FHWA's
INNOVATIVE FINANCE
Quarterly

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FEDERAL CREDIT PROGRAM

A New Round of Solicitations and Revised Regulations

Two years and counting, the TIFIA program is in full swing.

As regular *IFQ* readers know, TIFIA stands for the Transportation Infrastructure Finance and Innovation Act, which was enacted in June 1998 as part of the Transportation Equity Act for the 21st Century (TEA-21). The TIFIA program offers loans, loan guarantees, and lines of credit to sponsors of large surface transportation projects through a periodic application and selection process.

To date, the U.S. Department of Transportation (DOT) has:

- ❖ Awarded $1.6 billion in credit assistance to the five projects selected in its first round of application in FY 1999;
- ❖ Solicited and received a second round of applications for FY 2000, with announcements of project selections expected in September 2000; and
- ❖ Solicited a third round of applications for FY 2001, for which formal applications are due September 6, 2000.

Schedule for Round Three

The third round of TIFIA assistance will provide credit assistance from the funding authorized for FY 2001. Applicants needed to submit letters of interest by Thursday, August 17, 2000, and formal applications are due by Wednesday, September 6, 2000, as shown on the schedule below.

The U.S. DOT is authorized to award up to $2.2 billion in TIFIA credit support in FY 2001. Potential applicants for this next round of TIFIA assistance are encouraged to consult the TIFIA web site (http://tifia.fhwa.dot.gov) or contact the U.S. DOT directly for further information.

New Rules

Concurrent with the third solicitation for applications, the U.S. DOT published revised rules governing the TIFIA program. While most of the regulations remain the same as those appearing in the initial TIFIA rulemaking of June 1999, prospective applicants should be aware of a few significant changes. The U.S. DOT made these revisions to the regulations on the basis of experience to date, Administration priorities, and Congressional intent. The revisions:

- ❖ Clarify that funds will be disbursed based on the project's anticipated cash flow needs;
- ❖ Clarify that the borrower must obtain ongoing credit surveillance for the life of the TIFIA credit instrument;
- ❖ Specify that loan servicing fees are to be paid by the borrower;
- ❖ Modify the time period for audited financial statements from 120 days to within no more than 180 days;
- ❖ Provide that administrative offsets will be employed only in cases of fraud, misrepresentation, or criminal acts, and will not be employed as a result of revenue shortfalls; and
- ❖ Assign weights to the eight evaluation criteria established in statute, as shown in the chart at the top of page 2.

The revised regulations were published in the *Federal Register* dated July 19, 2000 (Volume 65, Number 139) and are codified at 49 CFR Part 80.

Applying for TIFIA Assistance

While a wide variety of entities and projects are potentially eligible for TIFIA assistance, the TIFIA statute sets forth several threshold criteria and other requirements as prerequisites for an award of TIFIA assistance. The TIFIA Program Guide, available at

continued on page 2

Schedule for Upcoming TIFIA Solicitation (FY 2001)

July 19, 2000	Publication of solicitation for new applications (see *Federal Register*, Volume 65, Number 139)
August 17, 2000	Deadline for submission of letters of interest
September 6, 2000	Deadline for submission of formal applications
Fall/Winter 2000	Anticipated announcement of selections

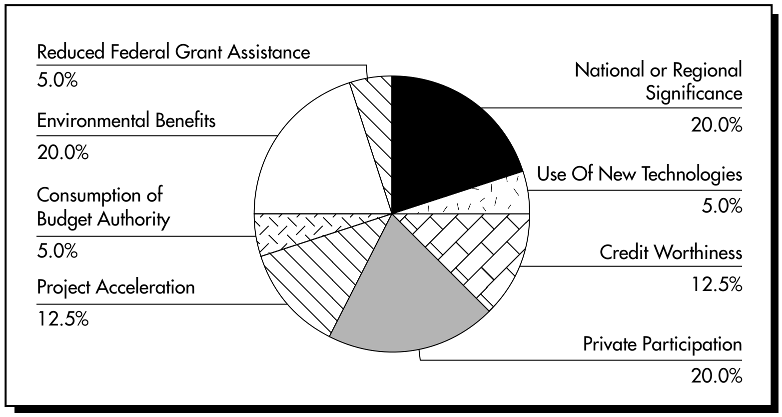
Also in this issue …

A New Round of Solicitations, continued from page 1

http://tifia.fhwa.dot.gov, includes the TIFIA application and describes the types of projects, costs, sponsors, and regulatory or statutory requirements upon which TIFIA is conditioned.

Please refer to the Winter/Spring 2000 issue of ***IFQ*** for a comprehensive overview of key considerations in determining whether your project is ready to apply for TIFIA assistance. Prospective applicants are encouraged to contact U.S. DOT prior to submitting applications to ascertain the eligibility and readiness of their proposed projects.

Weights for TIFIA Evaluation and Selection Criteria



Six TIFIA Applications Received Under FY 2000 Solicitation

In response to the solicitation for FY 2000 TIFIA credit assistance, the U.S. DOT received 15 letters of interest and six applications. The applicants for FY 2000 TIFIA assistance are summarized in the following table, and the projects are described below. The Secretary of Transportation is expected to announce selections in September 2000.

Project Descriptions

Central Texas Turnpike Project

- Construction and operation by the Texas Turnpike Authority (TTA), a division of Texas DOT, of a 122-mile tolled highway network in the vicinity of the Interstate 35 corridor between Austin and San Antonio.
- The $3.2 billion project consists of four connecting highway segments that would operate under a single toll system.

Tacoma Narrows Bridge Project

- Construction and operation by United Infrastructure Washington (UIW), a Bechtel Enterprises subsidiary, of a suspension bridge that would parallel the existing Tacoma Narrows crossing.
- The $835 million project would also include repair of the existing facility, which would be tolled in conjunction with the new bridge.
- The Washington State DOT selected UIW as part of its Public-Private Partnership initiative.

continued on page 3

FY 2000 TIFIA Project Applications

Project	Estimated Cost (in millions)	TIFIA Request (in millions)	Type of Instrument	Percent of Total Cost
Central Texas Turnpike *(Austin to San Antonio, TX)*	$ 3,220	$ 800	Direct loan	25%
Tacoma Narrows Bridge *(Tacoma, WA)*	835	220 50	Direct loan Line of credit	32%
Cooper River Bridges *(Charleston, SC)*	650	215	Direct loan or loan guarantee	33%
Staten Island Ferries and Ferry Terminal *(New York City, NY)*	463	153	Direct loan	33%
Reno Transportation Rail Access Corridor *(Reno, NV)*	242	80	Direct loan	33%
Washington Monument Visitor's Facility *(Washington, DC)*	97	25 7	Direct loan Line of credit	33%
Total	**$ 5,507**	**$1,551**		**28%**

Six TIFIA Applications, continued from page 2

Cooper River Bridges

- ❖ Under the sponsorship of the South Carolina Transportation Infrastructure Bank (SCTIB), construction by the South Carolina DOT of a bridge to replace two existing crossings between Charleston and Mount Pleasant, SC.
- ❖ The project, estimated to cost up to $650 million, would receive significant funding from the SCTIB, which proposes to borrow the TIFIA funds and repay them from truck registration fees and repayments of SCTIB loans.

Staten Island Ferries and Ferry Terminals

- ❖ Acquisition by New York City acting through its agencies of new passenger ferries connecting Staten Island and Manhattan.
- ❖ The $463 million project would also refurbish the ferry terminals at St. George (Staten Island) and Whitehall (Manhattan).
- ❖ The TIFIA loan would be secured by the City's Tobacco Flexible Amortization Bonds.

ReTRAC: Reno Transportation Rail Access Corridor

- ❖ Construction by the City of Reno of a two-mile railroad trench that would eliminate 13 rail/highway grade crossings in the center of downtown Reno, enhancing safety and speed for both freight and passenger rail travel.
- ❖ The $242 million project, funded through a combination of local taxes and revenues, would construct bridges over the trench at the crossings in order to preserve the local street network.

Washington Monument Visitor Facility

- ❖ Construction under the sponsorship of the Nation's Capital Bicentennial Celebration (NCBC), a non-profit organization, of an underground visitor center adjacent to the Washington Monument.
- ❖ The $97 million facility would provide interpretative services and other amenities for visitors to the Monument.
- ❖ Several heritage travel activities have been proposed to provide revenues to repay the TIFIA debt.

Contacts:
Stephanie Kaufman, Office of the Secretary, U.S. DOT, 202/366-9649 or Mark Sullivan, FHWA, 202/366-5785.

TIFIA Trivia

The U.S. DOT Responds to Your Questions

In our last issue, ***IFQ*** initiated a "TIFIA Trivia" box. This feature provides the U.S. DOT Credit Working Group's responses to questions posed by our readers and other observers. We hope you find this "TIFIA Trivia" section useful and that you will submit questions to either of the ***IFQ*** co-managing editors (Max Inman or Suzanne Sale, FHWA, at 202/366-0673).

Question

The U.S. DOT requires each TIFIA applicant to provide information on the potential for the project's senior obligations to attain an investment-grade rating from at least one nationally recognized rating agency. Moreover, by the time of disbursement, the project sponsor must provide U.S. DOT with at least one letter from a major credit rating agency that conveys an investment grade rating on the project's senior debt obligations and expresses an opinion on the default risk for the TIFIA component. How does U.S. DOT use this information? How does the agency translate a credit rating on a project's senior debt obligations into a rating on the TIFIA obligation for the purposes of assigning a subsidy rate to a given project? And what if different revenue streams are backing the senior obligations and the TIFIA instrument?

Answer

Based on the preliminary opinion letter and the U.S. DOT's assessment of the project, the U.S. DOT will make an initial capital allocation for the project's "subsidy cost" at the time the term sheet is signed. Generally, the less developed the project financing plan and greater the number of rating agency qualifications, the more conservatively the U.S. DOT will set this initial subsidy reserve.

When providing the final credit rating of the senior debt obligations, the rating agencies will also provide a direct assessment of the credit risk of the TIFIA instrument. Differences in the credit quality of the revenue streams backing the senior debt obligations and the TIFIA instrument will be reflected in the rating agency assessments. Based on the final credit ratings, the U.S. DOT will revise its initial capital allocation. (The strength of the revenue stream may affect both the probability of default and the potential for recoveries in the event of a default.) The final subsidy reserve will reflect the default risk assessment of the TIFIA instrument provided by the rating agencies. Since the U.S. DOT's use of its TIFIA budget authority will be based on the final capital allocation, adjustments to the initial subsidy reserve will affect the funding available to support other TIFIA projects.

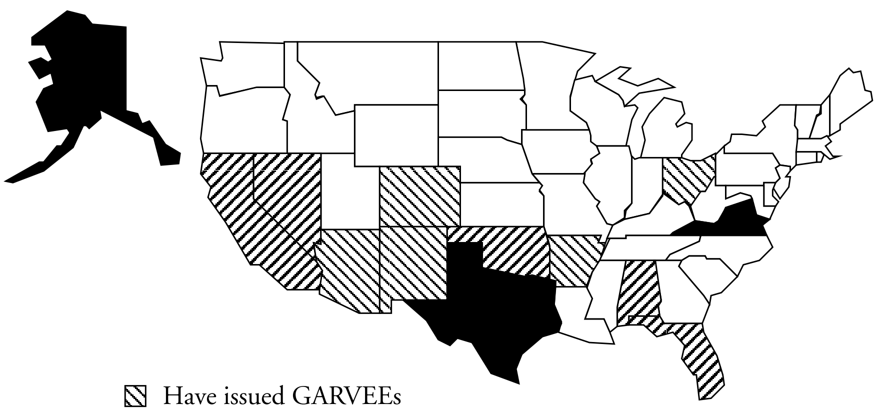
GARVEE ROUNDUP

GARVEEs Across the Map

The Grant Anticipation Revenue Vehicle (GARVEE) financing mechanism continues to gain popularity as a tool to supplement "pay-as-you-go" financing methods. The latest developments in GARVEEs are highlighted below.

The **Arizona Department of Transportation** (ADOT) recently completed its first GARVEE financing in July 2000 with the issuance of $39.4 million in Grant Anticipation Notes (GANs), Series 2000A. The notes will be repaid with a portion of the state's Federal-aid revenue. The sale of the notes provides funds for the advancement of a major urban transportation interchange at I-10 and Pecos Road in Phoenix. The interchange is a joint project between ADOT and the City of Phoenix, with the city providing a portion of the interest cost on the GANs. This issue is the first in a planned financing program that anticipates the issuance of $450 million over the FY 2000-2004 period to accelerate completion of the freeway program in Maricopa County.

In May 2000, the **Colorado Department of Transportation** sold $537 million of Transportation Revenue Anticipation Notes, its first GARVEE issue to finance a planned $1.7 billion bond program for high-priority projects, including improvements to the Denver area I-25 Southeast Corridor. The Corridor is being improved as part of an innovative partnership with the Denver area Regional Transit District, which will reduce congestion and expand light rail with a separately funded bond issue.



Have issued GARVEEs

Have authority to issue GARVEEs

Considering or seeking authority to issue GARVEEs

Oklahoma's Governor signed legislation in June 2000 that authorizes the sale of up to $700 million of new bonds backed by Federal-aid highway funds. The state could potentially reserve up to $110 million of Oklahoma's approximately $350 million in annual apportionments for 10 years to pay debt service on an issue of that size. While the state has not finalized the list of projects to be advanced with the GARVEE tool, possible projects include widening U.S. 169 near Tulsa, as well as U.S. 70 from Idabel to Valliant.

California is working on draft guidelines for its authorized GARVEE program. These guidelines will help determine how to select projects that will be able to make use of the bonding authority already authorized by the Legislature in the last session.

Alaska's Legislature gave serious consideration to the GARVEE vehicle, but ultimately failed to pass legislation that would enable a bond issue repaid with Federal-aid funds. The Legislature may reconsider this initiative in its next session.

The map shows the state of the states on GARVEEs.

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Innovative Finance Primer Nears Completion

As reported in the Winter/Spring 2000 issue of ***IFQ***, FHWA is completing work on a comprehensive resource guide, or primer, describing innovative financing techniques. The Project Finance Primer will provide Federal, state, local, and private agencies with detailed information on new project finance mechanisms for surface transportation projects. It will also showcase practical, case-oriented information relating to emerging financial strategies, as well as overviews of best practices.

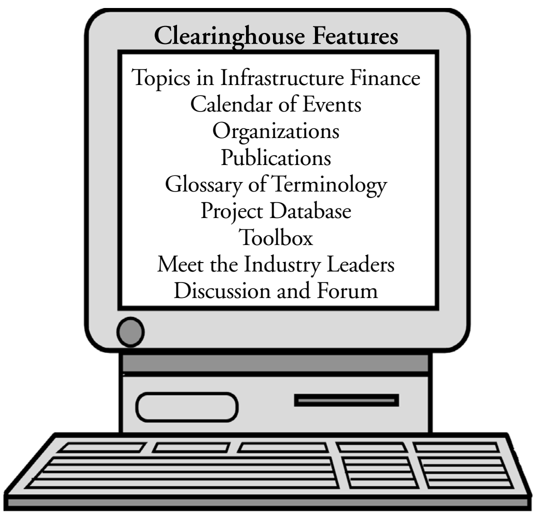
In addition, a companion brochure highlighting innovative finance techniques and best practices will soon be available via the FHWA's web site at http://www.fhwa.dot.gov/innovativefinance. Availability of both the primer and brochure will be posted on FHWA's innovative finance web site and reported in the next issue of ***IFQ***.

NEW INITIATIVES

NCHRP's Innovative Financing Clearinghouse Project is Launched

The Second National Conference on Transportation in Scottsdale, Arizona from August 20-23, 2000 marks the kickoff of the National Cooperative Highway Research Program's (NCHRP's) Innovative Financing Clearinghouse project. The Clearinghouse will be an Internet-based resource providing current information on innovative surface transportation finance techniques, programs, and practices, as well as the latest, most cutting-edge events and trends in the industry.

Given the rapid pace of developments in transportation finance, the challenge for transportation decision-makers is how best to share information and best practices and to provide for continued learning and knowledge transfer. The Administrative Subcommittee on Transportation Finance of the American Association of State Highway and Transportation Officials (AASHTO) recognized the importance of improving the understanding of innovative financing and initiated the development of the clearinghouse under the auspices of NCHRP. The initial impetus for this project came from the Transportation Research Board's (TRB) April 1997 Conference on Transportation Finance for the 21st Century.



The scope of this project is intended to include issues related to Federal, state, regional, local, and private funding of surface transportation (highways, passenger rail and bus systems, intermodal links, intelligent transportation systems, and related facilities), with an emphasis on innovative alternatives to traditional funding methods. The definition of innovative funding includes the application of alternative contracting mechanisms when coupled with innovative financing methods.

The Clearinghouse will fulfill a vital function in meeting the information needs of transportation departments in the area of innovative finance by sharing information and lessons learned. It will present up-to-date, state-of-the-practice knowledge, highlight the most current developments in the field, and offer a forum for disseminating background information, success stories, current events, and best practices. The Clearinghouse will also include information on legislation, events, publications, projects, techniques, and application guidance. In addition, it will address the project development process and institutional issues germane to all transportation modes.

As a web-based resource, the Clearinghouse is intended to facilitate an interactive exchange of questions, ideas, and collective experience of its users. Users from around the country and around the world will be able to exchange information on project development trends, practices, and ideas to create new synergies fostering innovative financing practices. The challenges of the project are many:

- ❖ To go beyond the mere provision of information that is otherwise available and capitalize on interactive electronic communication to transfer knowledge among a wider group of stakeholders;
- ❖ To foster dialogue and discussion among stakeholders who would not otherwise have the opportunity to share ideas;
- ❖ To increase the participation of financial, development, technology, and service stakeholders into the transportation arena; and
- ❖ To stimulate continuing innovation in transportation finance.

Current plans call for the Clearinghouse to be available on the Internet in spring 2001. Initial tasks involve the identification of user groups, definition of the information and services to be made available, identification of information sources, preparation of a marketing plan, and studies of information clearinghouse best practices. These various tasks will then be folded into a recommended initial structure, content, and implementation plan.

Awarded by NCHRP to Parsons Brinckerhoff Infrastructure Development Company, in association with Sharon Greene and Associates and José Gómez-Ibañez, both the project team and the NCHRP project oversight panel are seeking to involve interested stakeholders in the development of the Clearinghouse. Readers of ***IFQ*** and other interested stakeholders are invited to visit a pilot web site at http://www.pbworld.net/nchrp/ to provide suggestions and comments that will help guide the development of the Clearinghouse.

AASHTO and TRB look forward to your involvement in the development of the Clearinghouse and to the benefits that this important tool will bring to the transportation finance community. Updates on the Clearinghouse will be provided in future issues of ***IFQ***.

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SIB UPDATE

SIBs Demonstrate Their Effectiveness in Funding Transportation Infrastructure

As of August 2000, based on information reported to FHWA, 31 states have entered into 162 loan agreements with a dollar value of $765.6 million. Five states with very active programs – Florida, Arizona, Ohio, Missouri, and Texas – account for nearly 80 percent of State Infrastructure Bank (SIB) loans nationwide. Florida's SIB will see increased activity as a result of a major transportation funding package passed by the 2000 legislature. As part of this comprehensive legislation, state funding of $150 million ($50 million annually over three years) will be appropriated for Florida's SIB.

This issue of ***IFQ*** highlights the progress being made in implementing SIB programs in Oregon and Maine. Both state programs demonstrate the flexibility and diversity possible in structuring SIBs to best meet state needs.

State Infrastructure Bank Loan Agreements by State

As of August 2000

State	Number of Agreements	Loan Agreement Amount ($000)	Disbursements to Date
Alaska	1	$2,737	$0
Arizona	8	168,956	66,779
Arkansas	1	20	0
Colorado	2	400	400
Delaware	1	6,000	6,000
Florida	15	219,184	30,542
Indiana	1	3,000	0
Iowa	1	739	739
Maine	22	1,768	759
Michigan	22	16,444	12,174
Minnesota	2	21,560	10,532
Missouri	8	56,008	41,770
Nebraska	1	1,500	0
New Mexico	1	541	541
New York	1	125	125
North Carolina	1	1,575	1,575
North Dakota	2	3,565	*1,565
Ohio	25	112,965	58,855
Oregon	4	5,960	5,735
Pennsylvania	8	6,103	393
Puerto Rico	1	15,000	15,000
Rhode Island	1	1,311	1,311
South Dakota	1	992	992
Tennessee	1	1,875	0
Texas	19	49,789	39,338
Utah	1	2,888	2,888
Vermont	3	1,030	0
Virginia	1	18,000	18,000
Washington	1	700	0
Wisconsin	2	1,188	1,188
Wyoming	4	43,681	**22,928
	162	**$765,604**	**$340,129**

* North Dakota has repaid $1,376 of first loan.
** Wyoming has repaid $13,000 of first loan.
Note: Table reflects data reported to FHWA as of August 15, 2000.

Oregon SIB

As one of the initial 10 SIB pilot states, Oregon's road to success hit a few speed bumps. Obtaining state funds to match the Federal funds, developing rules, policies, and materials to implement the program, and launching an effective outreach program were all early challenges. Fortunately, the learning curves did not create any significant roadblocks. The Oregon Transportation Infrastructure Bank (OTIB) to date has closed and funded eight agreements with an aggregate value of over $11 million.

There has been great diversity in the size, scope, and repayment sources of OTIB's loans. The Oregon bank thus far has funded two transit projects, three bridge retrofits, a significant right-of-way purchase, new street construction, and a reconstruction project resulting from a series of landslides. OTIB's borrowers include transit providers; port authorities; one of the state's least populated counties as well as a county 16 times larger; and two cities, Portland and another city about one percent of the size of Portland.

The OTIB has been opportunistic. When TEA-21 high-priority project awards were announced in 1998, all local project sponsors were given the opportunity to advance their projects by using a SIB loan, with repayment schedules set to match TEA-21 disbursements. Similarly, one of the OTIB loans allowed a city to repair a bridge in advance of Highway Bridge Rehabilitation or Replacement (HBRR) funding, avoiding an extended period of load limits on a critical route. Other repayment sources utilized by OTIB have been gas taxes and bridge tolls.

Because Oregon's Constitution strictly limits the use of gas taxes, Oregon's

continued on page 7

SIBs Demonstrate Their Effectiveness, continued from page 6

ability to fund a match for the Transit Account was impaired. However, Oregon DOT management was successful in obtaining a portion of the state's Stripper Well (energy) funds, enabling OTIB to capture transit allocations.

In spring 2000, OTIB took on a unique role as the administrator of a state grant program authorized by the Oregon Legislature. As a means of assisting local governments with their transportation systems, $30 million will be awarded on a competitive basis to cities, counties, and other agencies for projects that relieve pressure or help manage access on the state highway system or support compact urban development. Nearly 100 applications were received requesting funds in excess of $100 million. It is expected that additional demand for OTIB loans will be created by this large, unfunded need.

Similar to other SIBs nationwide, OTIB's creation was possible because of existing statutes that covered a broad range of intergovernmental relations and cooperative agreements. In 1997, the program was specifically recognized in state law and, in 1999, the Legislature expanded the program's capabilities by authorizing a pledge of gas taxes to back OTIB loan guarantees. The Legislature also created a mechanism for the bank to issue up to $200 million in bonds for relending. Loan repayments or gas tax revenues would support such bonds.

Based upon recent feedback from municipal transportation managers, this new bonding capacity may become a primary vehicle for the development of local streets in some of the state's growth areas. It is anticipated that such loans will be repaid from sources such as local improvement district assessments, system development charges, tax increment financing, or traffic impact fees. The state's ability to put future revenue streams "on the table" today will allow for a more efficient and cost-effective approach to solving local infrastructure problems.

Loan amounts during the past four years have ranged from $225,000 to cover the design and engineering costs of an intermodal center for a coastal city, to $4.4 million for a new bridge, including bike lanes and sidewalks, in the Portland metropolitan area. While loan rates have generally been in the 3.5-5.0 percent range, two loans were priced at less than one percent. Loan maturities have ranged from two to 20 years, with several loans set for four years, reflecting the TEA-21 drawdown schedules.

The most recent loan to close reflects several elements of the diversity of the program. A small county (population about 25,000) on Oregon's northern coast was required to purchase some right-of-way to allow for the reconstruction of nearly eight miles of highway in a heavily-used recreation area. The project involves building a new bridge to enhance fish passage, eliminating several dangerous sections of roadway, replacing deteriorating base and paving, and adding some bike lanes. The total cost of the project will be in excess of $12 million with all of the funding for design and construction coming from the Federal Lands Highway Program. The county needed $1.25 million to acquire needed right-of-way, otherwise the project would be cancelled; however, the county's entire capital outlay budget for roads of $400,000 was committed to other essential projects.

An OTIB loan provided a timely and feasible solution to the financial problem. By allowing the county to commit a portion of its allocation of gas taxes for annual debt service, it was possible to keep the project on track and retain the significant Federal contribution; for the next 20 years, the county will spend about five percent of its gas tax revenues for payments on this loan. In recognition of the county's limited financial resources, OTIB set the loan rate at 0.5 percent.

Projects such as these serve as a convincing reminder that there are transportation financing gaps at virtually every level of local government. OTIB has shown that it can fill those gaps by functioning as a flexible source of funding.

Contact:
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Oregon Department of Transportation,
503/986-3921.

Maine SIB

The SIB established by the Maine Department of Transportation is outpacing many other states in the number of loans, even though its capitalization level is just over $3 million. To date, Maine has capitalized its SIB program with $2,540,000 of Federal funds and $635,000 of state funds.

Maine's SIB has been used to help fund projects on the state's major collector roads, largely ignored over the last few years. Currently, 22 projects have been funded through a partnership of the SIB, state, and Federal funding sources. These projects were submitted for consideration by municipalities and have been selected on a competitive basis.

Each municipality submitting a project for consideration was required to provide up to 25 percent of the funding. In addition, these municipalities agreed to fund up to 25 percent of cost overruns up to 10 percent of the original estimate of the project cost. The SIB provided loans to the municipalities in an amount equal to the local share. The loans are interest free and can be repaid in one to 10 years. Repayments can be in the form of an annual or quarterly bill, a quarterly deduction from Local Road Assistance Payments (LRAP), or through up-

continued on page 8

SIBs Demonstrate Their Effectiveness, continued from page 7

front contributions from the municipality. Terms and repayment choices have been summarized into a simple, single-page agreement form. The municipalities are administering some of the projects.

The Maine Department of Transportation, in coordination with the Regional Transportation Advisory Committees, prioritized projects as they were submitted for consideration. Criteria used to prioritize projects included economic impact of the project, contribution to the movement of people and freight, and the effect the project would have on the character of the community.

For the 22 projects under agreements, loan obligations total slightly more than $1.6 million, funding total project costs of just under $8.4 million. This translates into a leveraging ratio of 5:1. Some of those projects would not have been undertaken without the funding assistance of the SIB and all were advanced by several years. The balance of SIB funds, along with any interest earned and repayments to the SIB, will be used to advance similar projects in the future.

Maine's SIB program clearly demonstrates that a relatively small bank can be of significant value to a state in making more highway projects viable at an earlier date.

Contact:
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Maine Department of Transportation,
207/287-2560.

FHWA Conducting "Best Practices" Review of State Infrastructure Banks

Since the President's Executive Order for investment in infrastructure in 1994, the SIB program has evolved as one of several significant tools that complement the traditional reimbursement-based transportation grants program. Subsequent to its authorization by Congress in the National Highway System Designation Act of 1995, the SIB program has been influenced by some major legislative milestones that have changed the shape of the program. The original pilot program, first limited to only 10 states, was made available to all interested states in the 1997 appropriations act, and then was extended for only four states in TEA-21.

Many states have participated at various stages in the short history of the program, and each has differed in its approach. While some SIB states have not pursued the program beyond receiving Federal-aid Highway Program "seed" money, other SIB states have active and more mature programs with portfolios of loans assisting both transit and highway projects.

Recognizing that SIBs will continue to play an important role in the changing arena of transportation finance, the Federal-Aid Financial Management Division at FHWA is conducting a review of the SIB program.

A primary goal of the review is to monitor states' recent experience with the SIB program, to pinpoint areas where improvements are possible, to focus attention on practices that have worked well, and to identify new opportunities for the SIB program today and in the future. The SIB review is being undertaken as part of the Quality Financial Management Initiative, an important element in FHWA's continuing efforts to increase the effectiveness of Federal-aid financial management.

The review team will gather information from the states through distribution of a questionnaire to FHWA Division Offices in every state with an active SIB. Financial managers in the Division Offices will work with financial staff at their respective state DOTs to complete the five-page questionnaire. The questionnaire addresses a range of SIB operational elements, including organizational structure, financial policies, and outreach efforts. Additionally, the questionnaire will provide states an opportunity to give unstructured feedback on issues of importance to them. Selected on-site visits will also be conducted to supplement the questionnaire.

As part of this review, a loan agreement summary form has been distributed to active SIB states. The team will use this information in the aggregate to document the dollar value of SIB assistance both within a given state and nationwide.

The culmination of the review will be a report providing a nationwide snapshot of the SIB program with highlights of best practices and key issues. This information will help FHWA in its continuing efforts to improve the SIB program.

The Federal-Aid Financial Management Division is planning to complete the SIB review in the fall of 2000.

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Western Resource Center,
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TECHNICAL CORNER

Pocahontas Parkway: The 63-20 Financing Option

The Pocahontas Parkway (Route 895 Connector), a new 8.5-mile, four-lane toll road connecting I-95 and I-295 east of Richmond International Airport, is the first construction project approved under the Commonwealth of Virginia's Public-Private Transportation Act (PPTA). Through an innovative partnership between the Virginia Department of Transportation (VDOT) and the private sector, a not-for-profit corporation known as the Pocahontas Parkway Association (PPA) was established to finance the Pocahontas Parkway project. PPA has attracted investors for a $354 million bond, to be repaid solely by tolls from users of the parkway.

Virginia's Public-Private Transportation Act

In 1995, the Commonwealth of Virginia General Assembly enacted the PPTA to allow public entities such as VDOT to authorize private entities to acquire, construct, improve, operate, and maintain qualifying transportation facilities.

While the Commonwealth of Virginia Transportation Board is an active and well received issuer in the tax exempt bond market, one of the public policy goals of the PPTA was to provide access to new sources of capital in accelerating the delivery of needed transportation facilities. Further, debt issuance by the Transportation Board requires legislative approval and must be managed within the constraints of the Commonwealth of Virginia's overall debt capacity limits.

To achieve the lowest cost of capital and improve the financial feasibility of PPTA project proposal submissions, private entities have consistently sought to access the tax exempt bond market to finance proposed road projects.

IRS Revenue Ruling 63-20

In order to meet its financing needs, Virginia has explored issuance of tax exempt toll revenue bonds through either established conduit issuers or creation of not-for-profit corporations pursuant to Internal Revenue Service (IRS) Revenue Ruling 63-20. While VDOT would prefer to utilize an established entity for conduit issues, IRS Revenue Ruling 63-20 provides a viable alternative and was the option selected for financing the Pocahontas Parkway.

In July 1998, VDOT completed the financing for the construction of the Pocahontas Parkway through the sale of toll revenue bonds by a newly created not-for-profit private corporation. The PPA was established as a Virginia non-stock, not-for-profit corporation to sell $354 million in toll revenue bonds. The transaction was structured in conformity with the requirements of IRS Revenue Ruling 63-20, thereby achieving the tax exempt status on the bonds and providing the lowest cost financing possible without direct issuance by the Commonwealth Transportation Board. Additional funding for the project of $27 million was provided by the state through a SIB loan ($18 million) and Federal funding for roadway design ($9 million).

VDOT did not proceed with this concept without fully weighing, among other considerations, the potential impact on the Commonwealth's and Commonwealth Transportation Board's credit ratings as a result of debt issued on behalf of VDOT by the PPA. Among the requirements for tax exemption under the 63-20 rule is that the governmental unit must approve both the nonprofit corporation and the issuance of the bonds. VDOT, as the responsible public entity under the PPTA process, was the appropriate approving governmental unit for the Pocahontas Parkway project.

VDOT officials met with the three major rating agencies to assess the potential impact on the Commonwealth's and Commonwealth Transportation Board's credit ratings as a result of debt issued by a 63-20 entity. Generally, the rating agencies perceived no adverse impact on either the Commonwealth's or the Commonwealth Transportation Board's credit ratings as a result of the debt issuance on behalf of VDOT for a VDOT-owned facility by this newly created private entity. However, one rating agency did caution that the expectation would be that Virginia, as a triple-A rated state, would not provide approval for project debt of a speculative nature.

While IRS Revenue Ruling 63-20 has been in existence for 37 years, its use as a financing mechanism for transportation projects is still in its infancy. The Pocahontas Parkway was only the second transportation project nationwide to be financed through this concept, the first being the Southern Connector in South Carolina, also financed in 1998.

Potential Expansion of 63-20 Corporations

As construction proceeds on the Pocahontas Parkway, the first project of its kind in Virginia, VDOT is still encountering the intricacies of utilizing the 63-20 concept. Recognizing these challenges, VDOT is carefully evaluating this financing approach prior to expanding its use on other projects. While IRS Revenue Ruling 63-20 provides a new avenue for funding transportation projects, this option should be pursued carefully, given issues related to overall debt burden, project essentiality, and potential impact of this type of issuance on the credit rating of the approving governmental unit.

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Southern Resource Center Welcomes New Team Members

The Southern Resource Center welcomes two new members to the FHWA Finance Team!

Ms. Gina Laney joined the finance team on May 8th as a Financial Specialist. Prior to joining the team, Gina worked in the U.S. DOT Office of Inspector General for almost 11 years. Gina specializes in providing technical assistance and training on the Federal-aid program, and can be reached at 404/562-3919.

Ms. Deborah Brown, formerly a Debt and Innovative Finance Manager for the Commonwealth of Virginia, joined the team on August 2nd. Deborah brings a depth of experience in using Public-Private Partnerships and Public Benefit 63-20 Corporations to implement innovative finance techniques. Deborah can be reached at 404/562-3929.

Please join us in welcoming these two outstanding individuals to the FHWA family.

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