air Quality projects.

6.3 USE OF FUNDS

The existing and projected expenditures of UTA consist of costs associated with operations and maintenance of its bus, LRT, and commuter-rail systems and its ongoing and programmed capital expenditures. Expenditure projections are based on UA's 2008 budget; the Transportation Improvement Program adopted by WFRC; the long-range transportation plans for the Salt Lake, Provo, and Ogden areas; and the most recent cost estimates for all capital projects and bus service expansions.

6.3.1 O&M Costs

O&M costs were projected for UTA's bus, light-rail, and commuter-rail services. Key assumptions with regard to these services are discussed in this section. Total UTA system operating costs in 2007 were $195.9 million, which included charges for asset depreciation. Net operating expenditures (without depreciation) were $149.9 million. The estimate of net expenditures for operations in 2008 is $176.6 million. Incremental bus and rail operating costs are based on the operating plans developed for each of the action alternatives evaluated in the Alternatives Analysis.

Bus O&M Costs

Bus O&M costs for 2010 were $94 million and reflect actual costs incurred by UTA. For 2011, costs are based on the UTA budget of $94.5 million. For the 2012–2030 period, these costs are based on UTA's budget and projections of service for the Salt Lake, Provo, and Ogden service areas in future years.

UTA's cost per bus mile is based on the 2011 adopted budget and then increased from 2.0 percent in 2012 to 3.75 percent by 2015 and beyond per year for real growth and inflation. The cost per bus mile assumed in the projections is consistent with the results of the bus O&M cost modeling conducted in conjunction with the Mid-Jordan Line EIS and with past trends.

Previously, over the 2000–2010 period, UTA's O&M cost per mile increased at a compound average growth rate of 4.36 percent per year.

Fixed-Guideway O&M Costs

The estimated annual operating cost for the Preferred Alternative is $8,450,000. The basis for the estimated operating cost is the projected revenue vehicle miles and the current UTA rate of $5.62 per revenue vehicle mile (UTA 2008a). The operating cost for the Enhanced Bus Alternative would be $4,175,800.

The operating plans are expected to be refined as the project progresses through project development. The estimated annual O&M costs for project are less than 1 percent of the UTA annual revenue that can be allocated to O&M throughout the UTA system.

6.3.2 Use of Funds for Projected Capital Costs

UTA's system-wide capital costs currently include the following:

- Bus and other capital
- LRT capital maintenance
- LRT construction
- Bond debt service
- Project preliminary engineering
- Project construction
- Repayment of subordinated bonds
- BRT capital projects
- Commuter rail
- Future capital projects

Capital costs were derived by reviewing UTA's past expenditure patterns, bus acquisition and replacement schedules, the most current light-rail projects and FrontLines 2015 Program implementation schedules, and the capital program proposed in the state Transportation Improvement Plan. Note that a base-level capital program was assumed. This capital program is consistent with the approved base bus scenarios in the long-range plans prepared and adopted by the Wasatch Front Regional Council and MAG.

In 2008, $500 million is budgeted for capital expenditures, which includes construction costs for FrontRunner South commuter-rail extension to Provo, Mid-Jordan LRT, and West Valley LRT. The balance of the capital expenditures is for currently programmed and committed capital projects in UTA's 2008 budget and in the Transportation Improvement Plan. This includes Intelligent Transportation Systems, information and communication projects, facility repairs and upkeep, intermodal centers, park-and-ride lots, and bus replacement and bus service expansion projects. Given the recent inflationary trends for project construction costs, the estimated project capital cost presented in the financial plan increases at a rate of 5 percent.

Bus and Other Capital

A major component of UTA's capital program is bus expansion and replacement. The analysis assumes a 13-year bus replacement cycle. In addition to bus replacement and expansion, facility and miscellaneous capital projects are based on funding approved in the Transportation Improvement Plan starting in 2008 at roughly $5 million per year escalated at 3 percent for inflation.

LRT Capital Maintenance

The analysis assumes that there would be additional costs for capital maintenance of the North-South TRAX Line, University TRAX Line, and Medical Center TRAX Line, including minor and major vehicle upgrades on 7-year and 15-year cycles, respectively, and annual costs for right-of-way capital maintenance.

In addition to a No-Action Alternative and a TSM Alternative, the array of possible configurations for the Draper Transit Corridor project extension of TRAX from the Sandy Civic Center Station at 10000 South was narrowed to one full-build and one MOS alternative for cost analysis. Costs are estimated in current dollars for YOE. These costs reflect all the elements associated with planning, design, and construction of the full-build and MOS alternatives and reflect the physical features associated with each alignment including number of stations, alignment length, and typical sections.

Provo-Orem Bus Rapid Transit Capital Cost Estimate

The capital costs for Phase I of the Preferred Alternative were developed based on estimated quantities and a database of recent unit prices maintained by UDOT. Non-construction costs used in the capital cost estimate were developed using standard industry practice and locally gained experience for projects of this complexity. The cost estimates included provisions for right-of-way acquisition, project management, design, construction management, quality assurance, quality control, business impact mitigation, property appraisal and relocation, contractor allowances, insurance, start-up and testing, project reserve, and financing. The cost estimate assumes $1.5 million for a light maintenance facility for buses to support the Preferred Alternative project in Utah County. The costs for the transit portion of Phase I of the Preferred Alternative are shown in Table 6-3. The cost of roadway portion of Phase I is approximately $20 million; the roadway portion will be funded by UDOT.

Table 6- 3: Capital Costs of Phase I Transit Improvements

FTA SCC Number	Description	Enhanced Bus Alt (2010 $)	Preferred Alt (2010 $)	Preferred Alt Phase I (YOE $)
10	Guideway and track elements	$131	$27,745	$30,762,000
20	Stations, stops, terminals, intermodal centers	$3,300	$12,946	$14,353,000
30	Support facilities: yards, shops, buildings	$1,800	$1,800	$1,996,000
40	Site work and special conditions	$628	$19,310	$24,410,000
50	Systems	$0	$9,840	$10,910,000
Construction subtotal (10–50)		**$5,858**	$71,642	$71,642
60	Right-of-way, land, existing improvements	$899	$3,425	3,797,000
70	Vehicles	$8,118	$30,000	33,262,000
80	Professional services	$1,259	$16,715	18,532,000
90	Unallocated contingency (10% of categories 10–80)	$807	$6,089	6,751,000
100	Finance Charges	N/A	$12,787	14,177,000
Total (10–100)		**$16,940**	**$140,657**	**$155,949,000**

YOE = year of expenditure, assumed to be 2013

Source: Lochner 2010b

6.4 FINANCIAL CAPACITY ANALYSIS

UTA's financial capacity to undertake major expansion projects is constrained by pressures to support current operations and fund large capital investment requirements that expand and sustain existing services. The most important revenue stream is derived from the local sales and use tax levied in the UTA service area. Because of the current downturn in the national economy, current collections appear to be increasing at a rate of about 1.5 percent over 2007. The historical average annual growth rate averages 5.5 percent when factoring out the tax rate increases.

Assuming a long-range average annual growth rate of 5.5 percent, about 60 percent of UTA's operating revenues over the next 20 years (2010–2030) will be derived from sales and use tax receipts.

Overview of Cash-Flow Model

The cash-flow model used in the financial analysis focuses on UTA's past performance through 2005 and on the forecast period of 2010–2030. The model reflects system-wide costs and revenues for the entire UTA service area. Costs and revenues are assumed on an accrual basis to provide greater consistency with UTA's annual financial statements. Both costs and revenues are reported in YOE dollars and include appropriate inflation rates by category.

The model consists of four basic components: operating costs, operating revenues, capital costs, and capital revenues. Two factors of key interest for tracking UTA's financial performance are net revenues for payment of debt service and capital costs—that is, the differential between operating costs and revenues and the annual capital reserve remaining after all costs and revenues are included. The former is of particular importance with regard to debt service coverage, while the latter is of importance with regard to financial capacity for future service expansion and major capital costs. In addition to annual capital reserve, UTA has established policy mandates regarding the protection of restricted reserve accounts for its debt service reserve, working capital reserve, and risk reserve. Thus, UTA's policy mandates require that sufficient capital reserves be available annually to provide for UTA's restricted reserve requirements.

Financial Capacity

The cash-flow model summarizes and contrasts annual O&M costs to annual O&M revenues between 2009 and 2030. The model also indicates the net revenues available for debt service and capital. Also indicated is the level of coverage that gross sales tax revenues would provide for the annual financing costs that UTA is required to pay for its outstanding bonded indebtedness.

The strongest influences on UTA's future fiscal capacity are its operating costs and sales and use tax revenues. The inflation-sensitive sales and use tax yields about $191.7 million per year in revenues. UTA's inflation-sensitive operating costs account for about 73 percent of outlays over the next 20 years (2010–2030). About 25 percent of outlays during this period will be for ongoing capital replacement and depreciation-related investments to preserve existing transit services.

About 15 percent of UTA's operating costs are attributable to farebox receipts. Ridership has increased in recent years due to the opening of the FrontRunner North commuter-rail line and redesigned bus service delivery strategies. Average fare yields are presently about $0.69 (for all modes combined) and are not keeping pace with inflation due to liberalized pass and transfer

policies that are increasing ridership without necessarily generating additional revenues. Previously, UTA's fare revenues have grown at a compounded annual rate of about 2 percent. Fare increases must keep pace with inflationary pressures to maintain the fare recovery ratio or improve it.

UTA's long-term fiscal capacity is based on future operating unit costs being constrained to growth levels below 3.5 percent or the assumed growth in sales tax receipts on annual basis. A key factor in testing these relationships will be in the area of cost containment. UTA has been reinvesting productivity gains in expanding services throughout the service area. Future depreciation-related capital projects also will need to be controlled in order to assure adequate fiscal capacity through scope phasing and budget restraints.

Sales and use tax revenues are unlikely to grow fast enough to sustain total operating cost escalation at previous rates. Growth in unit costs, increase in the volume of service provided, and high outlay requirements for capital investment have combined to constrain use of future sales tax revenue unless more stringent constraints on total operating outlays are considered. UTA needs to restrain the growth in unit operating costs below the rate of inflation, especially in this emergent era of higher fuel and material costs.

Projected Annual Debt Service Coverage

UTA continues to easily meet the debt-service-coverage ratio minimum of 3:1 as required by the bond indenture for the sales tax and transportation revenue bonds. UTA projects that this will continue to be the case for the foreseeable future.

UTA has a variety of debt-related obligations. The 20-year cash flow analysis assumes that about 12 percent of future outlays will be used to pay for debt service on outstanding bonds. The use of a long-term cash flow projection permits total revenues and total outlays to be compared in order to determine if deficits are chronic (in which case debt will not correct any temporary imbalances) or if there are annual surpluses sufficient to reduce the need for debt. The scenario tested indicates that revenues and outlays are roughly in balance over the entire period with early deficits offset by future surpluses. In this scenario, some form of cash flow management, either through bonds or leases, will be needed to balance annual results.

6.5 PROPOSED CAPITAL FINANCING FOR THE PROVO-OREM BUS RAPID TRANSIT PROJECT

The Small Starts application for the transit portion of Phase I of the Provo-Orem Bus Rapid Transit Project will assume a grant in the amount of $75 million. Table 6-4 lists the shared costs.

Table 6-4: Preferred Alternative Phase I Transit Improvements - Federal and Local Cost Sharing

Description	Cost YOE (2013) $	Percent
Capital Cost of Pref. Alt. Phase I Transit Improvements	$156 million	
Requested Federal Funding	$75 million	48%
Local Funding	$81 million	52%

The local-option sales tax referred to as the County Airport, Highway, and Public Transit tax is a potential source of capital revenue for the project, this sales tax is in addition to the current sales tax rate that is discussed above. UTA, the Mountainland Association of Governments (MAG), and the local communities are currently evaluating the priority of other projects slated for this revenue source, availability of cash flows, and interlocal agreements required for bonding to occur on this source.

6.6 RISK AND UNCERTAINTY

The financial analysis determined that UTA has the capacity to undertake major investments. Strong fiscal discipline, restraint in expanding service and overhead, and other management measures to smooth cash flows over the next 20 years are some strategies that can provide the funding for UTA to support the construction, operation, and maintenance of the FrontLines 2015 Program of expansion projects. The financial analysis also assumes substantial federal participation in the construction of preferred build alternatives. The magnitude of the investment requires UTA to ensure that the federal participation levels necessary to achieve program goals and objectives are attainable.

Although the financial analysis has defined a likely future based on previous funding trends, there are operating and capital risks associated with this project that could affect a financial plan. Some additional risks related to UTA fiscal-capacity are described in the following sections.

Operating Risks

The operating-cost projections assume that UTA will continue to contain unit-cost growth, particularly in the area of fuel and materials. If the assumed operating efficiencies are not realized, the system-wide operating costs could be higher than those shown in the fiscal capacity analysis, and UTA's long-term ability to balance its costs and revenues could be negatively affected.

Changes in fares, fare policy, and fare structure affect ridership. Downtown parking costs affect ridership. Downtown employment levels affect ridership. Ridership affects fare revenue and cost recovery. Ridership also affects service levels, which in turn affect capital and operating costs. Emphasis on maximizing ridership and improving fare recovery, including minimizing fare evasion or token and ticket fraud, are important elements of ensuring fiscal capacity.

Capital Cost Risks

There remain considerable uncertainties in the capital cost estimates for the Provo-Orem Bus Rapid Transit Project including the scope of the project (such as number of underground utilities encountered or geotechnical conditions), right-of-way costs, and construction prices. Construction prices have varied over 20 percent in the past three years due to the current economic conditions. These uncertainties are not unusual at the conceptual level of planning. A more refined cost estimate will be required during preliminary engineering as the project is advanced to the 30 percent design stage.

The rate of inflation could increase when this project is advancing to the construction phase, and this would raise all material and labor costs. Financial risks and interest rates could increase as capital markets respond to changes in the financial market and global economy. Sales and use tax receipts could fall below forecast levels if the economy slows.

Risk-Management Strategies

As the Provo-Orem Bus Rapid Transit Project advances, the following strategies can be used to address the identified risks:

- Slowing the growth in system operating costs
- Reinvesting productivity gains in the capital improvement fund rather than in expanded services
- Raising fares
- Using short-term debt to smooth cash flows