



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

