

Management Committee

For the Metropolitan Council meeting of November 4, 2020

Subject: Southwest Corridor Light Rail Transit (SWLRT) Expansion Cash Flow Financing Plan

Proposed Action

That the Metropolitan Council authorize the Regional Administrator to execute a Cash Flow Financing Plan (the "Plan") for the Southwest Corridor Light Rail Transit project (the "SWLRT") during the years of 2020-2030, such Plan being comprised of the following:

1. Issue General Obligation (Revenue) Grant Anticipation Notes (the "G.O. GANs") at various dates, and in various amounts, to provide cash to cover expenses for the SWLTR project, pending receipt of federal grant payments, and separately present each GANs issuance resolution to the Council for approval;
2. Without limit to frequency, borrow from the Council internal investment pool in a maximum amount of up to \$60 million at any one point in time;
3. Utilize Metro Transit available bond arbitrage reserve dollars to fund interest expense on internal borrowings (loans) when such expense is the net of cumulative project interest on borrowings (loans) less cumulative project interest revenue not associated with the G.O. GANs; and,
4. A report on the Plan's results will be provided quarterly to the Management and Transportation Committees.

Summary of Committee Discussion/Questions

Marie Henderson, Acting CFO, gave presentation on SWLRT project funding, cash flow projections, and Federal Transit Administration grant.

Mark Thompson, Senior Manager Treasury, presented Business Item 2020-280.

The following background was given: SWLRT Project expenses will be funded by local partners and by an FTA grant. Local partners contributions are mostly complete. The grant will reimburse expenses after they have been paid. The proposed Cash Flow Financing Plan will fund project cash flow gaps with the issuance of General Obligation Grant Anticipation Notes and with internal borrowings. Cash flow projections call for annual GANs issuance over the next four years. Internal borrowing amount and timing depend on future cash flows.

Results of the Cash Flow Financing plan will be reported to the Management Committee and Council quarterly.

There were no questions or comments from committee members.

Motion by Johnson, seconded by Barber. Motion carried.

Management Committee

Meeting date: October 28, 2020

For the Metropolitan Council meeting of November 4, 2020

Subject: Southwest Corridor Light Rail Transit (SWLRT) Expansion Cash Flow Financing Plan

District(s), Member(s): All

Policy/Legal Reference: Minnesota Statutes: 473.39, subd. 5, and 475.522; Council Policy FM 2-2 Finance and Asset Management and FM 3-2 Debt Management

Staff Prepared/Presented: Mark Thompson, Senior Manager, Treasury (651-602-1629) and Marie Henderson, Acting Chief Financial Officer (651-602-1387)

Division/Department: Multiple

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Background

The Federal Transit Administration (FTA) has approved the nearly \$2 billion SWLRT project and awarded a Full-Funding Grant Agreement (FFGA) to cover 46.86% of the cost of the project. The balance of the cost is being fully funded by our local partners (see below listing), who have already provided the project with a significant amount of their share of the needed funding. Unfortunately, future FTA payments to the Council will be received after contractors have performed their work and been paid; the Plan provides interim cash to pay invoices until FTA dollars are received.

The total amount of G.O. GANs issued for the entire SWLRT project is estimated at \$760.0 million over the period 2020-2024, the actual amount will depend on the future changes in interest rates, cash flows, and related assumptions.

Assuming issuance of the G.O. GANs, the current estimate of net interest expense on internal borrowing is about \$2.1 million. This estimate is dependent on: (1) the amount of internal borrowing; (2) interest rates generated by the investment pool; and, (3) interest earnings on non-GANs project positive cash balances. Internal borrowing authority is required by policy when the amount is greater than \$10 million or the term is longer than three months. The precise amount and duration of the internal

borrowing is determined by the amount of the cash shortages not covered by the GANs. Currently, \$57 million is projected to be the largest internal borrowing, occurring in 2024; due to the variability of expenses and receipts, authorization is being sought for \$60 million (see above item #2)

The Plan seeks to minimize internal and external interest/ issuance costs. The last FTA grant receipts are currently expected by 2030.

Rationale

The proposed action is the least expensive and most marketable statutorily available debt solution. The alternative option of using non-G.O. GANs (i.e. “revenue only”) was examined and it was determined that GANs backed only by grant revenue, and not including the Council’s G.O. pledge, would receive a lower crediting rating and therefore have higher interest costs. Also, using Metro Transit’s traditional (but limited) bonding authority for the project would not provide sufficient cash to cover project needs and would eliminate Metro Transit’s ability to bond for routine capital needs.

Thrive Lens Analysis

Stewardship – the use of Public financial resources, to be used effectively and efficiently across the project.

Accountability – to ensure policies and procedures are effective by providing quarterly updates.

Funding

Expenses directly associated with the G.O. GANs are part of the overall SWLRT project costs to be paid by our funding partners. Separately, Metro Transit available bond arbitrage reserve dollars will be used to fund net interest expense on internal borrowings.

Known Support / Opposition

Documented support for project costs, in the form of GANs interest and issuance expenses, comes from our project funding partners:

1. Federal Transit Administration
2. Counties Transit Improvement Board
3. Hennepin County
4. Hennepin County Regional Railroad Authority
5. State of Minnesota
6. Metropolitan Council
7. Other Local (St. Louis Park, Eden Prairie, Minnetonka, Hopkins, Hennepin County Environmental Response Fund and Community Works).
8. Other in Kind (Right of way donations from St. Louis Park, Hopkins, Minnetonka, Eden Prairie).