Transportation Project Finance – 3
Additional Topics in Project Finance

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Outline

Project Financing Structure
Definitions
Effects of subordination

Innovative Financing Methods
Debt financing
Credit Assistance
Other
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Project Financing Structure

- Equity
- Debt
  - Senior
  - Junior (Subordinate)
  - Mezzanine
Senior lien debt has a higher payment priority than subordinate debt.

Debt can be structured into tranches to take advantage of this.

Suppose $100 is available for debt service, and debt service is $90.

Debt service coverage ratio (DSCR) is $100/$90 = 1.11 – not very good.
Divide $90 debt into a $75 senior tranche and $15 junior tranche

DSCR of senior lien debt is $100/75 = 1.33 – much better!

DSCR of junior lien debt is $100/(75+15) = 1.11 – as before

Overall coverage is still 1.11

But senior lien debt is higher quality and can be sold at lower financing cost

(We assume that the subordinate debt is marketable)
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Debt financing – 1

- Grant anticipation notes (GANs) – general term for debt secured by anticipated grant money
- GARVEEs – already discussed, particular form of GAN secured by anticipated federal-aid highway funds (e.g. apportionments from the Highway Trust Fund)
- GARVEEs can be beneficial for a project if
  - Large enough that normal funding mechanisms (pay-go, apportionments, tolls, etc.) are insufficient
  - Cost of delaying project greater than cost of financing
  - State is willing to pledge future federal highway funds to the project
Private activity bonds (PABs)

- A PAB is a type of municipal bond
- Proceeds from the bond issuance are used by a private entity, not by the issuing government entity
- Under certain conditions, PABs qualify for income tax exemption on bond interest payments
- One form of PAB (exempt facility bonds) is intended to finance transportation facilities owned or operated by private entities
- Revenues from the facility are used to secure the bond payments
- With SAFETEA-LU, highway and surface freight transfer facilities are eligible for PAB financing
TIFIA

Transportation Infrastructure Finance and Innovation Act

- Offers three types of credit assistance to approved transportation projects
  - Direct loans from federal government
  - Loan guarantee – federal guarantee of debt service payment
  - Lines of credit – federal commitment to make loan if project revenues fall short
- Project sponsors can be public or private entities
- Senior project debt must be rated investment grade
- TIFIA assistance must be < 33% of project costs
- TIFIA assistance repaid from pledge of user charges or special state/local tax assessments (not other federal money)
State infrastructure banks (SIBs)

- SIBs are transportation infrastructure investment funds
- Established and administered by states with federal approval
- Capitalized with state funds and/or federal highway apportionments
- Can offer transportation projects loans or credit enhancement
- Public and private projects are eligible
- States have great flexibility to operate SIBs
- SIB can be repaid from project revenues or other sources
Section 129 loans

- Section 129 loans allow states to use regular federal-aid highway apportionments to fund direct loans to projects.
- Eligible projects must have a dedicated revenue stream pledged to repay loan.
- Revenue stream can come from project or other non-Federal source (not just tolls).
- Public and private projects are eligible.
- States benefit by "recycling" federal highway apportionment.
- Projects benefit by offering up-front capital at potentially below-market costs, and providing project finance structuring options.
Other mechanisms – 1

Flexible match  A wide variety of public and private contributions can count towards the non-federal match for federal-aid projects
  - Formerly only cash could be used for non-federal match
  - Any other local contributions reduced project cost, but not matching requirements
  - Now other types of match (land, materials, services) are allowed
Toll credits  Toll revenues that states use to build or improve non-toll highways count towards state matching share (usually 20%) to federal highway or transit funds

- This can allow up to 100% federal funding of eligible projects
- Florida has an extensive toll road system and a policy of using toll revenues to fund non-toll highway improvements
- Almost all of Florida’s federal-aid highway program is funded without requiring matching state funds