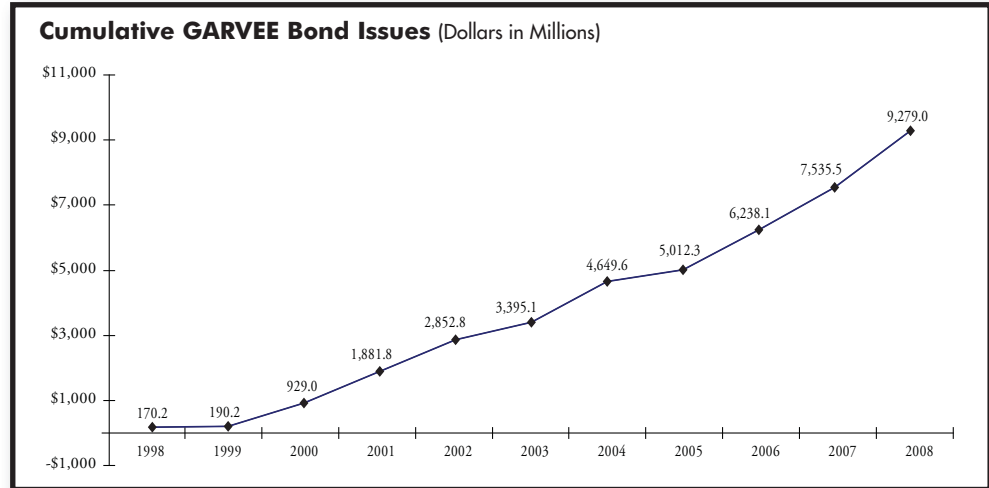


GARVEE ROUNDUP

GARVEE Issuance Surpasses the \$9 Billion Level

Grant Anticipation Revenue Vehicles (GARVEEs) continue to be an important financing tool for transportation agencies to meet critical highway needs. This past year marked a record for the program, with the highest annual level of GARVEEs since the first issue was marketed in 1998. During 2008, eight states issued a total of \$1.7 billion in GARVEE bonds, bringing the total amount of GARVEEs sold (excluding refunding issues) since enactment of the NHS Act of 1995 to nearly \$9.3 billion. The past three years have reflected a significant increase in GARVEE bond sales as shown in the chart above with over \$5 billion in GARVEEs issued in this period, over 50 percent of the total issuance to date. Despite a weak and volatile market in the second half of 2008 and uncertainty surrounding the Federal



highway trust fund, state issuers were successful in marketing GARVEE bonds. While some states postponed bond issues due to unfavorable market conditions, others moved forward given critical funding needs. States have been able to maintain the credit quality of GARVEEs through structural protections

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FEDERAL CREDIT PROGRAM

TIFIA's Growing Loan Portfolio

The U.S. Department of Transportation (DOT) has closed the following five TIFIA loans since December 2007, totaling \$2.5 billion in credit assistance:

- Capital Beltway/I-495 High-Occupancy Toll (HOT) Lanes;
- SH 130 Segments 5 and 6;
- Intercounty Connector;
- I-595 Express Lanes; and
- Triangle Expressway.

These five projects, three of which are public-private partnerships, represent more than \$8.6 billion of infrastructure investment in the United States.

Looking ahead, three more loans are expected to close by December 2009.

Capital Beltway

With its TIFIA loan closing in December 2007, the Capital Beltway HOT Lanes project on I-495 is being financed with a creative mix of public and private capital: approximately \$408 million of state/Federal-aid grants from the Virginia Department of Transportation (VDOT) was leveraged to attract \$350 million of private equity, \$589 million of Private Activity Bonds (PAB) sold in the capital markets (the authority to issue PABs is allocated by

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The Finer Points of GARVEEs

Each issue of *IFQ* features questions and answers on the GARVEE program. This issue focuses on the treatment of premiums and investment income.

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>.

If a state receives a premium on the sale of GARVEE bonds does it need to credit the premium back to FHWA?

The premium is the amount by which an issue's proceeds differ from the face value of the bonds. If there is a premium on the transaction, it means that bondholders bought the bonds for higher than their "par amount" or "face value" (e.g., they bought a \$1,000 bond offering 5.5 percent interest, for \$1,050). Investors might do this because the interest rate of 5.5 percent is higher than prevailing interest rates. In the bond pricing, underwriters and financial advisers might set the rates at slightly higher than prevailing market rates to ensure that the proceeds are sufficient to construct the project, so they might offer slightly higher than prevailing market rates. Different combinations of face value and interest payment may appeal differently to different investors.

FHWA and the state must be certain that proceeds generated from the sale of bonds go towards the project for which the bonds were sold. Those net proceeds would include the premium. There may be an issue with the premium if the net proceeds are more than needed to construct the eligible project. In this case, the excess might be used to cover debt service – which would reduce the Federal funds required to pay debt service.

Do states need to give FHWA credit for the investment income received from the cash balance in the construction bond proceeds account? Can the investment income be used in the construction bond proceeds account to pay construction costs?

In this case, the state does not need to give FHWA credit. Interest earned on bond proceeds is considered state funds. If a state chooses to use those funds for construction expenditures and/or payment of debt service, the funds can count as part of the non-Federal share required to match the Federal share of debt service.

GARVEE Roundup, continued from page 1

to mitigate risk, such as high coverage levels, backup pledges, and shorter maturities.

The eight GARVEE bond sales in 2008, which are highlighted below, are:

- California – \$97.6 million;
- Georgia – \$480.0 million;
- Idaho – \$173.0 million;
- Maine – \$50.0 million;
- Maryland – \$425.0 million;
- Montana – \$44.7 million;
- Ohio – \$375.0 million; and
- Oklahoma – \$98.2 million.

California. In October 2008, the State of California and the California Department of Transportation (Caltrans) issued a second series of Federal Highway Grant Anticipation Bonds (or GARVEE). The Series 2008A bonds were rated Aa3 by Moody's, and AA- by both Standard & Poor's and Fitch Ratings. Bond proceeds will finance two State Highway

Operation and Protection Program (SHOPP) construction projects. Projects included in the SHOPP are limited to capital improvements related to maintenance, safety, and rehabilitation of the transportation infrastructure. The proceeds from GARVEE funding allow these SHOPP projects to commence construction earlier than would have been possible under traditional funding mechanisms. Caltrans anticipates the issuance of future GARVEE bonds to fund 12 additional eligible SHOPP projects with an overall program total of \$2.0 billion. These future construction projects are scheduled to be undertaken through June 2012.

Georgia. In March 2008 the Georgia State Road & Tollway Authority brought its second GARVEE issue to market as part of a \$600 million highway revenue bond transaction. The bond was structured into two series – \$480 million in Grant Anticipation Revenue Bonds and \$120 million in Federal Highway Reimbursement Revenue Bonds (often referred to as indirect GARVEEs). Most of the proceeds, except for some \$50 million to refund commercial paper notes and costs of issuance, will be used to finance projects in the Governor's Fast Forward Program (see *IFQ* Winter 2007). The projects identified and funded through this program are ones that are

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GARVEE Roundup, continued from page 2

expected to have the most immediate impact on relieving congestion and enhancing economic development. Bonds maturing in 2013, 2018, 2019, and 2020 are insured by Financial Security Assurance, Inc. (FSA). The underlying credit is rated Aa3 by Moody's Investors Service, and AA- by both Fitch Ratings and Standard & Poor's.

Idaho. Idaho also advanced its second GARVEE issue in March 2008, selling \$173 million. The bonds were issued by the Idaho Housing and Finance Association, the conduit issuer for the Idaho DOT. Idaho's GARVEE program, called "Connecting Idaho," began with the passage of enabling legislation in 2005 which identified 13 eligible projects or regionally significant corridors. The bonds are insured by FSA and have underlying ratings of Aa3 from Moody's and A+ from Standard & Poor's. The first bond issue was sold in May 2006 in the amount of \$194.3 million.

Current plans are to raise \$998 million from GARVEE bonds to fund projects on six of the original corridors. Each corridor includes one or more Connecting Idaho projects:

- U.S. 95 – Garwood to Sagle;
- U.S. 95 – Worley to Setters;
- I-84 – Caldwell to Meridian;
- I-84 – Orchard to Isaacs Canyon;
- Idaho 16 – I-84 to South Emmett; and
- U.S. 30 – McCammon to Soda Springs.

Last fall, Idaho postponed its third issue to raise an additional \$115 million in GARVEE proceeds due to market conditions.

Maine. Maine advanced its second GARVEE issue in September 2008, issuing \$50 million in Grant Anticipation Bonds through the Maine Municipal Bond Bank, which serves as the conduit issuer for the Maine DOT. The bonds were rated Aa3 by Moody's Investors Service and AA- by Fitch. The proceeds of the bonds will be used to pay a portion of the costs of 15 projects made up of three highway reconstruction projects and 12 bridge projects. The Bank was authorized to issue the Series 2008A Bonds by the 2008 Program Act designed to accelerate the funding and construction of qualified transportation projects. Under the current legislation, the Bank will need further legislative authorization to issue additional GARVEE bonds.

Maryland. After several months of watching the market, the Maryland Transportation Authority in December 2008 sold its second and final tranche of GARVEEs to help fund the construction of the Intercounty Connector, the new 18.8-mile toll road project. The project is also being financed with a \$516 million TIFIA loan. Standard & Poor's assigned an AAA rating to the issue with Fitch rating it AA and Moody's Aa2. While the GARVEEs are secured by a senior lien on pledged Federal highway funds, the credit is strengthened by an irrevocable pledge of the state tax revenues from Maryland's transportation trust fund.

Montana. In June 2008, the Montana DOT issued \$44.7 million in Grant Anticipation Notes, the second in a series of bond issues to finance improvements to a 44.8-mile stretch of U.S. Highway 93 from Evaro Hill just north of Missoula to Polson, Montana. The Series 2008 Notes, rated Aa3 by Moody's and AA- by Standard & Poor's, were issued on parity with the Department's \$122.8 million issue in 2005. The U.S. Highway 93 project is called "The Peoples Way" because of the many groups and peoples who have come together to make the project possible. The project began in September 2004 and is expected to be completed by January 2011.

Ohio. Ohio's ninth GARVEE issue, its largest to date, was brought to market in October 2008. This issue, sized at \$375 million, brought the total issuance amount to date for Ohio's GARVEEs to \$1.3 billion. The proceeds of the 2008 issue will help fund 24 highway and bridge projects across the state, including both new and ongoing projects. Of the total, \$70 million of the proceeds will be used to reimburse the Ohio DOT for previously incurred project expenditures. Fitch, Standard & Poor's, and Moody's have assigned the 2008 bonds ratings of AA-, AA, and Aa2, respectively.

Oklahoma. With its November 2008 GARVEE bond sale of \$98.2 million, the Oklahoma DOT completed the \$300 million first phase of a planned \$500 million GARVEE program. This was the fourth issue to be sold. Oklahoma's GARVEEs, structured as 15-year Grant Anticipation Notes, are financing 12 designated corridors of economic importance. The notes are rated A+ by Fitch Ratings and Aa3 by Moody's.

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TIFIA, continued from page 1

DOT under SAFETEA-LU authorization), and a subordinated TIFIA loan of up to \$589 million. The 14-mile project, estimated to cost close to \$2 billion, will widen I-495 between the Georgetown Pike and the Springfield Interchange from eight to 12 lanes and convert the

four inner lanes to limited access HOT lanes. Congestion or dynamic pricing will be used to set the HOT lanes tolls, which will be based on demand and fluctuate to reflect real-time traffic conditions.

The combination of PABs and a subordinated TIFIA loan provides low-cost, flexible financing. This made it easier for the private sector to assume the significant risks associated with the design, deployment, and operation of a complicated

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dynamic pricing technology, which is expected to reduce congestion on one of the busiest corridors in the country. The HOT lanes will be free to carpools and buses, and other drivers will pay a toll that will vary with traffic volume to ensure travel speeds of at least 45 miles per hour in the HOT lanes.

SH 130 Segments 5 and 6

Closed in March 2008, the \$430 million TIFIA loan for SH 130, Segments 5 and 6 will allow a private partner to construct a 40-mile portion of an alternate route between Austin and San Antonio, Texas, through a public-private partnership with the Texas Department of Transportation (TxDOT). The balance of the financing for the \$1.31 billion project is being provided through private equity and a private bank debt facility. The project is part of the 90-mile SH 130 corridor development, providing a new north-south alternative to the congested Interstate 35 between Austin and

San Antonio. The Facility Concession Agreement grants a 50-year concession from the date the project opens to traffic to the SH 130 Concession Company LLC, a joint venture of Spanish toll road operator Cintra and American constructor Zachry American Infrastructure.

Intercounty Connector

On December 19, 2008, the U.S. DOT executed a \$516 million loan for the Intercounty Connector (ICC). The loan will help the Maryland Transportation Authority build the ICC, an 18-mile, six-lane limited access toll highway linking Prince George's and Montgomery counties. ICC tolls will vary according to traffic levels throughout the day, and drivers will pay tolls electronically to avoid waiting at tollbooths. The ICC will also connect the I-270 and I-95/U.S. 1 highways in the two counties where no contiguous high-capacity facility exists to accommodate east-west travel and local roads are experiencing extremely high

traffic volumes. The Maryland Transportation Authority will secure the loan and repay it with revenue from a number of toll facilities throughout Maryland, in addition to revenue generated by the ICC. The total cost for the project, estimated at more than \$2.5 billion, will be funded also through GARVEE and other revenue bonds and state funds.

I-595 Express Lanes

On March 2, 2009, the U.S. DOT executed a loan agreement with ACS Infrastructure Development (ACSID) for \$607 million to help finance the I-595 Express Lanes Project which is being advanced by the Florida Department of Transportation (FDOT) as a public-private partnership. The \$1.8 billion project also includes approximately \$780 million of commercial bank debt and \$217 million in borrower equity contributions, secured by FDOT. ACSID, the winning concessionaire

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TIFIA Portfolio (Dollars in Millions)

Project	Project Type	Project Cost	Instrument Type	Credit Amount	Primary Revenue Pledge
Active Credit Agreements					
Miami Intermodal Center RCF	Intermodal	\$1,350	Direct Loan	\$270,000	User Charges
Washington Metro CIP	Transit	2,324	Guarantee	600,000	Interjurisdictional Funding Agreements
Central Texas Turnpike	Highway	3,181	Direct Loan	916,760	User Charges
South Bay Expressway	Highway	653	Direct Loan	140,000	User Charges
183 A Toll Road	Highway	331	Direct Loan	66,000	User Charges
LA-1 Project	Highway	247	Direct Loan	66,000	User Charges
Warwick Intermodal Station	Intermodal	222	Direct Loan	42,000	User Charges
Pocahontas Parkway/ Richmond Airport	Highway	748	Direct Loan	150,000	User Charges
Capital Beltway/ I-495 HOT Lanes Project	Highway	1,998	Direct Loan	589,000	User Charges
SH 130 Corridor	Highway	1,360	Direct Loan	430,000	User Charges
Intercounty Connector	Highway	2,566	Direct Loan	516,000	User Charges
I-595 Corridor					
Roadway Improvements	Highway	1,834	Direct Loan	603,000	Availability Payments
Triangle Expressway	Highway	1,172	Direct Loan	386,000	User Charges
Total				\$4,774,760	
Retired Credit Agreements					
Tren Urbano (PR)	Transit	\$2,250	Direct Loan	\$300,000	Tax Revenues
Cooper River Bridge	Highway	677	Direct Loan	215,000	Infrastructure Bank Loan Repayments
Staten Island Ferries	Transit	482	Direct Loan	159,225	Tobacco Settlement Revenues
Reno Rail Corridor	Intermodal	280	Direct Loan	50,500	Room and Sales Tax
Miami Intermodal Center FDOT	Intermodal	*	Direct Loan	269,076	Tax Revenues
Total				\$993.801	
Total All Categories		\$24,433		\$5,382,561	

*Cost included in active Miami Intermodal Center Project above.

The Finer Points of TIFIA

The “Finer Points of TIFIA” box provides responses to questions posed by our readers and other observers. We hope you find this section useful and that you will submit questions to Duane Callender, TIFIA JPO, 202/366-9644 or duane.callender@dot.gov.

Question

Facing a scarcity of funds, the TIFIA program in FY 2009 placed restrictions on the amount of budget authority provided for any single project. This decision has intensified stakeholders’ interest in the calculation of the TIFIA subsidy cost. How is the subsidy cost calculated, and what factors influence the subsidy cost of a TIFIA direct loan?

Answer

The subsidy cost of a TIFIA direct loan is calculated by using project cashflows, along with the project’s credit rating and repayment source, to determine default and recovery rates. Historical information on recovery and default rates are based on S&P data, including the S&P Capital Adequacy Model. The Office of Management and Budget (OMB) Credit Subsidy Calculator is then used to calculate the subsidy cost, which is a percentage of the TIFIA loan amount.

Consistent with the Federal Credit Reform Act of 1990 and OMB requirements, the subsidy cost of a loan is affected by recovery assumptions, allowance for defaults, the borrower’s interest rate, and fees. The subsidy cost of a TIFIA loan is most heavily influenced by factors that fall into the recovery category and the allowance for defaults category, although the project’s interest rate will have some effect on the subsidy cost, with a higher interest rate marginally reducing the subsidy cost.

Recovery assumptions are affected by the source of funds pledged to repay the TIFIA loan. A repayment pledge of state appropriations, for example, will produce a subsidy cost that is several percentage points lower than a repayment pledge of new toll revenue. The second factor that affects the recovery assumptions is whether the TIFIA debt is senior or subordinate. As would be expected, a TIFIA loan with a senior lien on project revenue will have a lower subsidy cost than a TIFIA loan that is subordinate.

The allowance for defaults category includes the project’s credit rating and the degree of backloading of the TIFIA debt. A higher credit rating decreases the default risk, which, in turn, decreases the TIFIA subsidy cost. Depending on the repayment pledge, a one notch increase in the credit rating may reduce the subsidy cost a few percent. In addition to the credit rating, the degree of backloading of the TIFIA debt impacts default rates. A more highly backloaded TIFIA loan will have a higher subsidy cost than a loan with a more level amortization schedule, all other things being equal.

TIFIA, continued from page 4

under FDOT’s competitive procurement process, is responsible for the design, construction, financing, and operation and maintenance of the project. The first phase of the project calls for construction of three new reversible HOT lanes in the I-595 median.

FDOT will retain the revenue risk and compensate the concessionaire with availability payments, which are based on performance. FDOT will set and collect the tolls and will compensate the concessionaire with maximum availability payments (MAP) over the operating life of the project and final acceptance payments (FAP) payable each year from substantial

completion to 2018 according to a set schedule in predetermined amounts (total FAP amount of \$686 million).

Triangle Expressway

The latest TIFIA loan to reach financial close will finance the Triangle Expressway in the Raleigh-Durham area of North Carolina. The \$386 million loan, which closed on July 10, 2009, will help the North Carolina Turnpike Authority (NCTA) finance the construction of more than 18 miles of expressway connecting the region’s key interstates and state routes. The project will improve access to I-40 serving downtown Raleigh, Research Triangle Park, one of the largest

science parks in North America employing more than 40,000 high-tech workers, as well as Duke University, North Carolina State University, and University of North Carolina at Chapel Hill. In addition to the TIFIA loan, funding for the \$1.2 billion project will include some \$600 million bonds backed by state appropriations and toll revenues to be collected on new expressway.



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North Carolina Takes Flexible Approach to GARVEE Bond Issuance

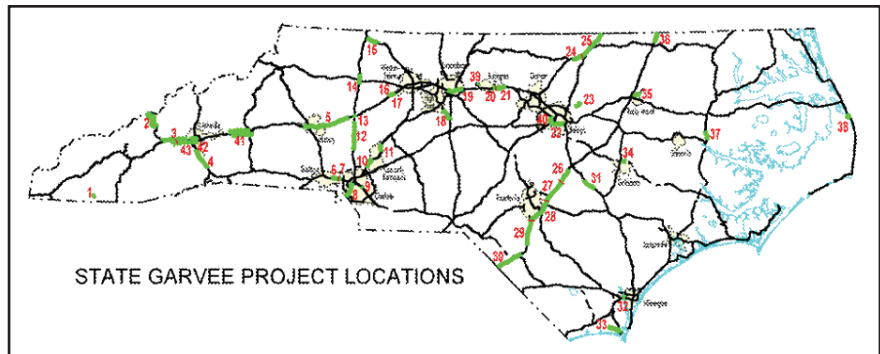
The North Carolina Department of Transportation (NCDOT) first started looking at using GARVEEs in late 2002 as a possible financing tool for replacement of the Herbert C. Bonner Bridge, a vital infrastructure link on the state's Outer Banks.

These early efforts continued with an innovative financing workshop held in 2003 for many of the Southeastern states to discuss the use of GARVEEs and their benefits and drawbacks. This workshop, executed with assistance from the FHWA's North Carolina Division Office and the FHWA Resource Center for Innovative Finance, gave NCDOT the opportunity to discuss with neighboring states how GARVEEs had been implemented elsewhere. It also provided North Carolina officials with ideas and models for using GARVEEs in their own state.

In August 2005, the state reached a milestone when the North Carolina General Assembly passed legislation authorizing the issuance of GARVEE bonds. A joint GARVEE issuance committee made up of representatives from the NCDOT, State Treasurer's Office, FHWA North Carolina Division Office, and FHWA Resource Center for Innovative Finance, as well as financial advisors and bond counsel representatives, worked to achieve North Carolina's first sale of GARVEE bonds on October 17, 2007. The timeline shown below provides an

overview of the delivery milestones leading up to the first bond issuance:

Unlike most states, North Carolina designed its GARVEE program with an "evergreen" structure that allows it to issue additional bonds over time, subject to certain legislative requirements. Highlights of North Carolina's GARVEE legislation include the establishment of conservative annual debt service relative to anticipated Federal revenue, geographic distribution of the bond proceeds to finance improvements to the Federal highway system, flexibility in project selection, and most importantly, legislative authority for continuing use of the bonds.



The state map above shows the 43 GARVEE projects included in the current State Transportation Improvement Program (STIP). These projects aim to increase safety, preserve and improve interstate routes, and enhance North Carolina's strategic highway corridors.

To accomplish the programmed improvements, NCDOT's preliminary plan calls for bonds to be issued in four series: 2007, \$287.6 million; 2009, \$211.1 million; 2011, \$254.6 million; and 2013, \$82.3 million. The October 2007 bonds were awarded through a negotiated sale to an underwriting syndicate led by Banc of America Securities LLC and UBS Investment Bank. RBC Capital Markets and Wachovia Securities also were members of the syndicate. The true interest cost on the bonds was 3.9 percent.

NCDOT estimates that 29 strategic projects were accelerated at an average time savings of 3.4 years with an estimated cost savings after debt service of \$135 million through the initial October 2007 GARVEE bond issuance. The agency also estimates that \$509 million will be saved through the GARVEE projects included in its newly adopted 2009-2015 STIP.

Delivery Milestones

Authorizing Legislation	August 2005
Joint GARVEE Issuance Committee	October 2005
GARVEE Project Criteria Adopted by Board of Transportation	January 2006
Initial Projects Identified for State Transportation Improvement Program	February 2006
GARVEE Projects Programmed in 2007-2013 STIP	March 2007
Memorandum of Agreement with FHWA Adopted by the N.C. Board of Transportation and Executed	May 2007
N.C. Local Government Commission Approved 2007 Series	June 2007
Council of State Approved 2007 Series	July 2007
Trust Indentures and Official Statement	September 2007
Bond Ratings	September 2007
Retail and Institutional Pricing	September 2007
Bond Closing Proceeds Deposited with Trustee	October 2007
First Reimbursement from Trustee	October 2007

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WHAT'S NEW

New Office Supports Innovative Transportation Projects


On October 15, 2008, the FHWA announced the creation of the Innovative Program Delivery (IPD) office. The new office provides “one stop shopping” for state DOTs and others on new and innovative approaches to major highway infrastructure projects. Experts from previously separate FHWA activities are now merged into the IPD office, including the Major Projects Team (from the Office of Infrastructure), the TIFIA Joint Program Office (from the Office of the Chief Financial Officer), and the Innovative Finance Technical Services Team (from the Resource Center), as well as experts in national pricing, public-private partnerships, and transportation policy. Key functions supported by each of four major emphases of the new office are summarized in the chart to the right.

By assembling these experts within one office, information and advice can be centralized, to help transportation agencies identify and explore innovative delivery options for specific projects and anticipate and resolve problems before they arise. Additionally, a key objective is to transform “innovative” approaches into the “routine.”

To achieve this, the new office will create a stronger agency presence to facilitate coordination both externally and internally and to centralize policy decisions; allow for the integration of data collection and research activities; and accelerate associated program guidance. The office will advance programs focused on innovative and non-traditional funding sources and contractual processes as well as the changing roles and responsibilities involved in designing, constructing, operating, maintaining, financing, obtaining, or procuring highway-related facilities. Finally, the office will provide the assistance

necessary to bring individual projects using innovative approaches to successful implementation.

Innovative Program Delivery Teams			
Program Development Team	Strategic Delivery Team	TIFIA JPO	Project Delivery
Establishing Foundation	Culture Changing	Credit Assistance	Project Expertise
Strategic Planning	Tolling, Pricing and P3 Programs	Loans	Cost estimate reviews
Outreach	Innovative Finance	Lines of Credit	Financial Plans
Policy/Legislation	Project Delivery Process Change	Loan Guarantees	Project Management Plans
Research		PAB Advice	Critical Project Reviews
Capacity Building			

 U.S. Department of Transportation

Regina McElroy is the Director of the IPD Office. Ms. McElroy previously served as Director of FHWA’s Office of Transportation Operations, where she provided national leadership and advocacy for a program aimed at reducing recurring congestion through implementation of new technologies and innovative approaches.



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ANNOUNCEMENT

TRB Organizing 4th National Conference on Transportation Finance

The Transportation Research Board (TRB) will convene its 4th national conference on transportation finance on May 19 to 21, 2010 in New Orleans. The Transportation Finance: Forging a Sustainable Future – *Now!* conference will explore options for financing surface transportation projects as the need for infrastructure exceeds available Federal and state funds. This conference will be a forum for sharing information and presenting the latest research findings and policy analyses related to transportation finance.

TRB has issued a call for presentations on the following topics that will help create a sustainable funding future:

- Intergovernmental aspects of financing multimodal transportation projects;
- Project development strategies to support successful financing and accelerate delivery;
- Policies, programs, and techniques to engage the public in the transportation funding debate;

- What’s “hot” in alternative financing;
- Technological advances;
- Financing instruments;
- Creative ways to leverage available funding sources as infrastructure gaps widen; and
- Balancing transportation investments among all user groups.

Presentation titles and descriptions limited to 300 words should be submitted by November 10, 2009 at TRB’s on-line survey site at:

<http://www.zomerang.com/Survey/survey-intro.zgi?p=WEB229EB2VZCQ2>



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SIB HIGHLIGHTS

**SIB Loans Grow,
New Programs Initiated**

As of December 2008, loan issuances by the nation's State Infrastructure Banks (SIB) topped \$6.2 billion. As shown in the table to the right, 32 states and Puerto Rico have made 609 loans, using their SIBs to leverage other available funds and complete plans of finance for transportation projects across the nation.

This issue of *IFQ* provides updates on one of the most active SIB programs, the Pennsylvania Infrastructure Bank, which has added a new loan program targeted specifically to municipal projects. Also of note is the launch of a SIB initiative in Georgia, which will add another financing tool for needed projects throughout the state.

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**Pennsylvania Infrastructure Bank
Provides Municipal Loan Program**

When Pennsylvania began its State Infrastructure Bank in 1997, the Pennsylvania Department of Transportation (PennDOT) created and capitalized the Pennsylvania Infrastructure Bank (PIB). For several years, PennDOT provided highway and transit loans through its PIB, helping fund dozens of needed projects across the state. In 2004, recognizing a growing demand for aviation and rail freight financing, PennDOT added both an aviation and rail freight component to the PIB. In doing so, Pennsylvania became one of the few states to offer a loan program for all major modes of transportation.

Still, a need remained for projects that were not eligible for funding through the PIB such as non-Federal aid and local highway loans. The need for a loan program for Pennsylvania's municipalities became more apparent as the Department had to constantly turn away municipal applicants because of eligibility issues. In 2005, PennDOT met this need by creating a loan program exclusively for Pennsylvania's 2,635 municipalities.

Pennsylvania's municipalities are responsible for over 77,000 miles of roadways and 6,400 bridges that are over 20 feet in length. Just the maintenance and reconstruction of this vast

State Infrastructure Bank Loan Agreements by State

As of December 30, 2008

State	Number of Agreements	Loan Agreement Amount (\$000)	Disbursements to Date (\$000)
Alaska	1	\$2,737	\$2,737
Arizona	63	655,000	542,095
Arkansas	1	31	31
California	2	1,120	1,120
Colorado	4	4,400	1,900
Delaware	1	6,000	6,000
Florida	59	989,871	228,922
Indiana	2	6,000	6,000
Iowa	2	2,879	2,879
Maine	23	1,635	1,635
Michigan	44	33,635	29,307
Minnesota	17	122,476	112,295
Missouri	28	164,399	87,959
Nebraska	2	6,792	6,792
New Mexico	4	25,216	17,815
New York	10	27,700	27,700
North Carolina	6	1,279	1,279
North Dakota	3	5,796	5,796
Ohio	96	286,839	199,382
Oregon	20	34,773	33,577
Pennsylvania	104	61,973	50,354
Puerto Rico	1	15,000	15,000
Rhode Island	1	1,311	1,311
South Carolina	13	3,311,000	2,430,000
South Dakota	3	28,776	28,776
Tennessee	1	1,875	1,875
Texas	68	310,888	290,642
Utah	1	2,888	2,888
Vermont	4	1,805	1,427
Virginia	1	18,000	17,989
Washington	3	2,376	487
Wisconsin	7	3,051	3,051
Wyoming	14	112,332	112,332
TOTAL	609	\$6,249,853	\$4,271,353

Note: State-funded SIBS not included.

network greatly exceeds the availability of money at the local level. The average cost to replace a single bridge would consume the entire annual budget of many municipalities, or even their budgets over several years. And as the price for construction materials continues to increase, the ability to just maintain, let alone expand, the local system becomes even more problematic. In response to this need, PennDOT capitalized the municipal account with \$15 million in 2005 and with an additional \$40 million in 2008. All loan repayments are deposited back into the PIB and become available for new loans.

Demand for municipal loans continues to increase. Recognizing the need to rebuild Pennsylvania's aging infrastructure, Governor Rendell highlighted the PIB as an integral part of his 2008-2009 "Rebuild Pennsylvania" budget. Through the Rebuild Pennsylvania program, PennDOT plans to annually make \$30 million available for loans over the next several years.

Most of the municipal loans are for the resurfacing and reconstruction of local roadways. The PIB has also approved a significant number of bridge loans whether 100 percent financed or using the loan to as a match for Federal and/or state funds. PennDOT has approved loans for traffic signals,

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drainage, lighting, roadway maintenance equipment, and the repair of flood damage to roadways and bridges.

The interest rate is fixed at one-half prime and the maximum term is 10 years. For the purchase of roadway equipment, the maximum term is five years. The majority of the loans are repaid by the municipality's annual share of the state's gasoline/diesel fuel tax receipts. However, municipalities have repaid their loans with general tax revenue, special tax revenue, tax increment financing, private developer agreements, and transportation impact fees. Approved PIB loans have ranged from as little as \$9,500 to as much as \$4 million.

Since Pennsylvania is one of the most flood-prone states in the nation, damage to roadways and bridges is an all too common event. In response to this, PennDOT offers zero percent loans for municipal projects resulting from natural disasters.

Often this is the only source of money available to reconstruct the infrastructure after a disaster. Many municipalities have used the PIB to quickly restore their roadways and then use FEMA funds to repay the loan.

The PIB has become an integral tool in transportation funding in Pennsylvania. PennDOT has aggressively capitalized the PIB over the years to meet the demand for loans. Because of the response to the PIB by Pennsylvania's municipalities, it is obvious that the Department has created a program that fulfills an important part of transportation funding.



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Georgia Enacts Legislation Enabling State Transportation Infrastructure Bank

In April 2008, the State of Georgia reached a significant milestone when Governor Sonny Perdue's Georgia Transportation Infrastructure Bank (GTIB) initiative was enacted through House Bill 1019. This legislation authorizes the State Road and Tollway Authority (SRTA) to operate and manage the GTIB Program, which was created and funded to provide government loans for a wide variety of transportation projects to help address the growing needs of the state.

The GTIB is a revolving infrastructure investment fund, much like a bank, that can be used to offer financial assistance to state, regional, and local government entities to fund needed transportation projects. The law allows government units such as cities, counties, and local tax-improvement districts to borrow funds from the new bank under the direction of the SRTA. The bank will be able to fund projects that may not ordinarily receive reasonable financing terms from the private sector. Georgia's GTIB program is currently under development

by the SRTA based on best practices from other states or grants.

The GTIB may provide loans to government entities for transportation projects that demonstrate financeability as well as transportation merit, engineering merit, economic merit, project feasibility, and innovative concepts. Eligible projects for GTIB loans include highways (roads), bridges, air transport and airport facilities, rails, or transit and bicycle facility projects which provide public benefits by either enhancing mobility and safety, promoting economic development, or increasing the quality of life and general welfare of the public. The objectives under consideration for managing the GTIB include:

- Safety of capital;
- Execution of a streamlined and efficient application process;
- Selection of projects that add transportation and economic value to the state;
- Consistency and fairness in the evaluation of applications;

- Provision of a smooth operational process that maintains loan documents, manages the bank's capital, and tracks loan expenditures/repayments; and
- Ability to track, monitor, and report on the financial situation of the bank.

SRTA is now establishing procedures to provide for the loan and grant application processes, and operational processes for the bank. As this program is further developed, SRTA will gather input from stakeholders to assess the needs of the program.

SRTA encourages local governments to get more information and apply for GTIB loans in the future by visiting www.georgiatolls.com.



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Ohio DOT Creates Second SIB Bond Fund Program

The Ohio Department of Transportation (ODOT) has established a second investment grade bond financing program similar to the ODOT State General Revenue Fund Bond Fund Program by leveraging the existing and future Title 23 loan repayments (“Federal Funds” or “Direct Loans”) in the State Infrastructure Bank (SIB). The Federal Title 23 Transportation Infrastructure Bond Fund, which was established July 30, 2008 received an AA rating from Fitch. This rating was based upon the credit quality over the last 10 years of the existing Federal loan portfolio, as well as the available program reserves that will be pledged to the new program.

Similar to the State Transportation Infrastructure Bond Fund (General Revenue Fund program), bonds are issued on behalf of eligible Ohio political subdivisions. This bond program is for projects that are classified as Title 23 eligible. The program has an open indenture and bonds can be issued on a project-by-project basis, as needed. Issuances can range from \$2 million to \$30 million. The political entities can pledge a variety of revenue sources as repayments. All current and future borrowers can take advantage of the AA rating at no additional credit enhancement costs.

The SIB bond fund is structured so that all repayments from the existing Title 23 loan portfolio accounts are pledged to support any bond borrower repayment shortfall. Next, all cash in the direct loan portfolio account is pledged. Lastly, the existing \$5 million program reserve fund is pledged in the event of a bond borrower default. The program can issue approximately \$50 million in bonds.

As of December 2008, there were 47 direct loans to 38 borrowers with outstanding principal totaling \$64 million. Covenants of the program include that it will maintain a \$5 million program reserve, or five percent of the outstanding bonds. The master indenture requires a cash flow coverage ratio of at least 1.2 times (x) debt service. The state provides a moral obligation to replenish the reserve if it falls below its required level.

The first issuance funded the initial \$5 million program reserve. Currently, there are two public entities that are considering utilizing the program for their projects.



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TECHNICAL CORNER

Texas Pass-Through Financing Program Accelerates Improvements

Texas is using a new approach to stretch limited highway funds and help meet the state’s transportation goals. Through its pass-through financing program, the Texas DOT (TxDOT) will reimburse a developer for the costs of constructing or expanding a state highway project. The developer will finance, construct, maintain, and/or operate a project, and TxDOT will then provide periodic payments that are tied to the actual usage of the highway, measured in terms of each vehicle that drives on the highway or a vehicle-mile fee. A new highway project can be either tolled or non-tolled.

Pass-through financing projects are different than those financed by conventional tolls, because they do not require toll plazas or toll collection equipment. Rather, the monies typically paid by motorists in conventional tolling are instead paid by TxDOT.

Due to growing demand, as of February 2009, TxDOT will award funds through its pass-through financing program based on the traffic that a project experiences, rather than on a first-come, first-served basis.

Application Process

Any public entity – Regional Mobility Authority, Regional Tollway Authority, and local/county governments – or a private developer can submit an application to fund a transportation project using pass-through financing. Applications are submitted to and reviewed by the local TxDOT District Office and then forwarded to TxDOT’s Design Division. TxDOT will then review all requests and make recommendations to the Texas Transportation Commission. If a proposal is submitted by a private developer, TxDOT will seek competitive proposals to ensure best value. Commission approval is based on multiple factors, including financial benefits to the state, local support for the project, congestion relief and regional air quality benefits, compatibility with existing or planned projects, the developer’s experience in developing highway projects, and whether or not the project is included in the Unified Transportation Program. The Commission approves the negotiated and final terms of all proposals.

The guidelines available at TxDOT’s web site at https://www.dot.state.tx.us/publications/design/ptf_guidelines.pdf provide more information about the application process.

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Texas Pass-Through Financing, continued from page 10

Elements of an Agreement

Each pass-through financing agreement will identify the relative responsibilities of TxDOT and the developer in the following areas:

- Scope of work, including schedule and estimated costs;
- Budget, which includes the level of pass-through tolls, maximum and minimum periodic payments, and a maximum total payment;
- Environmental studies, mitigation, remediation, and compliance;
- Engineering services;
- Right-of-way and real property;
- Utilities;
- Construction;
- Maintenance; and
- Repayment.

Benefits

Pass-through financing can help local communities get a needed transportation project financed and built more quickly than the traditional state program. And communities are reimbursed by the state as travelers use the project. If the use is high, the state will repay at a faster rate.

The first project in Texas using pass-through financing involved turnaround bridges over IH-25 at SH 29 in Williamson County constructed by Austin Road and Bridge. The \$3.7 million project completed on time and budget was opened to traffic in August 2008.

TxDOT is seeking applications for other projects that can be accelerated through the pass-through financing program.

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Three TIFIA-Financed Toll Roads Opened to Traffic

Late 2006 and 2007 saw the first TIFIA-financed toll roads open to traffic. Advanced by both public and private entities, these projects comprise almost 80 miles of new roadways.

TxDOT officially opened the first 27 miles of the \$3.2 billion **Central Texas Turnpike System** on November 1, 2006, almost a year ahead of schedule. Consisting of three contiguous highways in the Austin metropolitan area, the system is one of the largest construction projects in the nation. With the opening of the final segment in April 2008, the 65-mile system was completed nearly \$400 million under budget. Transactions and revenues have grown steadily, continuing to exceed projections. The Central Texas Turnpike System has generated more than 34 million transactions and \$27 million in revenue through the second quarter of FY 2009. Average monthly revenue for the year to date has exceeded projections by 12 percent.

The Central Texas Regional Mobility Authority, the first local agency to advance a tollway under Texas enabling legislation, opened the 11.6-mile **183A**

Toll Road in Austin on March 3, 2007. This highway, which connects and operates seamlessly with the Central Texas Turnpike System, opened on schedule and within its \$336.6 million budget. In its first year of operation, the facility averaged nearly 58,000 toll transactions each weekday and generated roughly \$8 million in revenue, more than twice the transactions and revenue originally projected. Monthly toll transactions for 2009 are averaging nearly 12 percent above 2008 levels. The 183A project converted to all electronic toll collection on December 1, 2008 and the first programmed toll increase of 25 cents is scheduled for 2010.

The privately-built **South Bay Expressway** opened on November 19, 2007. This 9.2-mile facility in San Diego County extends from the U.S./Mexico border north through the Otay Mesa. Also known as State Route 125 (SR 125), the project was developed and is being operated by Macquarie Infrastructure Group and Macquarie Infrastructure Partners pursuant to a franchise agreement with the California

Department of Transportation. The \$140 million TIFIA loan helped “jump start” the project with the developer’s own private capital together with bank loans funding the rest of the total project cost of \$660 million. This public-private partnership – among local, state, and Federal agencies and an international toll road developer – delivered the project years before it might have been completed under traditional methods. Since its opening, revenue performance has lagged projections due in large part to weak economic conditions, including regional issues such as high home foreclosure rates and slow land use development in the San Diego area. An updated traffic study was completed in December 2008, which reflects reductions in the traffic forecasts over the concession period, compared to the original projections in line with current performance. However, the study confirms the long-term viability of the project. The revised financial plan, which takes into account the lower revenue forecasts, shows that the TIFIA loan can be repaid by the final maturity date of 2041.

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IFQ is Back!

No, you did not miss any issues...**IFQ** has been on a hiatus for over a year. FHWA will introduce a new look for the newsletter with the next issue, to continue to provide our readers with the latest on Federal transportation finance and program delivery. Keep your eyes on the IPD web site at <http://www.fhwa.dot.gov/ipd/about.cfm> for more information and future issues of the newsletter.

TIFLA-Financial Toll Roads Opened, continued from page 11

Each of these toll road financings is taking advantage of the TIFIA program's ability to defer debt service payments for up to five years after substantial completion. During this deferral period, toll revenues can be used to pay operating expenses and senior debt, without the burden of making current payments on TIFIA debt obligations. The deferred TIFIA interest accrues to the loan balance to be repaid in later years, when revenue projections indicate a stronger cash flow. As the "patient lender," the U.S. DOT enhances the credit quality of the senior debt, lowering project costs, and improving prospects for financial success.

The beneficial use of flexible TIFIA credit assistance to help toll roads get through early "ramp-up" periods is significant because the use of tolling to pay for new capacity has increased over the last decade. A study prepared for the FHWA reported that, "During the last 10 years, an average of 50 to 75 miles a year of new access-controlled expressways has been constructed as toll roads out of an overall average of the 150 to 175 miles of urban expressways opened annually. Toll roads, therefore, have been responsible for 30 to 40 percent of new 'high end' road mileage over the past decade."



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