Alternative Transit Funding Sources and Finance

Implementation of PPPs for Transit
Co-sponsored by the US Federal Transit Administration and the National Council for Public-Private Partnerships
Boston, MA
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Alternative Transit Funding Sources and Finance

- Transit Finance Overview
- Alternative Funding Sources
  - Parking
  - Naming Rights
  - Toll Roads
  - Transit-Oriented Development
    - Benefit Assessment Districts
    - Joint Development
    - Retail
    - TOD Funding Timing Challenges
    - P3 Corridor Focus
- Leveraging TIFIA for Alternative Finance
Overview: Transit is moving -- not at high-speed, yet -- towards more innovative funding sources

- System Revenues
  - Farebox
  - Non-Farebox
    - Advertising
    - Air Rights
    - Naming Rights
    - Concessions
    - Commercialization
    - Parking
    - Outsourcing

- Funding Sources
  - Traditional
    - Local taxes
    - State
    - Federal - New Starts
  - Innovative
    - TOD/Joint Development
    - Benefit Assessment Districts (Special Assessments)
    - Tax Increment Finance
    - Asset Monetization
    - Partner Agencies

- Financing Mechanisms
  - Traditional
    - Debt
    - Pay as you go
  - Innovative
    - Availability Payments
    - TIFIA
    - RRIF
    - SIB Loans
    - Tax Credit Bonds
    - Private Activity Bonds
Overview: Most transit $ still comes from fares, sales taxes and local dedicated funds

Local and Regional Public Transportation Sources for Urbanized Areas with Population Over 200,000 (2005)

Parking: Offers monetization and improvement opportunities; if planned right

- Parking monetization attractive due to stable cash flows, performance improvement upside (technology, new rates and revenues, higher utilization), limited public attachment
- Investors provide upfront payments to operate and collect revenues up to 99 years
- Value depends on local market, ability to raise rates, operational efficiency, facility conditions
- Recent deals completed at 30x system earnings:
  - Chicago (2006): 9,000 spaces, 99-year lease, $563 M
  - Minneapolis (2007): 6,800 spaces, $60 M
- Need to ensure that facility does not “crowd out” retail, housing
Naming Rights: Put your name on this car, train, station . . . corridor

• Greater Cleveland Regional Transit Authority (GCRTA) sought ways to help pay for $193 M bus rapid transit line
• Cleveland Clinic and University Hospitals will pay $6.25 M over 25 year period to name the nine-mile route the “HealthLine”
• Logo will appear on route’s 21 vehicles, 62 stations, schedules & promotions
Toll Roads: Help your local toll authority relieve its carbon footprint guilt

- New York’s Triborough and Bridge Authority, MWAA’s Dulles Toll Road and San Francisco toll bridges all cross-subsidize transit
- Also mechanism to impose congestion pricing and reduce emissions
Transit-Oriented Development: Thar’s value in them thar high-rises--especially in office, retail

Land Price Premiums Near Transit

BADs (Benefit Assessment Districts): GOOD idea to capture transit value

- Often consists of a tax on commercial real estate around a station or corridor that requires approval of local property owners
- The Washington Metropolitan Area Transit Authority (WMATA), local governments and the Metropolitan Washington Airports Authority (MWAA) are working together to construct a 23.1 mile transit system
- Phase I $2.6 B funding will come from approximately $900 M in Federal funds, up to $400 M from commercial property special tax districts (around 15%), and $75 M from the state and the remainder from Dulles Toll Road revenues
- Phase II funding is expected from special tax districts and Dulles Toll Road revenues
Joint-Development: Invest with land and receive a handsome return

- In 1960s Arlington County placed metro line stations beneath the Rosslyn-Ballston corridor instead of in the center of I-66 or on existing railroad tracks that would not be conducive to commercial development
- Corridor has become destination & considered one of US’ TOD success stories

- 39% of Metrorail corridor residents commuting to work by public transit
- Since 1960, over 31 M sq ft office space & 30,000 housing units built in County, 3/4 of which in corridor
- Metrorail benefits from increased ridership and property payments
Retail: = customer service, ≠ cleanliness, = /≠ transit $ surplus

- Providing retail such as banks, food & beverage (F&B), newsstands, convenience stores, florists, child care, dry cleaners, hair salon, shoe repair, copy shops, overnight delivery, health clubs, grocery stores enhances customer service
- Yet, F&B conflicts with cleanliness goals
- Tough to make retail a success, as Miami’s Dadeland South Station has (picture)
Timing: Transit funding and timing gap creates challenges for TODs

- Often timing mismatch between facility construction and rise in property values
- Financing may be able to bridge some of gap
- However, construction can easily take 5-10 years & real markets have significant down cycles of 5+ years, so this can only be funded/financed with innovative finance, like TIFIA or public support

Source: Emerson, Donald; “Successfully Navigating the FTA New Starts process”; PB Consulting in Fleissig
Corridor Focus: P3 the entire line, not just each station

- TOD developer Fleissig believes planners need to combine transit and real estate development into a highly coordinated process at “corridor scale”

Corridor Focus: P3 the entire line, not just each station (cont’d)

- Coordination issues include:
  - Align route with existing and future destinations
  - Locate stations as part of larger development plan
  - Manage integration of planning, engineering and funding
  - Facilitate P3 for value capture
  - Execute inter-governmental agreements to balance benefits and burdens along corridor
  - Acquire key parcels that are essential for TOD implementation
  - Allocate uses and entitle station areas across entire length of corridor
  - Extend corridor mobility with frequent shuttles
- As Charlotte is attempting on its North Corridor Commuter Rail line (figure)
TIFIA: Supported the Warwick Intermodal Facility and other transit/rail projects in Miami, San Juan & Reno

- $200 M facility for rental car, parking, commuter rail, bus station and future Amtrak facility
- Located on former superfund site, with opportunities for future office, hotel and other real estate growth
- Funded with rental car charges, other facility fees, federal and state grants

![Warwick Intermodal Center Funding Sources](image)

- FHWA Grants, 40%
- State Grants, 10%
- Rental Car Charges, 13%
- TIFIA Loan, 19%
- Tax-Exempt Bond Proceeds, 18%
TIFIA: Capital Beltway illustrates how TIFIA, equity, PABs and grants can yield innovative financing

- Transurban/Fluor signed 80-year contract with VDOT to design, build, finance and operate 14-mile Capital Beltway in northern VA for 80 years, utilizing innovative congestion pricing
- Shows use of TIFIA or innovative finance/subordinate lending
- Illustrates role of private equity and private activity bonds (PABs) in P3 financing
TIFIA: VDOT has transferred significant construction risk to private parties

- (Re)construction of 12 lanes and 50 bridges
- Design-Build Contract provides for a firm, fixed-price, lump sum, not subject to adjustment
- Fluor Corporation has provided a guaranty for all of the design-build contractor’s obligations
- Liquidated delay damages will be payable by the Design-Build Contractor for failure to achieve completion deadlines
- Flour is paid bonus if project completed six months prior to original Completion Date in amount equal to 50% of net toll revenues collected
TIFIA: Funding was a combination of public and private sources and innovative finance tools

- Private Activity Bonds: benchmark of 3.6% for 20 years + margin of 1.75% for 7 years (5.35%); total 40 years
- TIFIA: 4.45%, 40 years, < than 25% of interest paid can cause default
- PABs & TIFIA: no principal repayment, first 25 years
- Equity should be able to yield a return of 13%

**TIFIA: Allowed 5 years interest capitalization (CAPI) plus 15 years current interest only**

<table>
<thead>
<tr>
<th>Year</th>
<th>Toll Revenues</th>
<th>Interest Revenue</th>
<th>Operating Expenses</th>
<th>Net Capital Movement from Reserve</th>
<th>Net Capital in the Balance of the Ramp Up Reserve</th>
<th>Total Senior Debt Service</th>
<th>Total TIFIA Interest Payment</th>
<th>Total Interest</th>
<th>Total TIFIA Debt Service</th>
<th>Total TIFIA Interest Payment</th>
<th>Total TIFIA Debt Service</th>
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*Toll Revenues are in annual dollars. Final dollars are converted to nominal dollars using a rate of inflation of three percent per annum. (See Attachment 1 to Appendix F)

Alternative Transit Funding Sources and Finance
TIFIA: Flow of funds generally reflected the risk-return calculus of each funding source

- Gross Revenues
- O&M Costs**
- Capital Expenditures
- Senior Interest
- Senior Principal
- Debt Service Reserves
- TIFIA Mandatory Debt Service
- Funding of Major Maintenance Reserve
- TIFIA Scheduled Debt Service
- Equity Distributions

** Includes payments to VDOT in event of IRR in excess of 15%
IMG Overview

- Headquartered in Washington, DC metro area
- Multi-disciplined team of 25 seasoned professionals with more than 150 years of infrastructure experience as department directors, city managers, facility operators and financial executives
- 200+ engagements for 100+ public and private sector agencies, authorities and investors
- $100+ B of deals across the infrastructure lifecycle - feasibility, development, construction, finance, upgrade and mature operations
- Experience across 22+ U.S. states, the Americas, Europe, Africa and Asia
- IMG Capital launched in January 2008 to serve as international investment division for investor advisory and buy-side origination
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