

STAFF REPORT

SOUND TRANSIT MOTION NO. M2000-43

Contract for leverage lease advisory services

Meeting:	Date:	Type of Action:	Staff Contact:	Phone:
Finance Committee	5/18/00	Discussion/Possible Action	Brian McCartan Finance/Budget Manager	206-398-5100

PROPOSED ACTION – Approval of Motion No. M2000-43 authorizes the Executive Director to execute a contract with Capstar Partners/McCalley Consulting to provide leverage lease advisory services, for a total authorized amount not to exceed \$4,500,000.

KEY FEATURES

Highlights of Proposed Action:

- ◆ Authorizes the Executive Director to execute contract with Capstar Partners/McCalley Consulting to provide leverage lease advisory services, to assist in evaluating and potentially executing leverage lease transactions to achieve additional efficiencies in the purchase of Sound Transit rolling stock.
- ◆ Leverage lease advisors are compensated on a percentage value of the assets leased. Compensation would be made out of proceeds from the lease transactions. In the event that the transactions do not close, Sound Transit would not compensate the lease advisors, except for possibly some transaction-related costs. As compensation for these transactions is paid out of net proceeds, there will be no net charge to the agency's current budget.

Discussion of Proposed Action:

With the recent passage of the leverage lease legislation during the 2000 legislative session, Sound Transit is now in a position to begin evaluating leverage lease transactions to potentially achieve additional efficiencies in the purchase of its rolling stock assets. In these transactions, Sound Transit would lease an asset (usually rail cars or buses) to a private party. The private party would in turn lease the asset back to Sound Transit. The private party would be able to enjoy the tax benefits of depreciation on the asset. Sound Transit would receive a payment (3-8% of the asset value) as an up-front payment. These types of transactions have been executed by a number of transit agencies nationally, and by King County Metro and the Washington State Ferry system locally.

In order to undertake these transactions, the following steps would have to be taken:

- | | | |
|----|---|------------------|
| 1) | Passage of leverage lease legislation | Completed |
| 2) | Selection of Lease Advisor | Current action |
| 3) | Evaluation of lease strategies | June 2000 |
| 4) | Evaluation of proposed initial lease transaction | July 2000 |
| 5) | If steps 2-4 positive, Finance Committee approval to proceed with a lease transaction | Fall 2000 |
| 6) | Development of initial transaction (if approved) | Fall-Winter 2000 |
| 7) | Finance Committee and Board approval of transaction | Fall-Winter 2000 |

The selection of a lease advisor would be only the initial step in undertaking these transactions. The lease advisor would develop a long-term strategy for leasing Sound Transit assets and evaluate the risks of the transaction. A substantial amount of additional work needs to be completed before staff can determine if these transactions can be effective and economical for Sound Transit. If a transaction does prove to be viable, staff would then return to the Board seeking approval to proceed with it.

Sound Transit conducted a competitive selection for lease advisor firms. Seven firms responded to Sound Transit's RFP. Staff is proposing the award of a contract to Capstar Partners/McCalley Consulting as lease advisors to Sound Transit. The selection was based on qualifications, experience, and ability to execute the scope of work, and Capstar was the unanimous first choice by selection committee members.

BUDGET

Lease advisors are typically compensated on a percentage value of the assets leased. Compensation for these contracts would be made out of proceeds from the lease transactions. In the event that the transactions do not close, Sound Transit would not compensate the lease advisors, except for possibly some transaction-related costs. As compensation for these transactions is paid out of net proceeds, there will be no net charge to the agency's current budget.

Total Project Budget	Expenditures to Date (A)	Total Amount Requested (B)	Shortfall* or Surplus (A-B)
\$4,500,000	0	\$4,500,000	(\$4,500,000)
*Amount of Shortfall	Potential Revenues	Funding Sources	
\$4,500,000	\$4,500,000	Net transaction proceeds	

ALTERNATIVES

The Board could choose not to implement a leverage leasing program.

CONSEQUENCES OF DELAY

Successful execution of these types of transactions is dependent on a wide variety of factors, including tax law and interest rate levels. Certain types of transactions are currently viable for Sound Transit assets, but a delay in beginning work on a lease program risks changes in tax law and market conditions that will eliminate these transactions from possible execution.

REGIONAL PARTNERSHIP AND COOPERATION

The proposed transactions would involve only Sound Transit assets. However, the Federal Transit Administration (FTA) does encourage these transactions and sees them as evidence that a grantee is maximizing their available resources. Therefore, the FTA will need to be consulted prior to undertaking any transaction.

PUBLIC INVOLVEMENT

In the course of its work on the 2000 legislative program, Sound Transit has discussed these transactions extensively with the State Treasurer's office and the State Legislature.

LEGAL REVIEW

MBL 5/11/00

SOUND TRANSIT

MOTION NO. M2000-43

A motion of the Finance Committee of the Central Puget Sound Regional Transit Authority authorizing the Executive Director to execute a contract with Capstar Partners/McCalley Consulting to provide leverage lease advisory services, for a total authorized amount not to exceed \$4,500,000.

Background:

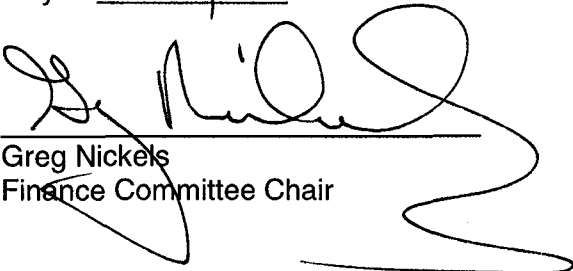
With the recent passage of the leverage lease legislation, Sound Transit is now in a position to begin evaluating leverage lease transactions to potentially achieve additional efficiencies in the purchase of its rolling stock assets. In these transactions, Sound Transit would lease an asset (usually rail cars or buses) to a private party. The private party would in turn lease the asset back to Sound Transit. The private party would be able to enjoy the tax benefits of depreciation on the asset. Sound Transit would receive a payment (3-8% of the asset value) as an up-front payment. These types of transactions have been executed by a number of transit agencies nationally, and by King County Metro and the Washington State Ferry system locally.

Lease advisors are typically compensated on a percentage value of the assets leased. Compensation for these contracts would be made out of proceeds from the lease transactions. In the event that the transactions do not close, Sound Transit would not compensate the lease advisors, except for possibly some transaction-related costs. As compensation for these transactions is paid out of net proceeds, there will be no net charge to the agency's current budget.


Motion:

It is hereby moved by the Finance Committee of the Central Puget Sound Regional Transit Authority that the Executive Director be authorized to execute a contract with Capstar Partners to provide lease leverage advisory services for a total authorized amount not to exceed \$4,500,000.

Approved by the Finance Committee of the Central Puget Sound Regional Transit Authority at a regular meeting thereof on the 18th day of May 2000.


Greg Nickels
Finance Committee Chair

ATTEST:


Marcia Walker
Board Administrator