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REAUTHORIZATION

SAFETEA-LU Expands Innovative Finance Programs

On August 10, 2005, President George W. Bush signed into law the "Safe, Accountable, Flexible and Efficient Transportation Equity Act – A Legacy for Users" (SAFETEA-LU), authorizing the Federal surface transportation programs for highways, highway safety, and transit for the five-year period from 2005-2009. SAFETEA-LU provides a record investment for improvements in highway, transit, and safety programs with total guaranteed funding of $286.5 billion over the five-year period. This investment level represents more than a 30 percent increase over the total guaranteed funding level in the Transportation Equity Act for the 21st Century (TEA-21).

SAFETEA-LU also offers greater opportunities to improve the nation's transportation system through public-private partnerships and expands innovative finance programs, making it easier and more attractive for the private sector to participate in highway infrastructure projects.

Beginning with the Intermodal Surface Transportation Efficiency Act (ISTEA), Federal surface transportation legislation has paved the way for innovation in transportation finance. SAFETEA-LU builds on the successful initiatives advanced in the 1990s, bringing us the next generation of innovative finance tools. Innovative changes such as eligibility for private activity bonds, additional flexibility to use tolling to finance infrastructure improvements, and broader TIFIA and SIB loan policies, provide transportation agencies with more options for financing critical surface transportation projects and stimulating needed private investment.

State Infrastructure Banks

SAFETEA-LU establishes a new State Infrastructure Bank (SIB) program under which all states, Puerto Rico, the District of Columbia, American Samoa, Guam, the Virgin Islands, and the Commonwealth of the Northern Mariana Islands are authorized to enter into cooperative agreements with the Secretary of Transportation to establish infrastructure revolving funds eligible to be capitalized with Federal transportation funds authorized for fiscal years 2005-2009. SIBs were initially authorized under the National Highway System Designation (NHS) Act of 1995. States that established SIBs authorized by the NHS Act and TEA-21 may continue to operate those SIBs.

The new program gives states the capacity to increase the efficiency of their transportation investment and significantly leverage Federal resources by attracting non-Federal public and private investment.

Projects eligible under Title 23, United States Code, capital projects as defined in Section 5302 of Title 49, United States Code and any other projects related to surface transportation that the Secretary determines to be appropriate are eligible for assistance from the SIBs. Both the initial credit assistance funded with

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TIFIA UPDATE

Recap of TIFIA Credit Program Activity for FY 2005

Fiscal year 2005 was a productive time for the TIFIA program with the passage of SAFETEA-LU, the closing of loans for two award-winning projects, and the receipt of one application and six Letters of Interest from sponsors considering the use of TIFIA credit assistance.

"*Deals of the Year*"

Two TIFIA-assisted financings were honored as regional "deals of the year" in early December by *The Bond Buyer*, a long-established daily newspaper covering the municipal finance market. These are the 183-A Turnpike project in Texas and the LA-1 project in Louisiana.

In March 2005, the TIFIA program closed on a direct loan of up to $66 million with the Central Texas Regional Mobility Authority (CTRMA) for the 183-A Turnpike Project in the Austin, Texas metropolitan area. The project will be an 11.6 mile tollway constructed utilizing a fixed-price contract. The CTRMA is the first of the regional authorities established under Texas law to advance a tollway project. The $331 million project includes $168 million in senior lien tax-exempt bonds and $66 million in short-term debt, which would be refinanced via the TIFIA loan at the end of construction.

In May 2005, the TIFIA program closed on a direct loan of up to $66 million (coincidentally, the same amount as the 183-A project) with the Louisiana

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Federal capitalization grants, including the required non-Federal match, and any assistance funded with loan repayments and other recycled funds are subject to the requirements of Titles 23 and 49, as applicable.

States participating in the new SIB program may capitalize the account(s) in their SIBs with Federal surface transportation funds for each of fiscal years 2005-2009 as follows:

- Highway account – up to 10 percent of the funds apportioned to the state for the National Highway System Program, the Surface Transportation Program, the Highway Bridge Program, and the Equity Bonus;
- Transit account – up to 10 percent of funds made available for capital projects under Urbanized Area Formula Grants, Capital Investment Grants, and Formula Grants for Other Than Urbanized Areas; and
- Rail account – funds made available for capital projects under subtitle V (Rail Programs) of Title 49, United States Code.

A state must match the Federal funds used to capitalize the SIB on an 80-20 Federal/non-Federal basis, except that for the highway account, the sliding scale provisions apply.

Transportation Infrastructure Finance and Innovation Act (TIFIA) Credit Program

SAFETEA-LU continues the TIFIA credit program established under TEA-21. The TIFIA program provides Federal credit assistance to nationally or regionally significant surface transportation projects, including highway, transit, and rail. The program is designed to fill market gaps and leverage substantial private co-investment by providing projects with supplemental or subordinate debt. A total of $610 million is authorized through 2009 to pay the subsidy cost of supporting Federal credit under TIFIA.

While most of the TIFIA provisions established under TEA-21 remain substantially unchanged in SAFETEA-LU, there are several significant enhancements that increase access to TIFIA and provide for flexibility for borrowers:

- One of the most notable amendments to the TIFIA program allows the use of TIFIA loan and loan guarantee proceeds to refinance long-term project obligations or Federal credit instruments if such refinancing provides additional funding capacity for the completion, enhancement, or expansion of new transportation infrastructure.
- The annual credit assistance limitation is removed and the annual budgetary limitations which represents the cost to the government of providing TIFIA credit assistance is set at $122 million per year. Based on previous experience, the TIFIA office estimates that these budget resources can fund up to $2.5 billion of credit assistance annually.
- The TIFIA eligibility threshold is lowered from $100 million to $50 million generally, or from 50 percent to 33 percent of a state's annual Federal-aid apportionment, whichever is lower.

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SAFETEA-LU Scorecard: Key Innovative Finance Provisions

Program	Purpose/Key Provisions	Statutory References
State Infrastructure Bank Program	Establishes a new SIB pilot program to provide various forms of non-grant assistance in the form of loans or credit enhancement to public or private entities for eligible projects. All states, the District of Columbia, and all Territories have the option to fund a SIB with Federal funds. Three SIB accounts may be established (highway, transit, and rail).	SAFETEA-LU Section: 1602 Other: 23 USC 610
TIFIA Credit Program	Provides Federal credit assistance in the form of secured loans, loan guarantees, and lines of credit to nationally or regionally significant surface transportation projects. Eligibility requirements are lowered to a project cost of $50 million, or 33 percent of state's annual Federal-aid apportionment, whichever is less; for ITS projects, the threshold is $15 million. Allows use of TIFIA proceeds for refinancing of project obligations or Federal credit instruments. Eligibility is extended to private freight rail facilities and ports providing public benefits.	SAFETEA-LU Section: 1601 Other: 23 USC 601-609
Private Activity Bonds	Encourages additional private participation on surface transportation infrastructure projects. Authorizes $15 billion in exempt facility bonds, not subject to the state volume caps, for qualified highway or surface freight transfer facilities. This allows additional private activity on the projects while maintaining the tax exempt status of the bonds.	SAFETEA-LU Section: 11143 of Title XI
Tolling and Pricing Programs	*Interstate System Reconstruction and Rehabilitation Pilot Program* continues authority to allow tolling on up to three existing Interstate facilities in different states, in cases where the costs to fund needed reconstruction or rehabilitation are demonstrated to exceed available resources. *Interstate System Construction Toll Pilot Program.* Authorizes up to three facilities on the Interstate system to toll for the purpose of financing the construction of new Interstate highways. *Express Lanes Demonstration Program.* Permits tolling on up to 15 demonstration projects to manage congestion, reduce emissions in a nonattainment area, or finance added Interstate lanes for the purpose of reducing congestion. *Value Pricing Pilot Program (VPPP).* Encourages implementation and evaluation of up to 15 value pricing pilot projects, including areawide pricing, pricing of multiple or single facilities or corridors, single-lane pricing, and implementation of other market-based strategies. A total of $59 million is available to support these pilot projects.	SAFETEA-LU Section: 1604 Other: PL 102-240 (ISTEA) 1012; PL 105-578 (TEA-21) 1216

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- The threshold for Intelligent Transportation System projects is also lowered from $30 million to $15 million.
- Eligibility for TIFIA credit assistance is extended to private freight rail facilities providing public benefits and port improvements necessary for intermodal access.
- The usefulness of the line of credit is improved by making the line available to be drawn prior to tapping a project's reserve funds and removing the 20 percent annual draw limitation.

TIFIA is now required to submit a Report to Congress every two years beginning June 1, 2006. Finally, subject to appropriation, TIFIA is authorized to collect and spend fees related to the administration of the program such as loan servicing fees, credit processing fees, and financial and legal advisors.

Private Activity Bonds

To encourage more private sector involvement in the finance, design, construction, and operations of highway facilities, SAFETEA-LU amends Section 142 of the Internal Revenue Code to add highway and freight transfer facilities to the types of privately developed and operated projects for which qualified private activity bonds (PABs) may be issued. This change allows additional private activity on these types of projects, while maintaining the tax-exempt status of the bonds.

SAFETEA-LU authorizes $15 billion in exempt facility bonds, not subject to the state volume caps, for qualified highway or surface freight transfer facilities. A qualified project means:

- Any surface transportation project which receives Federal assistance under Title 23, United States Code;
- Any project for an international bridge or tunnel for which an international entity authorized under Federal or state law is responsible and which receives Federal assistance under Title 23, United States Code; or
- Any facility for the transfer of freight from truck to rail or rail to truck (including any temporary storage facilities directly related to such transfers) which receives Federal assistance under Title 23 or 49, United States Code.

SAFETEA-LU charges the Secretary of Transportation with allocating the $15 billion in bonding authority.

Tolling and Pricing Programs

SAFETEA-LU offers states broader ability 1) to use tolling on a pilot, or demonstration, basis; 2) to finance Interstate construction and reconstruction; 3) to promote efficiency in the use of highways; and 4) support congestion reduction. In addition to the expanded flexibility available under these four tolling programs, the Value Pricing Pilot Program provides grants for pre-implementation and implementation costs. These programs are highlighted below.

Interstate System Reconstruction & Rehabilitation (R&R) Pilot Program. SAFETEA-LU continues the program as established under TEA-21. The R&R toll pilot program allows tolling on up to three existing Interstate facilities (highway, bridge, or tunnel) to fund needed reconstruction or rehabilitation on Interstate highway corridors that could not otherwise be adequately maintained or functionally improved. Each of the three facilities must be in a different state.

Interstate System Construction Toll Pilot Program. This new program authorizes up to three toll pilot facilities on the Interstate system for the purpose of constructing new Interstate highways. Program requirements include the following:

- States or interstate compacts of states are eligible to apply;
- There is no requirement that the facilities be in different states;
- Tolling must be the most efficient and economical way to finance the project;
- A facility management plan must be submitted;
- Automatic toll collection is required;
- Non-compete agreements are prohibited. A state may not enter into an agreement with a private entity that prevents the state from improving or expanding capacity of adjacent roads to address conditions resulting from diverted traffic;
- Revenues may be used only for debt service, reasonable return on investment of private equity, and operation and maintenance costs. Regular audits will be conducted;
- Interstate Maintenance funds may not be used on the facility while it is tolled; and
- Applications must be submitted within 10 years of enactment of SAFETEA-LU.

Express Lanes Demonstration Program. This new demonstration program permits tolling on selected demonstration projects to manage high levels of congestion, reduce emissions in a nonattainment or maintenance area, or finance added Interstate lanes for the purpose of reducing congestion. The Secretary is authorized to carry out 15 demonstration projects from 2005 through 2009 to allow states, public authorities, or public or private entities designated by states to collect a toll from motor vehicles at an eligible toll facility for any highway, bridge, or tunnel, including on the Interstate. An "eligible toll facility" includes:

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- A facility in existence on the date of enactment that collects tolls;
- A facility in existence on the date of enactment that serves high-occupancy vehicles (HOVs);
- A facility modified or constructed after the date of enactment to create additional tolled capacity (includes construction by a private entity or using private funds); or
- In the case of an added lane on a previously non-tolled facility, only the new lane.

Program requirements include the following:

- Variable pricing by time-of-day or level of traffic, as appropriate to manage congestion or improve air quality, is required if an HOV facility is tolled; for a non-HOV facility, variable pricing is optional;
- Single-occupant vehicles may be permitted to use HOV lanes as part of a variable toll pricing program;
- Automatic toll collection is required in express lanes to optimize free flow of traffic; and
- Toll revenue may only be used for debt service, reasonable rate of return on private financing, operation and maintenance costs, or any eligible Title 23 or 49 project if the facility is being adequately maintained.

The Federal share of the cost of a facility tolled under this program, including installation of the toll collection equipment, cannot exceed 80 percent.

A final rule on interoperability of electronic collection systems is required within 180 days of enactment. Regular monitoring and reporting on the achievement of performance goals is required, as well as annual reports to Congress starting after one year on the use of funds, and reports on program successes beginning three years after enactment and then every three years thereafter.

Value Pricing Pilot Program (VPPP). This pilot program, initially authorized in ISTEA as the Congestion Pricing Pilot Program, encourages implementation and evaluation of value pricing pilot projects, offering flexibility to encompass a variety of innovative applications including areawide pricing, pricing of multiple or single facilities or corridors, single lane pricing, and implementation of other market-based strategies. Section 1604(a) of SAFETEA-LU authorizes the Secretary to enter into cooperative agreements with up to 15 state or local governments or other public authorities, to establish, maintain, and monitor local value pricing pilot programs.

SAFETEA-LU provides a total of $59 million for fiscal years 2005-2009 for the VVPP. Of the total, $11 million was authorized for FY 2005 and $12 million is authorized annually in fiscal years 2006 through 2009. An annual set-aside of $3 million will be used to fund value pricing projects that do not involve highway tolls. VVPP funds allocated by the Secretary will remain available for obligation for a period of three years after the last day of the fiscal year for which funds are authorized. If, on September 30 of any year, the amount of funds made available for the program, but not allocated, exceeds $8 million, the excess amount will be apportioned to all states for purposes of the Surface Transportation Program. Funds available for the VVPP can be used to support pre-project study activities and to pay for implementation costs of value pricing projects.

SAFETEA-LU also clarifies some aspects of the operation of HOV facilities and authorizes states to create high-occupancy toll (HOT) lanes. The HOT lane program allows vehicles to pay a toll to use HOV lanes if they do not otherwise meet occupancy requirements. Programs must be established by the state to address the selection of vehicles certified to use HOT lanes, collect tolls electronically, and establish procedures for enforcing the restrictions. HOT lane tolls can be charged on both interstate and non-interstate facilities, and there is no limit on the number of projects or states that can participate.

GARVEE ROUNDUP

Maine Issues First GARVEE

The Maine Department of Transportation (MaineDOT) in December 2004 issued $48,395,000 of Series 2004A Grant Anticipation Bonds through the Maine Municipal Bond Bank (MMBB). This is the first grant anticipation issuance by the MaineDOT, and will help pay for a new cable-stayed, concrete bridge across the Penobscot River to replace the vital Waldo-Hancock Bridge, which was found to have deteriorating suspension cables. The new bridge is scheduled to open in December 2006.

The Series 2004A bonds have an average life of six years with a final maturity of September 1, 2015, and a true interest cost of 3.468 percent. The bonds are insured by Ambac and carry a triple-A rating by Moody's and Fitch, while the underlying ratings are Aa3 and AA-, respectively. The bonds are secured solely by a first lien pledge of anticipated Federal transportation funds received, and a pledge that the annual debt payments will be the first obligation requested each year.

To comply with the legislative authorization for debt service payments to be made only from pledged Federal revenues, the total debt service costs have been authorized as advance construction by the FHWA. In addition, the transaction was structured through the MMBB to ensure there was no state liability. The total cost of the bridge replacement project is sufficient to cover the state's 20 percent match requirement.

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GARVEE Issues on the Rise

Over the past year, GARVEE activity has continued to rise. Since 1997, 14 states plus Puerto Rico and the Virgin Islands have issued GARVEE bonds, totaling $4.8 billion as shown in the map below. The following four states issued GARVEEs in 2005.

- In April, **Montana** issued $122.8 million in GARVEEs to finance reconstruction of U.S. 93 across the Flathead Reservation, from just north of Missoula to Poulson near the Canadian border. The GARVEE proceeds are enabling more rapid reconstruction of this critical road, named "The People's Way." This issue received underlying ratings of Aa3 and A+ from Moody's and Standard & Poor's respectively, and is insured by MBIA.
- In May, **Kentucky** issued $139.6 million in GARVEE notes that have maturities ranging from 2005 through 2017. This issue was the first tranche of a phased GARVEE program that focuses on the widening of the Interstate 65, Interstate 75, and Interstate 74 from three to six lanes. The notes are insured by MBIA Insurance Corporation and received underlying ratings of AA- from Fitch Ratings and Standard & Poor's and Aa3 from Moody's Investors Service. The Kentucky General Assembly has approved a total program of $400 million for these three widening projects that will increase the state's ability to accommodate freight and people movement. Future bonds will have to be individually authorized.
- In August, **Oklahoma** issued an additional $48.9 million in GARVEE bonds as part of the financing for the Governor's identified 12 corridors of "economic significance." The first GARVEE issue of $50 million was sold in March 2004. These issues are part of an anticipated $799 million program authorized by the legislature in 2000, of which $500 million is expected to funded with GARVEE bonds. Within these corridors, the state is expecting to issue a total of $300 million of GARVEE bonds by October 2007, with an additional $200 million planned after that date. It is expected that improvements within these identified corridors will enhance the business climate throughout the state. Examples of the proposed projects include U.S. 77 Broadway Extension in Oklahoma City, I-44 in Tulsa, U.S. 183 from U.S. 70 to I-40 in Southwest Oklahoma, and U.S. 70 from the Arkansas state line to I-35 in Southeast Oklahoma.
- Also in August, **North Dakota** issued $51.4 million in GARVEE bonds to finance the replacement of a bridge across the Missouri River at Bismarck, and for continued four-lane construction on U.S. 2. The issuance, the first for the state, received underlying ratings of Aa1/AA by Moody's and Fitch respectively, and is insured by FSA.

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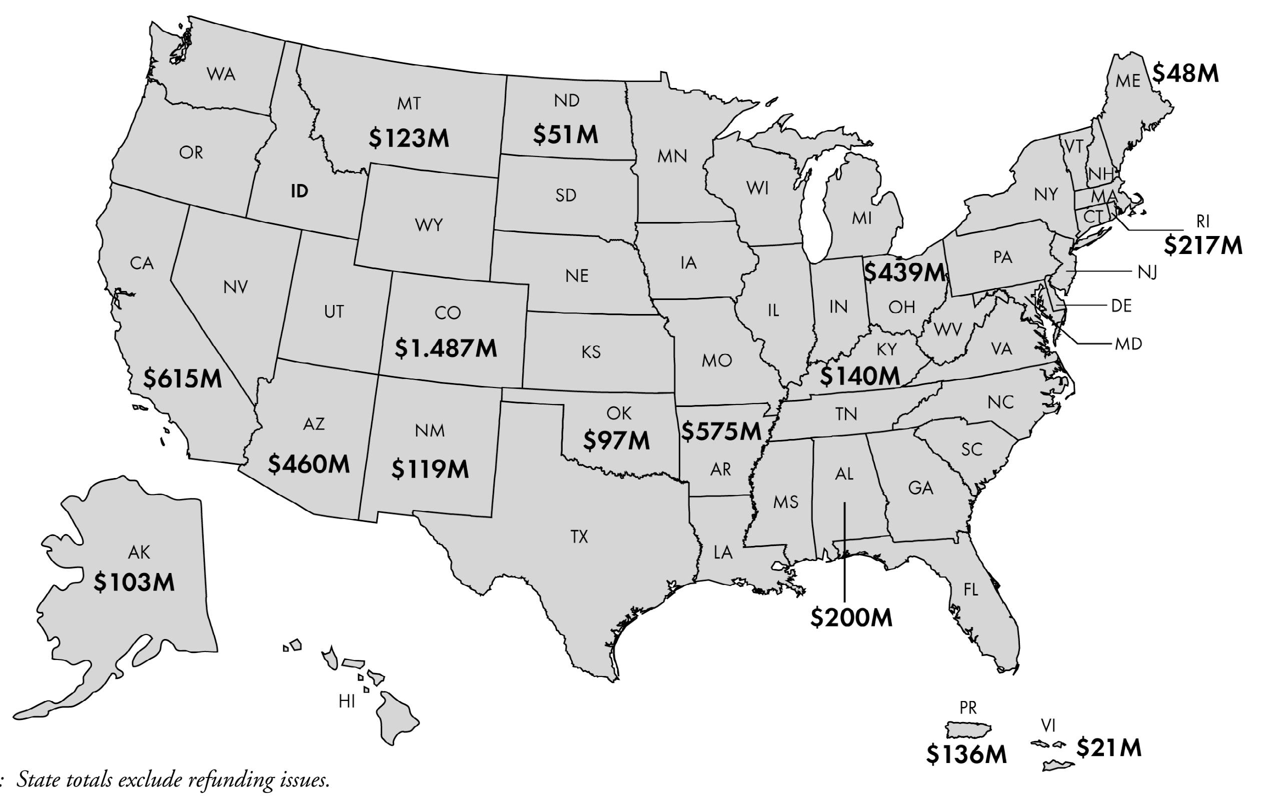
GARVEEs Issues as of November 2005

Total: $4.8 Billion



Note: State totals exclude refunding issues.

GARVEE Issues on the Rise, continued from page 5

New State GARVEE Legislation in 2005

In April, the Idaho legislature passed legislation permitting up to $1.6 billion in GARVEE bonds for Governor Kempthorne's "Connecting Idaho" program. The program includes 13 corridors across the state, and is slated to compress 30 years of construction into the next six years. The measure places an annual cap on the amount of funds that can be used to repay the bonds, and gives the Idaho Transportation Department a greater role in project selection. The first bond issuance from the program is anticipated in the spring of 2006.

Also in April, the Maryland General Assembly authorized the issuance of up to $750 million in GARVEE bonds to finance the InterCounty Connector (ICC), a $2.4 billion, 18-mile, limited access, toll road linking U.S. 1 in Prince George's County to I-270/I-370 in Montgomery County. The financing package for this east-west multimodal highway also includes toll revenue bonds and earmarked funding from SAFETEA-LU.

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The Finer Points of GARVEEs

Each issue of *IFQ* features questions and answers on the GARVEE program. This issue focuses on whether formal agreements between a state and FHWA are required to issue GARVEEs.

Note that answers to these questions are not regulatory or legislative, but represent FHWA's current administrative interpretations. If you have questions or want to confirm any of this information, please contact your local FHWA Division office. GARVEE guidance also is available at:

http://www.fhwa.dot.gov/innovativefinance/garguid1.htm

Is a state required to enter into a Memorandum of Agreement (MOA) or Memorandum of Understanding (MOU) with the FHWA in order to issue a GARVEE bond?

No MOU or MOA is required under legislation, regulations, or guidance. States are only required to notify FHWA Divisions that they plan to seek reimbursement for debt service costs rather than construction costs, provide a pro-forma debt service schedule, and seek approval under regular Federal-aid procedures for projects that will be financed with proceeds from the GARVEE bond issuance. Entering into an MOU does not give a state any additional rights to reimbursement, and the lack of an MOU does not represent a credit issue or concern.

Some states have voluntarily entered into MOUs or MOAs with FHWA Division offices in order to describe future procedures that will be used to process GARVEE transactions. Since GARVEEs can span more than 15 years (typically longer than the tenure of many state and local employees), such MOUs can ensure continuity in these long-term transactions. Issues that can be discussed in MOUs include:

Documentation of roles and responsibilities: The MOU can specify which office(s) within a state DOT will handle GARVEE issuances, and which contacts a Division should use for questions.

Proposed timing of reimbursements: The MOU can specify (from the bond documents) the timing of debt service (often, January and July payments). This will alert the Division office to when to expect these reimbursements, and by what timeframe the state and/or the trustee can expect to receive reimbursements upon submission of the appropriate voucher.

Allocating debt service costs to projects: When multiple Federal-aid projects are financed with GARVEE proceeds, the MOU can describe the method of allocating the debt service payments to individual projects.

Special handling, if any, required for GARVEE projects within state accounting systems: For example, some state accounting systems automatically bill FHWA for construction costs as incurred on Federal-aid projects. Since these costs will be paid for by bond proceeds on Federal-aid projects, construction costs should not be billed to FHWA in this case. For some systems, this may require a manual adjustment; other systems can do this with special coding.

Special provisions, if any, for satisfying the matching requirement on the GARVEE bonds: For example, some states have satisfied part of the non-Federal share with toll credits or interest earned on bond proceeds.

Programming of projects: GARVEE guidance requires that projects be programmed onto the Statewide Transportation Improvement Program (STIP) with the amount of debt service anticipated being paid during the years of the STIP. If state or Federal planners seek additional information about the GARVEE transactions, they can specify it in the MOU.

Project closeout procedures: The MOU can specify what procedures will be followed at closeout to ensure that bond debt service is paid and that all requirements are fulfilled.

Recap of TIFIA Activity for FY 2005, continued from page 1

Transportation Authority, a subsidiary of the Louisiana Department of Transportation and Development (LADOTD), for phase one of the LA-1 Project. The new road will be an eight-mile, elevated two-lane highway from Leeville south to Port Fourchon, including a new bridge and toll facility at Leeville. LA-1 is the only access route to Grand Isle and Port Fourchon, the leading supply hub to Gulf of Mexico oil and gas platforms. A critical hurricane evacuation route with no highway alternative, the existing road suffers from subsidence and periodic flooding, and the existing bridge has low structural and sufficiency ratings. Project funding includes $94 million in senior lien tax-exempt bonds and $66 million of short-term debt, which would be refinanced via the TIFIA loan at the end of construction.

Application, Letters of Interest Received

The Port of Anchorage submitted a Letter of Interest in FY 2004, followed by an application in FY 2005 for its Marine Terminal Redevelopment Project. The completed Marine Terminal Redevelopment project will include new ship berths, new rail access, and more efficient intermodal freight transfer facilities. The total eligible costs of the project are estimated at $366 million, and the Port is seeking a direct loan of $50 million from the TIFIA program.

Demonstrating the truly multimodal nature of the TIFIA program, the six FY 2005 Letters of Interest received include transit, bridges, and toll roads. The TIFIA credit program received Letters of Interest for the Florida High-Speed Rail Project, the Dulles Metrorail Project, the Trans Texas Corridor (SH 130 Segments 5 and 6), I-95 High-Occupancy Toll (HOT) Lanes Project, the Knik Arm Crossing Project, and most recently, the Intercounty Connector Project.

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The Finer Points of TIFIA

The "Finer Points of TIFIA" box provides responses to questions posed by our readers and other observers. We hope you find this section useful and that you will submit questions to Mark Sullivan, Chief, TIFIA Credit Program, (202) 366-5785 or *mark.sullivan@fhwa.dot.gov.*

Question

Will TIFIA applicants also be eligible for the U.S. DOT's private activity bonds?

Answer

Yes. The U.S. DOT anticipates that applicants for an allocation of exempt facility bond (also known as "private activity bond") authority will, in many cases, also apply for TIFIA credit assistance. TIFIA applicants who previously might have had to consider senior-lien taxable financing now will be able to combine the benefits of senior-lien tax-exempt financing with subordinate TIFIA debt.

Under the U.S. DOT's new private activity bond authority, as provided in Section 11143 of Title XI of SAFETEA-LU (see page 3), any surface transportation project which receives U.S. Title 23 assistance is a qualified facility. Because projects that receive TIFIA credit assistance are Title 23 projects, this means that TIFIA projects are also eligible to receive this tax-exempt bonding authority. This provision therefore extends eligibility to TIFIA-assisted public transportation, intercity bus or rail facilities and vehicles, including vehicles and facilities owned by Amtrak, public freight rail facilities or private facilities providing public benefit for highway users, and intermodal freight transfer facilities.

Passage of the private activity bond legislation reflects the Federal Government's desire to increase private sector investment in U.S. transportation infrastructure. Providing private developers and operators with access to tax-exempt interest rates lowers the cost of capital significantly, enhancing investment prospects. Increasing the involvement of private investors in highway and freight projects generates new sources of money, ideas, and efficiency.

U.S. DOT is developing a process for distribution of the $15 billion in exempt facility authority that will be closely coordinated with the existing TIFIA loan process. Working together, these financing tools should provide substantial incentives for private equity investment in highway and freight projects.

SIB Highlights

SIB Loans Top $5 Billion

As of June 2005, SIBs reached a major milestone in helping fund needed transportation investments throughout the nation. Over $5 billion in loan agreements have been made by 33 states, as shown in the table to the right. Building on this success, SAFETEA-LU establishes a new SIB program, which gives states the capacity to increase the efficiency of their transportation investment and significantly leverage Federal resources by attracting non-Federal public and private investment.

This issue of ***IFQ*** features one of the most active and innovative of the infrastructure banks. Florida's SIB ranks second in terms of the value of loan agreements and has recently leveraged its loan portfolio through the issuance of revenue bonds. Also featured is the Kansas Transportation Revolving Fund, which has been capitalized with state highway funds. The Fund, patterned after the existing state water revolving fund, is providing needed support to city and county transportation improvements.

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State Infrastructure Bank Loan Agreements by State
As of June 30, 2005

State	Number of Agreements	Loan Agreement Amount ($000)	Disbursements to Date ($000)
Alaska	1	$2,737	$2,737
Arizona	49	564,000	474,000
Arkansas	1	31	31
California	2	1,120	1,120
Colorado	4	4,400	1,900
Delaware	1	6,000	6,000
Florida	50	867,000	281,000
Indiana	2	5,715	5,715
Iowa	2	2,879	2,879
Maine	23	1,635	1,635
Michigan	33	22,207	22,207
Minnesota	17	102,776	96,447
Missouri	15	92,557	82,770
Nebraska	2	6,792	6,792
New Mexico	4	25,216	17,815
New York	10	27,700	27,700
North Carolina	2	1,713	1,713
North Dakota	2	3,891	3,891
Ohio	70	221,739	177,379
Oregon	19	34,394	25,052
Pennsylvania	62	39,000	24,000
Puerto Rico	1	15,000	15,000
Rhode Island	1	1,311	1,311
South Carolina	8	2,605,000	2,092,000
South Dakota	3	28,776	28,776
Tennessee	1	1,875	1,875
Texas	54	277,237	260,358
Utah	1	2,888	2,888
Vermont	2	1,975	1,300
Virginia	1	18,000	17,985
Washington	3	2,376	487
Wisconsin	3	1,813	1,813
Wyoming	8	77,977	42,441
TOTAL	**457**	**$5,067,730**	**$3,729,017**

Florida SIB Issues $62.3 Million in Bonds

Continuing to expand the resources available for lending has been a hallmark of the Florida SIB. To that end, the Florida Department of Transportation (FDOT) issued $62.3 million in revenue bonds secured solely by the repayment stream of the existing loan portfolio in June 2005.

This first issue was a new and unique leveraging opportunity in several ways:

- Florida's SIB had not previously been leveraged;
- The leveraging would not pledge the full faith and credit of the state;
- The leveraging approach would be pooled financing using existing loan repayments for debt service;
- The pool of loans available for the pledge was relatively young;
- The pool of loans was not diversified with respect to numbers of borrowers;
- FDOT had long-term relationships with the borrowers;
- The majority of the borrowers was rated and familiar to the bonding industry; and
- The issue would be presented as uninsured to maintain the lending flexibility within the program.

Leverage of Florida's SIB has been enabled through the establishment of strong relationships between FDOT and the pool members, the credit quality of the borrowers and projects, and the commitment by FDOT and leadership in the state to make this program grow and prosper through planned annual capitalization of the bank. This expanded SIB program created by the legislature in 2004 is authorized to issue $300 million of revenue-backed debt with maturities up to 35 years.

The first issue was rated AA- by Fitch Ratings, A1 by Moody's, and A+ by Standard and Poor's, with all three noting the close working relationships with borrowers and program management approach as strong points for the ratings.

Program Approach Is Critical

Florida has adopted a flexible approach to its SIB. FDOT's mission is to provide transportation services to the public, not to serve as a private bank that will charge market rate interest on loans. Below market rate loans are a subsidy the FDOT has been willing to provide to further develop transportation projects that can be delivered earlier, or that may not otherwise be built to better serve the traveling public. Other flexible options allow SIB loans to be subordinated to senior debt, disbursed as a lump sum payment, or cash flowed over the production cycle

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of the project; and repayments can be deferred to allow for project revenue streams to mature or for funds to be accumulated before repaying the debt. The continued annual replenishment of capital to the SIB helps the bank maintain a coverage ratio that is attractive to the bond market.

The approach to leveraging the SIB program was driven by researching previous leveraging models, such as those used for waste water revolving loans, and the current demands on the state's economy. Florida is not unique in these challenging economic times, with needs far outweighing the sources of funds for transportation projects. The sole revenue stream for debt service on the bond will be the existing and future SIB repayments. The existing loan portfolio is maturing and is of sufficient credit quality to support a leveraging program of $70 million per year for an extended period.

The basic principle behind this program is the revolving of current repayments into debt service and the use of leveraged funds to support new projects, which, in turn, create future repayments for the program. This type of approach will also allow the program the flexibility to leverage as needed, and to time the leverage to maximize the market. There is no requirement to leverage in any year other than to meet the program needs as defined by applicant projects.

Key to this approach is the continued use of the SIB as a gap-funding program. SIB loans serve as a final piece to project funding, not the primary source of project funding. The average loan amount of the existing portfolio is $13.6 million, with a repayment profile averaging 15 years. This approach enables SIB funds to be revolved readily to meet more project needs. Florida's existing SIB portfolio leverages $6.00 of transportation investment for each $1.00 lent, and has assisted in advancing projects by as much as 10 years. Revolving the funds is critical to the long-term viability of the leveraging model.

Where Do We Go from Here?

Florida is a growth state with an average growth rate of 800 per day! There continues to be a strong market for the SIB with the expansion of program eligibility to include all modes of transportation. The demand for the program is expected to continue with a broader application of loans to many new modes of transportation during future award cycles.

As part of growth management legislation passed in 2005, Florida's SIB received a one time capitalization of $100 million to be applied to projects of regional impact. This additional SIB capitalization will enable more lending and provide enhanced repayment streams for future leveraging options. With the additional lending capacity, the size and duration of the loan portfolio will likely shift to borrowers with larger projects and more diverse repayment sources. The key will be to manage the lending to quality borrowers with marketable repayment streams to ensure that Florida's SIB continues to support needed transportation investments in the future.

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Kansas Fund Meets Local Needs

The Kansas Transportation Revolving Fund (the Fund) is making expensive roads and bridges affordable for the state's many local governments.

The Fund provides important assistance in a state whose population ranks only 32nd in the United States, but has the nation's fourth highest number of public road miles (134,000) and the third highest number of bridges (25,900). The Kansas Department of Transportation (KDOT) is responsible for 10,000 miles of roads designated as the State Highway System, leaving 124,000 miles for local governments to construct and maintain.

Through the Fund, local governmental units can apply for financing to help pay for transportation projects on or off the State Highway System. This is a new source of project financing for the local governmental units and it is a new program for KDOT. Eligible participants are Kansas cities, counties, and private enterprises in partnership with a city or county. State legislation in 1999 authorized the Kansas Secretary of Transportation to establish the Fund and develop the administrative regulations.

KDOT began accepting applications in December 2003. During the first year of operation, the Secretary of Transportation approved 24 applications with a total value of $31.6 million. Those applications represent 31 road and bridge projects spread across the state, ranging from a low-water crossing on a county road to 29,000 linear feet of curb and guttering for a small city, to streets in new subdivisions. In addition, the Fund has loaned the local match portion on 11 KDOT projects. Most of these projects are for the reconstruction of local roads. The projects vary in size from $64,420 to $6 million, and most loans are less than $2 million.

Key features of the Fund include the following:

- While the projects must be a road or bridge, any phase of a project such as design, right-of-way acquisition, and construction are eligible for funding;
- In order to maximize participation, each applicant is limited to $6 million per year;
- All projects financed by the Fund must be designed by a licensed professional engineer and inspected by a certified inspector under the supervision of a licensed professional engineer; and
- The loans are limited to the lesser of 20 years or the design life of the project.

Applications are accepted at any time throughout the year. The review process takes about 60 days from receipt of the application until the governing body has a draft loan agreement to consider. Much of the Fund's success is a direct result of an ongoing marketing campaign by KDOT's Secretary and KDOT staff. This campaign promotes alternative funding sources for local needs.

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The Fund was capitalized with a transfer of $25 million from the state highway fund. Leveraging was built into the program from the beginning. Fund uses the initial capitalization to disburse loan proceeds and for a reserve fund for bonding purposes. The Fund will issue bonds to replenish the Fund, and KDOT estimates that the Fund can loan approximately $120 million without additional capitalization. Currently, the Fund is using all state funds, but it is designed to use Federal funds now made available under the new SAFETEA-LU SIB program.

The Fund plans to issue about $30 million in bonds to replenish the reserve this summer. This will enable the Fund to loan approximately $30 million each year for fiscal years 2006 and 2007.

The Fund is actively seeking applications. Application forms, a program guide, and rules and regulations are available on KDOT's web site at *www.ksdot.org.*

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SIBs Assist Public Transportation Projects

The passage of SAFETEA-LU offers the possibility of expanding the existing SIB program for road, public transportation, and rail projects. The new legislation permits more states and territories to join the program, facilitates the formation of regional SIBs, and enables Federal money to be transferred to existing and new SIBs for capitalization purposes.

To date, 21 states have signed SIB cooperative agreements with the Federal Transit Administration (FTA), and eight have executed at least one public transportation loan. The total public transportation loan activity amounts to $94.5 million out of a total SIB loan portfolio as of June 2005 of over $5.0 billion dollars. This represents 20 percent of all SIB loans nationwide supporting investment in public transportation.

Types of Projects and Financing

SIB transit funds may be used to assist a variety of transit capital projects, such as facility construction, asset purchase and rehabilitation, or asset leasing. Each SIB (subject to the negotiated term of their cooperative agreement with FTA), has the ability to offer diverse forms of credit assistance for these projects, such as direct loans, loan guarantees, subsidized interest rates, loan subordination, or bond insurance. The eight states that have executed public transportation SIB loans are assisting $318.7 million in projects, as summarized below:

- Loans made through **Florida's** SIB are helping purchase trolleys, buses, and other equipment, expand LYNX service in metropolitan Orlando, and build Tampa's Ybor Station, a multimodal hub for streetcars, buses, taxis, parking, and pedestrians. The loans totaling $39.3 million will be repaid primarily with FTA funds, as well as other state and local funds.
- **Michigan's** SIB has made a $5.3 million loan to purchase buses and a ferry boat, and to construct new transit facilities. Repayment sources will include FTA funds as well as state and local funds.
- **Minnesota** has loaned $4.1 million to support 53 transit capital projects in the state. Property taxes will be used to repay the loan, which has leveraged $21 million in assistance to public transportation projects.
- The **Missouri** Transportation Finance Corporation has loaned $11.1 million in funds to serve as local match for bus acquisition for the Bi-State Development Agency, and another $2.1 million for an intermodal ground transportation demonstration project in Springfield.
- **North Carolina** has used $2.0 million from its SIB to support rehabilitation of a downtown Greensboro rail depot and as local match for bus acquisition.
- Transit projects supported by $7.4 million in **Ohio** SIB loans include structural rehabilitation of a viaduct owned by the Greater Cleveland Regional Transit Authority (GCRTA) and rehabilitation of commuter rail between Akron and Canton. GCRTA repayment sources include rentals, fees, rates, and other charges of operating fees.
- The **Oregon** Transportation Infrastructurebank has made $2.5 million in public transportation loans, $1.0 million of which was flexed from the bank's highway account. Projects supported range from transit facility expansion to service expansion.
- The **Pennsylvania** Infrastructure Bank has made two public transportation loans valued at $3.2 million, one to refurbish the Harrisburg Transportation Center, an intermodal terminal serving regional transit services and intercity bus and rail, and the second to construct a new maintenance and administrative facility for the Berks Area Reading Transportation Authority.

Future Loans

While loans for public transportation currently represent only one-fifth of all SIB loan activity nationwide, increasing this share is a challenge due in large part to the difficulties transit agencies face in identifying revenue streams to service debt for capital projects. However, SIBs can still play a key role in plans of finance for projects that can identify these repayment streams, enabling quicker delivery of transit facilities, equipment, and services than might otherwise be possible.

FTA plans to assist the SAFETEA-LU SIB program by offering guidance in the future. Interested program participants may learn more about the program by contacting the FTA Office of Policy and Performance Management at 202/366-4050 or by visiting the innovative finance web site at *http://www.fhwa.dot.gov/innovativefinance*.

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RESOURCES

TRB 2006 Annual Meeting

Innovations in Project Delivery and Financing for Surface Transportation Infrastructure, Workshop 134

A workshop on Innovations in Project Delivery and Financing for Surface Transportation Infrastructure will be held during the 2006 85th TRB Annual Meeting. Sponsored by the Taxation and Finance Committee and the Design-Build Task Force, in collaboration with the FHWA, PIARC, and the Organization for Economic Cooperation and Development/ European Conference of Ministers of Transport Joint Transport Research Centre, the workshop provides a forum to explore the latest developments in innovative project delivery and financing approaches.

With the growing trend to advance transportation infrastructure investment through public-private partnerships (PPPs), the workshop's emphasis is on sharing experiences of successful domestic and international strategies, bringing together national and international experts from both the public and private sectors as well as project sponsors to provide their perspectives on how more innovative techniques and tools can be used to complement conventional transportation delivery and funding approaches. In addition, U.S. DOT representatives will share their insights on the innovative finance provisions of SAFETEA-LU.

The workshop has a three-part structure:

- The first part features international experts who will discuss the application of innovative funding mechanisms in transportation infrastructure investment. Key questions for consideration include which innovative funding mechanisms should be employed, and under what circumstances, and what the determinants of success are. Specific issues related to project design and execution, such as risk allocation, will also be addressed.
- The second part focuses on the innovative financing programs under SAFETEA-LU, covering new tools and improvements to current programs. Panelists will provide insights on how SAFETEA-LU makes it easier and more attractive for the private sector to participate in highway infrastructure projects.
- The third part features project sponsors discussing their first-hand experiences in implementing innovative financing and delivery approaches and sharing lessons learned and successful strategies to facilitate PPPs. Potential new financial models for PPPs will also be explored. The format will be interactive so workshop participants will be able to ask questions and engage in dialogue with the transportation experts.

The workshop will be held on Sunday, January 22, 2006, from 8:30 a.m. to 5:00 p.m. at the Hilton Washington Hotel.

Public-Private Partnership Web Site

In response to the growing interest of the transportation community in public-private partnerships (PPPs), FHWA has launched an important new internet resource available at *http://www.fhwa.dot.gov/ppp/*. This web site provides comprehensive information on the use of PPPs to support the nation's surface transportation needs.

The web site identifies a spectrum of PPP arrangements through which private sector responsibilities can be expanded by the use of partnerships. These PPP options range from transferring tasks normally done in-house to the private sector, to combining typically separate services into a single procurement, or having private sector partners assume owner-like roles for planning, financing, implementing and operating transportation facilities.

The FHWA PPP web site provides profiles of projects that have benefited from one or more forms of PPPs, as well as definitions, resource documents, and links to other web sites with information on the different PPP options. The site also provides comprehensive information on PPP legislation, including links to state PPP legislation, legal analysis of state PPP statutes and a review of 28 key elements of PPP legislation for highway projects.

The PPP site is the primary location for all of FHWA's Internet-based information for the Special Experimental Project (SEP-15) program, the new experimental process FHWA has developed to identify and evaluate new public-private partnership approaches (see the Fall 2004 issue of ***IFQ*** for an overview of SEP-15). The SEP materials on the site include guidance and procedural documents, frequently asked questions, and links to actual SEP-15 applications, approval letters, and early development agreements.

In addition to establishing a new office for PPPs, FHWA also has recently completed a number of important resource documents on PPPs which are available on the PPP web site. The most recent is the ***FHWA Manual for Using PPPs on Highway Projects*** which was issued in November 2005 and provides information on the Federal requirements that apply when states pursue PPP projects.

Users of the FHWA PPP web site will see that the site has been designed to complement *InnovativeFinance.org*. Both sites feature updated events calendars and technical information. Users will see other additions and enhancements in coming months, including new project profiles.

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Federal Register Notice on Tolling and Pricing

With the passage of SAFETEA-LU, states and/or other public entities now have an enhanced variety of opportunities for tolling motor vehicles to finance Interstate construction and reconstruction, promote efficiency in the use of highways, reduce traffic congestion, and improve air quality. FHWA will issue two Federal Register Notices (FRNs) in early 2006 addressing the new tolling and pricing provisions of SAFETEA-LU. One FRN will provide detailed information on application procedures for slots, grants and tolling authority under the Value Pricing Pilot Program. The second will describe the non-grant programs that give states and other entities the authority to toll motor vehicles. The two notices will be published in the Federal Register on the same day and will invite expressions of interest from states and other qualified applicants.

The Office of Operations within FHWA is the designated lead for all tolling and pricing programs. The office has created the FHWA Tolling and Pricing Team to coordinate the different tolling and pricing programs and provisions within FHWA and direct public authorities to the most appropriate program or provision among the many options available to meet their goals. The team will thus serve as a clearinghouse for all tolling and pricing requests, including helping to match requests to the most appropriate program. All approvals and program oversight will continue to rest with the respective responsible program offices.

For more information on FHWA's tolling and pricing programs, please contact Wayne Berman at 202-366-4069 or *wayne.berman@fhwa.dot.gov.*

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