

## Overview of State Transportation Financing Mechanisms

<p><i>Bonding and Debt Financing</i></p> <ul style="list-style-type: none"> <li>• <b>Revenue Bonds</b></li>   <li>• <b>General Obligation Bonds</b></li> </ul>	<p>Revenue bonds are backed by a dedicated revenue source, like a motor fuel tax or toll, and the debt is therefore secured. The debt is paid for by the population through sales taxes or other forms of taxation.</p> <p>General obligation bonds are backed by the state or local government and represent the highest rated debt. These bonds can sometimes require voter approval. General obligation bonds have low-interest costs and therefore they are not risky to investors. These bonds may be limited in scope depending on the existing statute imposed on the debt-issuing authority.</p>
<p><i>Public-Private Partnerships (P3s)</i></p> <ul style="list-style-type: none"> <li>• <b>Shadow Tolling</b></li>   <li>• <b>Availability Payments</b></li> </ul>	<p>“PPPs are essentially contractual arrangements between the public and private sectors that allow a single private entity to assume significant control of, and risk for, multiple elements of a project, including design, construction, financing, operation and maintenance.”<sup>1</sup> As of 2013, 33 states have enabling legislation to authorize PPP projects.</p> <p>Shadow tolls are also referred to as pass-through tolls. According to FHWA, “shadow tolls are per vehicle amounts paid to a private toll road operator by the procuring agency or another public entity in lieu of collecting tolls directly from the users of the facility. The users of the facility do not pay tolls. Shadow tolls may be based on types of vehicles and distances traveled on the facility.”<sup>2</sup></p> <p>Availability payments are frequent payments given to a concessionaire by a public authority in exchange for providing an available facility. The availability payment can be decreased if the facility is not available for a given amount of time or if the facility is not kept in adequate condition.</p> <p>This option eliminates the concessionaire from taking on any traffic risk and “protects the interests of the public by giving the concessionaire a financial incentive to maintain the facility in satisfactory condition and operating at a specified level of performance.”<sup>3</sup></p>

<sup>1</sup> FHWA. <http://www.fhwa.dot.gov/reports/pppwave/08.htm>

<sup>2</sup> FHWA. <http://www.fhwa.dot.gov/reports/pppwave/08.htm>

<sup>3</sup> FHWA. <http://www.fhwa.dot.gov/reports/pppwave/08.htm>

<p><i>Federal Debt Financing Tools</i></p> <ul style="list-style-type: none"> <li>• <b>Grant Anticipation Revenue Vehicles (GARVEEs)</b></li> <li>• <b>Private Activity Bonds (PABs)</b></li> <li>• <b>Build America Bonds (BABs)</b></li> </ul>	<p>These debt financing tools require states to pass enacting legislation to authorize the creation of these state programs.</p> <p>GARVEE is a federal debt financing mechanism that “enables a state, political subdivision or public authority to pledge future federal-aid highway apportionments to support costs, related to bonds, and other debt financing.”<sup>4</sup> Additionally, states need to pass enabling statutes to authorize GARVEE debt.<sup>5</sup> As of 2013, 44 states have this as a state financing tool.</p> <p>PABs are tax-exempt bonds that are authorized by a public issuer on behalf of a private firm to construct highways and other projects.<sup>6</sup> As of 2013, 6 states use PABs.</p> <p>BABs are taxable bonds that are given out by state or local governments in order to help finance surface transportation projects. BABs can decrease the cost of project financing. However, BABs are not permitted to be used with private activity and the BAB support is only allowed to be used for new construction projects.<sup>7</sup></p>
<p><i>Federal Credit Assistance Tools</i></p> <ul style="list-style-type: none"> <li>• <b>Transportation Infrastructure Finance &amp; Innovation Act (TIFIA)</b></li> <li>• <b>State Infrastructure Banks (SIBs)</b></li> </ul>	<p>TIFIA permits the U.S. Department of Transportation to give direct credit assistance to key transportation project sponsors. The TIFIA program includes direct loans, loan guarantees, and lines of credit. According to the U.S. Department of Transportation, every dollar allocated into TIFIA can provide \$10 in loans and provide \$30 in infrastructure investment.<sup>8</sup></p> <p>State Infrastructure Banks (SIBs) require states to pass enacting legislation to authorize the state programs. As of 2013, 34 states and Puerto Rico have SIBs.</p>

<sup>4</sup> National Council of State Legislatures. 50-State Review of State Legislatures & Departments of Transportation. Page 35.

<sup>5</sup> GARVEE Fact Sheet: [http://www.fhwa.dot.gov/ipd/fact\\_sheets/garvees.htm](http://www.fhwa.dot.gov/ipd/fact_sheets/garvees.htm)

<sup>6</sup> PABs Fact Sheet: [http://www.fhwa.dot.gov/ipd/fact\\_sheets/pabs.htm](http://www.fhwa.dot.gov/ipd/fact_sheets/pabs.htm)

<sup>7</sup> BABs Fact Sheet: [http://www.fhwa.dot.gov/ipd/fact\\_sheets/babs.htm](http://www.fhwa.dot.gov/ipd/fact_sheets/babs.htm)

<sup>8</sup> TIFIA Fact Sheet: [http://www.fhwa.dot.gov/ipd/fact\\_sheets/tifia.htm](http://www.fhwa.dot.gov/ipd/fact_sheets/tifia.htm)