

Financing Options for Public Transportation

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Robena Reid
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Transit and Economic Development



- Job creation and workforce participation
 - ▣ Project construction
 - ▣ System operation and maintenance
 - ▣ Transportation to jobs
- Diversified mobility options
 - ▣ Traffic congestion mitigation
 - ▣ Crisis response capability
- Environmental benefits
 - Air quality management and conformity
 - Efficient land and energy use
 - Livable communities and increased real estate values
 - Improve travel safety

Existing Federal Financing Options

- Grants
- Capital Leasing
- Credit Market Support
 - ▣ Bonds
 - Dedicated revenues (e.g. fare box, sales tax)
 - Grant Anticipation Notes (within authorization period)
 - Build America Bonds
 - ▣ Debt Service Reserve Program
- Public Private Partnerships
- TIFIA Lending Program
- State Infrastructure Banks
- Maritime Administration Title XI Loan Guarantees
- Federal Railroad Administration RRIF program

Grants



- Largest segment of Federal financial assistance
- Determined by various mobility goals
- Formula grants: urban, rural, disadvantaged areas
- Competitive grants: specific policy goals
 - ▣ Environmental compliance, national parks
- Stimulus grants: preserve jobs and energy
 - ▣ TIGGER grants/ TIGER grants
- Flexible funding grants: permit transit programs to access to other Federal funds
 - ▣ Congestion Mitigation and Air Quality
 - ▣ Surface Transportation Program funds

Capital Leasing

- Codified by TEA-21.
- Vendor or financial institution leases a capital asset to a transit agency in lieu of direct sale
- 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
- Grantee uses cost-benefit analysis to decide best financing strategy (lease vs. buy decision)
- Fewer capital leasing arrangements in periods of low interest rates.

Benefits of Capital Leasing



Imbalance of revenues and project requirements

- Improve agency cash flow management
 - ▣ Match revenues to outlays via lease term
 - ▣ Conserve cash via down payment
- Improve capital asset management
 - ▣ Accelerate fleet replacement
 - ▣ Accelerate capital rehabilitation & fleet expansion
 - ▣ Increase vehicle replacement flexibility: trade in for better technology
 - ▣ May cancel lease if necessary
- Reduce Costs
 - ▣ Operating and maintenance costs
 - ▣ Capital acquisition costs

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

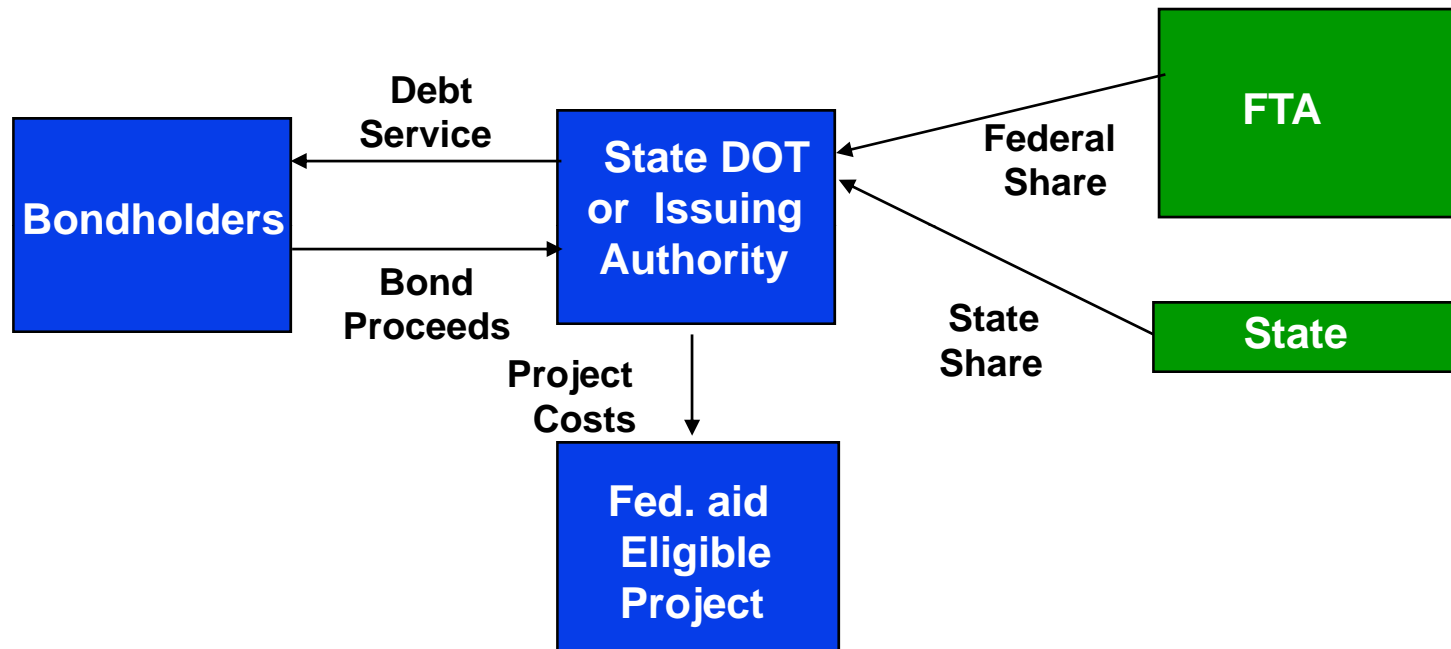
Dedicated Revenue Bonds

- Issued by State or local government
- Secured by repayment from transit agency
- Repaid with single or multiple revenue sources:
 - ▣ Motor vehicle registrations
 - ▣ Sales taxes
 - ▣ Property taxes
 - ▣ Fare box revenues (TEA-21)
 - ▣ Anticipated grant receipts (TEA-21)
- Major issuers of revenue bonds:
 - ▣ BART, San Francisco
 - ▣ RTA, Chicago
 - ▣ MTA, Los Angeles
 - ▣ MTA, New York
 - ▣ Port Authority, NJ-NY

Grant Anticipation Notes

- ❑ Secured by anticipated Federal grant receipts
- ❑ Enabled by TEA-21
- ❑ Principal and interest on GANs are eligible repayment with FTA capital funding
- ❑ Similar to FHWA GARVEE Bonds
- ❑ GAN proceeds can fund part of the local match
- ❑ Reauthorization risk may impact credit ratings
- ❑ Since 1997, over \$3.2 billion in GANs have been issued
 - ❑ 3 to 15 year terms
 - ❑ \$18 to \$450 million (principal)

GANs: Flow of Funds



Build America Bonds (BABs)

- Authorized under American Recovery and Reinvestment Act of 2009 (P.L. 111-5)
- Economic stimulus involving Federal subsidy to municipal debt in response to financial market crisis
- Limited program time frame (December 31, 2010)
- Unlimited amount of debt issuance
- Three types of issues:
 - ▣ Direct subsidy payment : issuer receives 35% of coupon interest payment from federal government in lieu of tax exempt interest
 - ▣ Tax credit BAB: 35% of the coupon interest to bondholder as a tax credit
 - ▣ Recovery zone BAB: distressed areas only, \$10 billion cap and 45% subsidy rate

Build America Bonds

- IRS regulations issued in April, 2009 (Notice 2009-26)
- Encourages greater investment in infrastructure
- Yields closely track the AA 9-11 yr. general obligation
- BAB Issuance Status, October, 2010:
 - ▣ \$150 (+) billion total
 - ▣ \$16.5 (+) billion transportation related
 - ▣ Public Transportation examples:
 - Central Puget Sound Transportation Authority (\$300 mil)
 - Massachusetts Bay Transportation Authority (\$258 mil.)
 - Washington Metropolitan Area Transit Authority (\$55 mil)

Debt Service Reserve Fund Program

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

- SAFETEA-LU (P.L. 109-59) authorized transit agencies to be reimbursed for up to 80 percent of deposits in a debt service reserve
- financing for 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 (bond insurance premium)
- 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 issuer has applied to the DSR pilot program

Public Private Partnerships



Concept of Risk Transfer and Sharing

- Concession Agreements
 - ▣ Revenue generating contracts (e.g., ROW or advertising)
 - ▣ Joint development
- Public Private Partnership Pilot Program
 - ▣ Denver RTD Eagle Project
 - ▣ Houston Metro (North and Southeast)
 - ▣ Oakland Airport Connector
- Procurement techniques
 - ▣ Design-Build v. Design Bid Build
 - ▣ Availability Payments (minimum subsidy)

State Infrastructure Banks

- State controlled revolving loan fund
- Capitalized with Federal and State matching funds
- Governed by mutually signed cooperative agreement
- SIB Products:
 - Transportation project financial assistance
 - ▣ Direct loans (most common assistance type)
 - ▣ Credit enhancement products
 - Loan Guarantees
 - Bond insurance
 - Letters of Credit
 - All or partial project financing

State Infrastructure Bank (SIB) Pilot Program History

- **National Highway System Designation Act (1995)**
 - Capitalization: 10% of ISTEA apportionments (FY 96-97)
 - Federal requirements: Apply to first round of assistance
 - 39 SIBs approved
- **TEA-21 (1998)**
 - Capitalization: Unlimited % of apportionments
 - Federal requirements: Apply to all Federal money
 - Eligible States: CA, RI, MO, FL, TX
- **SAFETEA-LU (2005)**
 - Capitalization: Up to 10% of eligible apportionments (except FRA)
 - Federal requirements: Apply to all Federal money
 - Maximum 30 year repayment period
 - Program open to all 50 States and territories
 - Regional banks may be formed

Creating and Operating a SIB



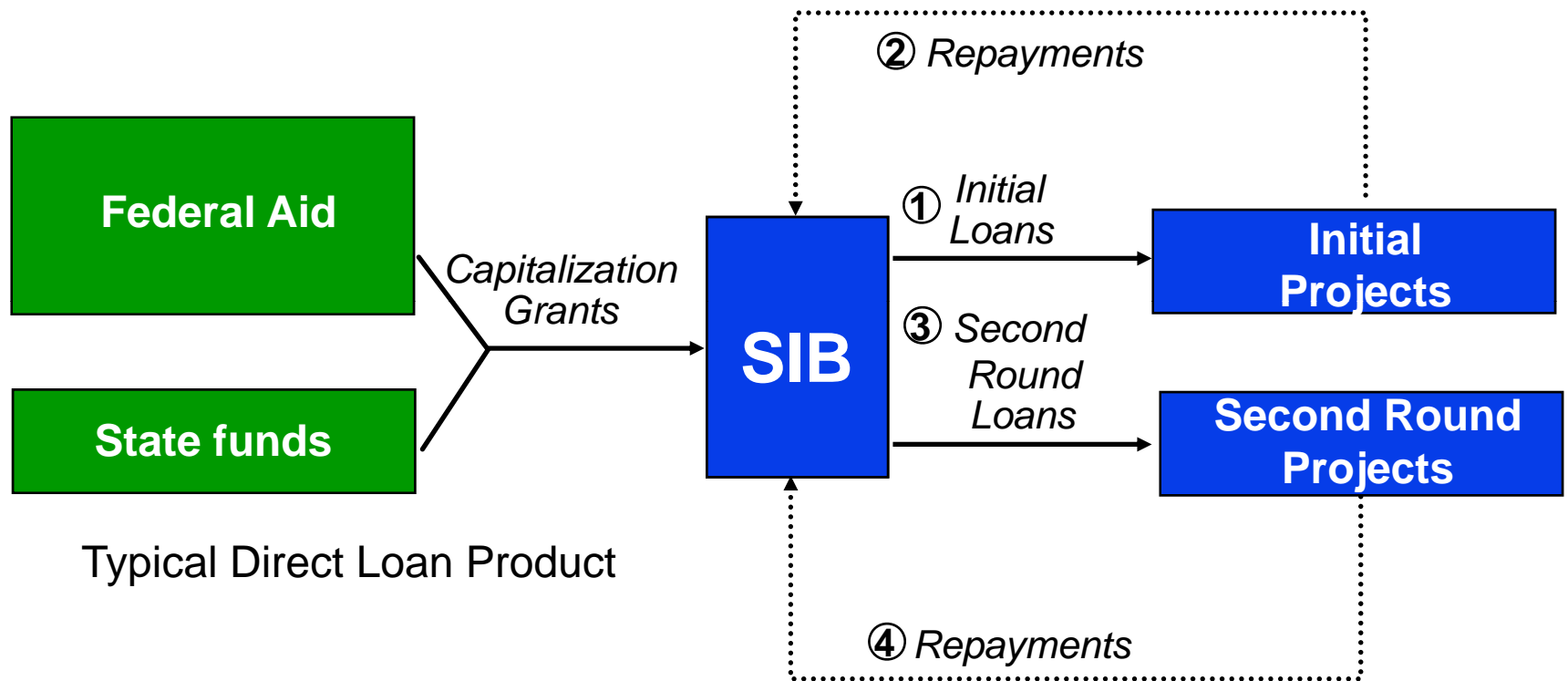
Program Commencement:

- State enabling legislation may be necessary
- Signed cooperative agreement with each Federal agency
- Program can be tailored to State needs

SIB Operations:

- Similar to commercial bank
- Marketing and outreach activities
- Lending priorities and procedures
- Accounting and loan monitoring activities
- Other issues
 - ▣ Fund management
 - ▣ Interest rate policy

SIB Flow of Funds



Federal Credit Requirements



- Below market interest rates
- 35 year maximum repayment period
 - ▣ 30 year for SAFETEA-LU
- Investment grade rating on SIB debt, or sufficient bond insurance
- Investment income is credited to the bank
- Loan repayment must commence not later than 5 years after project completion

SIB Accomplishments



- Lending activity:
 - ▣ Transit: \$94.5 million; 8 SIBs
 - ▣ Total as of December 30, 2008:
 - 609 loan agreements
 - More than 6 billion dollars in loan agreements
 - 33 States; one territory

- Reduced project financing costs:
 - ▣ Provided below market interest rates for projects

- Accelerated project delivery:
 - ▣ Funded project match requirements for transit projects

- Partnered with other DOT programs:
 - ▣ TIFIA: Cooper River Bridge

Transportation Infrastructure Finance and Innovation Act of 1998

- ✓ Goal: to leverage limited Federal resources and stimulate private investment by providing credit assistance rather than grants to transportation projects of national or regional significance.
- ✓ Project cost > \$50 million (\$15 million for ITS projects)
- ✓ TIFIA contribution up to 33 percent of project costs
- ✓ Senior debt must be rated investment grade
- ✓ Federal grant requirements apply (e.g., must comply with NEPA, Civil Rights, Uniform Relocation, Titles 23/49)
- ✓ Public or private highway, transit, rail and port projects are eligible to apply for TIFIA assistance

TIFIA Credit Facilities

- u **Secured (Direct) Loans** – Maximum term of 35 years from substantial completion. Repayments must start 5 years after substantial completion.
- u **Lines of Credit:** Available up to 10 years after “substantial completion of project.”
- u **Loan Guarantees:** Negotiated between project sponsor and non-Federal institutional lender and guaranteed by Federal government. Loan repayments to lender must commence no later than 5 years after substantial completion of project.

How Does TIFIA Help Projects?

By enabling “borderline” projects access to the capital markets through the provision of secondary or subordinate debt.

By being a patient investor – with a long-term perspective on investment horizon, liquidity and risk.

Key objectives:

- ✓ Facilitate projects of national/regional significance
- ✓ Encourage new revenue streams and private participation
- ✓ Fill capital market gaps for secondary/subordinate capital
- ✓ Limit Federal exposure by relying on market discipline

TIFIA's Flexible Credit Terms



TIFIA is designed to provide loan structuring advantages to its borrowers:

- Long term, fixed cost, permanent, up-front financing
- Senior or Subordinate Lien
- Flexible amortization
- No pre-payment penalty
- Borrow as needed
- Construction period repayment flexibility
- Non-recourse financing—project cash flow supported

Program Fees



- ✓ Non-refundable application fee of \$50,000.
- ✓ Credit transaction fee equal to a portion of the costs incurred by the TIFIA JPO in negotiating the credit agreement. This fee typically ranges from \$200,000 to \$400,000.
- ✓ Annual \$11,500+ servicing fee, adjusted for inflation.
- ✓ As-needed monitoring fee based on requirements specified in particular credit agreement.

TIFIA and Private Sector Borrowers

TIFIA authority to deal directly with private borrowers always part of program design:

- In 2003, \$140 million subordinate loan to Macquarie for **South Bay Expressway**, in conjunction with senior loans from banking consortium and equity from private developer.
- In 2007, \$150 million subordinate loan to refinance a portion of Transurban's acquisition debt for the **Pocahontas Parkway** in order to construct the **Richmond Airport Connector**.
- In 2007, \$589 million subordinate loan to Transurban and Flour for **Capital Beltway HOT Lanes**.

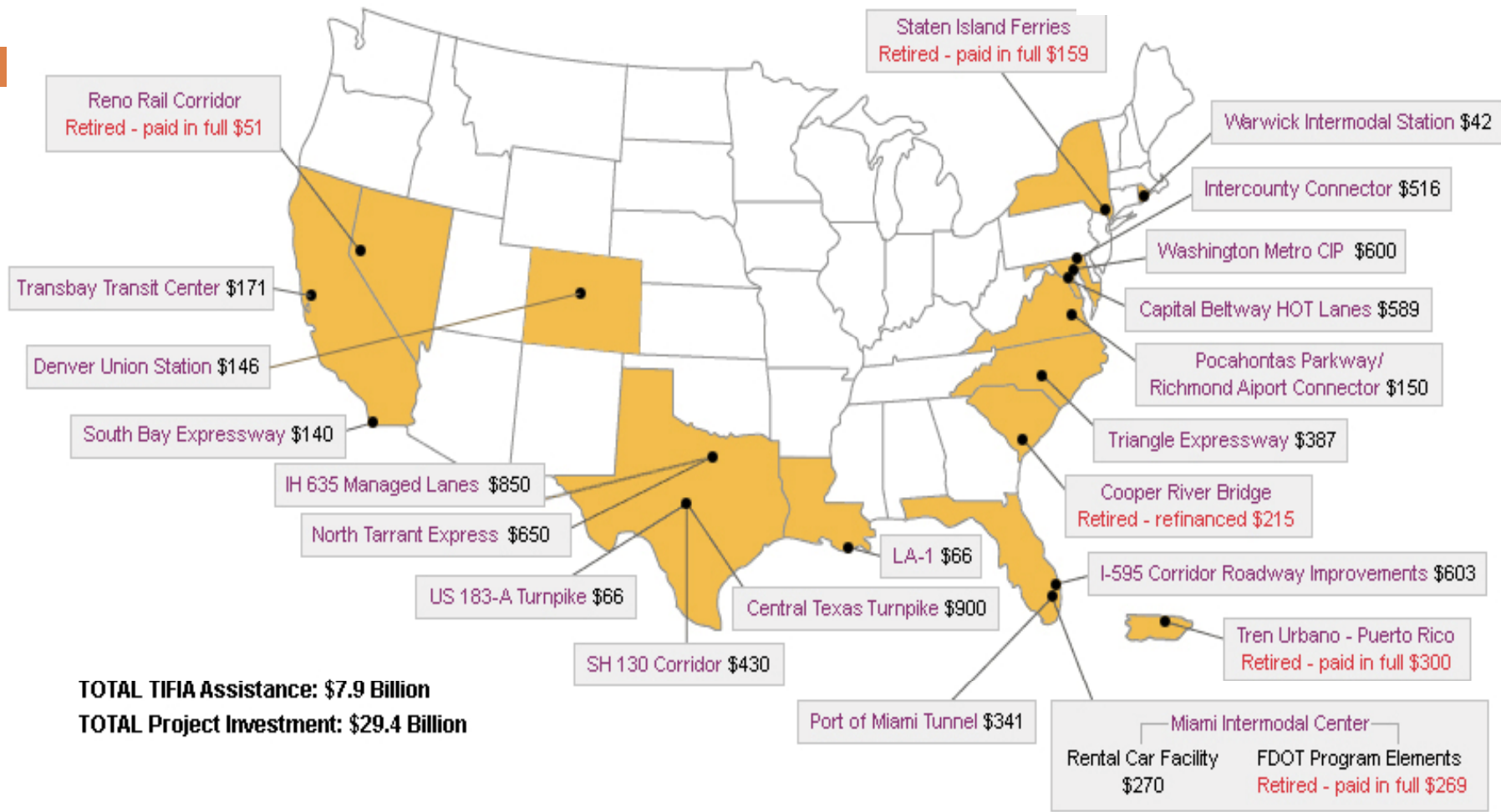
TIFIA Accomplishments



- Highway, Transit and Intermodal projects (23)
- More than \$8 billion in credit assistance
- Repaid (retired) Credit Agreements: (6)
- Diverse repayment sources including real estate taxes, user fees, and sales taxes

TIFIA currently has more applicants than available lending capacity

TIFIA Portfolio



TIFIA and public transportation



- Transbay Terminal, San Francisco, California
 - Tax increment financing on real estate parcels
 - Environmentally innovative terminal design
 - Transit oriented development
 - Replaces outdated bus terminal
 - Direct loan of \$171 million closed January 25, 2010

Transbay Terminal, San Francisco, CA



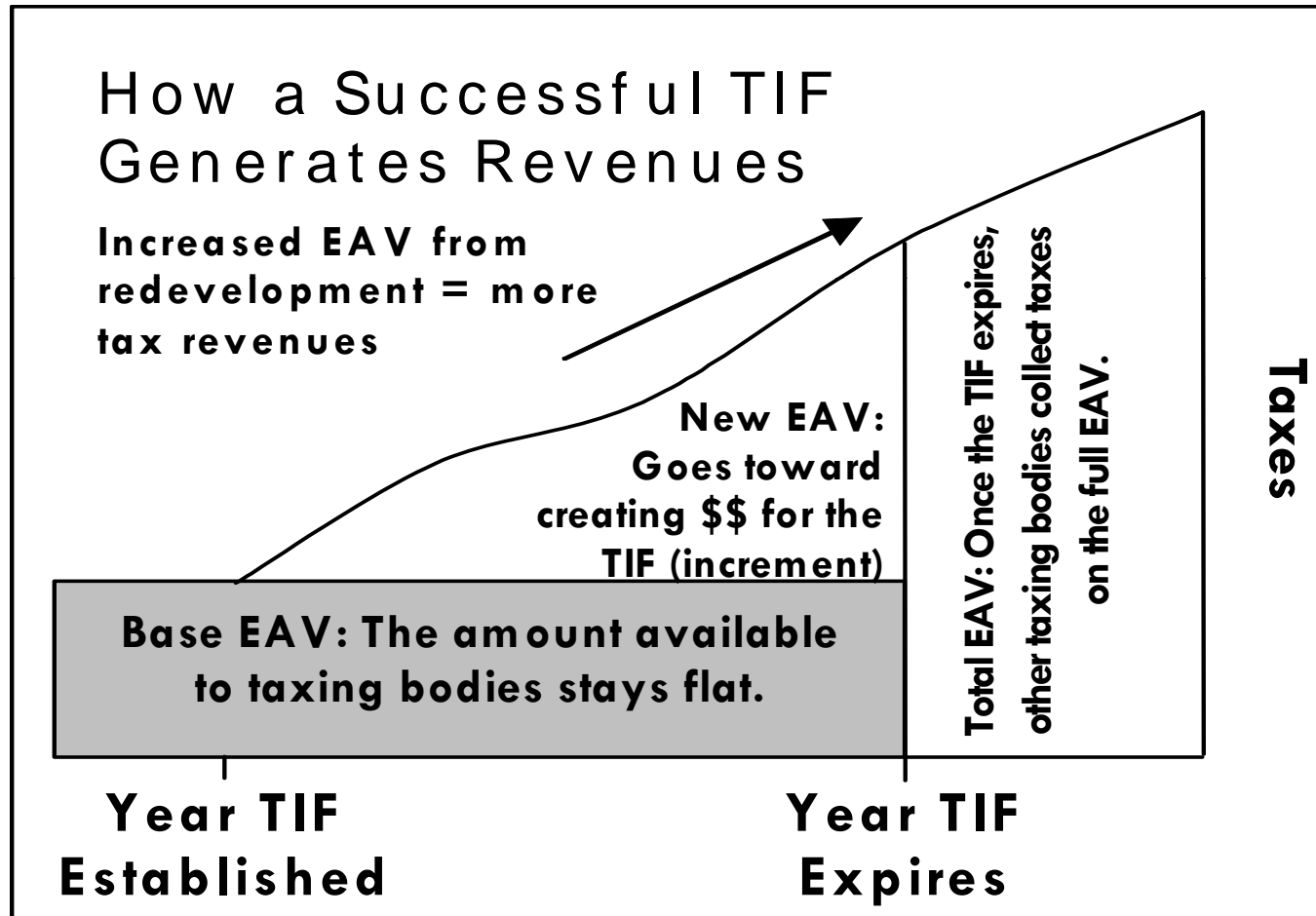
What is Tax Increment Financing?

- A financing mechanism that allows future increases in taxes to pay for development projects through
 - ▣ Increases in designated TIF District property valuations
 - ▣ Additional tax revenues generated by the project

- Revenues are earmarked to pay for project costs
 - ▣ Additional tax revenues do not pay for additional services

- Popular financing method designed to:
 - ▣ Reduce urban blight by stimulating development
 - ▣ Reduce voter aversion to tax increases
 - ▣ Address dwindling federal grants

Fundamentals of TIF Revenues



Mechanics of TIF District Revenues

1. A TIF District is created with specific boundaries
2. A time period for the TIF District is established
3. Plans for specific improvements are developed
4. Public service expenditures within the boundaries are “frozen” once the TIF District is established
5. Improvement projects occur in the District and attract private development
6. Property values in the District increase
7. Property taxes rise due to the increase in valuations
8. The additional taxes help pay for the project costs
9. Once the TIF designation expires, all of the increased tax revenues are available to the community for other public purposes

Advantages of TIF



- ❑ Increases in property valuations pay for the development (versus new or additional taxes)
- ❑ No voter approval is required for a TIF District or to issue bonds, reducing delays in project delivery
- ❑ TIF Districts permit more project flexibility
- ❑ Communities have local control
- ❑ TIF bonds are not counted against the municipality's general obligation debt ceiling or constitutional debt limits, and may obtain bond insurance
- ❑ The technique may be used in combination with other lending programs or economic development instruments, such as Transit Oriented Development

Challenges of TIF projects



- Incremental tax revenues do not materialize
 - ▣ Property may be acquired by a tax exempt entity
 - ▣ District encounters unanticipated legal expenses
 - ▣ Project delivery delays occur
 - ▣ Changes in the tax code are enacted
- Citizens displaced by rising property valuations may oppose the project
- A regional project (e.g., a rail line) may benefit users that do not pay TIF based taxes
- Redistribution of economic development may result in an overall decline in city wide tax revenues
- Reliance on public services outside of TIF District
 - ▣ Fire or police protection, sewer or water services may be needed by the TIF district

TIF and other financing considerations



- ❑ TIF funds may be pledged to repay State Infrastructure Bank (SIB) or USDOT TIFIA loans
- ❑ TIF projects may fulfill obligations under revised Community Reinvestment Act provisions, thereby attracting private banking interest
- ❑ Bonds may be issued against future TIF revenues to enhance financing options
- ❑ TIF Districts often fund small scale projects due to the risks of collecting future TIF tax revenues
- ❑ Many transportation projects require sizable investments, necessitating other financial resources, such as a direct loan in addition to TIF revenue

Federal Railroad Administration

Railroad Rehabilitation and Improvement Financing

- Established by TEA-21
- Offers direct loans and loan guarantees for 100% of project costs; up to 35 year repayment period
- Lending capacity of \$35 billion
- Projects may fund the following:
 - ▣ Acquisition, rehabilitation or improvements to intermodal rail equipment or facilities
 - ▣ Refinance of existing debt of rail projects
 - ▣ Develop or establish new intermodal or railroad facilities
 - ▣ Examples: upgrades of shared commuter track; purchase commuter rail cars
- www.fra.dot.gov/rrif

USDOT Maritime Administration

Federal Ship Financing Title XI Loan Guarantee Program

- Program provides loan guarantees to maritime vessels including ferry boats
- Federal guarantee of finance or refinance of US flagged vessel constructed in US shipyard
- Fees: Application, Investigation, Guarantee
- Benefits
 - ▣ Up to 87.5 percent financing
 - ▣ Longer term maturities - up to 25 years
 - ▣ Fixed or floating rates
 - ▣ Attractive interest rates
- http://www.marad.dot.gov/ships_shipping_landing_page/title_xi_home/title_xi_home.htm

Innovative Finance Resources



- **FTA web site:**
<http://www.fta.dot.gov>
- **TIFIA web site**
<http://www.fhwa.dot.gov/ipd/tifia>
- **FHWA web site**
<http://www.fhwa.dot.gov/ipd>
- **New Clearinghouse**
<http://www.transportation-finance.org>

TIFIA Contact Information

TIFIA Joint Program Office (HCFT-1)

U.S. Department of Transportation

Room E64-301

1200 New Jersey Avenue, SE

Washington, DC 20590

fax: (202) 366-7493

<http://www.fhwa.dot.gov/ipd/tifia>

Duane Callender, Director

(202) 366-9644

duane.callender@dot.gov

Cheryl Jones

(202) 366-0317

cheryl.jones@dot.gov

Jorianne Jernberg

(202) 366-0459

jorianne.jernberg@dot.gov

CONTACT INFORMATION:

Robena Reid

(202) 366-1973

Robena.Reid@dot.gov