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Why TIFIA Matters For Transportation

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February 2011—Federal credit assistance takes two basic forms. One is through federal income tax policy: Specifically, tax-exempt or tax-preferred financing with muni bonds and more recently Private Activity Bonds and Build America Bonds for transportation. Additional tax-subsidized debt instruments, the qualified tax credit bond and a PABs/BABs hybrid, are also proposed by leading financial experts. The second form is direct credit assistance via federal loans, loan guarantees and standby letters of credit. At the heart of direct credit assistance is the Transportation Infrastructure Finance & Innovation Act (TIFIA) program.

The TIFIA federal credit program is today a crucial financing tool for large capital projects. It has been the "make or break" source of financing for virtually every P3 project successfully brought to market since its authorization.

An example close to home is the Presidio Parkway. The California Transportation Commission authorized use of an availability payment P3 for the Presidio Parkway with a cap on the annual availability payment of $35 million. The financial analysis for this vital project indicates that with TIFIA financing the $35-million cap is easily achieved and Caltrans saves many millions of dollars per year. The North Tarrant Express and I-635 managed lanes P3 projects in Texas similarly depended on TIFIA for their fates. Other major projects are in the same position.

Since 2008, TIFIA has been heavily oversubscribed. TIFIA used to have an open application process. Last year, for the first time, FHWA, which administers the TIFIA program, imposed a fixed date competitive process to determine which projects could apply for credit assistance. FHWA received an unprecedented 39 letters of interest seeking over $13 billion in credit assistance, almost twice the available credit support to date. Of the 39, only four projects were invited to apply. Among these was the Presidio Parkway.

Why is TIFIA so attractive, indeed, essential? Simply, it is the least expensive, most flexible, longest term and most "patient" subordinate debt available in the global financial markets to finance transportation capital expenditures. Let me give you a few details.

- It is available for highway, bridges, tunnels, intercity passenger bus and rail transit, publicly owned freight railroads, intermodal freight facilities, and port access projects over $50 million.

- It is available for up to 33% of eligible capital costs.

- TIFIA loans bear low fixed taxable interest rates at 30-year Treasury yield, often less expensive than traditional tax-exempt muni debt.

- With a low debt coverage ratio of 1.10:1, TIFIA generates much more up-front capital formation from a given dedicated revenue stream than conventional project financing.

- Payment can be deferred up to five years after project completion. This flexibility is essential for tolled projects because it is in the early, ramp-up years of operations that toll revenues are less predictable and flexibility in servicing debt is most needed.

- TIFIA takes a subordinate position to investment grade project debt.

- Its specific objective is to leverage private investment in projects.

- It is written with a long-term, 30-year maturity.

- TIFIA loans require a dedicated payment source, such as State Highway Account money from state sources, local sales tax revenues, tolls and user fees. So far, USDOT has disallowed the use of federal funds to pay TIFIA debt.

The Case for Expansion

But what is the impact of TIFIA financing on the federal budget and the Highway Trust Fund (HTF)? How does it stretch the purchasing power of the HTF for the states? Why should a fiscally conservative, deficit-conscious Congress, as well as the Administration, be interested in expanding the TIFIA program from its current FY budgetary authority of $122 million. There are at least three powerful reasons:

Leverage: TIFIA leverages huge sums of capital not charged to the HTF or federal budget, and has much less impact on the HTF and federal budget than grant funding.

Less federal subsidy: TIFIA-financed projects reduce the overall federal subsidy because TIFIA interest is taxable. Projects developed with tax-exempt municipal debt produce no taxable interest and in this way enjoy a federal tax subsidy

O&M cost savings: When combined with tolling, TIFIA can take operations and maintenance costs off the public budget.

Here is how it stretches the dollars in the HTF. The federal government funds TIFIA credit by borrowing at 30-year Treasury yield. It loans these funds at basically the same cost of funds to the project sponsor. Under federal government accounting rules, or what is known as "scoring", only about 10% of the loan amount is charged against the TIFIA budgetary authority, sometimes less, depending on the credit risk. This is the so-called "subsidy cost" of the credit. The subsidy cost is the combined cost of issuing the credit instrument and the pooled risk of default and non-repayment. So, a $20 million budgetary allocation for a project from the HTF supports a $200 million or higher TIFIA loan for the project.

That's at least 10 times leverage of federal HTF funds. And this in turn leverages double that loan amount from state and private sources to capitalize the transportation project. So, for instance, with traditional grant funding, a $1 billion project would cost up to $800 million of a state's apportionment of HTF funds, with the state supplying a $200 million balance for a pay-as-you-go traditional financing.

With TIFIA financing and private participation, and with tolling, that same $1 billion project would have a $333 million TIFIA loan, a first loan above it for maybe $500 million, private equity for about $100 million to $150 million, and the balance with state money. The charge to the HTF: $33 million vs. $800 million. Therein is the leveraging power of TIFIA combined with tolling.

TIFIA in essence has most of the attributes of a national infrastructure bank. With modest changes to the program, it could add tremendous new leverage to national transportation infrastructure investment, with little relative impact on the federal budget and with no need to engage in a protracted debate about whether to form and how to govern and fund a national infrastructure bank.

Program Improvements

Here are several changes that would improve TIFIA's benefits, many of which follow recommendations of the National Surface Transportation Infrastructure Finance Commission:

Increase the cap on TIFIA budgetary authority to reflect demand. The Commission recommended $300 million; others have recommended $500 million. At current levels of demand, we need $800 million per year.

In lieu of consuming scarce TIFIA budgetary authority to cover the subsidy cost of the TIFIA credit, Congress should allow applicants to pay the subsidy cost from another funding source, including charging it to a state's federal-aid highway apportionment. This adds no cost to the HTF but uses the apportionment to leverage at least 10x the federally-sourced dollars.

Expand it from 33% of eligible project costs to 100% of planning and preliminary design costs and 50% of other eligible project costs.

Allow it to be used where senior debt is not investment grade, and address risk issues by adjusting the subsidy cost and/or interest rate.

Treat TIFIA as an essential source of financing like any other debt, and not a vehicle for imposing vague public benefit requirements (most recently, livability and sustainability) by whatever Administration is in power . These have resulted in diversion of scarce TIFIA resources away from highways, where need, demand and opportunity are great. There is no reason to apply these policies to TIFIA loans when they are not applied to grant-funded projects. If the budgetary cap is raised to meet demand, pressure to distinguish projects based on these vague perceived benefits would ease.

With these changes, TIFIA will become an even more valuable tool to close the national transportation funding gap.

Projects, NOT POLICY

But there are disturbing signs that at least some in the Administration are obstructing TIFIA and trying to convert it into a tool to promote their notions of smart growth, rather than the tool it is intended to be—a powerful financing mechanism for surface transportation infrastructure. For example, supplementary TIFIA budgetary authority under the ARRA stimulus program went underutilized, despite high demand for it. ARRA authorized $600 million in supplemental TIFIA budgetary authority but the USDOT only awarded five TIGER TIFIA projects using $60 million of the $200 million.

TIGER II had a similar outcome. In 2010, Congress authorized $600 million in TIGER II discretionary grants, $150 million of which could be used to subsidize TIFIA credit assistance. Over 1,000 applications were submitted for over $19 billion in projects. USDOT awarded 42 capital construction and 33 planning projects worth nearly $600 million. These included only one TIFIA financing, a $20-million award to LA Metro as a TIGER II TIFIA subsidy. It will support up to a $546-million TIFIA loan for the $1.7-billion Crenshaw light rail line. Even that one project is in jeopardy of being eliminated in the current effort to reduce federal spending as part of the continuing budget resolution bill in Congress now.

The Administration's and Congressional commitment to TIFIA may well depend on what transportation leaders around the country have to say. Amid concerns that TIFIA may suffer cuts along with other USDOT programs in the current fiscal year, the leaders of 21 state and regional transportation agencies delivered a letter to the members of Congress on February 14, urging against such action.

They stated: "The TIFIA program remains one of the critical methods available in this country to advance major transportation projects by leveraging private sector funding. While we would like to see the program's capacity increased and are working to do so as part of the SAFETEA-LU authorization process, it is critical that Congress provide the authorized level of $122 million this fiscal year. Given the fact that this authorized level can be leveraged to over a billion dollars of infrastructure investment, there are few federal programs that provide this return-on-investment for the American taxpayer and the economy as a whole."

This is a summons to all of us in the surface transportation community to make the case to Congress and the Administration to preserve and expand the TIFIA program. n