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Bond Buyer
By Kyle Glazier

HNTB: Despite Concerns, New TIFIA Program Sound

WASHINGTON - While some transportation experts worry whether projects seeking TIFIA loans or guarantees will all be creditworthy now that Congress has provided so much funding for the program, an infrastructure firm contends provisions in the new transportation law should mitigate these concerns.

In a white paper released this week, HNTB said the recently enacted transportation law, Moving Ahead for Progress in the 21st Century, contains provisions that are designed to ensure TIFIA projects are creditworthy and will protect both taxpayers and private-activity bond investors.

MAP-21 expanded the Transportation Infrastructure Finance and Innovation Act program from $122 million per year to $750 million in 2013 and $1 billion in 2014. Signed by President Obama last month, the new law also increased to 49% from 33% the percentage of total development costs a TIFIA loan could cover.

TIFIA loans work in concert with private-activity bond funding, since TIFIA-eligible projects automatically qualify for PAB financing.

Brad Guilmino, HNTB's chief financial consultant and the author of the paper, notes there are questions about the expanded TIFIA program's implementation that may take months to resolve.

"Some experts have expressed concern that the TIFIA program is now so large that there aren't enough creditworthy projects in the project pool," he writes. "Prior to the passage of MAP-21, there were more than $13 billion worth of projects that had already submitted letters of interest in the most recent assistance period. While these projects would still need to demonstrate their creditworthiness, clearly the pipeline is large enough to safely absorb the funding increase."

Guilmino, however, contends that the new law's requirements favoring the most creditworthy projects and a feature allowing senior creditors to be paid back first in case of bankruptcy mitigates risks stemming from projects with less reliable revenue streams.

Bryan Grote, a principal at financial advisory firm Mercator Advisors LLC who previously served as director of the TIFIA program at the U.S. Department of Transportation, agrees. He says tweaks in the program's selection criteria and the increased funding "should make TIFIA credit assistance more available and predictable for eligible projects."

Grote notes, though, that projects must be at least "reasonably" ready to go to be eligible for a TIFIA loan. "It will be interesting to see how large the pipeline of ready to go eligible projects is over the next couple of years," he says,

While the underlying creditworthiness requirements of programs under the expanded TIFIA, such as rate covenants, adequate coverage requirements and investment-grade ratings on senior debt, remain the same, the new program requires an investment-grade rating from two of the major rating agencies for large projects, rather than one.

"The bottom line will be whether or not the project has a revenue stream - sales taxes, tolls, fees - that will safely secure repayment." the paper states. "Ultimately, this does favor large, complex mega projects. Departments of transportation typically cannot 'pay as you go' for such significant work."

Jack Basso, director of program finance and management at the American Association of State Highway and Transportation Officials, says he is not concerned about a dearth of creditworthy projects and agrees that the key factor is whether a project has a clear revenue stream. "If it does, all the rest kind of falls into place," he says.

The MAP-21 provisions, the paper notes, allows the DOT to waive the "springing lien" feature of TIFIA, permitting TIFIA debt to be subordinated to more senior debt if the project passes a more rigorous test for eligibility; submits to a stricter review; and carries a higher bond rating. That provides security, Guilmino's paper states.

"In reality, these non-springing lien loans would have more strength than typical TIFIA loans," the paper states. "Riskier single-asset projects with uncertain traffic estimates simply will not pass muster."