Introduction and Opening Remarks

On September 14, 1998, the United States Department of Transportation (DOT) sponsored a one-day focus group discussion session during which public officials, project sponsors, the financial community, and other interested parties were encouraged to share comments with DOT concerning how best to administer two new Federal credit programs -- the Transportation Infrastructure Finance and Innovation Act (TIFIA) program and the Railroad Rehabilitation and Improvement Financing (RRIF) program -- that were authorized in the Transportation Equity Act for the 21st Century (TEA-21). Appendix A contains the focus group agenda and Appendix B is a list of participants.

The purposes of the Federal credit focus group were to address questions stimulated by the authorization of TIFIA and RRIF, to identify critical policy and technical issues, and to discuss potential barriers to implementation. The focus group was one in a series of outreach sessions that DOT has sponsored to generate public input concerning how best to implement the provisions of TEA-21.

Mr. David Seltzer, Senior Adviser for Innovative Finance, Federal Highway Administration (FHWA), provided a brief overview of TIFIA, during which he discussed program objectives.

Mr. Bryan Grote, Program Development Coordinator, FHWA, outlined the types of assistance (direct loans, loan guarantees, and standby lines of credit) to be offered under the program, the project evaluation and selection process, project financial requirements, and program funding. Mr. Grote noted that Federal credit can improve investors' acceptance of creditworthy projects. Federal credit consumes significantly fewer budgetary resources than do grants, and DOT is establishing an equitable process to use Federal credit to address critical national transportation investment needs.

A discussion of TIFIA was moderated by Mr. Grote. The discussion focused on program implementation, the project application process, project evaluation and selection criteria, and project financial requirements. (Appendix E contains a list of TIFIA sample discussion questions.)

Ms. JoAnne McGowan, Chief of the Freight Programs Division of the Federal Railroad Administration (FRA), provided a brief overview of RRIF. Ms. McGowan reviewed the basic structure of RRIF, including the types of assistance to be offered under the program (direct loans and loan guarantees), program funding limitations ($3.5 billion aggregate balance of outstanding debt), eligible projects, and program implementation progress. Ms. McGowan noted that implementation regulations for the program are currently being developed, no loan commitments can be made prior to the issuance of regulations, and the unique feature of credit risk premiums being paid by non-Federal sources may add time to the approval of regulations.

An afternoon discussion of RRIF was moderated by Ms. McGowan. The discussion focused on program policy issues, the project application process, the evaluation and selection of projects, and the credit funding mechanism (credit risk premiums paid up front by project sponsors).

Opening Remarks

Introductory remarks were delivered by **Mr. Mortimer Downey, Deputy Secretary,**

DOT. Mr. Downey welcomed the conference participants and stated that one of the goals of the focus group was to receive input from project sponsors and members of the private financial institutions which are becoming increasingly involved in financing transportation in the United States.

Mr. Downey stated that during the last five years, President Clinton and Vice President Gore have raised transportation investment to its highest level ever, more than 40 percent above the previous Administration's average. He added that TEA-21, which the President signed this summer, will continue this trend, guaranteeing at least $198 billion over the next six years for highway, mass transit, and intermodal improvements. The President and Vice President recognize that Federal investment alone will not meet all of the needs of the Nation's growing transportation system, and have directed DOT to generate additional needed transportation investment by cutting red tape and by attracting funding from non-Federal sources.

Success Stories

Mr. Downey reviewed the successes of an early pilot program, called the Partnership for Transportation Investment, under which DOT approved nearly 90 innovative projects in more than 40 States with a construction value of more than $4 billion. This amount included approximately $1 billion in new capital investment directly attributable to this program. The strategies identified in the Partnership for Investment are now part of DOT's daily way of doing business, and DOT employees have become far more comfortable with the language and concepts of project finance.

Mr. Downey said that another major initiative that led up to the current legislation was the creation of the State Infrastructure Bank (SIB) program, under which 39 States were previously authorized to capitalize SIBs using dedicated funding and a portion of their regular Federal-aid funding. Currently, $328 million in SIB loans are scheduled to support 31 projects, leveraging $1.9 billion in transportation investment.

Mr. Downey noted that States may also use Federal funds to pay the debt service on highway construction bonds. The State of New Mexico is expected to price a $100 million issue of Grant Anticipation Revenue Vehicle bonds, also known as "GARVEE" bonds.

Status of State Infrastructure Banks

Mr. Downey stated that TEA-21 extends the capacity of SIBs to finance projects, but limits the program to four States -- California, Florida, Missouri, and Rhode Island. He added that these States will be able to transfer funds from other Federal-aid programs to SIBs over the next six years.

Mr. Downey expressed disappointment in the fact that the SIB program had not been extended to all States, but noted that there are significant innovations which will make the program even more effective in the four States where the program was extended. These innovations include the following features:

- the previous capitalization limit – 10 percent of a State's Federal-aid funding – has been lifted, enabling these States to transfer whatever level of funds they need to make their SIBs work.

- the kinds of projects SIBs can support are broader and more intermodal.

Mr. Downey reported that DOT will continue to monitor the evolution of the SIB program and will be prepared to revisit the idea of extending the program into other States at a future date.

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Mr. Downey stated that Congress adopted a version of one of the President's key innovative finance proposals when it created this new Federal credit program. The Transportation Infrastructure Finance and Innovation Act (TIFIA) was inspired by a $400 million Federal loan for California's Alameda Corridor rail project, which DOT extended at a budgetary cost of just $59 million. The Alameda Corridor Federal loan was the final piece of a $2 billion funding package, which made the entire project viable.

Mr. Downey provided an overview of TIFIA. The focus of TIFIA will be large projects of national significance. These projects – such as trade corridors, border crossings, and freight facilities – often cross jurisdictions or traditional modal boundaries, and sometimes experience difficulty attracting adequate funding despite their value. Some of these projects, however, have revenue sources which could be tapped to underwrite their costs.

Mr. Downey stated that TIFIA's purpose is to fill gaps in market funding and to leverage non-Federal resources. DOT will be able to do this through direct Federal loans, loan guarantees, and standby lines of credit.

TIFIA will advance capital-intensive projects that otherwise might be delayed or not built at all because of their size and the market's uncertainty over the timing of revenues. By addressing the market's concerns about financing large projects which don't have a track record, TIFIA will expand the ability of transportation projects to access private financing.

Mr. Downey said that although TIFIA will largely fund construction, its value will also be great during certain sensitive phases of project development, such as the preconstruction phase before private capital is available and the ramp-up phase of initial operation when a project's revenues may not yet be sufficient to cover all costs. In such cases, support through TIFIA could be crucial for success.

Mr. Downey concluded that TIFIA's $530 million of contract authority could support up to $10.6 billion of credit assistance for everything from roads and bridges to passenger terminals, freight transfer facilities, and MagLev systems.

Railroad Rehabilitation and Improvement Financing Program (RRIF)

Mr. Downey provided an overview of the Railroad Rehabilitation and Improvement Financing Program (RRIF) recently authorized in TEA-21. RRIF can provide credit assistance to rail and intermodal projects. RRIF's purpose is to encourage investment in passenger and freight rail facilities and equipment, including smaller freight carriers lacking ready access to the capital markets.

RRIF can provide direct loans and loan guarantees for the purchase or improvement of intermodal or rail equipment and facilities, with priority given to projects with clear public benefits. The ceiling for the unpaid balance of aggregate debt under RRIF is $3.5 billion – including a billion dollars set aside for smaller railroads.

Mr. Downey noted that, unlike TIFIA, RRIF is dependent upon future appropriations or non-Federal contributions for covering the budgetary costs to the Federal Government of providing credit assistance. DOT is optimistic that RRIF will help bridge the funding gap for private rail projects with strong public benefits. DOT will be implementing RRIF in the coming year.

Other Initiatives

Mr. Downey reviewed the other innovative finance provisions that were continued or initiated within TEA-21:

- States and localities are given greater flexibility in satisfying non-Federal matching requirements.
- A new pilot program will enable as many as three States to reconstruct or rehabilitate a free Interstate highway segment and convert it to a toll highway.
- TEA-21 continues the DOT-sponsored value pricing program (formerly known as the congestion pricing program), which supports State efforts to apply market-based pricing strategies to highways.

Closing Remarks

Mr. Downey stated that DOT will continue to implement existing and new innovative finance programs, and will look to extend these principles to other modes. For example, DOT is helping to provide needed surface access to Kennedy Airport by permitting the use of Passenger Facility Charges to finance a rail connection which will be critical to future airport capacity. Additionally, DOT is using Airport Improvement Program funds to provide bond insurance and prefunded interest payments to the Palm Springs airport; all as part of a new program to help smaller airports raise money in the capital markets.

Mr. Downey stated that there are other opportunities for TIFIA and other innovative finance strategies. For example, the project to convert the Farley Post Office into a new Penn Station in New York City could use these strategies to pay some of the conversion costs.

TIFIA and RRIF are new programs, and DOT needs guidance and regulations to implement them. Though there is a formal process for developing regulations, DOT believes that it would be extremely valuable to receive input from interested parties at the outset. As leaders in the financial community, focus group participants bring to this forum experience and knowledge which can aid DOT in making these programs work well. Mr. Downey closed by thanking the participants for helping DOT as it creates new ways to pay for the transportation system America needs for the 21st Century.