



City Council Report

Date: October 19, 2015
To: City Council
Through: Christopher J. Brady, City Manager
From: Mike Kennington, Chief Financial Officer
Subject: Authorizing the Sale of Transportation Project Advancement Notes for the Light Rail Extension to Gilbert Road

Strategic Initiatives



Purpose

In December 2014, the City Council of the City of Mesa approved and authorized the City Manager to execute the Transportation Project Advance Agreement (TPAA) among Valley Metro Rail, Inc. (VMR), Maricopa Association of Governments (MAG), the City of Phoenix and the City of Mesa on behalf of the City of Mesa. The TPAA authorized the funding of the design, right-of-way acquisition, construction, and acquisition of light rail vehicles for the light rail extension on Main Street to Gilbert Road. The various sources of funding included the City's advance of project costs through the issuance of Transportation Project Advancement Notes (TPANs).

Subject to Council approval, the attached resolution will authorize the sale of TPANs in one or more series in the principal amount not to exceed \$100M for the purpose of accelerating the 1.9 mile light rail extension project and funding the advance pursuant to the TPAA.

Background

In 2012, the State Legislature allowed municipalities to advance the cost of 'transportation projects' through the use of TPANs. The security for repayment of interest and principal on the TPANs is a pledge of Federal grant funds for the project and lawfully available excise tax revenue.

The Gilbert Road extension project is funded in the MAG Regional Transportation Plan (RTP) and Arterial Life Cycle Program (ALCP) with federal transportation funds that were originally programmed for street improvements. These funds have been repurposed through a major amendment to the MAG RTP for the project. Since the funding in the MAG program does not line up with the timing needed for light rail construction, Mesa will have to advance the funding for the project through the issuance of TPANs in order to complete the project. Project expenses would only be reimbursed by TPAN proceeds if approved in advance through a requisition request.

TPANS are similar to the Highway Project Advancement Note (HPAN) financing used to

advance the construction of Loop 202 (Red Mountain Freeway) between Country Club Drive and Gilbert Road as well as State Route 24 (SR-24) in east Mesa. The City redeemed the last outstanding portion of the SR-24 notes in August of 2015.

Discussion

The Gilbert Road extension project is currently estimated to cost approximately \$152.7M for design, right-of-way acquisition, construction, acquisition of light rail vehicles and interest expense. The City of Mesa is currently expecting to advance project costs through the TPAN issuance of approximately \$69M of principal beginning in the fall of 2016. The TPANs will be paid back by federal transportation funds and, if necessary, the City's unrestricted excise taxes. The federal funds are not secured by any lien or pledge and no assurances can be given that the Federal Transit Administration (FTA) will have funds available for the repayments of the advances due at the times or in the amounts set forth under the TPAA. However, these federal funds are programmed in the MAG RTP for this project as are federal funds for hundreds of other projects for highways, arterial streets and transit projects. Federal funds comprise a large portion of the 20-year MAG RTP and have been used for decades to fund regional transportation projects.

In addition to address the possibility of a delay in when federal funds are received, the notes will be structured to have principal repayment to begin two to three years after federal funds are programmed to become available. The TPANs will also include a call option feature to allow the notes to be repaid earlier if the federal funds become available according to the expected repayment schedule as programmed in the MAG RTP.

Alternatives

If the City chooses not to use TPANs to advance the costs of the Gilbert Road extension, the project will need to be delayed or another source of funding will need to be identified to advance the project costs before the federal funds are received.

Fiscal Impact

The issuance of TPANs is currently expected to cost the City approximately \$6M in interest expense (this amount is dependent on market rates at time of issuance) which has already been included in the total project costs. This expense is scheduled to be reimbursed by the repurposed federal funds.

Coordinated With

The issuance of TPANs to fund Gilbert Road light rail extension has been coordinated with the City of Mesa City Manager's Office, City Attorney's Office, Office of Management and Budget, Financial Services Department, Transportation Department, Valley Metro Rail, Maricopa Association of Governments and the City of Phoenix.