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CASE STUDY

Chicago Transit Authority

\$120 Million Lease-Purchase of 150 60ft Hybrid Articulated Buses

Traxis Financial Group (TFG) and the Chicago Transit Authority (CTA) closed a lease purchase transaction whereby TFG financed the CTA's purchase of 150 60ft hybrid articulated transit buses and related spare parts having an aggregate acquisition cost of \$120,522,624. The 12 year lease purchase, financed, structured and arranged by TFG, will help the CTA achieve the goals of reducing the average age of its bus fleet, significantly lowering its overall operating costs, and increasing the comfort and appeal of public transportation to the citizens of the Chicago metropolitan area.

Fleet Replacement Financing Pays for Itself

Financing the acquisition of new transit buses, rather than purchasing them with cash, permitted the CTA to:

- ▶ retire approximately 250 older (17–25 years), 40ft diesel buses (having very high repair downtime and operating and maintenance costs—ever more expensive in today's elevated fuel cost environment)
- ▶ place 150 brand new, fuel-efficient hybrid buses in service, and
- ▶ attain a tremendous immediate beneficial impact on its fleet and ridership.

Without financing, the CTA may perhaps have been able to retire 25 old buses in exchange for 15 new buses. Financing enabled CTA to retire 250 buses (12.5% of its fleet) well past useful life industry norms, and to place in service 150 new, larger capacity, economically efficient and environmentally friendly buses (8.5% of its fleet). The CTA estimates that this will save them approximately \$7 million per year in reduced maintenance, parts, labor, operating and fuel costs, not only paying

for the financing cost of approximately \$3.4 million per year, but also providing significant free excess cash flow for operations. The size of the CTA's purchase, facilitated by financing, also helped to achieve very attractive pricing from the manufacturer, which likely would not have been possible with a smaller order of 15 buses.

Reducing Operating Costs

The CTA's ability to immediately introduce 150 new transit buses into the Chicago public transportation system will have far-reaching economic benefit to the city and goodwill effects to its ridership. The CTA has acknowledged the extensive operational costs of maintaining a fleet of buses in which many of the vehicles are beyond their useful economic life. The repair costs and the downtime associated with older transit buses are a drain on the CTA's operating budget. The CTA, like every metropolitan transit authority in the U.S., is heavily focused on upgrading service to its customers while improving its cost recovery ratio (System-Generated Revenues/

Operating Expenses). The reduced downtime and maintenance costs resulting from the new buses will have a positive impact on the CTA's service efficiency, often measured as operating expenses per vehicle revenue miles driven. By reducing repair costs and increasing the number of hours that its buses are on the road rather than in the maintenance station, the CTA will improve its performance metrics. Fare revenues and ridership can be expected to increase as well with the newer, cleaner and more comfortable buses. Residents of the Chicago metropolitan area are more likely to use public transportation as service quality is improved and safety is increased.

Another important appeal of the capital investment involves the superior fuel efficiency of the newly acquired hybrid buses. Fuel costs are a major component of the CTA's operating budget, and this problem has only been exacerbated by today's accelerating cost of gasoline, diesel and other petroleum products. The hybrid buses will consume less fuel, in addition to advancing the city's desire to reduce its carbon footprint. Given the general public's desire for "greener" options, the new buses should enhance the CTA's perception among its customers.

Bond Issuance or Lease Purchase?

Once the CTA decided to finance the bus purchase, it considered both leasing and municipal bond issuance funding alternatives. The CTA and their financial advisors ultimately decided that TFG's lease structure provided a lower interest rate and overall transactional costs. Additionally, the lease structure provided a quicker timeline to closing, with considerably less effort and

disturbance to CTA's normal operating activities than would a traditional municipal debt issuance. Not only was the process faster, but it provided the CTA with greatly enhanced certainty of closing. There have been numerous failed municipal bond issuances in the capital markets during recent months, and several of the deals that did ultimately close required significant

interest premiums over original pricing indications. Finally, the decision to utilize TFG's lease structure preserved the CTA's ability to access the bond market for CTA's future capital and financing needs when the capital markets may be more stable and constructive for issuers.

Traxis Financial Group Offers Most Attractive Financing

Among the different lease options offered to the CTA by a number of large, well-known banking and financial institutions, TFG's lease proposal proved to be the best choice, providing the lowest cost and the most flexible finance package among several options. TFG's lease terms included a twelve year amortization schedule with semi-annual payments and a deferred initial payment. The entire acquisition cost of the buses is funded into an escrow account at first delivery, with multiple draw-downs taking place over the following two years to reimburse mobilization payments, make milestone payments to the manufacturer and pay post-delivery retainage amounts. The lease provided the CTA with the most competitive all-in fixed rate of 4.41% and did not impose any restrictions on the CTA's other existing or future indebtedness. The lease purchase was secured solely by the buses being acquired and did not involve the pledge of

any other CTA assets or collateral. Despite a collateral package limited to the assets being financed, the TFG proposal did not require the CTA to increase its existing insurance coverage, which like most transit authorities, is significantly self-insured. Also, it was critical to the CTA that TFG's structure did not assert any priority rights on any specific federal or state revenue grant streams, thus preserving the greatest flexibility for the CTA. TFG's financing affords the CTA maximum flexibility to manage and allocate its grant money amongst various capital expenditures and qualifying projects.¹

Also attractive to the CTA was TFG's ability to help CTA identify and execute an interest rate lock at attractively low hedging costs, hence allowing the CTA to eliminate interest rate exposure during the 6 month period between closing and funding. Though this case study has highlighted TFG's ability to deliver solutions to the

Chicago Transit Authority on the transit bus side, many of the same concepts apply equally to other types of public transportation finance projects. Traxis Financial Group offers a range of financing options to transit authorities and municipalities around the country, whether their needs are focused on buses, railcars, people movers, emergency vehicles, municipal equipment, station development and/or improvements, or public real estate/building acquisition.

Please contact us at:

info@traxisfinancial.com or by phone at 203-562-0200 to see how TFG can provide financing solutions to meet your municipal project needs.

¹ TFG also offers transit authorities other unique structures that are more closely tied to Federal Transit Administration grants and, although sacrificing some flexibility, can offer even more attractive financing terms.