



T2 Explainer: How TIFIA Helps Solve The Problem

The Transportation Transformation Group is an unprecedented alliance of state government, finance, academic and private industry leaders who aspire to transform American transportation policy into a goal-based arrangement that maximizes flexibility to enhance the roles of the state and local public sectors and their private partners to solve the growing problems of congestion and mobility.

T2 publishes explainers to help policy makers and the public understand concepts essential to transportation transformation.

The Transportation Infrastructure Financing and Innovation Act (TIFIA) program, enacted in 1998 as part of TEA-21 and expanded in SAFETEA-LU, provides credit assistance to major transportation investments in the form of direct loans, loan guarantees, and lines of credit and is designed to fill market gaps and leverage private co-investment by providing supplemental and subordinate capital to projects.

TIFIA may cover up to 33 percent of eligible project costs. The TIFIA instruments may be subordinate to other debt obligations, and the payment schedule may be deferred. The program is targeted to large-scale transportation projects with specifically dedicated revenue streams.

The federal government assumes the default risk associated with extending credit to borrowers, with the estimated cost of assuming this risk funded by the program or, in some cases, by individual borrowers or project sponsors.

Loans typically are made based on the U.S. Treasury's borrowing cost. Credit instruments receive unique budgetary treatment among federal programs. Fiscal cost is measured with a present-value accrual framework rather than nominal dollar cash outlays (as with grant programs). The "subsidy premium" (or loan loss reserve) for the TIFIA program is funded by the Highway Trust Fund.

T2 has several recommendations to increase the TIFIA program's potential to further spur non-federal public and private investment in the U.S. transportation system, including:

- Increase the annual budget authority from \$122 million per year to \$1.5 billion and roll uncommitted budget authority from one year to the next fiscal year.
- If annual budget authority is consumed, allow applicants for eligible projects to fund the project's subsidy cost from any source, including a state's apportionment of highway trust fund dollars.
- Expand eligible project costs from one-third to one-half.

- Make up-front assistance for 100 percent of early planning, feasibility studies, environmental clearance, and other development-stage activities eligible for TIFIA financing.
- Eliminate the "Springing Lien."
- Convert project selection from a competitive process and discretionary decision by the USDOT to a non-discretionary review for satisfaction of objective criteria. USDOT should have no discretion to turn down credit-worthy and legally compliant projects.
- Remove non-statutory requirements that have no basis in law, such as "livability" and "sustainability."

T2 believes that an enhanced and expanded TIFIA program is an essential element in meeting the nation's transportation needs within a severely restrictive budgetary environment.

Next week: Six Years to Solve the Problem

T2 is happy to exchange ideas about this or any other matter related to the next surface transportation bill. Contact Billy Moore at (202) 288-0892 to set up a discussion. You can also get additional information at our website www.trans2group.com