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CASE STUDIES

Federal Highway Funds and Debt Finance

A Spectrum of Strategies from Massachusetts, New Mexico and Ohio

In municipal finance, as in attire, neither one size nor one style fits all. This issue of *IFQ* presents a comparison of three different ways that states can structure a GARVEE-type debt instrument. A Grant Anticipation Revenue Vehicle, or GARVEE bond, refers to any financing instrument for which principal and/or interest is repaid with future Federal-aid highway funds. In essence, the debt is issued in anticipation of the receipt of Federal-aid grant reimbursements in subsequent years. The concept was fully described in *IFQ* Volume 3, Number 2.

The three transactions profiled in this article – the Central Artery/Tunnel in Boston, Massachusetts; Corridor 44 in northwest New Mexico; and the Spring-Sandusky Interchange in Columbus, Ohio – represent the GARVEE bond's real debut in the financial markets. From all appearances, GARVEE bonds are receiving a warm welcome and may see increased use in the coming years. In fact, New Mexico is already considering a series of additional transactions that may employ this financing strategy, and other states are making inquiries as well.

In considering these transactions, three points of contrast merit special mention:

- The underlying source of Federal-aid highway reimbursements;
- The presence and nature of backstop sources of payment; and
- The state implementing action(s) on which those funds' availability is conditioned.

Underlying Source of Reimbursements

The general GARVEE bond concept can be applied in one of two ways: 1) a "direct" GARVEE bond, in which federal assistance *directly reimburses* debt service paid to investors in a debt-financed Federal-aid project, as permitted under 23 U.S.C. 122; and 2) an indirect reimbursement, whereby federal funds reimburse expenditures on *other* Federal-aid projects and the state Department of Transportation (DOT) subsequently uses a portion of those funds to pay debt service on the debt-financed project. Note that in the second instance, the debt-financed project need not be a Federal-aid project, since the reimbursements of state expenditures on other Federal-aid projects effectively transform into state funds upon receipt by the state DOT. Figure 1 on page 3 depicts the two approaches.

In the three subject cases, Ohio and New Mexico are employing a direct GARVEE; Massachusetts is employing the indirect reimbursement strategy.

It should be noted that regardless of the structure selected, the enactment of the Transportation Equity Act for the 21st Century (TEA 21) bolsters the security of the underlying source of repayment. First, the Act's minimum guarantee provision ensures that each state will receive annual apportionments of no less than 90.5 percent of its percentage contributions to the Highway Account of the Highway Trust Fund. Second, and more important, TEA 21's provisions governing the budgetary treatment of the highway program virtually eliminate *appropriations risk* at the federal level over the current six-year authorization period through the effective creation of minimum obligation levels. It is true that some degree of federal *authorization risk* still exists since theoretically the Congress could elect not to reauthorize the Federal-aid highway program when TEA 21 expires after federal fiscal year 2003. However, the risk of non-authorization in future years is considered remote, given the importance, longevity, and general popularity of the Federal-aid program.

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MASSACHUSETTS: Central Artery/Tunnel

The Project:	An elevated portion of Interstate 93, known as the Central Artery in downtown Boston, is being reconstructed primarily as a tunnel. In addition, Interstate 90 is being extended to Boston's Logan Airport via a new tunnel under Boston Harbor. The project is expected to be finished in 2004.
The Cost:	$10.8 billion
The Debt:	The Commonwealth of Massachusetts issued $600 million of Grant Anticipation Notes (GANs) in June 1998, with authority from the legislature to issue up to $1.5 billion in total. The $600 million issue matures in 8 to 17 years and has received ratings of Aa3, AA, and AAA by Moody's, Fitch IBCA, and Duff & Phelps, respectively. The Commonwealth intends to pay interest from state highway funds but retire principal with Federal-aid reimbursements. Debt service payments will address interest only until calendar year 2005, at which point the Commonwealth will start repaying principal. From 2005 forward, average annual debt service on the first $600 million issued will be approximately $60 million. By comparison Massachusetts' average annual Federal-aid highway apportionments throughout the life of TEA 21 are expected to be approximately $524 million.

NEW MEXICO: Corridor 44

The Project:	Corridor 44 is a 140-mile, two-lane principal arterial extending between Bernalillo and Bloomfield in the northwest corner of the state. The New Mexico State Highway and Transportation Department will acquire necessary right-of-way and contract with a private developer to design and manage construction associated with expanding the highway from two to four lanes, and provide a long-term warranty for preventive maintenance activities. Construction is expected to be complete in 2001.
The Cost:	$295 million
The Debt:	The New Mexico Finance Authority expects to issue approximately $287 million of bonds in four series beginning in July 1998. The bonds will amortize over 15 years, with final maturity in 2015. The debt will be insured but has not yet received ratings. Average annual debt service will be approximately $28 million. By comparison, New Mexico's average annual highway apportionments throughout TEA 21 are expected to be about $256 million.

OHIO: Spring-Sandusky Interchange

The Project:	The Spring-Sandusky project will improve connections and traffic flow in downtown Columbus through relocation of U.S. Route 33; new construction of Interstate 670 and State Route 315; and related paving, grading, and drainage work. The project is expected to be complete in 2002.
The Cost:	$116 million
The Debt:	The State of Ohio issued $70 million worth of bonds in May 1998. The bonds will mature in 10 years. The bonds received ratings of Aa3 from Moody's and AA- from both Standard & Poor's and Fitch IBCA. Average annual debt service will be slightly less than $9 million. By comparison, Ohio's average annual highway apportionments throughout TEA 21 are expected to be about $887 million.

State Backstops

The second major area of difference in the structure of a GARVEE-style financing instrument is the presence of alternate funding sources or revenue streams to back up the Federal-aid reimbursements should they fail to materialize or fall short of requirements.

Ohio and Massachusetts have structured their debt so that other state funding sources may be sought in the event of unexpected shortfalls. In Ohio, all eligible Federal-aid highway funds will potentially be available to reimburse debt service expenditures (though subject to biennial appropriation); if these funds prove insufficient, moneys residing in the state infrastructure bank's bond service fund and other grants or state highway funds will be sought to pay debt service. As a final state backstop, the debt is secured by a moral obligation for the Ohio DOT to seek appropriations from the state assembly in the event that none of the preceding sources is available to meet debt service. The presence of such strong non-federal backstops – which some characterize as a triple-barreled structure – was of greater importance in Ohio because its debt issue represented the first GARVEE bond of its kind *and* occurred before enactment of TEA 21.

In Massachusetts, under very limited – and unlikely – circumstances, the Commonwealth will direct 10 cents of its 21-cent state fuel tax to the Grant Anticipation Note (GAN) Trust Fund for the purpose of paying debt service on the Central Artery instruments. This limited backstop is triggered only if: 1) annual Federal-aid highway funding falls to less than $17.1 billion nationwide; *and* 2) Massachusetts' share of such funding is projected to provide less than 120 percent coverage of aggregate debt service on the GANs in the following year.

Municipal bond insurance, which safeguards bondholders against the repercussions of a revenue shortfall by covering up to 100 percent of debt service payments, serves as a way of enhancing the creditworthiness of a transaction, and can allay investors' concerns regarding the security of their investment. Bond insurance is a form of "external" credit enhancement, in contrast to a state make-up, which represents a form of "internal" credit enhancement. If cost-effective, New Mexico may purchase bond insurance for the Corridor 44 issues, which would raise the rating on the issues to AAA. New Mexico is not, however, planning to structure internal credit enhancement through a state backstop.

Implementing Actions

The third variation in potential GARVEE structures is the extent to which the availability of the underlying Federal-aid reimbursements and backstop sources is subject to others' actions. From a ratings standpoint, the need for implement-

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ing actions such as appropriations may be of less consequence than the underlying and backstop sources of repayment. Nonetheless, the extent to which these sources of funds are conditioned on specific actions stands as a clear point of contrast in the way that Ohio, New Mexico, and Massachusetts are approaching the GARVEE concept.

In Ohio, the availability of federal funds and all backstop sources is subject to biennial appropriations by the Ohio General Assembly. In New Mexico, federal funds are automatically available to the state highway and transportation department; no state-level appropriations action is required.

In Massachusetts, where an indirect reimbursement is the mechanism of choice, the availability of the Federal-aid reimbursements (i.e., federal funds "earned" on other projects) to the newly-created GAN Trust Fund is not conditioned upon annual appropriation by the state legislature. Rather, pursuant to state legislation establishing the GAN Trust Fund, all future federal highway reimbursements flow directly to the Trust Fund without further state action. However, in the unlikely event that the backstop source is triggered, associated revenues would be subject to appropriation.

So Which Is Best?

As demonstrated by the variety of transactions structured by Massachusetts, New Mexico, and Ohio, GARVEE-type transactions can be arranged in various ways. So far it appears that no one structure is inherently preferable to others, as each of the three states profiled in this article has created a highly-rated and very marketable debt instrument. Instead, circumstances specific to each state will help determine which strategies are most desirable. Factors contributing to the design of the GARVEE instrument include, for example, projected population growth; this projection suggests how well a state will fare under the Federal-aid apportionment formulas. Other considerations include flexibility within the State Transportation Improvement Program, the stability of the non-federal contribution to the project's construction costs, legal or political constraints on the availability of gas tax receipts or other funds to backstop Federal-aid funds, and the assurance of the debt-financed project's eligibility for Federal-aid (Title 23) funds.

Patterns of Federal-aid cash flows are of special importance when deciding whether to use a direct GARVEE or indirect reimbursement strategy. In Massachusetts, for example, the high volume of Federal-aid projects, and especially those built under advance construction, creates a favorable environment for an indirect reimbursement strategy. This is because the volume of projects creates plenty of liquidity, which is necessary to demonstrate to bondholders that debt service payments can be made in a full and timely fashion. A high volume of advance construction projects is especially beneficial, since these projects can be readily converted to Federal-aid, creating "quick cash" that can be applied to debt service. (Note: Advance construction is a grants management strategy

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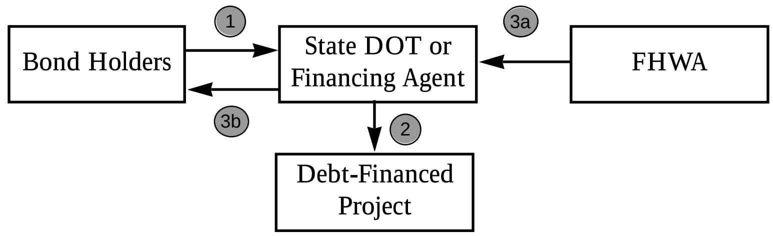
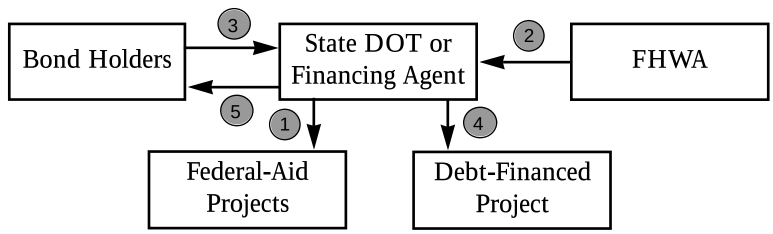
Figure 1. Direct GARVEE vs. Indirect Reimbursement

Direct GARVEE



1. Investors purchase bonds issued by state DOT; proceeds flow to state DOT.
2. State DOT expends bond proceeds to construct Federal-aid debt-financed project.
3a. State receives "cost-reimbursement" from FHWA for debt service expenses from its annual Federal-aid obligation authority.
3b. State DOT passes through Federal-aid reimbursements as debt service payments to bondholders over a multi-year term.

Indirect Reimbursement



1. State DOT expends funds on traditional pay-as-you-go Federal-aid projects.
2. FHWA reimburses state DOT for costs incurred on such Federal-aid projects.
3. Investors purchase bonds issued by state DOT; proceeds flow to state DOT.
4. State DOT expends bond proceeds to construct debt-financed project.
5. State DOT passes through Federal-aid reimbursements for traditional pay-as-you-go projects as debt service payments to bond holders over a multi-year term.

REAUTHORIZATION UPDATE

TEA 21

What's In, What's Out, What's New

President Clinton signed the six-year Transportation Equity Act for the 21st Century (TEA 21, Public Law 105-178) on June 9, 1998. By and large, the Act maintains the core surface transportation programs authorized under the Intermodal Surface Transportation Efficiency Act of 1991. However, the Act does effect several significant changes, including an increase in authorized funding to $175 billion for highways and $42 billion for transit over six years. It also substantially alters the budgetary treatment of the Federal-aid highway program, and collapses all equity adjustment funding categories into a single program known as Minimum Guarantee. TEA 21 also provides new grants management flexibilities and project financing opportunities to state DOTs and other project sponsors. Major finance provisions include:

- Enactment of a new pilot program to supplement the existing state infrastructure bank (SIB) pilot for four states;
- Enactment of the Transportation Infrastructure Finance and Innovative Act (TIFIA), which enables the Department of Transportation to provide up to $10.6 billion in credit assistance (through loans, loan guarantees, and standby lines of credit) to major projects of national significance;
- Language offering new means for states to generate income for surface transportation projects through tolls and right-of-way sales and leases; and
- Language offering more flexibility in non-federal matching share requirements.

The table appearing on page 5 displays the legislative outcome for key financial provisions. It updates the reauthorization scorecard presented in the previous issue of *IFQ*.

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FINANCE STRATEGIES, continued from page 3

whereby a state DOT constructs a project with non-federal funds, but preserves the project's eligibility for future Federal-aid funding.)

The indirect reimbursement strategy might not work so well in cases where a state has comparatively few advance construction projects *and* 1) a short construction season or 2) a limited number of large and financially "bulky" Federal-aid projects. These conditions suggest a less liquid stream of Federal-aid reimbursements, and the unpredictability of the stream might limit the apparent security of the credit.

If an indirect reimbursement strategy is neither advantageous nor feasible, the direct GARVEE may be structured to establish a direct relationship between debt service payments and liquidating cash from the Federal-aid highway program. In this instance, the issuer may still need to concern itself with an adequate backstop, particularly to guard against federal reauthorization risk.

Bond insurance is often the surest and simplest method to bring a credit rating up to a high level, but the premiums charged by the municipal bond insurer add to the financing cost. Still, depending on the underlying rating of a project, bond insurance may prove cost-effective compared to the interest expense of an "unenhanced" issue.

Backstops of state highway or general funds or a moral obligation on the part of the state as a whole are another option, but again, these might face the same constraints (e.g., legislative appropriation) on which the original credit was conditioned. Also, it should be noted that a state may be reluctant to encumber its highway fund balance sheet with contingent liabilities for a variety of reasons. Pertinent considerations include: 1) legal matters, such as state debt limits; 2) financial assessments concerning the savings associated with a higher credit rating; and 3) philosophic leanings, such as a state's general disposition toward debt and risk.

Massachusetts, New Mexico, and Ohio offer strong examples of three very different, but equally marketable, financing structures. Each state's experience demonstrates that regardless of an individual GARVEE bond's structure, these instruments are producing benefits by accelerating construction, adding flexibility to states' financing options, and lowering financing costs by improving ratings. As more states test the GARVEE concept with new transactions developed under alternative conditions, issuers, underwriters, rating agencies, and insurers will develop an even better sense for structures that offer the highest possible security to the investor at the lowest possible cost to the issuer.

Contacts:
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Special thanks also to Sonia Toledo, Jeff Carey, and Pete Markle for their thoughtful review and extensive comments on this article.

TEA 21 Box Score: Key Innovative Finance Provisions

Category/Provision	Purpose	TEA 21	Section(s)
• State Infrastructure Banks	Establishes a new SIB pilot program for four states. (See related article on page 8.)	■	1511
• Direct Federal Credit			
✔ Surface Transportation Credit Program	Provides direct Federal loans, loan guarantees, and lines of credit for large surface transportation projects of national significance.	■	1501-1504
✔ Rail Credit Pilot	Provides direct Federal loans and loan guarantees for rail and intermodal projects.	■	7203
• Tolls and Other Income			
✔ Interstate Highways: Conversions to Toll	Up to three Interstate highway segments may be converted from free to toll as part of a reconstruction project.	■	1216(b)
✔ Right of Way Income	Allows income from right-of-way sales and leases to be used for Title 23 purposes, as currently allowed for airspace income.	■	1303
• Matching Share Provisions			
✔ Tapered (Variable) Match	Allows non-federal share to vary over project life, so long as the ultimate matching share is preserved over time.	■	1302
✔ Program Level Match for STP projects	For Surface Transportation Program projects, allows Federal funds to be matched across full program, not on a project-by-project basis.	■	1108
✔ Flexible Match: Federal Land Management Agency Funds	Funds from other Federal agencies may count toward the non-federal matching share for recreational trails and transportation enhancement projects.	■	1115(j)
✔ Flexible Match: Federal Lands Highway Program	Funds from DOT's Federal Lands Highway Program may count towards non-federal match for projects within or providing access to federal or Indian lands.	■	1115(k)
✔ Flexible Match: Publicly-Owned Land	Permits donations of publicly-owned property to count towards non-federal match on all Federal-aid highway projects.	■	1301
✔ Soft Match: Toll Credits	Permits certain toll revenues to be used as a credit toward the non-federal share of another highway project.	■	1111(j)
• Tax-Exempt Status for Private Activity Highway Bonds	Would have permitted up to 15 privately-owned and/or operated highway projects to gain eligibility for tax-exempt financing.	❑	none

TRB Plans Special Finance Issue of *TR NEWS*

TR NEWS, a bimonthly publication of the Transportation Research Board, features timely articles on innovative and state-of-the-art research and practice in all modes of transportation. The September-October 1998 issue of TR NEWS will be dedicated to highway finance topics, presenting articles on the history of highway funding, the economic significance of highways to the nation, current innovative finance initiatives, future funding needs, and strategic alternatives for the future. Contributing authors include representatives from the Federal Highway Administration, the American Association of State Highway and Transportation Officials, the Surface Transportation Policy Project, a state department of transportation, and the academic community.

TR NEWS has an international circulation of 10,000. To order copies of the September-October 1998 issue, contact the TRB Business Office (telephone 202/334-3214, email "aarcher@nas.edu").

State Infrastructure Bank Loans and Loan Agreements as of June 1, 1998

STATE	PROJECT	PROJECT COST ($000)	LOAN AMOUNT ($000)	INTEREST RATE	DRAW DATE	REPAYMENT SOURCE
LOANS						
1 Missouri	Springfield Transportation Projects	39,360	1,180	3.70%	04.01.97	Local dedicated sales tax increment financing and State Highway Fund
			1,690	3.50%	04.01.99	Local dedicated sales tax increment financing and State Highway Fund
2 Missouri	Cape Girardeau Bridge	102,198	8,000	5.30%	10.07.97	State and future federal funds
			20,000	5.30%	02.06.98	State and future federal funds
3 Ohio	Butler Regional Highway	150,000	10,000	6.00%	10.16.96	Bond proceeds
4			10,000	6.00%	01.13.97	Bond proceeds
5			15,000	6.00%	05.19.97	Bond proceeds
6 Ohio	Great Lakes Science Center Parking Facility	7,825	7,825	6.00%	05.01.97	Parking fees
7 Ohio	Fort Washington Way Relocation	120,000	20,000	5.00%	03.01.98	Future city income and sales tax
8 Ohio	Cleveland Transit Viaduct	25,000	6,900	4.25%	04.01.98	County sales tax
9 Ohio	Project Monaco (Marion, OH)	2,025	2,025	4.00%	04.01.98	Payment in lieu of property taxes (TIF)
10 Ohio	Cincinnati Industrial Park Access Road Improvements	645	645	4.00%	04.01.98	City's capital improvement fund (primarily income tax)
11 Ohio	Brower Road Improvements, Lima MPO	950	950	4.00%	06.01.98	Future federal funds
12 Oregon	Ash Creek Bridge Replacement	850	735	4.00%	04.01.98	Future federal highway funds, city revenues
13 Oregon	Signal Priority System	781	781	4.18%	05.15.98	Transit District revenues (primarily payroll tax receipts)
14 New Mexico	City of Moriarty Intersection Signal	541	541		03.31.98	
15 Texas	Laredo Bridge #4	61,400	27,000			
16 Texas	State Route 190 - Bush Turnpike*	1,000,000	20,000	4.20%	10.01.97	Toll revenues
SUBTOTAL		*1,511,575*	*153,272*			
LOAN AGREEMENTS						
1 Arizona	Price Corridor Segments	56,600	26,000	3.67%	3/00/99	Earmarked sales tax revenues
2 Arizona	Red Mountain Freeway Segments	60,400	13,700	3.67%	7/00/98	Earmarked sales tax revenues
3 Florida	Branan Field Road Construction - Clay City	27,046	4,980	0.00%	1999	State DOT District funds (deriving mainly from gas tax receipts)
4 Florida	Branan Field Road Construction - Duval City	36,255	13,406	0.00%	1999	State DOT District funds
5 Florida	Congress/Australian Connector	11,529	8,365	0.00%	tbd	State DOT District funds
6 Florida	I-275 Widening	11,801	2,327	0.00%	1999	Future federal highway funds
7 Florida	SR77 Reconstruction	27,046	5,598	0.00%	2000	State DOT District funds
8 Florida	SR80 Improvements	20,448	4,366	0.00%	tbd	State DOT District funds
9 Florida	SR540 Improvements	18,727	2,590	0.00%	1999	State DOT District funds
10 Florida	SR655 Construction	14,948	6,953	0.00%	1999	State DOT District funds
11 Florida	SR44 Widening and Rehabilitation	20,500	9,800	tbd		State DOT District funds
12 Florida	SR30 (US98) to SR73 to SR295	12,100	2,400	tbd		Future federal highway funds
13 Florida	Recker Highway, US17 to Winterlake Construction	14,900	7,000	tbd		State DOT funds
14 Florida	Lee County Trolley Purchase	720	720	0.00%	1999	Future federal transit funds
15 Michigan	Center Street Reconstruction	2,000	700	4.00%		City funds
16 Missouri	Cole County Highway 179	37,544	6,000	3.50%	11.01.02	Earmarked local sales tax revenues and State Highway Fund
17 New Jersey	Atlantic City Expressway	1,500	1,500	tbd	06.20.05	Expressway toll revenues
18 Ohio	Market Street Improvements (Canton, OH)	12,469	1,200	4.25%	07.01.98	City-pledged excess revenues (primarily income tax)
19 Texas	State Route 190 - Bush Turnpike*	see above	40,000	4.20%	10.01.98	Toll revenues
20		see above	20,000	4.20%	10.01.99	Toll revenues
21 Wyoming	Cody to Yellowstone Park Improvement	15,000	15,000	0.00%	10.01.98	Future federal highway funds and state highway funds
SUBTOTAL		*401,533*	*192,605*			
GRAND TOTAL		**1,913,108**	**345,877**			

* SR 190 received two loan disbursements under 23 USC 129, prior to establishment of the Texas SIB. Those obligations were subsequently adopted by the SIB. The two previous loan disbursements were made on 1/1/96 in the amounts of $20 million and on 10/1/96 for $35 million. It is anticipated that the full $135 million from all prior and future loan disbursements will be repaid to the Texas SIB.

RESOURCE REFERRAL

FHWA Eastern Finance Center Launches Web Site

The Federal Highway Administration's Eastern Finance Center has developed a new Internet site (address: www.fhwa.dot.gov/efc) to inform the EFC's partners about financial management techniques for transportation infrastructure projects. The site complements the existing website for the FHWA Western Finance Center by promoting a variety of initiatives of special value to the 29 eastern states that the EFC serves. Staff from the EFC regularly post updates concerning the status of the eastern state infrastructure banks and the development of various quality financial management initiatives (QFMI). The site also provides links to other useful financial and government Internet sites.

Contact:
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State Infrastructure Bank Pilot Program: Federal Financial Transactions, cumulative, October 1, 1995 through May 31, 1998

STATE	HIGHWAY OBLIGATIONS			HIGHWAY OUTLAYS			TRANSIT	
	FAH FUNDS	SPECIAL APPROPRIATIONS	TOTAL	FAH FUNDS	SPECIAL APPROPRIATIONS	TOTAL	OBLIGATIONS: SPECIAL APPROPRIATIONS	OUTLAYS: SPECIAL APPROPRIATIONS
Alaska	$ -	$ 2,490,000	$ 2,490,000	$ -	$ 1,693,200	$ 1,693,200	$ -	$ -
Arizona	29,501,487	6,700,000	36,201,487	29,501,487	4,556,000	34,057,487	-	-
Arkansas	-	1,500,000	1,500,000	-	1,020,000	1,020,000	-	-
California	-	3,000,000	3,000,000	-	-	-	-	-
Colorado	-	1,500,000	1,500,000	-	-	-	-	-
Delaware	3,300,000	1,500,000	4,800,000	3,300,000	1,500,000	4,800,000	-	-
Florida	38,815,438	8,650,000	47,465,438	38,815,437	5,882,000	44,697,437	-	-
Georgia	-	-	-	-	-	-	-	-
Illinois	-	-	-	-	-	-	-	-
Indiana	-	3,390,000	3,390,000	-	-	-	-	-
Iowa	-	870,000	870,000	-	591,600	591,600	630,000	-
Louisiana	-	-	-	-	-	-	-	-
Maine	-	2,540,000	2,540,000	-	-	-	-	-
Massachusetts	-	-	-	-	-	-	-	-
Michigan	-	11,050,000	11,050,000	-	7,514,000	7,514,000	-	-
Minnesota	-	3,960,000	3,960,000	-	-	-	-	-
Missouri	25,000,000	-	25,000,000	25,000,000	-	25,000,000	7,410,000	6,224,400
Nebraska	-	2,830,000	2,830,000	-	-	-	-	-
New Jersey	-	1,500,000	1,500,000	-	-	-	-	-
New Mexico	-	8,140,000	8,140,000	-	5,535,200	5,535,200	-	-
New York	-	12,000,000	12,000,000	-	-	-	-	-
North Carolina	-	480,000	480,000	-	-	-	1,020,000	1,020,000
North Dakota	-	1,727,200	1,727,200	-	-	-	-	-
Ohio	35,000,000	5,100,000	40,100,000	35,000,000	1,260,000	36,260,000	6,900,000	6,900,000
Oklahoma	-	4,700,000	4,700,000	-	-	-	-	-
Oregon	8,973,000	5,510,000	14,483,000	8,973,000	826,500	9,799,500	-	-
Pennsylvania	-	1,000,000	1,000,000	-	-	-	2,390,000	-
Rhode Island	-	1,500,000	1,500,000	-	-	-	-	-
South Carolina	-	3,000,000	3,000,000	-	2,040,000	2,040,000	-	-
South Dakota	-	2,830,000	2,830,000	-	1,924,400	1,924,400	-	-
Tennessee	-	1,500,000	1,500,000	-	-	-	-	-
Texas	75,211,476	12,000,000	87,211,476	75,211,476	8,160,000	83,371,476	-	-
Utah	-	2,310,000	2,310,000	-	-	-	-	-
Vermont	-	1,500,000	1,500,000	-	1,020,000	1,020,000	-	-
Virginia	18,000,000	3,000,000	21,000,000	18,000,000	-	18,000,000	-	-
Washington	-	1,500,000	1,500,000	-	-	-	-	-
Wisconsin	-	1,500,000	1,500,000	-	-	-	-	-
Wyoming	-	2,510,000	2,510,000	-	1,706,800	1,706,800	-	-
Puerto Rico	10,748,588	1,500,000	12,248,588	-	-	-	-	-
Total	**$244,549,989**	**$ 124,787,200**	**$ 369,337,189**	**$ 233,801,400**	**$ 45,229,700**	**$ 279,031,100**	**$ 18,350,000**	**$ 14,144,400**
COUNT	***9***	***34***	***35***	***8***	***15***	***17***	***5***	***3***

TWO PILOTS, continued from page 8

Though Section 129 offers less flexibility than does the SIB structure, it gives states the chance to offer credit assistance to many of the same projects that SIBs can benefit.

- Any state may, of course, use its own funds or private contributions to add to its SIB's seed capital.

SIB Status

As of May 31, 1998, $293 million in federal funds had been deposited into the banks' highway and transit accounts. The banks have signed loan agreements to assist 33 projects; for these projects it is expected that $346 million in SIB loans will support $1.9 billion in total project construction. The tables on page 6 and above display: 1) loans and loan agreements signed to date; and 2) obligations and outlays of federal funds for the SIB program as of May 31, 1998.

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Lucinda Eagle, FHWA, 202/366-5057.

SIB UPDATE

A Tale of Two Pilots

Although reference to state infrastructure banks (SIBs) was inadvertently omitted from TEA 21's table of contents, close readers of the legislation will find a SIB provision in section 1511 of the Act. Once you begin reading the provision, it seems that little has changed. Then you reach subsection (b), which states that "...the Secretary may enter into cooperative agreements with the States of California, Florida, Missouri, and Rhode Island..." If you are not from one of those four states, you may well ask, "What about my state?"

In fact, there are now two SIB pilot programs. Of the 39 states currently authorized to establish SIBs, 35 states (including Puerto Rico) may continue under the initial pilot program ("SIB 95") that was established under the National Highway System (NHS) Designation Act of 1995. The four remaining states (California, Florida, Missouri, and Rhode Island) are now effectively part of two pilots. First, they will continue to operate under SIB 95, with rules specific to SIB 95 governing the capitalization funds deriving from fiscal year 1996 and 1997 apportionments. Second, these four states will also have the opportunity to expand their SIB programs under the new TEA 21 pilot which we will refer to "SIB 98."

SIB 98: "TEA" for Four

TEA 21 establishes a new SIB pilot program under which four states – California, Florida, Missouri, and Rhode Island – may capitalize their banks with federal transportation funds authorized for fiscal years 1998 through 2003. If your state is one of the four that can participate in the new SIB 98 pilot, here are a few of the main points you need to be familiar with. Notably, SIB 98:

- Removes the 10 percent limit on capitalization with eligible program categories;
- Does not require separate highway and transit accounts, but does require separate tracking for the use of Interstate and rail funds;
- Broadens project eligibility from highway and transit capital projects to include other surface transportation projects, as may be approved by the Secretary;
- Applies federal requirements to all SIB-assisted projects, including those financed with repayments from non-federal sources (so-called "second round" projects); and
- Replaces the existing 9-year disbursement schedule for federal capitalization funds with a 5-year disbursement schedule of 20 percent per year.

SIB 95: Reports of SIBs' Death Have Been Greatly Exaggerated

Thirty-four other states and Puerto Rico, which established banks under Section 350 of the NHS Designation Act of 1995, may continue to capitalize their SIBs with any leftover federal funds apportioned in fiscal years 1996 and 1997. It will *not* be possible for them to utilize fiscal year 1998 (or beyond) funds apportioned under TEA 21 to capitalize their SIBs.

Many of the states that are limited to participation in SIB 95 are actively seeking a legislative remedy that would enable them to join SIB 98. In the meantime, however, these states may wish to consider some of the following strategies.

- States may be able to designate additional advance capitalization amounts in fiscal year 1998 (and beyond). The feasibility of this option is conditioned, of course, on the availability of unobligated balances of fiscal year 1996 and 1997 apportionments for eligible program categories.
- All states may still make loans to projects with dedicated revenue streams under Section 129 of Title 23.

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