Proposition 12 State Infrastructure Bank

DESCRIPTION:

Discussion of the commission's goals and objectives relating to capitalizing the State Infrastructure Bank using the proceeds from bonds, notes, and other public securities issued under Proposition 12 Bonds, and the implementation of a program to loan those proceeds to public entities for eligible projects.

ISSUES:

- Background on Proposition 12
- Member of Rules Advisory Committee
- Existing SIB
- Proposition 12 SIB Considerations
  - Administrative Considerations
    - Segregate SIBs
    - Application process
  - Policy Considerations
    - Leverage?
    - Patient lender vs quicker recycling
    - Security provisions
    - Lien position
    - Loan terms
- Role of Rules Advisory Committee

REFERENCES:

Proposition 12 Constitutional language – Art III, Section 49-p
http://www.statutes.legis.state.tx.us/Docs/CN/htm/CN.3.htm#3.49-p

Proposition 12 Enabling legislation – HB 1, 81st - 1st Called Session
http://www.legis.state.tx.us/tlodocs/811/billtext/pdf/HB00001F.pdf

DESIRED RESULTS:

Overall direction on the establishment of the Proposition 12 SIB and clarity on the role of the rules advisory committee.

FURTHER ACTIONS

Staff will begin meeting with the rules advisory committee and developing rules to be published for public comment.

OTHER:

None

Proposition 12 Funded State Infrastructure Bank Loan Program

Texas Transportation Commission Discussion

Policy Considerations for Program Structure and Implementation

December 16, 2009

Proposition 12 Funding

- Proposition 12—in 2007 the voters approved issuance of $5 billion in general obligation bonds "to provide funding for highway improvement projects"
- The 81st Legislature, First Called Session
  - Appropriated $1 billion in Prop 12 bond proceeds to capitalize the State Infrastructure Bank in FY 2011
  - "For the purpose of making loans to public entities"
  - Construction loan funding only per OGC discussions with the OAG

Proposition 12 SIB
Rules Advisory Committee Members

- Texas Municipal League
- North Texas Tollway Authority
- Harris County
- Texas Water Development Board
- Central Texas Regional Mobility Authority
- Alamo Regional Mobility Authority
- Texas Association of Counties

Existing State Infrastructure Bank

- Capitalized with both federal and state dollars
- Projects using SIB funds must be eligible for federal funding under USC Title 23
- Purpose
  - Provide access to transportation funding and for some at a lower cost
  - Operate as a revolving fund that grows through recycling of loan repayments
- Has not been leveraged, although the authority exists

Proposition 12 SIB
Program Considerations

- Administrative considerations
  - Need to segregate programs including separate rules and accounts
  - Application process
  - Staffing, resource and advisory requirements
  - Internal credit committee
- Policy considerations
  - Goals and objectives of the program
  - Leverage the cash flows of the program?
  - Rules

Administrative Considerations

- Create a separate account for a Proposition 12 SIB
  - Different funding source than existing the SIB
    - Funding source determines project eligibility
      - HB 1 81st(1): "…shall be used…for the purpose of making loans to public entities…"
    - Funding source determines eligible uses of funding
      - Article III Sect 49-p (a) of the Constitution: "…provide funding for highway improvement projects…"
      - HB 1 81(1): "…may not be used for the purpose of converting a nontolled road or highway to a tolled road or highway."
  - Potential for differing goals and objectives from existing SIB which has more stringent requirements for federal funding

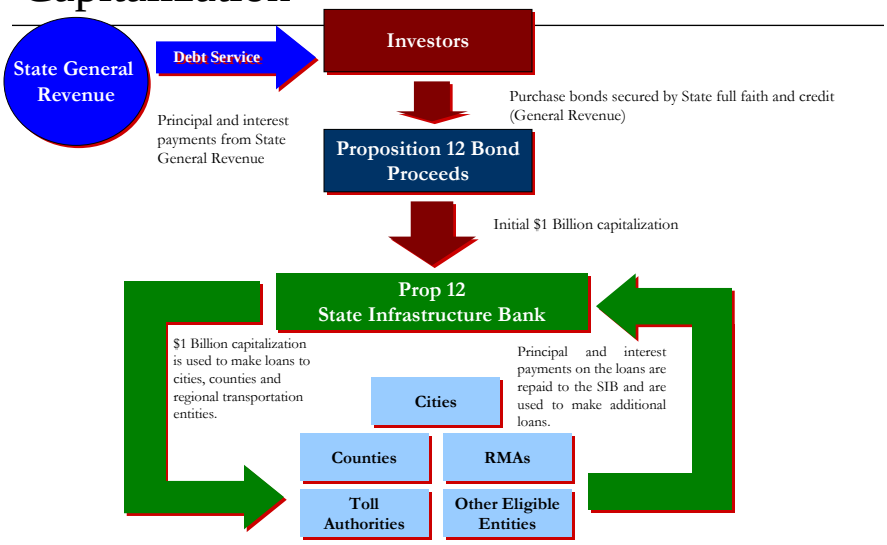
Administrative Considerations (cont)

- Administrative processes and needs
  - Program call or other application method
  - Enhanced application requirements
    - Credit and financial documents, pro forma cash flow models, potential T&R studies, etc.
  - Additional credit analysis and application review
    - Outside counsel, financial advisory, potential T&R peer review, etc.
  - Consideration of an application fee to cover added costs
  - Staffing and other resource needs

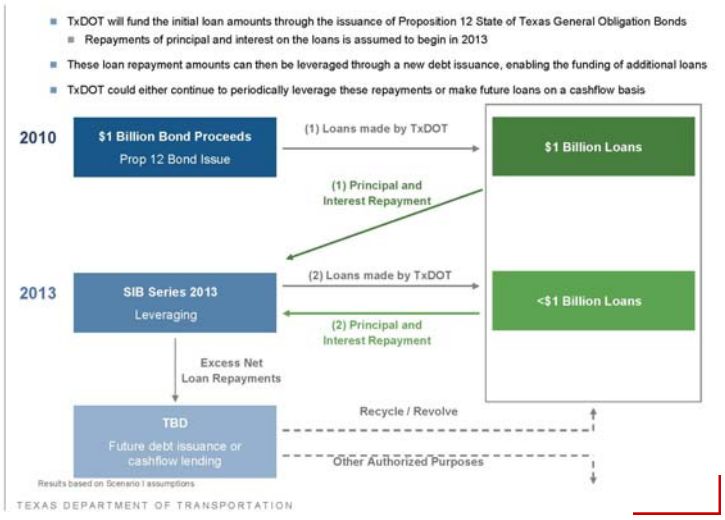
Administrative Considerations (cont)

- Establish an internal credit committee
  - Consistency in application evaluation and loan terms
  - Multiple perspectives on risk and mitigation
  - Opportunity to broaden institutional knowledge on credit and legal provisions

Proposition 12 SIB Capitalization



Proposition 12 SIB Leveraging Process



Policy Considerations

- Goals and objectives of the Proposition 12 SIB
  - Project evaluation and selection criteria methods
  - Patient lending vs. quicker recycling
  - Perpetuity of the fund
    - Loan terms: interest rate, duration, other business terms
    - Security provisions and lien positions with high priority in borrowers' flow of funds

Policy Considerations (cont)

- Leverage the cash flows of the program?
  - Frequency of recycling funds
  - Issuance of revenue bonds payable from loan repayments to provide additional loan funding
  - Diversity of borrowers within the loan pool
  - Creditworthiness of borrower
  - Lien position of loan in borrowers' priority of cash flow
  - Security provisions in loan agreements

Policy Considerations (cont)

- Rules
  - Role of the rules advisory committee
  - Separate rules for Prop 12 funded program
  - Incorporate administrative and policy considerations into rules