



THE SECRETARY OF TRANSPORTATION

WASHINGTON, D.C. 20590

June 4, 2002

The Honorable Richard B. Cheney
President of the Senate
Washington, DC 20510

Dear Mr. President:

Pursuant to the requirement of the Transportation Equity Act for the 21st Century (23 U.S.C. 189), I am pleased to transmit to you a copy of the Report to Congress on the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). The report summarizes the financial performance of projects assisted by TIFIA and discusses alternatives for achieving the program objectives in the future.

An identical letter is being sent to the Speaker of the House of Representatives.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Norman Y. Mineta', written over a large, stylized flourish.

Norman Y. Mineta

Enclosure



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

June 4, 2002

The Honorable J. Dennis Hastert
Speaker of the House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

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Enclosure



**United States
Department of
Transportation**

June 2002

TIFIA

Report to Congress

**Transportation Infrastructure
Finance and Innovation Act of 1998**

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Executive Summary

The TIFIA Credit Program

As part of its 1998 enactment of the Transportation Equity Act for the 21st Century (TEA 21), Congress established a unique Federal credit program for large transportation projects. Sections 1501 to 1504 of TEA 21, collectively the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA), authorize the Department of Transportation (DOT) to provide three forms of credit assistance – secured (direct) loans, loan guarantees and standby lines of credit – to surface transportation projects of national or regional significance. This Report to Congress fulfills the requirement in TEA 21 to summarize the financial performance of the projects assisted by TIFIA and to discuss alternatives for achieving the program objectives in the future.

The public policy underlying the TIFIA credit program asserts that the Federal Government can perform a constructive role in supplementing, but not supplanting, existing capital finance markets for large transportation infrastructure projects. Section 1502 of TEA 21 states that "...a Federal credit program for projects of national significance can complement existing funding resources by filling market gaps, thereby leveraging substantial private co-investment." Because the TIFIA program offers credit assistance, rather than grant funding, its potential users are "infrastructure projects that are capable of generating their own revenue streams through user charges or other dedicated funding sources...."¹

Identifying a constructive role for Federal credit assistance begins with the acknowledgement that, compared to private investors, the Federal Government's naturally long-term investment horizon means that it can more readily absorb the relatively short-term risks of project financings. Absent typical capital market investor concerns regarding timing of payments and financial liquidity, the Federal Government can become the "patient investor" whose long-term view of asset returns enables the project's non-Federal financial partners to meet their investment goals, allowing the project's sponsors to complete a favorable financing package.

The TIFIA program's pragmatic challenge is to balance the objective of advancing transportation projects with the equally important need to lend prudently and protect the Federal interest. The DOT must apply rigorous credit standards as it fashions assistance to improve the financial prospects of participating projects. The Federal objective is not to minimize its exposure but to optimize its exposure—that is, to take prudent risks in order to leverage Federal resources through attracting private and other non-Federal capital to projects.

The TIFIA program assistance is meant to support expensive, complex and significant transportation investments. In general, a project's eligible costs must be reasonably anticipated to total at least \$100 million. Credit assistance is available to highway, transit, passenger rail and multi-modal projects. Other types of eligible projects include intercity passenger rail or bus projects, publicly owned intermodal facilities on or adjacent to the National Highway System, projects that provide ground access to airports or seaports, and surface transportation projects principally involving the installation of Intelligent Transportation Systems (ITS), for which the cost threshold is \$30 million. The TIFIA credit assistance is limited to 33 percent of eligible project costs.

¹ TEA 21, Public Law 105-178, June 9, 1998, Section 1502.

Congress has authorized the DOT to provide up to \$10.6 billion of TIFIA credit assistance through the TEA 21 authorization period of 1999-2003. From the Highway Trust Fund, Congress authorized \$530 million, subject to the annual obligation limitation on Federal-aid appropriations, to pay the subsidy cost of TIFIA credit assistance and related administrative costs. The subsidy cost calculations establish the capital reserves which the DOT must set aside in advance to cover the expected long-term cost to the Government of providing credit assistance, pursuant to the Federal Credit Reform Act of 1990 (FCRA).

Program Implementation

The multi-modal nature of TIFIA project eligibility lends itself to crosscutting program administration. A Credit Council, representing the Office of the Secretary of Transportation (OST) and the Administrators of the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA) and the Federal Railroad Administration (FRA), provides policy direction and makes recommendations to the Secretary regarding the selection of projects for credit assistance. A multi-modal Joint Program Office (JPO) handles the day-to-day management of the TIFIA program.

The DOT's initial solicitation for TIFIA applicants occurred in June 1999. The program accepts applications at any time as long as a project meets the prerequisites for TIFIA consideration.

The DOT has oversight responsibility for all transportation projects assisted with TIFIA funds. This encompasses the entire project life cycle: from credit agreement execution, through project construction and operation, through final repayment and maturity. The goal of TIFIA project oversight and credit monitoring is to protect the Federal interest by managing risks to project delivery and loan repayment.

Project Characteristics and Financial Status

As of March 31, 2002, the DOT has selected 11 projects, representing \$15.4 billion in transportation investment, to receive TIFIA credit assistance. The TIFIA commitments total nearly \$3.6 billion in credit assistance at a subsidy cost of about \$190 million. The DOT has received 32 letters of interest and 15 applications from project sponsors resulting in the 11 selections. All major categories of eligible projects – highway, transit, passenger rail and multi-modal – have sought and received credit assistance. The TIFIA credit assistance ranges in size for each project, from \$73.5 million to \$800 million, mostly in the form of direct Federal loans from the DOT to the project sponsors.

Already limited by statute to 33 percent of total project costs, actual TIFIA assistance has averaged 23 percent of project costs. Including grant assistance, total Federal investment in TIFIA projects amounts to 43 percent of total costs. Investments from other government and private sources comprise the remaining 57 percent.

The DOT formalizes its project selection via a term sheet, describing the basic terms of the credit commitment, which obligates the Federal funds. Five projects have since executed final credit agreements that contain all terms and conditions of the assistance, including the disbursement and repayment schedules. The precise timing of disbursements depends on the project's construction schedule and the relative availability and cost of other funding sources. For example, if the interest rate on other borrowed funds is less than the rate on the TIFIA debt, the project sponsor will likely draw these cheaper funds

earlier (and the TIFIA funds later) in order to reduce overall borrowing costs. To date, the TIFIA program has disbursed funds to two projects in the amount of \$344 million.

The revenues pledged to repay TIFIA are comprised of user charges, local taxes and other dedicated revenues. The one TIFIA borrower whose scheduled repayments have begun is current on all obligations.

Attainment of Key Program Objectives

In establishing TIFIA, Congress found that a “Federal credit program for projects of national significance can complement existing funding resources by filling market gaps, thereby leveraging substantial private co-investment.” Because credit assistance requires a small fraction of the contract authority needed to provide a similar amount of grant assistance, TIFIA promotes a cost-effective use of Federal resources to encourage co-investment in transportation infrastructure. Federal grant funds that otherwise might be required to support these large projects can then be redirected toward smaller but critical infrastructure investments.

A TIFIA commitment can be especially important for project credits that need assistance to reach the “investment grade” status required for broad access to capital market investors. Within the TIFIA portfolio, the user-backed financings (tolls, transaction fees, real estate revenues, etc.) mainly comprise the projects most in need of assistance to reach the capital markets. In all, six TIFIA project selections appear to meet the program’s special emphasis of assisting lower-rated credits with new or untested revenue streams. For borderline investment grade projects, the replacement of some senior debt with subordinate TIFIA debt can help the remaining senior bonds reach investment grade status, thus enabling the financing to proceed. The use of TIFIA as a subordinate lender is predicated on the Federal Government’s unique ability to be a patient investor in public infrastructure. In these transactions, TIFIA assistance may provide significant or even decisive enhancement in facilitating capital market access.

An explicit goal of the TIFIA program is to induce private investment in transportation infrastructure. Private co-investment in the TIFIA project selections totals about \$3.1 billion, comprised of more than \$3 billion in debt (including state and local debt held by private investors) and nearly \$100 million in equity. This co-investment totals approximately 20 percent of the nearly \$15.4 billion in total costs.

The broad project eligibilities and flexible financial provisions in TIFIA have enabled the DOT to assist projects in meaningful ways other than facilitating market access. Project sponsors of higher-rated credits have found that TIFIA assistance can reduce costs, coalesce support and help remove other barriers in advancing projects.

Comparing total capital investment to the total budgetary cost of Federal credit and grant assistance, the TIFIA portfolio represents nearly five dollars in total investment for each dollar of Federal investment. This Federal cost leverage ratio of 4.80 for TIFIA projects compares favorably with the leverage ratio of 1.25 for a Federal-aid project receiving 80 percent of its funding from Federal grant sources.

Credit Issues

In general, the DOT safeguards its financial position best when the risks borne by senior investors and the TIFIA program are shared.

In a project financing with multiple creditors, the DOT is willing to assume a subordinate lien on revenues pledged to repay debt. The TIFIA program departs from typical senior/subordinate debt structures, however, because of the TIFIA statute's provision that the DOT's claim must be on parity with senior bondholders in the event of bankruptcy, insolvency or liquidation of the project obligor. This non-subordination requirement has generated much discussion in the financial community regarding TIFIA's ultimate benefit to a project's senior debt rating.

As a patient investor, the DOT is willing to align its repayment schedule more closely to a project's economics than may be typical in the capital markets. The clearest instance to consider such "back loading" is for a project supported by user fees that will generate a stable revenue stream only upon completion of construction and the conclusion of its "ramp up" period.

One of TIFIA's key financial disciplines is the requirement that a project's senior debt be rated in the investment grade category, but this offers security to the DOT only if the same repayment source is being pledged to both the senior debt obligations and the subordinate TIFIA credit instrument. In such a structure, the investment grade rating for senior debt helps the DOT evaluate its credit risk as a subordinate lender; although the TIFIA instrument itself may be sub-investment grade, the higher rating on the senior debt indicates that the project's overall risk profile is manageable.

Recommendation for Achieving Program Objectives

The DOT believes that a limited number of large surface transportation projects each year will have a need for the types of credit instruments offered under TIFIA. Project sponsors and DOT staff are still learning how best to utilize this credit assistance, and Congressional guidance and dialogue during this evolutionary program period offers mutual benefits.

As stated in the Conference Report accompanying TEA 21 and TIFIA, "[a]n objective of the program is to help the financial markets develop the capability ultimately to supplant the role of the Federal Government in helping finance the costs of large projects of national significance." The current form of TIFIA administration – within a Federal agency subject to regular budget oversight – enables policymakers to monitor program performance as staff, sponsors and the financial markets gain experience. As current TIFIA projects move into their construction, operation and repayment phases, and as additional projects obtain TIFIA assistance, policymakers will acquire better information with which to determine whether TIFIA should remain within the DOT, "spin off" into a Government corporation or Government sponsored enterprise, or phase out entirely and rely on the capital markets to meet the program's objectives.

Chapter 1: The TIFIA Credit Program

"§189. Report to Congress

"Not later than 4 years after the date of enactment of this subchapter, the Secretary shall submit to Congress a report summarizing the financial performance of the projects that are receiving, or have received, assistance under this subchapter, including a recommendation as to whether the objectives of this subchapter are best served –

"(1) by continuing the program under the authority of the Secretary;

"(2) by establishing a Government corporation or a Government-sponsored enterprise to administer the program, or

"(3) by phasing out the program and relying on the capital markets to fund the types of infrastructure investments assisted by this subchapter without Federal participation."

Transportation Equity Act for the 21st Century (TEA 21)

June 9, 1998

1.0 Purpose of this Report

As part of its 1998 enactment of TEA 21, Congress established a unique Federal credit program for large transportation projects. Sections 1501 to 1504 of TEA 21, collectively the Transportation Infrastructure Finance and Innovation Act of 1998¹ (TIFIA), authorize the U.S. Department of Transportation (DOT) to provide three forms of credit assistance – secured (direct) loans, loan guarantees and standby lines of credit – to surface transportation projects of national or regional significance. This Report to Congress fulfills the requirement, cited above, to summarize the financial performance of the projects assisted by TIFIA and to discuss alternatives for achieving the program objectives in the future.

1.1 Policy Considerations

The public policy underlying the TIFIA credit program asserts that the Federal Government can perform a constructive role in supplementing, but not supplanting, existing capital finance markets for large transportation infrastructure projects. Section 1502 of TEA 21 states that "...a Federal credit program for projects of national significance can complement existing funding resources by filling market gaps, thereby leveraging substantial private co-investment." Because the TIFIA program offers credit assistance, rather than grant funding, its potential users are "infrastructure projects that are capable of generating their own revenue streams through user charges or other dedicated funding sources...."²

¹ The Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) appears as sections 1501 through 1504 of the Transportation Equity Act for the 21st Century (TEA 21, Public Law 105-178), as amended by the TEA 21 Restoration Act (Title IX of Public Law 105-206). The substance of the legislation is codified within sections 181 through 189 of title 23 of the U.S. Code (23 U.S.C. 181-189), with supporting regulations appearing in part 80 of title 49 of the Code of Federal Regulations (49 CFR 80). These documents are included in Appendix A of this report.

² TEA 21, Public Law 105-178, June 9, 1998, Section 1502.

Identifying a constructive role for Federal credit assistance begins with the acknowledgement that, compared to private investors, the Federal Government's naturally long-term investment horizon means that it can more readily absorb the relatively short-term risks of project financings. Absent typical capital market investor concerns regarding timing of payments and financial liquidity, the Federal Government can become the "patient investor" whose long-term view of asset returns enables the project's non-Federal financial partners to meet their investment goals, allowing the project's sponsors to complete a favorable financing package.

Prior to enactment of TIFIA, Congress identified three transportation projects where Federal credit assistance was needed to complete a financing package.

Appropriations in fiscal years 1993 and 1995³ allowed the DOT to offer two lines of credit up to \$120 million each to the Transportation Corridor Agencies (TCA) of Orange County, California. Aided by the first line of credit, the TCA sold \$1.26 billion of revenue bonds in 1995 to help construct its \$1.8 billion Foothill/Eastern Transportation Corridor toll road. The second line of credit helped TCA sell \$1.45 billion of revenue bonds in 1997 to refund debt previously sold to construct its San Joaquin Hills Corridor toll road. By providing back-up loans should revenues fail to meet debt service and operating expenses during the toll roads' first 10 years of use, these lines of credit improved the credit ratings of the bonds, increasing their marketability while lowering interest costs.

In fiscal year 1997⁴, Congress appropriated funds to allow the DOT to loan up to \$400 million to help construct the \$2.4 billion Alameda Corridor, a project to improve landside freight connections to the Ports of Los Angeles and Long Beach, California. This direct loan has a claim on container fees and port charges levied on cargo carriers. In order for the Alameda Corridor Transportation Authority (ACTA) to sell \$998 million of bonds in 1999 backed by the same revenues, the DOT lien was subordinated to this senior debt.

The DOT's experience in the TCA and ACTA financings, ad hoc responses to project needs, demonstrated the constructive role for direct Federal credit in specific circumstances. The Department's subsequent research⁵ indicated that certain other transportation projects around the nation might benefit from such assistance. A programmatic response to the potential financial needs of expensive, complex and important surface transportation projects, the TIFIA legislation incorporates several concepts developed during the TCA and ACTA financings. Building on these individual projects, TIFIA allows for a systematic and consistent approach to evaluating and selecting projects for credit assistance.

The ultimate success of TIFIA, however, need not be reflected by extensive program duration. As stated in the Conference Report accompanying TEA 21 and TIFIA, "[a]n objective of the program is to help the financial markets develop the capability ultimately to supplant the role of the Federal Government in helping finance the costs of large projects of national significance."⁶ Providing TIFIA credit assistance, of course, creates fiscal relationships of potentially 35-plus years between the DOT and individual project sponsors. On this level, at least, TIFIA's impact will be enduring.

³ FY 1993 and FY 1995 Department of Transportation and Related Agencies Appropriations Acts (Public Laws 102-388 and 103-331).

⁴ FY 1997 Omnibus Consolidated Appropriations Act (Public Law 104-208).

⁵ *Federal Credit for Surface Transportation: Exploring Concepts and Issues*, Federal Highway Administration, November 1997.

⁶ TEA 21 Conference Report to Accompany H.R. 2400 (105-550), page 435, May 22, 1998.

1.2 Project Eligibility

Congress established wide-ranging eligibility for potential TIFIA projects. Credit assistance is available to highway, transit, passenger rail and multi-modal projects. Any type of facility eligible for grant assistance under DOT's Federal Highway Administration (FHWA) programs (title 23 of the U.S. Code, or 23 U.S.C.) such as interstate and state highways, bridges and toll roads, is eligible for TIFIA. Similarly, any type of project eligible for grant assistance under DOT's Federal Transit Administration (FTA) programs (chapter 53 of 49 U.S.C.) such as transit vehicles, stations, track and other transit-related infrastructure is eligible for TIFIA. Intercity passenger rail or bus projects are also eligible for TIFIA assistance, as are publicly owned intermodal facilities on or adjacent to the National Highway System and projects that provide ground access to airports or seaports. In addition, surface transportation projects principally involving the installation of Intelligent Transportation Systems (ITS) are eligible for TIFIA.

Types of project sponsors eligible to receive TIFIA assistance are similarly wide-ranging, such as state departments of transportation, municipal and special purpose governments, transit agencies, railroad operators and private developers. All TIFIA projects must comply with the applicable Federal laws and regulations established for highway, transit or rail grant assistance, including title VI of the Civil Rights Act of 1964, the National Environmental Policy Act of 1969, and the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970.

1.2.1 Eligibility Prerequisites

The TIFIA statute sets forth prerequisites for participation in the TIFIA program⁷

- *Total Eligible Costs.* The project's eligible costs must be reasonably anticipated to total at least \$100 million, or, alternatively, at least 50 percent of the state's Federal-aid highway apportionments for the most recently completed fiscal year⁸, whichever is less. For projects that principally involve ITS, eligible project costs must be reasonably anticipated to total at least \$30 million.
- *Application Submission.* Each project sponsor must submit a project application. (An application package is included in DOT's TIFIA Program Guide, available in hard copy and at <http://tifia.fhwa.dot.gov>.)
- *Transportation Planning Process.* The project must be included in the state's long-range transportation plan and the approved State Transportation Improvement Program (STIP).
- *Dedicated Revenue Sources.* Project financing must be repayable, in whole or in part, from "tolls, user fees and other dedicated revenue sources."⁹ Federal policy precludes a pledge of Federal funds as repayment for a TIFIA credit instrument.¹⁰

⁷ 23 U.S.C. 182(a).

⁸ 23 U.S.C. 182(a)(3)(B). Based on FY 2001 apportionments, these minimum project sizes would apply in the following states: Delaware, \$66.3 million; District of Columbia, \$59.3 million; Hawaii, \$77.6 million; Maine, \$79.8 million; New Hampshire, \$77.8 million; North Dakota, \$98.2 million; Rhode Island, \$89.8 million; Vermont, \$68.5 million.

⁹ 23 U.S.C. 182(a)(4).

¹⁰ 64 FR 29742 (49 CFR 80.13(c)), June 2, 1999.

- *Public Approval of Privately Sponsored Projects.* Any private entity applying for TIFIA assistance must demonstrate state support for the project via inclusion in the state’s transportation plans and programs (the long-range plan and the STIP, as noted above).

1.2.2 Selection Criteria

The DOT evaluates projects that meet the threshold eligibility prerequisites according to eight selection criteria established in the TIFIA statute.¹¹ Although Congress did not indicate relative priority among these criteria, the DOT has assigned specific weights¹² as shown in Exhibit 1-A below:

Exhibit 1-A: TIFIA Selection Criteria

Selection Criteria	Weighting
<i>National or Regional Significance</i> – generating economic benefits, supporting international commerce, enhancing national transportation system.	20%
<i>Private Participation</i> – fostering innovative public-private partnerships and attracting private debt or equity investment.	20%
<i>Environment</i> – maintaining or protecting the environment.	20%
<i>Project Acceleration</i> – enabling projects to move forward at an earlier date.	12.5%
<i>Creditworthiness</i> – including appropriate security features, such as a rate covenant, to ensure repayment.	12.5%
<i>Consumption of Budget Authority</i> – amount of budget authority required to fund the requested Federal credit instrument.	5%
<i>Use of Technology</i> – enhancing efficiency by using new technologies, including intelligent transportation systems	5%
<i>Reduced Federal Grant Assistance</i> – reducing the contribution of Federal grant assistance.	5%

1.2.3 Credit Rating

In addition to the threshold criteria, the TIFIA statute requires each applicant to provide a preliminary rating opinion letter from at least one nationally recognized credit rating agency¹³ indicating that the project’s senior obligations have the potential to achieve an investment-grade rating. Projects selected for TIFIA assistance then must receive an investment grade rating on their senior debt obligations.

¹¹ 23 U.S.C. 182(b).

¹² 65 FR 44936 (49 CFR 80.15), July 19, 2000.

¹³ According to 23 U.S.C. 181(11), “the term ‘rating agency’ means a bond rating agency identified by the Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization.” The SEC currently identifies three such firms: Standard and Poor’s, Moody’s Investor Services and Fitch Ratings.

1.3 Credit Instruments

Projects seeking TIFIA assistance can apply for one or more credit instruments:

- **Secured (Direct) Loan.** A debt obligation involving the DOT as the lender and a non-Federal project sponsor as the borrower. Terms and conditions are negotiated between the DOT and the borrower.
- **Loan Guarantee.** A pledge by the DOT to a non-Federal lender to pay principal or interest owed by a borrowing project sponsor in the event the sponsor is unable to make debt service payments. Federal funds disbursed under these circumstances would not constitute a grant to the project sponsor; the funds instead would become a subordinate debt obligation to be repaid eventually by the borrower.
- **Line of Credit.** A standby source of funding in the form of a contingent Federal loan to supplement project revenues during the first 10 years of the project's operations. The project's financial reserves must drop to certain defined levels to draw upon the line of credit.

These three credit instruments share common features:

- **Amount of Assistance.** The principal amount of TIFIA credit assistance, in any combination of the instruments above, cannot exceed 33 percent of the reasonably anticipated eligible project costs.
- **Final Maturity.** The final maturity date of any TIFIA credit assistance cannot exceed 35 years after the project's substantial completion date.
- **Nonsubordination of Lien Priority.** Although the TIFIA claim on project revenues can be subordinated to those of senior lenders, it cannot be subordinated in the event of the bankruptcy, insolvency or liquidation of the obligor. In such an instance, the TIFIA lien would be on parity with senior creditors.

The differentiating characteristics of each TIFIA credit instrument are described in Exhibit 1-B.

Exhibit 1-B: Characteristics of TIFIA Credit Instruments

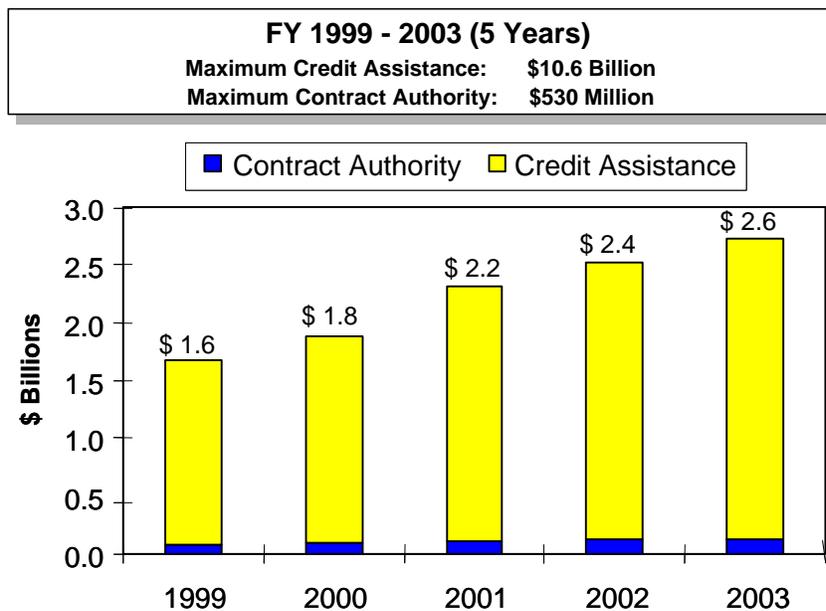
Characteristics	Direct Loan	Loan Guarantee	Line of Credit
<i>Use of Proceeds</i>	To finance eligible project costs, or To refinance interim construction financing of eligible costs (no later than one year after substantial completion).	To finance eligible project costs, or To refinance interim construction financing of eligible costs (no later than one year after substantial completion).	To pay debt service on obligations (but not the TIFIA credit instrument) issued to finance eligible project costs, extraordinary repair and replacement costs, operating and maintenance expenses, and/or costs due to unexpected environmental restrictions. Available only after substantial completion.
<i>Interest Rate</i>	Equal to or greater than the yield on marketable U.S. Treasury securities of comparable maturity on date of execution of credit agreement.	Negotiated between the guaranteed lender and the borrower, subject to consent from the DOT. Interest payments on a guaranteed loan are subject to Federal income taxation.	Interest rate on a direct loan resulting from a draw on a line of credit will be equal to or greater than the yield on a 30-year marketable U.S. Treasury security on the date the line of credit is obligated.
<i>Disbursements</i>	As frequently as monthly, as costs are incurred for eligible project purposes.	In event of borrower default, guaranteed lender receives payment from the DOT for guaranteed payment due. DOT's payment then becomes a direct TIFIA loan to the borrower.	A draw may be made only if revenues are insufficient. A maximum of 20% of total principal amount of line of credit may be drawn in a single year. Available for 10 years after substantial completion.
<i>Repayments</i>	Based on cash flow forecasts, but must commence no later than five years after date of substantial completion of project.	Based on cash flow forecasts, but must commence no later than five years after date of substantial completion of project.	Based on cash flow forecasts, but must commence no later than five years after the end of the 10-year period of availability.
<i>Deferrals</i>	When revenues are insufficient to meet scheduled TIFIA loan payments within 10 years after substantial completion, DOT may allow payment deferrals.	When revenues are insufficient to meet scheduled TIFIA loan payments within 10 years after substantial completion, DOT may allow payment deferrals.	Not addressed in TIFIA statute.
<i>Prepayment Conditions</i>	May be prepaid in whole or in part at any time without penalty.	Negotiated between lender and borrower.	May be prepaid in whole or in part at any time without penalty.

1.4 Funding Authority

Congress has established two authorization levels for the TIFIA program, displayed in Exhibit 1-C below:

- Credit Assistance to Projects.** A total of \$10.6 billion of TIFIA credit assistance (i.e., the principal amount that may be committed in the form of direct loans, guaranteed loans, and lines of credit) has been made available through the TEA 21 authorization period. Congress allocated this funding authority in progressive amounts over a five-year period, as shown below. At the end of each fiscal year, any uncommitted credit assistance expires and is unavailable for subsequent years.
- Subsidy and Administrative Costs of the Program.** From the Highway Trust Fund, Congress authorized \$530 million, subject to the annual obligation limitation on Federal-aid highway programs, to pay the subsidy cost of TIFIA credit assistance and related administrative costs. Since enactment of the Federal Credit Reform Act of 1990 (FCRA), Federal agencies must set aside capital reserves in advance to cover the expected long-term cost to the Government of providing credit assistance. Analogous to a private bank's loan reserve, the subsidy cost represents the Federal Government's estimate of expected loss associated with the provision of each TIFIA project's credit instrument. Unlike credit assistance, uncommitted contract authority remains available for obligation in subsequent years. Congress also authorized the DOT to utilize up to \$2 million annually of this contract authority to pay for the administrative costs of implementing the TIFIA program.

Exhibit 1-C: TIFIA Funding Authority



1.5 TIFIA and the Capital Markets

State and local government capital outlays for highway and transit projects exceeded \$77 billion in 2000, the most recent year in which data are available.¹⁴ Most of these projects were funded by pay-as-you-go (i.e., cash) grants from Federal, state and local sources. Typical of infrastructure investment, however, the need to develop long-term assets requires spending levels that exceed pay-as-you-go resources. As a result, state and local governments sold an estimated \$14.5 billion in tax-exempt debt for new surface transportation projects in 2000, representing nearly 20 percent of total capital spending.

Authorized by Congress to invest up to \$10.6 billion over five years, the TIFIA program supplements the U.S. municipal bond market, which raised more than \$58 billion for transportation projects during the five-year period from 1996 through 2000. These funds reflect decisions by private investors, acting individually or through financial institutions, to lend money to issuers (i.e., by purchasing bonds) in return for future revenue streams.

The U.S. capital market provides funding for projects through a national network of financial service companies. To sell debt to investors, bond issuers typically rely on intermediaries such as securities firms and dealer banks that initially purchase the bonds and then resell them to retail (individual) and institutional investors.

The prices of such bonds (i.e., the interest rate) depend significantly on perceptions of risk, as investors will require a higher return for accepting greater risk. The measure of risk is typically formalized via analyses by bond-rating agencies, which provide independent assessments of credit risk that are reported using well-established scales of “grades” (e.g., “AAA” and “Aaa” being the most secure) that provide succinct rankings of credit quality. Individual and institutional investors then can utilize these ratings to guide their purchase decisions.

An important concept in the bond rating system, already referred to in this report, is the “investment grade” benchmark: a cut-off point beneath which many retail investors and their institutional proxies would consider a credit too speculative to include in a portfolio. As explained in detail in Chapter Four, the TIFIA program introduces a Federal investor that can absorb some of the uncertainty relating to timing of payments, investment horizon, and liquidity. By purchasing a portion of the issuer’s debt – and then subordinating its claim on repayments – TIFIA can help the remaining bonds obtain an investment grade rating and access to a broad range of potential buyers.

¹⁴ Status of Nation's Highways, Bridges and Transit: Conditions and Performance Report, unpublished, USDOT, 2002.

Chapter 2: Program Implementation

"The Conference finds that developing, implementing, and evaluating financial assistance programs such as TIFIA is a crucial mission of the Department of Transportation. To ensure the financial and programmatic success of TIFIA, the conference strongly encourages the Secretary to establish an organizational structure within the Department in which financial assistance activities and programs can be closely coordinated and monitored."

TEA 21 Conference Report (105-550)
May 21, 1998

2.0 Multi-modal Program Administration

As recognized by Congress, the multi-modal nature of TIFIA project eligibility lends itself to crosscutting program administration. A seven-member TIFIA Credit Council, representing the Budget, Policy, Counsel and Intermodal offices within the Office of the Secretary of Transportation (OST) and the Administrators of the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA) and the Federal Railroad Administration (FRA), provides policy direction and makes recommendations to the Secretary regarding the selection of projects for credit assistance.

In January 2001, OST and the three operating administrations chartered a Joint Program Office (JPO) in which to consolidate the day-to-day management responsibility for the TIFIA program. The JPO formally replaced a multi-modal working group of DOT staff that had carried out the initial program implementation, including outreach, rulemaking and project application cycles in 1999 and 2000.

For administrative purposes, the TIFIA JPO is housed within the FHWA Office of Budget and Finance. Given the modal diversity of TIFIA projects, the JPO regularly relies on staff of the operating administrations to assist with program implementation. Other critical assistance, enabled by the administrative funds available from TIFIA contract authority, comes from the external consultants and advisors hired by the DOT to assist the program. The TIFIA program utilizes outside assistance on matters relating to Federal credit issues, credit subsidy calculations and ongoing loan servicing. It also utilizes external financial and legal advisors to assist with credit evaluations and negotiations.

Exhibit 2-A depicts the TIFIA organizational structure within the DOT.

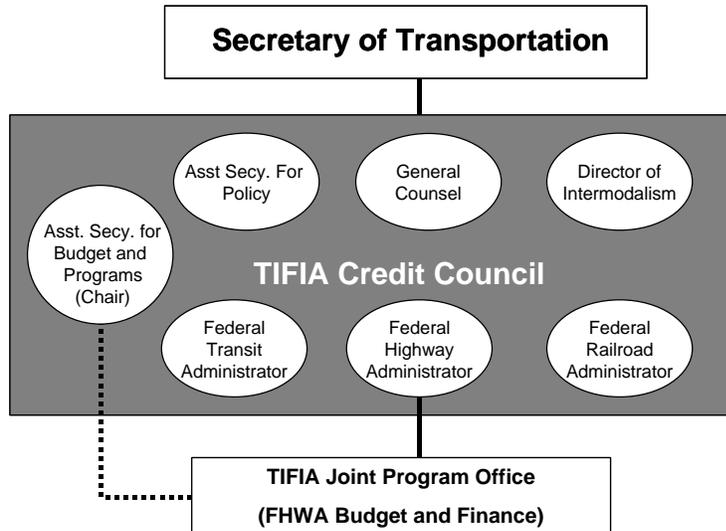
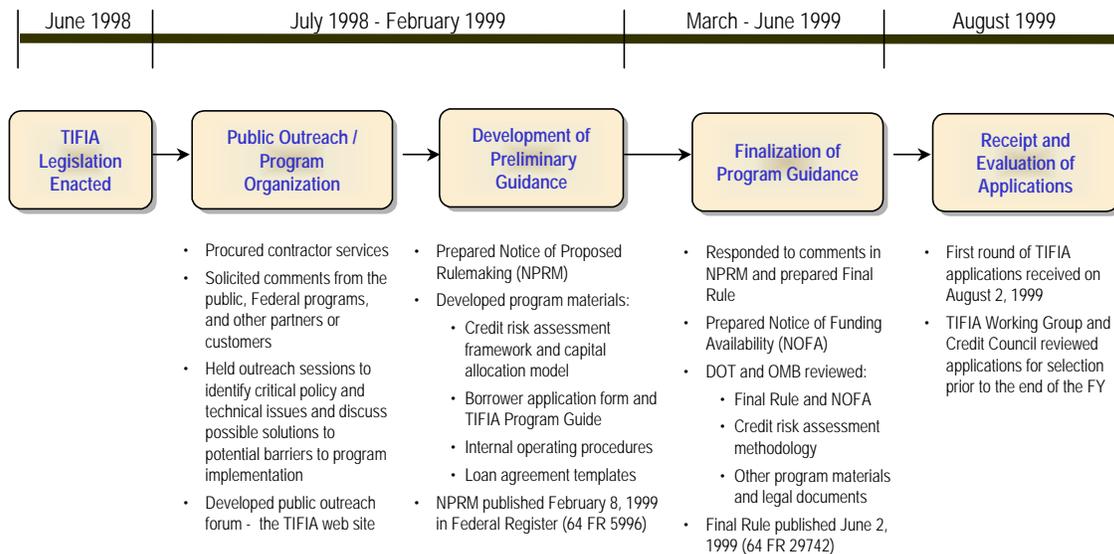


Exhibit 2-A: TIFIA Organizational Structure

2.1 Outreach and Rulemakings

After TIFIA enactment, the DOT conducted public outreach prior to beginning its formal rulemaking process. The resulting program regulations¹⁶ guided the DOT's provision of TIFIA credit assistance for fiscal year 1999. Exhibit 2-B illustrates some of the DOT's key outreach and rulemaking activities during the TIFIA program's start-up phase.

Exhibit 2-B: TIFIA Start-up Timeline



In July 2000, based on early program experience, the DOT issued revised regulations¹⁷ clarifying certain aspects of program implementation.

2.2 Selection and Funding of TIFIA Projects

Similar to its discretionary grant programs, DOT's initial TIFIA project solicitations established deadlines for submission of applications. The TIFIA program announced such fixed-date solicitation rounds for each of Federal fiscal years 1999, 2000 and 2001.¹⁸ The DOT revised this approach in May 2001, announcing¹⁹ it would accept a TIFIA application at any time if the project had met the threshold requirements for review.

The application process formally begins when a project sponsor submits a letter of interest describing the proposed project, participants, benefits, environmental status and financial plan. Based on this information, the DOT ascertains the project's basic eligibility and readiness. If the project appears to meet the requirements, the TIFIA program invites the sponsor to submit an application for assistance. Since the end of FY 2001, the TIFIA JPO has required each TIFIA applicant to provide a non-refundable application processing fee of \$30,000. This fee is based upon historical costs associated with the DOT's evaluation of TIFIA applications. In addition, the DOT charges each borrower a credit processing fee equal to a portion of the costs incurred by the TIFIA JPO in negotiating the credit agreement (approximately \$100,000-\$300,000 depending on the complexities of the financial structure and the length of the negotiations).²⁰

The application must provide detailed project information, address the eight selection criteria, and include a plan of finance and preliminary rating opinion letter. The TIFIA JPO utilizes outside financial advisors to review the credit information provided in the written application and during a formal oral presentation to the DOT. Based on the application and any requested supplemental material, the TIFIA JPO prepares an evaluation and recommendation for the TIFIA Credit Council. The TIFIA Credit Council provides recommendations to the Secretary of Transportation, who then selects projects to receive TIFIA assistance. Exhibit 2-C below summarizes these processes.

¹⁶ 64 FR 29742 (49 CFR 80), June 2, 1999.

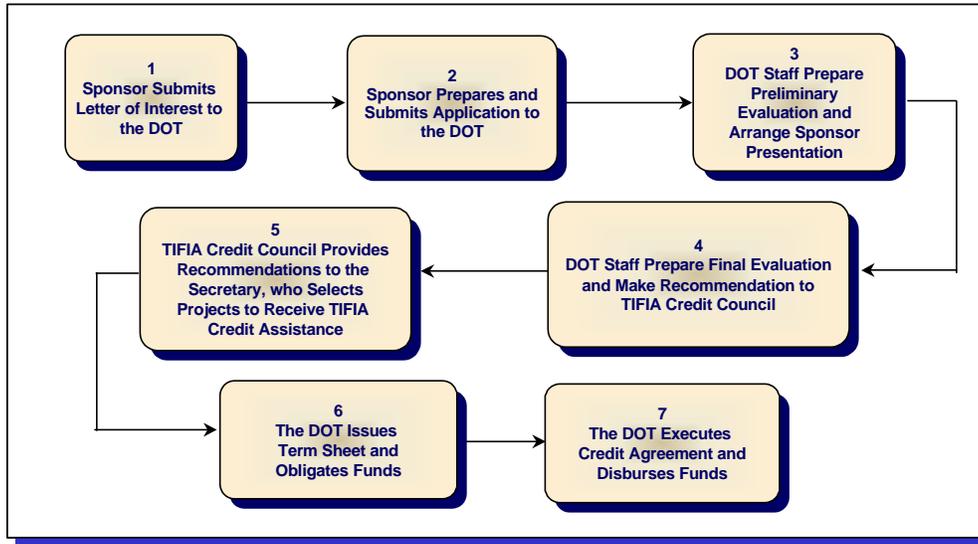
¹⁷ 65 FR 44936 (49 CFR 80), July 19, 2000.

¹⁸ Each fiscal year, the DOT publishes a Notice of Funding Availability (NOFA) in the Federal Register, describing available credit assistance and underlying contract authority for the year.

¹⁹ 66 FR 27747 (NOFA), May 18, 2001.

²⁰ Ibid.

Exhibit 2-C: Selection and Funding of a TIFIA Project



The DOT uses a two-step documentation process to commit and provide TIFIA assistance. First, a term sheet (setting forth the basic terms and conditions of TIFIA assistance) triggers DOT’s obligation of contract authority. Second, a credit agreement defines the final terms and conditions under which the DOT will make funds available and authorizes the submission of requests for disbursements of funds. Prior to execution of this credit agreement, the project sponsor must satisfy all program requirements, including receipt of an investment grade rating on the project’s senior debt obligations. Experience has shown that the time required to convert a term sheet into a final credit agreement can be as short as three months or as long as two years. Exhibit 2-D highlights key prerequisites for TIFIA funding commitments.

Exhibit 2-D: Key TIFIA Contractual Documents

Document	Major Prerequisites	Resulting Action
Term Sheet	Credit Assessment: Preliminary rating opinion letter on senior debt Environmental Clearance: ROD, FONSI, or Categorical Exclusion Planning Consistency: Inclusion in the STIP and long range plan	Defines amount of TIFIA credit assistance committed Obligates contract authority Establishes interest rate for line of credit
Credit Agreement	Credit Assessment: Investment grade credit rating on senior debt Appropriate Security Features: Rate covenants, etc. Updated Financial Plan: All necessary funds committed to the project	Defines final terms of assistance Establishes interest rate for secured or guaranteed loan Authorizes submission of requests for disbursement of funds

2.3 Credit Subsidy Calculation: Capital Allocation Model

As noted above, Congress provided contract authority in TIFIA to fund the subsidy cost of providing credit assistance. Calculating this long-term cost requires estimates of the default probability and recovery potential of each TIFIA credit agreement. In 1999, in consultation with the Office of Management and Budget (OMB), the DOT developed a capital allocation framework for assessing the credit risk and resulting subsidy cost of TIFIA secured loans, lines of credit, and loan guarantees.

The TIFIA capital allocation model incorporates the credit assessments of the major rating agencies. Similar to the capital adequacy models used by rating agencies to assess the creditworthiness of bond insurance companies, the TIFIA model links a project's credit rating to a specific probability of default according to type of project or revenue and by rating category. This approach is consistent with the TIFIA requirement that project sponsors receive credit assessments from nationally recognized rating agencies. Utilizing these independent analyses to supplement its own financial evaluations, the DOT can better assess the default risk of TIFIA instruments. Appendix B provides more detail on the TIFIA capital allocation methodology.

2.4 Loan Servicing

With the credit agreement in place, the TIFIA program accepts responsibilities that may last 35-plus years. An ongoing credit program requires mechanisms to collect loan repayments and provide detailed accounting of program activity. The DOT has contracted with a banking firm to assist it in carrying out a full complement of loan servicing activities. The TIFIA loan servicing system contains data on each credit agreement, including loan terms, borrower information, project description, credit ratings, disbursements, repayment schedule, payments received, loan balances and delinquency data.

The TIFIA loan servicing system incorporates Federal credit accounting standards.²¹ The system supports the financial management and evaluation of the TIFIA credit portfolio and provides essential information to assist in monitoring the TIFIA projects.

2.5 Project Oversight and Credit Monitoring

The DOT has oversight responsibility for all transportation projects assisted with TIFIA funds. This encompasses the entire project life cycle: from credit agreement execution, through project construction and operation, through final repayment and maturity. The participating modal agencies (FHWA, FRA, and FTA) share construction oversight responsibility for TIFIA-funded projects following existing agency processes. The TIFIA JPO coordinates oversight and monitoring activities with the appropriate DOT field offices and modal representatives. Credit monitoring is a critical addition to the DOT's oversight responsibilities for these projects, and the TIFIA JPO has the lead in this area. Overall, the goal of TIFIA

²¹ Standards are set forth in the Privacy Act of 1974, the Debt Collection and Improvement Act of 1996, the Federal Credit Reform Act of 1990, and the Chief Financial Officer's Act of 1990 as well as formal guidance provided in OMB Circulars A-123, A-127, A-129, and A-134 and Treasury's Financial Management Services publications, *"Managing Federal Receivables"* and *"Guide to the Federal Credit Bureau Program."* Additionally, the system incorporates system-specific requirements established by the Joint Financial Management Improvement Program (JFMIP).

project oversight and credit monitoring is to protect the Federal interest by managing risks to project delivery and loan repayment.

To carry out these responsibilities, the DOT will continually update information relating to construction progress and financial performance. Project sponsors must provide ongoing financial and project information during construction and until the debt obligation is fully repaid. Specified in each TIFIA credit agreement, this information includes annual updated financial plans and progress reports, audited financial statements, materials provided to rating agencies, cash flow projections, a certificate of compliance with rate covenants, and notices of adverse events. Oversight and monitoring will include site visits, periodic status meetings with the project sponsor, and reviews of the independent engineer or other relevant reports as applicable. The project sponsor also must provide, at no cost to the Federal Government, ongoing credit evaluations of the project and debt obligations (including the TIFIA instrument) prepared by a major credit rating agency throughout the life of the TIFIA instrument.

Chapter 3: Project Characteristics and Financial Status

"This program offers the sponsors of large transportation projects a new tool to leverage limited Federal resources, stimulate additional investment in our Nation's infrastructure, and encourage greater private sector participation in meeting our transportation needs."

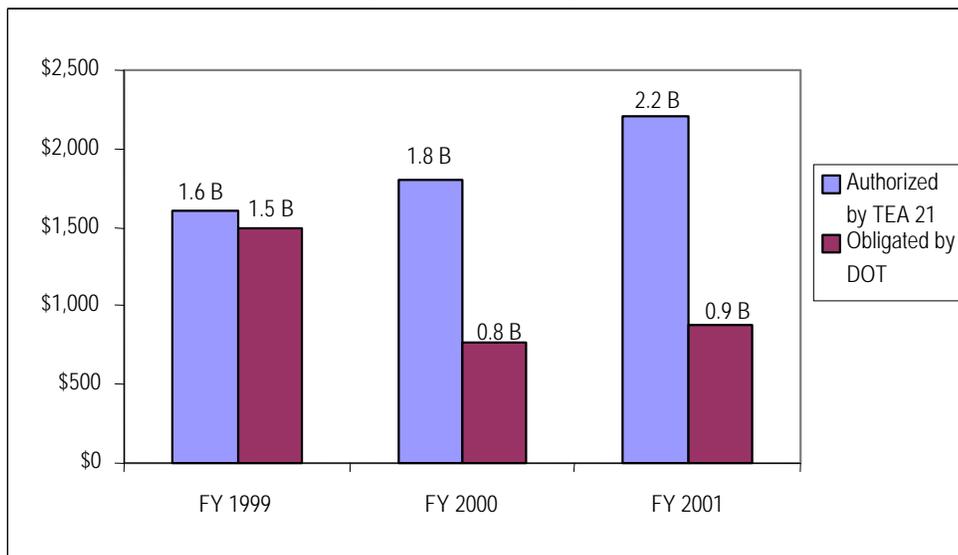
TEA 21 Conference Report (10 5-550)
May 21, 1998

3.0 Introduction

Since 1999, the DOT has selected 11 projects, representing \$15.4 billion in transportation investment, to receive TIFIA credit assistance. The TIFIA commitments total nearly \$3.6 billion in credit assistance at a subsidy cost of about \$190 million.²²

For the completed fiscal years 1999, 2000 and 2001, cumulative TIFIA obligations²³ represent 56 percent of the credit assistance and 67 percent of the subsidy cost authorized in TEA 21. These obligation rates are displayed in Exhibits 3-A and 3-B below.

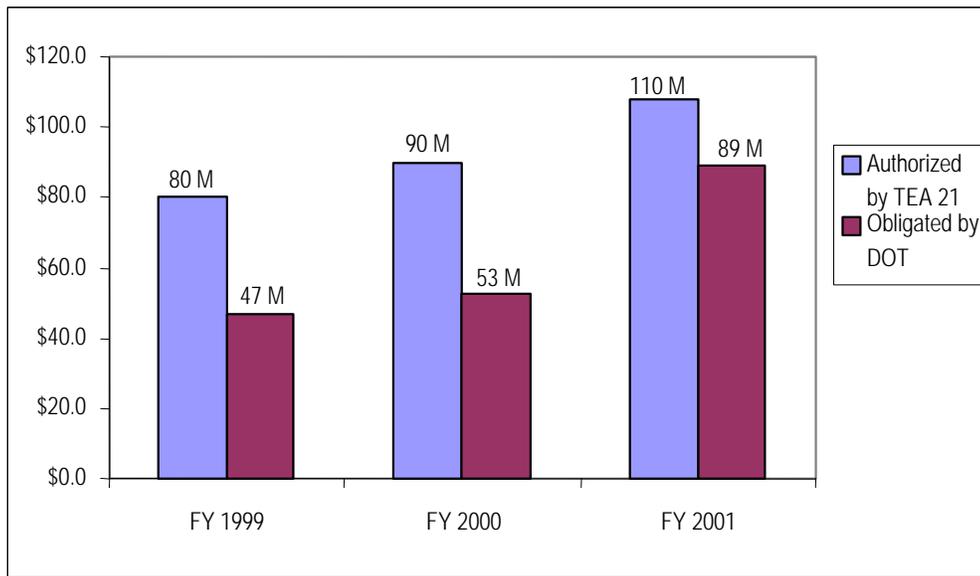
**Exhibit 3-A: Comparison of Credit Assistance Authorized Versus Obligated
(Millions of dollars)**



²² The financial data presented throughout this report are current per information available as of March 31, 2002. Accordingly, individual project data may differ from the original information in the project's TIFIA application.

²³ Not including the FY 2002 commitment to the San Francisco-Oakland Bay Bridge.

**Exhibit 3-B: Comparison of Subsidy Cost Authorized Versus Obligated
(Millions of dollars)**



3.1 Project Selections

The first solicitation for participation in the TIFIA program occurred in June 1999 with a Notice of Funding Availability published in the *Federal Register*.²⁴ Applications were evaluated over the summer, and the Secretary announced the first five project selections in September of that year. Additional rounds of solicitations and selections followed in fiscal years 2000 and 2001. Starting in late 2001, the DOT implemented a “rolling” application policy whereby projects may seek TIFIA assistance as soon as they have met all program prerequisites.

Since 1999, the DOT has received 32 letters of interest and 15 applications of which 11 projects²⁵ have been approved for TIFIA assistance. In general, the applications that have not resulted in selections reflect projects that did not meet – or have yet to meet – the statutory prerequisites for receiving TIFIA assistance, especially the environmental clearances.

A prominent feature of the TIFIA “portfolio” is its range of transportation mode. As summarized below in Exhibit 3-C, all major categories of eligible projects – highway, transit, passenger rail and multi-modal – have sought and received credit assistance.

²⁴ FR 64 29754, June 2, 1999.

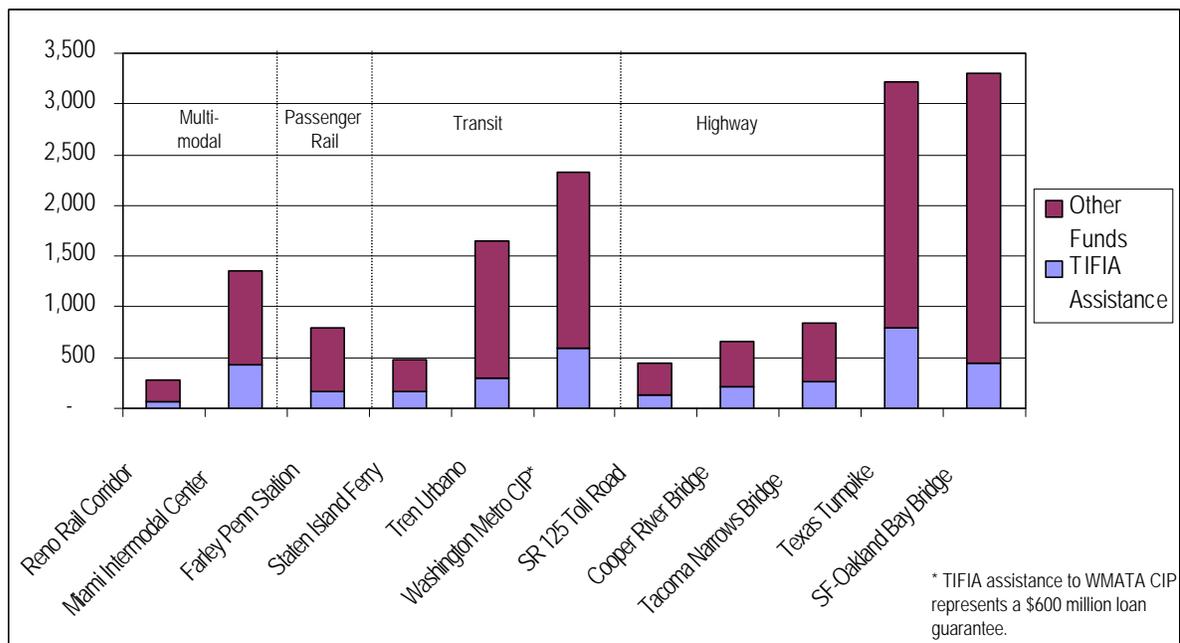
²⁵ On March 22, 2002, Washington State Governor Gary Locke approved legislation to provide public financing of the Tacoma Narrows Bridge. Although the new financing plan will differ from the public-private collaboration proposed in the project’s TIFIA application, the analysis in this report is based on the project’s financial structure at the time of selection.

Exhibit 3-C: Letters of Interest, Applications and Project Selections by Mode

	Multi-modal	Passenger Rail	Transit	Highway	Total
Letters of Interest	7	2	11	12	32
Applications	3	2	4	6	15
Project Selections	2	1	3	5	11

Exhibit 3-D below displays the range of project sizes, from the \$280 million Reno Transportation Rail Access Corridor (ReTRAC) to the \$3.3 billion San Francisco-Oakland Bay Bridge Seismic Retrofit. Passenger rail projects represent the smallest percentage of TIFIA-assisted projects at 4 percent of total TIFIA assistance, while highways represent the largest at 52 percent.

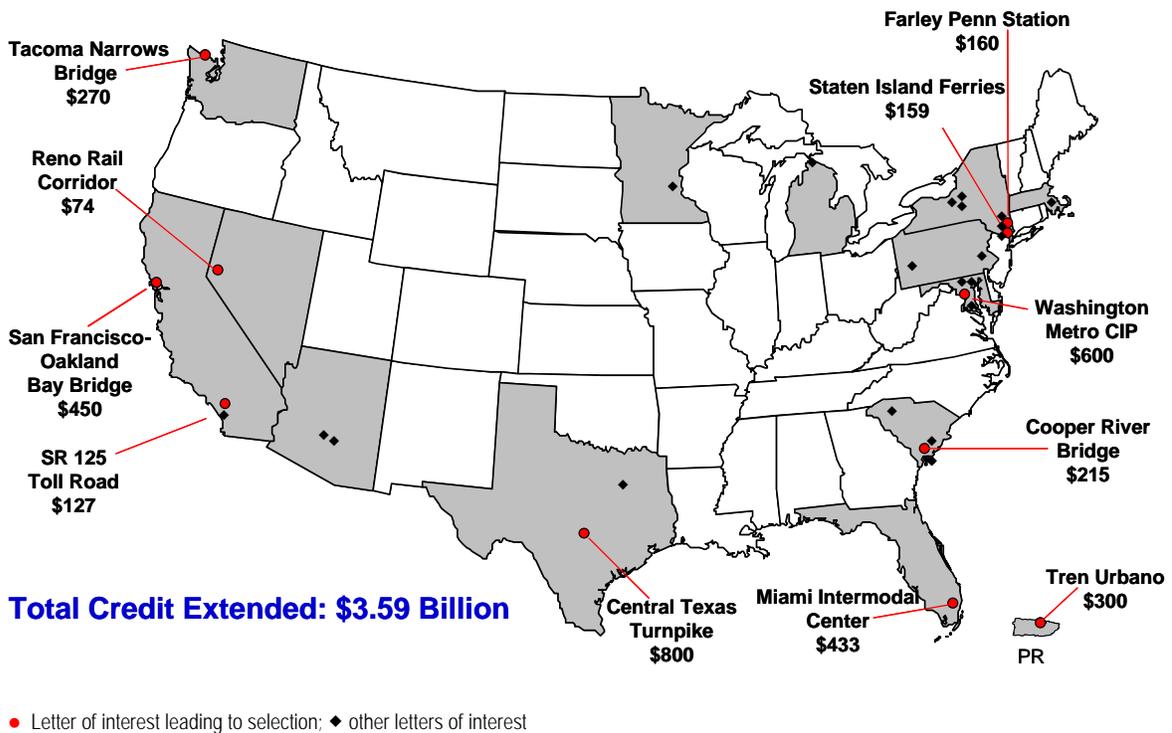
Exhibit 3-D: TIFIA Project Selections Arrayed by Cost and Mode (Millions of dollars)



	Multi-modal	Rail	Trans	Highway	Total
Project \$	\$1.63 B	\$795 M	\$4.46 B	\$8.48 B	\$15.37 B
TIFIA \$	\$506 M	\$160 M	\$1.06 B	\$1.86 B	\$3.59 B

Projects from around the nation have submitted letters of interest for TIFIA assistance. Geographically, these projects have concentrated in major metropolitan areas. Exhibit 3-E provides a map displaying the location and amount of TIFIA credit assistance for each project selected (●) to date, as well as the originating location of the other letters of interest (◆).

**Exhibit 3-E: Letters of Interest Submitted and TIFIA Projects Selected to Date:
Location and Amount of TIFIA Assistance for Selected Projects
(Millions of dollars)**

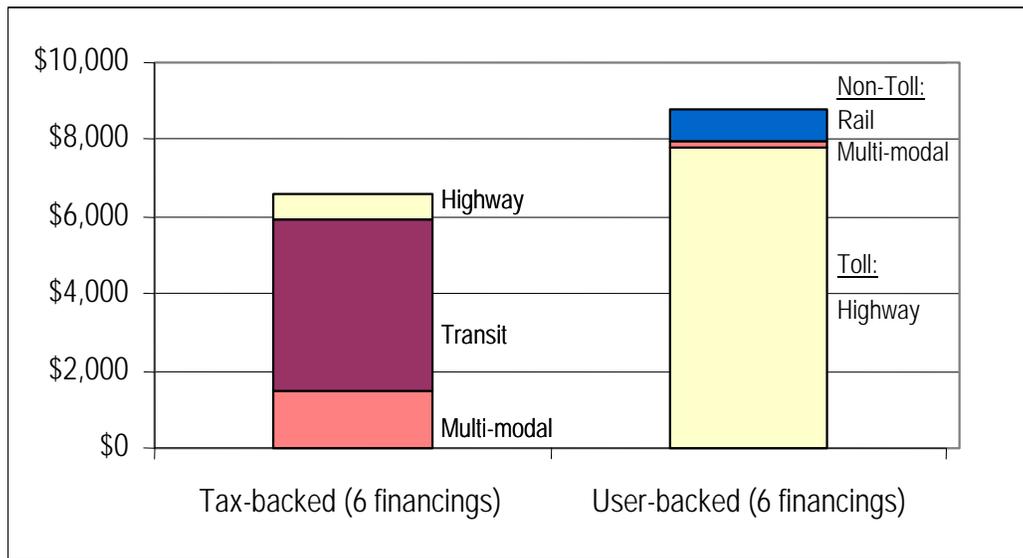


3.2 Pledged Revenues

The TIFIA portfolio also features a diverse range of revenues pledged to repay their credit obligations. As shown below in Exhibit 3-F, an equal number of financings rely on pledges of tax-backed sources and project-based revenues.²⁶

²⁶ Note that one of the 11 approved projects – the Miami Intermodal Center – comprises two separate financial transactions. One is tax-backed and the other user-backed.

**Exhibit 3-F: TIFIA Project Selections by Form of Pledge for Loan Repayment
(Total project costs in millions of dollars)**



The six tax-backed financings, with a combined value of approximately \$6.6 billion, rely on general revenues (Washington Metropolitan Area Transit Authority Capital Improvement Program and Puerto Rico's Tren Urbano), sales and/or tourism taxes (Nevada's Reno Transportation Rail Access Corridor and South Carolina's Cooper River Bridge), fuel taxes (the \$1.2 billion general program component of the Miami Intermodal Center) and revenues from the national tobacco settlement agreement (Staten Island Ferries and Terminals).

Four user-backed financings, with a combined value of approximately \$7.8 billion, rely on highway toll revenues to pay debt service. In one case (the San Francisco-Oakland Bay Bridge), the pledged tolls are collected system-wide from seven existing toll bridges. The remaining three projects (the San Diego area's State Route 125, the Central Texas Turnpike, and Washington State's Tacoma Narrows Bridge) involve new fees levied on new, or newly tolled, facilities. Two user-backed financings, with a combined value of approximately \$960 million, rely on revenues other than tolls: daily rental car transaction fees (the rental car facility component of the Miami Intermodal Center) and commercial lease revenues (New York City's Farley Penn Station).

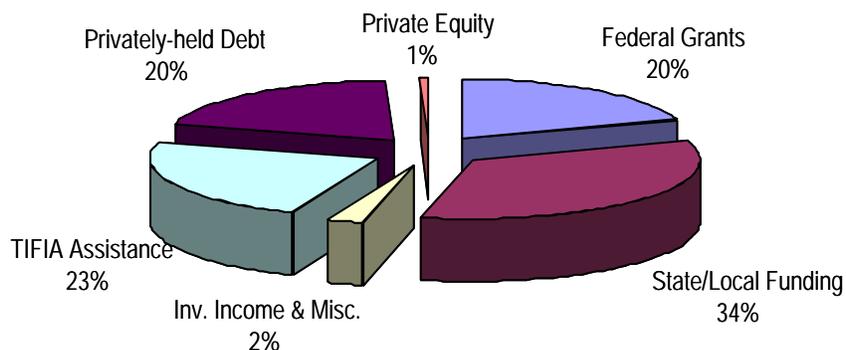
Highway and motor vehicle uses predominate among the user-backed TIFIA financings. The program's commitment to support public modes of transportation likely means that the revenues pledged to repay TIFIA assistance will continue to include broad-based taxes and other revenues not exclusively levied on project users.

3.3 Project Co-Investment

The TIFIA projects evidence significant collaboration among funding partners, as cumulative Federal investment is significantly leveraged compared to the typical grant-assisted projects. Exhibit 3-G illustrates this funding diversity and resultant leverage, as TIFIA assistance averages 23 percent of project

investment. Federal grants amount to an additional 20 percent, resulting in combined Federal investment of 43 percent – well under the typical share for federally assisted projects. Private sector-funded debt averages 20 percent. State and local funding, usually in the form of grants, constitutes about 34 percent. At one percent, private equity comprises the scarcest form of co-investment.

Exhibit 3-G: Aggregate Funding Sources for TIFIA Projects



3.4 Financial Status of TIFIA Credits

Financially speaking, large infrastructure projects that span years of construction exhibit basic similarities and unique distinctions. A common desire of each project sponsor is to obtain funding commitments as early as possible. The precise timing of expenditures, however, depends on the project's construction schedule and the relative availability and cost of other funding sources. For example, if the interest rate on other borrowed funds is less than the rate on the TIFIA debt, the project sponsor will likely draw these cheaper funds earlier (and the TIFIA funds later) in order to reduce overall borrowing costs.

Although the 11 projects selected for TIFIA assistance have obtained durable funding commitments, most of their actual cash requirements lay ahead. As listed in Exhibit 3-H below, the TIFIA program has executed six credit agreements, two of which have resulted in actual cash draws of loan proceeds.

Negotiations toward executed credit agreements are underway for most remaining projects.²⁷ Credit negotiations have taken as little as three months and as long as two years. Lengthy negotiations reflect not only the complexities and uncertainties of large infrastructure projects, but also the learning curve of both project sponsors and DOT staff as they encounter precedent-setting legal and financial issues for the first time.

The TIFIA program disbursed a total of \$343.9 million to project sponsors as of March 31, 2002. As further indicated below in Exhibit 3-H, repayments to the DOT have commenced for Tren Urbano, which is current on its obligations.

²⁷ As of March 31, 2002, all except the Tacoma Narrows Bridge, San Francisco-Oakland Bay Bridge and Miami Intermodal Center Rental Car Facility were under active negotiation. See Appendix C for more information on these three projects.

Exhibit 3-H: TIFIA Disbursements and Repayments (through March 31, 2002)

Project	Agreement Date	Proceeds Disbursed	Repayments Due	Repayments Received
WMATA CIP	January 28, 2000	\$0 ²⁸	\$0	\$0
Miami (Gen. Program)	June 9, 2000	0	0	0
Tren Urbano	August 4, 2000	300,000,000	24,136,229	24,136,229
Farley Penn Station	November 6, 2000	0	0	0
Cooper River Bridge	July 11, 2001	0	0	0
Staten Island Ferries	December 19, 2001	43,873,705	0	0
TOTAL		\$343,873,705	\$24,136,229	\$24,136,229

²⁸ The DOT does not anticipate that WMATA will draw funds from the line of credit guaranteed by TIFIA.

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Chapter 4: Attainment of Key Program Objectives

"Congress finds that...

[N]ew investment capital can be attracted to infrastructure projects that are capable of generating their own revenue streams through user charges or other dedicated funding sources....

[A] Federal credit program for projects of national significance can complement existing funding resources by filling market gaps, thereby leveraging substantial private co-investment."

**Transportation Equity Act for the 21st Century (TEA 21)
June 9, 1998**

4.0 Introduction

Measuring the performance of the TIFIA program entails three key assessments: (a) reviewing the financial objectives of the TIFIA program, (b) identifying ways in which the selected projects benefit from TIFIA assistance, and (c) calculating the extent to which TIFIA assistance leverages investment by other parties in transportation infrastructure.

4.1 Financial Objectives of the TIFIA Program

The TIFIA program promotes cost-effective use of Federal resources to encourage co-investment in transportation infrastructure. Federal grant funds that otherwise might be required to support these large projects can then be redirected toward smaller but critical infrastructure investments.

As cited above, the TIFIA statute emphasizes projects that can generate their own revenues via user charges or other dedicated funding sources.

User charges tend to be utilized in stand-alone project financings, where creditors must look only to the project's financial viability without recourse to the assets of corporate or governmental sponsors in the event of shortfalls. Investors in such "non-recourse" projects are subject to construction risk (delays or cost overruns), performance risk (operational feasibility) and demand risk (level of usage due to competition or economic conditions). For these reasons, project-generated revenues tend to be less certain – particularly in the early years of the enterprise – than dedicated taxes or other revenues unrelated to the project's financial performance.

However, projects supported by dedicated but limited revenue sources, such as a special excise tax or assessment, also can face challenges, especially when the financing depends on untested revenue sources or the incremental growth of existing revenues. As described in Chapter One, the TIFIA statute authorizes the DOT to provide credit instruments with flexible terms intended to mitigate co-investor concerns about investment horizon, liquidity, and short-term risk associated with financing these types of transportation projects.

The TIFIA program therefore can be especially important for project credits that need assistance to reach investment grade. The program can thus fill a strategic role in helping such financings gain market access, i.e., to use available resources to attract co-investment on reasonable, cost-effective terms.

4.2 Benefit: Using TIFIA to Facilitate Market Access

Almost by definition, a TIFIA project is a major undertaking characterized by multiple funding sources and complex financial plans. As described above, the TIFIA projects can be grouped into two basic categories: user-backed financings secured primarily or significantly by user fees and tax-backed financings secured by tax revenues or other dedicated sources unrelated to the project.

Exhibit 4-A lists the TIFIA financings according to these categories together with each project's associated subsidy rate.²⁹ Applying the rate to the credit amount of TIFIA assistance results in the subsidy cost (see Section 2.3) of providing Federal credit support. As explained in detail in Appendix B, the subsidy rate reflects the estimated risk of the TIFIA instrument. Consistent with the discussion above, Exhibit 4-A shows that the user-backed financings tend to require higher subsidy rates than the typically more secure tax-backed financings.

Exhibit 4-A: Basic Categorization of TIFIA Financings

User-backed Financings	Pledged Revenues	Subsidy Rate
Miami Intermodal Center RCF	Rental car customer facility charges	4.8%
SR 125 Toll Road	Facility tolls	11.2%
Farley Penn Station	Commercial lease payments/retail rents	12.5%
Tacoma Narrows Bridge	Facility tolls	9.2%
Central Texas Turnpike	Facility tolls	11.1%
San Francisco-Oakland Bay Bridge	System-wide facility tolls	0.3%
Tax-backed Financings		
Miami Intermodal Center GP	State fuels excise taxes	0.4%
Washington Metro CIP	Local government contributions	2.0%
Tren Urbano	Various commonwealth taxes	2.6%
Cooper River Bridge	State and county contributions	2.8%
Staten Island Ferries and Terminals	Tobacco settlement payments	0.2%
Reno Transportation Rail Access Corridor	Local taxes and assessments	9.7%

Exhibit 4-A also illustrates exceptions to the user-backed/tax-backed distinction regarding relative credit risk. Although most TIFIA user-backed financings are supported by “start-up” revenue streams and generally require credit enhancement to achieve investment grade status, one such financing (the San Francisco-Oakland Bay Bridge Seismic Retrofit) is a relatively secure credit with ready market access. With established traffic use, existing toll collections, a system-wide pledge and good “debt service coverage” (i.e., a high ratio of annual available revenue to debt service), it does not share speculative elements often associated with a user-backed project financing. Although most TIFIA tax-backed financings are supported by predictable revenues unaffected by project performance, one such financing (the Reno Transportation Rail Access Corridor), with taxes linked significantly to the gaming industry and

²⁹ A detailed list of the subsidy amounts for each TIFIA project selection can be found in Appendix D.

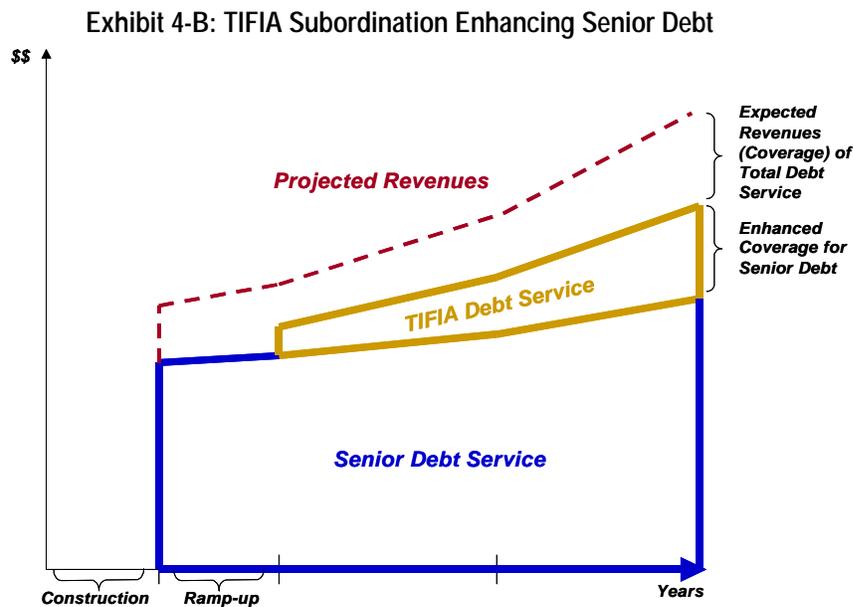
with a reliance on substantial long-term growth to meet steadily rising debt service payments, likely requires TIFIA assistance to obtain market access.

Based on this assessment of credit quality, six TIFIA project selections appear to meet the program's special emphasis of assisting lower-rated credits with new or untested revenue streams.³⁰ In these transactions, TIFIA assistance likely provided significant or even decisive enhancement in facilitating capital market access. As described later in this chapter, the remaining projects derive other benefits from TIFIA, both financial and otherwise.

4.2.1 Credit Enhancement of Senior Debt

The TIFIA program can help projects to gain market access through a financial technique that separates project debt into senior and subordinate segments (or "tranches"). This structure can produce less expensive overall financing by enhancing the creditworthiness (and lowering the cost) of senior project debt. By funding the subordinate tranche, the TIFIA program assumes greater credit risk because its claim on project revenues is subordinate to that of the senior lender. Although this does not eliminate credit risks for the senior debt holders, the presence of the subordinate tranche affords greater debt service coverage for the senior tranche and thus boosts its creditworthiness.

Exhibit 4-B below illustrates this coverage-enhancing benefit for a hypothetical project financing with senior revenue bonds sold in the capital markets and subordinate revenue bonds purchased by the DOT. The project sponsor can demonstrate to the senior bondholders a broader margin of cash coverage, since their bonds ("senior debt service") have first claim on revenues. In contrast, if all debt held the same priority (i.e., the TIFIA debt service was combined with the senior debt service in one issue), the coverage margin would be thinner.



³⁰ The Miami Intermodal Center Rental Car Facility, the SR 125 South Toll Road, the Farley Penn Station Project, the Tacoma Narrows Bridge, the Central Texas Turnpike, and the Reno Transportation Rail Access Corridor.

The cost savings due to lower interest rates on the enhanced senior debt often outweighs the extra expense of the riskier, but smaller, junior debt. For borderline investment grade projects, the replacement of some senior debt with subordinate debt can help the remaining senior bonds reach investment grade status, thus enabling the financing to move ahead. The use of TIFIA as a subordinate lender is predicated on the Federal Government's unique ability to be a patient investor in public infrastructure.

4.3 Benefit: Using TIFIA to Encourage Private Co-Investment

An explicit goal of the TIFIA program is to induce private investment in transportation infrastructure. In addition to offering another funding source, joint investment of private capital brings independent financial discipline from other sophisticated investors. A key program measure, therefore, is the extent to which TIFIA projects include private co-investment in the form of debt or equity capital.³¹

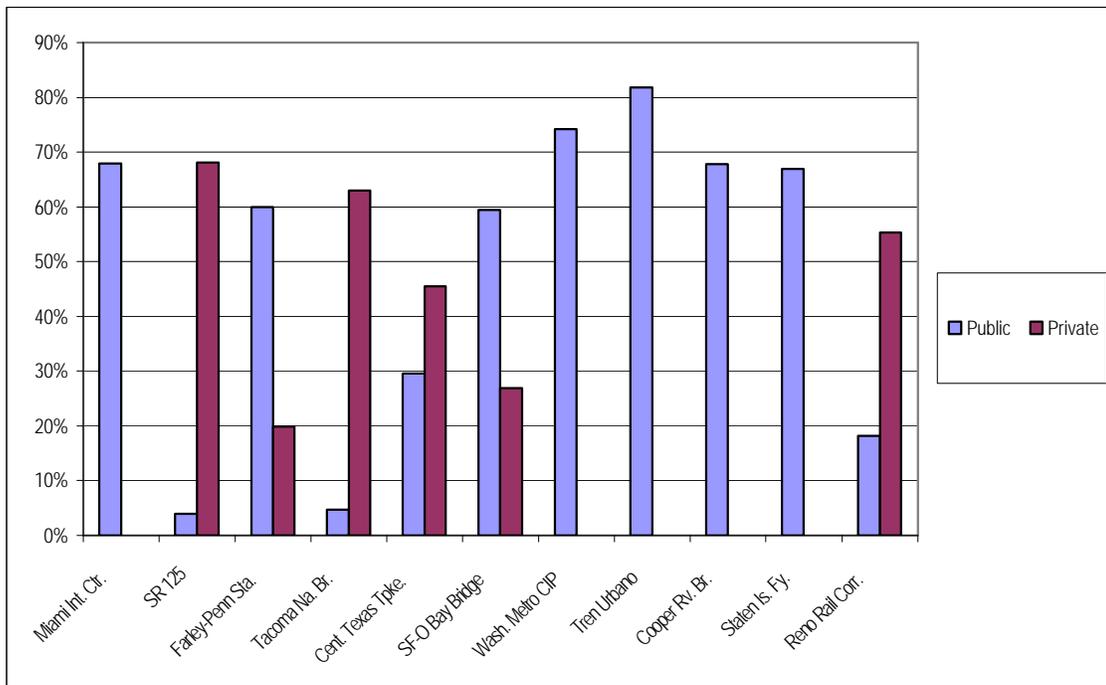
The definition of "private co-investment" is subject to differing interpretations. A narrow definition would hold that a project must have a private sponsor or financier with dollars directly at risk in the project. By this measure, four TIFIA project selections (SR-125, Farley Penn Station, Reno Transportation Rail Access Corridor and Tacoma Narrows Bridge) would be considered to have private co-investment.

As discussed in Chapter One, however, municipal bonds also reflect private co-investment since the bonds are purchased ultimately by private investors. In order to capture this activity, the analysis in this report utilizes two tests – both of which must be met – to determine which project funds represent private co-investment. First, reflecting the fact that private investors, whether individuals or represented by institutions, are largely the purchasers of bonds, the project must feature investor-held debt or equity. Second, the investment return must be derived from project-generated revenues or other revenues levied specifically to support the project. Debt secured by broad-based taxes unrelated to the project would not be considered private co-investment.

By this standard, private co-investment in the TIFIA project selections totals about \$3.1 billion, comprised of more than \$3 billion in debt and nearly \$100 million in equity. This co-investment totals approximately 20 percent of the nearly \$15.4 billion in total costs. Exhibit 4-C below displays co-investment percentages for each project. The six project selections that include private co-investment each have amounts equal to or greater than the amount of TIFIA assistance. The five projects with no private co-investment each have public co-investment in excess of 65 percent of their capital costs.

³¹ Whether the investment is in the form of debt or equity is of less significance to the DOT than whether it relies upon the same pledged revenues as the TIFIA credit instrument for payment of returns.

Exhibit 4-C: Co-investment in TIFIA Projects (as a percent of capital cost)



Consistent with the TIFIA program’s design, the instances of private co-investment are found where TIFIA instruments have subordinate claims on the pledged revenues. Exhibit 4-D details the level of private co-investment by financing type and TIFIA lien. The user-backed financings generally have greater private investment supported by junior TIFIA tranches. However, the tax-backed Reno Transportation Rail Access Corridor also structures TIFIA assistance as junior debt in order to support senior bonds.

Exhibit 4-D: TIFIA Leveraging of Private Co-Investment (as a percent of capital cost)
(Shaded rows indicate projects with private co-investment)

User-backed Financings	Private Equity	Private Debt	TIFIA Lien
Miami Intermodal Center RCF	N/A	N/A	Exclusive Senior
SR 125 Toll Road	14%	48%	Junior
Farley Penn Station	1%	19%	Junior
Tacoma Narrows Bridge	N/A	55%	Junior
Central Texas Turnpike	N/A	38%	Junior
San Francisco-Oakland Bay Bridge	N/A	27%	Junior
Tax-backed Financings			
Miami Intermodal Center GP	N/A	N/A	Exclusive Senior
Washington Metro CIP	N/A	N/A	Exclusive Senior
Tren Urbano	N/A	N/A	Junior
Cooper River Bridge	N/A	N/A	Exclusive Senior
Staten Island Ferries and Terminals	N/A	N/A	Shared Senior

Reno Transportation Rail Access Corridor	6%	40%	Junior
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As noted previously, TIFIA project selections feature very little private equity. This reflects the general nature of infrastructure finance in the United States, where the cost of debt is the paramount consideration in structuring most finance plans. Under current tax law, projects with substantial private sector participation in either their ownership or operations are prohibited from accessing the less expensive tax-exempt bond market. Project sponsors, therefore, usually find that significant private equity presents a barrier to minimizing financing costs and required user fees. As a result, most private co-investment in transportation projects in the United States takes the form of tax-exempt debt financing.

4.4 Benefits Identified by TIFIA Borrowers

The broad project eligibilities and flexible financial provisions in TIFIA have enabled the DOT to assist projects in meaningful ways other than facilitating market access. Project sponsors of higher-rated credits have found that TIFIA assistance can reduce costs, coalesce support and help remove other barriers in advancing projects.

A number of general factors have been identified in the course of discussions with the project sponsors as well as reviews of TIFIA applications, credit agreements, and project updates. Exhibit 4-E summarizes, for each project, which factors proved most relevant. This analysis suggests that the potential benefits of TIFIA assistance are as varied as the approved projects and their financing structures.

- **Revenue Leverage.** TIFIA can help the project leverage a new or untested revenue stream that otherwise might not be marketable. This factor often benefits user-backed financings that involve start-up facilities with uncertain revenues expected to grow over time. Six of the financings rely significantly on TIFIA to help borrow against these projected revenues.
- **Senior Debt Enhancement.** TIFIA can be structured as junior-lien financing in order to enhance the creditworthiness of senior-lien capital markets financing through greater debt service coverage. This factor is highly correlated with revenue leverage, as project sponsors often utilize subordinate debt to maximize the leveraging of project revenues that secure the debt financing. Six of the TIFIA financings benefit from this factor, including five of the financings that also benefit from revenue leverage.
- **Coverage Benefit.** TIFIA can increase leveraging potential and improve financing efficiency by accepting lower ratios of projected revenues to total debt service. This factor, relating to the required coverage levels on combined senior and junior debt service, is closely associated with senior debt enhancement. If the TIFIA coverage requirement is lower than that for conventional funding sources, it enables the project to raise more proceeds. Eight of the financings benefit from lower coverage on TIFIA debt, including two cases where TIFIA is senior-lien debt.
- **Public Co-investment.** TIFIA can attract or accompany public co-investment in the form of governmental grants or loans. TIFIA assistance can be a cost-effective way for the Federal Government to help a project complete its plan of finance (in lieu of more grants). Nine of the TIFIA financings have public co-investment exceeding 15 percent of their capital costs.

- **Private Co-investment.** TIFIA can attract or accompany private co-investment in the form of debt or equity financing. The participation of at-risk private investors is a key objective of the TIFIA program. Six TIFIA financings include private co-investment exceeding 15 percent of their capital costs. Three of the financings receive the majority of their funding from private sources, while two have significant equity contributions.
- **Interest Cost Savings.** TIFIA's interest rate can result in cost savings compared to the likely rates on alternative financing instruments. For projects that must access the taxable debt markets, borrowing rates are based on a credit spread above the benchmark U.S. Treasury yield curve. TIFIA financing clearly will be attractive because the DOT lends its funds at the U.S. Treasury's borrowing rate.³² Even for projects able to access the tax-exempt municipal market, TIFIA direct loans may prove cost-effective. It is estimated that six of the TIFIA financings will benefit from interest cost savings.
- **Transaction Cost Savings.** TIFIA can help the project avoid significant transaction costs that otherwise would be incurred. These include underwriter fees, bond counsel expenses, and other "soft costs" associated with issuing project debt, as well as the "negative carry" (excess of borrowing cost over investment return) of bond proceeds during construction. While typically not prohibitive, these costs can be significant for large transactions involving debt financing. Many project sponsors find TIFIA to be a relatively efficient, cost-effective financing vehicle since the DOT does not charge significant fees for its credit instruments. Seven of the TIFIA financings indicate transaction cost savings as a potentially significant benefit.
- **Payment Flexibility.** TIFIA can significantly benefit the project financing through its flexible payment features. TIFIA provisions aim to facilitate user-backed financings by allowing debt service to be structured according to project cash flows. Often this entails deferral of interest not only during construction but also during the project's ramp-up of operations, which private investors may be hesitant to accept. In addition, the TIFIA program allows borrowers to prepay at any time without penalty. To obtain this same flexibility through the municipal bond market could add as much as ½ percent to the borrowing cost, depending on market conditions. Eight of the financings benefit from TIFIA's payment flexibility, including all of the user-backed financings.
- **Political Support.** TIFIA can solidify political support for the project by helping induce other public or private investors to participate. In some cases, Federal financial support for the project can ease the way in securing commitments from other funding partners. Also, a Federal credit commitment can help assure other potential investors that the project will benefit from appropriate oversight. Nine of the TIFIA financings are estimated to benefit from this factor.
- **Project Acceleration.** TIFIA can expedite the financing and accelerate the public benefits flowing from a completed facility. This factor essentially reflects the cumulative effects of the other factors. In some cases, TIFIA assistance is viewed as essential in advancing the project in its current form. In others, while the project likely would have been financed eventually, TIFIA assistance helps

³² It appears that all or a portion of the following projects likely will not be eligible for tax-exempt financing, due to private participation: the Miami Intermodal Center Rental Car Facility, the SR 125 South Toll Road, the Reno Transportation Rail Access Corridor, and the Farley Penn Station project.

advance the project more quickly and at a lower cost. It is estimated that TIFIA has helped accelerate eight of the project financings.

Exhibit 4-E: Significant Benefits of TIFIA Financing

Project	Revenue Leverage	Senior Debt Enhancement	Coverage Benefit	Public Co-investment	Private Co-investment	Interest Cost Savings	Transaction Cost Savings	Payment Flexibility	Political Support	Project Acceleration
Miami Intermodal - RCF	✓		✓				✓	✓	✓	
SR 125 Toll Road	✓	✓	✓		✓	✓		✓	✓	✓
Farley - Penn Station	✓	✓	✓	✓	✓	✓		✓	✓	✓
Tacoma Narrows Bridge	✓	✓	✓		✓	✓		✓		
Central Texas Turnpike	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
SF-Oakland Bay Bridge		✓	✓	✓	✓		✓	✓	✓	✓
Miami Intermodal - GP				✓			✓		✓	✓
Washington Metro CIP				✓			✓		✓	✓
Tren Urbano				✓			✓	✓		
Cooper River Bridge			✓	✓			✓		✓	✓
Staten Island Ferries				✓		✓				✓
Reno Rail Corridor	✓	✓	✓	✓	✓	✓		✓	✓	

4.5 Calculating the TIFIA Leverage Effect

Calculating the return on Federal investment in participating projects can demonstrate one measure of TIFIA's effectiveness. For a given level of capital investment, Federal cost-effectiveness increases as the budgetary cost of supplying assistance decreases. Thus, for those projects associated with a revenue stream, credit assistance (which will be repaid by project sponsors) is much more efficient to the Federal Government than outright grants.

Measurements of the efficacy of Federal financial tools like the TIFIA program often involve quantifications of leverage. In other words, to what extent is TIFIA assistance supplemented with non-Federal funding in delivering transportation investments deemed beneficial to the public?

Exhibit 4-F summarizes TIFIA project investment by major funding source and basic financing type. It also compares total capital investment to the total budgetary cost of Federal credit *and* grant assistance in the TIFIA projects. As this analysis shows, the TIFIA portfolio represents nearly five dollars in total investment for each dollar of Federal investment. This Federal cost leverage ratio of 4.80 for TIFIA projects compares favorably with the leverage ratio of 1.25 for a Federal-aid project receiving 80 percent of its funding from Federal grant sources. In addition, the Federal cost leverage ratio is significantly higher for the user-backed financings, which have fewer grant contributions than the tax-backed financings.

Exhibit 4-F: Financial Leveraging of Federal Investment
(Millions of dollars)

Funding Source	User-Backed Financings	Tax-Backed Financings	TIFIA Program Total
Federal Grants	\$460	\$2,566	\$3,026
State/Local Funding	2,994	2,256	5,250
TIFIA Assistance	1,971	1,617	3,588
Private Investment	3,003	129	3,132
Other	347	26	373
Total Investment	\$8,775	\$6,594	\$15,369
Subsidy Cost	\$156	\$34	\$190
Subsidy Rate	7.9%	2.1%	5.3%
Leverage Ratio:			
$\frac{\text{Total Investment}}{\text{Federal Cost}} =$	14.2	2.5	4.8
<i>Note: Federal cost equals the combined amount of Federal grants and TIFIA subsidy cost.</i>			

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Chapter 5: Credit Issues

"The Secretary is authorized to enter into agreements with project sponsors containing terms and conditions designed to assist the projects in leveraging additional funds, while ensuring that the program operates in a fiscally-prudent manner."

TEA 21 Conference Report (10 5-550)
May 21, 1998

5.0 Introduction

The TIFIA statute provides a framework within which the DOT negotiates specific terms and conditions of the program's credit instruments. The statute authorizes the DOT to adopt the stance of the "patient lender" though such features as allowing the DOT to accept a subordinate lien on pledged revenues, back-loaded repayment schedules, repayment deferrals should revenues prove insufficient, and loan prepayments without penalty. Yet the statute also imposes financial standards to help the DOT manage risk, such as limiting TIFIA credit assistance to 33 percent of eligible project costs, requiring the project's senior debt to obtain an investment grade rating, and mandating non-subordination to the claims of other creditors in the event of a borrower's bankruptcy, insolvency or liquidation.

The TIFIA program's pragmatic challenge is to balance the objective of advancing transportation projects with the equally important need to lend prudently and protect the Federal interest. The DOT must apply rigorous credit standards as it fashions assistance to improve the financial prospects of participating projects. Establishing a satisfactory equilibrium between these objectives has formed the central challenge in implementing the statute.

This chapter describes policy issues that the DOT has encountered in the course of specific project negotiations. Because borrowers have sought assistance primarily in the form of direct loans, most issues have arisen in this area.

5.1 Intercreditor Issues

Intercreditor issues involve the relative rights and security of multiple creditors or investors in a project. They arise when TIFIA assistance is used in conjunction with capital markets or other debt as a funding source for the project. Generally, the project sponsor and other parties, such as underwriters and insurers acting on behalf of the senior bondholders, will seek to use TIFIA to maximize the creditworthiness of the senior debt obligations.

As noted above, TIFIA's pragmatic challenge is to enhance the financial viability of the overall project without exposing the DOT to excessive credit risk. When this requires a senior/subordinate debt structure, the DOT must assume a financing posture consistent with a minority-share, junior-lien investor. Stated succinctly, the Federal objective is not to minimize its exposure but to *optimize* its exposure—that is, to take prudent risks in order to leverage Federal resources through attracting private and other non-Federal capital to projects.

In addition, TIFIA differs from most other Federal credit programs. Federal loans and loan guarantees for agriculture, small business, maritime commerce and other activities typically comprise 80 to 90 percent of a project's funding sources. As the primary creditor, the Federal Government in those programs can dictate the borrowing terms and hold the senior lien position. In contrast, reflecting the objective of attracting private co-investment, TIFIA assistance is never greater than 33 percent of eligible project costs. As discussed above, in a situation with multiple creditors the DOT is willing to assume a subordinate lien on revenues pledged to repay project debt. For this approach to safeguard the DOT's financial position, however, the risks borne by both senior investors and TIFIA must be aligned. To date, five TIFIA projects have involved significant negotiations over the terms of a junior-lien TIFIA structure.

5.1.1 Non-Subordination

The TIFIA program's most notable departure from typical senior/subordinate debt structures stems from the statute's provision that, although the DOT can accept a junior lien on revenues, its claim must be on parity with senior bondholders "in the event of bankruptcy, insolvency or liquidation of the project obligor."³³ This non-subordination feature, giving the DOT the status of a senior creditor upon occurrence of unlikely circumstances, is often termed in the financial community as the "springing lien."

The non-subordination requirement has generated much discussion regarding TIFIA's ultimate benefit to a project's senior debt rating. Generally, investors focus on a project's future cash flows rather than its liquidation value. On this basis, the credit analysis will acknowledge that DOT's secondary claim on ongoing project revenues affords senior bondholders additional debt service coverage and diminished probability of payment default. By and large, projects with investment grade ratings reflect the likelihood that the borrower can meet scheduled debt service payments from pledged revenues, without regard to the collateral or liquidation value of the project. However, for weaker projects where the credit analysis must take into account the break-up or liquidation value of a failed enterprise, there would be a co-equal sharing of claims against the pledged security between the senior bondholders and the DOT.

Reports from the credit rating agencies reflect this tension in the TIFIA program design. A recent report³⁴ from Moody's Investor Services indicates that the non-subordination feature can be accommodated within project financings:

"Although limited to a default scenario leading to issuer bankruptcy, insolvency and liquidation, the 'springing lien' feature poses some potential risks for issuers/project sponsors and investors – particularly for stand-alone or 'non-recourse' projects. Nevertheless, Moody's believes that project fundamentals and structural and procedural safeguards could moderate this risk substantially."

³³ The two provisions are that the DOT: "may have a lien on revenues...subject to any lien securing project obligations" (23 U.S.C. 183(b)(3)(B)), and that the DOT "shall not be subordinated to the claims of any holder of project obligations in the event of bankruptcy, insolvency, or liquidation of the obligor" (23 U.S.C. 183(b)(6)).

³⁴ "Moody's Analytic Approach To TIFIA: The Credit Impact Of The Springing Lien," Municipal Credit Research, Moody's Investors Service, January 2002.

Fitch Ratings takes a similar stance³⁵, noting that the non-subordination feature may mean that certain project financings may be too speculative for TIFIA assistance to reach:

“The current statutory construct of the program, with its springing lien provision, is likely to prevent some borderline projects from reaping enhancement from the program, especially where their unenhanced credit position suggests a reasonable probability of default. For projects with speculative economic credentials, nothing continues to beat good old fashion equity, although this program probably reduces the equity requirements needed for an investment-grade rating....Legal flexibility exists within the loan agreements to mitigate (but not eliminate) most senior project debt concerns about the TIFIA springing lien.”

5.1.2 Structuring TIFIA Repayments

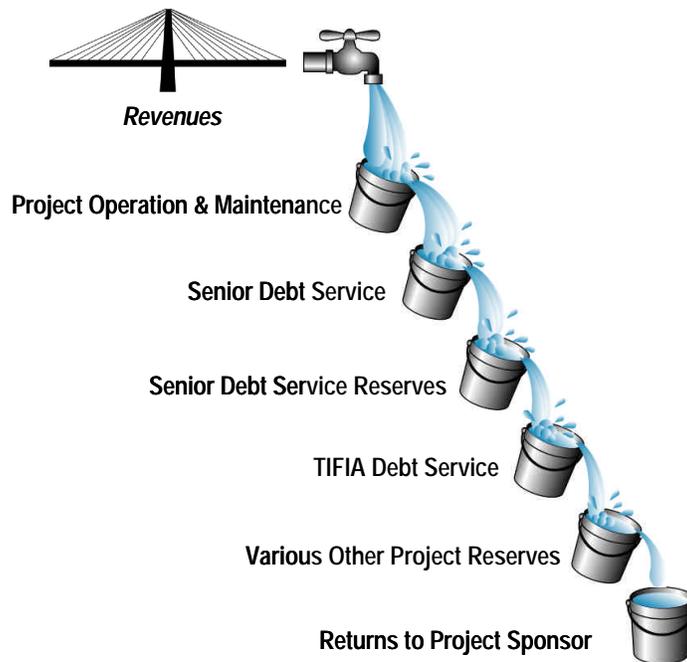
As noted above, TIFIA enables the DOT to become the “patient investor” by aligning a repayment schedule more closely to a project’s economics than may be typical in the capital markets. By “back loading” its repayment demands (instead of, for example, requiring level debt service or payment of all current interest due), the TIFIA program can facilitate the leveraging of a new or uncertain revenue stream that, while expected to perform well in the long run, may exhibit significant “ramp-up” risk during the early years of project operation. The challenge for the TIFIA program is in determining the appropriate degree of back loading, if any, on direct loans.

The clearest instance to consider back loading is for a project supported by user fees that will generate revenues only upon completion of construction. Given the typical need for such a project to build its user levels during the initial years of operation, it is not uncommon for both senior and junior debt to back load repayments to accommodate growing revenue. Consistent with bond financing convention, where the borrowed amount includes funds with which to repay interest during construction (“capitalized interest”), TIFIA also could agree to defer construction period interest payments, adding these accruals to the principal amount of the loan via a process known as “negative amortization.”

On the other hand, in cases where project financings are supported by revenues that do not have a substantial ramp-up period and/or are not linked to project operations (e.g., taxes or other stable revenue sources), TIFIA back loading may not be needed to attract senior co-investment.

Each financing requires an examination of the proposed structure of the senior debt and any potential returns to project sponsors. The priority position in the project’s flow of funds from senior debt investor to junior debt investor to project sponsor, based on increasing risk and expected rates of return, is an important credit structuring principle. Exhibit 5-A shows a typical flow of funds for a TIFIA project, and demonstrates how senior debt service as well as reserve accounts for the benefit of senior bondholders generally accumulate revenues ahead of TIFIA debt service.

³⁵ “TIFIA Springs Into Action: Credit Implications of This Surface Transportation Program,” Project Finance Special Report, Fitch/IBCA, January 16, 2001.

Exhibit 5-A: Example of Project Flow of Funds

With the exception of the returns to project sponsors, the revenue applications either pay current project expenses or provide reserves against future or potential needs. Once revenues are remitted to the project sponsors, however, they are no longer available for the project.

5.1.3 Ensuring the Significance of the Investment Grade Rating

One of TIFIA's key financial disciplines is the requirement that a project's senior debt be rated in the investment grade category. This provision reflects practical financial considerations. Bonds rated lower than investment grade are considered speculative in nature, indicating riskier credits. Further, many institutional investors are prohibited from purchasing sub-investment grade bonds, indicating that a low-rated borrower likely would find bond financing either scarce or prohibitively expensive.

The rating requirement offers security to the DOT only if the same repayment source is being pledged to both the senior debt obligations and the subordinate TIFIA credit instrument. In such a structure, the investment grade rating for senior debt helps the DOT evaluate its credit risk as a subordinate lender; although the TIFIA instrument itself may be sub-investment grade, the higher rating on the senior debt indicates that the project's overall risk profile is manageable.

In addition, issuers often find that segmenting their bond offerings into two or more tiers can result in lower overall borrowing costs than issuing all of their debt in a uniform class. Typically, project sponsors seek to issue the maximum amount of senior-lien bonds without diluting their bond rating, and minimize the volume of junior-lien bonds, since senior debt represents a lower-cost source of capital. The challenge for the TIFIA program is to enable such a financing approach while protecting the Federal investment.

For example, the value implied by the senior debt rating can be eroded if the pledged revenue securing the project's senior debt differs from that securing the TIFIA instrument. In such an instance, a project may have a dependable repayment source for half its pledged revenues and a more speculative source for the balance. If the senior debt service matched only the dependable revenue source, the investment grade rating would not reflect project economics for the junior loan. The senior bonds would absorb the superior revenues entirely, effectively leaving the TIFIA loan with the more uncertain secondary source. In order to manage the risk of such a situation, the DOT has sought, on a subordinate basis, a pro rata share of the higher-grade revenue stream based on the relative amounts of senior and TIFIA debt.

Likewise, the value implied by the senior debt rating would be negated if the par amount of senior debt were substantially smaller than the TIFIA loan.³⁶ In this instance, a nominal volume of bonds might obtain an investment grade rating from a speculative revenue source supporting senior debt service that amounts to a small percentage of projected revenues. Due to the imbalance in issue sizes, the senior rating would not reflect the relative creditworthiness of the TIFIA loan. In order to manage the risk of this situation, the DOT has required that TIFIA assistance not exceed the amount of senior debt.

5.2 Line of Credit Issues

The line of credit is a standby instrument providing a supplemental source of capital during a project's ramp-up phase to mitigate the risk of uncertain revenues. Unlike a direct or guaranteed loan, it does not help fund construction costs as part of the project's initial capitalization. Rather, it represents a contingent commitment by the DOT to make one or more future direct loans to help fund a project's operating, capital renewal, or debt service costs in the event of revenue shortfalls. The line of credit is intended to facilitate a project's access to private capital by providing a cash flow cushion and enhancing debt service coverage, thereby helping the senior debt obligations receive an investment grade rating.

Three TIFIA project sponsors have requested lines of credit in conjunction with much larger direct loans to support their project financing. In each case, the borrower determined that being able to draw upon a TIFIA line of credit during the project's early operating phase, when the new, user-backed revenue stream is ramping up, would be an important component of an investment grade financing structure for its senior debt. To date, none of these financings has closed, nor have their TIFIA line of credit agreements been executed. During the course of preliminary negotiations, however, the parties have identified certain line of credit features that may influence the effectiveness of this instrument.

5.2.1 Conditions for Drawing upon the Line

Perhaps the most significant issue dealing with a line of credit arises with regard to when a borrower may draw upon the line. The TIFIA statute specifies that a draw can be made only if net revenues from the project (including moneys in debt service reserve funds and any other available reserve accounts) are insufficient to pay debt service or other eligible costs.³⁷ The clear intent is that the Federal line of credit be the last resort in the event of a revenue shortfall.

³⁶ For example, the sponsor of a \$100 million project could propose funding sources of \$5 million in senior debt, \$33 million in TIFIA financing and \$62 million in Federal grants, thereby technically complying with the 33% cap on TIFIA financing.

³⁷ 23 U.S.C. 184(b)(3).

The presence of the line of credit is intended to benefit the rating on the senior debt by being considered an additional revenue source for the purpose of pro-forma calculations of senior debt service coverage. However, TIFIA's requirement that all other reserve funds first be depleted before accessing the line may dilute its effectiveness, since most bond indentures treat un-restored draws upon an issuer's reserve accounts as a "technical" default. At that point, the availability of the TIFIA standby line of credit is too late to reassure investors or confer the desired rating benefit.

To address this concern, some borrowers have explored the use of a "gross pledge" flow of funds in which revenues are first pledged to senior debt service before payment of operations and maintenance (O&M) expenses. In such a structure, revenues would almost always be sufficient to pay senior debt service without tapping the debt service reserve fund, and the revenue shortfall that the TIFIA line of credit would be called upon to fill would be payment of O&M expenses. A gross pledge is somewhat unconventional in project financings, however, as the markets generally prefer a "net pledge" in which O&M expenses are paid before debt service expenses. In light of these challenges, some borrowers have indicated that having more flexibility to draw upon the line earlier, to forestall a technical default, would improve its utility.

5.2.2 Coordinating Draws with Loan Repayments

Another credit issue arises for the DOT where a TIFIA borrower is utilizing both a direct loan and a line of credit, due to the overlap between the direct loan's repayment period and the line of credit's draw period. Under the TIFIA statute, there is a five-year overlap period (years six through 10 following project completion) during which a borrower having both a direct loan and a line of credit must begin scheduled loan repayments and can still draw upon the line of credit. It is possible that one credit instrument could be used to satisfy the payment obligation on the other (e.g., a draw on the line of credit to help meet a direct loan payment). Furthermore, if certain terms were different (e.g., the interest rates on the two instruments varied significantly), the borrower could be motivated to manipulate the use of the instruments in a revenue shortfall situation. Such actions appear to be inconsistent with the statutory purpose of TIFIA.

Chapter 6: Recommendation for Achieving Program Objectives

“§189. Report to Congress

“Not later than 4 years after the date of enactment of this subchapter, the Secretary shall submit to Congress a report summarizing the financial performance of the projects that are receiving, or have received, assistance under this subchapter, including a recommendation as to whether the objectives of this subchapter are best served –

“(1) by continuing the program under the authority of the Secretary;

“(2) by establishing a Government corporation or a Government-sponsored enterprise to administer the program, or

“(3) by phasing out the program and relying on the capital markets to fund the types of infrastructure investments assisted by this subchapter without Federal participation.”

Transportation Equity Act for the 21st Century (TEA 21)

June 9, 1998

6.0 Introduction

In many ways the TIFIA credit program is still in its formative stages. Some state DOTs still need authorizing legislation to borrow from the DOT. The projects TIFIA is designed to assist typically require at least five to ten years in development. Planning approvals, environmental clearances, engineering feasibility and financial commitments must be in place before such projects get fully funded and begin construction. As of the date of this report, none of the 11 projects approved for TIFIA assistance has completed construction.³⁸ It will be years before most projects open and the DOT can assess its long-term program costs and other performance measures. For these reasons, the DOT believes it is premature to draw conclusions about the long-term efficacy of the TIFIA program.

The significance of reaching a conclusion, however, remains. Indeed, as stated in the Conference Report accompanying TEA 21 and TIFIA, “[a]n objective of the program is to help the financial markets develop the capability ultimately to supplant the role of the Federal Government in helping finance the costs of large projects of national significance.” As long as the Federal Government continues to provide credit assistance directly to such projects, it can choose different institutional approaches for administering the program. Each approach, including phase out, has implications regarding the extent of the TIFIA financing niche, Federal policy control, budget mechanics and risk exposure.

6.1 Continuing the Program Under the Authority of the Secretary

As described in Chapter Two, the DOT administers the TIFIA program under the policy guidance of a Credit Council consisting of operating agency administrators and senior officials from the Office of the Secretary. The TIFIA Joint Program Office manages the day-to-day operations of the program. As a Federal agency program, TIFIA is subject to Executive and Congressional oversight.

³⁸ As an example of the gestation period for a major project, the Alameda Corridor, which received a \$400 million Federal loan in 1997, opened for revenue service on April 15, 2002 – on time and within budget. The project first appeared in regional planning documents in 1982.

In addition, the TIFIA program is subject to the provisions of the Federal Credit Reform Act of 1990 (FCRA). Under FCRA, the Congress directly controls the amount of assistance provided by determining the level of funding necessary to support the program's credit activities. Although the creditworthiness of individual loans and other instruments may vary, there is direct control over the aggregate level of risk exposure to the Government. The FCRA provisions also preclude the establishment of a loan revolving fund, where repayments and fees could fund new credit instruments. Like other Federal agency credit programs, the TIFIA program lacks the authority to spend program receipts; all obligor payments are ultimately remitted to the U.S. Treasury.

6.2 Establishing a Government Corporation or a Government-Sponsored Enterprise to Administer the Program

A Government corporation is a special entity chartered by Congress to perform business activities typically involving fees for service. The U.S. Treasury holds most or all the corporation's stock or equity. Analogous to a state or local public authority, each corporation is established under specific authorizing legislation with provisions that may vary considerably from case to case.³⁹ A Government corporation usually is capitalized via a Federal appropriation. A single administrator heads some Government corporations, and others have federally appointed boards of directors.

Government corporations must submit annual budgets to Congress, but some have their own borrowing, receipts and spending authority, making them largely independent of the Federal appropriations process. All Federal credit programs, however, must follow the budgeting provisions of the FCRA. Examples of the wide range of credit-related organizations treated as Government corporations and subject to FCRA budgeting are the Commodity Credit Corporation (agricultural product loans), the Government National Mortgage Association (residential mortgages), and the Export-Import Bank (trade finance).

In the context of TIFIA's infrastructure assistance program, a Government corporation could use Federal seed capital to fund its direct loan and credit enhancement activities. Thereafter, it could be designed to operate on a self-sustaining basis, using fee income and any additional income to pay its operating expenses and fund subsequent loans and loan guarantees.

A Government sponsored enterprise (GSE) is generally a for-profit, shareholder-owned financial institution established under Federal charter, with nationwide lending authority. Even though they are independent private entities, GSEs enjoy special Federal status. They have federally-appointed representation on their boards of directors, are exempt from state and local income taxes and from securities laws administered by the Securities and Exchange Commission, and often have access to a backstop line of credit from the U.S. Treasury. They also are subject to varying degrees of Federal regulation. Because of these factors, they are perceived to benefit from an implied Federal guarantee, which facilitates their issuance of debt securities in the capital markets. Examples of GSEs are Fannie Mae and Freddie Mac (housing loans), the Farm Credit System (agricultural loans), and Sallie Mae (student loans).⁴⁰

³⁹ See, Government Corporations: Profiles of Existing Government Corporations, The General Accounting Office, December 1995.

⁴⁰ See Report of The Secretary of the Treasury on Government-Sponsored Enterprises, April 1991.

To offer TIFIA assistance through a new GSE, Congress would charter a new corporate entity to be capitalized principally by private investors. The new TIFIA GSE would seek to maximize shareholder value, consistent with its organizational charter of providing credit assistance to infrastructure projects.

Federal control over the GSE's credit activities would rest primarily through the terms of the charter. Although there would be no FCRA-mandated budget cost associated with a GSE, an implicit Federal guarantee could create credit risk to the extent the GSE pursued aggressive lending activities while maintaining inadequate reserves. And while an implicit guarantee might confer a market advantage through lower borrowing costs, those rates would still be higher than the yield on comparable U.S. Treasury securities and thus more expensive to borrowers than the current TIFIA program rates.

6.3 Phasing out the Program and Relying on the Capital Markets

To phase out the TIFIA program would be to acknowledge that its policy objectives have been either achieved or eclipsed by other considerations. If achieved, financially feasible transportation projects would no longer require a "patient investor" to gain access to the capital markets. Reliance on the market to finance these large and complex projects would eliminate additional Federal spending and liability as well as reduce Federal involvement in this area.

As described in Chapter Four, the TIFIA program especially benefits a niche of project financings: the user-backed start-up project lacking prior market access, where investors must absorb construction risk, performance risk and demand risk. For these projects, which under the best of circumstances would achieve a senior debt rating no better than the lowest investment grade category, the TIFIA program seems to be filling a market gap by offering attractively-priced subordinate and supplemental capital. The DOT believes there is meaningful ongoing demand from a select group of project sponsors for the types of credit assistance that the TIFIA program offers.

This assistance exists within the context of a substantial gap between the nation's need for capital investment in transportation and the level of funding available. For those major transportation projects that can leverage future revenues, the TIFIA program provides a consistent and transparent process for sponsors from around the country to obtain Federal credit assistance. In this respect, the program has helped obviate sponsors' pursuit of ad hoc legislation to fund individual projects.

Sunset of the program would eliminate additional Federal spending and liability, but would not necessarily eliminate the 35-year-plus relationships created by the initial TIFIA credit commitments. Unless the DOT could sell such loans to other investors, the job of monitoring these credits and collecting repayments would require an ongoing commitment of organizational resources.

6.4 Conclusion

The DOT believes that a limited number of large surface transportation projects each year will have a need for the types of credit instruments offered under TIFIA. Project sponsors and DOT staff are still learning how best to utilize this credit assistance, and Congressional guidance and dialogue during this evolutionary program period offers mutual benefits.

The current form of TIFIA administration – within a Federal agency subject to regular Government Performance and Results Act and budgetary oversight – enables policymakers to monitor program performance as staff, sponsors and the financial markets gain experience. As current TIFIA projects move into their construction, operation and repayment phases, and as additional projects obtain TIFIA assistance, policymakers will have better information on which to determine whether TIFIA should remain within the DOT, “spin off” into a Government corporation or GSE, or phase out entirely and rely on the capital markets to meet the program’s objectives.

Appendix B: Funding Mechanics, Credit Scoring, and the TIFIA Capital Allocation Model

B.0 Introduction

This appendix explains the TIFIA funding mechanics and accounting for TIFIA credit instruments. It also describes DOT's capital allocation model, which estimates the subsidy amount for individual TIFIA credit instruments.

B.1 Funding Mechanics

Chapter One of this Report to Congress summarizes the "dual controls" on TIFIA funding; Congress limits not only the maximum annual credit assistance amounts, but also the annual spending on TIFIA subsidy costs, or "budget authority." To understand the TIFIA funding mechanics, it is useful to examine the Federal Credit Reform Act (FCRA), terminology for the TIFIA program, and the flow of funds for TIFIA credit instruments.

B.2 Background on the Federal Credit Reform Act of 1990

Since enactment of the FCRA in 1990, Federal agencies have been required to set aside capital reserves to cover the expected long-term cost to the Government in advance of issuing a direct loan, line of credit, or loan guarantee. This reserve is often called the "subsidy cost," "budget score," or "credit reform score."

Prior to the FCRA, loan costs were recognized in the Federal budget on a cash basis. This generated numerous distortions in the annual budget process. The cost of direct loans was overstated while the cost of loan guarantees was understated. Direct loans required budget authority for the full loan amount in the year the loans were made, while subsequent loan repayments were counted as receipts in future budget years. Loan guarantees were extended with no immediate budget impact, but upon default by the borrower, the Government was required to provide the funding to cover the guarantee.

The FCRA was enacted to address these problems. The purposes of the FCRA are to: (i) measure the costs of Federal credit programs more accurately; (ii) place the cost of credit programs on a budgetary basis equivalent to other Government spending; (iii) encourage the use of credit assistance in the form most appropriate to the needs of recipients; and (iv) improve the allocation of resources among credit programs and between credit and other spending programs. Information on budgeting for Federal credit programs is included in OMB Circulars A-11 and A-34, and information on accounting for Federal credit is included in OMB Circular A-34 and the Statement of Federal Financial Accounting Standards (SFFAS) accounting standards #2.

B.3 Subsidy Cost Estimates, Re-estimates and Modifications

A cornerstone of credit reform is the subsidy cost estimate, which is the estimated long-term cost to the Government of a direct loan, loan guarantee, or line of credit, calculated on a net present value basis, excluding administrative expenses. For the TIFIA program, the subsidy cost generally represents the present value of the Government's expected credit losses.

The form of credit does not, in itself, materially affect the subsidy cost. Rather, the risk profile of the individual project, coupled with particulars of the financing structure, will determine the subsidy cost.

The TIFIA authorizes subsidy budget authority of \$80 million in fiscal year 1999; \$90 million in fiscal year 2000; \$110 million in fiscal year 2001; \$120 million in fiscal year 2002; and \$130 million in fiscal year 2003. This subsidy budget authority is subject to annual obligation limitations that may be established in appropriations law. Of the amounts made available, the Secretary may use up to \$2 million in each of the fiscal years for administrative expenses. Unobligated budget authority remains available for obligation in subsequent years.

The nominal amount of Federal credit assistance that may be disbursed in the form of direct loans and loan guarantees is determined at origination. For standby lines of credit, the nominal amount is the principal amount of potential draws (direct loans) that may be funded during the period of availability. Total annual Federal credit assistance authorized under the TIFIA program is limited to \$1.6 billion in fiscal year 1999; \$1.8 billion in fiscal year 2000; \$2.2 billion in fiscal year 2001; \$2.4 billion in fiscal year 2002; and \$2.6 billion in fiscal year 2003. These amounts are no longer available if not awarded by the end of the fiscal year for which they were provided. Exhibit B-1 provides information regarding the total amount of budget authority and credit assistance used in each fiscal year to date.

Exhibit B-1: TIFIA Program Funding Summary (in millions of dollars)

TIFIA Program Funding			
(Millions of dollars)			
Subsidy Contract (Budget) Authority	FY 1999	FY 2000	FY 2001
New contract authority	80.000	90.000	110.000
Obligation limitation reduction	-9.360	-11.610	-15.310
Administrative expense takedown	-2.000	-2.000	-2.000
Rescission (0.22%)			-0.213
Amount available after reductions	68.640	76.390	92.477
Subsidy obligations(-)/deobligations(+)	-46.715	-52.890	-89.246
Outlays of contract authority		7.770	0.000
Credit Assistance Authority	FY 1999	FY 2000	FY 2001
Authorized by TEA 21	1,600.000	1,800.000	2,200.000
Obligated by the DOT	1,492.752	771.068	873.500

Re-estimates measure the changes in the subsidy amounts that occur over time. As part of its ongoing portfolio monitoring, the DOT is statutorily required to annually adjust the original subsidy cost estimates. A re-estimate results when subsidy costs are estimated to have increased or decreased. If the subsidy cost is estimated to have increased, additional funds are provided through permanent indefinite budget authority from the U.S. Treasury. If the subsidy cost is estimated to have decreased, excess subsidy is returned to Treasury's General Fund.

A subsidy cost modification occurs when a specific Government action (by Congress or an agency) alters the estimated subsidy cost of the loan. If the action increases the subsidy cost of the credit instrument, there must be sufficient budget authority available to set aside to cover the increased cost.

B.4 Program and Financing Accounts

Credit programs require special funding accounts. The budget authority that is required to fund the subsidy costs and the administrative expenses associated with the TIFIA program resides in the Federal-Aid-to-Highways account, known in FCRA parlance as the "Program Account." Budget authority (either new budget authority provided that year or unobligated balances of budget authority provided in a previous year) must be available in the program account before the DOT can incur a direct loan or line of credit obligation or make a loan guarantee commitment. The subsidy amount for a particular TIFIA credit instrument is transferred from the Program Account to the "Financing Account" when the loan is disbursed to the borrower. The Financing Account is the account from which all funds are disbursed and all repayments are collected. All cash flows related to a TIFIA credit instrument will flow through the Financing Account. The TIFIA program has three Financing Accounts, one for each type of credit instrument it offers.

B.5 Flow of Funds for TIFIA Credit Instruments

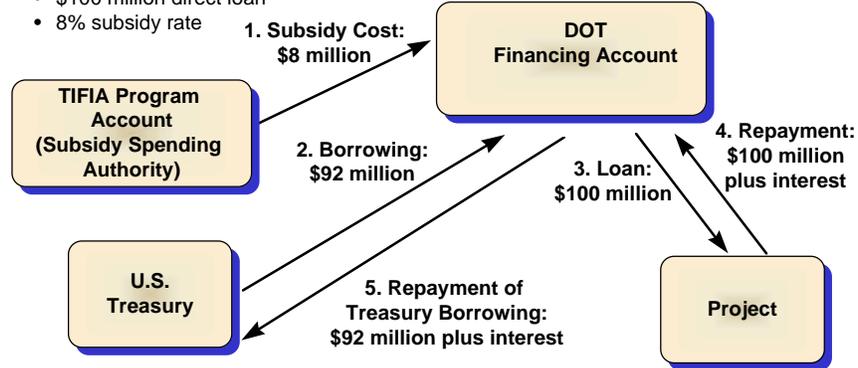
For all TIFIA credit instruments, the DOT obligates budget authority to cover the subsidy estimate and the nominal credit amount on the day that the DOT issues the term sheet, not on the day that the project sponsor actually draws down funds. However, outlays of budget authority occur simultaneously with disbursement of the loan.

The flow of funds for the various TIFIA credit instruments is illustrated in the following diagrams. As shown below in Exhibit B-2, for direct loans and lines of credit, when a borrower requests a disbursement of funds, the Financing Account receives the subsidy budget authority from the Program Account and borrows the unsubsidized portion of the loan from Treasury. The Financing Account then disburses the loans to borrowers. Collections of principal and interest payments and fees flow through the Financing Account as do DOT's repayments of its borrowing to Treasury, plus interest. If a loan is fully repaid, any excess subsidy amounts deposited in the Financing Account are transferred to a receipt account in Treasury's General Fund. (These funds offset DOT's budget authority and outlays but are not available for expenditure.) If loan repayments are less than anticipated and the estimated subsidy cost is exceeded, the shortfall is made up through the re-estimate process described in Section B.3 above.

Exhibit B-2: Illustration of Funding for Direct Loans and Lines of Credit

EXAMPLE:

- \$100 million direct loan
- 8% subsidy rate



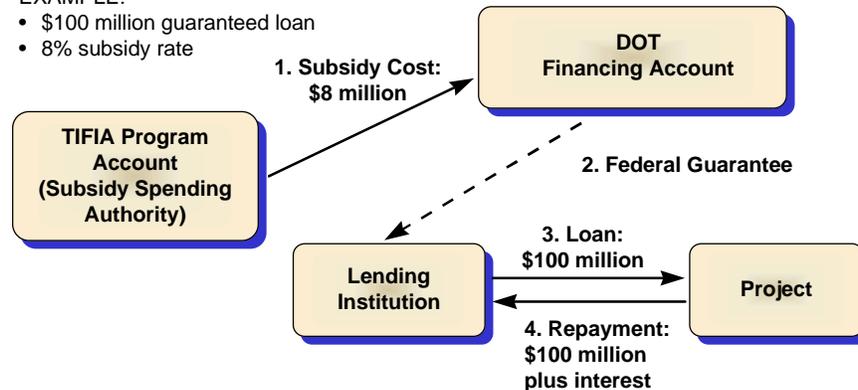
As shown in Exhibit B-3, for loan guarantees, the Financing Account receives the subsidy from the Program Account; collects fees from borrowers (if any); acts as a reserve for default claims; receives interest on reserves from Treasury; and pays default claims. The project sponsor pays principal and interest to the lending institution according to the terms of the loan agreement.

Subsidy reserves for outstanding TIFIA loan guarantees are held in the interest-bearing Financing Account. If the project sponsor defaults, the reserves are used to make claim payments to the lending institution. If the default amount exceeds the amount in the reserves, this shortfall is captured in the re-estimate process.

Exhibit B-3: Illustration of Funding for Guaranteed Loans*

EXAMPLE:

- \$100 million guaranteed loan
- 8% subsidy rate



* Diagram assumes subsidy reserves in financing account are sufficient to cover all losses.

B.6 Credit Risk Assessment Framework: The TIFIA Capital Allocation Model

The DOT, drawing upon the expertise of nationally recognized rating agencies and financial consultants, developed a framework for assessing the risk associated with TIFIA credit instruments – direct loans, lines of credit, and loan guarantees. The capital allocation framework relies on annually-reported historical default experience on corporate bonds, and is designed to ensure that sufficient Federal resources are set aside to cover the Government's expected credit risk.

The DOT's credit risk assessment framework relies upon the major rating agencies to provide an independent assessment of the default risk of TIFIA-assisted projects. Project sponsors are required to obtain a rating agency opinion on the default risk of the TIFIA credit instrument. These credit ratings serve as inputs to a discounted cash flow model developed for quantifying a TIFIA instrument's subsidy cost.

While the financial markets have relied on the credit rating agencies for independent assessments of credit risk since the early 1900s, the TIFIA program is the first domestic Federal credit program to link explicitly subsidy cost estimates with credit ratings.

B.6.1. Background on Capital Allocation

Federal regulators require financial institutions to maintain adequate capital to protect a financial institution's depositors and counterparties from the risks undertaken by the institution. A bank's primary risks are credit risk and market (interest rate) risk. Regulators require banks to retain sufficient capital to absorb both expected losses and "unexpected" losses – or losses in a "high stress" scenario.

Similarly, the Federal Government requires its agencies to allocate capital to cover risk associated with their credit portfolios. However, unlike private lending institutions, Federal credit agencies are only required to set aside capital to absorb expected credit losses, since the risk of insolvency due to unexpected losses is not a concern for individual Federal agencies.¹ In addition, the U.S. Treasury (not individual agencies) retains the Government's interest rate risk.

B.6.2. Federal Capital Allocation Terminology

As noted above, the Federal Credit Reform Act of 1990 (FCRA) requires agencies to allocate risk-based capital for each new credit instrument (e.g., a direct loan, loan guarantee, or line of credit). Since a primary purpose of the FCRA is to put Federal credit programs on an equal budgetary basis with other forms of Federal assistance, allocated capital represents the expected present value cost of extending credit assistance, excluding operating costs. In addition to expected credit losses, it reflects the cost of any interest subsidies and fees collected, resulting in an estimate of the net subsidy cost to the Government.²

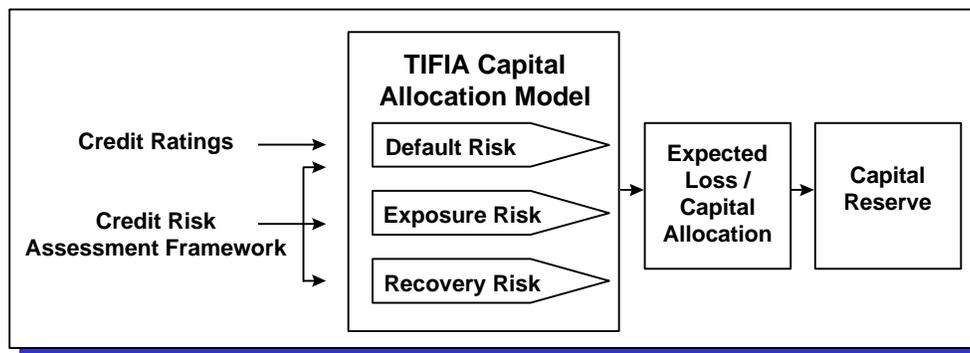
¹ Private financial institutions maintain capital to absorb expected, or routine, losses, as well as an additional layer of capital to ensure that they maintain solvency during a "high stress" environment. Individual Federal agencies are only required to maintain reserves for expected losses, with unexpected losses managed on a government-wide basis.

² An interest subsidy should not be confused with interest rate risk, which is the potential impact on a firm's earnings and net asset values of changes in interest rates. An interest subsidy results from a Federal agency lending at an interest rate below the rate on U.S. Treasury securities of comparable maturity.

The "subsidy rate" is the subsidy cost expressed as a percent of the credit instrument at origination. The FCRA requires a Federal agency to set aside budgetary resources to cover the estimated subsidy cost at the time of entering into a new credit agreement. Similar to other Federal subsidy cost models, the approach for estimating TIFIA subsidy costs relies upon a discounted cash flow model (See Exhibit B-4). The subsidy cost of a TIFIA credit instrument can be estimated in a five-step process:

1. Identify the requested TIFIA credit instrument terms and conditions.
2. Estimate default risk by obtaining a credit opinion on the Government's default risk from one or more of the nationally recognized credit rating agencies.
3. Use the historical default experience for like-rated corporate bonds as a conservative proxy for the TIFIA instrument's expected default risk.
4. Estimate recoveries in the event of a default based on Standard & Poor's Bond Insurer Capital Adequacy Model.
5. Discount projected cash flows at the rate on Treasury securities of comparable maturity to the point(s) of disbursement using the OMB Subsidy Model.

Exhibit B-4: Illustration of the TIFIA Capital Allocation Model



B.6.3 Assessing the Probability of Default

In estimating default risk for a TIFIA instrument, the DOT relies upon the opinion of one or more of the major rating agencies. These opinions are communicated through a preliminary opinion letter and a formal credit rating.

- *Preliminary Opinion Letter:* When applying for TIFIA assistance, project sponsors are required to submit to the DOT a preliminary opinion letter from at least one major rating agency, or, if available, a formal credit rating.³ The letter should provide a preliminary assessment of the overall project strength, including the default risk associated with the proposed TIFIA credit instrument(s),

³ If a formal credit rating opinion is available, this will serve as the basis for the preliminary and final TIFIA capital allocation.

and the potential for the project to receive an investment grade rating on its senior debt.⁴ This opinion letter is used for the DOT's initial estimate of the required allocation of capital for the proposed TIFIA credit instrument(s).

- *Formal Credit Rating:* By statute and separate from capital allocation requirements, a TIFIA-supported project must receive a formal investment grade rating on its senior debt obligations before the DOT can extend credit assistance. In conjunction with the assignment of this rating, the DOT revises its initial capital allocation based on an updated rating agency assessment of the Government's default risk on the TIFIA credit instrument(s).

In the event that a TIFIA project receives different credit opinions from the rating agencies, the DOT takes the average of those ratings.

B.6.4. Assessing Exposure Risk

In order to estimate the severity of default, annual conditional default rates are applied against the outstanding balance of principal and accrued interest. This results in a slightly higher present value default expectation for projects following a slower repayment schedule for the TIFIA credit instrument.

B.6.5. Assessing Expected Recovery

The expected credit loss to the DOT is calculated as expected defaults less expected recoveries. The DOT drew upon the analysis undertaken by Standard & Poor's in developing its Bond Insurance Capital Adequacy Model to estimate expected recoveries in the event of a default on a TIFIA instrument.⁵ Recovery rates are estimated for each TIFIA transaction based upon its unique risk characteristics.

B.7 Estimating TIFIA Subsidy Costs

The subsidy cost of each TIFIA instrument reflects the scheduled terms of the deal, the default risk supported by an external credit rating, the exposure risk based on the repayment schedule and the recovery potential based on the risk characteristics of the transaction. The DOT has developed a "quick score" cost estimation model, which is available to project sponsors via the TIFIA web site (<http://tifa.fhwa.dot.gov>), to provide interested parties with an understanding of the relationship between repayment schedules, credit ratings and recovery rates. This tool provides insight into how key risk factors affect the TIFIA cost allocation.

⁴ Applications lacking a preliminary opinion letter will be considered incomplete and will not be evaluated.

⁵ Standard & Poor's uses its Bond Insurance Capital Adequacy Model to rate monoline insurers.

Appendix C: TIFIA Project Summaries

C.0 Introduction

This appendix provides a profile for each of the eleven TIFIA projects. These profiles describe the projects' principal components, summarize funding sources and the amount and type of TIFIA credit assistance, and identify the revenue(s) pledged to repaying the TIFIA obligation. Where applicable, the profiles indicate the projects' financial performance with respect to TIFIA support. The profiles, including the financial data, are current per information available as of March 31, 2002. Accordingly, the projects' financial data, which provide the basis for analysis throughout this report, may differ from the original data in their TIFIA applications.

Each profile includes a calculation of the financial leveraging of the total Federal investment. Similar to the aggregate calculation in Chapter Four, this ratio compares total capital investment to the total budgetary cost of Federal credit and grant assistance for each project.

The profiles appear in the following order:

Fiscal Year 1999 Approvals

- Farley Penn Station (New York, NY)
- Miami Intermodal Center (Miami, FL)
- State Route 125 South (San Diego County, CA)
- Tren Urbano (San Juan, PR)
- Washington Metropolitan Transit Authority Capital Improvement Program (Washington, DC metropolitan area)

Fiscal Year 2000 Approvals

- Cooper River Bridge (Charleston, SC)
- Staten Island Ferries and Terminals (New York, NY)
- Tacoma Narrows Bridge (Tacoma, WA)

Fiscal Year 2001 Approvals

- Central Texas Turnpike (Austin-San Antonio Corridor, TX)
- Reno Transportation Rail Access Corridor (Reno, NV)

Fiscal Year 2002 Approvals

- San Francisco-Oakland Bay Bridge (San Francisco-Oakland, CA)

C.1 Farley Penn Station

New York, NY

Approved FY 1999

Description

This \$795 million project will expand and refurbish the James A. Farley Post Office Building and portions of the existing Pennsylvania Station Complex as an intermodal transportation facility and commercial center. The facility will service commuter rail, subway, airport access, bus and taxi passengers, as well as the U.S. Postal Service.

Penn Station is presently the nation's busiest transportation facility, handling over 500,000 passengers daily and currently serving 40 percent of Amtrak's riders nationwide. The Farley Penn Station project will increase station capacity by 30 percent and double passenger circulation space.

Project Status

In March, 2001, PSRC awarded a contract to develop, operate, and maintain the new Farley Penn Station to Penn Station Ventures. Design of the facility is underway. The project is estimated to be complete by 2005.

Project Sponsor

Pennsylvania Station Redevelopment Corporation (PSRC), a subsidiary of New York's Empire State Development Corporation. Other participants include Amtrak and the U.S. Postal Service.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

• Federal grants:	\$247.3	
• State funds	190.2	
• Local matching funds:	60.0	
• Senior bond proceeds:	153.5	(revenue bonds to be issued by PSRC)
• TIFIA loan:	140.0	
• Developer equity:	4.0	
Total:	\$795.0	

In addition, the project received a \$20 million TIFIA line of credit.

TIFIA Credit Assistance and Date Closed (if applicable)

Direct loan: \$140 million.

Line of credit: \$20 million.

Date of credit agreement: November 6, 2000 (final funding agreements still being finalized).

The TIFIA loan is to be repaid from three revenue streams: lease payments from the Port Authority of New York and New Jersey, revenues from Amtrak, and rents paid from planned station retail facilities. The TIFIA obligation has a subordinate claim on all revenues. However, senior bondholders and the DOT will share a claim on the Port Authority lease payments on a pro rata basis (i.e., the DOT will be assured of some share of revenue from this source, albeit on a junior lien basis). The remaining revenues are to be treated as a single revenue stream on which the DOT would have a junior claim.

TIFIA Financial Performance

The DOT and the PSRC are currently negotiating the specific details of the loan funding agreement. Upon finalization of that agreement, loan funds will be available for disbursement.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 3.0.

C.2 Miami Intermodal Center

Miami, FL

Approved FY 1999

Description

The \$1.35 billion Miami Intermodal Center project comprises a five-year program of ground access improvements to and within the Miami International Airport. Passenger traffic at the airport totaled 35 million in 1999, and it is projected that by 2020, the airport will serve 70 million passengers per year.

Major project elements include construction of an intermodal center for transit, commuter rail, Amtrak and intercity bus services; an automated airport people mover; and highway improvements. The five-year program will also consolidate rental car operations at the airport, providing space for 10,000 cars at a new rental car facility. A subsequent project phase calls for a fixed rail connection to the Miami seaport.

Project Status

Right-of-way acquisition is underway; roadway construction contracts are expected to be let by mid-2003. Schematic design of the rental car facility is complete, with construction anticipated to occur in 2002 and 2003. Schematic design of the intermodal center's core is expected to begin in fall, 2002, with construction to take place in 2003 through 2005. The full project is estimated to be complete by 2006.

Project Sponsor

Florida Department of Transportation and Miami-Dade Aviation Department.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

• Federal funds:	\$106.7
• State and local funds:	720.3
• TIFIA loan:	432.8
• Capitalized interest:	64.9
• SIB loan:	25.0
Total:	\$1,349.7

TIFIA Credit Assistance and Date Closed (if applicable)

Direct loans: \$432.8 million, comprised of two separate obligations:

- General Program loan: \$269 million; to be repaid from fuel tax revenues.
- Rental Car Facility loan: \$164 million, to be repaid from fees levied on rental cars.

Date of credit agreement: The General Program loan closed on June 9, 2000. The Rental Car Facility loan is still being negotiated.

TIFIA Financial Performance

The DOT expects to disburse funds under the General Program loan beginning in FY 2002 and continuing through FY 2005.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 11.7.

C.3 State Route 125 South

San Diego County, CA

Approved FY 1999

Description

The \$455 million SR 125 South project will construct a new 9.5-mile toll highway alignment in San Diego County, California. This privately financed toll facility, extending from SR 905 near the U.S.-Mexico border northwards to SR 543, will be linked to the regional freeway network by a two-mile locally funded non-tolled segment, known as the San Miguel Connector.

The SR 125 alignment will complete a missing link in the San Diego freeway network and provide access to the Otay Mesa international border crossing, a key NAFTA port of entry. SR 125 will also relieve congestion on existing routes throughout the rapidly growing South Bay region of San Diego County.

Project Status

The full route is scheduled to open as a four-lane facility with six interchanges in mid-2005.

Project Sponsor

California Transportation Ventures, Inc. (CTV), which serves as managing partner of San Diego Expressway, Ltd. Partnership. Major investors include Parsons Brinckerhoff and Egis Projects.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

- Senior bond proceeds: \$247.2 (revenue bonds to be issued by CTV)
 - TIFIA loan: 94.0
 - Development equity: 63.4
 - Interest earnings: 32.3
 - Donated right of way: 17.6
- Total: \$454.5

In addition, the project received approval for a \$33 million TIFIA line of credit.

TIFIA Credit Assistance and Date Closed (if applicable)

Direct loan: \$94 million.

Line of credit: \$33 million.

The CTV and the DOT expect that a credit agreement will be signed in summer 2002.

Toll revenues to be levied on the facility are pledged to repay the TIFIA loan. Repayment of the TIFIA loan has second priority in the flow of funds, subordinate to the project's debt service payments to senior bondholders. Interest earnings on the debt service reserve fund and other accounts provide a secondary pledge to the TIFIA obligations.

TIFIA Financial Performance

A disbursement schedule will be negotiated as part of the final credit agreement.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 33.2.

C.4 Tren Urbano

San Juan, PR

Approved FY 1999

Description

This \$1.65 billion project will complete a 17-kilometer rapid rail line serving metropolitan San Juan. The system will have 16 stations, closely integrated with the local bus system, and provide approximately 100,000 trips per day in the first year of operation. The metropolitan San Juan area is home to 1.3 million residents, representing 37 percent of Puerto Rico's total population.

Project Status

The project is under construction and proceeding toward completion. The original date for substantial completion of the project was September 2003, but a revised substantial completion date is currently being developed.

Sponsor

Puerto Rico Highway and Transportation Authority.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

- | | | |
|-------------------|-----------|--|
| • Federal grants: | \$715.8 | |
| • Bond proceeds: | 637.8 | (revenue bonds issued by PR Highway and Transit Authority) |
| • TIFIA loan: | 300.0 | |
| Total: | \$1,653.6 | |

TIFIA Credit Assistance and Date Closed (if applicable)

Direct loan: \$300 million.

Date of credit agreement: August 4, 2000.

The TIFIA obligation has a subordinate pledge of revenues to the Puerto Rico Highway and Transit Authority. These revenues include the proceeds of motor fuel taxes, tire taxes, and vehicle registration fees.

TIFIA Financial Performance

The DOT disbursed the \$300 million loan in its entirety on August 7, 2000. Interest payments as of the end of 2001 totaled \$24.136 million, as scheduled. The loan is projected to be fully repaid by 2035.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 2.3.

C.5 Washington Metropolitan Area Transit Authority Capital Improvement Program

Washington DC Metropolitan Area, DC/MD/VA

Approved FY 1999

Description

The Washington Metropolitan Area Transit Authority (WMATA) operates a rail and bus system serving a 1,500-square mile area in the greater Washington, DC, area. WMATA is the fourth largest overall transit system in the U.S. and the "Metro" is the second largest rail transit system in the nation, spanning 103 miles and incorporating 83 stations. The number of weekday trips averages 613,900 per day on the rail system and 516,600 per day on Metro buses.

The \$2.3 billion capital improvement program (CIP) will replace vehicles and rehabilitate facilities and equipment on the \$10 billion Metrorail and bus systems. Individual components of the CIP include procurement of new buses and rail cars; major maintenance and rehabilitation of electrical and mechanical systems, communications, and track and structures to improve system-wide performance; escalator and elevator rehabilitation and other station enhancements; parking lot improvements; and upgrades to several maintenance facilities.

Project Status

Construction is underway. Contracts are outstanding for track work, rolling stock acquisitions, facilities upgrades, and equipment upgrades. A design contest has been held for outdoor station canopies. Substantial completion of the CIP is anticipated for mid-2009.

Project Sponsor

Washington Metropolitan Area Transit Authority.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

- Federal grant funds: \$1,547
 - Local match: 560
 - Grant anticipation bonds: 217
- Total: \$2,324

In addition to the sources shown above, WMATA has the ability to draw on a \$600 million line of credit made available by Lehman Commercial Paper, Inc. and guaranteed under TIFIA. This line of credit permits WMATA to demonstrate adequate fiscal capacity under the terms of an interjurisdictional funding agreement.

TIFIA Credit Assistance and Date Closed (if applicable)

Loan guarantee: \$600 million.

Date of credit agreement: January 28, 2001.

The TIFIA loan guarantee permitted WMATA to obtain the commercial line of credit at no cost. The TIFIA guarantee backs repayments to Lehman Commercial Paper, Inc. in the event that the project sponsor ultimately draws on its line of credit. In this case, revenues securing the draw on the line of credit and thus the guarantee would include the system's gross revenues as well as payments provided by local area governments to support the capital improvement program.

TIFIA Financial Performance

WMATA has not drawn funds under its \$600 million line of credit.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 1.5.

C.6 Cooper River Bridge

Charleston, SC

Approved FY 2000

Description

This \$668 million project will construct a new 2.5-mile bridge to replace two existing, structurally deficient bridges on U.S. 17 – a designated national defense highway, connecting the cities of Charleston and Mount Pleasant, South Carolina. The Port of Charleston is now the second largest container cargo port on the East Coast. The bridge crossing provides a vital link in the regional roadway network that provides access to major employment centers in North Charleston, commercial and industrial port facilities, and residential and recreational areas east of the Cooper River.

Project Status

By July 2001, all permits had been secured and the South Carolina Department of Transportation had signed a \$531 million design/build contract with Palmetto Bridge Constructors. The project is estimated to be complete by 2006.

Project Sponsor

South Carolina Transportation Infrastructure Bank (borrower) and the South Carolina Department of Transportation.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

• Federal grants:	\$127.5	
• TIFIA direct loan:	215.0	
• Bond proceeds:	325.0	(revenue bonds to be issued by the S.C. Transportation Infrastructure Bank)
Total:	\$667.5	

TIFIA Credit Assistance and Date Closed (if applicable)

Direct loan: \$215 million.

Date of credit agreement: July 11, 2001.

The loan is secured by two primary sources: (i) payments from the South Carolina Department of Transportation (\$8 million per year for 25 years) and (ii) certain revenues from hospitality fees levied by Horry County as well as an intercept of state funds collected by the County, if needed. (The hospitality fee comprises a 1.5 percent tax on sales of lodging, admissions, and restaurants.) In addition, certain reserve funds will be available as a third source of repayment.

TIFIA Financial Performance

Under the current financing plan it is expected that TIFIA loan funds will be drawn down over a three-year period beginning in 2003, with repayment of principal and interest commencing in 2004.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 5.0.

C.7 Staten Island Ferries and Terminals

New York, NY

Approved FY 2000

Description

The \$482 million Staten Island Ferries and Terminals project consists of construction and acquisition of three ferry boats (estimated cost, \$137 million) and redevelopment of two ferry terminals, the St. George Terminal in Staten Island and the Whitehall Terminal in lower Manhattan, including new traveler information systems and multi-modal connections to taxis and transit.

The ferry system operates an eight-vessel fleet, serving 70,000 passengers per day on the five-mile, 25-minute ride between Staten Island and Manhattan. The three new ferries will accommodate 4,400 passengers each, 25 percent more than current capacity.

Project Status

Design of the ferry boats was completed in July, 2000 and notice to proceed with construction was granted in January, 2002. Construction on the St. George Terminal was begun in November, 2001. Under an aggressive "early milestone" schedule, substantial completion of the entire project is projected for May, 2004. Under the standard schedule, substantial completion is projected for December, 2004.

Project Sponsor

New York City Department of Transportation with TSASC, Inc., a special-purpose not-for-profit state corporation authorized to issue bonds secured by tobacco settlement revenues.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

• Bond proceeds:	\$274.3	(general obligation bonds issued by City of New York)
• TIFIA loan:	159.1	
• Federal grants:	47.0	
• State grants:	1.8	
Total:	\$482.2	

TIFIA Credit Assistance and Date Closed (if applicable)

Direct loan: \$159 million.

Date of credit agreement: December 19, 2001.

The TIFIA loan is secured by Tobacco Settlement Revenues due to TSASC, Inc. under the Master Settlement Agreement with participating tobacco companies. This agreement requires that the participating companies make annual payments to beneficiaries, including TSASC, in perpetuity. TIFIA has a parity lien with the senior bondholders of TSASC's \$750 million in outstanding bonds for repayment of the loan (note that the proceeds of these bonds are available for other purposes; the Staten Island Ferries and Terminals project itself is not assuming any debt obligations other than the TIFIA loan).

TIFIA Financial Performance

In December 2001, the DOT disbursed approximately \$41.2 million to the City of New York to fund construction activities and create a TIFIA Reserve Fund. An additional \$2.7 million was disbursed in January 2002; disbursements are projected to continue until the full amount is drawn down in March 2004. The planned amortization schedule calls for the first scheduled interest payment, of approximately \$1.3 million, to be made in July 2002 and the loan to be fully repaid by July, 2032.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 10.2.

C.8 Tacoma Narrows Bridge

Tacoma, WA

Approved FY 2000

Description

The \$835 million Tacoma Narrows Bridge project consists of improvements to an existing suspension bridge and construction of a new parallel span. The new span will permit each bridge to accommodate one-way traffic on two general purpose lanes and one HOV lane, for a total of four general purpose and two HOV lanes. With seismic upgrades to the existing bridge and capacity improvements that will permit all lanes to meet current highway design standards, the project will improve safety on the corridor. Additional project elements include roadway improvements, new interchanges, and a new toll plaza.

Current rush hour traffic levels are substantially greater than the existing bridge's capacity. Each day, 85,000 to 90,000 vehicles use the corridor, and use is estimated to increase to 120,000 vehicles per day by 2020. The corridor provides critical access between Tacoma and Gig Harbor, Washington and is designated a Priority 1 military corridor by the U.S. Department of Defense.

Project Status

On March 22, 2002, Washington State Governor Gary Locke signed a bill that would eliminate private financing from the Narrows Bridge project. The State of Washington now will have sole responsibility for arranging financing for this project. It is not yet known whether the state's borrowing will include a TIFIA component. United Infrastructure Washington (UIW) completed design work prior to the legislative decision, and will be compensated for all completed work. Improvements to the existing span and construction of the new span is estimated to be complete by early 2007.

Project Sponsor

Washington State Department of Transportation and United Infrastructure Washington, Inc.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

- Senior bond proceeds: \$506.0
 - TIFIA loan proceeds: 240.0
 - State funds: 39.0
 - Interest income: 50.0
- Total: \$835.0

In addition, the project received approval for a \$30 million TIFIA line of credit.

TIFIA Credit Assistance and Date Closed (if applicable)

Direct loan: \$240 million.

Line of credit: \$30 million.

Toll revenues and ancillary income, net of maintenance and operating expense, secure repayment of the loan and, if necessary, the line of credit. The Federal Government has a subordinate lien on these revenues with respect to debt service due to senior bondholders.

TIFIA Financial Performance

The date of the first disbursement, if any, will not be known until Washington State finalizes the project's plan of finance.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 34.1.

C.9 Central Texas Turnpike

Austin – San Antonio Corridor, TX

Approved FY 2001

Description

The \$3.2 billion Central Texas Turnpike project involves construction of a new 122-mile contiguous turnpike facility to serve the Austin – San Antonio corridor. This new toll facility comprises four distinct segments, each of which is on the National Highway System. The new facility will serve as a key freight corridor, with 75 percent of Laredo port traffic passing through the area. The metropolitan Austin area is the third fastest growing area in the country.

Project Status

Financing is anticipated to close in the summer of 2002. Under the current financing scenario, substantial completion of the entire system is projected to occur in 2009.

Project Sponsor

Texas Turnpike Authority, a division of the Texas Department of Transportation.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

• Senior bond proceeds:	\$1,211	(revenue bonds to be issued by Texas Transportation Commission)
• TIFIA loan:	800	
• State funds:	700	
• Local grants:	255	
• Investment income:	255	
Total:	\$3,221	

TIFIA Credit Assistance and Date Closed (if applicable)

Direct loan: \$800 million.

Gross toll revenues on the full 122-mile system secure the loan. The Federal Government has a subordinate lien on these revenues with respect to debt service due on senior lien bonds, junior lien bonds, and, potentially, developer notes. Financial support from Texas DOT will permit operations and maintenance expense to be subordinate to repayment of the TIFIA obligation. Receipts from telecommunications, corporate naming, and franchise rights may provide a secondary revenue source to repay the TIFIA loan.

TIFIA Financial Performance

The date of the first disbursement will not be known until the DOT signs a credit agreement with the project sponsor. Payments of principal and interest are currently expected to begin in 2009. The final maturity of the loan is projected for 2041.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 36.2.

C.10 Reno Transportation Rail Access Corridor

Reno, NV

Approved FY 2001

Description

This \$280 million project will construct a 2.25-mile below-grade rail freight corridor with two mainline tracks. The project also involves construction of an access road, replacement of 10 at-grade rail crossings with bridges, and construction of one new bridge. During construction, a "shoofly" track will serve as a temporary bypass route.

Reno is a critical corridor linking west coast ports, including the Port of Oakland, to inland destinations. The merger of Union Pacific and Southern Pacific is expected to increase train traffic through central Reno from 14 trains to 24 or more trains per day. The project is anticipated eventually to permit Union Pacific to improve freight capacity by increasing train lengths to 8,000 feet and transport double-stacked containers.

Project Status

The Federal Highway Administration issued the project's Record of Decision in February 2001. The City selected a project management consultant in July 2001, and it is anticipated that a design/build contractor will be selected in July 2002. The project is estimated to be complete by 2006.

Project Sponsor

City of Reno, Nevada.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

• Senior bond proceeds:	\$111.5	(revenue bonds to be issued by City of Reno)
• TIFIA direct loans:	73.5	
• Federal grants:	21.3	
• Railroad payment:	17.0	
• Other:	56.6	(includes cash on hand and interest earnings)
Total:	\$279.9	

The sources shown above include funds intended to pay financing expenses. The expected cost to construct the project is \$254.2 million.

TIFIA Credit Assistance and Date Closed (if applicable)

Direct loans: \$73.5 million, comprised of three separate obligations:

- Sales and room tax loan: \$50.5 million; to be repaid from county sales and city hotel room taxes.
- Lease-backed loan: \$5 million, to be repaid from lease income from property donated by Union Pacific.
- Assessment district loan: \$18 million, to be repaid from tax assessments on real property in a downtown business district.

The first two TIFIA loans occupy a subordinate position with respect to senior bonds being repaid with the same revenue sources. The assessment district loan has the only lien on payments from the downtown business district.

TIFIA Financial Performance

Under the current financing plan it is expected that the sales and room tax loan will be disbursed over four years (2003 through 2006) and fully repaid by 2041. The lease-backed loan is expected to be drawn down in 2007 and fully repaid by 2033. The assessment district loan is expected to be disbursed in 2006 and fully repaid by 2026.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 10.0.

C.11. San Francisco – Oakland Bay Bridge

San Francisco – Oakland, CA

Approved FY 2002

Description

The \$3.3 billion Bay Bridge project consists of replacement of the East Span of the 8.5-mile San Francisco-Oakland Bay Bridge and completion of the seismic retrofit of the West Span. The bridge currently handles more than 272,000 vehicles per day, the highest auto and truck traffic of any of the Bay Area toll bridges. As a component of Interstate 80, the bridge serves as a major international trade corridor serving the ports of Oakland and San Francisco. The bridge has also been designated as a post-earthquake "lifeline" connection, enabling access for emergency response.

Project Status

The West Span retrofit is underway and expected to be complete in September 2003. The environmental record of decision for the East Span was issued in July, 2001; as of early 2002, detailed design and engineering for the project was 90% complete and construction had just begun. The estimated date for substantial completion of the East Span is April, 2007.

Project Sponsor

California Department of Transportation.

Funding Sources

Anticipated funding sources are as follows (dollars in millions):

- State funds: \$1,739
 - Senior bond proceeds: 890 (revenue bonds issued by California Infrastructure and Development Bank)
 - TIFIA loan: 450
 - Federal bridge funds: 213
 - Other: 13
- Total: \$3,305

TIFIA Credit Assistance and Date Closed (if applicable)

Direct loan: \$450 million.

The primary revenue source available to repay the TIFIA loan is a \$1.00 surcharge currently levied on seven local toll bridges. Repayment of the TIFIA loan has second priority in the flow of funds, subordinate to the project's debt service on an estimated \$890 million in bonds to be issued in the next few years.

TIFIA Financial Performance

The DOT has not yet disbursed TIFIA funds for this project. Negotiation and execution of the TIFIA credit agreement depends on California DOT's schedule for issuing other project debt, currently planned for 2003. The financial plan projects loan disbursements over a three-year period, from 2003 through 2005. Interest-only payments would follow, from 2005 through 2007, with principal payments commencing in 2008 for the first disbursement. The final maturity is projected for 2027.

Financial Leveraging of Federal Investment

The total project investment divided by the cost of Federal grants (if any) and the TIFIA credit subsidy equals 15.4.

Appendix D: Credit Assessments of the TIFIA Projects

Project	Cost	Mode	Financing Type	Primary Financing Security	Credit Instrument	Credit Amount	Capital Reserve Requirements ⁽¹⁾		
							Initial Subsidy ⁽²⁾	Final Subsidy ⁽³⁾	Subsidy Amount
Miami Intermodal Center (FL) - general program	\$ 1,186	Multi-modal	Tax-backed	State fuels tax revenues	Direct Loan	\$ 269.076	0.37%	0.39%	\$ 1.049
Miami Intermodal Center (FL) - rental car facility	164		User-backed	Facility rental car charges	Direct Loan	163.676	4.77%		7.807
SR 125 Toll Road (CA)	455	Highway	User-backed	Facility tolls	Direct Loan	94.000	11.24%		10.566
Farley-Penn Station (NY)	795	Passenger Rail and Mixed Use	User-backed	Facility retail rents, Port Authority lease payments, Amtrak lease payments	Line of Credit	33.000	9.57%		3.158
					Direct Loan	140.000	12.51%		17.514
Washington Metropolitan Area Transit Authority Capital Improvement Program - WMATA CIP (DC-MD-VA)	2,324	Transit	Tax-backed	Local government contributions	Line of Credit	20.000	11.84%		2.368
					Guarantee	600.000	1.51%	1.99%	11.940
Tren Urbano (PR)	1,654	Transit	Tax-backed	Puerto Rico tax revenues	Direct Loan	300.000	2.99%	2.59%	7.770
Tacoma Narrows Bridge (WA)	835	Highway	User-backed	Facility tolls	Direct Loan	240.000	9.18%		22.032
					Line of Credit	30.000	8.22%		2.466
Cooper River Bridge (SC)	668	Highway	Tax-backed	State and County contributions	Direct Loan	215.000	2.59%	2.76%	5.934
Staten Island Ferries & Terminals (NY)	482	Transit	Tax-backed	Tobacco settlement revenues	Direct Loan	159.068	4.82%	0.19%	0.302
Central Texas Turnpike (TX)	3,221	Highway	User-backed	Facility tolls	Direct Loan	800.000	11.11%		88.880
Reno Transportation Rail Access Corridor (NV)	280	Multi-modal	Tax-backed	Local taxes (sales, hotel, property)	Direct Loan	73.500	9.70%		7.130
San Francisco-Oakland Bay Bridge (CA)	3,305	Highway	User-backed	Toll bridge system surcharge	Direct Loan	450.000	0.29%		1.305
Total	\$ 15,369					\$ 3,587.320			\$ 190.221

Current Weighted Average Subsidy Rate: 5.30%

⁽¹⁾ The Federal Credit Reform Act of 1990 (FCRA) requires a Federal agency to set aside budgetary resources to cover the estimated subsidy cost of a credit instrument to the Federal Government at the time of entering into a new credit agreement. The current TIFIA subsidy estimates represent the present value of the Government's estimated long term costs to provide credit assistance, excluding administrative costs.

⁽²⁾ USDOT's initial subsidy estimate or capital allocation for each credit instrument is based on the preliminary financial information contained in the project sponsor's TIFIA program application, including the preliminary opinion letters from the credit rating agencies. This initial subsidy is used to estimate how much budget authority will be required to fund the credit instrument at the time a term sheet is executed and Federal funds are legally obligated.

⁽³⁾ USDOT's final subsidy estimate or capital allocation is calculated upon financial closing. This final subsidy takes into account the detailed terms and conditions of the negotiated credit agreements including the project's credit rating letters. In accordance with FCRA requirements, Federal agencies annually review their subsidy cost estimates and update their capital allocations based on current credit performance (e.g., credit rating changes) throughout the life of the credit instrument. As part of this formal annual review, USDOT will assess changes in credit quality on an instrument-by-instrument basis. The revised capital allocation is known as the "re-estimated" subsidy.