U.S. Department of Transportation
Federal Highway Administration

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Border to Border Conference:

Innovative Financing Basics

Emerging Oversight/Audit Issues

November, 2008

Innovative Finance is not…

- Magic!
- A silver bullet
- The end of project funding challenges

Innovative Finance is…

- Measured, intelligent, targeted use of credit at favorable terms
- Development of new revenue streams (user charges, tolls)

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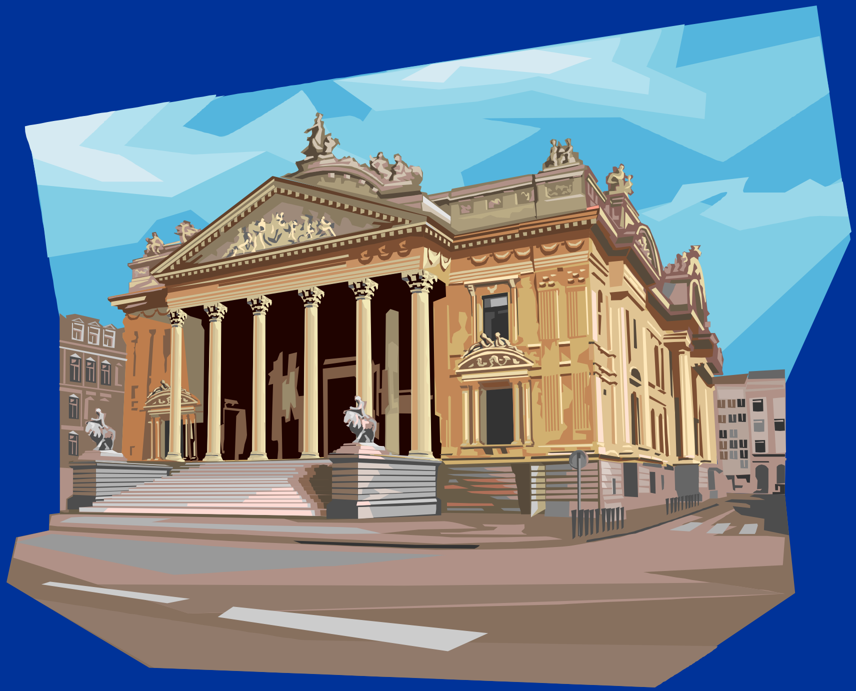
Innovative Finance is…

- Often in partnership with the private sector, building on their resources
- Best for projects that lead to economic development and growth in tax revenues



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Types of Innovative Finance

- Grant Anticipation Credit
- State Infrastructure Bank Credit
- USDOT Credit Assistance (multiple programs)
- Public Private Partnerships

Grant Anticipation Credit

- Debt secured by future Federal-aid apportionments
- Referred to as Grant Anticipation Revenue Vehicles, or GARVEEs
- Short-term GARVEEs are called Grant Anticipation Notes, or GANs

Grant Anticipation Credit

- GARVEEs can be “Direct”, secured by specific Federal-aid apportionment categories
- GARVEEs can be “Indirect”, secured by reimbursement of entire Federal-aid program
- Bond documents (i.e., Official Statement) tell all!

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Grant Anticipation Credit

- Debt can also be secured by future state or local funds
- These instruments could be called “step-down” GARVEEs, since the grant anticipation concept has stepped down to a lower government level

State Infrastructure Bank Credit

- State Infrastructure Bank = SIB
- SIBs can be Federal (funded with Federal-aid funds) or state (funded purely with state funds)
- Up to 10% of selected FHWA Federal-aid and FTA funding categories can be used to capitalize SIBs

State Infrastructure Bank Credit

- SIBs can provide loans, credit guarantees, lines of credit
- SIBs are a revolving loan program
- Credit can be extended to public or private sector borrowers
- Projects must be Title 23 or Title 49 eligible
- Revenue source for repayment must be identified

State Infrastructure Bank Credit

- Similar to SIB Credit is the Section 129(a) Loan Program
- Project-specific rather than program basis
- Under Section 129(a), Federal-aid apportionments are lent to project sponsor rather than used to capitalize SIB
- Revolving program as well

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USDOT Credit Assistance

- Direct credit available under TIFIA = Transportation Infrastructure Finance and Innovation Act
- Direct credit available under RRIF = Railroad Rehabilitation and Improvement Financing Program
- Credit authority under PAB = Private Activity Bond Financing

USDOT Credit Assistance

- TIFIA Credit provides loans, credit guarantees and lines of credit for up to 35 years after project completion
- Minimum project cost: $50 million
- Statutory limit of up to 33% of project costs (unless limit waived)
- Very flexible repayment terms
- Formal application process

USDOT Credit Assistance

- RRIF Credit provides loans for up to 100% of eligible rail project costs
- Repayment terms up to 25 years after project completion
- Borrower must pay Credit Risk Premium (cost of extending credit)
- Formal application process

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USDOT Credit Assistance

- PABs are a $15 billion program that allows private project sponsors to issue tax-exempt bonds
- Low, tax-exempt interest rates
- Must be issued through state or local “conduit” issuer
- Formal application process

Public Private Partnerships

- Public Private Partnerships = PPPs
- Term often used synonymously with long-term concessions for toll highways
- However, PPPs also can incorporate private sector donations; private sector credit & technical assistance; credit from development banks; tax increment financing

Public Private Partnerships

- PPPs are often supported by direct project user charges; but increasingly shadow tolls and availability payments are being considered
- PPPs are also evolving into Public to Public arrangements in order to “capture” private sector profit for public benefit

Emerging Issues – Federal-aid Program

- The FHWA trust fund balance reached zero in September; reimbursements to state DOTs became problematic
- FY 2008 trust fund collections were down 7.6%, to $36.4 billion
- Volatile fuel prices, more efficient vehicles and a weak economy can be expected to dampen motor fuel tax revenues (state and Federal)

Emerging Issues – Federal-aid Program

- All the more reason to consider innovative, or alterative, financing techniques!

Emerging Issues/PPPs

- How can public sector interests be protected?
- What are ramifications of possible declining traffic and falling toll revenues?
- What are state, AASHTO and federal roles in:
  – evaluating shadow tolls and availability payments?
  – measuring PPPs against Public to Public arrangements?

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Emerging Issues/USDOT Credit Assistance

- Who is responsible for project oversight and credit monitoring?
- Are independent financial audits or evaluations required? For what purpose? Who pays for them? Who resolves findings?
- Where multiple government and private entities are involved, what is coordination mechanism?

Emerging Issues/US Credit Assistance

- What is best way to ensure eligibility of costs underlying periodic drawdowns of approved loan amounts?
- How are required financial plans (for major projects) and annual updates reviewed?
- What is best way to monitor toll revenues and project sponsors' financial condition?

Emerging Issues/SIB Credit

- Are SIBs submitting reports required by FHWA and states?
- Are SIB-funded projects monitored to ensure compliance with federal requirements?
- Are states monitoring use of program income?

Emerging Issues/SIB Credit

- How are percentage limits on capitalized apportionments monitored?
- How do states ensure compliance with SIBs' own procedures as well as federal requirements for distinct SIBs?
- These SIB issues may also apply to Section 129(a) Loan Programs

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Emerging Issues/Grant Anticipation Credit

- How do states and Divisions ensure that Project Authorizations (PAs) properly support Garvee/GAN programs?
  - Are debt service schedules included?
  - Is a list of projects included?
  - Do Federal-aid apportionment categories match with project costs?
- How do states and Divisions ensure that the appropriate non-federal share is maintained?

Emerging Issues/Grant Anticipation Debt

- How do states and Divisions ensure that states do not "double bill" for both construction and debt service costs?
- Are states paying interest on bonds for projects that will not be constructed for some time?
- Are states paying interest on bonds for projects that have stopped?

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Emerging Issues/Next Steps

- What is are state and local governments' interest in addressing these, or other, issues?
- What are lessons learned, best practices?
- Coordination with AASHTO may be appropriate

RC Innovative Finance Team Contacts For Specific Questions

Thay Bishop Atlanta, Georgia	**Team Leader** Ph: (404) 562-3695 ; thay.bishop@dot.gov
Prabhat Diksit Lakewood, Colorado	**Innovative Finance Specialist** Ph: (720) 963-3202 ; prabhat.diksit@dot.gov
Jim Hatter Atlanta, Georgia	**Innovative Finance Specialist** Ph: (404) 562-3929 ; jim.hatter@dot.gov
Jennifer Mayer San Francisco, California	**Innovative Finance Specialist** Ph: (415) 744-2634; jennifer.mayer@dot.gov
Frederick Werner Atlanta, Georgia	**Innovative Finance Specialist** Ph: (404) 562-3680; frederick.werner@dot.gov