



# Project Finance: An Introduction



## PROJECT FINANCE

### Quick Facts

- Section 129 Loans and SIBs permit States to loan Federal-aid funds to eligible projects.
- GARVEEs allow States to use Federal funds to repay bonds.
- TIFIA provides low-cost, flexible loans and other credit assistance to eligible projects.

### Contact

Project Finance  
 Frederick Werner  
 404-562-3680  
 frederick.werner@dot.gov  
 Prabhat Diksit  
 720-963-3202  
 prabhat.diksit@dot.gov



U.S. Department of Transportation  
 Federal Highway Administration

**M**ANY STATE and local governments lack sufficient funding to pay for surface transportation projects up front. Project finance innovations can significantly increase the ability to deliver these transportation projects, accelerating construction, reducing costs, and enabling the use of innovative revenues. The Federal Highway Administration's (FHWA's) Office of Innovative Program Delivery (IPD) provides research, technical assistance, and policy direction that assists project sponsors in understanding and using a wide array of finance tools.

### Project Finance Basics

To deliver a project, sponsors need both a way of financing the up-front cost and a source of revenue to repay it. Although financial innovations do not in and of themselves generate net new revenue, they can allow non-traditional revenue sources to be used as part of a project's financing plan. For example, the sponsors of the Transbay Terminal in the San Francisco Bay Area will use revenues from the taxes on the increased value of the property near the terminal to pay for its renovation. This innovation—known as tax increment financing—can be difficult to achieve without flexible, long-term financing. Similarly, projects that depend on toll revenues or other user fees often require flexible financing, because typically revenues are not collected until after construction of the facility.

Financial innovations available for eligible surface transportation projects include the following resources.

#### *Section 129 Loans (U.S.C. 129 (a)(7))*

Section 129 loans allow States to use regular Federal-aid highway apportionments to fund loans to projects (both toll and non-



*MD's Intercounty Connector is using GARVEE bonds.*

toll), which can be paid back with dedicated revenue streams. Because loan repayments can be delayed until five years after project completion, this mechanism provides flexibility during the ramp-up period of a new toll facility. The President George Bush Turnpike Project in Texas was advanced with a \$135 million Section 129 loan. This loan facilitated the financing by expanding the project's bonding capacity and enhancing the creditworthiness of the senior bonds.

#### *State Infrastructure Banks (SIBs)*

SIBs enable States to use their Federal apportionments to establish a revolving fund that, much like a bank, can offer low-cost loans and other credit assistance to help finance highway and transit projects. Since passage of SAFETEA-LU, all States are

now authorized to enter into agreements with the Secretary of Transportation to establish infrastructure revolving funds. As of September 2012, 32 States and territories had entered into an estimated 700 SIB loan agreements for a total of \$6.5 billion.

### ***Grant Anticipation Revenue Vehicles (GARVEEs)***

A GARVEE is a debt-financing tool that generates up-front capital for major highway projects. Future Federal funds are used to repay the debt and related financing costs under the provisions of Section 122 of Title 23, U.S. Code. GARVEEs can be issued by a State, a political subdivision of a State, or a public authority. States can receive Federal-aid reimbursements for a wide array of debt-related costs incurred in connection with an eligible debt financing instrument, such as a bond, note, certificate, mortgage, or lease. As of September 2012, 24 States and 3 territories have issued approximately \$16 billion in GARVEEs.



***Capital Beltway high-occupancy toll lanes was the first project to utilize PABs.***

### ***Transportation Infrastructure Finance and Innovation Act (TIFIA) Credit Assistance***

The TIFIA program provides Federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance. TIFIA credit assistance provides improved access to capital markets, flexible repayment terms, and potentially more favorable interest rates than can be found in private capital markets for similar instruments. TIFIA can help advance expensive projects that otherwise might be delayed or deferred because of size, complexity, or uncertainty over the timing of revenues. Twenty-seven projects have received \$9.2 billion in credit assistance with \$36.4 billion in total project cost.

### ***Private Activity Bonds (PABs)***

SAFETEA-LU authorizes the Secretary of Transportation to allocate the \$15 billion in PABs among qualified highway and freight transfer facilities. State and local projects receiving a PAB allocation must also receive Title 23 or Title 49 assistance. ■

## **FHWA/USDOT Role in Project Finance**

IPD helps State and local transportation officials consider innovation in revenue sources, financial tools, and procurement.

**Education/Research:** FHWA's Web site provides information gained from projects that have used project finance innovations, such as TIFIA, GARVEEs, and SIBs, including case studies of past projects as well as program information.

**Finance:** Financial assistance is available for eligible projects under the TIFIA program as well as allocations of PABs.

**Stewardship/Oversight:** FHWA provides oversight and stewardship, as required, on projects that involve Federal-aid funds or TIFIA assistance.



For more information, see the Web site:  
[www.fhwa.dot.gov/ipd](http://www.fhwa.dot.gov/ipd)



## **PROGRAM AREAS OF THE OFFICE OF INNOVATIVE PROGRAM DELIVERY**

**IPD provides a one-stop source for expertise, guidance, research, decision tools, and publications on program delivery innovations. Our Web page, workshops, and other resources help build the capacity of transportation professionals to deliver innovation.**

### **PROJECT DELIVERY**

IPD's project delivery team covers cost estimate reviews, financial planning, and project management and assists FHWA Divisions with statutory requirements for major projects (e.g., cost estimate reviews, financial plans, and project management plans).

### **PROJECT FINANCE**

IPD's project finance program focuses on alternative financing, including State Infrastructure Banks (SIBs), Grant Anticipation Revenue Vehicles (GARVEEs), and Build America Bonds (BABs).

### **PUBLIC-PRIVATE PARTNERSHIPS**

IPD's P3 program covers alternative procurement and payment models (e.g., toll and availability payments), which can reduce cost, improve project quality, and provide additional financing options.

### **REVENUE**

IPD's revenue program focuses on how governments can use innovation to generate revenue from transportation projects (e.g., value capture, developer mitigation fees, air rights, and road pricing).

### **TIFIA**

The Transportation Infrastructure Finance and Innovation Act (TIFIA) program provides credit assistance for significant projects. Many surface transportation projects—highway, transit, railroad, intermodal freight, and port access—are eligible to apply for assistance.



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