The States for Passenger Rail Coalition: Action Item

Goal: To expand eligibility for use of Transportation Development Credits (TDCs) for the federal match for intercity and high-speed rail projects.

TDCs provide **flexibility** in the use of state funds and ensure matching shares for all federal dollars available. As TDCs are applied to more projects, freeing up state matching shares, states are able to stretch their transportation dollars further and pursue other high priority projects that otherwise might not be eligible for federal funds.

TRANSPORTATION DEVELOPMENT CREDITS

Background

Transportation Development Credits (TDCs), formerly referred to as Toll Credits, are authorized by the Transportation Equity Act for the 21st Century and amended by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). In general, TDCs are a financing tool that allows entities to use federal obligation authority without the requirement of non-federal matching dollars. Credits are applied to the state's existing federal allocation for use in lieu of all or part of the required state match for projects. In other words, there are no new federal dollars allocated to the state.

Earning Credit

The amount of TDCs a state can earn for any year is determined by the amount of "toll revenue" used by toll authorities for capital expenditures to build or improve public highway facilities that serve interstate travel. To qualify for the credit, the state's total non-federal transportation capital expenditures in the last year must equal or exceed the annual average of expenditures in the preceding three years-this is called the Maintenance of Effort (MOE) calculation.

Toll revenues are derived from toll receipts, concession sales, right-of-way leases, interest earnings, or bond or loan proceeds that are backed by these revenue streams. State grants are not considered to be revenues generated and cannot be used in calculating earned TDCs. The toll facility that generates the TDCs must be open to public travel, and may be operated by a public, quasi-public, or private toll authority.

Capital expenditures are expenses for public highway facilities (including bridges, tunnels, and certain ferry systems) that serve interstate commerce. Expenditures for routine maintenance (e.g., snow removal, mowing), debt service, or costs of collecting tolls cannot be included. Expenditures from non-Federal sources are eligible for TDCs. Previously if a project involved any federal funding then none of the expenditures were eligible to earn TDCs. A recent change now allows partial TDCs to be earned for expenditures from non-federal sources even if the project includes some federal funds.

Using TDCs

Credits are applied to the state's existing federal allocation and can be applied toward the non-federal matching share for most federal-aid highway projects (excluding emergency relief projects). They can also be used as the non-federal match for capital transit projects, commuter rail projects, and even the state's match for Metropolitan Planning Organizations (MPOs). TDCs can be used in lieu of all or part of the required state match, allowing the state to obligate additional federal dollars to a specific project. **Intercity passenger rail projects are specifically excluded.**

For example a $10 million project can be financed through:

Traditional Financing –	*Using TDCs –*
$8 million federal	$10 million federal
$2 million state (or other non-federal)	$2 million TDCs

For transit projects funded through the Federal Transit Administration (FTA), capital expenses are the preferred use for TDCs. A grantee may receive TDCs to be used as the match on an eligible capital expenditure for federal money received through either a DOT-administered grant or received directly from FTA. An FTA discretionary grant may depend on an entity's ability to provide non-federal matching funds.

<u>States and TDCs</u>

Many states are taking advantage of this unique financing tool. For instance:

- TDCs have been used in Texas for transit projects such as, buses and small transit purchases (most requested); other capital expenses, including preventive maintenance costs or smaller capital purchases; rail new start and expansion projects funded through FTA.

- Florida has been applying TDCs on a statewide basis since 1993. Today the state is using TDCs on almost every new federal-aid project, so that most of its federal highway program is 100 percent federally funded, freeing up state dollars for state-administered projects.

- Pennsylvania is using TDCs to increase federal funding to 100 percent for betterment projects. TDCs are also used as a match for the construction phase of transportation enhancement projects where the sponsor has completed the engineering and right-of-way phase with 100 percent local funds.

- Missouri reserves its TDCs for situations where project matching funds are unavailable to increase federal funding to 100 percent of project costs.

- Ohio uses TDCs as a match on Grant Anticipation Revenue Vehicle (GARVEE) projects and also shares it toll credits with local government agencies for both highway and transit projects.

<u>The Benefit</u>

TDCs provide **<u>flexibility</u>** in the use of state funds and ensure matching shares for all federal dollars available. As TDCs are applied to more projects, freeing up state matching shares, states are able to stretch their transportation dollars further and pursue other high priority projects that otherwise might not be eligible for federal funds.