

CITIZENS TRANSIT ADVISORY GROUP (CTAG)
Meeting Summary
February 19, 2013
DISCUSSION SUMMARY

Present: Hugh Wrigley, CTAG Co-Chair
Todd Steiss, Town of Huntersville
Henry Antshel, City of Charlotte
George Sottilo, Town of Matthews
Rob Watson, Mecklenburg County
Christy Kluesner, Charlotte Mecklenburg Schools
Matt Covington, Mecklenburg County

Staff: Carolyn Flowers John Muth, Dee Pereira, John Trunk, and Wanda Braswell,
Meeting time 7:30 a.m. – 9:00 a.m.

I. Call to Order

Hugh Wrigley, CTAG Co-Chair, called the meeting to order at 7:30 a.m.

II. Approval of January 15, 2013 meeting summary

The meeting summary was approved as written.

III. FY2014-2015 Transit Operating & Five-Year CIP Carolyn Flowers/ Dee Pereira

Ms. Flowers opened the budget presentation explaining that CTAG reviews and recommends a budget to MTC. We go to the city to approve the budget. The city has the appropriation authority but MTC recommends a budget and a spending plan for CATS. She gave background on what we have accomplished. In 2008, we had an impact on our revenues with the recession. We looked at ways to reduce our spending and insure that we continue to run the service. Protection of the service has been a key objective of others over that period. The 2030 Plan is an \$8.9 million plan. The plan was to be funded primarily through the half-cent transit sales tax. The recession beginning in 2008-2009 significantly reduced all traditional revenue sources including receipts and sales tax revenue, causing operating stress on the system and uncertainty in funding partner stability. Reduced funding impacts implementation schedules, which impacts project costs. The gap between projected growth and actual revenue has caused staff to make adjustments in the 2030 Plan to maintain fiscal stability. The plan continues to guide the transit system's growth, but project implementation schedules will be slower. That gap during the five year period is equal to \$145 million and \$145 million could significant improve our operating side and contribute a share to another project.

We have not abandoned the vision. We don't have sufficient funding to continue moving the capital plan to complete the 2030 plan. We can neither fund red line, fund street car nor Independence Blvd at this time. To continue, we have to look at ways to innovative financing mechanisms to implement the projects at a slower schedule.

In the past five years since 2007, we moved ahead with BLE light, completed the South Corridor. The South Corridor has been a model on a national level. Over 60 municipalities have visited us. The LYNX Blue Line light rail service was implemented and has achieved national acclaim, the Blue Line Extension has advanced to Final Design and Construction and full funding grant agreement commitments have been awarded. We are awaiting approval from the LGC for the financing plan. In the state of NC before you can issue debt, we must have approval before issuing debt to move fund on the project. We have to front the money first then submit reimbursement. We must spend then ask for reimbursement. We have to issue (short-term and long-term) debt to cover of construction and covering us into the future. We have outstanding debt on the South Corridor. We are paying and refunding.

The issue with debt issuance, our funding partners changed their cash flow projections. The cash flows that we need for the project were much higher than the actual commitments for appropriations in the future. We have to carry additional short-term debt. We have achieved advancement of the Red Line. We are working on a plan with NS to integrate passenger and freight on their alignment and a traffic control study. We achieved 50 percentage of the 2030 plan ridership projection with the expansion of bus and implementation of the Blue Line. We expand service in the county to achieve the ridership without implementing four other rapid corridors.

Staff has constrained the operating and maintenance cost with no service reductions since 2009 despite raising fuel cost and labor cost. We have focused on core business responsibility. We have expanded our revenue sources such as advertising. We will have advertising at the stations also. We have received federal grants. We are working with 2014 level of service with 2007 revenue.

We have contained our cost and managed our cost well. A budget reflects our ability to continue to manage those services. We have expanded with less staffing. We will reallocate resource this fiscal year to make sure we provide the resources in areas we need without increasing our head count.

Legislative authorizations for transit funding have also been constrained. The state is no longer matching grants. In the last budget they eliminated New Starts. The state put CATS on a flat cash flow of \$25 million a year; for ten years to pay for their portion of the Blue line. On the federal side, we are faced with sequestration. Sequestration will impact transit with an eight percent cut on the Blue Line. We will get funding because of the contract of a grant. It could stretch the timeline of the project that could increase the cost. The current date to open BLE is March 2017. We continue to move forward with controlled cost and develop revenue for the future.

The achievement on the bus side, we want to grow by three percent. We will add service on Route 51; a big demand for cross town. We will implement an express line to Harrisburg Road. We will continue to stabilize the ADA. We are required by Federal law to provide service within $\frac{3}{4}$ of mile from a local fix route buses. We continue to seek federal funding and focus on safety and reliability.

We are an enterprise fund – operate like a private business. We have to match our expenses to our revenues. Those fees we earn (fare box, advertising, sales tax) we have to balance our expenses against. We will continue to hedge our fuel to manage fuel cost. Asset maintenance

is important; must be in a state of good repair to ensure safety and reliability. Our budget program includes funding for state of good repair; has the light rail overhaul program. Control our annual growth below 3.6 percent. Our capital program will be impacted by available resources. As you build your system, you must demonstrate that you can operate what you have. We will continue to fund studies for future corridors.

Ms. Pereira, CATS Chief Financial Officer, said that the discussion today will offer a high-level overview of the budget. It is a two-year operating budget. It is the CEO's recommendation to the MTC. CTAG will discuss before making final recommendation in April.

In FY2014 and FY2015 you will see an increase in the operating revenue. This current year for \$126.7 million but will finish with \$135 million. We are seeing an increase because of the sales tax revenue. Staff has projected a modest 3.5 percent growth in sales tax revenue. In FY2015, we have built in a fare increase; the fare policy gives transit the approval to include a fare increase every two years. We have stabilize our grown by 3.6 percent. Our capital revenues are funds we anticipate receiving. Budget assumptions include sales tax increasing by 3.5 percent per year and advertising by 22 percent, and general capital funding obtained through grants. Debt financing for FY2014 debt is programmed on a cash flow basis, and is anticipated at approximately \$104,500,000.

Expenses include contingencies for employee pay increases and benefits. The final figures will be determined by the Charlotte City Council for City employees and through union negotiations for the Bus Operations Division. For city employees, the group insurance will increase by five percent. Fuel costs are estimated to rise by about two percent per year. Bus service grows slowly in the long term plan with the goal of growing the service within available resources.

Highlights in operating income include a three percent escalator to the Maintenance of Effort contributions by the Town of Huntersville, the City of Charlotte and Mecklenburg County, which added \$557,000 to income. All three agencies agreed to add a three percent escalator. Our operating expenses include 3.6 percent projected growth in Operations and Maintenance, which includes five percent in employee health insurance increases and increases in in fuel and utility costs by seven percent, as well as a \$1.5 million operating cost in the FY2015 for Streetcar that will be fully recoverable from the City. Examples of FY2014-15 service enhancements include implementing a crosstown route on NC-51 from Pineville to Matthews and a Harrisburg Road Express service, which will be funded through federal operating assistance grants. Route 51 adds additional service hours to our budget and provides additional opportunities to ADA customers.

The debt program will be discussed in more detail in March. In the current economy situation, debt financing is not as easy as it used to be. Our outstanding debt at the end of last year was \$156.7 million. The debt for the Blue Line has increased significant from the transit plan we submitted in June to the (FTA). Although we have full funding grants from both state and federal government, the schedule is different than the plan. The short term financing (in anticipation in receiving funds) has increased. In the plan we anticipated \$132 million for short-term, at this point it is \$425 million. Our long term financing is in line with the plan.

A lot of the financing cost associated with the short term debt can be absorbed by the project. If the project could not absorb it, it would be absorbed from local funds. This financing is complex and the largest the issuance that the City is doing. This is the City of Charlotte debt; they back this debt. CATS changed the financing plan to satisfy the LGC as our ability to never default. In addition to the \$100 million balance that we currently maintain the system, we have to establish a second reserve fund called our debt reserve fund to ensure that we will never default on the loan in the event of fluctuation sales tax or in the economy.

An earlier debt issuance will be retired in 2014, opening around \$3.5 million for new debt issuances. We will transfer to pay new debt.

The FY2014-2018 CIP program total of \$1.3 billion will be funded through federal state and local funds, with \$576 million going to BLE financing. The CIP will be adjusted if federal funds are impacted by activities at the federal government level. The CIP program will be impacted by approximately \$3.7 million if the state delays matching funding for normal grant activities, as they have done this year, or eliminates matching funding for all transit projects outside of the BLE. Currently, the State pays 50 percent of the local share for federal projects. If that funding is eliminated, we will have to pay the full local share.

Key capital projects programmed for funding in the five-year CIP include 114 buses slated for replacement, 102 ADA-equipped buses and replacement of vanpool vans on alternating years. Staff will continue the five-year overall of the trucks on the railcars. All radio equipment will be upgraded to digital radios from analog equipment. The 20-year-old farebox system will be replaced on all revenue vehicles. In addition, the current route scheduling system and the Automatic Train Protection (ATP) system on current railcars will be upgraded.

Q: Was the ½ cent sales tax to cover all?

A: Yes. The sales tax was to cover the 25 percent local share. Transit provides 25 percent; the state provides 25 percent; and 50 percent is from the federal government. Currently, the traditional funding partners are significantly impacted. Sequestration will have an impact on transit.

Q: The Red Line is looking at value caption, is there anything like that being applied to the BLE?

A: No. The Blue Line has federal, state and local funding. None of the value caption is being used for the BLE

Q: Is it a consideration?

A: The working group will look at overall corridor plan as well as innovative ways to determine what can be used. The Federal grant is dedicated for the BLE project. It is difficult to change the financial plan. To look at the plan and implement value caption, takes time. You have to have a plan to state that these are your revenues. We have to accumulate that money. We do not have debt capacity. We do not have collateral to pledge because it is being used against the Blue Line.

Q: Is it passed time to do that?

A: Yes.

Q: Is there proof from the current blue line?

A: Yes, \$1.4 billion development that has occurred on the south corridor. It contributes about \$18 million a year from property tax.

It would have been nice to roll that into the Blue Line or use to offset the Blue Line. When we put together the plan two years ago, it was on time. In the last two years, things have changed. This plan is nailed down.

Q: Do Internet sales come back to Mecklenburg County?

A: If they can determine the point of distribution, we will get it back.

Q: You don't get a check back from the state?

A: If they can determine the point of distribution is Mecklenburg County. Another objective of the working group is to identify changes that may need to happen on the revenue side and propose during this legislative session.

Q: Is the value caption idea along development corridors in place elsewhere in the country?

A: Yes.

Q: Since we have achieved 50 percent of our FY2013 objections, how has that affected your budget.

A: It has helped as far as revenues are concerned.

Q: Have you adjusted to any kind of allocation?

A: Yes, as far as our long-term plan.

Q: Is there any discussion with the facilities downtown to raise their parking fees?

A: That may be an outcome of the working group discussion. In some places, parking tax support transit. Staff will create a matrix of projects and what are eligible sources. The city offers incentives to employees who give up parking spaces and ride transit.

Q: Is the two percent for fuel low?

A: We currently have agreements. Staff has secured 15 months of fuel with forward buying. CATS does not pay market price for fuel. In the current fiscal year, we have 50 percent locked in and in the next fiscal year, only lock in 30 percent.

Q: What has the number been in the past?

A: It depends. There were some years that we up to seven percent when we purchased off the spot market. The forward buying has helped us to level a little. We actively hedge our fuel. We do not pay market prices. We get a discount as a volume user, but we have to manage.

Q: What percentage of the operating budget is fuel?

A: Seven percent. Managing labor cost is the first priority because is about 70 percent.

Q: Can we reduce the percentage of fuel with idling?

A: We have an idling policy, but we idle to ensure we can start the vehicle. CATS idles more in extreme weather (winter and summer) to keep the temperature comfortable for the passengers. If you notice a bus idling for 20 minutes, let us know so that we can address it.

Q: Can you give an example of adjustments you make if we do not get federal funds for a capital?

A: We will not implement the project that year but will try to move it forward the next year. If sequestration happens, there is an eight percent cut. We will look at the level of formula funds that we receive and what's been programmed and adjust. If the revenue

does not keep up with our projections, on the operation side, we will make changes – travel, training, hiring freezes – to make sure we come in below our budget.

Q: Can the short term debt be absorbed by the project?

A: Yes.

Q: Is it percentage based? Will the state or federal government pay anything?

A: They will pay for 75 percent of the project. Because the schedule of payments has changed since signing the agreement, we have to do short term financing to pay our vendors.

Q: Is it 75 of the fixed amount?

A: It is 75 of the finance charges. The project budget included a contingency for unforeseen circumstances. We are able to absorb the additional cost into the project budget by using a portion of the contingency. We did a risk analysis to determine the probability of different events. We are carrying a higher level of contingency on this project. We also carry a level of unallocated contingency to be used in the event that you encounter a position that you did not project.

IV. **CEO's Report**

Carolyn Flowers reported that she and City Finance staff visited with the Local Government Commission (LGC) on February 2 to present the financial plan. She and city finance staff will meet with the rating agencies in March and with the LGC again on April 2 to get approval of the debt plan.

She also met with staff of the newly elected representatives on January 30.

Discussion: the group asked for an update on the work with Norfolk Southern. North Carolina Department of Transportation rail division and Norfolk Southern are awaiting feedback from NS. Norfolk Southern is not doing the study independently. The state is funding the study.

Q: Are we in danger of losing the funding from the state for the BLE?

A: The contract is signed. The state legislators will have to approve a budget to include the BLE project.

Q: Are there consequences to the state if the money is given to the project?

A: It is possible that another federal project in the state of North Carolina may not receive funding.

Adjourn

The meeting was adjourned at 8:40 a. m.

NEXT CTAG MEETING: FEBRUARY 19, 2013, 7:30 A.M.