Financing Tools for New Capacity Transit Projects

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Agenda

- Funding versus Financing
- Typical Financing Tools
- Innovative Financing Tools
  - Public-Private Partnerships
  - Value Capture
- Conclusion

Funding versus Financing

- **Funding** refers to the primary stream of revenue used to offset the costs of a project or to support leveraging options
- **Financing** refers the means by which the primary revenue streams are used to make funds available when needed
  - **Financing tools** help agencies to access additional funding in the near term, but require the payment of the borrowed amount, plus interest, at a later date

Typical Financing Tools

Tax Exempt Borrowing

- Traditional financing method
- Debt repaid by dedicated revenue source or a General Obligation (GO) pledge of taxing entity

Revenue Bonds

- Debt secured by a specific revenue stream (fares, rents, etc.)

Grant Anticipation Notes

- Debt secured by anticipated future federal grants

Lease Revenue Bonds

- Debt secured by revenues from equipment or facility leases

Typical Financing Tools (cont.)

TIFIA Loan or Credit Assistance

- Secured loans for up to 35-years with very flexible terms for up to 49% of capital project cost
- Credit enhancement through loan guarantees and lines of credit

SAFETEA-LU Private Activity Bonds (PABs)

- Tax-exempt debt issued by a state or agency to provide financing for a private entity (private entity benefits from lower interest rates)
- Require use of Title 23 or Title 49 federal assistance & private partner participation

FRA Railroad Rehabilitation & Improvement Financing (RRIF)

- Loans for up to 35-years with flexible terms for up to 100% of project cost
- Credit enhancement through loan guarantees

Typical Financing Tools (cont.)

State Infrastructure Banks (SIBs)

- Offer a range of loans and credit enhancement tools to public and private sponsors of Title 23 or Title 49 capital projects
- Currently federally capitalized SIBs exist in 33 states (10 SIBs are currently inactive)[1]
- Active state SIBs: SC, CA, FL, VA, KS, & GA
- Inhibited by:
  - High cost of federalizing for smaller scale local projects (lower rates not worth the additional costs)
  - Non-revenue generating projects need commitment from government entities to pay loan

[1] *Banking on Infrastructure: Enhancing State Revolving Funds for Transportation*, Puentes & Thompson, September 2012

Innovative Financing Tools

- Not quite debt, but similar:
  - Availability Payment Public-Private Partnership (P3)

- Revenue generating:
  - Value Capture

Availability Payment
Public-Private Partnership

- A P3 contract for transportation combines the design, construction, operation and partial or full financing of a project into one umbrella contract with a private partner
- The contract places additional risk on the private partner bringing value to the public agency and citizens
- Contract is generally from 30 to 50 years
- To date one completed transit P3 in US: Denver RTD Eagle P3

Availability Payment Public-Private Partnership (cont.)

- Availability payment (AP): performance payment based on the private partner meeting established performance requirements
- The public agency has the right to not pay or make deductions for poor performance
- The private partner uses these payments for operating expenses & to as repayment for its initial private investment
- Four states have completed AP P3s
    - FL considers the AP debt, CA does not
    - IN and CO consider the capital portion to be debt

Value Capture

- Value capture mechanisms are a type of public financing that captures increases in land value resulting from public investment in a transit project
- These captured values are then used to help fund the transit project itself (either capital or operating costs, or both)
- Value capture mechanisms can generally support from 10% to 50% of project costs

Value Capture

Tax Increment Financing (TIF)

- Debt financed by future increases in property taxes within a designated district
- Base year assessed value remains with the local government tax base
- TIFs often require revenue enhancement
- Tax increment is generated only when private sector builds new projects, which add assessed value to the tax rolls

Special Assessment Districts

- Geographical area in which property owners agree to pay an assessment to fund a project from which they'll directly benefit
- Assessments can be bonded against
- To form, property owners must agree to participate and have an annual assessment levied against their property

Value Capture (cont.)

Impact Fees

- Type of development exaction that requires real estate developers to contribute public facilities, infrastructure, and/or services.
- Used to defray costs of extending public services to the development and not for funding existing deficiencies
- Often collected once

Joint Development

- Real estate development project undertaken by a public agency and a private partner
- Transit agencies can obtain lease revenues through station space, land, or air rights
- Developers can share costs of construction and/or maintenance of stations or other facilities

Conclusion

- A number of financing options have been presented
- There is no “one size fits all” financing solution
- What worked on one project will likely not work equally as well for another
- The right financing solution successfully integrates the project’s environment with the sponsor’s goals, needs and capabilities

Thank You

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