Transit Impact Fee

San Francisco Municipal Railway
San Francisco, California

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San Francisco Municipal Railway

Background

Growing localities continually struggle to pay for the infrastructure required by new developments. Current residents typically do not want to subsidize it. As a result, many cities now charge developers exactions to compensate for the impacts of these developments. Exaction is the legal term for charges to developers (either money or in-kind contributions) for the effects of their development on the local community. These exactions have survived court challenges in numerous states as long as the improvement for which the fee pays directly benefits the development. Transit systems can benefit from exactions where development stresses a transit system's ability to provide service. For example, assume a new office complex generates additional commuter ridership in an area. Rather than charge all residents in the municipality, a locality can enact one type of exaction, an impact fee, to assess each developer for his/her development's **incremental** impacts.

In this case study, we examine the impact fee ordinance in San Francisco, California. Substantial downtown development in the late 1970s led the City and County of San Francisco (referred to as San

Agency Profile

Service Area	San Francisco
Modes	Bus, Light Rail, Trolley Coach, Cable Car
FY96 Operating Budget	$288 million
FY96 Capital Budget	$47.7 million
Annual Ridership	
Bus	89.9 million
Light Rail	36.7 million
Trolley Coach	77.8 million
Cable Car	9.6 million
Revenue Vehicle Miles	
Bus	12.1 million
Light Rail	3.7 million
Trolley Coach	7.1 million
Cable Car	500,000
Fares	
Bus	$1.00
Light Rail	$1.00
Trolley Coach	$1.00
Cable Car	$2.00

Francisco) to enact an ordinance to collect a Transit Impact Development Fee (TIDF). The impact fee was designed to recover the operating subsidy and capital expansion costs of the San Francisco Municipal Railway, (Muni), the local transit provider. Eligible costs include additional rolling stock, services, personnel, fuel, electricity, facilities, and the maintenance, repair, replacement, and operation of the vehicles and facilities.

Implementation

In the late 1970s, residents of San Francisco were concerned that the continuing downtown development was likely to require substantial investment in transit. While the city had historically funded transit out of general revenues, it did not anticipate having sufficient general revenue funds for the required investment. Residents and political leaders feared that they would bear the burden of these costs through increased taxes, so in response to these concerns, the city began to consider financing the transit system through alternative methods.

"The developer has created a new, and cumulatively overwhelming, burden on local government facilities, and therefore he should offset the additional responsibilities required on the public agency."[1]

At a meeting of the San Francisco Public Utility Commission (PUC) in December 1978,[2] it was suggested that the City establish a downtown assessment district to fund Muni's downtown services. The following year, the Planning Department began a review of the legal aspects of funding mechanisms to improve transit service in downtown San Francisco. After the community reviewed the alternatives, it decided on an impact fee to pay for developments' effect on transit. The city subsequently hired a number of private consultants to determine

- the marginal effect on transit ridership of new downtown office space and
- the marginal cost to the transit agency per square foot of development to serve this ridership.

Significant development in downtown San Francisco led to development of the TIDF ordinance.

Finally, in April 1981, the San Francisco Board of Supervisors passed the TIDF ordinance.

Program Structure

Because impact fees and other development exactions have often been subject to court challenges, San Francisco structured its ordinance to withstand court challenges as well as guide implementation. The ordinance is composed of the following key features:

- justification,
- a clear definition of the area in which property is to be assessed the fee,
- method used to calculate the fee,
- the manner in which proceeds will be used to serve the developments that pay the fee,
- payment timing and methodology, and
- provisions for lack of payment.

Justification

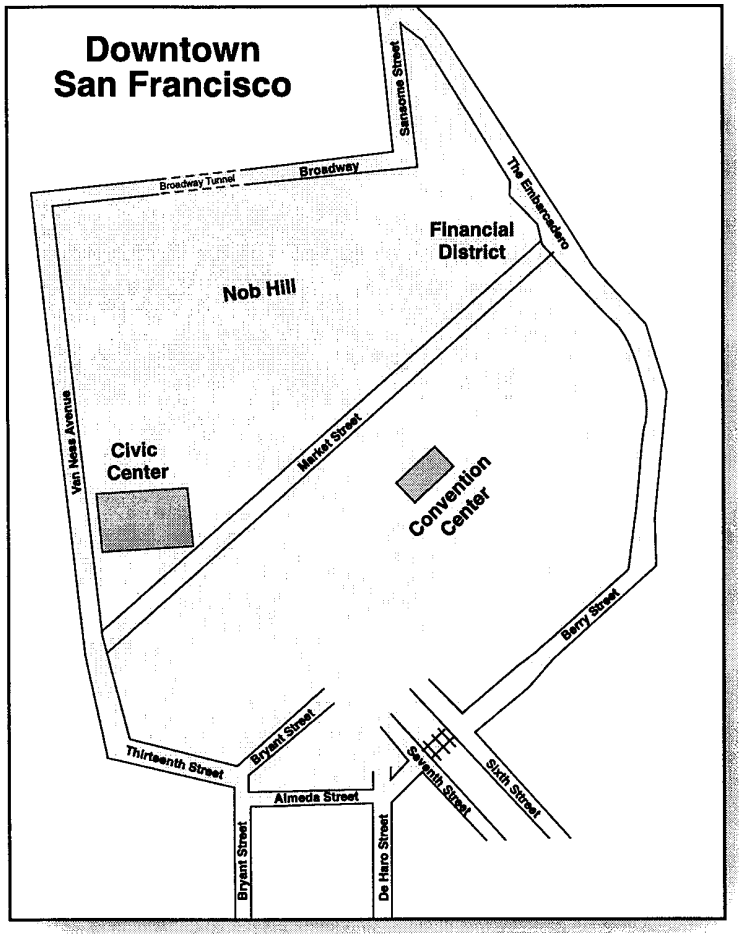
San Francisco applied the fee to office development in order to offset the cost of increased ridership during peak periods. Office space was the only type of development to be assessed the TIDF because of the transit expansion necessary to serve the expected ridership. Uses which complement the office space by providing shopping, lunching, or other attractions for the workers are exempt from the TIDF because they result in minimal transit use. By charging a fee exclusively for office space, San Francisco encourages mixed use developments (residential, retail, and office mix) which require less travel and, therefore, put less stress on the entire transportation system.

Since the existing transit service was expected to be adversely affected by the crowding conditions on vehicles and at shelters, additional service or shelter expansion might be necessary. The more office buildings constructed, the more peak period demand is generated as office workers travel to and from work. The sheer number of new commuters (over 70% of all work trips into downtown use transit[3]) strains the ability of the transit system to provide comfortable and convenient service. As a result, transit capacity would have to be expanded on existing lines to address the increasing demand, and new service would have to be added in areas where the development was occurring. Therefore, the new commuters stress both Muni's operating and capital funding.

Increased ridership requires Muni to expand both operations and capital facilities. Traditionally, federal funding for Muni has only been applied to subsidize existing service and replace or rehabilitate structures and vehicles, not for expansion. Therefore, expanding service for the influx of new office workers would be both an operating and capital burden on Muni. To alleviate this

funding burden, San Francisco designed the TIDF ordinance so that what a developer must pay depends on how much new office space her/his site will include.

Area Defined



San Francisco's TIDF assessment district

The ordinance clearly defines the area to which it applies (see map below). The clear identification of the downtown prevents problems such as property owners contesting whether or not their property is located in the assessment district. In addition, the city's permit issuers can clearly determine which properties must pay the fee; consequently no property is overlooked. This lack of confusion leads to maximum revenue collection.

Calculation of the Fee

The TIDF is a one-time fee charged to cover the cost of providing transit services over the 45-year useful life of an office building, with the maximum fee per gross square foot set at five dollars. Each year the impact fee is recalculated based on new development, but the fee has remained at the five dollar maximum since the program's inception. The following chart illustrates that the actual incremental cost is not covered by the fee.

The TIDF is supposed to recover **all** incremental costs to Muni from each office development, yet in

Calculation of Impact Fee for FY 1986

PV of Operating Expenses	$16.30 (a)	
PV of Operating Revenue	$10.12 (b)	
NPV of Operating Costs)	$ 6.18 (c)	(a)-(b)
PV of Capital Expenses	$ 6.50 (d)	
PV Total Cost	$12.68 (e)	(c)+(d)
PV Cost per square foot	$11.68 (f)	(e)*(1.39)*(0.64)†

† 1 39 converts unlinked trips to linked trips
0 64 linked trips per square foot of office space

reality, it does not. As illustrated above, the actual cost of the subsidy attributable to the office development has

been greater than the five dollar maximum which has been charged.

Financial Effects

The City of San Francisco TIDF account currently has a balance of $55 million dollars. Since 1981, money has been transferred each year from this fund to Muni's operating revenue fund ($4.5 million[4] in 1996) to cover the incremental operating costs attributable to the downtown office development. The transit agency can withdraw money to pay the salary of the staff who administer the impact fee program or to pay for the incremental capital costs generated by the ridership. For example, transit impact fee money may be used to expand a bus shelter that has been overcrowded by people commuting to the new office space; or if more buses are required to serve capacity on downtown routes, the impact fee funds can be used to purchase the buses and pay for the salaries of the operators and bus maintenance.

Payment

Payment of the fee is due upon 50% occupancy of the net rentable area or issuance of the first temporary permit or the final certificate of occupancy, whichever comes first. The developer may elect to pay in installments, in which case interest is charged on the unpaid amount of the TIDF. While at the beginning of the program a number of developers chose to pay in installments, currently, developers tend to pay the entire impact fee up-front.

If the TIDF is not paid on time, Muni receives a lien on the property for the amount of the fee

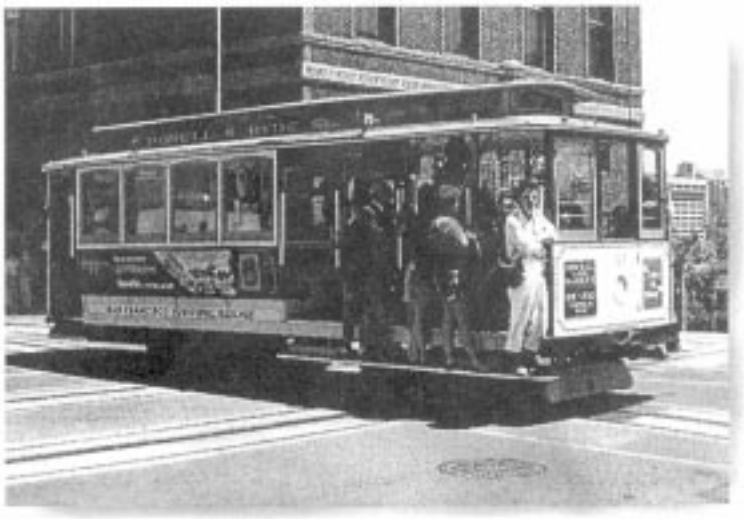
Over its 45-year useful life, this development, Levi's Plaza, is expected to generate more than $3.1 million in incremental operating and capital costs for Muni.

outstanding, plus interest and penalties. If this lien is not paid in 30 days (60 days for a missed installment), a special assessment lien is then placed on the property. This lien is on parity with all other state, county, and municipal taxes, and the amount is included in the property tax bill (and can therefore be recovered under foreclosure of the property).

An interesting condition in this ordinance is that if a building or portion of the building is no longer used

Examples of Impact Fees Paid

Address	Square Footage	Amount
100-110 First Street	402,135	$2,010,675
353 Second Street	662,193	3,310,968
241 Battery Street	374,000	1,870,000
333 Bush Street	511,279	2,556,395
66 Howard Street	196,284	981,420
235 Pine Street	140,989	704,948
1355 Sansome (Levi's Plaza)	620,481	3,102,409



for office space, a pro-rated portion of the TIDF must be returned. As far as Muni knows, no impact fee has been refunded to date, and the amount currently in the fund ($55 million) can cover the refund for any specific property.

Legal Challenges

Development assessments are generally unpopular with developers whether they are for sewers, schools, or transit. Thus any jurisdiction implementing an impact fee needs to be aware of legal challenges. San Francisco's impact fee has withstood several important legal challenges. Readers should note that these cases against San Francisco's TIDF ordinance were argued in the California court system, and the court's decisions only validate TIDFs in California. Nonetheless, due to the lack of other case law surrounding transit impact fees, other courts may look to these cases for guidance.

In *Russ Building Partnership v. City and County of San Francisco* (1987)[5] (hereafter *Russ I*), the Russ Building Partnership filed a class action suit on behalf of all the property owners affected by the TIDF. The suit challenged the validity of the ordinance on the basis of violation of equal protection, due process, double taxation, and level of the fee.

Equal Protection Claim

Under the equal protection claim, the developers charged that the impact fee discriminates as applied to them because office space built before the impact fee ordinance and retail space did not have to pay the TIDF, even though both groups would benefit from the additional service which new office development funds through the TIDF.

In California, developers are not considered a suspect class and development is not a fundamental right (guaranteed by the constitution), but rather a privilege. Therefore the court tests for equal protection by determining if a rational relationship exists between the imposition of the impact fee for only **new office**

Summary of the California Court Decisions

- A one-time fee is not a tax.
- The public must be involved in ordinance creation to avoid a procedural due process violation.
- Defensible calculations are necessary to survive claims against equal protection and the level of the fee.

developers and the local government's interests. Thus, the city must show that the distinctions drawn between new and existing office development and new office and new retail development are rationally related to a legitimate government interest.[6]

The first part of the challenge deals with **existing** versus **new** office space. The stated purpose of the ordinance is for a developer of new office space to pay for the incremental financial burden that this specific development imposes on Muni's ability to provide transit to serve the building during peak travel periods. The court found that the indirect benefits of increased service to existing buildings was not significant.

Secondly, under the ordinance, San Francisco will only recover transit costs for additional service to the downtown **office** buildings. Before the ordinance was approved, the city performed studies to demonstrate that the transit burden resulted from new office space. A report which examined the effect of the city's downtown development plans showed 110% more office space than retail space. With 70% of peak period trips into downtown San Francisco being on transit, Muni was concerned by the extra ridership which resulted from people commuting to work in the new office buildings. Uses which complement the office space by providing shopping, lunching, or other attractions for the workers are exempt from the TIDF because they result in minimal transit use.

As a result of this evidence, the court found the city's conclusion, that the office space is the primary generator of transit trips, to be rational. Having the office developers pay for the burden they impose on Muni to provide the additional service, therefore, advances the city's goal of providing transit service to commuters without adversely affecting current service levels. Thus the ordinance does not violate equal protection.

"We are mindful of the local government's need to generate revenue to maintain the quality of life the residents have come to expect."[8]

Due Process Claim

Russ Building Partnership charged that the TIDF ordinance violates substantive due process because it is unreasonable to pay for transit costs for 45 years (the lifetime of the office space) as transit costs cannot be calculated that far into the future. The city had to prove that transit costs and ridership could be projected 45 years into the future and that charging impact fees up-front in a "lump-sum" is legitimate. The City of San Francisco employed expert witnesses to show that long-term cost projections are used throughout the world of finance even though inflation and other assumptions are subject to uncertainties. The consultants also examined the effects of new office space on transit use. Based on this evidence, the court upheld the ordinance.

Double Taxation Claim

The court found that the TIDF fee was not a tax, but a development fee because the fee "is charged at one time, at the completion of construction of the new office space, and does not recur as does a property tax. Furthermore, the transit fee is designed *specifically* to fund Muni maintenance and development, whereas a property tax provides general revenue to cover a wide range of municipal services...Regardless of the method of calculation, the transit fee is not imposed by virtue of property ownership, but is a fee for the privilege of developing real property and to defer increased costs of transit services."[7]

Level of Impact Fee Claim

The developers also claimed that the impact fee amount was too high. The court felt that the impact fee was not unreasonable because consultants hired by the city performed studies to accurately determine the long term impacts of development on transit. The consulting method, drivers, and the outcomes of the city's own modeling efforts satisfied the court. During implementation, the city also held a number of public hearings to receive public input on these calculations.

Lessons Learned

The main lesson a transit system can learn from this experience is that while an impact fee can deliver substantial funds for transit support, the impact fee will probably be challenged in court. The City of San Francisco's planning department recommends that any impact fee ordinance be airtight: perform plenty of studies before adopting legislation, involve the public in hearings, and write the language of the ordinance to stand up against class action suits. San Francisco spent six years in court before it could begin to collect funds.[8] It is paramount that localities consider possible court challenges when designing an impact fee ordinance.

San Francisco's TIDF ordinance can be enforced through denial of permits and liens on the property and foreclose. When designing an ordinance, localities should be aware that developers will try to refuse to pay impact fees, and a mechanism needs to be built into the ordinance to collect them forcibly, if necessary.

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Endnotes

1 *Russ Building Partnership v. City and County of San Francisco* (1987) 199 Cal.App.3d 1496 quoting *Trent Meredith, Inc. v. City of Oxnard* (1981) 114 Cal.App.3d 317

2 At this point in time Muni was considered a utility and fell under the City Public Utilities Commission. Transit Commission has since become its own department, the San Francisco Department of Public Transportation.

3 City and County of San Francisco planning staff.

4 Muni's operating budget in 1995 was $281 million.

5 199 Cal.App.3d 1496.

6 The interest being providing transit service to customers at the level to which they are accustomed.

7 *Russ I* 1510-1520.

8 The impact fee money collected during this time was deposited into escrow accounts

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Creative Use of Federal Funds

Los Angeles County Metropolitan Transportation Authority
Los Angeles, California

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Los Angeles County Metropolitan Transportation Authority

Background

As Federal Transit Administration funds shrink, transit agencies have looked to increase funding from other federal funding sources. A number of flexible funding opportunities are available through the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). This act instituted two key programs with funds available to transit: Congestion Mitigation and Air Quality (CMAQ) and Surface Transportation Program (STP) funds.

CMAQ funds may be used for projects listed in state transportation planning documents which will help an area reach air quality attainment. Almost any transit-related project falls into this category. In its first four years, CMAQ has provided $1.3 billion in highway funding to transit projects. Three sample projects are described in the chart to the left.

STP funds can be used for transit capital costs, carpools, bicycle and pedestrian facilities, safety, facility enhancement, and research and development.

Agency Profile

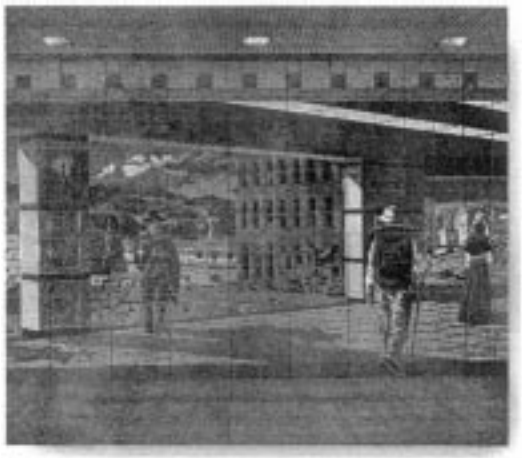
Service Area	Los Angeles County
Modes	Bus, Heavy and Light Rail
FY97 Operating Budget	$1.2 billion
FY97 Capital Budget	$1.1 billion
Annual Ridership	
Bus	334 million
Heavy Rail	7.7 million
Light Rail	15 million
Revenue Vehicle Miles	
Bus	74.8 million
Heavy Rail	278,388
Light Rail	2.8 million
Fares	
Bus	$1.35
Heavy and Light Rail	$1.35

CMAQ Funded Projects

Description	Location	Amount	Percent of Total Funds
Walkway	Cleveland, Ohio	$7.3 million	53%
Busway	Dade County, FL	$14.8 million	40%
CNG Bus Purchase	Boise, Idaho	$3.8 million	64%

Union Station

Ten percent of STP funds can be utilized for transportation system enhancements. Transportation enhancement funds can be used for the "provision of facilities for pedestrians and bicycles, acquisition of scenic easements...and sites,...landscaping and other scenic beautification, historic preservation, rehabilitation, and operation of historic transportation buildings, structures, or facilities,...preservation of abandoned railway corridors, ...[and] control and removal of outdoor advertising."[1] Transit agencies request STP funds from their state departments of transportation.



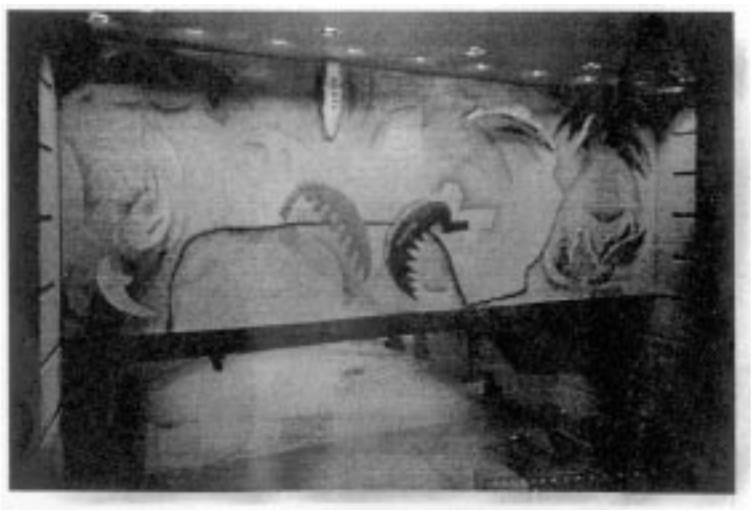
This mural in Union Station was funded through ISTEA flexible funding.

In this case study, we will examine how the Los Angeles County Metropolitan Transportation Authority (MTA) used ISTEA enhancement funds to help build the Union Station Gateway Center, a multimodal transfer facility and MTA headquarters. MTA received STP enhancement funds for the project to pay for amenities such as landscaping and artwork.

In the 1980s MTA was concurrently looking for a site to build its new headquarters and a design for the rehabilitation of Union Station into a multimodal transportation center with intercity, commuter, heavy rail, and bus service converging at a major park and ride lot. In addition to construction, the Union Station site needed landscaping, new traffic signals, utility relocation, and environmental mitigation.

The Request for Proposal Process

MTA was interested in the time and cost savings shown by turnkey projects in other industries and thus



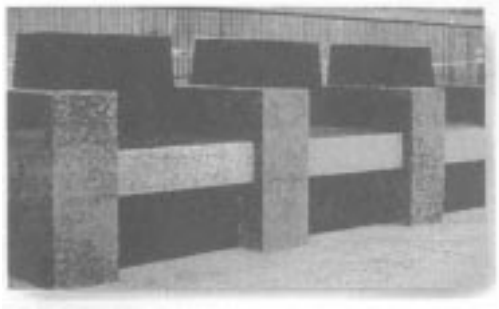
Mural in Union Station

Pedestrian walkway from Union Station to bus transfer facility and MTA headquarters

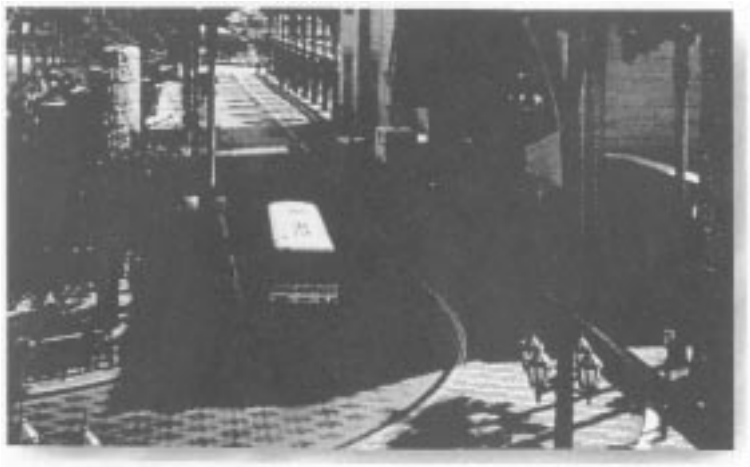
asked for a turnkey approach in its request for proposals (RFP) to build the new MTA headquarters.[2] MTA received 70 bids for the headquarters that met the selection criterion of the site's location near a rail or bus facility. In order to ensure that the selected project design could be constructed on time, in budget, and without major changes, MTA employed a nationally known transportation construction firm to review the proposals. Concurrently, MTA was looking for a contractor to rehabilitate Los Angeles's historic Union Station, built in 1939 in a combination of architectural styles including Art Deco, Mission, Modern, Moorish, and Southwestern. The winning proposal, from the consortium led by the Catellus Corporation, was selected because its approach combined both the MTA headquarters project and the Union Station rehabilitation in a single design-build contract. Additionally, Catellus owned land near the site that could be swapped for a more profitable configuration for MTA's transit facility.

Finances

The Union Station Gateway Center project was constructed during a period of turmoil for the transit agency. MTA was created by combining two other transit organizations, the Los Angeles Transportation Commission and the Southern California Rapid Transit District. The merger, which was actually completed during this project, led to a number of labor disputes. FTA required that MTA resolve the labor disputes before it would sign a full funding grant agreement for the project.



Enhancement funds paid for the restoration of these historic concrete



Union Station's bus transfer facility

Since FTA funding was unavailable, MTA applied for grants from a number of other federal, state, and local sources. MTA was one of the first transit providers in California to apply for enhancement funds. In order to increase its chances of receiving the $19 million of ISTEA enhancement funds, MTA characterized the Union Station Gateway Center as a pedestrian facility (which also happened to serve buses and trains) in its grant applications.

Of the total project cost of $150 million, 13% was paid by enhancement funds. The enhancement money funded project beautification such as artwork (for example, restoration of the historic structure, interior artwork, ceramic tiles, and furniture), landscaping, bus shelters, walkways, brick paving, street lights, and staircases.

Lessons Learned

Enhancement funds provide a valuable source of money for transit projects. While in this example no FTA funding was used, for other projects, transit agencies can employ enhancement funds in conjunction with FTA funds. By using enhancement funds for artwork or functional structures for pedestrians, FTA capital grants can be used for other purposes, thus stretching federal transit grant money to its fullest potential.

Endnotes

1 23 U.S.C. §101(a)

2 For information on turnkey projects, see Turnkey Procurement Case Study.

State Infrastructure Banks

U.S. Department of Transportation

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U.S. Department of Transportation

Background

The United States Department of Transportation (U.S.DOT) recognizes that capital funding for infrastructure is scarce. As part of their innovative financing initiatives, the Federal Transit Administration (FTA), Federal Highway Administration (FHWA), and Federal Railroad Administration (FRA) asked states and other recipients of federal funds for ideas to stretch scarce capital funds. One popular suggestion was a state or multi-state-level bank that could provide financial assistance.

"The 1995 National Highway System Designation Act [NHS Act] authorized DOT to solicit proposals to create up to 10 State Infrastructure Banks [SIBs]."

Under the current federal transportation funding programs, projects are not required to repay the capital grants. Consequently, these funds are used up permanently and no longer available for other projects. The idea behind state infrastructure banks (SIBs) is that by using debt financing, federal funds are recycled at the state and local level for use by future projects. While grants can only be used to finance purely public projects, SIB loans may be used for projects with both public and private purposes.

SIBs were created to complement the traditional funding available to highways and transit. They are intended to provide a mechanism to leverage funds for projects that require additional funding, but might be delayed or unfeasible using traditional financing mechanisms alone. States can tailor the structure of their SIBs to meet their individual transportation needs by establishing highway and/or transit accounts and choosing which funding mechanisms the SIB will provide.

Implementation

The 1995 National Highway System Designation Act (NHS Act) authorized U.S.DOT to solicit proposals to create up to 10 State Infrastructure Banks (SIBs), and the FY 1997 Appropriations Act for U.S.DOT allowed for additional banks and designated $150 million to be used for their capitalization. All SIBs can use federal and state funds to provide

- loans,
- credit enhancements (*e.g.* loan guarantees, letters of credit),
- interest rate subsidization,
- leases,
- debt financing securities, and
- other debt financing mechanisms (as approved by the Secretary of Transportation).

Whatever the form of assistance, the SIB funds are dedicated to transportation infrastructure and divided into two separate accounts for highway and transit projects.

In January 1996, DOT issued application instructions. Each application was to include the proposed SIB structure, identify current legislation in the state which might restrict SIB assistance, discuss the status of enabling legislation for the SIB, show a detailed SIB financial plan, and provide an outline of the projects proposed for the first use of the funds.

Program Structure

The NHS Act allows banks to establish two accounts: a transit account and a highway account. The act also requires that any disbursements plus interest must be repaid to the bank. States can capitalize the banks either by using up to 10% of their federal-aid highway or transit funding[1] or by requesting a portion of $150 million allocated for SIBs in the FY 1997 DOT Appropriations Act. States are required to match all federal funds. The funds may be deposited into either a highway or transit account, but once money is allocated to a specific mode, it cannot be used for the other mode. Two percent of this money may be used for administrative expenses.

"Any disbursements plus interest must be repaid to the bank."

The first ten states approved were Arizona, California, Florida, Missouri, Ohio, Oklahoma, Oregon, South Carolina, Texas, and Virginia. As of June 1, 1997, these states had deposited a total of $122 million ($80 million of federal money) into the highway accounts of their SIBs.

Of these first ten states, only Oklahoma does not plan to establish a transit account. The case study that we present of the revolving loan fund in Arkansas is an example of a similar program which could be set up under a SIB transit account.

On June 19, 1997, the White House announced that 29 additional States would be designated to establish 23 new SIBs — two of which would be multi-modal SIBs. At the same time, the $150 million in FY 1997 capitalization funding was allocated to all of the existing and newly-designated SIBs. The largest allocation was for $12 million, and the smallest was for $1.5 million.

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Endnotes

1 Use of capital funds from urbanized areas of over 200,000 in population require the cooperation of the local metropolitan planning organization.

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Revolving Loan Fund

Arkansas State Highway and Transportation Department
Arkansas

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Arkansas State Highway and Transportation Department

Background

The Arkansas State Highway and Transportation Department (AHTD) runs the highway and transit programs for the State of Arkansas. In the late 1970s and early 1980s, AHTD participated in a FHWA lease-to-buy vanpool program and received a 75% federal grant for the cost of starting the program. This program continued for 15 years by recycling the money numerous times; there was never a default on the leases. Under this program, AHTD purchased vans and leased these vehicles to vanpools around the state. AHTD structured the lease payments to ensure that each lessee had purchased its vehicle at the end of each vehicle's official useful life. To assure loan repayment, AHTD required each lessee to insure its vehicle for the full replacement value and retained a lien on the vehicles until the end of the lease period.

In the early 1990s, new priorities for transportation in Arkansas emerged. Smaller lift-equipped vehicles were available for purchase, but not through leases. Although AHTD did not have available capital to purchase vehicles, it wanted to provide an affordable capital lease option for Arkansas transit providers (including public entities, private nonprofit corporations, vanpools, and any contracted service providers).

"AHTD decided to establish a new $1 million revolving loan fund, the Arkansas Translease Program."

Implementation

Building on their experience during the previous vanpool program, AHTD decided to establish a new $1 million revolving loan fund (RLF), the Arkansas Translease Program. In November 1994, AHTD submitted the first draft of this program to FTA under its innovative financing initiative. FTA agreed that a RLF was an innovative funding idea and awarded AHTD a grant. In addition to FTA funding, the original vanpool money

RLF money purchased this van.

was converted to ISTEA Surface Transportation Program (STP) funds. STP funds can be used for non-highway purposes, and the money was "recycled" through Test and Evaluation 045, FHWA's innovative funding program.

In January 1996, AHTD announced the creation of its RLF and asked interested parties to submit applications; AHTD had received 22 applications by April 1996. As of April 1997, 19 new vehicles had been funded for use by transit providers in the State of Arkansas. Applications continue to be accepted on an ongoing basis, and AHTD is in the process of delivering another 17 vehicles. This second purchase will be partially funded by the portion of the original loan money which has been paid back over the past year.

The AHTD administration and public service organizations in Arkansas have been very supportive of the RLF concept.

Program Structure

Under the RLF program, AHTD reviews applications for vehicles and accepts agencies based on their capability to make lease payments. AHTD then purchases a large number of vehicles at a significant discount over the price an agency would pay for a single vehicle. Finally, AHTD leases the vehicles to the transportation providers.

AHTD structures the leases to be affordable to the state's transit providers. The leases

- are interest free,
- require no down payment,
- last for the life of the vehicle (usually 4 years or 100,000 miles), and
- have a monthly payment equal to the cost of the vehicle divided by the vehicle lifetime.

To assure loan repayment, AHTD requires each lessee to insure its vehicle for the full replacement value and retains a lien on the vehicle title until the lease is fully paid. As these terms imply, the transit agency owns the vehicle at the end of the lease period.

Currently, the fund is composed of money from FTA ($270,000), FHWA vanpool capital ($340,000), and a state match ($152,000) for a total of $762,000. AHTD's goal is to have $1 million in the fund. To reach this goal, AHTD will supplement the current fund with FTA Section 3 funds and the required state match. Over the next ten years, AHTD expects to expand the fund to $3 million, receive $2.5 million in income, and release 125 vehicles. Because no interest is charged as part of the lease payments, AHTD plans to periodically supplement

Arkansas TransLease Estimated Lease Cost

Standard Passenger Vehicles	Basic Unit Cost	Useful Life Lease Term (months)	Estimated Monthly Lease Payment	ADA Accessible: Estimated Additional Cost per Unit	ADA Accessible: Adjusted Lease Payment
Station wagon - 6 passenger	$ 16,525	48	$ 344.37	NA	NA
Small van - 7 passenger	14,947	48	311.40	NA	NA
Standard van - 8 passenger	16,062	48	334.63	$ 8,993	$ 521.98
Standard van - 12 passenger	18,349	48	382.27	NA	NA
Standard van - 15 passenger	19,633	48	409.02	NA	NA
Raised roof van - 15 passenger	30,793	48	641.52	1,992	683.02
Small bus - 17 passenger	34,963	60	582.72	4,435	656.63
Small bus - 21 passenger	35,799	60	596.65	4,435	670.57
Small bus - 25 passenger	37,015	60	616.92	4,435	690.83

the RLF with FTA section 3 capital funds in order to maintain the fund's purchasing power.

RLF in Conjunction With Other Federal Funds

There are a number of Arkansas transit providers that receive funds from the U.S. Department of Health and Human Services (HHS). The use of these funds is restricted to operating expenditures. Since outright purchase of vehicles is considered a capital expenditure, but leasing is considered an operating expenditure, the RLF is a valuable tool for agencies receiving HHS funds. Under Arkansas' RLF, transit providers that receive HHS funds can effectively use these funds to purchase new vehicles.

Lessons Learned

Arkansas has found that this program provides significant help for its transit providers and has been strongly supported by both the state and local community groups. The program has significantly decreased the overall costs of vehicles, since buying the vehicles in volume for the entire state saves $2,000 to $5,000 per vehicle. The Arkansas Translease program provides an affordable way for the small operators in Arkansas to purchase ADA-equipped vehicles. Defaults to the state can be minimized through careful screening of applicants

Under the Arkansas Translease program, transit providers that receive HHS funds can effectively use these funds to purchase a vehicle. Thus this program can stretch federal funds from FTA as well as non-FTA sources.

Key Lessons

- Buying in bulk saves $2,000-$5,000 per vehicle
- Providers that receive funds from the U.S. Department of Health and Human Services can use these funds to lease the vehicles
- Defaults can be minimized through careful screening

Finally, the State Infrastructure Bank (SIB) legislation considers RLFs allowable programs. The RLF in Arkansas may provide states with a successful working example of how a SIB could fund transit programs.

Contact Information

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