High Capacity Transit Taskforce Primer: Innovative Finance Structures and Strategies

Introduction

Traditional project funding and financing tools have been effective over the years but currently face challenges in financing infrastructure. Challenges to traditional sources of revenue (e.g. sales taxes, property taxes, and grants), as well difficulty in financing life-cycle costs adds to the challenge. As a result, financing of transportation and transit infrastructure is transitioning and becoming more innovative, especially in the transfer of project and financial risk. The combination of private capital and federal funding have created a new paradigm in which various risks can be transferred from the public to the private sector for prohibitively costly projects.

Innovative Funding/Financing

Private Investment

Private Financing for HCT is becoming a common practice throughout the country. According to Prequin Investment Journal, $93 billion in unlisted fund capital has been raised by infrastructure and private equity funds searching for infrastructure opportunities to invest. Private capital is willing to take risk on HCT public projects if they have the opportunity to participate and gain an attractive return.

Government Sources of Funding/Financing

The federal government has led the initiative for innovative financing, primarily through the US Department of Transportation (USDOT). Within USDOT the Transportation Infrastructure Finance and Innovation Act (TIFIA) Program has been a leader in facilitating innovative financing in the transportation space. Large scale transit projects that have participated in the program including Purple Line ($875mm) and Sound Transit ($1.3bn). The Railroad Rehabilitation and Improvement Financing (RRIF) Program provides low-interest rate loans for the development of rail infrastructure. Operated by the Federal Rail Authority (FRA), the program gives priority to projects providing public benefits including benefits to public safety, the environment and economic development. Participants have included public agencies and private entities alike.

Risk transfer mechanism

The local public sponsor can transfer financing and project risk to the private investor and the federal lender. The private investor will be responsible not only for the contracted project to be delivered on-time and under budget, but also will be required to provide long-term operation and maintenance services for the project.

Conclusion

Innovative finance presents a tool in meeting HCT goals for the Houston-Galveston region. In addition to meeting the prohibitive costs for financing, innovative methods transfer risks from the public sector to the private sector. For these reasons, the taskforce is examining structures, successes and challenges in peer cities across the globe with the goal of developing a strategy for Houston-Galveston regional HCT.

Houston-Galveston Area Council