



Innovative Finance Proposal: Transportation Finance

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What is Innovative Transportation Finance?

Since 2002, Mn/DOT has broadly defined “Innovative Finance” (IF) as any strategy that utilizes a new or non-traditional transportation funding source or financing technique, as well as any existing funding source or financing technique in a new way, to deliver projects more expeditiously and cost-effectively. IF provides opportunities to complement traditional transportation funding sources and financing techniques through:

- New revenue generating strategies that better align user benefits and costs;
- New financing mechanisms designed to leverage resources;
- New land value capture strategies;
- New funds management techniques;
- New types of financial partnerships between state, local and private entities

One of the first IF approaches attempted in Minnesota was the TranSmart Hwy. 212 toll road project in the mid 1990's. Although TranSmart was unsuccessful, Mn/DOT has successfully used several other IF techniques and tools on projects since then:

- ROC 52 (Federal Advance Construction (AC))
- Bond Accelerated Program (AC and State TH Bonding)
- I-394 MnPASS High Occupancy Toll (HOT) Lane
- I-35W MnPASS HOT Lane/Shoulder
- Connecting MN Fiber Optic Cable Public-Private Partnership Project
- Transportation Revolving Loan Fund (TRLF)
- Met Council Right-of-Way Acquisition Loan Fund (RALF)
- Flexible Federal Matching Techniques
- Local Government Advances & Cost Sharing Agreements
- Rail Service Improvements and Airport Hangar Loan Funds

Some IF techniques and tools Mn/DOT has not utilized include:

- Public-Private Partnership Financing Techniques (e.g. Design/Build/Finance, Availability Payment and Shadow Tolling Models)
- TIFIA (Federal Infrastructure Bank Program)
- Private Activity Bonds (PABs)
- Federal Tapered Match
- Land Value Capture Strategies as Identified in the CTS Value Capture Study
- Transit Oriented Development & Joint Development
- Transportation Improvement District Approaches

Why Explore Innovative Transportation Finance Concepts?

Given the significant challenges facing transportation funding, states across the country are looking for innovative ways to supplement existing funding. Mn/DOT has an obligation to continually explore ways to make the best use of public monies, and IF approaches hold promise to help the state meet some of the key needs on the transportation system. Many IF techniques also have the potential to not only increase the supply of available funding for transportation improvements but to also reduce the demand for such improvements through techniques that require those who benefit from

Program Innovations

Innovative ways to supplement existing funding

New types of partnerships and cost sharing arrangements

New ways of managing existing funds

Public-Private Partnership Financing

Transit Oriented Development & Joint Development

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an improvement to pay closer to the real cost of the improvement. Consequently, Mn/DOT is working with its transportation partners to develop an Innovative Finance Program that can benefit the entire transportation community and ultimately the citizens of Minnesota.

Benefits of IF Approaches

Transportation Financial Resource Expansion

- New Revenue – New revenue can be generated from tolls, other types of user fees, value capture approaches, direct private contribution, and asset revenue generating techniques.
- Revenue/Cost Sharing – New types of partnerships and cost sharing arrangements with local and regional governments; port, rail and transit authorities; contractors, investment groups and other private entities can expand the sources of revenue available for a project.
- New Sources/Types of Financing – New sources of financing capital can become available such as private equity, private debt, and TIFIA (lower interest rate than TH Bonds), as well as a wide variety of new financing mechanisms (e.g. availability payments, pass-through financing, toll revenue bonds, PABs, and TIF).
- New Funds Management Techniques – New ways of managing existing funds can stretch dollars further and enable more projects to be delivered sooner.

Better Alignment of Transportation Use/Benefit and Financial Responsibility

Public Private Partnership Cost Savings (Better Value for Money)

- Life Cycle Cost Savings
- Risk Allocation Savings
- Innovation Savings
- Economies of Scale Savings
- Tax Savings

Mn/DOT's IF Program Development

Vision: Mn/DOT's Innovative Finance Program will support the department's overall vision to be a global leader in transportation, committed to upholding public needs and collaboration with internal and external partners to create a safe, efficient and sustainable multi-modal transportation system for the future. The IF Program will further the department's desire to continuously improve transportation funding and financing options and fully utilize a wide array of alternative financing approaches in an accountable, transparent and fiscally responsible manner.

Mission: Mn/DOT will work with transportation partners and the public to explore, identify, develop, and implement financing approaches that enable access to non-traditional sources of funds and new financial approaches that provide a maximum and sustainable level of transportation services to the citizens of Minnesota.

Program Objectives:

- Explore and assess in a collaborative manner new or non-traditional approaches to generate additional transportation revenue, maximize existing revenue streams, enhance cost saving strategies and leverage financial resources
- Establish a framework for identifying potential IF projects
- Evaluate the results of new approaches tested
- Integrate IF concepts and alternatives into Mn/DOT's planning, programming and investment processes

For More Information Contact:

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