Innovative Financing Options for State of Good Repair Investments

Tools and Case Studies

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Overview

- Innovative financing tools
- Case studies of innovative funding sources & financing approaches
- Some observations

Financing Tools

Tax Exempt Borrowing

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

Build America Bonds

- Similar to tax exempt borrowing, but taxable and Treasury gives issuers 35% subsidy of interest costs
  - Generally lower interest costs for long-term issuances

TIFIA

- Up to 35-yr debt w/ very flexible terms for up to 33% of capital project cost
  - e.g., WMATA $600M CIP Loan Guarantee

Grant Anticipation Notes

- Debt secured by anticipated future federal grants
  - e.g., CTA $250M GANs backed by 5307 funds

Financing Tools cont.
Qualified Tax Credit Bonds (TCBs)

- Two new tools, not yet utilized by transit agencies

Qualified Energy Conservation Bonds	▪ Eligible uses include "mass commuting facilities" ▪ ~0% effective interest for ~15-year debt ▪ Cap distributed to state & local gov'ts via formula
New Clean Renewable Energy Bonds	▪ Similar, but eligible uses limited to renewable energy investments (e.g., solar panels, wind turbines) and cap distributed via applications to IRS ▪ Currently in between solicitations

- Primary limitation: program size and issuances still very small
- But…if annual cost savings generated by the investment is ~1/20th the upfront cost, then the project might be self-financing

Station Retail
NY MTA (New York, NY)

Example	▪ Grand Central Terminal Redevelopment (1995)
Revenue Source	▪ Additional leasing and concession revenues resulting from redevelopment ▪ 105K GSF → 170K GSF leasable space
Financing	▪ $93M in new (subordinated) MTA revenue bonds
Other Examples	▪ Denver Union Station, Washington Union Station

Historic Preservation Tax Credits

Moynihan Station Development Corp. (New York, NY)

Example	▪ NY Penn Station / Farley Redevelopment (Planned)
Revenue Source	▪ ~$200M from private joint development partner resulting from 20% tax credit
Financing	▪ Private debt & equity
Other Examples	▪ Memphis Central Station

Tax Increment Financing

CTA (Chicago, IL)

Example Project	▪ Rehabilitation of Red Line's Wilson Station (2010)
Revenue Source	▪ $3M from Wilson Yards TIF district
Financing	▪ TIF financing earmarks future increases in property tax revenues; proceeds reinvested within TIF district
Other Examples	▪ CTA Berwyn Station / Edgewater TIF (2010)

In-Kind Private Sector Contributions

CTA (Chicago, IL)

Example Project	▪ Renovation of CTA North/Clybourn Station (2010)
Revenue Source	▪ $4M from Apple Inc.
Reason	▪ New store across street ▪ Apple receives advertising right of first refusal
Other Examples	▪ Various NY MTA stations, SEPTA

Naming Rights

MTA (New York, NY)

Example Project	▪ Sale of the Brooklyn's Atlantic Ave.-Pacific Street subway station's naming rights to Barclays (2009)
Revenue	▪ $4M total over 20 years
Noteworthy Features	▪ One of busiest MTA subway stations ▪ Barclays also purchased naming rights to nearby Atlantic Yards sports arena
Other Examples	▪ Las Vegas Monorail, MBTA stations, Dubai Metro

Energy Savings Investments

MTA (New York, NY)

Example Project	▪ Replacement of inefficient water heater and lighting equipment at MTA's Coney Island maintenance facility (2010)
Revenue Source	▪ Energy cost savings ▪ Returns investment after 5 years
Financing	▪ NYPA finances upfront cost of new assets ▪ Savings passed on once system pays for itself
Other Projects	▪ 85 MTA-NYPA projects since 1980s, saving MTA the upfront cost of asset replacements and $5.7M / year in energy bill

Station Fare Surcharge
WMATA / DDOT (Washington, DC)

Example Project	▪ Washington Union Station Metrorail (Board Finance Cmte. approved concept June 2010)
Revenue	▪ 5-cents / trip → ~$400K / year ▪ Dedicated to station capital improvements

Long-term Concession Agreements

Denver RTD (Denver, CO)

eagle P3

- Eagle P3 (2010)
  - Commuter rail lines and maintenance facility
  - Procurement:
    - Design-Build-Finance-Operate-Maintain
    - ~46-year single contract
      - Encourages lowest life-cycle (rather than lowest upfront) costs
  - RTD to pay private concessionaire annual availability payments linked to operating performance
  - Concessionaire hands over system in SGR at end of concession

Observations

- Relatively few examples of innovative funding for SGR
  - Most likely for stations or energy projects
  - More support when assets replaced with upgrades
- Debt can help address near-term SGR needs when cash is tight
  - But interest costs reduce future funds available for SGR
- Long-term PPP concessions can help ensure assets stay in SGR
  - But Value for Money (VfM) analysis needed to assess whether PPP is best option

Thank You

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