



501 Union Street, 6th Floor
Nashville, Tennessee 37219-1705

East Corridor Oversight Committee
Tuesday, July 19, 2005 10:00 a.m.
Metropolitan Transit Authority (MTA)
130 Nestor Street, Nashville, TN

MINUTES

THOSE IN ATTENDANCE:

Paul Ballard	RTA
Jody Vance	City of Lebanon
Tom Brashear	Wilson County
Brenda Wynn	Congress Jim Cooper's Office
Randall Dunn	MDHA
Kevin Walker	RTA – NS
Gene Turnage	TCRM
Rob Shearer	City of Mt. Juliet
Jim Ladieu	TDOT
Rick Beals	TDOT
Deborah Varallo	RTA – VPR
Linda Elam	City of Mt. Juliet
John Kennedy	Metro Legal Counsel
Bill Farquhar	RTA
Allyson Shumate	RTA
Hanne Flippen	RTA

Mr. Paul Ballard called the meeting to order at approximately 10:00am on Tuesday July 19, 2005.

Public Comments

There was no public comment.

Approval of June 28, 2005 meeting minutes

Mr. Ballard called for the approval of the June 28, 2005 meeting minutes. Rob Shearer made a motion to approve, Randall Dunn seconded and the motion passed unanimously.

Project Update

Critical Path Assessment / Funding / Status of Loan – Mr. Bill Farquhar asked the committee if he could address the items of critical path, funding and status of the loan all as one item. Mr.

Farquhar stated that staff comes to the Committee today to discuss the need for revised resolutions / letters of commitment for the Wilson County Agencies. He stated that he would present a lengthy background staff report, and then request input and suggestions from the committee on the best method to proceed. He respectfully requested that questions be held until the end of staff's report, to ensure that all the information is properly presented to the committee, stating further that this was very likely to be the most important single item that the committee addresses this year.

He first addressed why updated resolutions were being requested from the Wilson County Governments.

On July 23, 2003, the ECOC approved the concept of a Revenue Anticipation Note (RAN) to provide funding for the completion of construction and the mobilization of the operations and maintenance contractors. This was done in response to a requirement of the FTA to demonstrate the RTA had the capability to construct the project without additional federal funding. A year later, in July 2004, the ECOC approved the Business Plan (BP). The BP noted the requirement for an increase from the Wilson County agencies to cover a \$72,000 shortfall in the operating budget at the time. This shortfall was due to the removal of the TDOT construction mitigation funds for the I-40 and 109 construction projects.

The Committee originally believed the best approach to a RAN was via a RRIF loan from the Federal Railroad Administration (FRA), potentially via the Nashville and Eastern Railroad Authority (NERA). In August of 2004, an alternative plan was approved, to seek a short term loan from the successful bidder of the Operations and Maintenance (O&M) contract. As the committee is aware, the successful bidder was a consortium of the Nashville and Eastern Railroad Corporation, and Virginkar Associates, known as Transit Solutions Group (TSG). This firm was selected due to lower costs and a demonstrated willingness to work with the RTA to bring the project to completion. TSG and staff determined that the cost of providing a loan directly from the private company would be significantly higher (7% or greater) than obtaining the loan directly, especially one knowledgeable in public financing. While TSG remains willing to provide the funding, it does not appear to be a prudent use of public money. The passage of the RTA legislation during the past session allowed the RTA to investigate obtaining such a loan.

Staff, primarily Ms. Shumate, contacted a number of banks and lending institutions in the area. We thank the members of the committee and board for their assistance in arranging several of these meetings and providing guidance on contacts. All of the commercial banks contacted have verbally indicated a strong interest in working with the RTA to arrange the transaction. A number of meetings were held, and a conference call with the staff of Congressman Gordon and Congressman Cooper was also conducted with two institutions. Unfortunately, the lending institutions have stated the current wording of the resolutions from Wilson County must be revised to include language referring to the servicing of the interest on the debt from the loan, to ensure the operation of the service during the interim between the start of service and the first payment of federal formula funds before a transaction could be considered. Bank of America, First Tennessee, Middle Tennessee, and Wilson County Trust were all contacted and have provided RTA the same response or none at all.

Bank of America, while declining to provide a bank loan, has submitted a proposal to fund a loan through their Public Financing department. The terms of the loan would be no interest for the first two years, (the loan amount is actually a little over \$8.1 million to cover the interest), an average interest rate of 3.75%, a fully funded cash Debt Service Reserve Fund at closing. Reserve fund could be used to fund the initial debt service payment on the bonds or provide the Self Insured Retention (SIR) fund for insurance. The reserve fund interest earnings will accrue to the benefit of RTA. Finally, there is 20 year amortization with principal repayment beginning in year 10. As the remaining federal funds are appropriated, RTA will be able to pre-pay the principal without a penalty. This option offers the agency flexibility at a significantly lower interest rate than any of the previous concepts. Again, the transaction is conditioned on receiving revised resolutions

/ letters of commitment to fund the operation until the federal programmed funds begin to flow into the project in 2008.

Without the amended resolutions, and thus the loan, RTA does not have sufficient funds to complete station construction, operations mobilization, nor a SIR.

Staff is sensitive to the concerns of the Wilson County agencies regarding limited funds.

Mr. Farquhar explained to the committee that steps have been taken to reduce the impact of increasing operating costs. The Nashville and Eastern Railroad Corporation (NERC) has agreed to reduce the track access charges for the first five years by 24%. This money is then owed by the RTA as a prime rate loan starting in the sixth year of operation. By that time, the formula funds from the federal government and the remaining new start money is expected to be available, allowing these funds to be paid back promptly. During negotiations with TSG, the cost of both mobilization and annual operations was significantly reduced. Mobilization was reduced by approximately 20%, from \$1.5 million to \$1.2 million. More importantly, the annual operating costs were reduced from \$1.69 million to \$1.24 million, or 27%. The percentage increases in the later years of the contract to a 30% reduction. One reason for the reduction in costs was a change in the operating plan, which provided Wilson County residents with an off peak Nashville to Lebanon and return train that was not originally part of the program. As the committee knows, NERC has agreed to provide funding for the first years of operations in the amount of \$20,000 per Wilson County agency per year, or a total of \$300,000 over the first years of the project. TDOT has stepped up to the plate to assist the project in several ways. First is the forgiveness of \$2.7 million in construction expenses associated with the Briley Parkway and SR 109/US70 projects. Second, TDOT has approved increasing the level of support from \$400,000 per year to \$433,000 per year. Third, TDOT is allowing the entire first year budget of operating support to be used, although the service is now only expected to operate for 5 months of the year.

Mr. Farquhar stated that staff has also been working to reduce capital cost overruns with frequent and on-going value engineering. Changes in the operating plan have eliminated the need for a lay-over facility at Riverfront, saving the project \$350,000 in capital funds. Value engineering at stations and land acquisitions has saved the project over \$600,000. Revisiting the Ticket Vending Machine concept eliminated a potential \$400,000 plus station cost overrun.

Last but not least, there may be additional revenues available to the project from advertising on benches at the stations and retail leases. We are in the process of working with MTA to develop a revenue sharing agreement for such revenue. The City of Mt. Juliet has issued an RFP for developers at the station in that community. RTA staff is developing a RFP to lease the space at the Riverfront Station to a private firm also. Other retail lease opportunities may also be available at the Martha and Lebanon station sites. None of the scenarios presented to the committee include any of these potential revenues. Staff is purposely showing what we believe to be the worse case numbers, to provide the Committee members with the most conservative data. The numbers presented here assume that there is no additional revenue from retail leases, advertising or fare box recovery beyond the projection.

Mr. Farquhar summarized by stating the project cannot continue without the revised resolutions/letters identified in the BP from the Wilson County agencies. The documents must indicate a level of support to the project during the first five years sufficient to support operations and cover the debt payments, if any.

Mr. Tom Brashear stated that several months ago, a delegation from the RTA board had visited the congressional delegation to communicate the urgency in the need for the remaining funding. He wanted to know what has changed between the spring and now. Mr. Farquhar stated that if congress is successful in appropriating the remaining funds, it will be approximately nine-months after the appropriation when the funds are available. He also stated that the stations bids coming in so much higher than the estimates has

increased the need to fully fund the project and move forward with the loan. Mr. Farquhar further explained the need to fund the operations mobilization efforts required to begin service.

Mr. Rob Shearer stated he believed the spreadsheets handed out were misleading due to the fact the in-kind contributions from the Wilson County Governments was not shown. Staff stated this would be revised.

Mr. Tom Brashear asked why Memphis was able to secure so much federal funding and the RTA was having trouble with securing \$6.2 million.

Mayor Elam stated she believed this would be a very hard item to get passed through the Mt. Juliet City Commission. She did not think it was possible.

Rob Shearer requested staff make several modifications to the tables to try to solve the gap between the current resolutions and the new estimated subsidy requirements. He requested the following:

- Revise the fare structure to indicate a higher fare, with \$5 as the high fare from Lebanon. He believes with the gas prices the way they are, the public will pay a higher fare to get out of the traffic.
- Demonstrate the in-kind contributions from the Wilson County Governments. These are services that provide a value and this value should be demonstrated.
- Reduce the loan amount, which will thereby reduce the interest rate. Staff was requested to look at the remaining improvements needed and prioritize what was needed now and what could be deferred.

Staff stated that work would begin on this immediately. Mayor Elam cautioned the committee about raising the fares to a level the public would perceive as not worth paying. Mayor Elam also suggested we add a component to the presentation of what an additional lane would cost and what the costs are to maintain the highway system.

Mr. Paul Ballard requested staff to make the revisions noted and the committee agreed to meet on Tuesday July 26, 2005. The meeting was adjourned at approximately 11:45 a.m.