LAO
60 YEARS OF SERVICE
January 2003

Lease-Leaseback Transactions By Public Transit Districts—Sales and Use Tax Exemption

LEGISLATIVE ANALYST'S OFFICE

Chapter 592, Statutes of 2001
(AB 984, Papan)

Introduction

Chapter 592, Statutes of 2001 (AB 984, Papan), requires that the Legislative Analyst's Office (LAO) prepare a report regarding the impact of a sales and use tax (SUT) exemption for the lease and lease-back (LLB) of certain equipment by public transportation districts in the state. Specifically, the LAO is required to examine the SUT exemption for certain LLBs provided for under Section 6368.8 of the California Revenue and Taxation Code, and provide a report to the Legislature that discusses the effect of the exemption and includes a recommendation as to whether the exemption should be continued beyond the January 1, 2004 expiration date set forth in the legislation.

The LAO report is to include the following information: (1) the extent to which the exemption is utilized; (2) the fiscal impact of the exemption, including the total exemption amount and any depreciation claimed for qualified equipment; (3) the impact, if any, of federal law, including, but not limited to Revenue Ruling 99-14, on the utilization of the exemption; (4) the impact of the exemption on California's public transit sector; and (5) a recommendation as to whether the exemption should be extended beyond the January 1, 2004 expiration date, and if so, any recommended modifications that should be implemented with respect to the exemption.

This report presents our findings and recommendations. We first present pertinent background information regarding LLB transactions, discuss the application of the SUT with respect to these financings, and provide pertinent information regarding state and federal involvement with LLBs, including tax-related issues. We then describe the basic public transit district LLB, provide an example of a representative financing, and describe the financial benefits of the transaction. Finally, we present data on recent LLB financings in California, discuss their fiscal impacts, and provide a recommendation to the Legislature regarding the exemption.

LAO Conclusions. Our findings suggest that—*based on the information available to us*—the current sales tax exemption for LLBs undertaken by public transit districts is an effective means of increasing the amount of resources available to these districts with limited state revenue losses. If the program is continued beyond its current expiration date, however, the Legislature may want to consider various measures that would improve the effectiveness of the program, improve disclosure regarding transactions undertaken, and broaden state oversight.

Background on LLB Transactions

What Are LLBs?

Public entities, such as public transit districts, engage in LLBs for a variety of purposes and using a variety of different financing structures. In general, these financings involve the purchase of personal or real property by a public agency, which subsequently sells or leases the property to a private, nonprofit, or other public entity. The original purchasing public agency then leases the property back under a sublease. The LLB transactions are also commonly known as sale-leasebacks, lease-in and lease-out (LILO) transactions, or lease-to-

service transactions. The exact type (and name) of a particular lease financing often involves whether title to the property changes hands in the course of the transaction, the length of time the agreement will be in effect, and which party to the transaction is responsible for property maintenance.

Why Are LLBs Undertaken?

In general, LLBs are undertaken by public agencies when they require the use of certain property or equipment but either are unable to—or do not want to—take actual ownership of the property, as described below.

- In cases where the agency is financially *unable* to acquire property, LLBs allow public agencies to finance the use of property through access to the capital markets. In this situation, securities such as lease revenue bonds or certificates of participation are typically issued by a separate nonprofit or public entity, the proceeds of which are subsequently used to purchase property on behalf of the public agency. The public agency's lease payments for the use of the property are then used to service the debt payments on the securities.
- In contrast, in cases where the public agency is financially *able* to take ownership of the property, but chooses not to, this decision may be due to a variety of reasons. For example, there may be financial liability issues associated with ownership that the public agency wishes to avoid, or, conversely, there may be financial advantages that are only available to the public agency through a lease financing arrangement.

In the case of transit districts, *financial constraints* (the first category discussed above) do *not* appear to play an important role in recent LLBs undertaken by transit districts. Rather, recent transit district LLBs appear to be undertaken with the expressed purpose of realizing certain *financial advantages* (the second category discussed above). The SUT exemption adopted by the Legislature was intended to facilitate these financings. An LLB financing allows a public transit district to essentially "sell" a component of the property purchased by the district—namely, the property's depreciation rights for tax purposes—that would otherwise be of no financial value to the transit district due to its tax-exempt status. Such transactions also allow transit districts to convert capital grants into operating funds, although this appears to be a minor consideration.

Application of SUT to LLBs

General SUT Rules. The SUT is generally levied in California on the gross receipts from tangible personal property sold or transferred to individuals and businesses considered to be the final consumer of the property. The SUT actually consists of two different tax components having identical rates. The two components are: (1) the *sales* tax, which is levied on the total purchase price of tangible personal property sold *within* the state, and (2) the *use* tax, which is applied to the storage or use of goods in California that have been purchased outside of the state. The SUT's rate (effective January 1, 2002) averages 7.9 percent statewide, comprising a uniform state-level rate of 6 percent and an average countywide rate of 1.9 percent.

Transit District LLBs and the SUT. In general, the SUT is applied to purchases made by public agencies, including public transit districts. Thus, when a transit district purchases equipment for the use of the agency, it pays the state and local portions of the SUT.

The LLB financings entered into by transit districts essentially result in two transactions and thus, two potential SUT levies. There is currently a requirement that transit districts pay the SUT on the first purchase of the equipment. The second transaction, involving the simultaneous LLB of the equipment by the transit district and another entity, also represents a potential point at which the SUT might be levied. Prior to 1999, the Board of Equalization (BOE) determined that due to the nature of most LLBs, the second transaction did *not* constitute a sale for SUT purposes.

In March 1999, however, the Internal Revenue Service (IRS) issued a ruling (Revenue Ruling 99-14) that required a lengthening of the depreciation period for LLBs and limited the tax sheltering benefits of these financings realized by private entities involved. This ruling, in turn, triggered a reinterpretation by BOE regarding the applicability of the SUT on the second transaction. The IRS revenue ruling led the BOE to make the determination that the second transaction *was*, in fact, a sale, and therefore necessitated the payment of the SUT. (The lengthening of the lease and depreciation period by Revenue Ruling 99-14 had the effect of classifying the lease as a sale under state law, according to BOE's decision.) The subsequent adoption by the Legislature of Chapter 592 specifically exempts this second transaction from the SUT for public transit districts. (The California Department of Transportation [Caltrans] has a similar exemption for LLBs undertaken for that department's own purposes.)

Federal and State Role in LLBs

Treatment of Depreciation. Current federal and state tax laws generally allow as depreciation deductions reasonable allowances for the exhaustion, wear and tear, and obsolescence of property used in a trade or business or property held in the production of income. Claiming a depreciation deduction reduces current taxable income, and thus tax liabilities. Under current law, public entities are not subject to federal or state income taxes and so cannot use depreciation deductions; however, private businesses *do* use depreciation deductions to reduce their tax liabilities.

Lease-leaseback financings represent an approach by public agencies to selling their depreciation rights to private parties—so-called equity partners—who can use such rights to their financial advantage. One such type of transaction—termed safe-harbor leases—was used in the 1980s, but was curtailed by the 1986 Federal Tax Reform Act. A second version—the LILO approach—was developed in the early 1990s and used by a number of transit districts in California. According to federal analysts, this particular structure allowed equipment to be favorably depreciated—as much as twice the rate of straight-line depreciation. As noted earlier, the IRS subsequently restricted this type of financing through a revenue ruling, which placed restrictions on the term of the lease, and required straight-line depreciation. The development of the current LLB structure was partially in response to these requirements and rulings.

Tax Neutrality Is Required. The IRS currently requires that LLBs carried out be "tax-neutral" over the term of the lease, meaning that the transaction cannot result in overall federal tax receipts associated with them being lower than would have been generated

absent the financing. The tax-neutral calculation, however, does not account for the "time value of money," allowing private investors and the transit district to essentially split the benefits associated with this particular financial trait. The lease is structured such that losses to the equity partner occur during the first part of the lease—when taxable income might otherwise occur, and net income occurs in the later part of the lease—when money is "cheaper." (Net income often occurs in the *last* year of the transaction in the form of a large lump sum payment.) Thus, the equity partner benefits from the deferral of taxes (and the transit district benefits in the form of an up-front payment).

California's Tax Treatment. California's corporation tax (CT) is structured in a manner similar to that of the federal corporate income tax, and treats depreciation and income in a similar manner with respect to LLB transactions. Thus, to the extent that an LLB transaction results in revenue impacts on federal tax receipts, it will also result in corresponding impacts on state CT revenues. These revenue impacts will be determined by the extent to which equity partners involved in various transactions report income for California tax purposes. Such revenue impacts are discussed in a later section of this report.

Agency Review of Transactions. Transit districts that undertake LLBs are required to notify the federal or state government of them, depending upon the source of the grant funds used for purchasing the equipment incorporated in the financing. At the federal level, the transit district is required to contact and obtain approval from the Federal Transit Administration (FTA). If state funds are used for equipment acquisition, notification of and approval by Caltrans is required.

In general, federal and state oversight tends to be straightforward and relatively confined—largely limited to the protection of public funds. The financing terms of the transaction are not reviewed to ensure any minimum return for the transit district nor for any other reason. For the most part, the review is limited to ensuring that the equipment acquired remains under the control of the transit district and continues to be used for public purposes.

Public Transit District LLBs

In this section, we lay out the basic structure of the typical LLB financing and describe the principal parties involved. We then identify the financial advantages of LLBs to the principal parties and provide an example of the financial results of a typical financing in California.

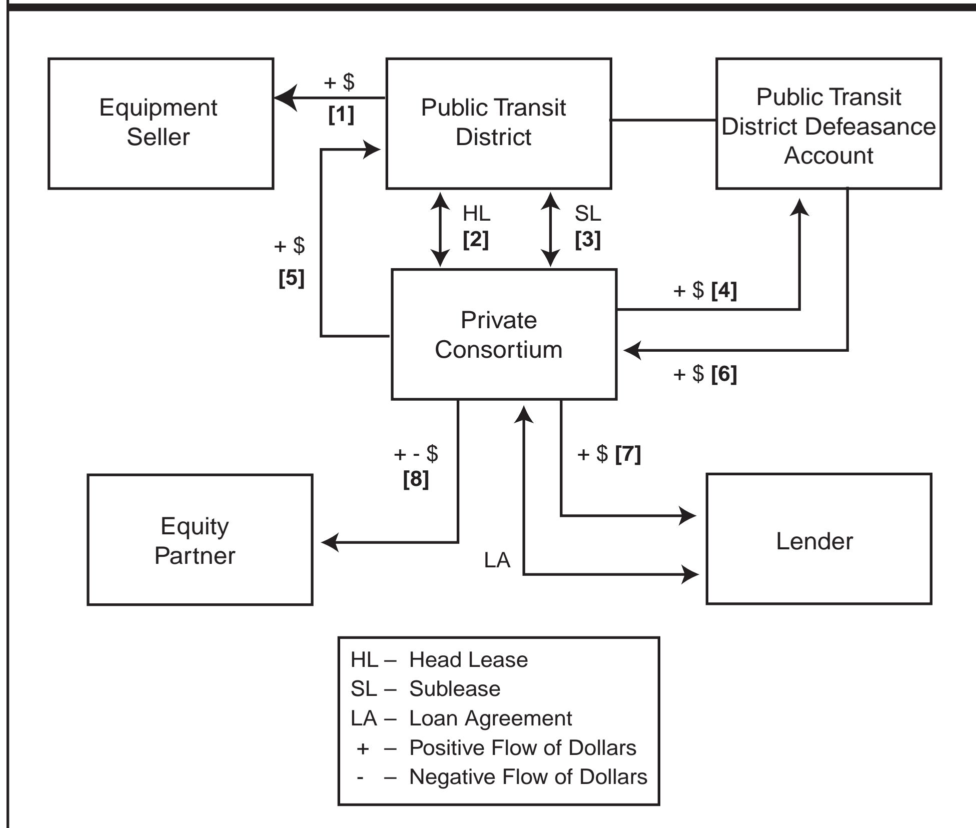
Basic Structure of a Transit District LLB

The basic LLB transaction involves the following steps and outcomes (which are noted in Figure 1).

- The public transit district receives grant funds from the federal government (or the state) and uses them for the purchase of equipment—usually railroad cars, locomotives, and certain electronic and communications equipment (see [1]). The district gets authorization to enter into a LLB from either or both the FTA and Caltrans.

Figure 1

Typical Lease-Leaseback Structure



- Next, the transit district enters into a long-term lease agreement (the "head lease") with a private consortium comprised of a *lender* and an *equity partner*, whose participation shares are usually about 80 percent and 20 percent of the fair market value of the equipment, respectively (see [2]).
- Simultaneously with the execution of the head lease, the transit district and the private consortium enter into a second lease (the "sublease"), whereby the transit district agrees to lease back the equipment from the private consortium (see [3]).
- The private consortium then makes a lump sum payment under the head lease. The largest portion of this is deposited in a defeasance account held by a trustee (see [4]) and a smaller portion—usually in the range of 7 percent to 8 percent of the total amount of capital financed—goes directly to the transit district as a financing benefit (see [5]). The amount paid directly to the district may be used for any approved governmental purposes of the district—usually capital equipment. In a basic sense, these funds represent the "profit" to the

district for selling the depreciation rights for the equipment (which would otherwise go unused).

- The defeasance account is structured such that the principal and earnings generated are sufficient to make annual lease payments under the sublease (see [6]), as well as provide for the purchase by the district of the equipment at the termination of the financing. The sublease payments from the defeasance account repay the lender pursuant to the loan agreement (see [7]) and compensate the equity partner (see [8]).

Financial Effects of LLBs

Public Transit District. The advantages of LLBs to the transit district are relatively straightforward. First, by selling the depreciation right to the equipment, the transit district can leverage grant moneys and realize additional funds usually around 7 percent to 8 percent of the transaction amount (based on data from several recently completed financings). These up-front payments are available for any governmental purpose of the agency (including operating expenses).

Private Consortium. Both lender and equity partners are able to benefit from the transaction. The lender realizes a competitive rate of return on a comparatively low-risk transaction. The equity partner is able to use the equipment depreciation to offset other current income. The tax deferral allows the equity partner to pay taxes at a later date using "cheaper" dollars. Tax losses are typically incurred during the first part of the period covered by the transaction due to the equipment depreciation (as well as loan payments and the amortization of financing costs). In the latter part of the transaction period—sometimes the very last year—the cash flow is positive to the equity investor (thereby creating accompanying tax liabilities), but these deferred payments still constitute a benefit to the equity partner on a net present value basis.

As a result of the proprietary nature of the past and current LLB transactions, we are unable to determine the typical rate of return for an equity partner. This is due to the fact that the financings constitute private placements rather than public offerings and thus do not require a filing with the Securities and Exchange Commission or any other form of disclosure. However, it is our understanding from conversations with industry consultants and financing participants that the combined effect of deferring state and federal income taxes (discounted at a private sector rate) generates a sufficient return for participating equity partners to make the transaction worthwhile.

Federal and State Governments. By purchasing the depreciation rights to the equipment, taxpayers are able to offset current taxable income from other sources. This tax deferral constitutes a loss to the federal government and—to the extent that the equity investors have taxable California income—the State of California. Fiscal effects on the state are more fully considered in a later section.

Representative LLB Transaction

A representative LLB transaction of $100 million might result in an up-front payment to the transit district of 8 percent, or $8 million. Cash flows for this representative transaction are shown in Figure 2 (see page 8). In this example, the private consortium would realize

losses during years 1 through 26, and a large positive income in year 27. This structure results in the deferral of taxes due to the realization of depreciation rights by the private consortium.

In nominal dollars, this representative transaction would result in positive tax consequences for the state. Namely, the state would realize approximately $4.9 million more in corporate taxes than it otherwise would, had the transaction not been carried out. On a net present value basis, however (which accounts for the time value of money), the state would realize a *loss* of $3.8 million. This assumes a discount rate of 5 percent and that all the equity partner's acquired depreciation allowances are used to offset California-apportioned income.

Recent LLB Transactions Undertaken

Public transit districts undertaking LLBs that involve equipment purchased with federal and/or state grant moneys are required to obtain approval from the appropriate agency or agencies. Figure 3 (see page 9) provides various data regarding $3.2 billion in financings that have been completed in California from 1990 to the present and have been subject to FTA or Caltrans approval as a result of incorporating equipment purchased with federal or state grant moneys.

Federally Approved Financings. In conjunction with its approval process, the FTA maintains data on LLB financings that have been approved and completed. California represents a large proportion of the total number of FTA-approved LLB financings in the United States—approximately 27 percent. In addition, California's federally approved transaction amount was about 20 percent of the total amount for all transit districts in the nation.

The data indicate that since 1990 California has completed 22 federally approved transactions—9 of which also required state approval—for a par amount of $2.6 billion. Net benefits to the districts (as a percent of the transaction amount) ranged from 2 percent to 11.5 percent, with an average of 5.6 percent. Most financings in the state during 2002 have resulted in benefits to the transit district of 7 percent to 8 percent. Statewide transit district benefits from federally approved transactions totaled $170 million from 1990 through 2002.

State Approved Financings. Any transit district entering into an LLB transaction for equipment acquired with state grants is required to receive approval from Caltrans. The department has indicated that it does not maintain records that would provide basic information regarding these transactions. In lieu of this, Caltrans surveyed the largest transit districts in the state to determine whether they had entered into transactions approved by Caltrans. Thus, the data in Figure 2 provide information regarding transactions of transit districts that responded to the survey.

The data indicate that during the 1990 through 2002 period, transit districts entered into 14 LLB transactions that required state approval—9 of which also required federal approval. These transactions totaled $2.2 billion and provided net district benefits of approximately 7.3 percent of the par amount.

Figure 2

Sample Cash Flows for $100 Million LLB[a]

Year	Private Consortium Cash Flow[b]	California Corporate Taxes	
		Nominal Dollars	Net Present Value[c]
2002	-$3,205,572	-$347,484	-$347,484
2003	-5,622,422	-609,471	-580,448
2004	-5,804,092	-629,164	-570,670
2005	-6,001,470	-650,559	-561,978
2006	-6,213,927	-673,590	-554,164
2007	-6,442,616	-698,380	-547,199
2008	-6,688,777	-725,063	-541,053
2009	-6,172,632	-669,113	-475,526
2010	-6,342,601	-687,538	-465,353
2011	-6,531,004	-707,961	-456,358
2012	-6,730,799	-729,619	-447,923
2013	-6,942,676	-752,586	-440,021
2014	-7,167,368	-776,943	-432,631
2015	-7,008,529	-759,725	-402,898
2016	-6,889,178	-746,787	-377,178
2017	-7,150,170	-775,078	-372,826
2018	-7,445,066	-807,045	-369,717
2019	-7,762,337	-841,437	-367,116
2020	-8,103,521	-878,422	-365,002
2021	-8,470,422	-918,194	-363,360
2022	-8,864,987	-960,965	-362,177
2023	-9,289,306	-1,006,961	-361,441
2024	-9,745,628	-1,056,426	-361,139
2025	-10,236,376	-1,109,623	-361,261
2026	-10,764,150	-1,166,834	-361,798
2027	-11,331,755	-1,228,362	-362,739
2028	237,921,768	25,790,720	7,253,401
Totals		**$4,877,392**	**-$3,956,060**

[a] In this example, benefit to the transit district is 8 percent of the financing amount. The benefits accruing to the private consortium will depend on the particular tax situations of the members as well as their internal valuations of the time value of money. Cash flows portrayed occurs subsequent to the initial purchase and lease of the equipment.

[b] Includes rental income and purchase from transit district (positive cash flows), interest expenses for lease purchase of equipment from transit district (negative cash flows), and asset depreciation purchased from transit district (negative cash flows).

[c] Discounted at 5 percent.

Figure 3

Federally and State Approved LLBs[a]

1990 Through 2002
(Dollars in Thousands)

District	Date	Financing Amount	District Benefit		Approval	
			Amount	Percent[b]	Federal	State
San Mateo County Transit Authority (SAMTRANS)	October 2002	$48,152	$1,470	3.1%		x
LA County Transportation Authority (LACMTA)	September 2002	71,300	4,900	6.9		x
Southern California Regional Rail Authority (SCRRA), Metrolink	August 2002	93,800	7,284	7.8		x
LACMTA	May 2002	125,000	7,200	5.8	x	x
SCRRA	April 2002	67,800	5,560	8.2	x	
Bay Area Rapid Transit (BART), San Francisco	February 2002	212,000	17,000	8.0	x	
MUNI, San Francisco	February 2002	467,950	37,200	7.9	x	x
Peninsula Corridor Joint Powers Board (PCJPB), Caltrain	February 2002	174,600	13,050	7.5	x	x
PCJPB	September 2001	75,520	5,596	7.4		x
LACMTA	August 2001	259,200	21,073	8.1	x	x
SAMTRANS	August 2001	35,000	1,100	3.1	x	
LACMTA	July 2001	289,000	14,400	5.0	x	x
PCJPB	July 2001	141,400	11,200	7.9	x	
PCJPB	October 2000	67,700	6,130	9.1	x	x
LACMTA	May 2000	162,800	11,600	7.1	x	x
Santa Clara Valley Transportation Authority	April 2000	55,580	2,040	3.7	x	
San Diego Metropolitan Transit Development Board (SDMTDB), San Diego	January 1999	76,140	7,002	9.2		
SCRRA	December 1998	36,500	4,200	11.5	x	x
PCJPB	November 1996	107,000	3,911	3.7	x	x
SCRRA	April 1996	193,900	21,183	10.9		x
SDMTDB	May 1995	28,000	560	2.0	x	
Rapid Transit District, San Jose	August 1994	19,686	581	3.0	x	
Southern California Rapid Transit District	September 1992	70,000	1,903	2.7	x	
Sacramento Regional Transit District	June 1991	17,000	417	2.5	x	
BART	January 1991	180,000	6,294	3.5	x	
SDMTDB	June 1990	52,340	1,654	3.2	x	
Los Angeles County Transportation Commission	March 1990	28,500	1,000	3.5	x	
BART	January 1990	30,000	1,800	6.0	x	

[a] State data are based on Caltrans survey of transit districts, because such data are not maintained by the department. Federal data are based on FTA records.

[b] Percent of amount financed.

Fiscal Impact of LLBs

The potential direct state and local fiscal impacts resulting from LLB transactions are of three types: (1) revenue gains to local public transit districts, (2) SUT revenue losses to state and local governments, and (3) state CT revenue losses.

Public Transit District Revenue Gains. In recent years, a typical return for transit districts undertaking LLBs has been around 8 percent of the total amount of the LLB transaction. In 2002, we anticipate that the amount of LLB transactions will be approximately $1 billion. Thus, if we assume that this level will continue in future years, and financial returns to transit districts maintain the same proportion to gross financing amounts, annual benefits to transit districts in the state would be in the range of $80 million.

State and Local SUT Revenue Losses. As noted above, transit districts that undertake LLBs receive benefits of around 8 percent of the transaction amount. In general, the transactions that have taken place in California are (coincidentally) located in geographic areas where the SUT rate is approximately the same as the return to the transit district. We generally concur with the conclusion of BOE that these two factors probably offset one another. As a result, imposing the SUT on the second transaction would likely make many, if not most, financings uneconomical, resulting in a substantial reduction in LLB financing activity. In other words, the loss of the exemption would change transit district behavior such that there would be little SUT revenue gain.

As we discussed in an earlier section, there may be reasons other than selling depreciation rights for such financings to occur. To the extent that LLB financings occur for noneconomic reasons (such as generating moneys that can be used for any governmental purpose), there may be a loss in SUT revenues due to the exemption. Generally, however, we believe—and have been informed by transit officials—that any transactions undertaken for reasons other than financial ones would be a very minor component of the total, and thus SUT losses from these transactions would be of a *de minimis* amount.

State CT Revenue Losses. Assuming that approximately $1 billion in LLBs are transacted annually with lease terms similar to the illustrative transaction shown in Figure 2, the state receives increased CT revenues of approximately $49 million in nominal dollars. On a net present value basis, however, the impact on state revenues would be a negative $39 million. This assumes that the equity partners are able to use *all* their acquired depreciation allowance to offset income apportioned to California.

The Franchise Tax Board (FTB) indicates that only a minor portion of the corporations participating as equity partners in LLB transactions have income in California for tax purposes. Specifically, recent conversations with FTB staff indicate that they currently estimate that approximately 20 percent of the depreciation acquired by equity partners through their participation in LLBs is used to offset California income. Thus, the annual CT impact would be a gain of approximately $9.8 million in nominal dollars, or a loss of $7.8 million in net present value terms.

Net Revenue Impacts. We estimate that based on annual financings of $1 billion, total state and local revenue impacts on a net present value basis would be a revenue gain of approximately $72 million, consisting of a state loss of approximately $7.8 million and transit district gains of approximately $80 million. The major reason that transit district benefits far exceed the benefits to the private consortium (which is an amount equivalent to

the state's tax loss) is that the consortium benefits are not limited to the deferral on California income taxes. The consortium also benefits from the deferral of federal income taxes and taxes in other states in which it has reportable income. Differences in public and private discount rates (which affect the time value of money) may also play a role in calculating public and private benefits.

LAO Recommendations

The SUT exclusion granted through Chapter 592 is scheduled to sunset on January 1, 2004. Based on our examination of the impact of this exemption on the state and local governments, we believe that a strong case can be made for removing the sunset and allowing the exclusion to continue. The exclusion results in a significant amount of new revenues to transit districts each year at a relatively low cost to the state (roughly a 10-to-1 ratio). Even with a high local benefit-to-state cost ratio, however, the exclusion should be continued only if the Legislature believes that transit districts are spending these funds on projects or activities of value.

Additional Considerations

Should the Legislature determine that the program is worthy of extension, there are several areas involving the current tax program that it may want to review, alterations to which could result in an improvement in the program's performance. Specifically:

- ***Require Reimbursement to State.*** The benefits to public transit districts vastly exceed revenue losses to the state and could partially be used to compensate the state for its CT losses. The Legislature may want to consider requiring transit districts to remit to the state a set percentage of their benefit (for example, 10 percent) as a means of compensating the state for its revenue losses.
- ***Equity Partner Reporting.*** Currently, the tax benefit or return to the equity partner for participating in the financing goes unreported. In any case, the benefit will vary depending upon the particulars of each transaction and the tax position of the equity partner. The Legislature may want to consider a reporting requirement by the equity partner or the district to ascertain how the benefits of the transaction are being split between the various participants and how prevailing market conditions affect the transactions. Such reporting could allow the state to determine (1) whether just a *partial* SUT exemption might allow LLBs to occur *and* let the state realize additional revenues, and (2) how changes in market conditions and competitive rates of return affect the feasibility and profitability of such transactions.
- ***Monitor Equity Partner Income and Federal Guidelines.*** The relatively minor state net CT revenue losses are highly dependent on a large proportion of equity partners not having income in California for tax purposes. If the profile of these equity partners should change, revenue impacts could increase. The Legislature may want to require a reporting of the tax position of the equity partner as part of the transaction. Similarly, to the extent that federal law or IRS interpretations change to allow greater private party tax benefits (such as additional or accelerated depreciation benefits), this may affect state revenues.

Finally, we would note that the positive tax payment to the state in the final year(s) of the transaction is less certain than an ongoing stream of tax payments due to the possibility of changes in tax law and the potential development of additional tax-sheletering devices.

- ***Facilitate Participation by Small Districts.*** The completion of LLB transactions results in substantial fixed costs for legal, accounting, insurance, and underwriting activities. These high fixed costs typically necessitate that financings achieve a minimum size of around $75 million. The Legislature might consider establishing a mechanism that would facilitate "pooled" financing that would allow smaller transit districts that are unable to reach this threshold individually to still participate in LLB transactions.
- ***Improve Record-Keeping.*** Although transit districts are required to obtain Caltrans' approval for LLB financings if state grant moneys are involved, the department does not maintain comprehensive records regarding approved transactions. The Legislature may want to consider directing Caltrans to maintain various data regarding transactions that have been approved, such as: name of district, date of transaction, amount of transaction, amount and percentage of district benefit, and amount of state grant moneys involved. This would allow the state to ensure that state grant moneys are appropriately used and acquired equipment continues to be controlled by the transit districts.

This report was prepared by Mark A. Ibele and reviewed by Jon David Vasche. The Legislative Analyst's Office (LAO) is a nonpartisan office which provides fiscal and policy information and advice to the Legislature.

To request publications call (916) 445-4656.

This report and others, as well as an E-mail subscription service, are available on the LAO's Internet site at www.lao.ca.gov. The LAO is located at 925 L Street, Suite 1000, Sacramento, CA 95814.