Virginia Department of Rail & Public Transportation

Transit Financing Options

September 7, 2018

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Agenda

- Objectives
- Existing Financing Programs
- New “Transit Vehicle Financing Program” Description
- Discussion
- Next Steps

Purpose

- Assess feasibility of existing financing programs for local agencies
  - *Master Equipment Leasing Program*
  - *Virginia Transportation Infrastructure Bank*
  - *Virginia Resources Authority Pooled Financing*
- Discuss potential “Transit Vehicle Financing Program”

Existing Master Equipment Leasing Program is not viable for transit capital needs

Features	Issues
• Available to State agencies • Finance assets through lease purchase • Typically vehicles, copiers, equipment • $25-$30 million in annual lending capacity • Competitive rates • Tax exempt with 3-10 year repayment term • Secured by general fund payments and pledge of asset	• Not available to local transit agencies • Unable to pledge transit assets, given federal interest • Transit needs outstrip annual lending capacity — would require program restructuring

Virginia Transportation Infrastructure Bank does not accept state funds (DRPT Capital Assistance) as pledge

Features	Issues
• Transportation Trust Fund’s revolving fund • Provides loans, credit enhancements • Initial capitalization: $282 million • Competitive process • Eligible borrowers include local governments and private agencies • Favorable interest rates • Repayment term up to 35 years • Financed portion of Potomac Yards	• Prohibits loans considered to be State supported debt – disallows use of DRPT funds • Mostly supported larger infrastructure projects with multiple funding sources • Unclear how vehicle replacement/ expansion programs would rank under VTIB criteria

Virginia Resources Authority Pooled Financing cannot accept DRPT funds as pledge either

Features	Issues
• Program available to local governments and agencies • Project eligibility subject to VRA review and approval • Favorable interest rates • Loans up to 30 years, based on useful life • HRT utilized VRA to finance bus purchases	• Pledged revenues are derived from local taxes/revenues, etc. • DRPT funds cannot be pledged • Local transit agencies can borrow from VRA, but not using DRPT funds as a pledge

Elsewhere in the US, use of financing is mostly restricted to large systems with dedicated capital funding

- State Infrastructure Banks used by a few other states to finance transit assets:
  - *Florida*
  - *Pennsylvania*

- Transit agencies, including commuter rail, that finance a portion of capital needs are typically larger systems, with:
  - *Dedicated funding sources*
  - *Access to the capital markets for financing*
  - *Common use of federal programs like TIFIA and RRIF*

- Smaller and mid-size systems do not typically have a dedicated funding source and are more reliant on pay-go funding

Existing programs do not offer robust options for small transit agencies to leverage state funds for financing

- Existing programs either:
  - *do not allow leveraging of DRPT sources*
  - *or do not permit transit agencies to borrow*

- Do public agencies have need for an additional low-interest credit program that would allow them to finance the acquisition of vehicles? If so, what would it look like?

A "Transit Vehicle Financing Program" could have different profiles

- **Option 1**: Transit agency borrowers
  - *Transit agencies/local governments would be eligible borrowers*
  - *Loans secured by transit agency's allocation of DRPT funds*
  - *Interest rates may be at or below market rates*
  - *Repayment period based on useful life of asset (e.g., 12 years for a standard 40-foot transit bus)*
  - *DRPT may request borrowers provide additional credit protections*

- **Option 2**: DRPT borrower
  - *DRPT would borrow to finance its capital assistance*
  - *Loans secured by TTF and title to equipment/vehicles*
  - *Repayment period based on useful life of asset (e.g., 12 years for a standard 40-foot transit bus)*

A “Transit Vehicle Financing Program” would not provide new funding and might face significant issues

Option 1: Transit agency borrowers	Option 2: DRPT borrower
• Does not address funding shortfall; does not create new revenues • Overall cost of procuring assets would be higher for local agencies because of borrowing costs • Pledge of DRPT funds likely considered state supported debt, and subject to overall state debt capacity limits • May not be more cost effective than using existing TTF revenues to finance needs	• Does not address funding shortfall; does not create new revenues • Overall cost of providing capital assistance would be higher for DRPT and the state because of borrowing costs • Pledge of TTF funds would be state supported debt, and subject to overall state debt capacity limits • In some later years, capital assistance may be more limited because of debt service payments

“Transit Vehicle Financing Program” Assessing needs and results

Prepare financial analysis modeling a financing program, taking into account:

— State Capital Assistance Needs Assumptions

— Revenue Assumptions

— Conceptual Financing Scenarios

“Transit Vehicle Financing Program”
State Capital Assistance Needs Assumptions

Projects Included in Financing Analysis	Projects Excluded from Financing Analysis

• Revenue Vehicles (Buses, Paratransit)
  • *Minor Enhancement*
  • *SGR*
• Support Vehicles (approved vis new capital prioritization methodology)
  • *SGR*
	• All other projects (Facilities, Bus Shelters, Technology, Maintenance equipment & parts, etc.)
	• Vehicle leases
	  • *Buses*
	• Debt service for vehicle purchase
	  • *Buses*
	  • *Rail vehicles*

— Capital needs for FY 2022 – FY 2028 are projected based on the average needs over the first four years of the FY18 SYIP

— 68% state match for all projects

— Only a certain percentage of capital assistance needs will be funded based on future prioritization

“Transit Vehicle Financing Program”: Revenue Assumptions

— Capital assistance base revenue
  — *$37.2 million in FY 2018*
  — *Growing at 1.5% annually*

— Approximately 75% of capital assistance revenue funds transit vehicles in a given year

— As a result, approximately $28 million is available for:
  — *Funding vehicles in cash (pay-go)*
  — *Paying debt service*

“Transit Vehicle Financing Program”: Conceptual Financing Scenarios

— Debt will be issued in years where capital assistance needs for vehicles exceed revenues

— Debt service will be paid using future state capital assistance revenue available for vehicles

  — *Debt service will reduce funding available for providing direct capital assistance in future years*

— Scenarios

  — *Scenario 1, no financing, shows total funding gap*

  — *Scenario 2, financing will cover 60% of funding gap*

  — *Scenario 3, financing will cover 30% of funding gap*

Discussion

— Do public agencies have need for a low-interest credit program?

— Would agencies be willing to authorize holding of vehicle title for term of a loan?

— How would this also impact federally funded assets where FTA has an interest/holds title?

Next Steps

— Presentation of fiscal implications of “Transit Vehicle Financing Program’s ” Conceptual Financing Scenarios

— Discussion of the utility of such a program based on those implications and other factors (needs, institutional, etc.)

Appendix--Conceptual Financing Assumptions

- Debt Service
  - *Based on useful life of assets, multiple terms possible*
  - *12 years assumed for modeling purposes based on prevalence of bus needs*
  - *Interest Rate, 3%*
- Issuance cost, 1.00%
- Debt Service Reserve Fund
  - *Deposit, 10% of gross issuance*
  - *Interest rate, 1.00%*
  - *Used to pay the last year of debt service*