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UPDATE

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# California's Transportation Finance Bank

The Federal Highway Administration (FHWA) recently selected California to be one of ten states to participate in its State Infrastructure Bank (SIB) pilot program. Participating states are authorized to create a SIB that uses federal transportation funds to provide financial assistance for public and private transportation projects. The FHWA believes that SIBs can facilitate increased private and public investment in transportation facilities, without increasing transportation taxes. Figure 1 (see page 2) lists the ten approved SIBs, their initial capitalization levels, and the type of financial services that each SIB will provide.

The source of funds to capitalize SIBs has not yet been determined, pending passage of the federal transportation appropriations bill for 1997 (HR 3675). The senate version of this bill provides $250 million in new funding to capitalize the ten SIBs, while the House version provides no new funds. In either case, the FHWA's SIB pilot program will also allow participating states to deposit in the SIB up to 10 percent of their *existing* federal transportation funds, and any amount of state funds.

## How State Infrastructure Banks Will Work

In general, each state will begin by depositing federal transportation funds, and optionally state funds as well, in its bank. The bank will then provide loans or other financial assistance, such as loan guarantees, to transportation projects that generate revenues. In order to complete financing for the projects, developers can then seek additional funding from private lenders or through the state's traditional transportation funding process. As the transportation projects begin operation and generate revenues, their operators will repay the SIB loan, along with interest and/or fees. The SIB will then "recycle" these funds into assistance for other projects, thus allowing a relatively small amount of funds to support a much larger amount of projects.

Because projects must generate revenue to repay SIB and other loans, only certain types of projects will be eligible for assistance. Public or private toll roads, rail and other transit projects, and park-and-ride lots could be candidates for SIB financing, because such projects can generate revenue from user fees. Even nontoll roads could benefit from SIB funding in special cases, if future dedicated revenues, such as developer fees and taxes, are available for repayment of SIB loans. However, SIBs will not benefit traditional types of projects, including most projects in the State Transportation Improvement Program. This is because traditional projects are financed from current transportation revenues and do not generate dedicated revenues when in operation.

## California's Bank Will Provide Loan Guarantees

California's SIB, called the Transportation Finance Bank (TFB), will be operated jointly by the Department of Transportation (Caltrans), the California Economic Development Financing Authority (CEDFA, part of the Trade and Commerce Agency) and the California Transportation Commission (CTC). Before the TFB can begin operation, Caltrans must negotiate and execute a cooperative agreement with the FHWA. Although Caltrans has determined that existing state law provides the necessary authority to create the TFB, AB 3201 (Escutia), currently in Senate Appropriations, would specifically authorize the TFB in statute, providing the Legislature greater oversight of the operation of the TFB.

Although some details of the TFB have not been finalized, California plans to operate its bank differently than those in the nine other pilot states. Unless the FHWA provides capitalization grants, Caltrans does *not* intend to deposit any cash in the TFB. Instead, the TFB will be funded with a $100 million credit that can, if necessary, be redeemed from California's future allotments of federal transportation funds.

Rather than making direct loans as other SIBs will do, the TFB will instead *guarantee* loans received by project developers from commercial banks and other private lenders. This approach has the advantage of allowing the TFB to operate without cash in the bank, thus yielding even greater leverage compared to other SIBs that require cash in order to provide direct loans.

**Figure 1**

**State Infrastructure Banks**

**(In Millions)**

| State | Initial Capitalization: Federal | Initial Capitalization: State | Financial Services |
|---|---|---|---|
| Arizona | $64 | $8 | Primarily loans, also other financial assistance |
| California | 100[a] | — | Loan guarantees and other financial assistance |
| Florida | —[b] | —[b] | Loans |
| Missouri | 12 | 2 | Loans and other financial assistance |
| Ohio | 46 | 20 | Primarily loans, also other financial assistance |
| Oklahoma | 72 | 18 | Loans |
| Oregon | 9 | 4 | Primarily loans, also other financial assistance |
| South Carolina | —[b] | —[b] | Primarily loans, also other financial assistance |
| Texas | 135 | —[b] | Primarily loans, also other financial assistance |
| Virginia | —[b] | —[b] | Loans |

[a] Credit only—no cash will be deposited.
[b] Amount to be determined.

The loan guarantees will provide a commitment by the TFB that, if the project developer defaults on payments to its private lenders, the TFB will step in and repay the guaranteed portion of the loan. For projects that proceed successfully, the guarantee will not be called upon, and cash will not be needed to back up the guarantee. Should a project default, however, the CTC will authorize a payment from federal transportation funds to fulfill the credit. As a condition of receiving a loan guarantee, developers must pledge part of the assets and revenues of their project as collateral, which the TFB would receive in the event of a default.

The TFB will charge annual fees of project developers while loan guarantees are in effect. The TFB hopes that, after paying administrative costs from these fees, remaining fees will accumulate in the TFB and will eventually form a cash balance that will allow the bank to begin providing direct loans. However, the likelihood of direct loans is uncertain because the TFB has not determined fee levels or estimated how fast cash will accumulate in the bank.

## Potential Projects

The TFB has not yet received applications or selected projects to receive financial assistance, but Caltrans has identified ten proposed projects that could benefit from TFB assistance. Examples of these projects include:

- ❖ The Alameda Corridor intermodal project, connecting Los Angeles and Long Beach harbors with the downtown Los Angeles rail terminal.
- ❖ Bay Area Rapid Transit extension to San Francisco International Airport.
- ❖ State Route 125 private toll road in San Diego County, one of four private toll roads authorized by AB 680 (Ch 107/89).
- ❖ State Route 905 in San Diego County, if legislation is enacted to authorize its development as a toll road.
- ❖ San Francisco Ferry Building reconstruction, where leasing of space in the Ferry Building could provide revenue to repay borrowed funds.

Whether these or other projects receive assistance will depend on whether their developers request assistance, whether the project appears financially viable, and whether the TFB and project developers reach agreement on terms of financial assistance.

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# Economic and Revenue Developments

California's economy continues to expand at a healthy pace as of mid-1996, and this is translating into stronger-than-expected state tax collections. July is the third consecutive month in which the underlying revenue trend has exceeded the administration's most recent revenue projections.

Total General Fund revenues were up $136 million in July from the 1996 Budget Act estimate of $2.5 billion for the month. This gain was spread fairly evenly among the state's major taxes. Specifically:

- ❖ Personal income tax receipts were up $47 million, due largely to higher-than-expected withholding payments. These July payments were up by about 14 percent over the prior year, providing evidence that employment and wages are continuing to rise sharply in California.
- ❖ Sales tax payments were up $54 million during July.
- ❖ Corporation tax receipts were up $32 million for the month.

August is projected to be a mid-sized month as regards revenue receipts, with $3.2 billion expected. The next major revenue month will be September, when $5.2 billion is expected, including large prepayments for all of the state's major revenue sources.

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