FHWA's
INNOVATIVE FINANCE
Quarterly

VOLUME 5, NUMBER 1 SPRING 1999

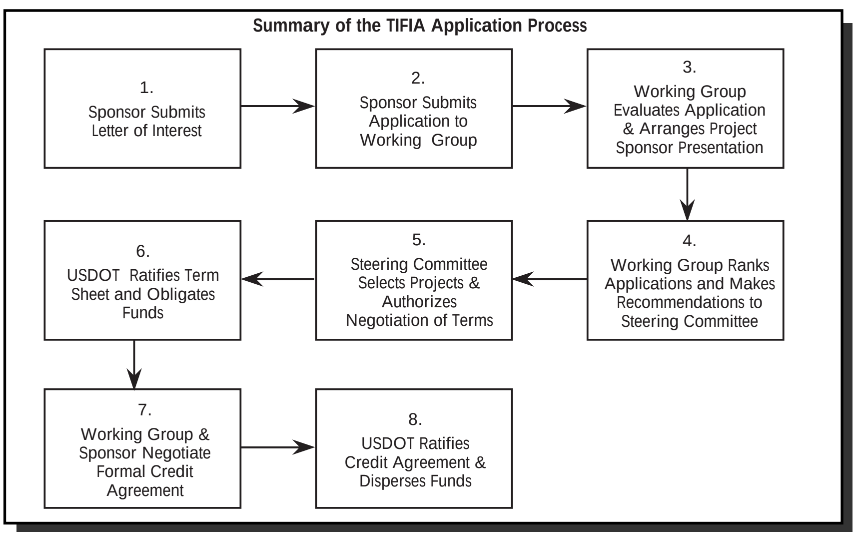
FEDERAL CREDIT PROGRAM

Final Rule Published on TIFIA Program

On June 2, 1999, the final rule (49 CFR 80) for the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) was published in the *Federal Register.* As reported in the Summer 1998 issue of *IFQ*, TIFIA is a new Federal credit program for large surface transportation projects, included as part of the Transportation Equity Act for the 21st Century (TEA-21) reauthorization bill last year. Under TIFIA, USDOT may provide direct Federal loans, Federal loan guarantees, and standby lines of credit to large projects meeting certain eligibility criteria. The complete text of the rule, as well as the program guideline booklet and application forms, may be accessed at the TIFIA website: (http://tifia.fhwa.dot.gov).

Accompanying the rule was a Notice of Funding Availability setting forth the key dates for FY 1999 program activity. Applications for TIFIA assistance this year may be submitted between July 7, 1999 and August 2, 1999. USDOT anticipates selecting projects in August and negotiating term sheets and/or credit agreements with project sponsors by September 30, 1999. At the beginning of each fiscal year through 2003, USDOT will publish a notice in the *Federal Register* indicating the key dates for applying for funds for that year.

For the current fiscal year, USDOT has available $70.6 million of net budget authority to support the subsidy costs of up to $1.6 billion face amount of credit assistance. An additional $450 million of budget authority and $9 billion face amount of credit instruments is authorized over the next four fiscal years, through FY 2003.



The final rule responded to questions that had been submitted to USDOT from a dozen commenters, following the publication of a Notice of Proposed Rulemaking (NPRM) for TIFIA on February 8, 1999. Summarized below are several of the key issues that the final rule addressed.

Application Process

The final rule, program guidelines, and accompanying application forms indicate the type of information to be submitted at the time of applying for TIFIA assistance. A preliminary opinion letter from a rating agency (or an actual rating) indicating that the project's senior debt obligations have the potential of being investment grade is required at the time of application. ("Investment grade" is a bond rating of BBB-, Baa3, or higher.) For projects that are selected, the preliminary rating letter can be sufficient to obligate funds. However, no funds may be disbursed until an actual credit agreement has been executed and the project's senior obligations have obtained a formal investment-grade rating.

Eligible Costs

The total amount of credit assistance may not exceed one-third of eligible project costs, as measured on a nominal or "year-of-expenditure" basis. Developmental and right-of-way costs incurred up to three years prior to a project sponsor's submission of an application may be included, with the approval of the Secretary of Transportation. USDOT may assess

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Also in this issue …

GARVEE ROUNDUP

New Financing Mechanism Gains Momentum

Grant Anticipation Revenue Vehicles (GARVEEs) have been test-driven by several states, and a notable number of other states are considering taking them for a spin.

As described in *IFQ*'s Fall 1997 issue (Volume 3, Number 2), GARVEEs are debt financing instruments that are secured with a pledge of Federal-aid highway funds. Prior to the National Highway System Designation Act of 1995 (the NHS Act), these transactions were difficult because of limitations on the eligibility of bond issuance and interest costs for reimbursement. The NHS Act revised Section 122 of Title 23, making interest and issuance costs eligible for Federal-aid reimbursement. The passage of TEA-21 removed other hurdles to issuing debt against future Federal-aid, by guaranteeing funding levels through FY 2003 and including an "equity" provision which ensures that each state receives a share of highway funding equivalent to 90.5 percent of its percentage contribution to the Highway Trust Fund.

As reported in *IFQ's* Summer 1998 issue (Volume 4, Number 3), three states – New Mexico, Ohio, and Massachusetts – have already taken advantage of this flexible mechanism by issuing debt backed by pledges of Federal aid. Although they are all considered GARVEEs, the structure of each is as varied as the geography and landscape of the states involved. (Mississippi sold its first issue of GARVEE bonds on June 17, 1999. See "Late-Breaking GARVEE News" on page 8.)

Of significance is the flexibility provided by the GARVEE concept which enables each issuer to tailor the financing to accommodate state fiscal and legal conditions. New Mexico issued direct, insured GARVEEs for a single project, with no recourse to alternative sources of funding. Massachusetts issued indirect GARVEEs, securing the notes that were issued with Federal-aid reimbursements from other non-debt financed projects. In addition, the state agreed to pay the interest and, under certain limited circumstances, provided a backstop of gas tax revenues for principal repayment. Finally, Ohio's issue, also intended to fund multiple projects, included a triple-barreled structure that provides several alternative sources of funding in the event of a shortfall.

Differences in the structure and security provisions of the three financings have influenced the ratings for the issues. The table above shows a comparison of the ratings for the three GARVEE transactions.

Emerging GARVEE Programs

In the wake of these successful issues, more states are examining GARVEEs' potential. In addition to Mississippi, enabling legislation has been passed in Arkansas, Florida, and Colorado (voter approval is still required in Colorado.) In California, legislators are currently evaluating the potential of GARVEEs. Arizona, which is positioned to bring its first GARVEE-type issue to market in late summer, had authorizing legislation in place, but amended its statutes this year to strengthen the security for this financing mechanism. Based on market reception and the growing interest among states in advancing projects using this new financing mechanism, GARVEEs appear to fulfill an important niche in the states' "toolbox" of innovative approaches to maximizing Federal transportation dollars.

First Transit GARVEEs

In another application of the GARVEE tool, the New Jersey Transit Corporation issued $151.5 million in debt backed solely by a pledge of future Federal Transit Administration (FTA) funding. The debt, which was sold in March 1999, and insured by AMBAC Corporation, will be used to purchase 500 new buses for the mass transit agency. The issue obtained underlying credit ratings of A1, A, and A from Moody's, Standard and Poor's, and Fitch, respectively.

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GARVEE Rating Scorecard

State	Initial Issuance Size	Bond Insurance	Underlying Ratings			
			Standard and Poor's	Moody's Investors Service	Fitch IBCA	Duff & Phelps
Ohio	$70 million	None	AA-	Aa3	AA-	-
Massachusetts	$600 million	MBIA ($45 million)	-	Aa3	AA	AAA
New Mexico	$100.23 million	AMBAC AAA (insured)	A-	A3	-	-

NEW LEGISLATIVE INITIATIVES

Highway Innovation and Cost Savings Act

New legislation under consideration in both the Senate and House may create a pilot program establishing a new class of tax-exempt, private activity bonds issued to finance certain qualified highways. Senator John Chafee (R-Rhode Island) and Representative Jennifer Dunn (R-Washington) introduced identical versions of the Highway Innovation and Cost Savings Act (HICSA) in the House (H.R.859) and Senate (S.470) in February 1999. The legislation would provide Congress and the transportation community with an opportunity to evaluate the potential benefits of increased private sector participation in the provision, maintenance, and operation of highway infrastructure.

Under HICSA, the Secretary of Transportation may select fifteen projects to participate in the pilot. The project sponsors could then issue tax-exempt bonds up to $15 billion in aggregate. The projects would involve private entities that develop, finance, operate, and maintain highways, bridges, and tunnels.

To participate in the pilot, projects would have to be part of a state approved transportation plan, serve the general public, and be located on publicly owned right-of-way. In addition, the projects must be publicly-owned or revert to public ownership upon retirement of the project's financing. Projects may be either toll or non-toll facilities.

Even with increased grant funding under TEA-21, transportation needs still outstrip available resources. Existing tax law discourages private investment in highway infrastructure by prohibiting lower cost tax-exempt financing for projects involving private equity investment and private sector operating contracts. Because issuance of fully taxable debt results in higher interest payments, private entities typically find the increased cost of capital makes public-private partnerships less attractive to public sector sponsors than conventional approaches.

Passage of HICSA would provide the opportunity to evaluate whether the removal of this financing disincentive attracts more private investment and ultimately benefits the traveling public. Pilot projects will be selected based on the degree to which they use new technologies, construction techniques, and/or innovative cost controls.

HICSA follows on the heels of a similar proposal, the Highway Infrastructure Privatization Act (HIPA). Although the Senate Finance Committee favorably reported out HIPA in 1997, it was not included in the final version of TEA-21. (See the Fall 1997 issue of *IFQ* for more information.)

Most recently, HICSA has been referred to the Senate Finance Committee and to the House Committee on Ways and Means for further consideration. It is anticipated that the measure will be considered by the full Congress as part of broader tax legislation.

Contact:
David Seltzer, FHWA
202/366-0397.

Surface Transportation Act of 1999

On May 27, 1999, Senator George Voinovich (R-OH), Transportation and Infrastructure Subcommittee Chairman, introduced the Surface Transportation Act of 1999 (S. 1144). Co-sponsoring the legislation are Senators John Chafee (R-RI), Environment and Public Works Committee Chairman, and Jim Jeffords (R-VT), Daniel Patrick Moynihan (D-NY), John Warner (R-VA), Kay Bailey Hutchinson (R-TX), Harry Reid (D-NV), Frank Lautenberg (D-NJ), and Patrick Leahy (D-VT). The bill provides additional flexibility to states and localities in implementing the Federal transportation programs. TEA-21 funding levels and formulas are not affected by the bill. S. 1144 includes several key provisions:

- ❖ Authorizes all 50 states to participate in the State Infrastructure Bank (SIB) program, restoring the program as it existed prior to TEA-21 and extending it through FY 2003 (Section 2);
- ❖ Allows states to accelerate construction of their "high priority" projects by borrowing funds from other categories such as NHS, STP, and CMAQ (Section 3);
- ❖ Provides funding flexibility for High Speed Rail Corridors (Section 4);
- ❖ Eliminates a spending cap on Historic Bridge demolition costs (Section 5); and
- ❖ Simplifies accounting for the minimum guarantee program by making all obligation authority available as multi-year funding (Section 6).

SIB UPDATE

State Infrastructure Bank Pilot Program: Federal Financial Transactions
(cumulative through May 31, 1999)

	HIGHWAY OBLIGATIONS			HIGHWAY OUTLAYS			TRANSIT	
STATE	FEDERAL-AID HIGHWAY FUNDS	SPECIAL APPROPRIATIONS	TOTAL	FEDERAL-AID HIGHWAY FUNDS	SPECIAL APPROPRIATIONS	TOTAL	OBLIGATION: SPECIAL APPROPRIATIONS	OUTLAYS: SPECIAL APPROPRIATIONS
Alaska	$ -	$ 2,490,000	$ 2,490,000	$	$ 2,091,600	$ 2,091,600	$ -	$ -
Arizona	33,996,663	6,700,000	40,696,663	33,996,663	5,628,000	39,624,663	-	-
Arkansas	-	1,500,000	1,500,000		1,260,000	1,260,000	-	-
California	-	3,000,000	3,000,000		-		-	-
Colorado	3,200,000	1,500,000	4,700,000		-		-	-
Delaware	3,300,000	1,500,000	4,800,000	3,300,000	1,500,000	4,800,000	-	-
Florida	38,815,438	8,650,000	47,465,438	38,815,437	7,266,000	46,081,437	-	-
Indiana	-	3,390,000	3,390,000		-		-	-
Iowa	-	870,000	870,000		591,600	591,600	630,000	428,400
Maine	-	2,540,000	2,540,000		2,133,600	2,133,600	-	-
Michigan	-	11,050,000	11,050,000		9,282,000	9,282,000	-	-
Minnesota	-	-			-		3,960,000	2,692,800
Missouri	33,000,000	-	33,000,000	25,000,000	-	25,000,000	7,410,000	6,224,400
Nebraska	-	2,830,000	2,830,000		-		-	-
New Jersey	-	1,500,000	1,500,000		-		-	-
New Mexico	4,827,348	8,140,000	12,967,348	4,827,348	6,837,600	11,664,948	-	-
New York	-	12,000,000	12,000,000		100,000		-	-
North Carolina	-	480,000	480,000		-		1,020,000	1,020,000
North Dakota	-	2,540,000	2,540,000		2,133,600	2,133,600	-	-
Ohio	75,000,000	5,100,000	80,100,000	75,000,000	3,180,000	78,180,000	6,900,000	6,900,000
Oklahoma	-	4,700,000	4,700,000		-			
Oregon	8,973,000	2,589,700	11,562,700	8,973,000	826,500	9,799,500	2,920,300	2,920,300
Pennsylvania	4,000,000	2,090,000	6,090,000		1,755,600	1,755,600	1,300,000	1,092,000
Rhode Island	-	1,500,000	1,500,000		1,020,000	1,020,000	-	-
South Carolina	-	3,000,000	3,000,000		2,040,000	2,040,000	-	-
South Dakota	8,322,719	2,830,000	11,152,719	8,322,719	2,377,200	10,699,919	-	-
Tennessee	-	1,500,000	1,500,000		1,260,000	1,260,000	-	-
Texas	159,288,804	12,000,000	171,288,804	159,288,804	10,080,000	169,368,804	-	-
Utah	-	2,310,000	2,310,000		-		-	-
Vermont	560,000	1,500,000	2,060,000	560,000	1,020,000	1,580,000	-	-
Virginia	18,000,000	3,000,000	21,000,000	18,000,000	-	18,000,000	-	-
Washington	-	1,500,000	1,500,000		-		-	-
Wisconsin	-	1,500,000	1,500,000		1,260,000	1,260,000	-	-
Wyoming	14,301,720	2,510,000	16,811,720	14,301,720	1,706,800	16,008,520	-	-
Puerto Rico	10,748,588	1,500,000	12,248,588	10,748,588	1,260,000	12,008,588	-	-
Total	$ 416,334,280	$ 119,809,700	$536,143,980	$ 401,134,279	$ 66,610,100	$467,744,379	$ 24,140,300	$ 21,277,900

SIB Highlights

State DOTs are continuing to make notable progress in advancing projects through the SIB financing mechanism. As of May 31, 1999, $560.2 million in Federal funds had been deposited into the highway and transit accounts of state banks as shown in the table above. Twenty-six states have loaned a total of $372.5 million to assist in the financing of 93 projects. These loans have supported over $2.8 billion in construction, a leveraging factor of 7.6. Since the last report on loan activity in the Fall 1998 issue of *IFQ*, loan disbursements have doubled, increasing from $184.7 million to $372.5 million. The table on page 5 details the status of SIB loan agreements and disbursements as of May 31, 1999.

In this issue of *IFQ*, we are showcasing SIB programs in two states: Texas and Missouri. Both states have demonstrated leadership in implementing the SIB financing mechanism to fund critical transportation projects. Special thanks are extended to the Texas DOT and Missouri DOT staff for their contributions to this article.

Texas

The Texas SIB, one of the first 10 SIB pilot programs approved in 1996, is under the authority of the Texas Transportation Commission. Since launching the program in 1997, following passage of enabling legislation, the Texas DOT has received applications from 18 sponsors for loans totaling over $48 million. The size of loan requests has ranged from $30,000 to $29.4 million.

As of April 30, 1999, the Texas Transportation Commission had approved eight loans, totaling $33.2 million. This article spotlights three Texas SIB loans which exemplify the spectrum of projects and loan parameters which can be employed under the umbrella of a state SIB.

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State Infrastructure Bank Loans and Loan Agreements

(as of May 31, 1999)

STATE	PROJECT	TOTAL PROJECT COST ($000)	LOAN AGREEMENT AMOUNT ($000)	DISBURSEMENTS TO DATE	REPAYMENT SOURCE
Alaska	Whitier Access Project	$ 65,000	$ 4,600	$ 0	
Arizona	Price Corridor Segments	56,600	26,000	7,033	Earmarked sales tax revenues
	Red Mountain Freeway Segments	60,400	24,000	0	Earmarked sales tax revenues
Arkansas	Hackett Creek Str. & Apprs. (S)	20	20	0	State funds
Florida	Branan Field Road Construction - Clay Cty.	24,394	5,028	0	State DOT District funds (deriving mainly from gas tax receipts)
	Branan Field Road Construction - Duval Cty.	36,255	13,406	0	State DOT District funds
	Congress/Australian Connector	11,529	8,365	0	State DOT District funds
	SR77 Reconstruction	27,046	5,598	0	State DOT District funds
	SR80 Improvements	20,448	4,366	0	State DOT District funds
	SR44 Widening and Rehabilitation	20,523	9,782	1,521	State DOT District funds
	Recker Hwy, US17 to Winterlake Construction	14,888	6,953	318	State DOT District funds
	Lee County Trolley Purchase	1,900	720	720	Future federal transit funds
Indiana	Jefersonville/Clarksville Inter-City Road		3,000	0	
Iowa	Roadway Weather Information System	989	739	592	State funds
Maine	Route 32 Road Improvement	80	20	20	Local Road Assistance payments
	Route 24 Road Improvement	440	110	0	Local Road Assistance payments
	Route 104 Road Improvement	345	86	0	Local Road Assistance payments
	Route 104 Road Improvement	345	86	64	Local Road Assistance payments
	Route 91 Road Improvement	350	88	0	Local Road Assistance payments
	Route 5 Road Improvement	290	73	0	Local Road Assistance payments
	Route 3 Road Improvement	300	75	63	Local Road Assistance payments
	Route 148 Road Improvement	160	38	6	Local Road Assistance payments
	Hermon Center Bridge Road Improvement	427	107	107	Local Road Assistance payments
	Route 222 Road Improvement	400	100	67	Local Road Assistance payments
	High Street Road Improvement	302	123	0	Local Road Assistance payments
	Allen Avenue Road Improvement	525	195	0	Local Road Assistance payments
	Route 164 Road Improvement	590	148	0	Local Road Assistance payments
	Route 9 Road Improvement	263	66	0	Local Road Assistance payments
Michigan	Center Street Reconstruction	2,100	700	700	Local funds
	Village of Holly, Phase 1 Major Street Impv.	776	504	0	Local funds
	City of Taylor, Rancho Road	890	260	0	Local funds
	Manistee Co. Road Comm, Coates Hwy	1,200	800	0	Act 51 Funds
	Village of Suttons Bay Elm & Broad Streets	185	133	0	TEA-21 High Priority Funds
	Delta County Road Commission Highway Re-Route	1,772	1,300	0	TEA-21 High Priority Funds, Local Funds
	Village of New Lothrop Genesee Street Improvement	540	486	0	Local funds
	City of Mackinac Island Grand Avenue and Hoban Road	1,200	559	0	TEA-21 High Priority Funds
	Cass County Road Commission	2,100	360	0	Local funds
	Eastern Upper Peninsula Transportation Authority Ferry	2,606	381	0	Local funds
	Otter Lake Road Project	1,019	140	0	Local funds
	Clarksville Main Street	784	249	0	Local funds
	Lake Erie Transportation Commission New Transit Facility	413	2,135	0	Local funds
	Alcona County Road Commission Hubbard Lake Improvements	1,360	1,000	0	Local funds, Federal STP
	Isabella County Transportation Commission New Facility	2,100	1,000	0	Local funds
	City of Jackson Fourth St./S. West Ave. Connector	2,025	841	0	Local funds
	City of Utica Van Dyke Road Reconstruction	7,501	1,776	0	TEA-21 High Priority Funds
Missouri	Springfield Transportation Projects	39,360	2,870	2,870	Local dedicated sales tax incr. financing and State Highway Fund
	Cape Girardeau Bridge	102,198	28,000	28,000	State and future federal funds
	Gateway Multimodal Center, St. Louis	27,900	10,900	10,900	Local sales tax
	Cole County Highway 179	37,544	6,000	0	Earmarked local sales tax revenues and State Highway Funds
Nebraska	Northern Plains Project (EACNH-26-2(107)	5,112	15,000	0	Nebraska Department of Roads
New Mexico	City of Moriarty Intersection Signal	541	541	541	
New York	Sterling Forest Interchange Feasibility Study	125	125	125	NYSTWY
North Dakota	Pembins County Surface Reconstruction	1,891	1,891	1,565	State funds
Ohio	Butler Regional Highway	150,000	35,000	35,000	Bond proceeds
	Great Lakes Science Center Parking Facility	7,825	7,825	7,825	Parking fees
	Fort Washington Way Relocation	150,000	20,000	20,000	Future city income and sales tax
	Cleveland Transit Viaduct	25,000	6,945	6,945	County sales tax
	(Marion, OH) LTV Steel	3,225	2,025	2,025	Payment in lieu of property taxes (TIF)
	Cincinnati Industrial Park Access Rd Improvements	833	335	335	City's capital improvement fund (primarily income tax)
	Brower Road Improvements, Lima MPO	950	20	20	***Loan was canceled***
	Eastlake Industrial Park	2,647	2,425	2,425	TIF
	Putnam Street Bridge, Washington County	11,030	1,530	1,530	Local sales tax
	Steubenville SR 43 widening, Sunset Blvd.	4,457	2,303	2,303	TIF, MPO funds
	Jefferson County Airport Improvements	370	370	370	Airport revenues
	Market Street Improvements (Canton, OH)	12,469	1,200	1,200	City-pledged excess revenues (primarily income tax)
	Ann Arbor Intermodal Facility	6,000	2,425	2,425	Private revenues
	Trimor/Maple Heights Industrial Park Road		528	0	Land sales
	Clark County (Leffel Lane & Mitchell Blvd. ROW)		2,000	0	MPO Funds
	Clark County (Mitchell Blvd. Construction)		1,000	0	MPO Funds
Oregon	Ash Creek Bridge Replacement	850	735	735	Future federal highway funds, city revenues
Pennsylvania	Pittsburgh Intl. Airport Cagro Interchange	26,945	3,910	0	Special Tax District
	Potter Co. Local Bridge Replacement	730	124	124	Township Tax Revenue
	Huntingdon Co. Local Bridge Replacement	174	174	174	Township Tax Revenue/State Funds
	Westmoreland Co. Traffic Signal Installation	95	95	95	Township Tax Revenue
Puerto Rico	Highway Improvements	60,000	15,000	15,000	(Loan to reserve fund for bond issue)
Rhode Island	Resurfacing Route 136 fr. Bristol/Warren	1,311	1,311	1,311	Rhode Island Bridge Authority Revenue
South Dakota	Northern Plains project (Hell Canyon)	19,125	992	992	Future Federal Funds
Tennesee	SR 104 Construction		1,875		State DOT District funds
Texas	Laredo Bridge #4	61,400	29,400	27,000	Toll revenues
	Motley County Off-system Bridge	482	47	33	Future federal highway funds and state road and bridge funds
	W. Columbia utility re-location/SH35	605	600	600	Ad valorem taxes
	Sugar Land road construction/US 59	40,000	2,700	2,700	Sales tax revenue
	Hall Co. - 3 off system bridges	957	47	47	Geneal Fund Revenue
	Spur 6 ROW purchase	1,500	77	77	Sales and property taxes
	Dawson utility re-location/improvement/SH31	114	114	114	Utility revenue
	Utility re-location/FM 1960	308	247	247	Utility revenue
Utah	I-15: 10800 South. To 600 North	1,327,175	2,888	2,888	State Funds
Vermont	Town of Holland	200	180	0	Property Taxes
	McIntyre Fuels	625	500	0	Charge of Fuel put through facility
	Green Mtn. Railroad	437	350	0	Freight transport fees
Virginia	Route 895 Connector, Richmond	323,000	18,000	18,000	Gross Revenue Pledge on toll collections
Wisconsin	LaCrosse Co. Trunk Highway	838	388	388	County Appropriations
Wyoming	Cody to Yellowstone Park Improvement	15,000	15,000	15,000	Future federal highway funds and state highway funds
	TOTAL	**$ 2,844,728**	**$ 372,528**	**$ 223,140**	

SIB HIGHLIGHTS, continued from page 4

Laredo Toll Bridge

The largest loan awarded to date by the Texas Transportation Commission in the amount of $29.4 million is helping to finance the Laredo Northwest International Bridge. This facility, estimated to cost $66.5 million, will be an eight-lane vehicular and pedestrian toll bridge between Laredo, Texas and Nuevo Laredo, Tamaulipas, Mexico. The bridge will be owned and operated by the City of Laredo and consists of a toll plaza, export lot, a customs station, import lot, and related roadways. The project will alleviate congestion on the existing toll bridge system and within the City of Laredo. It also supports increased trade and traffic resulting from the implementation of the North American Free Trade Agreement (NAFTA).

The loan carries an interest rate of 4.1 percent, compounded annually. Repayments are scheduled to begin in October 2005. The total payback on the loan is over $43 million structured with two maturity periods. Of the loan total, $4.2 million has a five-year term and $25.2 million has a 23-year term.

SH-35 Utilities Relocation

The second Texas SIB loan illustrates how a relatively small loan can be leveraged to facilitate completion of a large construction project. In May 1998, the Texas Transportation Commission approved a $600,000 loan to finance the relocation of utilities on State Highway 35 within the city limits of West Columbia, Texas. The loan facilitates advancement of major improvements on SH-35. This project, estimated to cost $32.2 million, is on the National Highway System designated as a Federal Demonstration Project as well as a Congressional High Priority. When completed, this project will provide consistent pavement life, increased safety, improved traffic flow, and greater efficiency of the state's highway system.

The borrowing rate for this loan is three percent for the first five years, escalating to 4.5 percent for the next 10 years. Repayments begin in February 2004. The City of West Columbia has pledged ad valorem taxes for repayment of the loan.

US 59 Expansion

The third loan is an example of a partnership project between the City of Sugar Land, Texas and TXDOT. In order to finance their $3.9 million share of the $44 million cost of expanding US 59 from South Kirkwood Drive to Sugar Creek Boulevard, the city applied and received approval for a $2.7 million SIB loan. This regionally significant project will improve not only the mobility of the Sugar Land area, but also the segment of the US 59 corridor that serves the Houston area.

This short-term loan of three years carries an interest rate of 4.5 percent compounded annually. Repayments are scheduled to begin in July 2000.

Contact:
Dorn Smith, TXDOT, 512/463-8684.

Missouri

Missouri, one of the first 10 states to be approved as a SIB pilot, has been very progressive in the implementation of the program. The Missouri SIB is distinguished among the 39 SIB programs in its institutional structure. To implement the program in 1996, the Missouri Highway Commission used existing legislation to establish the Missouri Transportation Finance Corporation (MTFC) as a non-profit lending entity. The MTFC has the authority to lend funds, issue revenue bonds, and offer other assistance to support transportation projects. The Missouri DOT provides administrative support to the MTFC.

Since 1996, four major projects have been advanced with SIB loans: the Springfield Transportation Project, the Cape Girard Bridge, the Cole County Highway 179, and the Gateway Multimodal Center in St. Louis – a joint FHWA/FTA project. The total cost of these four projects is approximately $207 million, and SIB-assisted financing totals $48 million.

With its designation as one of the four new pilot states under TEA-21, Missouri is well-positioned to build on its successes. An amended State Infrastructure Bank Cooperative Agreement with FHWA, FTA, and the Federal Railroad Administration (FRA) has been signed by the USDOT Secretary. The Missouri SIB has been capitalized with $8 million of new TEA-21 funds.

Acceleration of the I-55 overpass will be the first project financed with the TEA-21 SIB capitalization monies. The City of Festus, Missouri requested this SIB loan to accelerate the replacement of an existing overpass at I-55 and Route A with a new five-lane structure. This project was originally programmed for construction in FY 2001, but under the city's proposal, construction will be advanced two years through the SIB loan. The city will finance the project construction costs, estimated to be $6.3 million, through a short-term MTFC SIB construction loan. The city will contribute two percent of the project costs (one percent for each year the project is accelerated), and will be responsible for the interest costs. The balance of the repayment will come from highway funds allocated to the region. The loan interest rate of 4.8 percent was established, based on a comparable U.S. Treasury rate. The loan repayment will be a lump sum repayment in FY 2001.

Contact:
Patty Purves, MODOT 573/526-2412.

TIFIA, continued from page 1

various fees, including an Application Initiation Charge ($5,000 in FY 1999) and a Credit Processing Fee ($0 in FY 1999); USDOT may adjust these amounts in future years. In addition, if there is insufficient budget authority available to cover the subsidy cost of a TIFIA credit instrument, the project sponsor may contribute such amounts from other sources. However, none of these costs may be included in calculating eligible project costs.

Threshold Criteria

The rule clarifies several of the threshold eligibility criteria for projects. First, both general obligation and general corporate promissory pledges can satisfy the legislative requirement that projects be secured at least in part by "dedicated revenue streams." However, Federal grants, regardless of funding source, are not eligible to serve as pledged security of the TIFIA instrument. The Secretary may also take into account other forms of security and collateral pledged to secure a TIFIA instrument. Second, projects extending across state lines (like a bridge) would determine the threshold size criterion against the state with the smaller level of Federal-aid. Finally, the requirement that the project be included in the public transportation planning process can be demonstrated if the project is consistent with the transportation plan of a state (or metropolitan planning organization, if applicable) at the time of application, and if it is included in the fiscally-constrained State Transportation Improvement Program at the time funds are obligated.

Rating Requirement

The rule clarifies that the statutory requirement for an investment-grade rating on the project's senior debt should not reflect the presence of bond insurance, unless such credit enhancement also extends to the TIFIA component. The rating should reflect the underlying credit-worthiness of the senior debt. No funds may be disbursed until the formal rating is issued.

Conditional Commitments

It is expected that, in many cases, project sponsors and USDOT will first execute a term sheet to allow the obligation of funds and credit amounts, and thereafter draft the formal credit agreement for a loan, loan guarantee, or line of credit. For those projects lacking certain prerequisites at the time of application (such as a final environmental Record of Decision) or for large projects with extended construction periods, the Secretary may elect to make a contingent commitment in the form of a Conditional Term Sheet. This conditional agreement would not formally obligate funds at the time of execution. However, it would reflect the Secretary's intention to obligate funds in a subsequent fiscal year, provided specified conditions were satisfied by designated dates. The Secretary can administratively reserve, or set-aside, up to one-half of a future year's budget authority pursuant to such contingent term sheets. Each year's obligation of funds would be tied to distinct, clearly identified project segments, stages, or milestones set forth in the term sheet. Generally, projects will have to be sufficiently advanced at the time of application to have at least published their draft Environmental Impact Statement.

Fiscal Year	Subsidy Spending Authority (Budget Authority)	Maximum Credit Assistance
FY 1999	$80 M[1]	$1,600 M
FY 2000	$90 M	$1,800 M
FY 2001	$110 M	$2,200 M
FY 2002	$120 M	$2,400 M
FY 2003	$130 M	$2,600 M
Total	$530 M	$10,600 M

[1] FY 1999 obligation limitation reduced TIFIA budget authority to $70.6 million

Over the next four years, USDOT expects to receive applications for TIFIA assistance from project sponsors of highway, mass transit, passenger rail, and intermodal facilities. The statute requires USDOT to report to Congress by June of 2002 regarding the financial performance of the TIFIA projects, along with a recommendation as to whether the program should be continued in its current form or not.

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GARVEE Roundup, continued from page 2

The agency will repay the debt with FTA formula funds, which it is slated to receive at a level of approximately $200 million each year through 2003. Although the bonds mature in 2008, five years beyond the current transportation funding authorization bill, the issue relies on anticipated future transit funding at levels equal to or higher than current ones.

In the future, more states may explore financing transit projects either through GARVEEs repaid with FTA formula or grant funds, or through Federal-aid apportionments available to transit projects.

Looking Ahead

In response to the widespread interest in GARVEE bonds, FHWA and the American Road and Transportation Builders' Association (ARTBA) are coordinating a workshop on GARVEEs; the workshop will also include sessions on TIFIA. The workshop will be held in Washington D.C. on November 2, 1999 in conjunction with the ARTBA Public-Private Ventures Conference.

States that are interested in this new financing mechanism may wish to contact the rating agencies for copies of the credit reports on GARVEE issues. These reports include key information related to the rating agency considerations. The FHWA Resource Centers and the Innovative Finance Team in Washington are available to work with states in advancing this new financing approach. Also FHWA plans to issue new guidelines on GARVEE financings in July 1999.

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A New Team Member

Suzanne H. Sale has joined the FHWA Innovative Finance Team. Ms. Sale will serve as Senior Financial Advisor to FHWA and will assist in developing new project finance techniques as well as providing expertise with existing programs such as State Infrastructure Banks (SIBs), Grant Anticipation Revenue Vehicle (GARVEE) bonds, and the Quality Program. Prior to joining the team, Ms. Sale served as the Chief Financial Officer for the Arizona Department of Transportation (ADOT). Over her 23-year career at ADOT which she began as an Economist, Ms. Sale held increasingly responsible positions and served as CFO since August 1988. Ms. Sale led the Department's bond financing activities and she was instrumental in establishing Arizona's SIB program and advancing the GANS (i.e., GARVEE) financing mechanism. Her degrees include a Bachelor's in Chemistry from Manhattanville College, a Master of Science in Teaching from Boston College, and a MBA from Arizona State University. She is an active member of a number of national transportation groups, including the Transportation Research Board's Taxation and Finance Committee, and the AASHTO Subcommittee on Transportation Finance.

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Late-Breaking GARVEE News

Arkansas Voters Pass Bond Issue

On June 15, 1999, Arkansas voters approved, by a 4 to 1 margin, a plan to issue $575 million in GARVEE bonds for repairs to 372 miles of interstate routes. It was the first time in 50 years for Arkansas to approve going into debt for highways. The state will be paying off the bonds over 10 to 12 years with the authorizations from TEA-21 and future highway bills and dedicated revenues from a 4 cent diesel tax passed earlier in the year. The Arkansas Highway and Transportation Department anticipates that the first interstate repair contract under this program should start in early 2000.

Mississippi Sells First GARVEE Bonds

Mississippi accepted bids on June 17, 1999 for $200 million of GARVEE bonds to accelerate a four-lane road building program. The goal of this program is to provide every resident in the state access to four-lane facilities within a 30-minute drive and with increased mobility to enhance rural economic development. Proceeds of the GARVEE issue will pay off short-term notes issued earlier in the year. The Mississippi GARVEE bonds are secured by both Federal highway reimbursements and dedicated state taxes.

A Reminder to Readers

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- National Association of State Auditors, Controllers, and Treasurers (NASACT)
- National Association of Regional Council's (NARC's) Association of MPOs (AMPO)

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