Funding vs. Finance Distinction
Funding = Pay-As-You-Go (PAYGO)

PAYGO: using existing revenue streams (grants or tax revenues) as they are received to pay for capital investments

Example: portion of Illinois 19 cent/gallon fuel tax revenue directly spent by IDOT on road projects
Financing = Debt and/or Equity

Debt financing: Advances the availability of future revenue streams through borrowing (going into debt) against those revenues

Example: The Illinois Tollway sells bonds backed by toll revenues to fund its capital program

Equity financing: Through various investment products, investors pay for an ownership interest in infrastructure projects or assets

Example: Private Consortium building and operating the Denver Commuter Rail to the Airport contributed approx. $50 million.
Reasons to Use Pay-as-You-Go

- Level capital program requirements (no major projects)
- Level revenue flow matching capital needs
- Significant projected future capital needs
- Unstable revenue sources
- High existing debt burden

Advantages of Debt Financing

- Can develop projects faster
  - Potential environmental, safety, economic benefits
- Improve short term cash flow
- Match the project funding with the useful life of the assets
- Spin-off benefits
  - Strengthen revenue generation through increased ridership
  - Reduce maintenance expenses
General Financing Considerations

- Need to identify an approach that creditors will support, i.e., they will buy your debt instrument or loan you money.

- Key issue: is it cost effective (Net Present Value analysis) for you to incur the borrowing costs, interest payments and debt issuance costs?

- The debt strategy selected provides the best terms for meeting your cash flow needs and keeping your debt costs down.
Financing Risk issues

- Reliability of your revenue stream
- Community and political opposition
- Litigation
- Ramp-up difficulties
- Cost over-runs
- System performance problems
  - Denver Airport luggage problem
Most Projects Are Non-Revenue Based

- Traditional Non-Revenue Transportation Projects: Mostly PayGo but some Debt backed by grants
- Revenue Projects Requiring Credit Assistance: Debt or Debt & PayGo Mix
- Not Sufficiently Marketable Revenue-Based Projects: Mostly Debt but also Debt and PayGo Mix and Equity Interest
- Marketable Revenue-Based Projects
Structure & Overview

Federal Government
A Source of Billions of $ for Transportation
The Three Branches

Executive Branch
- President
  - Executive Offices
  - Departments & Agencies

Legislative Branch (Congress)
- House
- Senate

Judicial Branch
- Supreme Court
  - Federal Court System
Transportation and the Executive Branch

- President
  - OMB
  - Homeland Security
    - Coast Guard
    - TSA
  - USDOT
    - FTA
    - FHWA
    - FRA
    - NHTSA
    - FAA
      - Amtrak

Other:
- Maritime Bureau of Tsp Stats
- Research
- St. Lawrence SW
- FMCSA
- Army Corps of Eng.
Transportation and the Legislative Branch

Congress is ruled by committees

**Senate**
- EPW Committee (Subcommittees)
- Finance Committee (Subcommittees)
- Banking Committee (Subcommittees)
- Budget Committee (Subcommittees)
- Approps Committee (Subcommittees)
- Commerce, Sci, Tsp (Subcommittees)
- T&I Committee (Subcommittees)
- Rules Committee (Subcommittees)

**House**
- Ways & Means Committee (Subcommittees)
- Budget Committee (Subcommittees)
- Approps Committee (Subcommittees)
- Rules Committee (Subcommittees)
- Other Committee (Subcommittees)

**Senate**
- Majority Leader Harry Reid (D)
- Minority Leader Mitch McConnell (R)

**House**
- Speaker John Boehner (R)
- Minority Leader Nancy Pelosi (D)
Congressional Committees

Iron or Golden Triangle

Administration

Public Interest/Industry Groups
The Iron Triangle in Action

1. Hearings
2. Mark-Up
3. Floor
4. Conference Committee
5. Final Action on Floor

Congressional Committees

Administration DOT + OMB

Public Interest/Industry Groups

Partnerships
Types of Funding Legislation

- **Authorization**: creates the funding program structure and the ceiling for funding

- **Appropriation**: annually sets the funding amount within the authorized ceiling

- There are authorization and appropriation committees
As provided by the authorization and appropriation legislation

Federal transportation agencies allocate or apportion funds to local recipients through individual grants

Usually requires a local match of money
- Highway and transit 20% match
- Airports: 5% or 25%
Discretionary Grant Funding

Funding that Congress grants a federal agency (USDOT in the case of most transportation projects) discretion to allocate based on a prescribed set of criteria

- typically competitive grant programs that states, localities, or others must apply for
Formula funding

- Grants are **apportioned** to recipients with no federal agency discretion

- Distributed through a formula that is established by Congress
  - More predictable for recipients (like state DOTs)

- Factors considered for transportation formulas include:
  - Population
  - Service levels
  - Vehicle lanes/miles
  - Airport landings and take offs
Operating vs. Capital Costs

- Operating: costs associated with operating and maintenance of the system, labor, short life maintenance items, administration related to operations

- Capital: all tangible property which cannot easily be converted into cash and which is usually held for a long period, including real estate, vehicles, other equipment, facilities, etc.
Federal Highway Programs
Federal Aid Highway Program

“Program” is umbrella term referring to activities administered by the Federal Highway Administration (FHWA)
Highway Trust Fund (HTF)

- Established in 1956 as a mechanism for financing highway building
  - Republican President Eisenhower
- 90% of the revenue from motor fuel taxes
  - 18.4 cents per gallon for gas
  - 24.4 cents per gallon for diesel
  - Other: gasohol, special fuels, truck & trailer sales, tire tax, truck safety violation fees, etc.
- Highway and Mass Transit Accounts
Highway Trust Fund (HTF)

- Funds federal highway and transit program
- Highway account insolvent this July or August, transit account a bit later
- Without new revenues, FY 2015 projects will not be funded

![Receipts, Outlays, and Balances of the Highway Account](chart.png)

Source: Congressional Budget Office.
Note: Estimates are based on CBO's May 2013 baseline projections.
Recent History of Surface Transportation Authorization Bills

Bills are primary for highway and transit programs:

- ISTEA 1991 (6-yr bill)
  - 1-yr extension
- TEA-21 1998 (6-yr bill)
  - 2-yrs of extensions
- SAFETEA-LU 2005 (5-yr bill)
  - ~3-yrs of Extensions
- MAP-21 2012 (2-yr bill)
  - Extensions?
Moving Ahead for Progress in the 21st Century (MAP-21)

- Two year authorization enacted 2012
  - Expires Sept. 30, 2014
  - Funding levels essentially stable + inflation
  - Failed to address HTF solvency challenges
    - Revenue shortfalls covered by general revenue infusion
- Program restructuring & streamlining: most discretionary programs eliminated
- Many advocacy groups were not happy but achieved some goals
MAP-21 Highway Apportionment to States

FY13: each state received an equal share of its total apportionment from FY12
- adjustment to ensure each state gets at least 95% of funds paid into HTF

Illinois: $1.37 B in FY13, $1.39 B in 14
- Improved from #7 to #6 highest funded state
  - Nearly a 99% rate of return on federal fuel taxes
- 3.67% of national total
MAP-21: Highway Program Consolidation

- National Highway System
- Interstate Maintenance
- Bridge (On-System)

} National Highway Performance Program

- Surface Transportation
- Bridge (Off-System)
- Border Infrastructure
- Appalachian Dev. Highway System

} Surface Transportation Program
MAP-21: Highway Program Consolidation

Congestion Mitigation & Air Quality Program

Highway Safety Improvement

- Transportation Enhancement
- Safe Routes to School
- Recreation Trails

Transportation Alternatives

Highway Safety Improvement

 Congestion Mitigation & Air Quality Program
Federal Transit Programs
Mass Transit Account (MTA) of the Highway Trust Fund

- Primary source of federal transit funding
- Created in 1982 as a bargain around fuel tax increase
- 1 cent of 5-cent per gallon fuel tax increase dedicated to transit
  - 20% of subsequent fuel tax increases
    - Currently 2.86 cents/gallon goes to MTA
Urbanized Area Formula Grants

- Transit capital & operating asst. to contiguous urban areas with pop. of more than 50,000
  -Authorized at $4.4 billion/year

- Areas with populations >200,000 cannot use these funds for operating expenses
  -Preventive maintenance exception
  -New MAP-21 exception for systems operating fewer than 100 buses at peak period
Rural Area Formula Grants

- Capital and operating assistance, via the states
  - Largely used for operating costs

- MAP-21 authorized ~$600 M each in FY13/14
State of Good Repair Program

- Created by MAP-21, $2.1 B each for FY13/14
- Revamps the “Fixed Guideway Rail Modernization” program
- A program to move all systems toward a state of good repair
  - Primarily fixed guideway rail, but some bus programs eligible if operating on HOV/HOT lanes
  - Cities with older networks are the main beneficiaries

CTA Red Line Reconstruction

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Buses and Bus Facilities Program

- FY 12 (last year of SAFETEA-LU): $984 M
- MAP-21: Changed from a discretionary to a smaller formula program, ~$420 M each in FY13/14
  - $1.25 M to each state/territory; the rest distributed according urban area grants
- Main Impact: small transit systems will find it difficult to accumulate money to afford large bus projects
Federal Aviation Programs
Airports Financing

Airport Fees and Charges

- Airlines
- Concessions
- Rental Car Facilities
- General Airport Revenue Bonds
- Special Facility Revenue Bonds

- Passenger Facility Charges
- Federal Grants
Airport/Airway Trust Fund (AATF)

- Created in 1970 through related excise taxes

- Funding sources: taxes related to
  - passenger tickets,
  - passenger flight segments,
  - international arrivals/departures,
  - cargo waybills,
  - aviation fuels,
  - frequent flyer mile awards

- Maintains about $15 billion/year
Airport Improvement Program (AIP)

- Approx. $3.5 B/year,
  - Formula
  - Small discretionary set-aside

- Funding for planning and development projects
  - Only airside
  - Capacity, security, enviro mitigation, bond repayment
  - Not eligible: commercial revenue-producing areas

- Federal share of eligible costs:
  - 75% for large and medium primary hub airports
  - 95% for small relievers and general aviation airports
Passenger Facility Charge (PFC)

- Federal govt authorizes:
  - the local collection of fees up to $4.50
  - for every enplaned passenger
  - at commercial airports controlled by public agencies

- Complements AIP funding
  - can be used “ground side” projects

- More PFC means less AIP allocation.
  - O’Hare apportionment is now 25% of its original level
Essential Air Service (EAS)

- ~$150 M annually for 160 small communities providing subsidies to air carriers

- IL’s 3 eligible airports: Decatur, Marion/Herrin, Quincy

Decatur Airport
FAA Reauthorization of 2012

- Authorized $63 B over 4 fiscal years
  - no increase to jet fuel taxes

- EAS to remote airports continued but gradually reduced in funding
  - no new communities eligible
Amtrak Passenger Rail

- FY 09 - 13 Authorization: *Passenger Rail Investment & Improvement Act (PRIIA)*
  - Expired in 2013
  - Never fully funded
  - FY 14 Funded by the Omnibus Approp. Bill
    - no authorization
  - Amtrak is funded with General Revenues
    - That is a problem for many legislators
## AMTRAK FY 09-14

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AMTRAK Funding under PRIIA Capped by Appropriations (in millions of $)
Major Federal Discretionary Programs
Earmarks (historically)

- Congressionally directed spending to provide members with specific, identifiable benefits for constituents
- Highway: 80% distributed through formula, 20% discretion. grants (mostly earmarks)
- Transit: ~30% discretionary grants; major earmarks were through New Starts, Bus & Bus Facilities Programs
- Aviation: Minimal role; some AIP projects named by Congress
Post-Earmark ERA Funding Bills

- Formulas become most important factor in determining how much federal $ states and cities receive

- Some discretionary programs remain, but relatively small share of total federal transportation spending
FTA New Starts Program

- Funds new fixed guideway systems, extensions to existing ones. Projects include commuter rail, light rail, heavy rail, bus rapid transit, trolleys and ferries.

- One of the largest discretionary grant programs across entire fed govt
  - Used to be $1-2 B/year, 100% earmarked

- MAP-21 streamlined application & approval process; expanded eligibility to core capacity projects – better for old transit systems like Chicago
  - FY13 & 14: $1.9 billion per year. No earmarks.
USDOT - Projects of National & Regional Significance

- MAP-21 authorized $500 M from the General Fund in FY13 only
  - Not appropriated
- Competitive grants for critical high-cost capital projects that will accomplish national goals
  - national/regional economic benefits, improved safety
  - difficult to complete with existing Federal, State, local, and private funds
  - States, transit agencies, multi-State or multi-jurisdictional groups eligible to apply
TIGER – Transportation Investment Generating Economic Recovery

- Created in stimulus 2009 – competitive grant program to focus big $ on projects of regional/national significance

- Prior Illinois TIGER grants (Rounds I – IV):
  - $100 M for CREATE, $22 M for Normal Multimodal Trans. Center, $6 M for Southwestern IL Intermodal Freight Trans. Hub (2009)
  - $10 M for Moline Multimodal Station, $10 M for Peoria Warehouse District Complete Streets, $2.8 M for Barrington U.S. 14 Underpass (2010)
  - $13.8 M for Alton Regional Multimodal Station (2011)
  - $10.4 M for CREATE, $20 M for 95th St. Terminal Expansion (2012)

- FY13 Continuing Resolution allocated $503 M
  - TIGER V: IL received 1 grant for rail improvements in Springfield ($14.4 million)

- TIGER VI created by 2013 Omnibus Approp. Bill: $600M
Federal Budget Sequestration

- Created by 2011 *Budget Control Act,* which averted default on U.S. debt ("breaching the debt ceiling")
- Law created spending caps over 10 yrs to save $1 T
- Agreement on cuts not achieved by Congress
- Sequester’s across the board cut implemented
  - ~$140B annually through 2021 unless a new law is enacted.
  - Highway and Airport Trust Funds spending exempt
  - Nearly $2 billion in transportation-related cuts
  - 2013 Omnibus appropriation bill negated for 2014 and 2015
Regional-State-Local Transportation Funding & Finance
State Grant Funding Process

- Federal funding is sent to the Illinois Department of Transportation (IDOT), then distributed to Metropolitan Planning Organizations (MPOs) or local governments.

- IDOT’s budget is approved by the Illinois House and Senate, then signed by governor.
Hierarchy of Federal Funding Authority over NE Illinois Surface Transportation

IDOT

CMAP
Policy Comm.
MPO

ISTHA

TRANSIT
City of Chicago
RTA
CTA
Pace
Metra

HIGHPWAYS
City of Chicago
Counties
Local municipalities

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State Highway Program Budget

- Federal
- State
- Local

FY 2011-2016 Program Fund Sources
$ Billions

- Federal Aid $7.292 57%
- State Funds $2.256 18%
- IL Jobs Now! $2.490 19%
- Jump Start $0.142 1%
- Local Funds $0.660 5%
FY 2011-2016 State Program Distribution
$ Billions

- System Maintenance
  - $4.341
  - 43%
- Bridge Maintenance
  - $2.240
  - 22%
- System Expansion
  - $1.005
  - 10%
- Congestion Mitigation
  - $2.517
  - 25%
State Transit

- Illinois’ program divided into Northeastern & Downstate, which has over 40 agencies
  - Northeastern receives ~90% of funds
- IDOT works with RTA on Northeastern planning/funding
- IDOT works with Rural Transit Assistance Center (W. IL Univ.) & IL Public Transportation Assoc. to develop annual Downstate capital needs assessment
Regional Transportation Authority (RTA)

- 5 Chicago, 5 Suburban Cook, 5 Collar Counties Board Members
  - City has veto over RTA Board actions
- RTA authority over service boards (CTA, Metra, Pace):
  - Auditing
  - 10 year financial forecast
  - Strategic Planning
  - Performance Measures
  - Capital Budgeting
  - Marketing Coordination
2007-2008 RTA Budget Reform

- **Increased Sales Tax** by ¼ of 1% across the region
  - 52% of new sales tax revenue goes to Pace and Metra
  - ¼% additional for collar counties for their use

- **Real Estate Transfer Tax** authority for the City of Chicago to impose on behalf of the CTA

- **Additional state match** for the new tax revenue

- Total new projected funding was over $500 million
  - Recession cut actual funding by 20%
PTF: State-provided funding comprised of a match of sales tax and Real Estate Transfer Tax (RETT) receipts.

State Financial Asst: Reimbursement from the state for debt service on RTA’s capital improvement bonds. Reduced fare reimbursement for students, seniors, disabled people.
Illinois Freight Rail

Rail Freight Assistance Program
- Capital assistance to communities, RRs & shippers to preserve and improve service
- Minor impact: Illinois STP proposes $5 M over FY13-17 in state & federal funds

Chicago Region Environmental & Transportation Efficiency Program (CREATE)
- $2.6 B remains unfunded out of $3.6 B total
Illinois Amtrak Service

- 2008 PRIIA required all short distance services to become state-supported routes
  - States must pay proportional costs of routes

- Illinois funds Amtrak routes primarily in Illinois
  - 8 state-supported trains added over 13 years
  - IDOT subsidy to Amtrak:
    - 2000: $9 M
    - 2012: $26 M
    - 2014 $37 M

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State Funding for Aviation

- In Illinois, traditionally funded through Series B Bonds
- B Bonds funded by general revenue
- Illinois Jobs Now: $120 million total
  - Including $100 million for South Suburban Airport in Will County
State & Local Bond Programs
RTA’s Reasons to Bond

- “Fix it now or pay more later”
  - Capital investments to reduce future operating costs
- Record low interest rates, current good bond rating (AA)
  - $300 M savings in borrowing costs if RTA borrows instead of individual service boards
- Federal funding insufficient to meet capital needs
- State’s capital plan stalled; no new plan
CTA, Metra & Pace 10-year Total Capital Needs

Source: RTA 2012 Presentation to IL Municipal League
5-Year Planned Capital Expenditures (2012-2016)

- $2.169 B (69%)
- $935.3 M (30%)
- $48.5 M (1%)

Source: RTA 2012 Factbook

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RTA Bond Proposal - $2.5 Billion

- Sep. 2012 proposal for rehab & new equip. to bring system into state of good repair
  - Only $887 M in potential projects specified
  - Relied on sales tax revenue for debt service
    ~$160 M/year by 2018
      - RTA projects its share of tax revenue to grow from $96 M in 2014 to $261 M in 2022
  - If sales tax falls short, what revenues would be tapped to pay for debt service on the bonds…?
- Must be approved by State Legislature
  → Not enacted.
Current State Bond Programs

- Jump Start (2009)
  - $2 B Series A bonds “state stimulus” program
  - $450 M bond letting in FY09, $1.5 B FY10-15
  - Mainly road surfacing – 1,216 miles
    - N/S Wacker Drive - $360 M

- Challenge for Jump Start: lack of reliable funding sources against which to sell bonds
Illinois Jobs Now Bond Program

- Largest construction program in state history

- Created in 2009: 6-yr, $31 B capital program
  - New Series D type bond created
  - $14 B dedicated to transportation, of which $1.5 B planned for Northeastern transit

- Over $12 B spent thus far on projects to improve 6,600 miles of roads & more than 1,000 bridges
Trouble Ahead

■ Last fiscal year (July 2012-June 2013), Illinois spent $1 B (40%) less on road projects.

■ “The projected backlog of the roadway system in need of repair by FY 2018 will grow to 5,047 miles, leaving only 68% of the overall system in acceptable condition.”
  - Illinois Long Range STP, Sep. 2012 draft

■ Why?
  □ Anticipated drop-off in federal funding
  □ Stagnant or declining revenues from state-collected taxes/fees
  □ Mode shifting / Changing driving habits / Fuel efficient cars
Illinois Mileage Needs Backlog

Source: IL Long Range STP, 9/2012

Illinois Structures Needs Backlog

Source: IL Long Range STP, 9/2012
Innovative Financing
What is innovative financing?

- Unique financing strategies that overcomes perceived project or program risk
- Provides credit and cash flow support
- Moves the traditional transportation funding process away from a single strategy of aid through PAYGO grants
- to a more diversified approach, involving increased utilization of capital (debt) markets and the private sector
Reasons to Use Innovative Financing

- Can be used on projects that are difficult to finance because of scale/complexity
- More effectively uses existing financial resources
- Moves projects into construction more quickly
- Increases public and private investment in transportation infrastructure
- Supplements, not replaces, traditional financing mechanisms
Grant Management

- GARVEE Bonds: pledge of future federal-aid for debt service
  - Helps generate up-front capital for projects

- Flexible Funding: highway and transit dollars can often be “flexed” between programs

- Flexible Match: many federal-aid projects allow the use of other federal funding as the “local” match
Transportation Infrastructure Finance and Innovation Act (TIFIA)

- Established as a program under USDOT in 1998

- Provides credit assistance to major surface transportation projects of national significance
  - Project must be in state’s TIP; have a dedicated revenue source
  - Costs must generally exceed $100 M; TIFIA no more than 49%

- Three credit instruments: Loan guarantee, Direct loan, Line of credit

- To date, $11 billion in funding used to leverage over $44 B in private and other capital across 33 projects
MAP-21 Financing Changes

- Tolling: **new capacity** tolling on Interstates
  - allows tolling on non-Interstates if # of toll-free lanes is preserved
  - allows States to convert HOV lanes to HOT lanes

- TIFIA: big increase in funding ($1.75 B over 2 yrs)
  - TIFIA can provide up to $10 in credit assistance per dollar in seed money → $17 B worth of support
  - First-come first-served application process
    - Project must still meet creditworthiness criteria


Design Build

- Traditional: Design-Bid-Build
- Also known as “design-construct” or “single responsibility.” System of contracting under which one entity performs architecture, engineering and construction under a single contract.
Design Build cont.

Advantages:
- Saves time/money
- Creates clear, sole source of responsibility for project delivery
- Risks shifted to contractor

Disadvantages:
- Gives up control
- Risky when used for complex projects
- Contract bidders may build in higher costs to cover risk
Variations of DB

- Bridging: Owner develops preliminary project design to the 30-50% level

- Turnkey: Owner requires outside expertise, then allows entity to turn over keys at project completion

- Design-Build-Warranty: Combines a warranty provision with DB

- Design-Build-Maintain: Combines maintenance provisions with DB

- DBOM: Design-Build-Operate-Maintain
THE END
THANK YOU