

# FREIGHT

## Financing Freight Improvements

*Financing Freight Improvements* is a resource for states, metropolitan planning organizations (MPOs), and others interested in financing freight transportation projects. Developed by Federal Highway Administration's (FHWA's) Office of Freight Management and Operations and Office of Planning, the document provides an overview of federal funding programs and financing tools, describes innovative state programs, and highlights case studies covering a wide range of projects. The report is available at [www.ops.fhwa.dot.gov/freight](http://www.ops.fhwa.dot.gov/freight).

### Funding Programs and Financing Tools

Federal funding programs and financing tools can be used to facilitate the planning, development, and implementation of freight transportation projects. Federal funding programs typically target specific projects or objectives. Federal financing tools include loans, credit enhancement, and tax-exempt financing programs. States and local governments also can use other financing tools such as dedicated revenue sources, public debt, and institutional arrangements to finance freight projects.

#### *Federal-aid Funding Program*

The Federal-aid Highway Program is a major source of federal funding for freight transportation projects. Funds are distributed under three types of programs: Formula-Distributed Highway Funding Programs, Special Funding Programs, and Discretionary Programs. Formula-Distributed Highway Funding Programs are typically used to fund highway improvements and include the National Highway System, Surface Transportation Program, Interstate Maintenance, and Coordinated Border Infrastructure Program. Special Funding Programs target specific goals and objectives and have special eligibility criteria. They include the Congestion Mitigation and Air Quality Improvement Program, the Highway Bridge Program, and the Railway-Highway Crossings Program. Discretionary Programs support freight mobility through Projects of National and Re-

gional Significance, the National Corridor Infrastructure Improvements Program, the Freight Intermodal Distribution Grant Program, and the Truck Parking Facilities Program. Most of these discretionary programs are fully earmarked in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAF-E TEA-LU).

Several key factors affect the use of these funds for freight-specific projects. Project eligibility requirements for each program may limit funding to specific modes, projects, or publicly owned facilities. Competing demands for the funds also has the potential to limit freight's share of federal dollars. Moreover, each of these FHWA funding programs require matching by state or local funds, creating challenges for states and localities to invest in large, complex projects.

#### *Other Sources of Federal Funding*

In addition to FHWA, other federal agencies provide funds for freight projects. They include the U.S. Army Corps of Engineer (Harbor Maintenance Trust Fund), the U.S. Department of Agriculture (Community Facility Program), the U.S. Department of Commerce (Economic Development Administration Funds), and the Environmental Protection Agency (Brownfield Revitalization Program).





FAST Corridor project: New highway bridge over railroad near Tacoma. Source: FAST

### *Federal Financing Tools*

Federal financing tools include loans, credit enhancements, and debt financing programs. Loans and credit enhancement programs allow states to leverage both public and private resources and stimulate capital investment in transportation infrastructure. Credit enhancement also helps reduce risk to investors and thus allows the project sponsor to borrow at lower interest rates. The Transportation Infrastructure Finance and Innovation Act (TIFIA), for example, provides loan guarantees, lines of credit, and direct loans for major transportation investments of national or regional significance. Another tool, the Rail Rehabilitation and Improvement Financing (RRIF) Program, provides loans and credit enhancements through the Federal Railroad Administration to both the private and public sectors for a variety of projects. RRIF Program loans may be issued for as little as \$2.1 million to as much as \$233 million. Additionally, debt financing tools, such as Grant Anticipation Revenue Vehicles bonds, allow states to issue debt that is backed by future highway revenues.

Financial tools targeted at major transportation improvements may limit their applicability in some regions. Some freight projects are small, local roadway, rail, or access projects. Changes in SAFETEA-LU to

the TIFIA and RRIF programs expanded the accessibility and usefulness of these programs to project sponsors. SAFETEA-LU, for example, reduced the minimum project cost to secure a TIFIA loan, expanded eligibility to include improvements on private sector projects that provide a public benefit, and allowed projects to be bundled. Still, a project must cost at least \$50 million, or one-third of a state's annual federal-aid apportionment, whichever is less, to qualify for a TIFIA loan.

### **State Funding Sources and Financing Tools**

Several states have created innovative programs that provide capital to support freight-related improvements. Examples of creative state programs include the California Infrastructure and Economic Development Bank, the Illinois Rail Freight Program, and the Mississippi Multimodal Transportation Improvement Program.

Other state funding sources, financing tools, and institutional arrangements can raise dollars to fund freight improvements and/or match grant funds. Funding sources include user fees and/or tolls, dedicated taxes, special taxing and assessment districts, and equity and in-kind contributions. Financing tools include tax-supported revenue and tax-exempt facility bonds. Institutional arrangements, such as joint development, revenue-sharing arrangements/leases, and cost-sharing/voluntary agreements, also provide alternative approaches to funding freight projects.

### **Freight Financing Workshop**

FHWA will offer a one-day workshop on freight financing beginning in early 2008. Using the Financing Freight Improvements document as a starting point, the workshop will discuss financing options for multimodal freight improvements and provide examples of successful projects. Please visit the Freight Professional Development Web site at [www.ops.fhwa.dot.gov/freight/fpd](http://www.ops.fhwa.dot.gov/freight/fpd) for an announcement about workshop availability and for information about other professional development opportunities.

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