FINANCING OPPURTUNITIES

Federal Funding Source

Some of the Federal funding sources typically available to cities, counties, states and/or authorities to finance a large capital project are summarized below. From a strategic standpoint, note that these funding sources can used either individually or in combination with other sources of capital as part of a project financial plan.

- **Federal Transit Administration's (FTA) Section 5309 New Starts** – This program provides funding for the development of new rail/fixed guideway transit systems and improvements or upgrades to exiting systems. Eligible systems include light rail, rapid rail (heavy rail), commuter rail, automated fixed guideway systems (such as a "people mover"), or a busway/high occupancy vehicle (HOV) facilities. Also, New Starts projects can involve the development of transit corridors and markets to support the eventual construction of fixed guideway systems, including the construction of park-and-ride lots and the purchase of land to protect right-of-ways. To become eligible, project sponsors must complete the major capital investment planning and project development process. Funding is provided on a discretionary basis and competition is considered very intense. FTA's evaluation criteria emphasizes travel time savings, costs and support for transit-oriented land use. Under the program, FTA will fund up to 60% of project cost with the balance covered by local sources.

- **Federal Highway Administration (FHWA) Flexible Funding for Transit/Highway Improvements** – Several FHWA Federal-aid highway programs have direct transit funding provisions including:

  - **Surface Transportation Program (STP)** – Provides funding eligibility for transit capital projects, vehicles, and facilities publicly or privately held, and for transit safety improvements.
  - **Congestion Mitigation and Air Quality (CMAQ) –** Provides funding eligibility for transit capital and operating expenses for new services in non-attainment areas only. Projects must demonstrate benefits to air quality and operating uses are limited to three years.
  - **National Highway System (NHS) –** Transit improvements within a National Highway System Corridor are eligible.

  In addition, per the Intermodal Surface Transportation Efficiency Act (ISTEA), a State may transfer funds from Federal-aid highway programs that do not provide for transit related funding to ones that do provide for such eligibility. The fund transfers between programs are managed through the metropolitan and statewide transportation planning processes and eligible projects must be included in the regional Long Range Plan (LRP), the short-term transportation improvement program (TIP), and the approved Statewide Transportation Improvement Program (STIP).

Under these programs, FHWA will fund up to 80% to 90% of project cost with the balance covered by local sources.

- **Federal Aviation Administration Airport Improvement Program (AIP) -** The Federal Aviation Administration (FAA) administers the AIP program which provides grant assistance to public-use airports for capital improvements that enhance safety, capacity, security or the environment. The two primary categories of AIP funds airport operators receive are entitlement and discretionary funds. Entitlement funds are apportioned by the FAA based on airport passenger activity. Discretionary funds are distributed by the FAA based on their ranking of an airport sponsor's project relative to other competing projects under consideration. AIP eligible projects have included landside access improvements and fixed guideway conveyance systems such as APMs including those that connect to intermodal facilities off-airport and are used exclusively by airport patrons.

State/Local Sources

- **State Grants** – Many states through their respective Departments of Transportation provide grant programs for transportation infrastructure.

- **Tax Revenues** - Depending on the taxing authority of the governing owner/sponsor, there are a variety of tax methods that have been used to provide revenue to cover capital and operating costs or secure debt for a transportation project. Common forms include sales, income, property and gas taxes.

- **Special Tax District** – In this approach property owners within a particular district would be assessed a tax to reflect the access benefits associated with the provision of transit facilities within or to the district. In monetary terms, these benefits could be measured in several ways including the increased property values realized through the provision of transit improvements for the district or the cost savings developers may realize through the reduction in on-site parking requirements made possible by the improved access to the district.

- **Facility operating revenues** – System owner/operators can generate revenues from a variety sources including fare box revenue from direct operations and vehicle parking, concessions and leases from ancillary facilities. The net income from these sources can be applied to cover debt service, fund capital projects and/or cover operating and maintenance of costs.

- **User fees** – In some cases, owner/operators can apply user fees from associated facility operations to support financing for transportation improvements and operating costs. For example, airport operators have used fees paid by patrons of on-airport rental car facilities (typically called Customer Facility Charges or CFCs) to cover a portion of on-airport APM system operating costs. Passenger Facility Charge (PFCs) paid by airport patrons is another source funds that have been used to finance debt-service on eligible airport projects. PFC fees range from $3.00 to $4.50 per passenger. Under the program, the airlines collect the fee from each enplaning passenger as part of the ticket cost and the funds are transferred to the airport operator to invest in capital improvements at the airport that are approved by the FAA.

Financing Options

- **General Obligation Bonds (GOB) –** GOBs are a common form of finance for public projects in which tax revenues of a city, county or state are pledged as a source of repayment for a bond issue.

- **Revenue Bonds -** Proceeds from the sale of revenue bonds are the most common form of financing used by airport operators for large capital improvement projects. Debt payments can be supported and/or secured through general airport revenues, PFCs for eligible projects and revenues from the facility constructed or some combination thereof.

- **The Transportation Infrastructure Finance and Innovation Act (TIFIA)** authorizes the U.S. Department of Transportation (DOT) to provide Federal credit assistance to nationally or regionally significant surface transportation projects, including highway, transit and rail. Credit assistance is awarded through a merit based system to project sponsors, which can include public and private entities in one of three forms - secured (direct) loans, loan guarantees, and standby lines of credit. Loan cannot exceed 33% of the eligible project costs, are made at favorable U.S. Treasury rates, can be repaid up to 35 year term and require a favorable credit rating.

- **State Infrastructure Bank Program. –** This Federally authorized program enables States to capitalize Federal transportation grant assistance to provide loans, credit enhancement and other forms of assistance to eligible surface transportation projects.

Innovative Approaches

- **Public Private Partnership (P3) -** P3s are a growing method of implementing transportation infrastructure in which a private venture in partnership with a public agency will typically finance, design, build and operate a facility in exchange for a guaranteed revenue stream and/or land development rights from the public entity to cover debt service and operating costs. The partnership can be structured through a variety of mechanisms including concession or operating agreements and/or land leases. The revenues streams or financial incentive afforded to the private partner can come in many forms including fare box revenue, user fees and concession or parking fees from associated development. The P3 partner may also be granted development rights to adjacent parcels through a long-term land lease and develop the property to realize additional revenue from the development program. This latter approach to P3 partnering can be a challenge for transit agencies who have limited adjacent property to package in a P3 partnership. Also, not all States in the US have authorized local jurisdictions to enter into a P3 arrangement.

FINANCING STRATEGY AND PROJECT STRUCTURING

Under traditional models for large transportation capital projects, governmental owners/ sponsors such as states, cities or authorities typically finance projects through grants from the Federal Government. If they have the authority, the governing owner/sponsors raise additional capital to cover their local share through the sale of bonds which are secured by a stream of revenues or taxes. Under this approach for project financing, local owners/sponsors typically manage all phases of the planning, design and construction of the project through a design-bid-build approach.

Before embarking on a pursuit for Federal funds, local owners might consider the following:

- The timetable and resources necessary to fulfill the requirements to be eligible for the Federal funds – To be eligible, local sponsors have to fulfill a prescribed series of steps from project planning to obtaining environmental approvals. These steps require a commitment of local resources and often take several years to complete particularly if there is controversy associated with a project. The time needed to complete such a project can be an issue in situations where improvements are urgently needed.
- Competition for Federal funds and the likelihood of success – While the project may be a priority at the local level, there is much competition for limited Federal funds at the national level.
- The conditions which the Federal government may impose on the local entity to receiving project funding – These limitations can pertain to how a project is bid and implemented, how a system can be operated and how revenues generated from operations may be used by the owner thereafter.
- The availability of funds to provide for the local share – Local shares can vary but are generally in the range of 20% to 50% of project costs and coverage of the local share is typically dependent on the ability to leverage revenues from taxes and/or operations.
- The ability to cover operations and maintenance costs after implementation.

Bond sales also present a host of considerations for the owner/sponsor including,

- The credit rating for the selling entity

- Existing or potential sources of revenue to secure the debt service for the bond issue such as through existing or new tax revenues, the taxing authority of the sponsor to raise new revenues and the political viability of a new tax.
- Competing uses of funds and financing capacity – a plan of finance should be integrated within the sponsor's overall capital plan to clearly demonstrate that the sponsor is making the highest and best use of available funding and has the capacity to finance the overall capital program.
- Multi-tiered debt structure – Interest rates and debt coverage requirements can vary for different forms of finance. (Debt coverage is the ratio of revenue to annual debt service typically in the range of 125% to 135%) So it might be might be advantageous to pursue a tiered approach to debt financing to reduce overall interest and financing costs.

Finally there are project phasing and project structuring considerations:

- In cases where funds are limited but the need is great, the sponsor may consider implementing the minimum operable segment of a system that provides the greatest benefits from a level of service perspective and/or is the most feasible from a cost and financial point of view.
- If the initial capital is lacking but the project presents opportunities to generate a long-term of stream of revenue, then the pursuit of private investment capital might be a viable option.

After conducting such an evaluation, the project owner/sponsor may choose one of the following paths:

1. Pursue traditional approach - the project may have national significance and has a strong likelihood of receiving Federal funds and/or local revenue sources are available to secure debt service for bond financing
2. The project can generally be supported through public sector financing available to the owner/sponsor but multiple sources are needed to cover the local share of projects costs and/or secure bond debt service.
3. The project can not be fully supported through traditional public sector sources. In this case, the owner/sponsor may consider phasing implementation of the project if viable or may consider pursuing an alternative structure that draws in private sector financing through a public private partnership or P3 assuming that the that authority to pursue same has or is likely to be granted at the State level.

Project Delivery Considerations

If the sponsor concludes that P3 approach is desirable then the next consideration is the approach to project delivery. Traditional project delivery systems such as the design-bid-build approach noted above are generally not well suited for P3 applications, wherein the concessionaire has a financial interest in completing the project as early as possible to facilitate revenue generation. These traditional approaches require extensive interfaces and management of the different aspects that introduces schedule and budget risks which will typically lower the attractiveness of the project for investors who are likely to participate in a P3 concessionaire team.

The preferred mechanism would be a single Design/Build/Finance/Operate/Maintain (DBFOM) contract with the P3 partner as it provides the selected contractor more flexibility in managing and completing the Work. Benefits include a quicker project completion, less schedule and budget risks, and lower costs. The owner/sponsor also realizes cost savings as a smaller/leaner program management team will suffice for project/contractor oversight (compared to the traditional approaches).

A DBFOM contract for a transit/fixed guideway system could be arranged in two distinct phases:

- Phase 1 of the contract will incorporate the capital project, including the design and construction of the project infrastructure and installation of operating system equipment
- Phase 2 of the DBOM Contract will include the Operations and Maintenance (O&M) of the system and the fixed facility infrastructure by the same contractor for a period defined by the owner,

At the conclusion of the O&M period, the assets (developed under Phase 1 of the Contract, and maintained under Phase 2 of the contract), would revert to the owner with conditions that the assets be in good repair and require no major overhaul/maintenance for a specified period after the hand-over.

FUNDING STRATEGY CONSIDERATIONS: A CASE STUDY

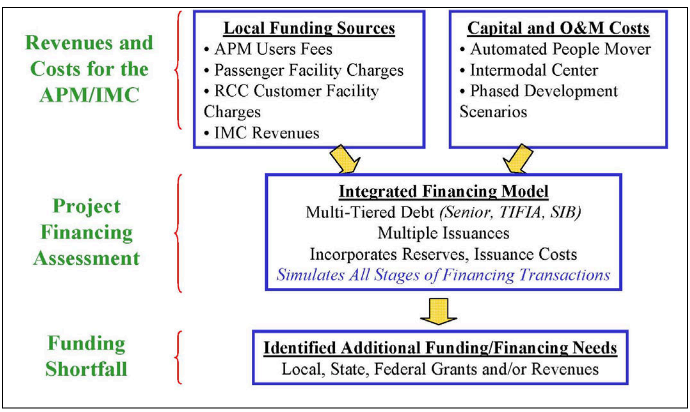
As part of their long-term strategic plan issues in 2001, Broward County, Florida has been considering the development of an Intermodal Center and a People Mover. Under this plan, the Intermodal Center would be located on a site between the County's airport, Fort Lauderdale Hollywood International Airport (FLL) and the seaport, Port Evergaldes (PEV) with connections to planned regional transit and commuter rail and direct vehicle access to the regional highway system. The People Mover would link the four unit terminals at FLL with FLL's rental car center, potential remote airport parking at the Intermodal Center and the cruise ship terminals at the Port.

From a financing strategy point of view this proposed project offers a number of unique opportunities for consideration:

- The large volume of cruise passengers traveling between the airport and seaport would provide a captured market for the APM from a fare box or user fee perspective
- Revenues generated by associated airport properties including the rental car facility could be applied to cover operating costs for the on-airport portion of the APM system
- The potential for parking and concessions at the Intermodal Center offer another potential source of revenue for project financing
- The potential to leverage Passenger Facility Charges (PFCs) collected at FLL to cover capital financing costs for the on-airport portion of the project.
- The option to pursue Federal funding available through FTA, FHWA and or FAA.
- The County and airport's favorable credit rating
- The support demonstrated by the Florida DOT due to the traffic mitigation potential offered by the project and the resources they could bring to bear in the form of grants and the State Infrastructure Bank program.
- The project is not controversial from an environmental point of view which would keep project planning and review costs low. (This fact was later borne out by a Federal determination that the project would only require an Environmental Assessment and not a full Environmental Impact Statement.)

As the planning for the project took shape, the County conducted a preliminary analysis as outlined below to examine if the project could be self sustaining financially or would external fund be required.

Preliminary Financial Analysis



The findings issued in late 2004 indicated that external funding would be needed. At that juncture the County made the following go forward strategic decisions:

- Pursue Federal funding through the FHWA rather than FTA as there would less competition for transit funding with FHWA and the FHWA offered a higher Federal match.
- Proceed with a State sponsored Project Development and Engineering Study (PD&E) to fulfill the environmental review requirements of the National Environmental Policy Act (NEPA) which is required to obtain eligibility for Federal and State funding.
- Examine how the project might be more effectively phased from a financial perspective.

The basic strategy then was to position the project for funding consideration during the next cycle of Federal transportation legislation.

A second set of financial analyses was then conducted based on the following set of factors:

- The two most viable transportation system alternatives identified were an Elevated Busway or an Automated People Mover System.

- The project implementation was divided into four phases

- Capital costs were estimated by phase and escalated to the anticipated midpoint year of the implementation as summarized below.

Phase of System	Period of Development	Elevated Bus		APM Alternative	
		Cost in 2007$	Escalated to YOE	Cost in 2007$	Escalated to YOE
On-Airport	2016-2020	$82M	$126M	$173M	$267M
Extend to Midport	2018-2022	$227M	$378M	$410M	$683M
Extend to N. Port	2020-2022	$110M	$184M	$177M	$295M
IMC	2020-2022	$79M	$132M	$79M	$132M
Totals		$498M	$820M	$840M	$1,377M

- O&M costs were similarly escalated up to the start-up year of operations for each phase.

- Due to changing priorities in FLL's capital program, PFCs were no longer available for consideration as part of the financial plan.

- Local revenue sources were limited to user fees paid by cruise passengers to cover debt service and a portion of Customer Facility Charges (CFCs) paid by airport rental car customers.

- By agreement between the County and the rental car companies, rental cars users are assessed a Customer Facility Charge as part of the rental fee at FLL to cover costs for the on-airport rental car center. A portion of this fee presently covers the cost of the consolidated shuttle bus and would revert to cover a portion of on-airport costs of the APM when it came on line.

- About a half of the multi-day cruise passengers arriving through FLL were projected ride the APM system on the inbound leg to the Port and about two-thirds would use the system on the return from PEV to FLL at the end of their cruise. Per available information passengers currently pay about $10 per direction to be transported between the Airport and Seaport and this was fare level assumed in the financial analysis.

- To reduce costs, the project would be financed though a multi-tiered debt structure with general revenue bonds providing the senior debt and a TIFIA loan would be the subordinate debt.

- The project debt financing was assumed to have the following set of conservative characteristics:

  a. Senior Debt
     - Bonds issued by the County for this project would be “BBB” Rated
     - Interest rate: 6.5%
     - 30 Year Maturity
     - 1.85 Minimum Debt Service Coverage
     - 1.5% Financing costs

  b. TIFIA Loan
     - Loan issued through U.S. Dept. of Transportation
     - 30 Year Maturity
     - Limited to 33% of total project costs
     - Interest rate: 6.5%
     - 1.15 Minimum Debt Service Coverage
     - 1.5% Financing cost

Comparing cumulative costs to revenues over the bond repayment period, the findings indicated that the cruise passenger user fee would cover about 40% of the Alternative APM Alternative project costs and about 50% of Elevated Busway Alternative project costs leaving the project with a shortfall which would have to be covered by other external Federal, State and/or P3 sources.

In the final analysis, the County's approach to pursue external financing was still valid and the options going forward are as follows:

- Federal approval of an EA will establish the Project's eligibility for potential Federal and/or State funding opportunities which the County may pursue, and it will enhance the Project's attractiveness for Public-Private-Partnership (P3) funding opportunities.

- The cruise passenger ridership still offers a secure revenue source to attract private investments and a possible DFBOM approach with a P3 partner as does the development potential of the Intermodal site

- In view the cost and financial considerations, another option is that the County may consider initially constructing portions of the system as a lower cost elevated busway which could later be converted to APM system technology. The conversion from bus to APM could be accomplished by constructing the supporting elevated guideway for the busway with the dimensions and structural capacity required to accommodate the operation of APM system technology in the future.