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OFFICE OF THE
CITY MANAGER

CITY OF SACRAMENTO
CALIFORNIA

May 21, 1987

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SACRAMENTO, CA
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Budget and Finance Committee
Sacramento, California

SUBJECT: Regional Transit District Request for Additional City Funding for the Light Rail Project

SUMMARY

General Manager Dave Boggs and the Regional Transit District staff made an informational Light Rail Project Status Report to the Joint Budget and Finance/Transportation and Development Committees at their April 28, 1987 meeting. During the presentation, Mr. Boggs requested an additional \$2 million in "RACS Account" funding for the project. This report responds to Regional Transit's funding request.

BACKGROUND INFORMATION

The District's Light Rail Starter Line Project, Northeast Corridor Line, began revenue service in March of this year. The Folsom Corridor Line is currently scheduled for opening in November. The overall project is proceeding as planned and is now 93% complete. The district staff indicates initial ridership response was positive and the system is generally able to achieve the 15-minute headways desired. However, the predominantly single track system is not sufficiently flexible from an operations standpoint. Further, it is clear the starter line needs additional vehicles to meet system capacity requirements.

At Council direction, the City fiscal staff of Tom Friery, Betty Masuoka and Jack Crist have involved themselves in the district's budget planning and has also received in depth briefings from Regional Transit fiscal staff.

Following are observations and comments on Regional Transit's fiscal review.

FINANCIAL

The Light Rail Project. The Starter Line Project March 1987 forecasted cost to completion is \$172.9 million. In addition, Regional Transit's management added a claims reserve of \$3.0 million to arrive at the published project budget of \$175.9 million. Included in this figure is an "unobligated construction contingency of \$2.2 million and a remaining general contingency of \$.3 million.

Regional Transit staff reports that remaining project obstacles include delivery of remaining vehicles (and related "Buy America" compliance), settlement of claims, cash flow and project funding deficiencies.

The project budget is \$176 million. As shown below, the funding falls into one of three categories. Due to recent changes there have been some shifts in these funding categories. For instance, on May 11, 1987, UMTA sent a letter to Regional Transit expressing concern regarding "Buy America" compliance, and suggested that \$1.4 million would be withheld from the District. If this in fact occurs, the \$166 million of assured funding would be reduced by \$1.4 million and the funding shortfall would increase by \$1.4 million. In a separate action, \$2.8 million originally included in the "questionable" category has been reallocated with \$2.4 million now in the "relatively assured" category and \$.4 million now in the shortfall category.

LRT FUNDING
(\$ IN MILLIONS)

	<u>Relatively Assured</u>	<u>Questionable</u>	<u>Shortfall</u>	<u>Total</u>
	\$166.0	3.9	6.1	\$176.0
UMTA Action	(1.4)	-	1.4	0
Utilities	<u>2.4</u>	<u>(2.8)</u>	<u>0.4</u>	<u>0</u>
TOTAL	\$167.0	\$1.1	\$7.9	\$176.0

Finally, the project cash flow schedule indicates project cash flow deficits ranging from a low of <\$0.242> million in October 1987 to a high of <\$7.110> million in September 1987. However, the starter line project cash flow monthly deficits can be absorbed within Regional Transit's overall cash flow in all months except August, <\$1.267> million, and September, <\$2.492> million. The project returns to a positive cash balance in December 1987. See Attachment II for cash flow detail by month.

To date the City of Sacramento was provided \$36.9 million to the starter line project as follows:

o	1985 COP Debt Proceeds	\$22.051*
o	1985 COP Capitalized Interest	6.332*
o	1985 COP Debt Service Reserve	2.934*
o	City Initial Contribution	2.325
o	Safe Harbor Lease Proceeds	.900
o	RACS Account Contribution	2.042
o	SHRA Direct Contribution	<u>.293</u>
	TOTAL TO DATE	\$36.877

* Amounts do not include interest payments to be made over life of COP issue

In addition to the City's current investment in the LRT project as well as future costs as a result of debt service payments on the COP issue, the City has also incurred an opportunity cost of approximately \$500 thousand as a result of the LRT project. This came in fiscal year 1984-85 when the City was incurring the cash flow negatives of the STDA/LRT project which resulted in a loss of interest income to the City. This opportunity cost loss plus staff time has not yet been recovered.

Regional Transit Operating Budget. Regional Transit staff has been instructed by the Regional Transit Board to present a balanced 1987-88 Regional Transit budget which absorbs the existing light rail \$6.1 million funding shortfall within the district's existing and planned resources. The Regional Transit staff has done this for their preliminary 1987-88 budget. Attachment III depicts a five-year district forecast which incorporates both operations and capital. For 1988, the operating budget is projected to increase from \$30.8 million to \$36.9 million, a 20% increase. Attachment IV explains the components of the increase but in summary the majority of the increase is attributable to light rail operating costs.

As a practical matter, the Regional Transit staff has absorbed the Light Rail Starter Project shortfall by cutting deeply into the districts other capital improvement programs. Significant program cuts include elimination of two years of planned bus replacements (40 buses), deleting 2 of 6 planned additional light rail vehicles, cutting the planned additional starter line double tracking in half, elimination of a planned "alternative analysis" study and postponement or elimination of numerous other smaller capital projects. Further, operating reserves are next to nothing and the farebox revenue estimates appear to be soft due to the unknown impacts of the new light rail system.

In addition, it is pointed out that both the federal and state government are severely reducing both their previous operating and capital support to transit programs. These phenomena are contributing to Regional Transit's fiscal abilities to provide public transit.

District request for an additional \$2.000 million in RACS Account funding. It seems clear from reviewing the district's financial information that without additional outside funding, they will be forced to make additional major capital reductions, will be faced with a cash flow problem and will probably be forced to make service level reductions. Further, because their bus replacement schedule is effectively eliminated, it is certain that they will face a continuing increase in operating costs due to an aging bus fleet. Nevertheless, City staff is reluctant to recommend any more than \$1.0 million at this time. Our reasons are outlined below:

1. While the starter line project is 93% complete, significant unknowns still exist. For example, this report previously pointed out that the starter project still has approximately \$2.5 million in construction and general contingency.
2. Project construction claims may be settled for less than estimated.
3. A permanent solution to the district's ongoing funding problems will require a new revenue source such as the Connelly Bill/Sales Tax Override.
4. The RACS account serves as a safety net to the City in the event SHRA is unable to meet debt service payments under the LRT repayment agreement as well as to be used to meet indemnification of safe harbor benefits. In addition, the RACS account was intended to repay the City for any costs incurred in connection with the LRT project as well as repay SHRA for their financial support of the project.
5. The City is currently conducting negotiations with private developers to build a new Central Library utilizing a combination of redevelopment tax increment funds and City funds. It is presumed such a plan would entail renegotiating the existing Light Rail RACS Repayment Agreement between the City and SHRA.

Assuming a new RACS repayment agreement, the City could face greater long term debt risk exposure since the City is the guarantor on existing light rail debt. As a result, the City Council may wish to retain larger as opposed to smaller balances in the RACS account.

6. We should not lose sight of the fact that RACS account funding must benefit the Redevelopment Agency. The \$1 million payment to Regional Transit can easily be seen to benefit redevelopment through additional LRT vehicles (\$.4 million), double tracking (\$.2 million), remote traction power (\$.1 million), vending machines (\$.1 million) and rubberized safety tile (\$.2 million).

RECOMMENDATION

Given the remaining uncertainties surrounding the LRT project and the Central Library Redevelopment Project, City staff recommends that the City Council maximize their options at this time while at the same time recognizing Regional Transit's serious fiscal stress by approving \$1.0 million of additional RACS account funding for the LRT starter line project. This \$1 million of additional funding would increase total City contributions to the project to \$37.9 million.

Furthermore, it is recommended that the City Council authorize a temporary loan of up to \$1.5 million for no more than 90 days to meet Regional Transit's potential cash flow deficits in August and September, 1987. Such a loan will be accomplished through a Regional Transit short term investment instrument such as commercial paper and the rate will be established by the City Treasurer at that time if needed from the RACS account.

The following is a RACS account balance projection. As shown, there is \$1.0 million available in undesignated funds to appropriate to Regional Transit. The \$1.5 million recommended to be loaned to Regional Transit would infringe on the established reserves which would increase City exposure during the loan period. Due to the short exposure period (90 days), City staff believes that the risk is not unreasonable.


RACS ACCOUNT PROJECTION
(\$ IN THOUSANDS)

Beginning Balance (7-1-86)		\$ 5,862
1st qtr int	118	
2nd & 3rd & 4th qtr int (est.)	<u>360</u>	
		478
Safe Harbor Proceeds		1,583
Payments To Regional Transit		< 2,942 >
SHRA Payment (6-30-87)		<u>1,450</u>
		\$ 6,431
 PROJECT RESERVES		
- Safe Harbor Indemnification	\$ 2,200	
- Financing Exp	300	
- 1 year LRT/COP Reserve	<u>2,900</u>	
		<u>(5,400)</u>
Undesignated Funds		\$ 1,031

A Resolution is attached which enacts the above recommendations.

Finally, it is pointed out that the operating and capital budgets of Regional Transit are austere at best. The Regional Transit needs which are regional in nature as they provide public transit are in need of funding. Funding measures such as the Connelly Bill/Sales Tax Override should be supported and the City, County and other local municipalities should consider prioritizing the issue of financial operating assistance to Regional Transit.


Respectfully submitted,



Jack R. Crist
Deputy City Manager

for 

Tom Friery
City Treasurer



Betty Masuoka
Director of Finance

RESOLUTION No.

Adopted by The Sacramento City Council on date of

RESOLUTION APPROPRIATING \$1.0 MILLION
LRT/RACS ACCOUNT FUNDS TO THE CITY'S
1986-87 CITY BUDGET AND AUTHORIZING
PAYMENT TO THE REGIONAL TRANSIT
DISTRICT

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SACRAMENTO:

1. That \$1.0 million in "LRT/RACS Account" Fund are hereby appropriated to the Light Rail Starter Line Project Budget; and
2. That the Director of Finance is hereby authorized and directed to disburse \$1.0 million to the Regional Transit District upon receipt of a formal billing invoice from the District; and
3. That the City Treasurer is authorized to negotiate a commercial paper investment from the LRT/RACS Account for no more than \$1.5 million and no more than 90 days to meet Regional Transit's cash flow requirements which may occur in August and September 1987.

MAYOR

ATTEST:

CITY CLERK

VIII. PROJECT FUNDING

RT METRO PROJECT
FUNDING SOURCES - BASELINE PROJECT
(\$ x 1000)

ATTACHMENT I

	GRANTS	FUNDS APPROVED & AVAILABLE	COMMITTED BUT NOT YET AVAILABLE	APPLIED FOR BUT NOT YET APPROVED	NOT YET APPLIED FOR
FEDERAL:	9001	\$84.913		\$ 3.231	
	9002	0.500			
	9004	1.960			
	9005	5.500			
	0010	2.409			
	FAI	0.650			
	FAU	1.545			
STATE:	FMT 81-8	\$ 0.162			
	FMT 81-3	0.100			
	FMT 82-7	1.000			
	FMT 82-5	0.400			
	FMT 82-20	1.000			
	FMT 83-1	4.300			
	FMT 84-1	4.200			
	FMT 84-4	2.800			
	FMT 85-5	5.500			
	FMT 86-41	1.768			
	FMT 87	1.325			
	RR Xing Fund	1.456			
	GSA State	0.600			
	PUC 83	2.400			
	PUC 82	4.200			
OTHER:	City	\$2.325			
	County	1.160			
	Regional Transit	3.074		0.069	
	Community Dev.	0.175			
	Interest	0.174			
	Rental	0.012			
	Miscellaneous	0.111			
	SHRA	0.293			
	So. Pacific	0.235			
	Lumberjack	0.275			
	Culligan	0.090			
	Harris Property	0.006			
	Debt Financing	22.051			
	Cook Co.	0.085			
	NEA	0.030			
	Sacramento Bee	0.350			
	Utility	0.405			2.810
	Palm Iron			0.240	
	Safe Harbor Leasing	0.900*			
	City (Pub. Wrks-Betterment)				0.050
	RACS Funds	2.042*			2.042**
	Undesignated Funds				1.573
		<u>\$162.481</u>	<u>\$0.000***</u>	<u>\$ 3.540***</u>	<u>\$6.475***</u>
Added Scope:				Total Baseline Funding	\$172.496
Undesignated Funds				0.453	
Subtotal		<u>\$162.481</u>	<u>\$0.000</u>	<u>\$ 3.540</u>	<u>\$6.928</u>
				TOTAL FUNDING SOURCES	\$172.949

162.5
 3.5

 166.0

*Total amount available from RACS-Approved by City Council \$2.942 million.
 **Remaining amount potentially available from LRT/RACS account to be considered by City Council when project is 95% complete (in February or March, 1987) - requires City Council approval: Reference-City Staff memo dated Nov. 18, 1986.
 ***Anticipated Funds - See Project Status Comparison sheet title "Funding".

LRT CONSTRUCTION PROJECT/RT CASH FLOW

(000's Omitted)

	<u>MARCH</u> <u>1987</u>	<u>APRIL</u> <u>1987</u>	<u>MAY</u> <u>1987</u>	<u>JUNE</u> <u>1987</u>	<u>JULY</u> <u>1987</u>	<u>AUGUST</u> <u>1987</u>	<u>SEPTEMBER</u> <u>1987</u>	<u>OCTOBER</u> <u>1987</u>	<u>NOVEMBER</u> <u>1987</u>	<u>DECEMBER</u> <u>1987</u>	<u>JANUARY</u> <u>1988</u>
RT BALANCE	18870	16853	11973	8303	6275	5402	4618	7141	5125	3059	270
LRT BALANCE	-3124	-2742	-305	-2032	-5725	-6669	-7110	-242	-418	120	10
COMBINED BALANCE	15746	14111	11668	6271	550	-1267	-2492	6899	4707	3179	280

Items which could eliminate or substantially reduce the overall cash flow problem:

- Final agreement with SMUD on the utility contribution to the light rail construction project.
- Earlier cash draw availability of the final amendment of Federal Grant CA-23-9001 contributing to the light rail construction project.
- Additional City contribution of LRT/RACS reserve account funds.

Potential solution should above items not occur:

- Issuance of revenue or grant anticipation note to cover overall cash flow problem.

SACRAMENTO REGIONAL TRANSIT DISTRICT
 FIVE-YEAR FINANCIAL FORECAST
 PROGRAMMED FUNDS
 FY 1988-92
 MOST LIKELY SCENARIO
 (IN MILLIONS)

	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92	CUMULATIVE FY 88-92
TOTAL AVAILABLE FUNDS FOR PROGRAMMING							
TOTAL REVENUE GENERATED	36.3	37.4	37.6	39.4	41.0	42.6	198.0
CARRYOVER	23.6	3.9	.3	--	--	--	2.3
TOTAL FUNDS AVAILABLE	<u>59.9</u>	<u>41.3</u>	<u>37.9</u>	<u>39.4</u>	<u>41.0</u>	<u>42.6</u>	<u>200.3</u>
PROGRAMMED FUNDS							
OPERATING	30.8	36.9	37.8	39.2	41.1	43.0	198.0
CAPITAL	25.2*	4.1	17.3	4.5	4.1	4.3	32.4
TOTAL PROGRAMMED FUNDS	<u>56.0</u>	<u>41.0</u>	<u>55.1</u>	<u>43.7</u>	<u>45.2</u>	<u>47.3</u>	<u>230.4</u>
BALANCE	3.9	.3	(17.2)	(4.3)	(4.2)	(4.7)	(30.1)
	==	==	==	==	==	==	==

* Adjusted by postponment of \$1.9 million of local projects in order to balance FY 88 program.

SACRAMENTO REGIONAL TRANSIT DISTRICT
 FY 87/FY 88 BUDGET COMPARISON
 (APPROXIMATE MILLIONS)

FY 87 ADOPTED BUDGET		\$30.80
* OPERATIONS		
* OPERATIONS LRT	3.8	
* OPERATIONS SUPPORT LRT	1.8	
* BUS MAINT./TRAN./AGM	<u>< .5 ></u>	
		5.10
* INSURANCE PREMIUMS		.40
* SUPPORT SERVICES		
* LRT FARE COLLECTION	.160	
* PURCHASING	.100	
* OTHER	.080	
		.34
* CONTINGENCY		.30
* PLANNING/MARKETING		.05
* EXECUTIVE ASSISTANT/ GENERAL MANGAGER/LEGAL		<u>< .09 ></u>
FY 88 PRELIMINARY		<u>\$36.90</u>