SPR-12: Financial Sustainability

For Regions 1-15 points

Goal: Evaluate and document that financial commitments made across transportation system plans are reasonable and affordable.

Affected Triple Bottom Line Principles

Sustainability Linkage

Financial sustainability supports the economic principle by improving economic prosperity for current and future generations, and ensuring that there are sufficient financial resources to advance the projects and program goals of the community.

Background and Scoring Requirements

Background

The intent of this criterion is to encourage the use of advanced best practices in cost estimating and revenue forecasting.

Fiscal Constraint

"Fiscal constraint has remained a key component of transportation plan and transportation improvement program since enactment of the Intermodal Surface Transportation Efficiency Act (ISTEA) in 1991. FHWA and FTA developed and issued the Final Rule on statewide and metropolitan transportation planning and programming processes, published in the Federal Register on February 14, 2007 with an effective date of March 16, 2007." Source: FHWA's Financial Planning and Fiscal Constraint for Transportation Plans and Programs Questions & Answers website[1].

Fiscal constraint in the context of sustainability goes beyond meeting regulatory requirements by formula only; it should ensure that the estimated capital or project costs and operating expenditures of the transportation system are reliable, are in line with anticipated revenues, and are available. In addition, subsequent plan implementation should adhere to the constraints imposed by anticipated revenues and costs. This ensures that future generations are able to continue to benefit affordably from future transportation investments.

Reasonable Revenue Funding

According to FHWA's Financial Planning and Fiscal Constraint for Transportation Plans and Programs Questions & Answers website[1],

> "Revenue forecasts that support a Statewide Transportation Improvement Program (STIP), metropolitan transportation plan, or a metropolitan Transportation Improvement Program (MTIP) may take into account new funding sources and levels of funding not currently in place, but which are "reasonably expected to be available" (see 23 CFR 450.216(m), 23 CFR 450.322(f)(10)(ii), and 23 CFR 450.324(h), respectively). New funding sources are revenues that do not currently exist or that may require additional actions before the State DOT, MPO, or public transportation operator can commit such funding to transportation projects. In addition, future revenues may be projected based on historic trends, including consideration of past legislative or executive actions. To be considered "reasonable," the financial information and financial plans that accompany the TIP, STIP, and metropolitan transportation plan must

identify strategies for ensuring the availability of these new revenue sources in the years when they are needed for project development and implementation [see 23 CFR 450.216(m)].

Determining whether a future funding source is "reasonable" requires a judgment decision. Two important considerations in determining whether an assumption is "reasonable" are: (a) evidence of review and support of the new revenue assumption by State and local officials and (b) documentation of the rationale and procedural steps to be taken with milestone dates for securing the funds. Source: FHWA's Financial Planning and Fiscal Constraint for Transportation Plans and Programs Questions & Answers website[1].

Some examples of "reasonable" and "not reasonable" assumptions, including a selection from FHWA's Financial Planning and Fiscal Constraint for Transportation Plans and Programs Questions & Answers website[1], are shown in Table 1. Note that the examples labeled "reasonable" do not necessarily meet the special test of "available funds" or "committed funds" as discussed on the website.

TABLE SPR-12.1. FHWA Examples of Reasonable/Not Reasonable Revenue Assumptions (continued on next page)

Example Type	Revenue Assumption Example
Reasonable	A new toll or other user fee dedicated to a particular project or program may be reasonable if there is clear evidence of support by the Governor, legislature, and/or other appropriate local/regional decision-makers and a strategy exists with milestones for securing those approvals within the time period for implementing the affected projects.
Reasonable	A new tax for transportation purposes requiring local and/or State legislation and/or support from the Governor is reasonable if there is clear evidence of sufficient support (both governmental and public) to enact the new tax and a strategy exists for securing those approvals within the time period for implementing the affected projects.
Reasonable	If a State or local jurisdiction has past historical success in incrementally increasing gas taxes for transportation purposes, it is reasonable to assume that this trend (and the historic rate of increase) over a comparable period of time will continue.
Reasonable	A new bond issue for a particular project or program may be reasonable if there is clear evidence of support by the legislature, Governor and/or other appropriate decision-makers and a strategy exists with milestones for securing those approvals within the time period for implementing the affected projects or program.
Not Reasonable	Assuming new funds from an upcoming Statewide, regional, or local ballot initiative would not be reasonable if polls indicate a strong likelihood of defeat or there is a history of repeated defeat of similar ballot initiatives in recent years. However, this assumption could be reasonable if a new strategy has been developed to achieve success where past attempts have failed, and is supported by State and/or local decision-makers.
Not Reasonable	A 25 percent increase in gas tax revenues over five years is not reasonable if the growth over the previous five years was only 15 percent. However, special circumstances may justify and support a significantly higher increase than the historic rate, provided there is clear evidence of support from State and/or local decision-makers.

Example Type	Revenue Assumption Example
Not Reasonable	An assumption that a single metropolitan area will receive funding for multiple large-scale transportation projects under a federal discretionary program (e.g., FTA's New Starts) is not reasonable if the assumption would result in that one metropolitan area receiving a disproportionately high percentage of the total national program dollars.
Not Reasonable	An assumption of population increase by a proposed corporate re-location to the area.

Scoring Requirements

Agencies can earn points according to the following; each of the scoring options is independent and can be achieved without prerequisites:

Requirement SPR-12.1

2-7 points. Advanced Revenue Forecasting

Use an inter-agency, cooperative approach for advanced revenue forecasting practices to develop a reasonable finance plan that considers risk and includes contingencies. Advanced revenue forecasting is a dynamic process that considers a wide range of sources, "nontraditional" financing mechanisms, risk management techniques, and forecasts that are updated on a regular basis. Include cost estimations and actual costs of ongoing operations and maintenance of systems in LRTPs and TIPs/STIPs.

Evidence of the use of advanced revenue forecasting practices could include the following (Source: Best Practices in Managing STIPs, TIPs, and Metropolitan Transportation Plans in Response to Fiscal Constraints):

- Evidence of leadership emphasis on rigorous fiscal discipline;
- Incorporation of risk management techniques into revenue forecasts;
- Inclusion of local and state sources as part of the revenue forecast and coordination with other potential funding sources;
- Involvement of appropriately qualified revenue estimating organizations for the state or local unit of government responsible to elected officials for overall revenue estimates;
- Coordination of STIP and Metropolitan Transportation Plan development with state budget development to mirror respective fiscal constraints;
- Involvement of a professional economist in revenue forecasting;
- Use of committees to establish consensus regarding the revenue forecast;
- Evidence of policies or guidelines for monitoring and updating forecasts, especially at major decision points for projects and plans;
- Objective analysis of "nontraditional", innovative financing mechanisms and the expected revenues from those approaches; and
- Evaluation of past revenue forecasts and understanding why they did or did not turn out as expected.

Scoring is based on the following, cumulative requirements:

- **Requirement SPR-12.1a**

  2 points. Engage in Regular and Comprehensive Coordination and Information Sharing

  The agency engages in regular and comprehensive coordination and information sharing among affected agencies (including State DOTs, MPOs, and transit operators) during the development of revenue forecasts.

- **Requirement SPR-12.1b**

  3 points. Undertake Systemic Forecast Updates

  The agency undertakes systematic forecast updates using reasonable revenue projections per the Background discussion above and updated traffic modeling and analyses. Significant changes in forecast revenues are addressed in a planning process to prevent unsustainable deficits or funding gaps.

- **Requirement SPR-12.1c**

  2 points. Establish Processes for Engaging Stakeholders

  The agency has established processes for educating and engaging stakeholders in a dialogue about the implications of any changes in revenue forecasts.

Requirement SPR-12.2
2-8 points. Advanced Cost Estimating

Use an inter-agency, cooperative approach for advanced project cost estimating practices that considers both capital and lifecycle costs (which would include maintenance and operations), risks, and contingencies. An example of advanced cost estimating includes factoring in a variety of land use/transportation development scenarios and associated future infrastructure construction and maintenance costs.

Scoring is based on the following, cumulative requirements:

- **Requirement SPR-12.2a**

  2 points. Keep Accurate Records of Changes to Project Scope

  As projects progress through the planning process, preliminary engineering, and ultimately construction, the agency keeps accurate records of all changes to the project scope and documents their impact on costs.

- **Requirement SPR-12.2b**

  3 points. Use Project-Specific Cost Estimating Procedures

  As the project development process progresses, the agency avoids formula-driven cost estimating procedures in favor of project-specific methods.

- **Requirement SPR-12.2c**

  3 points. Complete Systemic Cost Updates Regularly

  The agency completes systematic cost updates regularly, including cost estimates for its ongoing system operations, and the maintenance and changes to costs as projects develop. Cumulative or major changes in project costs are reflected in updated financial plans/fiscal constraint determinations of subsequent transportation plans, Transportation Improvement Programs (TIPs), and STIPs.

Evidence of the use of advanced cost estimating practices could include:

- Evidence of leadership emphasis and commitment on fiscal discipline;
- Coordination between preconstruction and construction personnel in preparation of cost estimates;
- Evaluation the completed project cost estimation process, and feedback loops from lessons learned during construction for future cost estimating practices; and
- Practices for tracking changes in project scopes and subsequent relationship to cost estimating and revenue forecasting procedures.

Resources

Above-Referenced Resources

The following resources are referenced in this criterion and consolidated here:

1. FHWA's Financial Planning and Fiscal Constraint for Transportation Plans and Programs Questions & Answers Website, https://www.fhwa.dot.gov/planning/guidfinconstr_qa.cfm

Additional Resources

The following resources provide information on this criterion topic in addition to the sources directly referenced:

2. Federal Register, 49 CFR Part 613: Final Rule on statewide and metropolitan transportation planning and programming and congestion management processes/systems (February 14, 2007), https://www.gpo.gov/fdsys/pkg/FR-2007-02-14/pdf/07-493.pdf
3. NCHRP, Best Practices in Managing STIPs, TIPs, and Metropolitan Transportation Plans in Response to Fiscal Constraints (February 2010), http://144.171.11.40/cmsfeed/TRBNetProjectDisplay.asp?ProjectID=1570
4. NCHRP, Guidance for Cost Estimation and Management for Highway Projects During Planning, Programming, and Preconstruction (2007), http://onlinepubs.trb.org/onlinepubs/nchrp/nchrp_rpt_574.pdf

Scoring Sources

The program is considered to have met this criterion if the requirements above can be reasonably substantiated through the existence of one or more of the following documentation sources (or equal where not available):

1. State or metropolitan TIPs (including project selection criteria)
2. State or metropolitan revenue forecasts or studies
3. Minutes of meetings of policy making or governing Boards, Committees, or Commissions
4. Major project-level financial plans and cost estimating reports
5. Independent reviews of agency construction or revenue estimates or procedures
6. Financial plan sections of long-range plans