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**
- **State Infrastructure Banks**
- **TIFIA Program**
- **Maritime Administration Title XI Loan Guarantees**
- **Federal Railroad Administration RRIF program**

Grants

- **Largest segment of Federal $ assistance**
- **Determined by various mobility goals**

Examples of Transit Grants

- **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 access to other Federal funds**
  - Congestion Mitigation and Air Quality
  - Surface Transportation Program funds

Capital Leasing

- **Codified by TEA-21.**
- **Financial institution leases a capital asset to a transit**
- **Lease in lieu of direct purchase/sale**
- **Lease payments from Federal (80%) and local funds.**
- **Can use all Federal funding for lease**
- **Capital leases can include**
  - Maintenance Costs (1996)
  - Finance charges, including interest
  - Ancillary costs, i.e., delivery and installation
- **Cost-benefit analysis to decide best financing strategy (lease vs. buy decision)**
- **Low interest rates=== Fewer capital leases**

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 for other projects**
- **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**

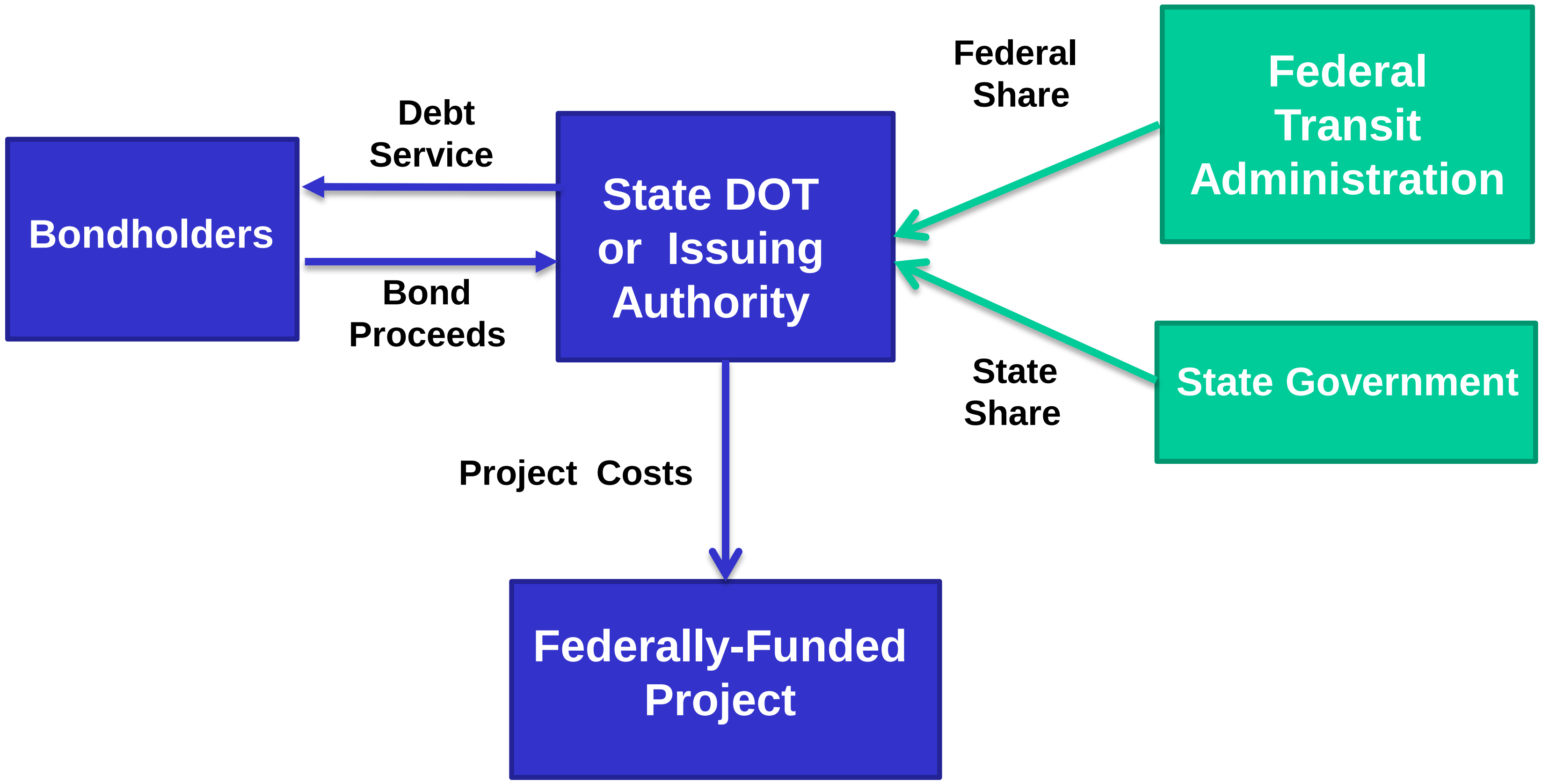
Dedicated Revenue Bonds

- **Issued by State or local government**
- **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

Grant Anticipation Notes

- **Secured by anticipated Federal grant receipts**
- **Enabled by TEA-21**
- **Principal and interest on GANs are eligible repayment s with FTA capital funding**
- **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**
- **BAB Issuance Accomplishments:**
  - $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)

- **Agencies may 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

Public-private partnerships (P3s) are contractual agreements formed between a public agency and a private sector entity that allow for greater private sector participation in the delivery and financing of transportation projects.

Public Private Partnerships

Concept of Risk Transfer and Sharing

May require approval of legislature

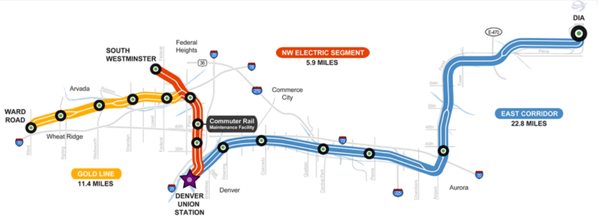
- **Concession Agreements**
  - Revenue generating contracts (e.g., ROW or advertising)
  - Joint development
- **FTA Public Private Partnership Pilot Program**
  - Denver RTD Eagle Project
  - Houston Metro (North and Southeast)
  - Oakland Airport Connector
- **Procurement techniques**
  - Design-Build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

P3 Pointers

- Periodically review need for public asset
- Consider what public and private party does best
- Perform due diligence and financial analysis
- Examine role of government and constituent desires
- Develop a checklist of P3 goals
- Involve all stakeholders
- Public and private should be pleased with proposal

West Virginia P3

Denver Eagle P3 Project



- This commuter rail project will be delivered and operated under a form of concession agreement selected through a competitive proposal process.
- The P3 will allow the transit agency (RTD) to partner with a private company or consortium to Design-Build-Operate-Maintain-Finance the East Corridor, Gold Line and commuter rail maintenance facility projects under a single contract.
- RTD will retain all assets while shifting much of the risk of providing the projects to the private partner or consortium.
- RTD would make lease payments to the private partner, allowing the agency to spread out large upfront costs over a longer period of time.

State Infrastructure Banks

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

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 a SIB

Program Commencement:

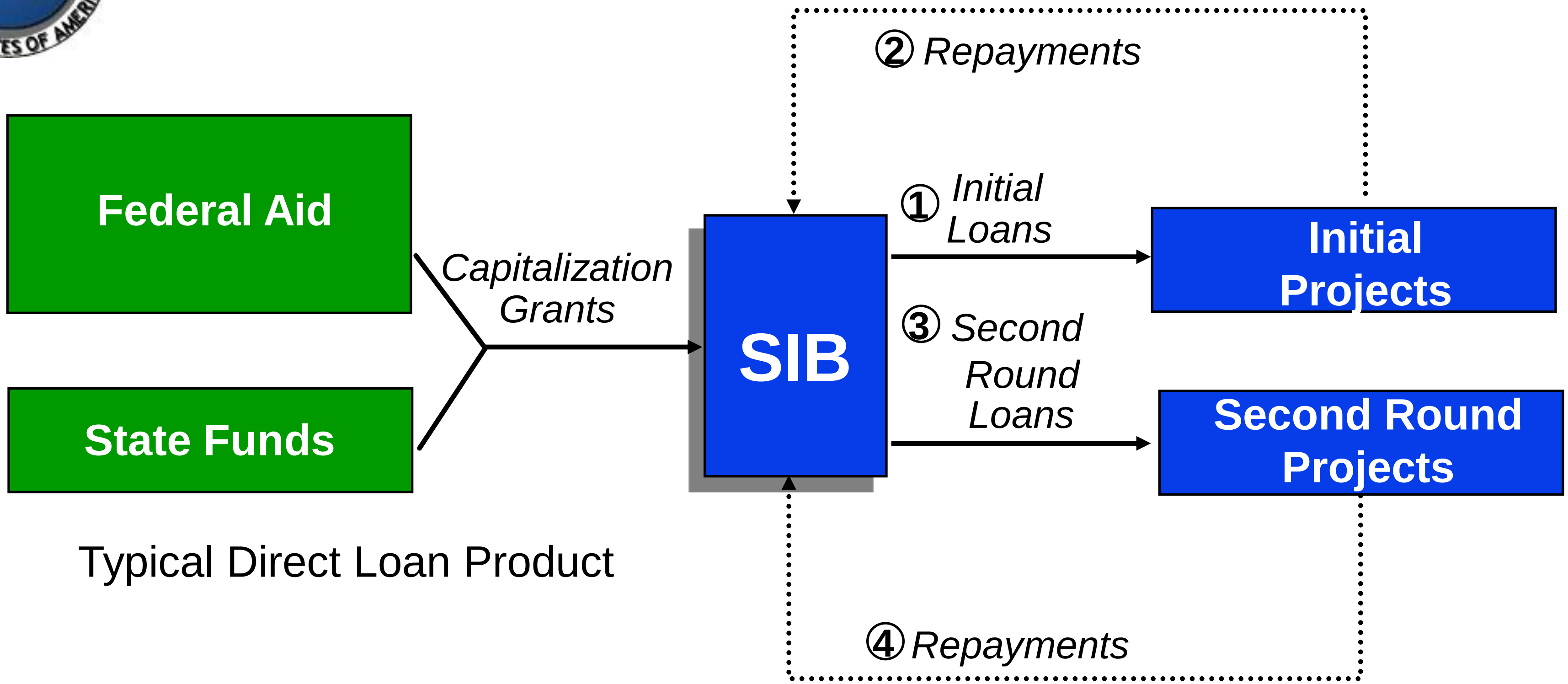
- **Obtain State enabling legislation**
- **Determine scope of activity**
- **Execute cooperative agreements**
- **Capitalize the bank**

SIB Operations

Similar to a commercial bank:

- **Marketing and outreach activities**
- **Application eligibility**
- **Lending priorities and procedures**
- **Accounting and loan monitoring activities**
- **Other issues**
  - Fund management
  - Interest rate policy
  - Management organization

SIB Flow of Funds

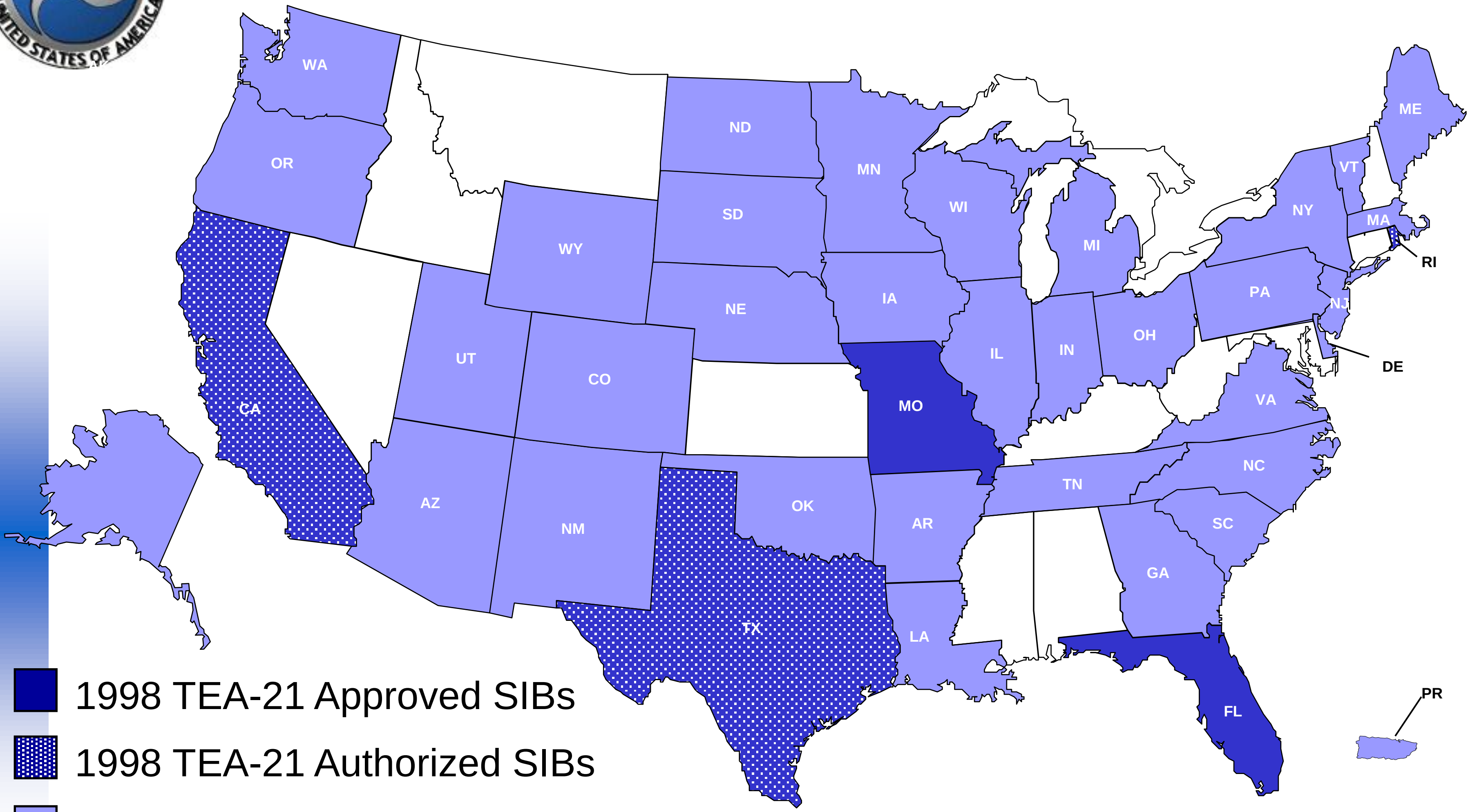


Typical Direct Loan Product

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**

State Infrastructure Banks: Pilot Program Participation



1998 TEA-21 Approved SIBs

1998 TEA-21 Authorized SIBs

1995 NHS SIBs

SIB Accomplishments

- **Lending activity:**
  - Transit: $94.5 million; 8 SIBs
  - Total as of December 30, 2010:
    - 712 loan agreements
    - More than 6.5 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

Proposed National Infrastructure Bank

- **National infrastructure lending focus**
- **May have ability to lend to SIBs**
- **Proposed in several different forms**
  - President's FY 2012 Budget Request to Congress
  - S. 652 proposed legislation
  - American Jobs Act

STAY TUNED!!

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

- **Secured (Direct) Loans –** Maximum term of 35 years from substantial completion. Repayments must start 5 years after substantial completion.
- **Lines of Credit:** Available up to 10 years after "substantial completion of project."
- **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.

TIFIA's Flexible Credit Terms

TIFIA Borrower Advantages:

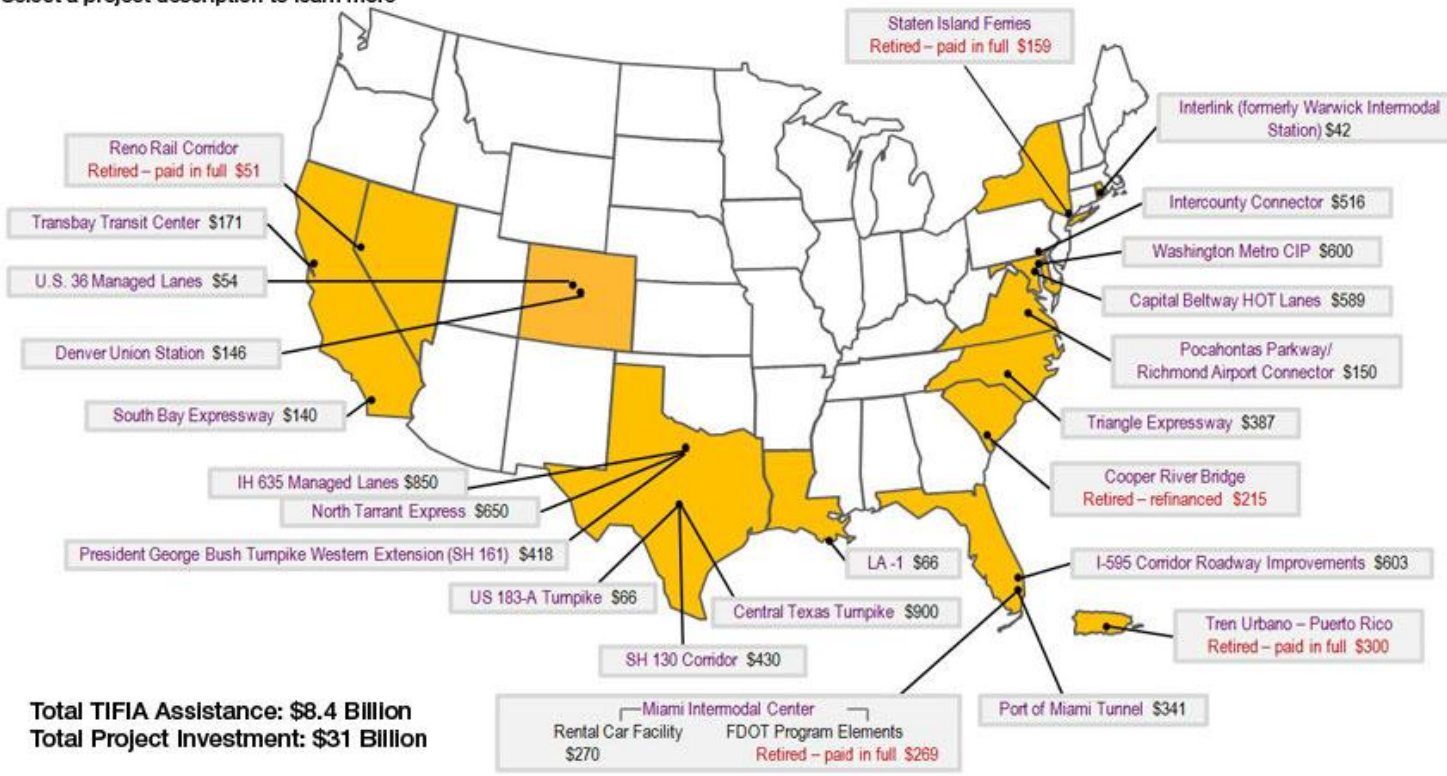
- Long term fixed cost financing
- Senior or Subordinate Lien
- Flexible amortization
- Competitive interest rates
- No pre-payment penalty
- Construction period repayment flexibility
- May accommodate indexed interest rates

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 Portfolio

Select a project description to learn more



Total TIFIA Assistance: $8.4 Billion
Total Project Investment: $31 Billion

TIFIA and Private Sector Borrowers

TIFIA private sector borrowers

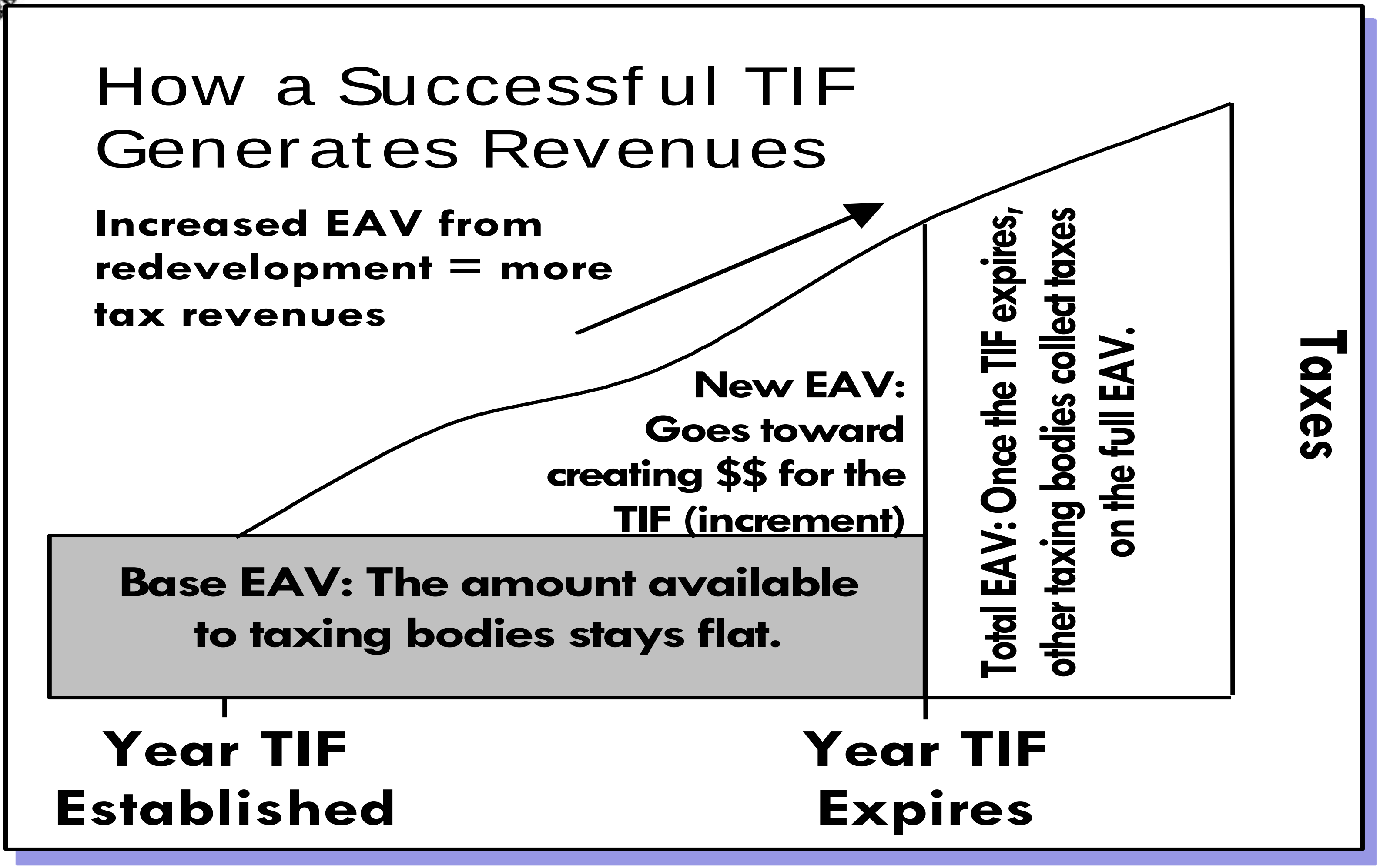
- In 2003, $140 million subordinate loan to Macquarie for **South Bay Expressway**, in conjunction with senior loans from banking consortium and equity from private developer.
- In 2007, $150 million subordinate loan to refinance a portion of Transurban's acquisition debt for the **Pocahontas Parkway**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

Transbay Terminal, San Francisco, CA

What is Tax Increment Financing?

- **Financing mechanism that uses <u>future</u> increases in taxes to pay for development**
- **New tax revenues pay for project costs NOT additional services**
- **Popular financing method designed to:**
  - Reduce urban blight
  - Reduce voter aversion to tax increases
  - Address dwindling federal grants

Fundamentals of TIF Revenues



Mechanics of TIF District Revenues

1. TIF District boundaries are established
2. A time period is adopted
3. Project plans and improvements are developed
4. Public service expenditures are “frozen”
5. Projects occur attracting private development
6. Property values in the District increase
7. Property taxes rise based on valuations
8. Additional taxes help pay for the project costs
9. The designation expires
10. Future tax revenues support other projects

Advantages of TIF

- **Property valuation increases pay for development (NO NEW 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 debt limits**

AND:

- **Can 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
- **Citizen displacement possible**
- **Rising property valuation opposition**
- **May benefit users *outside* TIF District**
- **Cannibalism: Overall decline in city tax revenues**
- **Public service reliance outside of TIF District**
  - Fire or police protection, sewer or water services may be needed by the TIF district

Federal Railroad Administration

Railroad Rehabilitation and Improvement Financing

- **Offers direct loans and loan guarantees**
- **100% of project costs eligible**
- **35 year repayment period available**
- **Lending capacity of $35 billion**
- **Projects may fund the following:**
  - Intermodal rail equipment or facilities
  - Refinance of existing debt of rail projects
  - Examples:
  - upgrades of shared commuter track; purchase commuter rail cars

- **http://www.fra.dot.gov/rrif**

USDOT Maritime Administration

Federal Ship Financing Title XI Loan Guarantee Program

- **Offers loan guarantees to maritime vessels**
- **Ferry boats eligible**
- **Federal guarantee of finance or refinance**
- **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 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

- AASHTO Clearinghouse:

  http://www.transportation-finance.org

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