Federal Tools for Financing Diesel Emissions Reduction

Federal Highway Administration

Resource Center Innovative Finance Team

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Innovative Financial Tools

- State-Based Tools
  - CMAQ funds (to be discussed elsewhere)
  - State Infrastructure Banks (SIBs)
- Federal-Based Tools
  - Transportation Infrastructure Finance and Innovation Act (TIFIA)
  - Private Activity Bonds (PABs)

Common Aspects of Tools

- Must be eligible for federal funds under Title 23 of the United States Code (typically CMAQ)
- Must follow federal requirements (although some flexibility for private projects)
- All roads usually lead to state DOTs except for TIFIA

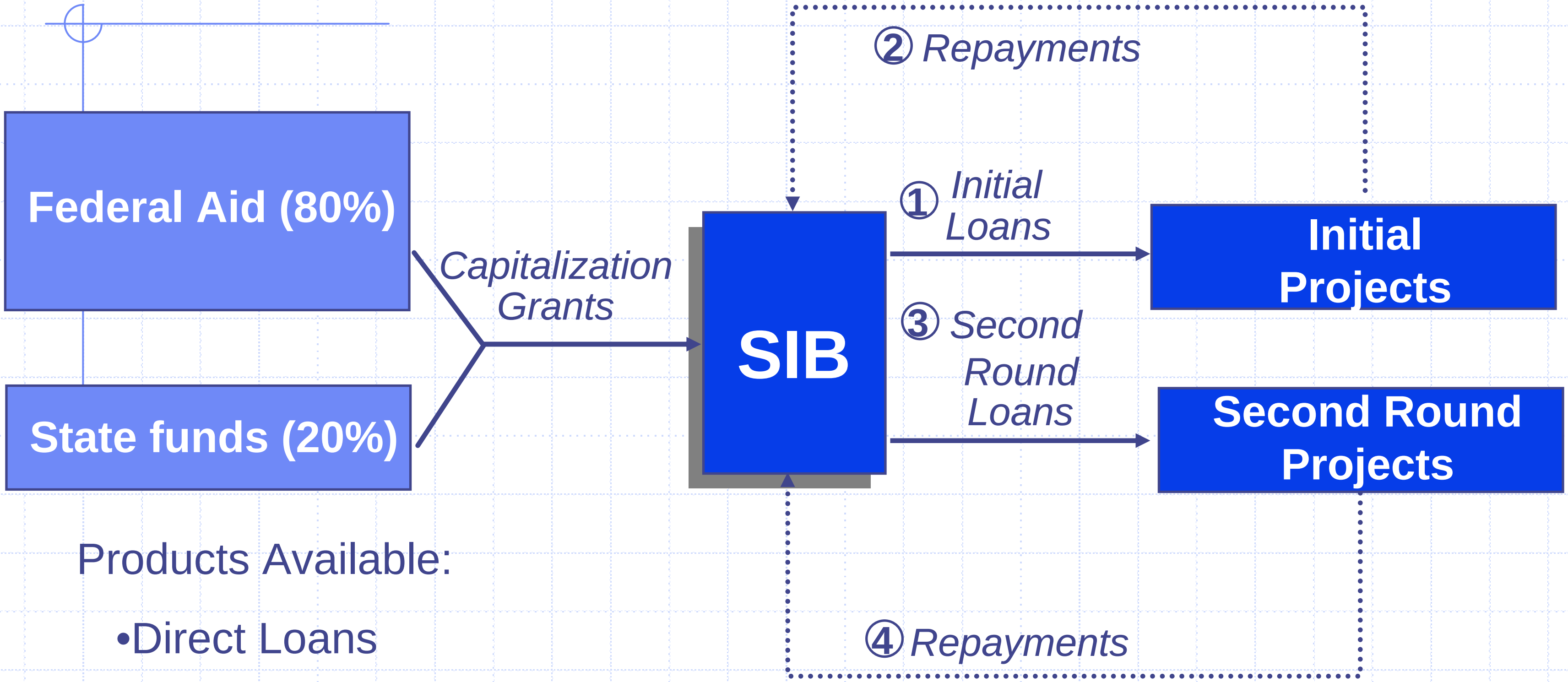
How Do Emissions Reductions Projects Qualify for IF Tools?

- If you could assist with a Federal-aid funding directly, you can assist with IF tools
- Federal-aid eligibility opens the door to innovative finance eligibility
- Generally, FHWA Division has the final call on eligibility, and should be first point of contact

State Infrastructure Banks

- State DOTs often have these banks, which are a federally-capitalized fund source of low-cost financing for eligible projects
- Maximum loan term is 35 years; interest rate set by state
- Can make a large project affordable for a nonprofit or local community (I.e., $200,000 over 30 years at 5% interest = about the size of an average mortgage payment).

Flow of Funds – State Infrastructure Banks



Products Available:

- Direct Loans
- Credit Enhancements
- Other

How Would a SIB Loan Work?

Project sponsor (diesel nonprofit or agency) applies to State SIB for loan for emissions reduction project.

The SIB considers the loan application *(If the SIB does not currently have funds, it may choose to use some of its Federal-aid funding to "capitalize" (fund) the SIB loan)*

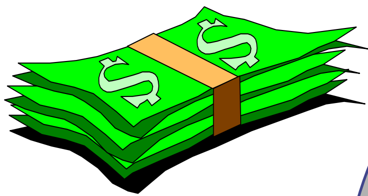
If the application is approved, the SIB and the borrower negotiate terms such as interest rate, term of loan, and collateral, then the loan is made.

The nonprofit buys the equipment. Truckers purchase the equipment from the nonprofit and make payments to nonprofit. The nonprofit repays the SIB.

The SIB uses the repayments to assist other projects.

SIB LOAN EXAMPLE

PROJECT
SPONSOR



$10 million
loan

Repayments
From truckers go
To nonprofit,
Then on to SIB

SIB

*Can lend repayments to any Title 23 project;
Must follow Federal requirements

Advantage of SIB Loans – To Borrowers, and to State DOTs

State DOTs

- Assist more than one project with the repaid funds (repayments go back in the program)
- Leverage – loans and credit enhancement go farther than direct Federal-aid
- Attract net new money to the system

Borrowers

- Low interest rate (zero to market)
- Flexible repayment
- Maximum 35 year term
- Repayments can be delayed up to five years after construction
- “Patient” lender (can be subordinate)

A Note On Eligibility

- Only certain types of funds can be placed into a State Infrastructure Bank (National Highway System, Interstate Maintenance, Equity Bonus, Surface Transportation Program. Bridge)
- The SIB can assist any project eligible under Title 23 – including CMAQ projects

TIFIA (Direct Federal Credit)

- Transportation Infrastructure Finance and Innovation Act (TIFIA)
- Currently limited to $50 million or greater size
- CMAQ-eligible projects can apply
- IDLE AIRE applied for diesel emissions reduction (stationary facility); also intermodal inland port has applied

How Would a TIFIA Loan Work?

Project sponsor applies to USDOT for loan for emissions reduction project

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USDOT considers the loan application

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If the application is approved, USDOT and the borrower negotiate terms such as repayment schedule, term of loan, and collateral, then the loan is made

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The borrower constructs the project and repays the loan

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USDOT modes monitor project for compliance with Federal requirements

Advantage of TIFIA Loans – To Borrowers, and USDOT

USDOT

- Leverage (can assist more projects with loans and credit enhancement)
- Attract net new money to the system
- Enable/facilitate public private partnerships

Borrowers

- Low interest rate (Treasury)
- Flexible repayment
- Maximum 35 year term
- Repayments can be delayed up to five years after construction
- “Patient” lender (can be subordinate)

Private Activity Bonds (PABs)

- Allows tax-exempt bonds to be issued for projects with private involvement
- Does not provide funds or loan; but allows sponsors to access capital market funds at cheaper interest rates
- Apply directly to USDOT

How Would a PAB Work?

Project sponsor applies to USDOT for allocation of PAB authority

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USDOT considers the application

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If the application is approved, USDOT and the project sponsor work to find a conduit issuer.

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The issuer issues the bonds, and lends proceeds to sponsor. Sponsor constructs project and makes payments.

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USDOT modes monitor project for compliance with Federal requirements

Advantage of PABs – To Sponsors and USDOT

USDOT

- Attract net new money to the system
- Enable/facilitate public private partnerships

Sponsors

- Cheaper financing (often 1-2 percentage points cheaper than taxable private finance)
- May facilitate financing packages

RC Innovative Finance Team Contacts For Specific Questions

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