Fiscal Note & Local Impact Statement

122 nd General Assembly of Ohio

BILL: **Sub. H.B. 228** DATE: **April 30, 1997**

STATUS: **As Reported by Senate Ways and Means** SPONSOR: **Rep. Corbin**

LOCAL IMPACT STATEMENT REQUIRED: **No — Permissive**

CONTENTS: **Allows regional transit authorities to use sale-leaseback and lease-leaseback financing**

State Fiscal Highlights

- There appear to be no state tax implications of this bill.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 1997	FY 1998	FUTURE YEARS
Regional transit authorities			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential significant decrease	Potential significant decrease	Potential significant decrease
Counties and cities			
Revenues	-0-	-0-	-0-
Expenditures	Potential decrease	Potential decrease	Potential decrease

- The bill creates a potential cost savings for transit authorities. The small amount of available data suggests that the potential savings to a transit authority could be in the hundreds of thousands, or greater than $1 million for a very large transit authority, in the year that it makes major bus purchases.

- In some cases, these savings could in turn create savings for political subdivisions, if the subdivisions currently partly subsidize the transit authority with tax money, and this bill reduced the necessary subsidy. Since the bill is permissive and there are many unknowns in the calculation, LBO has estimated that there is a potential cost decrease to local governments, but the magnitude is unknown.

Detailed Fiscal Analysis

The bill would allow Regional Transit Authorities to use several types of lease financing in order to achieve cost savings on their facilities and equipment. The key to the lease financing arrangements is that they would allow companies who buy the property and lease it back to the transit authority (sale-leaseback) or lease the property and lease it back to the transit authority (lease-leaseback) to claim the depreciation deduction on the property. The transit authority itself cannot use the depreciation deduction because it is exempt from the federal income tax. What the transit authority is in effect doing is selling its depreciation deduction, which has economic value, to a non-exempt company that can use it. This can provide a cost savings to the transit authority in a couple of ways. In a sale leaseback, the transit authority can sell the property for more than it paid because of the depreciation deduction the purchasing company can claim, or it can realize the savings through lower lease payments to the purchasing company. In a lease leaseback, the savings would have to be in the form of reduced lease payments.

Political subdivisions could save money if the savings from the lease transactions reduces the subsidy that the subdivision gives the transit authority. For example, if a county is partially subsidizing a transit authority out of general fund money, then if these lease transactions save the transit authority money on purchases, the county might be able to reduce its subsidy.

<u>Sale-Leaseback</u>

The Federal Transit Authority (FTA) permits sale-leaseback transactions with foreign investors for rolling stock (train cars, buses). Transit authorities in other states such as New Jersey have employed these techniques. Apparently sale-leaseback transactions are primarily done with financial institutions from other countries (e.g. Germany, Sweden, Denmark, Japan). The U.S. Treasury loses no tax revenue from these transactions since the companies claiming depreciation are claiming it against taxes due to their home country.

<u>Lease-Leaseback</u>

Lease-leaseback's can be used for property other than rolling stock (e.g. buildings). These transactions are apparently done mostly with domestic banks, and so reduce U.S. federal corporate tax revenue. If Ohio investors were to engage in lease-leaseback transactions with Ohio-based transit authorities, then there could be a reduction in Ohio franchise tax revenue, but the available evidence suggests that is not likely to happen because up to now the lessors have generally been very large East Coast or West Coast banks.

<u>TRAC Leasing</u>

This type of transaction is limited to new motor vehicles (buses). The title to the property remains with the transit authority. As in the lease-leaseback case, the transactions are done with U.S. investors (probably banks) and so federal corporate tax revenue is reduced.

<u>Data and Estimation</u>

A spokesperson for the Miami Valley Regional Transit Authority (RTA) has estimated that the savings to Ohio transit authorities from using the lease transactions cited above could range between 2 percent and 8 percent of asset value, with lower-valued transactions realizing a savings at the lower end of the range. Thus, Miami Valley RTA could save 2 to 3 percent ($300,000 to $450,000) on a $15 million bus order in Spring 1997.

A spokesperson for the Central Ohio Transit Authority (COTA) was more cautious. He felt that this type of lease transaction would be advantageous to Ohio transit authorities only for very large purchases, on the order of $100 million or more.

LBO does not currently have data on the volume of bus purchases (or purchases of buildings or other equipment) by transit authorities across the state. If Miami Valley RTA can save $300,00 to $450,000 on bus purchases, then presumably the savings to authorities across the entire state would be in the millions, but that savings would be spread across several years, since transit authorities certainly do not all purchase buses every year. The savings in any given year are unknown. Furthermore, since LBO does not know the extent to which local governments such as cities or counties currently subsidize transit authorities (the COTA spokesman indicated that the majority of transit authority capital funding was federal), the potential savings to local governments from reduced transit authority purchase costs are also unknown.

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