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INNOVATIVE FINANCE ACCOMPLISHMENTS

Benefits of U.S. DOT's Innovative Finance Initiatives Quantified

An initiative launched by the U.S. Department of Transportation (DOT) in the 1990s to increase investment in the nation's transportation infrastructure by creating new funding tools and expanded flexibility in the Federal-aid highway program is yielding measurable benefits, according to a report published by the Federal Highway Administration (FHWA) in July 2002.

The report, *Performance Review of U.S. DOT Innovative Finance Initiatives*, indicates that at least $29.1 billion in projects have been advanced with innovative financing over the last decade. These projects were supported by $8.6 billion in Federal-aid funding, resulting in co-investment of $3.40 on each Federal dollar invested. That co-investment represents a significant increase over the $1.25 for every Federal dollar invested from the traditional grant program.

Summary of Performance Review Results

Leveraging	Leveraging ratio of $3.40, based on $29 billion in projects supported by $8.6 billion Federal investment
Private Investment	$48 million in flexible match private investment
New Revenue Streams	$6.3 billion in revenue-backed bonds; $1.8 billion in revenue-backed loans
Project Acceleration	Acceleration from six months to 26 years over traditional program
Economic Impacts	Total employment impacts of 827,000 job years Total output impacts of $91 billion Total labor income impacts of $30 billion

Note: Based on data as of spring 2001.

This "leveraging ratio" is an important indicator of the effectiveness of Federal-aid funding. Greater leveraging means that each Federal dollar invested has gone further – building more projects for the same amount of Federal-aid funding. And the benefits go far beyond leveraging.

Increased Private Investment

Certain tools advanced under U.S. DOT's initiative were aimed at expanding flexibility in the Federal-aid highway program, such as allowing dollars contributed from private sources to count as part of the local match. The report estimates that some $48 million in private investment was contributed to

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FEDERAL CREDIT PROGRAM

TIFIA Project Oversight and Monitoring Guidance Developed

The U.S. DOT is responsible for the oversight and credit monitoring of all transportation projects assisted with TIFIA funds. Formal guidance for this oversight and monitoring has been developed by the TIFIA Joint Program Office (JPO), in collaboration with U.S. DOT modal agencies. In developing this guidance, the TIFIA JPO conducted extensive outreach to U.S. DOT field offices, credit rating agencies, and bond insurers.

Development of the TIFIA project oversight and credit monitoring guidance was based on the following principles:

❖ Develop an integrated process that is seamless for project sponsors and U.S. DOT field offices;

❖ Rely on existing modal oversight processes to the maximum extent possible, augmented to manage TIFIA credit risks;

❖ Piggyback on credit reports, independent engineers' reports, and other market-based requirements; and

❖ Ensure compliance with the requirements of the Federal Credit Reform Act, Office of Management and Budget guidance and laws, and prudent financial and operational practices.

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Federally supported transportation projects through flexible match provisions, which gained approval as a standard Federal-aid practice with enactment of the National Highway System Designation (NHS) Act in 1995. Other projects are receiving significant private equity contributions, most notably State Route 125 in California, advanced under the Transportation Infrastructure Finance and Innovation Act (TIFIA) Federal credit program. Additional private capital has been used through bonding techniques, such as grant anticipation revenue vehicles, or GARVEEs.

New Revenue Streams

Innovative finance also can expand the level of investment in transportation projects by lowering barriers to debt financing in cases where the principal revenue pledged to repay the borrowed funds derives from new user-based charges and/or is generated from the project itself. It is estimated that $6.3 billion in revenue-backed bonds will be repaid by new fees or charges, with the TIFIA Federal credit program playing the dominant role in fostering these new revenue streams. Another $2.0 billion in revenue-backed loans is expected to be repaid by new fees and charges.

Project Acceleration

A key impetus for U.S. DOT's innovative finance initiative was the need expressed by states to build more projects more quickly than would otherwise be possible on a traditional pay-as-you-go basis. Acceleration means that project benefits are enjoyed by the traveling public sooner, and that inflation costs are avoided. Of 62 projects studied, 50 reported acceleration ranging from six months to 24 years through the use of innovative finance tools as compared to the schedule that would be expected under the traditional Federal-aid program.

Economic Impacts

The infusion of Federal and local matching dollars through the construction of new and expanded transportation facilities can be expected to generate economic impacts for a region. These include both short-term impacts associated with direct spending on construction (suppliers, workers) and long-term impacts generated by increased productivity afforded by the transportation improvement. An analysis of the short-term economic impacts of the projects advanced under U.S. DOT's innovative finance initiative estimated that 827,000 job years, $91 billion in output, and $30 billion in labor income will be generated once these projects are completed.

The report, which was prepared for FHWA by Cambridge Systematics, Inc., provides the first comprehensive evaluation of U.S. DOT's innovative finance program since its inception. The results should help guide both Federal policy-makers, as they continue to improve and enhance Federal surface transportation programs, and state and local officials, as they continue to make use of these programs to advance critical transportation projects.

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TIFIA Project Oversight and Monitoring Guidance Developed, continued from page 1

The goal for TIFIA project oversight and credit monitoring is to *protect the Federal interest by managing risks to project delivery and loan repayment.* TIFIA project oversight and credit monitoring encompasses the entire life cycle of a project, from execution of the credit agreement through the final maturity of the credit instrument.

Following execution of the credit agreement for a TIFIA-assisted project, the U.S. DOT will initiate the formal project oversight and credit monitoring process. The process integrates existing operating administration procedures, such as FHWA's and the Federal Transit Administration's (FTA) major project oversight requirements, into a comprehensive framework that ensures effective and efficient oversight.

The TIFIA project oversight and credit monitoring process encompasses the following elements:

- ❖ Formal Oversight Team for each TIFIA project;
- ❖ Comprehensive monitoring and reporting requirements in each TIFIA credit agreement;
- ❖ Modal oversight procedures appropriate for the project;
- ❖ Development of a tailored oversight and monitoring plan for each project with the level of oversight related to the risk profile for the project;
- ❖ Annual review and acceptance of an updated financial plan;
- ❖ Regular project status report;
- ❖ Annual surveillance report;
- ❖ Periodic status meetings with project sponsor, site visits, and project inspections;
- ❖ Review of engineering reports and credit market surveillance reports; and
- ❖ Review of project management and operating plans.

The central element of this process is the Project Oversight and Credit Monitoring Plan, which serves as the management tool for each project. The plan is tailored to meet the specific oversight and monitoring requirements for the project, based on the project's risk profile and modal agency requirements.

The Oversight Team is responsible for developing this plan prior to the execution of the TIFIA credit agreement. In developing the tailored TIFIA project

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TIFIA Project Oversight and Monitoring Guidance Developed, continued from page 2

oversight and credit monitoring plans, each Oversight Team will identify risks specific to the given project and establish the appropriate measures to ensure effective monitoring to manage those risks. In assessing the risks, the team will consider, but not be limited to, rating agency/bond insurer reports, traffic and revenue studies, independent engineer's project evaluation, project management plan, funding controls established by the project sponsor, and the adequacy of contingencies for schedule and budget. Each plan will be updated, as needed, to address any changes in the project's credit status.

The TIFIA project oversight and credit monitoring process is a cooperative and systematic effort between the TIFIA JPO and the modal agencies intended to proactively manage construction and credit risk. Open and timely communication among all participants will be critical to the effectiveness of the monitoring process. Through the team approach, the U.S. DOT will be able to direct resources cost-effectively and enhance the communication of information on the status of TIFIA projects. The team will measure its success by a standard of *no surprises.*

The TIFIA project oversight and credit monitoring guidance will be available on the TIFIA web site in spring 2003.

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TIFIA UPDATE

U.S. DOT Approves Change in Ownership of SR 125 Project

U.S. DOT has accepted a change in the ownership and management of California Transportation Ventures, Inc., (CTV) and San Diego Expressway Limited Partnership, (SDELP), and potential modifications to the approved plan of finance for the SR 125 Project, a proposed 9.3-mile San Diego County toll facility. The Department also has approved an increase from $127 million to $140 million in TIFIA credit assistance to this project. Parsons Brinckerhoff Infrastructure Development Co., Inc. (PB) and Egis Projects S.A. (Egis), the sole and equal shareholders of CTV and beneficial owners of 82 percent of the Limited Partnership Units of SDELP, have sold 100 percent of their interest in CTV and SDELP to Macquarie Infrastructure Group (MIG). The acquisition of CTV was completed in September 2002. The TIFIA JPO and Macquarie are now moving forward with credit agreement negotiations. Currently, Macquarie plans to close both the senior financing and TIFIA loan in the first quarter of 2003.

TIFIA Credit Assistance Available

TIFIA, a provision of the Transportation Equity Act for the 21st Century (TEA 21), authorizes an innovative financing program under which U.S. DOT provides credit assistance rather than grants to public and private sponsors of major surface transportation projects. U.S. DOT has selected 11 projects to benefit from TIFIA at a budgetary cost of slightly more than $182 million to the Federal government, providing $3.5 billion in credit assistance supporting transportation investments worth more than $15 billion. Approximately $2.6 billion in credit assistance is available in FY 2003.

T.F. Green Airport Approved for TIFIA Loan

On November 8, 2002, a $58 million direct TIFIA loan was approved for the Rhode Island Economic Development Corporation's (RIEDC) new $215 million intermodal facility at T.F. Green Airport in Warwick, RI. This is the first project to be selected for TIFIA credit assistance in FY 2003. The intermodal facility will be constructed as a public/private partnership among the Rhode Island Department of Transportation (RIDOT), the Rhode Island Airport Corporation (RIAC), which is a semi-autonomous subsidiary of RIEDC, and the nine rental car companies serving airport customers. RIEDC will serve as issuer for the project's senior debt and as borrower for the subordinate TIFIA loan.

The objectives of the project are to provide greater access to the T.F. Green Airport via public transportation; remove cars and shuttle buses from the surrounding airport access roads; create a more efficient rental car facility at the airport, and reduce commuter automobile traffic on I-95. In addition, RIDOT has entered into an agreement with the Massachusetts Bay Transportation Authority (MBTA) to provide commuter train service from Boston to the proposed station in Warwick, allowing T.F. Green to serve as a more efficient alternative to Boston's Logan Airport.

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Stephanie Kaufman Departs TIFIA JPO

Change is ever constant, and the TIFIA program now must wish a sad and fond farewell to senior credit analyst Stephanie Kaufman, leaving the Federal government after 20 years to pursue a different form of public service: teaching English as a second language to immigrant students in the public school system of Montgomery County, Maryland. A former Peace Corps volunteer, Stephanie came to U.S. DOT in 1996 from the Office of Management and Budget. Working with the TIFIA program since its legislative beginnings in 1998, her expertise in Federal credit budgeting and accounting has been essential for meeting the challenge of establishing new administrative procedures and controls. The TIFIA program and all its borrowers owe Stephanie a great debt of thanks for her tireless work behind the scenes. In January, she will enter a Master's degree program in education at George Washington University prior to her assignment in the public schools. The students' gain will be our loss!

T.F. Green Airport Approved for TIFIA Loan, continued from page 3

The project has two components:

❖ The intermodal facility, consisting of 1) a multi-level Amtrak and commuter train station and platforms; 2) a 3,000 space parking garage for rental car companies and commuters using the train station; 3) a rental car mall and quick turnaround system for refueling; 4) a bus terminal; and 5) an elevated automated people mover connecting the project to the Airport – a distance of approximately 1,200 feet.

❖ Commuter rail equipment, comprised of 1) a train set for the MBTA to provide commuter service from Boston to the T.F. Green Airport; and 2) the purchase of used diesel engines and cars for a shuttle train between the airport and Providence, RI.

The senior bonds and the subordinated TIFIA loan would be repaid by a pledge of all rental car Customer Facility Charges, now collected at $3.75 per transaction day and scheduled to escalate to $5.00 per transaction day by 2007. In addition, the rental car companies would pledge $725,000 per year directly from their own funds. All operation and maintenance costs would be paid by RIAC using concession and lease rental revenues from the facility.

The project would be financed through a new revenue bond indenture under which senior tax-exempt and taxable bonds will be issued. TIFIA would be a subordinate bond holder under the proposed indenture.

Over 70 percent of the design of the project is complete. The project will be built with a date-certain guaranteed maximum price contract.

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TIFIA Trivia

The U.S. DOT Responds to Your Questions

The "TIFIA Trivia" box provides 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 Mark Sullivan, TIFIA JPO, 202/366-5785.

Question

What types of project financings can or will U.S. DOT participate in through TIFIA?

Answer

❖ The TIFIA program was designed to facilitate project financings (in which user-based revenues created by the project secure the debt obligations), but its legislative authorization encompasses other types of deals, including those secured by tax-backed revenues. In fact, six tax-backed financings, with a combined value of $6.6 billion, have been approved to date.

❖ Project financings directly fit the program goals of encouraging new revenue streams and private participation as well as filling capital market gaps for secondary and subordinate capital.

❖ U.S. DOT closely examines proposals for non-project financings with respect to the project's financial needs, the type of assistance requested, and other aspects of the credit structure. In some cases, U.S. DOT may choose to make available a loan guarantee, as opposed to direct loan, to support a tax-based financing.

SIB HIGHLIGHTS

SIBs Provide Needed Funds and Flexibility

The volume of State Infrastructure Bank (SIB) activity nationwide has surpassed $4 billion, providing critical funds for more than 300 needed projects. As shown in the table to the right, 32 states have entered into 310 SIB loan agreements with a dollar value of over $4.1 billion as of September 30, 2002.

Florida continues to be a pace-setter in the use of its SIB to meet urgent transportation investment needs. This issue of ***IFQ*** spotlights the state's recent efforts and future plans to further expand the capacity and flexibility of Florida's SIB.

State Infrastructure Bank Loan Agreements by State

As of September 2002

State	Number of Agreements	Loan Agreement Amount ($000)	Disbursements to Date
Alaska	1	$2,737	$2,737
Arizona	40	430,226	236,662
Arkansas	1	31	31
Colorado	2	400	400
Delaware	1	6,000	6,000
Florida	36	489,500	214,200
Indiana	1	3,000	1,122
Iowa	2	2,874	2,874
Maine	23	1,758	1,478
Michigan	23	17,034	13,033
Minnesota	15	95,719	41,000
Missouri	11	67,801	61,801
Nebraska	1	3,360	3,360
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	40	168,164	145,232
Oregon	12	17,471	17,471
Pennsylvania	25	18,900	18,000
Puerto Rico	1	15,000	15,000
Rhode Island	1	1,311	1,311
South Carolina	6	2,382,000	1,124,000
South Dakota	1	11,740	11,740
Tennessee	1	1,875	1,875
Texas	41	252,656	243,099
Utah	1	2,888	2,888
Vermont	4	1,049	1,016
Virginia	1	18,000	18,000
Washington	2	1,900	385
Wisconsin	3	1,814	1,814
Wyoming	8	77,977	42,441
	310	**$4,110,866**	**$2,244,651**

Taking Florida's SIB Program to the Next Level

Florida is taking steps to further increase the ability of its SIB program to support needed investments throughout the state. In June 2000, Governor Bush signed Senate Bill 862 into law creating and providing up to $150 million for a state-funded SIB. To date, a total of $93.5 million in state funds has been deposited in the SIB; the remainder has been deferred, due to budget constraints and a general revenue shortfall. To add still further flexibility to the state-funded Florida SIB, Governor Bush signed House Bill 261 into law in April 2002. House Bill 261 expands the SIB program to include possible projects that provide for connectivity between the State Highway System and airports, seaports, rail facilities, transportation terminals, and other intermodal options for the increased accessibility and movement of people, cargo, and freight.

This legislation means that the Florida Department of Transportation (FDOT) currently operates a SIB program with both a Federal-funded account and a state-funded account. As of June 2002, approximately $238.7 million has been capitalized (including interest earnings and repayments) in the combined SIB: $137.6 million in the Federal-funded account and $101.1 million in the state-funded account. SIB funds may be loaned to a variety of public and private entities, and may be used for various forms of financial assistance such as subordinated loans, interest subsidies, letters of credit, capital reserves for bond financing, and construction loans. FDOT plans to further capitalize the SIB program with $58.3 million in Federal funds and $45.8 million in state funds through fiscal year 2007.

At This Level: Accomplishments to Date

Florida's SIB program has established sound guidelines for project application, selection, and award that have enabled the program to be responsive and flexible in meeting project demand. Each application is reviewed from both the statewide and local perspective to evaluate the project benefits; the Department's Secretary makes selection after this screening process is completed with award processed within an average of 45 days.

Through its SIB program, the FDOT charge is to provide transportation services to the public, not to serve as a private bank that will charge market rate interest on loans. Therefore, below market rate loans are a subsidy FDOT has been willing to provide to further develop transportation projects that can be delivered earlier or that may not otherwise be built to better serve the traveling public.

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Taking Florida's SIB Program to the Next Level, continued from page 5

Other flexible options allow SIB loans to be subordinated to senior debt, disbursed as a lump sum payment, or cash flowed over the production cycle of the project. In addition, repayments can be deferred to allow for project revenue streams to mature or for funds to be accumulated before repaying the debt.

As of June 2002, FDOT has approved 36 project applications with total SIB assistance of $489.6 million that leverages $3.149 billion in total project investment. After a sluggish start in 1997 to 2000, both programs have fully developed to the point that available capital (existing capitalization, planned future capitalization, and future repayments) has been fully committed to projects through fiscal year 2007. A key item in the success of the Florida SIB is the use of the SIB primarily as gap funding for projects where the SIB provides only a portion of the overall funding for the project. Florida's existing SIB portfolio leverages six dollars of product for each dollar lent, and has assisted in advancing projects to completion by as much as 10 years.

Florida's SIB Boosts Leverage and Acceleration

Federal		State		
$328.9 million awarded ($2.355 billion leveraged 24 projects)	+	$160.7 million awarded ($0.794 billion leveraged 12 projects)	=	**$3.149 billion leveraged**

- ❖ A $7.96 million SIB loan to the LYNX **Orlando Intermodal Center** in downtown Orlando advanced completion of the project by five years.
- ❖ A $20 million SIB loan to the Miami-Dade County Expressway Authority's **Miami SR 836 Extension** accelerated project completion by 10 years.

The Next Level: Leveraging Options Considered

In order to better utilize existing SIB resources to meet demand, Florida has begun researching options to leverage the existing loan portfolio repayment stream to create a self-funded program. The following criteria are critical to the long-term success of this leveraging proposal:

- ❖ Continuing the program under the existing laws and guidelines;
- ❖ Maintaining the program's flexibility in meeting project needs;
- ❖ Leveraging only the existing portfolio's repayment stream; and
- ❖ Applying the SIB as a resource to fill funding gaps, to bring projects to completion.

Legislative action will be required to allow leveraging of the SIB program.

The approach to leveraging the SIB program was driven by researching previous leveraging models and the current demands on the state's economy. Florida is not unique in these challenging economic times: Transportation needs outweigh funding sources. The model developed for the SIB leveraging effort is similar in structure to the water/sewer revolving fund approach that has been utilized in a number of states, including Florida, over the past few years. The existing and future SIB program loan repayments would be the sole revenue stream for the leveraged SIB debt service.

Based on FDOT research, the existing loan portfolio has matured and is of sufficient credit quality to support a leveraging program of $100 million dollars in SIB loans each year beginning in fiscal year 2004 and extending well beyond 2010. This assumes that a mix of short, medium, and long-term SIB loans will continue to be awarded in the future. The average loan amount of the existing portfolio is $13.6 million dollars, with a repayment profile averaging 15 years. This approach enables SIB funds to be revolved more readily to meet more projects needs.

The basic principle behind this program is the revolving of current repayments into debt service and the use of leveraged funds to support new projects, which in turn create future repayments for the program. Flexibility also will be achieved, with leveraging occurring as it is needed and on a schedule that takes best advantage of the capital borrowing market. There is no requirement to leverage in any year other than to meet needs as defined by applicant projects.

Florida's existing SIB portfolio leverages six dollars of product for each dollar lent, and has assisted in advancing projects to completion by as much as 10 years.

FDOT has prepared draft language for consideration during the 2003 legislative session that would allow SIB leveraging. The existing loans have been awarded with specific contract language allowing for the future leveraging of the repayment. The completion of this effort will fully evolve the SIB program into a flexible, long-term project finance support tool for the Department.

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GARVEE ROUNDUP

GARVEEs Advance to Territories

In October 2002, the Virgin Islands sold $20.8 million in GARVEEs secured by future Federal highway reimbursements. This bond issue was enabled by a 1999 Congressional action that allows the Virgin Islands to issue debt, and enactment of Act Number 6359 in October 2000 by the Territorial Legislature, specifically authorizing the Territorial Government to pledge future Federal-aid highway funds for repayment of GARVEE bonds.

The GARVEEs will advance two significant transportation infrastructure projects:

- ❖ The **Enighed Pond Cargo Facility** is needed to alleviate congestion at the St. John Cargo Dock. This new $16 million cargo port facility to be constructed by the Virgin Islands Port Authority on the south side of Cruz Bay will significantly increase the opportunity for direct destination calls from cargo vessels on St. John, while reducing the volume of St. John-bound cargo that will have to be transshipped from the Crown Bay Cargo Dock in St. Thomas.
- ❖ The **Red Hook Ferry and Marine Terminal** on St. Thomas will be upgraded to improve accommodations for the traveling public. The $2.5 million project expands the dock to allow for berthing of six vessels simultaneously, rather than the current three, as well as construction of a roll-on roll-off cargo facility. This project also includes construction of a passenger terminal building, a passenger pick-up area, 150 parking spaces, a restaurant, and expansion of a passenger ferry dock.

The Virgin Islands GARVEE issuance brings the total amount of GARVEE bonds sold to nearly $2.7 billion, as of December 2002. The figure below shows the volume of total GARVEE transactions by year.

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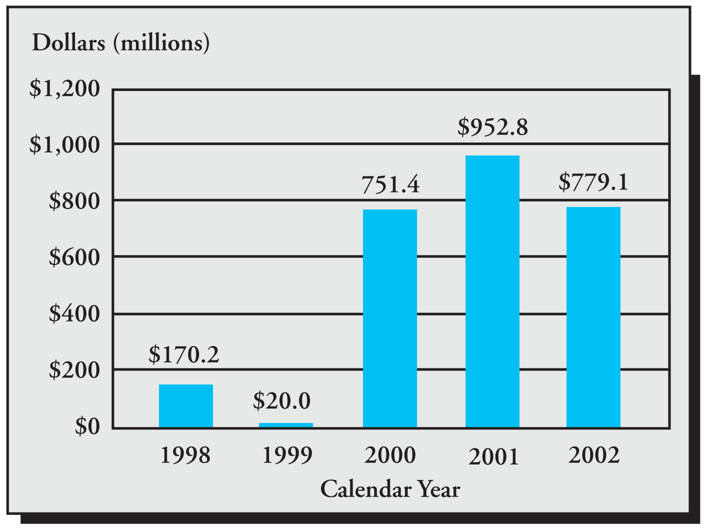
GARVEE Transactions To Date
Total: $2.7 Billion



Alaska Voters Approve Combined GARVEE and State General Obligation Bond Issue

The Alaska Department of Transportation and Public Facilities (ADOT&PF) is responsible for Alaska's transportation infrastructure. Even though Federal funding of highway projects has been increasing, ADOT&PF faces formidable challenges as it seeks to satisfy growing public demand for highway construction within the constraints placed on the agency by annual state appropriations of limited available funds. To meet these challenges, Alaska voters approved a $227 million portfolio of critical transportation projects in the November 2002 statewide election (see related Ballot Measures article on page 9). A combined GARVEE and general obligation bond issue will finance the projects, chosen from local communities' most critically needed priorities. GARVEEs will support eight projects costing $102.8 million. The remainder of the program will be financed through state general obligation bonds, repaid with state revenues.

The transportation bond measure passed by a large margin, gaining approval from 67.75 percent of the electorate. Most of the projects have been needed for years, but the state lacked capital to construct them. These projects address congestion relief at some bottlenecks such as C Street in Anchorage, the most populous city in Alaska, and safety improvement on the Richardson Highway. The projects also include environmental and economic development benefits. For example, the work on Ptarmigan Street in Bethel, Alaska is essential to reducing maintenance costs and reducing dust that in turn will improve the environment and the health of people in those communities.

Before putting the bond issue before the voters, ADOT&PF contracted with an economic consultant to perform a comprehensive cost benefit analysis to

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Alaska Voters Approve Combined GARVEE and State General Obligation Bond Issue, continued from page 7

assist the department in making solidly informed choices as it strives to meet Alaska's highway construction needs. The analysis compared the pay-as-you-go financing option with the GARVEE bond financing over an 18-year period. Regardless of the economic assumptions used, the GARVEE approach provided a higher benefit/cost ratio, at lower state cost, than the pay-as-you-go approach. According to the analysis, performed by Information Insights, Inc., overall economic benefits of the GARVEE approach averaged two percent higher; transportation benefits were eight percent higher; while the present value of state costs averaged eight percent lower under the GARVEE scenario.

The study showed that the State of Alaska could receive substantial budget benefits from use of GARVEE bonding, at relatively small costs. Estimated benefits include:

- ❖ State general fund savings of an estimated $63 million over the course of the bond issue;
- ❖ Construction cost savings of an estimated $39 million from avoidance of construction cost inflation;
- ❖ $58 million in interest earnings from GARVEE bond proceeds; and
- ❖ Far quicker completion of projects and consequently, earlier availability of these improvements to both the traveling public and commercial highway users.

Additional costs of the GARVEE approach include a net reduction of one to two percent in total projects that can be constructed over the next 18 years, as portions of Federal funding received are used to pay debt service instead of funding new projects.

The state plans a GARVEE bond issuance in spring 2003, and is now determining how to structure the issue, and whether to combine it with other planned state debt issuances.

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GARVEE "Questions of the Quarter"

Each issue of ***IFQ*** features questions and answers on the GARVEE program. This issue focuses on debt-related costs eligible for reimbursement. Note that answers to these questions are not regulatory or legislative, but represent FHWA's current administrative interpretations. If you have questions or want to confirm any of this information, please contact your local FHWA Division office. GARVEE guidance is also available at: http://www.fhwa.dot.gov/innovativefinance/garguid1.htm

What Kinds of Interest and Issuance Costs Can Be Reimbursed?

Issuance costs include the following: underwriters discount; rating agency fees, printing, publication, or advertising expenses with respect to the bonds; all fees, expenses, and costs of registrars and paying agents; and all fees, expenses, and costs of attorneys, financial advisors, bond counsel, accountants, feasibility consultants, computer programmers, or other experts employed to aid in the sale and issuance of bonds. Credit enhancement fees include bond insurance, premiums, and letter or line of credit fees.

Can Federal-Aid Funds be Used to Reimburse the Cost of Reserve Accounts or Contingency Funds?

The capitalization from bond proceeds of a reserve account or contingency fund required by (incidental to) the debt issuance is considered an eligible Federal-aid expense. The funds deposited in such an account, along with any interest earnings, must be used for project costs – either on a current basis (including interest) or as a final payment to the bondholders. They cannot be released and disbursed to any other party for any other purpose. If the reserve account is to be liquidated to make the final debt service payment, it will not be eligible for Federal-aid reimbursement. Likewise, if unused bond proceeds are applied to pay principal and/or interest, such payments will not be eligible for reimbursement.

Are Arbitrage Penalties Eligible for Reimbursement?

No, arbitrage penalties are not considered eligible interest or issuance costs.

Would Bonds Issued by a State Infrastructure Bank (SIB) be Considered an Eligible Debt Financing Instrument? Could a State be Reimbursed for Principal and Interest on SIB bonds?

Yes, a SIB would be an eligible debt-financing instrument, and debt service costs would be eligible for reimbursement.

Outcome of Innovative Finance Ballot Measures

Voters cast their ballots on three innovative finance-related measures in November 2002 statewide elections, with good news for surface transportation projects in two states.

As reported in the Winter/Spring 2001 issue of ***IFQ***, the **Alaska** State Legislature had been weighing a bill allowing the issuance of GARVEEs for projects across the state. Voters overwhelmingly approved the transportation proposition in November 2002, which will allow the state to issue nearly $103 million in GARVEE bonds for eight highway projects and $124 million in state-backed revenue bonds for highway and harbor improvements. This will be Alaska's first transportation related bond issue since 1980, with the first of two bond issuances occurring in spring 2003 (see Alaska GARVEE article on page 7).

Similarly, **Maine** voters passed a constitutional amendment approving the use of short-term grant anticipation notes (GANs), backed by Federal-aid reimbursements, to fund transportation projects. The GANs are limited to 50 percent of the previous year's Federal-aid funds, and the notes are limited to a maximum maturity of 12 months. The GANs would permit the expediting of projects, in part in response to Maine's short construction season. (Relatedly, the Maine Legislature recently approved annual gas tax indexing. The index, which is linked to the Portland, Maine consumer price index, is the first indexed gas tax in the nation. The Legislature is provided an annual opportunity to repeal the indexed increase.)

In **Utah**, however, voters rejected a ballot measure that would have permitted local governments to sell assets to private companies, and subsequently lease them back – a fairly standard practice in the transit industry. The up-front capital generated would have raised funds for light rail projects.

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RESOURCES

Transit Funding Primer to Be Released

The Transit Cooperative Research Program (TCRP) will be releasing a new resource document in the coming months entitled *Financing Capital Investment: A Primer for the Transit Practitioner*. The work was sponsored by the Federal Transit Administration.

The primary objective of the primer is to help transit managers identify and evaluate financing options for public transportation capital projects. While the emphasis of the primer is on approaches that take advantage of access to the public capital markets, the document also addresses the tradeoffs of pay-as-you-go approaches versus approaches that borrow against future resources. The primer includes descriptive sections that lay out the basic financing approaches and structures available to transit systems, as well as sections that help system managers and public officials decide when it is most appropriate to apply alternative financing techniques.

The primer is intended for both transit system managers and state and local officials involved in the oversight and management of transit operations. It will be of value to managers of transit systems of all sizes, particularly for small- and mid-sized systems given their more limited financing experience and unique financing challenges.

The primer will be published by the Transit Cooperative Research Program as TCRP Report 89 by late spring.

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New Finance Team Member in the West

FHWA is pleased to announce that Prabhat Diksit has joined the Lakewood, Colorado Administrative Service Team (LAST) as an Innovative Finance Specialist. Prabhat brings a decade of experience working with Colorado municipalities on all aspects of financial management, including financial planning, master planning, rate design, budgets, and bond issuances. Prior to his municipal experience, he worked for 10 years in the private sector performing business planning and fiscal and economic analysis. Mr. Prabhat graduated from Oregon State University with a B.S. in chemical engineering and holds an MBA in finance from the University of Oregon.

Please join us in welcoming Prabhat to the FHWA Finance Team. He can be reached at 303/969-5772, extension 323, or via e-mail at prabhat.diksit@fhwa.dot.gov.

Selected Innovative Finance Resources

Web pages

Federal Highway Administration. Innovative Finance Home Page.
http://www.fhwa.dot.gov/innovativefinance

National Cooperative Highway Research Program. Innovative Financing Clearinghouse.
http://www.innovativefinance.org

US Department of Transportation, TIFIA Home Page.
http://tifia.fhwa.dot.gov

Publications

Federal Highway Administration. *Innovative Finance Newsletter* (October 1996 - June 1997) and *Innovative Finance Quarterly* (September 1997 - present).
http://www.fhwa.dot.gov/innovativefinance/ifpubs.htm

Federal Highway Administration. *Innovative Finance Brochure,* May 2002.
http://www.fhwa.dot.gov/innovativefinance/brochure/index.htm

Federal Highway Administration. *Innovative Finance Primer,* April 2002.
http://www.fhwa.dot.gov/innovativefinance/ifp/index.htm

Federal Highway Administration. *State Infrastructure Bank Review,* February 2002.
http://www.fhwa.dot.gov/innovativefinance/sibreview/index.htm

Federal Highway Administration. *Financing Federal-aid Highways,* August 1999.
http://www.fhwa.dot.gov/reports/fifahiwy/finfahwy.pdf

Federal Highway Administration. *An Evaluation of the TE-045 Innovative Finance Research Initiative,* October 1996.
http://www.fhwa.dot.gov/innovativefinance/ifresrch.htm

Federal Transit Administration. *Innovative Finance Techniques for America's Transit Systems,* September 1998.
http://www.fta.dot.gov/library/policy/IFT/iftcov.htm

Federal Transit Administration. *Innovative Finance Handbook,* May 1996.
http://www.fta.dot.gov/library/money/inovhnbk.html

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http://www.fhwa.dot.gov/innovative finance/

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- American Public Works Association (APWA)
- Surface Transportation Policy Project (STPP)
- National Governor's Association (NGA)
- National Association of State Treasurers (NAST)
- National Association of State Auditors, Controllers, and Treasurers (NASACT)
- National Association of Regional Council's (NARC's) Association of MPOs (AMPO)