



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 17, 2016

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:

Consideration of a Loan Application Through the Federal Transportation Infrastructure Finance and Innovation Act (TIFIA) Program to Partially Fund the Potomac Yard Metrorail Station.

ISSUE: Opportunity for low cost and flexible loan financing through the federal TIFIA program to partially fund the Potomac Yard Metrorail Station.

RECOMMENDATION: That the City Council authorize the City Manager to submit a Letter of Interest and if successful apply for credit assistance to the U.S. Department of Transportation (USDOT) for a loan of approximately \$88 million through the Transportation Infrastructure Finance and Innovation Act (TIFIA) program to assist in partially funding the construction of the Potomac Yard Metrorail Station.

BACKGROUND: TIFIA is similar to the Virginia Transportation Infrastructure Bank (VTIB), although TIFIA is a federal government program. The City was awarded a \$50 million VTIB loan by the Commonwealth Transportation Board for the Potomac Yard Metrorail Station in 2015. Similarly, the TIFIA program provides credit assistance for projects of regional and national significance. Its goal is to leverage federal financial aid by providing credit assistance rather than grants. TIFIA credit assistance has been used for multiple transportation projects in the region, including Phases I and II of the Metrorail Silver Line, the I-495 High Occupancy Toll (HOT) Lanes, the I-95 HOV/HOT Lanes, and the Maryland Intercounty Connector.

The Potomac Yard Metrorail Station is a key transit project identified in the City's 2008 Transportation Master Plan, the 1999 South Potomac Yard / Potomac Greens Small Area Plan, and the 2010 North Potomac Yard Small Area Plan, and is vital to the full redevelopment of Potomac Yard into a mixed-use transit-oriented set of neighborhoods. It is a high-priority regional project with economic development benefits that supports local and regional plans and benefits the transportation network by providing access to the regional Metrorail system along a highly congested north-south transportation corridor.

On May 20, 2015, the City Council selected Alternative B as the locally preferred Potomac Yard Metrorail Station alternative for the purposes of fulfilling the City's obligation under the Environmental Impact Statement (EIS) process through the National Environmental Policy Act (NEPA) for construction of the proposed Potomac Yard Metrorail Station. The current cost estimate for the station is \$268 million. This cost estimate will be updated in Spring/Summer 2016 based on continued development of the conceptual design for the station.

DISCUSSION: In Spring 2015, the City prepared an updated financial feasibility analysis that evaluated the ability to finance the station based on local, regional, and state sources. The sources included net new tax revenues from Potomac Yard, two Special Services Tax Districts, developer contributions, \$69.5 million from the Northern Virginia Transportation Authority (\$3.5 million of which has been secured), and a \$50 million VTIB loan. Throughout development of the financial plan, there has been discussion of considering a TIFIA loan for up to 50 percent of eligible project costs.

Like VTIB, a TIFIA loan offers more flexible repayment terms and more favorable interest rates than the City could secure on the bond market. The exact terms for each loan are negotiated between the U.S. Department of Transportation (USDOT) and the borrower, based on the project economics, the cost and revenue profile of the project, and any other relevant factors. For example, TIFIA loan repayment can be deferred up to 5 years after substantial completion, depending on the needs of the project.

The principal amount of a TIFIA loan may not exceed 49 percent of the reasonably anticipated eligible project costs. To date, TIFIA credit assistance has only covered up to 33 percent of reasonably eligible project costs and applicants requesting assistance in excess of this amount must provide a compelling rationale for such additional assistance. Therefore, staff is proposing to request a loan of approximately \$88 million, or approximately 33 percent of the anticipated cost of constructing the Potomac Yard Metrorail station.

The application process for TIFIA begins with submission of a Letter of Interest (LOI) from the project sponsor that: (i) describes the project and the location, purpose, and cost of the project, (ii) outlines the proposed financial plan, including the requested credit assistance and the proposed obligor, (iii) provides a status of environmental review, and (iv) provides information regarding satisfaction of the eligibility requirements of the TIFIA program. Once the LOI has been reviewed and it has been determined that the project is eligible, a creditworthiness review will evaluate the financial plan and model, and the feasibility of the pledged revenue. Once eligibility and creditworthiness have been determined, the USDOT will invite the City to apply for TIFIA credit assistance. USDOT estimates that the time from submission of the LOI to finalization of the financing agreement is between six and twelve months.

The TIFIA application will be reviewed by USDOT and specific terms and conditions negotiated as each TIFIA loan has unique characteristics. Before any TIFIA loan agreement is executed with the USDOT, City Council authorization to enter into such agreement would be required.

FISCAL IMPACT: An \$88 million loan through TIFIA would reduce borrowing costs by further lowering the overall debt service the City would pay associated with total borrowing requirements for the construction of the Potomac Yard Metrorail Station. The flexible terms of the TIFIA loan repayment reduce the City's risk as new development is anticipated to generate new revenues utilized for the repayment of principal and interest associated with the loan.

Once eligibility and creditworthiness have been determined and the City has been invited to submit an application, the City will be required to pay fees in the amount of \$0.1 million to offset the cost to the USDOT

of hiring financial and legal advisors to evaluate the application. There are additional fees which may be required to fully cover actual costs incurred by the DOT. According to the City's financial advisors, other clients who have gone through the TIFIA process have incurred costs of \$0.1 million to \$0.2 million. The fees are due whether or not the loan closes. Cost of issuance for recent debt issued by the City was approximately \$0.1 million. Funding for these costs will be paid for by Potomac Yard Station Fund revenues. Once submitted, the DOT estimates that it will take six to twelve months until the financing agreement is finalized. After adjusting for the costs of pursuing a TIFIA loan, the net savings for an \$88 million loan over a 30-year period is estimated to be about \$10 million in today's financial market.

Before acceptance of the TIFIA loan by the City, City Council-established debt policies will need to be amended. It has been assumed in the financing of the Potomac Yard Metrorail Station that debt limits would be modified by City Council. If the City receives this loan, the \$88 million would replace previously planned General Obligation bond borrowing by the City. The loan will be repaid with existing and future revenue generated from development in Potomac Yard.

ATTACHMENTS: None.

STAFF:

Emily Baker, Deputy City Manager

Laura Triggs, Deputy City Manager

Morgan Routt, Director, Office of Management & Budget

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