

MAYOR'S TRANSITION TASK FORCE

on the

Metropolitan Transit
Authority

Report of the

Funding Structure Committee

March 13, 2010

OBJECTIVE

- Determine if funding is there to finance the three line and five line light rail system as presented by METRO.

Committee Members

- James Moncur, Chair
- Alan Clark
- Arthur Schechter
- Ashby Johnson
- Eduardo Sanchez
- Jim Newgard
- Richard Rabinow

Methodology

- Meetings held with METRO officials, bond counsel, FTA officials, METRO financial advisors and bond underwriters.
- David Wolff, John Sedlak, Louise Richman, Drew Masterson, Bob Collie, Rick Webber, Jonathan Frels, Therese McMillan, Beth Day, Brian Jackson.
- Comprehensive cash projections, FY 2010 METRO Business Plan and Budget, recent bond offering documents, General Mobility Payment agreement, METRO submissions to the FTA, various other schedules provided by the METRO and their financial advisor.

Current Assessment: Key Findings

- FTA appears confident \$900 million in federal funding will be approved for the North and Southeast lines.
- AG, bond counsel and underwriters believe bond issues to support three lines is reasonable.
- Independent review of current (Jan 2010) sales tax and farebox revenue projections seem reasonable.
- GMP contract with City needs to be negotiated and extended; subordination of City payments to transit needs is an important part of funding.

Current Assessment: Key Findings - page 2

- Assuming the GMP subordination issue is worked out, funding appears sufficient for the three line light rail system build out. Hurdles remain for funding of the five line system.
- Funding threshold for five line gets easier if Uptown line is delayed/deleted.
- May be better or more efficient uses of GMP as is currently employed.

Strategic Options: Consequences

- Issuing bonds is the only option currently on the table that could be employed to go forward with rail at this time.

Consequences include -

- Outstanding bonds will limit future flexibility
- Success of financing depends on deferring principal payments and capitalizing interest until assumed revenue improvements occur over next five years.
- Increases likelihood METRO will become financially stressed if projected revenue increases do not occur.
- Revenue bonds may have a rate covenant that automatically raises fares annually based on an index such as CPI.

Strategic Options, page 2

Other Strategic Options that are not currently considered but could be include:

- Holding another bond election to increase capacity of sales tax bonds, an easier and more secure form of funding than the currently envisioned revenue bonds.
- Reducing the GMP to a lesser amount than 25% of sales tax to provide pay-as-you-go funding or an additional revenue stream to support more bond issuance.

Questions and Issues Outstanding

- Extension of contract between METRO and the City governing use of GMP payments; discussion with the FTA and rating agencies regarding GMP.
- AG approval of current financing plan, particularly with regard to the revenue bonds
- Completion and review of FTA's independent contractors report on METRO's financial plan; miscellaneous other FTA documentation.
- Scope of this review does not cover reasonableness of operating expense projections. We are relying exclusively on METRO's projections for O&M.