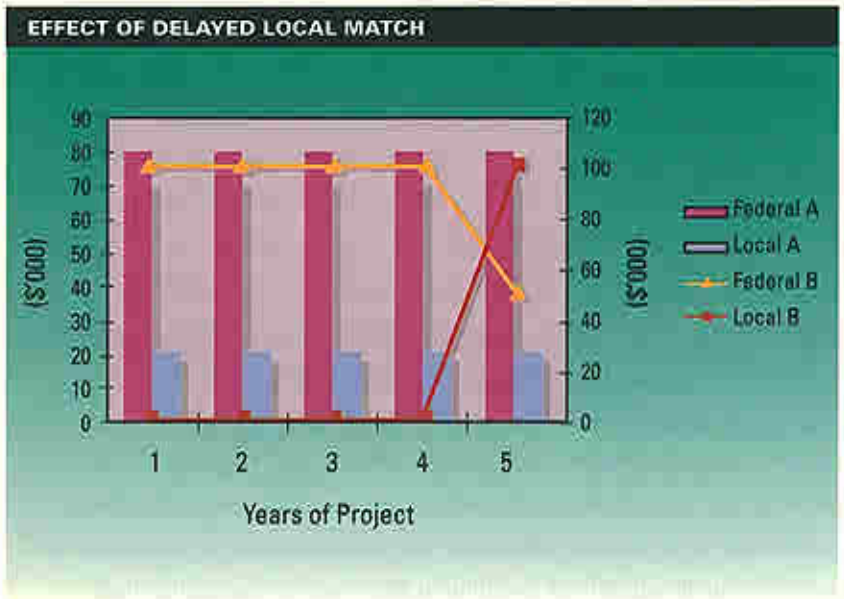
Delayed Local Match

"FTA permits grantees to defer the payment of the local share of transit projects."

Transit systems may wish to delay the application of their local matching funding, particularly if they are trying to maximize the use of their locally available funds. This could occur because the funds are invested in a short-term security, for example, or otherwise encumbered. However, there may also be a situation where the grantee is seeking to arrange construction period financing or some other innovative financing mechanism which could be facilitated through an uneven expenditure of Federal and matching funds. In the example chart below, the delayed local match would allow the grantee to earn $2.45 million on its local share, at current interest rates. Additional benefits could be generated through innovative project financing, or other means.

The FTA grants process generally is based on a level outflow for a specific project. For every 20 percent expended by the locality, 80 percent in Federal funds are expended. Little value can be added to such a cash stream through the assistance of private capital markets. However, if the Federal dollars are expended first, say for 100 percent of the design, engineering, or environmental reviews, then the construction period can be financed with some private participation. In this instance, local funds can be "banked", or pledged as additional security for construction period financing. This is all possible because there are no arbitrage concerns with the local funds as there might be with the Federal funds. The benefit of delayed local match is in that it may help assure the smooth progress of a major transit infrastructure project without any increase in Federal outlays.



The preceding chart compares two notional cash flows: a standard 80/20 flow throughout the project (A), vs. a delayed local match (B). If a grantee delayed application of its local match to the end of the project construction period, it could generate one of two benefits. It could invest its local match in securities, realizing an increase of $40,000 in available funds by the fifth year (at 7%). Or, if the grantee needed to accrue the local match, it could make sufficient deposits each year to accumulate to the required $100,000. In this case, it would only need to deposit $17,450 per year at 7%, rather than the full $20,000. For smaller transit operators with limited means, this would represent a significant cost savings.