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SIB TRANSACTION UPDATE

SIB-Assisted Projects as of February 15, 1998

In the previous issue of *IFQ* we provided a table detailing the capitalization activity of each State Infrastructure Bank (SIB) as of the end of fiscal year 1997. In contrast, this issue of *IFQ* provides a Transaction Update, detailing the nature and extent of project activity within the nation's SIBs. First we present a table (see page 2) that summarizes pertinent information on two classes of projects: those for which one or more loans have been disbursed, and those for which a loan or credit agreement has been signed but no transaction has yet occurred. Second, we highlight a specific project as a case study. The recent sale of $159 million in revenue bonds for the Butler Regional Highway makes it this issue's SIB project of choice.

Butler Regional Highway, Butler County, Ohio

The Butler Regional Highway involves new construction of a 10.7-mile, four-lane, limited access toll road. The project is located in the southwest corner of the state and will connect an intersection in Hamilton, OH to Interstate 75 in Liberty Township, OH. The project's expected construction cost is approximately $150 million. Right-of-way acquisition began in 1996, ground will be broken in April 1998, and the project is expected to be complete in the fall of 2000.

The Butler County Transportation Improvement District (TID) is financing and building the project, and will own the project until 2017. On October 16, 1996, Butler TID became the first-ever borrower to receive a SIB loan of $10 million. Since then, the Ohio SIB has provided two additional loans to the TID, for a total loan amount of $35 million for the Butler Regional Highway. Each of the three loans carried a 6 percent interest rate. The term for each loan was three months following issuance of bonds, or two years in the event that no bonds were issued.

Upon issuance of $158.5 million in revenue bonds, the TID used a portion of the bond proceeds to repay the Ohio SIB $35 million in loan principal, plus about $1.5 million in interest, in December 1997. Administrators of the Ohio SIB are currently planning to lend these repaid funds to two other projects: the Fort Washington Way Interstate relocation in Cincinnati, and a project to widen West 117 in Cleveland.

The $158.5 million in revenue bonds were sold in November 1997. The bonds, which are insured, received ratings of Aaa, AAA, and AAA by Moody's, Standard and Poor's, and Fitch, respectively.

The TID will service the debt with lease payments it receives from Ohio DOT (ODOT). ODOT will lease the highway from the TID until 2017, at which point ownership of the highway will transfer to ODOT. Until that time, ODOT's lease payments will derive from future Federal highway apportionments that are appropriated to ODOT biennially by the Ohio General Assembly, making the project an early example of the grant anticipation revenue vehicles (GARVEE) financing concept described in the previous issue of *IFQ* (Vol. 3, No. 2). The bonds are also backed by the State Highway Fund in event of Federal non-appropriation. Toll revenues will support operation and maintenance of the regional highway. Any excess toll revenues will be directed towards other connecting segments being constructed by the TID.

The SIB loans permitted right-of-way acquisition and design to move forward prior to the bond sale and approximately one year earlier than would otherwise have been possible. The loan also freed up $25 million in TID reserves for construction of an adjoining interchange, now complete.

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Also in this issue …

Summary Table: SIB Loan Transactions and Loan Agreements

as of February 15, 1998

As this issue of *IFQ* goes to press, three states had disbursed seven loans from their State Infrastructure Banks. These loans, totaling $92 million, were provided to five projects (note that one project received three separate loans). In addition, five states had signed loan agreements for 18 projects. The table appearing below provides a summary of all loans and loan agreements completed as of February 15, 1998.

The information displayed in the following table derives from a three-page form that FHWA is currently circulating to FHWA division offices and SIB contacts within each state DOT. As this survey instrument is refined, the information it produces will set the stage for further exchange of information among the states on SIB-assisted projects and their financing arrangements.

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	STATE	PROJECT	PROJECT COST ($000)	LOAN AMOUNT ($000)	INTEREST RATE	DRAW DATE	REPAYMENT SOURCE
Loans							
1	Missouri	Springfield Transportation Projects	33,000	1,180	3.70%	4/01/97	Local dedicated sales tax increment financing and State Highway Fund
2	Missouri	Cape Girardeau Bridge	96,400	28,000	5.30%	2/01/98	State and future Federal funds
3	Ohio	Butler Regional Highway	150,000	10,000	6.00%	10/16/96	Bond proceeds
4				10,000	6.00%	1/13/97	Bond proceeds
5				15,000	6.00%	5/19/97	Bond proceeds
6	Ohio	Great Lakes Science Center Parking Facility	7,825	7,825	6.00%	5/01/97	Parking fees
7	Texas	State Route 190 - Bush Turnpike*	1,000,000	20,000	4.20%	10/01/97	Toll revenues
	SUBTOTAL		1,287,225	92,005			
Loan Agreements							
1	Arizona	Price Corridor Segments	56,600	26,000	3.67%	3/00/99	Earmarked sales tax revenues
2	Arizona	Red Mountain Freeway Segments	60,400	13,700	3.67%	7/00/98	Earmarked sales tax revenues
3	Florida	Branan Field Road Construction - Clay Cty.	27,046	4,980	0.00%	1999	State DOT District funds (deriving mainly from gas tax receipts)
4	Florida	Branan Field Road Construction - Duval Cty.	36,255	13,406	0.00%	1999	State DOT District funds
5	Florida	Congress/Australian Connector	11,529	8,365	0.00%	tbd	State DOT District funds
6	Florida	I-275 Widening	11,801	2,327	0.00%	1999	Future Federal highway funds
7	Florida	SR77 Reconstruction	27,046	5,598	0.00%	2000	State DOT District funds
8	Florida	SR80 Improvements	20,448	4,366	0.00%	tbd	State DOT District funds
9	Florida	SR540 Improvements	18,727	2,590	0.00%	1999	State DOT District funds
10	Florida	SR655 Construction	14,948	6,953	0.00%	1999	State DOT District funds
11	Missouri	Cole County Highway 179	31,400	6,000	3.50%	11/01/02	Earmarked local capital improvement sales tax revenues, State Highway Fund
12	Missouri	Springfield Transportation Projects**	see above	1,690	3.50%	4/01/99	Local dedicated sales tax increment financing and State Highway Fund
13	Ohio	Fort Washington Way Relocation	120,000	20,000	5.00%	3/01/98	Future city income and sales tax
14	Ohio	Cleveland Transit Viaduct	25,000	6,900	4.25%	4/01/98	County sales tax
15	Ohio	Project Monaco (Marion, OH)	2,025	2,025	4.00%	4/01/98	Payment in lieu of property taxes (TIF)
16	Ohio	Market Street Improvements (Canton, OH)	12,469	1,200	4.25%	7/01/98	City-pledged excess revenues (primarily income tax)
17	Ohio	Cincinnati Industrial Park Access Road Improvements	645	645	4.00%	4/01/98	City's capital improvement fund (primarily income tax)
18	Texas	State Route 190 - Bush Turnpike*	see above	40,000	4.20%	10/01/98	Toll revenues
19			see above	20,000	4.20%	10/01/99	Toll revenues
	SUBTOTAL		476,339	186,745			
	GRAND TOTAL		1,763,564	278,750			

* SR 190 received two loan disbursements under 23 USC 129, prior to establishment of the Texas SIB. Those obligations were subsequently adopted by the SIB. The two previous loan disbursements were made on 1/1/96 in the amounts of $20 million and on 10/1/96 for $35 million. It is anticipated that the full $135 million from all prior and future loan disbursements will be repaid to the Texas SIB.

** This line item represents a second loan for the Springfield Transportation Projects.

IN PRACTICE

Applying IF Strategies to Special Funding Problems

> This issue of *IFQ* introduces a new feature, in which we present a set of hypothetical cases that give the reader a chance to devise his or her own response to a special highway financing problem. We also present some thoughts on how the problems might be addressed.

You, the Director of Finance, just got a call from the CEO of your state DOT. She read an issue of *IFQ* and wants to know how your state can use these innovative tools she's been hearing about. She expects a full report in one week on how you plan to use innovative finance techniques to help solve the particular transportation financing challenges of your state.

Aghast, you flip through the six-pound notebooks you collected at the innovative finance workshops your boss asked you to attend. Why did they all take their examples from high-population density, high-income, urbanized states? Why does every example seem linked to a toll road? Isn't there any article or presentation that describes what a *real* DOT goes through?

The example situations below are drawn from real states, and demonstrate a few ways that these techniques might be applied to specific funding situations.

Example Situation #1: There's Many a Slip 'Twixt TIP and STIP

The Problem

The State of Babel has six metropolitan planning organizations (MPOs) that create local Transportation Improvement Programs (TIPs). As with most states, projects from the local TIPs are selected for inclusion in the three-year, financially constrained State Transportation Improvement Program (STIP). Yet many projects never make the cut, and wind up appearing on the local TIPs year after year. You now have a twelve-year planning horizon for many projects, and the year 2010 is showing up with appalling regularity under the column "Expected Completion Date" on your long-range plan.

Your DOT already went to the governor and asked him to support a gas tax increase to get some of these local projects done. "No way," said the governor. "Read my lips: no tax increases."

Your Congressional delegation is trying to get demonstration funds, with equal lack of success.

You call your finance department colleagues into the office for a brainstorming session.

Ideas

"Listen, we've got to accelerate the local projects, and without any new money."

One of your colleagues steps forward. "What if we work with our FHWA Division office to see if there are any funds still obligated on expired or stalled projects? I've heard that some states have done *project funds management reviews* and found money they didn't know they had."

"Not exactly innovative finance," you say, "but worth a shot." You set up an appointment with your Division's financial manager to look for funds tied up in outdated or stalled projects.

Another associate chimes in. "You know, Coal County representatives were here the other day, wondering when we can get started on the Blue Highway retrofit. They need another $200,000 to make up the total cost of $400,000. They'd even be willing to take a loan and use county tax funds to repay it, if we could come up with some more grant money for them soon."

"Hmmn." You consider the idea briefly. "How can we come up with loan and grant funds on the project when we're already stretched as it is? I can't afford to delay any more projects in order to make that happen."

"Well," your assistant points out. "What about borrowing from four or five of our smaller counties? You know they only get sub-allocated about $40,000 per year in Federal funds. Most of them won't even start a Federal project until they've accumulated at least $160,000 or $200,000 together in Federal funds."

"Maybe we could convince them to let us use that money to lend Coal County $200,000 for the projects, through a Section 129 loan, or SIB loan. Coal County could repay that loan through a combination of future grant funds, or its own revenues, over a three-year period. If we pick five counties that aren't planning to use their allocation of $40,000 in a given fiscal year, that would be enough to make up the loan to Coal County. Then the repayments would go back to those counties, with maybe some interest for their trouble. It wouldn't change their project programming at all – just a different source of funding."

"Good idea!" You put a meeting with Coal County and Beetler County on your schedule.

Then a thought occurs to you. "How are we going to make sure it doesn't happen next year? You know the legislative committee is going to ask us how we are going to avoid this problem in the future."

Your deputy (whose background is in planning) pipes up. "What if we asked everyone about potential revenue sources before putting projects on the STIP? We could use a point system to incorporate financial considerations – like degree of local contribution, willingness to accept a partial loan, availability of revenue generators, etc., into our STIP evaluation process."

"You planners are so unrealistic," you say. Still, it's worth thinking about.

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CONFERENCE SPOTLIGHT

Notes on Three Recent Finance Sessions

A number of important conference sessions on transportation finance occurred during late 1997 and early 1998. These included a policy workshop for senior state transportation officials; a series of sessions within the Transportation Research Board's (TRB) annual meeting; and an FHWA-sponsored "Searching for Solutions" roundtable on the role and implications of direct Federal credit assistance. The following three summaries were prepared, in sequence, by Patrick Balducci, Dane Ismart, and David Seltzer.

Federal Credit Roundtable
Washington, D.C.
January 13, 1998

More than 100 experts from both the public and private sectors attended a one-day conference on Federal credit concepts for surface transportation. The conference attracted representatives from a wide range of organizations and sectors, including the Office of Management and Budget, the Department of Treasury, the Congressional Budget Office, the General Accounting Office, key Congressional committees, state DOTs, project sponsors, construction firms, and the financial community.

The purpose of the conference was to explore the implications of using Federal credit (e.g., direct loans, loan guarantees, and lines of credit) to help finance major surface transportation projects. The conference was one in a series of periodic policy discussions that FHWA has sponsored called "Searching for Solutions," in which experts are invited to help FHWA examine key transportation policy issues.

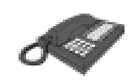
Conference participants were greeted by FHWA Deputy Administrator Gloria Jeff. In her introductory remarks, Ms. Jeff stated that strategies to facilitate interaction between the capital markets and traditional transportation financing mechanisms figured prominently in the Administration's debates on highway financing.

Interspersed throughout the day were three panels that gave participants the opportunity to explore Federal credit and its application to the surface transportation sector. The first panel focused on Federal credit legislation pending in both the House and Senate (respectively, the Transportation Infrastructure Credit Act of 1997, H.R. 2330, and the Transportation Infrastructure Finance and Innovation Act of 1997, Subtitle C, Chapter 2, of S. 1173, as profiled in *IFQ* Vol. 3, No. 1). The second panel examined how Federal credit concepts could be applied to real projects. This session considered how two standby lines of credit to the San Joaquin Hills and Foothill/Eastern Transportation Corridors and a direct Federal loan to the Alameda Corridor assisted these projects in obtaining financing and moving ahead. The third panel reviewed potential methodologies for assessing payment risk and estimating the budgetary costs associated with the provision of Federal credit assistance.

In addition to the panels, Mitchell Rapaport, Esq., of Nixon, Hargrave, Devans & Doyle LLP led a discussion on Federal tax law matters. The discussion focused on the tax implications of Federal credit, with special focus on those circumstances in which such assistance could be construed as an indirect guarantee of a tax-exempt obligation.

The day closed with a keynote presentation delivered by Jack Basso, USDOT's Acting Assistant Secretary for Budget and Programs. In his presentation, Mr. Basso discussed key policy issues relating to credit and administrative procedures for executing and monitoring loans under a Federal credit program.

The roundtable was a follow-up to a preliminary draft research paper entitled *Federal Credit for Surface Transportation: Exploring Concepts and Issues*. This paper is now being publicly circulated. In addition, major conference findings will be reflected in a Policy Discussion Series report, due for release in late spring.



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Financing the Bridge to the 21st Century: An Executive Policy Workshop
San Diego, California
December 3-5, 1997

Approximately 110 senior transportation officials from 34 states participated in a rigorous two-day workshop sponsored by FHWA and the Institute of the Americas. The purpose of the conference was to explore the state policy issues associated with financing major surface transportation investments through public-private partnerships. The workshop, structured as a hands-on interactive program, was divided into four elements: Core Courses, Transaction Reviews, Team Case Studies, and Group Presentations. A combination of Institute faculty members, public and private sector practitioners, and FHWA staff helped conduct the participatory sessions.

FHWA Deputy Administrator Gloria Jeff opened the program with an overview of FHWA's interest in promoting innovative finance alternatives. The *Core Courses* were designed to impart the informational building blocks needed to evaluate which financing techniques would be most appropriate in the context of a state's objectives and a particular project's characteristics. Core sessions included a pre-Conference workshop on the Federal Budget process ("The Wonderful World of

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FINANCE SESSIONS, continued from page 4

Scoring"), an overview of state and Federal legal issues, and an analysis of investment potential from the perspective of the institutional investor.

The *Transaction Reviews* offered candid assessments of both successes and failures in recent years in the area of transportation project finance. Presenters described various institutional models for developing and operating new transportation facilities, ranging from purely private project financings (SR 91, Dulles Greenway), to public-private partnerships (Denver E-470, Alameda Corridor), to publicly-sponsored system financings (Dallas North Tollway). Break-out sessions then canvassed the relative merits of these alternate formats and the varying role the states could play.

The *Team Case Studies* formed the crux of the Workshop. Attendees were divided into six groups. Two teams each were assigned to determine how best to finance a new airport access tollroad, a non-toll highway expansion, and a new toll bridge competing against a free alternative. The groups spent the better part of a day working through political, financial, and mobility considerations in devising the "right" solution. Afterwards, DOT Deputy Secretary Mortimer Downey gave a dinner address outlining reauthorization prospects and possibilities.

On the final morning, participants presented their teams' recommendations at a *Presentation and Review*. The workshop concluded with an address by Dean Dunphy, Secretary of the State of California Business, Transportation, and Housing Agency, on California's uniquely devolutionary S.B. 45 state funding initiative.

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TRB Workshop on Financial Planning for Surface Transportation
Washington, D.C.
January 11, 1998

On the basis of widespread interest in a follow-up to an April 1997 conference on transportation finance held in Dallas, Texas (see *Innovative Finance*, Vol. 2, No. 3 from June 1997), TRB added an all-day financial planning workshop to this year's annual meeting. The workshop included two separate training sessions that were attended by well over 100 TRB attendees from the public and private sectors.

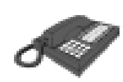
The first session focused on the capital markets and debt financing. Ms. Priscilla Hancock of Lehman Brothers, Inc., presented an overview of municipal bond markets, including a primer on the factors that influence bond prices, ratings, and yields. Ms. Hancock also provided recommendations on best practices for debt issuance.

The second session included a series of presentations on innovative financing strategies and statewide financial planning. The session began with a detailed discussion of individual financing strategies such as advance construction, tolls, toll credits, flexible match, state loans of Federal funds, and infrastructure banks. ISTEA's financial planning requirements were also reviewed, followed by a discussion of methods for incorporating current and proposed techniques into an effective statewide financially constrained transportation plan. The instructor and moderator for this session was Mr. Dane Ismart of Louis Berger & Associates, Inc.

After the presentation on innovative financing, Mr. Gary Joseph of Ohio DOT discussed the state's recent infrastructure bank experience. The presentation included information on how the bank is structured, how projects are selected to receive assistance, and how the state works with project sponsors to identify the revenue sources used to repay loans.

Following Mr. Joseph's discussion of Ohio's SIB experience, Messrs. David Seltzer and Bryan Grote of FHWA presented overviews of two key bills introduced during the 1997 session of Congress: the Transportation Infrastructure Finance and Innovation Act and the Highway Infrastructure Privatization Act. These two proposals, respectively, would permit direct Federal credit assistance to specific projects (see the summary of the Federal Credit Roundtable, above) and allow greater private participation in tax-exempt financing of toll facilities.

The entire workshop was recorded. Videotapes are available from TRB for $50.00.



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A review of innovative highway finance strategies has recently been published by the Congressional Budget Office. The report, entitled *Innovative Financing of Highways: An Analysis of Proposals*, was published in January 1998. It is available from the CBO Publications Office (202/226-2809), or at the CBO's web site (http://www.cbo.gov/).

APPLYING IF STRATEGIES, continued from page 3

Example Situation #2: Cash Flow Crunch

The Problem

The State of Good Intentions has an ambitious, multi-year highway construction program. One large project – the I-99 Olympus Highway – is running ahead of schedule, and using more cash, much more quickly, than initially was planned in your cash flow projections. As a result, even though the cost of the larger project has not changed, many of the smaller, local projects in the program are being delayed because of the cash shortage.

The legislature is not happy! Part of the way you got the funding for I-99 in the first place was to guarantee that you'd be able to do these smaller projects (which happen to be in each legislator's district) at the same time. You can't go back and ask for more money. Besides, it's not that you need more money. You just need it now! You convene an emergency meeting with the rest of your finance staff.

Ideas

Your intern waves a recent issue of the *Bond Buyer* in front of the meeting. "Have you heard about these new *GARVEEs*? What if we issued GARVEE bonds, and backed them with future Federal-aid for the I-99 Olympus Highway? We could use the proceeds to cover our cash needs on the Olympus project, and still start on those local projects right away."

"Good idea...but I'll have to check with the general counsel to see how we might do this. In the meantime, what if we worked with the local governments (that's what the State of Babel is doing) and offer Section 129 loans or SIB loans for preconstruction costs, if they want to speed up the projects?"

"Yeah," says another colleague. "Another thing we could do – ask the local governments if any of them have the money to construct the projects now, if we can reimburse them later. We could use *advance construction* to front-load our use of Federal-aid funds. We could sweeten the deal by offering more Federal funds later if they'll help us out now."

Example Situation #3: Match It or Scratch It!

The Problem

The State of Paradise sub-allocates its funding to local areas, and requires them to come up with the non-Federal share for funds they receive. If an area cannot fund the share, the Federal funds are re-allocated to other areas. A new governor has been elected, and he is not happy to learn that his county will lose its share of Federal-aid funding for the fifth year in a row. You and the county leadership quickly meet to determine how they can come up with the match.

Ideas

"What about *third party donations* (a.k.a., flexible match)?" You ask the county manager. "Do you have any projects planned that will or could receive donations from outside sources?"

"A developer did offer to contribute towards funding the interchange that runs near his property. If we accept the offer, can we apply it to the non-Federal share?"

"Absolutely. As long as you don't accept it before project authorization, of course." Another thought occurs to you. "Do you have any kind of ferry system?"

The county manager says "We've had a ferry system in operation for a couple of years – we charge ferry tolls and use them for capital construction of the ferry facilities."

"That's eligible for a *Section 1044 toll credit*. We'll have to calculate how much – probably enough to cover at least some of this project. I also heard that a cellular company had approached you about putting a tower on the bridge that you're reconstructing as part of the project?"

"Yes, that's true. We haven't decided if we're going to permit it, though."

"If you lease them the cellular tower on an annual basis, that's called a *shared resources* arrangement – you could use the income to come up with your non-Federal match."

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