Options for Financing Public Transportation in the United States

Financing Options

- Capital Leasing
- Revenue Bonds
  - Fare Box Revenue Bonds
  - Grant Anticipation Notes
- Debt Service Reserve
- Public Private Partnerships
- TIFIA
- State Infrastructure Banks

Capital Leasing

- Codified by TEA-21: 49 U.S.C 5301 (a)(1)(F).
- Vendor or financial institution leases a capital asset to a transit agency in lieu of selling it to them.
- Grantee makes lease payments from a combination of Federal (up to 80%) and local funds.
- All Federal funding for capital investment can be used to lease rather than purchase transit equipment.
- Capital leases can include:
  - Maintenance Costs (1996)
  - Finance charges, including interest
  - Ancillary costs, i.e., delivery and installation
- Use cost-benefit analysis to make lease vs. buy decision (must be cheaper to lease versus purchase the asset).

Benefits of Capital Leasing

Imbalance of revenues and project requirements

- Improve cash flow; enables transaction to occur over longer time horizon
- Improved capital asset management flexibility
  - Accelerate fleet replacement or rehabilitation
  - Expand or contract vehicle inventory as needed
  - May cancel lease if necessary
- Transfers risks to an external entity
- Depreciation tax deductions may be available
- Reduced Costs
  - Operating and maintenance costs
  - Capital acquisition costs (based on financial analysis)

Risks of Capital Leasing

- Uncertain future appropriations required to make lease payments
- Contractual lease payments limit future funding available from FTA grants for the duration of the lease period
- Grantee may need to pay a “bargain purchase option” at the end of lease term to acquire title to the asset
- Future tax code changes are uncertain, which may impact the leasing industry

Capital Leasing Examples

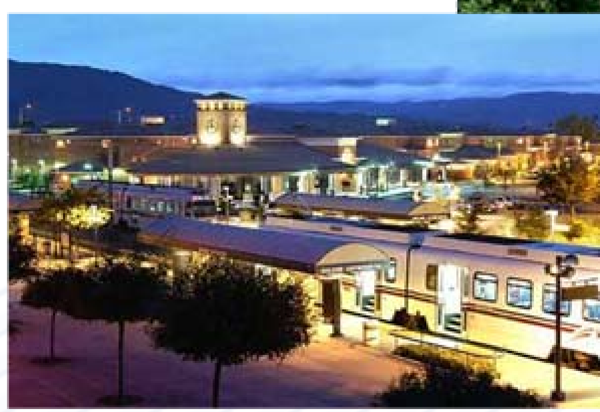
- Arkansas Lease Fund (1996)
  - Provide rural and specialized vans for accessible transit services
  - State DOT pools purchases and provides interest-free leases to operators
  - Funding
    - $270, 000 (FTA)
    - $330,000 (FHWA Vanpool Funds)
    - $150,000 (Local funds)
- Suburban Mobility Authority for Regional Transportation (SMART), Michigan (2000)
  - Replaced heavy-duty bus fleet in a 3-year fleet rotation period.
  - 10 years to pay for buses (fare box revenues, Federal and State grants)
  - Interest costs were less than maintenance costs

Revenue Bonds

- May be issued by State or local government & secured by repayment from transit agency
- Secured by a single or combination of revenue sources:
  - Motor vehicle registrations
  - Sales taxes
  - Property taxes
  - Fare box revenues (TEA-21)
    - Level of transit State and local funds 3 years subsequent to bond must exceed the level 3 years preceding the bond
    - Use of fare for bonds must be offset by revenue source for operating expenses
  - Anticipated grant receipts (TEA-21)
- Major issuers of revenue bonds:
  - BART, San Francisco, RTA, Chicago, MARTA, Atlanta, MTA, Los Angeles, MTA, New York, Port Authority, NJ-NY

Grant Anticipation Notes (GANs)

- Type of revenue bond
- Enabled by TEA-21
- Principal and interest on GANs are eligible for repayment with FTA capital funding
- Proceeds from GANs may be used for part of the local match
- Over $3.2 billion in GANs have been issued
  - 3 to 15 year terms
  - $18 to $450 million (principal)



GAN Ratings/Level of Risk

- High quality credit rating ('A' and 'AA")
  - Secured by FTA formula & capital funds
  - Issuer may purchase bond insurance to improve rating
  - Secured by New Starts' full funding grant agreements (FFGA)
- Key Risks and Considerations
  - Appropriation and program reauthorization risk
  - Nature of Federal contractual funding commitment
  - Cost to issue and rate the debt (fees, interest rate)
  - Level of need/support for assets to be financed
  - Issuer's project/program management track record
  - Structural features to mitigate Federal funding variability
  - Ability of transit agency to maintain financial flexibility

Source: Fitch Rating Service

GAN Examples

- Alaska Railroad (2006)
  - $78.4 million
  - Purchase rail assets including rolling
  - Secured by FTA formula & capital funds
- Chicago Transit Authority (CTA), 2004
  - $250 million
  - Purchase rail rolling stock
  - Secured by FTA formula funds
- Others
  - Boston MBTA , 2004, $77.8 million, CNG buses
  - Chicago Ravenswood Line, 2003, $128 million, FFGA
  - BART, Airport extension, 2001, $385 million, FFGA
  - NJT Hudson-Bergen LRT, 2000, $248 million

Debt Service Reserve (DSR) and Pilot Program

49 U.S.C. 5302 (a)(1)(K) and 49 U.S.C. 5323 (e)(3)-(4)

- SAFETEA-LU authorized transit agencies to be reimbursed for up to 80 percent of deposits in a debt service reserve established for the purpose of financing transit capital projects from FTA formula and capital funds (5307, 5309)
- Reserves support timely payments to bond holders
- Will reduce grantees' out-of-pocket DSR issuance costs
- Creation of DSR and reimbursement process
  - Agency first issues bonds pledging local revenue
  - Agency funds DSR with proceeds from the bond
  - Agency applies for Federal reimbursement
- No transit agency has applied for DSR reimbursement; and
- No issuer has applied to the DSR pilot program (limited to ten participants)

Private Activity Bonds (PABs)

- Amends Section 142 of IRS Code
  - Municipal tax-exempt securities
  - Levels set by State
  - May be issued by a private entity for a public purpose including intermodal freight terminals
  - State "caps" are set by the IRS on a population basis
  - Eligible projects must be under Title 23
    - Commuter rail
- SAFETEA-LU
  - Supplemented State caps with a total of $15 billion
  - No known transit projects to date

Public-Private Partnership

- Arrangement between public and private sectors to acquire, build or maintain a public project
- Transit PPPs may take multiple forms
  - Procurement: Fixed price contract; joint and several liability consortium ("wrap insurance")
    - (i) shift risk from project sponsor to private sector, and
    - (ii) reduce overall risk in procurement
- Operation: Operation and maintenance contracts awarded on the basis of subsidy minimization
- Design Build Operate and Maintain (DBOM): Fixed price for the procurement and operation of a transit asset and may include financing

Public-Private Partnerships

- Design Build Operate and Maintain
  - Las Vegas Monorail
    - Tax exempt bonds, public funds ($600 million)
  - Hudson Bergen Light Rail Tunnel
    - Publicly owned, GANs ($844.9 million)
- Private Developer
  - Bart Airport Extension
    - Public grants, local tax dollars, GANs ($385 million)

Transportation Infrastructure Finance and Innovation Act (TIFIA)

- Created by TEA-21/Reauthorized by SAFETEA-LU
- Administered by USDOT
- Includes three credit products
  - Secured (direct) loan
  - Loan guarantees
  - Line of credit
- SAFETEA-LU Project Cost Eligibility Criteria
  - Minimum project cost: $50 million (reduced from $100 million)
  - Minimum ITS project cost: $15 million (from $30 million)
  - Federal funding cannot exceed 33% of eligible costs
- Transit Projects
  - Washington Metropolitan Area Transit Authority (WMATA) Infrastructure Renewal Program ($600 million guarantee)
  - TREN Urbano, Rail Transit (retired - $300 million)
  - Staten Island Ferry (retired - $179 million)

State Infrastructure Banks (SIBs)

- TEA-21 /SAFETEA-LU program
- Program initiated and administered by each State
- Capitalized with Federal and State matching funds
- Below market interest rates
- Capable of offering a wide variety of credit and credit enhancement products including:
  - Direct loans
  - Loan guarantees
  - Bond issues
- Enhances opportunities for private investment
- Assists project acceleration
- 21 Transit SIBs; Eight States have executed at least 1 transit loan

Recap

- A wide variety of traditional financing mechanisms exist for transit agencies to increase their access to funds.
- These traditional financing mechanisms have been supplemented by Federally-supported financing mechanisms
- Federal-supported financing mechanisms help transit
  - Leverage other funding sources
  - Reduce principal and interest costs
- Federally-supported financing mechanisms help reduce the risk to private investors of lending for transit
- The next authorization will be an opportunity to expand or enhance these financing mechanisms

For More Information

- Go to FTA's website (http://fta.dot.gov)
  - click on "Grants and Financing"
  - Select "Transit Finance"
- Contact any FTA Regional office or the FTA Office of Budget and Policy at (202) 366-4050