

D-O Light Rail Discussion Materials – Draft Based Upon Scenario 3 v9 C

Orange County, North Carolina



April 4, 2017 (Updated as of 4/4/2017)

Topics for Discussion

- DO LRT Near Term Schedule of Required Actions
- DO LRT Long Term Project Schedule
- County Transit Plans – What’s Included / Excluded
- DO LRT Project Cost / Funding Sources & Plan of Finance
- GoTriangle Financial Model: Major Revenue / Expenditure Assumptions
- Projected Results (Scenario 3 v9 C)
- Financial Model Observations, Key Drivers, and Risk Factors
- Potential Orange County Credit & Cash Flow / Budget Implications
- Wrap-Up & Items for Consideration

DO LRT Near Term Schedule of Required Actions

Date	Task
Ongoing	Cost Share Agreement negotiations
March 27 th and 29 th	Briefing to Orange County Board on DO LRT project, related models, and schedule
March 29 th	Briefing to Durham-Chapel Hill-Carrboro MPO on Draft Plans
March 29 th – April 3 rd	Public Comment Period for Draft Plans
April 3 rd	Presentation on Draft Durham County Transit Plan, updates on agreements
April 3 rd – 12 th	Briefings to Chapel Hill, Carrboro, Durham, and Hillsborough on Draft County Plans
April 4 th	<p>Orange County Board Meeting</p> <ul style="list-style-type: none"> Financial Plan Analysis presented to Orange County Board
April 11 th	Potential public hearing on Draft Durham County Transit Plan
April 12 th	<ul style="list-style-type: none"> Presentation to Durham-Chapel Hill-Carrboro MPO on Draft Plan, and project cost-sharing agreement and Public Hearing
April 18 th	<p>Orange County Board Meeting</p> <ul style="list-style-type: none"> Presentation on Draft Orange County Transit Plan and update on project cost-sharing agreement Public hearing on Draft Orange County Transit Plan
April 24 th	Action on Final Durham County Transit Plan, and project cost-sharing agreement
April 26 th	GoTriangle Action on Final County Transit Plans
April 27 th	<p>Orange County Board Meeting</p> <ul style="list-style-type: none"> Action on Final Orange County Transit Plan, and project cost-sharing agreement
April 28 th	Durham-Chapel Hill-Carrboro MPO Action on Final County Transit Plans (Special Meeting)

DO LRT Long Term Project Schedule



Date	Task
April 2017	Update of D-O Transit Plans and execution of full General Engineering Consultant (GEC) and Program Management Consultant (PMC) contracts
TBD	Engineering Complete
June 2018	Request to be in President's budget – requires 50% of non-New Starts funds to be committed
December 2018	Inclusion in Draft STIP – State share defined, but not committed
June 2019	Inclusion in State Transportation Improvement Program (STIP) – State participation committed
October 2019	Submit request for FFGA with FTA – requires 100% of funding to be committed
January 2020	FFGA Funding Approved
FY 2020	FFGA Funding Begins
Early 2020	Project Construction Bidding Begins (project will be bid in phases)
Mid to Late 2020	TIFIA Funding Approved
2020	Construction Begins
2028	Construction Complete
FY 2029	Operations Commence

County Transit Plans – What’s Included / Excluded

- GoTriangle has included the following services and projects in the County Transit Plans:
 - Local share of transit providers’ expansion bus services and capital investments:
 - GoTriangle
 - GoDurham
 - Durham County
 - Chapel Hill Transit
 - Orange Public Transportation
 - North-South Corridor Bus Rapid Transit (N-S BRT) Project, managed by Chapel Hill Transit (partial funding)
 - D-O LRT Project, managed by GoTriangle
 - Hillsborough Train Station

- GoTriangle has not included the following services and projects in the County Transit Plans:
 - GoTriangle’s existing, non-Transit District revenues and expenditures
 - Other transit providers’ existing services not funded through Transit District Revenues
 - Revenues received by other transit providers
 - Durham-Wake Commuter Rail Transit (D-W CRT) Project
 - Wake County Transit Plan revenues and expenditures
 - Full Funding of North-South Corridor Bus Rapid Transit (N-S BRT) Project

Note: While GoTriangle and the local transit providers’ existing bus services are not included in the County Transit Plans, these services are not anticipated to be impacted moving forward and are not funded through Transit District Revenues.

DO LRT Project Cost / Funding Sources

- The DO LRT project engineering, construction, and equipment cost is estimated to be \$2,388,568,428 in year of expenditure dollars.
 - The project cost will be funded through a combination of:
 - FTA New Starts Grant: \$1,194,284,214¹
 - State Funding Contribution: \$238,856,843
 - TIFIA Debt Funding: \$430,000,000
 - In Kind Contributions: \$19,376,433
 - Transit District Revenues: \$506,050,938
 - The total cost of the DO LRT construction, including financing cost and interest payments is estimated to be \$3,302,320,443².

- Scenario 3 v9 C implements the following cost share assumptions:
 - Operating Cost Share: 80% Durham | 20% Orange
 - State of Good Repair Cost Share: 80% Durham | 20% Orange
 - Capital Cost Share: 82% Durham | 18% Orange
 - Financing Cost Share: 82% Durham | 18% Orange

- \$37,445,121 has been spent on the DO LRT through the third quarter of FY 2017.
 - \$28,664,366 was funded through Durham County Revenues and \$8,780,755 was funded through Orange County Revenues.

- Through FY 2018, it is estimated that \$100,282,782 will be spent on the DO LRT project.
 - \$82,231,881 is funded through Durham County revenues and \$18,050,901 is funded through Orange County revenues.

- Through FY 2020, it is estimated that \$206,227,131 will be spent on the DO LRT project.
 - \$169,106,248 is funded through Durham County revenues and \$37,120,884 is funded through Orange County revenues.

¹ Does not include estimated reimbursement for eligible financing costs of \$44,880,013.

² Does not include capital, financing, and interest cost associated with State of Good Repair projects.

DO LRT Project Plan of Finance

- Due to the timing of the receipt of Federal, State, and Local revenues, the Plan of Finance includes the following potential / planned short term borrowings for DO LRT construction costs:
 - Limited Obligation Bonds (“LOBs”) – In Anticipation of Local Revenues:

– 2024 LOBs:	\$30,000,000
– 2024 LOBs:	\$90,000,000
– 2026 LOBs:	\$60,000,000
– 2026 LOBs:	\$29,000,000
– <u>2027 LOBs:</u>	<u>\$10,000,000</u>
– Subtotal:	\$219,000,000
 - Grant Anticipation Notes (“GANs”) – In Anticipation of Federal and State Funding:

– 2025 GANs:	\$275,000,000
– <u>2027 GANs:</u>	<u>\$60,000,000</u>
– Subtotal:	\$335,000,000
 - Grand Total LOBs / GANs issued: \$554,000,000¹
 - The total financing cost and interest associated with the LOBs and GANs is estimated to be \$642,960,026.

- In addition to the short term borrowings, a \$430,000,000 Transportation Infrastructure Finance and Innovation Act (“TIFIA”) is under consideration. It is expected that the TIFIA loan will be approved in FY 2020 with an initial draw in FY 2023.
 - The total financing cost and interest associated with the TIFIA loan is estimated to be \$1,253,991,989.

- The current model identifies the need for future funding for ongoing capital repair and maintenance costs (State of Good Repair) which are funded in part through future LOBs currently scheduled for 2040, 2048, 2053, and 2058.
 - In the aggregate, future State of Good Repair borrowings have a par amount of \$44,000,000 and a total financing cost of \$47,916,026.
 - In the current Scenario 3 v9 C, all of these borrowings would be associated with Orange County expenditures.

¹ Does not include future State of Good Repair borrowings.

GoTriangle Financial Model

Major Revenue / Expenditure Assumptions

Major Revenue and Expenditure Assumptions

- The following major revenue and expenditure assumptions have been included in the financial model. Items listed in the parentheses represent potential vulnerabilities that may arise:
 - Major Revenue Assumptions
 - FTA New Starts Federal Funding (approval, timing, and amount)
 - State Funding – 10% of Capital & Operating Costs (approval, timing, and amount)
 - TIFIA Funding (approval, timing, and amount)
 - LOBs / GANs – DO LRT Funding (approval, timing, and amount)
 - LOBs – State of Good Report (approval, timing, and amount)
 - Transit District Revenues (realization of projected growth)
 - DO LRT Fare Revenues (realization of projected growth)
 - Major Expenditure Assumptions
 - DO LRT Capital Cost
 - DO LRT Operating Cost
 - Existing and Expansion Bus Costs
 - Bus Rapid Transit
 - Ongoing DO LRT Capital / Maintenance Costs (State of Good Repair)

Article 43 Sales Tax Assumptions (Orange County)

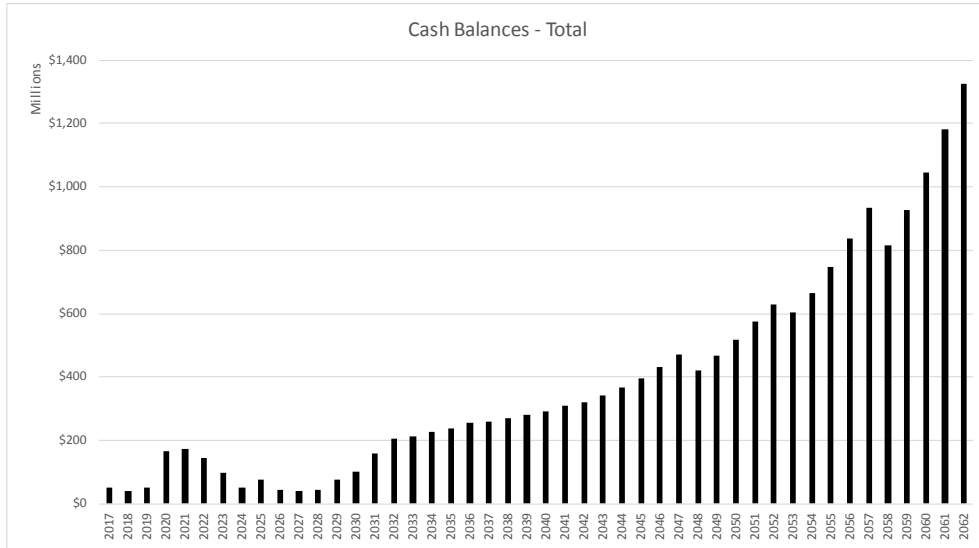
- There are currently three projection scenarios for the Orange County Article 43 Sales Tax under consideration: Moody’s baseline scenario, Moody’s pessimistic scenario, and Dr. Walden 2014 projections.
 - Scenario 3 v9 C incorporates Moody’s baseline projections.

Fiscal Year	Moody's Baseline		Moody's Pessimistic		Dr. Walden 2014	
	Growth Rate	Sales Tax	Growth Rate	Sales Tax	Growth Rate	Sales Tax
2017		\$ 6,687,816		\$ 6,642,300		\$ 6,534,140
2018	4.70%	7,001,929	3.96%	6,905,222	5.60%	6,900,052
2019	5.69%	7,400,189	4.95%	7,246,998	5.00%	7,245,055
2020	4.78%	7,753,837	4.04%	7,539,819	4.90%	7,600,063
2021	3.18%	8,000,493	2.44%	7,723,996	4.70%	7,957,266
2022	3.24%	8,259,373	2.50%	7,916,893	4.70%	8,331,258
2023	4.07%	8,595,236	3.33%	8,180,371	4.60%	8,714,496
2024	3.87%	8,927,860	3.13%	8,436,540	4.50%	9,106,648
2025	3.34%	9,225,637	2.60%	8,655,637	4.40%	9,507,341
2026	3.03%	9,505,611	2.30%	8,854,402	5.00%	9,982,708
2027	3.07%	9,797,641	2.33%	9,061,045	5.00%	10,481,843
2028	3.26%	10,117,042	2.52%	9,289,527	5.00%	11,005,935
2029	3.53%	10,473,796	2.79%	9,548,508	5.00%	11,556,232
2030	3.59%	10,850,293	2.86%	9,821,239	5.00%	12,134,044
2031	3.73%	11,255,018	2.99%	10,115,060	5.00%	12,740,746
2032	3.71%	11,672,887	2.97%	10,415,919	5.00%	13,377,783
2033	3.48%	12,079,677	2.75%	10,701,995	5.00%	14,046,672
2034	3.50%	12,502,484	2.76%	10,997,559	5.00%	14,749,006
2035	3.43%	12,931,545	2.69%	11,293,769	5.00%	15,486,456
2036	3.83%	13,427,146	3.09%	11,643,208	5.00%	16,260,779
2037	4.05%	13,970,844	3.31%	12,028,700	5.00%	17,073,818
2038	3.92%	14,518,867	3.18%	12,411,722	5.00%	17,927,509
2039	3.89%	15,083,325	3.15%	12,802,614	5.00%	18,823,884
2040	3.89%	15,669,423	3.15%	13,205,556	5.00%	19,765,079
2041	4.10%	16,311,515	3.36%	13,649,177	5.00%	20,753,332
2042	4.01%	16,965,941	3.27%	14,096,006	5.00%	21,790,999
2043	4.01%	17,646,412	3.27%	14,557,286	5.00%	22,880,549
2044	4.09%	18,368,854	3.36%	15,045,771	5.00%	24,024,576
2045	4.14%	19,129,984	3.41%	15,558,109	5.00%	25,225,805
2046 & Beyond	4.33%	19,958,152	3.59%	16,116,767	5.00%	26,487,096

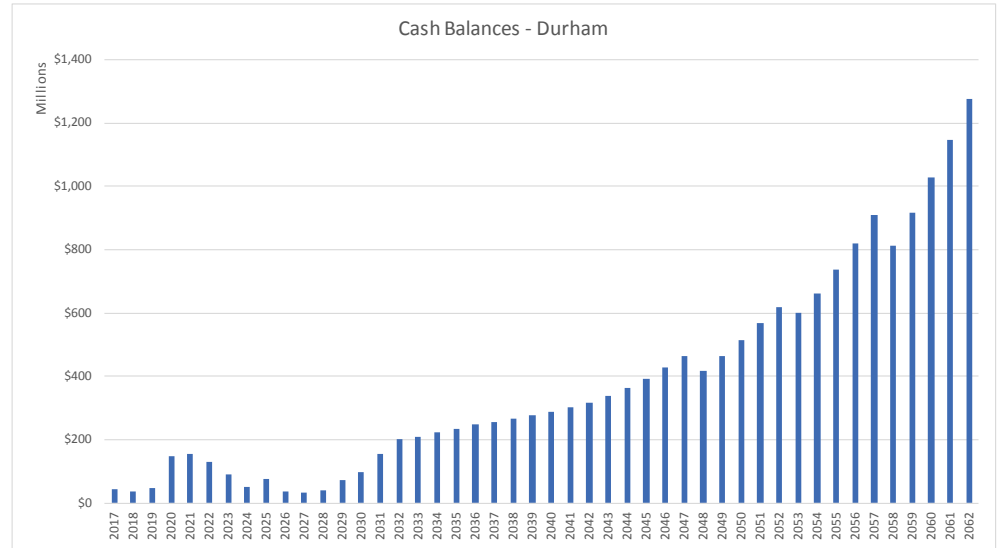
Projected Results (Scenario 3 v9 C)

Overall Results – Adjusted Scale for Orange County Graph

Cumulative Cash Balance

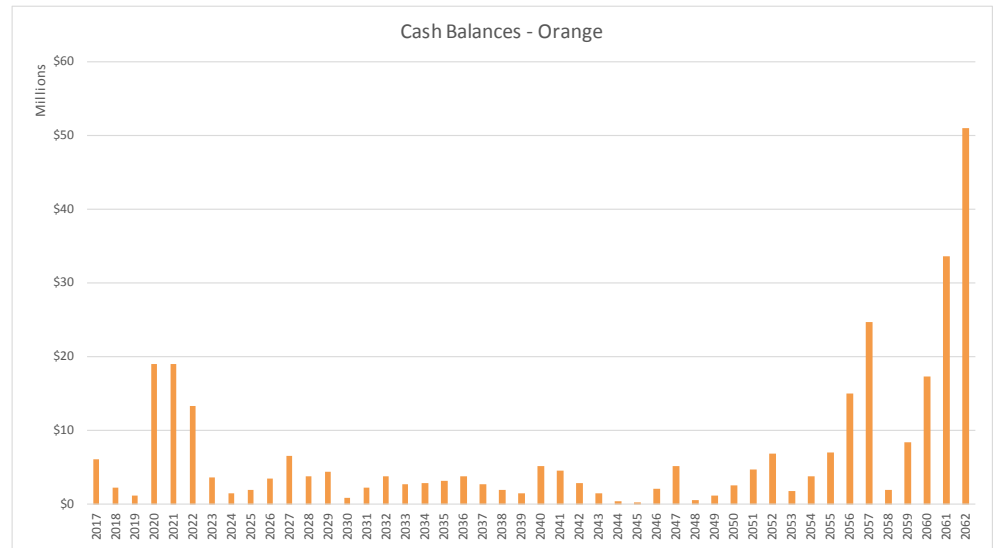


County Cash Balances



■ Key Statistics:

- Minimum Cash Balance:
 - Durham: \$34,986,247 (2027)¹
 - Orange: \$210,725 (2045)¹
 - Total: \$39,570,863 (2018)¹
- Minimum Debt Service Coverage:
 - All Debt: 1.17x

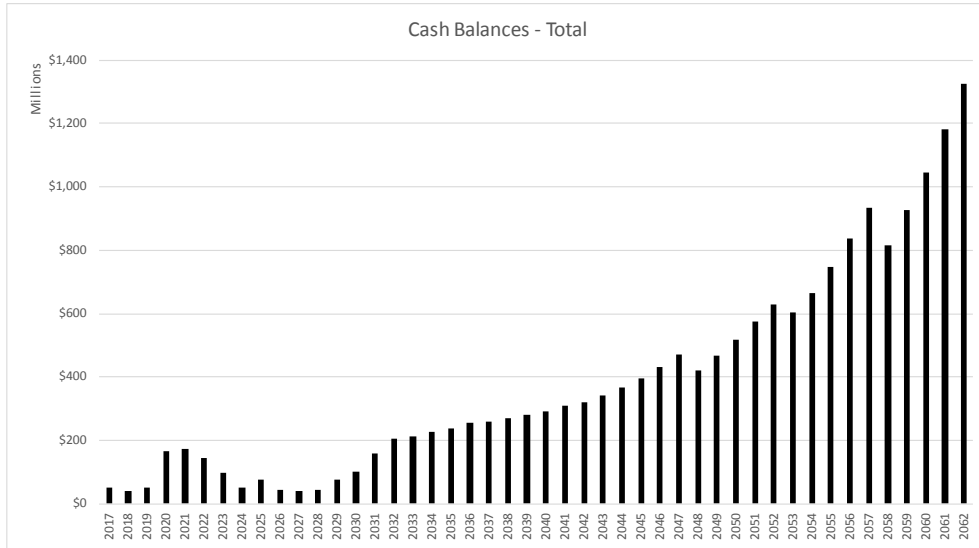


¹ Does not include Operating Reserve balances.

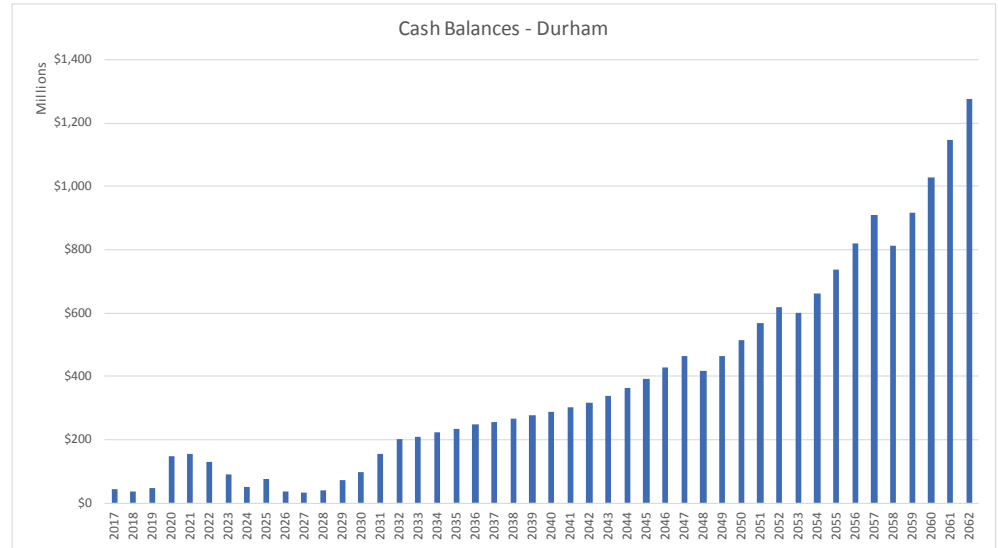
Projected Results (Scenario 3 v9 C)

Overall Results – Uniform Scales for All Graphs

Cumulative Cash Balance

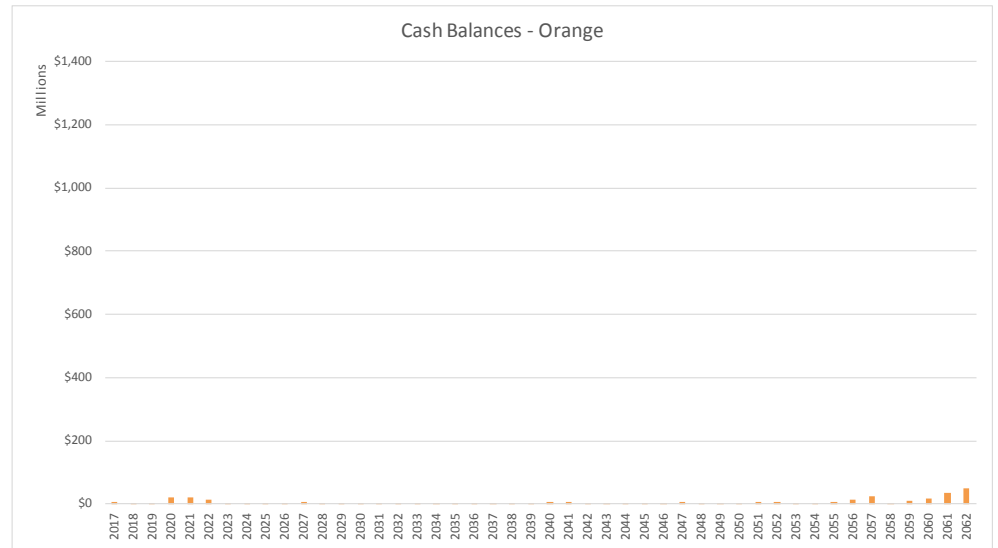


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Financial Model Observations, Key Drivers, and Risk Factors



- In order to implement this Plan of Finance and access long term capital funding, GoTriangle will need to receive two investment grade credit ratings. In order to receive investment grade credit ratings, GoTriangle will need to be able to demonstrate:
 - Ability to maintain positive cash flows.
 - Ability to demonstrate minimum Debt Service Coverage levels.
 - Ability to manage the project.
 - Some minimum level of operating / capital reserves.

- As GoTriangle, Durham County, and Orange County continue to evaluate the project and Plan of Finance, the following key drivers / risk factors may be considered:
 - Potential changes (positive or negative) in the DO LRT Capital Cost.
 - Approval, timing, and amount of FTA New Starts Federal Funding, State Funding, and TIFIA Funding.
 - Realization of assumed Transit District Revenues and DO LRT Fare Revenues.
 - Actual / revised estimates for DO LRT Operating Costs and ongoing DO LRT capital / maintenance costs.
 - Ability to fund existing and expansion bus service and Bus Rapid Transit.

- Credit Implications.
 - All financings will be secured by Light Rail assets and will be subject to annual appropriations from GoTriangle.
 - Beyond the revenues identified on the prior pages, there are no additional GoTriangle revenues available to fund this project.
 - Between the TIFIA loan and market based financing, no other credit details have been developed or disseminated to the working group.
 - In their review, the Rating Agencies may view Orange County as having a contingent liability to the GoTriangle financial plan, regardless of whether or not there is an explicit guarantee provided by Orange County.
 - Davenport would anticipate that the rating agencies will review Orange County’s credit with and without a liability for GoTriangle.
 - The soundness of the business plan at the time of the review will help the Rating Agencies determine the level, if any, of the potential contingent liability.

- Cash Flow / Budget Implications.
 - As discussed previously, there are a number of key assumptions included in the GoTriangle financial plan.
 - Changes, positive or negative, to these assumptions will impact Orange County’s cash flow requirements under this plan.
 - If there is a significant shortfall, Orange County may be required or decide to contribute additional revenue in order to maintain the viability of the project, regardless of whether there is a contractual requirement to do so.

- As the Plan of Finance continues to develop and key decision points are reached, more information about the potential credit and financial impacts will be available.

Wrap-Up & Items for Consideration

- The decision to move forward with the General Engineering Consultant and Program Management Consultant contracts represents a significant capital commitment for Orange County residents.
 - \$37,445,121 has been spent on the DO LRT through the third quarter of FY 2017, \$8,780,755 of which was funded through Orange County Revenues.
 - Through FY 2020, it is estimated that \$206,227,131 will be spent on the DO LRT project, \$37,120,884 of which is funded through Orange County revenues.
- Key items for consideration in approving this continued investment:
 - Adequacy of the updated Transit Plan.
 - Adequacy of the updated Cost Share Agreement.
- Based upon our review of GoTriangle's financial models and related documents, we offer the following initial observations:
 - Based on preliminary modeling and current assumptions, we believe the Project is financeable in terms of TIFIA requirements.
 - The viability of the market-based financings will require additional due diligence, further refinement of the primary Project assumptions and formalizing the "credit" as it will be presented to the rating agencies and/or potential investors.
 - Project feasibility is, in some respects, a subjective concept. While the current GoTriangle model projects that the Project will cash-flow, the margin for error is very small and a number of assumptions will need to materialize as modeled to avoid needing additional financial support in the future.
 - Given current projections for Project performance, Orange County cumulative cash balances are insufficient in certain years to properly insulate the County from potential future financial support requirements/requests. Of note on this observation, Durham County cumulative cash balances may be available to provide additional financial resources for Project underperformance. Clarity on this point is recommended.
 - GoTriangle has identified the following mitigation strategies in an effort to insulate the counties from additional financial support in the event that the forecast assumptions do not materialize as projected:
 - Contingency in the project budget; Design changes to reduce project cost; Savings from property donations; Cost transfer to project partners; and New revenue.
 - Given the scope of the Project and current financial projections, Davenport is of the opinion that this Project will be a discussion item and consideration as part of the County's ongoing rating agency interactions.
- As Local Government Commission ("LGC") approvals will be required for the planned non-TIFIA financings, a preliminary dialogue with LGC staff in the near future is recommended.
- If interest and support for the Project are confirmed, the Orange County Board of County Commissioners should request a clear and concise explanation of its current commitments, future Project approvals and any opportunities/mechanisms for multilateral and unilateral Project modification/suspension/termination.



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