

GARVEE ROUNDUP

Georgia is Moving FastForward with GARVEEs

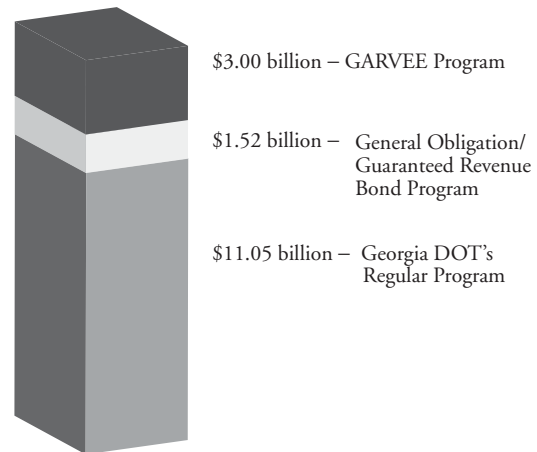
Georgia Governor Sonny Perdue's FastForward initiative – a program to accelerate the delivery of congestion-relieving transportation projects – has sparked the unique implementation of a creative and critical timesaving Grant Anticipation Revenue Vehicle (GARVEE) bond program. With GARVEEs as a key element of the program, \$15.5 billion of projects will be implemented in six short years rather than the 18 years that simple pay-as-you-go financing would allow. In total, Georgia plans to issue \$3 billion of both direct and indirect GARVEEs.

The first \$450 million of GARVEE bonds was issued in June 2006, which included \$360 million in direct GARVEEs (using Guaranteed Anticipated Revenue Bonds) and \$90 million in indirect GARVEEs (using Revenue Reimbursement Bonds). This 80/20 split follows the Federal Highway Administration's (FHWA) local match requirements for the two Federal-aid categories that back the bonds: National Highway System and Interstate Maintenance.

Accompanying these two bond instruments, Georgia was the first state to issue Commercial Paper (CP) under the Federal GARVEE program. With a short maturity of 270 days, the \$150 million CP issuance enables the Georgia Department of Transportation (DOT) to implement the top priority projects in a very short timeframe. The CP also serves a line-of-credit function, allowing Georgia DOT optimal flexibility with its cash

Fund Sources for Georgia's FastForward Program

Total Proposed Program 2005-2010
\$15.57 Billion



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FEDERAL CREDIT PROGRAM

TIFIA Program Feels the Emergence of Public-Private Partnerships

Two of the three applications received in 2006 for credit assistance under the Transportation Infrastructure Finance and Innovation Act (TIFIA) represent innovative public-private partnerships (P3s) that may influence the direction of the program. The three applications are from the Texas Department of Transportation (TxDOT) for the SH 121 Toll Project, the Maryland Transportation Authority (MdTA) and Maryland State Highway Administration for the Intercounty Connector Project, and Transurban (895) U.S. Holdings LLC for the Richmond Airport Connector Project. The SH 121 Toll

Project and Richmond Airport Connector Project are seeking to make use of the FHWA's Special Experimental Project No. 15 (SEP-15) authority to advance P3s.

The SEP-15 derives from Section 502 of Title 23, United States Code and it allows the Secretary to waive the requirements of Title 23 and the regulations under Title 23 on a case-by-case basis. The SEP-15 allows the FHWA to experiment in four major areas of project delivery – contracting, right-of-way acquisition, project finance, and compliance with the National Environmental Policy Act

(NEPA) of 1969, 42 U.S.C. §4321 et seq, and other environmental requirements. The SEP-15 allows the U.S. DOT and the FHWA to explore

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flow management. The first of three equal tranches of \$50 million was offered on parity with the GARVEE bond issuances in June 2006.

Projects Funded

The projects funded were chosen for their ability to expedite traffic congestion relief in the Atlanta metropolitan area. Within the Governor's FastForward program, these projects include ramp metering at congested interchanges, signal timing on critical arterial roads, additional lanes on surface-level roads, park-and-ride lots for commuter transit, high-occupancy vehicle (HOV) lanes, interstate upgrades and capacity additions, and implementation of commuter transit in underserved corridors.

An expansion of Georgia's Intelligent Transportation System (NaviGator) and Highway Emergency Response Operators ("HERO" units) also will be partially funded by GARVEEs. This will allow Georgia to safely and efficiently clear traffic incidents that disrupt the flow of traffic and cause delays. The expansion also will provide traffic control for emergency responders, assistance to stranded motorists, expansion of peak-hour HERO coverage from 164 miles to 286 miles, and 44 additional HERO personnel. With this investment, it is estimated that Georgia can reduce peak-hour delays by as much as 30 percent.

Other than the ability of the FastForward program to provide much needed traffic congestion relief, implementing these projects in the short term will save millions of dollars by avoiding inflation pressures currently experienced in the construction of transportation infrastructure. Georgia DOT currently is experiencing estimated materials cost inflation around 28 percent per year, which dwarfs the interest costs of the GARVEEs in the four percent per year range.

Features of GARVEE Issuance

The GARVEEs encumber no obligation on the State of Georgia or its existing toll facility. Under the bond indenture, at the beginning of each Federal fiscal year, the State Road and Tollway Authority (SRTA, which is Georgia's transportation bond

issuer) will request that Georgia DOT convert an amount of advance construction sufficient for the payment of the entire debt service and other bond-related costs on the Federal Highway Grant Anticipation Revenue Bonds coming due in the current Federal fiscal year. This ensures that the conversion of advance construction will be the first obligation in that Federal fiscal year of funds legally available for that purpose.

These tax-exempt investments were sold in \$5,000 increments and interest will be paid to investors semiannually. Maturity is 12 years and the average coupon yield is 4.08 percent for the bonds. While the state is not required to insure the bonds, those maturing in 2010 through 2018 are insured. The bond ratings are as follows:

Instrument	Fitch	Moody's	Standard & Poor's
GARB and RRB	AA-	Aa3	AA-
Commercial Paper	F-1+	P-1	A-1+

Source: Official Statement, Georgia 2006 Grant Anticipation Revenue Bonds, and Revenue Reimbursement Bonds, and Offering Memorandum, Georgia Series A Federal Highway Reimbursement Revenue Commercial Paper Notes.

Liquidity advisor services resulted in the highest ratings possible for the Commercial Paper issuance.

Various bond-related costs are eligible for reimbursement such as principal and interest payments, issuance costs, insurance, and other costs incidental to a financing. Annual debt service for this 2006 issuance ranges between \$33 million and \$41 million. For the entire GARVEE program, annual debt service is limited to approximately 20 percent of Georgia's projected Federal aid. The SRTA has ensured an open and competitive process for GARVEE debt financing.



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Recent GARVEE Issues

Since the last issue of *IFQ*, three states have brought GARVEE issues to market. In September 2006, Ohio sold \$180 million of grant anticipation vehicles or GARVEEs to accelerate the construction of six highway and bridge projects. Included in the projects to be financed with bond proceeds are three widening and rehabilitation projects on Ohio's Interstate System. This sale, the second in 2006, brought the total GARVEE issuance for Ohio to \$718 million. Looking ahead, Ohio plans to accelerate its GARVEE program with the issuance of an additional \$600 million in GARVEE bonds over the next three years.

West Virginia launched its first GARVEE bond issue in October 2006 selling \$76 million in notes to finance the design and construction of approximately 15 miles of widening work on U.S. 35 in Putnam and Mason Counties. These projects along U.S. 35, one of the state's most heavily traveled highways, are designated as "special initiative" projects, part of a program to accelerate critical safety improvements and expand economic development in this corridor. A second issue of \$124 million is planned in 2007, representing the balance of the state's authorized \$200 million of GARVEE bonds.

Also in October 2006, New Jersey issued its first GARVEE bond in the amount of \$131.6 million. Revenues from this

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changes in current laws, regulations, and practices that impede private investment in transportation improvements and to develop approaches to remove these impediments. For more information, see “The Finer Points of TIFIA” on page 5.

SH 121 Toll

TxDOT is advancing the SH 121 Toll Project in the Dallas-Fort Worth metropolitan area under a competitive procurement process through which it will select a private concessionaire to complete construction and operate the facility for 50 years. The TIFIA commitment will be made available to all of TxDOT’s qualified proposers, enabling them to factor TIFIA into their financial plans with the assurance that a credit agreement could be executed within the timeframe established by TxDOT, assuming the Federal requirements are satisfied.

The preliminary financial plan developed by TxDOT (subject to revision based on the selected concessionaire’s project financing structure) includes the issuance of approximately \$1.163 billion of senior lien, tax-exempt Private Activity Bonds (PABs), and a requested TIFIA loan of \$700 million. The estimated project cost is \$2.13 billion.

On November 14, 2006, the Secretary of Transportation approved the requested \$700 million in TIFIA credit assistance for the SH 121 Toll Project with conditions. This conditional assistance is being made available to TxDOT under the provisions of a SEP-15 Early Development Agreement (EDA) executed in June 2006, and is subject to the ultimate borrower meeting all terms and conditions set forth in the Conditional Term Sheet with TxDOT.

The SH 121 Toll Project consists of the construction of six main lanes with interchanges at major cross streets and direct connection interchanges at main expressway I-35E, the Dallas North Tollway, and U.S. 75. TxDOT has divided the project into five segments, with Segments 1-4 expecting final NEPA approval for toll road operations

by April 2007 and Segment 5 (the interchange with the Dallas North Tollway) 12 months later.

TxDOT has completed construction of Segment 1 and is currently building Segment 2; both are in Denton County. The selected concessionaire will be responsible for the design and construction of the Collin County portion (Segments 3-5) of the project as well as the design and installation of electronic toll facilities for the entire project. The concessionaire will operate and maintain the entire constructed project as a single facility.

Richmond Airport Connector

Similar to the SH 121 Project, Transurban, an Australian toll road developer, is seeking to advance the Richmond (Virginia) Airport Connector Project by experimenting with the new TIFIA refinancing provisions through the SEP-15 program. Section 1601 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: a Legacy for Users (SAFETEA-LU, Pub. L. 109-59, 119 Stat. 1144) amended TIFIA to allow secured loan proceeds to “refinance long-term project obligations or Federal credit instruments if such refinancing provides additional funding capacity for the completion, enhancement, or expansion of any project that (i) is selected under section 602; or (ii) otherwise meets the requirements of section 602.”

Transurban would like to refinance a portion of its \$611 million acquisition of the Pocahontas Parkway from the Virginia Department of Transportation (VDOT) as well as its construction of an additional highway connector from the Parkway to the Richmond International Airport through the use of a \$150 million TIFIA direct loan.

The Parkway, also known as Route 895, is an 8.8-mile toll road outside the Greater Richmond Area which was completely opened to traffic in September 2002 and financed by a combination of tax-exempt revenue bonds (\$354 million), a State Infrastructure Bank loan (\$18 million),

and Federal funding for roadway design (\$9 million). Transurban has established a special purpose company (“T895”) that acquired the rights to enhance, manage, operate, maintain, and collect tolls on the Pocahontas Parkway. The Richmond Airport Connector is envisaged to be a 1.58-mile, four-lane roadway that will provide motorists with direct access to the Richmond International Airport.

Intercounty Connector

The Secretary of Transportation also has approved \$516 million in TIFIA credit assistance for the Intercounty Connector (ICC) Project. The ICC will be an 18-mile, six-lane, access-controlled, congestion-managed toll highway located in Prince George’s and Montgomery counties, Maryland. The project, which will have 100 percent electronic open road tolling, will link the I-270 and I-95/U.S. 1 corridors. The estimated project cost is projected to be \$2.4 billion.

The requested TIFIA loan will be secured by a pledge of MdTA system revenues. The MdTA system includes seven existing toll facilities throughout Maryland and is one of the highest-rated U.S. toll credits. The project will be funded from a combination of state funds, GARVEE bonds, and the TIFIA credit assistance.

Letters of Interest

The Central Texas Regional Mobility Authority (CTRMA) submitted a Letter of Interest for the U.S. 290 East Toll Project seeking up to a \$172 million direct loan for the \$522 million project in central Texas. The project includes the reconstruction of approximately six miles of the U.S. 290 East corridor from U.S. 183 to just east of State Highway 130.

In addition, the North Carolina Turnpike Authority (NCTA) submitted a Letter of Interest for the Triangle Turnpike Project seeking a \$317.3 million direct loan for the \$966 million project in Raleigh, North Carolina.

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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 eligibility of tribal governments 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>.

Can GARVEEs be Issued by Tribal Governments?

Under Section 122 of U.S. Code Title 23, Federal-aid funds, including tribal allocations from the Indian Reservation Roads (IRR) program, may now be used to pay the interest and issuance costs of bonds issued to advance eligible IRR projects. While tribal governments may use Federal-aid funds to repay debt service, the Federal government does not guarantee the tribally issued bonds. The Bureau of Indian Affairs (BIA) uses the term "flexible financing" rather than "innovative financing" to describe bonding and other financing arrangements.

Example: A tribal government receives an annual IRR allocation of \$150,000. The tribal government could pledge this amount towards a project costing \$1 million, and issue a bond with a 10-year term, assuming a six percent interest rate. The tribal government could use the bond proceeds to begin the \$1 million project immediately, and pay the debt service (approximately \$136,000 annually) on the bond with its future IRR allocations. The remaining amount of the annual IRR allocation could be used for other projects.

Tribal governments also may be eligible to apply to states for financial assistance through a State Infrastructure Bank (SIB) program to advance eligible IRR projects. As has been discussed in *IFQ* previously, a number of states have active SIB programs, ranging in size from under \$100,000 to \$80 million or more. These banks can provide loans, lines of credit, and loan guarantees for eligible transportation projects. The maximum term for loans is 35 years, but initial repayments do not have to begin until five years after project construction. Interest rates and exact loan terms are set by the state DOT involved, and/or by the SIB itself, if it has a separate governing body. Federal-aid funds, including IRR funds, may be used to repay these loans.

Example: A tribal government's IRR allocation is \$100,000, and it plans to begin a project that will cost \$300,000. The tribal government could apply to the state DOT's SIB to provide them a five-year loan for the project. The tribal government would pledge to use approximately \$71,000 of its IRR allocation each year to repay the loan at six percent interest. The remainder of the annual IRR allocation, or \$29,000, would be available for other projects.

Example: A tribal government receives an annual IRR allocation of \$150,000. The tribal government could pledge this amount towards a project costing \$1 million, and issue a bond with a 10-year term. The tribal government could use the bond proceeds to begin the \$1 million project immediately, and pay the debt service of the bond with its future IRR allocations. If the capital markets demand a higher interest rate than six percent, the tribal government could apply to the state to use a SIB line of credit to provide additional guarantee of repayment of the bond. The tribal government could then negotiate a lower interest rate, because the SIB line of credit would be available in the event of a temporary shortfall.

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The proposed Triangle Turnpike is part of an overall beltway system planned to encircle the Raleigh area and is comprised of three sections: the Triangle Parkway which would extend NC 147 further south by 4.7 miles; I-540P which is a 2.8-mile long segment currently under construction that extends from NC 45 to NC 55; and the Western Wake Parkway which covers a distance of 12.4 miles.

A Letter of Interest also was submitted prior to the SH 121 application as well as a Letter of Interest from the Container Intermodal Distribution (CID) for the Inland Systems Logistics Network Development (ISLND) project.

Web Site Update

The TIFIA Joint Program Office (JPO) is enhancing the TIFIA web site. An updated program guide and application form will be posted shortly. In addition, for the first time, an on-line form will be available for submission of letters of interest. The new materials are intended to reflect changes made to the TIFIA program in SAFETEA-LU as well as various U.S. DOT credit policies and procedures. Following the posting of the guide, application, and letter of interest the JPO will be making other changes to the site over the following weeks.



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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, Director, TIFIA JPO, (202) 366-5785 or mark.sullivan@dot.gov.

Question

How does the TIFIA program intend to adapt to the trend among state DOTs to offer concessions to multiple private bidders?

Answer

The standard TIFIA loan process assumes the applicant already has control of the project seeking to be financed. Under the private concession model, however, multiple bidders could seek TIFIA assistance in order to obtain rights to the same project. This possibility requires the TIFIA program to rethink its loan process, and a significant effort in this regard is an experiment with TxDOT to modify the TIFIA application process in order to provide equal and transparent access to TIFIA assistance for all concession bidders.

Using the FHWA’s SEP-15 authority, TxDOT and the TIFIA JPO have agreed to modify the standard TIFIA loan process for three project solicitations, beginning with the SH 121 toll road, to allow TxDOT to obtain a conditional TIFIA credit commitment for use by each potential concessionaire. The revised process recognizes the need to align TIFIA with state competitive procurements for private concessions. If successful, the U.S. DOT would revise its TIFIA loan process to give all states the option to select this approach for obtaining TIFIA assistance.

The key steps in the modified TIFIA loan process are:

- *TxDOT submits a project application to the TIFIA JPO on behalf of all potential concessionaires;*
- *The TIFIA JPO project team evaluates the project based on the information submitted by TxDOT in its application;*
- *The TIFIA JPO then seeks Credit Council recommendation and Secretarial approval of the project and the credit terms and conditions;*
- *Subject to Secretarial approval, the U.S. DOT issues TxDOT a conditional term sheet and a standard form of credit agreement;*
- *The credit agreement and term sheet are included in TxDOT’s final request for detailed proposals (RFDP) to the proposers;*
- *The proposers submit to TxDOT their offers, including detailed financial plans, which may utilize TIFIA credit assistance;*
- *The TIFIA JPO project team reviews and evaluates all proposals, which include TIFIA credit assistance, for their ability to meet TIFIA program requirements and terms and conditions;*
- *TxDOT selects a concessionaire based on best monetary value; and*
- *Within a TxDOT specified time period, the concessionaire finalizes all financing, including TIFIA, if it is part of the financing package.*

Given that each proposer is likely to have a different project financial plan, a TIFIA application under this experiment will include a pro forma plan of finance (based on internal assumptions and input from prospective proposers) addressing project costs, forecast revenues, the senior lien debt, principal amount of TIFIA credit assistance, and repayment terms. Also the requirement to submit a preliminary rating opinion letter at the time of application will be deferred. Each competing entity under the state’s procurement process, if they elect to use TIFIA assistance, is required to submit the letter as evidence of its ability to secure the investment grade rating required for TIFIA credit assistance.

Further information regarding the features under this TIFIA SEP-15 experiment can be found at <http://www.fhwa.dot.gov/ppp/sep15.htm>.

SIB HIGHLIGHTS

SIB Loans Top \$6 Billion

By the end of September 2006, the nation's State Infrastructure Banks (SIBs) had reached a major milestone, with the issuance of \$6 billion in loans. As shown in the table to the right, 32 states and Puerto Rico have made 520 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 Ohio, a SIB pioneer, and Kansas, which has created its own state-funded Transportation Revolving Fund. The experiences of both states illustrate how the SIB concept can be expanded to create other financing options for needed transportation investment.



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Ohio DOT Creates Innovative “Bond Fund” Financing Program

Ohio continues to be a leader in developing and implementing statewide innovative financing programs which target economic and infrastructure development. Most recently, the Ohio Department of Transportation (ODOT) with the assistance of the Ohio Treasurer's office established an investment-grade bond financing program that issues bonds on behalf of eligible Ohio political subdivisions.

With its “State Transportation Infrastructure Bond Fund” (STIBF), Ohio joins four other states in the nation that have leveraged their SIB. As opposed to leveraging all future SIB direct loan repayments with one large bond issue, the STIBF allows bonds to be issued as needed, on a project-by-project basis. Projects can range from \$2 million to \$20 million and do not require any additional state resources. The program is expected to generate an additional \$100 to \$150 million of financing for transportation projects in Ohio.

With the assistance of its financial advisor, the program was established in July 2006 and is now available to political subdivisions in Ohio. All bonds are issued by the Ohio Treasurer. Eligible projects include highway, transit, airports, waterway, roads, bridges, railroad, and any other transportation infrastructure projects. It is expected the bond fund program will be utilized by cities, towns, villages, port authorities, and other political subdivisions or public agencies in order to achieve a lower cost of capital. Depending upon the credit quality of the borrower, this financing program can frequently take a specific revenue pledge (i.e., gas taxes, sales taxes, or income

State Infrastructure Bank Loan Agreements by State
 As of September 30, 2006

State	Number of Agreements	Loan Agreement Amount (\$000)	Disbursements to Date (\$000)
Alaska	1	\$2,737	\$2,737
Arizona	55	598,090	509,707
Arkansas	1	31	31
California	2	1,120	1,120
Colorado	4	4,400	1,900
Delaware	1	6,000	6,000
Florida	55	940,000	471,000
Indiana	2	6,000	6,000
Iowa	2	2,879	2,879
Maine	23	1,635	1,635
Michigan	41	27,788	27,888
Minnesota	17	106,676	106,244
Missouri	23	137,171	92,198
Nebraska	2	6,792	6,792
New Mexico	4	25,216	17,815
New York	10	27,700	27,700
North Carolina	2	1,746	1,746
North Dakota	2	3,891	3,891
Ohio	82	258,832	194,179
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	13	3,311,000	2,430,000
South Dakota	3	28,776	28,776
Tennessee	1	1,875	1,875
Texas	62	294,281	287,672
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	520	\$6,024,587	\$4,437,728

Note: State-funded SIBs not included.

taxes) towards a project rather than requiring a full general obligation pledge which preserves debt capacity.

The STIBF Program is rated “AA-” by Fitch Ratings. This rating is based upon the credit quality of all borrowers, as well as the available program reserves. One key element of this program is the pledge of the revolving SIB loan repayments as a reserve for the program. Established in 1996, the SIB direct loan program makes direct loans to Ohio political subdivisions for transportation related projects ranging in size from \$100,000 to \$20 million. The SIB direct loan program was originally capitalized with \$40 million in state General Revenue funds, \$87 million in Federal funds, and \$10 million in state Motor Fuel Tax funds. To date, the program has made 28 loans from state sources and 68 loans from Federal sources totaling \$38 million and \$156 million, respectively.

The STIBF greatly increases the resources available to meet the needs of transportation projects in Ohio. In fact, because the program only leverages the future SIB direct loan repayments as a reserve, these same loan repayments can continue to be loaned out by ODOT. It is expected that future requests to the SIB may also be met with a combination of a STIBF bond and a SIB direct loan. The resulting blended, effective interest cost is often expected to be lower than a political subdivision

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Ohio STIBF continued from page 6

could achieve by issuing bonds on its own. The program is structured with an open bond indenture which allows for each future series of bonds to be issued in both a timely and cost efficient manner.

The first STIBF issue was completed in October 2006 to fund the initial \$5 million Program Reserve. The first project

financing was completed for the Akron-Canton Regional Airport in December 2006. This 10-year, \$7 million transaction received an "AA-" rating from Fitch Ratings and had an average borrowing cost fixed under four percent.



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Kansas Transportation Revolving Fund Provides Flexible Financing for Communities

The Kansas Department of Transportation (KDOT) is doing its job to enhance every day life in communities throughout the state and the Transportation Revolving Fund (TRF) is part of the process. The TRF is designed to provide low cost, flexible financing to local governmental units for transportation projects, on or off the state highway system.

The TRF accepted its first application from Franklin County in December 2003. Since then, it has closed 39 loans totaling \$51.8 million for projects all over the state. Twenty-one of the closed loans are in completed status, meaning that the projects are completed and all proceeds have been drawn. The TRF currently has eight pending applications for another \$11.1 million. There are three approved applications in the negotiation phase of the loan agreement.

issued \$32.6 million in bonds on September 1, 2005 to increase the loan capacity of the TRF. A second bond issue for \$24.7 million closed on December 20, 2006 to continue funding the program.

Projects financed by the TRF vary widely. The majority of projects are non-KDOT projects. The TRF also has financed the local match portion of several KDOT projects, including geometric improvement, economic development, and KLINK (City Connecting Links) projects.

Cities and counties throughout the state have used the program for many different types of projects. For example, the City of Marysville replaced 29,000 feet of curb and guttering with TRF financing. Clay County is replacing a bridge. Barber County is building a new road to the gypsum mine that is the county's largest employer. Phillips County has been

limits the proceeds withdrawal period to two years to comply with the safe harbor rules for use of bond proceeds. In these situations, TRF financing should be done in one loan per year for the duration of the project. For example, a project that will take five years to construct should be financed in five incremental loans. In addition, an applicant who wants to finance the design and right-of-way acquisition phases should consider segmented loans to make it easier to comply with the disbursement policy that is outlined in the TRF Program Guide. An example of this type of financing arrangement is the City of Gardner's Moonlight Road project. This project will cost about \$14 million and take five years to complete. The City of Gardner and KDOT are working on the second of five loans for this project.

The initial application should identify the entire project when applying for a multiphase project. This effort will be very helpful in planning and cash flow projections. In addition, this is an important consideration when the project is evaluated.

Although a project does not have to be on a local government's five-year plan to qualify for TRF financing, the TRF can finance city or countywide highway improvement plans. Kingman County, Franklin County, and the City of Junction City are some of the borrowers who have used TRF loans for this purpose. The TRF can combine several road projects under one loan agreement if they are similar and have the same design life. All projects under these plans must be designed by a licensed professional engineer and inspected by a certified inspector.

Transportation Revolving Fund Loan Summary as of December 26, 2006		
Loan Status	Number of Loans	Amount in Thousands
Active Loans	18	\$25,883
Completed Loans	21	25,920
Loan Agreements Pending	3	6,774
Application Under Review	8	11,128
Total Loans and Applications	50	\$69,705

The TRF has disbursed over \$37 million in loan proceeds to help finance 45 projects since inception.

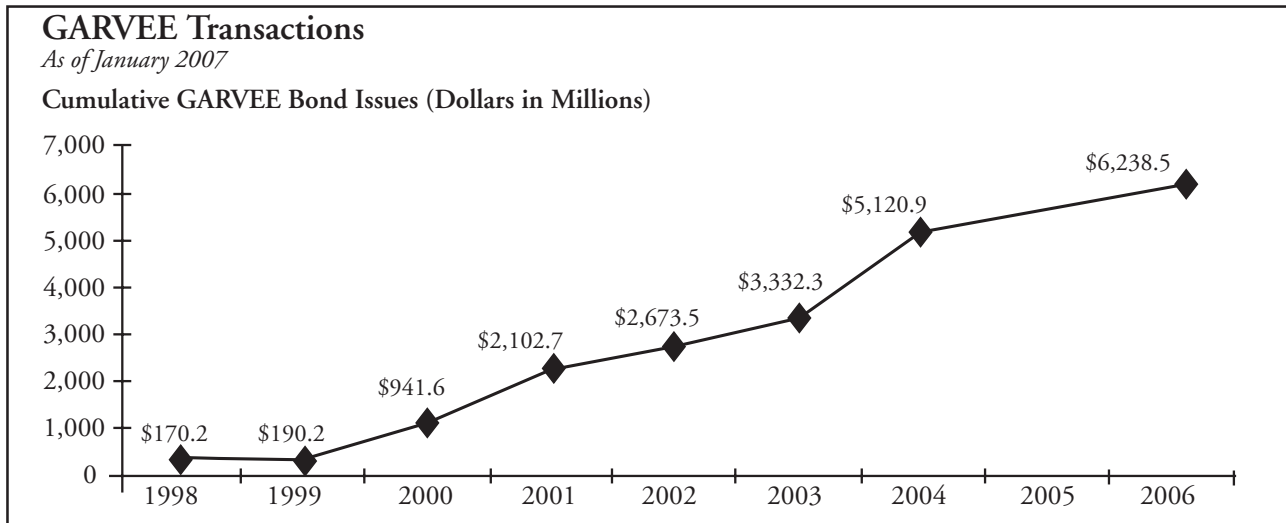
The term or life of a TRF loan is determined by the design life of the project. Terms are limited to the lesser of the design life of the project or 20 years. Currently, loans range from three to 20 years.

The Kansas Development Finance Authority, in partnership with KDOT,

approved for a loan to build a road to an ethanol plant, which is under construction east of Phillipsburg. Morris County used the TRF for short-term financing on an economic development project in which KDOT participated. The City of Pratt used the TRF for two local projects.

Sometimes an applicant has a multiphase project in which design and construction will extend more than two years. KDOT

Recent GARVEE Issues, continued from page 2



issue will be used to fund replacement of the Route 52 causeway bridges and roadway section between Somers Point and Ocean City, a project estimated to cost \$400 million. Future use of GARVEEs will provide funding for other specific major projects, on a limited basis, where need for such funding has been fully investigated and shown to be warranted, as is the case for the bridge replacement project.

At the end of December 2006, the cumulative value of GARVEE bond issues reached \$6.2 billion, financing projects in 18 states, Puerto Rico, and the Virgin Islands. The largest state issuer to date is Colorado, which issued over \$1.6 billion in GARVEEs over the 2000-2004 period. Of this amount, \$0.7 billion financed a portion of the \$1.7 billion T-REX project in the Denver metropolitan area, a multimodal project along the southeast corridor of Interstates 25 and 225 that added 19 miles of light rail and improved 17 miles of highway infrastructure.

In 2006, seven GARVEE bond issues were sold, totaling \$1.2 billion. The largest GARVEE issue was the \$360 million issue advanced by the Georgia State Road and Tollway Authority, which is featured in this issue of *IFQ*.



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The TRF also is an option available for emergency funding. In case of an emergency, KDOT may expedite processing for that application. An example of an emergency loan has arisen lately when a bridge failed in north central Kansas and the road was closed. KDOT worked with this applicant to speed up the loan as much as possible. The result was a closed loan in 30 days. Construction on the replacement bridge began immediately.

A realistic estimate of project cost is very important particularly given the tendency for project cost increases. Loan agreements can be amended but the process is time-consuming because amendments must go through the complete review process when the borrower is changing the scope of the project or increasing the dollar amount of the loan.

The annual maximum any city or county can borrow from the TRF is \$6 million. This can be in one loan or several loans. The limit applies to the state fiscal year in which the application is submitted. There is no minimum amount.

The project must be for a road or bridge as defined by the statute. All applications are subject to the approval of the Kansas Secretary of Transportation.

KDOT recommends that all applicants involve their attorney and licensed professional engineer throughout the application process and project period because the application becomes a contract between KDOT and the applicant when the application is approved by the Secretary of Transportation. All TRF loans must comply with IRS rules for tax-exempt debt.

KDOT advises applicants to carefully review and complete the loan application and all the supporting documents. The application form, disbursement form, the rules and regulations, and the TRF Program Guide are available on the KDOT web site at www.ksdot.org.



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NEW PROGRAM

FTA Announces Debt Service Reserve Pilot Program

SAFETEA-LU allows up to 10 Urban Area Formula Grant (49 USC 5307) recipients to seek reimbursement for bond proceeds deposited in a Debt Service Reserve (DSR). The Federal Transit Administration (FTA) announced this pilot program on December 29, 2006.

The Pilot Program

A DSR is a fund that is established as additional security for a bond. It is usually funded by a portion of the bond proceeds (about 10 percent), and remains unused until the last year of the bond term. At that time, it is used to make some or all of the last year's debt service payment. However, the DSR reduces the effectiveness of the bond issue by keeping the funds unused for a significant time, sometimes as long as 20 years in the case of municipal bond issues.

Section 5323(d), as amended by SAFETEA-LU authorized immediate grant reimbursement of bond proceeds deposited in a DSR with funds made available under the Discretionary Capital Grant Program (Section 5309). However, it created a pilot program to allow up to 10 Section 5307 recipients to reimburse bond proceeds deposited in a DSR. In addition, Section 5323 requires that FTA submit a report on the experience of the pilot program. This report is due on July 31, 2008.

FTA has drafted a Federal Register Notice (FRN) seeking applications from eligible Section 5307 recipients who plan to support an eligible project with bond financing. If selected by FTA, the grantee would be allowed to seek reimbursement of

the bond proceeds deposited in a DSR on the day after such a deposit was made. For the usual bond issuance, this would mean that the grantee would be reimbursed for as much as eight percent of the bond issue on the day after it was sold. (DSRs are usually funded to cover one year's debt service, which equates to about 10 percent of the face value of the bonds. Reimbursement with Section 5307 funds would be 80 percent of the DSR.) On a \$1 million bond issuance, this would amount to \$80,000 of avoided cost¹ for the grantee – funds that could be used to advance another capital project.

The DSR reimbursement is an eligible capital expense for bonds secured by a local revenue source or by grant funds (i.e., Grant Anticipation Bonds). However, the total Federal share of a grant-supported project may not exceed 80 percent, so the DSR reimbursement simply accelerates repayment by something between two and 20 years. That is, the final debt service payment, made by the DSR, would have been reimbursable in the last year of the bond's term, but now it is being reimbursed as soon as created.

During the 10 years ending in 2003, public transit agencies (primarily the largest 30 agencies) issued between \$3 billion and \$6 billion in new bonds each year. This does not include any refunding issues. Between 1999 and 2006, public transportation agencies issued over \$3.2 billion in grant anticipation bonds, secured with either Urban Formula or Discretionary Capital funds or a combination of both. However, the number of transit bond issuances might not exceed 10 in any one year, so FTA has left the program open for the term of SAFETEA-LU,

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TOOLS IN PRACTICE

Tax Increment Financing: Generating Revenues by Generating Benefits

Not all successful innovations in project financial assistance originate from Federal program initiatives. State and local governments have implemented several innovative techniques to raise funds to finance transportation projects. Tax increment financing (TIF) is one such technique and it has been used successfully to finance public transportation projects in several cities, including Chicago, San Francisco, Houston, and Portland, Oregon. TIF also has been proposed as a possible funding mechanism for large scale infrastructure projects such as the extension of the New York City Number 7 subway line.

TIF Characteristics: A Brief History

Several factors have contributed to the recent growth and interest in the use of TIF by state and local governments, including the dwindling availability of Federal economic development grants, the need to develop strategies to address urban blight, and a political sensitivity to constituent desires to minimize the imposition of additional taxes. The first state law to authorize TIF was passed by California in 1952. Today, all states but Arizona and including the District of Columbia have enacted TIF legislation.

Tax increment financing relies upon future additional tax revenues generated from the proposed project or increased property valuations within a TIF district with specific geographic boundaries to pay for economic development or other improvements. It differs from an assessment area by relying upon anticipated future revenues; an assessment area by comparison taxes existing property at a higher rate to fund an infrastructure improvement.

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¹ The cost is actually avoided opportunity cost. Assuming a 4.5 percent APR, over 20 years, the opportunity cost is closer to \$116,437 (less some accrued interest on the DSR).

DSR Program, continued from page 9

to take maximum advantage of the pilot program. However, FTA hopes to have a significant number of requests for the authority during 2007, so there can be sufficient information to meet the requirement to submit a report to Congress.

How It Will Work

FTA will receive the proposals from eligible Urban Formula Grant recipients, and evaluate them on the basis of the expressed need for the financing and the benefit they seek to derive from the bond issue. The transit agency is asked to provide a context for the bonds – how debt has been used previously, and the function of the current bond issue in relation to the overall capital program. And, of course, FTA wishes to know the terms and projected interest rate(s) on the bonds. There is no limitation on the amount of bonds that can be issued at one time – only a limitation of 10 pilot issuers. That is, each separate issuance by the same transit agency (say, 2007A and 2007B) will count as one of the 10 pilot issuances authorized. FTA will then send a letter of approval to the successful proposer, which will make their deposit of bond proceeds into a DSR immediately reimbursable with Urban Formula Program funds.



Chicago Transit Issued GANs in 2005.

This authority does not apply to projects funded under the Discretionary Capital Grant Program or to bonds for which no DSR is required. In these two instances, SAFETEA-LU already provides authority to reimburse financing costs under normal grant approval procedures.



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Since TIF districts provide specific revenue sources, they may be used in conjunction with other U.S. DOT innovative finance and lending programs. For example, a TIFIA credit instrument or a SIB may include pledged TIF funds as a repayment source for a transportation project loan.

Advantages

TIF financed projects offer several advantages to project sponsors. Although these benefits may differ among states and municipalities, some key TIF benefits are as follows:

- No additional taxes are levied upon the community; all of the development is paid from additional revenue generated from increasing property values within the district boundaries.
- TIF bonds are not counted against the municipality's constitutional debt or against a general obligation debt limit in some states. To minimize issuance costs, many states do not secure their TIF bonds with the "full faith and credit" of the issuing municipality which may make the debt appear riskier to investors.
- No voter approval is required to issue TIF bonds or to establish a TIF district.
- TIF districts enable more project flexibility and better local control.

- Once the TIF district expires, all of the additional tax revenue will be pooled for use throughout the municipality.

Potential Challenges

Actual challenges associated with using TIF are primarily related to the timing and yield of the revenues, and equity:

- Investments in the TIF district may not result in the anticipated increases in property valuations and therefore, the necessary pledged tax revenues. The increases also take time to materialize.
- TIF districts have the potential to displace existing residents who may be unable to afford the increasing taxes resulting from the planned economic development initiatives. Similarly, the new district, if successful, could redistribute development resulting in a potential overall decline in the total amount of tax revenues collected by the municipality.
- Many TIF districts rely upon public services located outside of the redevelopment zone, such as police, fire, and water service; TIF funds do not financially support these services. In contrast, if the TIF district is established for a project with regional benefits, such as a commuter rail line, many may benefit from the project but will not contribute to cover the project costs, since they are not included in the TIF district.

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TIF Experience in Chicago

TIF legislation was first enacted in Illinois in 1977 in order to provide economic development funds for areas of Chicago containing aging, obsolete, dilapidated, or other environmentally deficient structures or land use strategies. The first TIF district was not created until 1984, after which more than 100 TIF districts were created. The city credits its TIF program as a viable method to attract industrial revitalization.

Under the city's TIF legislation, TIF revenues may be used to fund public transportation infrastructure but not operating expenses. Projects supported by TIF include:

- The Randolph/Washington Station (\$13.5 million in TIF funds);
- The Dearborn Subway-Lake/Wells (\$1.2 million in TIF funds);
- Miscellaneous Central Loop transit projects (\$24 million in TIF funds); and
- The Block 37 Transit Center (aka 108 North State Street; \$42.4 million in TIF funds).

Although it is possible to issue bonds to provide upfront financing to a TIF district, Chicago initially decided not to issue general obligation bonds for this purpose and used a "pay-as-you-go" approach. Recently, more "mature" and financially established TIF districts have qualified for bond insurance, although insurers usually require additional credit enhancements, such as an expanded TIF district size or additional or higher coverage ratios.

The combination of TIF and transit-oriented development (TOD) is another technique to support public transportation projects. For example, the Chicago suburb of Arlington Heights committed \$45 million over 15 years to support two TIF districts designed to invest in projects around a commuter rail station. The projects include parking garages, streetscapes, and expanded green space.

Today, the City of Chicago has 130 designated TIF districts comprising nearly 30 percent of the land area of the city. The city estimates that it has invested \$526 million in TIF funds, but attracted more than \$2.82 billion in private investment.

Examples of Other Public Transportation TIF Projects

In addition to the successful use of TIF to support public transportation improvements in Chicago, there are several examples of other TIF financed public transportation projects, including the following projects:

- A \$30 million BART parking structure and a \$75 million BART station in Fremont, California;
- A \$7.5 million investment in the Central City Streetcar project in Portland, Oregon;
- The \$350 million Interstate Avenue Light Rail, also in Portland, Oregon; and
- Elements of the \$324 million Metro Rail Red Line in Houston, Texas.



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EVENT

Heavy-Duty Engine Emissions Reductions Funding Forum

Building on the successful partnership between the Oregon SIB and Cascade Sierra Solutions (see the Fall 2006 issue of *IFQ*), the West Coast Collaborative, a public-private partnership working to reduce diesel emissions along the West Coast, is sponsoring a funding forum in Long Beach, California on financing heavy-duty diesel emissions reduction.

Diesel emissions reduction is an increasingly important topic for metropolitan planning organizations, state DOTs, and others involved in the transportation planning and funding process. Frequently, diesel emissions are "low-hanging fruit" where emissions reductions can be attained at a much lower cost per ton than for other types of vehicles. The new Congestion Mitigation and Air Quality (CMAQ) guidance enables these kinds of projects to qualify for credit assistance under Title 23, including the SIB and TIFIA programs.

Participants in this free forum will learn about ways in which various private and public funding sources can be used to reduce emissions from heavy-duty engines, as well as the eligibility and how to apply for these sources. The funding forum will be held on Thursday, March 1, 2007 at the Bannings Landing Center in Wilmington, California.



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ANNOUNCEMENT

Joe Dailey Named Director, Office of Financial Management

On March 20, 2006, Joe Dailey joined FHWA as Director of the Office of Financial Management, within the Office of the Chief Financial Officer (OCFO). As Director, Joe is responsible for the administration and execution of the Federal-aid Highway Program. He provides executive direction to ensure the efficient and effective execution of the program, and is responsible for the FHWA's Internal Control Program and execution of the Financial Integrity Review and Evaluation (FIRE) Program, as well as the operation of the Fiscal Management and Information System (FMIS) and FHWA's Managerial Cost Accounting (MCA) System. With Max Inman's retirement, Joe's responsibilities now cover FHWA's innovative financing initiatives, including SIBs and GARVEEs.

Prior to this appointment, Joe served as the Chief, Military Personnel Division, in the Army Budget Office, and previously served on the Army's Transformation of Installation Management Task Force. During his financial management career, Joe has held various positions at installation, Major Command and Headquarters Department of the Army as well as a tour with the Navy's Bureau of Personnel.

Joe has a Master's of Business Administration from Syracuse University, and Bachelor's degrees from both the University of Louisville (Education), and The Ohio State University (Computer Science). He served for 10 years in the U.S. Army.

Mr. Dailey is a Certified Governmental Financial Manager, Association of Government Accountants and a Certified Defense Financial Manager, American Society of Military Comptrollers. Additionally, he is a Member of the Board of Directors for the Northern Virginia affiliate of Habitat for Humanity.

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