



TO: Mayor and Council Members

FROM: Robert Goode, Assistant City Manager *RG*
Leslie Browder, Chief Financial Officer *LB*

DATE: March 26, 2010

SUBJECT: Impact of Capital Metro Finances on City Transportation Projects

As you are aware, we are attempting to work with Capital Metro to reach agreement on the terms of a future payment plan that will allow them to make good, over time, on an obligation of \$51 million under a transportation initiative known as the "Quarter Cent" program. Last spring, the City Manager apprised you that Capital Metro's Chief Executive Officer contacted him to request a payment plan for the remainder of funds committed to the City of Austin due to cash flow problems that they have been experiencing. It is our intent to reflect the terms of such a payment plan in an amendment to the interlocal agreement between Capital Metro and the City of Austin that currently governs the "Quarter Cent" program.

Because Capital Metro did not anticipate having the ability to reimburse the City as project billings became due and payable, we began working on an interim funding plan to help mitigate the immediate impact of their financial situation on the scheduled projects underway and planned. This has been a lengthy discussion process with Capital Metro and a vitally important one since the projects that were to be funded by this program were slated to continue our focus on improving our transportation system. Austinites have long put transportation among their top priorities and these funds were earmarked for projects that would indeed provide beneficial impacts to our transportation network.

One of the first steps we took when Capital Metro became delinquent was to ensure that ongoing project funding met the criteria under State law that funds be available from current revenues when a municipality awards a contract. We have developed a plan that addresses this State law requirement. One of the elements of the interim funding plan included bringing a reimbursement resolution to the City Council on November 5, 2009. This action preserved the City's ability to issue certificates of obligation as early as this summer, and then to reimburse itself upon receipt of the proceeds in order to keep projects moving forward that were already underway or imminent.

The major elements of our interim funding approach include a combination of the following elements:

- Issuing future certificates of obligation to fund projects either underway or imminent
- Identifying alternative funding sources, which will allow the City to keep several projects on track now, and then substitute other eligible transportation projects at a later date
- Deferring projects until a later date while Capital Metro regains its financial footing

Previously, Capital Metro was reimbursing the City as project costs were incurred. Currently, amounts that have been billed but not paid total approximately \$7 million. A portion of the past due amount can be shifted to alternate funding sources. To the extent that we have not been able to identify an interim approach to funding project costs that have been incurred but are not yet paid, the past due amounts will remain as a receivable on the City's books until Capital Metro is able to begin repayment.

Several Council Members have requested more detailed information about the individual projects that make up the remaining \$51 million commitment under the "Quarter Cent" program. These projects are listed and categorized below by the interim funding approach that we have identified, along with additional information provided about the estimated impact on projects.

Issue Future Certificates of Obligation for Projects Either Underway or Imminent – \$16.3 million

We have not been able to identify an alternate funding source for the following projects and anticipate the need to issue certificates of obligation to provide the necessary funding. Based upon project schedules and estimated cash needs, we have categorized the projects relative to our annual general obligation debt sale that typically occurs each August. Because Capital Metro has not agreed to reimburse the City for interest costs the City incurs, we will have no other alternative than to absorb this additional cost, estimated in the range of \$2 million to \$3 million over the life of the debt.

Planned Issuance in 2010

- Roadway improvements, including water quality ponds, supporting the downtown Gables development
 - The developer is nearing completion of the work under the terms of an agreement with the City and staff anticipates reimbursing the developer in the near future.
- Reconstruction of Brazos Street between Cesar Chavez and East 11th Street
 - Construction underway
- Second Street reconstruction and "Great Streets" improvements
 - Construction underway on Second Street, from Congress to Colorado (including Colorado Street from Cesar Chavez to Third Street).
 - A contract for construction on Second Street between Congress Avenue and Trinity Street is scheduled to be solicited during the summer of 2010.
- Lance Armstrong Bikeway
 - Construction began in April 2009 on the portion between Red River Street and IH-35.

Planned Issuance in 2011

- Roadway improvements supporting the future Seaholm redevelopment project, including an extension of West Avenue
 - The developer anticipates starting work during fiscal year 2011.

Identification of Alternate Funding Sources – \$12.7 million

The Public Works and Transportation Departments, working with the Budget Office, have been able to identify funding sources that will help keep several projects on track. These alternate funds will help the City avoid additional interest costs associated with issuing debt that had not already been anticipated, and will allow the City to substitute other eligible transportation projects at a later date, as the economy recovers and Capital Metro regains its financial footing. Major sources are described below.

- Build Central Texas program – Capital Metro is not delinquent in reimbursement to the City under this program, formerly known as “Build Greater Austin”. They have agreed to allow the City to transfer costs to this program associated with studies currently underway as part of the Austin Mobility Plan, as well as pedestrian improvements for the Crestview station area.
- Previously Authorized General Obligation Bonds – Several projects are eligible for funding with bonds previously authorized by voters. While most of these funds have been spent or are specifically planned for other transportation projects, a small portion of the funds can be shifted to help keep “quarter cent” projects on track. These projects are identified below:
 - In 2000, voters authorized the issuance of debt for transportation projects that would add new capacity to the roadway system, as well as bike and pedestrian improvements. The following “quarter cent” projects meet this criteria.
 - Local match for improvements along 7th Street between Navasota and Pleasant Valley (construction began in March 2010)
 - Engineering and project management costs associated with the Pfluger Bridge extension (construction scheduled to start in March 2010)
 - Roadway improvements along Rundberg Lane between Metric Boulevard and Burnet Road (Capital Metro paying directly for design, which is currently underway)
 - A total of \$1.8 million that remains for “Great Streets” improvements from general obligation bonds authorized in 1998 will help fund the “Great Streets” component of the Second Street improvements discussed above. An additional \$200,000 from general obligation bonds that were authorized in 1998 for intersection improvement will be utilized for rail/street crossing work related to quiet zones.
- Capital Improvements Program interest earnings – Interest earnings generated on unspent bond proceeds typically occur each year since it is difficult to precisely predict estimated project spending. This funding is generally allocated to pay for smaller projects, primarily studies and master planning efforts.
 - Earnings generated in 2010 have largely been allocated, but a small amount of funding can be used to pay for transportation corridor studies that Capital Metro has been unable to reimburse.

- Estimated earnings in 2011 will be allocated to help fund estimated expenditures for the transportation elements of the comprehensive and downtown plans.

Deferral of Projects until Capital Metro Regains Financial Footing – \$12.9 million

Projects that have not yet started, and for which no alternate funding source could be identified, include:

- Planned intersection improvements (design underway)
 - South 1st at Ben White
 - Ben White at Congress
 - Slaughter Lane at Manchaca Road
- Cameron Road improvements (between 51st Street and Hwy 290)
 - Design complete
- Rundberg Lane improvements (from Metric Boulevard to Burnet Road)
 - Exception – property acquisition to be undertaken with 2000 bond funding
- Matching funds for Upper Boggy Creek trail
 - Grant previously sought but not obtained
- Improvements along Guadalupe Street in the University area (the “Drag” project)
 - Design complete, construction not yet begun pending resolution of bus rapid transit and rail alignment discussions
- Southeast and north Austin bike routes
- Additional funding to support and expand upon the strategic mobility plan
- Intermodal station transfer planning/implementation
- Bowie underpass (part of work in Seaholm district)
- Supplemental rail/street crossing work

Project Costs Incurred, Billed to Capital Metro but Unreimbursed – \$4.5 million

This category represents remaining project costs that have been billed to Capital Metro, which have not been reimbursed, and are not eligible for funding or reimbursement by any other means. These projects are primarily for completed design and construction work. These unpaid invoices have essentially created an unplanned loan from the City’s investment pool to the Capital Improvements Program. We hope that this loan will be repaid over time by Capital Metro under a future payment plan, to be defined in an amendment to the “Quarter Cent” interlocal agreement, as the economy begins to improve and Capital Metro’s sales tax revenue begins to recover.

Other (primarily generated by projects completing under budget) – \$4.7 million

The Public Works and Transportation Departments will substitute other eligible transportation projects at a later date, after the economy recovers and Capital Metro has regained its financial footing.

Next Steps

Staff will take the necessary steps to adjust our budgetary records to reflect the alternate funding sources for projects we are unable to defer. Projects for which alternate funds have not been identified will be placed on hold in the accounting system. Because we are not increasing spending appropriations or transferring appropriations between departments, the Law Department has determined that no additional Council action is

needed this year to shift funding sources. The reimbursement resolution passed by Council this past November preserved our ability to reimburse projects with debt that will be issued this year or next, and we have worked to keep those projects to a minimum. To date, Capital Metro management has indicated they will not reimburse the City for its interest costs, but they are willing to allow us to charge these costs to the "Quarter Cent" program, provided that we work within the remaining \$51 million commitment.

When we return to Council at a future date for consideration of an amendment to the interlocal agreement, we will attach this memorandum as back-up to the Request for Council Action that accompanies the amendment so that the funding matrix outlined above will provide the appropriate level of budgetary recordkeeping. We will also reflect these changes in funding sources in the 2011 capital improvements budget.

If you need additional information, please let us know.

cc: Marc A. Ott, City Manager
Robert Spillar, Transportation Director
Howard Lazarus, Public Works Director
Ross Crow, Assistant City Attorney