



**BOARD OF TRUSTEES
SPECIAL SESSION
MEETING MINUTES**

4600 Emperor Boulevard
Suite 100
Durham, NC 27703

Wednesday, February 1, 2023

3:00 p.m.

GoTriangle Board Room

Board members present | Corey Branch, Brenda Howerton [arr. 3:20 p.m.], Sig Hutchinson, Vivian Jones, Elaine O'Neal [arr. 4 p.m.], Michael Parker, Sally Greene, Jennifer Robinson [arr. 3:14 p.m.], Stelfanie Williams [arr. 3:13 p.m.]

Board members attending remotely | Mary-Ann Baldwin [left 4:40 p.m.]

Board members absent | Valerie Jordan [excused], Michael Fox

Chair Sig Hutchinson officially called the meeting to order at 3:05 p.m. A quorum was present.

I. Adoption of Agenda

Action: A motion was made by Parker and second by Jones the agenda was adopted. Upon vote, the motion was carried unanimously.

II. Financial Overview

Sandra Freeman introduced Jill Jaworski, GoTriangle's financial consultant, and Mary Nash, bond counsel. The presentation is attached and hereby made a part of these minutes.

Freeman explained the four sources of revenue for GoTriangle:

- Half cent sales tax – Article 43
- \$7 county vehicle registration tax
- \$3 regional vehicle registration tax
- 5% vehicle rental tax [currently half shared with county transit plans]

She also shared FY2022 revenue totals:

| | Wake Transit | Durham Transit | Orange Transit |
|--|---------------------|-----------------------|-----------------------|
| \$7 county vehicle registration tax | 6,576,318 | 1,678,614 | 786,254 |
| Half cent sales tax | 121,441,978 | 40,301,373 | 9,576,160 |
| 5% vehicle rental tax | 4,561,440 | 1,442,219 | 704,340 |
| \$3 regional vehicle registration tax | 2,814,693 | 719,391 | 336,975 |
| | 135,394,429 | 44,141,597 | 11,403,729 |

Jaworski stated that debt is anticipated for all three transit plans for a total of approximately \$1.3 billion. All three counties have high credit ratings and have expressed concern that adding this debt would risk a downgrade.

Mary Nash explained the legal requirements of the Article 43 sales tax:

- Levied by GoTriangle for the tax district of Durham, Orange and Wake counties.
- Referendum approved by majority of voters in all three counties.
- Net proceeds spent in accordance with financial plan, only for financing, constructing, operating and maintaining public transportation systems.
- Financial plan must provide for the “equitable use of the net proceeds within or to benefit the special tax district.”
- Separate Interlocal Agreements [ILAs] with the counties.
- The ILAs define “equitable use of net proceeds,” generally that the revenues collected in a county be spent for the benefit of that county.

Debt Financing Options in North Carolina:

- General obligation [GO] bonds - no property tax to pledge; voter approval required to pledge sales tax; authorization in Local Government Bond Act; recommendation: not viable
- Revenue bonds - security is the pledge of net revenues received in connection with operation of the “system,” farebox revenues are a weak credit; sales tax receipts not considered operating revenues; pledge could include payments to GoTriangle under agreements with the counties; voter approval not required; 25 year term; authorization in Local Government Bond Act; recommendation: not preferred
- Special obligation [SO] bonds – security is the pledge of designated revenues; cannot pledge GoTriangle levied sales tax without voter approval; designated revenues could include payments to GoTriangle under agreements with the counties; 25 year term; transit projects would need to be authorized by state legislation; authorization under Chapter 159, Article 7A; recommendation: not preferred
- Installment financing contract/limited obligation [LO] bonds – security is appropriated payments for debt service each year; secured by lien on financed property; voter approval not required; master indenture for cross-collateralization; 10-20 year term; express authorization in NCGS 160A-20; recommendation: best option

GoTriangle is responsible for issuing the debt to implement the county transit plans. North Carolina law allows the issuance of limited obligation bonds and has been used for transit by the City of Charlotte. Any source of income, including sales tax receipts, could be used to pay the debt service; however, GoTriangle cannot pledge them. Staff would agree to include debt service in its annual operating budget. The board is not obligated to appropriate the funds in the budget.

One challenge with this option is the pledge of assets. GoTriangle may not have ownership interest in sufficient assets to pledge the minimum asset value required. There is a preference for real property over assets such as a rail line. The assets would have to be owned or leased by GoTriangle. Bondholders could pursue foreclosure in the event of a default, which would be detrimental to GoTriangle’s credit and ability to borrow going forward.

Another challenge is a higher borrowing cost compared to GO and SO bonds which are secured by high quality taxes. Physical assets as security are less liquid and there is a risk of non-appropriation of the debt service each year.

The Interlocal agreements also pose a challenge to LO bonds in that Wake County restricts the use of Wake County-generated revenues and Wake County assets as security for projects in the Wake County Transit Plan. Durham and Orange County allow revenues to be used for projects that benefit the County if approved; the projects do not have to be located within the County. Assets financed by Durham or Orange transit plan funds can be pledged only for projects in that county's annual work program unless approved by the Board of County Commissioners. Segregating projects county-by-county complicates cross-county projects such as commuter rail.

The counties or cities could issue the debt. Voter approval would be required for general obligation bonds. GoTriangle controls the revenues in the revenue bond scenario. Special obligation bonds would require legislation to add transportation as a permitted project. This option would allow the pledge of sales tax as security, allow local funds to support local projects and benefit from the strong credit ratings of known borrowing entities. If the counties or cities did installment financing contracts or limited obligation bonds, it again would keep local revenues for local projects and the transfer of sales tax receipts and other local revenues from GoTriangle could be used to repay the debt. It would allow for cross-collateralization of assets within the county or municipality. Installment financing or LO bonds could be a good option for local projects or local portions of a project like BRT stations.

There are drawbacks to local issuance of debt such as the timing of debt issuance, coordination of project construction, ownership by multiple entities of parts of the transit system, management of segregated funds and assets, inability to present the project as an integrated system, precludes future system-wide financing because sales tax receipts are siphoned off for local projects and likely eliminates RRIF funding from USDOT.

The simplest regional solution is limited obligation bonds issued by GoTriangle using a "master" structure. This method is the simplest alternative to execute but at a higher cost. This would require a change in the language in the ILAs to allow sales taxes to be used to support regional projects. Additionally the Railroad Rehabilitation and Improvement Financing [RRIF] program through the US Department of Transportation's Build America Bureau provides direct loans for heavy rail projects. The interest rate is for 30 years at the 30-year treasury rate - the lowest rate accessible. Compared to the bond options, these funds are a drawdown with interest paid only on the drawdown. Additionally, no payments are required until five years after completion of the project. You can lock in the interest rate before a drawdown is needed.

Freeman discussed next steps on which option to pursue for debt issuance:

- Possible legislative changes to authorize transit/transportation projects in the special obligation bond statute for GoTriangle and the counties.
- Discussions with the counties regarding the mechanisms for regional debt solutions.
- Conversations with the Build America Bureau and the Local Government Commission about the RRIF program.

VII. Adjournment

Action: Chair Hutchinson adjourned the meeting at 5: p.m.



Sig Hutchinson, Chair

Attest:



Michelle C. Dawson, CMC

Clerk to the Board