America Fast Forward:

Federal Financing Tools to Monetize Local Funding Streams

APTA Rail Conference

June 15, 2011

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Potential Elements of America Fast Forward Initiative

Funding Streams vs. Financing Tools

Policy Approach	Revenue Source (Funding)	Finance Tool
New Dedicated Sales Tax	☑	✘
Value Capture (Tax Increment, Special Assessment, etc.)	☑	✘
Excess Toll Road Revenues	☑	✘
Public Private Partnerships (P3)	✘	☑
TIFIA Modifications	✘	☑
Qualified Tax Credit Bonds	✘	☑
National Infrastructure Bank	✘	☑

America Fast Forward

America Fast Forward (AFF) Policy Rationale:

1. Federal Capacity to expand Grant programs will remain constrained for the foreseeable future.

2. Federal Credit Assistance and Tax Incentives help transportation agencies maximize the financial capacity of local revenue streams by reducing borrowing costs.

3. They may be more attractive to Federal policymakers because:
   - Project sponsors are incentivized to identify new revenue streams.
   - Private capital investment helps ensure that projects are economically sound and financially viable.
   - There is a much smaller Federal budgetary impact than grants (*scoring*).

AFF Primary Components

TIFIA

- Increase program funding by at least 3x.
- Increase the TIFIA share above 33%.
- Authorize USDOT to enter into multi-year contingent commitments for programs of related projects.
- Make certain other technical, procedural and institutional changes.

Tax Credit Bonds

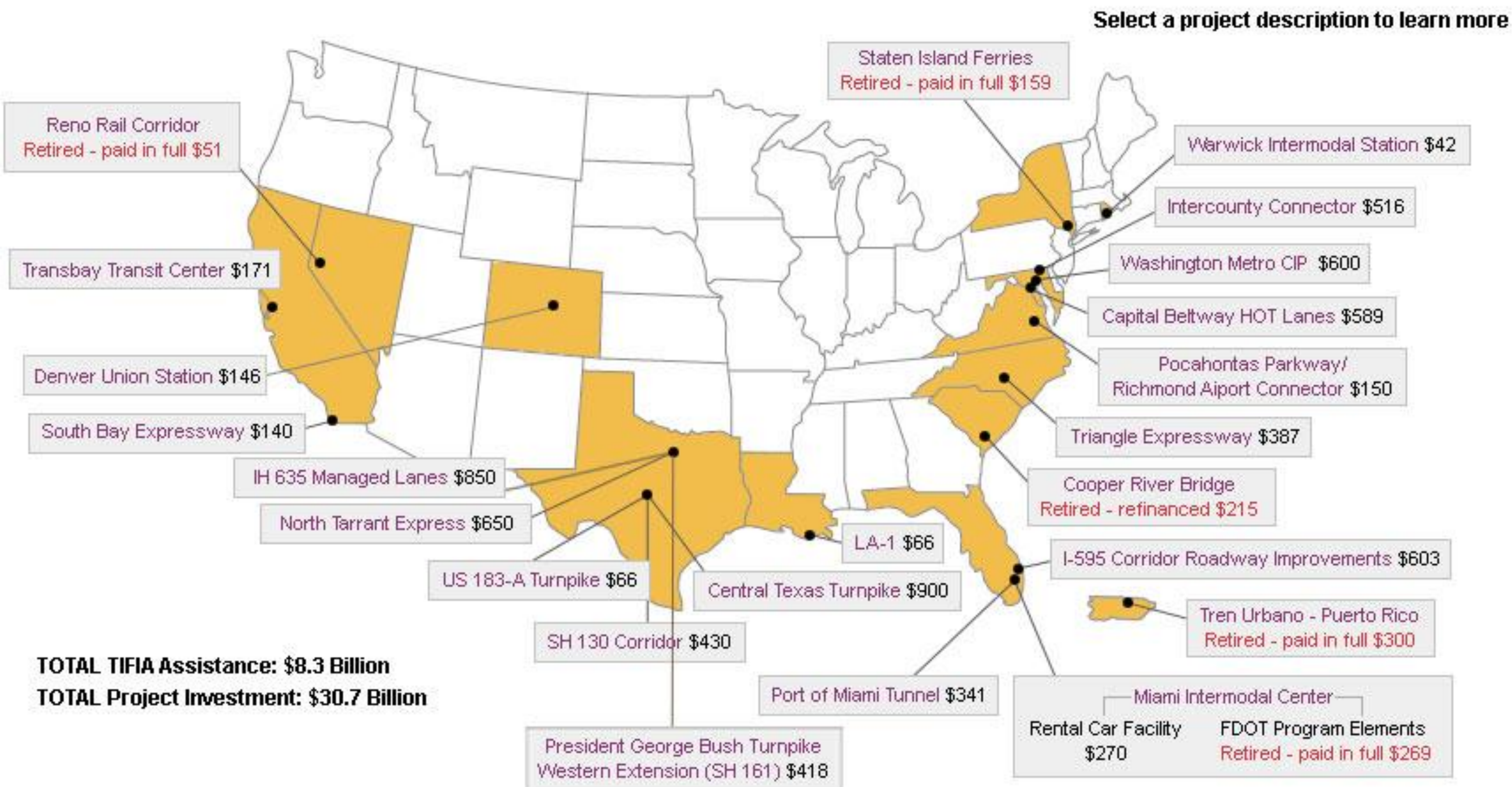
- Establish a new class of qualified tax credit bonds for surface transportation.
  - Permitted purposes carefully defined.
  - Issuance volume legislatively capped.
  - Maximum interest rate subsidy and bond term set by the Treasury Department.
- Authorize a national program of at least $45 billion.
  - Meaningful supplement to HTF grants.
  - Modest budget score (tax expenditures) of about 25% of face value ($10-15 billion).
  - Significant broadening of investor base --> more efficient capital market.

➊ TIFIA Credit Program Enhancements

Current Program Features:

- Transportation Infrastructure Finance and Innovation Act enacted in 1998 (TEA-21) to leverage federal funds and facilitate project development
- Federal credit assistance for projects of national and regional significance:
  - Highway, transit, passenger rail, intermodal freight, and port access projects
  - Loans, loan guarantees, standby lines of credit
  - Public and private entities can receive credit assistance
- Governed by Federal Credit Reform Act of 1990:
  - Requires subsidy funding (capital reserves) to cover expected losses
  - SAFETEA-LU funding of $122 million per year (contract authority)
- <u>Project Eligibility</u>: Titles 23 and 49; project in STIP; statutory selection criteria; Federal requirements; minimum project cost; investment grade senior debt; dedicated revenue stream sufficient to repay project debt.
- <u>Program Provisions</u>: US Treasuries used for pricing; program funding of up to 33% of project costs; repayment flexibility; functionally subordinate debt possible.

TIFIA Program Activity 1999-2011



Source: USDOT

4 of 24 Credit Agreements totaling $1.2 billion were for transit projects.

Potential TIFIA Modifications

- Expand annual budget authority from $122 million per year *(Each dollar of subsidy funding can support ~ $10 of loans).*

- Increase Federal Share from 33% to 49%.

- Make conditional commitments for large, multi-year programs of projects backed by common pledge of revenues.

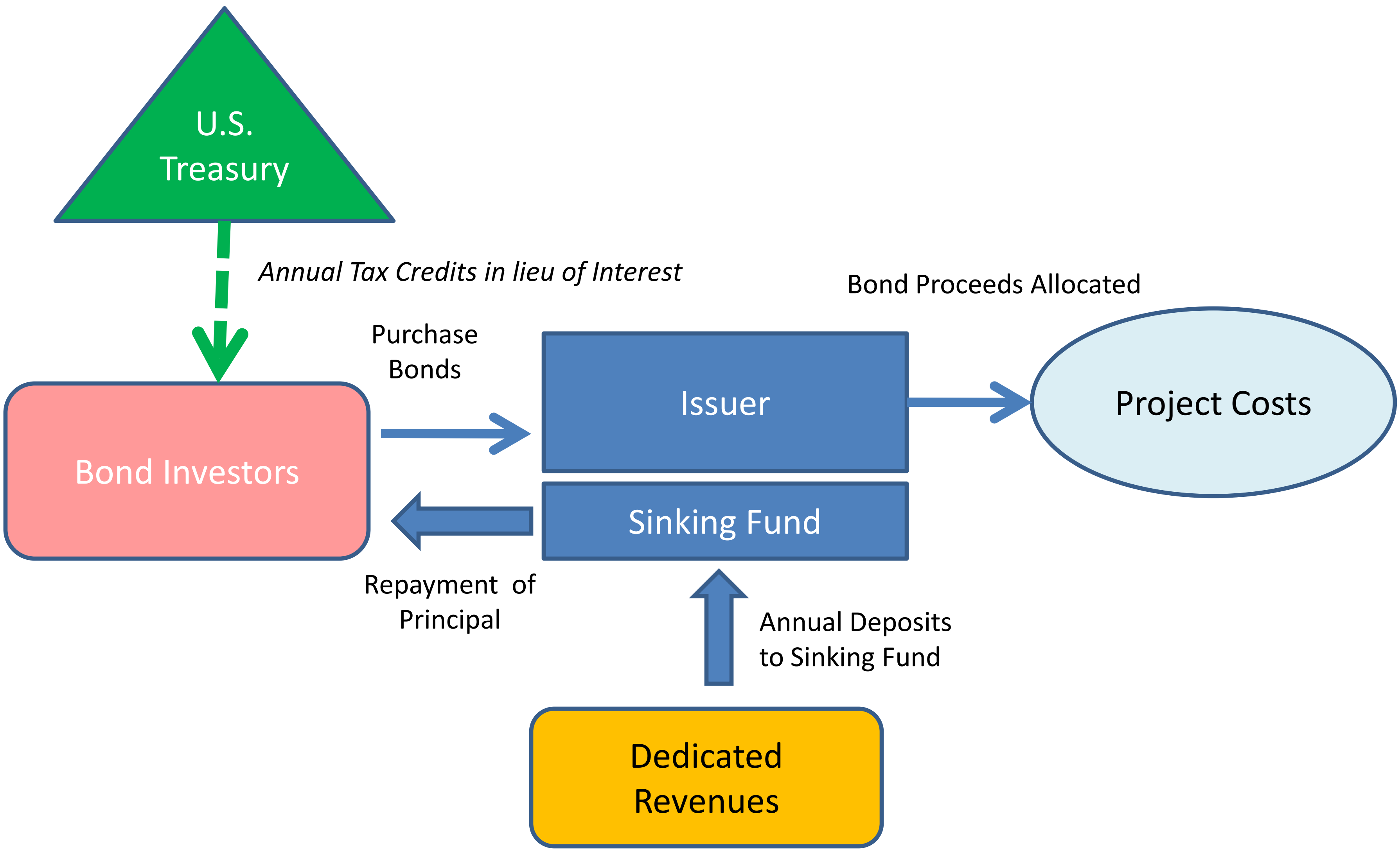
- Eliminate or modify the "springing lien," which undermines ability to attract co-investment.

- Allow partial interest subsidies.

❷ Tax Credit Bonds for Surface Transportation

- Long-term *non-federal* debt instruments issued by state, local or special purpose agencies.
- Borrower's interest cost is subsidized with federal tax credits (i.e., through tax code subsidies rather than conventional spending programs).
- Two Basic Types of Existing Successful Precedents for Tax Credit Bonds:
  - **Qualified Tax Credit Bonds:** Volume-capped programs for narrowly-defined purposes where the Federal government determines the interest rate subsidy to offset 70%-100% of the borrower's interest cost.
    - $36 billion authorized for school construction / rehabilitation, energy conservation, certain other purposes.
  - **Build America Bonds**: Unlimited issuance authority for all governmental capital projects where the Federal government subsidizes 35% of the borrower's interest cost.
    - $181 billion sold in 2009-2010.

Mechanics of Qualified Tax Credit Bonds



Key Elements of Proposed Tax Credit Bond Program

(Qualified Transportation Improvement Bonds—QTIBs)

- $45+ billion of tax credit bonds authorized for transportation infrastructure investments:
  - Volume capped with annual issuance limit.
  - Modernization or Expansion of Facilities.
  - Intended to provide 100% interest rate subsidy.
  - Tax credits could be *refundable* or *non-refundable* (refundable may have slightly higher budget score but will result in a much more effective program).
  - Bond principal repaid with state, local or other dedicated revenue streams (user charges or taxes).

❸ National Infrastructure Bank (NIB)

A NIB is an institutional structure for providing Federal Credit assistance.

Advocates believe establishing a dedicated, independent, special purpose corporation would:

- Offer stronger organizational platform than current TIFIA Joint Program Office to manage increased loan volume.
- Result in wiser resource allocation ("objective" project selection).
- Promote greater use of dedicated revenues to repay project assistance.
- Encourage more cost-effective project delivery (private participation).
- Better leverage of limited federal resources (through fractional budget scoring / co-investment).
- Reduce financing costs for project sponsors (through rates and terms).

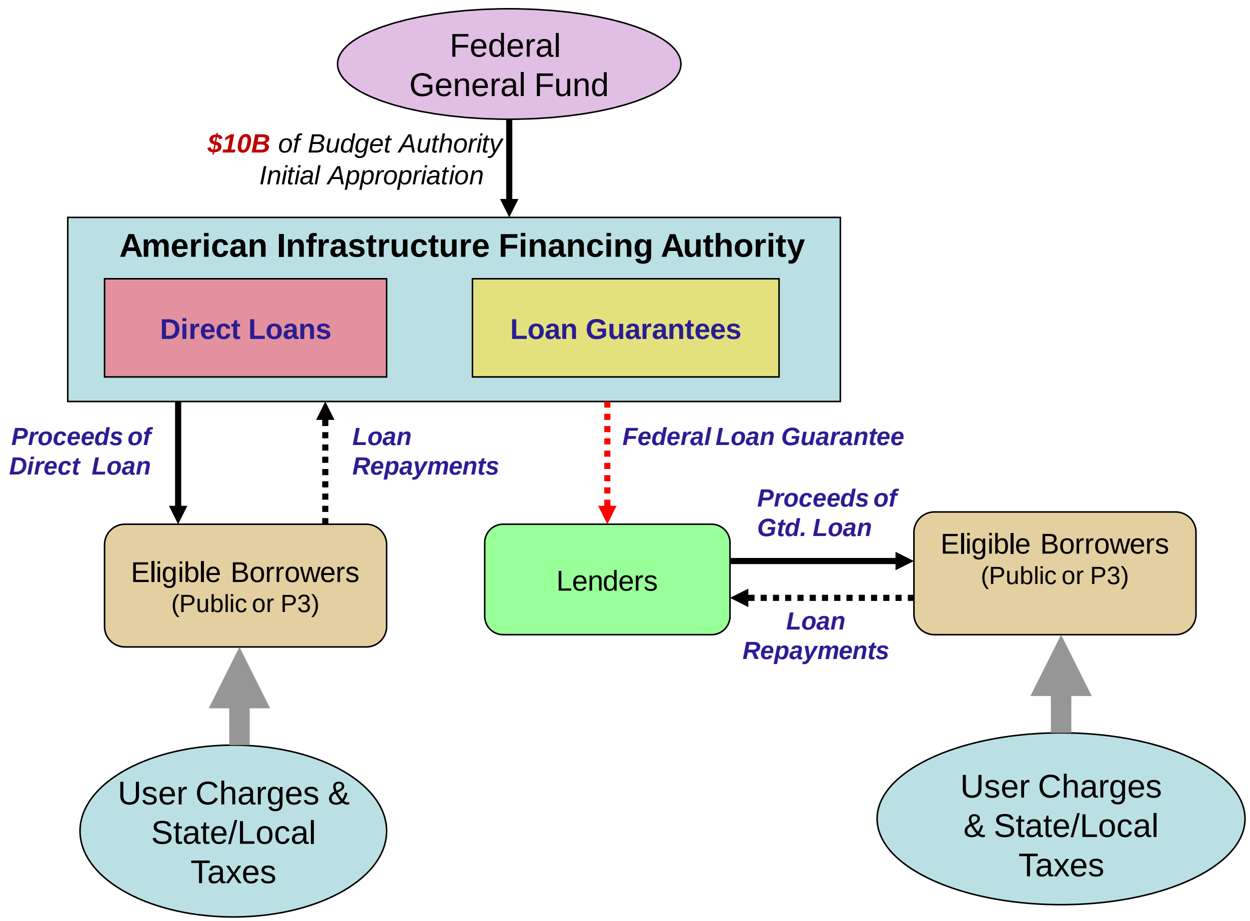
Recent Infrastructure Bank Proposals

Infrastructure Bank Proposals in 2011

Name	Sponsor	Grants	Loans/ Guarantees	Tax Code
National Infrastructure Development Bank Act (H.R. 402)	DeLauro et al		■	?
Proposed Budget for FY 2012 (Feb.)	Obama Administration	■	■	
BUILD Act (S. 952)	Kerry-Hutchison, et al		■	■
American Infrastructure Investment. Fund Act (S. 936)	Rockefeller-Lautenberg	■	■	

Kerry-Hutchison Infrastructure Bank Proposal

(Building and Upgrading Infrastructure for Long-term Development (BUILD) Act, S. 652)



Key Features of Kerry-Hutchison BUILD Act

- **Organizational Structure:**
  - New Federal government corp.: American Infrastructure Financing Authority (AIFA)
  - *Independent board of directors with subject expertise.*
  - "Objective, merit-based" selection of projects of regional and national significance.

- **Infrastructure Sectors Served:**
  - Transportation (highways, transit, airports, seaports, passenger rail, waterways)
  - Water (drinking water, sewerage, dams, levees, solid waste)
  - Energy (pollution-control, energy-conservation, transmission, storage, distribution)
  - Communications (broadband, wireless)

- **Project Features:**
  - $100 million project threshold ($25 million if rural)
  - AIFA share limited to 50% of costs
  - 5% of volume set aside for projects in rural areas

- **Forms of Assistance:**
  - Loans and Guarantees, not Grants

Kerry-Hutchison (cont'd.)

- **Forms of Assistance:**
  - *No grants*
  - Direct Loans of up to 35 years at U.S. Treasury rate (~4.50%)
    - Senior Project Debt must be Investment Grade (BBB- or higher)
    - AIFIA Loan can have junior claim on project revenues
  - Federal loan guarantees
  - [*General tax code relief from Alternative Minimum Tax for Private Activity Bonds*]

- **Maximum Credit Amounts:**
  - Years 1 & 2: $10 billion/year
  - Years 3-9: $20 billion/year
  - Thereafter: $50 billion/year

- **Eligible Borrowers:**
  - State/Local agencies, corporations, "public-private partnerships"
  - No refinancing of existing debt

- **Capitalization of AIFA:**
  - $10 billion initial Federal appropriation
  - Borrowers charged risk-based origination fees
  - Loan portfolio to be of investment grade caliber by year 5