



LYNX Finance & Audit Committee

A G E N D A

January 15, 2015

10:00AM

LYNX Central Station

Second Floor Room #215

- Call to Order
- Approval of Prior Meeting Minutes
- Election of Officers
- FY2016 Budget Development Assumptions
- Compressed Natural Gas (CNG) Bus Lease
- Adjournment

LYNX
Central Florida Regional Transportation Authority
Finance & Audit Committee Meeting Minutes

PLACE: **LYNX Central Station**
 455 N. Garland Avenue
 Conference Room, 2nd. Floor
 Orlando, FL 32801

DATE: **November 5, 2014**

TIME: **10:04 AM**

Members in Attendance:

Chris McCullion, City of Orlando
Lisa Buscher, FDOT
Michael Kurek, Osceola County
Edward Bass, Seminole County

LYNX Staff in Attendance:

John Lewis, Chief Executive Officer
Blanche Sherman, Director of Finance

Members Absent:

Ray Walls, Orange County

1. Call to Order/Introduction

Blanche Sherman, Director of Finance, thanked the committee members for coming and started the meeting at 10:04 AM. Blanche asked for introductions and the roles of all meeting attendees since there were new members attending.

2. Approval of Prior Meeting Minutes

Blanche Sherman asked for approval of the prior meeting minutes. **Motion** was made and seconded to approve the Minutes of the September 18, 2014 Finance & Audit Committee. The Motion passed unanimously.

3. Audit Agenda Items

✓ **Compressed Natural Gas (CNG) Contract – Final Negotiations**

John Lewis, Chief Executive Officer, spoke about the importance of this item which is on the agenda for Board action next week and this meeting as an opportunity to address the final items and give committee members an opportunity to be as informed as possible before the Board's final action. John proceeded to give a brief overview of the process and turned the meeting over to Blanche Sherman.

Blanche spoke about this being is a good effort with projections based on the financial analysis of a positive cash flow by year three. Blanche introduced Margaret Lezcano, Stifel Nicolas, and Pat Christiansen, LYNX Legal Counsel. Pat Christiansen mentioned that he had prepared a Term Sheet on the CNG Fuel Purchase Agreement that he would be going over.

Margaret Lezcano discussed their role as the third party reviewer of the proposal, specifically the financial review, and that they have been working with LYNX since the beginning of 2014. There are two contracts that are being negotiated- the fuel purchase agreement which is the primary document and the standard construction contract for the maintenance facility upgrades.

Margaret discussed that they are making sure they understand the guaranteed maximum price, how it is built and what the components are for the construction agreement.

Margaret (Items 1-7) and Alex Bugallo (Items 8-11) discussed the list of the top eleven components comparing the original proposal to the final fuel purchase agreement. A summary of their comments follows:

1) CNG Bus Purchases/Leases

The two biggest items under this topic are how much fuel do you have to buy and how long do you have to buy it. The buses will have to be fueled for ten (10) years due to the estimate of useful life. John Lewis discussed the Federal standard of twelve (12) years with replacement in the thirteenth year or 500,000 miles. LYNX reaches the mileage limit of 500,000 miles in nine (9) or ten (10) years.

There are 308 buses less a 20% reserve on the road. Each bus has been modeled in the schedule. LYNX will start with thirty-five (35) buses and add thirty-five (35) new buses in 2015. LYNX will then follow the schedule as it exists.

The original proposal was for LYNX to purchase 50% of its new buses as CNG for twenty years. Given the dynamics of the market, it was agreed that LYNX would buy all of its new buses as CNG for a period of five (5) years. This would mean a 150 bus exposure. In year five (5), LYNX will have those buses for an additional ten (10) years.

2) Take or Pay Commitment for CNG

LYNX will be able to meet the minimum fueling requirements of 500,000 Diesel Gallon Equivalent (DGE) units per year.

3) Length of Contract

The length of the contract is twenty (20) years with LYNX having no obligation after fifteen (15) years. If LYNX chooses to consume CNG between fifteen (15) and twenty (20) years, it will do so at the Nopetro station adjacent to the LYNX Operations Center.

- 4) Applicable Government Grants./Rebates
Government rebates are a benefit that accrues to Nopetro as the provider of the fuel. Any benefit Nopetro would receive would be split 50/50 with LYNX.
- 5) Royalty Payments from 3rd. Party Sales
The fueling station will be set up like two gas stations. LYNX will have its own ingress and egress. The other side will be for other non-LYNX affiliates. Checks and balances will be in place to keep everyone safe and secure. The \$.08 per DGE royalty payment will include an annual CPI increase. LYNX does not want to run a gas station nor secure fuel and is looking at different ways to ensure there will be CNG to run the buses.
- 6) Liquidated Damages
These are hourly penalties imposed for delays in meeting the milestones and markers. This was not addressed previously.
- 7) Audits
Nopetro is a start-up private company and has agreed to make annual and quarterly provisions/reporting for true-ups. LYNX will receive a bill for fuel or a check for royalty payments which include a calculation that is unaudited. If something was miscalculated, it would be caught by the audit.

Blanche discussed the quarterly reports and annual true-ups.

- 8) Components of CNG Cost per DGE
There are three components. The open market value of natural gas is known. Transportation from the pipeline is 40% of the CNG price. The third component is the compression fee (compression requires electricity and equipment). Nopetro is to recover part of their costs through adders which include maintenance facility modifications and staffing, fueling and fluids on the premises.

Since there are two gas stations, not all costs will be allocated to LYNX. Some costs will be allocated to third party fueling.

Nopetro is looking to secure a loan to do the facility modifications. The original agreement did not include an adder but would have been a loan to LYNX. LYNX' preference is to have an adder to include these capital costs into the DGE price. There is no difference in the amount just whether the expense is capital or operating.

Chris McCullion asked about how long the adders would be in place. The adders will be for ten (10) years with annual true-ups. As LYNX consumes

more than expected, the principal would go down and the period will be less with the true-up.

There is a new redesign of the service station with the ability to dispense fluids to the buses and at the same time topping off the other fluids. This is now a part of the proposal. This will add an efficiency factor cost provided by Nopetro for the first year and a half to two years. Then LYNX personnel will be trained and the additional cost/adder will go away.

Training is part of the proposal to include functions that LYNX can absorb. The fee is for two (2) years to meet the needs of LYNX. The adder is not material or significant. Blanche mentioned this would be included in the true-up also.

Blanche also mentioned that in regards to the Facility Maintenance adder, LYNX is in the process of looking at federal funding.

The construction contract ties into the Board approval in tandem with LYNX' bus purchasing. Risk mitigation has been a consideration. Permits are being secured by Nopetro from the City of Orlando as a cushion in case of delays.

9) "Favored Nation" Clause

This prevents Nopetro from cutting a better deal with anyone else. This is limited to the station.

10) Covered LYNX Vehicles

The original provision was for any LYNX bus that is fueled with CNG will be at the station. LYNX expansion to Seminole and Osceola Counties was discussed. The agreement does allow LYNX to fuel and Nopetro to build additional facilities in those counties. CNG buses that start their route at the John Young Parkway facility must use the station.

11) Dispensing of Fluids at Station

This was discussed under the Components of CNG Cost per DGE as an operating efficiency adder.

The meeting was turned over to Pat Christiansen who distributed a Term Sheet focusing on the most important items of the proposed CNG Vehicle Fuel Purchase Agreement with Nopetro- Orlando, LLC as follows:

a) Seller of CNG Fuel

Nopetro, the parent, is forming a new subsidiary for the fuel purchase agreement. Nopetro-Orlando will be the entity on the fuel purchase agreement. Nopetro will be the entity on the construction agreement because

it holds the construction license. There is no substantial funding other than the two families. As a consequence, there is a requirement of an annual performance bond.

b) Term of Agreement

The agreements will not be signed by the November 2014 Board meeting. There are deadlines in December and there is not a Board meeting in December. The term sheet is prepared for the fuel purchase agreement. A term sheet will be prepared for the construction agreement.

The agreement is for twenty (20) years.

c) Substance of Agreement

Nopetro-Orlando will purchase land adjacent to the John Young Parkway (JYP) facility and construct a CNG fueling facility with four separate fueling lanes dedicated to LYNX and other fueling lanes which are for other persons but could be used by LYNX. Deadline closing date is December 28 with the construction taking approximately twelve (12) months.

d) LYNX Obligations

Simultaneously with Nopetro closing on the land, LYNX has to order thirty-five (35) CNG buses from Gillig- ten (10) buses will be leased.

During the first five (5) years, any buses purchased to be stationed at the John Young facility must be CNG buses. This will be 150 CNG buses.

For the first fifteen (15) years, LYNX has to buy a minimum volume of CNG fuel which is approximately \$750,000 per year based on the thirty-five (35) CNG buses.

Any CNG buses stationed at John Young must be fueled at the station.

John discussed that the 500,000 DGE sounds like a big number but LYNX will more than exceed this amount. It is an easy number to meet. Blanche mentioned the \$12-14 million budget for fuel. The CNG portion is small in comparison.

e) Nopetro Obligations

Nopetro is to maintain four (4) fueling lanes and fuel the buses in a timely manner. The liquidated damage clause provides for an hourly penalty in an amount equal to what LYNX provides for bus service to its funding partners- currently at \$70 per hour- if the fuel is not provided in a timely manner.

Nopetro will provide a performance bond which guarantees that Nopetro will provide the fueling. The principle concern of LYNX is having fuel provided

in a timely manner. Nopetro also has to have alternative fueling available if the lanes do not work - the fuel mule.

f) Parent Guarantee

Nopetro is guaranteeing the obligations. The parent is a start-up company with not a lot of assets. A question was asked about the Leon County facility that Nopetro operates. Nopetro has been very open but have concerns under the public records act about providing information to competitors against whom they are bidding. In Leon County, Nopetro is making money. The cost of the facility is \$5-\$6 million which may be financed depending on the rates or through equity put up by the families.

Nopetro anticipates to be making money with LYNX fairly quickly. The facility may be mortgaged if there are favorable terms or the families will put up equity.

g) Pricing for Fuel

The pricing component is made up of a number of items including the employee adder which will go away after LYNX employees take over. Nopetro will be paid the adder for construction fees when the station is open and LYNX starts buying CNG. The payment will be monthly starting out at forty cents.

The actual cost of the project will be paid, not to exceed the guaranteed maximum price (GMP), amortized over ten years with or without interest depending on whether the money is borrowed from a bank or not.

At the end of each year, LYNX will pay the delta if they are paying less than the actual costs and the schedule will be re-amortized if the delta is more.

h) Right of First Refusal

LYNX has the right of first refusal on the facility under certain circumstances.

i) Conditions Precedent

LYNX is committed to buy and has put in a purchase order for the twenty five (25) CNG buses and has obtained all the necessary approvals.

Nopetro buys the land, has all the necessary approvals, and the station is to be opened by a fixed date.

The contract will have milestones that have to be met.

j) Miscellaneous Provisions

To the extent other people buy fuel, LYNX gets a fee.

Nopetro will provide employees for up to three (3) years. Training will be provided to LYNX employees. After three (3) years or earlier, LYNX will have its own employees and there will be no employee adder.

Financial reports and audited statements will be provided.

Nopetro will carry insurance.

Most favored nation clause is put in and has been limited to the station. There is still a discussion about expansion to other facilities.

There is language in the proposal acknowledging the twenty (20) year agreement and indicating that the contract will be revisited if the market changes.

LYNX has some flexibility for future purchases. Once LYNX buys the buses they have to buy the fuel.

Pat Christiansen and the group then discussed the construction contract. Nopetro provided a construction contract similar to the fuel purchase agreement. This was changed to the A1A standard construction contract which is on a cost plus basis. Currently, the construction plans are 30% complete. A preliminary GMP has been developed. Schedule of the improvements is running at the same time as the schedule for the construction of the station and the delivery of the buses. The station and facility improvements are to be completed in nine to twelve months. The buses will arrive between nine to twelve months. If there is a gap, there is the flexibility to park the CNG buses and use diesel buses that are scheduled for retirement.

Blanche discussed the pre-construction meeting of the buses. Obtaining construction permits was discussed. John discussed the critical time during the first couple of months with the flexibility to change the CNG bus order to diesel buses up to March 2015 in a worst case situation.

The group discussed the cost of diesel fuel compared to CNG fuel. Fuel is the single largest expense at LYNX. The comparison price for CNG includes the compression fee. The more CNG fuel LYNX consumes, the lower the compression fee will be per DGE based on levels of consumption. LYNX hedges diesel fuel a year out- currently at \$2.89 for diesel. The current rates are \$2.65 market price for diesel and \$1.95 per DGE for CNG. Chris McCullion talked about the cost savings on the fuel being more than enough to offset the increased capital costs for the buses which are financed with federal grants.

John discussed that CNG buses were mandated in California a decade ago and all government funded fleets have to be CNG. John discussed the non-cost saving benefits such as cleaner running buses and less wear and tear on the buses. The question for LYNX is the long term savings. Fuel savings will be recognized in years 1-2 and really be recognized in years 3-4 and beyond. The life span will be 10-12 years for these vehicles.

The deal with Nopetro was discussed by the group in relation to the process in Jacksonville, Miami and Tampa Bay. The trend is going towards CNG buses. The process has taken years for others because of the capital costs in building and/or running a CNG station which LYNX is getting funded/built by someone else.

The unsolicited proposal process was discussed. This was a public process with no one else presenting competing proposals during the 30 day advertised time period and beyond.

Chris McCullion talked about the additional cost of CNG buses. If less buses are purchased with the current federal funding due to the additional cost of CNG buses, LYNX has bus reserves (20% spare ratio) to cover all routes. John mentioned that another Federal Transit Authority (FTA) grant had been received to purchase the larger articulated CNG buses. The opportunity to get additional federal funding is not a concern.

The group discussed the guaranteed CNG price for any LYNX vehicles, the give and take since the last meeting with a better deal for LYNX, the flexibility and diversity in the fleet for LYNX and plans for satellite facilities in Seminole and Osceola Counties.

Acknowledgment was given for the effort and comprehensive presentations done in the last two meetings.

✓ **Other Business**

No other business was discussed.

✓ **Next Meeting**

Blanche mentioned that scheduled meeting times would be discussed and officers elected at the next meeting.

The meeting adjourned at 11:12 AM.

LYNX Finance & Audit Committee Agenda

Agenda Item #1

To: LYNX Finance & Audit Committee Members

From: Blanche W. Sherman, Director of Finance

Phone: 407.841.2279 extension 6100

Item Name: Election of Officers

Date: 01/15/2015

The Finance and Audit Committee shall annually elect from its members a chairperson and such other officers as determined by the Finance and Audit Committee. The chairperson shall preside over all meetings of the Finance and Audit Committee. In his or her absence at any particular meeting, the vice chairperson shall preside over the meeting (if one has been elected). In the absence of a chairperson or vice chairperson, the Finance and Audit Committee members shall elect a replacement chairperson for such meeting.

Blanche W. Sherman, LYNX' Director of Finance, will preside over the election of officers at this meeting of the LYNX Finance & Audit Committee.

LYNX Finance & Audit Committee Agenda

Agenda Item #2

To: LYNX Finance & Audit Committee Members

From: Blanche W. Sherman, Director of Finance

Phone: 407.841.2279 extension 6100

Item Name: FY2016 Budget Development Assumptions

Date: 01/15/2015

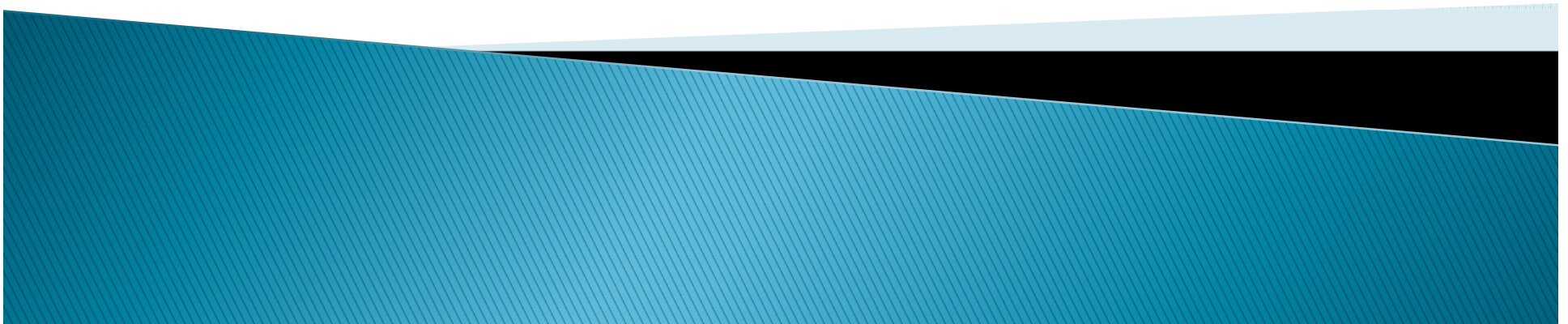
Staff is in the process of developing the FY2016 Operating and Capital Budgets. The key assumptions that LYNX' budget team will use in the preparation of these budgets will be presented. This item gives the Finance & Audit Committee an opportunity to provide direction and feedback to management at the beginning of the budget development process. Staff will also present the budget calendar for the FY2016 budget.

The key overall budget assumptions are as follows:

- FY2016 Funding based on LYNX Adopted Funding Model
- Maintain current Preventative Maintenance funding level
- Maximize current service levels through efficiencies
- Apply additional Flex (NeighborLink) services, where appropriate

FY2016 Budget Development Assumptions

Presented to LYNX Finance & Audit Committee
January 15, 2015



Key Budget Assumptions – Overall

- ▶ FY2016 Funding based on LYNX adopted Funding Model
- ▶ Maintain current Preventative Maintenance funding level
- ▶ Maximize current service levels through efficiencies
- ▶ Apply additional Flex (NeighborLink) services, where appropriate
- ▶ Maximize use of anticipated Advertising Revenue



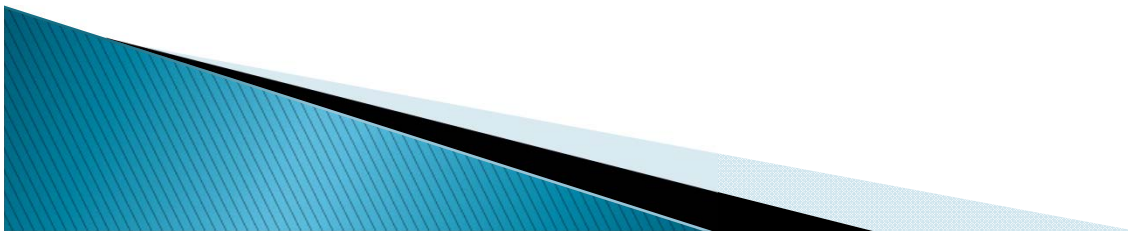
Key Budget Assumptions – Expenses

- ▶ Salary increases consistent with Funding Partners
- ▶ Anticipated impact of a new Union contract
- ▶ Impacts of conversion to Compressed Natural Gas (CNG)
- ▶ Continuation of Fuel Hedging Program, as appropriate



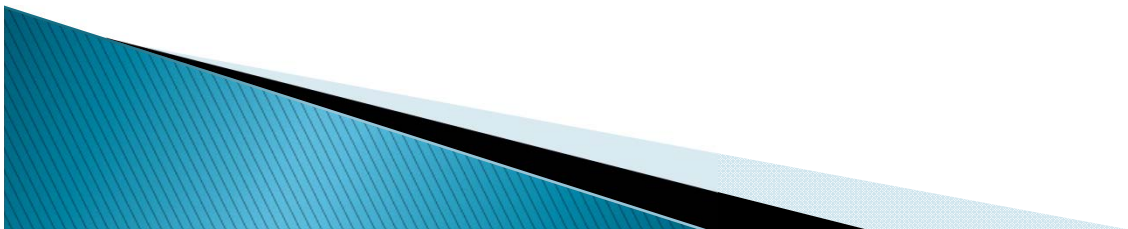
Key Budget Assumptions – Expenses

- ▶ Continued application of reductions based on LYNX ownership of paratransit vehicles
- ▶ Continuation of Bio-diesel Program, as appropriate



Pending Items

- ▶ Fare increase in FY2016(?)
- ▶ Toll Revenue Credits (?)
- ▶ Funding Partner approved COA Recommendations
- ▶ Impacts of SunRail Phase 2 expansion
- ▶ Expansion of Express Bus Pilot



Future Items

- ▶ Continue to review the type of fixed route vehicles used in future operations
- ▶ Consideration of public/private partnership (satellite facilities/BRT)



Budget Calendar

Key Budget Assumptions Presentation to Audit Committee	January 28
Preliminary Budget Presentation	March 26
Funding Request Letters Submitted to Funding Partners	May
Budget Presentation Osceola & Orange Counties	June/July
Budget Presentation Seminole County	August
Final Board Action	September 24
Budget Year 15 – 16 Commences	October 1



LYNX Finance & Audit Committee Agenda

Agenda Item #3

To: LYNX Finance & Audit Committee Members

From: Blanche W. Sherman, Director of Finance

Phone: 407.841.2279 extension 6100

Item Name: Compressed Natural Gas (CNG) Bus Lease

Date: 01/15/2015

LYNX typically acquires its annual bus requirements through a single payment purchase utilizing grant funding. However, in FY2007 LYNX entered into a leasing agreement for the lease of twenty-one (21) Gillig diesel buses to meet the fleet expansion requirements at that time. The twenty-one (21) bus lease was paid in full in August 2014. The twenty-one (21) bus lease was funded with local contributions from Orange County.

LYNX wishes to pursue another leasing option for ten (10) of the thirty-five (35) replacement buses included in the FY2015 Adopted Capital Budget. The ten (10) leased buses will support the requirements of the Unsolicited Proposal to acquire thirty-five (35) buses to begin the CNG fleet conversion. LYNX will utilize federal funds to purchase twenty-five (25) of the replacement buses and local \$2 capital funds to support the lease payments for the additional ten (10) CNG buses. The acquisition of the additional ten (10) CNG buses will help reduce the high maintenance costs associated with the operation of an aging fleet

On September 25, 2014, LYNX' staff requested the Board of Directors' authorization for the Chief Executive Officer (CEO) or designee to issue an Invitation for Bid (IFB) for the lease of ten (10) Compressed Natural Gas (CNG) buses for a period of four (4) or five (5) years.

The CNG buses will be acquired through the existing Gillig, LLC Contract #14-C09. The Gillig price quote for 40' low floor CNG buses is \$543,087 per bus for a total of \$5,430,870 for ten (10) buses. LYNX will enter into a capital leasing agreement with a leasing agency that will include principal and interest repayments over the next four (4) or five (5) years.

On November 17, 2014, Central Florida Regional Transportation Authority ("LYNX") solicited proposals via an Invitation for Bid ("IFB") from qualifying firms to lease-acquire ten new transit buses at an estimated cost of \$5,430,870 over a 4-year and 5-year term. As outlined in the IFB, LYNX requested for annual lease payments not to exceed \$1 million with a residual/buyout and/or balloon payment due at lease end.

LYNX received responses from PNC Bank, Municipal Services Group, Inc. ("MSG"), and Bank of America. The only two firms to provide a bid in accordance with the terms specified in the IFB were MSG and Bank of America. Based on the two qualifying responses, after careful evaluation of their proposed interest rate(s), total interest, and annual lease payment requirements, LYNX has determined that Bank of America's 5-year proposal best serves the

LYNX Finance & Audit Committee Agenda

financing needs of LYNX for this project. Bank of America's 5-year financing proposal is based on a quoted interest rate of 2.17% versus MSG's 2.60% resulting in approximately \$194,000 less in interest over the term of the lease. Please see the following schedule for more details:

LYNX Comparison of Bank Responses to Bus Lease RFP					
	PNC Equipment Finance, LLC.	Municipal Services Group, Inc.	Municipal Services Group, Inc.	Bank of America Public Capital Corp	Bank of America Public Capital Corp
Contact	Daniel Wong	Donovan Stevens	Donovan Stevens	Charles T. Maguire	Charles T. Maguire
Project Amount Financed	\$5,430,870	\$5,430,870	\$5,430,870	\$5,430,870	\$5,430,870
Lease Term	7 years	4 Years	5 Years	4 Years	5 Years
Payment Mode / Frequency	Quarterly	Qtly, S/A, or Annual	Qtly, S/A, or Annual	Qtly, S/A, or Annual	Qtly, S/A, or Annual
Stated Base Interest Rate/Yield	1.890%	2.40% True Interest Cost	2.60% True Interest Cost	2.08% (S/A)	2.17% (S/A)
Index	5 Year fed interest rate swap as of 12/11/2014, then adjusted by movement in the swap rate times .65	Final rate based on MMD or Bloomberg Bond Scales	Final rate based on MMD or Bloomberg Bond Scales	Lock in until 1/16/2014, based on average life swap	Lock in until 1/16/2014, based on average life swap
Buyout Amount / Balloon Payment at Lease End	7 year \$1 out lease purchase	\$1,902,049	\$979,772	\$1,740,925	\$785,228
Average Annual Lease Payment (Excluding Final Balloon Payment)	\$818,120	\$999,911	\$999,903	\$1,000,000	\$1,000,000
Total Gross Payments	\$5,810,843	\$5,901,692	\$5,979,288	\$5,740,925	\$5,785,228
Total Interest	\$379,973	\$470,592	\$548,888	\$310,055	\$354,358
PV of Total Payments @ 2.25%	\$5,321,276	\$5,524,480	\$5,555,610	\$5,377,414	\$5,382,005
Prepayment	2nd anniversary of lease; principal balance plus 3%	No Prepayment Penalty or Premium	No Prepayment Penalty or Premium	In Whole on any payment date	In Whole on any payment date
Insurance Requirement	\$2 mill single property damage liability and bodily injury liability	-	-	Requires casualty insurance	Requires casualty insurance
Fees & Expenses	Lessor does not assess any closing costs	\$90,000	\$90,000	Lessee and Lessor Responsible for own expenses	Lessee and Lessor Responsible for own expenses

It should be noted that the final interest rate for any of the proposal will fluctuate and therefore will only be locked upon the execution date and that both LYNX and the Lessor will need to complete and agree upon all required documents prior to execution of the financing.