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REAUTHORIZATION

SAFETEA Unveiled

Innovative Finance Provisions Enhanced, New Provisions Introduced

On May 14, U.S. Secretary of Transportation Norman Mineta unveiled the Bush Administration's surface transportation reauthorization proposal. The Safe, Accountable, Flexible and Efficient Transportation Equity Act of 2003 (SAFETEA) provides funding of $247 billion ($201 million for highway and safety programs and nearly $46 billion for public transportation programs) over the six-year period from fiscal year 2004 through 2009. SAFETEA also expands innovative financing programs and adds flexibility for innovative financing methods, so that states and municipalities can leverage the power of Federal funds and encourage greater private sector investment in transportation infrastructure.

SAFETEA features four innovative finance programs to enhance funding to meet the budgetary challenges of state and local communities. Three programs, the SIB pilot initiative, the TIFIA credit program, and the toll program, build on successful measures authorized in prior legislation, while a private activity bond proposal would allow the issuance of tax-exempt debt by state and local governments for highway and freight transfer facilities developed and operated by private entities. These four programs are highlighted below.

Summary of SAFETEA Innovative Financing Provisions

Provision	Purpose	Funding	Requirements
Private Activity Bonds	Encourage private participation in surface transportation infrastructure projects	No separate funding	Highway facilities and surface freight transfer facilities added to list of other eligible activities
SIB Pilot Program	Support projects that can be financed by loans or that can benefit from credit enhancements	No separate funding; states can contribute up to 10% of eligible funding categories	Program limited to five states selected through an application process
TIFIA Program	Provide Federal loans, loan guarantees, and lines of credit for projects of national or regional significance	Annual credit authority of $2.6 billion and annual budget authority of $130 million	Highway, transit, and railway projects in excess of $50 million are eligible
Toll Programs			
Interstate Toll Pilot	Permit states to collect tolls on the Interstate for reconstruction/ rehabilitation purposes	No separate funding	Program limited to three Interstate facilities in three states
Variable Pricing Program	Alleviate congestion and reduce emissions through value pricing	No separate funding	Tolling may be permitted on any Federal-aid highway, bridge, or tunnel, including Interstate

Private Activity Bonds

Current Federal tax law significantly restricts tax-exempt debt for surface transportation projects that are privately owned and/or operated. The proposed Private Activity Bond Program would amend the Internal Revenue Code to add highway facilities and surface freight transfer facilities to the types of privately developed and operated projects that can utilize tax-exempt bond financing. These two additions would not count against a state's private activity bond volume cap, but would instead be subject to a separate limitation of $15 billion in the aggregate. The Secretary of Transportation would allocate the $15 billion of authority among eligible projects.

Highway facilities eligible for financing under the program would consist of any surface transportation project eligible for Federal assistance under U.S.C Title 23, or any international bridge or tunnel project for which an international entity authorized under Federal or state law is responsible. Eligible surface freight transfer facilities would include facilities for the transfer of freight between truck and rail, including temporary storage facilities directly related to those transfers.

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This proposed expansion of the types of projects eligible for exempt facility bonds would remove major barriers to private participation in the nation's highway infrastructure. Issuance of tax-exempt debt would be less costly and long-term operating concessions would be allowed that could be extended through the life of a project without jeopardizing a state's tax-exempt bond status. The program should serve to encourage public-private partnerships and additional private investment in surface transportation infrastructure projects.

State Infrastructure Bank Pilot Program

SAFETEA authorizes a new State Infrastructure Bank (SIB) Program. The proposed pilot would limit participation to five states, including those that have entered into a cooperative agreement under the SIB pilot authorized by the Transportation Equity Act for the 21st Century (TEA-21). States interested in participating in the program will be required to submit an application for evaluation based on criteria identified in statute and established by the Secretary. These would include:

- ❖ The state's ability to provide non-Federal funds to capitalize the bank;
- ❖ The state's strategy for encouraging non-Federal repayment sources from project sponsors;
- ❖ The amount of Federal funds the state will commit to the SIB as a percentage of its Federal-aid apportionments;
- ❖ The state's eligibility under TEA-21; and
- ❖ The state's past experience with a SIB, including the TEA-21 pilot program, or comparable financing mechanisms.

Under the proposed pilot program, funding would be derived from the highway and transit programs with the amount of apportioned funds transferred to the SIB limited to 10 percent of eligible funding categories. This is a change from the TEA-21 SIB pilot that allowed states to transfer the total amount of funds apportioned to it from the eligible funding categories. The proposal also eliminates the limitation on the rate of Federal disbursements.

States participating in the program will be required to establish separate highway and transit accounts within the SIB. The requirements of Title 23 and Title 49 of the United States Code will apply to all projects financed by the SIB.

SIB Eligible Funding Categories

Highway	Transit
National Highway System	Urbanized Area Formula Grants
Surface Transportation Programs	Capital Investment Grants and Loans
Interstate Maintenance	Other than Urbanized Area Programs
Bridge	
Minimum Guarantee	

Transportation Infrastructure Finance and Innovation Act (TIFIA) Program

SAFETEA continues the TIFIA credit program. Authorized initially in TEA-21, TIFIA provides attractively priced subordinate and supplemental capital for surface transportation infrastructure projects in the form of secured loans, loan guarantees, and lines of credit. Over the fiscal year 2004 through 2009 period, SAFETEA proposes annual credit authority of $2.6 billion and annual budget authority of $130 million to pay the costs of providing TIFIA credit assistance.

Most of the TIFIA provisions under TEA-21 remain substantially unchanged in the SAFETEA proposal. As in current law, the Secretary of Transportation will select projects to receive TIFIA credit assistance through a competitive process administered by the TIFIA Joint Program Office. TIFIA projects are selected on the basis of eight statutory criteria, including national or regional significance; creditworthiness; private participation; accelerating project schedules; the use of technology; the use of budgetary authority; environmental stewardship; and the reduction of Federal grant assistance. The amount of Federal credit assistance may not exceed 33 percent of the anticipated eligible project costs. Repayment of the Federal credit instruments must be from tolls, user fees, or other dedicated revenue sources.

Under SAFETEA, access to TIFIA assistance would be increased by lowering the project cost threshold from $100 million to $50 million and extending eligibility to private rail freight projects. The proposal would also extend eligibility to a group of functionally related freight projects, each of which separately might not meet the project cost threshold. The cost threshold for projects that principally involve the installation of an intelligent transportation system (ITS) remains at $30 million.

SAFETEA improves the usefulness of the line of credit, making it available to a borrower in order to avoid (instead of simply respond to) an event of default. Also, SAFETEA adds a requirement that the total amount of senior project obligations must equal or exceed the total amount of the TIFIA instrument. Other changes are primarily intended to clarify or simplify the requirements in TEA-21.

Toll Programs

SAFETEA proposes changes to some of the toll provisions for Federal-aid highways. The Interstate System Rehabilitation and Reconstruction Pilot Program, established under TEA-21 to permit states to collect tolls on the Interstate for the purpose of reconstructing and rehabilitating Interstate highway corridors, would be modified to ease the eligibility requirement. But most of the original provisions have been retained. The key provisions of the pilot program are:

- ❖ Replaces strict requirement that tolls must be the only way to improve the facility, with a requirement that tolling be the most efficient, economical, or expeditious way to advance the project.

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- ❖ Continues provision limiting the number of pilot projects to three Interstate facilities, which must be in different states.
- ❖ Continues requirement that, if a metropolitan area is affected, the metropolitan planning organization must be consulted.
- ❖ Continues limitation on use of toll revenues.
- ❖ Continues to prohibit the use of Interstate Maintenance funds on the facility while the facility is being tolled.

A new Variable Toll Pricing program for alleviating congestion and reducing emissions mainstreams the value pricing concept initiated in a pilot program under the Intermodal Surface Transportation Efficiency Act (ISTEA) and TEA-21. The TEA-21 pilot program is repealed, but a state or public authority may continue to operate under existing agreements. Key provisions of the new program are:

- ❖ The Secretary may permit tolling on any highway, bridge, or tunnel, including Interstate, to manage existing high levels of congestion or reduce emissions in a non-attainment or maintenance area.
- ❖ States or public authorities are required to identify the goals to be achieved and associated performance measures.
- ❖ Tolls must vary in price according to time of day, as appropriate, to manage congestion or to improve air quality.
- ❖ States may permit vehicles with fewer than two occupants in high-occupancy vehicle (HOV) lanes as part of the program.
- ❖ The Federal share is not to exceed 80 percent.

There is no separate funding provided for these programs. Toll revenues received under the variable pricing program will first be used for debt service, reasonable return on private fund investments, and operation and maintenance costs. A state or public authority may use excess revenues for eligible Title 23 projects if they certify that the toll facility is being adequately maintained.

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FEDERAL CREDIT PROGRAM

U.S. DOT Executes $140 Million Loan for SR 125 South Toll Road

On May 22, 2003, the U.S. DOT executed a $140 million loan for the SR 125 South Toll Road project in San Diego, California. The borrower is the San Diego Expressway Limited Partnership (SDELP), a private entity whose general partner is California Transportation Ventures, Inc. (CTV). CTV is a subsidiary of the Macquarie Infrastructure Group (MIG), an international fund investing more than $150 million to develop and operate the toll road. MIG, with headquarters in Sydney, Australia, is the largest developer of toll roads in the world, with a portfolio of 26 roads in eight countries. The SR 125 South Toll Road is MIG's first project in the United States.

The SR 125 South Toll Road is a key link in the regional transportation system that will accommodate economic growth in the southern part of San Diego County and facilitate traffic and trade across the U.S.-Mexico border at the Otay Mesa crossing. The project is being advanced under a Development Franchise Agreement with the California Department of Transportation (Caltrans) and was one of the first five projects selected for credit assistance through TIFIA.

The TIFIA loan proceeds, together with bank debt, sponsor equity, and donated right-of-way, will be used to finance the design and construction of this 9.2-mile, four-lane toll road in San Diego County, connecting State Route 905 near the Otay Mesa port of entry from Mexico to the region's freeway system about 1.5 miles south of State Route 54 in Spring Valley. The current estimated project cost (including preliminary engineering, development costs, construction, and financing) for the SR 125 South Toll Road is $642 million. The bank debt is being provided by Spanish bank Banco Bilbao Vizcaya Argentaria, S.A. and Irish bank DEPFA BANK plc. These two experienced international project financiers are the joint lead arrangers of a $400 million senior secured construction and term loan facility that is being syndicated.

As the first TIFIA project to attract substantial private equity, SR 125 marked a significant milestone in the TIFIA credit program, demonstrating how innovative Federal financing tools can attract private investment to critical transportation projects.

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U.S. DOT Announces Availability of FY 2003 TIFIA Funds

With an April 17 publication of a Notice of Funding Availability (NOFA), the U.S. DOT formally announced the availability of up to $2.6 billion in credit assistance for TIFIA project applications for the remainder of Federal fiscal year 2003. Approximately $72 million in budget authority remains available to fund the subsidy costs of any requested credit assistance. The NOFA, as published in the Federal Register (68 FR, 19067), can be viewed at the Office of the Federal Register's home page at http://www.archives.gov. The TIFIA office is continuing to accept applications on a rolling basis.

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Puerto Rico Refunds TIFIA Loan

Taking advantage of the current low interest rate environment, the Puerto Rico Highways and Transportation Authority (PRHTA) refunded its TIFIA loan with tax-exempt debt on April 29, 2003. In keeping with the TIFIA objective of encouraging prepayments when feasible, this loan was paid off 32 years earlier than its scheduled final maturity. The bonds issued to refund the TIFIA loan have an interest rate of 4.97 percent, or slightly more than 75 basis points lower than the interest rate on the TIFIA loan. Over the life of the bonds, PRHTA expects to save $31.7 million on a present value basis. The U.S. DOT and PRHTA executed the $300 million loan agreement in August 2000. The loan proceeds funded a portion of the costs of the first phase of Tren Urbano, a $2.2 billion, 16-km. rapid rail system serving metropolitan San Juan.

New Chief and Team Member for TIFIA Program

On March 10, **Mark Sullivan** assumed the position of chief of the TIFIA program, as FHWA Federal-aid Financial Management chief Max Inman stepped aside after 18 months as interim chief. Mark joined the TIFIA program in September 1999, where he has been involved in all aspects of project selection, negotiation, and monitoring. Previously, Mark worked in the U.S. DOT's Office of Intermodalism where he helped negotiate the agency's groundbreaking $400 million loan to the Alameda Corridor, the seaport access project in southern California. Prior to joining U.S. DOT, he held senior positions with the Port of Seattle and the New York City Department of Ports. Mark can be reached at 202/366-5785.

On February 24, **Theresa Stoll** joined the TIFIA program replacing Stephanie Kaufman who resigned in January 2003 to pursue a career in teaching. Theresa, who brings substantial experience in budgeting and economics, comes from the Office of Management and Budget (OMB) where she provided analysis and oversight for various international assistance programs, including the operations of the Agency for International Development, international food aid, and international debt restructuring. Prior to OMB, Theresa worked as an economist at the International Trade Commission and the Bureau of Economic Analysis. Theresa can be reached at 202/366-9649.

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, Chief, TIFIA JPO, 202/366-5785 or Mark.Sullivan@fhwa.dot.gov.

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. As long as the U.S. DOT charges the comparable-term Treasury rate on a direct loan, that instrument will be cheaper than a guaranteed loan for a project needing up-front capital.
- 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 have intended to structure it to support senior debt only indirectly for tax purposes.
- At the present time, the U.S. DOT does not charge credit enhancement fees for these instruments, although there are certain administrative fees, such as an application fee, credit processing 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 plus five basis points).
- More recently, project sponsors are looking to the TIFIA direct loan as a potential take-out financing mechanism for short-term Tax-exempt debt (such as Bond Anticipation Notes) issued during a project's construction phase. Under TIFIA, interim construction financing can be refinanced with a TIFIA loan not later than one year after substantial completion. Interest rates are the primary consideration in the decision framework on using TIFIA for take-out financings.

SIB Highlights

SIB Loan Agreements Jump by Seven Percent

States continue to use their SIBs to leverage funds for needed transportation projects. As shown in the table to the right, 32 states have entered into 333 SIB loan agreements with a dollar value of over $4.1 billion as of March 31, 2003. This represents 23 new loan agreements valued at nearly $4.3 million since September 2002.

As described in more detail on page 2, SAFETEA would authorize a new SIB pilot program building on the successes of the program under the National Highway System Designation (NHS) Act and TEA-21. Two of these success stories are the Arizona and Texas SIBs, spotlighted below.

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State Infrastructure Bank Loan Agreements by State

As of March 2003

State	Number of Agreements	Loan Agreement Amount	Disbursements to Date
Alaska	1	$2,737	$2,737
Arizona	43	436,000	236,662
Arkansas	1	31	31
Colorado	3	1,500	1,500
Delaware	1	6,000	6,000
Florida	36	489,500	90,100
Indiana	2	6,000	5,715
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	12	67,801	67,801
Nebraska	1	3,360	3,360
New Mexico	2	14,133	14,133
New York	5	15,450	12,000
North Carolina	2	1,713	1,713
North Dakota	2	3,565	1,565
Ohio	44	178,728	137,241
Oregon	13	18,321	18,321
Pennsylvania	31	22,600	18,894
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	243,578
Utah	1	2,888	2,888
Vermont	4	1,049	1,016
Virginia	1	18,000	12,739
Washington	3	2,375	442
Wisconsin	3	1,814	1,814
Wyoming	8	77,977	42,441
	333	**$4,153,509**	**$2,135,002**

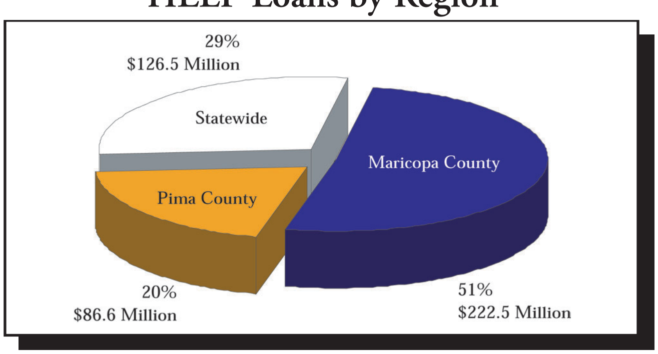
Successful HELP Program Grows Arizona's Highway System

Arizona's Highway Expansion and Extension Loan Program (HELP) has been one of the nation's most active SIBs, ranking third nationally in loan activity. A seven-member HELP Advisory Committee accepts loan applications, reviews and evaluates requests for financial assistance, and makes recommendations to the State Transportation Board on loan and financial assistance requests. To date, the Transportation Board has approved 43 loans totaling $436 million.

The program has been used throughout Arizona with loans in 14 of Arizona's 15 counties, benefiting both rural and urban areas. Each of the three major regional areas of the state – Maricopa County, Pima County, and statewide (the other 13 counties) – have received substantial assistance from HELP. Loans have ranged from an $80,000 loan to the Town of Miami for two street widening and resurfacing projects to a $100 million loan to the Arizona Department of Transportation (ADOT) for the purchase of right-of-way for the Regional Freeway System in Maricopa County.

The following chart shows the regional allocation of HELP loans to date.

HELP Loans by Region



While Maricopa County, the largest county in Arizona, accounts for 51 percent of the dollar value of loans to date, 70 percent of the total number of approved loans have been made to the 13 rural counties. All of the loans in Maricopa County have financed the acceleration of freeway projects, enabling the state to achieve its goal of completing the Regional Freeway System by 2007. In Pima County, eight projects have been advanced with the use of HELP loans, including a major project to reconstruct the I-10/I-19 interchange. The statewide loans have benefited 30 projects, providing needed funding where options are limited. The largest rural loan is $13.9 million to fund the acceleration of a segment of SR 89A in Prescott Valley. Not only have the loans in the rural areas of the state accelerated projects, but they have allowed communities to spread the costs over time, making larger projects more feasible for smaller communities.

Total HELP capitalization is nearly $229 million. In addition to the initial Federal and state capitalization, HELP has been capitalized with other state sources. These include a $20 million state general fund appropriation, a $20 million State Highway Fund loan, and $140 million in Board Funding Obligations (BFOs). The BFOs are an innovative funding mechanism that

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Arizona HELP, continued from page 5

allows HELP to use state operating funds from the State Treasurer. The ability to use BFOs has been particularly useful to ADOT in accelerating purchases of right-of-way for the Maricopa County Regional Freeway System.

Generally, loan maturities are less than five years and this has enabled HELP to quickly recycle funds and increase program leverage. Seven loans totaling $168 million have been repaid. These repayments have generated considerable funding that has been made available for additional loans. Interest and investment income has also generated over $30 million.

The HELP program is currently facing several funding challenges that have limited the state's ability to undertake new loans. Part of the solution to the state's projected budget shortfall in the current fiscal year includes repayment of the $20 million state general fund appropriation. In addition, the currently outstanding BFOs must be repaid in 2004. While state law allows HELP to reborrow these funds, low state operating fund balances could limit the ability to reborrow. The potential to reduce HELP's capitalization could significantly impact the ability of the HELP program to fund future loans. Despite these challenges, the Arizona Transportation Board, the HELP Advisory Committee, and ADOT remain committed to the long-term success of the program. The HELP program continues to be a vital tool, accelerating needed projects for communities throughout Arizona. Additional information on HELP loans is available on ADOT's website at http://www.dot.state.az.us/about/help/index.htm.

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Tollways Advance in Texas with SIB Assistance

Since launching its SIB in 1997, the Texas Transportation Commission has entered into 41 loan agreements, totaling $252.7 million and supporting $1.8 billion in projects. Cities, counties, and transportation toll projects are utilizing the SIB loan program as a means of developing needed turnpike or toll facility improvements across the state. Loans have funded a range of toll projects, including upgrades and rehabilitation of the two city-owned international toll bridges in El Paso and acquisition of right-of-way for the new State Highway 45. By offering flexible terms and slightly below market interest rates, the SIB is enabling roads in Texas to be built faster with significant benefit to the public. Any public or private entity that has authority to build, maintain, or finance certain transportation projects can apply for loans.

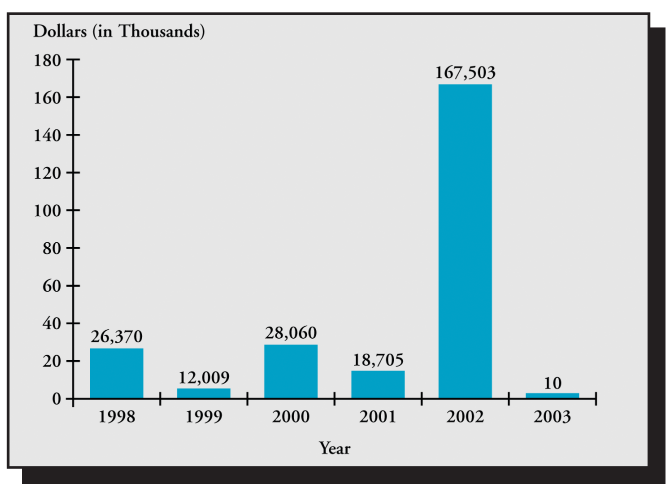
SIB funding is an important element of the funding package for the new 122-mile Central Texas Turnpike Project (CTTP) that is being developed by the Texas Turnpike Authority, a division of the Texas Department of Transportation (TxDOT). The CTTP is comprised of four elements: Loop 1, State Highway 45 North, U.S. 183A, and SH 130.

State Highway 45 will provide 15 miles of direct east-west connection through the rapidly growing commercial and residential area located in North Austin and neighboring suburbs, Cedar Park and Round Rock. The design of SH 45 consists of a six-lane roadway with frontage roads and overpasses at the major thoroughfares and ramps connecting to Interstate 35, facilitating easy access to the Dell Computer Corporation Headquarters, the La Fronterra Mall, the Super Wal-Mart, and many other businesses and residential areas. On May 29, 2003, the Texas Transportation Commission approved a $103 million construction contract for the SH 45 North Toll Road.

The Texas SIB loaned the City of Round Rock and its Transportation System Development Corporation (4B Corporation) a total of $31 million for State Highway 45. Two SIB loans were made in the amount of $16 million and $15 million for right-of-way acquisition and utility relocation. The $16 million loan was made at a 4.6 percent interest rate and is to be repaid to TxDOT within 15 years; the second loan of $15 million is at a 4.5 percent interest rate for 20 years. The loans are the city's contribution toward the $553 million estimated cost of the State Highway 45 project.

The President George Bush Turnpike, a 30-mile new toll facility in the Dallas area, is also benefiting from SIB assistance, receiving a $144.7 million loan in 2002. The chart below shows the annual loan activity for the Texas SIB.

Texas SIB Loans



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GARVEE Roundup

California GARVEEs Rolling Forward

In May 2003, the California Transportation Commission (CTC) approved the final GARVEE guidelines developed by the California Department of Transportation (Caltrans), paving the way for the state's first planned $551 million issue in January 2004.

Four projects would be funded with the initial GARVEE issuance: the I-15 Managed Lanes project in San Diego County, two projects in Santa Clara County (the I-880/Coleman Interchange and SR 87 (North and South) projects), and the Route 60/91/215 Interchange project in Riverside County. The total cost of these projects is estimated at $874 million, of which $551 million will be financed with GARVEE bonds.

Under the newly approved guidelines, project sponsors (typically California local governments) apply to the CTC for programming as a GARVEE project. Next, sponsors are allocated funds by the CTC for debt service. These allocations count against regional formula funding specified under California's Senate Bill 45, which divides 75 percent of Federal and state transportation funding by regional formula.

California's GARVEE legislation sets a maximum limit on borrowings. Maximum annual debt service cannot exceed 30 percent of the historical annual deposits to the state's Highway Account from Federal funding, as determined by an annual "capacity analysis" performed by the California State Treasurer's office. For 2003, the Treasurer's office estimated the maximum bonding capacity as between $3.06 to $3.73 billion, depending on the market assumptions chosen. The state's initial planned issuance will be less than a sixth of this cap. The first four projects to be funded are described below.

❖ The **I-15 Managed Lanes** project in San Diego represents the cooperative efforts of Caltrans, the San Diego Association of Governments, and the Metropolitan Transit Development Board in addressing the high traffic demand on I-15 through capacity and transit improvements. As one of three segments of overall improvements being made to this corridor, the middle segment will result in a "freeway within a freeway" to be constructed in the median with a movable barrier that can be adjusted to reconfigure

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GARVEE Transactions

As of December 2002

State	Date of Issue	Face Amount of Issue (in Millions)	Rating Moody's/S&P/Fitch	Projects Financed	Backstop
New Mexico	Sep. 1998 Feb. 2001	$100.2 $18.5	A3/A-/na A2/A/na	New Mexico SR 44	No backstop; bond insurance obtained
Ohio	May 1998 Aug. 1999 Sep. 2001 Sep. 2002	$70 $20 $100 $135	Aa3/AA-/AA- Aa3/AA-/AA- Aa3/AA/AA- Aa3/AA/AA-	Various projects including: Spring-Sandusky and Maumee River improvements	Moral obligation pledge to use state gas funds and seek general fund appropriations in the event of Federal shortfall
Arkansas	Mar. 2000	$175	Aa2/AA/na	Interstate Highways	Full faith and credit of state, plus state motor fuel taxes
Colorado	May 2000 Apr. 2001 Jun. 2001	$537 $506.4 $208.3	Aa3/AA/AA Aa3/AA/AA Aa3/AA/AA	Any project financed wholly or in part by Federal funds	Federal highway funds as allocated annually by CDOT; other state funds
Arizona	Jun. 2000 May 2001	$39.4 $142.9	Aa3/AA-/AA- Aa3/AA-/AA-	Maricopa freeway projects	Certain sub-account transfers
Alabama	Apr. 2002	$200	Aa3/A/na	County Bridge Program	All Federal construction reimbursements. Also insured
Virgin Islands	Oct. 2002	$20.8	na/na/AAA	Enighed Pond Port Project and Red Hook Passenger Terminal Building	Insured
Alaska	Apr. 2003	$102.8	Aa2/AA/AA	Eight road and bridge projects	Full faith and credit of state
Total		**$2,776.3**			

California GARVEEs, continued from page 7

the number of lanes in the direction of peak demand. This project was approved for design sequencing, which will allow Caltrans to initiate construction on critical features, while other non-critical path components are still under development. An estimated $171 million in GARVEE bond proceeds will be needed to fill the funding shortfall on this $375 million project with a 10-year repayment term.

- ❖ The **I-880/Coleman Interchange** provides access to the Norman Mineta San Jose International Airport from I-880, Santa Cruz, and the East Bay. Reconstruction of the interchange is needed to relieve congestion and is key to the airport's planned expansion. GARVEE bond proceeds will fund $65 million of the $84 million total project cost. Debt service on the bonds will be repaid over an 11-year term.
- ❖ **SR 87** provides regional access from Route 101 to the Mineta International Airport, downtown San Jose, and the southern end of the Santa Clara Valley. The project is comprised of improvements between Route 85 and Route 280 and Route 280 and Julian Street. The total cost of the project is $122 million, with GARVEE proceeds of $77 million to be repaid over 11 years.
- ❖ The **Route 60/91/215 Interchange** was also approved as a "design sequencing" pilot project to expedite overall project delivery. It includes reconstruction of the Canyon Crest Drive (a main entrance to the University of California-Riverside campus), widening of the undercrossing, and realignment of a frontage road.

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Mississippi GARVEE Bonds Advance Critical Bridge Program

The Mississippi Development Bank (MDB) in late June will sell $35 million in GARVEE bonds secured by a pledge of future Federal-aid bridge funds. The bonds will be variable rate demand bonds with the interest rate reset on a weekly basis, providing a lower rate than the conventional fixed rate instrument. The bond proceeds will be loaned to the Mississippi Department of Transportation (MDOT) which, in turn, will loan the funds to the Office of State Aid Road Construction (State Aid). State Aid will then use the loan proceeds to eliminate a backlog of critical county bridge projects through a program of rehabilitation and new construction.

State Aid plans to repay the MDB loan from the annual allocation of Federal-aid bridge funds received from MDOT over a 10-year period. FHWA will reimburse principal and interest along with other eligible debt-related costs in accordance with FHWA and GARVEE guidelines.

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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 the legislative basis for GARVEEs. Note that answers to these questions are not regulatory or legislative, but represent FHWA's current administrative interpretations. If you have questions or want to confirm any of this information, please contact your local FHWA Division office. GARVEE guidance is also available at: http://www.fhwa.dot.gov/innovativefinance/garguid1.htm

Where can I find the legislative reference to GARVEES, and are GARVEEs being proposed for reauthorization?

The term GARVEE (Grant Anticipation Revenue Vehicle) was created by FHWA innovative finance experts. It describes a new type of debt vehicle made possible by changes in the Federal-aid Highway Program. Since it is not a legislative term, it cannot be found in Title 23 of the U.S. Code, Volume 23 of the Code of Federal Regulations, or in TEA-21.

The legislative change that facilitated GARVEEs occurred with the NHS Act of 1995, which was codified in Section 122 of Title 23 of the U.S. Code. Prior to this change, states could only use Federal-aid funds to pay debt service on a very limited basis. Section 122 allows states to claim reimbursement for principle, interest, and issuance costs on all eligible Federal-aid projects, rather than claiming construction reimbursement. Since this provision is now part of the regular Federal-aid Highway Program, there is not a need to have specific GARVEE provisions in the Administration's reauthorization proposal, SAFETEA. (For more detailed information on GARVEEs, please see the *Innovative Finance Primer*, available on the FHWA website at http://www.fhwa.dot.gov/innovativefinance/ifp/).

TECHNICAL CORNER

Accelerating Highway and Bridge Projects in Louisiana

In 1989, the citizens of Louisiana voted to levy an additional $.04 per gallon gasoline and special fuels tax for the purpose of improving the state's transportation infrastructure to promote economic development. This $3.5 billion multimodal capital investment initiative, called the Transportation Infrastructure Model for Economic Development Program or TIMED, includes widening 500 miles of state highways to four lanes on 11 project corridors, widening and/or new construction of three major bridges, and improvements to both the port and airport in New Orleans. Effective on January 1, 1990, the additional $.04 per gallon tax, referred to as the Act No. 16 Taxes, is dedicated to financing the TIMED Program.

Initially, it was anticipated that the 16 specific projects included in the TIMED Program would all be let for construction by 2005 at which time the $.04 per gallon tax would expire. However, in light of higher project costs, the Louisiana Department of Transportation and Development (DOTD) estimated that the TIMED Program would not be completed until at least 2031 using traditional pay-as-you-go funding. Recognizing that completion of the TIMED projects was vital to the state's economic development, DOTD commenced a plan to accelerate completion of the remaining projects of the TIMED program. The goal of this stepped-up plan is to complete the TIMED Program in 10 years. It is estimated that the remaining cost of the TIMED Program from April 2003 is approximately $2.5 billion in 2003 dollars.

The TIMED Acceleration Plan

As part of its implementation strategy to accelerate the remaining TIMED projects, the DOTD in December 2001 selected the Louisiana TIMED Managers (LTM) as the consultant team to assist with management of the program. LTM, serving as an extension of the DOTD staff, is a joint venture of Parsons Brinckerhoff, Gulf Engineers and Consultants (GEC), and the LPA Group. The multidisciplinary LTM team is responsible for the financial management of the entire program as well as design management, right-of-way acquisition and relocation, construction engineering, and inspection. LTM is contractually obligated with incentives to achieve the TIMED Program objectives and expedite completion of the TIMED Program.

Key Elements of TIMED Acceleration Plan

- ❖ Engage program management team to assist in the development and delivery process.
- ❖ Extend dedicated $.04 per gallon tax until all projects are complete or bonds paid in full.
- ❖ Finance through periodic issuance of bonds.
- ❖ Let all projects by 2010 and complete construction by 2012.

The accelerated implementation of the remaining $2.5 billion TIMED Program will be funded through a combination of revenue bonds and pay-as-you-go funding. About 83 percent of the program costs will be funded from revenue bond proceeds with pay-as-you-go funding accounting for the remaining 17 percent. The sources of the pay-as-you-go funds are the monthly collections of the Act No. 16 Taxes and interest earnings on the TIMED Fund balance. Legislation passed in 1998 extended the $.04 per gallon tax until all TIMED projects are complete and all outstanding bonds or other indebtedness issued for the TIMED projects have been paid in full, whichever is later.

TIMED Bonds

To support the TIMED acceleration plan, a series of bond sales will occur periodically through 2009. The size and timing of the bond issues will depend on the program needs, cash flows, and market conditions. The first bond issue to accelerate the construction of TIMED projects was sold in August 2002 at an all-in borrowing cost of 4.88 percent. This $275 million bond issue is secured by the $.16 per gallon gasoline and special fuels tax as well as the Act No. 16 Taxes, but the intent is to use only the $.04 per gallon tax revenues for debt service. Underlying investment grade ratings of A1, A+, A+ (Moody's, Standard & Poor's, Fitch) were achieved on the 2002 bond issue. Bond insurance was provided by AMBAC, resulting in triple-A ratings from the three rating agencies. Over $90 million of the bonds were sold to retail investors. Debt service on the 2002 bonds is about $17.8 million annually through 2032.

The 2002 bond issue will enable the letting of $175 million in projects during fiscal year 2003, compared to only $50 million on a pay-as-you-go basis.

Looking Ahead

DOTD and LTM continue to work closely to move the completion of the TIMED Program forward. By bonding and taking advantage of low interest rates, this program is saving money and delivering critical infrastructure projects to the people of Louisiana much sooner. The optimal mix of pay-as-you-go financing and debt financing is enabling completion of the remaining TIMED within a 10-year timeframe, helping to drive Louisiana's economic development. For more information about the TIMED Program, please consult the web site for this project at http://www.timedla.com.

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Leader Selected for National Finance Technical Service Team

Ms. Thay Bishop was recently selected for the position of National Finance Technical Service Team Leader. Thay will ultimately lead a team of eight finance professionals providing services to FHWA's Divisions and partners. The National Finance Technical Service Team (TST) will provide technical assistance on both innovative finance and more traditional grant management techniques. The team will be based in Atlanta, but will provide services nationwide.

Thay joins the FHWA with more than 22 years of financial management experience in the transportation environment. During her 12-year career with the Metropolitan Atlanta Rapid Transit Authority, she served in several senior management positions including the Director of Corporate Finance and Treasurer, Director of Business Management and Financial Analysis, Deputy Program Manager of Olympic Spectator Transportation System, Manager of Budget and Management Analyst, and Chief of Administration. She has extensive experience in managing Federal grant programs and is a Certified Public Accountant and Certified Cash Manager.

For more information about the National Finance Technical Service Team, please contact Thay at 404/562-3695.

Alaska Sells $102.8 Million in GARVEE Bonds

On April 9, 2003 Alaska issued $102.8 million in GARVEE bonds, part of a $461.9 million general obligation bond sale. The GARVEE bonds, Series B of the bond issue, have maturities extending out to 2013 and have a true interest cost of 3.172 percent. The GARVEE bonds were authorized by the voters in November 2002 to carry the full faith and credit of the state, but are structured for debt service to be repaid with Federal highway reimbursements. The bonds were rated by three credit rating agencies with Standard & Poor's and Fitch Ratings each giving an AA rating. Moody's Investors Service rated the bonds Aa2.

The proceeds of the bonds will be used to accelerate work on eight projects around the state. Of the $102.8 million, $36.1 million will be allocated in Anchorage for Phase III of the C Street improvements, including an interchange at O'Malley Road and a grade separation for the Alaska Railroad near 68th Avenue and C Street. Another $28 million will fund the Kenai River Bridge project.

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