

# Innovative



# Finance

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## Conference Provides National Forum for Transportation Finance

More than 450 Federal, state, metropolitan, and local government officials and private sector representatives met in Dallas, TX, from April 23 through April 25, 1997 to participate in a conference on Transportation Finance for the 21st Century. The conference, which was jointly sponsored by the Transportation Research Board, the Federal Highway Administration (FHWA), the Federal Railroad Administration (FRA), and the Federal Transit Administration (FTA), provided a national forum to discuss techniques and case studies of innovative finance that are being used for transportation projects. An outcome of the conference will be the identification of legislative and administrative changes needed to facilitate the implementation of innovative finance techniques, and development of a research and information transfer program that will disseminate best practices to state and local transportation agencies.

Conference participants grappled with one of the most critical issues confronting the transportation industry today: how the shift from traditional Federal sources of funding will affect the future of our nation's transportation infrastructure. These traditional sources of funding are forecast to fall far short of the estimated costs of maintaining and improving transportation infrastructure, raising serious concerns about U.S. competitiveness, productivity, and quality of life. Simply increasing these traditional sources is impossible, given resistance to higher taxes, as well as the desire to balance the budget by the year 2002. Given the conference's tremendous turnout, it is clear that these concerns are shared industry-wide, and

that transportation providers are seeking new ways to raise revenues and finance the necessary transportation improvements.

Work already has begun on identifying new sources of revenue for transportation, and on using financing mechanisms common in other industries but not previously applied to transportation. Conference break-out sessions featured case studies on this growing "tool box" of techniques, including the use of advanced construction, soft match, tapering, and other mechanisms to accelerate transportation projects by leveraging available Federal dollars; certificates of participation, cross border leasing, and other ways of financing transportation assets; public/private partnerships; bonding; using new technologies, such as intelligent transportation systems, to generate new revenues; Federal credit assistance; congestion, or value, pricing; innovative procurement strategies, such as turnkey and design-build; and the State Infrastructure Bank (SIB) program. Speakers and attendees discussed how these tools are being used in their states and metropolitan areas, and offered advice on how they might be applied by others.

A panel discussion on the new programs that are being proposed as part of the reauthorization debate generated lively discussion. At Thursday's lunch, keynote speaker Joseph Giglio, Professor of Strategy at Northeastern University, offered his perspective on the roles of the public and private sectors in regulating and providing transportation services. On Friday, the Honorable Norman Y. Mineta, Senior Vice President at Lockheed Martin and former

Chair of the House Transportation and Infrastructure Committee, challenged attendees to mix public tax funding with private toll revenues so as to maintain and improve the transportation infrastructure that is a major underpinning of the nation's economy.

By the close of the conference, attendees recognized that a combination of new revenue sources and more creative means of financing transportation infrastructure improvements will be necessary to meet the challenges of the future. Conference proceedings will be available in September 1997.



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# King County SR520: Keeping Communities Well Connected in Washington State

In November, 1995, the FHWA approved an innovative financing proposal from the Washington State Department of Transportation (WSDOT) for State Route 520 near Seattle. The proposal centers on a high-occupancy vehicle (HOV) lanes construction project; this is a major component of a larger highway project, which has a total cost of \$35.9 million. WSDOT requested FHWA approval to use two financing techniques pioneered under TE-045, partial conversion of advanced construction and tapered match, to overcome temporary constraints in Federal obligation authority and a shortage of state funds.

SR520 is an urban principal arterial and freeway connecting the city of Seattle and the cities of Bellevue and Redmond. It intersects with I-5, just north of Seattle's central business district; and with I-405, just north of the Bellevue central business district. SR520 comprises a 2.5 mile floating bridge that spans Lake Washington and approximately 10.3 miles of four-lane divided highway. On average, the most heavily traveled segment of SR520 approaches 110,000 daily trips, with a volume-to-capacity ratio of 1.3.

The cost of adding HOV lanes to SR520, which is the project accepted under TE-045, is \$21.3 million. Additional improvements being made to SR520 include resurfacing, road widening, and signalization and channelization of traffic on- and off-ramps.

Although the SR520 improvements have been in the state's construction program since 1990 and the affected local jurisdictions place a high priority on the project, it is unlikely that the project would have been able to start before 1997 in the absence of the TE-045 program. The principal problem confronting WSDOT in its efforts to advance this project was a near-term shortage of state funds; this was compounded by a shortage of federal obligational authority.

Faced with the possible need to defer the SR520 project until 1997, WSDOT approached FHWA to seek a means of advancing the project without exceeding limits on Federally imposed obligational authority or state-imposed spending limitations. To address the obligational authority shortage, as well as an imbalance in state expenditures for the program category representing the HOV improvements portion of the SR520 project, WSDOT secured approval to combine two innovative financing techniques: partial conversion of advanced construction, and tapered match.

Partial conversion of advanced construction represents a refinement to the existing advanced construction program, which permits states to start projects with their own funds while preserving those projects' future eligibility for Federal reimbursement. Under partial conversion, states may structure their obligation of advanced construction to mirror the actual expenditures incurred in a given year. The advantage of partial conversion is that for a large, multi-year project, a state can obligate the project gradually over time so that the amount of Federal funds obligated mirrors the available obligational authority.

The use of partial conversion of advanced construction ensured that the SR520 project would not consume \$21.3 million of fiscal year 1996 obligational authority for the sake of receiving federal reimbursement for actual expenditures in the first year of construction that will total only \$5.0 million. Instead, WSDOT will be able to limit its obligation of Federal-aid funds to approximately \$5.0 million, thus freeing up the remaining \$16.3 million to be obligated for other projects throughout the state.

Although the partial conversion of advanced construction will help WSDOT make more effective use of its fiscal year 1996 Federal obligational authority, use of tapered match will help WSDOT resolve difficulties with shortfalls in its authority to spend state funds. Tapered match alters the standard schedule of Federal reimbursement by permitting states to vary the percentage share of state matching funds each year, so long as the overall Federal contribution on a given project does not exceed Federal aid limits. Typically, when states incur expenses on a project, they submit vouchers for reimbursement for a set percentage (usually, 80 percent) of the actual costs incurred. Under tapered match, however, states may submit vouchers for 100 percent of their actual expenditures in the early phases of a project's development, and wait until a later time to assume responsibility for the state share. Over time, the total Federal contribution towards the project must not exceed the maximum allowable Federal share.

For the SR520 project, WSDOT will submit periodic vouchers to FHWA for Federal reimbursement of 100 percent of the state's actual expenditures until the maximum Federal contribution is received. Subsequently, WSDOT will bear 100 percent of the remaining project costs.



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# Alternative Finance Briefing Sessions Planned

The FHWA's Eastern and Western Finance Centers, in conjunction with the Federal-Aid Financial Management Division, currently are developing an "executive" briefing session on innovative financing. This will be a new effort targeting executives who may not be able to attend a two-day course on alternative finance and statewide financial planning. The briefing session will provide FHWA Division Administrators, Chief Administrative Officers of state DOTs and other transportation agencies, and others interested in transportation finance with a concise, high-level overview of some of the alternative financing techniques already being used by states, as well as financial aspects of the Administration's National Economic Crossroads Transportation Efficiency Act (NEXTEA) proposal. FHWA Divisions, state DOTs, and others interested in scheduling a briefing session should contact their respective Regional Finance Center team member, as indicated below:



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Regions 6 and 7 – Sue Kiser, 916/498-5009  
Region 8 – Jennifer Mayer, 415/744-2643  
Region 9 – Russ Fosha, 415/744-2655  
Region 10 – Leslie Harris, 503/326-5953

## Internet Update

The Innovative Finance web page (<http://www.fhwa.dot.gov/innovativefinance>) is undergoing a few minor revisions. A schedule for Alternative Finance briefing sessions, announced in this issue of IF (see page 3), will replace the current Innovative Finance and Statewide Financial Planning course schedule. Draft SIB Guidance will succeed the current SIB Q&As. The SIB Report to Congress will be posted as soon as it becomes available. A final review of the TE-045 projects will be posted as an addendum to the May 1996 project summaries. A variety of detailed SIB and TE-045 case studies also will be posted to highlight projects that present exemplary applications of non-traditional financing techniques.



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## Reader Feedback Sought

One year ago, the FHWA launched the Innovative Finance newsletter to provide practical, case-oriented information on the application of alternative financing concepts to transportation projects. Now we want to hear from you. Please tell us:

- Has the newsletter proved useful to you?
- What types of articles have been most useful? Least useful?
- Are there other types of articles you would like to see?

The editors of IF also welcome reader submissions. What innovative financing techniques have worked for you? What successes can you share, and what lessons have you learned? Your input will help ensure that future newsletters expand the knowledge base on the critical transportation financing issues facing all of us in the years ahead.

Please address all comments and suggestions to:

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# State Infrastructure Bank Update

The State Infrastructure Bank (SIB) pilot program represents an effective use of Federal funds for two key reasons. First, SIB funds largely are self-replenishing. Second, SIB funds attract non-Federal funds to transportation infrastructure investment. To date, \$79 million in Federal funds have been transferred to states to capitalize their pilot SIBs.

SIBs can offer:

- Lower-cost financing than otherwise may be available to a project sponsor;
- Flexible repayment terms that can be tailored to a project's needs; and
- Credit enhancements that improve a project sponsor's access to bond issuances and other forms of financing.

The results to date for the SIB pilot suggest that the program will complement the regular Federal-aid program by serving certain local and statewide projects that have access to dedicated revenue streams, but that need flexible financial assistance to get underway.

For now, project sponsors' interest in SIB assistance appears particularly strong in two areas:

- Loans to local agencies seeking to close gaps in financing plans; and
- Loans to larger entities (e.g., turnpike authorities), for which the loan addresses a specific barrier to the sponsor's ability to obtain outside debt financing.

## Ohio, Florida, Oklahoma, and Oregon

With just five months having passed since most states signed their cooperative agreements with the FHWA and the FTA to create their SIBs, financial activity has begun with two loans from the

Ohio SIB to support a bond issuance by Butler County for a toll road. Missouri also has made its first loan.

Three additional states – Florida, Oklahoma, and Oregon – intend to make project loans by October 1997.

## South Carolina and Virginia

South Carolina and Virginia are developing procedures for SIB operations and project selection, and are likely to request Federal capitalizing funds in fiscal year 1998.

## Arizona and Texas

As they establish their banks, Arizona, Texas, and Oklahoma are working with their state legislatures to broaden their current enabling legislation so that more breadth in financial assistance can be provided to project sponsors.

## California

California is exploring structural options for its SIB with the intention of providing third-party credit enhancements.

Since the 1997 U.S. Department of Transportation (DOT) Appropriations Act expanded participation in the pilot program to additional states, the U.S. DOT has received 26 applications from 29 states, including two multistate applications. The U.S. DOT is reviewing these applications to select states ready to implement a SIB. In addition, the U.S. DOT is reviewing options for distributing the additional \$150 million made available in the 1997 DOT Appropriations Act.



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