Northwest Indiana RDA – Innovative Financing Report

April 2017

Contents

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Introduction

Introduction

- KPMG LLP (“KPMG”) was engaged by the Northwest Indiana Regional Development Authority (“RDA”) to analyze innovative financing options available to the RDA
- This report discusses qualitative considerations for RDA to consider, including eligibility requirements, application to RDA projects, and precedent examples, for the following innovative financing options:
  - Railroad Rehabilitation & Improvement Financing (RRIF) Federal loan program
  - Transportation Infrastructure Finance and Innovation Act (TIFIA) Federal loan program
  - Private Activity Bonds (PABs) program
- This report includes comparative analysis for traditional, tax-exempt bonds and innovative financing options
- This report includes quantitative analysis that estimates the cost of capital under various financing structures including tax-exempt bonds and innovative financing options for the West Lake Corridor (“WLC”) and South Shore Double Tracking (“DT”) projects (together, the “Commuter Rail” projects), including using developer equity
- Quantitative analysis uses publicly available market data to estimate cost of capital and does not account for qualitative or quantitative benefits of innovative delivery and financing models, including risk transfer benefits which may result in construction and operating cost savings to the RDA
- This report was developed using publicly available data coupled with KPMG’s market observations from precedent projects and experience. Assumptions made for purposes of this report and preliminary and for discussion purposes only. The results are subject to change based on fluctuating market conditions and assumptions.

Overview

— In addition to traditional tax-exempt bond financing, the Northwest Indiana Regional Development Authority ("RDA") may consider several innovative financing mechanisms for the proposed projects in Northwest Indiana:
  - Financing through the U.S. Department of Transportation's Build America Bureau (the "Bureau")
    — Railroad Rehabilitation & Improvement Financing ("RRIF")
    — Transportation Infrastructure Finance and Innovation Act ("TIFIA")
  - Private Activity Bonds ("PABs")

— These innovative financing mechanisms may allow RDA or a private developer to access flexible and lower-cost capital for the projects
  - TIFIA and RRIF programs allow eligible projects to borrow at U.S. Treasury rates and include flexible features such as capitalized interest
  - Relative benefit of lower-cost financing through TIFIA and RRIF is most pronounced on security pledges rated at the lower end of the investment grade spectrum
  - PABs allow eligible projects to use partially tax-exempt financing
  - Innovative financing can provide access to a much broader universe of federal and private investors
  - Innovative financing can leverage additional developer equity which can help increase the total financing amount

— Innovative delivery models can use innovative financing to offset the higher cost of equity and reduce the all-in cost of capital

Overview of RRIF Financing

Railroad Rehabilitation & Improvement Financing (RRIF)

Overview

— Provides direct federal loans and loan guarantees to finance the development of rail infrastructure

— Under this program the Build America Bureau is authorized to provide direct loans and loan guarantees up to $35.0 billion to finance development of railroad infrastructure.

— Goal is to support projects that provide the following public benefits: safety, economic development, environmental improvements and service and capacity improvements

— No limitations on private activity

Eligibility

— Eligible borrowers include railroads, state and local governments, government-sponsored authorities and corporations, joint ventures that include at least one railroad, and limited option freight shippers

— Eligible projects include the acquisition, improvement, or rehabilitation of intermodal or rail equipment or facilities, including track, components of track, bridges, yards, buildings and shops; refinancing of outstanding debt incurred for the aforementioned purposes; or development of new intermodal or railroad facilities

— Principal amount of RRIF credit assistance may not exceed available statutory authority

— The FAST Act expanded eligibility to include a JV with any RRIF eligible applicant, such as a state, local government, or railroad; and expanded eligible uses to include planning and design costs, economic development, and transit oriented development that incorporates private investment.

Railroad Rehabilitation & Improvement Financing (RRIF)

Eligibility (continued)

— TOD eligible purposes include financing economic development, including commercial and residential development, and related infrastructure and activities, that (i) incorporate private investment, (ii) is physically or functionally related to a passenger rail station or multimodal station that includes rail service, (iii) has a high probability of the applicant commencing the contracting process for construction not later than 90 days after the date on which the RRIF loan or loan guarantee is obligated, and (iv) has a high probability of reducing the need for financial assistance under any other Federal program for the relevant passenger rail station or service by increasing ridership, tenant lease payments, or other activities that generate revenue exceeding costs.

— Note that RRIF credit assistance for TOD Projects is only available until December 4, 2019.

Terms

— Provides funding for up to 100% of a railroad project (or 75% for TOD project) with repayment periods up to 35 years

— Interest rates equal to U.S. Treasury rate for comparable-term securities

— Credit risk premium (“CRP”) is assessed upfront as a percentage of the total loan amount and varies by the loan terms and overall risk of each unique transaction.

— Borrower pays an Advisors’ Fees Upfront Payment of $250,000 to the Bureau.

— The RRIF statute does not require collateral, however, the calculation of the CRP is affected by any collateral, such as a dedicated revenue source, pledged in repayment of the RRIF credit assistance.

Railroad Rehabilitation & Improvement Financing (RRIF)

Criteria for Evaluation

— The statutory eligibility of the applicant and the project

— The creditworthiness of the project

— The extent to which the project will enhance safety

— The significance of the project on a local, regional, or national level in terms of generating economic benefits and improving the railroad transportation system

— The improvement to the environment that is expected to result directly or indirectly by the implementation of the project

— The improvement in service or capacity in the railroad transportation system

Considerations for RDA

— The vast majority of the rail project costs would likely be eligible for a RRIF loan; eligibility for TOD projects dependent on timing (TOD authorization sunsets in December 2019)

— Can be used under traditional delivery model or innovative delivery model (e.g., public-private partnership)

— Due to low cost of capital, RRIF program becomes more valuable to RDA under credit structures where there is increased risk (e.g., local revenue pledge, project financing)

— CRP would be paid by RDA and amount is linked to credit risk profile; CRP would be lower in low-risk structures (e.g., state appropriation backed credit)

Railroad Rehabilitation & Improvement Financing (RRIF)

Considerations for RDA (continued)

— Projects must comply with RRIF Buy America policy – this normally impacts steel (i.e., rail) and rolling stock. RDA could seek waivers if this becomes an issue.

— Application is extensive and highly structured. RDA should begin reaching out to the Bureau, if RRIF is desirable.

Relevant Examples

— The Arkansas and Missouri Railroad Company ($6.8m, closed 2015)

— Metropolitan Transportation Authority ($967.1m, closed 2015)

— Alameda Corridor Transportation Authority ($83.7m, closed in 2012)

— Amtrak ($562.9m, closed 2011)

Given the low cost of capital and flexible nature of the RRIF loan program, RDA should explore the potential for securing a RRIF loan

Overview of TIFIA Financing

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Overview

- Provides credit assistance for qualified large-scale (generally $50m+), surface transportation projects of regional and national significance, including secured federal loans, loan guarantees and standby letters of credit
- The FAST Act added eligibility for transit-oriented development projects - “projects that improve or construct public infrastructure that is located within walking distance of, and accessible to public transportation, an intermodal facility, or a public utility, including a transportation, public utility, or capital project described in 49 U.S.C. §5302(3)(G)(v), and related infrastructure”
- The FAST Act also set the minimum project size to $10 million for rural and transit oriented development, and $15 million for intelligent transportation systems
- No limitations on private activity, providing flexibility in its use
- Program is designed to fill market gaps and leverage substantial private co-investment by providing supplemental and subordinate capital
- Borrowers may benefit from lower borrowing costs, improved access to capital markets, and earlier completion of large-scale, capital intensive projects

Eligibility

- Eligible borrowers include state and local governments, transit agencies, railroad companies, special authorities, special districts, and private entities
- Eligible projects include highway, transit, passenger rail, certain freight facilities, certain port projects, rural infrastructure projects, transit-oriented development projects, and SIB rural projects funds

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Eligibility (continued)

— The following is a list of specific elements that would generally be eligible to be included in a TOD project: property acquisition; demolition of existing structures; site preparation; utilities; building foundations; walkways; pedestrian and bicycle access to a public transportation facility; construction, renovation, and improvement of intercity bus and intercity rail stations and terminals; renovation and improvement of historic transportation facilities; open space; safety and security equipment and facilities; facilities that incorporate community services such as daycare or health care; a capital project for, and improving, equipment or a facility for an intermodal transfer facility or transportation mall; and construction of space for commercial uses. The Bureau may also fund “related infrastructure;” however, the Bureau will prioritize the use of TIFIA funds for TOD projects that are significantly integrated into the related transportation facility.

— Project must be included in the State’s transportation plan

Terms

— Federal credit assistance may not exceed 33% of total reasonably anticipated eligible project costs for a secured loan (up to 49% if a case is made) or 33% for a standby line of credit

- Capitalized interest on TIFIA credit assistance may not be included as an eligible project cost.
- TIFIA administrative charges, such as application fees, transaction fees, loan servicing fees, credit monitoring fees, and the charges associated with obtaining the required preliminary rating opinion letter, are also not considered among the eligible project costs.

— The TIFIA statute requires a dedicated pledged revenue source for repayment of TIFIA credit assistance

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Terms (continued)

— Repayment periods of up to 35 years (direct loan) or 10 years (standby line of credit)

— TIFIA interest rates are equivalent to U.S. Treasury rates

— Borrower pays an Advisors' Fees Upfront Payment of $250,000 to the Bureau.

— The exact terms for each loan are negotiated between the Bureau and the borrower, based on the project economics, the cost and revenue profile of the project, and any other relevant factors

Criteria for Evaluation

— Impact on the environment

— Significance to the national transportation system

— The extent to which the project generates economic benefits, leverages private capital, and promotes innovative technologies

Considerations for RDA

— RDA's projects would likely be evaluated favorably by the Bureau, particularly if innovative delivery models are used, due to economic development benefits of the rail and TOD and use of innovative technology (i.e., electric trains with Positive Train Control)

— TOD project would likely benefit the most from the use of TIFIA

— Two investment grade credit ratings required – Bureau will likely focus on the credit worthiness of the local revenue pledge

— Must be combined with other sources of financing – in most cases will only cover 33% of eligible project costs

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Considerations for RDA (cont.)

— Application is extensive and highly structured. RDA should begin reaching out to the Bureau, if TIFIA is desirable.

Relevant Examples

— Northgate Link Extension ($615.3m, closed 2017)

— Westside Purple Line Extension, Section 2 ($307m, closed 2017)

— Chicago Transit Authority (CTA) Rail Fleet Replacement Project ($254.9m, closed 2016)

— CTA Blue Line Project ($120m, closed 2015)

— Ohio River Bridges East End Crossing ($162m, closed 2015)

— Ohio River Bridges Downtown Crossing ($452m, closed 2014)

Overview of PABs

Private Activity Bonds (PABs)

Overview

- Allows certain projects to benefit from tax-exempt financing and resulting lower cost of capital
- Internal Revenue Code considers a municipal security a PAB if either of the following are true:
  - More than 10% of the proceeds of the issue are used for a private business use, and the payment of the principal of or interest on more than 10% of the proceeds of the issue is secured by or payable from property used for a private business use, or
  - More than 5% or $5 million of the proceeds of the issue are used to make loans to non-governmental borrowers
- For qualified PABs, the interest earned is excluded from gross income for federal income tax purposes (i.e. the PAB is tax-exempt)
  - Most qualified PABs are still subject to the Alternative Minimum Tax for certain individual and corporate investors
- Qualified PABs can be used along with TIFIA and/or RRIF loan programs

Eligibility

- Qualified PABs may be issued for certain privately owned or used facilities including mass commuting assets
- Internal Revenue Code limits the amount of qualified PABs that may be issued within each State with a “volume cap,” with few exceptions
  - Mass commuting facilities are subject to the cap

Private Activity Bonds (PABs)

Eligibility (continued)

— Qualified PABs are required to be approved by:
  - The governmental entity issuing the bonds and
  - Each governmental entity having jurisdiction over the area in which the bond financed facility is to be located; however if more than one governmental unit within a State has jurisdiction over the entire area within such State in which such facility is located, only one such unit need approve such issue

— A PAB is not a qualified bond if 25% or more of the net proceeds of the bond issue are to be used (directly or indirectly) for the acquisition of land (or an interest therein)
  - Exceptions for land acquired for certain environmental purposes in connection with mass commuting facilities

Terms

— Yields on serial and/or term maturities based on credit quality, spread to AAA MMD

— Investors generally require at least one investment grade rating

— Average maturity cannot exceed 120% of average useful life of asset being financed; 35 year final maturities on precedent transactions

— Proceeds can be used for capitalized interest through the later of three years after issuance or one year after the financed asset is placed in service

— Costs of issuance paid out of bond proceeds cannot exceed 2% of proceeds

Private Activity Bonds (PABs)

Considerations for RDA

- Could be used for innovative delivery models where there is private sector participation
- Generally lowers the cost of capital when compared to taxable debt
- Eligibility would be subject to Indiana's volume cap and overall nationwide PABs allocation cap
  - The State of Indiana's 2017 PABs volume cap is $663 million (per IRC Bulletin 2017-9)
  - 9% of the State's volume cap is allocated to IFA issuances, and 42% is allocated to local unit issuers for projects including mass commuting facilities (per Indiana Code 4-4-11.5)
- Would likely need to be issued through IFA, as a conduit issuer. This structure was used on ORB and I-69 Section 5 projects.
- Require additional reporting and post-issuance compliance monitoring

Relevant Examples

- Ohio River Bridges East End Crossing ($677m)
- I-69 Section 5 ($244m)
- Denver RTD Eagle Project - East Corridor & Gold Line ($398m)
- Maryland Purple Line ($313m)
- Moynihan Station Train Hall ($800m allocated, but not issued)
- All Aboard Florida ($600m allocated, but not issued)

Qualitative Comparison of Debt Financing Options

Comparative Analysis

	Traditional Tax-Exempt Bonds	Innovative Financing Approaches		
		RRIF	TIFIA	Private Activity Bonds
Maximum Term	Legislative authorization limits final maturity of RDA bonds to 40 years from issuance; market standard is 30 years	35 years from substantial completion	35 years from substantial completion	Per Internal Revenue Code, average maturity cannot exceed 120% of average useful life of asset being financed; 35 year maturities on precedent transactions
Amount of financing	Up to 100%	Up to 100%	Up to 49% of eligible costs	Up to 100%
Minimum project size	None	None	$10m, or in some cases $50m	None
Drawdown	Full amount at financial close	As needed	As needed	Full amount at financial close
Capitalized interest during construction	Legislative authorization allows bond proceeds to fund interest during construction	Yes	Yes	Internal Revenue Code allows capitalized interest through the later of three years after issuance or one year after construction completion

Comparative Analysis

	Traditional Tax-Exempt Bonds	Innovative Financing Approaches		
		RRIF	TIFIA	Private Activity Bonds
Principal repayment	Subject to market demand	Must start within 5 years of substantial completion	Must start within 5 years of substantial completion	Subject to market demand
Early redemption	Generally a 10-year par call; can be advance refunded once	No prepayment penalty	No prepayment penalty	Generally a 10-year par call; not eligible for advance refunding
Credit ratings	One investment grade rating required	Not required	Two investment grade ratings required	One investment grade rating required
Revenue pledge	Dedicated source required	Not required but will impact CRP if not provided	Dedicated source required	Dedicated source required
Federal regulation compliance	N/A	NEPA, Buy America, among others	Same as RRIF plus Title 49 of US CFR	N/A

Quantitative Comparison of Financing Structures

Scope of Quantitative Analysis

- An analysis was performed to provide RDA with an estimated cost of capital under various financing structures for the West Lake Corridor ("WLC") and South Shore Double Tracking ("DT") projects (together, the "Commuter Rail" projects)
- Estimates are based on published MMD rates from TM3, KPMG market observations for equity returns, and publicly available U.S. Treasury rates. Interest rates are as of March 24, 2017.
- Evaluates only the estimated cost of capital of the scenarios
- Private financing scenarios do not consider potential qualitative or quantitative benefits of innovative delivery and financing models. These benefits should be balanced against cost of capital impact. Benefits may include:
  - Lower upfront design and construction costs due to efficiencies and reduced interface risk
  - Lower facility operations and maintenance expense due to integrated design and maintenance
  - Lower lifecycle costs due to whole-life planning
  - Limited public sector exposure to cost overruns
- Proposed structures are preliminary and do not represent all of the potential structures and combinations that may be available to RDA or a private sector developer

Overview of Scenarios

- WLC and DT projects were analyzed separately
- Four scenarios were analyzed for each project:
  - Traditional Financing – Conventional public sector financing approach, with debt secured directly by the State's appropriation and local government commitments
  - State Appropriation and TIFIA/RRIF Financing – Innovative financing approach, assuming State Appropriation bonds and Local Commitment financing through TIFIA and/or RRIF programs (same security pledges as Traditional Financing)
  - PABs and Developer Equity – Private sector financing approach, with 88% leverage via PABs (secured by the project trust estate); remaining capital is provided in the form of developer equity
  - TIFIA/RRIF and Developer Equity – Private sector financing approach, with 88% leverage via TIFIA/RRIF (same security pledge as Traditional Financing); remaining capital is provided in the form of developer equity

Commuter Rail Financing Analysis

Uniform Assumptions

— Interest rates are as of March 24, 2017

— All debt financing rates include the impact of capitalized interest during the construction period

- Capitalized interest and no principal amortization during three-year construction period

— Level annual public sector contribution over 30-year project life

- Public sector contributions during construction are assumed to be applied as progress or milestone payments, decreasing the financed proceeds requirement

— Traditional Tax-Exempt Bonds financing scenarios assume separate financings for State Appropriation and Local Commitment

- State Appropriation bonds and Local Commitment bonds would be rated separately and priced accordingly in the market
- Local Commitment assumes sufficient revenue quality and credit enhancement in order to reach assumed credit rating; limited diligence has been performed on the revenue streams

— State Appropriation and TIFIA/RRIF Financing scenarios also use a split credit approach – State Appropriation bonds and Local Commitment-backed TIFIA/RRIF loan(s)

— If TIFIA is used, the RRIF loan is assumed to cover the debt funding amount above 33% of eligible project costs

Double Tracking Financing Analysis

— State Appropriation combined with Local commitment-backed TIFIA/RRIF provides the lowest cost of capital for the DT project, based on preliminary analysis

- Appropriation, Local Commitment, and PABs issuances are based on cash flows to maturity and exclude the potential benefit of refunding transactions
- Annual funding is assumed to be split evenly between state appropriation and local match

Traditional Tax-Exempt Bonds

Capital Source	% of Proceeds	Effective Rate
Appropriation Bonds[1]	54.4%	3.97%
Local Gov't Commitment Bonds[2]	45.6%	5.14%
Aggregate[3]	100.0%	4.51%

Appropriation and TIFIA/RRIF

Capital Source	% of Proceeds	Effective Rate
Appropriation Bonds[1]	45.8%	3.97%
TIFIA/RRIF (with Local pledge)[4,5]	54.2%	2.83%
Aggregate	100.0%	3.37%

PABs and Developer Equity

Capital Source	% of Proceeds	Effective Rate
Private Activity Bonds[6]	88.0%	5.35%
Developer Equity[6]	12.0%	14.00%
Aggregate	100.0%	6.68%

TIFIA/RRIF and Developer Equity

Capital Source	% of Proceeds	Effective Rate
TIFIA/RRIF[4]	88.0%	2.83%
Developer Equity[7]	12.0%	14.00%
Aggregate	100.0%	4.70%

1. Appropriation bonds assume Aa1/AA+ ratings; assume serialized maturities with rates based on published AA GO MMD plus 10 bps spread/buffer.
2. Local government commitment bonds assume Baa2/BBB ratings on pooled financing; assume serialized maturities with rates based on published BBB GO MMD plus 25 to 40 bps spread/buffer. Aggregate rate includes impact of debt service reserve fund, funded at lesser of three-prong test.
3. Proceeds are not evenly split due to DSRF and higher yields on the Local Government Commitment Bonds.
4. TIFIA/RRIF rate based on 20-year U.S. Treasury rate, corresponding to the average life of the debt. Excludes the impact of potential CRP for RRIF loan given the limited ability to estimate it at this time. For 54.2% RRIF financing, a 5% upfront CRP expense would be approximately $3.7 million.
5. Proceeds are not evenly split due to lower yields on TIFIA/RRIF.
6. PABs assume Baa3/BBB- ratings; assumes term maturities with rates based on published BBB GO MMD plus 73 to 83 bps spread/buffer. Aggregate rate includes impact of debt service reserve fund, funded at first semiannual principal and interest payment.
7. Developer equity assumes 14% pre-tax return, based on KPMG market observations.

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West Lake Corridor Financing Analysis

— Similar to the DT project analysis, State Appropriation combined with Local commitment-backed TIFIA/RRIF provides the lowest cost of capital for the WLC project

- Assumptions and results are substantially the same between the DT and WLC projects, except for the funding mix under the Traditional Tax-Exempt Bonds, and Appropriation and TIFIA/RRIF scenarios
- WLC analysis assumes the State Appropriation provides fixed $6M per year for debt service with the remaining funding coming from Local Commitments

Traditional Tax-Exempt Bonds		
Capital Source	% of Proceeds	Effective Rate
Appropriation Bonds	35.0%	3.97%
Local Gov't Commitment Bonds	65.0%	5.14%
Aggregate	100.0%	4.74%

Appropriation and TIFIA/RRIF		
Capital Source	% of Proceeds	Effective Rate
Appropriation Bonds[1]	33.6%	3.97%
TIFIA/RRIF (with Local pledge)[1]	66.4%	2.83%
Aggregate	100.0%	3.23%

PABs and Developer Equity		
Capital Source	% of Proceeds	Effective Rate
Private Activity Bonds	88.0%	5.35%
Developer Equity	12.0%	14.00%
Aggregate	100.0%	6.68%

TIFIA/RRIF and Developer Equity		
Capital Source	% of Proceeds	Effective Rate
TIFIA/RRIF[1]	88.0%	2.83%
Developer Equity	12.0%	14.00%
Aggregate	100.0%	4.70%

1. Excludes the impact of potential CRP for RRIF loan given the limited ability to estimate it at this time. For 66.4% RRIF financing, a 5% upfront CRP expense would be approximately $9.9 million.

Breakeven Cost Analysis

— This analysis provides an estimate of the reduction to upfront capital costs that would be required under an innovative delivery model to outweigh the higher cost of capital

- Analysis compares innovative delivery and financing scenarios to Traditional Tax-Exempt Bonds scenarios (for both DT and WLC, respectively) and targets required cost savings under innovative delivery model in order to breakeven given different cost of capital across each financing scenario

— Results:

- For the DT project, the RDA might consider the TIFIA/RRIF and Developer Equity scenario if a private developer could deliver the project for $3 million less than the Traditional Tax-Exempt Bonds scenario
- For the WLC project, the TIFIA/RRIF and Developer Equity scenario is more cost effective than the Traditional Tax-Exempt Bonds scenario without any capital costs savings due to cheaper cost of capital

Financing Scenario	Capital Cost Increase / (Decrease) Required to Breakeven[1]	% Increase/ Decrease
Double Tracking[1]		
Traditional Tax-Exempt Bonds	**$0**	0.00%
TIFIA/RRIF and Developer Equity	**($2,976,393)**	-2.05%
PABs and Developer Equity	**($29,269,762)**	-20.19%
West Lake Corridor[1]		
Traditional Tax-Exempt Bonds	**$0**	0.00%
TIFIA/RRIF and Developer Equity	**$1,315,323**	0.43%
PABs and Developer Equity	**($55,669,001)**	-18.09%

1. Breakeven analysis assumes approximately $8.86 million and $19.33 million in annual public sector funding, respectively, and WACCs per slides 27 and 28.

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Key Funding Considerations

Funding Considerations - WLC and DT Projects

- The source of funding that will be pledged to repay the financing is paramount. Without a dedicated, quality funding stream, it may be difficult to leverage these innovative financing sources.
- A pledged source of funding is required for TIFIA financing, along with two investment grade credit ratings. For RRIF, while not required per se, it will be more difficult to pass the creditworthiness assessment without a pledged source of funding. In addition, the CRP will be higher if there is not a form of collateral provided, such as a dedicated source of funding.
- Sources of funding that have been pledged for recent TIFIA/RRIF projects include farebox revenues, sales tax revenues, availability payments, tax revenues, and state or local appropriations.
- Pledges of future revenue streams that do not have a long and stable history will be difficult to leverage without another form of security behind it. As an example, a pledge of sales or property tax increment that is reliant on future TOD may require a credit enhancement structure.
- Private equity financing is another source of upfront funding that could be considered. Private equity could be invested alongside RRIF, TIFIA or PABs under an innovative delivery model. While the cost of capital for private equity investment higher than more traditional forms of financing, the higher cost of capital can be offset by cost savings that may result from innovative delivery models.

Funding Considerations - TOD

- Both RRIF and TIFIA can be used to finance transit oriented development. In addition, TOD could be financed by a private sector party with a combination of debt and equity. The source of funding for the repayment of the TOD financing is critical and the same general considerations apply as discussed on the previous slide.
- Tax increment revenue that is generated from the TOD area could potentially be used as a source of funding, however there may be challenges with new TIF districts. Financing supported by TIF revenues may require an additional form of security.
- Leveraging tax increment revenues for a TIFIA loan has been done for Transbay Transit Center and Denver Union Station, both of which pledged real estate tax increment
- The ability to attract private sector investment in TOD will depending on the risk appetite of the developer and their view of the development potential. In markets with strong growth and development potential, it may be possible to rely on private sector development of commercial, retail and residential TOD. In this case, RDA or the relevant public sector entity could fund or finance (potentially with RRIF or TIFIA) any public sector costs associated with public infrastructure and/or land acquisition.
- However, if a fully-private financed development is not feasible, then the RDA or a local municipality may need to provide funding or some alternative type of incentive in order to make the development financially feasible for a private sector developer.

Next Steps and Application Process

Next Steps and Application Process

RDA’s Next Steps

- Define and quantify all sources of funding
- Determine preferred delivery option for the WLC and DT projects
- Assess which, if any, innovative financing option should be pursued
- Begin application process, commencing with outreach to the Bureau and drafting the Letter of Interest/Draft Application

RRIF and TIFIA Process and Timeline

- Consultation with the Bureau to ensure that the relevant programmatic requirements are met and initial risk assessments are completed.
- Completion and submission of LOI/Draft Application and payment of Advisors Fees Upfront Payment
- Oral presentation to the Bureau
- Initial LOI eligibility review (30 days after receipt of all information)
- Creditworthiness review (45 to 90 days after receipt of all requested information)
- Invitation to submit a formal application
- Application submitted
- Applications are approved or denied within 90 days from receipt of complete application.

Next Steps and Application Process

RRIF and TIFIA Process and Timeline Continued

- Applications will be deemed complete after the following:
  - National Environmental Policy Act (NEPA) and related laws, regulations and orders fulfilled
  - All information requested of the applicant during the review process has been submitted
- Credit and business terms for the financing are negotiated and the loan agreement is drafted and executed (60 days)
- Timeline varies based on project specific considerations

Major Requirements

- Draft EIS circulated (or Categorical Exclusion of FONSI obtained)
- Project consistent with state transportation plan and, if applicable, included in metropolitan transportation plan

- Preliminary rating opinion letter obtained
- Advisors' Fees Upfront Payment remitted
- Oral presentation

- ROD obtained
- Project included in STIP

Investment-grade rating on senior debt submitted prior to anticipated closing date

Applications, Approvals and Funding

Project Sponsor engages with Bureau Outreach

Letter of interest provided

Project sponsor invited to submit application

Application submitted

- Project selection made
- Term sheet issued
- Funding obligated

- Credit agreement executed
- Funds disbursed according to terms

Source: Build America Bureau

kpmg.com/socialmedia