



# Alaska Department of Transportation & Public Facilities

## **State Infrastructure Banks and Other Borrowing Instruments**

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DYE MANAGEMENT GROUP, INC.

# Three Laws of Project Financing

1. Every project needs revenue and debt isn't revenue.
2. There are only four sources of revenue.

## Borrowing Question

Subsidy Question

Us

Our Children

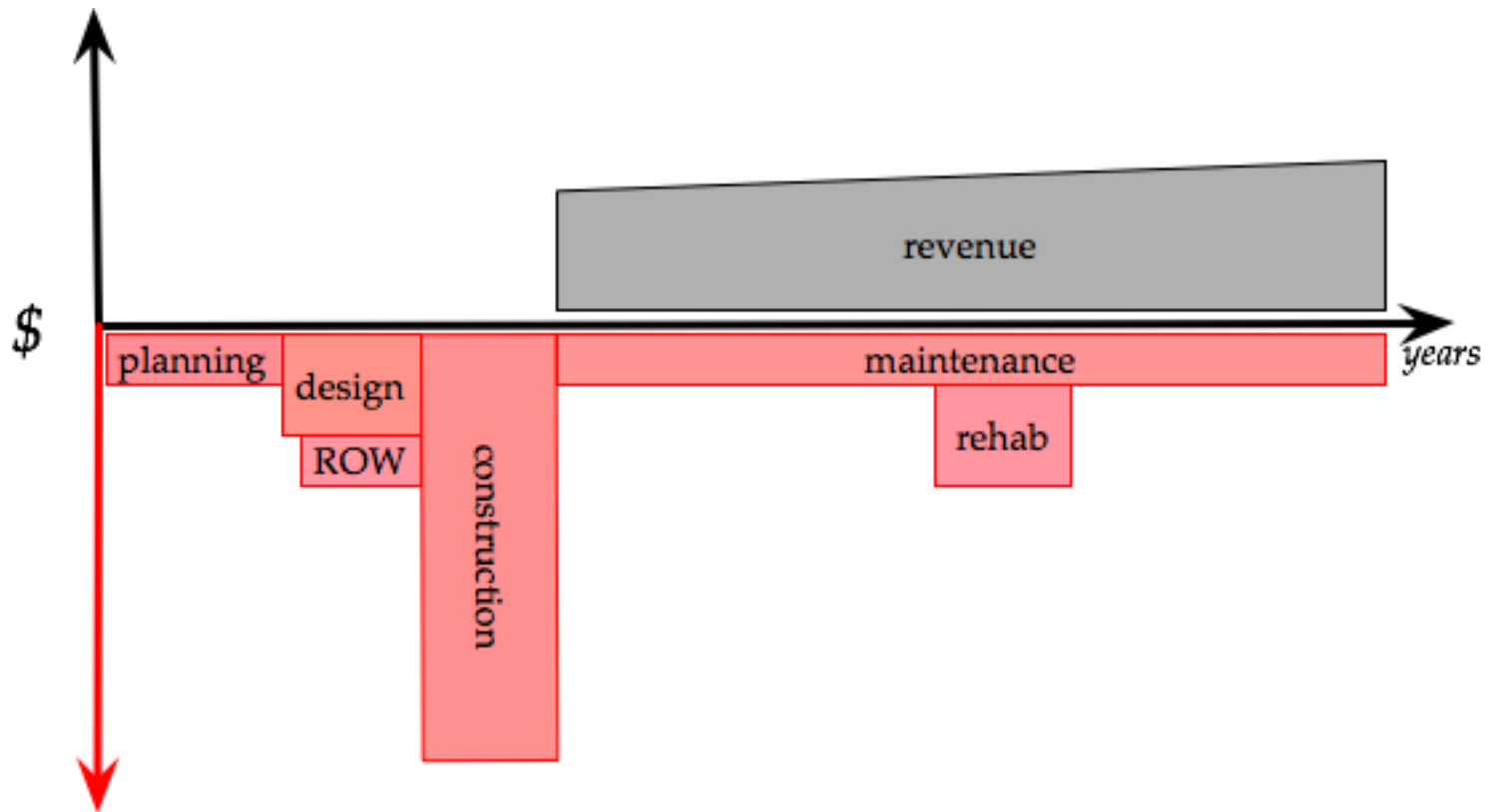
Them

Their Children

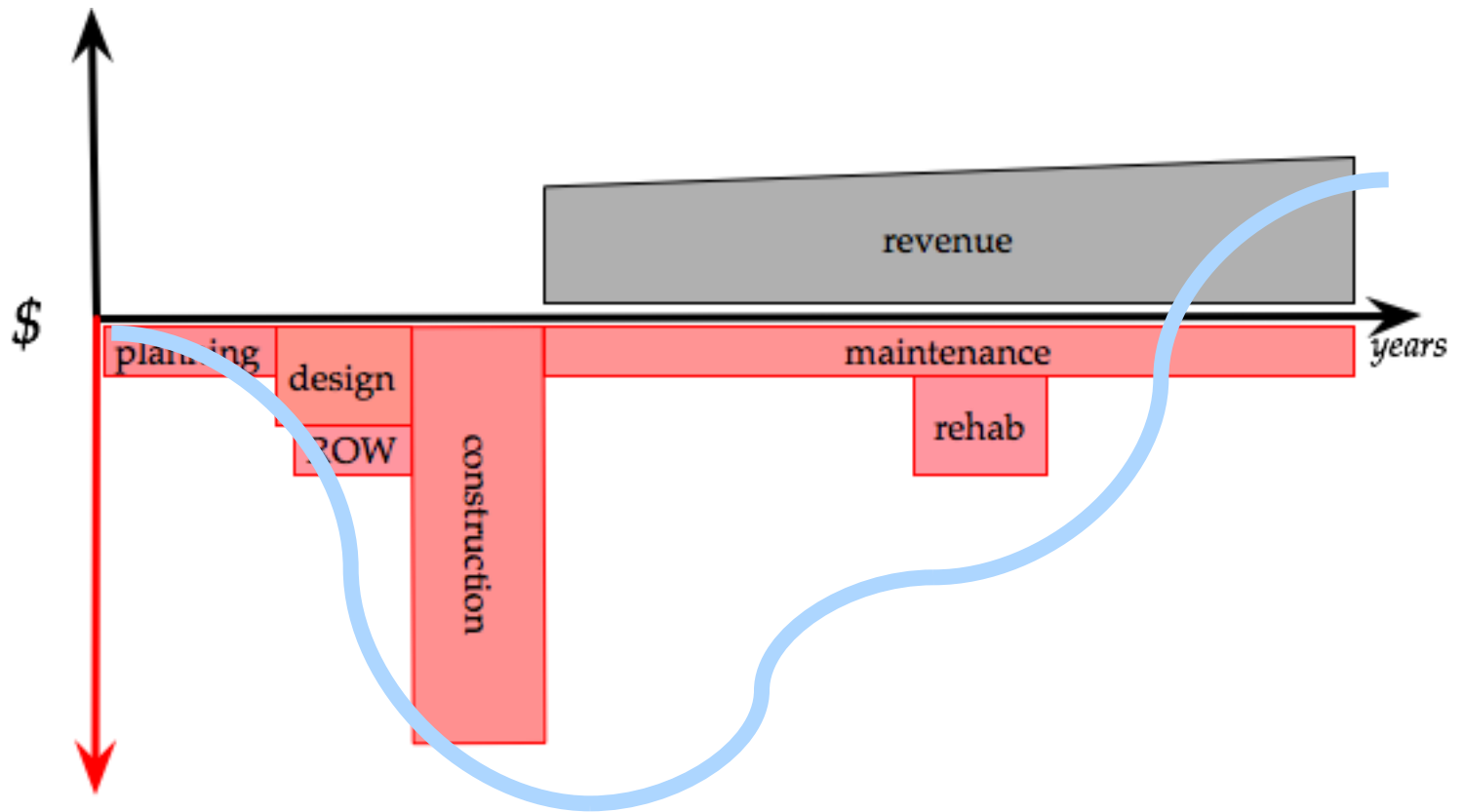
3. Debt is expensive!



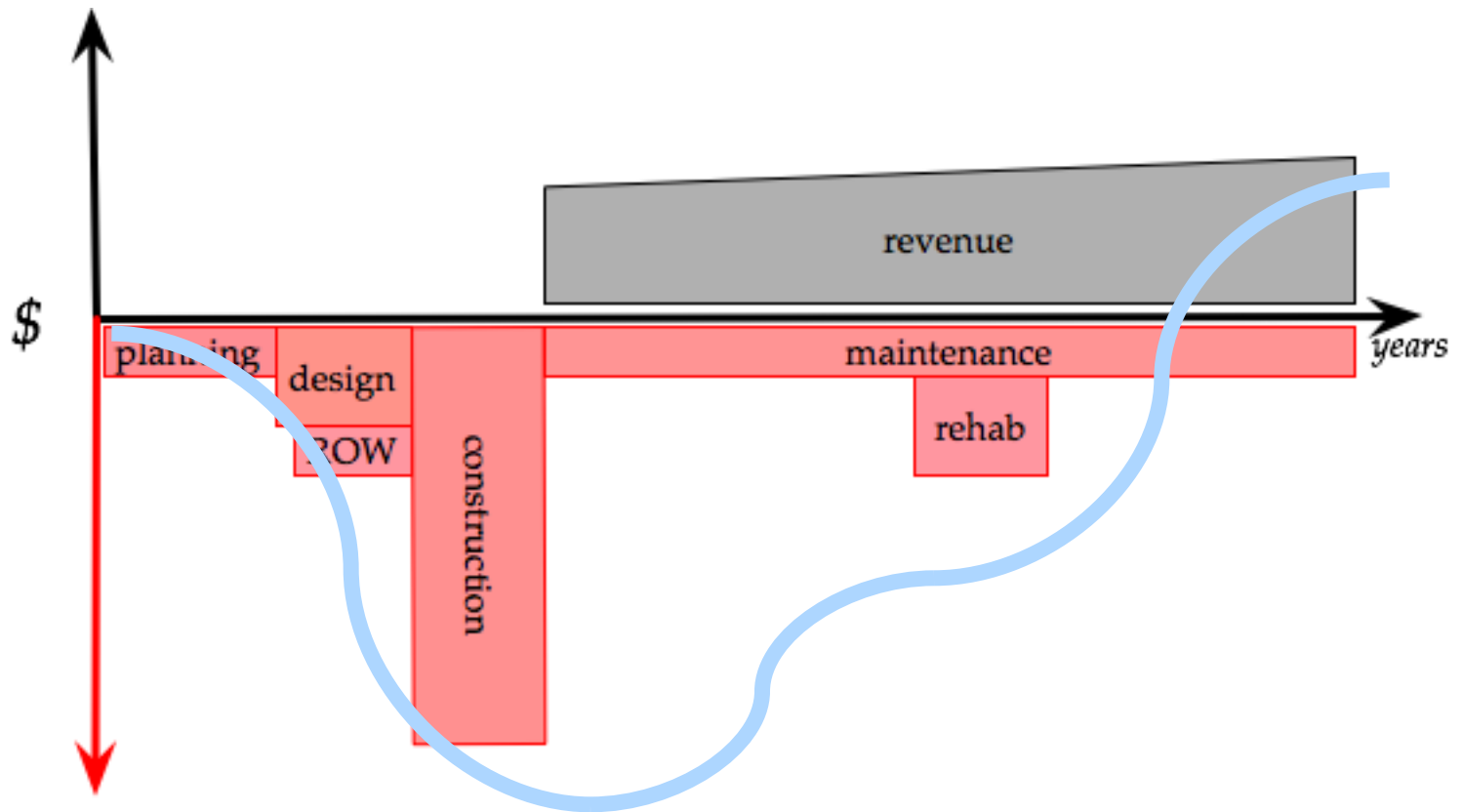
# Project Cash Components



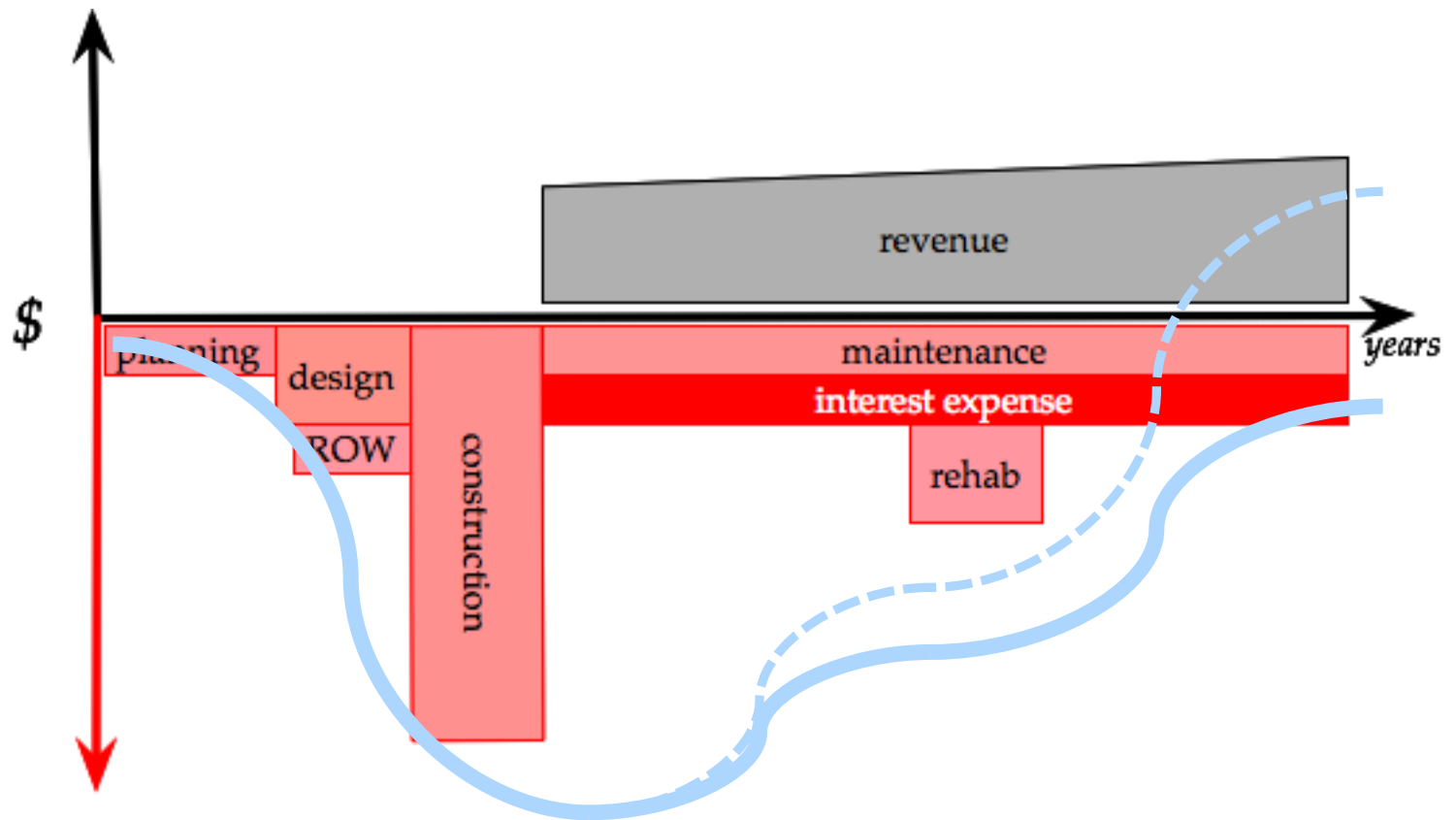
# Net Cash Flow



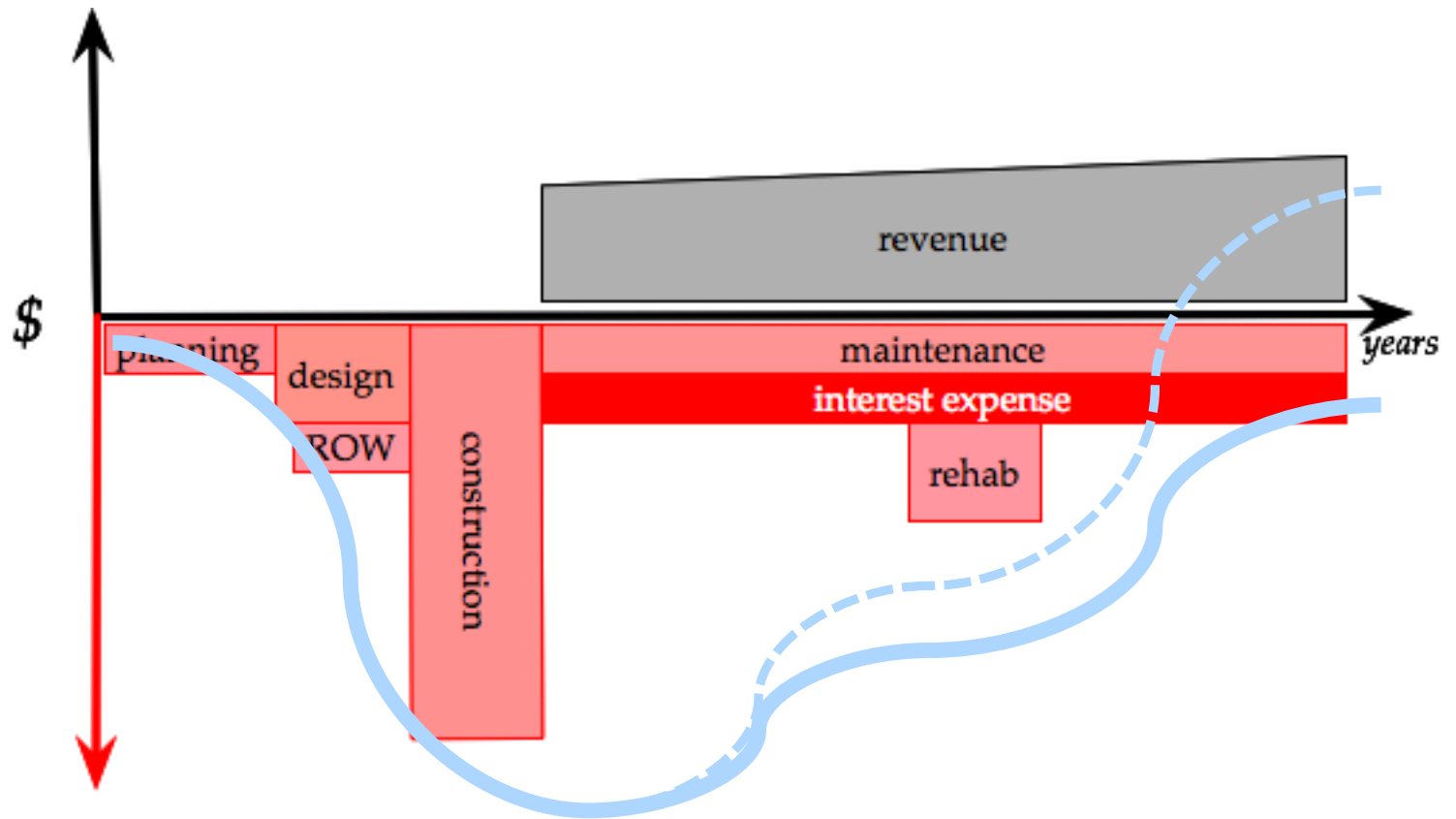
**\$1 of revenue is needed  
for every \$1 of expenditure**



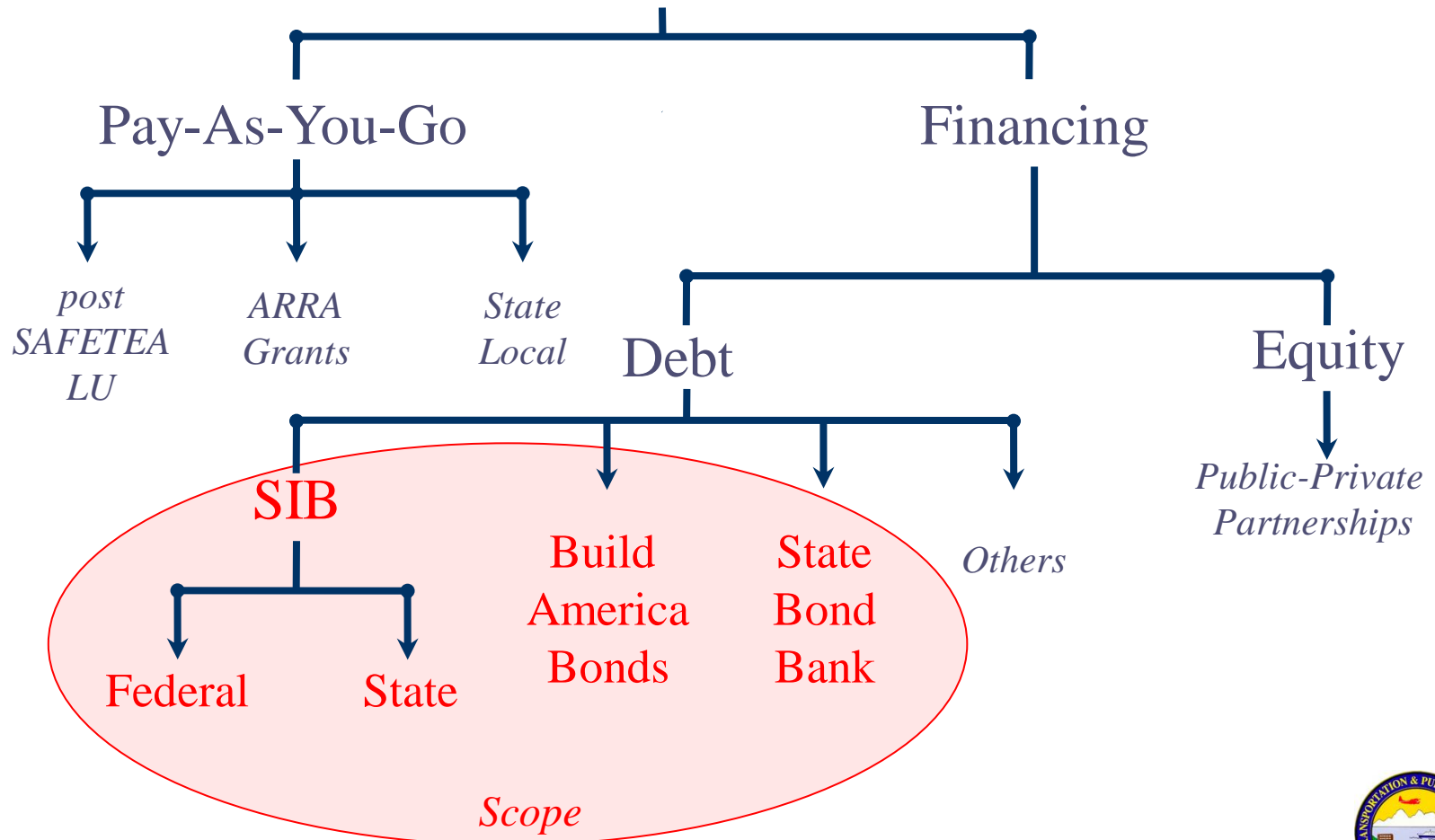
# Net Cash Flow when Financed



# Financing is Expensive



# Sources of Cash for Highway Programs





# Defining Features of Infrastructure Banks

Capitalized with cash

=

Capital  
Account

+

Replenished for repeated funding

=

Revolving  
Fund

+

Replenished from loan repayments;  
Earned income covers losses and other expenses

=

Bank

+

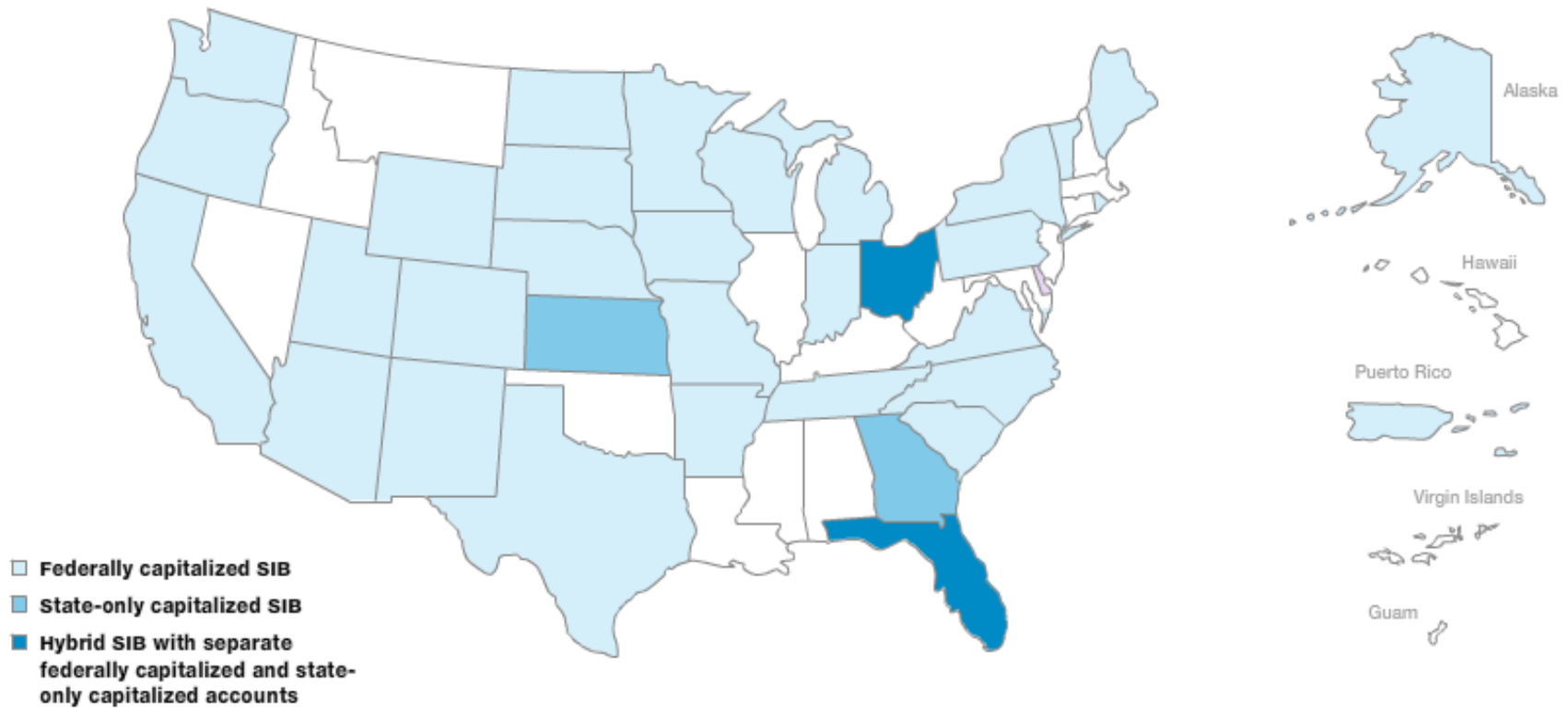
Owned by state; lends for infrastructure

=

State  
Infrastructure  
Bank



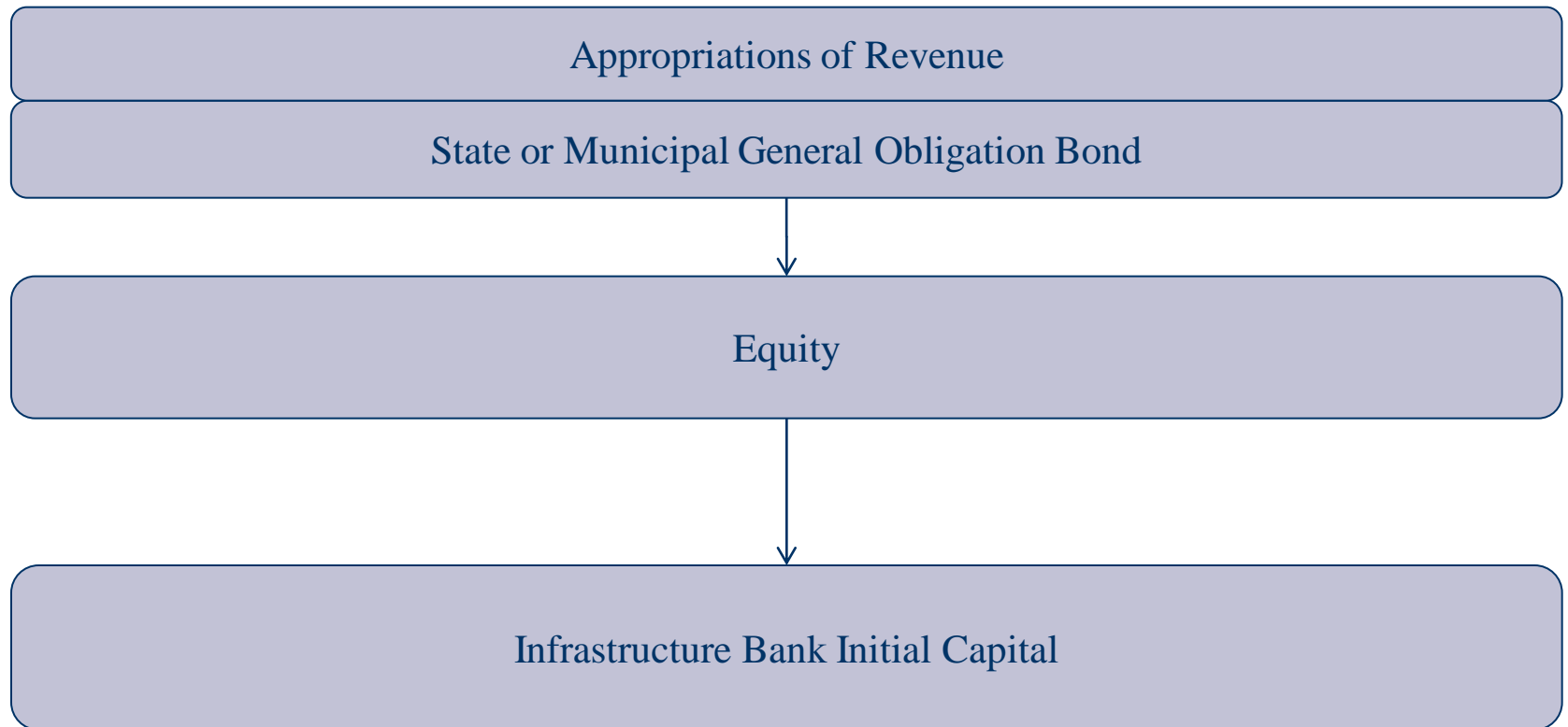
# SIBs in the United States



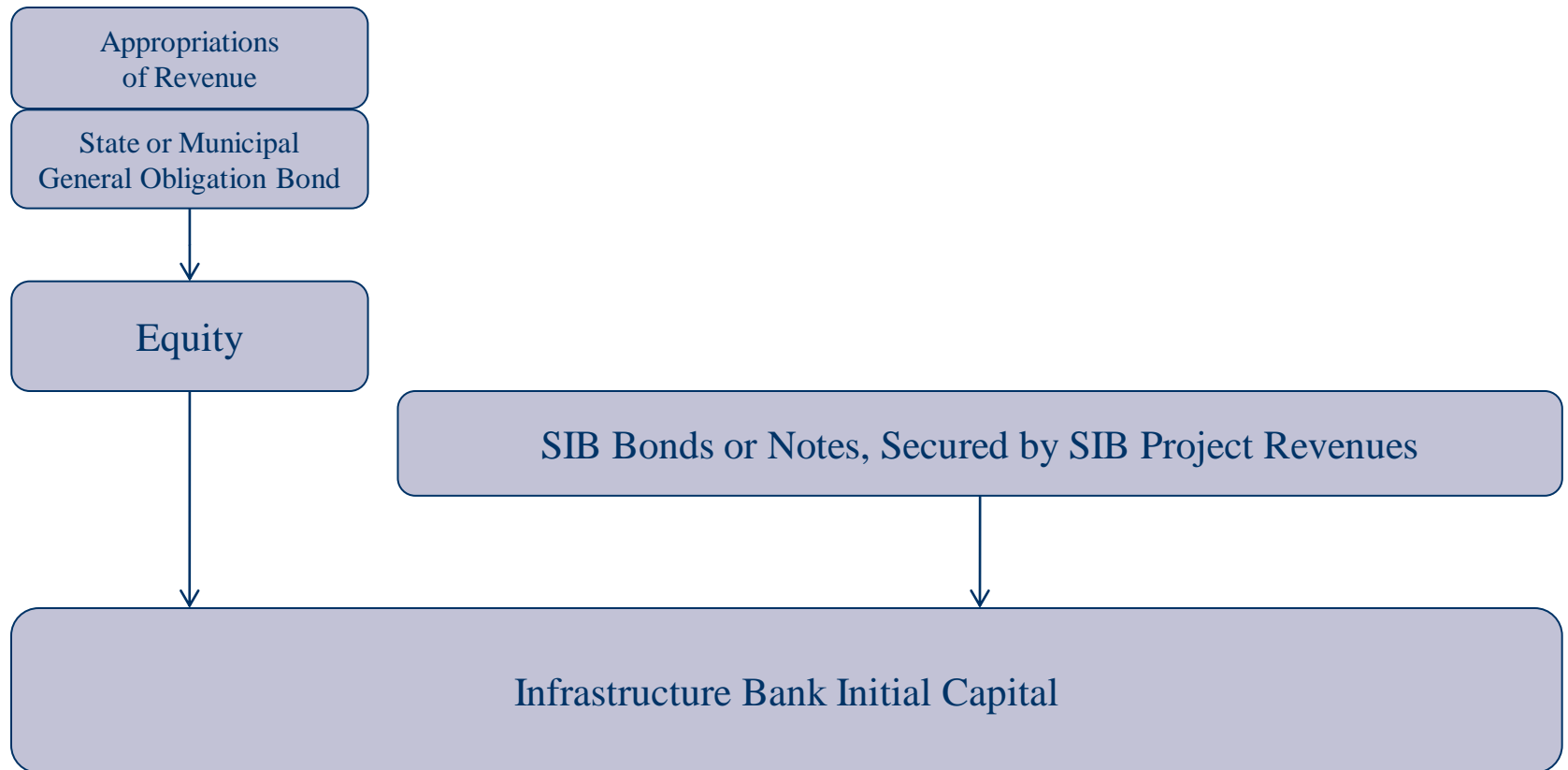
AASHTO Center for Excellence in Project Finance



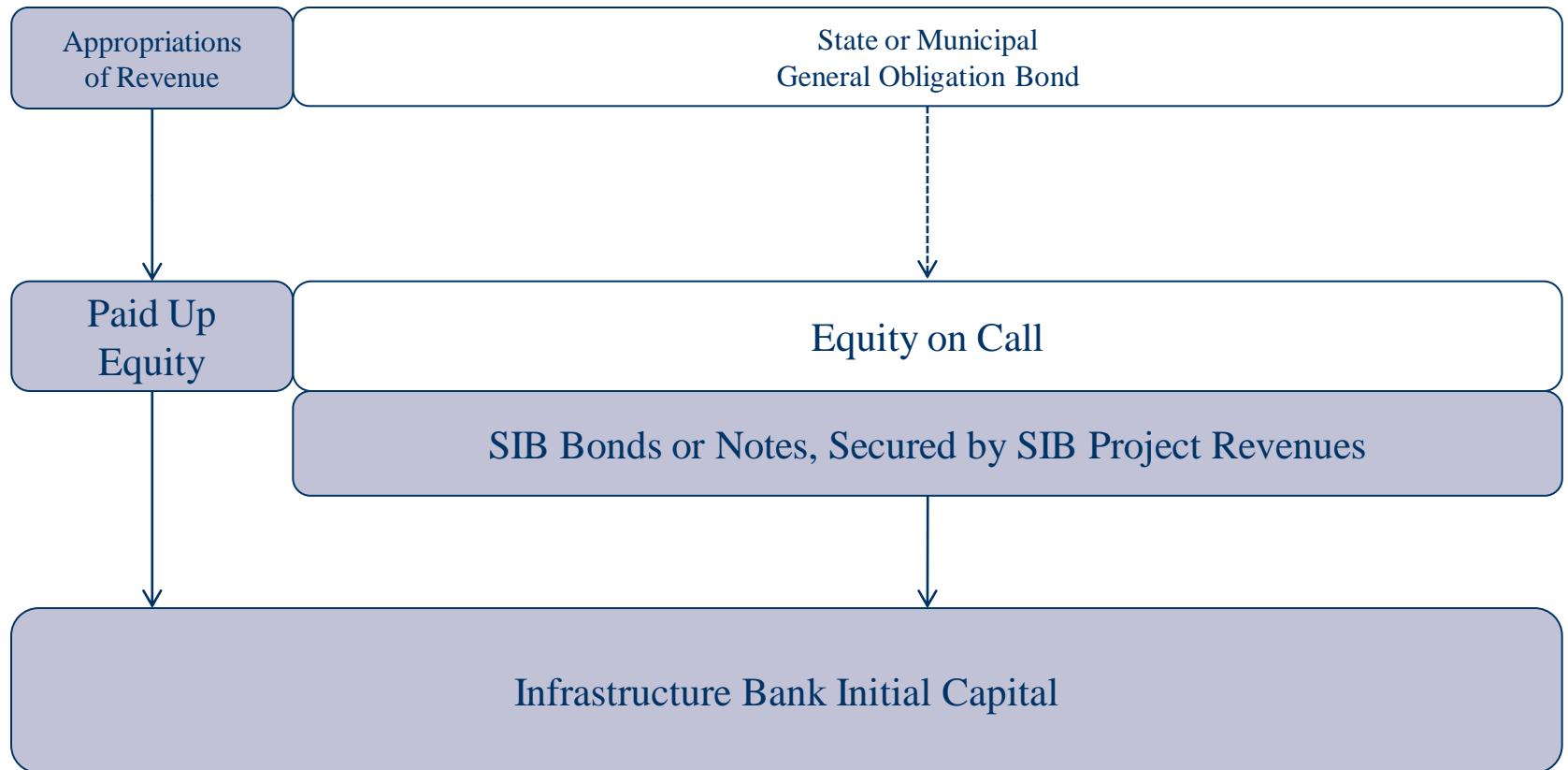
# Initial Capitalization: Full Equity



# Initial Capitalization: Leverage



# Initial Capitalization: Leveraged with Paid Up Equity and Equity on Call



# Other Design Decisions in an Infrastructure Bank

- Lending:
  - Payback period and duration of the loan
  - Risk of default
  - Securities offered by borrower
- Earnings and Reserves
  - Average interest rate = expenses + underwriting of reserve
  - Tradeoff of earnings and reserves: the larger the existing reserve, the smaller the underwriting requirement



# Federal Funding, Federal Rules

- ✓ Capitalized with federal funds
- ✓ Loans, contingent loans or guarantees allowed
- ✓ Can co-mingle on projects with other funds.
- ✗ Only projects eligible for federal aid
- ✗ Usual 20% state or local match required
- ✗ Local/private partners not allowed in the bank itself



# Legislation

	ADOT&PF	AMBBA	AIDEA
Capitalize SIB	SAFETEA-LU		AS 44.88.060
Loan Funds	SAFETEA-LU		
Borrow Funds		AS 44.85	AS 44.88.070
Sell Shares			
Invest Reserves	SAFETEA-LU		AS 44.88.060



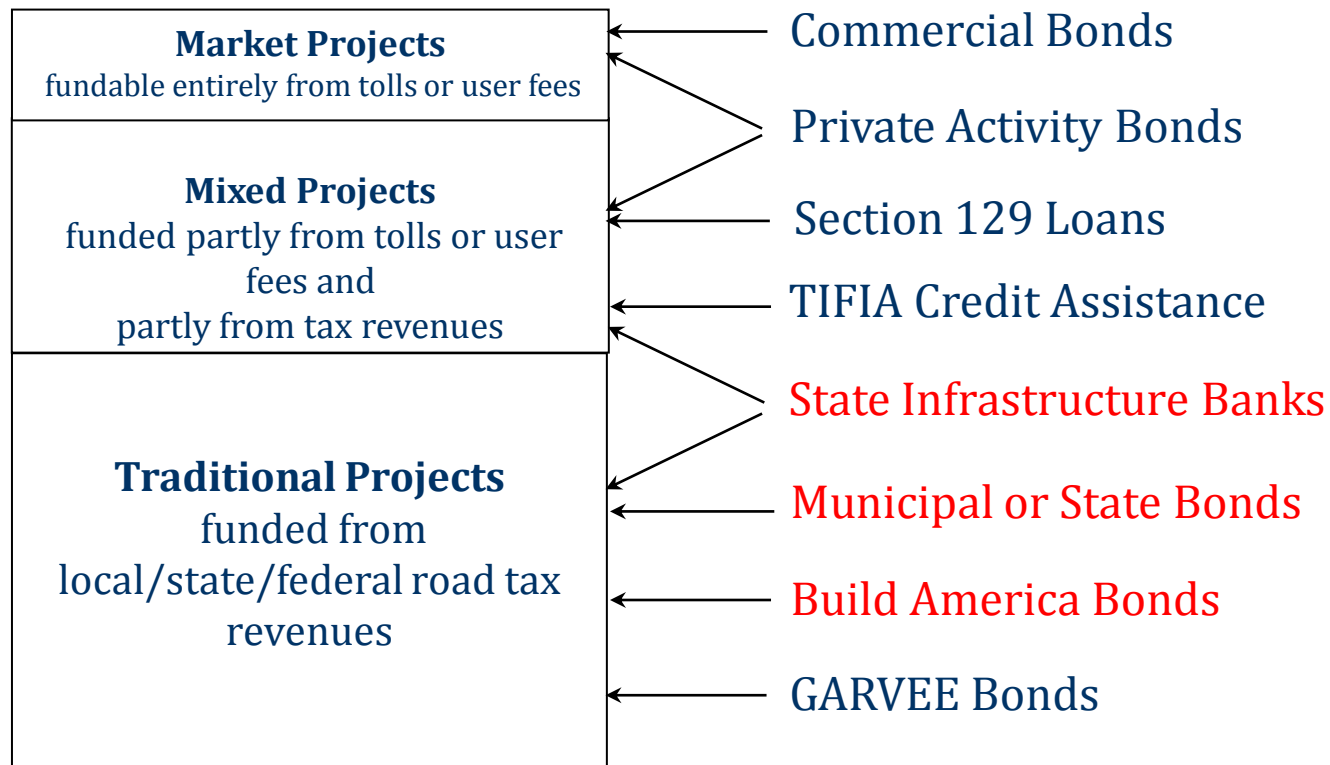


# Management Requirements

- Accounting entity
  - ✓ Alaska Transportation Infrastructure Bank (21653): an account in the General Fund for a federally capitalized state infrastructure bank.
  - ? Alaska Industrial Development and Export Authority
- Executive authority to manage



# SIBS, Build America Bonds and State Bonds in Relation to Other Debt Instruments



# When to Use a State Infrastructure Bank

1. When the expected revenues exceed the principal plus interest costs;
2. When a series of smaller projects must be funded to make a transportation network effective; and
3. When at least some of the projects can be financed with contingent debt, i.e. a “call” rather than with cash.

