

Transit Investment Framework

Attachment B Annual Financial Review and Capacity Estimate

Adopted June 29, 2009



it's about time

mnrider.org

COUNTIES *Transit* Improvement BOARD

477 Selby Avenue | Saint Paul, Minnesota 55102 | p: 651-222-7227 | f: 651-223-5229

**COUNTIES TRANSIT IMPROVEMENT BOARD
ANNUAL FINANCIAL REVIEW AND CAPACITY ESTIMATE**

TABLE OF CONTENTS

EXECUTIVE SUMMARY 2

INTRODUCTION..... 3

GENERAL INFORMATION 4

Financial Principles and the Transit Investment Framework..... 4

Bonds as a Capitalization Tool..... 4

ANNUAL REVIEW AND CAPACITY ESTIMATES..... 6

Sales Tax 6

Projects, Pay 2009 Grants, and Future Funding Commitments 6

Grants as Awarded/Paid to date/Cash flow requirements 6

Future Funding Commitments/Cash Flow Requirements 7

Twin Cities Transitways 8

Illustrative List of Twin Cities Transitways* 10

Estimated Annual Funding Needs for Illustrative List of Twin Cities Transitways 11

Perspectives on Grant Capacity..... 12

Overview..... 12

Should the CTIB Issue Bonds? 12

Establishing Reserves..... 13

Estimating Capacity 14

Pay 2009 Grant Cycle 14

Pay 2010 Grant Cycle 14

Effect of Additional 2010 Funding 15

Effect of Additional 2010, 2011, and 2012 Funding 18

COUNTIES TRANSIT IMPROVEMENT BOARD
ANNUAL FINANCIAL REVIEW AND CAPACITY ESTIMATE
Adopted June 29, 2009

EXECUTIVE SUMMARY

CTIB has significant financial resources currently estimated to be \$85,000,000 annually (see “Sales Tax,” page 6). While significant, the potential demands for these funds are also estimated to be significant. Currently committed to provide future funding for the Central Corridor capital expenditures, 50% of the net operating costs for five transitways (including Cedar Avenue, Central Corridor, Hiawatha, I-35W South, and Northstar), and a 3% guaranteed grant to Washington County annually in 2010 through and including 2013, CTIB should have ample resources for these expenditures. However, the projected draws for Central Corridor and the probable funding of other grants may result in a need to issue bonds in 2011.

Future Funding Commitments¹ in 2010 can be met with cash and expected collections of Sales Tax², leaving about \$30 million in unspent cash over and above a recommended cash reserve level of 15% of annual Sales Tax. (See Table 7 on page 14.) It should be noted, however, that under the same assumptions targeted cash reserves will not be maintained in 2011 and, without a bond issue, a cash deficit will occur in 2012. Any amount of the \$30 million used to cash fund grants in 2010 through 2012 will increase the amount of bonding that would otherwise need to be done in 2011. Based on a current “snapshot” of prospective projects, cost estimates and timing projections as provided by CTIB members, several projects are expected to qualify for funding in 2010, 2011, and 2012. If grants are awarded, this will increase the bond amount needed in 2011. Funding of the \$19.1 million of additional grant requests expected in 2010 will result in a total 2011 bonding need of \$60,000,000. Projected grant requests for 2011 and 2012 (\$26,550 million and \$17,000 million, respectively) will increase the 2011 bonding need to \$112,000,000.

Relying on the estimates and assumptions contained in this report, it is recommended the CTIB consider grants on a case by case basis for pay 2010 for the projects anticipated to be eligible and making requests. It is further recommended the total amount granted remain within the projected cash balance of \$30 million, holding back as much cash as possible for future years’ grant requests, without impairing the listed projects’ ability to proceed. This recommendation is made to i) support CTIB’s funding mission, ii) preserve flexibility by maintaining as much cash as possible for future years, iii) reserve against the uncertainty of future project funding needs and uncertain revenue levels, and iv) not accelerate the projected need to issue bonds, although it will increase the amount to be bonded.

¹ Defined on page 7

² Defined on page 4

INTRODUCTION

The Counties Transit Improvement Board (“CTIB” or the “Board”) has adopted a Transit Investment Framework (the “TIF”) setting forth its policies and procedures governing the award of grants of sales tax proceeds. Part 6 of the TIF calls for the preparation of an annual financial review and capacity estimate. This report has been prepared in response to the requirement to provide background information and assist the CTIB review its financial commitments to date, its ongoing ability to meet those commitments, and to estimate the Board’s capacity to provide additional future financial assistance to transit projects. (The capacity estimates arrived at in this report are reliant on the assumptions presented herein and actual funding capacity will vary based on facts and circumstances over time.)

This report is presented in two parts. The first part provides general information on the CTIB, its statutory powers and organization. The second part provides an annual review of relevant financial information concerning tax receipts, granting activity and anticipated requests for funding, and frames the question of what capacity CTIB has for near-term grant activities.

GENERAL INFORMATION

The Counties Transit Investment Board is comprised of county board representatives appointed by each participating county (Anoka, Dakota, Hennepin, Ramsey and Washington, together, the “Counties” and, individually, a “County”) and the Metropolitan Council. The Board was created in 2008 under a Joint Powers Agreement. Revenue generating powers of the Board reside primarily in the form of a 0.25% sales and use tax and \$20 per motor vehicle excise tax (together, the “Sales Tax”) authorized by the 2008 Legislature in Chapter 152, Article 4, Section 2. Each of the five Counties has imposed the Sales Tax within their jurisdiction, the proceeds of which are available to the Board to fund transportation improvements, including debt service on obligations issued to finance such improvements. Additionally, ordinary administrative expenses in an amount not to exceed 0.75% (three-fourths of one percent) of the Sales Tax may be paid from the Sales Tax. The Sales Tax was first implemented July 1, 2008, and the Board received its first collection of revenue from the State in September 2008.

Financial Principles and the Transit Investment Framework

The Board has adopted a Transit Investment Framework that sets out the financial principles under which it will operate.

Bonds as a Capitalization Tool

In 2009, Sales Tax is being applied directly to the payment of grants. In future years, expenditures for grant awards may need to exceed the amount of Sales Tax collected over a given period of time. To enable projects to proceed in a timely fashion, the Board was given the ability to issue debt, enabling future revenue collections to be capitalized to provide cash for capital expenditures today.

The Board is permitted under statute to issue limited obligation bonds. The bonds must be supported solely by the Sales Tax collected. This type of transaction is referred to as a revenue bond and there are market requirements that must be met in order for the bonds to be sold in a cost-effective way. Certain promises, or covenants, will need to be made for the benefit of bondholders and may include some or all of the following: a pledge of Sales Tax revenues, collections that provide for a coverage ratio above and beyond the amount of debt service due in each year, a segregated debt service reserve fund, and rules under which the Board can issue additional revenue bonds in the future. The strength of the Board’s revenue pledge to any bonds it issues will be enhanced when it has a Sales Tax collection history showing what level of revenue has been received over an extended period of time. Bonds issued under the Board’s statutory language can be sold without an election at a fixed or variable rate.

The Board is also permitted to use its Sales Tax to support bonds issued by any of the Counties or their Regional Rail Authorities. Under the scenario where a County is the issuer, the Board would pledge its Sales Tax (or a portion of it) to the repayment of the County's bonds. A County is able to issue revenue bonds or pledge its general obligation as additional credit for the bonds. If desired, the Counties could pledge their general obligation to CTIB, and CTIB could then issue bonds enhanced by the combined Counties' general obligation credits, with each county responsible for a "slice" of the combined issue.

In most cases, and particularly given the credit worthiness of the Counties involved, many of the market requirements for additional bond covenants will fall away with a general obligation pledge, as that in itself will provide ample security for the bond investors. The county guarantors could determine what bond covenants they wanted for their own comfort as credit enhancers. There are many other factors that need to be considered if general obligation pledges are used, some of which are financial and others of which are policy matters or related to the business relationship among the joint parties.

As noted, the Board may also use its Sales Tax to support bonds issued by a Regional Rail Authority. A Regional Rail Authority may pledge its limited taxing powers as additional security for the bonds, but the bonds so issued would not be general obligation with unlimited taxing powers pledged. They would instead be enhanced by the limited tax pledge of the Regional Rail Authority. Depending on the amount of the limited tax and nature of the pledge, this could, nevertheless, be a powerful credit enhancement tool.

Expectations at this time would permit bonds of the Board, the Counties, or a Regional Rail Authority to be issued as tax-exempt bonds. A plethora of federal tax regulations attend tax-exempt bonds; however, one to focus on at this time is that the bond proceeds generally cannot be used for operating expenses. As cash flows are developed and expenditure commitments made, care will need to be taken to demonstrate bond proceeds are planned for use on capital expenditures only. Additional federal tax provisions restricting the use of tax-exempt bonds for private activities will also need to be considered. Limitations relating to who has use of a project or portion of a project, or the terms of a management agreement, are examples of items that sometimes threaten tax exemption.

No specific authority for CTIB to issue grant anticipation bonds is contained in Chapter 152 or in the Joint Powers Agreement.

ANNUAL REVIEW AND CAPACITY ESTIMATES

The CTIB's funding capacity will rely on the magnitude of its available revenues, the size and timing of projects' dollar needs, and CTIB's ability to access the capital markets effectively. The balance of this report speaks to these items.

Sales Tax

Due to the limited history of collection of Sales Tax, exacerbated by the current economic recession, it is difficult to anticipate what the collection levels of the Sales Tax will be. Sales Tax revenues used to develop capacity estimates for CTIB are assumed for purposes of this report to be \$85,000,000 annually based on receipts in 2008 and the first quarter of 2009. Assumed collections for future years have been increased by 1.0% annually.

Sales Tax receipts to date (actual cash received, not revenue earned) are summarized in the table below.

Table 1

	Net Receipt	Cumulative
Sep-08	\$7,000,000	\$7,000,000
Oct-08	5,367,826	12,367,826
Nov-08	8,573,977	20,941,802
Dec-08	7,756,662	28,698,464
Jan-09	7,000,000	35,698,464
Feb-09	6,989,250	42,687,714
Mar-09	8,760,925	51,448,639
Apr-09	6,325,780	57,774,419
May-09	7,370,691	65,145,110
Jun-09	7,042,060	72,187,170
Jul-09	7,343,685	79,530,855
Average	\$7,230,078	

If the average monthly rate of collection is maintained, annualized revenues would be \$86,760,900.

Projects, Pay 2009 Grants, and Future Funding Commitments

Grants as Awarded/Paid to date/Cash flow requirements

In 2008, CTIB conducted its first grant process. A total of \$85,971,778 was awarded to the following recipients:

Table 2
Unadjusted Pay 2009 Grants Awarded

Type	Project	Mode	CTIB Cost	CTIB Operating \$\$	Other/TBD	Total
Pay 2009 Grants						
Ca	Northstar Fridley	Station/Commuter	9,921			9,921
Ca	Cedar Ave Apple Valley	Station/BRT	6,950			6,950
Ca	Central Corridor	LRT	26,012			26,012
Op	Hiawatha	LRT		7,478		7,478
Op	I-35W South	BRT		63		63
Op	Northstar	Commuter		3,793		3,793
Op	Cedar Ave	BRT		23		23
O	Metropolitan Council				30,783	30,783
TBD	Washington County	TBD			950	950
			\$ 42,883	\$ 11,356	\$ 31,733	\$ 85,972

NOTE: Dollars are in 1,000s and rounded.

Going into 2009, CTIB had a cash balance from 2008 tax collections of approximately \$28,700,000. For 2009, CTIB anticipates receipts of \$85 million and has outstanding grant awards totaling \$85.9 million. In recent conversations with the Central Corridor project team, it was indicated that funding needed from CTIB in 2009 will actually be \$13.3 million (versus its \$26.0 million grant award), which reflects use of the allocable portion of a \$20 million federal appropriation to the project to reduce the 2009 request of CTIB funds. The reduction in CTIB funds requested in 2009 will result in a shift of the deferred amount into later years' requests. The 2009 draw reduction and modest changes to the Central Corridor budget and anticipated cash draws have been reflected in this report. As a result of the accelerated receipt of the \$20 million, CTIB grants awarded to date should be easily met with cash on hand and anticipated 2009 Sales Tax revenues.

Future Funding Commitments/Cash Flow Requirements

In addition to grants already designated, CTIB can make a formal funding commitment ("Future Funding Commitment") to a project as a result of statutory requirements, provisions of its joint powers agreement, or CTIB resolution/s or other actions. Future Funding Commitments include a minimum level (1% of collected tax revenue) of annual grant to any county participant for three years as described in the Joint Power Agreement, capital funding for Central Corridor and 50% of the amount of any annual operating deficit funding for 5 named transit corridors. Adoption of the Transit Investment Framework in 2009 commits CTIB to funding 3% of collected Sales Taxes to Washington County in each of the years 2010 through and including 2013. Current estimates of CTIB's Future Funding Commitments are shown on the following page. Operating cost estimates shown are for the year 2014 for each of the projects.

Table 3

Future Funding Commitments for Future Costs					
Type	Project	Mode	Est. Future Cap. Costs	Est. 2014 Op. Costs	2010 Other/TBD
Op	Cedar Ave*	BRT	-	2,181	-
Ca/Op	Central Corridor	LRT	260,808	6,888	-
Op	Hiawatha	LRT	-	9,298	-
Op	I-35W South*	BRT	-	4,634	-
Op	Northstar	Commuter	-	6,563	-
TBD	Washington County	TBD	-	-	2,576
			\$ 260,808	\$ 29,564	\$ 2,576

* Station to station and expanded service. Cedar Ave. costs expected to increase with proposed future phases.
NOTE: Dollars are in 1,000s and rounded.

Twin Cities Transitways

Development of a regional network of connected transitways is a fluid task. The development process for transitways from planning, alternatives analysis, design and engineering to construction is lengthy and can vary significantly from project to project because of specific issues as well as third party funding decisions. While all the cost and timing information reflects estimates, the earlier in the development process for any project, the more volatile cost and timing estimates are. At the same time, it is necessary for financial planning to have some sense of the order of magnitude and general timing of potential funding needs.

To provide a framework for financial planning, a list has been developed that contains potential transit projects that have been identified by one or more of the County members and may, over time, vie for CTIB advocacy and/or financial resources. **The presence of a project on the list of “Twin Cities Transitways” does not imply concurrence by CTIB with the proposed mode, cost, or timing; funding eligibility; or a CTIB future funding commitment.** The list has been developed solely to assist in financial planning activities on an order of magnitude basis and to help focus other related discussions on overall regional transit needs. It will be updated periodically, no less than once a year to reflect current data related to these transitways.

Table 4, titled “Illustrative List of Twin Cities Transitways,” lists each transitway under one of four groupings. The first and second groupings include the Pay 2009 Grants and Funding Commitments. The third grouping includes those projects which, due to anticipated mode and other characteristics, have strong potential to eventually meet the standard funding criteria contained in the Transit Investment Framework. All other projects are in the fourth grouping.

For each project in group three or four, a mode is indicated as is its current stage of development. The total estimated cost for the mode is also indicated. For those projects in the

third group, the amount of CTIB grant money that may be requested for the project is shown as well.

Table 5 presents all the projects in a similar format, but indicates by project and in aggregate when the funding requests for each project may be made. It also includes estimated operating costs that may be requested of CTIB.

Again, Tables 4 and 5 represent a “Snapshot” in time and both projects and their anticipated funding needs can vary significantly as they move through the development cycle.

Table 4
Illustrative List of Twin Cities Transitways*
(as of June 22, 2009)

	Type	Project	Mode	Status	Capital			Other/TBD
					Total Cost	CTIB Cost	Year PE Begins on Corridor	
Pay 2009 Grants								
2009 Grants	Ca	Northstar Fridley	Station/Commuter		14,376	9,921		
	Ca	Cedar Ave Apple Valley	Station/BRT		20,086	6,950		
	Ca	Central Corridor	LRT		see below	13,362		
	Op	Hiawatha	LRT					
	Op	I-35W South	BRT					
	Op	Northstar	Commuter					
	Op	Cedar Ave	BRT					
	O	Metropolitan Council						\$30,783 one time
	O	Washington County						\$850 - 1% of Sales Tax
					\$ 34,462	\$ 30,233		\$ -
Funding Commitments for Future Costs								
Funding Commitments	Op	Cedar Ave**	BRT					
	Ca/Op	Central Corridor	LRT		913,900	260,808	2009	
	Op	Hiawatha	LRT					
	Op	I-35W South**	BRT					
	Op	Northstar	Commuter					
	TBD	Washington County	TBD			10,458		3% of Sales Tax 2010-2013
					\$ 913,900	\$ 271,265		
Pay 2009 Capital Grants & Funding Commitments					\$ 948,362	\$ 301,499		
Twin Cities Transitways Potentially Eligible Under Transit Investment Framework								
Twin Cities Transitways Potentially Eligible Under Transit Investment Framework	Ca/Op	Bottineau	TBD/LRT shown	AA	1,005,000	300,000	2011	
	Ca/Op	Cedar Ave***	BRT	Design/Const.	185,799	44,701	2010	
	Ca	I-35W South	BRT	Design/Const.	80,500	29,750		
	Ca/Op	I-94 East	TBD/LRT-BRT assumed	To be studied	620,000	184,800	2014	
	Ca/Op	Northstar Cambridge	TBD/Commuter shown	Feasibility	300,000	60,000	2015	
	Ca	Northstar CR/Foley	Infill Station	Design	15,000	10,500	2011	
	Ca	Northstar Ramsey	Infill Station	Feasibility	11,000	3,300	2011	
	Ca/Op	Red Rock Corridor	Commuter	AA complete	637,000	189,300	2014	
	Ca/Op	Rush Line	TBD/Commuter shown	AA	534,200	160,000	2015	
	Ca/Op	Southwest***	LRT	AA/EIS	1,268,500	379,500	2010	
					\$ 4,656,999	\$ 1,361,851		
Twin Cities Transitways Advocated by CTIB								
Twin Cities Transitways Advocated by CTIB	Ca	Northern Lights Express	Inter-City Passenger	Feasibility	560,000		2012	
	Ca/Op	I-35W North	TBD/BRT shown	To be studied	100,000		2019	
	Ca/Op	Northeast Diagonal/36	TBD/BRT shown	To be studied	520,500		2019	
	Ca/Op	Riverview	TBD/Artrl. BRT shown	Feasibility	30,000		2013	
	Ca	Robert Street	TBD/BRT shown	Feasibility	173,000		2012	
	Ca	Union Depot	Intermodal Hub	Under study	TBD			
	Ca	Minneapolis Intermodal Station	Intermodal Hub	Under study	TBD			
						\$ 1,383,500	\$ 258,000	

(Dollars in Thousands)

* This list includes projects whose status range from conceptual to operational. Costs are not adjusted for inflation.

** For Station-to-Station service and expanded BRT service.

*** 2010 Amount may be reduced by other federal, state, or Met Council funding.

Table 5
Estimated Annual Funding Needs for Illustrative List of Twin Cities Transitways

Twin Cities Transitways* - Estimated CTIB Funding Requests

(Update for June 22, 2009)

Type	Project	Mode	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
pay 2009 Grants													
Ca	Northstar Fridley Station/Commuter		9,921										
Ca	Cedar Ave Apple Valley Station/BRT		6,950										
Ca	Central Corridor LRT		13,362										
Op	Hiawatha LRT		7,478										
Op	I-35W South BRT		63										
Op	Northstar Commuter		3,793										
Op	Cedar Ave BRT		23										
O	Metropolitan Council		30,783										
TBD	Washington County		850										
			\$ 73,222	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding Commitments for Future Costs													
Op	Cedar Ave**	BRT	-	90	94	2,096	2,138	2,181	2,225	2,269	2,314	2,361	2,408
Ca/Op	Central Corridor	LRT	-	66,026	106,682	88,100	-	6,888	7,049	7,214	7,382	7,554	7,729
Op	Hiawatha	LRT	-	7,817	8,169	8,533	8,909	9,298	9,701	9,895	10,092	10,294	10,500
Op	I-35W South**	BRT	-	322	1,897	1,957	2,019	4,634	4,780	4,930	5,085	5,246	5,411
Op	Northstar	Commuter	-	5,990	5,749	6,092	6,324	6,563	6,810	6,946	7,085	7,227	7,372
TBD	Washington County	TBD	-	2,576	2,601	2,627	2,654						
			\$ -	\$ 82,821	\$ 125,192	\$ 109,405	\$ 22,043	\$ 29,563	\$ 30,564	\$ 31,254	\$ 31,960	\$ 32,681	\$ 33,419
			\$ 73,222	\$ 82,821	\$ 125,192	\$ 109,405	\$ 22,043	\$ 29,563	\$ 30,564	\$ 31,254	\$ 31,960	\$ 32,681	\$ 33,419
Twin Cities Transitways Potentially Eligible Under Transit Investment Framework													
Ca/Op	Bottineau	TBD/LRT shown	-	-	5,000	5,000	5,000	10,000	100,000	100,000	79,000	9,000	9,000
Ca/Op	Cedar Ave***	BRT	-	11,833	-	-	-	638	-	-	-	32,230	-
Ca	I-35W South	BRT	-	2,750	4,750	-	5,500	-	5,000	-	-	11,750	-
Ca/Op	I-94 East	TBD/LRT-BRT assumed	-	-	-	-	-	1,200	1,200	1,200	1,200	45,000	45,000
Ca/Op	Northstar Cambridge	TBD/Commuter shown	-	-	-	-	-	-	420	1,980	6,000	25,800	25,800
Ca	Northstar CR/Foley	Infill Station	-	-	10,500	-	-	-	-	-	-	-	-
Ca	Northstar Ramsey	Infill Station	-	-	300	3,000	-	-	-	-	-	-	-
Ca/Op	Red Rock Corridor	Commuter	-	-	-	-	-	1,200	1,200	1,200	1,200	28,500	28,500
Ca/Op	Rush Line	TBD/Commuter shown	-	-	-	-	-	-	5,000	3,000	3,000	4,000	30,000
Ca/Op	Southwest***	LRT	-	4,500	6,000	9,000	150,000	150,000	68,000	8,160	8,323	8,490	8,659
			\$ -	\$ 19,083	\$ 26,550	\$ 17,000	\$ 160,500	\$ 163,038	\$ 180,820	\$ 115,540	\$ 98,723	\$ 164,770	\$ 146,959
Twin Cities Transitways Advocated by CTIB													
Ca	Northern Lights Express	Inter-City Passenger											
Ca/Op	I-35W North	TBD/BRT shown											
Ca/Op	Northeast Diagonal/36	TBD/BRT shown											
Ca/Op	Riverview	TBD/Artrl. BRT shown											
Ca	Robert Street	TBD/BRT shown											
Ca	Union Depot	Intermodal Hub											
Ca	Minneapolis Intermodal Station	Intermodal Hub											

* This list includes projects whose status range from conceptual to operational. Costs are not adjusted for inflation.

** For Station-to-Station service and expanded BRT service.

*** 2010 Amount may be reduced by other federal, state, or Met Council funding.

Perspectives on Grant Capacity

Overview

In addressing granting capacity, the CTIB Financial Principles contained in the TIF must be taken into consideration. The Financial Principles speak to the grant process as one that realistically measures resources, recognizes existing funding commitments and relies on a forward looking financial plan to anticipate the availability of funds. As mentioned, the current financial plan assumptions include total tax receipts of \$85 million in 2009, increasing at 1% annually thereafter. Existing commitments include the Pay 2009 Grants and the anticipated needs of the Funding Commitments. The anticipated timing of Future Funding Commitments' grant needs have been estimated by Counties' transit staff and are shown in Table 5 as they are included in the financial model. Primary in terms of immediate dollar requirements is the capital expenditure for the Central Corridor, which will require approximately \$260.8 million from CTIB over the next three to four years.

Timing of expenditures affects the CTIB's ability to delay the need to bond for financing or to seek additional revenue sources. To the extent project timing results in a metering of early expenditures, pay-as-you-go financing of grants is possible. The natural timing of transit projects does meter their financial demands to some extent. The availability of complementary funding from other sources also impacts when and how major projects proceed.

Should the CTIB Issue Bonds?

While bonds offer the ability to accelerate access to future cash receipts, there are several factors that should encourage CTIB to continue with pay-as-you-go financing in 2010, including:

- Financing needs indicated do not suggest that bonding is necessary at this time.
- CTIB has a limited history as an organization. To compensate for lack of a demonstrated ability to manage its affairs, more restrictive covenants could result and would limit both current and future bonding capacity.
- The CTIB has not completed a full fiscal year of operations and has no audited financial statements.
- CTIB has a limited history of Sales Tax collection. Again, to compensate, more restrictive covenants could result.
- CTIB is early in the process of identifying its common goals and it may be premature to ask individual members to make the long-term financial commitment that bonding will require.
- While improving, the market is still very unstable and inflexible. It is not a good time to be negotiating terms for a major new borrower that will impact CTIB for the life of any financing it sells today.
- In today's market, borrowing before dollars are needed for project expenditures will cause negative arbitrage expense to be incurred because reinvestment rates are so much lower than borrowing rates are. Bonding also increases expenses overall

because costs of issuance will be incurred as will interest expense until the bonds are repaid.

- The only sunset provisions in state or federal statute that could influence when CTIB may want to borrow are certain provisions of the American Recovery and Reinvestment Act (ARRA) that provide expanded bond issuance provisions for bonds issued in 2009 and 2010. These provisions include Build America Bonds and potentially, Recovery Zone Economic Development Bonds. Market conditions at the time of a specific bond issuance will determine whether ARRA provisions provide benefit to CTIB. Under current market conditions, a net interest costs savings would be anticipated.

Establishing Reserves

The TIF Financial Principles require that CTIB conduct business in a way that ensures funds will be available to meet its grant commitments. One way to do this is to establish an adequate reserve. At this time in its financial development, with only its pay-as-you-go grant activity and no bond covenants in place, reserve levels can be lower than may be prudent (or required by bond covenants) at a later date. It is, however, appropriate to reserve against two risk elements at this time. The first is Sales Tax volatility. In the event that Sales Tax drops below assumed collections, cash flow will be impaired. This can be addressed in a given year by relying on a cash reserve. Adjustments to subsequent years' budgets and funding sources (cash or bond proceeds) can be made to address revenue reductions that are expected to be longer term in nature and to enable replenishment of the cash reserve.

The second risk element that can be addressed through a cash reserve results if project grant payments cannot be metered evenly over a grant year and monthly cash flow needs exceed current Sales Tax receipts or if an emergency need arises. It is recommended that a cash reserve be established to fund those contingencies. If it becomes prudent to honor significant aggregations of expenditure requests in the early part of the year, prior to collection of Sales Tax, an alternative means of funding those expenditures will need to be identified, such as a short-term loan or a shifting of the timing of payments to other grantees where possible.

A cash reserve of 15% of anticipated annual collections to serve both risk factors discussed above is recommended starting in 2010. The need for and size of the cash reserve will be revisited not less than annually and upon the proposed issuance of any bonds.

Estimating Capacity

Pay 2009 Grant Cycle

In 2009, CTIB awarded grants totaling \$85.9 million. Cash requests are expected to drop to \$73.2 million to reflect the allocation of part of the \$20 million of federal funds that became available in 2009 to reduce the request to CTIB for grant funds. The estimated Sales Tax to be received in 2009 is \$85 million. Collection of Sales Tax in 2008 resulted in a cash balance of \$28.7 million at year end. This, together with anticipated 2009 collections and grant activities is expected to result in a year-end 2009 cash balance of about \$40 million, including reserves. This can be seen in Table 7 below, titled "Cash Flow Projection/Funding Commitments Only."

Pay 2010 Grant Cycle

In 2010 and beyond, the grant cycles will need to make a reservation of funds for projects that have a Future Funding Commitment from CTIB. Estimates of the future costs for Future Funding Commitments that result in a reservation of funding capacity over the next three years are as follows:

Table 6

Estimated Cost of Existing Future Funding Commitments by Year			
	2010	2011	2012
Central Corridor Capital	\$66,026	\$106,682	\$88,100
Operating Grants	14,219	15,909	18,678
Washington County	2,576	2,601	2,627
TOTAL	\$82,821	\$125,192	\$109,405

Significant capital expenditures for the Central Corridor are expected over the next three years. Table 7 illustrates that in 2011 CTIB will probably need to address how to fund the expenditure demands of its Future Funding Commitments. Table 7 also illustrates that in 2010 the Future Funding Commitments can be met with cash on hand plus anticipated Sales Tax collections.

Table 7

Cash Flow Projection/Funding Commitments Only				
	2009	2010	2011	2012
Beginning Cash	\$28,667	\$40,051	\$42,848	\$4,144
plus Tax Receipts	85,000	85,850	86,709	87,576
plus Investment Earnings	244	412	428	41
less Administration	(638)	(644)	(650)	(657)
less Funding Commitments*	(73,222)	(82,821)	(125,192)	(109,405)
ENDING CASH (no bonds/no reserve)	\$40,051	\$42,848	\$4,144	(\$18,302)
less Cash Reserve	\$12,878	\$12,878	\$13,007	\$13,136
Available/Uncommitted Cash	\$27,173	\$29,970	(\$8,863)	(\$31,438)

* Estimated Cost of Existing Future Funding Commitments

There are several additional activities projected to be eligible for CTIB grant funding in 2010, 2011, and 2012, because they are projected to be at or beyond preliminary engineering. They include Bottineau, Cedar Avenue BRT, I-35W South BRT, Northstar CR/Foley Infill Station, Northstar Ramsey Infill Station, and Southwest LRT and total \$19,083,000, \$26,550,000, and \$17,000,000 in aggregate for each year respectively.

Effect of Additional 2010 Funding

Focusing on 2010, if the 2009 and 2010 revenue assumptions discussed in this report are realized, additional cash funded grants could be provided in 2010 without issuing debt. To the extent this is done, it will increase the amount needed to be borrowed in 2011 or 2012 by a like amount, plus costs of issuance. This will be similarly true if additional grants above existing funding commitments are made in 2011 and/or 2012.

Assuming additional cash grants are made in 2010 for all of the activities listed in the second paragraph above, combined with the outstanding estimate of existing Future Funding Commitments, an estimated borrowing of \$60,000,000 will be needed.

Table 8

Cash Flow Projection with \$60 M Bond Issue			
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Beginning Cash	\$40,051	\$23,678	\$44,781
plus Tax Receipts	85,850	86,709	87,576
plus Investment Earnings	325	237	448
plus Bond Proceeds		60,000	
less Administration	(644)	(650)	(657)
less Debt Service			(4,694)
less Funding Commitments	(82,821)	(125,193)	(109,406)
less addn'l Pay 2010 Grants	(19,083)	-	-
ENDING CASH (bonds/no reserve)	\$23,678	\$44,781	\$18,049
Cash Reserve	12,878	17,700	17,830
Available/Uncommitted Cash	\$10,800	\$27,081	\$219

The chart and the table on the following pages contain a cash flow projection providing more detail behind the “Cash Flow Projection with \$60 M Bond Issue” table shown above. Bonding scenarios assume cash reserve levels are increased to cover 15% of sales tax collections and 100% of maximum annual debt service on any bonds sold.

**Chart 1
Projected Cash Flow With Additional 2010 Grants**

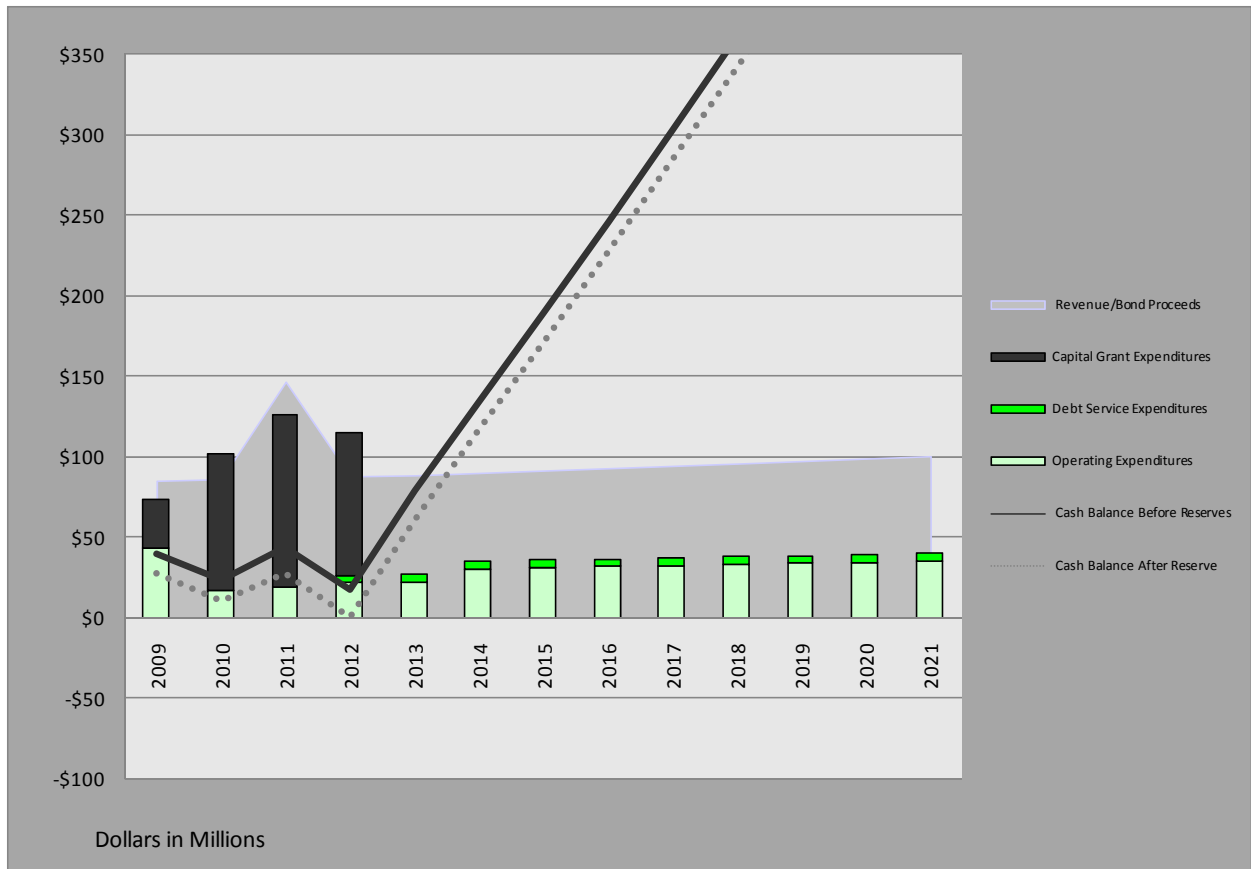


Table 9
ESTIMATED CASH FLOW
WITH ADDITIONAL 2010 GRANTS
\$60,000,000 BONDING IN 2011

	2009	2010	2011	2012
Operating Revenues				
Sales Tax	80,370	81,174	81,985	82,805
Vehicle Excise Tax	4,630	4,676	4,723	4,770
Other	-	-	-	-
Total Operating Revenues	85,000	85,850	86,709	87,576
Operating Expenditures:				
Administrative and General Expenses	638	644	650	657
Total Operating Grants	11,356	14,219	15,909	18,679
Total Other	31,633	2,576	2,601	2,627
Total Operating Expenditures	43,626	17,438	19,160	21,963
Operating Income	41,374	68,412	67,548	65,613
Non-Operating Revenues/(Expenditures):				
Investment Earnings	244	325	237	448
Interest Expense Existing Debt	-	-	-	-
Interest Expense Projected Debt	-	-	-	(3,600)
Net Increase (Decrease), FMV Investments	-	-	-	-
Grants	-	-	-	-
Other Revenues (Expenses)	-	-	-	-
Total Capital Grants	(30,233)	(85,109)	(106,682)	(88,100)
Total Non-Operating Revenues/(Expenditures)	(29,990)	(84,785)	(106,445)	(91,252)
Net Income	11,384	(16,373)	(38,897)	(25,639)
Beginning Cash	28,667	40,051	23,678	44,781
Net Income	11,384	(16,373)	(38,897)	(25,639)
Bond Proceeds	-	-	60,000	-
Capital Contributions	-	-	-	-
Payments on Existing Debt	-	-	-	-
Payments on Projected Debt	-	-	-	(1,094)
Other	-	-	-	-
Ending Cash	40,051	23,678	44,781	18,049
Recommended Reserves				
Tax Receipt Variability 15.00%	12,750	12,878	13,006	13,136
For Debt Service 100.00%	-	-	4,694	4,694
Total Recommended Reserves	12,750	12,878	17,700	17,830
Cash Over/(Under) Reserves	27,301	10,800	27,081	219

* \$ In 1,000's

Effect of Additional 2010, 2011, and 2012 Funding

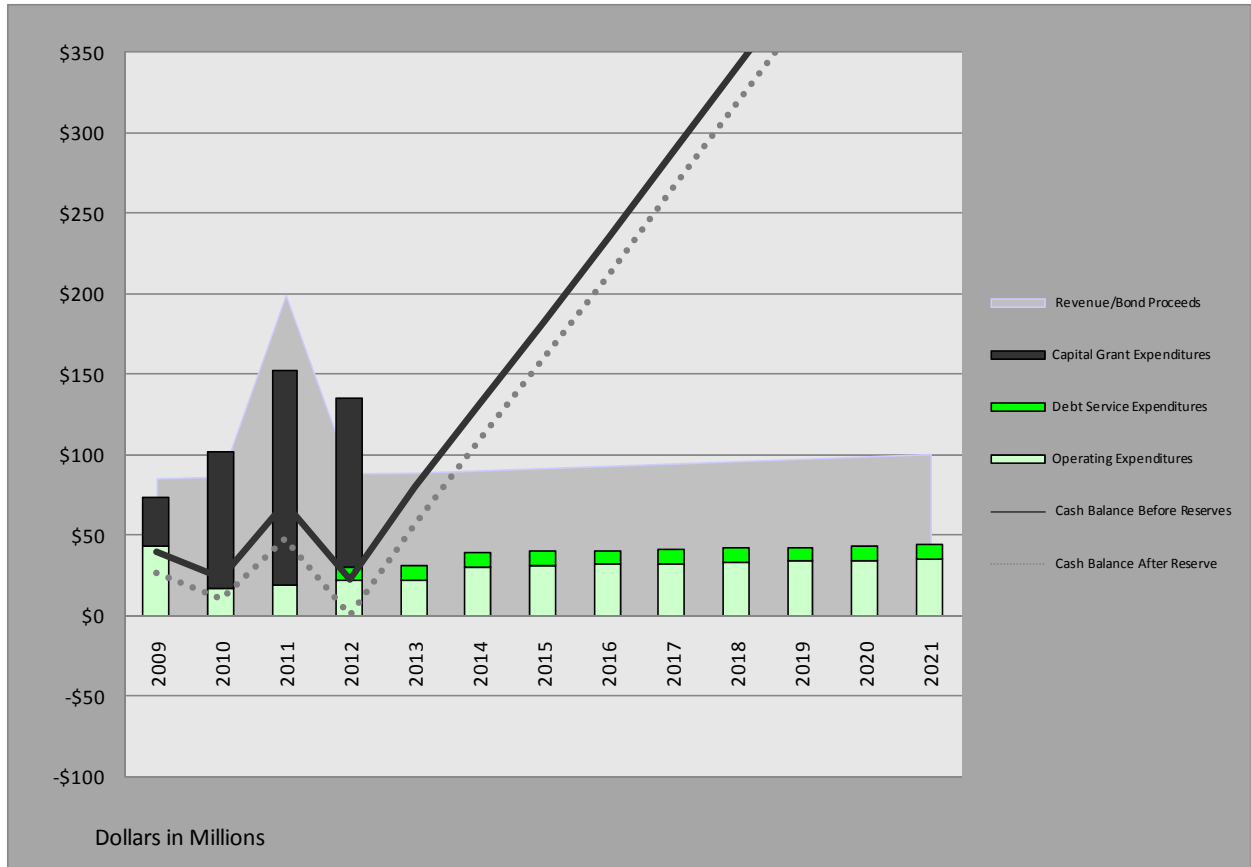
Assuming additional cash grants are made in 2010, 2011, and 2012 for all of the activities listed in the paragraph above, combined with the outstanding estimate of existing Future Funding Commitments, an estimated borrowing of \$112,000,000 will be needed to provide for the grant commitments.

Table 10

Cash Flow Projection with \$112 M Bond Issue			
	<u>2010</u>	<u>2011</u>	<u>2012</u>
Beginning Cash	\$40,051	\$23,678	\$70,232
plus Tax Receipts	85,850	86,709	87,576
plus Investment Earnings	325	237	702
plus Bond Proceeds		112,000	
less Administration	(644)	(650)	(657)
less Debt Service			(8,761)
less Funding Commitments	(82,821)	(125,193)	(109,406)
less addn'l Pay 2010/2011/2012 Grants	(19,083)	(26,550)	(17,000)
ENDING CASH (bonds/no reserve)	\$23,678	\$70,232	\$22,686
Cash Reserve	12,878	21,768	21,898
Available/Uncommitted Cash	\$10,800	\$48,464	\$788

The chart and the table on the following and second following page contain a cash flow projection providing more detail behind the “Cash Flow Projection with \$112 M Bond Issue” table shown above. The bonding scenario assumes that cash reserve levels are increased to cover 15% of sales tax collections and 100% of maximum annual debt service on any bonds sold.

Chart 2
Projected Cash flow with Additional 2010-2012 Grants



It is important to note in reviewing this chart that no capital expenditures are shown for years beyond 2012. In reality, there are significant expenditures required if the projects expected to be eligible under the CTIB funding criteria progress in accordance with the currently projected schedule.

Table 11
Estimated Cash Flow with
Additional 2010/2011/2012 Grants
\$112,000,000 Bonding in 2011

	2009	2010	2011	2012
Operating Revenues				
Sales Tax	80,370	81,174	81,985	82,805
Vehicle Excise Tax	4,630	4,676	4,723	4,770
Other	-	-	-	-
Total Operating Revenues	85,000	85,850	86,709	87,576
Operating Expenditures:				
Administrative and General Expenses	638	644	650	657
Total Operating Grants	11,356	14,219	15,909	18,679
Total Other	31,633	2,576	2,601	2,627
Total Operating Expenditures	43,626	17,438	19,160	21,963
Operating Income	41,374	68,412	67,548	65,613
Non-Operating Revenues/(Expenditures):				
Investment Earnings	244	325	237	702
Interest Expense Existing Debt	-	-	-	-
Interest Expense Projected Debt	-	-	-	(6,720)
Net Increase (Decrease), FMV Investments	-	-	-	-
Grants	-	-	-	-
Other Revenues (Expenses)	-	-	-	-
Total Capital Grants	(30,233)	(85,109)	(133,232)	(105,100)
Total Non-Operating Revenues/(Expenditures)	(29,990)	(84,785)	(132,995)	(111,117)
Net Income	11,384	(16,373)	(65,447)	(45,504)
Beginning Cash	28,667	40,051	23,678	70,231
Net Income	11,384	(16,373)	(65,447)	(45,504)
Bond Proceeds	-	-	112,000	-
Capital Contributions	-	-	-	-
Payments on Existing Debt	-	-	-	-
Payments on Projected Debt	-	-	-	(2,041)
Other	-	-	-	-
Ending Cash	40,051	23,678	70,231	22,685
Recommended Reserves				
Tax Receipt Variability 15.00%	12,750	12,878	13,006	13,136
For Debt Service 100.00%	-	-	8,761	8,761
Total Recommended Reserves	12,750	12,878	21,768	21,898
Cash Over/(Under) Reserves	27,301	10,800	48,464	788
* \$ In 1,000's				