

DIRECT FEDERAL CREDIT TO HELP FINANCE MAJOR TRANSPORTATION PROJECTS

WALTER KREUTZEN AND MIRIAM A. ROSKIN

Walter Kreutzen is chief operating officer, Transportation Corridor Agencies, Orange County, California; Miriam A. Roskin is principal, Roskin Consulting, Seattle, Washington.

Since 1976 the Orange County Master Plan has included construction of a 108-km (67-mile) highway corridor system to serve the needs of the rapidly developing Orange County area. By the 1980s, however, California and the federal government recognized that they were unable to provide adequate funding for this ambitious system. In 1986 local governments obtained state enabling legislation for the creation of the San Joaquin Hills and Foothill/Eastern Transportation Corridor Agencies (TCAs) to construct these new roads as toll facilities.

Problem

As the TCAs considered ways to assemble a credit-worthy financing package, the first significant hurdle was the size of the projects. The price tag for the 24-km (15-mile) San Joaquin Hills toll road stood at \$1.45 billion, and the 48-km (30-mile) Foothill/Eastern toll project was expected to cost about \$1.8 billion. The projects' status as start-up toll facilities—the first of their kind in California—further complicated the situation in that the inherent uncertainty of toll receipts during the early years of operation promised to make it even more difficult for the TCAs to win the confidence of the capital markets.

Solution: Direct Federal Credit

Direct federal credit in the form of two standby lines of credit was one tool that helped the TCAs assemble financing packages secure enough to justify investor confidence in the projects' creditworthiness. A standby line of credit is a supplementary loan available to the borrower under specified circumstances. This type of credit can be particularly effec-

tive in the case of start-up toll projects because the availability of supplementary financing can help alleviate other investors' anxiety concerning the revenue risk intrinsic to the early years of operation.

The concept of direct federal credit (including loans, loan guarantees, and lines of credit) surfaced during the early 1990s as part of a larger push by the transportation and financial communities to find new ways of extending, or leveraging, tax-based funding through greater reliance on private investment. Special language within the Transportation Appropriation Acts for federal fiscal years 1993 and 1995 made the San Joaquin Hills and Foothill/Eastern lines of credit possible. The adoption of the Transportation Equity Act for the 21st Century (TEA-21) now provides the U.S. Department of Transportation standing authority to offer all three forms of credit.

The TCAs' first line of credit makes available a maximum of \$120 million in supplementary capital to the San Joaquin Hills project. For the Foothill/Eastern project, the maximum amount is \$120 million to mitigate revenue risk and an additional \$25 million for contingencies. Each line of credit is available for a 10-year period following completion of the facilities. Only 10 percent of the total amount of credit can be drawn in any one year. The San Joaquin Hills TCA issued almost \$1.2 billion in toll revenue bonds in 1993. A total of \$1.2 billion in fixed-rate toll revenue bonds and \$250 million in variable-rate bonds was issued for the Foothill/Eastern project in 1995. All issues received investment-grade ratings, representing an adequate level of security for the investor.

Several factors were critical in making the bonds appealing, including the TCAs' decision to contract with a design-build consortium that guaranteed a completion date and maximum price. The federal



Federal credit was a key element in finance package for Transportation Corridor Agencies' toll roads.

lines of credit were important because they helped allay any lingering concerns regarding the sufficiency of toll revenues to meet all obligations. The lines are available to provide limited supplemental capital for:

- ◆ Extraordinary repair and replacement.
- ◆ Compliance with unexpected environmental regulations.
- ◆ Operation and maintenance.
- ◆ Debt service in the event that traffic levels and resulting toll revenues prove insufficient to meet debt service requirements.

The San Joaquin Hills Corridor opened to traffic in November 1996. Construction on the Foothill/Eastern project is a full year ahead of schedule.

Benefits

The cases of the San Joaquin Hills and Foothill/Eastern transportation corridors vividly illustrate how the federal government can fill an important niche in the financing of costly projects of national significance. It is important to recognize that benefits accrue both internally (to the project receiving assistance) and externally (to the federal transportation program as a whole).

The lines of credit benefit the San Joaquin Hills and Foothill/Eastern projects by contributing to

the TCAs' ability to finance and proceed with these projects sooner than might otherwise have been possible. They were an integral part of the overall financing package and provided tangible evidence of the federal government's support for the projects and willingness to share the financial risk with other investors. The TCAs' ability to finance and complete the projects earlier than would otherwise have been possible means that road users will enjoy the projects' benefits, including congestion reduction and safety improvements, that much sooner.

The federal government's provision of supplemental capital in the form of credit rather than a grant also offers benefits that go beyond the specific projects in question. Credit can be provided at a fraction of the budgetary cost of grant funding (see article by Grote and Seltzer in this issue). Because credit is available at a lower cost, the remaining budget authority can be used for other projects nationwide. The \$400 million U.S. Department of Transportation loan to the \$2.1 billion Alameda Corridor project in Los Angeles is another excellent example of federal credit. Further applications of federal credit can be expected, since TEA-21 authorizes a pilot program under which U.S. DOT can offer up to \$10.6 billion worth of direct federal credit to surface transportation projects of national significance.