

Innovative Finance Workshop

2018



The Essentials of Innovative Finance for US Territories
August 23, 2018



U.S. Department of Transportation
Federal Highway Administration

OFFICE OF INNOVATIVE PROGRAM DELIVERY



AGENDA

1. Introduction
2. Tolling
3. Value Capture
4. Public Private Partnerships
5. FHWA Revenue Bonds (GARVEEs)
6. State Infrastructure Banks (SIBs)
7. Private Activity Bonds (PABs)
8. TIFIA Loan Program
9. Combining SIB and TIFIA for a Rural Project
10. Leveraging multiple Federal Resources

Introduction

Who Am I?

- I am the Project Finance Program Manager for the Center for Innovative Finance Support (CIFS).
- CIFS provides program oversight for tolling, GARVEEs, SIBs, and P3 transportation initiatives.
- CIFS is a part of the Office of Innovative Program Delivery (OIPD), which improves transportation performance by driving innovation into action through partnerships, technology deployment, and capacity building.

What Can We Do for You?

- CIFS can assist you and your infrastructure partners by facilitating relationships with State DOT, FHWA division offices, DOT program offices, and other Federal resources.
 - Identify innovative financing and funding solutions for your projects.
 - Assist with SIB applications.
 - Develop Public Private Partnerships (P3) strategies.
 - Provide in-depth innovative finance training.
 - Real-Time technical assistance.

Tolling

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Tolling

- Tolling involves the imposition of per-use fees on motorists to utilize a highway. Historically, these fees have been fixed, distance-based tolls that vary by vehicle type. Their primary purpose has been to generate revenue and recoup costs.
- Title 23 of the United States Code includes a general prohibition on the imposition of tolls on Federal-aid highways. However, Title 23 and other statutes have carved out certain exceptions for new and existing highways.

Tolling/Pricing

- The term pricing, as applied to road usage, entails fees or tolls that vary by level of vehicle demand on the facility. This type of road pricing is also called congestion pricing, value pricing, variable pricing, peak-period pricing, or market-based pricing.
- While pricing generates revenue, this strategy also seeks to reduce congestion, environmental impacts, or other external costs occasioned by road users.

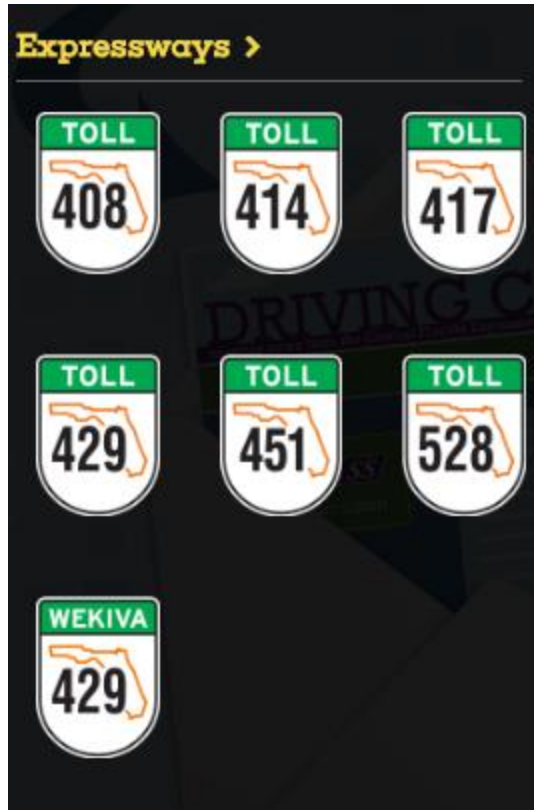
Tolling/Pricing

There are different types of tolling and pricing strategies; some examples include:

- Fixed (all vehicles tolled).
- High-occupancy toll (high-occupant vehicle lanes [HOV] allow vehicles not meeting occupancy to pay a toll).
- Managed lanes (different strategies applied to manage facility demand, for instance, time of day pricing).
- Mileage-based user fees (user fees charged based on miles traveled).



Tolling



- The Central Florida Expressway Authority operates several toll roads that traverse urban and rural areas around Orlando.
- More information can be found at: <https://www.cfxway.com>.



Value Capture

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Value Capture Definition

Value Capture is defined as a revenue source (fee, tax, assessment, or other mechanisms) for capitalizing on the value created by transportation improvements and investments.

Value Capture will be covered in-depth in EDC-5!

Examples of Transportation Improvements

- Roads and bridges.
- Transit improvements and expansion.
- Complete streets improvements.
- Bicycle and pedestrian connections.
- Street trees and landscaping.

Beneficiaries

- Developers.
- Property owners (residential, commercial, retail, industrial).
- Employers.
- Businesses.
- Transportation users.

Typical Value Capture Mechanisms

- Special assessment districts.
- Tax increment financing.
- Land value tax.
- Joint development.
- Transportation utility fee.
- Development impact fees.
- Air rights.
- Negotiated exactions.
- Others.

Benefits

Value Capture is mostly initiated by local governments.

- Facilitate access to ongoing revenue sources such as new property tax revenue to the City/County/State.
- Value Capture can be a valuable “gap funding” approach for highway improvements:
 - ✓ Sources of revenue.
 - ✓ Revenue = alternative financing.
- Raised capital/revenue helps secure funding from multiple Federal sources and/or Federal matching share: TIFIA, Section 129 Loans, SIBs, INFRA Grants.
- Part of an overall funding strategy.

Challenges

- Require State statutory authority.
- Stakeholders coordination & involvement process can be lengthy:
 - ✓ Local governments and State DOT.
 - ✓ Property owners and/or developers.
 - ✓ Private companies.
 - ✓ Transportation corporation.
 - ✓ Federal agencies.
- Transaction costs.
- Expertise.

Resources

- FHWA Center for Innovative Finance Support Resources:
 - ✓ https://www.fhwa.dot.gov/ipd/value_capture/.
 - ✓ https://www.fhwa.dot.gov/ipd/project_profiles/.
 - ✓ https://www.fhwa.dot.gov/ipd/fact_sheets/.
- FHWA Right of Way Use Policy and Guidance:
 - ✓ https://www.fhwa.dot.gov/real_estate/right-of-way/policy_and_guidance/airguide.cfm.

Public-Private Partnerships

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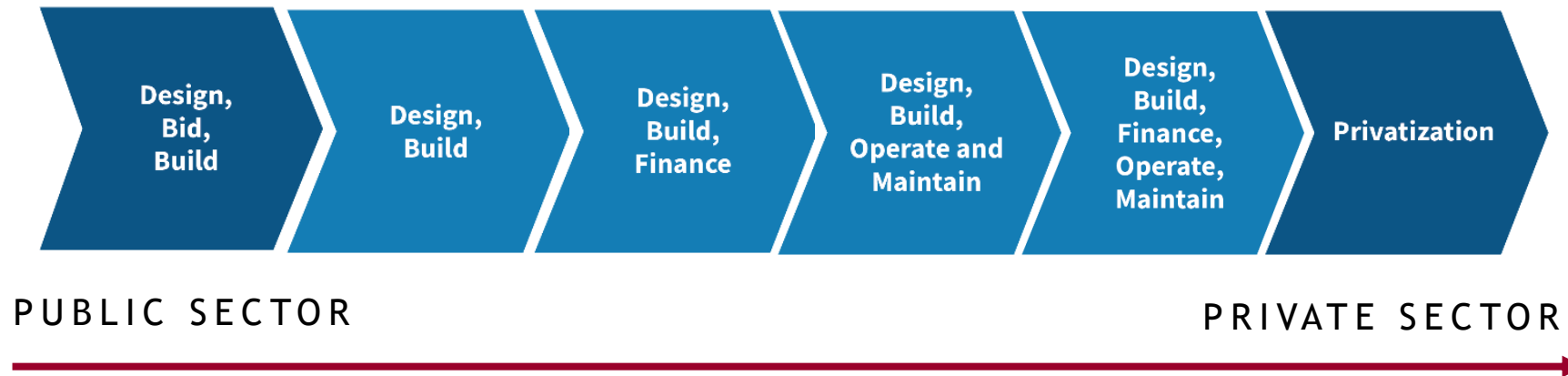


What are P3s?

- **Acronym:** Public-private partnerships (P3s or PPPs).
- **Definition:** Long-term contractual agreements between a public agency and a private entity to design, build, finance, operate, and maintain (DBFOM) an infrastructure project.
- **Purpose:** To allow private participation in the delivery of projects ***when it creates greater value and is in the public interest.***

Highway Public-Private Partnerships

Infrastructure Delivery Options



Risk

Degree of ownership, development integration, risk transfer, and extent of private financing

Types of P3s by Project Scope

Greenfield (“new build”): Developer constructs, operates, and maintains a new facility, such as a new toll road.

Brownfield (existing facility): Developer contracts for the right to operate an existing facility and assumes responsibility for operation and maintenance (possibly with future developer enhancements).

Types of P3s by Payment Model

■ Availability Payment Concessions

- Payments made by the public sector sponsor to the developer based on meeting milestones and/or facility performance standards, such as a fixed annual payment for the operation and maintenance of a highway for a term of years.

■ Toll Concessions

- Authorizes the developer to collect and retain tolls from motorists for the term of years as defined in the P3 agreement.

P3 Potential Benefits

To public sector:

- Expedited project delivery.
- Allocation of risk, where private sector can save money/manage better.
- Improved cost and schedule control.
- Incentives to manage life-cycle costs.
- Conservation of public sector debt capacity.

To private sector:

- Return on investment that is long-term, predictable, and perceived moderate risk.
- Opportunity to increase return through efficiencies, innovation, and managing risks.

P3 Potential Challenges

- Public perception that private sector will benefit unfairly.
- Need for enabling legislation at the State level.
- Lack of public sponsor P3 procurement and oversight expertise.
- Perception among State officials that private sector financing is more expensive than traditional financing/funding.
- Public reticence to pay user fees.
- Difficulty predicting traffic and toll revenue.
- Potential complexity in identifying, pricing, and allocating risk.

Grant Anticipation Revenue Vehicles – GARVEE

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What are GARVEEs?

- **Definition:** Debt issued (usually bonds) by States, local governments, Tribal governments, and territories; backed by, and repaid with, specific Federal-aid funds.
- **Purpose:** Issued to provide new funding for eligible projects or to refinance existing GARVEE bonds.
- **Key Provisions:**
 - No Federal guarantee of repayment; any pledges or obligations must come from the issuer.
 - Non-Federal match is required with every debt service repayment.

Advantages of GARVEEs

- Accelerate construction of critical projects.
- Avoid costs of inflation.
- Facilitate large project financing.
- Promote efficient resource allocation by matching debt term with life of asset.
- Provide economies of scale.
- Provide benefit of relatively low interest rates.

Advantages of GARVEEs (cont.)

- Provide economic and fiscal stimulus.
- Leverage Federal funds.
- Increase borrowing capacity.
- Reduce use of General Obligation (GO) Bonds.
- Possibly avoid GO Bond debt limits and bond referenda.
- Preserve general credit rating.
- Allow claim of interest and issuance costs as eligible Federal-aid costs.

Disadvantages of GARVEEs

- Debt service reduces future financial, programmatic, and political flexibility.
- May lead to debt capacity constraints.
- Federal aid used for interest and issuance costs rather than construction costs.
- May require enabling legislation and policy.
- Periodic reauthorization risk.
- Significant stewardship, oversight and reporting responsibilities for FHWA.

Candidate Projects

- Large-scale capital projects with economic life lasting longer than the debt.
- Projects whose costs of delay outweigh the costs of financing.
- Projects with significant economic development potential.
- Projects that are eligible for Federal-aid highway funding.



GARVEE Bond Options

- **Security:** Standalone, backstopped, and/or insured.
- **Interest Rate:** Fixed or variable.
- **Maturity:** Long- or short-term.
- **Uses:** New money or refunding.
- **Eligibility of debt-related expenses:** Assessed in coordination with HQ.

GARVEE Security Options

- **Standalone or non-recourse GARVEEs**

- Future Federal-aid funds serve as the only security or collateral backing Federal share of the obligation to investors.
- No pledge of State funding other than required match.

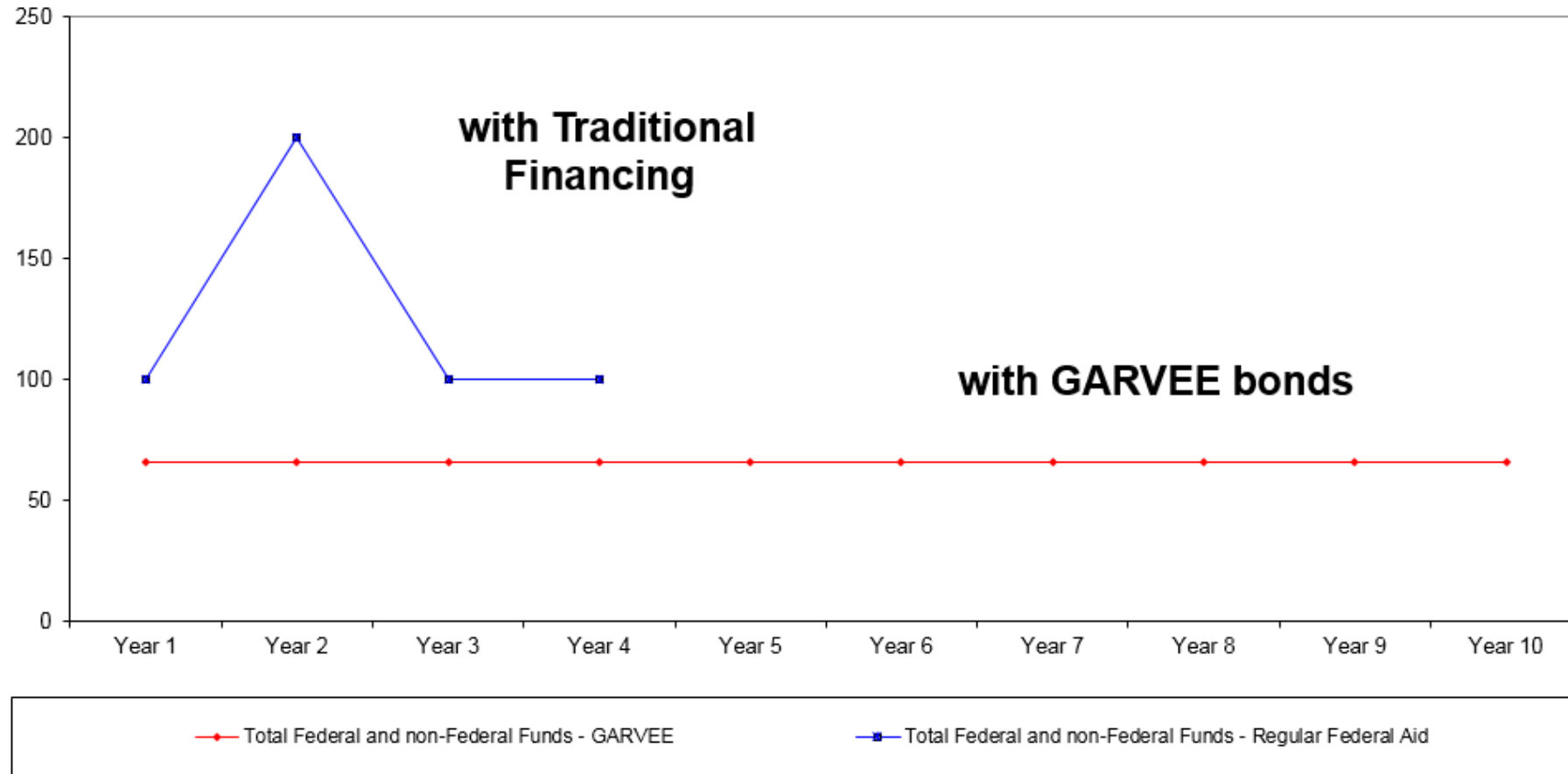
- **Backstopped GARVEEs**

- Additional State revenues pledged in addition to future Federal-aid highway funds.
- May result in lower interest costs on the bonds.

- **Insured GARVEEs**

- Guarantees payment of bonds for life.
- Comes at a cost (premium charged).

Traditional Financing vs. GARVEE Bonds Cash Flows



Innovative GARVEE Usage

(Not your father's GARVEE...)

GARVEEs are not just for Bond Issuances.....

- Other types of debt can be repaid using GARVEE, Commercial loans, Government loans, and SIB loans are all ***potentially*** eligible under the GARVEE program.

Example: FHWA and USDA-Rural Development are collaborating on an explorative effort allowing the Territory of Guam to borrow from the Capital Facilities Program and repay the loan using the GARVEE program. The target project is an essential highway connector and is Federal-aid eligible.

State Infrastructure Banks

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What Are SIBs?

State Infrastructure Banks (SIBs) are revolving loan funds for highway, transit, and rail projects. Usually administered by a State DOT, a SIB can offer a range of loans and credit enhancement products. The typical SIB borrower is a local public agency (LPA), but the program allows a State to lend to a variety public and private entities.

Types of Assistance

- Fund short-term construction or long-term debt financing.
- Fund all or part of a project's cost.
- Offer flexible repayment terms at below-market interest rates.
- Can be subordinated to other lenders.

Current SIB Status

- Number of available SIBs (federally capitalized): 28.
- Total Federal capitalization: \$661 million.
- Number of loans executed to date: 1,192.
- Value of loans executed to date: \$3.1 billion.
- Estimated SIB funds currently available for lending: \$775 million.

Current Status: Active Federal SIB

Alaska
Arkansas
California
Colorado
Florida
Indiana
Iowa
Maine
Michigan
Minnesota

Missouri
Nebraska
New Mexico
North Carolina
North Dakota
Ohio
Oregon
Pennsylvania
Puerto Rico
Rhode Island

South Dakota
Tennessee
Texas
Vermont
Virginia
Washington
Wisconsin
Wyoming



Innovative Examples of SIB Usage by States for Local Projects

- Usage of Tax Increment Financing (TIF) as a source of repayment, depending on governing laws and regulations.
- Defer short-term transportation investment costs with very low interest loan to offset budget shortfalls.
- SIBs can be used to accelerate a local government's transportation program, similar to bonding.
- Can be utilized by private and quasi-private project sponsors.
- Assist Public-Private Partnerships to upgrade facilities to aid economic development.
- May offer key “bridge financing” to complete a financial plan.

Private Activity Bonds (PABs)

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Project Development Lead

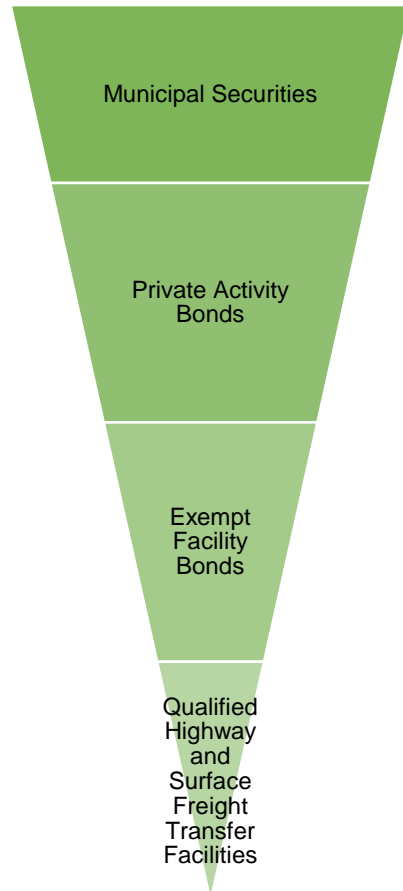
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Background and Definitions



Municipal Security: A general term referring to a bond, note, warrant, certificate of participation, or other obligation issued by a State or local government or their agencies or authorities (such as cities, towns, villages, counties, or special districts or authorities).

Private Activity Bond: A municipal security of which the proceeds are used by one or more private entities.

Exempt Facility Bond: a Qualified Private Activity Bond issued to finance various types of facilities owned or used by private entities, including airports, docks, and certain other transportation-related facilities; water, sewer, and certain other local utility facilities; solid and hazardous waste disposal facilities; certain residential rental projects (including multi-family housing revenue bonds); and certain other types of facilities.



Exempt Facility Bonds (26 USC 142)

1. Airports,
2. Docks and wharves,
3. Mass commuting facilities,
4. Facilities for the furnishing of water,
5. Sewage facilities,
6. Solid waste disposal facilities,
7. Qualified residential rental projects,
8. Facilities for the local furnishing of electric energy or gas,
9. Local district heating or cooling facilities,
10. Qualified hazardous waste facilities,
11. High-speed intercity rail facilities,
12. Environmental enhancements of hydroelectric generating facilities,
13. Qualified public educational facilities,
14. Qualified green building and sustainable design projects, or
15. Qualified highway or surface freight transfer facilities.

Qualified Highway and Surface Freight Transfer Facilities

For purposes of subsection (a)(15), the term “qualified highway or surface freight transfer facilities” means—

- a. Any surface transportation project which receives Federal assistance under title 23, United States Code (as in effect on the date of the enactment of this subsection),
- b. 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 (as so in effect), or
- c. 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 either title 23 or title 49, United States Code (as so in effect).

Program Administration

- The law limits the total amount of such bonds to \$15 billion and directs the Secretary of Transportation to allocate this amount among qualified facilities. The \$15 billion in exempt facility bonds is not subject to the State volume caps.
- DOT accepts applications on a rolling basis. There is no fixed format for applications, but there is list of information “that would be helpful in consideration of applications.” It includes, among other things:
 - Project Description, Schedule, Financial Plan.
 - Description of the Borrower and Financing/Development Team.
 - Description of the Title 23 or 49 assistance received by the project.
 - Draft Bond Counsel Opinion Letter.
 - Inducement Resolution, or Draft Inducement Resolution.
- The PABs team reviews the application, and can ask for additional information or clarification if appropriate.
- Pending applications are ultimately brought before the Council on Credit and Finance for a recommendation for approval by the Under Secretary.

Project	PAB Allocation (\$ in thousands)
Bonds Issued	
I-495 Capital Beltway HOT Lanes, Northern Virginia	\$589,000
North Tarrant Express (I820 and SH 121/183), Fort Worth, Texas	\$400,000
IH 635 Managed Lanes, Dallas, Texas	\$615,000
Denver RTD Eagle Project (East Corridor & Gold Line), Denver, Colorado	\$397,835
CenterPoint Intermodal Center, Joliet, Illinois	\$150,000
CenterPoint Intermodal Center, Joliet, Illinois	\$75,000
CenterPoint Intermodal Center, Joliet, Illinois	\$100,000
Elizabeth River Tunnels, Norfolk, Virginia	\$675,004
I-95 HOV/HOT Lanes, Northern Virginia	\$252,648
Ohio River Bridges East End Crossing, Louisville, Kentucky	\$676,805
North Tarrant Express 35W Project, Fort Worth, Texas	\$274,030
Goethals Bridge Replacement, Staten Island, New York	\$460,915
U.S.36 Express Lanes, Denver Metro Area, Colorado	\$20,360
I-69 Section 5, Bloomington to Martinsville, Indiana	\$243,845
Rapid Bridge Replacement Project, Pennsylvania	\$721,485
Southern Ohio Veterans Memorial Highway, Portsmouth, Ohio	\$227,355
I-77 HOT Lanes, Charlotte, North Carolina	\$100,000
SH-288 Toll Lanes, Houston, Texas	\$272,635
Purple Line, Maryland	\$313,035
I-395 Express Lanes	\$232,995
Transform 66	\$737,000
Subtotal	\$7,534,947
Allocations	
Knik Arm Crossing, Anchorage, Alaska	\$600,000
CenterPoint Intermodal Center, Joliet, Illinois	\$300,000
All Aboard Florida, Miami to Tampa, Florida	\$600,000
I-70 East Project, Denver, Colorado	\$725,000
Gibson County Intermodal Freight Facility, Tennessee	\$18,500
Subtotal	\$2,243,500
Grand Total	\$9,778,447

What We've Heard from Project Sponsors

- After TIFIA loans, PABs are often the second lowest-cost form of long-term debt for many PPPs that would otherwise be ineligible for tax-exempt financing.
 - In one example, it was estimated that the use of \$380 million in PABs over taxable vehicles will save more than \$400 million over the lifetime of the RTD Eagle PPP project in Denver.
- An increasingly common approach to PPP projects' financial plans involves combining both PABs and TIFIA, as can be seen in projects such as the North Tarrant Expressway in the Dallas-Fort Worth Metroplex and Goethals Bridge in New Jersey and Staten Island, New York.
- This approach takes advantage of flexibility in each of these programs: (1) the ability of TIFIA to take a subordinate position in the financial plan, while PABs are priced more cheaply in the senior position; and (2) the flexibility for the volume of PABs being issued to fill in most debt structures while the TIFIA loan is capped at a fixed ratio of total project cost.



Resources

The Build America Bureau

<https://www.transportation.gov/buildamerica/programs-services/pab>.

Municipal Security Rulemaking Board (MSRB)

www.msrb.org/educationcenter.aspx.

Electronic Municipal Market Access (EMMA)

www.emma.msrb.org.

TIFIA Credit Program

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About TIFIA

The Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) established a Federal credit program under the U.S. Department of Transportation (DOT) for eligible transportation projects.

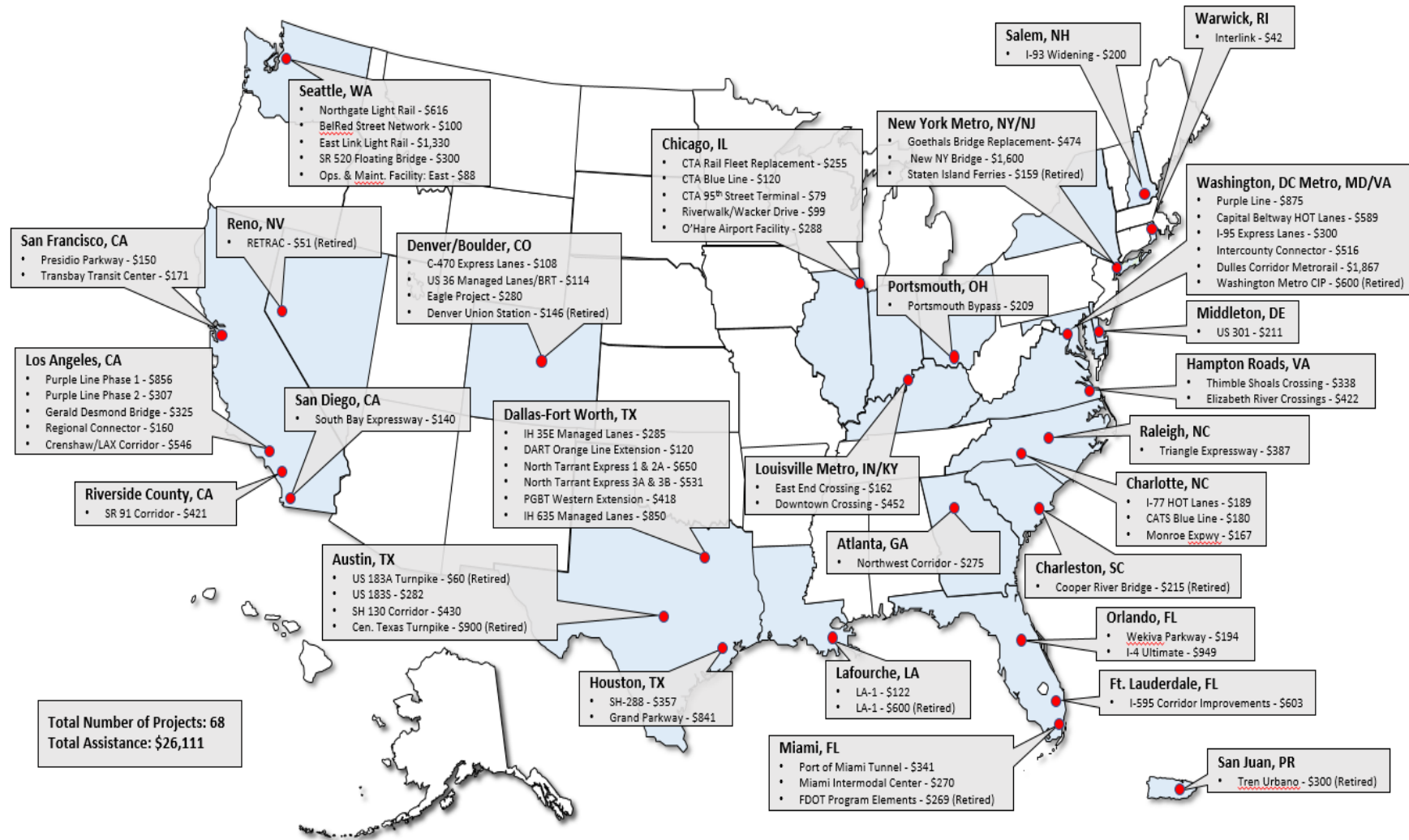
TIFIA Program Objectives

- Leverage limited Federal resources and stimulate capital market investment.
- Facilitate projects with significant public benefits.
- Encourage new revenue streams and private participation.
- Fill capital market gaps for secondary/subordinate capital.
- Be a flexible, “patient” investor willing to take on investor concerns about investment horizon, liquidity, predictability, and risk.
- Limit Federal exposure by relying on market discipline.

Types of Credit Assistance

- Secured (Direct) Loan
 - Maximum term of 35 years from substantial completion.
 - Repayments must start within 5 years after substantial completion.
- Loan Guarantee
 - Guarantees a project sponsor's repayments to a non-Federal lender.
 - Loan repayments to lender must commence within 5 years after substantial completion.
- Line of Credit
 - Contingent loan available for draws as needed up to 10 years after substantial completion of project.

TIFIA Approved Projects (in millions)



Eligible Sponsors and Projects

ELIGIBLE SPONSORS

State Governments

State Infrastructure Banks

Private Firms

Special Authorities

Local Governments

Transportation Improvement Districts

ELIGIBLE PROJECTS

Highways and Bridges

Intelligent Transportation Systems

Intermodal Connectors

Transit Vehicles and Facilities

Intercity Buses and Facilities

Freight Transfer Facilities

Pedestrian and Bicycle Infrastructure Networks

Transit-Oriented Development

Rural Infrastructure Projects

Passenger Rail Vehicles and Facilities

Surface Transportation Elements of Port Projects



TIFIA Benefits

- Long term, fixed cost, permanent, upfront financing.
- Borrower/revenue source may be minimum investment grade.
- Non-recourse financing — project cash flow supported.
- Funds drawn as needed.
- Senior or subordinate lien.
- Flexible amortization.
- No prepayment penalty.
- Low interest rates.

Low Interest Rate -
Interest rate on 6/12/2018
was 3.11% for
a 35-year loan

TIFIA Major Requirements

- **Minimum Anticipated Project Costs** – At least \$10 million for transit-oriented development, local, and rural projects.
- **TIFIA Credit Assistance Limit** – Credit assistance limited to 33 percent of reasonably anticipated eligible project costs (unless the sponsor provides a compelling justification for up to 49 percent, the statutory maximum).
- **DOT Rural Initiative** – Rural projects are now eligible for credit assistance up to the statutory maximum of 49 percent.

FAST Act Changes: Small Projects

Relief from Fees for Small Projects

- Small projects are those with less than \$75 million in reasonably anticipated eligible project costs.
- TIFIA will reserve at least \$2 million each year to be used in lieu of the fees it charges to potential applicants as part of the TIFIA application process.
- Potential applicants interested in such fee relief must indicate such in their letter of interest.
- TIFIA cannot guarantee that funding will be available for all potential applicants requesting fee relief.

FAST Act Amendments: Rural Projects

- **Lower Rural Project Cost Thresholds** – Lowers the rural project cost threshold to \$10 million (from \$25 million) and sets a maximum of \$100 million.
- **Modified Rural Area Eligibility** – A rural project is now defined as a “surface transportation infrastructure project located outside of an urbanized area with a population greater than 150,000 individuals, as determined by the Bureau of the Census.”
- **Rural Project Interest Rate** – A rural project is eligible to receive a TIFIA loan at the discounted rate of one-half Treasury rate.
- **SIB Rural Projects Fund** – TIFIA can now lend up to \$100 million for rural projects, at discounted rate of one-half Treasury rate.

Rural Rate -
Interest rate on 6/12/2018
was 1.56% for
a 35-year loan

FAST Act Changes: TOD Projects

- **Transit-Oriented Development (TOD)** – The FAST Act expands the TIFIA program by allowing TOD projects to be eligible to apply for TIFIA credit assistance.
- **Eligibility** – TIFIA must ascertain the TOD project's relationship to a transportation facility, including:
 - The TOD project's distance from the transportation facility.
 - The nexus between the TOD Project and the transportation facility.
- **Eligible Project Elements** – Subject to TOD project-specific review, a variety of elements could be eligible including the following, among others:
 - Property acquisition
 - Site preparation
 - Walkways
 - Pedestrian and bicycle access to a public transportation facility
 - Demolition of existing structures

FAST Act Changes: Local Projects

- **Local Projects** – The FAST Act also expands the TIFIA program to consider infrastructure projects to be “local” if one of the following criteria are met:
 - The applicant for the project (or program of projects) is a local government, public authority, or instrumentality of local government;
 - The project (or program of projects) is located on a facility owned by a local government; or
 - The Secretary determines that a local government is substantially involved in the development of the project (or program of projects).



Combining TIFIA and a SIB for a Rural Project



Intentionally... or not!

TIFIA offers two pathways for credit assistance to a rural infrastructure project:

- Direct loan for a project with eligible costs between \$10 million and \$100 million.
- Direct loan to capitalize a Rural Projects Fund established by a SIB that offers loans to rural infrastructure projects.

Which approach maximizes TIFIA assistance?

Rural Project: \$10M-\$100M

Type of Assistance	Rural Interest Rate?	Maximum Loan Size	Discussion
Direct Loan from TIFIA	Yes	49% of eligible project costs	Statutory maximum available to rural projects.
Direct Loan from SIB Rural Projects Fund	Yes	80% of eligible project costs	SIB would “on-loan” to rural project at or below the TIFIA interest rate.

Rural Project: \$50 Million

- Direct loan from TIFIA for up to \$24.5 million.
- Direct loan from a SIB Rural Projects Fund for up to \$40 million.
- Either could be made at one-half Treasury rate.
- The SIB could mirror its TIFIA loan terms in its “on-loan” to the project, retiring both loans simultaneously, or could establish a revolving loan fund with “on-loan” repayments, if that loan has a shorter maturity than the TIFIA capitalization loan.

Rural Project: \$100M+

Type of Assistance	Discounted Interest Rate?	Maximum Loan Size	Discussion
Direct Loan from TIFIA	No	49% of eligible project costs	Project costs too large to qualify for discounted Treasury rate.
Direct Loan from SIB Rural Projects Fund	Yes	\$100 million, subject to 80 percent limitation	\$100 million cap applies to the amount loaned to the <u>rural projects fund</u> . The SIB could provide a discounted interest rate loan of up to \$100 million to a <u>rural infrastructure project</u> of any size.

Rural Project: \$150 Million

- Direct loan from TIFIA for up to **\$73.5 million at the Treasury Rate (3.11 percent on 6/12/18).**
- Direct loan from a SIB Rural Projects Fund for up to **\$100 million at one-half of the Treasury Rate (1.56 percent on 6/12/18).**

Conclusion, and Important Caveat

- Under the current authorization for the TIFIA program, a potential borrower for a rural infrastructure project has a greater opportunity to maximize Federal credit assistance **using a SIB as an intermediary** between TIFIA and the project itself.
- This conclusion applies only if TIFIA can obtain a **high-quality repayment pledge**, unrelated to project performance, on its loan.

Leveraging Federal Resources

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Transportation Infrastructure Is More than FHWA!

- Other Federal agencies offer both funding and financing for transportation projects.
- Under each agency's mission, rural, or economic development, certain transportation projects will be eligible for grant funding and financing.

- Financing can be integrated with FHWA innovative finance programs to create the most advantageous financing package.
- FHWA can help you connect to Federal agency partners.
- Project Example -
 - A local Public Agency borrows from USDA-Rural Development Community Facility Program for a Federal-aid-eligible project. The LPA also uses the GARVEE program to repay the USDA loan.

Questions?

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