



# **MTP/TIP Update – Fiscal Constraint Assumptions**

Transportation Coordinating Committee

March 3, 2023

# MTP/TIP Fiscal Constraint Requirements

- ▮ Projects must be fully funded through all phases of implementation
- ▮ Demonstration of fiscal constraint must be in “year of expenditure” dollars
- ▮ Revenues must be “reasonably available”
- ▮ Revenues at all levels (federal, state, local, private) must be constrained

# Key Financial Assumptions\*

- Inflation rate for projects costs
- Baseline federal funding levels beyond 2026 (expiration of IIJA)
- Annual rate of federal funding increase beyond 2026
- Share of statewide apportionments available for projects in Atlanta region
- Availability of discretionary program funds

\* *All have been (or continue to be) under discussion within the Interagency Consultation Group, which consists of federal, state, regional and local planning partners which are directly involved in the conformity determination process for the MTP/TIP.*

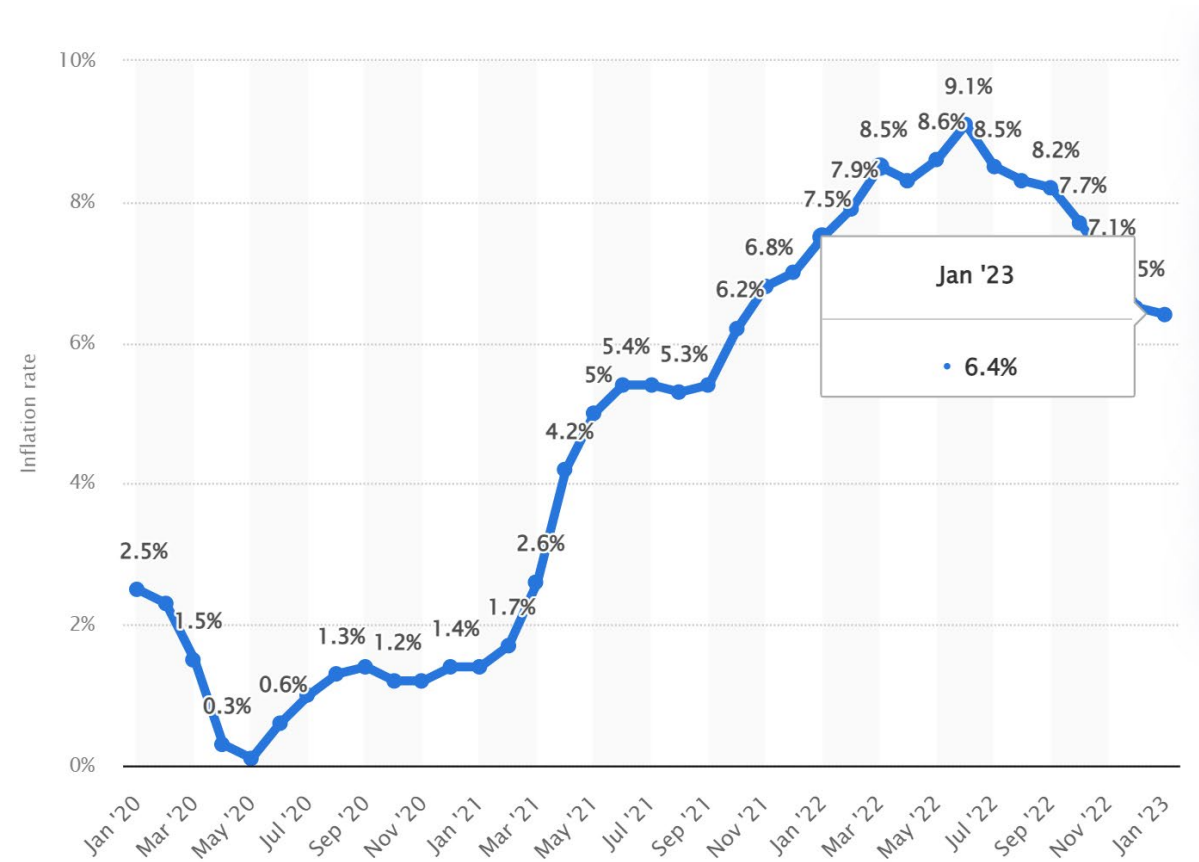
# Data Used to Make Key Financial Assumptions

## Inflation rate for projects costs

- All project costs within the TIP/STIP period are currently reflected in YOE dollars directly in the project list
- Project costs beyond the TIP/STIP period are currently inflated at 2.2% annually using an aggregated “banding” methodology conducted separately from the published project list (documented in Appendix D of the MTP/TIP)

# Data Used to Make Key Financial Assumptions

## Inflation rate for projects costs



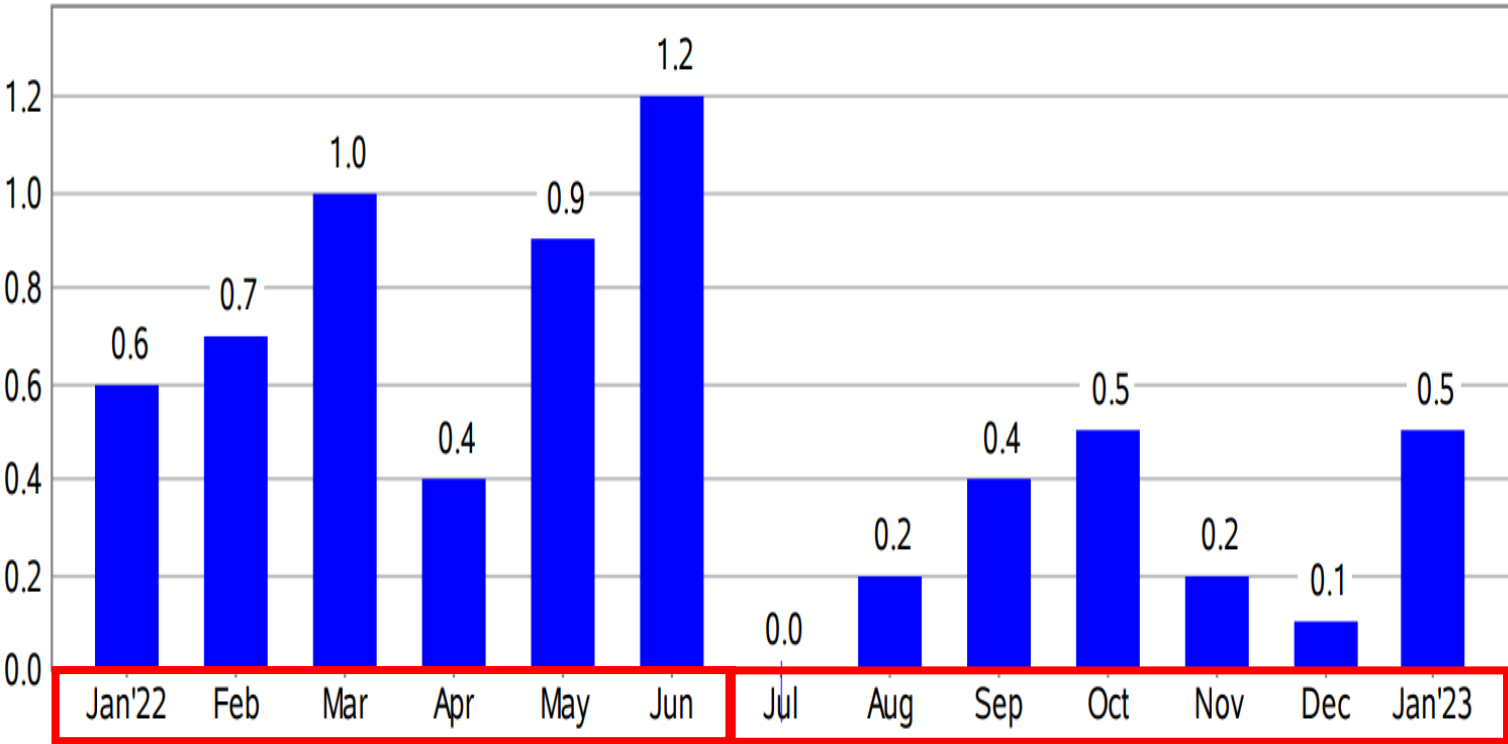
Recent trends in the Year-over-year increase in the Consumer Price Index (CPI)

Source: *statista.com*

# Data Used to Make Key Financial Assumptions

📊 Inflation rate for projects costs

Monthly change in CPI  
over the past 12  
months



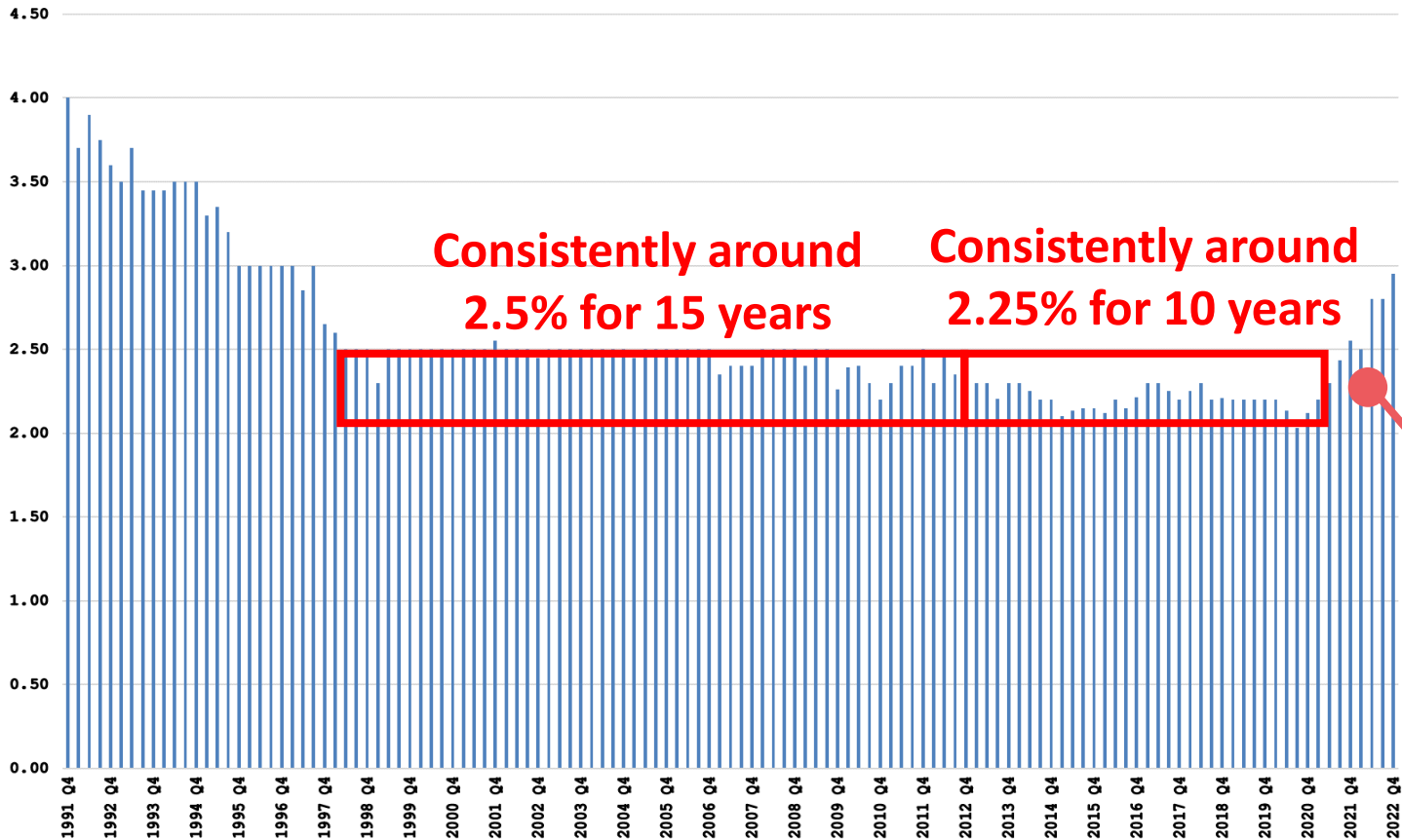
9.6% annual rate

3.3% annual rate

Source: US Dept. of Labor /  
Bureau of Labor Statistics

# Data Used to Make Key Financial Assumptions

## Inflation rate for projects costs



Annual average  
inflation rate forecasts  
over the next 10 years

Source: Philadelphia  
Federal Reserve

Short-term anomaly  
due to pandemic or  
start of a new longer-  
range trend?

# Key Financial Assumption Decision

## Inflation rate for projects costs

- 2.2% may be underestimating inflation, particularly over the next 10 years, based on Philadelphia Federal Reserve forecasts
- A rate somewhere between 2.5% and 3.0% will likely be the final decision
- Discussions are still ongoing within the Interagency Consultation Group
- Everything else being equal, increasing the inflation rate will reduce the number of projects which can be included in the long-range portion of the plan (e.g., a \$100M project in 2023 will cost \$155M in 2043 if inflated at 2.2% annually, \$164M at 2.5% and \$181M at 3.0%, potentially a reduction of over 17% in purchasing capacity)



# Data Used to Make Key Financial Assumptions

■ Baseline federal funding levels beyond 2026 (expiration of IIJA)

■ Annual rate of federal funding increase beyond 2026

**1.6%** 2016 to 2021 Average Annual Increase ➡

*The current 2050 MTP used a more conservative 1.4% annual long-term growth rate*

**21.0%** 2021 to 2022 Increase (IIJA)

**2.0%** 2022 to 2023 Increase

Total 2024-2050 apportionments using pre-IIJA baseline at 1.4% long-term growth = \$48.0 billion

Total 2024-2050 apportionments using IIJA baseline at 1.4% long-term growth = \$59.4 billion

Total 2024-2050 apportionments using IIJA baseline at 2.0% long-term growth = \$62.4 billion

# Key Financial Assumption Decision

## Baseline federal funding levels beyond 2026 (expiration of IIJA)

- Use current IIJA apportionments as the baseline past 2026
- Inflate federal revenue at 1.0% annually
- On the plus side, this results about \$6B to \$7B of additional statewide FHWA apportionments between now and 2050
- On the negative side, federal revenues will likely fail to keep pace with inflation

# Data Used to Make Key Financial Assumptions

## Share of statewide apportionments available for projects in Atlanta region

- For the past couple of planning cycles, ARC has used employment share as the basis for calculations due to the relationship to economic activity and travel demand characteristics
- That approach may not be as reasonable due to changes caused by (or accelerated by) the pandemic
- Forecasts of the share of the statewide portion on population and employment within the region are higher than the previous plan cycle

	<u>2020</u>		<u>2050</u>
<b>Population</b>	<b>52.0%</b>	<b>➡</b>	<b>56.8%</b>
<b>Employment</b>	<b>58.9%</b>	<b>➡</b>	<b>62.7%</b>

*Numbers reflect current plan assumptions and have not yet been updated based on the 2020 US Census*

# Key Financial Assumption Decision

- Share of statewide apportionments available for projects in Atlanta region
  - ARC is recommending basing calculations on a 50/50 combination of population and employment (subject to final IAC consensus)
  - Must refine calculations to reflect new urbanized area and likely MPO planning boundary
  - Despite accelerated assumptions about regional growth as a result of latest census information, changes in the planning boundary and modifying the formula will probably reduce the revenue forecast, but the magnitude is still uncertain

# Data Used to Make Key Financial Assumptions

## Availability of discretionary program funds

- The overwhelming majority of funding which would likely need to be reflected in the MTP/TIP would be from 56 USDOT programs

**\$59.5 Billion**

Federal Railroad  
Administration



**\$43.4 Billion**

Federal Highway  
Administration



**\$34.2 Billion**

Federal Transit  
Administration



**\$43.3 Billion**

Office of  
the Secretary



*The Atlanta region comprises approximately 1.52% of the nation's total 2020 population.  
A "fair share" of these programs would net around \$2.7 billion over the lifespan of IJJA.*

# Key Financial Assumptions Decision

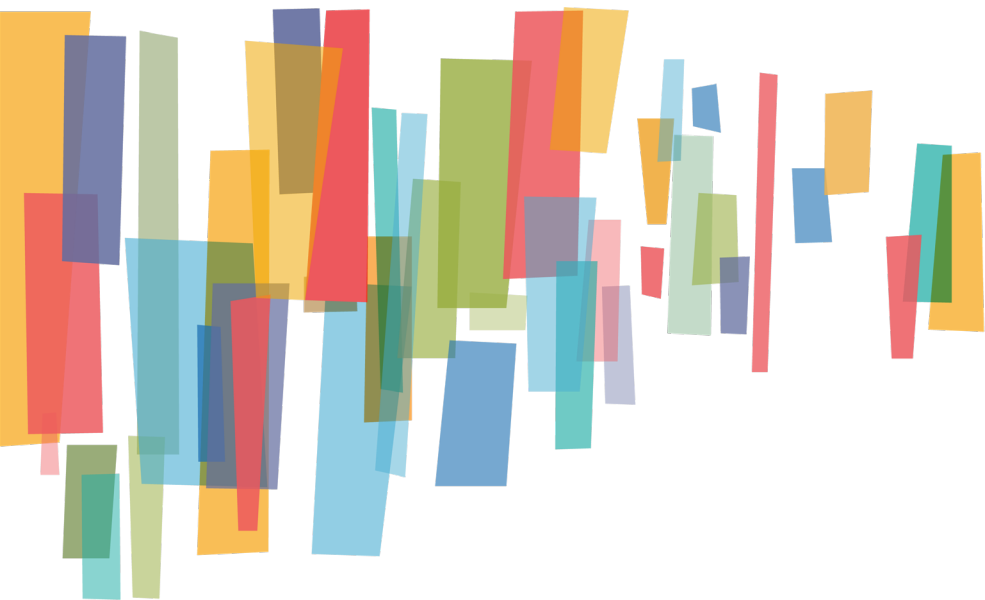
## Availability of discretionary program funds

- Due to extreme competitiveness and the lack of a solid track record in securing FHWA, FRA and Office of the Secretary discretionary funds, no assumptions will be made about these funds in the fiscal constraint analysis
- It is standard nationwide practice for assumptions to be made related to funding long-range transit expansion projects with assistance under the FTA Capital Investment Program, so a “fair share” estimate will be used in the fiscal constraint analysis
- The region’s transit operators have a proven track record in securing funds under other smaller programs, such as Bus and Bus Facilities, so some allowance can be made for those programs
- The ATL Authority is leading the research and all findings/recommendations are currently being reviewed through the Interagency Consultation Group

# In Summary....



- An increased funding baseline and strong regional growth will increase our estimates of available federal funding
- Some (or all) of the increase could be offset by higher inflation rates and how the region's share of statewide formula program apportionments is calculated
- A tremendous amount of additional federal funds could be available via discretionary programs in the short-term, but we can't plan on that
- Growth in local and state revenues are likely to remain strong (more on that later)



# DISCUSSION & QUESTIONS