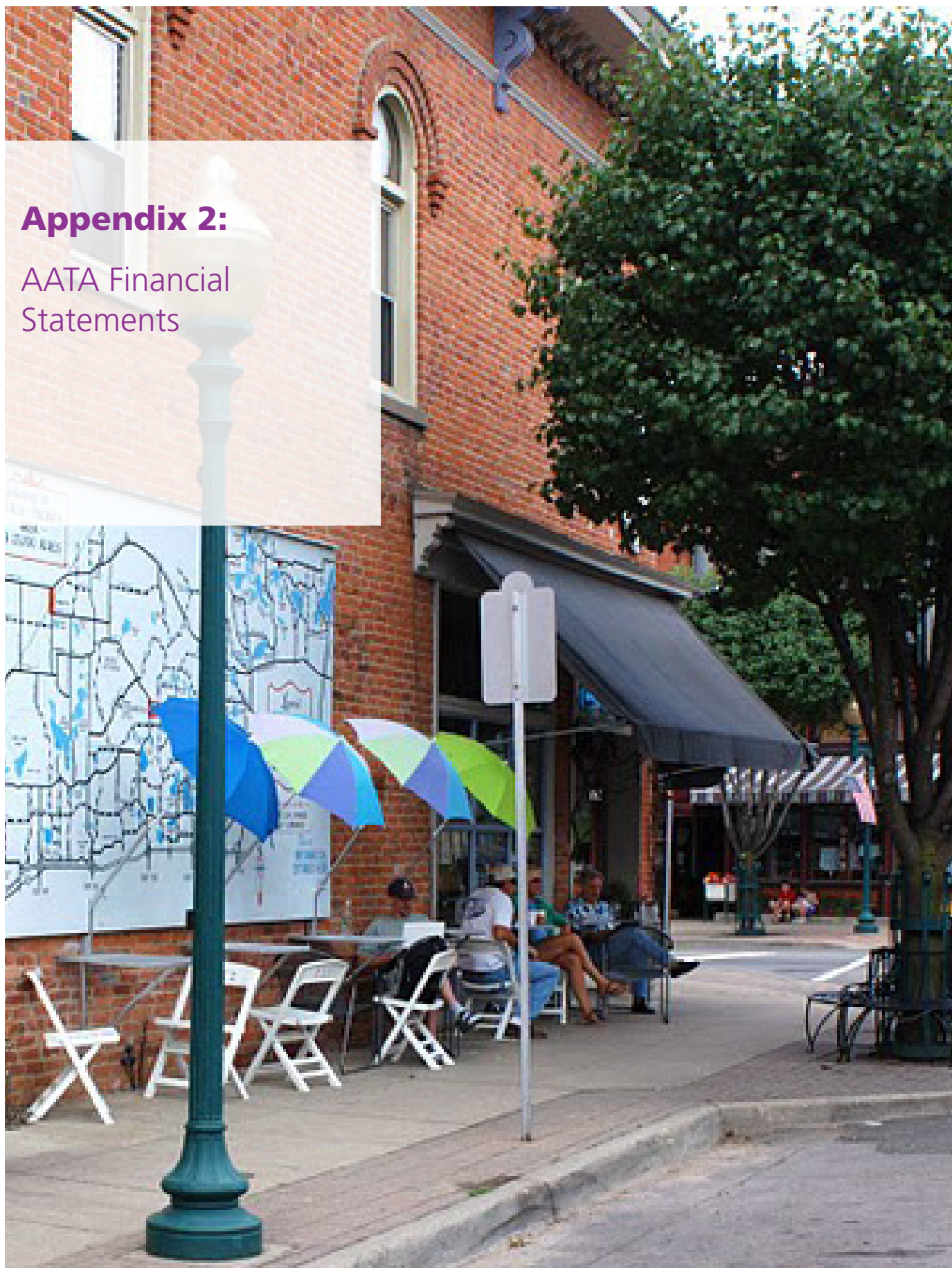
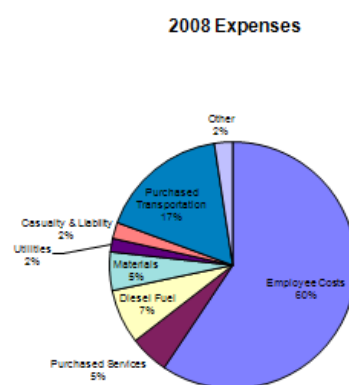
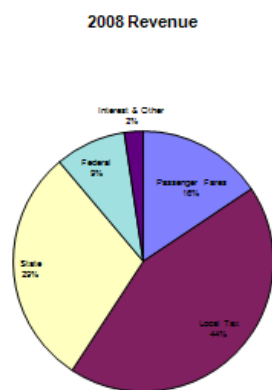


## **Appendix 2:**

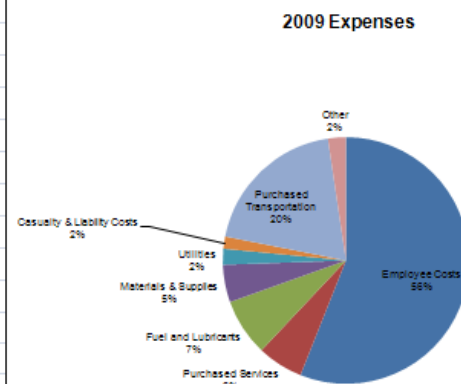
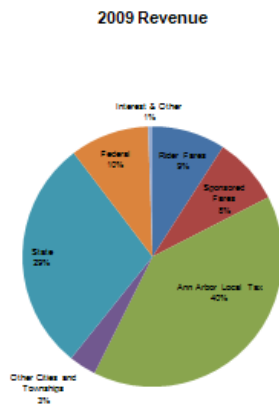
### AATA Financial Statements



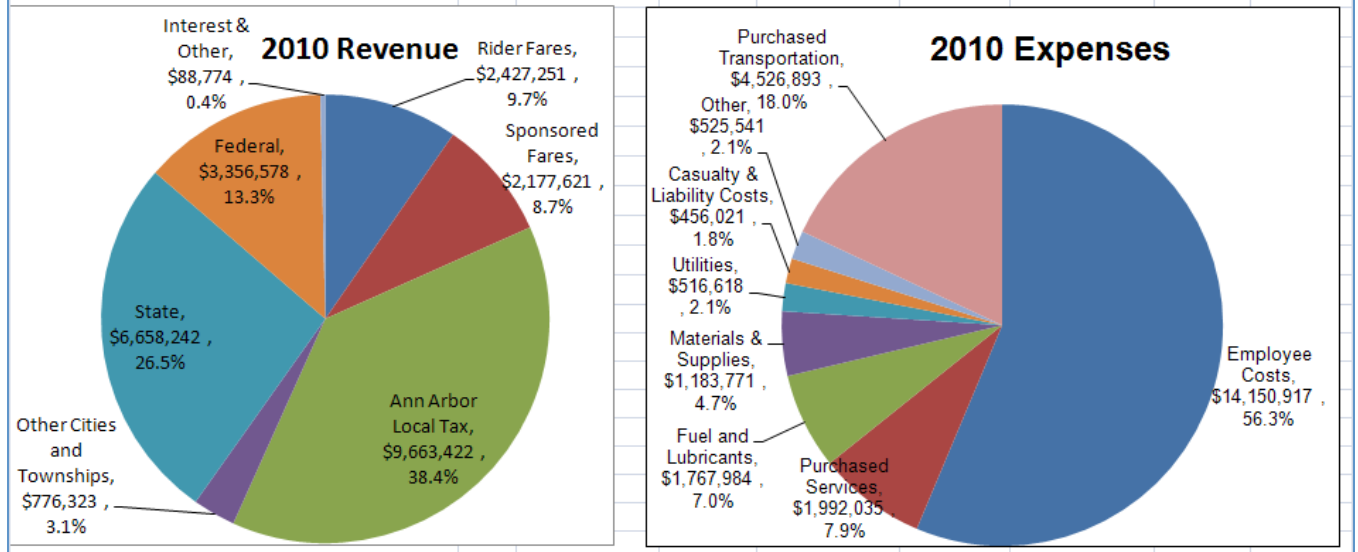
Annual Financial Information							
FY 2008							
	2008	Percent	2007	Percent	INCREASE (DECREASE)		
REVENUES							
PASSENGER FARES:							
PAID BY RIDERS	\$2,027,964	8.5%	\$1,958,816	8.2%	\$69,148	3.5%	
PAID BY AN OTHER ORGANIZATIONS	\$1,709,804	7.1%	\$1,558,887	6.5%	\$150,917	9.7%	
LOCAL TAX REVENUES:							
CITY OF ANN ARBOR PROPERTY TAX	\$9,782,974	40.9%	\$9,547,581	39.9%	\$235,393	2.5%	
OTHER CITIES AND TOWNSHIPS	\$658,390	2.8%	\$539,830	2.3%	\$118,560	22.0%	
STATE OPERATING ASSISTANCE	\$7,084,501	29.6%	\$7,085,233	29.6%	(\$732)	0.0%	
FEDERAL OPERATING ASSISTANCE	\$2,110,166	8.8%	\$2,362,530	9.9%	(\$252,364)	-10.7%	
INTEREST AND OTHER REVENUES	\$561,736	2.3%	\$867,550	3.6%	(\$305,814)	-35.3%	
TOTAL REVENUES	\$23,935,535	100.0%	\$23,920,427	100.0%	\$15,108	0.1%	
EXPENSES							
WAGES, SALARIES, AND OTHER							
EMPLOYEE COSTS	\$15,258,720	59.4%	\$13,822,816	58.4%	\$1,435,904	10.4%	
PURCHASED SERVICES	\$1,316,475	5.1%	\$1,342,153	5.7%	(\$25,678)	-1.9%	
FUEL AND LUBRICANTS	\$1,841,126	7.2%	\$1,858,423	7.9%	(\$17,297)	-0.9%	
MATERIALS AND SUPPLIES	\$1,294,953	5.0%	\$1,343,061	5.7%	(\$48,108)	-3.6%	
UTILITIES	\$452,711	1.8%	\$442,905	1.9%	\$9,806	2.2%	
CASUALTY AND LIABILITY COSTS	\$546,079	2.1%	\$450,091	1.9%	\$95,988	21.3%	
PURCHASED TRANSPORTATION	\$4,358,553	17.0%	\$3,831,639	16.2%	\$526,914	13.8%	
OTHER OPERATING EXPENSE	\$616,652	2.4%	\$562,014	2.3%	\$54,638	9.7%	
TOTAL EXPENSES	\$25,685,269	100.0%	\$23,653,102	100.0%	\$2,032,167	8.6%	
CAPITAL EXPENDITURES							
REVENUE VEHICLE ACQUISITION	\$10,673,208		\$629,073		\$10,044,135	1596.7%	
OTHER CAPITAL ACQUISITIONS	\$455,011		\$129,230		\$325,781	252.1%	
	\$11,128,219		\$758,303		\$10,369,916	1367.5%	
SERVICE OPERATED							
FIXED ROUTE VEHICLE MILES	2,494,612		2,473,517		21,095	0.9%	
FIXED ROUTE SERVICE HOURS	184,941		182,472		2,469	1.4%	



Annual Financial Information							
FY 2009							
	2009	Percent	2008	Percent	INCREASE (DECREASE)		
REVENUES							
PASSENGER FARES:							
PAID BY RIDERS	\$2,188,755	9.1%	\$2,027,964	8.5%	\$160,791	7.9%	
PAID BY AN OTHER ORGANIZATIONS	\$2,014,520	8.4%	\$1,709,804	7.1%	\$304,716	17.8%	
LOCAL TAX REVENUES:							
CITY OF ANN ARBOR PROPERTY TAX	\$9,607,092	39.9%	\$9,782,974	40.9%	(\$175,882)	-1.8%	
OTHER CITIES AND TOWNSHIPS	\$816,549	3.4%	\$658,390	2.8%	\$158,159	24.0%	
STATE OPERATING ASSISTANCE	\$6,949,225	28.9%	\$7,084,501	29.6%	(\$135,276)	-1.9%	
FEDERAL OPERATING ASSISTANCE	\$2,358,409	9.8%	\$2,110,166	8.8%	\$248,243	11.8%	
INTEREST AND OTHER REVENUES	\$134,858	0.6%	\$561,736	2.3%	(\$426,878)	-76.0%	
TOTAL REVENUES	\$24,069,408	100.0%	\$23,935,535	100.0%	\$133,873	0.6%	
EXPENSES							
WAGES, SALARIES, AND OTHER							
EMPLOYEE COSTS	\$13,534,464	56.0%	\$15,258,720	59.4%	(\$1,724,256)	-11.3%	
PURCHASED SERVICES	\$1,448,446	6.0%	\$1,316,475	5.1%	\$131,971	10.0%	
FUEL AND LUBRICANTS	\$1,813,700	7.5%	\$1,841,126	7.2%	(\$27,426)	-1.5%	
MATERIALS AND SUPPLIES	\$1,187,999	4.9%	\$1,294,953	5.0%	(\$106,954)	-8.3%	
UTILITIES	\$501,826	2.1%	\$452,711	1.8%	\$49,115	10.8%	
CASUALTY AND LIABILITY COSTS	\$384,734	1.6%	\$546,079	2.1%	(\$161,345)	-29.5%	
PURCHASED TRANSPORTATION	\$4,715,059	19.5%	\$4,358,553	17.0%	\$356,506	8.2%	
OTHER OPERATING EXPENSE	\$569,064	2.4%	\$616,652	2.3%	(\$47,588)	-7.7%	
TOTAL EXPENSES	\$24,155,292	100.0%	\$25,685,269	99.9%	(\$1,529,977)	-6.0%	
CAPITAL EXPENDITURES							
REVENUE VEHICLE ACQUISITION	\$4,256,241		\$10,673,208		(\$6,416,967)	-60.1%	
OTHER CAPITAL ACQUISITIONS	\$1,987,425		\$455,011		\$1,532,414	336.8%	
	\$6,243,666		\$11,128,219		(\$4,884,553)	-43.9%	
SERVICE OPERATED							
FIXED ROUTE VEHICLE MILES	2,556,920		2,494,612		62,308	2.5%	
FIXED ROUTE SERVICE HOURS	185,586		184,941		645	0.3%	



Ann Arbor Transportation Authority							
Annual Financial Information							
Fiscal Year 2010							
	2010	Percent	2009	Percent	INCREASE (DECREASE)		
REVENUES							
PASSENGER FARES:							
PAID BY RIDERS	\$2,427,251	9.7%	\$2,188,755	9.1%	\$238,496	10.9%	
PAID BY AN OTHER ORGANIZATIONS	\$2,177,621	8.7%	\$2,014,520	8.4%	\$163,101	8.1%	
LOCAL TAX REVENUES:							
CITY OF ANN ARBOR PROPERTY TAX	\$9,663,422	38.4%	\$9,607,092	39.9%	\$56,330	0.6%	
OTHER CITIES AND TOWNSHIPS	\$776,323	3.1%	\$816,549	3.4%	(\$40,226)	-4.9%	
STATE OPERATING ASSISTANCE	\$6,658,242	26.5%	\$6,949,225	28.9%	(\$290,983)	-4.2%	
FEDERAL OPERATING ASSISTANCE	\$3,356,578	13.3%	\$2,358,409	9.8%	\$998,169	42.3%	
INTEREST AND OTHER REVENUES	\$88,774	0.4%	\$134,858	0.6%	(\$46,084)	-34.2%	
TOTAL REVENUES	\$25,148,211	100.0%	\$24,069,408	100.0%	\$1,078,803	4.5%	
EXPENSES							
WAGES, SALARIES, AND OTHER							
EMPLOYEE COSTS	\$14,150,917	56.3%	\$13,534,464	56.0%	\$616,453	4.6%	
PURCHASED SERVICES	\$1,992,035	7.9%	\$1,448,446	6.0%	\$543,589	37.5%	
FUEL AND LUBRICANTS	\$1,767,984	7.0%	\$1,813,700	7.5%	(\$45,716)	-2.5%	
MATERIALS AND SUPPLIES	\$1,183,771	4.7%	\$1,187,999	4.9%	(\$4,228)	-0.4%	
UTILITIES	\$516,618	2.1%	\$501,826	2.1%	\$14,792	2.9%	
CASUALTY AND LIABILITY COSTS	\$456,021	1.8%	\$384,734	1.6%	\$71,287	18.5%	
PURCHASED TRANSPORTATION	\$4,526,893	18.0%	\$4,715,059	19.5%	(\$188,166)	-4.0%	
OTHER OPERATING EXPENSE	\$525,541	2.1%	\$569,064	2.4%	(\$43,523)	-7.6%	
TOTAL EXPENSES	\$25,119,780	100.0%	\$24,155,292	100.0%	\$964,488	4.0%	
CAPITAL EXPENDITURES							
REVENUE VEHICLE ACQUISITION	\$2,479,037		\$4,256,241		(\$1,777,204)	-41.8%	
OTHER CAPITAL ACQUISITIONS	\$3,239,084		\$1,987,425		\$1,251,659	63.0%	
	\$5,718,121		\$6,243,666		(\$525,545)	-8.4%	
SERVICE OPERATED							
FIXED ROUTE VEHICLE MILES	2,539,586		2,556,920		-17,334	-0.7%	
FIXED ROUTE SERVICE HOURS	182,216		185,586		-3,370	-1.8%	













## **Appendix 3:**















### **Transit Master Plan Project Details**

The interested reader may find the Countywide Transit Master Plan in its entirety on the TMP website at <http://www.MovingYouForward.org>



Symbol	Feature	What is it?	Where is it?
	Local Circulators	Small local buses which operate all day in a loop around the urbanized area connecting key destinations, some residential areas and the transit hub. This is modeled after the Chelsea Ride service. These will provide local access and access to the countywide express services.	These are proposed in: •Chelsea (expanding and lengthening the hours of the Chelsea Ride) •Dexter •Saline
	Local transit hubs, walkability and Countywide placemaking	Local transit hubs will help provide a focal point for transit in each community, support the implementation of transit oriented development and provide an attractive place to access or transfer to transit. The hubs will be designed to include parking for bikes and cars, safe and attractive spaces to wait and spaces for transit, drop off and taxis. Placemaking and walkability will support access to transit by improving sidewalks and making transit spaces safe and attractive.	In Chelsea, Dexter, Whitmore Lake, Saline, Milan and Manchester
	Mobility management/travel planning programs	Information and programs to ensure that residents and employees know about their transit options and understand how to use them easily and safely. This will include travel training (as currently provided by many organizations including RideConnect).	Countywide
	Park & Ride / New Intercept Lots	As well as providing parking at local transit hubs (as detailed above) new intercept park & ride lots will be introduced on the edge of the core urbanized area.	Around the core urbanized area of Ann Arbor and Ypsilanti
	Regional Rail	Train services providing longer distance connections between communities. Initially these services will be provided in the peak hours to support commuter trips and relieve road congestion, however, they may be expanded to all day services in the longer term. The map also indicates existing tracks extending west and south of Ann Arbor. If either E-W or N-S rail is implemented and experiences high growth, it may be economically feasible to extend services west and/or south.	Longer distance connections between communities: •East – West line to Detroit •WALLY (North-South line)
	Strategic alliances	Alliances between local authorities and operators (ie. the WAVE, People's Express, Manchester Senior Services, taxis and other mobility providers in the county) to ensure that services are planned, implemented and provided efficiently and that the user has one, simple point of contact.	Countywide
	Transit Center upgrade / New multi-modal interchange	Investing in the infrastructure of transit centers to provide safe, attractive access to transit. The upgraded centers will provide space for more services and where possible, access for other modes and retail opportunities.	Downtown Ypsilanti, downtown Ann Arbor and the multi-modal interchange at Fuller Road
	Urban bus network	Increased frequencies on all routes. The services in Ypsilanti will be redesigned to provide shorter two-way connections. Core routes will have 5 to 10 minute frequencies in the peak periods and most other routes will have a 20 minute frequency in the peak. Compared to the current peak services frequencies of 15 minutes on the core network and 30 or 60 minutes on the rest of the network. The urban bus network will also benefit from extended hours of operation, as detailed in the full report.	In and around the core urbanized area of the cities of Ann Arbor and Ypsilanti



Symbol	Feature	What is it?	Where is it?
	Airport Shuttle	An hourly express bus service between downtown Ann Arbor and Detroit Metropolitan Airport.	Stopping in Ann Arbor, possibly Ypsilanti, and at the Airport
	Biking – expansion of bicycling network	More bike lanes, stands and biking facilities to support and encourage biking in and around local communities, both as a way to access transit and as a healthy mode of transportation.	Countywide
	Bus priority measures	Measures to speed up buses and make travel times more reliable, including priority at signalized junctions and/or bus-only/high-occupancy vehicle lanes	On busy road corridors Countywide
	Bus stops / Stop quality and facilities	Investment in bus stops – providing information, seating, shelter at more stops and real time information at busy stops.	Countywide, wherever fixed routes are defined
	Bus vehicle improvements	New buses to make your journey more comfortable and attractive by improving the on board vehicle environment and providing access to digital technology as well as procuring vehicles with state of the art standards in environmental performance.	Countywide, wherever fixed routes are defined
	Car / van pool	Car / vanpooling already exists in Washtenaw County but the majority of use is connected with the University of Michigan. The plan will support the wider use of car/vanpools for commuting trips and support community (rather than employer) led programs.	Countywide
	Countywide Express Services	Bus / Coach services between the cities and villages in the County. The different services will have a frequency of 2 – 8 services per day, depending on the level of demand. This is building on the A2 Express services currently operating to Chelsea and Canton.	<ul style="list-style-type: none"> <li>•Chelsea - Ann Arbor (as per the A2 Express)</li> <li>•Canton-Ann Arbor (as per the A2Express)</li> <li>•Livonia Area</li> <li>•Dexter - Ann Arbor</li> <li>•Saline - Ann Arbor</li> <li>•Manchester - Saline - Ann Arbor</li> <li>•Milan – Saline – Ann Arbor</li> <li>•Whitmore Lake – Ann Arbor</li> </ul>
	Door-to-door Countywide	Services for all seniors and people with disabilities operating in all areas of the County and with extended hours of operation.	Countywide
	Downtown circulator	A downtown service in Ann Arbor connecting key destinations in the city center. This service may be similar to the Link service which was discontinued in 2009.	Downtown Ann Arbor
	Enhanced WAVE service	Increased frequency to hourly. The WAVE service will also benefit from extended hours of operation, as detailed below.	Between Chelsea, Dexter and Ann Arbor
	Extended hours of operation	Extended hours of operation across the day and the week for the urban bus network and the WAVE bus service, with later weekday evening and Saturday service, and service from 7 am - 9 pm on Sunday and all routes operating 7 days a week.	In and around the core urbanized area of the cities of Ann Arbor and Ypsilanti and between Chelsea, Dexter and Ann Arbor
	Flex-ride service	Services open to all residents, operating in all areas of the County, providing flexible (dial-a-ride) access to the fixed route bus network. i.e. Picking you up at your home and taking you to your local transit hub or bus stop. The fare for this service will be greater than a fixed route bus service. The Plan calls for Flex-ride service to carry trips between the Manchester and Chelsea areas. If demand warrants, this might be replaced with a fixed-route service.	Countywide
	High Capacity Transit	High frequency services along a specific corridor, using a new type of vehicle – for example, bus rapid transit, street cars or trams.	Within the core urban area: <ul style="list-style-type: none"> <li>•Connector (Northeast to Southwest Ann Arbor)</li> <li>•Washtenaw Avenue Corridors</li> </ul>
	Integrated ticketing	Integrated ticket products to make transfers between services or modes of transportation easy to use and understand.	Countywide





## Appendix 4:

### Public Private Partnerships ("P3s")





---

## P3 Opportunity

---

Public-Private Partnerships (P3s) are enforceable contractual arrangements between public and private sector entities with the purpose of creating, improving, or maintaining public services. Within the transportation sector, these partnerships typically involve some combination of financing, design, construction, operation, and maintenance of transportation infrastructure or service. Along with their potential to reduce risk and expand service, P3s allow transportation authorities to diversify their funding sources through access to private capital markets.<sup>1</sup>

*Transportation Funding Strategy and Public-Private Partnerships.* Transportation authorities in the U.S. rely on a combination of federal and local grants to fund the development of new projects and expansions. Additional funding for the operations and maintenance of existing services comes from local taxes and fare revenues.

However, there may still be a requirement to obtain finance in order to implement projects, which can be secured against a future funding stream. The contracts can vary significantly from transaction to transaction. Generally, the private sector partner will inject a share of the required capital but, depending on the nature of the project, they may also provide a lump sum payment, or commitment to a future revenue share in the case of a scheme likely to generate a significant operating surplus (e.g. toll road or parking concession).

Projects involving direct capital injection by private firms are more common internationally than within the United States. They may take a range of forms including design-build-transfer (DBT), design-build-operate and maintain (DBOM) agreements. Under these agreements, private firms design, finance, construct, and sometimes operate and maintain new and improved transit facilities. In return, they expect to receive a return on investment through performance payments or a revenue share model.

P3 legislation in Michigan: HB 4961 of 2009, proposed to allow P3 for highway and tollway projects in the state, with the aim of supporting the Detroit International River Crossing, passed in early 2010 in the Michigan House but was defeated in committee in the Senate in late December 2010. As part of a legislative compromise, the bill was changed from allowing P3 in any transportation project with limited state oversight to only a project for the DIRC. Given new Governor Rick Snyder's interest in using DIRC Canadian funds to act as state match dollars for federal transportation projects statewide, such a measure may be reintroduced this year.

### *Performance Payment Model*

Transit public-private partnerships typically rely on performance or availability payments to compensate private investors. The private contractor provides a capital contribution to cover a portion or all of the initial construction funding. The contractor draws on debt and equity capital markets to finance the project. Debt is secured by the transportation authority's obligation to make performance payments after construction of the project.

Under this model the fare revenue along with ridership risk remain with the public sector. The public sector makes payments to the private partner as milestones or performance metrics are met. Payments can be funded from fare revenue, governmental grants, general fund, TIFs or bonds.

To receive performance payments the operator must meet availability and quality of service requirements. This encourages a long-term costing approach during the design and build phase of the project. Depending on the contract, payments by the public sector partner are not made until the project is operational and creating revenue. Under any performance-based contract, deductions can be made for partial availability or quality failures such as unclean or unsafe facilities. This arrangement shields the public sector from large upfront capital expenses and inadequate service quality.

---

<sup>1</sup> American Public Transportation Association. *Public-private partnerships in public transportation: policies and principles for the transit industry.*

Below is an overview of the key characteristics of the Performance Payment Model:

- Leverages P3 model to reduce exposure to cost risk, provide upfront capital, integrate private sector innovation and achieve efficiencies
- Performance requirements allow public management of service quality
- Public Sector retains ownership and control of fares and provisions against competing facilities are not necessary
- Payments do not start until after project is operational (protects against delays in implementation)
- Life-time project expenses are capped (provided conditions/requirements do not change)
- Performance contracts may attract a wider variety of contractors and investors
- Encourages long-term costing approach to design and maintenance

#### *Revenue Share Model*

An alternative to the performance payment model is a revenue share system. Under this system, demand risk is wholly or partially transferred to the private sector. Responsibility for fare collection can also be transferred or retained by the public sector.

The private contractor will require a higher return on equity than under a performance system given the greater risk exposure. There can be staged arrangements with the public sector providing minimum revenue guarantees for part or all of the contract term to mitigate risk and reduce potential costs.

Though specifically encouraged by the FHWA for highway projects (and multi-modal projects), P3 has been had limited application to transit in the United States so far. The FTA has no programming comparable to the FHWA's to encourage innovative financing, and only a handful of transit projects have been completed

Examples of recent P3s for transit projects which have mixed private and public sector funding:

Tren Urbano (San Juan): Turnkey project for station construction on the Caribbean's first rapid transit system built in 1996-7; DBO contract for lines, equipment. Siemens AG was part of the team that won the design contract for the rail line and its rail cars, along with a five-year contract to operate the system. Total project costs reached approximately \$2.3 billion, and the line opened to passengers in December 2004. San Juan utilized TIFIA Credit Agreement in amount of \$300.0 million, which was refinanced with tax-exempt debt in 2003, fully prepaying TIFIA 32 years earlier than scheduled. The bonds issued in 2003 have a 4.97% interest rate – 75 basis points below the loan interest rates.

Hudson-Bergen Light Rail (Hudson and Bergen Counties, NJ): Public sector sponsor: NJT, NJDOT, FTA. Project implementation began in 2002, minimum operable segment (\$1.0 billion, 9.5 mile segment with 16 stations) became operational in 2002 and was extended in 2006 and 2010 for a total of \$2.2 billion. The project made use of FTA New Starts Full Funding Grant Agreements, Grant Anticipation Notes (backed by passenger fares) and a State Transportation Trust Fund (funded by motor fuel tax receipts). Contract is a 15-year DBOM fixed price contract beginning in 1996 with private partners 21st Century Rail Corporation (URS Washington Division; Itochu Rail Car and Kinkisharo USA).

Denver Eagle P3 (CO): Design Build Finance Operate and Maintain \$1.6 billion contract with 35 year term. Three line program covers the 23 mile East Corridor; 7.3 mile Gold Line; a 5.2 mile section of Northwest Electrified Rail Segment and a new commuter rail maintenance facility. Part of the FTA's "public-private partnerships pilot program" (Penta-P). Contract awarded June 2010. The partnership will allow the Regional

Transportation District (RTD) to spread out large upfront costs over the length of the concession agreement and transfer project risk.

Virginia Commonwealth/DC Dulles light rail extension: Bechtel for design and build of rail stations/system. 25% funded through state funds and federal government; 25% from two counties, remaining 50% from toll road to airport (40-year contract for said revenue).

Canada Line, Vancouver. In 2009, the first light-rail rapid transit public-private partnership in North America was completed in Vancouver, British Columbia. The C\$2.0 billion “Canada Line” project connects Vancouver International Airport, downtown Vancouver, and the suburb of Richmond via an above and underground rail line with 16 stations. Financing for the project came from federal, local, and private sources, including C\$720 million from InTransitBC, the design-build-operate private contractor. InTransitBC contracted out the design-build components of the project to SNC-Lavalin, which will also operate the line for 35 years<sup>2</sup>.

Importantly, the provincial and federal governments gained protection from project risks by transferring the responsibility of paying for cost overruns to the private contractor. The Greater Vancouver Transportation Authority (GTVA) has retained ridership risk and will collect fare revenue and set fare rates. InTransitBC will be compensated through a series of performance payments ranging from C\$14.0 to C\$21.0 million a year<sup>3</sup>. These performance payments will be dependent on availability of service (70%), quality of service (20%), and achievement of ridership forecasts (10%)<sup>4</sup>. The concessionaire will also manage the Canada Line’s secondary activities, such as advertising, fiber optics, retail, and wireless networks.

Portland Metropolitan Airport Express (MAX) 5.5 mile light rail Airport Expansion: Financed through a Public-Private Partnership and owned by Tri-Met, the project was a \$125.0 million collaborative endeavor undertaken by the Port of Portland, Tri-Met, the City of Portland, Portland Development Commission (whose projects are largely funded through TIF – the Airport Way Urban Renewal Area which the expansion runs through is one such corridor), and Bechtel Enterprises. In conglomeration with the design-build-finance project, a 120 acre transit-oriented development is being constructed by private partner Bechtel at the airport entrance slated for completion in 2015 (Bechtel has an 85 year lease for the property, with an option to renew for 14 years and in exchange for lease, paid a cost of \$28.2 million – financed through bond issuance for the construction of two stations and an overpass). The City contributed \$23.8 million for construction, using TIF for its contribution; Tri-Met contributed \$45.5 million for construction, using general fund monies (which consist of .64% payroll and self-employment tax). The Port contributed \$28.3 million in construction costs, the land at the terminal for the system station and the development rights to the private partner.

*Applicability to the Authority*. P3s provide a potential financing option for capital intensive projects when public sources of funding are restricted. Construction of the High Capacity Transit projects (independently or in combination) could be partially or wholly financed through a partnership with a private contractor. The net present value or net present cost of the traditional funding strategy would be calculated and act as a benchmark with which to compare private bids in terms of value for money (taking into account the time of delivery and associated benefits).

---

## Concession or Contracting-Out

---

The two other forms of P3s aim to improve or expand service through the concession of existing transportation assets or the contracting-out of specific functions or services.

---

<sup>2</sup> InTransitBC: <http://www.intransitbc.ca/about>

<sup>3</sup> Yonah Freemark. (2009). *Despite extraordinary ridership Vancouver’s new Canada Line is suffering*. The Transport Politic.

<sup>4</sup> KPMG. (2009). *Implementation of PPPs for transit*. The National Council for Public-Private Partnerships Conference.



*Concession or Long Term Lease* (“LTL”) agreements allow authorities to transform an asset’s future revenue stream into a current payment. Under these agreements, a competitively chosen private partner leases an existing asset in return for a lump-sum concession payment to the transportation authority. Alternative agreements may allow for revenue sharing or annual lease payments. The private operator takes on maintenance, operation, improvement, and expansion responsibilities as described in the contract as well as the risks associated with the revenue stream and costs. Examples of LTL contracts are the Chicago Park District garage concession, Chicago Skyway (bridge), Indiana Toll Road, and the New Jersey Transit Parking concession. They have been used to develop premium fare airport rail links (e.g. Arlanda in Stockholm) but they are rarely applied to mainstream transit operations.

*Contracting-Out.* Contracting-out certain operational services to the private sector is another partnership strategy available to transportation authorities. The private contractor takes on the responsibility of providing or improving a specific function, such as maintenance, inventory control, or service delivery. The potential benefit is that the Authority uses private sector expertise to gain cost and service efficiencies and reduce the risks associated with rising operational or maintenance costs.

---

## Conclusion

---

P3s transfer certain risks and financial opportunities to the private sector. In return, the public partner gains access to private equity and the potential for cost, service and technology improvements. In terms of fixed guideway P3s, performance payment schemes have been the most prevalent strategies internationally and look to be gaining ground in the U.S.



## Appendix 5:

### Debt Financing



This report has presented a hypothetical mix of funding measures that could be used to pay for the capital costs of the Transit Master Plan over the thirty-year period. The funding strategy involves using federal funds in two ways: 1) a pay-as-you-go approach that spends grant money on projects as that money flows into the region 2) a debt-financed component whereby loans are taken out to pay upfront costs of certain projects, and then are repaid later out of the stream of federal grants. This appendix provides details on the financing charges associated with each loan and the sources of funds to pay back these financing charges.

The funding strategy included a debt-financed component as the cash flow requirements to implement the Plan projects do not match the profile of grant apportionment. The Plan as set out will require accelerated levels of capital investment. The sources of debt-finance considered included: bond issuance, capital leasing, Federal loans, State Infrastructure Bank loan ("SIB") and Public-Private Partnerships ("P3s").

### ***Bond Issue***

It would be possible for the Authority to issue bonds (sometimes referred to as Grant Anticipation Notes) to secure access to capital, based on the stability of the grant funding stream. The Authority would pledge to repay principal and interest on the bonds from future Section 5307 grant receipts. Grant receipts pledged to the bonds cannot be used for any other purposes and leveraging federal grants in this way incurs interest costs.

This type of financing is relatively easy to execute and well accepted by participants in the municipal marketplace<sup>5</sup>. With typical requirements for a generous interest coverage ratio on the bonds, there will be a substantial share of the funds remaining, which can be applied to pay-as-you-go projects.

To implement the Plan according to the proposed timescale will require the level of capital generated from an initial 18 year bond issue in 2013. Over the term of the Plan it is assumed that, following repayment of the initial bond, there would be a second issue in 2031. We have assumed that the value of the Section 5307 grants will increase by 2% per annum in real terms. The debt service coverage ratio means that there will be a balance of the grant uncommitted each year, which is assumed to be applied to smaller pay-as-you-go (PAYG) projects.

Assuming two tranches of bonds are issued, for \$40.5 million in 2013 and \$57.8 million in 2031 (assuming 2% per annum real growth in grants) there would be \$66.9 million remaining towards the costs of renewal of the existing bus fleet as PAYG projects (including the two years of 5307 before the first bond issue).

These funds would be allocated to Urban Bus Network improvements (\$25.2 million), Countywide Connections (\$13.9 million), Regional Connections (\$10 million) and a contribution to High Capacity Transit (\$36.4 million).

If higher levels of federal grant funding are achieved in practice, this would allow a corresponding reduction in finance required from loan schemes.

### ***Capital Leasing***

Capital Leasing can be used to secure buses needed for fleet replacement or expansion. It can be used to smooth cashflow over the life of the assets when there are insufficient funds available from federal grants in the relevant period. The stream of future lease payments (including finance charges) can be paid from a combination of Federal (up to 80%) and local funds. However, the option should be viewed as an alternative to a bond issue rather than an addition as the associated contractual lease payments will come from the same grant funding stream. Leasing may also limit future funding available from FTA grants for the duration of the lease period.

---

<sup>5</sup> Further information on the mechanisms for leveraging federal grants to kick start the Plan is provided in Appendix 6



## ***Federal Loans***

In addition to the grant programs, the federal government provides several transportation and loan guarantee programs that provide cost efficient access to capital for eligible projects. These loans are offered at a low cost of capital relative to commercial rates, and are therefore a cost-effective means of raising funds for investment when no grant funding is available. However, like all loans, the debt must be serviced and the loan repaid. The means of funding these financing charges is described in a later section.

### ***TIFIA Loan***

The Transportation Infrastructure Finance and Innovation Act ("TIFIA") program was created in 1998, with the intention of attracting private sector investment in transport infrastructure development. The act established a credit program to leverage federal funds by attracting substantial private and other non-federal co-investment in transportation projects costing at least \$50 million. Under TIFIA, the U.S. Department of Transportation (USDOT) may provide three separate forms of credit assistance to eligible projects: secured loans, loan guarantees and standby lines of credit for up to 33% of project value. The two High Capacity Transit project, North-South Ann Arbor (The Connector) and Ann Arbor-Ypsilanti (Washtenaw Avenue), would be eligible under the program.

The loan program is over-subscribed (\$14 billion applied for this year) and in the latest budget proposals the President has allocated only \$450 million for FY2012 loans. Instead there are suggestions that a National Infrastructure Bank (NIB) will fill the gap, leveraging private investment for projects. The initial NIB allocation is \$30 billion. For the purposes of this proposal, we have assumed that the terms of a TIFIA loan and those provided by NIB would be similar.

In theory a loan could be taken for up to \$93.2 million, representing 33% of both the High Capacity Transit projects' capital investment). If an average level of New Starts funding contribution was required this would mean that the maximum TIFIA loan would be sought. If the maximum (60%) level of New Starts grant was obtained, and 33% funded via TIFIA, this would leave 7% (\$19.8 million) to be funded from local sources (Authority bonds).

TIFIA loans are typically for a 35 year term and, at the current Treasury long term interest rate of 4.34%, this would be equivalent to an annual cost (including repayment) of \$5.2 million per annum when fully drawn down.

### ***RIFF Loan***

One of the TIF debt instruments available would be the federal Railroad Rehabilitation and Improvement Financing Program ("RRIF") which provides direct loans and loan guarantees to finance development of railroad infrastructure. Eligible projects include: (i) acquisition, improvements or rehabilitation of intermodal or rail equipment or facilities; (ii) refinancing outstanding debt incurred for these purposes, or (iii) development or establishment of new intermodal or railroad facilities. RRIF loans can fund up to 100% of a railroad project with a maximum repayment period of 35 years at interest rates equal to the rate of Treasury securities of a similar term. It would potentially apply to the regional commuter rail element of the Regional Connections strategy.

We have assumed that a 95% contribution to funding of Regional Connections strategy would be met by a RIFF loan of \$38 million, with repayments of \$2.1 million per annum. The balance, including the non-RIFF eligible components would be funded from federal 5307/5309 grants as PAYG projects.

### ***Public-Private Partnership***

In the event that the High Capacity Transit projects do not secure grant funding under the New Starts program, the Authority may need to consider a Public-Private Partnership (“P3”), where a private sector partner will inject capital to undertake project and operate the facility, in return for a stream of future payments. Specific authority has been given for P3 light rail projects and for construction and operation of facilities in the State<sup>6</sup>.

P3 offers the potential benefit of delivering projects quickly and with cost certainty for the Authority. However, the downside is that as it relies on equity and commercial debt funding it is likely to have a higher long term cost than using alternative sources of public sector funding.

Consequently, we believe that the Authority should first consider applying for a federal New Start grant for the High Capacity Transit projects, and would only rely on the private sector for funding if the grant application was unsuccessful.

On the basis that the concession would last for 25 years, we estimate that the cost of funds would be equivalent to 7.5% plus full repayment within the term. To put this in context, it is equivalent to around a 0.5c sales tax. It would be possible to profile payments to suit availability of funds, although back loading payments may increase the level of charges. To secure the debt, a commitment to the sales tax (or equivalent source of funding for payments) would be needed in advance.

### ***State Infrastructure Bank Loan***

An option for funding of small projects is through a loan from the State Infrastructure Bank (“SIB”). This offers flexibility in project selection and financial management compared with many other sources of funds which have more onerous conditions. As of 2005, Michigan had executed 33 loan agreements totaling \$22 million from their SIB.

Infrastructure such as local transit hubs and Park & Ride intercept lots to support Countywide Connections could be financed from SIB loans (a loan of \$3.7 million has been assumed). Local cities or townships could also draw on this source of finance to help implement the coordinated program of walkability and biking initiatives to support Integrating Transit into the Community, totaling \$20 million. However, these loans ultimately need to be repaid.

### ***Financing Costs/ Debt Service***

The debt created by bonds and loans must be serviced and ultimately repaid. The key difference is that bonds are sold to a range of investors and may be tradable, so once issued the terms are inflexible. Under a loan agreement the funds are committed by a single entity (the federal government in the case of RRIF and TIFIA loans).

It will be necessary to apportion a fixed amount of the annual allocation of federal Section 5307 capital grants to fund associated bonds issued by the Authority. For the TIFIA/NIB loan would also be possible to allocate part of the proceeds from an expanded property tax millage or sales tax. We have included the surplus over operating costs for illustration.

In addition, the projects will create potential development opportunities and enhanced property valuations which may be captured through tax increment finance (TIF) districts. The estimate of \$3.0 million per annum is based on an 80% share of, an assumed, \$3.8 million incremental tax revenue, although not all this revenue

---

<sup>6</sup> For further information on P3s see Appendix 4

would be needed to service the RIFF loan. A smaller share could be taken with any potential surplus potentially used to support local cities and townships in servicing their SIB loans.

Table A5.1 below illustrates the level of financing costs matching the funding structure set out in the section on capital funding. These can be satisfied by a combination of hypothecated federal grants, TIF district income and a contribution from a millage or sales tax and parking tax. The illustration shows there is potential for a modest annual surplus which can be used to cover shortfalls in any individual year (e.g. 2025 in the illustration below) and other contingencies (e.g. delay in approval of new taxes or a lower rate of tax).

Building High Capacity Transit under a P3 initiative (if New Starts grant funding is not available) will require an additional stream of payments by the Authority over the term of the contract, typically based on availability of the infrastructure and delivery of specified services. To raise the equivalent funds would require an additional \$15 million annual to be raised from revenues from 2025 onwards.

**Table A5.1 Financing costs and sources of revenue**

Projected Annual Charges and Funding (2010 prices)			
	2015	2025	2040
	Value \$m	Value \$m	Value \$m
<b>Financing Charges (including provision for bond or loan repayment)<sup>1</sup></b>			
Authority Bonds (leveraging Fed 5307) <sup>2</sup>	(3.2)	(3.2)	(4.6)
SIB Loan <sup>3</sup>	(0.4)	(2.0)	(2.0)
TIF (RRIF) <sup>4</sup>		(2.1)	(2.1)
TIFIA / NIB Loan <sup>4</sup>	(0.0)	(5.2)	(5.2)
<b>TOTAL COST OF FINANCING</b>	<b>(3.6)</b>	<b>(12.5)</b>	<b>(13.9)</b>
<b>Sources of Funding</b>			
Federal 5307 for Capital	3.2	3.2	4.6
TIF Contributions		3.0	3.0
Surplus from Operating Revenues <sup>5</sup>	1.9	5.3	10.3
<b>TOTAL FUNDS FOR FINANCING</b>	<b>5.1</b>	<b>11.5</b>	<b>17.9</b>
Balance available	<b>1.5</b>	<b>(1.0)</b>	<b>4.0</b>

1 Periodic payment calculations based on capital sum, assumed interest rate and loan duration

2 Authority Bonds Tranche 1 2013: \$40.5m, 18 year term, 4% interest; Tranche 2 2031: \$57.8m, 18 year term, 4% interest

3 SIB loan - \$1.7m per annum is associated with loans assumed to be taken and serviced by local cities and townships.

4 RIFF and TIFIA Loans: 35 year term, 4.34% interest





**Appendix 6:**  
Leveraging Grants



---

## 5307 Bond Issuance

---

Implementing the Plan in the proposed timescale requires a cashflow profile which is significantly different from the available funding streams, which means there will be a requirement for debt financing. All financing must be matched with a known, quantifiable and reliable revenue stream to support repayment.

There are two main options available. The first is to secure the borrowing against future property tax revenues of the community, although this would limit future freedom of action and these taxes may also be required to support operating expenses which are not eligible for alternative sources of funding. One of the alternatives is to hypothecate anticipated federal grant receipts. Apportionment conversion allows conversion of Federal-aid apportionment into dollars to pay the cost (principal and interest) on bonds.

The practice is commonly used, and encouraged by provisions within SAFETEA-LU. Enhanced bond ratings and a correspondingly lower cost of finance can be achieved if the transit agency can establish a debt service reserve fund. SAFETEA-LU authorized recipients of transit grants under Section 5307 and 5309 to be reimbursed for up to 80 percent of the deposits used in a debt service reserve. It should be noted that SAFETEA-LU has been operating on a series of short-term extensions since it expired in 2009. Congressional action is needed to provide for continued federal funding of transit.

Leveraging the Authority's 5307 federal transit grants could help to kick-start the Plan. The primary benefit of a leveraged financing is that the Authority could accelerate the start of its capital projects bringing projects online sooner while locking in current construction prices.

Eligible activities under the 5307 federal grant program include planning, engineering design and evaluation of transit projects and other technical transportation-related studies; capital investments in bus and bus-related activities such as replacement of buses, overhaul of buses, rebuilding of buses, crime prevention and security equipment and construction of maintenance and passenger facilities; and capital investments in new and existing fixed guideway systems including rolling stock, overhaul and rebuilding of vehicles, track, signals, communications, and computer hardware and software. All preventive maintenance and some Americans with Disabilities Act complementary paratransit service costs are considered capital costs.

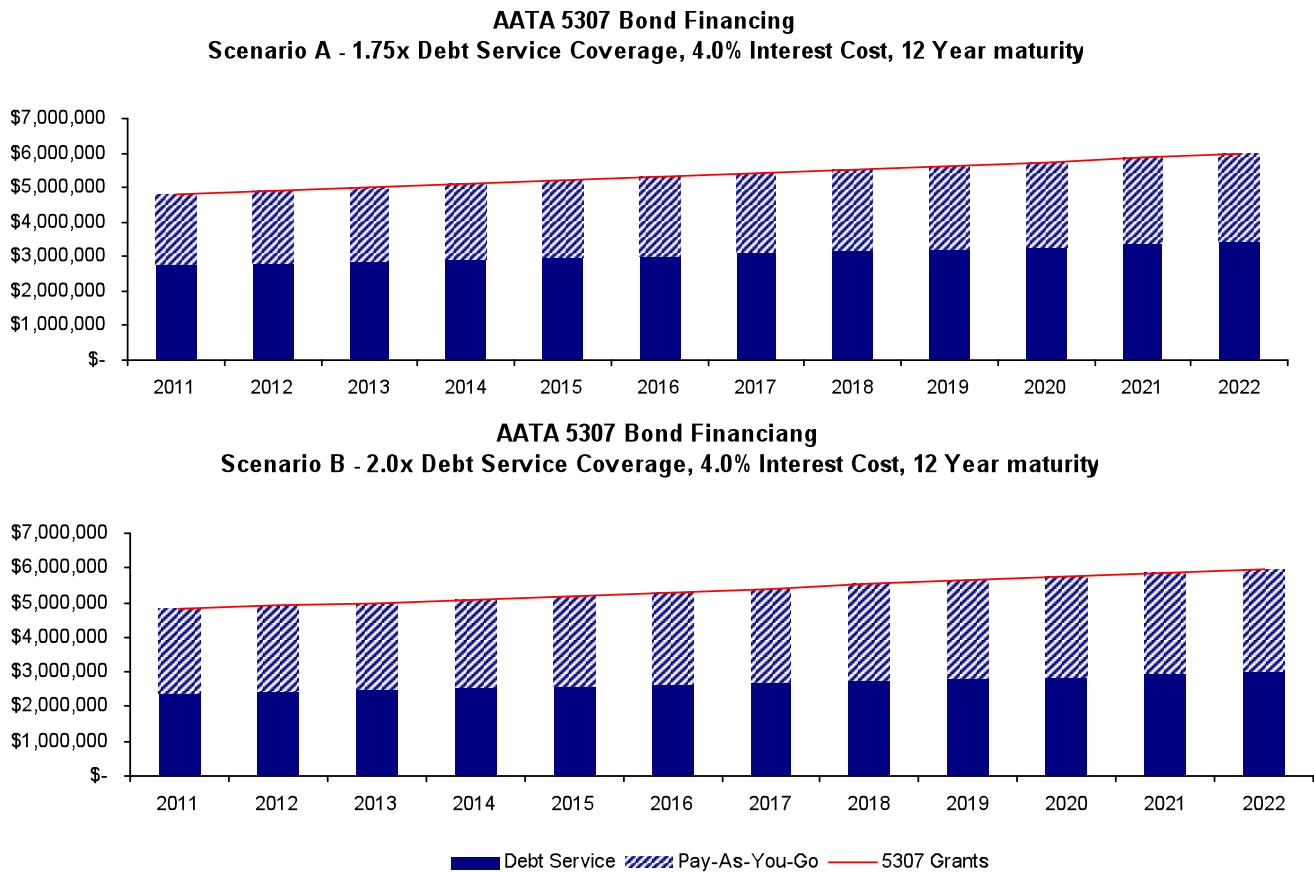
Under a leveraged grant financing, the Authority would issue bonds with the principal and interest pledged to be repaid by the Authority's future Federal Section 5307 grants. This type of financing is relatively easy to execute and well accepted by participants in the municipal marketplace including investors, rating agencies and bond insurers. While primarily a tool for larger transit agencies, such as Chicago Transit Authority, New Jersey Transit, it has also been used by smaller systems including the Alaska Railroad. The structure is essentially the same though the type of investor for smaller transactions may be different. The marketplace acceptance is mainly due to the formula funding nature and historical funding stability of the Section 5307 program versus the discretionary nature and more erratic funding history of other federal programs.

*Financing Scenarios.* The Ann Arbor urbanized area as defined by the FTA received around \$4.8 million in Section 5307 and 5340 grants in 2010 according to the FTA. The following tables show the amount of Section 5307 grants from 2011 to 2022 available to pay debt service under a proposed financing assuming a 2% annual growth in 5307 funding, maximum annual debt service, annual debt service coverage ratio and the remaining Section 5307 grants available for pay-as-you-go funding. Based on this grant schedule, the Authority could issue up to \$28.5 million in Section 5307 bonds assuming a 12-year final maturity, 4% true interest cost on the bonds and 175% debt service coverage.

Debt service coverage refers to the amount of expected grant receipts over the annual principal and interest payments on the bonds. This maturity length and debt service coverage level is feasible given that many transit agencies have recently issued bonds using similar or more conservative (i.e., greater final maturities and/or

lower debt service coverage levels) structures. If the bond or bank markets do not allow for an efficient sale at this debt service coverage ratio, the Authority could increase the coverage factor to 200% and still issue almost \$25 million in bonds. After payment of debt service, the Authority would retain the balance of the FTA grants which could be applied to Pay As You Go projects. **Table A5.1 – Bond Issuance Coverage Scenarios** provides an overview of the Authority’s debt service schedule under a 5307 bond issuance using 1.75x and 2.0x coverage.

**Table A5.1 – Bond Issuance Coverage Scenarios**



*Debt Capacity for 5307 Structure.* The Authority could potentially double its bonding capacity (i.e. increase it by \$30 million) should the rating agencies, banks or municipal bond investor community accept a longer term bond issue. In addition to producing greater upfront proceeds for the Authority, a longer-term bond issue is especially advantageous in the current interest rate environment, which would allow the Authority to lock in low interest rates at the long end of the municipal yield curve. Moreover, “loading” debt at the back end of the yield curve would allow the Authority to preserve short-term debt capacity for higher future interest rate environments and for financing assets with shorter useful lives. There are examples of 18 year Section 5307 bonds being sold in the market and this length of maturity is very much in keeping with the financing principle of funding capital projects over their useful life especially for long-lived bus and rail projects.

Assuming 12 years is as long as the Authority can/desires to issue, **Table A5.2 – 5307 Bonds Par Size (12 Year Final Maturity)** below shows various maximum Section 5307 bond sizes with a 12 year final maturity under different coverage levels and interest rates. **Table A5.3 – 5307 Bonds Par Size (18 Year Final Maturity)** shows various maximum Section 5307 bond sizes with an 18 year final maturity under different coverage levels and interest rates.



Smallest and largest potential bond issues under a 12 year final maturity are \$22.8 million and \$41.2 million, compared to \$31.2 and \$59.2 million under the 18 year final maturity, illustrating the leveraging benefit of longer-dated maturities, lower debt service coverage ratios and lower interest rates. With respect to coverage ratios and final maturity length, it is emphasized that there is a trade-off in terms of flexibility, as lower values will limit the pay-as-you-go funding available to the Authority.

Table A5.2					
5307 Bonds Par Size (12 Year Final Maturity)					
Interest Rate	Debt Service Coverage				
	125%	135%	150%	175%	200%
3.50%	\$41.2	\$38.2	\$34.3	\$29.4	\$25.7
4.00%	\$39.9	\$37.0	\$33.3	\$28.5	\$24.9
4.50%	\$38.8	\$35.9	\$32.3	\$27.7	\$24.2
5.00%	\$37.6	\$34.8	\$31.3	\$26.9	\$23.5
5.50%	\$36.5	\$33.8	\$30.4	\$26.1	\$22.8

Table A5.3					
5307 Bonds Par Size (18 Year Final Maturity)					
Interest Rate	Debt Service Coverage				
	125%	135%	150%	175%	200%
3.50%	\$59.2	\$54.8	\$49.3	\$42.3	\$37.0
4.00%	\$56.7	\$52.5	\$47.2	\$40.5	\$35.4
4.50%	\$54.3	\$50.3	\$45.3	\$38.8	\$33.9
5.00%	\$52.1	\$48.2	\$43.4	\$37.2	\$32.5
5.50%	\$50.0	\$46.3	\$41.6	\$35.7	\$31.2

*Bond Sizing and Use of Proceeds.* The optimal bond size should be driven by the Authority's capital improvement plan as it relates to both the overall magnitude of the program and useful life of the assets.

The Authority must ensure that sufficient Section 5307 eligible projects exist. The Authority can only use bond proceeds for Section 5307 purposes such as capital investment in buses and bus-related activities, capital investment in new and existing fixed guideway systems and planning / evaluation of transit projects. However, this upfront funding could be used for worthy Section 5307 projects that the Authority has identified but stand currently unfunded. This underscores the need to develop the long-term capital plan in light of available funding sources and financing techniques.

*Variable Rate Bonds.* The Authority may be able to reduce overall borrowing cost and increase its bond repayment flexibility by issuing floating rate debt instead of fixed rate Section 5307 bonds. Some issues to consider include: (1) cost savings - the historical interest rate advantage of variable rate debt vis-à-vis fixed rate debt may be an attractive financing alternative for the Authority, (2) insurance and ratings - from the perspective of bond insurers and rating agencies, floating rate Section 5307 bonds would mitigate the appropriation risk inherent in grant transactions by maximizing the flexibility of principal payment, (3) debt capacity - the Authority would not be able to maximize its debt capacity utilizing variable rate bonds due to the restrictive interest rate requirements related to floating rate bond sizing, (4) credit fees - ongoing liquidity facility and remarketing fees may diminish the historically lower interest rate advantage of floating rate debt and (5) future changes in interest rates - the initial and potential variable rate to fixed rate interest spread may not be sufficient in this low overall interest rate environment to compensate the Authority for future rises in interest rates.

*Additional Considerations.* The Authority should evaluate several considerations before leveraging its future federal Section 5307 grants. First, the issuance of Section 5307 bonds would encumber a portion of the Authority's future grant receipts. Grant receipts pledged to the bonds cannot be used for any other purposes. Second, leveraging federal grants includes interest costs. Unlike a pay-as-you-go approach, a portion of future grant receipts pay for financing costs in a grant leveraging financing. Finally, a leveraged grant financing may impact the Authority's overall credit rating. Since federal transit grants are subject to Congressional appropriation, the Authority ultimately has to rely on the federal appropriation process for timely debt service payments, which may imperil the Authority's credit rating.

Any projects that qualified for funding under the 5307 program could be financed under a federal grant leveraging transaction. Large scale capital projects that the Authority is especially interested in accelerating due to their high perceived benefits would be especially attractive for this type of financing.





## Appendix 7:

### Tax Increment Financing



---

## Overview

---

Tax Increment Financing (“TIF”) is a popular method of financing the public costs associated with development and redevelopment projects including transit-oriented development and transit-oriented facilities. TIF can be utilized only after the proper authority and board is created, and a separate project and TIF proposal is created.

TIF occurs when the local government defines a geographic area as a TIF district and freezes the assessed tax base at the time of creation (Base Assessed Value). The base taxes are passed through to the tax authority as before, but any incremental increase in the Assessed Value resulting from private development can be used to pay for qualifying projects which benefit the specific development district. The “increment” is earmarked or “captured” for the TIF or to other taxing units that otherwise would receive revenues. The TIF district designation is usually terminated after a period of 20–30 years, after which all of the property taxes are for the benefit of the tax authority.

Public improvements can be financed one of two ways using TIF:

1. Improvements may be financed on a pay-as-you-go basis from annual tax increment revenues
2. The municipality may issue tax increment bonds to finance public improvements and use the annual tax increment revenues to retire the bonds. Bonds can be issued for up to 80% of what the municipality plans on generating annually, and excess revenues must be returned to the entities losing tax revenues to the TIF district.

TIF is based on two underlying principles:

- (1) without the expenditure of public funds, development would not occur (in other words, affected taxing units do not actually lose revenue because there would be no increased property taxes if the TIF plan did not provide for the public costs of the project);
- (2) since all taxing units will ultimately benefit from the development, the public costs of the project should be shared.

The State of Michigan has, as of March 30, 2010, enacted eight statutes dealing with these special districts.

TIF is authorized in the State for use by:

- *Downtown Development Authorities (DDA)* – for commercial development areas, primarily in the central business district (authorized under Public Act 197 of 1975)
- *Local Development Finance Authorities (LDFA)* – for industrial, agricultural processing and high technology services facilities in cities, villages and urban townships. LDFAs were authorized under Public Act 281 of 1986.
- *Corridor Improvement Authorities (CIA)* - to promote local economic growth and rehabilitate, renovate, and prevent the deterioration of established commercial business in communities adjacent to a DDA (but not eligible for inclusion in a DDA) including potential to extend the scheme across municipality boundaries. The district must be adjacent to a road classified as an

arterial or collector road by the Federal Highway Administration. CIAs were authorised under Public Act 280 of 2005.

- *Transit TIF districts* - Public Act 242 of 2010 extended the scope to transit-oriented development and transit-oriented facilities.
- *Tax Increment Finance Authorities (TIFA)* – for areas designated under PA 450 of 1980 prior to 1987

DDAs may capture tax revenues from the entire district, but LDFAs can only capture revenues from eligible properties (industrial, agricultural, or high tech service facilities), and funds must be spent to benefit the property generating the increment.

*Establishing a TIF.* There is typical procedure that all municipalities looking to establish TIF districts must follow. First and foremost, the proper authority and board must be established, followed by the development of project and TIF plans. A TIF revenue study is a required and, if feasible, a development plan and TIF plan are drafted. The next phase is the municipality's governing body adopts a resolution which calls for a public hearing on the proposed TIF district. The date the TIF plan is adopted by the governing body of the municipality is the date the assessed value of the properties within the district is frozen. The taxes generated by increases in assessments from that date forward go to the TIF authority.

---

## Local Application

---

*Feasibility and Other Considerations.* The Authority can potentially create a TIF district in the area where the increase in property tax revenues arising from economic development and redevelopment stimulated by capital improvements can be used to fund proposed projects on both the capital and operating side.

While there are many advantages to TIF, such as it provides a dedicated source of funds for an identified area and encourages private investment, there are also disadvantages and limitations to the financing mechanism. TIF plans divert tax revenues from the broader area for the use of one district, which could be viewed as inequitable use of public funds by some taxpayers. Additionally, the quest for TIF revenues can preempt local planning goals. TIF requires very close coordination between DDA's, LDFA's and local planning efforts. Lastly, some may have the perception that public funds are being used just to benefit property owners in the TIF district.

Ann Arbor currently uses TIF in the downtown district via the Ann Arbor Downtown Development Authority. The DDA grants funds to various organizations, including the AATA, for projects with TIF monies. The Ann Arbor Downtown Development District encompasses all or part of 66 city blocks, or approximately 271 acres, of which 80 acres are public rights-of-way. TIF revenues are collected from jurisdictions that include: the City of Ann Arbor, Washtenaw Community College, Washtenaw County and Ann Arbor Public Library. Ann Arbor's TIF only captures taxes from new development. TIF funds have been used to pay for the gopass!, an initiative providing an unlimited use bus pass for employees of downtown businesses at a rate of \$5 annually per employee (DDA pays the balance of the cost of the pass). The DDA TIF captures approximately 28% of City taxes within the district.

Ypsilanti also uses TIF through its DDA. The city has three TIF districts: Downtown, Depot Town and West Cross Development Area. Limited funds have been generated by the TIF districts in Ypsilanti due to the slower pace of investment in the city. In FY 2010, the Ypsilanti DDA is estimating a capture of around \$409,405 in TIF funds. Funds generated from the TIF districts have been used to support portion of DDA operating deficits. The City of Ypsilanti may at any time reclaim its portion of TIF revenues, but then must reimburse the affected taxing jurisdictions: Washtenaw County, Ypsilanti District Library, Washtenaw Community College, and the Ypsilanti Schools (in Michigan Avenue District). The Ypsilanti DDA will begin paying DDA staff salaries out of its TIF fund, as well as bond commitments and ongoing projects.

An example of LDFA is the Ann Arbor/Ypsilanti SmartZone. Created by the Michigan Economic Development Corporation in 2001, the Ann Arbor/Ypsilanti SmartZone provides capital needed for facilitating commercialization of research products developed at the two universities in the district and the development and retention of private high tech enterprises within the district. This SmartZone is governed by the Ann Arbor/Ypsilanti SmartZone Local Development Finance Authority, which consists of a nine member board of directors. Presently, TIF revenue is generated only within the geographic boundaries of the Ann Arbor DDA. Thus if the transportation project is located within a DDA, TIF can be requested for AATA projects from the DDA.

Ypsilanti and Ann Arbor, together with Pittsfield and Ypsilanti townships, are exploring the idea of forming a joint Corridor Improvement Authority to help fund redevelopment along the Washtenaw Avenue corridor.

---

## **TIF Debt Instruments**

---

*TIF Debt Instruments* The issuance of bonds backed purely by TIF proceeds is a similar to the process when issuing other types of bonds, but with the complication that some investors approach TIF debt with caution and usually want another pledge to back up payment of the TIF bonds. A secondary pledge can take the form of a parent municipality guaranty, private credit enhancer or a developer guaranty (if it is very strong). These investor concerns are especially true when the TIF area consists of a limited number of taxpayers. These type of bonds also require a high debt coverage ratio, which will limit the value of funds raised.

An alternative to issuing local bonds available to rail transit projects is the less complex and lower cost option of a loan under the Railroad Rehabilitation and Improvement Financing Program (“RRIF”).



*RRIF Loans* RRIF provides direct loans and loan guarantees to finance development of railroad infrastructure. RRIF loans can fund up to 100% of a railroad project with a maximum repayment period of 35 years at interest rates equal to the rate of Treasury securities of a similar term. It would potentially apply to the Regional Commuter Rail element of the Plan. The loans can be used to fund track, safety and facility upgrades as well as the acquisition of rolling stock.

The incremental property tax revenues generated by the growth around the station areas can be similarly quantified based on specific developer plans and the expertise of local planning staff. At this stage a high level estimate is all that is possible. It is assumed that it will be possible to fund a loan of \$36.9 million required as Washtenaw County's share of the investment.