BEFORE THE METRO COUNCIL

FOR THE PURPOSE OF ESTABLISHING A FINANCING PLAN FOR THE SOUTH/ NORTH LIGHT RAIL PROJECT	)))	RESOLUTION NO. 95-2090 Introduced by Rod Monroe, Chair JPACT

WHEREAS, The South/North Light Rail Transit (LRT) project was established as the next regional priority by Resolution No. 93-1784; and

WHEREAS, An overall 5 and 10-year transportation financing strategy was established by Resolution No. 94-2009; and

WHEREAS; That strategy included a federal, State of Oregon, State of Washington and regional funding approach to the South/North LRT project; and

WHEREAS, The voters approved a Tri-Met $475 million General Obligation bond measure as the first funding step toward the South/North LRT project; now, therefore,

BE IT RESOLVED,

That the Metro Council:

1. Adopts the South/North Financing Plan as reflected in Exhibit A.

2. Supports Tri-Met's and ODOT's efforts to pursue innovative funding sources to reduce the need for state and regional sources.

3. Directs staff to develop for consideration by JPACT and the Metro Council alternate phasing plans.

ADOPTED by the Metro Council this 23 day of Feb., 1995.

J. Ruth McFarland

J. Ruth McFarland, Presiding Officer

EXHIBIT A

FINANCING PLAN
FOR THE
SOUTH/NORTH LRT PROJECT

January 30, 1995

STATE OF OREGON MATCHING FUNDS FOR THE SOUTH/NORTH LRT PROJECT: Executive Summary

- A commitment of matching funds from Tri-Met, C-TRAN and the States of Oregon and Washington is needed during 1995/96 to secure an earmarking of Section 3 funds for the South/North LRT Project in the upcoming federal transportation authorization bill.

- The State of Oregon's share of matching funds for the South/North LRT Project is proposed to be one-sixth of total construction costs which is estimated to be $475 million.

- To attain this State contribution, the JPACT Finance Committee recommends that:

  [a] The 1995 Legislative Assembly authorize a total lottery commitment to light rail transit (LRT) of $40 million per year beginning in FY 2000. This stream of funds would be used to pay the State's share of both the Westside LRT and the South/North LRT. Until FY 2000, the State would continue its current $10 million per year commitment to the Westside LRT.

  [b] The funds made available to the South/North LRT Project by this authorization be used to support about a $95 million cash contribution to the project and to repay a $380 million bond contribution to the project.

  [c] The 1995 Legislative Assembly authorize the issuance of lottery bonds for the South/North LRT Project which are also coupled (or "wrapped") with a "moral obligation" of the State to appropriate other State funds to repay the debt if lottery revenues are insufficient to meet debt service requirements. The "moral obligation" commitment is needed to allow for a long-term (25 - 30 year) lottery bond. Without such a commitment, the maximum term of a bond solely backed by lottery revenues might be 15 years.

- Subsequent to legislative approval, Tri-Met would enter into an agreement with ODOT which commits the state's matching funds, subject to receipt of a federal funding commitment, in order to demonstrate a fully-committed 50% share of non-Section 3 funds prior to the mark-up of the next federal authorization bill.

- In addition to the state matching funds, the State may be asked to provide credit enhancements to support interim borrowing requirements caused by the cash-flow limitations of federal funds.

- The following oversight functions would be established for State:

  [a] The criteria currently required by state statute for the ODOT Director's release of State matching funds for the Westside LRT project will be required for the release of the State's contribution to the South/North LRT project.

[b] A Steering Group and Project Management Group will be established, similar to those in operation on the Westside Project, which will provide ODOT on-going involvement in key project management decisions.

- A task force would be formed to determine if there are other funding sources that can be used for South/North LRT Project which reduce the funding requirements of the State and regional property-owners.

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I. OVERVIEW OF FINANCING PLAN

1.1 Background

In reviewing the proposed financing plan, it is important to consider the unique facets of securing federal funding for LRT projects. The fact that Section 3 New Start funds, the source of federal funding for LRT, are discretionary funds alters the character of the financing plan, the timing of securing funding commitments and the strategy for implementing the financing plan.

In particular, as evidenced by ISTEA, to receive Section 3 funding for an LRT project, it is necessary to have the Section 3 funds earmarked in the transportation authorization bill. If a project is not earmarked in the upcoming authorization bill, it will almost certainly have to wait another five or six years (until the next authorization bill) for another opportunity for federal funding.

Beyond shear political muscle, it will be necessary to demonstrate the local financial commitment to get a project earmarked in the upcoming authorization bill. The existence of local funding commitment was a major consideration in the earmarking within ISTEA, but some projects without local commitments got earmarked. Since that time, most of the earmarked projects which did not have a local funding commitment have faltered. Congress has vented its frustration about tying up federal funds on projects which do not proceed and, as a result, has intensified its requirement that local funding be committed as a pre-condition for future earmarkings.

The current ISTEA terminates on September 30, 1997. However, ODOT and Tri-Met have learned from their federal representatives that the Administration intends on marking-up an authorization bill during calendar 1995 and reporting the bill to Congress in early 1996 for adoption during September 1996. Thus, it is necessary to establish state and local funding commitments in 1995 and seek an earmarking for federal funds in 1996 or delay project funding until the year 2001 or 2002. It is important to note that at this time we need a "commitment" of funds, not "the money in-hand".

There are several worrisome but unavoidable uncertainties which result from these circumstances including:

[a] State and local funding commitments must be made before the project is fully defined and highly reliable cost estimates, based on detailed engineering, exist;

[b] State and local funding commitments must be made based on assumptions about what might included in the mark-up of the federal transportation authorization bill and how congressional deliberations might proceed;

[c] Beyond the authorization bill, the financing plan must also be based on assumptions about future levels of federal transportation appropriations which in turn have a significant impact on the size and nature of the financing plan.

These uncertainties will lead to questions about the financing plan which do not always have definitive answers. Accordingly, the financing plan must be evaluated on its ability to accommodate a variety of circumstances and not on its ability to render static answers to unanswerable questions.

As part of this background, it is also important to introduce the concept of the "Full Funding Grant Agreement (FFGA)" which Tri-Met must enter into with the FTA to receive the federal funds. It is important to note that FTA will only execute FFGAs which fully funds an operable segment of a project. That is, the combination of federal, state and locally committed funds must be sufficient to build an entirely operational line.

If, for example, federal funds are not earmarked in the authorization bill, then FTA will not execute an FFGA which requires the use of federal funds to construct an operational line. If, however, the authorization bill includes an earmarking which is insufficient to fund a full-length project but is sufficient, when added to the committed state and local funding, to build a shorter (but fully operational) line, FTA will execute an FFGA for the shorter line (Minimum Operable Segment (MOS)). The notion of an MOS is important to the financing plan which is proposed later in this report.

1.2 Capital Costs

The total capital cost for the South/North LRT project between Clackamas Town Center and 99th Street in Clark County is estimated to be $2.85 billion in year-of-expenditure dollars. Year-of-expenditure dollars were calculated from a 1994-dollar capital cost estimate using a construction scheduling computer model developed for the Westside LRT project. The preliminary schedule assumes a full funding contract with the Federal Transit Administration would be executed in early 1998, a least-time construction schedule would be followed and construction would be completed in 2007.

It must be noted that the capital cost estimates are based on a pre-Preliminary Engineering level-of-detail. Furthermore, there are a variety of design options in many segments which could effect the construction cost. These uncertainties are addressed in the year-of-expenditure estimate by the inclusion of a 35% contingency on engineering estimates. In sum, by accepting the $2.85 billion construction cost estimate as a basis for making funding requests, the project has, in essence, assumed a maximum budget for capital construction. From this point on, project decisions on design elements and schedule will be made so as to ensure they fit within the maximum budget.

In Section 1.1, the concept of Minimum Operable Segments (MOS) was introduced. It should be noted that the MOS for the South/North LRT project would be an LRT line between downtown Vancouver and downtown Milwaukie. While such a line would not fully address the objectives of the project, it would be a workable line with sizeable benefits. The estimated YOE cost for the Milwaukie CBD-to-Vancouver CBD MOS is $2.10 billion. The relevancy of the MOS and its associated cost will be made apparent below.

1.3 Availability of Federal Funds

1.3.1 Federal Authorization Options

The financing plan for the South/North LRT project is premised on a Section 3 share of 50%, or $1.425 billion. The reader should note that this is the "Section 3 share" not the "Federal share" which would include any formula flexible funds (STP or NHS) that may be employed in the funding plan. It should be noted that the Portland region already has a need for about a $100 million earmarking in the upcoming authorization bill for the Westside (system-related costs)/ Hillsboro project. Thus, the total Section 3 authorization request would be about $1.525 billion.

It is important to consider the three types of authorization that may be available in the next authorization bill: "*outright authorization*", "*contingent commitment*" and a "*program of interrelated projects*". Regardless of which type of authorization is ultimately achieved, it will be necessary to demonstrate that there is a sufficient commitment of local and state funds to match the construction of the entire project.

"Outright authorization" implies that the funds allocated the project are legally available to the project over the life of the authorization bill although their actual receipt depends on future decisions by the appropriation committees. While an "outright authorization" is a necessary condition to be able to borrow to meet project cash-flow requirements, it is not sufficient to meet the project's borrowing needs. This is due to the fact that debt markets deeply discount the "outright authorization" when funds are borrowed against it.

A "contingent commitment", on the other hand, represents a commitment of funds subject to a future authorization bill. Thus, while funds are legally obligated to a project, funds are not to be appropriated towards such commitments in the current authorization period. This is a new authority permitted by ISTEA which has not yet been applied in practice, but will be soon be applied to the Hillsboro Extension. In the borrowing program for the Westside LRT, the debt markets gave borrowing credit for the anticipated Hillsboro "contingent commitment" through a formula similar to that used for borrowing against an "outright authorization", but only after an FFGA is signed which includes the "contingent commitment". Until such an FFGA is signed, no borrowing credit is given for the "contingent commitment".

The "program of interrelated projects" differs from the first two options in that it does not afford a legal funding commitment to a portion of the project, instead it establishes a policy regarding a future extension(s). The Westside/Hillsboro LRT project is an example of a "program of interrelated projects" in ISTEA. ISTEA gave an "outright commitment" of funds to the Westside LRT to SW 185th Street. In addition, ISTEA expressed an intent or, at least, an acknowledgement that the Hillsboro Extension would be included in a future amendment to FFGA for the Westside LRT project. While this level of commitment is clearly inferior to the first two, it provides a political basis to bridge authorization bills when a legal commitment was not achievable.

1.3.2 Assessment of Federal Authorization Options

Outright Authorization: Based on previous experience and assuming historic levels of national Section 3 authorization, the total Westside/Hillsboro and South/North request of $1.525 billion is beyond that which can reasonably be expected as an "outright authorization". Thus, a financing plan premised on a fully outright authorized project is not judged to be viable and will not be further considered in this report.

Partial Outright Authorization/Partial Contingent Commitment: As stated earlier, it is possible to get an FFGA for a shorter but operational line (an MOS) with the opportunity to effectuate a contingent clause when additional funding is made available to the project. The best way to implement such a strategy is to secure an "outright authorization" for the MOS and a "contingent commitment" for the extension.

In the case of the South/North LRT project, this would require a $1.15 billion "outright authorization" of Section 3 funds (this includes $1.05 billion for the South/North MOS and $100 million to close-out the Westside/Hillsboro project) and a $375 million "contingent commitment for the extension of the MOS to 99th Street in Clark County and to the Town Center area in Clackamas County would be earmarked in the upcoming authorization bill.

The $1.15 billion Section 3 authorization is probably too large of an "outright authorization" request, so a back-up variation has been identified. Since the MOS is estimated to cost $2.1 billion and the proposed local and state match for the full project is $1.425 billion, only $675 million needs to be "outright authorized" in order to demonstrate sufficient funding commitments to construct the MOS. The overmatch (the amount of state and local funds in excess of 50% of the MOS cost) can be used to construct the MOS and then match the "contingent commitment" when these funds are effectuated. Thus, under the variation, a $775 million "outright authorization" of Section 3 funds ($675 million for the South/North LRT MOS and $100 million for Westside/Hillsboro LRT) and a $750 million "contingent commitment" (for extensions to the South/North LRT MOS) would be earmarked in the upcoming authorization bill.

Partial Outright Authorization/Partial Program of Interrelated Projects: The required dollars would be similar to the above option and variation except that a "contingent commitment" would not be included in the earmarking. Instead some statement of intent, whether as a "program of interrelated projects" as in ISTEA or some similar bill or report language, would be included. While not as powerful as a "contingent commitment", this option is more easily achievable and could provide the basis for a later "contingent commitment" enacted by the Administration.

1.4 Allocation of Non-Section 3 Shares Between the States of Oregon and Washington

Metro, C-Tran and Tri-Met have been working to determine an equitable formula for allocating the local share of the capital costs ($1.425 Billion). Two methods for computing the relative shares of the capital cost were identified: *Ridership* and *Population*.

The "Ridership" methodology assumes that the capital cost of the project should be allocated on the basis of the relative number of South/North LRT trips that have a production and/or attraction in Oregon versus Washington. This is shown below:

	Daily Trips	Per Cent
Number of South/North LRT Trips with a Washington Production and/or Attraction	23,435	31.2%
Number of South/North LRT Trips with an Oregon Production and/or Attraction	51,720	68.8%

The "Population" methodology assumes that the relative populations within the corridor served by LRT correlates well with ridership and benefit and is simpler to understand than "productions and attractions". There are two possible years to use as the basis for determining C-TRAN's share of the South/North :

1994: Because it is the current year and the year agreement is reached.
1998: Because it is the year that the FFGA is projected to be executed and construction becomes real (and starts).

Based on these years, C-TRAN's share of South/North would be as follows:

Base Year to Pro-Rate Share	S/N Corridor Population	Population in Clark Co.	% in Clark County	% in Oregon
1994	552,422	184,525	33.4%	66.6%
1998	578,509	198,829	34.4%	65.6%

Upon consideration of all of these possibilities, it was recommended that the C-Tran/Washington share of the non-Section 3 capital requirements should be one-third or $475 million. As a result, the Tri-Met/Oregon share should be two-thirds or $950 million.

1.5 Allocation of Tri-Met/Oregon Share Between the State of Oregon and Tri-Met

In total, it is proposed that Tri-Met and the State of Oregon contribute two-thirds of the non-Section 3 funds needed to construct the project. This is estimated to amount to $950 million. It is further proposed that this total be split evenly between Tri-Met and the State. As a result, the State is requested to contribute one-sixth of the project cost, or $475 million based on current estimates. The 50/50 split between Tri-Met and the State is the same relationship that was agreed-upon for funding the Westside/Hillsboro LRT project. The rationale for the State's participation includes:

[a] *Oregon Income Tax Derived from Construction of the Project:* About $160 million.

[b] *Oregon Income Tax Derived from Operation of the Project*: About $50 million by 2015.

[c] *Reduced Unemployment and Other Welfare Requirements on the State*: The construction and operation of the South/North LRT Project creates about 60,000 job-years (number of jobs multiplied by the number of years they exist) over a 20-year time horizon.

[d] *Compliance with State Requirements Regarding Urban Sprawl and VMT*: Creates the ability to encourage a compact Portland region with transit-supportive land uses within the urban area and, as a result, achieve a 20% reduction in per capita VMT as required by the State's Transportation Planning Rule.

[e] *State Implementation Plan Benefits*: A major component of the State Implementation Plan (SIP), the federally required air quality plan for the Portland region, is a major transit expansion. Maintenance of air quality standards allows for reduced federal regulations on future development, saving business millions of dollars per year in air pollution control costs. In addition, compliance with the SIP is required to maintain eligibility for federal transportation funds.

[f] *Achievement of Region 2040 Plan Objectives and a Reduced Cost of Urban Sprawl:* The Region 2040 Plan establishes a long-term policy on urban containment and transit-supportive land uses within the urban area. These policies result in massive savings in infrastructure costs, including arterials and collectors. This Plan and its related fiscal benefits would not be feasible without a light rail system.

II. RECOMMENDED FINANCING PLAN

2.1. Implementation Framework

The financing plan is premised on executing a Full Funding Grant Agreement which allows for the staged implementation of the South/North LRT project between the Clackamas Town Center and 99th Street in Clark County. Stage 1, which would start soon after the federal authorization bill passes, would construct an MOS between the Milwaukie CBD and the Vancouver CBD. Stage 2 would construct the extensions from the MOS to the desired termini. Stage 2 would hopefully overlap the latter part of Stage 1 but, depending on events, might be sequential to Stage 1.

To allow for the fastest practical construction schedule, the financing plan would "advance spend" local and state funds (under a Letter of No Prejudice which would ensure such funds would later count as local match) and short-term borrow to fill federal cash-flow gaps.

2.2 Federal Funding Participation

2.2.1 Federal Authorization Strategy

Over the next two authorization bills, Tri-Met will seek a 50% federal share for the South/North LRT project. Based on current estimates, this will amount to $1.425 billion.

To secure the commitment for such funds, Tri-Met would implement a federal authorization strategy consisting, in priority order, of the following request and back-ups:

First Request: Earmark both a $1.15 billion "outright authorization" of Section 3 funds ($1.05 billion for the South/North MOS and $100 million for the Westside/Hillsboro project) and a $375 million "contingent commitment for the extension of the MOS to 99th Street in Clark County and to the Town Center area in Clackamas County in the upcoming authorization bill. It should be understood that this request for authorization is extremely large and not likely to be achievable. However, it provides Tri-Met with the ability to compromise, as part of the congressional deliberations, to *Back-Up 1* which is likely the best achievable option.

If First Request Fails, Back-Up 1: Earmark both a $775 million "outright authorization" of Section 3 funds ($675 million for the South/North LRT MOS and $100 million for Westside/Hillsboro LRT) and a $750 million "contingent commitment" (for extensions to the South/North LRT MOS) in the upcoming authorization bill. It is anticipated that the "contingent commitment" would automatically become an "outright authorization" upon enactment of the authorization bill following the one to be adopted in 1996 (or 1997).

If Back-Up 1 Fails, Back-Up 2: Earmark an "outright authorization" of $775 million of Section 3 funds for the MOS and a "program of interrelated projects-type" commitment for the extensions. Tri-Met would then have to seek an "outright authorization" of $750 million of Section 3 funds (or more if the construction schedule has to be elongated) in the federal authorization bill following the one to be adopted in 1996 (or 1997).

2.2.2 *Federal Appropriations Considerations*

While the federal authorization level defines the ultimate level of federal financial involvement, the actual amount of funds available to the project at any point at time is a function of the appropriations process. Because (i) the amount of funds earmarked to different projects may exceed the total amount of funds authorized and (ii) congress has regularly chosen not to appropriate the full amount of funds authorized, it is virtually certain that the funds appropriated to the project will not (i) meet the cash flow needs of the project and, (ii) over the period covered by the authorization bill, will not total the amount authorized for the period. Thus:

[a] There will be a need for interim financing, and

[b] The receipt of Federal funding for the project will likely bridge three authorization bills.

The base analysis shown later in this report assumes that federal funds would be appropriated to the project at a uniform rate of $100 million per year. A sensitivity analysis, also shown later, shows the impact of lower federal appropriations.

2.3 C-Tran/State of Washington Funding Participation

It is proposed that, in total, C-Tran and the State of Washington contribute one-sixth of the total capital cost for the project. This is estimated to be $475 million. C-Tran will likely propose to the State of Washington that they evenly split this funding requirement.

C-Tran's $237.5 million funding contribution would come from bonds backed by a 0.3% sales tax and a 0.3% motor vehicle excise tax imposed within Clark County. C-Tran has scheduled an election for February 1995 to seek voter approval of these taxes. This analysis assumes that the bonds would be issued in their entirety at the beginning of the construction period. Current thinking regarding the State of Washington's $237.5 million contribution is that it would be provided in installments over the construction period (this analysis assumes these installments would be equal).

2.4 Tri-Met Funding Participation

It is proposed that Tri-Met would contribute one-sixth of the total project capital cost. Tri-Met's share would be paid from the $475 million bond measure recently approved by 65% of the region's voters. This analysis assumes that these bonds would be issued in their entirety at the beginning of the construction period.

2.5 State of Oregon Funding Participation

It is proposed that the State of Oregon would contribute one-sixth of the total project cost or, based on current estimates, $475 million. The financing plan identified for the State's contribution requires the 1995 Legislative Assembly to authorize a total lottery commitment to light rail transit (LRT) of $40 million per year beginning in FY 2000. <u>There does not have to be an appropriation of lottery funds to the South/North LRT Project until the FY 2000 - 2001 biennium.</u>

Until FY 2000, the State would continue its current $10 million per year commitment to the Westside LRT. Beginning in FY 2000, the $40 million per year stream of funds would be used to pay the State's share of <u>both</u> the Westside LRT and the South/North LRT. The State's commitment to the Westside LRT Project would continue to be $10 million per year until FY 2009 when the Westside LRT bonds are repaid. The remaining funds would be made available to the South/North LRT and would be used to support a cash contribution to the project and to repay a bond.

Bond underwriters view lottery bonds as risky securities, thus they have been reluctant to issue bonds solely backed by lottery proceeds which are long-term. Accordingly, the financing plan calls for legislative authority to issue lottery bonds for the South/North LRT which are coupled (or "wrapped) with a "moral obligation" of the State to appropriate other State funds to repay the debt if lottery revenues are insufficient to meet debt service requirements. Such bonds would be similar to so-called "double-barrel" bonds in that the basic credit obligation upon which the bondholders would rely would be the State's "moral obligation" to cover shortfalls, but the annual debt service would be paid by lottery funds.

The "moral obligation" commitment is needed to allow for a long-term (25 - 30 year) lottery bond. Without such a commitment, the maximum term of a bond solely backed by lottery revenues might be 15 years, which would require significantly higher annual lottery appropriations to support the required bonding.

It should be noted that this assumes that the lottery funds allocated to the South/North LRT project would be given the same priority as those allocated to the Westside LRT project. That is, the South/North LRT would have "first call" on annual lottery proceeds (e.g., the allocation of lottery funds to the South/North LRT project would come before almost all other project allocations), eliminating the need to use some of the funds allocated to the South/North LRT project as "coverage" and, thereby, decreasing their leverage.

It also should be noted that while the $40 million per year of lottery funds would be pledged to repay the debt, the actual funds used to repay the debt could come from any state source or combination of sources. Even if other state funding sources are to be used, the amount of lottery funds pledged should still, in itself, be sufficient to repay the debt. The reason for making such a pledge of lottery funds is to maximize the marketability of the bonds and, thereby, reduce the interest costs to the State.

In order to maximize the likelihood of receiving an earmarking for the project in the upcoming federal authorization bill, a commitment of the State's entire share will have to be in place by the end of 1995 or very early in 1996. To accomplish this, ODOT and Tri-Met will need to enter into an intergovernmental agreement which commits the state contribution to the project, subject to a federal funding commitment and the due diligence criteria already established by statute for the ODOT Director.

2.6 Interim Borrowing Needs

As explained in Section 2.2.2, regardless of the type and level of federal authorization, the amount of federal appropriations will not keep pace with cash-flow needs of the project. As a result, interim borrowing will be required. Since the interim financing requirement is expected to be larger than Tri-Met's credit capacity, credit support will likely be necessary from the State of Oregon, State of Washington and C-TRAN. It should be noted that the interest on interim borrowing is a "project cost" and, thus, 50% is repaid with Section 3 appropriations.

Interim borrowing needs will be met, in part, by "advancing" local, state and federal formula funds. In this context, "advancing" means overmatching Section 3 in the early years of the project followed by an equivalent amount of undermatching in the latter years. In addition, the interim borrowing program will have to be supplemented with lines of credit or other short-term debt instruments (such as commercial paper).

The debt service on credit lines and other debt instruments would be repaid by future Section 3 appropriations. However, a credit enhancement, which is a guaranteed source of funds to repay the short-term debt if the federal funds are not appropriated, will be required by banks, underwriters and the debt market. Tri-Met and C-TRAN will provide credit to support the interim borrowing requirements of the project, but it will not be sufficient. Thus, credit enhancements will be requested from the States of Oregon and Washington in the form of guarantees backed by either (a) identified dedicated revenue streams or (b) "moral obligation" or other similar commitments which meet the requirements and restrictions of state law and are satisfactory to the debt markets.

III. IMPACTS OF FINANCE PLAN ON THE STATE

3.1 Analysis of Proposed Financing Plan

Table 1 illustrates the financing plan which assumes the state and local shares described in Section II and:

[a] Construction of the MOS between Milwaukie CBD and Vancouver CBD starts in 1998 and ends in 2005 and the construction of Extensions to the Town Center and 99th Street in Clark County overlaps the construction of the MOS in the years 2004 and 2005. The Extensions are completed in the year 2007.

[b] Section 3 funds would be appropriated to the project at a 50% rate up to a maximum of $100 million per year until the year 2008 when the federal appropriation begins to rise to a maximum of $115 million per year.

[c] State and local funds are advanced to the project to allow it to maintain its schedule. After they are fully expended, interim borrowing is used to meet cash-flow needs.

Table 2 shows the cash-flow requirements upon the State. The following fiscal impacts and issues are identified for this scenario:

[a] Currently, the State is allocating $10 million per year of lottery funds to repay the debt on the State's share of the Westside LRT Project. The financing plan assumes that, beginning in FY 2000, the State would allocate a total of $40 million per year to LRT projects. At first, the South/North LRT Project would receive $30 million per year of the LRT allocation and the Westside LRT would continue to receive its $10 million per year allocation. Then in FY 2009, when the Westside LRT bonds are fully repaid, the full $40 million allocation would be used by the South/North LRT Project. This $40 million per year allocation would continue until the South/North LRT bonds are fully repaid in FY 2028.

[b] The lottery funds allocated to the South/North LRT Project would be used in two ways. Funds allocated in FY 2000 through FY 2002 (along with any interest earnings) would be provided to the project on a cash flow basis. The remaining lottery funds would be used to repay debt. In total, about $95 million would be available to the project as a cash contribution. The long-term maturity allowed by the "moral obligation" commitment and the annual lottery allocations after FY2002 would support about a $380 bond contribution to the project.

Table 1a: South/North LRT Construction Costs
Millions of Dollars (Year-of-Expenditure Dollars)

Federal FY:	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	Total
Milwaukie-Vancouver	$ 20	$ 88	$260	$515	$496	$315	$155	$ 23								$1,871
CTC/99th Extensions							$ 77	$288	$322	$159						$ 846
Interim Financing					$ 1	$ 1	$ 2	$ 8	$ 19	$ 27	$ 25	$ 21	$ 16	$ 10	$ 2	$ 133
Total Cost	$ 20	$ 88	$260	$515	$497	$316	$234	$319	$341	$187	$ 25	$ 21	$ 16	$ 10	$ 2	$2,850

Table 1b : South/North LRT Financing Plan
Millions of Dollars (Year-of-Expenditure Dollars)

	ISTEA II						ISTEA III						ISTEA IV			
Federal FY:	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	Total
Section 3	$ 10	$ 45	$100	$100	$100	$100	$100	$100	$100	$100	$110	$115	$115	$115	$115	$1,425
C-TRAN	$238															$ 238
Washington	$ 24	$ 24	$ 24	$ 24	$ 24	$ 24	$ 24	$ 23	$ 23	$ 23						$ 237
Tri-Met	$475															$ 475
State: Lottery			$ 32[1]	$ 32[1]	$411[2]											$ 475
Total Revenues	$747	$ 69	$156	$156	$535	$124	$124	$123	$123	$123	$110	$115	$115	$115	$115	$2,850

[1] $30 million cash lottery contribution + interest. [2] $30 million cash lottery contribution + interest + $379 million from bond proceeds.

Table 2: Lottery Appropriation Needs and Uses

FY	Total LRT Demands on Lottery	Used by Westside	Available to S/N	S/N Construction Fund Deposit	Interest S/N Construction Fund	S/N Bond Proceeds	S/N Debt Service
00	$40	$10	$30	$30	$2	$0	
01	$40	$10	$30	$30	$2	$0	
02	$40	$10	$30	$30	$2	$379	
03	$40	$10	$30				$30
04	$40	$10	$30				$30
05	$40	$10	$30				$30
06	$40	$10	$30				$30
07	$40	$10	$30				$30
08	$40	$10	$30				$30
09	$40	$10	$30				$30
10	$40	$ 3.4	$36.6				$36.6
11	$40	$0	$40				$40
12	$40	$0	$40				$40
13	$40	$0	$40				$40
14	$40	$0	$40				$40
15	$40	$0	$40				$40
16	$40	$0	$40				$40
17	$40	$0	$40				$40
18	$40	$0	$40				$40
19	$40	$0	$40				$40
20	$40	$0	$40				$40
21	$40	$0	$40				$40
22	$40	$0	$40				$40
23	$40	$0	$40				$40
24	$40	$0	$40				$40
25	$40	$0	$40				$40
26	$40	$0	$40				$40
27	$40	$0	$40				$40
28	$40	$0	$40				$40
29	$40	$0	$40				$40

[c] Section 3 funds must be appropriated to the project over 15 years and three authorization cycles. Moreover, appropriations must occur for five years after the project is complete in order to repay interim borrowing caused by the inability of federal appropriations to keep pace with the project's cash-flow needs.

[d] Maximum interim borrowing occurs in the year 2007 at which time approximately $600 million of short-term debt is incurred. Overall, about $130 million in interest costs accrue to the project.

3.2 Impact of Lower Federal Appropriations

Table 3 illustrates the impacts of a lower level of federal appropriations than that assumed in Section 3.1, above. The number of permutations of lower federal appropriation scenarios is endless. This example shows the impact of a $10 million per year lower appropriations over a six-year period between the years 2000 and 2005, inclusive. The construction assumption in this scenario is the "sequential" option. That is, the MOS (between Milwaukie CBD and Vancouver CBD) is fully constructed before construction starts on the Extensions (to the Town Center and 99th Street).

This scenario is possible under any of the *Federal Authorization Strategies* discussed in Section 2.2.1, but is particularly likely if *Back-Up Strategy 2* is employed ("contingent commitment" is <u>not</u> available to the project, so a "program of interrelated projects-type of earmark is secured for the Extensions). Under such a scenario, the risk may be judged to be too great to proceed with an overlapping construction schedule.

The following fiscal impacts and issues are identified for this scenario:

[a] The extension of the construction schedule results in about a $50 million increase in the overall construction cost. The increase is caused by the fact that the increased inflation costs on the extended construction elements outstrips the savings resulting from reduced interim borrowing needs.

[b] As a result of the increased costs, the State's contribution to the project budget is increased by about $8 million (as is Tri-Met's).

[c] Maximum interim borrowing occurs in the year 2009 when $485 million of short-term debt is incurred, this is about $115 million less than the base scenario shown in Section 3.1. Overall, almost $90 million in interest costs accrue to the project.

[d] Note that the results reported above represent a modest reduction in appropriation levels. Obviously as lower rates are assumed, the impacts get higher.

Table 3a: South/North LRT Construction Costs: Sequential Construction
Millions of Dollars (Year-of-Expenditure Dollars)

Federal FY:	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	Total
Milwaukie-Vancouver	$ 20	$ 88	$260	$515	$496	$315	$155	$ 13								$1,861
CTC/99th Extensions									$ 87	$324	$363	$180				$ 954
Interim Financing					$ 1	$ 1	$ 3	$ 2	$ 1	$ 2	$ 13	$ 22	$ 19	$ 14	$ 7	$ 86
Total Cost	$ 20	$ 88	$260	$515	$497	$316	$158	$ 15	$ 88	$326	$376	$202	$ 19	$ 14	$ 7	$2,901

Table 3b: South/North LRT Financing Plan: Sequential Construction
Millions of Dollars (Year-of-Expenditure Dollars)

	ISTEA II						ISTEA III						ISTEA IV			
Federal FY:	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12-13	Total
Section 3	$ 10	$ 45	$100	$100	$100	$100	$100	$100	$100	$100	$110	$115	$115	$115	$141	$1,451
C-TRAN	$242															$ 242
Washington	$ 26	$ 24	$ 24	$ 24	$ 24	$ 24	$ 24	$ 24	$ 24	$ 24						$ 242
Tri-Met	$483															$ 483
State: Lottery			$ 32[1]	$ 32[1]	$419[2]											$ 483
Total Revenues	$761	$ 69	$156	$156	$543	$124	$124	$124	$124	$124	$110	$115	$115	$115	$141	$2,901

[1] $30 million cash lottery contribution + interest. [2] $30 million cash lottery contribution + interest + $387 million from bond proceeds.

IV. Governance and Management of the Project

4.1 Bi-State Compact

Tri-Met and C-TRAN are in the process of preparing a *Bi-State Compact* for possible submission to the Washington and Oregon legislatures in 1995. The purpose of such a Compact is to establish a cooperative governance and management organization for constructing and operating the South/North LRT system. To accomplish this, three critical steps must be taken:

[a] Tri-Met and C-TRAN must first reach agreement on the form, structure, scope and powers of the "Authority" to be created and prepare legislation defining these elements;

[b] Both the Oregon and Washington legislative assemblies would then have to pass the legislation (which must be, for all intents and purposes, identical);

[c] The legislation approved by both legislatures would then be proposed to the U.S. Congress for enactment.

Once passed by Congress, the Authority would have the powers specified in the legislation.

Based on the current draft of the concept:

[a] The Authority would oversee the construction and operations of the South/North LRT system;

[b] It would be governed by a Board of four members consisting of two Tri-Met Board members and two C-TRAN board members;

[c] The Authority would not directly hire staff but would contract with Tri-Met, C-Tran and private contractors for services;

[d] The Authority would receive and hold funding contributions and would disburse such funds through contracts; and

[e] The legislation would define a uniform set of legislation in both States which apply to the construction and operation of the project.

The last point is critical. The legislation of both States regarding the funding and construction of the project is vastly different. There is concern that the administration of such a project would be difficult and would lead to higher than expected costs. The implementation of a Bi-State Compact provides a vehicle for reconciling these problems.

4.2 Current Statutory Pre-Requisites for State Match

The legislation authorizing the state contribution for the Westside LRT project provided the ODOT Director the authority to release funds to the project if and when he/she was satisfied that:

[a] The local approvals for the project were in place;

[b] There was sufficient assurances that the other funds needed for the project were in place;

[c] The project, or the specific phase of the project in question, was certified by JPACT; and

[d] The capital costs for the elements to be funded by the State were sufficiently known.

Identical criteria will be included in the legislation proposed for the South/North LRT project.

4.3 Steering Group and Project Management Group Role

The Steering Group and Project Management Group to be established for the South/North LRT project would be similar in nature to that currently operating for the Westside LRT project. In particular, ODOT would be invited to actively participate in regularly scheduled meetings for the purpose of making design, budget, scheduling and other project-level decisions.

V. Public-Private Financing Alternatives

5.1 Alternative Funding Task Force

A public-private task force would be formed jointly by Tri-Met and ODOT to explore other funding sources than can be used for the South/North LRT Project funding requirements, reducing the requirements on the State and regional taxpayers.

The task force would consist of at least seven members drawn from the Tri-Met Board, the C-TRAN Board, the OTC and private industry. It would be chaired by either a member of the Tri-Met Board or the OTC. It would establish a work program with the help of Tri-Met and ODOT staff, that would analyze all feasible aspects of private sector involvement in funding the Project.

5.2 Allocation of Alternative Funding Resources

The allocation of alternative funding resources should be used whenever possible to offset the burden of the taxpayer's contribution to the Project. This could take the form of:

[a] A reduction in the amount of the Tri-Met General Obligation Bonds issued, to be paid by regional property taxpayers.

[b] A reduction in the amount of C-TRAN Revenue Bonds issued, to be paid by Clark County taxpayers.

[c] A substitution for lottery, General Fund or other funds committed to the Project by the States of Oregon and Washington.

The proportionate distribution of such funds would be decided by the Project Steering Committee, but could be based on the proportion of local match being generated by the potential recipients of these funds and the location (Oregon versus Washington) of the private sector activity which is generating the alternative funding.

STAFF RECOMMENDATION

CONSIDERATION OF RESOLUTION NO. 95-2090 FOR THE PURPOSE OF ESTABLISHING A FINANCING PLAN FOR THE SOUTH/NORTH LIGHT RAIL PROJECT

Date: January 30, 1995 Presented by: Andrew Cotugno

PROPOSED ACTION

Adoption of the South/North Financing Plan would establish the region's intent to pursue the following funding actions:

1. A minimum 50 percent federal funding share to be sought over the next two Intermodal Surface Transportation Efficiency Acts for a total of $1.4 billion.

2. One-third of the local share from the Tri-Met General Obligation bond measure approved November 1994.

3. One-third of the local share from the State of Washington. One-half of that share is to be provided by C-TRAN and one-half by the Washington Legislature.

4. One-third of the local share from the State of Oregon.

The proposed financing plan (Exhibit A) includes details of the scheduling of the South/North LRT project, required cash flow, timing, and amount of anticipated receipt of the various sources of funds and proposed source of funds. As a financing plan, each element is subject to approval by the responsible party, as follows:

1. Federal Section 3 funds subject to authorization by Congress, execution of a Full-Funding Grant Agreement by the Federal Transit Administration and annual funding appropriation by Congress.

2. Tri-Met General Obligation bonds subject to approval by the Tri-Met Board of Directors.

3. C-TRAN funding subject to approval by the voters and the C-TRAN Board of Directors.

4. State of Oregon contribution subject to authorization by the Oregon Legislature, execution of a funding agreement with ODOT and biennial appropriation by the Oregon Legislature.

5. State of Washington contribution subject to authorization by the Washington Legislature, execution of a funding agreement with WSDOT and biennial appropriation by the Washington Legislature.

Due to these many required approvals, many specific details are subject to change.

TPAC and JPACT have reviewed this financing plan and recommend approval of Resolution No. 95-2090.

EXECUTIVE OFFICER'S RECOMMENDATION

The Executive Officer recommends approval of Resolution No. 95-2090.

ACC:lmk
95-2090.RES
2-9-95

Tri-Met Memorandum

Date: February 7, 1995

To: JPACT

From: Dick Feeney

Re: South/North Prospectus

JPACT adoption of the South/North prospectus is an endorsement of the following recommendations:

1. The commitment of $475 million from Tri-Met through general obligation bonds and $237.5 million from C-Tran from sales and MVET tax proceeds.

2. A 1995 request to the Congress for authorization of 50 percent of the total project costs. A parallel request for a dollar specific amount of authority of no less than $775 (includes Hillsboro) of Section 3 "New Start" funds in the next ISTEA reauthorization. (Experience indicates that Tri-Met is likely to receive an authorization of $600-700 million).

   Tri-Met will need to commit all non-federal funds to 1) gain legislative authority in ISTEA for the entire project 2) ensure Federal Transit Administration approval of a full funding contract to construct the approximately $2 billion first leg of the project and 3), secure contingent authority for the remaining amount of authority required to complete construction of the first leg and to begin construction of the second leg of the project in the subsequent ISTEA.

3. State of Washington funding of $237.5 million derived from a petroleum import tax and $475 million of state of Oregon funds derived from lottery backed bonds.

4. The establishment of a C-Tran/Tri-Met task force to investigate opportunities for private sector investments to defray taxpayer expense.