



U.S. Department
of Transportation
**Federal Transit
Administration**

REGION X
Alaska, Idaho, Oregon,
Washington

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REGION 10 BULLETIN NO: 07-02

SUBJECT: Debt Service Reserve Pilot Program

PROGRAM AREAS: Grants

DATE: January 8, 2007

This solicitation is for proposals from public transportation agencies currently receiving grant funds under the Urbanized Area Formula Program at 49 U.S.C. 5307 to establish a debt service reserve fund in connection with bonds to be issued in support of a public transportation project.

Background – SAFETEA–LU established the Debt Service Reserve Pilot Program under 49 U.S.C. 5323(d)(4). The new program reimburses **up to 10 eligible recipients** for deposits of bond proceeds in a debt service reserve that the recipient establishes pursuant to section 5302(a)(1)(K) from amounts made available to the recipient under Section 5307. In other words, if the transit agency issues bonds and is required to deposit part of the proceeds of those bonds in a debt service reserve, it is now considered reimbursable from urban formula program funds. Under normal circumstances, the grantee is not able to reimburse itself for this cost until the debt service reserve is actually used -- usually in the last year of the bond issue.

This new provision may save transit agencies significant opportunity costs in their capital plans. For example, at current interest rates on a \$1 million bond issue, the debt service reserve requirement would be around \$100,000. If Section 5307 funds are used as reimbursement for 80 percent (of the \$100,000 debt service reserve), it would free up \$80,000 for another transit project. Without this new authority, the lost opportunity cost to the transit agency of not being able to use that \$80,000 for as long as 20 years would be almost \$116,000.

You should be aware that while the pilot program is limited to no more than 10 Section 5307 grantees, there is no such limit on Section 5309 grantees. Thus, New Starts and Fixed Guideway Modernization grant projects should consider debt service reserve reimbursement as part of their capital project cash flow projections.

FTA intends for the eligibility under the Pilot Program to extend to an entity engaged by a provider to design, build, operate and maintain (DBOM) a project eligible under section 5307. In other words, DBOM contractors under a Public-Private Partnership type of agreement are eligible applicants.

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Complete proposals may be submitted to FTA at any time prior to June 1, 2009. Proposals must be submitted electronically to Paul.Marx@dot.gov **and** Katherine.Mattice@dot.gov. The subject line of the e-mail should read: Proposal for Debt Service Reserve Pilot Program.

The Federal Register web site is:

<http://a257.g.akamaitech.net/7/257/2422/01jan20061800/edocket.access.gpo.gov/2006/pdf/06-9912.pdf>. Please contact Dave Leighow at (206) 220-7965, email dave.leighow@dot.gov if you have questions concerning this notice.

Sincerely,

A handwritten signature in black ink, appearing to read "R.F. Krochalis". The signature is stylized and written in a cursive-like font.

R.F. Krochalis
Regional Administrator