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AN EVALUATION OF INNOVATIVE FINANCING TECHNIQUES FOR INDIANA

Introduction

Annual federal apportionments and Indiana state revenues are not sufficient to maintain and improve state highways so innovative approaches in transportation project financing should be sought. There are several available innovative financing techniques associated with the use of federal funds. Although they do not provide new sources of revenue and cannot create enough funds for all identified projects, these techniques provide flexibility in the use of available funds that can expedite the implementation of individual projects. In this study an evaluation of the major innovative financing techniques associated with federal funds and their applicability for transportation projects in Indiana was performed. The legal, financial, and operational issues of various alternatives were examined and the economic impacts were investigated in terms of user benefits and debt service of the transportation agency. Possible revenue sources for debt service payment also were identified, and from a legal perspective, factors such as eligibility, authorization parties,

and administration of financing assistance were addressed. Innovative financing techniques considered in the study include:

- the Test and Evaluation Project 045 (TE-045 program),
- Grant Anticipation Revenue Vehicle Bonds (GARVEE)
- the Transportation Infrastructure Finance and Innovation Act (TIFIA), and
- the State Infrastructure Bank (SIB).

The following four INDOT projects were used as case studies in the analysis:

- US 31 Corridor Improvement Project,
- SR 641 Terre Haute Bypass Project,
- I-69 Evansville to Indianapolis Project, and
- Louisville-Southern Indiana Ohio River Bridges Project.

Findings

Innovative financing techniques can be adapted to leverage the use of available federal and state funding, and different techniques can be chosen according to project size, term, geographical location, and other characteristics. Some techniques (GARVEE bonds) are applicable to most project types, while others (TIFIA) are restricted in their use.

- The TE-045 program provides a wide spectrum of innovative financing techniques associated with federal funds. TE-045 does not provide financial assistance; rather it fosters the identification and implementation

of new, flexible strategies to overcome the fiscal, institutional, and administrative obstacles in financing projects.

- A large share of the project cost could be financed through GARVEE bonds, which is appropriate financing when the additional public benefits resulting from early project completion exceed the financing costs. Economic analysis concludes that the debt service for such a bond issuance could likely be met through existing state sources for debt service payments in Indiana.

- The TIFIA program is limited in its use, but it can be a helpful tool to fund projects possessing their own non-federal repayment streams. For implementation in Indiana, the feasibility of using such sources as tax increment financing or tolls can be considered to cover costs incurred in using TIFIA assistance.
- Small, short-term projects could be financed through loans provided by a State Infrastructure Bank (SIB). Since Indiana SIB capital is very limited, this technique is more applicable to projects at the local level.

Most of the innovative financing techniques discussed in the study involve borrowing money. It is preferable to use GARVEE or TIFIA programs rather than borrow money from a regular lending institution, as interest rates under these programs tend to be lower and repayment conditions more flexible. The interest rate, discount rate, and term of borrowing are the critical factors that need to be carefully considered to evaluate the impact of innovative financing techniques on economic viability of a project.

Implementation

The following recommendations are suggested for possible further investigation and implementation.

- The financial market conditions should be carefully examined before applying financing techniques that involve borrowing. Particular attention should be paid to such factors as interest rate, discount rate, and consistent flow of revenues.
- It is recommended that documentation defining the objectives of the Indiana SIB be prepared and should include the scope of work and eligibility requirements for financial assistance. Such documentation would serve as a basis to make Indiana SIB assistance more accessible to public and private entities for transportation project financing.
- Comparison between the impacts of different financing techniques can be made in greater detail than what was possible in

the present study. For such a comparison, it will be necessary to have detailed information on specific projects, including the economic analysis data specific to the requirements of various financing techniques. Such an analysis can suggest possible optimal financial formulas based on economic and financial measures as performance indicators.

- The study provides a framework for the evaluation of the use of innovative financing techniques
- The study provides a framework for the evaluation of the use of innovative financing techniques described in this report. With detailed project specific data, INDOT Budget and Fiscal Management Division can conduct a project-by-project analysis to find the optimal solution for individual project financing.

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