Chapter 11

Financial Considerations

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11 Financial Considerations

Chapter 11 has been added to the report since the publication of the DEIS to summarize financial considerations for the Project, describe the Project funding partners, and detail the partners' financial capacity to implement the Project while continuing to operate and maintain the existing SSL commuter rail service. NICTD is advancing the Project in partnership with FTA, Northwest Indiana RDA, Indiana Finance Authority (IFA), and the State of Indiana.

11.1 Capital Funding Plan

This section provides an overview of the Project's capital cost estimate and proposed revenues.

11.1.1 Capital Cost Estimate

As shown in **Table 11.1-1**, the capital cost estimate for the Project is $661.0 million in year of expenditure (YOE) dollars. The estimate is based on the 30 percent design completed as of July 2017 and the current project schedule, which assumes that construction would begin in 2019 with revenue operations anticipated in 2022. The estimate is subject to further refinement to include the results of the August 2017 Risk Assessment and Value Engineering workshops coordinated by NICTD and future FTA readiness requirements. The capital cost estimate assumes a 25 percent allowance for total contingencies. The capital cost estimate does not include any costs associated with financing, which is also eligible for reimbursement through the New Starts program. While financing costs were estimated at $115.1 million in the New Starts Rating package submitted, this estimate continues to be reviewed and may be further refined.

Table 11.1-1: West Lake Corridor Project Capital Cost Estimate by Federal Transit Administration Standard Cost Category (Year of Expenditure $, in millions)

FTA Standard Cost Category[a b]	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	Total
10 – Guideway and track elements	0.0	5.2	56.2	78.2	16.8	0.0	156.4
20 – Stations, stops, terminals, intermodal	0.0	0.0	4.1	16.8	0.0	0.0	20.9
30 – Support facilities: yards, shops, administrative buildings	0.0	0.3	3.4	37.4	9.3	0.0	50.4
40 – Sitework and special conditions	0.0	0.0	77.7	29.1	4.1	0.0	110.9
50 – Systems	0.0	4.0	16.6	36.3	5.6	0.0	62.6
60 – ROW, land, existing improvements	0.0	40.7	10.5	0.0	11.8	0.0	62.9
70 – Vehicles	0.0	0.0	0.0	25.6	8.8	0.0	34.3
80 – Professional services	13.0	11.6	45.6	19.5	19.1	1.2	109.8
90 – Unallocated contingency	1.3	6.9	21.0	20.0	3.7	0.0	52.9
Total project costs[c]	$14.3	$68.6	$235.0	$262.8	$79.1	$1.2	$661.0

Source: HDR 2017a.

Note: CY = Calendar Year

[a] Preliminary estimate is subject to further refinements to include the results of the August 2017 Risk Assessment and Value Engineering workshops.

[b] Estimate does not include financing costs.

[c] Totals may not sum because of rounding.

11.1.2 Capital Funding

Federal New Starts grant funding through the FTA Section 5309 Capital Investment Grant (CIG) Program is assumed to provide 50 percent of total funding. The remaining funding would be provided by RDA and the State of Indiana. The actual level of New Starts funding would be negotiated with FTA and agreed upon pursuant to the terms of the Full Funding Grant Agreement (FFGA).

11.1.2.1 Federal Transit Administration

NICTD anticipates obtaining funding for the Project through the FTA CIG Program. The CIG Program includes the New Starts, Small Starts, and Core Capacity categories and involves a multiyear, multistep process that project sponsors must complete before a project is eligible for funding. The basic requirements and steps in the process, including Project Development, Engineering, and FFGA, can be found on FTA's website at www.fta.dot.gov.

The Project is a fixed guideway commuter rail project that represents a substantial investment in a critical transit corridor between northwest Indiana and downtown Chicago. As such, NICTD is requesting $330.5 million (in YOE dollars) in New Starts funding from the federal Section 5309 CIG Program, representing 50 percent of total Project costs (note the cost estimate and New Starts share do not currently include financing costs). The level and timing of New Starts funding would be negotiated with FTA as part of the FFGA. The Project is currently in the Project Development phase of the New Starts process and would request entry into the Engineering phase in 2018.

11.1.2.2 Northwest Indiana Regional Development Authority/State of Indiana Funding

RDA and the State of Indiana would provide the remaining funds, assumed to be 50 percent of total capital costs, amounting to $330.5 million in non-CIG capital funds. These funds would come from annual state appropriations to RDA and other RDA general revenues. As described in more detail below, pursuant to House Enrolled Act (HEA) 1001-2015, the State of Indiana committed $6 million per year in state revenues for 30 years, which would be provided to RDA as the exclusive fiscal officer for the Project. Annual state appropriations are expected to total $180 million over a 30-year period. RDA has committed additional non-CIG capital funds, as required, from its own general revenues to fund a portion of the state and local share. RDA anticipates using both the state appropriations and other RDA funding to support indebtedness, in partnership with IFA, to fund its portion of the non-CIG capital funds for the Project. In addition to RDA general revenues, RDA has secured commitments from 16 local governments to contribute $4.5 million per year for 30 years in local income tax revenues.

11.1.2.3 Northwest Indiana Regional Development Authority

The Project is a joint effort of NICTD and RDA. While NICTD is the operating entity for commuter rail service in northwest Indiana and the Project sponsor, RDA is the entity designated by the State of Indiana to promote transformative economic development, including the development of commuter rail projects with NICTD. As such, RDA is a funding partner and would use its own revenue sources, along with pledges according to the inter-local agreement, and appropriations from the State of Indiana to fund the capital and operating costs of the Project.

The State of Indiana created RDA in 2005 and directed it to engage in regional economic development through investments in air and rail transportation, shoreline development, and specific economic development projects. In 2015, the Indiana General Assembly instructed RDA to refocus its Comprehensive Strategic Plan on building a commuter rail asset that would provide the connectivity to Chicago that, in turn, would attract new residents, create jobs, and build the regional economy. RDA concluded that investments in transportation infrastructure, particularly commuter rail projects, were key to higher economic development returns. This Project and the DT-NWI Project are first steps toward enhanced regional connectivity to Chicago in support of this regional strategy.

RDA has already begun to support the Project by approving a $20 million grant to NICTD to fund FTA New Starts Project Development activities in August 2016. RDA would continue to contribute funding for a portion of the capital costs for the Project, as described in the sections below.

Local Sources of Funding

RDA is a unique partnership between state and local governments. The largest governmental units in Lake County—including the City of East Chicago, Lake County, City of Gary, and City of Hammond—each contribute a statutorily required $3.5 million per year to RDA for region-wide infrastructure investment. Historically, the source of Lake County funding to RDA has been a gaming admissions tax (IC 4-33-13); however, the statutory obligation to contribute to RDA is not restricted to specific revenue sources, with the exception of property taxes. Porter County contributes a statutorily required $3.5 million per year to RDA for region-wide infrastructure investment from its 0.25 percent local income tax. In addition to RDA general revenues, RDA has secured commitments from 16 local governments to contribute $4.5 million per year for 30 years in local income tax revenues.

RDA's sources of funds are further strengthened by IC 36-7.5-4-16, which provides an "intercept mechanism" that allows RDA to request that the State Treasurer deduct any unpaid amount owed to RDA by a member entity from other sources of funds owed by the State to such member entities. Specifically, it provides that the State Treasurer, upon notification and request by RDA, must impose deductions on city, county, or political subdivisions that fail to make a payment or transfer to RDA as agreed upon pursuant to the terms of any bond, note, debenture, warrant, contractual agreement, or any other promise or agreement. Deductions must be made first from state gaming admissions tax revenues otherwise payable to the locality, second from local income tax distributions that would otherwise be distributed from the state to the locality, and third from any other revenues or money otherwise available for distribution to the locality.

State Sources of Funding

In 2015, the State directed RDA to pursue the extension of commuter rail throughout northwest Indiana and demonstrated its collective support and commitment to the Project when the Indiana General Assembly passed, and then-Governor Mike Pence signed, HEA 1001-2015 (the "2015 Act"), which (1) includes the State's commitment to seek appropriations in the amount of $6 million per year for the Project and (2) granted RDA the authority and responsibility to plan, fund, and finance the Project in concert with NICTD and other community stakeholders.

At the same time, the State instructed RDA to refocus its Comprehensive Strategic Plan on commuter rail (IC 36-7.5-3-4). In 2016, RDA completed its Comprehensive Strategic Plan, which defined both the Project and DT-NWI Project and measured the substantial economic impact resulting from the planned TOD projects, which are estimated to drive approximately $2.5 billion in private investment in the region by 2040.

In 2017, the Indiana General Assembly and Governor Eric Holcomb approved funding for the DT-NWI Project in the same fashion as the State had done previously for the Project, pursuant to HEA 1001-2017 (the "2017 Budget Bill"). The 2017 Budget Bill extended the financial commitments from the 2015 Act, building on the rail project financing language passed therein, and committed the State to seek appropriations to fund a portion of the local share of the capital cost of the DT-NWI Project. The funds are expected to be appropriated from the State's general fund in the amount of $6 million per year, beginning in 2018.

The State has expressed its commitment to fund the Project and DT-NWI Project through a market-accepted process of appropriating annual debt service payments in the Capital Appropriations section of the State's biennial Budget Bill, initially HEA 1001-2015. During this process, these appropriations are made to the State Budget Agency for the projects and are made available to IFA/RDA. When bonds are issued or a financing program is established, the IFA covenants to request that the legislature appropriate the required amount for each year to make sufficient annual payments during that biennium, and for the length of the financing. The Indiana General Assembly is the only body in Indiana that can appropriate funds for debt service. This appropriation process for the payment of debt service has been widely used in Indiana and is widely accepted by the financial markets.

Through HEA 1001-2015 and 1001-2017, the State has already appropriated money to pay a portion of the cost of the Project and DT-NWI Project and has committed to seek future appropriations to finance a substantial portion of both projects. Moreover, pursuant to legislation enacted by the Indiana General Assembly, RDA will work hand-in-hand with the State and various local units of government, which are also providing substantial funds for the projects.

The State recognizes the potential impact of the Project and DT-NWI Project on economic development in northwest Indiana and showed its commitment to TOD by passing HEA 1144-2017, an act that created "transit development districts" around the existing and new stations for both projects. The bill authorizes RDA to establish transit development districts (i.e., tax increment financing districts) within member or associate member counties of RDA by resolution. Revenue from the districts would support the implementation of the public infrastructure needed to support and encourage TOD at the stations. RDA would be the designator of the districts and the recipient of the incremental property tax and local income tax revenues. While working with local jurisdictions, RDA is responsible for enhancing and incentivizing the transit-related development across the region, thereby helping to achieve the long-term commuter rail objectives of the two projects.

Note that transit development districts are downstream projects of RDA, made possible by the Project and DT-NWI Project, and are not part of the projects.

11.1.2.4 Indiana Finance Authority

As the State of Indiana's debt issuance agency, IFA is a key funding partner for the Project and DT-NWI Project. IFA was created as a new, separate entity in 2005 to provide economic efficiencies and management synergies and to enable the State of Indiana to communicate with one voice with the various participants in the finance markets. IFA is the successor entity to the following, formerly separate, debt-issuing entities: Indiana Development Finance Authority, State Office Building Commission, Indiana Transportation Finance Authority, Recreational Development Commission, State Revolving Fund Programs, Indiana Brownfields Program, and Educational Facilities Finance Authority.

IFA is authorized to issue revenue bonds payable from lease rentals under lease agreements—subject to the appropriation—with various state agencies and to finance or refinance state facilities and improvements, including the cost of acquiring, building, and equipping structures for state use, including highways, bridges, airport facilities, and parks. IFA's mission is to oversee state-related debt issuance and to provide efficient and effective financing solutions to facilitate state, local government, and business investment in Indiana. The State has authorized the issuance of bonds by RDA and IFA to provide the bulk of the required state and local funds. RDA would, as required in state statute (IC 36-7.5-3-5), issue debt through IFA to fund a portion of the capital costs for the Project and DT-NWI Project. Additionally, as required in state statute (IC 36-7.5-3-5), IFA, as the state's debt issuance agency, must approve RDA's financial plan for the projects prior to the State of Indiana's appropriation funding being made available to the projects.

11.1.2.5 Supplemental Funding Sources

In addition to the funding sources described previously**,** future iterations of the Project's financial plan may include additional local funding in the form of in-kind contributions from local jurisdictions.

11.2 Operations and Maintenance Funding Plan

This section provides an overview of the O&M cost estimate and proposed revenues for the Project.

11.2.1 Operations and Maintenance Cost Estimate

Table 11.2-1 summarizes the incremental impact on NICTD's total operating costs based on a fully allocated O&M cost model with anticipated annual budget and staffing requirements to operate and maintain increased commuter rail service and planned service level changes associated with implementing the Project. As shown in the table, the impact of implementing the Project's operating plan would be $9.6 million in 2017 dollars. This represents a 19.5 percent increase in annual operating costs for the existing SSL.

Table 11.2-1: West Lake Corridor Project Incremental O&M Costs (2017 $, in millions)

O&M Costs	Existing SSL	Existing SSL Plus DT-NWI	West Lake
Salaries and wages	17.07	17.83	3.28
Fringe benefits	8.72	9.52	1.66
Payroll taxes	4.70	4.93	0.86
Equipment expense	0.06	0.07	0.01
Repairs and maintenance materials	4.60	5.48	0.68
Traction power	2.14	2.55	0.31
Operating costs	5.92	7.06	0.87
Utilities	0.79	0.76	0.38
Professional services	1.73	1.67	0.83
Other services	1.81	2.08	0.37
Office supplies	0.39	0.38	0.18
Administration	(0.59)	(0.57)	(0.28)
Rents and leases	0.18	0.09	0.05
Claims and insurance	1.76	3.24	0.39
Total O&M costs	$49.28	$55.08	$9.61

Source: HDR 2017a.

11.2.2 Operations and Maintenance Funding

Proposed revenues for the Project's incremental O&M costs include fare revenues, RDA operating assistance, and other NICTD operating funds. These sources are briefly summarized below.

11.2.2.1 Fare Revenues

Transit ridership for the Project was estimated using FTA's modeling software known as STOPS. The software applies a set of travel models to predict detailed travel patterns on fixed guideway systems. STOPS was specifically developed to support agencies pursuing FTA Section 5309 CIG funds.

STOPS model results indicate the Project has the potential to draw close to 1.4 million riders a year in calendar year (CY) 2022 and approximately 1.8 million riders by 2037. Fare revenue estimates reflect an assumption that the SSL's existing distance-based fare structure would be implemented on the Project. While the final fare level decision is still under evaluation, for the purposes of the financial plan, it was assumed the Hammond Gateway Station would have the same fare structure as the existing Hammond Station (Zone 4). The Munster/Dyer Main Street, Munster Ridge Road, and South Hammond Stations would have the same fare structures as the existing Gary stations (Zone 5). Based on the STOPS forecast, fare revenue in the first full year of operations (CY 2023) is projected to be $6.5 million, which is equivalent to a farebox recovery ratio of approximately 60 percent.

11.2.2.2 Northwest Indiana Regional Development Authority Operating Assistance

Pursuant to IC 6-3.1-20-7, the State of Indiana created a mechanism that is estimated to provide RDA with $4 million per year to be used to partially fund Project operations. In August 2016, the RDA Board approved providing operating support to the Project. The RDA Board has established an escrow account to hold the funds until the Project opens to revenue service. The accumulated escrow balance would then be used to support Project operations.

11.2.2.3 Other Northern Indiana Commuter Transportation District Operating Funds

NICTD's existing system-wide revenues, summarized below, may also be used to address the Project's incremental operating expenses.

Section 5307 Urbanized Area Formula Funds

Section 5307 formula funds can be used for capital costs or preventive maintenance costs. Eligible activities include planning, engineering, design, and evaluation of transit projects and other technical transportation-related studies; capital investments in bus and bus-related activities such as replacement, overhaul, and rebuilding of buses, crime prevention and security equipment, and construction of maintenance and passenger facilities; and capital investments in new and existing fixed guideway systems including rolling stock, overhaul and rebuilding of vehicles, track, signals, communications, and computer hardware and software. In addition, associated transit improvements and certain expenses associated with mobility management programs are eligible under the program. All preventive maintenance and some Americans with Disabilities Act complementary paratransit service costs are considered capital costs.

Commuter Rail Service Fund

The Commuter Rail Service Fund (CRSF) is a special fund created by the Indiana General Assembly. NICTD is the only transit provider in the state that is legislatively eligible to receive these funds. The Indiana Department of Revenue (IC Section 6-1.1-8-35) is responsible for collecting the two revenue streams described below that fund the CRSF. Annual distribution of CRSF revenues to NICTD requires the approval of the Governor, which has been received for all CRSF distributions to-date.

- **Sales and Use Tax**: Revenues from 0.123 percent of the 7 percent state sales and use tax (IC 6-2.5) must be used to support maintenance, improvement, and operation of commuter rail service.
- **Indefinite-Situs Distributable Property of Railroad Car Companies**: A state tax on all personal property owned or used by railroad car companies. Funds must be used to (1) satisfy any annual debt service and required debt service reserves; and (2) if funds remain, to provide state matching funds for federal transportation capital grants.

Electric Rail Service Fund

The Electric Rail Service Fund (ERSF) is a special fund created by the Indiana General Assembly and administered by the Indiana Department of Transportation. The ERSF consists of revenue collected by the Indiana Department of Revenue from a tax on distributable property owned or used by railroad companies that provide service within a commuter transportation district established under IC 8-5-15 and use electricity to power substantially all of their railroad passenger cars. The CSS (Freight) is the only entity currently subject to the tax. ERSF funds are appropriated annually to NICTD, and vary based on the assessed value of the distributable property. As an example, ERSF revenue increased by 85 percent in 2015 due to a significant increase in the assessed value of distributable properties.

Public Mass Transportation Fund

The Public Mass Transportation Fund (PMTF) was created by the Indiana General Assembly in 1981 to promote and develop transportation in Indiana. The PMTF receives its funding through a biennial appropriation by the Indiana General Assembly. Legislation for the PMTF indicates funds would be allocated based on a formula basis.

Other Miscellaneous Funds

Other miscellaneous operating revenues summarized below may also be used to address the incremental O&M costs of the Project:

- The CSS ROI fee represents a return to NICTD on the value of the NICTD facilities used by CSS. There is a minimum base fee of $1.25 million per year assuming the CSS handles at least 40,000 loaded cars per year.
- NICTD and Metra entered into to a Purchase of Service Agreement (PSA) in 2012, which requires Metra to reimburse NICTD $3.7 million annually for the provision of passenger service along a certain section of the former SSL line.
- NICTD collects about $35,000 per year in parking lot revenue.