

Trends in Transportation Finance

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TRENDS IN TRANSPORTATION FINANCE

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AGENDA

- I. Traditional Revenue Sources
- II. Transportation Outlook
- III. Alternative Sources of Funding
- IV. Questions



TRADITIONAL REVENUE SOURCES

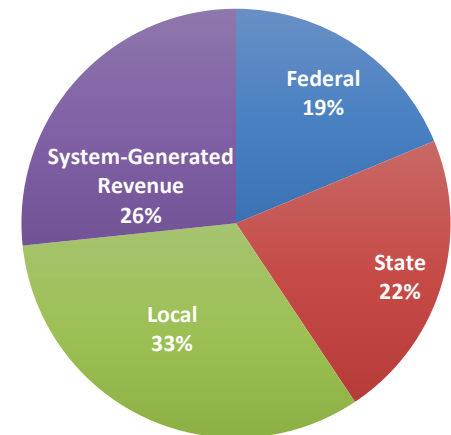
TYPES OF EXPENSES

- Operating – Used for operating expenses such as for fuel, employee salaries & benefits
- Capital – used for infrastructure such as buses, light rail and garages

Revenues to fund mass transit come from several sources including:

- Public Funds: various taxes and appropriations
 1. Federal
 2. State
 3. Local
- System Generated Revenue: passenger fares
 1. Farebox Revenues
 2. Other Revenues

Revenue Sources for Urban Transit



Source: FHWA, 2015 Report

FAREBOX REVENUES

- Farebox Recovery Ratio – fraction of operating expenses which are met by the fares paid by passengers. It is computed by dividing the system's total fare revenue by its total operating expenses.
- Average U.S. Transit Agency recovery ratio is 35% while in Europe and Canada it is 50% and in Asia and Australia – 100%

Transit Agencies Unable to Support Themselves
Farebox Recovery Ratio is the % of operating costs recouped from fares



Source: Federal Transit Administration
Source: Moody's

No Major Transit Agency Fully Supports Itself
Farebox Recovery Ratios for Moody's-rated Transit Enterprises

Transit	Farebox Recovery Ratio
Peninsula Cor Joint Pwrs Board (A1 stable)	75%
NY MTA (A1 stable)	57%
Washington Metro Area Transit Auth (A2 stable)	48%
San Joaquin Regional Rail Commission (A2 stable)	46%
San Diego Metro Transit System (Aa3 stable)	37%
San Francisco Municipal Trans Agency (Aa2 stable)	26%
Western Contra Costa Trans Auth (Aa3 stable)	24%
Minnesota Valley Transit Auth (A3 stable)	23%
North County Transit District (A1 stable)	21%
Sacramento RTD (A3 stable)	18%
Gold Coast Transit District (A2 stable)	17%
Alameda-Contra Costa Transit District (A1 stable)	16%
Victor Valley Transit Authority (A2 stable)	14%

Sources: Moody's Investors Service, Audited Financial Statements
Source: Moody's

TYPES OF TAXES

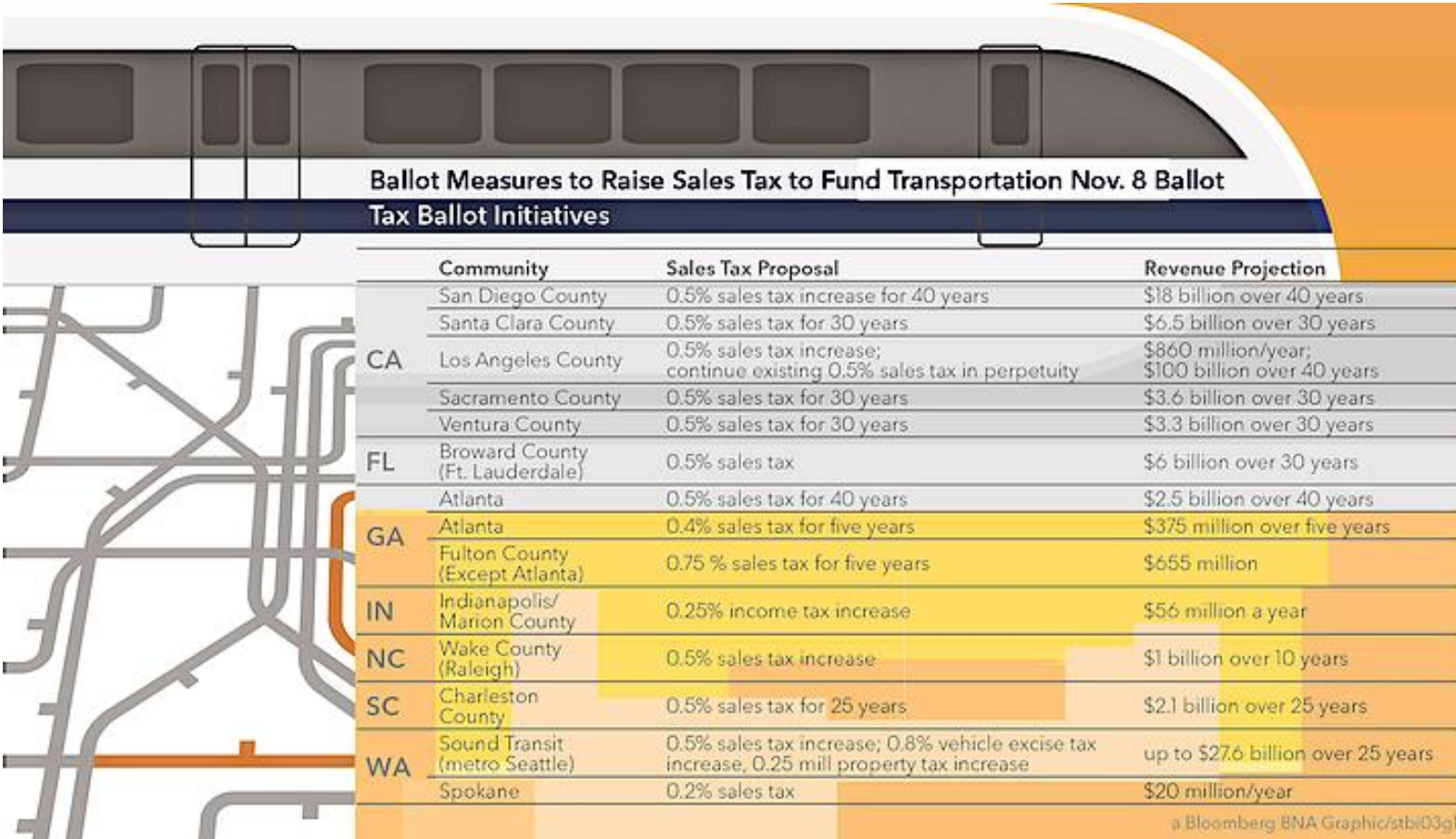
- Most common transit revenue in the U.S. is the sales tax and fuel tax
- Income and payroll taxes are more rare but are used in states such as New York and Oregon
- Canada utilizes a property tax

	Federal	State	Local	Total	Percent
Public Funds	10,859.4	12,697.9	18,951.9	42,509.2	73.3%
General Fund	2,171.9	3,204.2	4,549.1	9,925.1	17.1%
Fuel Tax	8,687.5	909.8	190.4	9,787.6	16.9%
Income Tax		395.4	91.7	487.1	0.8%
Sales Tax		3,455.3	5,431.9	8,887.2	15.3%
Property Tax		10.4	651.1	661.4	1.1%
Other Dedicated Taxes		1,923.3	566.9	2,490.2	4.3%
Other Public Funds		2,799.7	7,470.9	10,270.6	17.7%
System-Generated Revenue	10,859.4	12,698.1	18,952.0	15,451.2	26.7%
Passanger Fares				13,608.4	23.5%
Other Revenue				1,842.8	3.2%
				57,960.4	

Source: FHWA, 2015 Report

LOCAL FUNDING

- Recently, most increases in funding for transit have come from the local level
- Almost all have come from voter approved increases in sales taxes



Ballot Measures to Raise Sales Tax to Fund Transportation Nov. 8 Ballot

Tax Ballot Initiatives

	Community	Sales Tax Proposal	Revenue Projection
	San Diego County	0.5% sales tax increase for 40 years	\$18 billion over 40 years
	Santa Clara County	0.5% sales tax for 30 years	\$6.5 billion over 30 years
CA	Los Angeles County	0.5% sales tax increase; continue existing 0.5% sales tax in perpetuity	\$860 million/year; \$100 billion over 40 years
	Sacramento County	0.5% sales tax for 30 years	\$3.6 billion over 30 years
	Ventura County	0.5% sales tax for 30 years	\$3.3 billion over 30 years
FL	Broward County (Ft. Lauderdale)	0.5% sales tax	\$6 billion over 30 years
	Atlanta	0.5% sales tax for 40 years	\$2.5 billion over 40 years
GA	Atlanta	0.4% sales tax for five years	\$375 million over five years
	Fulton County (Except Atlanta)	0.75 % sales tax for five years	\$655 million
IN	Indianapolis/ Marion County	0.25% income tax increase	\$56 million a year
NC	Wake County (Raleigh)	0.5% sales tax increase	\$1 billion over 10 years
SC	Charleston County	0.5% sales tax for 25 years	\$2.1 billion over 25 years
WA	Sound Transit (metro Seattle)	0.5% sales tax increase; 0.8% vehicle excise tax increase; 0.25 mill property tax increase	up to \$27.6 billion over 25 years
	Spokane	0.2% sales tax	\$20 million/year

a Bloomberg BNA Graphic/stbi03gl

Source: Bloomberg

STATE FUNDING

- In 2016, 24 States passed 267 ballot measures expected to support \$207 billion in infrastructure projects
- State support varies from a high of New York State and California to no State support in Hawaii, Utah, Nevada and Alabama

Passed State Funding Initiatives in 2016

Maine (November 2016)

- Legislation to issue \$100 million in bonds to improve highways, bridges and multi-modal facilities

New Jersey (Oct 2016)

- Increase gas tax by 23 cpg and diesel tax by 27 cpg to generate \$2 billion per year for transportation funding over the next eight years
- Ballot measure to constitutionally dedicate all motor fuel taxes solely for transportation purposes

South Carolina (June 2016)

- Governor signed into law a proposal to use over \$200 million in redirected exiting fees (including motor vehicle sales taxes) and other revenue to bond up to \$2.2 billion in one-time funding, with additional department of transportation reforms

Indiana (March 2016)

- Legislation to add \$228 million from the state's budget reserves to state road projects and permits counties to institute a local wheel tax as well as motor vehicle license excise surtax
- Established a task force of lawmakers and transportation advocates to research and provide recommendations for increasing sustainable transportation funding

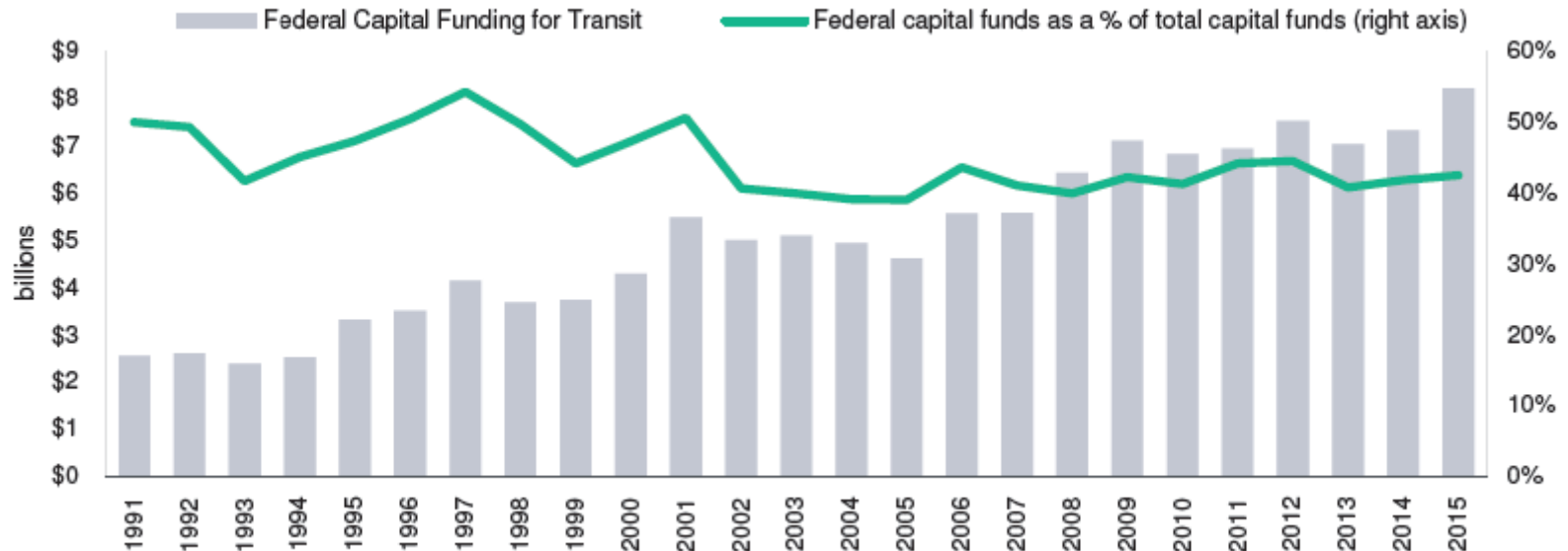
Rhode Island (Feb 2016)

- "RhodeWorks" legislation to charge a toll on large commercial trucks in order to repair and maintain the state's bridges
- In combination with new and refinanced GARVEE bonds, estimated to raise \$542.5 million over the next five years

FEDERAL FUNDING

- Federal taxes fund the Federal Transit Administration (FTA) which then gives grants to transit authorities
- Federal subsidies account for roughly 50% of transit capital spending

Federal Government a Paramount Source of Transit Capital Funds



Source: Federal Transit Administration
Source: Moody's

HSE & CO

TRANSPORTATION OUTLOOK

S&P OUTLOOK

- S&P's 2017 Outlook released in January on transportation sector is stable-to-positive
- Optimism about new Administration's desire to promote infrastructure investment
- Outlook on mass transit is stable

MASS TRANSIT (STABLE OUTLOOK)

- Funding security through Fix America's Surface Transportation (FAST) Act through 2020
- FAST Act allows transit agencies to advance complex multiyear projects with greater funding certainty
- Believe federal funding levels in near term will be on par with authorization levels in FAST Act

PRESIDENT TRUMP'S PRIORITY LIST

- Priority list of 50 project totaling \$137.5 billion circulated in January of 2017
- Transit projects account for 10, totaling over \$60 billion

GATEWAY PROGRAM

1. Gateway Program



Description

Reconstruction of critical, high- risk Northeast Corridor rail infrastructure between Newark and New York City

Authority

Amtrak, Port Authority of New York & New Jersey (Gateway Development Corporation)

Cost

\$12 billion

Jobs

15,000 Direct Jobs; 19,000 Indirect Jobs; Average = \$73,000/yr

Status

Engineering: in progress

Permitting: in progress

Funding: seeking Federal

COTTON BELT LINE RAIL PROJECT

14. Cotton Belt Line Rail Project



Description

The Cotton Belt Rail Line is a planned 67.7-mile commuter rail line to provide service from Dallas's northeast suburbs to Southwest Fort Worth with a major terminal at the north end of Dallas/Fort Worth International Airport.

Authority

Dallas Area Rapid Transit

Cost

\$1.1 billion (\$2.8 billion if not single tracked)

Jobs

2,000 direct jobs

Status

Engineering - in progress
Permitting - complete
Funding - seeking federal

SECOND AVENUE SUBWAY

18. Second Avenue Subway - Phases 2 & 3



Description

The Second Avenue Subway will be New York City's first major expansion of the subway system in over 50 years. When fully completed (see phases at right), the line will stretch 8.5 miles along the length of Manhattan's East Side, from 125th Street in Harlem to Hanover Square in Lower Manhattan.

Authority

New York Metropolitan Transit Authority (MTA)

Cost

\$14.2 billion

Jobs

16,000 direct jobs

Status

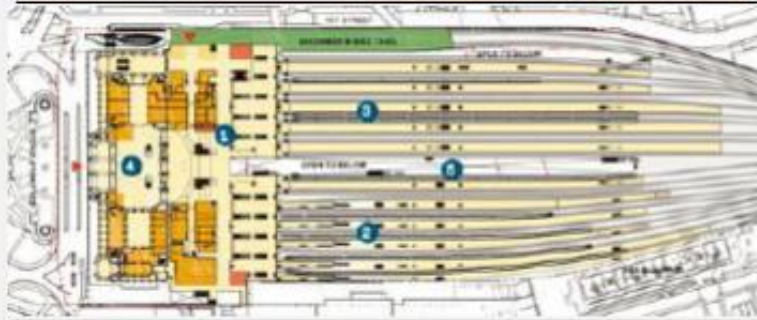
Engineering - done

Permitting - 95%

Funding - public/seeking federal

DC UNION STATION EXPANSION & REHAB

22. DC Union Station Expansion & Rehab



Description

Modernization of Union Station including surrounding rail infrastructure.

Authority

Amtrak

Cost

\$8.7 billion

Jobs

16,000 direct job years

Status

Engineering - done

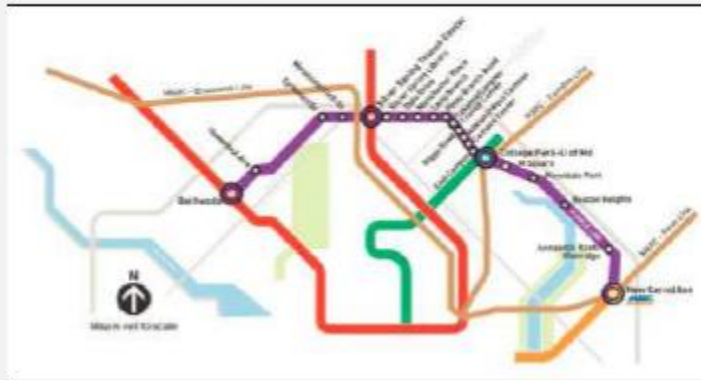
Permitting - 75%

Funding - public, private

Note: There are multiple multimodal terminals, including Chicago, Los Angeles and New York - this would be a model

MARYLAND PURPLE LINE

23. Maryland Purple Line



Description

The Purple Line is a 16-mile light rail line that will extend from Bethesda in Montgomery County to New Carrollton in Prince George's County. It will provide a direct connection to three Metrorail lines, as well as MARC, Amtrak, and local bus services.

Authority

Maryland Transit Administration

Cost

\$5.6 billion

Jobs

5,000 direct job years

Status

Engineering - done

Permitting - 95%

Funding - PPP (large federal share)

24. M-1 Rail, Detroit



Description

Detroit's M-1 RAIL is an unprecedented public-private partnership and model for regional collaboration. Notably, it is the first major transit project being led and funded by both private businesses and philanthropic organizations, in partnership with local government, the State of Michigan, and the U.S. Department of Transportation.

Authority

City of Detroit

Cost

\$528 million

Jobs

500 direct job years

Status

Engineering - done

Permitting - 95%

MBTA GREEN LINE EXTENSION, BOSTON

28. MBTA Green Line Extension, Boston



Description

The 4.3-mile (6.9 km) extension is intended in order to improve mobility and regional access for residents in the densely populated municipalities of Somerville and Medford, two cities currently underserved by the MBTA relative to their population densities, commercial importance, and proximity to Boston.

Authority

MBTA

Cost

\$3 billion

Jobs

3,000 Direct Jobs

Status

Engineering: In progress

Permitting: In progress

Funding: In progress

RED AND PURPLE LINE MODERNIZATION, CHICAGO

34. Red and Purple Line Modernization, Chicago



Description

This major initiative will completely rebuild the nearly century old North Red Line from Belmont to Howard and the Purple Line from Belmont to Linden in Wilmette. As it is rebuilt, much needed capacity will be added in this growing residential corridor to accommodate current and future riders, and to deliver faster and smoother rides with less crowding and more frequent service.

Authority

Chicago Transit Authority

Cost

\$2.1 billion

Jobs

2,100 Direct Jobs

CHICAGO UNION STATION REDEVELOPMENT

36. Chicago Union Station Redevelopment



Description

Union Station is one of the region's key transportation facilities and economic drivers. It is the third-busiest railroad terminal in the United States, serving over 300 trains per weekday carrying about 120,000 arriving and departing passengers – a level of passenger traffic that would rank it among the ten busiest airports in the U.S. Most travelers at Union Station take Metra commuter trains. The Station is also the hub of Amtrak's network of regional trains serving the Midwest as well as most of the nation's overnight trains, which connect to the Atlantic, Gulf, and Pacific coasts.

Authority

Amtrak, City of Chicago

Cost

\$1 billion

Jobs

1,000 Direct Jobs

Status

Engineering: In progress

Permitting: In progress

Funding: In progress

MOODY'S OUTLOOK

- Moody's has negative outlook on transit bonds after release of Trump Administration's budget proposal
- FY18 Budget Blueprint proposes ending certain types of mass transit capital grants representing nearly \$2.4 billion
 1. "New Starts" Capital Investment Program: \$2.3 billion
 2. TIGER Grant Program: \$499 million
- Would widen existing capital investment gap

CAPITAL INVESTMENT GAP

- American Society of Civil Engineers (ASCE) assigned D- grade to US mass transit infrastructure
- Mass transit capital investment gap equals nearly \$90 billion
- Current spending levels are not enough to maintain current transit assets and complete new projects
- At current spending levels, gap would grow to \$122 billion by 2032

ALTERNATIVE SOURCES OF FUNDING

Alternative Sources of Funding for Capital Projects

- Public Private Partnerships (P3)
- Debt issuance
- Tax Increment Financing
- Vehicle Miles Traveled Tax (Oregon)
1.5 cents per mile instead of gas tax of miles per gallon

- “We don’t have a capital problem we have a revenue problem.” stated at P3 Conference in Dallas February 26, 2017
- Will P3 work for mass transit projects?

EXAMPLES OF P3 PROJECTS

- **Project Location: Denver, Colorado**
- **Client: RTD**
- The last bridge deck for the RTD Eagle P3 (Public-Private Partnership) commuter rail project was poured by Ames civil crews in September 2015. After nearly five years in the making, the 36-mile project is winding down. Ames is a joint venture partner for the design-build of the project, which is the first transit P3 of this magnitude in the United States.
- The contract included construction of 36 miles of new double-track electric commuter rail lines, 14 miles of new freight rail track work, 32 bridges, 30 at-grade crossings, 14 stations with Park-n-Ride lots, and a major vehicle maintenance facility. The project is now in the active testing and commissioning phase.
- The 36-mile Eagle P3 is comprised of RTD's East Rail Line, Gold Line, Commuter Rail Maintenance Facility and Northwest Rail Line Westminster segment; throughout 2016, the new commuter rail lines will open one at a time in sequence.

13. Texas Central Railway



**TEXAS
CENTRAL
RAILWAY**
AMERICA'S BULLET TRAIN

Description

Nearly 50,000 Texans, sometimes called “super-commuters,” travel back and forth between Houston and Dallas/Fort Worth more than once a week. Many others make the trip very regularly. The approximately 240-mile high-speed rail line will offer a total travel time of less than 90 minutes, with convenient departures every 30 minutes during peak periods each day, and every hour during off-peak periods – with 6 hours reserved each night for system maintenance and inspection.

Authority

Texas Central Partners, LLC

Cost

\$12 billion

Jobs

40,000 Direct Jobs

Status

Engineering - in progress

Permitting - in progress

Funding - in progress

- Municipal bonds (or “munis” for short) are debt securities issued by states, cities, counties and other governmental entities to finance capital projects
- An investor purchases the municipal bonds, and is in effect lending money to the bond issuer in exchange for a promise of regular interest payments, usually semi-annually, and the return of the original investment, or “principal.”

TYPES OF BONDS

- The two most common types of municipal bonds are the following:
- **General obligation bonds** are issued by states, cities or counties and not secured by any assets. Instead, general obligation are backed by the “full faith and credit” of the issuer, which has the power to tax residents to pay bondholders.
- **Revenue bonds** are not backed by government’s taxing power but by revenues from a specific project or source, such as highway tolls or lease fees. Some revenue bonds are “non-recourse”, meaning that if the revenue stream dries up, the bondholders do not have a claim on the underlying revenue source.

OUTSIDE CONSULTANTS

- Financial Advisor
- Underwriters
- Bond Counsel
- Underwriter's Counsel

QUESTIONS TO ASK

- Is this in our capital plan?
- Does this meet our agency's debt policy?
- Who are the outside consultants?
- What is our rating by the rating companies?
- What was our interest rate?
- What will debt service payments look like?

TAX INCREMENT FINANCING

- Transportation Investment Zones
- Tax Increment Reinvestment Zones
- Use the incremental increase in taxable value to pay for projects
- Used often with Transit Oriented Development

VEHICLE MILES TRAVELED (VMT)

- The normal source for transportation projects is revenue collected by the 18.4-cents-per-gallon federal gas tax. The tax has not been increased since 1993, however, and the pace of infrastructure expenses is outpacing it, as cars become more fuel efficient.
- Oregon is implementing a pilot project with 5,000 cars to test the new gas tax to take the place of the miles per gallon gas tax
- Mileage will be tracked by GPS, odometer tracker or a travel diary

QUESTIONS?

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