Innovative Finance

WILLIAM A. HYMAN, EDITOR
ESTHER STRAWDER, FHWA MANAGING EDITOR

VOL. 2, NO. 2
APRIL 1997

Alameda Corridor Links United States to the Global Economy

Winding its way from the docks of San Pedro Bay to the region's rail hub near downtown Los Angeles is Alameda Street, a 20-mile stretch of pavement burdened by excessive traffic and limited by out-of-date design standards. As the San Pedro Bay seaports located in Los Angeles and Long Beach have grown as centers of international commerce, the current transportation infrastructure, which includes a single rail line, has become increasingly unable to accommodate the billions of dollars in freight passing through the ports on an annual basis. That is why, after 20 years of discussion and analysis, city leaders and port officials with the help of the Federal government are beginning construction on a road and rail route that will vastly improve the connection between the San Pedro seaports and the region's rail hub near downtown Los Angeles.

Once completed, the $2 billion Alameda Corridor will include the following features:

- A 30-foot deep concrete trench running along Alameda Street designed for housing two parallel rail lines;
- An additional rail line at ground level designed for accommodating local traffic;
- A bridge spanning the Los Angeles River; and
- The expansion of Alameda Street from four to six lanes.

The Alameda Corridor Project is borne out of necessity. The San Pedro Bay port complex is the largest in the nation, handling approximately 25 percent of the nation's waterborne trade. The value of the freight passing through these ports approaches $120 billion annually. Nearly 50 percent of the freight passing through the ports terminates outside of California. The project is necessary for mitigating the current and projected congestion caused by growth in Asian trade during the next 25 years. As U.S.-Pacific Rim trade continues to grow at an explosive rate, trade growth at the San Pedro Bay Ports is projected to increase by more than 61 percent in the next 25 years, and high-value containerized cargo is expected to triple over the same period.

The Federal government is using a $59 million subsidy appropriation to leverage a $400 million loan that will be instrumental in getting the project off the ground. The $400 million loan will be disbursed in three annual payments made during the project's first three years. These revenues are expected to fund much of the project's initial construction costs. Project revenues will be used to repay the Federal loan within 30 years of project completion.

The Federal loan is but one piece of a complex financial package. The project's revenue sources are detailed below. The Los Angeles and Long Beach port commissions have already paid $400 million in right-of-way costs for the property located along the proposed corridor route. Additionally, the Alameda Corridor Transportation Authority (ACTA) will issue $735 million in revenue bonds. The Metropolitan Transportation Authority is supplying another $347 million.

Alameda Project Financing Sources

Source	Funds in Millions
ACTA Revenue Bonds	735
Port Revenues	400
Federal Loan	400
Los Angeles Metropolitan Transportation Authority	347
State of California	68
Other Revenue Sources	87
Total Revenues	2,037

In addition to the environmental and economic development benefits of the Alameda Corridor, efficiency improvements will be associated with the reduction of time costs experienced when transporting cargo from the ports to business locations around the world. A key element

continued, page 3

Also in this Issue . . .

FY 1998 Budget Supports Innovative Finance

The President's budget proposal for fiscal year 1998 was submitted to Congress on February 6, 1997. The total spending package of nearly $1.7 trillion includes over $38 billion to support U.S. Department of Transportation (DOT) programs. The budget request for the Federal Highway Administration (FHWA) totals $20.0 billion, compared with the $20.7 billion provided in fiscal year 1997. Of that requested amount, an obligation limitation of $18.17 billion is proposed for the core Federal-aid highway programs.

The Federal-aid funding level maintains U.S. DOT's support of economic growth by providing Federal resources to state and local officials for investing in surface transportation. In addition, the budget signals U.S. DOT's continued commitment to addressing critical infrastructure needs in an era of constrained public funding by promoting innovative finance. The budget seeks resources both to bolster the State Infrastructure Bank (SIB) program and to establish a new Federal credit program to support large transportation projects of national significance.

The SIB pilot program was established by the National Highway System (NHS) Designation Act of 1995. The fiscal year 1997 U.S. DOT appropriations act expanded the pilot program by allowing additional SIBs to be established and providing $150 million in new seed money to facilitate capitalization of the banks. The fiscal year 1998 budget requests another $150 million to boost capitalization efforts of the expanded program.

The budget also seeks $100 million for a new Transportation Infrastructure Credit Program to further leverage Federal resources and encourage private sector investment in transportation infrastructure. The credit program would complement existing financing techniques by providing direct loans or other credit assistance to transportation projects of national significance that otherwise might be delayed or not constructed at all due to risk or scope. Federal credit would encourage more private sector and non-Federal participation, address important public needs in a more budget-effective way, and take advantage of the public's willingness to pay user fees to receive the benefits and services of transportation infrastructure sooner than would be possible under traditional, grant-based financing.

Contact:
Bryan Grote, FHWA, 202/366-5785.

Value of Transportation Improvements Captured

Value capture refers to a type of public/private partnership in which the private sector compensates a public agency for the cost of a facility that generates economic value. Transportation projects, including interchanges, new freeways,and public transit stations, can create or improve adjacent market for new development, and thus generate a windfall for private landowners. In turn, value can be captured by public agencies with any of the following methods:

- Special assessment districts surrounding the facility;
- Joint public-private development of adjacent sites including ground leases, sale, rentals or other partnership methods;
- Traffic impact fee or transportation utility fee districts;
- Tax increment financing districts;
- Sale of access rights or capacity rights;
- Pre-purchase and subsequent sale or lease of real estate (e.g., air rights over depressed freeways);
- Windfall profit tax on real estate transactions in special highway districts;
- Development dedications, exactions and concessions, including developer impact fees and dedication of right-of-way; and
- Private sector front-end "seed" money or venture capital, private sector collateral to improve credit worthiness, direct loans, equity positions in the facility project, and guaranteed participation in assessment districts.

The most common examples of value capture involve transportation projects that are expected to result in significant benefits to private landowners. The amount of funding contributed by value capture depends on the potential increase in land values that can be attributed to the transportation improvement and on the degree of risk associated with the potential increase. Funding arrangements often involve a hybrid of value capture, local taxes, and Federal-aid funds.

The State Route 125 South Tollway in San Diego County is an example of such a hybrid project. The future 11.2-mile highway will connect the Otay Mesa Port of Entry with the San Diego regional and inter-regional highway network. The project is intended to relieve congestion on the access road to the Port while improving regional mobility in the South Bay and access for residents and businesses to the employment centers on both sides of the U.S./Mexican border.

The planned SR125 South Tollway will capitalize on the rapidly expanding international and local commerce activities related to the North America Free Trade Agreement and California's economic expansion. The activities include the burgeoning *maquiladora* industries and truck movements to and from the interior of Mexico. Development impacts of these commerce activities include proposals for over 40,000 residential units in eastern Chula Vista and several major mixed use development projects. The project will create a new north-south traffic corridor linking the border area and new communities in Chula Vista to the greater San Diego region.

SR125 South will be a state-of-the-art tollway developed by a public/private partnership comprised of the California DOT, San Diego Association of Governments (SANDAG), and a private corporation, California Transportation Ventures, Inc. The initial four-lane highway will be financed jointly by the private sector and SANDAG using *TransNet* local transportation sales tax revenues to match Federal-aid funds.

continued, page 4

Answers to Frequently-Asked Questions

Q: What provisions did the fiscal year 1997 U.S. DOT Appropriations Act include regarding the SIB pilot program?

A: As a result of the fiscal year 1997 U.S. DOT Appropriations Act, the Secretary may now designate more than ten states to participate in the SIB pilot program. Once this selection process has taken place, the Appropriations Act provided for $150 million in seed money for the capitalization of the initial ten states and any other designated SIBs. These additional funds will be outside of a state's obligation limit. Disbursement of the $150 million is likely to be subjected to historic Federal-aid disbursment rates and is also likely to require a state's traditional non-Federal match.

Q: If designated to participate in the pilot, when might the states expect to receive these additional funds?

A: According to the fiscal year 1997 U.S. DOT Appropriations Act, the $150 million cannot be distributed before 180 days after enactment of the legislation (April 1997).

Q: What is meant by Section 350(g)(1) "Federal disbursements shall be at a rate consistent with historic rates for the Federal-aid highway program and the Federal transit program, respectively"?

A: Congress inserted this provision for overall budgetary reasons ensuring that the SIB pilot program does not disburse cash (outlays) on an annual basis more quickly than the regular Federal-aid highway and transit programs. The traditional Federal-aid highway program disbursement rate spans nine years in the following percentages: 15%, 53%, 16%, 5%, 3%, 3%, 2%, 2%, and 1%. The disbursements provision in Section 350(g)(1) must be implemented in conjunction with Section 350(b), which allows participating states to contribute up to 10 percent of certain highway and transit funds toward the initial capitalization of pilot SIBs.

Q: How does FHWA plan to administer this disbursement provision?

A: Historic rates for the Federal-aid highway program are an average of cash reimbursements that FHWA makes to states on presentation of vouchers for projects. Federal-aid highway obligations are typically liquidated (in cash disbursements) over a period of nine years. For Federal budget scoring purposes, the following assumptions on average disbursements are made: 15 percent of a given year's obligated funds are disbursed that first year; 53 percent are disbursed the second year; 16 percent are disbursed the third year; and the remaining 16 percent are disbursed in years four through nine. Implementation of Section 350(g)(1) requires that any deposits of Federal highway funds made under Section 50(b)(2) be consistent with those disbursement assumptions. Therefore, *planned* contributions (up to a maximum of 10 percent) of highway funds must be delayed so that *actual* cash deposits conform to the assumed disbursement rates. For example, a participating state planning to contribute $10 million of its eligible fiscal year 1996 Federal-aid funds to its pilot SIB may only deposit $1.5 million (15 percent of the planned amount) in fiscal year 1996. It may deposit another $5.3 million in fiscal year 1997, and the remaining $3.2 million after fiscal year 1997.

Contact:
Lucinda Eagle, FHWA, 202/366-5057.

Internet *Update*

The FHWA Internet address listed in the December issue of *Innovative Finance* has been changed. The new address is:

http://www.fhwa.dot.gov

The Innovative Finance home page can be accessed by selecting *What's New or Major Program Areas* from the menu. The Innovative Finance home page contains the latest information relating to SIBs, current and past editions of *Innovative Finance*, frequently asked questions, TE-045 (Initiative Finance Initiative) project summaries, and much more. Bookmark it today!

The most recent additions to look for include the full text of the *TE-045 Evaluation* and the February issue of *Innovative Finance*, which is now available as a .pdf file in addition to WordPerfect 6.1. Future postings will include an innovative finance publication list, ISTEA reauthorization news, and current events schedules and information.

Contact:
Esther J. Strawder, FHWA, 202/366-6949.

ALAMEDA CORRIDOR, continued from page 1

of the Alameda Project is its capacity for dockside marine-container transfer between ships and rail cars. The transfer system will reduce shipping delays and eliminate up to 14,000 daily truck trips up and down the corridor. Initially, 30 trains per day are expected to use the corridor, but this number is expected to grow to 73 daily container trains by the turn of the century.

The Alameda Corridor Project promises to deliver significant benefits to the entire nation. At a minimum, the project is expected to create 70,000 new jobs and nearly $2.5 billion in additional Federal revenues. The actual impact of the project, however, could be far greater.

Contact:
Patrick Balducci, Cambridge Systematics, Inc., 202/366-6011 or Bryan Grote, FHWA, 202/366-5785.

Definitions for ISTEA Reauthorization

The Intermodal Surface Transportation Efficiency Act (ISTEA) of 1991 will officially expire on October 1, 1997. The Clinton Administration and the U.S. DOT are preparing a legislative proposal to reauthorize the surface transportation programs beginning in fiscal year 1998. The following definitions clarify a few legislative terms that will be frequently used during a reauthorization year.

Authorization Act – Basic substantive legislation that empowers an agency to implement a particular program and also establishes an upper limit on the amount of funds that can be appropriated for that program (e.g., ISTEA).

Appropriations Act – Action of a legislative body that makes funds available for expenditure with specific limitations as to amount, purpose, and duration. In most cases, it permits money previously authorized to be obligated and payments made.

Allocation – An administrative distribution of funds among the states, done for funds that do not have statutory distribution formulas.

Budget Authority – Empowerment by the Congress that allows Federal agencies to incur obligations to spend or lend money. This empowerment is generally in the form of appropriations. However, for the major highway program categories, it is in the form of contract authority. Budget authority permits agencies to obligate all or part of the funds that were previously authorized. Without budget authority, Federal agencies cannot commit the Government to make expenditures or loans.

Contract Authority – A form of budget authority that permits authorized amounts to be obligated. No appropriations act is necessary. The Federal-aid highway program operates mostly under contract authority rules.

Obligational Authority – Also referred to as a limitation on obligations, the amount of Federal assistance that may be obligated during a specific time period. Obligation authority controls the rate at which these funds may be used, but does not affect the scheduled apportionment or allocation of funds.

Expenditures (Outlays) – A term signifying disbursement of funds for repayment of obligations incurred. An electronic transfer of funds, or a check sent to a state highway or transportation agency for voucher payment, is an expenditure or outlay.

Contact:
Esther Strawder, FHWA, 202/366-6949.

VALUE CAPTURE, continued from page 2

Basic elements of project financing include:

- Ten miles of the 11.2-mile tollway will be financed with $242 million funded by the private sector, including almost $18 million worth of land dedicated by developers for right-of-way.
- The remaining sections will be constructed using a combination of public funds from the TransNet program and from the Federal and state highway programs for a total of $78 million.
- Credit enhancement through the State Infrastructure Bank will help reduce risk.
- The City of Chula Vista has imposed a development impact fee along the SR125 corridor as a contingency in the event that the private corporation fails to construct SR125. If the tollway is constructed, the fee revenues are dedicated to funding ancillary routes to SR125.

California Transportation Ventures estimates the cost of the initial four-lane facility at $320 million. The initial highway can later be expanded to eight lanes plus high occupancy vehicle lanes or fixed guideway transit. The SR125 South Tollway is anticipated to be completed in 2000.

Contact:
Chris Wornum, Cambridge Systematics, Inc., 510/873-8700.

Innovative Finance

William A. Hyman, Editor
Laurie L. Hussey, CS Managing Editor
Cambridge Systematics, Inc.
617/234-0531
FAX: 617/354-1542
wah@camsys.com
llh@camsys.com

Esther Strawder, FHWA Managing Editor
202/366-6949
FAX: 202/366-7493
esther.strawder@fhwa.dot.gov

A REMINDER TO READERS

FHWA does not maintain a mailing list and does not distribute *IF* directly. *IF* is available as an insert to the *ITE JOURNAL* and *AASHTO JOURNAL*, and is available electronically through:

- ITE's WWW Home Page: "http://www.ite.org" (select "Reference Library")
- FHWA Federal-Aid Financial Management Division's WWW Home Page: "http://cti1.volpe.dot.gov/fhwa" (select "Program Areas" and "Innovative Finance")

IF is also provided to the following organizations for redistribution and/or as information for their membership:

- National Association of Regional Council's (NARC's) Association of MPOs (AMPO)
- ITS America
- American Public Transit Association (APTA)
- Surface Transportation Policy Project (STPP)
- State & Territorial Air Pollution Program Administrators/Association of Local Air Pollution Control Officials (STAPPA/ALAPCO)
- Association for Commuter Transportation (ACT)