

DEPARTMENT OF TRANSPORTATION**Federal Transit Administration****Innovative Financing Initiative:
Administrative Policies and
Procedures Facilitating Use of
Innovative Finance Techniques in
Federally-Assisted Transit Project**

AGENCY: Federal Transit Administration, DOT.

ACTION: Notice.

SUMMARY: This Notice describes innovative financing methods and asset management tools which may be used in connection with projects receiving assistance from the Federal Transit Administration (FTA) in order to facilitate financing, leverage Federal, State and local funds, and otherwise increase the effectiveness of transit capital projects.

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SUPPLEMENTARY INFORMATION: The Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA) encourages more efficient management and enhancement of our Nation's public transit infrastructure through the creation of public/private investment partnerships. In addition Executive Order 12893, "Principles for Federal Infrastructure Investments," signed by the President on January 26, 1994, directs each executive department "to ensure efficient management of infrastructure * * *" and "to encourage private sector investment, which is a key objective of our efforts to promote innovative financing." Underlying this guidance is the notion that market-oriented financing and management techniques can be effective tools for meeting our Nation's needs for infrastructure investment. To further these directives, on September 12, 1994, FTA published a Notice regarding its Innovative Financing Initiative in the **Federal Register** (59 FR 46878) in which FTA requested information from its grantees about their use of innovative financing techniques in local transit projects.

This Notice combines in a single document current innovative financing methods and assets management tools and indicates, where appropriate, changes in administrative practice or policy guidance that may facilitate their use. Grantees and others in the transit community may find it useful to have in one publication a summary of the

permissible financing and management techniques under FTA's grant programs. Grantees should, however, refer to the appropriate FTA regulations, circulars, reports, and publications that explain these techniques in greater detail, or contact their FTA Regional Office for further guidance and assistance.

The discussion below is divided into two broad categories, Innovative Finance Techniques and Asset Management Tools.

FTA Innovative Finance Techniques

This section describes innovative financing techniques which may be used in connection with Federal transit assistance. In general, the techniques can be used with new projects financed with the FTA Urbanized Area Formula Program (49 U.S.C. 5307, formerly Section 9 of this Federal Transit Act, as amended) funds, as well as with Title 23, United States Code (e.g., Surface Transportation Program (STP) and Congestion Mitigation and Air Quality program (CMAQ)) funds transferred to be used for transit projects. In most cases, the techniques can also be used with funds from the Capital Program (49 U.S.C. 5309, formerly Section 3), as well as Nonurbanized Area Formula program (49 U.S.C. 5311, formerly Section 18), and Elderly and Persons and Disabilities Program (49 U.S.C. 5310, formerly Section 16) funds. Many of the procedures can also be used with respect to assets previously acquired with Federal transit assistance. For clarity, each technique is described separately. Grantees should take note that two or more techniques may be combined in the same project to generate additional savings or to further enhance private financing.

FTA generally supports use of innovative financing concepts that enhance the effectiveness of public transit investment by either generating increased investment or by reducing overall project costs. The following techniques and provisions of Federal transit laws are illustrative of the types of innovation that FTA will support. The list is not exclusive; grantees interested in pursuing techniques not listed here should contact their FTA Regional Office. FTA will evaluate proposals on a case-by-case basis, and where appropriate make further changes in administrative procedures, or if necessary, revise its rules and regulations to make such changes.

- **Leasing.** FTA funds may be used to lease, rather than purchase, transit equipment and facilities. Urbanized Area Formula Program (49 U.S.C. 5307, formerly Section 9) funds may be used to cover the costs of new an pre-existing

leases, so long as leasing is more cost effective than a direct purchase. FTA regulations at 49 CFR part 639 prescribe how leasing of transit equipment may be eligible. Moreover, FTA permits on a case-by-case basis, using slightly different criteria, such leasing under the Capital Program (49 U.S.C. 5309, formerly Section 3), Nonurbanized Area Formula Program (49 U.S.C. 5311, formerly Section 18), and Elderly and Persons with Disabilities Program (49 U.S.C. 5310, formerly Section 16).

- **Certificates of Participation (COPs).** Certificates of Participation (COPs) are a type of leasing arrangement in which bonds are issued to finance the purchase of transit assets. Typically, the public transit agency (lessee) enters into a lease with a trustee or non-profit entity (lessor) for the assets it wishes to acquire. The lessor then transfers its rights to receive the lease payments made by the transit agency to the bond holders. The cash paid by the bond holders is used to purchase the assets that will be leased by the transit agency. The transit agency makes lease payments from local revenue sources and FTA grants. Title to the assets is held by the trustee for the security interest of the bond holders during the life of the transaction (usually 7 to 12 years). Use of this technique may allow transit agencies to use future reserves of local and federal revenues to accelerate equipment purchases. Although historically FTA recipients have engaged in COPs transactions solely for the purchase of vehicles, this technique may also be used to acquire facilities. Approximately six of these have taken place with federally funded equipment. Further guidance on the use of COPs can be found in FTA Report No. FTA-MA-90-7005-93-1 ("How to Evaluate Opportunities for Cross Border Leasing and COPs," November 1993).

- **Joint Development.** Under 49 U.S.C. 5309(a)(5) and (f) and 49 U.S.C. 5309(a)(7) (formerly Sections 3(a)(1)(D) and 3(a)(1)(F)), Capital Program funds can be used for a variety of joint development activities, so long as they are physically or functionally related to a transit project and they enhance the effectiveness of the transit project. Further, consistent with the additional flexibility in funding and decisionmaking afforded by ISTEA, FTA has recently interpreted the Capital Program (49 U.S.C. 5309) and the Federal Transit laws (49 U.S.C. 5301 *et seq.*) to allow such joint development projects under the Urbanized Area Formula Program (49 U.S.C. 5307, formerly Section 9), as well as the STP (23 U.S.C. 133) and the CMAQ Program (23 U.S.C. 149) when these funds are