

# Innovative Finance for Tribal Governments

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## **“Innovative Finance” – Definition**

Any technique that expands the traditional grant program’s ability to finance surface transportation projects

## Innovative Finance Techniques Applicable to Tribal Governments

**Leveraging:** Borrowing against existing or new revenues – to enable projects to be started now instead of later, but requires commitment to pay back in future

**Credit Assistance:** Primarily, loan programs, funded with Federal funds but managed by States, providing favorable rates for eligible transportation projects

**Partnerships with State DOTs/Matching:** Win-win partnerships combining funds/resources from tribal governments and state DOTs

## Leveraging: A Bond or Loan Works Like a Mortgage

**PLEDGE:** The government involved pledges a particular source of income (just like a homeowner pledging to repay a home loan)

**INTEREST RATE:** For home loans and bonds, the interest rate is based on an analysis of:

- Credit history
- The ratio of income to payments – the higher the better
- Any guarantees or insurance you can obtain

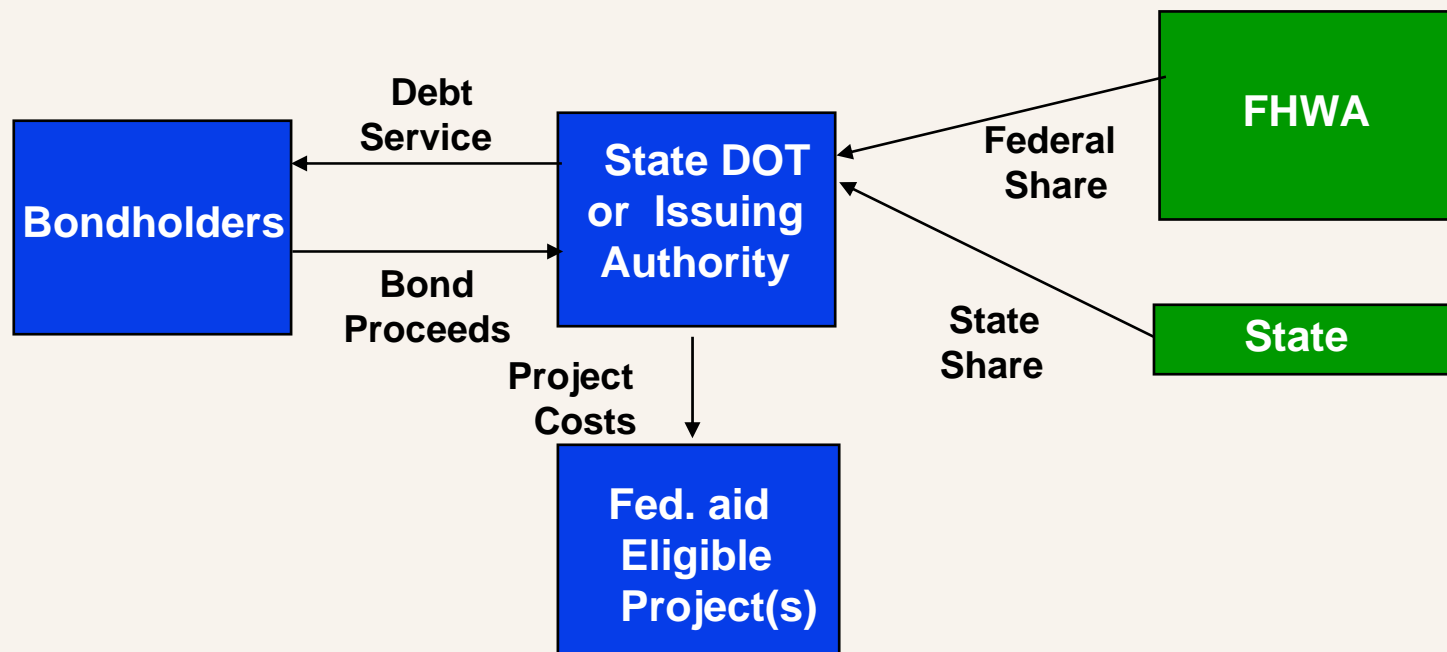
Loans enable both homeowners and governments to build or buy large items that they need for many years, by pledging future revenues from those years

## GARVEE: Definition

A Grant Anticipation Revenue Vehicle (GARVEE) can be any “bond, note, certificate, mortgage, lease or other debt financing instrument issued by a state or political subdivision,” whose principal and interest is repaid primarily with Federal-aid funds under Section 122 of Title 23, U.S. Code

Any loan or bond repaid directly with Federal-aid funds (IRR dollars) is a GARVEE

# ***GARVEEs: Expanding Access to Capital Markets***



## **NHS Act of 1995**

- Debt Service Reimbursements authorized in Sec. 122 of Title 23, d.b.a. “Grant Anticipation Revenue Vehicles”.
- Federal aid may be used to pay Federal Share of debt service and issuance costs on eligible projects.

## **GARVEEs/Flexible Financing: Driving Forces**

BIA Formula Funding: **Enables tribes to plan for future; enables lenders to see what tribes can reasonably expect in funding**

BIA Support: **Provides lenders with understanding of program**

Section 122: **Allows Federal-aid funds to be used for interest as well as capital costs of projects**

Low Interest Rate Environment: **Makes borrowing a better deal compared to construction inflation**

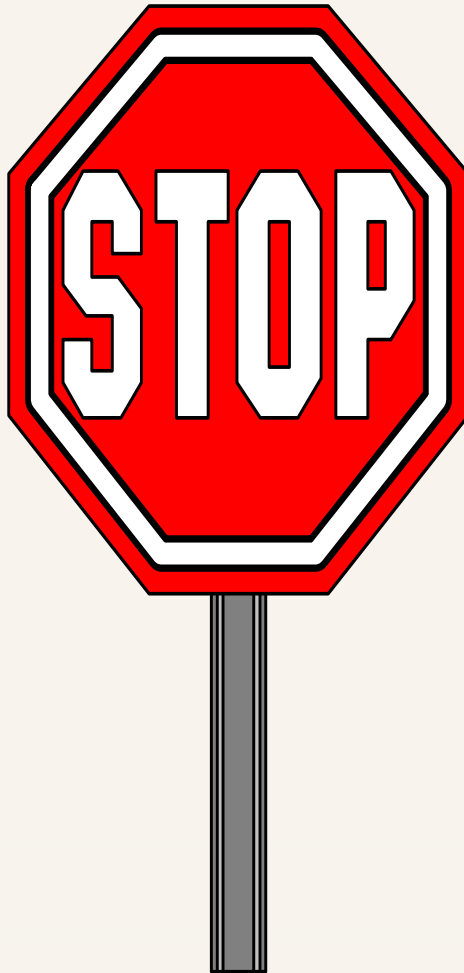
# Potential Uses of the GARVEE Tool



- **Better Funds Management:** Match payment to useful life of asset (if a road will last for 20 years, pay for it for 20 years)
- **Accelerated Construction Program:** (leading to)
  - Avoided Costs (inflation)
  - Accelerated Benefits (safety, economic)
  - Possible economies of scale

# Limitations:

## Is a GARVEE/Flexible Financing the Right Tool?



- **Project-Based:** Is the project short-term (not worth borrowing for), or controversial?
- **Administrative:** Can tribe oversee more projects? Is lack of funds the problem?
- **Practical:** Can contractors construct more projects? Will you create inflation by trying to do too many projects at once?
- **Legislative:** Can the tribe obtain legal authority to borrow? (What are tribal government rules on borrowing?)

## Innovative Finance Example: Leveraging

A tribe borrows money from the private sector and uses IRR or other Federal-aid funding to repay it in the future.

Example: Standing Rock Sioux project – using a combination of IRR funds and casino revenues to pay back a commercial loan for roads

The tribe benefits by gaining transportation facilities when they are needed.

## CREDIT ASSISTANCE:DEFINITION

Any tool that provides loans, or provides lines of credit or loan guarantees that help lower the interest rate on loans or bonds borrowed for eligible surface transportation projects

3 kinds of Credit Assistance:

- State Infrastructure Bank
- Section 129 Loan
- Transportation Infrastructure Finance and Innovation Act (TIFIA); Only for large projects (typically \$50 million minimum)

## CREDIT ASSISTANCE UNDER USDOT PROGRAMS

| Name  | Definition   | Projects   | Notes   |
|---|--|--|---|
| <b>State Infrastructure Bank (SIB) Credit Assistance</b>                | Loan, line of credit, or loan guarantee from State fund, created with Federal-funding; 0 to market interest rate; 35 yr max term | Any surface transportation project eligible under Title 23, U.S. Code (highways) | 32 states have active SIBs; all states may create them    |
| <b>Section 129 Loans</b>  | Loan from state's Federal-aid highway funding; similar terms to SIB loans  | Highway and/or Bridge facilities   | Any state may loan Section 129 funds to eligible projects |
| <b>Transportation Infrastructure Finance and Innovation Act (TIFIA)</b> | Direct Federal Loan at rate comparable to Treasury rates; 35 year max term   | Highway, transit, intermodal   | Generally applicable to projects over \$50 million        |

# STATE INFRASTRUCTURE BANKS

A State Infrastructure Bank (SIB) is a revolving infrastructure investment fund for surface transportation established and administered by a State DOT

The DOT takes Federal-aid funds, puts it into the bank (with the applicable match) and lends it to eligible sponsors, including tribal governments

39 states created SIBs under the initial pilot (some are inactive)

As of June 2004, 33 states have entered into 407 loan agreements, valued at over \$4.8 billion (see table on future pages)

## State Infrastructure Banks (SIBs) Purpose

**Purpose:** Assist projects that have a source of revenue, but need:

- Short-term financial assistance (e.g., a local government waiting for its own revenues to come in)
- Long-term financing (e.g., a park-and-ride lot that will have parking revenues to pay off the loan)

Repayments go back to state for use in future

Source of repayments can be Federal or non-Federal

If repayments are non-Federal, then they can be used for Title 23 projects under state procedures (not Federal)

## SIB Loan Terms

Maximum Terms (actual terms set by DOT/SIB leadership)

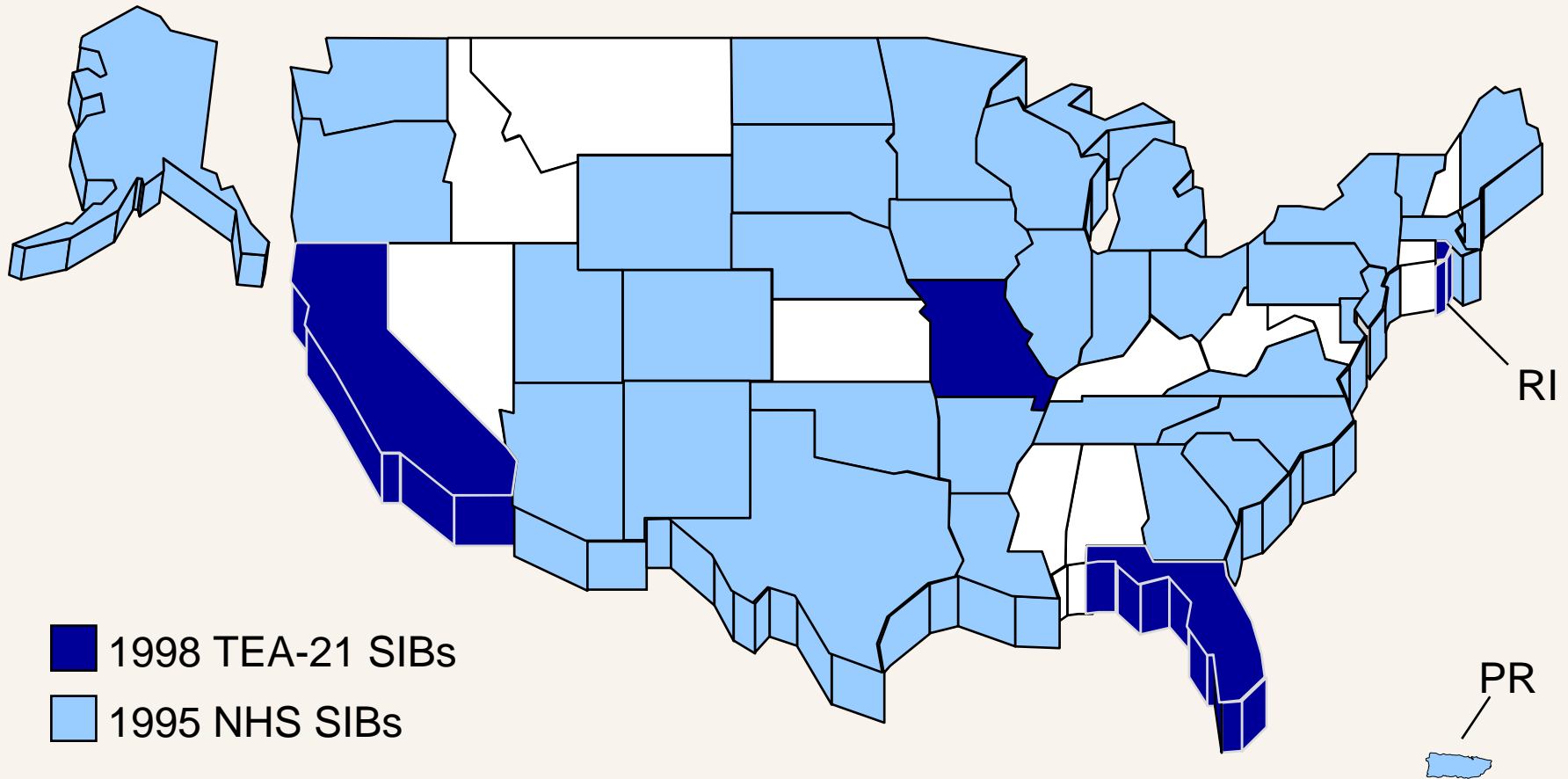
35 year maximum loan term

Repayment can be delayed until up to 5 years after construction  
(important for projects whose revenue depends on what you're building!)

Market or lower interest rate

DOT can restrict use of SIB as it wishes

# State Infrastructure Banks: Pilot Program Participation



# SIB LOAN AGREEMENTS PART I

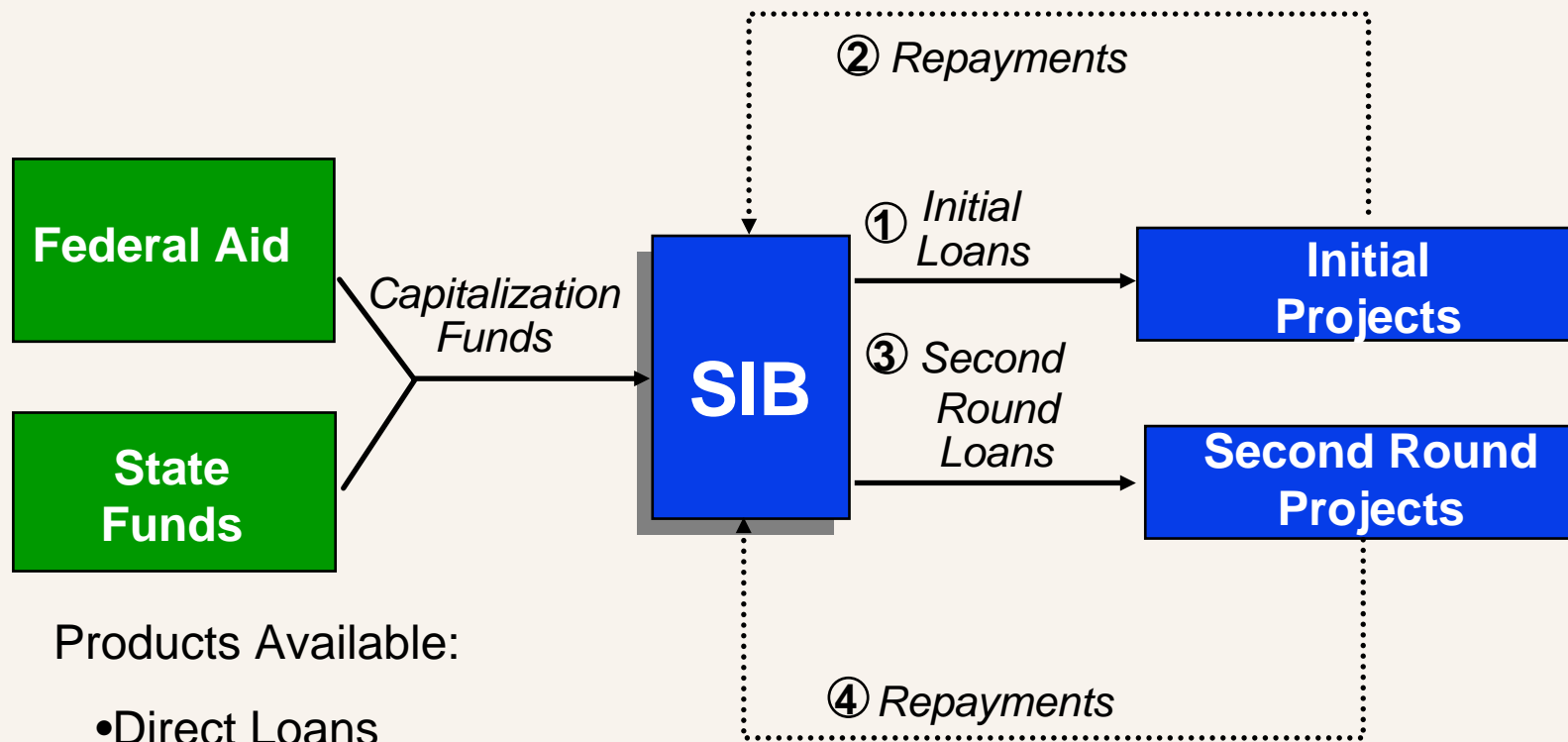
State Infrastructure Bank Loan Agreements by State  
As of June 30, 2004

| State      | Number of Agreements | Loan Agreement Amount (\$000) | Disbursements to Date (\$000) |
|------------|----------------------|-------------------------------|-------------------------------|
| Alaska     | 1                    | \$ 2,737                      | \$ 2,737                      |
| Arizona    | 45                   | 521,442                       | 418,825                       |
| Arkansas   | 1                    | 31                            | 31                            |
| California | 2                    | 1,120                         | 1,120                         |
| Colorado   | 4                    | 4,400                         | 1,900                         |
| Delaware   | 1                    | 6,000                         | 6,000                         |
| Florida    | 46                   | 741,337                       | 256,675                       |
| Indiana    | 2                    | 5,715                         | 5,715                         |
| Iowa       | 2                    | 2,879                         | 2,879                         |
| Maine      | 23                   | 1,635                         | 1,635                         |
| Michigan   | 33                   | 22,207                        | 22,207                        |
| Minnesota  | 15                   | 95,719                        | 77,013                        |
| Missouri   | 15                   | 92,557                        | 82,770                        |

## SIB LOAN AGREEMENTS PART II

|                |            |                    |                    |
|----------------|------------|--------------------|--------------------|
| Nebraska       | 2          | 6,792              | 6,792              |
| New Mexico     | 2          | 14,600             | 14,600             |
| New York       | 10         | 27,700             | 27,000             |
| North Carolina | 2          | 1,713              | 1,713              |
| North Dakota   | 2          | 3,891              | 3,891              |
| Ohio           | 59         | 203,132            | 130,953            |
| Oregon         | 15         | 19,846             | 18,396             |
| Pennsylvania   | 47         | 31,000             | 27,000             |
| Puerto Rico    | 1          | 15,000             | 15,000             |
| Rhode Island   | 1          | 1,311              | 1,311              |
| South Carolina | 8          | 2,605,000          | 1,765,000          |
| South Dakota   | 3          | 28,776             | 28,776             |
| Tennessee      | 1          | 1,875              | 1,875              |
| Texas          | 46         | 259,260            | 250,683            |
| Utah           | 1          | 2,888              | 2,888              |
| Vermont        | 2          | 1,975              | 1,300              |
| Virginia       | 1          | 18,000             | 17,985             |
| Washington     | 3          | 2,376              | 487                |
| Wisconsin      | 3          | 1,813              | 1,813              |
| Wyoming        | 8          | 77,977             | 42,441             |
| <b>TOTAL</b>   | <b>407</b> | <b>\$4,822,704</b> | <b>\$3,240,111</b> |

# State Infrastructure Banks: Leveraging Funds



## Products Available:

- Direct Loans
- Loan Guarantees
- Interest Rate Buydowns
- Other

## Sec. 129 Loans

DOTS may also loan funds without having a State Infrastructure Bank through Section 129 of Title 23

Loans have to be for

- Eligible projects
- Can be for up to 30 years beyond completion.
- At or below market interest rates.
- Dedicated repayment source required.
- Repayment can be deferred until five years after project completion (important if source of revenue is project, such as for toll roads or parking fees)

## Creative use of Sec 129 loans

### Deals to finance toll highways are difficult:

- No revenues during long construction period
- Revenue ramp-up period long; and revenues always lower than forecast by usual models.

### Sec.129 loan can help:

- State can act as “patient lender”—  
Long term, subsidized, subordinated loans,  
payable after revenues start, may help bring in capital  
market lenders.

## Example I: Credit Assistance/Loans

A State DOT agrees to lend money to a tribe operating a casino for construction of road projects. Instead of having to pay \$1 million prior to opening the casino, the tribe accepts a loan of \$1 million at 6%, and repays the DOT \$135,000 a year for 10 years from casino profits.

The State DOT benefits by receiving loan repayments and being able to use these funds on other projects, once repaid

The tribal government benefits by having the transportation facilities in place earlier, in time to serve casino patrons, and by spreading out payments over time to make them more affordable

## Example II: Credit Assistance/Loans

A tribe wishes to borrow against its future IRR allocation. A bank is willing to provide a loan, but proposes to charge an unacceptably high interest rate

The State DOT can offer to guarantee or provide a line of credit to the loan if it is for an eligible surface transportation project, and if it meets the criteria established by that State's SIB.

The bank lowers the interest rate because of the guarantee, benefiting the tribe

The DOT benefits by facilitating the needed transportation project.

# GRANT MANAGEMENT: A Matchmaker's GUIDE

- Background: What is the Non-Federal Share?
- Publicly-Owned ROW
- Donations
- Federal-to-Federal Match: IRR Funds as Match
- Sample Match Project

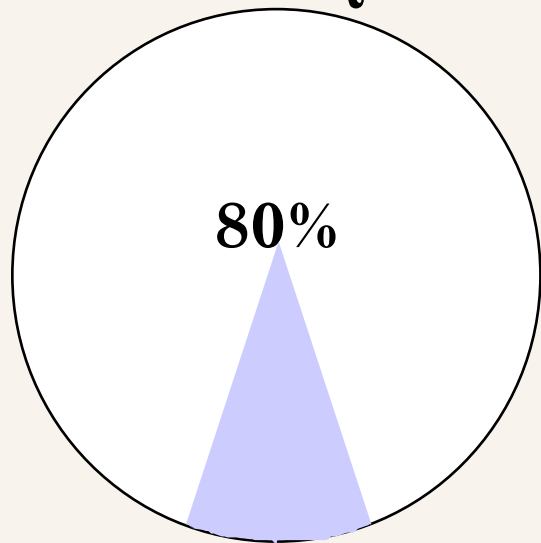
## Background: Non-Federal Share

- Congress wanted to make sure States used Federal-aid funds for projects that were state priorities
- Most states have to come up with a match of 20% non-Federal funds
- This can



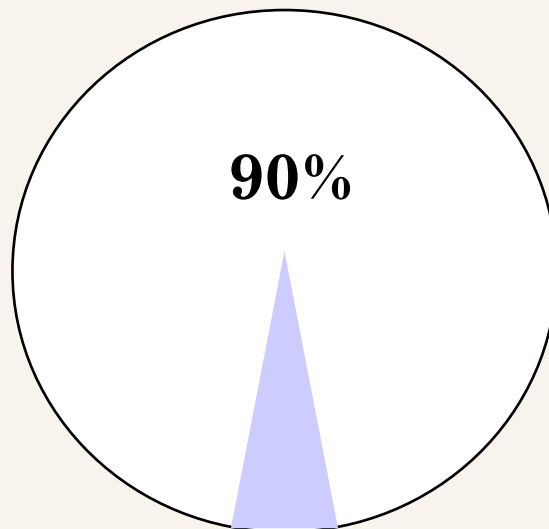
# Federal Share\*

NHS  
 STP  
 Bridge  
 CMAQ



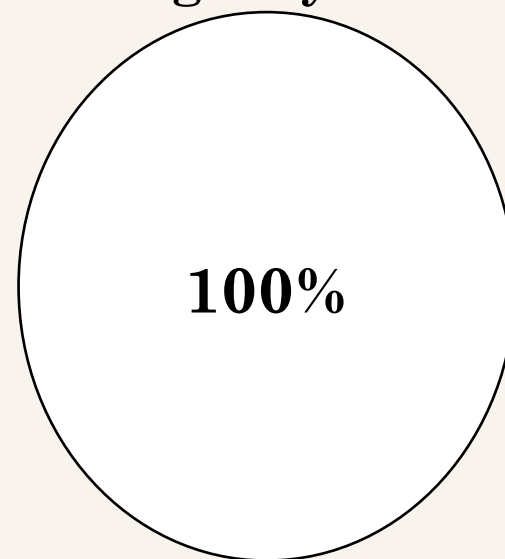
Matching Share

Interstate  
 Maintenance



Matching Share

Federal Lands  
 Emergency Relief



*\*Note: Some states have lower share % called "sliding scale" to compensate for lower tax base due to significant Federal lands. For example, Nevada's ratio is 95% federal.*

## Flexible Matches – Benefits to State DOT

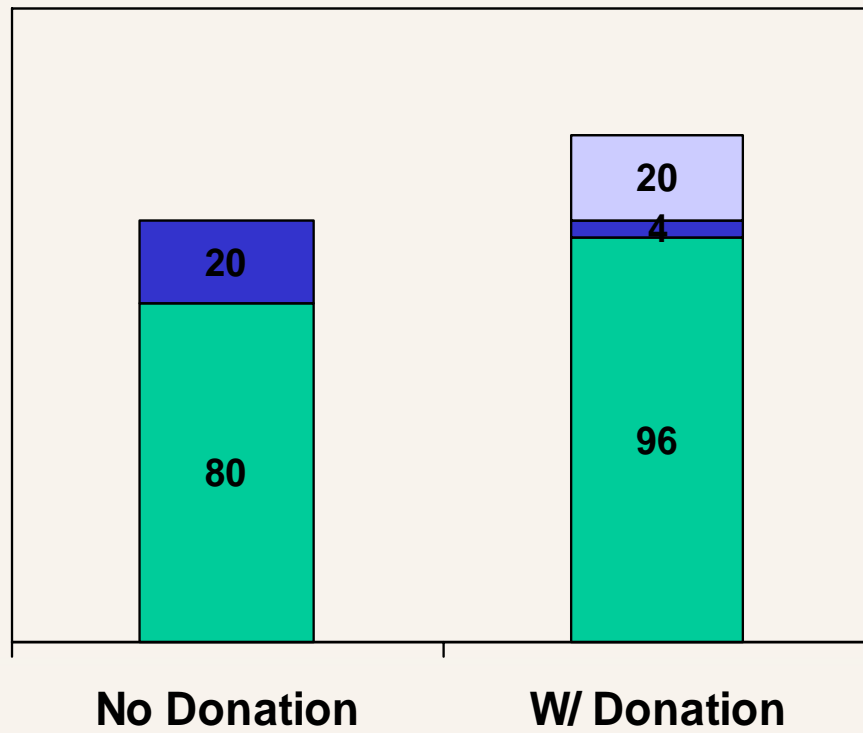
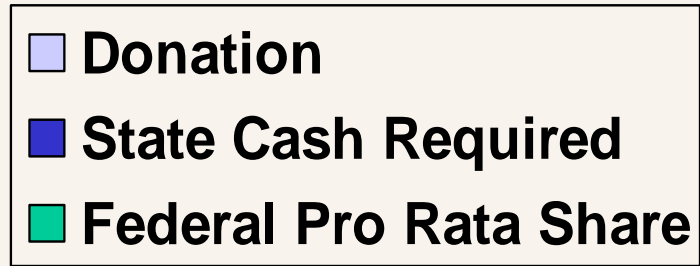
- **Allows states to reallocate funds that otherwise would have been used to meet Federal-aid matching requirements to state-only projects. This can lead to savings if state procedures are cheaper than Federal procedures.**
- **Many states have policies that encourage (or require) tribal and local governments to come up with matching dollars before they will include a project in the TIP or STIP**

# Types of Flexible Match

- **Donations**
- **Publicly-Owned ROW**
- **Federal-to-Federal**

# Donations

- Donations of private sector money, materials, and services can count towards non-Federal match.
- For public sector, generally has to be money or materials (services are complicated)
- Donations must be **ADDED** to cost of project before calculating Federal-share
- Example: Issac's Canyon Interchange in Idaho (\$10 million project co-funded by a private firm).



## Publicly-Owned Right-of-Way Counts As Match

If a tribe owns land that it contributes it to the project – that can be a match to any Federal dollars

Land must comply with Uniform Relocation Act and/or applicable law at time of acquisition

See the Right of Way specialist at the FHWA Division office for anything out of the ordinary (valuation, acquisition, other issues)



# Federal-to-Federal Match Opportunities

| Source of Federal Grant Funding   | Eligible Categories of Highway Projects  |
|---|--|
| <p>Federal Land Management Agencies, including but not limited to:</p> <ul style="list-style-type: none"> <li>•U.S. Forest Service</li> <li>•Bureau of Indian Affairs</li> <li>•Bureau of Reclamation</li> <li>•Bureau of Land Management</li> <li>•National Park Service</li> <li>•Numerous military agencies</li> </ul> <p>Authorized at 23 U.S.C. 120(k).</p>                                    | <p>Federal highway projects funded under the following program categories:</p> <ul style="list-style-type: none"> <li>•Interstate Maintenance</li> <li>•National Highway System</li> <li>•Surface Transportation Program</li> <li>•Congestion Mitigation and Air Quality Program</li> <li>•Recreational Trails Program</li> <li>•Scenic Byways Programs (providing access to Federal or Indian Lands)</li> </ul> |
| <p>Federal Lands Highway Program<br/>Authorized at 23 U.S.C. 120(l).</p>  | <p>Federal highway projects funded under the programs shown above and that serve or provide access to Federal or Indian lands, except Scenic Byways</p>  |
| <p>Federal programs with special legislative authorization to match other Federal funds, including funds provided under:</p> <ul style="list-style-type: none"> <li>•State and Local Assistance Act</li> <li>•HUD Community Development Block Grants</li> <li>•Public Works Employment Act of 1976</li> <li>•Delaware and Lehigh Navigation Canal National Heritage Corridor Act of 1988</li> </ul> | <p>Any Federal-aid highway project</p>   |

## Flexible Match: How Would it Work?

A State DOT and a tribe partner on a bridge project that both agree is necessary.

The tribe's contribution of IRR funding (or private funding, or ROW) towards the project serves as the required 20 percent match to the Federal-aid dollars in the project.

The DOT benefits by not having to contribute state funding to the project

The tribe benefits by getting \$4 of federal-aid funds for every dollar it puts into the project

|  |   |
|--|---|
| <b>Flexible Match</b>                    | Facilitates partnering with DOTs and local governments  |
| <b>SIBs/Section 129/TIFIA</b>            | Provides low-cost loans, lines of credit, and loan guarantees for eligible projects                               |
| <b>GARVEEs/<br/>Leveraging<br/>Tools</b> | Allows tribal governments to assemble sufficient funding to build projects by borrowing against existing revenues |

## FOR MORE INFORMATION

FHWA Innovative Finance Homepage

[www.fhwa.dot.gov/innovativefinance](http://www.fhwa.dot.gov/innovativefinance)

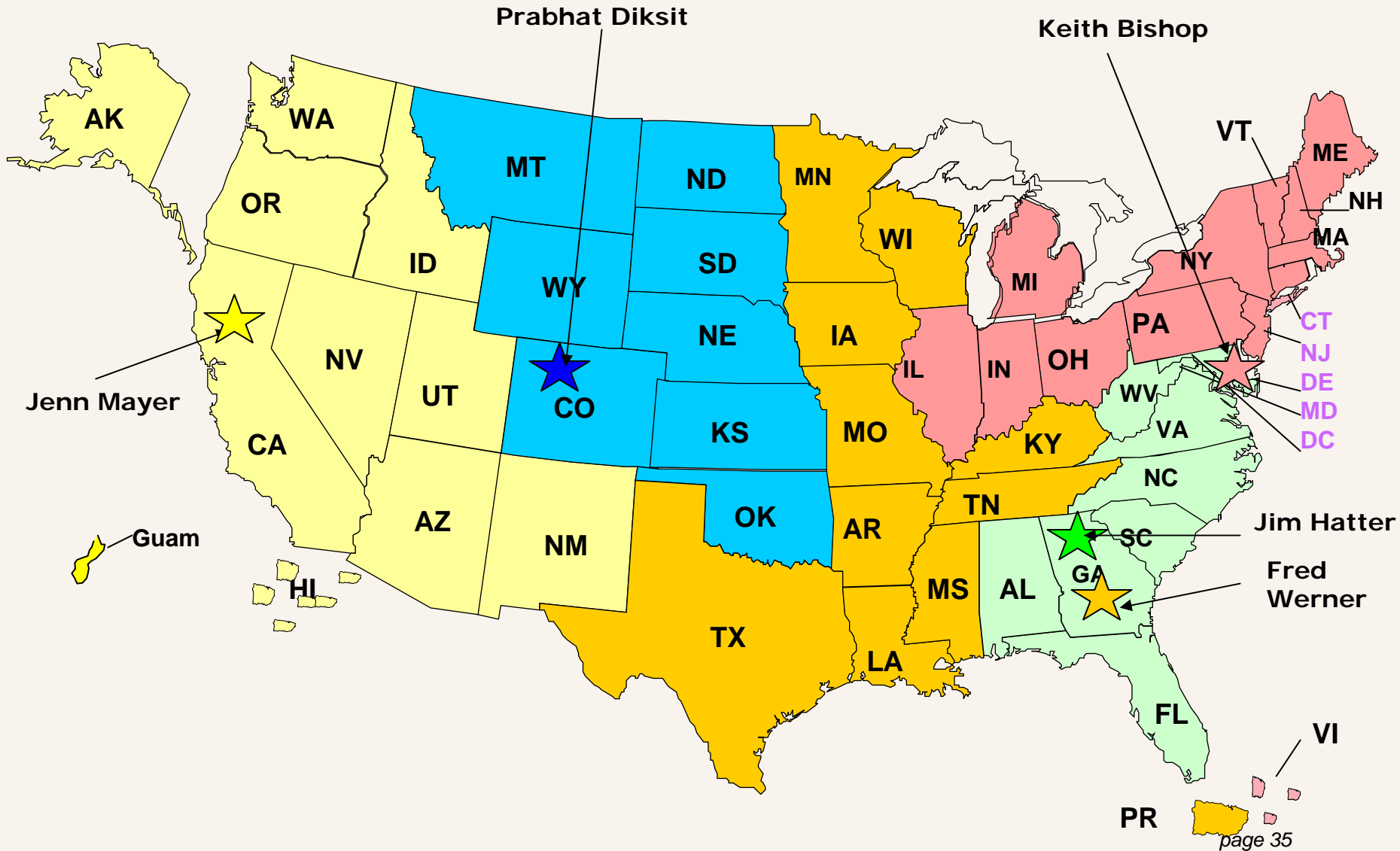
FHWA Resource Center Finance Team

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# FHWA Finance Team State Assignments



# RC Finance Team Contacts

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