

Spending Incentives: Apportionment-Based Credit State Highway 190 (George Bush Turnpike), Dallas, Texas

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To date, states have mainly used two apportionment-based mechanisms to offer credit assistance to project sponsors. The first is a Title 23, Section 129 loan, whereby a state lends a share of its regular federal-aid highway funding to a public or private entity. The second option is capitalization of a state infrastructure bank (SIB), which involves a transfer of apportioned highway or transit funds to a revolving fund. While most project sponsors would naturally prefer a grant over a loan, competing demands for scarce funds can make credit an appealing option. For projects on a tight timeline, credit today can be just as attractive as a promise of a grant many years from now.

State Highway 190 is a 26-mile segment of a tolled beltway around Dallas. The Texas Turnpike Authority (TTA) is the sponsor of this \$696 million project. Sources of funds for the project include \$28 million in right-of-way donations, \$20 million from the TTA capital improvement fund, \$67 million in interest earnings, a \$446 million toll revenue bond issue, and a \$135 million toll-backed loan from the Texas Department of Transportation. Two of five loan disbursements were made under Section 129. These obligations have since been adopted by the Texas SIB, which will also disburse the remaining funds and receive repayment of the full loan amount, plus interest.

The \$135 million loan plays an essential role in the total financing package and proved critical to ensuring the affordability of the \$446 million revenue bond issue. The loan's terms were driven primarily by a bond covenant that required debt service coverage on outstanding senior debt obligations to equal or exceed 1.20 times debt service, or 1.20x. The flexibility of the loan provisions is evident in three categories:



George Bush Turnpike was completed 15 years earlier than would otherwise have been possible as a result of \$135 million state infrastructure bank loan from Texas Department of Transportation.

Interest rate. Financial analysis revealed that the interest rate on the loan could not exceed 5 percent without reducing coverage below the 1.20x threshold. Ultimately, the lender (TXDOT) and the borrower (TTA) agreed on a 4.2 percent rate. At this level, the rate was affordable for TTA, given its coverage constraint, and also represented a fair repayment rate for TXDOT.

Subordinate status. Estimated toll revenues were not expected to be sufficient to provide 1.20x coverage on a \$700 million bond issue (the full cost of construction). TTA and TXDOT offset approximately \$120 million with a variety of cash and in-kind contributions. TXDOT displaced an additional \$135 million of revenue bonds with the loan. Because the loan occupies a subordinate position, it allows toll revenues to be available first and foremost to provide coverage of debt service on the senior revenue bonds.

Repayment stream. Repayment of the TXDOT loan will begin in 2004 and be completed in 2029. Debt service has been structured to escalate, mirroring the expected flow of toll revenues. This schedule allows TTA to demonstrate 1.20x coverage on both the loan and senior debt obligations, after paying operations and maintenance. Although the 1.20x coverage ratio was required only for the senior debt, demonstration of a 1.20x coverage level on all project debt underscores TTA's credit strength. Coverage on the senior debt is projected to range from 1.33x to 2.27x over the life of the bonds, and even uninsured, the bonds were awarded investment grade ratings of A, A-, and A-1 by the three leading rating agencies. With insurance, the bonds received a triple A rating.

Ultimately, the loan's inclusion in the mix of financing sources accomplished three things. First, a below-market rate was obtained for almost a quarter of TTA's borrowings, reducing the debt service burden on the project. Second, the loan's subordinate status helped enhance the ratings on the TTA revenue bond issue. And third, as the loan is repaid with toll revenues, the repayments will transform a one-time grant of federal-aid funds into a foundation for a self-sustaining revolving fund. Taken together, these financial benefits and the innovative partnership between TXDOT and TTA have enabled an important extension to the beltway to be accomplished at least 15 years sooner than would have been possible under traditional pay-as-you-go financing.

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