Finance, Administration and Oversight Committee

Information Item IV-B

September 10, 2009

Metro's Next Capital Funding Agreement

Washington Metropolitan Area Transit Authority

Board Action/Information Summary

○ Action ◉ Information	MEAD Number:	Resolution: ○ Yes ◉ No

TITLE:

Metro`s Next Capital Funding Agreement

PURPOSE:

To present general funding options that support a continuing commitment to fund Metro`s capital improvement program after June 30, 2010.

DESCRIPTION:

The framework for funding Metro`s FY2005-2010 capital program is a multi-year agreement negotiated with jurisdictional partners, known as the Metro Matters Funding Agreement. It expires June 30, 2010.

The Metro Matters Funding Agreement states, "...it is the understanding and expectation of the Parties that this Agreement will be amended, or superceded by a new agreement prior to FY2011..."

Staff has complied with the Committee`s request to evaluate and present alternative options that support a continuing commitment to fund Metro`s capital improvement program after June 30, 2010. Alternative options include:

Option 1: Multi-year funding agreement, similar to Metro Matters;

Option 2: A hybrid-term funding agreement (which could accommodate separate annual and multi-year programs under one umbrella), and;

Option 3: No new funding agreement (could be supported by a credit facility mechanism)

FUNDING IMPACT:

There is no funding impact of this information item. Not entering into a new funding agreement could complicate Metro`s ability to secure a steady stream of capital funds and to minimize its cost of capital.

RECOMMENDATION:

A majority of Metro and jurisdictional staff prefer Option 1, a multi-year funding agreement, similar to Metro Matters. Staff; therefore, recommends negotiations with jurisdictional partners towards that end.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Funding Metro’s Next Capital Program

Finance, Administration and Oversight Committee

September 10, 2009

Purpose

- To present general funding options that support a continuing commitment to fund Metro’s capital improvement program after June 30, 2010

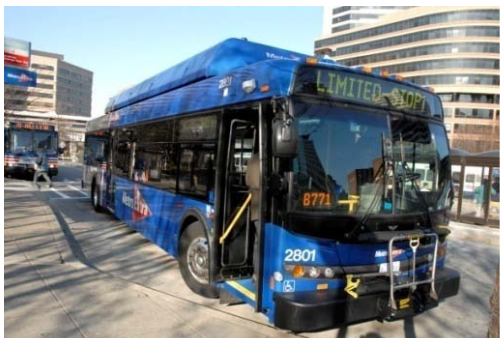
Background

The framework for funding Metro's FY2005-2010 capital program is a multi-year agreement negotiated with jurisdictional partners, known as the *Metro Matters Funding Agreement* (Metro Matters). It expires June 30, 2010 and was preceded by the 1998 Interjurisdictional Funding Agreement

- Features:
  - Six-year term
  - Expenditure-based budgets, 'pay-as-you-go' funding
  - Promise by jurisdictions to pay fixed amounts annually
  - Agreed-upon projects, grouped by strategic priority
  - Used Commercial Paper program to smooth the peaks and valleys inherent in multi-year capital programs

Metro Matters is a success

Metro Matters made dramatic improvements to service and reliability possible



Provided critical maintenance of tracks, trains, stations and buses

Purchased 667 new Metrobuses to reduce fleet age from over 10 years to under 8 years

Purchased 122 Metrorail cars to increase capacity and expanded rail yard maintenance and storage facilities

Upgraded power and stopping systems to run 8-car trains

Metro Matters is a success

On Inauguration Day, Metro stress-tested the limits of the bus and rail systems by successfully moving 1.5 million people. Metro Matters made that possible

Looking forward

The Metro Matters Funding Agreement states:

"…*it is the understanding and expectation of the Parties that this Agreement will be amended, or superceded by a new agreement prior to FY 2011*…"

Preparing for the future

Spring 2009 - Three critical preparation steps were taken:

1. Multi-disciplinary team conducted work sessions with external and internal stakeholders

   - External stakeholders: Jurisdictional CFOs, Jurisdictional Coordinating Committee (JCC)
   - Internal stakeholders: Executive leadership team, project managers

2. Evaluated Metro Matters lessons learned and ideas for best practices going forward

3. Developed multiple funding framework options for consideration

Funding options

Option 1: Multi-year funding agreement, similar to Metro Matters

Option 2: A hybrid funding agreement

Could accommodate separate annual and multi-year programs under one umbrella and includes a credit facility mechanism

Option 3: Return to annual obligation

NOTE: Financial markets are looking for a formal agreement between Metro and the jurisdictions. The absence of such an agreement may make borrowing far more difficult and expensive. For example TIFIA was supported by the 1998 Interjurisdictional Funding Agreement and the Commercial Paper part of Metro Matters was supported by the Metro Matters funding Agreement

Stakeholder work sessions: Multi-year agreement considerations

- Pros:
  - Provides steady stream of funding and minimizes debt and cost of capital
  - Achieves economies of scale
  - Includes a financial plan that incorporates financing to smooth out peaks and valleys inherent in funding multi-year programs
  - Allows jurisdictional partners to plan their multi-year capital improvement programs (CIPs)
  - Saves partners money on ‘pay-as-you-go’ expenditure basis
  - Ensures that jurisdictions get what they sign on for if the project list is fixed over time
- Cons:
  - Out-year requirements to fund continued spending on contracted work can be confusing
  - Limits flexibility for funding partners

Stakeholder work sessions: One-year or no agreement considerations

- Pros:
  - Greater flexibility for funding partners
- Cons:
  - Each jurisdiction contributes its annual share based on a fixed allocation rate. If one jurisdiction must constrain its share, all partners may follow suit and the total funding level will be reduced
  - Requires reversion to up-front funding of contract obligations to satisfy Compact requirements
  - Difficult to stay focused on long-term strategic objectives

Principles

The next funding agreement should:

- Commit to delivering a program that supports Metro's strategic goals
- Support a rolling, multi-year capital program that refreshes every year with the budget; Metro needs the ability to enter into long-term contracts
- Commit to matching federal funding with local dedicated funding
- Require accountability, yet provide sufficient flexibility to address changing needs and maximize benefits for customers

Next steps

Capital Needs
Presented to the Planning, Development & Real Estate Committee (9/25/2008)

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Prioritization
Presented to the Finance, Administration & Oversight Committee; together with funding framework options (9/10/2009)

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Develop Capital Budgets
Now through December 2009

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Negotiate Capital Program Funding Agreement
January through March 2010

New Capital Funding Agreement Effective (7/1/2010)

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Next Steps

- Board endorsement capital program principles at the September 24 Board Meeting