

Missouri Initiative – Finance Subcommittee Meeting Minutes

June 18, 2008

Craig Porter, Clay County Commissioner, Chair

Attendees:

Clay County – Craig Porter

KCATA Staff – Mark Huffer, Dick Jarrold, Jared Gulbranson

HNTB – John Dobies

Oppenheimer & Co. – Matt Webster

Clay County - David Pieronnet

Jim Plunkett – Platte County

MARC Staff - Tom Gerend, Gerri Doyle

Kansas City - Russ Johnson

Summary of Key Discussion Points:

1. General support for a regional funding mechanism
2. Means for distributing funds equally between the counties
3. Need to answer questions about amount of funding need to collect & term of tax, but this is heavily dependant upon plan.
4. Development of contingencies around the amount of federal funding & participation of counties
5. Influence of KC separate election/ KC only plan

General Consensus Points:

1. Need to work closely with the city so that the regional effort and any separate city initiatives are compatible.
2. Want to use the same assumptions as those used in the Mayor's proposal for all other scenarios.
3. The Technical and Financial Sub-Committees work is very closely linked together.

The meeting began with a discussion of the Mayor's proposal presented as presented to regional leaders in May. Mr. Webster discussed the financial assumptions used to support the mayor's proposal including a note that the Regional Investment District (RID) funding would be diverted. In Mayor Funkhouser's May proposal, capital costs are roughly \$1.2 billion with about \$45 million in annual operating costs when the system is completed.

Mr. Webster provided projections to clarify the funding differences for a 15 and 25 year funding mechanism. Assuming a 25 years tax the regions would net to over \$2 billion for transit projects. The group asked several questions about bonding for the Mayor's proposal. Mr. Webster stated that the bonds allow a large project to begin construction immediately. The cost of construction is always increasing and bonding provides a mechanism to compress the construction timeline. Over the time horizon of the tax, operating costs grow significantly as mileage is added to the system. Using the assumptions from bonding and tax collections, approximately \$597 million local raised with a 50% match to get to \$1.2 billion cost of the Mayor's proposal.

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Mr. Pieronnet discussed a general revenue projection that he created for Clay County. Using the growth rates provided during the last meetings, the growth in the counties shifted in the future, so the breakdown of the finances between the counties is changing over time. Between 2020 and 2030 the Northland could have more growth than Jackson County. So for equity purposes, changes in growth rates should be included in the financial planning.

Mr. Porter added that whether the region chooses a 15 or 25-year tax, the funding will need to be extended past the initial sunset or the system will not have operating funding available.

Mr. Jarrold stated that the Mayor's proposal assumes lots of rail. The region could use buses and get more coverage.

Mr. Porter stated that the difficulty with changing lines is that the cost assumptions change, as well.

Mr. Webster agreed that the scenarios for service could be endlessly iterative. For the Mayor's proposal, only a 15-year tax is assumed based upon the availability of the RID. There are more revenues available if 25 years. One very important issue that regional leaders need to consider is who will issue the debt. Counties can issue the debt and move forward by pooling their funds to create a regional system. Other entities that can issue debt on behalf of the counties, such as the ATA, however the closer the bonding is to the county the stronger the credit and better the interest rate the bond offering will receive.

Mr. Webster stated that there are a number of questions around the enabling legislation, but the key is to have a financing mechanism for issuing the debt, combining the funds and overseeing the distribution of funds. Addressing these items may require change in legislation at the state level depending on the mechanism used. Generally, he thought that cooperative agreements between the counties and the ATA would be sufficient for funneling operating costs to the ATA.

Mr. Porter asked for clarification regarding operating funding, and whether operating funding falls under the RID legislation.

Mr. Webster stated that his understanding was that the governance board would be responsible for directing money to operating expenses, as well. He suggested that there is a very important overlap between finance and governance in the RID, and it is very important to create a governance structure that accounts for the financial function, as well.

In the cost projections for the Mayor's proposal, Mr. Webster included revenue recovered from passengers using the system, which is called farebox recovery. The group had a number of questions about farebox revenue generation and industry standards. The amount of farebox recovery depends on the mode. In general, the ATA representatives indicated that rail services averaged about a 20 percent farebox recovery and that bus operations average about 15 percent. None of the transit experts knew of a transit system that collected enough revenue from passenger fares to cover all of the system operating costs.

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Mr. Plunkett asked what percentage tax revenue would be necessary to continue operating the system in the Mayor's proposal. The region would need to continue a ¼ cent tax in order to keep the system operating.

Mr. Porter indicated that this type of funding is common for government because many types of infrastructure, such as parks and roads do not pay for themselves.

Mr. Webster told the group that he is often asked if a sales tax is regressive. He noted that the Kansas City area is a destination for non-residents. There is more retail in the metropolitan area than we can support based upon the number of residents. These visitors add to the tax base and provide sales tax revenue with their purchases. Although the Missouri rate will be higher than Kansas if the sales tax is added, people make choices about where to shop, and not necessarily based upon tax rates. There are about 40 Transportation Development Districts (TDD's) and Community Improvement Districts (CID's) in our region that have self-imposed taxes. These are all added on to the tax bill, but customers still buy items in these districts. Property taxes are very unpopular and rarely used for transit in the United States. In general, we believe that we can control spending, but must have a home and transportation.

Mr. Porter wanted to have Matt speak during the June 20th regional summit. He thought the numbers were very important for the regional leaders to think about who will issue debt and how the funding will be dispersed.

Mr. Gerend discussed the inter-related nature of the financial piece and the service alternatives. He suggested that we want to create a process that is defensible to the public and that perhaps the best way to do this is through scenarios, to give the numbers some meaning.

Mr. Webster indicated that because the number of alternatives could be infinite, using a model based upon the proportion of taxes generated by each county could be a good starting point.

The group discussed the mileage distribution in the Smart Moves Concept and the Mayor's proposal, and then discussed alternatives for a potential ballot in Kansas City. One of the alternatives of interest to the committee is Councilman Johnson's proposal. Ms. Gleeson stated that the KC council promised voters that they would put something on the ballot by November 2008. The Council must start those internal discussions on direction. Mr. Johnson has put forward some ideas for how the city could move forward, and there is a work session of the Transportation & Infrastructure committee to discuss options. Mr. Johnson does not view the discussion as the starter line versus the regional network.

The group asked if Councilman Johnson's ideas were similar to those coming out of the AA process, and the answer as given was that there are only some minor differences in alignment between the ATA and Councilman Johnson.

Ms. Gleeson commented that there is a great deal of overlap between the regional sub-committees.

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Mr. Gerend stated that the technical sub-committee has determined that moving people should be the main focus of any regional system. Other committees are looking at equity between the counties and attempting to design scenarios for the mix of services the region can afford with a ½ cent sales tax. The more rail intensive the less area covered.

Mr. Porter indicated that economic development happens everywhere to some degree. Mr. Jarrold added that economic development is not a given around stations. He cited the experience of the St. Louis Metro Link system where there has been very little economic development if any immediately adjacent to rail stations. However, St. Louis leaders believe that the rail line has had a positive impact on the community on a regional scale. Market conditions must be right for economic development to occur at rail stations.

Mr. Porter told the group that his research seemed to indicate that commuter rail attracts residential development, but that light rail will not attract the same type of development without incentives.

Mr. Jarrold indicated that the Alternatives Analysis corridor connects Vivion Road in the Northland to the Plaza and to Prospect. The KCATA team is currently putting engineering numbers on the corridor segments and creating scenarios based upon the amount of rail the region can buy by tax amount.

Mr. Pieronnet asked if the draft numbers would be available for the next meeting of citizen's task force, and Mr. Jarrold indicated that they would continue using the planning numbers until the engineering numbers are more solid.

Mr. Porter and Pieronnet asked the group whether funding streams could be combined if Kansas City moves forward on its own, and the effect that would have on the regional effort.

Mr. Gerend suggested that soliciting opinions about the impact that Kansas City activities could have on a regional initiative would be a good item for the June 20th regional forum.

The group discussed the presentation to the regional forum and determined that the Finance Sub-Committee would report on five general points at the June 20th forum.

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Other – meeting adjourned