



# AAPA Finance Seminar

## TIFIA Program Discussion Governmental Borrowers' Perspectives

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## TIFIA – What's the Deal?

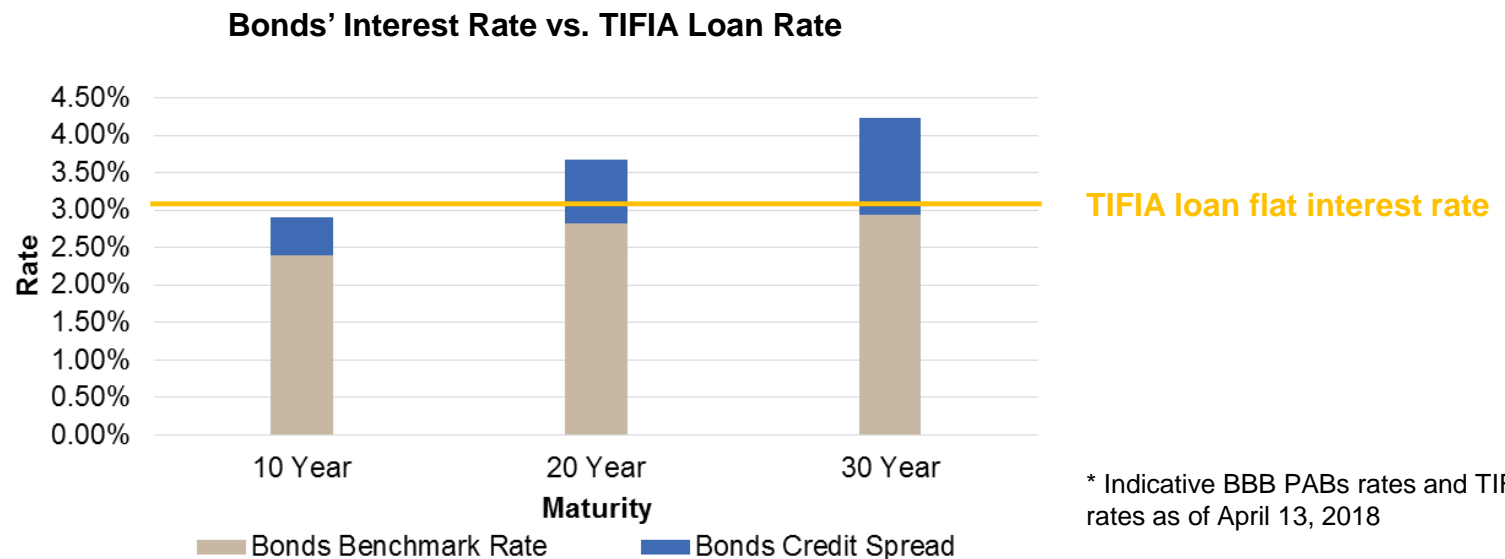
- The Transportation Infrastructure Finance and Innovation Act (TIFIA) program provides credit assistance for qualified projects of regional and national significance, such as highway, transit, railroad, intermodal freight, and port access projects.
- It provides low-cost and flexible repayment borrowing, which can be economically beneficial and is thus well sought by many transportation agencies.
- The TIFIA process is much more onerous and time consuming than a bond issuance, and credit terms may be more constraining.
- What to keep in mind when pursuing and negotiating a TIFIA program loan?





## TIFIA Benefit – Low Interest Cost

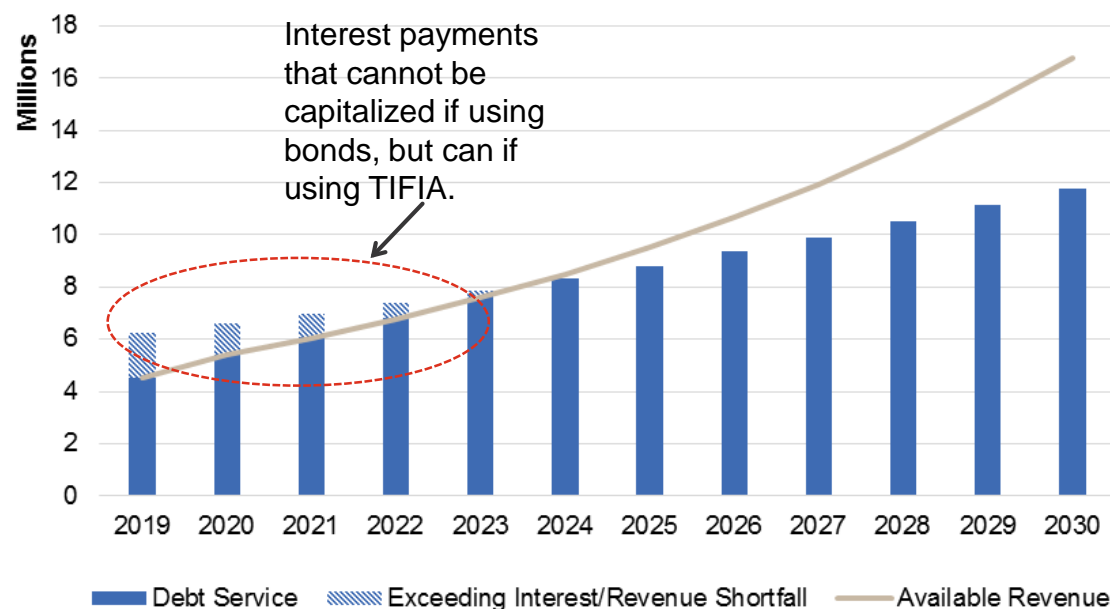
- The interest rate on a TIFIA direct loan is almost equal the yield on U.S. Treasury securities of comparable maturity.
- In comparison, tax-exempt bonds' yields are comprised of benchmark AAA MMD rates and credit spreads, both of which increase with the term.
- The TIFIA loan rate is irrespective of the loan's credit rating, i.e. no credit spreads. This can be particularly advantageous if TIFIA is subordinate lien debt.
- Long-term bonds with a 40 year final maturity bear higher rates; a TIFIA loan can have a similar long loan life but does not have any long-term penalty. The difference is wider when the debt is back-loaded as its amortization is skewed to longer years when costs are higher for the bonds.





## TIFIA Benefit – Flexible Repayment

- If project pledged revenues (oftentimes with a rapidly ascending profile) are low in early years, it can create a challenge in debt structuring.
- Interest payments need to be capitalized when revenues are insufficient in the early years. However, tax laws pose certain restrictions in capitalizing bonds' interest :
  - Limited capitalized interest period - one-year past substantial completion for tax-exempt bonds and only through substantial completion for PABs
  - A capital appreciation bond structure eliminates debt payments in early years, but this structure is 1) not available for PABs and 2) increases yields for gov't purpose bonds
- TIFIA allows accrued interest during construction and for years post substantial completion which produces great flexibilities to circumvent the restrictions imposed on bonds.





## Required Credit Rating Opinions

- During the Letter of Interest review process:
  - Provide a preliminary rating opinion letter from at least one Nationally Recognized Statistical Rating Organization, indicating that senior obligations have the potential to achieve an investment grade rating
  - Provide a preliminary rating opinion on the TIFIA loan
  - Rating opinion is non-public and point in time; fees apply
- Prior to the execution of the TIFIA loan:
  - Senior lien obligations must receive two investment grade ratings
  - TIFIA loan must receive two ratings
  - Only one rating is required for the senior lien and the TIFIA loan if total debt amount is less than \$75M
- If the “springing lien” applies, the rating agencies may rate senior lien debt and a subordinate TIFIA loan the same.



## Pledged Revenue Lien Priority

- TIFIA security can be subordinated to senior lenders
- However, in a bankruptcy related event of the borrower, which includes missing part of interest payments, TIFIA requires its priority to “spring” to the senior lien and to be on parity with other senior lenders
- If bonds are outstanding under a trust agreement, there likely is no provision for subordinate debt to “spring” to parity status – big potential problem
- This non-subordination requirement (commonly known as springing lien) may be waived if certain conditions are satisfied:
  - The TIFIA loan is rated within the A category or higher
  - The loan is secured and payable from pledged revenues not affected by project performance, such as a separate tax-backed revenue pledge
  - The loan amount is less than 33 percent of eligible project costs



## Additional TIFIA Creditworthiness Considerations

- Investment grade Demand & Revenue study acceptable to TIFIA
- Construction Cost Estimate Review
- All construction and operating contracts
- Insurance policies, both construction and operating
- Risk mitigation, especially construction
  - Contingency Funds
  - Transfer via contract – DB & DBOM
  - Insurance
- Pro forma life cycle cash flow analysis



## Conditions Precedent to Loan Agreement Execution

- A number of conditions precedent have to be satisfied by the borrower before the loan agreement is executed:
  - All funding sources are fully and completely committed, i.e. other debt has to be closed
  - Debt indentures executed; the borrower's counsel and bond counsel's opinions rendered
  - Project included in the programs of MPO, state transportation plan, and STIP
  - All governmental approvals to start construction
  - Records of eligible costs incurred prior to the execution
  - Project insurance
  - Functional excel base case financial model





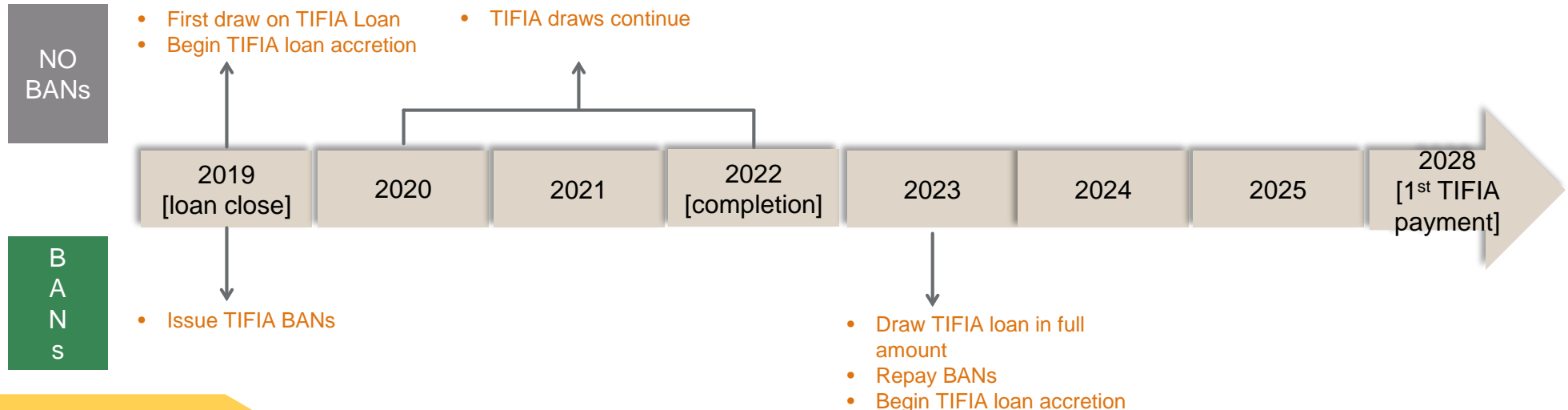
## Conditions Precedent to Loan Disbursements

- Additionally, a number of conditions precedent have to be satisfied by the borrower before the loan is disbursed
  - At least pro rata disbursement of other project sources of funds has occurred
  - Project costs, if revised, can be fully paid by the funds described in an updated Financial Plan
  - Additional project contracts approved by TIFIA
  - No effect of default under other related documents
  - No material adverse effect



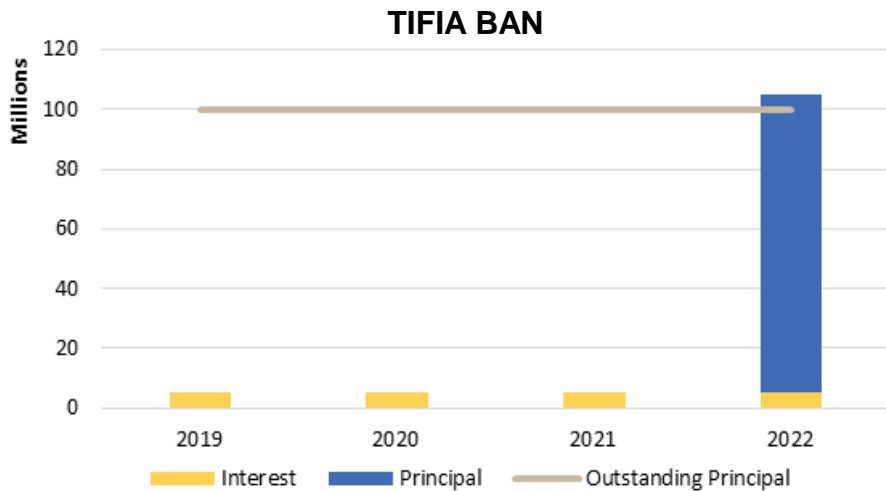
## TIFIA Bond Anticipation Notes (“BANs”)

- BANs are an interim tax-exempt financing product that has a broad market.
- When a borrower commercially closes on its TIFIA loan, it locks in the TIFIA interest rate but does NOT have to immediately draw the TIFIA loan.
- Instead, the borrower could issue BANs secured by pledged revenue but expected to be retired at maturity by a single draw on the TIFIA loan after construction.
- The TIFIA application should request that the interest on the BANs be capitalized and permitted to be added to the TIFIA loan eligible costs.
- Capitalized interest is typically considered an eligible TIFIA cost.
- Borrower could fund a BAN DSRF that would transfer to TIFIA.



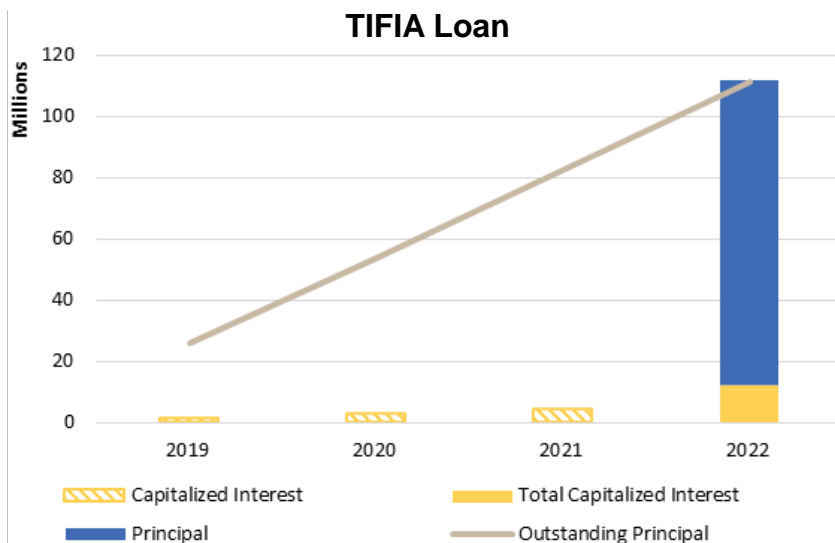


## TIFIA BAN vs. TIFIA Loan – Cost Comparison



- BAN's outstanding principal is the issuance amount and remains so until maturity
- BAN bears interest on the issuance amount regardless of how much BAN proceeds are drawn during the term.
- However, the BAN's interest rate tends to be lower than the TIFIA loan due to its short maturity

Which has the lower interest cost?  
Compare total paid BAN interest with total capitalized TIFIA interest



- TIFIA loan's outstanding principal increases as the loan is drawn down.
- TIFIA loan bears interest on the increasing outstanding balance
- Unpaid interest during the draw period is accrued and rolled to the total principal balance.



## Mandatory Prepayment

- TIFIA can require mandatory prepayments of the loan.
- Common conditions that triggers the prepayment include:
  - Additional senior lien debt to refinance equity contribution (P3 specific)
  - Senior lien debt prepayment
  - Net revenues (after subtracting elements in the flow of funds) exceeding predetermined amounts per the base case financial model
  - Failure to meet certain rate coverage tests
- The prepayment sources can be:
  - Additional debt proceeds
  - Annual project revenues
  - The borrower's cash on hand
- The prepayment can be negotiated. For instance, if the borrower has large capital projects to fund in the horizon, excess revenues should be preserved for that purpose and not shared with TIFA (most applicable to public agency “system” financing)



## Variable Rate Debt

- Many public issuers prefer to include a reasonable amount of variable interest rate debt in their portfolios
- TIFIA typically requires all issues of variable interest rate debt to be hedged by an interest rate swap agreement by a qualified hedge provider.
- TIFIA requires evidence that the hedging provider procurement is a competitive process satisfactory to TIFIA.
- Alternative requirement subject to negotiation:
  - allowing the borrower to issue unhedged variable rate debt up to a maximum principal amount equal to certain portion of its total principal outstanding (for example, up to 10%)
  - allowing the borrower to issue unhedged variable rate debt provided that such issuance satisfies the additional debt test with the borne interest assumed to be a higher fixed maximum rate



## Financial Model and Annual Updates

- TIFIA requires the borrower to provide an excel-based Base Case Financial Model prior to closing.
- The Model shall be functional and allows TIFIA to perform certain sensitivity tests and debt alternative structure tests.
- The Model needs to demonstrate that all loan repayment constraints meet requirements, such as average loan life, debt service coverage ratio, and loan life coverage ratio.
- After the loan closing and through construction completion, the borrower needs to provide annual updates that reflect any changes in the project's scope, schedule, cost estimate, and funding structure.
- After completion and through the life of the loan, the borrower needs to provide annual updates that reflect actual revenue performance, operating expenses, capital maintenance, and any changes in project debt.



## TIFIA Program Fees

- TIFIA requires payments to compensate its expenses during the application stage and the ongoing monitoring stage.

Transaction Fee	
\$250,000 upfront to reimburse outside advisors to TIFIA after passing initial review	Total to TIFIA: \$400,000 to \$700,000 depending on complexity

Loan Servicing Fee	
\$13,000 annual charge	Due by November 15

Potential Monitoring Fee	
Defined in the credit agreement	Never been charged to date