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FEDERAL CREDIT PROGRAM

New Joint Program Office Unites the State of TIFIA Administration

As the most intermodal of the U.S. Department of Transportation's (U.S. DOT) financial programs, the Transportation Infrastructure Finance and Innovation Act (TIFIA) credit program has benefited from the direct involvement of its highway, transit, and railroad administrations operating under the coordination of the Office of the Secretary. Having incubated the program during its first 30 months under this "Articles of Confederation" approach, U.S. DOT in January 2001 established a Joint Program Office (JPO) to consolidate TIFIA administration within a single entity. Consistent with Congressional intent in the Transportation Equity Act for the 21st Century (TEA-21), the creation of the TIFIA JPO will support U.S. DOT's goal of efficient program administration of TIFIA projects and credit instruments.

The TIFIA JPO is located organizationally within the Federal Highway Administration (FHWA) and receives policy direction from the Assistant Secretary for Budget and Programs (U.S. DOT's Chief Financial Officer). The dual reporting structure acknowledges the TIFIA JPO's lead role in facilitating communication and enhancing multimodal coordination for TIFIA projects and credit matters.

A new TIFIA Credit Council will assist the Secretary in establishing overarching policy direction for the program and selecting project applicants based on the analyses and recommendations of the TIFIA JPO.

The TIFIA JPO, working with its loan servicer, is nearing completion of a new servicing and reporting system to track a portfolio of TIFIA commitments currently worth more than $3 billion. In addition to tracking disbursements, calculating debt service, and billing borrowers for repayment, the system will catalog relevant project information in order to produce multiple formal and ad hoc reports. As the TIFIA portfolio grows, this new system will enable U.S. DOT to provide effective financial oversight and quick response to requests for information.

Federal Credit, continued on page 2

Contact:
Bryan Grote,
FHWA, TIFIA JPO,
202/366-9656

TECHNICAL CORNER

Ohio Maximizes Its Transportation Resources With Toll Credits

As states look to applying innovative finance tools, they are recognizing the benefits of combining tools to advance either a single project or a major transportation program initiative. The Ohio Department of Transportation (ODOT), the first state DOT to bring a Grant Anticipation Revenue Vehicle (GARVEE) bond issue to market, is using toll credits as the state matching share for GARVEE bond reimbursements to maximize transportation resources.

Under the toll credit technique (codified by Section 1111(c) of TEA-21), a state may apply the use of excess toll revenues as a credit toward the non-Federal matching share of Federally assisted transportation projects. Toll credits do not provide cash to the project to which they are applied, but their use effectively raises the Federal share to up to 100 percent on projects receiving toll credits. See http://www.fhwa.dot.gov/innovativefinance/ifguidnc.htm for more information on toll credits.

Out of the $653 million Ohio has earned in toll credits to date from excess expenditures generated by the Ohio Turnpike Authority system, the state has used $286 million toward the non-Federal matching share of eligible projects. Ohio is using these toll credits at the state level to match GARVEE bonds and also sharing its credits with local government agencies for both highway and transit projects.

Toll credits have provided the state matching share of Federal bond reimbursements for the Spring-Sandusky Corridor, a group of nine major improvement projects to

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Also in this issue ...

TIFIA Capital Allocation Framework

In implementing the TIFIA credit program, the U.S. DOT developed a capital allocation framework to ensure that sufficient Federal resources are set aside to cover the Government's expected credit risk. The TIFIA Capital Allocation Framework utilizes external credit ratings to assess risk and allocate budgetary resources.

Federal Capital Allocation Terminology

The Federal Government requires its agencies to allocate capital to cover risk associated with their credit portfolios. The Federal Credit Reform Act of 1990 (FCRA) requires agencies to allocate capital for each new credit instrument (e.g., a direct loan, loan guarantee, or line of credit). A primary purpose of FCRA is to put Federal credit programs on an equal budgetary basis with other forms of Federal assistance. Hence, agencies are required to allocate capital equal to the expected present value cost of extending credit assistance, excluding operating costs. In addition to expected credit losses, the capital allocation reflects the cost of any interest subsidies and fees collected, resulting in an estimate of the net "subsidy cost" to the Government. The basic subsidy cost calculation is:

Subsidy cost = present value of [estimated credit losses + interest subsidies - fees].

The "subsidy rate" is the subsidy cost expressed as a percentage of the credit instrument at origination. TEA-21 authorized $530 million to cover the estimated subsidy costs of TIFIA credit instruments provided by U.S. DOT during the program authorization period (FY 1999-2003).

TIFIA Capital Allocation Framework

U.S. DOT developed the TIFIA Capital Allocation Framework to identify the risk-based capital requirements for individual TIFIA credit instruments. For the purposes of the model, risk is defined as the probability that a credit instrument will default, the severity (or magnitude) of that default, and the expected recoveries that will be collected in the event of a default.

Probability of Default

In estimating default risk, U.S. DOT relies upon the credit opinions of one or more of the major rating agencies.

Preliminary Opinion Letter. When applying for TIFIA assistance, project sponsors are required to submit a preliminary opinion letter from at least one major rating agency. That letter should provide a preliminary assessment of the overall project strength, including the default risk associated with the proposed TIFIA credit instrument and the potential for the project to receive an investment grade rating on its senior debt. The opinion letter will serve as the basis for U.S. DOT's initial estimate of the required allocation of capital for the proposed TIFIA credit instrument.

Credit Rating. A TIFIA-supported project must receive a formal investment grade rating on its senior debt obligations before U.S. DOT can extend credit assistance. In conjunction with the assignment of this rating, U.S. DOT will revise its initial capital allocation based on an updated rating agency assessment of the Government's default risk on the TIFIA credit instrument.

In the event that a TIFIA project receives different credit opinions from the rating agencies, U.S. DOT will take the average of those ratings. As a proxy for the

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Credit Assessments of TIFIA Projects – Results of TIFIA Capital Allocation Model *(as of 2/16/01)*

($ in Millions) Project	Project Type	Project Cost	Instrument Type	Credit Amount	Primary Revenge Pledge	Capital Reserve Requirement: Initial Subsidy	Financial Subsidy	Subsidy Amount
Miami Intermodal Center	Intermodal	$1,349	Direct Loan	$269.076	Tax Revenues	0.37%	0.39%	1.049
			Direct Loan	163.676	User Changes	4.77%		7.807
SR 125 Toll Road	Hwy/Bridge	397	Direct Loan	94.000	User Changes	11.24%		10.566
			Line of Credit	33.000	User Changes	9.57%		3.158
Farley Penn Station	Passenger Rail	800	Direct Loan	140.000	Other	12.51%		17.514
			Line of Credit	20.000	Other	11.84%		2.368
Washington Metro CIP	Transit	2,324	Guarantee	600.000	Other	1.51%	1.99%	11.940
Tren Urbano (PR)	Transit	1,676	Direct Loan	300.000	Tax Revenues	2.99%	2.59%	7.770
Tacoma Narrows Bridge	Hwy/Bridge	835	Direct Loan	240.000	User Changes	9.18%		22.032
			Line of Credit	30.000	User Changes	8.22%		2.466
Cooper River Bridge	Hwy/Bridge	650	Direct Loan	215.000	Other	2.59%		5.569
Staten Island Ferries	Transit	463	Direct Loan	152.824	Other	4.82%		7.366
Central Texas Turnpike	Hwy/Bridge	3,220	Direct Loan	800.000	User Changes	11.11%		88.880
Reno Rail Corridor	Intermodal	242	Direct Loan	79.500	Other	7.43%		5.907
Total		$11,956		$3,137.076				$194.392

Current Weighted Average Subsidy Rate: 6.20%

TIFIA Capital Allocation Framework, continued from page 2

default probability of a given credit opinion, ratings are linked to annually reported historical default experience on corporate bonds. In order to estimate the severity of default, default rates are applied against the outstanding balance of principal and accrued interest.

Expected Recovery

U.S. DOT drew upon a rating agency bond insurer capital adequacy model to develop its recovery matrix for TIFIA projects. The TIFIA recovery matrix distinguishes among ports, toll facilities, and rail/transit projects. In addition, the matrix recognizes the stronger recovery potential on projects involving existing facilities as compared to projects involving new facilities. Finally, the matrix factors in the effect of the nature of the pledged revenue stream on the recovery potential. Recovery expectations for a typical junior-lien TIFIA instrument range from 32 percent for new rail/transit projects to 65 percent for fully tax-backed projects.

TIFIA Quick Score Model

U.S. DOT has created a web-based TIFIA Quick Score Model to provide interested parties with an understanding of how certain credit terms and characteristics affect the capital allocation reserve amount, or subsidy cost, for a direct loan. This simplified model is not the official scoring model used by U.S. DOT to allocate capital, and it is intended only to illustrate the relative effect of certain key factors on the subsidy cost of TIFIA instruments. It can be found on the TIFIA website at http://tifia.fhwa.dot.gov.

Contact:
Stephanie Kaufman,
FHWA, TIFIA JPO,
202/366-9654

TIFIA Trivia

The U.S. DOT Responds to Your Questions

The "TIFIA Trivia" box 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

TIFIA credit assistance may take the form of direct loans, loan guarantees, and standby lines of credit. Are these different instruments equally useful? How expensive are they? What are factors to consider in the choice of credit assistance?

Answer

The line of credit is a standby instrument providing a secondary source of capital during a project's ramp-up phase to mitigate the risk of uncertain revenues. The direct loan and loan guarantee enhance senior financing through the provision of functionally subordinate capital (direct or guaranteed) to help fund project construction. Most applicants have requested only direct loans. A few applicants (primarily sponsoring project financings) have coupled a line of credit with a direct loan. One applicant has requested a loan guarantee.

In addition to the 10-year window of availability following project completion, the line of credit has limits on eligible uses and annual draws. Also, some sponsors intend to structure it to support senior debt only indirectly for tax purposes.

U.S. DOT does not charge credit enhancement fees for these instruments (there are certain administrative fees, such as an application fee and a loan servicing fee). Current U.S. DOT policy is to set interest rates at the statutory minimum, the government's cost of funds – the estimated yield on comparable-term Treasury securities (specifically tied to the daily SLGS rates).

Ohio Maximizes Resources, continued from page 1

be financed with the proceeds of an estimated $130 million in GARVEE bonds. These bonds are being sold in three tranches. The first issue was $90 million in May 1998, the second issue of $20 million was brought to market in August 1999, with the third issue of $30 million remaining. Both Interstate and National Highway System (NHS) funds are being used to pay principal and interest on the Spring-Sandusky GARVEE bonds. To bring the Federal share to 100 percent, it is estimated that ODOT will use toll credits of about $15.6 million for the entire corridor project. To date, ODOT has billed FHWA and been reimbursed $31.4 million for debt service, of which $3.9 million was attributable to toll revenue credit.

ODOT has on the drawing board two other major GARVEE bond financing initiatives that will utilize toll credits to bring the Federal share to 100 percent:

❖ A $158 million issuance of GARVEE bond to finance the Maumee River Crossing. The first tranch of bonds, estimated at $150 million, will be sold in May 2001. ODOT plans to apply about $20 million in toll credits for this project.

❖ Construction of the Southeast Ohio Plan, a combination of eight projects in the southeast part of the state, will be accomplished through a series of eight GARVEE bond issues, estimated to total $183 million. The first issue of $33 million is planned for spring 2001. An estimated total of $36.7 million in toll credits will be used to advance the Southeast Ohio Plan.

The toll credit option has been of significant value to ODOT, enabling the Department to more effectively leverage existing resources and increase capital investment in transportation infrastructure. By combining two innovative finance tools, GARVEEs and toll credits, ODOT has optimized limited transportation dollars.

Contact:
Thomas M. McPherson,
ODOT,
614/446-3599

GARVEE ROUNDUP

More States Pursue GARVEEs

GARVEE finance initiatives continue to gain momentum throughout the country. In the next year, issuance of GARVEEs may increase significantly pending the outcome of new legislation introduced in Alaska, Georgia, and Texas. Legislative proposals in the three states are summarized in the table and highlighted below.

Alaska

The Alaska State Legislature is weighing a bill to authorize the sale of $442 million in GARVEE bonds. Projects identified in the bill serve the entire state, from Southeast Alaska to the North Slope. The bill includes $147 million for projects in Anchorage, with the largest portion – $58.2 million – allocated to widening a major highway accessing the city. The Fairbanks and Mat-Su boroughs would each receive $67 million, with another $70 million to finance two high-speed ferries. While most of the proceeds would go to street repairs and highway improvements, millions would be allocated to rural villages to pave roads. In the bill transmittal, Alaska Governor Tony Knowles stressed the need to do everything possible to keep up with critical transportation needs and identified GARVEE bonds as an "opportunity to build statewide transportation infrastructure sooner than would be possible under the conventional program alone."

Pending passage of the bill, the state plans to sell the full $442 million as a single issue. Debt service requirements are anticipated to account for 11 percent of Alaska's roughly $350 million annual Federal highway apportionments.

Georgia

In Georgia, a bill approved by the General Assembly will facilitate Governor Roy Barnes' plan to accelerate hundreds of millions of dollars for four-lane highway projects throughout the state. The Georgia State Senate and House have passed and adopted legislation authorizing the State Road and Tollway Authority to issue bonds for highways and mass transportation facilities, secured by revenues of the authority, including moneys received as Federal highway or transit funds and reimbursements.

Proceeds from the sale of the bonds will be targeted to projects that are part of the Developmental Highway System in Georgia. The system includes the South Georgia Parkway, the Metro Atlanta Outer Perimeter, and the East-West Highway. The state currently receives approximately $1 billion in Federal highway apportionments.

Texas

Members of the Texas legislature filed three separate constitutional amendments that would authorize the Texas Transportation Commission to issue GARVEE bonds. Similar measures – House Joint Resolution No. 13 and Senate Joint Resolution No. 7 – propose that proceeds from the sale of the bonds would be utilized to fund improvements to the state highway system. Under both bills, projects relating to the North America Free Trade Agreement (NAFTA) would be given the highest

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Pending GARVEE Legislation

State	Res/ Bill #	Summary	Status	Session Adjourns
Alaska	HB 168	Authorizes sale of $442.9 million in GARVEEs to finance costs of 44 specified projects.	In House Transportation Committee.	May 8
Georgia	SB 134	Authorizes sale of GARVEEs to finance projects in the Developmental Highway System.	Passed in House and Senate.	March 21
Texas	HJR 13	Authorizes sale of GARVEEs to finance projects that exceed $50 million with priority given to projects relating to NAFTA corridors.	Referred to House Transportation Committee; No further action.	May 8
	SJR 7	Authorizes GARVEEs to finance improvements to state highway system with priority given to NAFTA-related projects and completion of the Texas highway trunk system.	Referred to Senate Business and Commerce subcommittee on Border Affairs; No action in subcommittee.	
	SJR 10	Authorizes GARVEEs to fund improvements to the state highway system considering the potential cost savings, economic and environmental benefits, and other benefits associated with completing the project earlier than would be possible using traditional methods of funding.	Passed by Senate; in House Transportation Committee.	

More States Pursue GARVEEs, continued from page 4

priority. The House bill was referred to the Transportation Committee in January 2001 with no further action to date. The Senate bill was referred to the Senate Business and Commerce Subcommittee on Border Affairs and no further action has been taken.

Lastly, but presumably with more momentum, Senate Joint Resolution No. 10 proposes a constitutional amendment to authorize the sale of GARVEEs. As introduced, proceeds from the sale of the bonds were to be used to fund improvements to transportation projects in the three border transportation districts of Pharr, Laredo, and El Paso. A substitute measure has been passed by the full Senate and is now in the House Transportation Committee. This substitute measure permits use of the proceeds to fund statewide improvements to the highway system based on the following criteria: 1) potential cost savings, economic and environmental benefits, and other benefits associated with completing the project earlier than would be possible using traditional methods of funding; and 2) the effect on the state's transportation system. Further, the substitute measure limits annual debt service to not more than five percent of the state's annual Federal-aid spending limit. Texas' Federal aid apportionments for 2001 total $2.2 billion.

If this legislation is enacted, GARVEE bonds could fund approximately $975 million in highway construction. Any of the proposed constitutional amendments, if passed, will be subject to voter approval in November 2001.

New Market Issues

In addition to the various legislative initiatives across the country, three states – Alabama, Arizona, and Michigan – may be headed to the market this year with GARVEE and quasi-GARVEE transactions:

- ❖ **Alabama** is expected to sell approximately $200 million in GARVEE bonds in the spring to finance county bridge replacements.
- ❖ Proceeds of an upcoming $150 million GARVEE issue, along with design-build contracting, will enable **Arizona** to accelerate widening of approximately 12 miles of U.S. 60 in the Phoenix metropolitan area. The issue will be priced in April or May and includes funding for an extension of the Red Mountain Freeway in Mesa.
- ❖ **Michigan** is taking steps to issue the first $400 million in a series of variable rate note issues. The notes will be secured by Federal-aid reimbursements received for projects other than those financed by the note proceeds (sometimes referred to as an indirect GARVEE financing). The note issuance program will expedite funding for road and bridge construction projects through out the state.

To date, GARVEE bonds have provided nearly $1 billion to accelerate priority transportation projects. Upcoming sales and transactions that may result from pending legislation could bring the total to nearly $2.0 billion by year end.

Contact:
Deborah Brown,
FHWA, Southern Resource Center,
404/562-3929

New Mexico Pioneers Another New GARVEE Financing

In February 2001, the New Mexico State Highway and Transportation Department (NMSHTD) issued $18.5 million of Federal Grant Anticipation Revenue Bonds through the New Mexico Finance Authority (NMFA). Although New Mexico has issued a total of $100 million in GARVEE bonds, bringing its first issue to market in September 1998, this issue is unique in that it is the first GARVEE issue in the country to be repaid with Federal Forest Highway funding (PLH-FH). The bonds will finance the U.S. 70 Corridor reconstruction project within the Lincoln National Forest – a project of major significance to economic development in the south central part of the state. This project is one of 17 project corridors identified by the Citizens Highway Assessment Task Force (CHAT) and approved in April 1999 as an innovative financing project under TE-045.

The NMSHTD, FHWA, and the Forest Service entered into a Cooperative Agreement that specified the use of PLH-FH funding for U.S. 70 bond debt service. The segment of U.S. 70 that runs through the Lincoln National Forest was designated a forest highway, making it eligible to receive PLH-FH funds and providing a new revenue source for debt service payments. The Cooperative Agreement provides for the obligation of $25 million in total PLH-FH funding, with $2.5 million of PLH-FH funds obligated annually through 2011 for payment of debt service.

The bonds were issued on a parity with the GARVEE bonds sold by the NMFA in 1998, with a few differences in security and structure. As with the Series 1998A GARVEE bonds, no state revenues are pledged to payment of the bonds. The bonds are secured by New Mexico's Federal-aid revenues, comprising National Highway System, Surface Transportation Program, Bridge Program, and Minimum Guarantee funds. In addition, the bonds are secured by the stream of Forest Highway revenues provided under the Cooperative Agreement.

New Mexico's Corridor 44 GARVEE financing in 1998 paved the way for GARVEE issues in other states. The structure of NMSHTD's most recent issue further exemplifies the opportunities and flexibility states have to tailor GARVEE programs to best meet their transportation needs.

Contacts:
Charlie Trujillo, Deputy Secretary, NMSHTD, 505/827-5258 *or* *Reuben Thomas, FHWA New Mexico Division, 505/820-2022*

GARVEE "Questions of the Quarter"

Each issue of ***IFQ*** features questions and answers on the GARVEE program. This issue focuses on questions relating to eligible projects and sponsors. 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, or the GARVEE contacts listed in the Fall 2000 issue of ***IFQ***. GARVEE guidance is also available at www.fhwa.dot.gov/innovativefinance/garguid1.htm.

Eligible Projects

Can GARVEEs be used for any Federal-aid project?

Yes. GARVEEs are not limited to any type of project or funds. As the guidance states: "the project must be eligible for Federal-aid funding under one or more program categories as set forth in Title 23, Section 115 (e.g., NHS, STP, etc.). Any reimbursements of debt-related costs must be made with obligations of eligible categories of Federal-aid funds. The AC [advance construction] amount designated at the time of project approval must consist of some combination of eligible funding categories, although the State each year retains the flexibility to decide which category(ies) to obligate for AC conversion. The State retains the right to use non-Federal funds in lieu of Federal-aid for debt service costs."

Can GARVEEs be used for transit projects?

Any Federal-aid highway funds that could be used to pay for transit projects through "flex funds" provisions or other funding flexibilities could also be used to repay debt instruments used to finance transit projects. Since "flex funds" are transferred to the Federal Transit Administration (FTA), their use for debt service is subject to Title 49 requirements and FTA guidelines. Not all Federal-aid highway funding categories can be used for transit, which could affect debt capacity levels and coverage ratios.

Eligible Sponsors

Who can issue GARVEEs?

Under Section 122 of Title 23, an eligible issuer is a state or political subdivision of a state or a public authority. State law may also specify authorized entities for GARVEE debt issuance.

Can GARVEEs be issued by local governments?

Local governments are not prohibited from issuing GARVEEs; however, their ability to do so may be limited by their lack of control over future funding (and the market's perception of their ability to handle changes in local funding formulas).

Can GARVEEs be issued by a 63-20 Public Benefit Non-profit Corporation?

Yes, debt instruments issued by 63-20 corporations may be repaid with Federal-aid funds, as long as the bonds are issued on behalf of the state and the proceeds are used for Title 23 eligible projects.

SIB UPDATE

SIB Activity Tops $2.4 Billion

State Infrastructure Bank (SIB) activity continues to grow. As of March 2001, 32 states have entered into 204 loan agreements with a dollar value of over $2.4 billion (see table on following page). This represents an increase of 32 new loan agreements since October 2000 valued at over $156 million. The Ohio SIB accounted for a third of this new activity.

This issue of ***IFQ*** spotlights the Pennsylvania Infrastructure Bank, which is supporting a unique project to rehabilitate the historic Harrisburg Transportation Center.

Pennsylvania SIB Supports Rehabilitation of Historic Station

The Pennsylvania Infrastructure Bank was established in 1997 following passage of enabling legislation, and is managed by the Pennsylvania Department of Transportation (PennDOT). PennDOT is utilizing the bank as an innovative project financing tool to accomplish the following objectives:

- ❖ Leverage Federal and state revenues by attracting local and private financial participation in projects;
- ❖ Accelerate priority projects;
- ❖ Spur economic development;
- ❖ Facilitate non-traditional projects, including intermodal facilities and intelligent transportation systems; and
- ❖ Quickly respond to emergencies such as floods or other disasters.

From the bank's inception, PennDOT has made direct loans to a variety of customers, including municipal governments and authorities, economic development agencies, and developers. The types of projects have included bridges, roadway widenings, traffic signals, and new interchanges. To date, the Pennsylvania SIB has loaned $14.6 million to 15 projects.

One of the more innovative projects assisted by the Pennsylvania Infrastructure Bank is the multimodal Harrisburg Transportation Center. This $2.9 million rehabilitation of an historic train station and landmark received approval for a $1.4 million loan, which will be repaid with funds designated by Congress over the life of TEA-21 (high priority project funds are received in annual increments). As a result of the loan, the Harrisburg Transportation Center will benefit from up-front financing for an earlier project start date. The loan was also instrumental in attracting other sources of funding to the project.

The Pennsylvania Railroad built the Harrisburg Transportation Center in 1885 in downtown Harrisburg. The station is listed on

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SIB Activity Tops $2.4 Billion, continued from page 6

the National Register of Historic Places and is also designated as a National Engineering Landmark. Many of the architectural features, such as traditional stonework and lighting, and much of the infrastructure of the Center are scheduled for repair or replacement as part of this project. The Pennsylvania Infrastructure Bank will provide initial funding for this work.

The project sponsor, the Harrisburg Redevelopment Authority, assembled a funding plan for the upgrades including funding from TEA-21, PennDOT, the Pennsylvania Historical and Museum Commission, the Pennsylvania Department of Community and Economic Development, the City of Harrisburg, and Amtrak. The Authority also has plans for revenues from leases to develop retail space within the center, including a news and convenience store and commercial office space.

The Harrisburg Transportation Center will continue to be an important statewide transportation link. Amtrak and two intercity bus lines occupy the Transportation Center, connecting the state capital to Pittsburgh and Philadelphia, as well as points beyond Pennsylvania's borders. The local Harrisburg transit organization, Capital Area Transit, also links long distance travelers to points around town.

Contacts:
Phyllis Jones, FHWA, 202/366-2854 or *Jim Smedley, PennDOT, 717/772-1772*

State Infrastructure Bank Loan Agreements by State

As of March 2001

State	Number of Agreements	Loan Agreement Amount ($000)	Disbursements to Date
Alaska	1	$2,737	$2,737
Arizona	14	205,976	147,778
Arkansas	1	31	31
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	23	17,034	13,033
Minnesota	3	36,560	16,966
Missouri	8	56,008	41,770
Nebraska	1	1,500	0
New Mexico	1	541	541
New York	2	12,000	12,000
North Carolina	1	1,575	1,575
North Dakota	2	3,565	1,565
Ohio	35	146,624	102,550
Oregon	8	11,181	11,181
Pennsylvania	15	14,600	14,600
Puerto Rico	1	15,000	15,000
Rhode Island	1	1,311	1,311
South Carolina	5	1,502,289	510,428
South Dakota	1	11,740	11,740
Tennessee	1	1,875	1,875
Texas	25	75,581	65,736
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	5	49,090	32,614
	204	**$2,421,715**	**$1,065,547**

SPOTLIGHT ON REAUTHORIZATION

Project Financing Ideas For Reauthorization

Federal transportation reauthorization debates historically have centered over how large the transportation funding "pie" should be (spending levels), and how it should be sliced up (distribution formulas). Yet of at least equal importance is deciding which ingredients should be put into the pie (new programs). In the next reauthorization, Federal policy will address the nation's transportation challenges through a variety of regulatory, tax, and credit initiatives. Four major emerging trends in the transportation sector that may provide a useful structure for considering reauthorization issues and the policy tools used to address them are discussed below.

▶ Theme I – New Approaches to Project Delivery and Management

There is growing recognition among public officials that building, financing, and operating major transportation projects can be enhanced through public-private partnerships (PPPs). Under a PPP, the private sector assumes certain responsibilities for design, construction, financing, or management, but the asset typically remains under governmental ownership.

The developmental stage is by far the riskiest phase in a transportation project's life cycle, for that is when the proposal is being environmentally assessed and politically vetted. It has become increasingly evident that the private sector cannot absorb what essentially are "political" risks, and not commercial risks, during this developmental stage. To encourage the private sector to bring forward new development proposals, governmental partners could bear much of these early project risks, or actively devise ways to mitigate them (such as through a development risk insurance program).

PPPs have the potential of bringing benefits to projects by incorporating life-cycle costing principles, such as:

❖ Combining design-build procurement with long-term operating concessions. The new Hudson-Bergen light rail line is an example of a design-build-operate-maintain concession.

❖ Contracting for long-term warranties, as the State of New Mexico did on its Corridor 44 project.

❖ Using techniques such as "shadow tolling" to incorporate a life-cycle perspective into highway financing decisions. Under

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Project Financing, continued from page 7

shadow tolls, a governmental entity makes annual payments from general revenues to a private operator based upon traffic levels on the road. The private party is responsible for designing, financing, and maintaining the facility to meet defined service standards.

▶ Theme II – New Linkages and Synergies Among Modes

In the past, Federal reauthorization acts for transportation have categorized funding into discrete programs for specific classes of projects, typically along modal lines. Because the old modal boundaries are becoming increasingly blurred at critical nodes and along key corridors, there are opportunities to change such a compartmentalized approach.

Intermodal Nodes. Major investments such as the Alameda Corridor (ship-to-rail freight transfer), the Miami Intermodal Center (ground-to-air access), and the Farley-Penn Station Project (intercity rail-to-transit interchange) reflect the importance of building linkages between modes originally developed independently. Broadening the rules as to what types of costs are eligible for Federal funding could significantly benefit these types of intermodal facilities.

Multimodal Corridors. Freight and passenger mobility in certain key travel corridors could be improved by allowing more freedom to states in allocating funds among programs and uses. Freight rail carriers have already broached the concept of gaining access to highway funds to improve their own rights-of-way, as cheaper alternatives to widening Interstate highways for reducing congestion. On the passenger rail side, legislative proposals recently have been advanced to provide Federal subsidies to high-speed rail projects (including Amtrak) through the use of tax credit bonds.

▶ Theme III – New Technologies for Increasing Capacity

Given the time and expense of constructing new highway, transit, and airport facilities, the most cost-effective way to expand capacity in congested areas is to use technology to increase throughput from existing assets. For instance, the technology now exists to collect highway user fees in a frictionless fashion, through devices such as transponders and debit cards. Similarly, on the transit side, new intelligent transportation systems (ITS) can be employed to better meet demand for travel services.

Consideration could be given to rolling out a technological version of the highly successful 1994 financial policy test and evaluation (TE-045) program. This initiative allowed states to explore using new financial techniques not specifically authorized under current law. Many of these ideas were incorporated into subsequent legislation. A similar call for proposals from ITS providers or facilitators may prove equally useful on the technological front.

▶ Theme IV – New Mechanisms for Raising Capital

Recent Federal policy initiatives such as GARVEE bonds and TIFIA have offered new ways for project sponsors to securitize revenue streams. Yet there is more that could be done to assist sponsors in capitalizing both grant-based revenue streams *and* project-based revenue streams.

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Potential New Federal Incentives For Reauthorization

	Aviation	Transit	Highways
Regulatory Incentives	Broaden project eligibility for multimodal facilities Expand use of PFCs to assist in ground access Encourage Design-Build for major airport projects	Broaden project eligibility for passenger and freight rail Confirm eligibility for reimbursement of long-term warranty payments Initiate test and evaluation program to encourage ITS innovation	Broaden project eligibility for intermodal facilities and multimodal corridors Confirm eligibility for reimbursement of long-term warranty payments Initiate test and evaluation program to encourage ITS innovation
Tax Incentives		Lift volume cap on transit private activity bonds Reduce threshold speed requirement for high-speed rail private activity bonds Authorize tax credit bonds for Amtrak	Allow private activity highway bonds and/or allow incentive-based management contracts
Credit Incentives	Initiate Air GARVEE bonds Set up national loan revolving fund for small and non-hub airports	Expand SIBs Introduce a development risk insurance program Extend TIFIA	Expand SIBs Introduce a development risk insurance program Extend TIFIA Encourage shadow tolls

Project Financing, continued from page 8

Monetizing Federal Revenues – Air GARVEEs. There may be merit in applying this mechanism to the aviation sector through the formula entitlement portion of the Airport Improvement Program (AIP). This could be accomplished by expanding the eligibility of AIP funds to include the payment of debt-related costs, thereby establishing Air GARVEEs.

Leveraging Federal Grants – Infrastructure Revolving Funds. The National Highway System Designation Act demonstrated how Federal transportation funds could capitalize loan revolving funds under the SIB program. In addition to reinstating the SIB program for highways and transit, consideration could be given to creating an aviation version.

The nearly 350 small hub and non-hub airports around the country are a vital link in the nation's air system, and have the physical capacity to accommodate substantial growth. But because of their size, most of these airports do not have ready access to the capital markets. Many do, however, have the financial resources to repay a subsidized rate borrowing.

The capital needs of these airports could be addressed by establishing a loan revolving fund – perhaps using a portion of the formula entitlement grants that major airports must turn back to FAA if they increase their passenger facility charges (PFCs). Similar to the SIB program, this Aviation Infrastructure Revolving Fund would be empowered to use its contributed capital to fund low-interest rate loans to airports otherwise unable to access the public capital markets. But unlike SIBs, this program probably would be more effectively administered at the national level as there generally is an insufficient concentration of airports located in any one state with ready-to-go projects to justify the creation of a state-level revolving fund.

Assessing Federal Credit – Building on TEA-21 and AIR-21. TEA-21 authorized the TIFIA and RRIF credit programs to assist surface transportation and rail projects, respectively, and AIR-21 authorized a regional jet acquisition credit program. Congress should evaluate the success of these new programs and consider extending them in the next reauthorization.

Rationalizing Tax Code Provisions. New legislation could eliminate the inconsistencies among the modes in their access to tax-exempt debt financing. A glaring omission is highways; unlike airports, seaports, and transit, there is no existing provision allowing public highway projects with private participation to issue tax-exempt bonds. The Highway Innovation and Cost Savings Act, a proposed 15 project, $15 billion pilot program, failed to be included in the final version of TEA-21. However, a similar proposal may come before the current Congress.

In summary, there is a continuing and important role in framing new policies to help meet the nation's future transportation investment needs.

This article is based on a resource paper prepared by David Seltzer, Jeffrey Parker, and Bryan Grote for the Transportation Research Board's Second National Conference on Transportation Finance held in Phoenix in August 2000.

Contact:
David Seltzer,
Transport and Infrastructure,
215/546-6801

EVENTS AND RESOURCES

NCHRP Innovative Financing Clearinghouse Readies for Launch

Work is nearing completion on the National Cooperative Highway Research Program's (NCHRP) Innovative Financing Clearinghouse, which is scheduled to be launched in April 2001. As described in previous issues of ***IFQ***, the Clearinghouse will provide finance practitioners with web-based information on the wide range of innovative revenue sources, finance mechanisms, and grants management techniques that can be used to finance surface transportation improvements.

The Clearinghouse, which is being developed by Parsons Brinckerhoff under the direction of the NCHRP Project Panel, presents innovative techniques being used to finance all types of surface transportation investments. From Pickle leases to revenue bonds, Mello-Roos districts to shared resource arrangements, TIFIA, GARVEEs, SIBs, GANs, RRIF, and more – the entire spectrum of possibilities is addressed.

The Clearinghouse provides concise descriptions of the different tools, programs, and techniques, and includes:

- ❖ links to related legislation;
- ❖ technical resources (articles, papers, and legal opinions, etc.); and
- ❖ fact sheets and case studies of projects that are being financed by innovative means, with links to more detailed project-specific information.

The Clearinghouse also provides in-depth coverage of Federal, state, and local legislation facilitating the use of innovative finance. Legislative updates will be available, allowing users to track new legislation affecting transportation finance. This will be a valuable resource as TEA-21 reauthorization approaches. The NCHRP Project Panel hopes to use the Clearinghouse to develop an ongoing dialogue on legislative best practices.

The Clearinghouse includes an extensive resource library with annotated links to hundreds of other web sites addressing related topics. A search engine and a glossary of finance and transportation terms is also available.

Readers of ***IFQ*** will be invited to preview the Clearinghouse and are urged to take advantage of this opportunity to offer comments and suggestions.

Contacts:
Stephen Lockwood, *or* *Benjamin Perez,*
Parsons Brinckerhoff, *Parsons Brinckerhoff,*
301/816-1848 *212/465-5302,*
lockwoods@pbworld.com *perez@pbworld.com*

A Reminder: Mark Your Calendar for the 2001 State/Federal Financial Management Conference

The 2001 State/Federal Financial Management Conference to be held at the Westin in Seattle, Washington from June 17-21, 2001 will bring together state DOT and FHWA financial managers in a conference exclusively focused on the financial management area. This conference, jointly sponsored by the Washington State DOT, FHWA, and the AASHTO Subcommittee on Transportation Finance, provides a unique opportunity to explore topics of mutual interest involving new financing approaches, e-business, innovations in program delivery, and financial strategies for the future. The AASHTO Subcommittee on Transportation Finance will hold their annual business meeting on Monday, June 18, in conjunction with the conference.

Additional information on the conference will be available on the FHWA innovative finance web site at http://www.fhwa.dot.gov/innovative finance/.

Contact:
Niki L. Pavlicek,
Washington State Department of Transportation,
360/705-7400

Contributors to Vol. 7, No. 1 of *IFQ* include:

Roger Berg, Cambridge Systematics, Inc.

Deborah Brown, FHWA, Southern Resource Center

Ian Carroll, FHWA, Western Resource Center

Lisa Driesner, Dain Rauscher, Inc.

Bryan Grote, FHWA, TIFIA JPO

Phyllis Jones, FHWA

Stephanie Kaufman, FHWA, TIFIA JPO

Benjamin G. Perez, Parsons Brinckerhoff

Thomas M. McPherson and Julie Ray, Ohio Department of Transportation

Suzanne H. Sale, FHWA, TIFIA JPO

David Seltzer, Transport and Infrastructure

Mark Sullivan, FHWA, TIFIA JPO

Jim Smedley, Pennsylvania Department of Transportation

Reuben Thomas, FHWA, New Mexico Division

FHWA's INNOVATIVE FINANCE Quarterly

SUZANNE H. SALE, FHWA
CO-MANAGING EDITOR
602/379-4014
FAX: 602/379-3608
SUZANNE.SALE@FHWA.DOT.GOV

MAX INMAN, FHWA
CO-MANAGING EDITOR
202/366-0673
FAX: 202/366-7493

LAURIE L. HUSSEY, CS MANAGING EDITOR
CAMBRIDGE SYSTEMATICS, INC.
617/354-0167
FAX: 617/354-1542
LLH@CAMSYS.COM

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