

RTA crisis may wipe out 25% of projects

By Rob O'Dell and Andrea Kelly Arizona Daily Star | Posted: Sunday, July 18, 2010 12:40 am

The 4-year-old Regional Transportation Authority is facing a long-term funding crisis that could wipe out more than 25 percent of the road and transit projects voters were promised.

More than \$600 million in road projects are in jeopardy because of current and projected cost overruns, missing local match money, bond interest and because most of the road projects were not fully funded when they were pitched to voters in 2006, an Arizona Daily Star analysis found.

A proposal to have the RTA take over the Sun Tran bus system — which was never presented to voters — could cost the RTA millions more.

As a result, residents could lose as much as a quarter of all projects promised to voters in the 20-year, \$2 billion plan funded by a countywide half-cent sales tax. That \$2 billion was to be matched with another \$400 million from local jurisdictions, meaning a total \$2.4 billion was needed to complete the plan.

But the RTA is poised to fall far short of the \$2.4 billion promised to voters because:

- The 2006 ballot underfunded the 35 road projects by a total of \$250 million, meaning projects faced a shortfall before they ever got started. A cost estimate done by an RTA consultant before the election showed the projects would actually cost \$250 million more than what voters were told in the campaign to get them to approve the plan in May 2006.
- New estimates done by the local governments show projects starting in the first and second phases of the plan are expected to cost an additional \$125 million more than even the original higher estimates that voters never saw.
- About \$115 million in local match money is not available, leaving projects on such major streets as Houghton Road and East Broadway critically short on funding. The vast majority of the local match shortfall is from Pima County, which was counting on using bonds it hasn't been able to sell due to budget problems and a decline in impact fees because of slowed building.
- Because of a short-term funding shortage, the RTA needs to bond against its future sales tax collections to bring in \$100 million quickly to pay for promised road projects and the four-mile modern streetcar to connect downtown and the University of Arizona. Interest on those unanticipated bonds will cost the RTA an additional \$57 million that wasn't planned for.
- The RTA could saddle itself with an additional \$72 million by taking over Sun Tran and Sun Van from Tucson. Although jurisdictions would pay the RTA for running a regional system, there's still a \$4.5 million annual funding gap that needs to be made up. The RTA says it can do this with federal grants and by operating more efficiently.

The estimated \$600 million funding hole in the plan assumes the RTA will make good on its aggressive sales tax collection targets that call for it to take in twice as much in sales tax in 2026 as it does today.

The RTA has already begun to fill these holes with approximately \$44 million in state and federal transportation money designated for the region. This isn't new money, however. It is money that was already coming here, which is now diverted from other promised non-RTA projects.

For example, Tucson is taking \$15 million earmarked to pave roads to instead pay to build the Cushing Street Bridge over the Santa Cruz River for the modern streetcar.

RTA Executive Director Gary Hayes and Transportation Director Jim DeGroot acknowledge the potential funding shortfalls and say they're very concerned about it. And they said they have plans to fix it, although those plans have no specifics.

"All these problems you guys are very accurately pointing out, it's our responsibility to analyze," Hayes said of the Star's analysis.

Hayes said the RTA will creatively work with jurisdictions to solve problems and lower costs, will split projects into multiple phases to spread out payments and seek other funding sources to help out.

While affirming the funding shortage, the pair reject the notion the RTA could actually run short of money. “We’re not ready to capitulate,” Hayes said.

The RTA’s main battle plan is to attack what it believes are unjustified overruns in soft costs, like planning, by the jurisdictions — which is why they said they put the projects on hold for review in June. Hayes and DeGrood said they don’t accept the jurisdictions’ cost estimates or that the ballot was underfunded.

“We don’t accept the premise,” Hayes said. “We don’t buy that.”

Here’s a deeper look at each of the issues facing the RTA:

UNDERFUNDED FROM START

The RTA hired a contractor to estimate project costs for all of the proposed transportation projects in October 2005, while creating the plan that was later put to voters. Those estimates were \$250 million more than they showed on the May 2006 ballot.

Hayes said the local governments agreed at the time they should — and could — deliver projects at less than those estimates, so the numbers that appeared on the ballot were reduced based on their word. In reality, many projects have cost more, not less.

RTA officials insist projects were not underfunded on the ballot, saying they should not cost as much as the 2005 study indicated, even as projects are coming in at that higher cost.

RTA opponent John Kromko said he knew the ballot measure was underfunded but didn’t realize it was by \$250 million. He said government officials keep making promises they can’t keep because there’s no downside — they’re never held accountable for it.

“I can’t believe people keep voting for these things,” Kromko said. “It’s not polite to say ‘I told you so.’ But I’m tempted.”

OVERBUDGET NOW

Cost concerns are surfacing as projects in the first four years of the plan experience unexpected cost inflation even in the midst of falling construction costs.

Updated cost estimates show another \$125 million is necessary to get the projects done, and estimates are not available for projects more than five years out.

The cost overruns the RTA is trying to contain come almost exclusively from the planning and design, or “soft” phases of the projects, even while construction bids are coming in below budget, DeGrood said. Some have had amenities added that were not included in the RTA plan.

“We are not willing to accept these cost estimates at this time, and we have already identified projects we intend to challenge the cost estimates on,” DeGrood said.

The pre-construction work usually requires about 15 percent of the total project budget, but lately has been eating 25 to 40 percent, and in one case as much as 70 percent of the initial budget, DeGrood said.

“We have allowed the jurisdictions to use their own policies and, quite frankly, we think that’s what’s gotten us to here,” Hayes said.

The RTA will consider changing its policies to limit or control the spending, DeGrood said, without giving specifics.

He singled out Tucson and Pima County as chief offenders of high soft costs and said the RTA can’t allow them to “blithely” move forward without any attempt to rein in costs.

“We have to change the paradigm and build to the budget,” DeGrood said.

SHOULDERING TRANSIT

RTA officials have been contemplating taking over the transit systems for more than 18 months. An analysis of the operating cost of each system and the scheduled payments each local government would make to the RTA leaves a hole of \$4.5 million each year.

Over the rest of the 20-year plan, another \$72 million would be necessary to fully fund the services, and that's only if there's no increase in the cost of running the system over 16 years.

The RTA says it will fill that gap by making the systems operate more efficiently under one management, and getting federal grants.

If that doesn't work, the RTA could turn to the \$533 million designated for transit funding in the RTA plan, which leads some to question whether it would be honoring the spirit of what voters approved. Hayes said the RTA has the legal authority to do it and it wouldn't violate the voter-approved project list, which he called the RTA's "bible."

"They weren't asked," Hayes said of voters approving the transfer. "In my mind it's a different part of the equation," Hayes said.

Kromko disagreed strongly, contending, "That's not what we voted on. If they had put that on there, a lot less people would have voted yes. There is no doubt about that," he said.

LOCAL FUNDS SHORT

Much of the local funding shortfalls can be traced to the local economy. Pima County is relying on impact fees generated by new construction to fund several road projects. As construction slowed, so did impact fees, a critical way to fund the gap for projects.

Simultaneously, state budget woes have reduced the amount of state transportation taxes coming to the county, which will prevent the sale of bonds county voters have already approved, and delay funding.

The RTA says it will not give projects more money or let governments to move forward with projects they can't fund, but DeGrood said he thinks the local money will come through in the end.

"We have to document the local match or it doesn't go" to construction, Hayes said.

To make up for the increased budgets and lack of funding, many governments may have to shift funds from their budgets, raid regional sources, or put political pressure on the RTA to give them more money.

SHORT ON MONEY

The hole in the RTA's budget is forcing local governments to dip into their state and federal funding for the metro area to boost the RTA projects, instead of other road work outside the voter-approved plan.

Marana Mayor Ed Honea cautioned against moving money from other sources to make up for the shortfalls, because it is scheduled for use on something else and because it could jeopardize future state and federal money.

"You have to be pretty careful there because you're supposed to use the money for what you get it for. If you start putting money for other projects you could really end up in a jam. You could end up losing federal funding," he said.

Governments will either have to choose between not doing their RTA projects until they have money or taking money from another project, "and I just don't think we should do that," Honea said.

Pima County Supervisor Ramón Valadez said he was concerned about the cost overruns, and said at its current pace the RTA will not finish all the projects promised to voters.

He said the RTA needs to limit the new projects it brings on that aren't in the voter-approved plan, and try to get hold of soft costs. "We need to bring to bear all the resources we have at the RTA in order to keep our promise," Valadez said.

Mike Hayes, a vocal opponent of the plan during the 2006 campaign, said the only remarkable aspect of the RTA's financial problems is how quickly they hit.

"None of this surprises me. We always thought that this was a house of cards," he said.

"I guess I expected that we would be much further into it before it would be as apparent as it has become."

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PROBLEM NUMBERS

RTA shortfalls

Underfunded on the 2006 ballot \$250 million

Additional estimated budget overruns \$125 million

Missing local match money \$115 million

Cost of transfer of Sun Tran \$72 million

Interest to pay back bond issue \$57 million

Total shortfall \$619 million

Total RTA plan: \$2.4 billion

Percentage shortfall: 26 percent