REGIONAL TRANSIT AUTHORITY

MOTION NO. 4

A MOTION of the Board of the Regional Transit Authority for the Pierce, King and Snohomish Counties region adopting Financial and Engineering Principles Governing Utilization of Bond Financing by the Authority in Implementing the Regional Transit System Master Plan.

Background:

On October 29, 1994, by Resolution No. 40, the Board of the Regional Transit Authority adopted the Regional Transit System Master Plan, identifying the Phase I System Plan as the initial phase of the RTA's high capacity transportation plan to be implemented. Section VII of the Master Plan describes the principles and commitments of the first phase of implementation. Discussion in this section on the Phase I financing, specific to maximum bonding levels contained the following statement:

> "By January 1995, the RTA will develop engineering and financial principles which better describe how bonding will be utilized to meet the goals of the 16-year Phase I Plan, and to meet future financing requirements for Phase II."

In responding to this requirement, staff has prepared the attached document for review and consideration by the RTA Finance Committee and RTA Board.

Motion:

It is hereby moved by the Board of the Regional Transit Authority that the attached "Financial & Engineering Principles for RTA Debt Management" be adopted and that the Executive Director shall use these financial and engineering principles to meet the goals of the 16-Year Phase I Plan, and to meet future financing requirements for Phase II.

Bruce Laing
Chair of the Board

ATTEST:

Marcia Walker
Marcia Walker
Board Administrator

February 10, 1995
Date

FINANCIAL & ENGINEERING PRINCIPLES FOR RTA DEBT MANAGEMENT

Adopted February 10, 1995

INTRODUCTION

The Master Plan for the Regional Transit System, as adopted on October 29, 1994, outlines a financing plan for the sixteen year Phase I construction program. The Master Plan requires that the RTA develop financial and engineering principles to describe more fully how bond financing requirements will be utilized to meet the goals of the sixteen year Phase I Plan and the future financing requirements for Phase II.

In adopting these financial and engineering principles, the RTA clarifies the intent of the Phase I financing and equity principles and commitments for sections 1.4 through 2.2, as follows:

1. If at any time, the RTA Board determines that revenues, including federal and state sources, will be inadequate to substantially complete the Phase I system within 16 years and that the phasing in the Master Plan must be revised, the RTA Board shall authorize a vote of the people on a ballot measure that fits the modified phasing and maintains the principles of subregional equity articulated in the Master Plan.

2. Sections 1.1, 1.4, 1.6, and 1.7, taken together, mean that a second vote will be required in order to provide local financing for capital expansion beyond the Phase I system.

3. The Phase I local tax package will be reduced after sixteen years to a level necessary to pay for system operations and maintenance, fare integration, capital replacement, and debt service.

4. Section 1.4, 1.5, 1.6, 1.7, and 2.2, taken together, mean that the RTA may undertake additional projects within the sixteen year construction period (before 2011) and beyond the Phase I system, only if Phase I bonds are paid off and if subregional equity is maintained. Local jurisdictions, per subsection 1.2, may seek to supplement or accelerate funding of Phase I projects, so long as programmed activities remain consistent with the Master Plan.

5. The primary objectives of the RTA financial and engineering principles shall be to:
   - insure prudent financial management of the Phase I capital program;
   - limit the impact of debt on decisions with respect to Phase II of the Master Plan;
   - fund the Phase I capital program largely on a pay-as-you-go basis; and
   - maintain flexibility to access and respond to the market in order to achieve cost-effective and efficient financing for the Phase I capital program.

FINANCIAL PRINCIPLES

To insure that the primary objectives are met, the RTA shall implement the following financial principles.

Public Accountability

1. **To insure that Phase I system plan development and implementation occurs within the framework and intent of the Master Plan's principles and commitments, the RTA shall 1) have conducted annually a comprehensive performance audit through independent audit services; and 2) appoint and maintain for the sixteen year Phase I construction period a citizens' oversight committee charged with an annual evaluation of the RTA's performance audit and financial plan for recommendation to the Board.**

Financial Planning

2. **The Financing Committee annually shall review and propose to the Board a detailed six year plan of finance, which will estimate when additional bond issues will be issued, the relative size of such borrowings and within the parameters of the adopted sixteen year or long term financing plan.**

Debt Financing

Debt financing in the context of the Phase I capital program has two distinct meanings, the first related to long term debt financing, and the second related to short term debt financing.

3. **An $800 million ceiling on long term debt has been established in the Master Plan, and implies long term financing of a portion of the capital costs of construction. The $800 million ceiling should be interpreted to mean that at the end of the sixteen year Phase I, there will not be RTA bonds outstanding in an aggregate principal amount that exceeds this ceiling.**

   Interpretation
   This assumes that RTA bonds would be issued for a minimum term of 20 years. In the unlikely event that market conditions were to make shorter term bonds, for example with 10-to-15 year maturities, very attractive, then it is possible that bonds to fund construction will have matured by the end of Phase I. Under these circumstances, the $800 million ceiling will need to be understood to further limit the amount outstanding at the end of the Phase I in order to insure that no more than $800 million of the total capital costs were funded through long term debt. If the cost of Phase I were to increase beyond present estimates, it should be assumed that the $800 million limitation would survive any such adjustments.

4. **While dollar amounts presented in the Master Plan are expressed in 1995 dollars, the Phase I financing plan (presented in future dollars in the Technical**

Appendix) allows for inflation over the sixteen year period. Therefore, the $800 million long term debt ceiling should be understood to mean in 1995 dollars, and that the actual dollar amount of issued debt by the RTA will likely be a higher amount higher as a result of actual future inflation rates.

5. **Short term debt financing is expected to be used primarily to bridge the gap between the necessary timing of expenditures and the anticipated receipt of revenues.**

   Interpretation
   To the extent that short term borrowing of five years or less for the purpose matching funding needs to the receipt of anticipated revenues is important to maintain construction efficiency and predictability, debt should be incurred independently of the ceiling amount. Local tax revenue anticipation notes or grant anticipation notes or other short term financing mechanisms such as tax exempt commercial paper may be used to provide cash in the amounts and at the times necessary to meet the most efficient design and construction program. Further, the RTA should reserve the flexibility to issue long term debt for the refunding of the short term debt should that prove beneficial and within the $800 million debt ceiling as defined above.

Uses of Long Term Financing and Interim Financing

6. **The use of long term financing should be limited to capital and related costs for portions of the project that have a useful life in excess of the term of the debt. Furthermore, long term financing should be preserved for those aspects of the project for which other sources of funds are not likely to be available (e.g., due to timing or eligibility constraints) or for which a local match is require to access such source of funds.**

   Interpretation
   Long term debt should not be used for administrative costs, maintenance and operation expense or for capital goods with useful lives of less than the term of the debt.

7. **Short term interim financing should not be considered as part of the long term financing of Phase I, but should be limited in its use to bridge timing gaps between scheduled expenditures and scheduled receipts.**

Terms and Conditions of Financing

8. **As a general proposition, the RTA should use fixed rate debt because of the certainty that it provides for planning purposes, while remaining flexible and open to prudent financing ideas that take advantage of market conditions and available products.**

Interpretation
The terms and conditions of individual financings are difficult to prescribe in advance especially since the market place for both long and short term debt is constantly changing and new products become available from time to time. While variable rate debt may provide significant short term rate advantages, the uncertainty of such debt, compounded by the uncertainty of certain revenue sources, make fixed rate debt more acceptable generally. Nonetheless, the RTA should remain flexible and open to prudent financing ideas that take advantage of market conditions and available products.

9. **The RTA shall consider the following variables each time it plans a borrowing: the duration of the debt, insurance or other credit enhancements to reduce rates, and the cost and rate (and rating) advantage of establishing reserves, coverage requirements and making other covenants to debt holders.**

Interpretation
The first time the RTA enters the debt market especially for long term debt, it must carefully establish the terms and conditions of such debt because the initial borrowing is likely to establish the parameters of subsequent bonds on a parity of lien. Analysis of these variables will enable the RTA's financing team to design covenants and bond features for RTA approval that will permit a series of borrowings over the term of Phase I construction at the lowest available costs.

10. **The RTA shall evaluate the advisability of selling debt at competitive sale or expanding the financing team to include designated underwriters and selling the bonds through a negotiated sale.**

Interpretation
The presumption should be for competitive sale since the RTA will have in place a sound source of voter approved revenues and conservative financing assumptions that the market place should find attractive. Nonetheless, under certain circumstances (e.g., sale by a new issuer) a negotiated sale may be advantageous and the RTA should keep that option open based on the advice of its financing team.

Financing Team

11. **The RTA shall establish its own financing team consisting of its finance director, a financial advisor and a bond counsel who will work with the Finance Committee to establish the financing plans mentioned above and provide the Board with options to consider.**

Interpretation
This financing team should have open communications and a good working relationship with the financing teams of the component RTA counties and the State to coordinate, to the extent possible, the schedule of debt issues and to test

revenue assumptions. The offering materials for the RTA bonds will need to be consistent with the respective offering materials of bonds for the RTA's component counties and the State.

Interpretations of the Financial Principles

12. **Further interpretation of the Master Plan financial policies and these principles should be delegated to the Finance Committee of the RTA Board. The issuance of all debt should be authorized by resolution of the RTA Board adopted at an open public meeting; provided, that draws on lines of credit may be delegated to the finance director of the RTA pursuant to resolution.**

ENGINEERING PRINCIPLES

To insure strict cost management control, the RTA shall implement all of the following management practices as appropriate to the scope and complexity of the RTA's design and construction program:

1. **Progress reports shall be made to the RTA Board, through committee structure or by the Executive Director and the Director of Engineering and Construction, on a monthly basis. The progress reports will compare actual costs to adopted budget and expenditure trends relative to longer term budgeted expenditures. Reporting will also include periodic comparison to the six year financing plan.**

2. **A project control section, functionally and contractually independent of the design and construction management teams, will report to the Director of Engineering and Construction, and shall be charged with the responsibility for Phase I cost and schedule control.**

3. **Contractors shall be required to pay those costs associated with not completing their work on schedule, if the delay is due to their error or is unexcused, in the form of "liquidated damages". In addition, incentives for early completion or value engineering solutions which result in savings to the RTA will also be evaluated on a case by case basis and included in the construction contracts.**

4. **Independent professional "value" engineers will be enlisted to conduct formal analyses preliminary designs to identify less expensive ways of implementing intended form, fit and function. Value Engineering methods shall be employed during construction (i.e., post-design), through contractual offers of incentives to construction contractors who identify more cost-effective materials and methods.**

5. **In order to minimize a major source of cost overruns, change orders shall be addressed through a standing Change Order Panel, co-chaired by the Executive Director and the Director of Engineering and Construction, to confirm both merit and adequate cost documentation and to ensure that formal, consistent**

procedures are followed, misunderstandings are minimized and communication and design interfaces are adequately addressed. Except in the case of emergencies which require immediate action by the Executive Director or his/her designee, any change order or contract modification which causes an overrun of a Board-approved allotment for any contract sum and associated contingency allowance, will require Board approval.

6. **"Partnering" programs and dispute resolution panels shall be created for every major construction contract, in order to quickly address disagreements that arise between the RTA and its contractors. Use of this model will assist in assurance that disputes and claims are settled quickly in order to enhance cooperation and avoid or minimize costly litigation.**

7. **The RTA shall ensure adequate public involvement during the planning and preliminary engineering stages as outlined in the Master Plan, as well as through the subsequent design phase. Should the public involvement process identify out-of-scope additions, which, although not essential to the project's implementation or mitigation of the project's impacts, shall be funded from the "mitigation/betterment account" solely at the Board's discretion.**

Interpretations of Engineering Principles

Further interpretation of these principles should be delegated to the Finance Committee of the RTA Board or to such other Board committee or task force as may be subsequently determined by the Board.