Lease With Maintenance

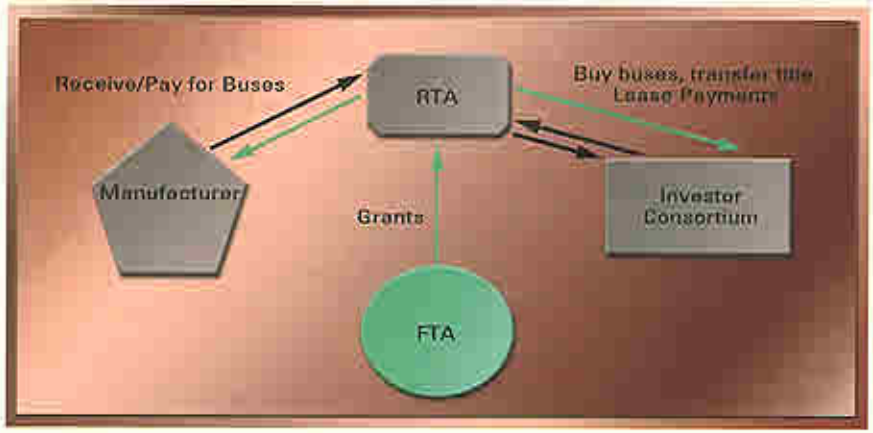
The Federal Transit Administration developed a policy in the mid-1990's, which was eventually incorporated into law, allowing the entire capital cost of vehicles to be supported with Federal grant funds. In this case, entire capital cost included preventive maintenance. In response to this policy, the New Orleans Regional Transit Authority (RTA) requested FTA's help in acquiring up to 175 buses by means of a lease that would include preventive maintenance for the life of the buses (12 years).

New Orleans faced a particular challenge, in that it was not allowed to incur an obligation of more than one year's duration without seeking approval of the State legislature. This would have taken considerable time. Thus, RTA requested bids for a one-year lease, renewable every year for 12 years. The lease would include maintenance, to be performed at RTA's new A. Phillip Randolph Operations Facility.

THE RIVERFRONT TROLLEY LINE, NEW ORLEANS

RTA ultimately accepted the bid of Penske Truck Leasing Company. That firm agreed not only to assume delivery of 100 buses that RTA had already ordered, but to smoothly deliver an additional 75 buses. Also, Penske agreed to lease the unionized employees already working at the Randolph facility. This allowed the employees (members of the IBEW Local 1700-4) to retain their State

pension and medical benefits. Further, Penske agreed to renegotiate labor contracts at the facility every three years, as RTA had done before.



To undertake the structure described above, RTA had to do two things. It had to prove to FTA that the transaction, lease and maintenance, would be cost effective. It also had to show that it would retain effective continuing control of the buses, despite having given up title to them.

The lease component was completed at an average interest cost of just under 7 percent. This yielded a marginally cost-effective vehicle lease. However, the maintenance cost savings, resulting from management and training improvements to be instituted by Penske, were projected to generate over $2 million per year in cost savings in the first three years. This made the transaction highly cost-effective for RTA.

Although it made the transaction more complex, working through a financial intermediary assured RTA of a viable transaction that would attract a private investor.

Salient Features

- a Cost-beneficial to transit agancy
- b RTA retains effective control of assets
- c Protect existing labor agreements
- d Be flexible