



Strategies for ITS Funding: Benefits of Leasing

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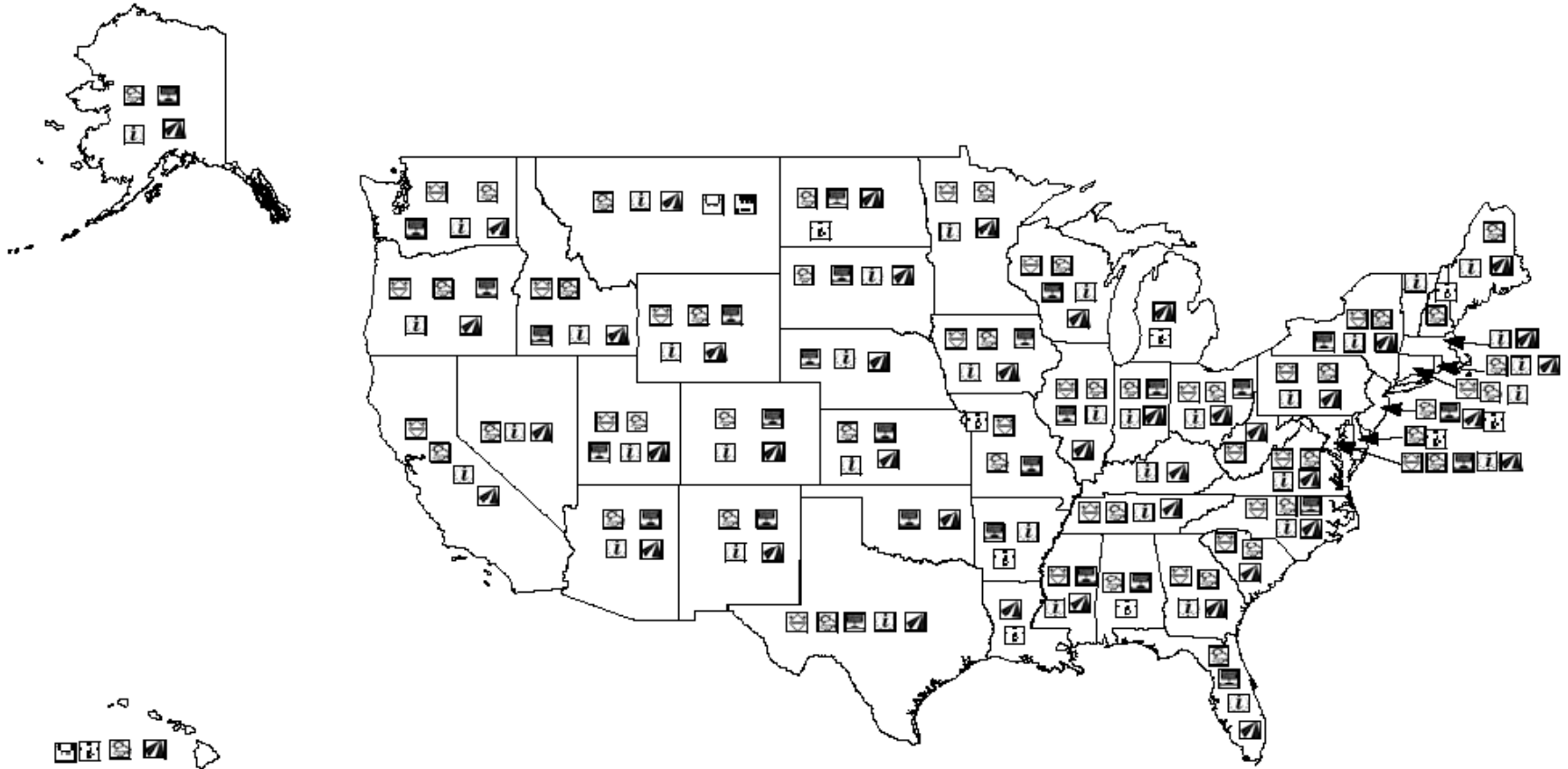
Background

- **TxDOT Study 0-4451 – Alternative Funding Solutions for ITS Deployment**
 - TTI + CTR joint study
- **Capital costs of ITS equipment**
- **Worked for Woodchester Credit Lyonnais PLC in London for 4 years**
 - Largest independent financing company in UK

ITS Costs

- **National ITS deployment: costs to date**
 - **Total cost to fully-deploy ITS infrastructure nationally \$29.8bn**
 - **Only 32.6% of needed capital costs (\$192m) expended in 75 largest metropolitan areas by 2004**
 - **2004 rural deployment five development tracks surveyed: crash prevention, traffic management, operations and maintenance, surface transportation weather, traveler and tourism information**
 - **Sources FHWA Working Paper on National Costs of the Metropolitan ITS Infrastructure: 2004 & Statewide/Rural Intelligent Transportation Systems (ITS) 2004 Summary Report**

Statewide/Rural ITS Deployment



Crash Prevention and Safety



Surface Transportation Weather



Operations and Maintenance



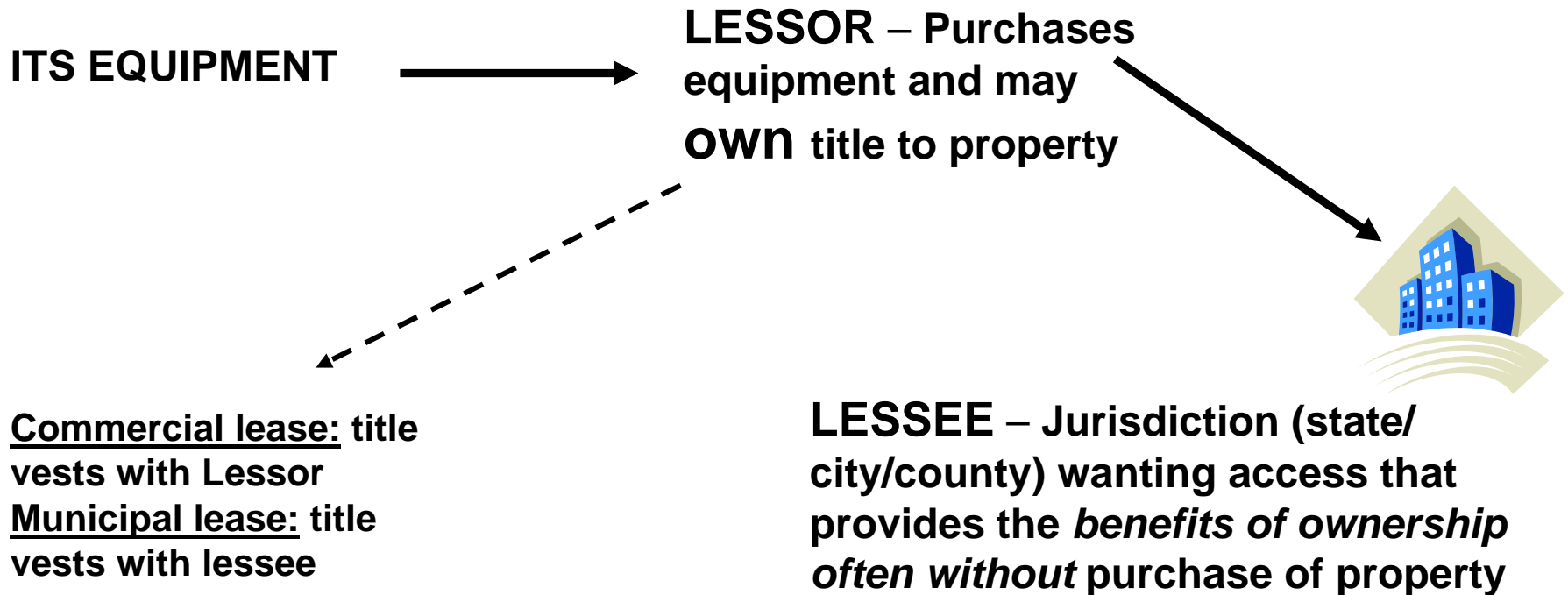
Traveler Information



Traffic Management

What is a lease?

- Lease is an agreement between 2 parties regarding ownership and use of real and personal property



Types of Leases

- **Municipal leasing (lease purchase)**
 - Lessee to purchase and take clear title at end of contract
 - Lease payments include principal and interest, interest is exempt from federal income tax
 - Lease provides for termination for non-appropriation of funds by government agency
- **Commercial leasing (municipal rental)**
 - Similar to municipal leasing, BUT
 - Title resides with Lessor and does not transfer to lessee at end of contract
 - Interest payments not exempt from federal income tax so interest rates are slightly higher

Why Lease?

■ Cash flow

- Tailored payment schedules
- Master lease options
- Fixed payments & interest rates

■ Use today's equipment on tomorrow's inflated dollars

- Effective for terms < 10 years and costs < \$10m

■ Maintenance and Installation

■ Upgrade Options

Why Lease?

- Incentive to source 'top-notch' suppliers
- Spare parts
- Maintenance
- Audit



Spare parts for obsolete equipment in the Dallas Division of TxDOT

Thanks to Mo Moabed TxDOT Dallas District for supplying this photograph



Commercial Lease Advantages?

- **Commercial leases can be appropriate for:**
 - **Agencies who do not wish to own property after fixed period of time**
 - **Equipment subject to rapid technology changes**
- **Options to upgrade and yearly extension increments**

Lease versus Bond

- **Savings can accrue by leasing due to quicker access to equipment**
- **Zobler and Hatcher factors**
 - **Total borrowing costs versus costs of DELAY before determining best finance route**
- **Bond costs**
 - **Yearly updates, trustee fees, compliance costs, bonds can fail, POLITICS**
- **Future issuances**
 - **Limiting covenants restricting number of bonds to be issued, and future ratings**

Zobler and Hatcher Study

- **\$1,000,000 energy efficient equipment**
 - **Municipal lease**
 - **Five year simple payback on a blended average life of eight years**
 - **Financing route - discounted net present value basis over 12 years using a 4% borrowing rate as discount rate**
- **Results: Financing project would result in savings of \$132,373 – better than waiting for the one year and paying cash**

Zobler & Hatcher Study

Year	Option A – Fast Track Financing				Option B – Waiting for Cash				
	Savings \$	Cost \$	Annual Cash Flow \$	Cumulative Cash Flow \$	Savings \$	Cost \$	Annual Cash Flow \$	Cumulative Cash Flow \$	
1	200,000	164,026	35,974	35,974	0	0	0	0	
2	200,000	164,026	35,974	71,949	200,000	1,000,000	800,000	800,000	
3	200,000	164,026	35,974	107,923	200,000	0	200,000	600,000	
4	200,000	164,026	35,974	143,897	200,000	0	200,000	400,000	
5	200,000	164,026	35,974	179,872	200,000	0	200,000	200,000	
6	200,000	164,026	35,974	215,846	200,000	0	200,000	0	
7	200,000	164,026	35,974	251,820	200,000	0	200,000	200,000	
8	200,000	0	200,000	451,820	200,000	0	200,000	400,000	
9	200,000	0	200,000	651,820	200,000	0	200,000	600,000	
10	200,000	0	200,000	851,820	200,000	0	200,000	800,000	
11	200,000	0	200,000	1,051,820	200,000	0	200,000	1,00,000	
12	200,000	0	200,000	1,251,820	200,000	0	200,000	1,200,000	
Net Present Value – Option A				\$892,524	Net Present Value – Option B				\$760,151

Source: Zobler, N. and Hatcher, K. "Financing Energy Efficiency Projects." *Government Finance Review*. Vol. 19. No 1 (February 2003)

Complexities

- **Prohibition in many state constitutions on unfunded debt**
 - **Texas Constitution: Article XI §7 “... no debt for any purpose shall ever be incurred in any manner ... unless provision is made, at the time of creating the same, for levying and collecting a sufficient tax to pay the interest thereon and provide at least two percent as a sinking fund...”**
- **Lease payments drawn from operations budget and not capital budget**
 - **80/20 federal match**

Solutions?

- **Utilize non-appropriation language within contract**
 - **Texas Public Property Finance Act, commitment of current revenue subject to §271.903 (a) - Contract for acquisition, including lease of real/personal property must retain to governing body the *continuing* right to terminate at expiration of each budget period during contract and is conditioned with a best efforts clause**
- **Contract is deemed a commitment of local government current revenues only and does not obligate non-current revenues, and the debt provisions under constitution**
- **Local Government Codes often allow leasing or lease with option to purchase subject to non appropriation language being used.**
- **Savings utilized by budget and cash flow management and outsourcing of maintenance/installation costs could offset drawdown in operation budget**

Lease Industry Concerns

- **Non-appropriation language can be used in both municipal and commercial lease contracts**
- **Risk of non-appropriation isn't a big concern for the leasing industry**
- **Baystone Financial Group notes risk of non appropriation, while a valid concern for any lender is statistically small**
 - **Ball-park figure runs at less than $\frac{1}{4}$ of 1 percent of leases cancelled due to non appropriation**



Questions???

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