METROPOLITAN TRANSIT COMMISSION

MEETING SUMMARY

February 27, 2013

Presiding:	Mayor Anthony Foxx (Charlotte)
Present:	Pat Cotham (Mecklenburg County Commission) Julie Burch (Interim Charlotte City Manager) Rick Sanderson (TSAC Chair) Mayor Lynette Rinker (Cornelius) Anthony Roberts (Cornelius Town Manager) Mayor John Woods (Davidson) Leamon Brice (Davidson Town Manager) Mayor Jill Swain (Huntersville) Greg Ferguson (Huntersville Town Manager) Mayor Jim Taylor (Matthews) Ralph Messera (Matthews) Brian Welch (Mint Hill Town Manager) Bill Thunberg (Mooresville Representative)

Chief Executive Officer: Carolyn Flowers

I. <u>Call to Order</u>

The regular meeting of the Metropolitan Transit Commission was called to order at 6:00 p.m. by MTC's Chairperson, Mayor Anthony Foxx.

II. <u>Review of Meeting Summary</u>

The meeting summary of January 23, 2013 was approved as written.

III. <u>Transit Services Advisory Committee (TSAC) Chair's Report</u> **Rick Sanderson**

Mr. Sanderson reported that TSAC met on February 14. Staff made presentations on revisions to bus stop announcements on buses Uptown, next year's budget, the new crossing of the LYNX Blue Line at Poindexter Drive and upcoming June service changes. TSAC's next meeting is scheduled for March 14.

IV. <u>Citizens Transit Advisory Group (CTAG) Chair's Report</u>

No report.

V. <u>Red Line Task Force Update</u> **John Woods**

Mayor Woods reported that the Red Line Task Force did not meet this month. The Task Force is waiting on communication from Norfolk Southern on the O-line capacity study. NCDOT has extended the contracts with consultants Mark Briggs and Katherine Henderson, so the Task Force continues to work with them on various areas of the plan.

Discussion: Mayor Foxx said that one of the items for this spring's workshop is determining the tangible steps for moving forward with the Red Line. Mayor Woods noted that in a meeting with NCDOT on an I-77 hot lane discussion, they had an opportunity to discuss the Red Line's status with General Trogdon with NCDOT. Mayor Woods said he and Bill Thunberg hoped to meet with General Trogdon early next week.

VI. Public Comments

Wanda Stratford said that she uses Special Transportation Services (STS) daily. She stated that when people call for an STS ride, they are not treated like a person. She has been lied to and questioned and not treated with respect. Ms. Stratford has asked for a book on what she is entitled to as an STS rider and has not received it. She always gets wrong answers when she calls to request a ride. Ms. Stratford felt they do not give disabled people the respect they need. She said she should not be talked down to; disabled people have equal rights.

Discussion: John Joye, Senior Assistant City Attorney, stepped out of the meeting to speak with Ms. Stratford.

VII. Action Items

a. Regional and UNC Charlotte Services **Pamela White**

Ms. White, CATS Manager of Service Development, said that CATS has long-standing arrangements with four surrounding counties for Express bus service, as well as shuttle services on the UNC Charlotte campus and a local service provided in conjunction with Wells Fargo. MTC policy is that CATS will contribute a maximum of 50 percent for services outside Mecklenburg County. Tonight's discussion will center on whether to continue those one-year contracts with the Cities of Concord, Gastonia and Rock Hill, as well as UNC Charlotte, Union County and Wells Fargo. The Wells Fargo local service is within Mecklenburg County, serving a mortgage unit with a large number of visually impaired employees. The line travels into York County to get to a bus stop in Mecklenburg County. They asked CATS to put in a bus stop in York County. Wells Fargo covers 100 percent of the funding for that stop. Ms. White asked MTC members to continue the contracts, which will all end at the end of this year.

Discussion: Mayor Woods assumed the Chair from Mayor Foxx, who left the meeting. Mayor Swain asked if this was one of the areas that would suffer. Ms. Flowers noted that there is usually a productivity index on services. Usually, less productive services are cut first, but often those areas have a great need for services. All of Operations would have a risk if we cannot solve the impending deficit. Mr. Messera said that the out of county services were covered 50 percent and asked whether that means that CATS pays 50 percent and asked whether other counties could pay their full share in future contracts. Ms. Flowers noted that 2014 BLE financing does not have an impact in the budget currently under consideration. In 2015, those issues will have to be addressed. Each year, reductions will have to be made in budgets that have already been reduced.

Resolution: Mayor Swain motioned to approve service continuation; Mayor Taylor seconded. MTC members voted; the motion passed unanimously.

VIII. Information Items

a. LYNX Blue Line Extension (BLE) Project Financing **Greg Gaskins**

Mr. Gaskins, Director of Finance for the City of Charlotte, said that his discussion would center on a particular financing structure specific to the BLE. He was with the City when financing for the South Corridor was developed. For the South Corridor's original plan, projections were used since there was no history to go on. Looking at the revenue stream based on revenue projections versus operating projections looked good. However, having no experience on which to base the projections resulted in problems when the City went to rating agencies to rate the bonds to determine how secure they were. This changed the initial plan for the South Corridor. For the BLE's plan, we have tried to anticipate the negative changes that we know about. For example, the actual revenues have not achieved the goal of the project revenues. The cost total is greater than the original plan costs. There are other factors in the market place that we cannot control; not only variations in sales tax revenue, but challenges with revenue with the Federal and State funding partners, including the sequester and other future factors.

The City will borrow $566.1 million to fund the local share of the BLE and to cover bridge financing since the Federal and State payment schedule to us is slower than the spin schedule on the project. This is very typical of projects, but the size is not typical. This is the largest borrowing by an NC municipality for one project. This is a history maker. The money borrowed will cover the local share, and will also provide bridge financing to cover the difference between projected payouts and the payment schedule from the State. The size of the project and the new projections resulted in development of a new method of allocating sales tax to debt service, operating and to revenue reserves. With the original debt issue, rating agencies expressed concern over the volatility of sales tax and how that might impact operations and debt service. The City set aside a sum of money to secure the debt service side. At the time, the excess revenue amount set aside seemed sufficient to minimize any operations impact. Currently, revenues are down, the operating side is larger, the debt is large, so the City feels that the current reserve no longer works. To meet requirements of the underwriters of the bonds and ultimately the bond buyers and also to meet rating agency and Local Government Commission (LGC) concerns, the City crafted a system to attempt to leave the $100 million reserve to deal with the capital side and create a traditional revenue bond model for the operations side, for a reserve based on sales tax revenue projections on a level scale. The sales tax allocation will follow the trend line to smooth volatility, and the reserve can be drawn on to make the model level.

The model tends to be very conservative in terms of the actual flow of money. The financing plan is designed to achieve a strong bond rating, LGC approval and minimal impact on operations. The City felt that if we came up with a conservative model, there is a good chance that we may have better results than the model suggests. This will give extra money for operations. If you beat projections, it helps the next time you secure debt financing. This will help because there will be three separate parts to that bond. For later borrowings, the borrowing may be smaller than projected. Therefore, although revenues are tight, expenses are high and there is a high risk with some of the associated items, we have done things to try to prevent those from impacting the bond holders and ultimately, to operations and the project.

Discussion: Bill Thunberg questioned whether this methodology would create two reserves and have an additional funding requirement. Mr. Gaskins said that the $100 million was a first reserve. The second reserve is an operating reserve, funded from sales tax projections.

It is a sales tax trend methodology. One of the drivers is the fact that the grant receipt situation is volatile now in terms of the speed in which Federal and State monies will be received. Mayor Swain said if we beat projections, it will help in securing future financing. She said that she understood that it actually shows you did not do your projections very well. Mr. Gaskins said that would be true if it were the reserve. He said that if you state you have a conservative projection and you explain why, and then beat that projection, that it is positive and not negative. Mayor Swain said that it may also look like you had made that conservative projection to cover yourself to make sure that you look good. Mr. Gaskins said that would be true if there were no other severe risks that are not covered, such as sequestration or the actual expenditure beyond the model expenditures; those expenses are not covered.

Mayor Swain commented that sales tax revenues are coming up now and asked why we are changing the model now but did not two years ago when sales tax revenues were going down. Mr. Gaskins replied that the discussion is happening now because the City is preparing to secure financing for $566 million. Mr. Thunberg asked if the financing was done as tranches; Mr. Gaskins replied that it was. Mayor Woods asked if MTC members had access to the model to which Mr. Gaskins referred. Ms. Flowers noted that the cash flow model was included in the package provided to members as the chart depicting the waterfall cash flow model. Mr. Thunberg asked if it was possible to have different policies, adopted by MTC, for each tranche. Mr. Gaskins replied that will happen; MTC members will vote on policies in March that will be distributed to members beforehand. On an annual basis, a recalculation will be done so better than expected results in the first tranche can be reflected in the next one. By the time you get to the third one, the actual results could be substantially better than what is in the model. This is a typical approach where revenue is rolled in over three-four years.

Mayor Foxx asked the source of the model; is it coming from City Finance, CATS, LGC. Mr. Gaskins said that the original model was prepared by a consultant in conjunction with CATS. There was also a model provided by Merrill Lynch, the primary underwriter. The current model is a consensus model developed by CATS staff, the original consultants, Merrill Lynch and City Finance. This model was also taken before local government commission staff and approved by them. Mayor Swain noted that MTC members had not approved the model. Ms. Flowers noted that it was approved by LGC; a compilation of a transition from the financing plan done for FTA and a model that is perceived to be good for the market. Mayor Taylor said that he was not getting a feeling that CATS was intricately involved in the model's assumptions. Ms. Flowers said that CATS worked with City Finance to get an option that would get the model to LGC. CATS agrees that there needs to be a debt service fund. There will probably be issues for MTC to address on how to handle impacts on Operations. Mayor Taylor said that we needed to get to a finance method that covers the $20 million hole. If the assumptions are too conservative, the hole may be only $15 million, but it could be a $25 million hole. Ms. Flowers felt that CATS needs the flexibility to revisit this. As we go through LGC, we need to be able to come back and revisit the model as we come to the 2015 budget and see where the model places us. Mayor Taylor asked if there was enough flexibility in revisiting the model as the three tranches come through. Ms. Flowers said that flexibility needed to be involved in revisiting the three tranches. MTC policy also has to have flexibility to ensure the ability to revisit that, and recommendations will be made to ensure the flexibility. Mr. Messera asked the schedule for the three tranches. Mr. Gaskins replied that the final version would be determined after completion of this process. It will also depend on the construction schedule and whether that is on schedule for a 2017 completion. The tranches will be approximately a year apart.

Mr. Messera asked whether the delayed schedule for reimbursement from the State played a part in development of this financing structure. Mr. Gaskins replied that it did. Mr. Messera asked why the State had changed their reimbursement timing. Ms. Flowers replied that in June 2012, when they passed the budget, the State eliminated New Starts Funding. However, since the State had already committed to pay their share of the local portion of the BLE, they said they would keep that commitment. However, rather than reimbursing CATS for costs incurred, the State will pay $25 million a year over a ten-year period. This had a significant change to the model developed for FTA. CATS also assumed in the model submitted to FTA that CATS would receive the $70 million that was in the President's budget last year; however, those funds were not appropriated. Funds were only appropriated for projects that already had an FFGA in the prior fiscal year; the BLE did not receive its FFGA until October 2012, a different fiscal year. Those two issues were significant changes from the assumptions in the funding model that was submitted to FTA. Mr. Messera asked what the State's delayed payments would cost in terms of short term borrowing. Mr. Gaskins said that amount could be calculated. Ultimately, the amount can be calculated precisely backwards and could be estimated beforehand. Even this model does not completely protect against that. It is still a model and payments could be slower on both the Federal and State side; there is no perfect protection. There will still be risk, even with this model. Both the State and Federal governments will pay for the project in a ten-year payout. The project will be completed without having received all the Federal and State monies.

Mr. Thunberg asked whether it would be possible for MTC to adopt a policy during the first tranche to dip into the $100 million reserve up to a certain amount based on the funding schedule from the State and the Federal government to help eliminate some of the volatility. Mr. Gaskins replied that there will be a policy change recommendation to allow dipping into the reserve up to $56 million. However, it will be a temporary borrowing and must be repaid by the end of the fiscal year. Anything is possible; however, some alternatives may impact the project.

Mayor Rinker asked how this model would impact operations and the rest of the system. Ms. Flowers said that the model has a $20 million shortfall, which will have to be made up in other ways. Reducing the budget by $20 million would have an impact on Operations. CATS has a list of alternatives to mitigate the impact, but some of the alternatives are a longer term in implementation. The shortfall will start in 2015 and go through 2022. Three things will be happening at one time: BLE project construction, borrowing money and creating a revenue reserve to stabilize sales tax volatility. We cannot forecast above the trend line. There will be a set amount allocated to Operations based on the trend line; any variation above the trend line will go into the reserve. CATS will build a reserve somewhere around $35 million. Mayor Rinker said that making up a $20 million shortfall over six years will mean that something will have to give. Ms. Flowers said that there may be impacts to service, or we may have to find other revenue sources. Mayor Swain said that CATS will be building a reserve in a time when we cannot afford to build a reserve; we will not be spending money on the system in a time when the system needs to have money spent on it. Mr. Brice noted that the fourth item is that CATS will be starting new service during this time. Ms. Flowers agreed, saying the Streetcar starter line and the BLE will begin operations during the shortfall period. Streetcar will begin operations in 2015, but the cost will be offset by revenue from the City. The cost will be reimbursed, but CATS will be taking on additional services.

Mr. Messera asked how the revenue reserve operates. Mr. Gaskins replied that it is a typical revenue model, requested by the City Manager. The City is borrowing $566 million, which will be paid back only through sales tax revenue. This is why the model is like a revenue bond. If sales tax is not there, there is the risk of default. The City does not want a default on a project this significant and large. This model creates a stabilization reserve that would protect the City against the risk of default and the negative impacts on the City of default; only the City of Charlotte is on the hook. This is a typical model used by bankers to mitigate default risk; sales tax is considerably below what original projections indicated it would be at this time. Mr. Gaskins said hopefully, results will be better than indicated in the model. We hope the gap will be smaller than projected; if there is a problem, this reserve will protect against having to dip as deeply as would be needed if the reserve was not there. There will be money to smooth out the dips. The average downturn over the period may be smaller than anticipated, and the upturns may be better than projected, which would prevent against future service cuts. Mayor Foxx said this reminded him of the push for banks to have higher capital reserves after the recent economic downturn. Mr. Gaskins said that this was the type of model that prevented the NASCAR Hall of Fame from defaulting; there was a revenue reserve available when there was a huge drop in revenues. Mayor Taylor asked whether some of the reserve fund could be offset by the City of Charlotte's fund balance. Mayor Foxx said the City's policy is to keep a reserve balance of sixteen percent of the General Fund. Mr. Gaskins said that most governmental units in NC have a balance in excess of twenty percent of the General Fund, so Charlotte's balance percentage is small in comparison.

Mayor Foxx stated that it is clear that we are out of money for anything, which is alarming. The lack of money is a big problem. Mr. Messera asked whether the $20 million, actually $15-22 million, was intended to be spread equally over the seven years. He also questioned what the 1.6 percent figure was. Mr. Gaskins said that 1.6 percent was the average over the years. In the first year, 2015, the reserve is $1 million, in 2016 it is $2 million, in 2017 it is $3 million, in 2018 and 2019 it is $4 million each year, in 2020 it is $5 million, in 2022 it is $1 million, for a total of $20 million. The City believes that it will be able to finance this at a favorable rate to make the $20 million smaller. There may be other factors for further improvement. Mr. Gaskins noted that Ms. Flowers has provided skilled financial management which will also help over this period. However, this is the model chosen because there is very great risk, which is not all solved by this model. The original goal in doing the model was to work with CATS to develop a model that allows the City to do the financing, even with the economy and what might happen with the Federal and State governments, and have a model that the LGC could approve, and a model that would sell the debt. Mr. Gaskins stated that there could have been other models, but this one passed the LGC. Mr. Ferguson asked the goal of the first short term debt. Mr. Gaskins said that they were to achieve CATS' short term monetary need projections. The shortfall is estimated based on CATS' projections of what the shortfall will be from the payment schedules. Options discussed had to do with how much money we would get, and the source of the funds. What you see is the collective best opinion of what the revenues will be. There was a lot of work done about when the needs would be and when the funds would come, down to a monthly level. Mr. Ferguson asked if the other models studied could be provided to MTC members. Mr. Gaskins said there were no other models, just other assumptions and numbers. Mr. Taylor asked about current transit tax revenue; Ms. Flowers replied that it is $68 million.

Mayor Swain noted that MTC had approved a transit finance working group. She invited Mr. Gaskins to attend the next meeting of that group on Monday, March 4 at 8:00 a.m. so the working group could hear the current status. She felt there was great potential for these additional experts to come up with ideas. Ms. Burch said there was no problem with his attending that meeting. Mr. Roberts asked how a half-percent difference in sales tax revenue would affect the number. Adam Guerino, Debt Manager in the City of Charlotte Finance Department, responded that a half-percent could make a difference of $3-4 million in revenue. Mr. Roberts asked whether a projection of four percent would cover the shortfall. Mr. Gaskins replied that the model still goes up and down; it would help but would not eliminate the difference. Mr. Brice added that the trouble was when it went up, the difference went into reserve, not into Operations.

Mr. Gaskins concluded that CATS was fortunate to receive the last of the New Starts grants. He stated that he did not think that there will be another project built with only 25 percent local financing; this is the last. We have been lucky. Mr. Gaskins said that he would not underestimate the difficulty of getting to the point we are, given the circumstances. He said that personally, he believed that if we are as successful with this project as we were with the South Corridor, that the new rules will be helped immeasurably by the success of this project. That is the reason it is worth the risk that the City and MTC members are taking to do this. The City has stretched tremendously to make this project work, but it is the most important project we have. Mayor Foxx said that we are in an environment where the half-cent sales tax is not generating enough revenue to do what we want it to do. So last year, the City Council increased in the Maintenance of Effort money with money from the General Fund, essentially using property tax revenue to supplement the transit system, to which many people are philosophically opposed. If the City has to dip into reserves, that will also be General Fund dollars. Until we come up with other funding sources, we are constrained by the half-cent sales tax. We are in the middle of a billion-dollar project; half the money is coming from the Federal government and half of the remainder from the State, and we have to complete the project.

b. FY2014-2015 Operating Program **CATS Staff**

Dee Pereira, CATS Chief Financial Officer, Assistant Director of Public Transit, introduced the Operating Program presentation saying that tonight's discussion will provide an overview of core services in bus, rail and safety. MTC members have the presentation by the Director of Safety, but he will not be able to make the presentation. At the March MTC meeting, there will be a full review of the BLE with an explanation of how the money will be spent over the five-year Capital Improvement Plan (CIP) period. Budget adoption will be on the agenda for the April MTC meeting. Ms. White said that CATS, in conjunction with McDonald Transit Management Firm, oversees CATS bus operations. Bus operators are contract employees that McDonald Transit oversees. CATS is managing bus operations with a view of efficient management with limited growth, reallocating service hours to areas where demand is strong from low-performing areas. Growth must be within existing budget parameters, managing costs and reallocating service hours while maintaining service quality. CATS seeks service funding partners and grant opportunities to fund service expansion. Personal Services are the major budget cost driver, followed by fuel costs. Bus Operations provides 805,000 revenue service hours of local, express and regional service and carries about 21 million passengers. Expansion services funded through Federal Congestion Mitigation & Air Quality (CMAQ) Improvement Program funds will be a local route on NC51 from Pineville to Matthews and an express route on Harrisburg Road from Uptown to I-485 North. CATS uses approximately 3.3 million gallons of fuel annually. To contain costs and help stabilize the fuel budget, CATS purchases fuel on the spot market and through forward buying. STS service is required by ADA; CATS provides service outside ADA as capacity allows. STS was relocated to North Davidson to create operational efficiencies. Technology has allowed STS passengers to schedule rides through web scheduling. The Vanpool Service is a commuter service; 79 active vanpools provide approximately 468,000 trips a year. Vanpool vehicles are purchased and maintained by CATS but passengers pay the operations costs. In the five-year CIP, $73 million will fund vehicle replacements; $21 million will be spent on vehicle maintenance programs. Other improvements include an upgrade to the fare collections system to implement Smart Cards and radio upgrades from an analog to a digital system.

Allen Smith, General Manager – Rail Operations, said that CATS provides a high level of service with limited staff. Rail Operations provides service 20 hours a day, 7 days a week. Rail Operations has 106 employees for 9.6 miles of rail with 15 stations and 20 cars. In comparison, Houston has 7.5 miles of rail with 16 stations and 18 cars and 154 employees. CATS staff provides a great service with ultra-conservative staffing number. Rail Operations will add 12 positions in FY2015 for Streetcar Operations. In FY2012, Rail Operations had zero preventable accidents. To keep that up, staff needs better training and more instructors. Rail provided 654 extra trips supporting 164 special events including events such as the CIAA, Speed Street, sporting events and the Democratic National Convention. Major cost drivers include Personal Services and Risk Insurance.

In the Moving Ahead for Progress in the 21st Century Act (MAP-21), FTA created a new formula-based State of Good Repair program. The LYNX system is no longer a new system; it is an aging system. Lessons learned from legacy systems such as New York and Chicago show that if you do not maintain what you have, assets will decline and the system will crumble. Systems need to establish a life cycle policy for preservation to include maintenance, repair, rehabilitation, renewal and replacement. Mr. Smith reviewed items included in the Capital State of Good Repair Program to maintain the rail cars and Automatic Train Protection (ATP) upgrade and modification, as well as other maintenance expansion areas needed to keep the system running in good order.

Discussion: Mayor Taylor said that he is happy to hear about the new route on Highway 51, but he has concerns about the route stopping at a park and ride. There are people who may need to cross Independence Boulevard. He asked that staff evaluate having a stop somewhere on the north side of 74. Depending on the way the bus exits the park and ride, it may be there anyway without adding substantial mileage or time. He asked whether those options had been reviewed. Ms. White said that staff has looked at it, and will revisit that possibility. The grant funding allows for only a Monday-Saturday service. One of the challenges is the time involved in going from one end of the route to the other. Scheduling will be a challenge, both within the time allowed to run the route and within the budgetary allowance. CATS has received feedback from public meetings, including one held last week in Matthews. The feedback will be taken into consideration in route planning. Mayor Taylor said that he was concerned from a patronage side, getting people not only from Pineville to Matthews but from Windsor Corners to Sycamore Square. He was even more concerned from a safety side. Reducing pedestrians' attempts to cross Independence Boulevard on foot would be better. Ms. Cotham asked about the lack of Sunday service for the Highway 51 route. Ms. Flowers said that the service's size was determined by the amount of the grant; if CATS gets additional resources in the future, we would look to expand it to Sunday. Ms. Cotham said that there are so many businesses that need to hire people and so many people who want jobs but cannot get there. Mayor Taylor asked if this route will replace the Matthews-Mint Hill route that was also grant-funded. Ms. White responded that the Matthews-Mint Hill route, which is Route 94, is proposed for discontinuation on June 3 due to low ridership. The grant received for this route was to provide service for this new service; it is not a replacement for Route 94.

IX. Chief Executive Officer's Report — Carolyn Flowers

Under the CEO's report, Ms. Flowers discussed the following:

a. March MTC Meeting:

Ms. Flowers reported that March 27 is Town Hall Day in Raleigh. In order to ensure a quorum, there was a proposal at the managers' meeting that members meet instead on March 26, which is a Tuesday. Brian Welch has offered the new Mint Hill Assembly Room for the meeting.

Discussion: Mayor Woods said that he would not be able to attend a meeting on March 26 due to a Town Board Meeting, but had no objection to a meeting on March 26. Mayors and Rinker Taylor said they would be in Raleigh on March 27. The group decided to move the March MTC meeting to Tuesday, March 26, and meet at the Mint Hill Assembly Room.

b. MTC Financing Policy:

The BLE Financing model will probably lead to recommended changes in the debt policy. To stay on the timeline for the LGC, Ms. Flowers said she would distribute a policy the first week of March for MTC members' consideration and action at the March meeting. There is a full Commission meeting on April 2. There is a need to move quickly and get through that April 2 meeting; due to not receiving Federal appropriations last year and constrained State allocations, there will be no funding to continue the BLE project after April.

Discussion: Mayor Swain asked if there were requirements for certain stages for construction and payments. Ms. Flowers replied that in order to meet the timeline for the March 2017 opening, stopping the project would increase costs and change the schedule. Each month of delay in the project costs $3.6 million. Delaying the project will stop property acquisition and demolition, as well as the upcoming activities of the construction management contract and utility relocations. Ms. Flowers said that staff would be happy to brief MTC members in advance of the April 2 LGC meeting to discuss the debt policy. Mayor Swain asked if it was possible to find out from LGC if there are other options.

Mr. Guerino said that City Finance has been speaking with the LGC for approximately a year now. LGC was nervous about the size of the debt, but the City has a good reputation for delivering debt models that meet their mark. The current model has been reviewed by LGC staff, and they are comfortable about it. The banks have to underwrite the debt, and they are also comfortable with the model. Mayor Swain said she wanted to know where the threshold was. Mr. Guerino said that he felt that the entities involved are at the minimum that they are comfortable with. If we test a different model and figure, then we risk them saying they are not comfortable and incurring a month of delay to the cycle to rework the model. Mayor Swain remarked that MTC's hands were tied.

Ms. Flowers said that she felt that it was important to revisit the model as time progresses. She said that the model is conservative and she expects to do better than the model indicates, not worse. Mayor Woods said that he thought MTC needed to have a clear understanding that if there are other models available, MTC needs to have a look at them. Mayor Swain said that if MTC members had more communication earlier to know where the thresholds were, members might have been more comfortable. She asked whether MTC members wanted to look at whether the gap between CATS and the City hinders MTC in the long term when the City makes the decision. Mayor Taylor asked why MTC was not brought in earlier so there would be more time to challenge the model earlier. Mr. Guerino said that the model evolved over the course of the year's discussions. Mayor Taylor said that if MTC had been brought in earlier, they may be more comfortable with the model now. Mr. Guerino said that the typical process is to deliver a product that is fairly close to the finished product. CATS and City Finance worked closely to deliver a model that will work. Ms. Flowers said that we would have liked to have resolved the $20 million issue, but trying to come up with an alternative was challenging. The model process was started after the FFGA was signed. The driver was to get the budget. There were alternatives studied to fill the bucket slower, but that would only be on the margin. Coming up with a debt reserve and filling the debt reserve so quickly is what drives the shortfall. Mr. Guerino said that the logic behind the debt reserve is driven by the analysis of the recent sales tax downturn. Ms. Flowers has done a great job of managing through this downturn. This plan would get CATS through at least one year of a downturn similar to that seen in 2009. It is a potential $20 million in cuts over nine years; what if CATS had to make a $10-15 million cut in one year.

Mr. Ferguson asked if the bonds will be Limited Obligation Bonds. Mr. Guerino said that they are Certificates of Participation. Mr. Ferguson asked if there were covenant documents to allow flexibility. The $100 million fund balance is not necessarily in a bond covenant as a policy. Mr. Ferguson said that it was important for MTC to have flexibility for future debt issuances. Mr. Guerino said that the current version of the model does not speak to how the deficit gets filled. Mr. Ferguson asked whether the debt reserve could be used to fund some of the debt. Mr. Guerino said that that would mean using some of the capital reserve to pay operating reserve. Mr. Ferguson asked what the point of a $100 million fund balance was if it could not be touched and service has to be cut. Mayor Rinker said that what she has heard is that the new debt reserve will be used to level out transit tax cash flow. The money will eventually come from the Federal and State governments; this is a cash flow question. There is $100 million sitting there; she did not understand why it is not available. Mr. Guerino said the $100 million reserve is part of MTC policy on debt; the reserve is there for many reasons. The rating industries view the $100 million as the ability to repay debt, since sales tax revenue can be repealed at any time. Ms. Burch said that City staff and CATS staff have looked long and hard to come up with a model that will be acceptable to the LGC; at the end of the day, what is important is to be able to borrow the money. Mayor Swain said that this single model is so dire that it is hard to accept that there are no alternatives. Mr. Thunberg said that it sounded to him that the option was to determine how this can be addressed from policy issues. Is there an option to pre-fund it from the $100 million fund and then refill that fund in a way that is acceptable to both the rating agencies and the LGC.

Mayor Woods noted that Mayor Swain's group may look deeper into this model and perhaps examine other models when they meet on Monday morning, March 4. There is no satisfaction among members. MTC members need a clearer understanding of how these things were put together and what to do. The working group will come up with a recommendation to bring back to this group. Mayor Swain urged MTC members to attend, saying that it is an incredibly dynamic group.

X. <u>Other Business</u>

None.

XI. <u>Adjourn</u>

The meeting was adjourned at 7:50 p.m. by Mayor Woods.

NEXT MTC MEETING: TUESDAY, MARCH 26, 2013 AT THE TOWN HALL IN MINT HILL, 4430 MINT HILL VILLAGE LANE, MINT HILL, NC 28227, 5:30 P.M.