FHWA's
INNOVATIVE FINANCE
Quarterly

VOLUME 12, NUMBER 1 Fall 2006

GARVEE ROUNDUP

Rhode Island Meets Essential Project Needs with GARVEE Bonds

On March 2, 2006, Rhode Island closed on its second tranche in a three-phase issuance program of Grant Anticipation Revenue Vehicle (GARVEE) bonds and motor fuel tax bonds. The 2006 GARVEE bond issue in the amount of $184.6 million had a final maturity of 12 years and achieved a True Interest Cost (TIC) of 4.03 percent. The 2006 motor fuel tax revenue bonds in the amount of $42.8 million had a final maturity of 20 years and achieved a TIC of 4.38 percent.

The Rhode Island borrowing program was conceived in 2003 as the state faced the significant costs of bridge replacement, reconstruction of almost 50-year-old Interstate system segments, and demand for new transportation projects critical to the state's economy. The Rhode Island Department of Transportation (RIDOT) had programmed much of its future annual construction program in order to complete the construction projects in the State Transportation Improvement Program (TIP). Therefore, RIDOT and its financing team developed a multi-year strategy to use GARVEE bonds to fund the Federal-aid eligible portion of certain project costs and motor fuel tax revenue bonds to finance the state share.

The Rhode Island Legislature agreed that the five projects financed by GARVEE and motor fuel tax bonds are critical to the state's economic vitality when it authorized the Rhode Island Economic Development Corporation (RIEDC) to issue bonds under both programs. According to RIDOT Director James R. Capaldi, the GARVEE program "allows the state to complete the five essential transportation projects on an accelerated basis, without disrupting the ongoing construction projects in the State TIP." These projects are as follows:

- **Interstate 195 Relocation Project.** This $572 million project involves the relocation of a 45-year-old 1.6-mile stretch of I-195 and an adjacent 0.8-mile portion of I-95 through Providence which was one of Rhode Island's first sections of Interstate highway. The freeway will be relocated 2,000 feet to the south of its current alignment and outside the barrier which protects the 350-year-old city from hurricane flooding. The project includes 14 new bridges with a 1,200-foot mainline bridge over the Providence River, 25 lane-miles of new Interstate, a new interchange with I-95, five miles of new city streets, and 4,100 feet of new pedestrian river walks. In addition, removal of the existing Interstate will free up 20 acres of prime downtown real estate. The project will complement the recently completed river relocation, Waterplace Park, and Memorial Boulevard Extension projects that have revitalized downtown Providence.
- **Route 403 Project.** The $182 million Route 403 project involves construction of a new freeway that will connect the existing Route 4 freeway in East Greenwich with the

continued on page 2

FEDERAL CREDIT PROGRAM

Warwick Project, Prepayments Highlight TIFIA Activity

TIFIA Loan Agreement Signed

On June 27, the U.S. DOT closed a $42 million loan with the Rhode Island Economic Development Corporation for the Warwick Intermodal Project. The total cost of the project, which consists of a commuter train station and platforms, bus pick-up and drop-off area, commuter parking spaces, rental car company facilities, and a skywalk from the facilities to the T.F. Green Airport, is $222.5 million. Project financing includes $50.3 million in tax-exempt senior lien bonds, which will be used to fund construction and costs of issuance. The project is scheduled for completion in 2009.

Two TIFIA Loans Retired Early

The U.S. DOT has accepted repayment on two Transportation Infrastructure Finance and Innovation Act (TIFIA) loans, well ahead of the original payment schedules. On May 3, a $55 million payment with interest was accepted on the original $50.5 million TIFIA loan made in 2002 to launch the Reno Transportation Rail Access Corridor, or ReTRAC project. The ReTRAC project, which opened in January 2006, repaid its TIFIA loan 35 years ahead of schedule.

On July 3, final payment of $17.1 million with interest was received by

continued on page 6

Also in this issue…

Rhode Island GARVEE, continued from page 1

Quonset Davisville Port and Commerce Park in North Kingstown (the Quonset Industrial Park), improving access to the park. This 4.5-mile, four-lane, controlled-access facility will contain three interchanges, a total of 14.8 miles of roadways (including the main freeway and the ramps), 14 new bridges, two bridge rehabilitations, an extensive storm drainage and water quality treatment system, and environmental mitigation improvements. With funding provided by the bonding package, the freeway will be constructed in six contracts and opened to traffic at the end of 2007, five years ahead of the initial construction schedule.

- **Freight Rail Improvement Project.** The $196 million Freight Rail Improvement Project (FRIP) is a 22-mile project located within Amtrak's Northeast Corridor. A freight dedicated track will be constructed along Amtrak's mainline tracks, linking Quonset/Davisville to the Boston Switch at Central Falls and out to western markets. The FRIP is to be administered by Amtrak Force Account – work performed by Amtrak resources – as well as RIDOT construction contracts. RIDOT construction contracts consist of nine individual site work and structure projects containing elements of work necessary for preparing the alignment and track for the construction of the third track. Funding for the project is a mix of state and Federal funds, including a combined $51 million in GARVEE and motor fuel bonds.
- **New Washington Bridge.** The existing Washington Bridge carries multiple eastbound lanes of I-195 and U.S. Routes 6 and 44 over the Seekonk River between the cities of Providence and East Providence. The bridge also passes over several local streets as well as the Providence and Worchester Railroad. It was built in 1928, and is immediately south of the Washington Bridge North built in 1970. Based on the recommendations of a value engineering study, the $85 million New Washington Bridge will be realigned within a vacant area between the 1928 and 1970 structures, using a portion of existing foundations to construct the new facility. The new bridge will consist of five, 12-foot travel lanes and two, four-foot shoulders.
- **New Sakonnet Bridge.** The $150 million New Sakonnet Bridge project will replace the existing bridge on a new alignment immediately south of the existing structure. The crossing carries Rhode Island state Route 24 over the Sakonnet River, a tidal passage separating the Town of Portsmouth on Aquidneck Island to the west, and the Town of Tiverton on the mainland to the east. It is a key link in the transportation systems connecting Massachusetts to Rhode Island and the Aquidneck Island communities, Portsmouth, Middletown, and Newport.

The Rhode Island program authorizes the issuance of up to $710 million, including approximately $585 million in GARVEE bonds and $125 million in motor fuel tax backed bonds, to fund the five projects. Rhode Island designed the program to finance the projects in three installments over a five-year period. The authorizing legislation includes numerous constraints such as project-specific caps on maximum debt service and amount issued in the aggregate and by project. The Rhode Island GARVEE bonds are "stand-alone" in that no state revenues are pledged to the payment of debt service. The motor fuel tax bonds provide the state match portion for four of the projects and are separately secured by dedication of two cents of the state's motor fuel tax.

The trust indentures were structured to maximize the credit ratings within the state law constraints. Both the GARVEE bonds and the Motor Fuel bonds have been assigned high ratings. The GARVEE bonds are rated Aa3/A+/AA- by Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively. The motor fuel bonds received ratings of A2/A+/A from the same rating agencies. The inaugural November 2003 issuance included $217 million in GARVEE bonds and $53 million in motor fuel bonds. Additional principal was scheduled for payment in the first two years to maximize coverage for the following two series of bonds. Similar modifications were made to the 2006 principal payment structure to provide a hedge against future interest rate increases. Rhode Island originally contemplated issuing on three occasions over five years in November 2003, 2006, and 2008. The 2006 issue was accelerated to take advantage of attractive interest rates, and additional construction draws were included in the borrowing to take advantage of the market. The final borrowing phase originally scheduled for 2008 is now projected to take place in 2009.

The total annual debt service resulting from the November 2003 and March 2006 GARVEE bonds ranges from a high of $44.2 million in 2008 to a low of $34.8 million in 2018. These payments provide projected coverage ranging from 340 percent to 428 percent under conservative assumptions. Rhode Island has a 300 percent additional bonds test for the issuance of future GARVEE bonds. Both the GARVEE and motor fuel tax bonds were insured, with Financial Surety Assurance Inc. insuring the 2003 GARVEE bonds, and Financial Guaranty Insurance Co. insuring the 2006 series. Both series of motor fuel tax bonds were insured by Ambac.

Contacts:
John Megridichian,
RIDOT, 401/222-2496, x 4650
jmegridichian@dot.state.ri.us

Maureen Gurghigian,
First Southwest Company,
401/334-4267
mgurghigian@firstsw.com

Richard Reed,
RIEDC, 401/222-2601,
rreed@riedc.com

GARVEE Issues on the Rise

GARVEEs continue to be an attractive mechanism for stretching Federal dollars and accelerating critical transportation improvements across the country. Since 1998, the first year GARVEEs were issued under the provisions of the National Highway System Designation Act of 1995, a total of $5.7 billion in GARVEE bonds (excluding refunding issues) has been sold for highway projects. Sixteen states, Puerto Rico, and the Virgin Islands have advanced projects with GARVEE proceeds. This year to date (January 2006 through August 2006) a total of $919 million in GARVEE bonds have been issued in four states – Ohio, Rhode Island, Idaho, and Georgia. Ohio's January 2006 GARVEE issue represented its sixth GARVEE bond sale. In contrast, the Idaho issue was the state's first GARVEE sale. The Georgia State Road and Tollway Authority's $360 million bond sale in July 2006 was also a first for this issuer. Proceeds will be used to fund projects throughout the state with a significant share going to projects in the metro-Atlanta area.

The growing trend in the use of the GARVEE financing mechanism is reflected in the number of issues in the pipeline. Ohio is accelerating its GARVEE program with plans to bring a seventh issue to the market in fall 2006, followed by $600 million of additional debt beginning in 2007. West Virginia is planning its first GARVEE sale later this year. Proceeds of West Virginia's planned $200 million GARVEE bond issue will fund the widening of a 15-mile stretch of highway along U.S. Route 35. Maryland also will be a new issuer in the market this year with plans to issue its first tranche of GARVEE bonds in early 2007 to finance a portion of the $2.6 billion Intercounty Connector Project.

Contact:
Jennifer Mayer, FHWA
National Resource Center,
415/744-2634,
jennifer.mayer@dot.gov

GARVEE Transactions

As of July 2006

State	Number of Issues	Issue (in Millions)	Projects Financed	Insurance
Alabama	1	$200.0	County bridge program	Yes
Alaska	1	$102.8	Eight road and bridge projects	No
Arizona	5	$460.0	Maricopa freeway projects	No
Arkansas	3	$575.0	Interstate highways	No
California	1	$615.0	Eight road projects	Yes, except 2005 series
Colorado *	5	$1,486.7	Any project financed wholly or in part by Federal funds	No.
Georgia	1	$360.0	Various transportation projects	Yes
Idaho	1	$194.3	Various expansion projects	Yes
Kentucky	1	$139.6	Three Interstate widening and rehabilitation projects	Yes
Maine	1	$48.4	Replacement of the Waldo-Hancock Bridge	Yes
Montana	1	$122.8	44 miles of U.S. 93 improvements	Yes
New Mexico	2	$118.7	New Mexico SR - 44	Yes
North Dakota	1	$51.4	Highway and bridge projects	Yes
Ohio	6	$538.1	Various projects including: Spring-Sandusky and Maumee river improvements	No
Oklahoma***	2	$96.5	Projects in 12 corridors	No
Puerto Rico	1	$139.9	Various transportation projects	Yes
Rhode Island	2	$401.6	Freeway, bridge, and freight rail improvement projects	Yes
Virgin Islands	1	$20.8	Enighed Pond Port Project and Red Hook Passenger Terminal Building	Yes
Total	**36**	**$5,671.6**		

* Colorado DOT issued $400.2 million in June 2002 and $280.2 million in May 2004 to refund prior bonds.
** Excludes $26.3 million in proceeds used to refund outstanding June 2000 bonds.
*** With premiums on net proceeds worth $50 million.

The Finer Points of GARVEEs

Each issue of *IFQ* features questions and answers on the GARVEE program. This issue focuses on whether formal agreements between a state and the FHWA are required to issue GARVEEs.

Note that answers to these questions are not regulatory or legislative, but represent the 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.

How can the State Infrastructure Bank (SIB) program be used in conjunction with GARVEEs?

SIBs and GARVEEs can work together in several ways to secure financing for eligible Federal-aid projects.

SIB as GARVEE Lender

Since SIB loans may be repaid with Federal-aid funds, the SIB can be the source of financing for a loan repaid with Federal-aid funds. In this case, the SIB could be reimbursed under Section 122 of Title 23 for a loan made to an eligible project. In essence, the SIB would play the same role as a commercial bank or the capital markets, providing the capital that will eventually be repaid with Federal-aid funds. Oregon's SIB uses this model extensively.

SIB as Credit Assistance to GARVEEs

If a state DOT or local government instead seeks to finance a project with a GARVEE bond obtained from the capital markets, a SIB can provide a line of credit, interest rate buy-down, or other form of credit assistance to the GARVEE debt. This SIB credit assistance would effectively lower the interest rate on a GARVEE instrument. This technique could be particularly useful for local governments or tribal governments that are issuing GARVEEs, since they generally have lower coverage ratios than bonds issued by state DOTs. For example, suppose a local government received $1 million in Federal-aid funds annually, and wanted to start a project that cost $6.5 million. If the government issued a GARVEE bond at 6 percent, the annual debt service would be approximately $883,000, with a debt service coverage ratio of 1.13. With SIB credit assistance, the local government could probably obtain a higher rating, and either borrow more funds or achieve a lower interest rate.

SIB as Subordinate Lender

Finally, a SIB loan that finances the same project as a GARVEE can be structured as a subordinate loan that will also assist the credit rating of the GARVEE. The GARVEE bondholders may be willing to accept lower interest rates on such a transaction, because they would be repaid before the SIB in the event of a shortfall. For example, if the local government mentioned above were able to finance a percentage of the project with a SIB loan, it would be able to increase its coverage ratio, and lower its interest rate. If the source of repayment on the SIB loan is non-Federal, it could even serve as all or part of the non-Federal share required to match the GARVEE debt service payment.

TOOLS IN PRACTICE

North Carolina Advances Design-Build Project

The North Carolina DOT will partner with the FHWA to advance a project needed to improve safety, increase traffic capacity, and reduce travel times along the U.S. 17 corridor in Washington, NC. Flexible match provisions approved through the TE-045 (Test and Evaluation) program are being used to help fund this $220 million design-build project, which will make needed improvements along this essential link in the eastern part of the state.

The project extends a distance of approximately 6.8-miles along the U.S. 17 corridor and will consist of a four-lane 46-foot median divided facility with full and partial control of access on existing and new alignment. Two interchanges will be constructed, as well as a 2.8-mile long bridge over the Tar River with minimum clearances of 40-feet vertical and 60-feet horizontal.

The project will be constructed as a design-build project. The design-build team, a joint venture of Flatiron/United as contractor and EarthTech of North Carolina as lead designer, will be responsible for the turnkey job, including public involvement, all engineering related design, needed environmental documents and permits, and all right-of-way related acquisitions.

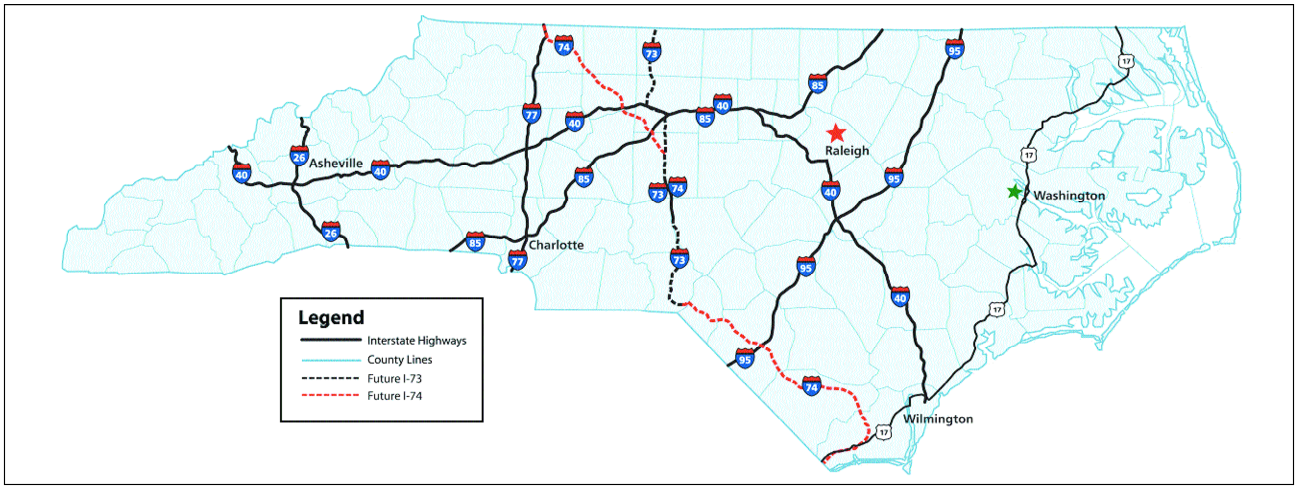
The project was initially identified in the seven-year North Carolina State Transportation Improvement Program to be funded with Federal funds and in subsequent years changed from a design-bid-build project to a design-build project. Due to financial challenges experienced by many states – flat state revenues, unpredictable Federal-aid revenues, and increases in construction costs – North Carolina DOT began to consider and evaluate the use of a state flexible matching progress payment schedule. In addition to tapered match, North Carolina DOT wanted to take advantage of advance construction procedures with partial conversion payback instead of committing all of the obligation authority for the project (as required by tapered match procedures).

Combining Finance Tools

North Carolina DOT worked with the NC FHWA Division Office on ways to marry the advance construction and partial conversion of Federal-aid projects with tapered match to meet the

continued on page 5

North Carolina Design-Build, continued from page 4



needs of the project. An application under the TE-045 program was submitted in the early fall of 2005 to the Division Office where it received a favorable endorsement and was forwarded to FHWA Headquarters for further consideration. The FHWA approved North Carolina to use tapered match with advance construction procedures. The NC FHWA Division Office in addition requested a project payout schedule to help anticipate project invoice and reimbursement amounts.

The project was awarded in January 2006 at an estimated cost of approximately $220 million and is expected to be completed in 58 months. As agreed with FHWA, the non-Federal share will be provided after the obligated Federal funds have been fully expended. As of early June 2006, the project had incurred $9.2 million in cost and North Carolina DOT has billed in the same amount.

Prior to this project, North Carolina DOT had not used tapered match. Now, the tapered match provisions when combined with advance construction and partial conversion have given North Carolina DOT the flexibility needed to advance improvements along an important link in the state's transportation network.

Contact:
H. A. "Burt" Tasaico,
PE, NCDOT,
919/715-4657,
htasaico@dot.state.nc.us

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

Question

What flexibility does TIFIA provide in structuring repayment of project loans?

Answer

Per the TIFIA statute, borrowers can defer the start of their loan repayment up to five years following a project's substantial completion. As interest accrues from the date the borrower draws loan proceeds, this feature is equivalent to the "capitalized interest" typically found in a project revenue bond issue, which uses borrowed funds to pay not only construction costs but also interest costs during construction before the project can generate its own revenues. The TIFIA program goes further in that it allows loan repayments, once begun, to cover less than the periodic interest accrued and thus continue to capitalize interest for an extended period. The use of this approach in the SR-125 South Toll Road financing demonstrated the U.S. DOT's willingness to provide needed flexibility to enhance a project's financial viability.

Further, as the patient lender willing to defer repayment while waiting for project revenues to strengthen sufficiently, the U.S. DOT has the flexibility to structure alternative TIFIA repayment schedules to minimize the likelihood of payment default. In instances where the TIFIA lien is subordinate, this alternative repayment structure reduces senior lender concerns that the U.S. DOT would be motivated to force a distressed project into bankruptcy in order to invoke TIFIA's "springing lien" and achieve parity with other lenders. The basic approach establishes two debt service profiles: a scheduled debt service due if revenues materialize as expected, and a lower mandatory debt service (with the unpaid balance re-amortized on the back end of the loan) if revenues fail to materialize. The mandatory debt service feature enhances further the credit quality of a project's senior debt and still requires ultimate recovery of the Federal loan. Developed for low-income housing and tobacco securitizations, this concept has been applied in TIFIA loans for the Staten Island Ferries, the SR-125 South Toll Road, and the 183A Toll Road projects.

Private Activity Bond Update

Section 11143 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU) authorizes up to $15 billion in tax-exempt private activity bonds (PABs) to be issued by state or local governments for qualified highway and surface-freight transfer facilities. Qualified highway or surface freight transfer facilities are defined as:

- Any surface transportation project which receives Federal assistance under Title 23, United States Code;
- Any project for an international bridge or tunnel for which an international entity authorized under Federal or state law is responsible and which receives Federal assistance under Title 23, United States Code; or
- Any facility for the transfer of freight from truck-to-rail or rail-to-truck (including any temporary storage facilities directly related to such transfers) which receives Federal assistance under Title 23 or Title 49, United States Code.

The legislation gives the Secretary of Transportation authority to allocate the $15 billion national limitation among qualified highway or surface freight transfer facilities in such manner as the Secretary determines appropriate.

A January 5, 2006, Federal Register Notice solicited applications for allocations of the $15 billion and described what should be included in an application. A May 15, 2006, Internal Revenue Service Notice indicated that the Internal Revenue Service will rely on allocations of authority by the Secretary of Transportation to determine that a project or facility meets the definition of qualified highway or surface freight transfer and receives the required Federal assistance under Title 23 or Title 49 of the United States Code.

The Office of the Assistant Secretary for Transportation Policy has had discussions with many prospective applicants, with interest coming from both highway projects and intermodal transfer facilities. In many cases, applicants are interested in using private activity bonds in conjunction with TIFIA assistance.

The first application was received from the Texas DOT in August, requesting $1.866 billion in PABs for the SH 121 project in Texas. The project is seeking a conditional commitment or reservation of private activity bond authority, which will be offered to a short list of four firms bidding for the concession to develop SH 121. Texas is seeking a similar conditional commitment for SIB assistance, which is being sought under the authority of the SEP-15 program. The Texas DOT's application for TIFIA assistance was also received in August.

Additional applications for highway projects and intermodal transfer facilities are expected later this year. It is likely, however, that allocation will still be available in 2007 and beyond.

The private activity bond provisions are being implemented by the Office of the Assistant Secretary for Transportation Policy. If you would like to discuss an application or have any questions, call Jack Bennett at 202/366-6222.

Link to January 5, 2006, DOT Federal Register Notice: http://www.access.gpo.gov/su_docs/fedreg/a060105c.html

Link to May 15, 2006, Federal Register Notice: http://www.irs.gov/pub/irs-irbs/irb06-20.pdf

TIFIA Recap, continued from page 1

the U.S. DOT for the Miami Intermodal Center (MIC) project, 24 years ahead of the originally scheduled final maturity. The TIFIA loan for the $1.35 billion MIC project was approved in June 2000 for up to $269 million, but the Florida DOT had drawn down only $15 million as of the repayment date.

To date, five TIFIA loans have been repaid in advance of their scheduled maturity dates. Each early repayment reduces risk to the Federal government while accomplishing TIFIA's goal of providing capital to projects of national or regional significance.

Rulemaking Process Underway

The TIFIA Joint Program Office (JPO) has begun a rulemaking process to revise the current TIFIA regulation based on several significant changes to the TIFIA statute resulting from the passage of SAFETEA-LU, which reauthorized the surface transportation program in FY 2005. In connection with that process the JPO hosted two public meetings in San Francisco and New York in April 2006 to solicit comments about the TIFIA rule from interested stakeholders. The results of those meetings are posted on the TIFIA website.

Letter of Interest Received

The TIFIA program received one Letter of Interest in FY 2006 from Container Intermodal Distribution (CID) for the Inland Systems Logistics Network Development (ISLND) project. The project sponsor is seeking a $34 million direct loan for this $104 million project. The completed project is intended to address the challenges connected to the movement of international ocean freight by constructing freight transfer facilities that will increase freight mobility at some of the nation's most congested ports.

Contact:
Duane Callender,
TIFIA JPO, 202/366-9644,
duane.callender@dot.gov

SIB HIGHLIGHTS

SIB Loan Activity Grows

During the second half of 2005, another 34 loan agreements were executed from State Infrastructure Banks (SIBs) across the nation, totaling near one-quarter million dollars to fund needed transportation improvements. Wyoming led the way with six new agreements valued at $34 million. In total, nearly $5.3 billion in loan agreements have been made by 33 states, as shown in the table to the right.

This issue of ***IFQ*** provides an update on Arizona's SIB, known as the Highway Expansion and Extension Loan Program or HELP, which has been one of the most active of the infrastructure banks. Also featured is a unique program funded in part by Oregon's SIB, which will help reduce diesel gas consumption and improve air quality throughout the state.

Contact:
Phyllis Jones, FHWA,
202/366-2854,
phyllis.jones@dot.gov

State Infrastructure Bank Loan Agreements by State

As of December 31st, 2005

State	Number of Agreements	Loan Agreement Amount ($000)	Disbursements to Date ($000)
Alaska	1	$2,737	$2,737
Arizona	53	582,021	509,654
Arkansas	1	31	31
California	2	1,120	1,120
Colorado	4	4,400	1,900
Delaware	1	6,000	6,000
Florida	52	864,508	403,776
Indiana	2	5,715	5,715
Iowa	2	2,879	2,879
Maine	23	1,635	1,635
Michigan	36	25,948	25,948
Minnesota	17	106,676	105,941
Missouri	20	93,554	92,138
Nebraska	2	6,792	6,792
New Mexico	4	25,216	17,815
New York	10	27,700	27,700
North Carolina	2	1,713	1,713
North Dakota	2	3,891	3,891
Ohio	74	235,179	172,795
Oregon	19	34,394	25,052
Pennsylvania	61	38,794	28,406
Puerto Rico	1	15,000	15,000
Rhode Island	1	1,311	1,311
South Carolina	9	2,735,000	2,272,000
South Dakota	3	28,776	28,776
Tennessee	1	1,875	1,875
Texas	58	290,556	273,763
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	**491**	**$5,283,883**	**$4,174,537**

Projects Benefit from Arizona's HELP

Arizona's Highway Expansion and Extension Loan Program (HELP) has been one of the nation's most active SIBs both in terms of number and dollar amount of approved loans. A seven-member HELP Advisory Committee accepts loan applications, reviews and evaluates requests for financial assistance, and makes recommendations to the state Transportation Board on loan and financial assistance requests. As of June 2006, the state Transportation Board has approved 55 loans totaling $598 million.

The program has been used throughout Arizona with loans in 14 of Arizona's 15 counties, benefiting both rural and urban areas. Each of the three major regional areas of the state – Maricopa County, Pima County, and statewide (the other 13 counties) – have received substantial assistance from HELP. The Arizona Department of Transportation (ADOT) estimates that total additional HELP loan capacity from 2006 through 2010 is approximately $350 million. To ensure that each area has access to this additional capacity, the state Transportation Board has adopted target percentages that allocate 50 percent of future capacity for statewide projects, 37 percent for Maricopa County, and 13 percent for Pima County.

A significant portion of the additional HELP loan capacity in Maricopa County will likely be used to accelerate projects in the Maricopa County Regional Transportation Plan (RTP). The RTP is a 20-year plan of transportation improvements funded with a one-half cent excise tax and other funding sources. This plan included funding in 2011 and 2014 to construct new general purpose and high occupancy vehicle lanes on Interstate 10 to the west of Phoenix. In April, the state Transportation Board approved a $7.4 million HELP loan to the City of Goodyear to accelerate the design projects. This will allow the construction projects to be advanced by two to six years, and the construction projects are now expected to begin in 2008 and 2009. While HELP loans are being used to accelerate the design, ADOT expects the accelerated construction projects to be funded through the issuance of approximately $122 million of Grant Anticipation Notes (GANs are Arizona's version of GARVEE bonds).

Total HELP capitalization is nearly $209 million. In addition to the initial Federal and state capitalization, HELP has been capitalized with other state sources. These include a $20 million state Highway Fund loan and $140 million in Board Funding Obligations (BFOs). The BFOs are an innovative funding mechanism that allows HELP to use state operating funds from the state Treasurer. The ability to use BFOs has been particularly useful to ADOT in accelerating purchases of right-of-way for the Maricopa County Regional Freeway System. During the 2005 session, the Arizona Legislature recognized the importance of the BFO program by extending the ability of HELP to borrow these funds from 2008 to 2024.

Generally, loan maturities are less than five years and this has enabled HELP to quickly recycle funds and increase program leverage. HELP has received over $360 million of principal repayments and 29 loans have been completely repaid. These repayments have generated considerable funding that has been made available for additional loans. Interest and investment income also has generated over $47 million.

The HELP program continues to be a vital tool, accelerating needed projects for communities throughout Arizona. Additional information on the HELP program is available on ADOT's web site at www.azdot.gov/Inside_ADOT/Help/index.asp.

Contact:
John Fink, ADOT,
602/712-7441,
JFink@azdot.gov

Oregon SIB Helps Fund SmartWay Upgrade Kits

At a June 22, 2006 EPA SmartWay press event held in Portland Oregon, Governor Ted Kulongoski announced funding and support for a new initiative that will reduce diesel emissions along the I-5 corridor on the West Coast. In partnership with the U.S. DOT, the U.S. EPA, the West Coast Diesel Collaborative, the trucking industry, and Cascade Sierra Solutions, Oregon's Departments of Transportation and Energy have committed a total of $5 million ($3 million from the SIB and $2 million from the state Department of Energy). The state Department of Energy is also offering a 35 percent tax credit for the SmartWay Upgrade Kits.

Cascade Sierra Solutions – a recently established nonprofit organization – will be responsible for deploying the Upgrade Kits, which include:

- Engine idle reduction technology, such as an auxiliary power unit, direct fired heater, or truck stop electrification;
- Low rolling resistance tires;
- Improved aerodynamics for tractors and trailers; and
- Exhaust after-treatment devices, such as oxidation catalysts and particulate filters.

SmartWay Upgrade Kits can reduce fuel consumption, carbon dioxide emissions, and nitrogen oxide emissions by as much as 20 percent. When the kit includes an exhaust after-treatment device, particulate matter emissions are reduced by 25 percent to 90 percent, depending upon the type of technology.

Because of the fuel savings, upfront capital costs of SmartWay kits are generally paid back within one to three years. In addition to the short payback period, if a loan is needed to purchase an upgrade kit, the monthly fuel savings exceed the monthly loan payments, thus increasing profits from the first day companies use the kits.

The application of SIB funds to this innovative air quality program is truly unique, as SIB funds are typically expended on traditional surface transportation projects such as highway and bridge construction. This marks the first deployment of SmartWay Upgrade Kits and innovative financing along a major transportation corridor. The U.S. DOT, EPA, and DOE intend to work together with state and local governments, nonprofits, and state trucking associations in an effort to replicate this deployment strategy around the country. More information can be found at: www.epa.gov/smartway; www.westcoastcollaborative.org;
and www.cascadesierrasolutions.org.

Contacts:
Tom Meek, *or* *Diane Turchetta,*
Oregon DOT / *FHWA,*
503/986-3921 / *202/493-0158,*
Thomas.R.Meek@dot.state.or.us / *Diane.Turchetta@dot.gov*

People on the Move...

Max Inman Retires

On June 2, **Max Inman** retired from the FHWA after 33 years of service. Max wore multiple hats over his past three decades at the FHWA, serving both as Acting Chief of the Budget Office and Chief of the Federal-Aid Management Division, where he was responsible for establishing reimbursement policies for the Federal-aid highway program and creating financial management improvement initiatives. Max had a key role in advancing the FHWA's innovative finance program and several public-private partnerships were forged under his leadership.

Max also understood that unless state DOTs and others have information about available Federally-sponsored financing tools and understand how to use them, those tools cannot leverage needed transportation projects across the nation. Max was instrumental in communicating U.S. DOT innovative finance tools to the states and others, through the *Innovative Finance Quarterly* newsletter and the *Innovative Finance Primer*, both of which are aimed in educating practitioners about available tools and best practices in transportation finance.

His contributions have been many, significant, and long-lasting. We will miss Max, thank him for his years of service, and wish him all the best in the future.

Keith Bishop Joins Finance Technical Service Team

FHWA is pleased to announce that Keith Bishop has joined the Baltimore Resource Center in February as an Innovative Finance Specialist. Keith brings valuable experiences and expertise to the team because of his strong state DOT background and his successful use of many of the innovative finance tools promoted by U.S. DOT.

Keith began his public service career as an accountant with the South Carolina State Budget Control Board. He later accepted the position of Accounting Manager with then Governor Beasley's Office. Keith then joined the South Carolina Department of Transportation (SCDOT) as cash flow analyst, rising to the position of Director of Financial Planning and Cash Management and Chief Financial Officer. In this position, he directed SCDOT's $5.3 billion bonding program, which has been nationally recognized for its innovation and financial management.

Keith earned a B.S. in Business Administration from the University of South Carolina and is a graduate of the Duke University/Harvard University Strategic Leadership Program, the National Transportation Institute at Indiana University, the South Carolina Executive Institute, and the SCDOT Strategic Training for Transportation Agency Representatives (STTAR) program.

Freight Financing Guidebook Under Development

The ability of the nation's transportation system to provide for and maintain superior performance for freight will be a key determinant for continuing economic health. While freight investment needs have grown dramatically over the last several decades with increased growth forecast for the future, financing of improvements has primarily been the domain of the private sector. Ports, railroads, and intermodal terminals are primarily operated by private concerns with a profit motive. However, governments at all levels have an interest in the health of the freight transportation network due to its role as an important contributor to regional and national economic growth and productivity. In addition, there has been increasing discussion over the last several years about the role of government in financing freight-oriented improvements, including investments in private infrastructure where there is a public benefit.

To help state, regional, and local staff responsible for advancing freight-oriented projects better understand available funding and financing tools for freight investments, the FHWA is developing a freight financing guidebook. The guidebook, which will be available in the fall of 2006, is divided into two sections:

Funding and Financing Tools for Freight Investments – This section describes existing Federal funding programs and financing tools that could be used to fund freight investments. In addition, it provides an overview of several state programs that have been created to support the increasing need for the public sector to invest in freight-related infrastructure as a way of promoting economic development and addressing multimodal transportation issue.

Case Studies of Freight Financing – Each freight project is unique. This section provides brief summaries of how various types of freight-related projects were financed. Some 50 case studies demonstrate how the tools described in the first section have been applied in practice, rating from the massive trailblazing Alameda Corridor project to modest investments aimed at solving more localized problems.

Contact:
Carol Keenan, FHWA, 202/366-6993, carol.keenan@dot.gov *or* *Iris Ortiz, Cambridge Systematics, Inc., 617/354-0167, iortiz@camsys.com*

Contributors to Vol. 12, No. 1 of *IFQ* include:

Jack Bennett, U.S. DOT
Roger Berg, Cambridge Systematics, Inc.
Duane Callender, TIFIA Credit Program
John Fink, ADOT
Dale Gray, FHWA
Maureen Gurghigian, First Southwest Company
Phyllis Jones, FHWA
Carol Keenan, FHWA
Jennifer Mayer, FHWA National Resource Center
John Meek, ODOT
John Megridichian, RIDOT
Richard Reed, RIEDC
Suzanne Sale, TIFIA Credit Program
Burt Tasaico, NCDOT

FHWA's INNOVATIVE FINANCE Quarterly

JOE DAILEY, FHWA
CO-MANAGING EDITOR
202/366-1616
FAX: 202/366-7493
JOSEPH.DAILEY@DOT.GOV

SUZANNE H. SALE, FHWA
CO-MANAGING EDITOR
602/379-4014
FAX: 602/379-3608
SUZANNE.SALE@DOT.GOV

LAURIE L. HUSSEY, CS MANAGING EDITOR
CAMBRIDGE SYSTEMATICS, INC.
617/354-0167
FAX: 617/354-1542
LHUSSEY@CAMSYS.COM

A REMINDER TO READERS

FHWA DOES NOT MAINTAIN A MAILING LIST AND DOES NOT DISTRIBUTE ***IFQ*** DIRECTLY. ***IFQ*** IS AVAILABLE AS AN INSERT TO THE ***AASHTO JOURNAL***, AND IS AVAILABLE ELECTRONICALLY THROUGH FHWA'S WWW HOME PAGE:

http://www.fhwa.dot.gov/innovativefinance/

IFQ IS ALSO PROVIDED TO THE FOLLOWING ORGANIZATIONS FOR REDISTRIBUTION AND/OR AS INFORMATION FOR THEIR MEMBERSHIP:

- American Public Works Association (APWA)
- Surface Transportation Policy Project (STPP)
- National Governor's Association (NGA)
- National Association of State Treasurers (NAST)
- National Association of State Auditors, Controllers, and Treasurers (NASACT)
- National Association of Regional Council's (NARC's) Association of MPOs (AMPO)