COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF TRANSPORTATION

PENNDOT RESEARCH

OPPORTUNITIES AND OPTIONS: A MARKETING ROADMAP FOR THE PENNSYLVANIA INFRASTRUCTURE BANK

University-Based Research, Education, and Technology Transfer Program

AGREEMENT NO. 359704, WORK ORDER 78

FINAL REPORT

January 28, 2002

By K. McClellan and G. Gittings

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16. Abstract

The Pennsylvania Infrastructure Bank (PIB) engaged the Pennsylvania Transportation Institute (PTI) to conduct a review of the PIB and the other Infrastructure Banks' operations, marketing, and lending practices to provide the foundation for a practical marketing plan capable of actually being implemented. PTI's efforts revealed two significant findings. First, the PIB is clearly being operated in a sound, professional manner, especially when compared to other SIB practices. Second, the PIB's visibility within the potential borrower pool could be increased to better serve the transportation needs of the Commonwealth. Accordingly, this plan seeks to establish a balance between keeping in tact those things which aren't "broken" and providing a blueprint for better communicating the Bank's programs to potential borrowers.

Accordingly, this plan articulates clear marketing objectives, sets forth strategies for meeting those objectives, and lays out specific action tasks capable of being implemented and achieving results. More importantly, the plan creates an infrastructure from which the PIB can continue to be driven by its customer's needs and fund creditworthy, worthwhile loans, which ultimately benefit the Commonwealth in the long run.

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OPPORTUNITIES AND OPTIONS: A MARKETING ROADMAP FOR THE PENNSYLVANIA INFRASTRUCTURE BANK

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FINAL REPORT

Prepared for

Commonwealth of Pennsylvania
Department of Transportation

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and
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1. EXECUTIVE SUMMARY

The Pennsylvania Infrastructure Bank (PIB) engaged the Pennsylvania Transportation Institute (PTI) to conduct a review of the PIB and the other Infrastructure Banks' operations, marketing and lending practices to provide the foundation for a practical marketing plan capable of actually being implemented. PTI's efforts revealed two significant findings. First, the PIB is clearly being operated in a sound, professional manner, especially when compared to other SIB practices. Second, the PIB's visibility within the potential borrower pool could be increased to better serve the transportation needs of the Commonwealth. Accordingly, this plan seeks to establish a balance between keeping intact those things which aren't "broken" and providing a blueprint for better communicating the Bank's programs to potential borrowers.

Accordingly, this plan articulates clear marketing objectives, sets forth strategies for meeting those objectives, and lays out specific action tasks capable of being implemented and achieving results. More importantly, the plan creates an infrastructure from which the PIB can continue to be driven by its customer's needs and fund creditworthy, worthwhile loans, which ultimately benefit the Commonwealth in the long run.

2. BACKGROUND

This marketing plan is the culmination of four interrelated phases of research and investigation into the following areas: 1) other SIB operational and marketing practices; 2) PIB's operational and marketing practices; 3) the Pennsylvania market for PIB loans and 4) potential PIB strategic marketing partners. Findings for each of these investigation phases are attached as Exhibits 1 through 4. This marketing plan is a synthesis and summary of these reports.

This marketing plan is built on a two-year planning horizon and its focus is relatively narrow. Due to the PIB's unique circumstances, this plan differs slightly from traditional marketing plans, primarily in the financial forecast area.

3. MARKETING MISSION AND GOALS STATEMENT

The PIB's Operating Manual sets forth the following goals:

- Leverage federal and state revenues by attracting local and private financial participation in projects;
- Accelerate priority projects;
- Spur economic development;

- Facilitate non-traditional projects, including for example, intermodal facilities and Intelligent Transportation Systems;
- Attract local and private financial participation in transportation projects;
- Quickly respond to emergencies such as floods or other disasters.

These goals set forth the range of PIB's "worthy projects," one of the three overriding goals specified above. The PIB's overriding goal is to make creditworthy loans, which achieve the above objectives so as to maintain and grow a revolving fund for future loans.

MAINTAIN AND OPERATE THE PIB AS A REVOLVING LOAN FUND

This means making loans with a reasonable amortization schedule so that loans are repaid fast enough to replenish the fund for future loans. It also means that the PIB must make loans under terms and conditions so as to minimize risk of nonpayment. Maintaining or possibly growing the fund may have some implications vis a vis interest rates on loans.

MAKE LOANS FOR PROJECTS HAVING A POSITIVE IMPACT ON THE TRANSPORTATION NEEDS WITHIN THE COMMONWEALTH OF PENNSYLVANIA

The PIB is authorized to make loans to both private and public borrowers. The enabling statute is sufficiently broad that the PIB may give the "worthiness" of a project considerable or little weight. Thus far, the PIB has made most of its loans to public borrowers, with only three loans to private entities funded or approved.

RECYCLE FEDERAL FUNDS

These two goals taken together give rise to a third, specific goal for the PIB: Recycle Federal funds so as to remove Federal requirements. As a result of interviews with PIB and other SIB programs across the country, it is evident that the requirements placed upon borrowers and projects receiving Federal funds can impede the Bank's efforts to maintain a revolving fund and finance deserving projects.

Accordingly, a near term goal is to place a high priority on disbursing Federal funds. The rationale is straightforward: requirements associated with Federal money reduce the eligible borrower pool and leave otherwise creditworthy, deserving projects unfunded.

4. CURRENT MARKETING SITUATION

MARKET SEGMENTS

Public vs. Private Borrowers

The PIB's enabling legislation gives the Bank wide latitude to lend to both public and private borrowers. Accordingly, the market for SIB borrowers consists of two major segments: public borrowers and private borrowers. Public borrowers consist of cities, boroughs, municipalities, townships, and various public authorities, such as transportation authorities. Private borrowers consist primarily of real estate developers with access needs, although other private borrowers with transportation-oriented projects also fall within this market. For example, Vermont's SIB funded a private entity loan to build fuel oil storage tanks; the rationale was that the project impacted the transportation system by reducing fuel oil truck traffic. However, state statutory restrictions restrict using motor license funds (discussed below) for highway and bridge purposes only.

Federal Projects vs. Non Federal Projects

Background

Under current federal law (Public Law 104-59), initial SIB capitalization from federal funds may be used for highway construction as broadly defined in Title 23, U.S.C., or transit capital projects as defined in Title 49, U.S.C. Projects receiving assistance from the SIB must comply with the Federal requirements, which generally apply to projects under Title 23 when the assistance is derived from:

- The Federal funds deposited into the SIB
- The non-federal matching funds
- Repayment amounts from a Federal source
- Any investment income generated from these funds.

Repayments not derived from Federal funds may be treated as State funds. Projects receiving assistance from non-Federal repayments must comply with State laws and are exempt from those Federal requirements specific to Title 23.

The restriction of the initial federal funds has proved a challenge for many SIBs, because for some projects the federal paperwork requirements and time-consuming process make SIB financing less attractive than other alternatives. Additionally, there are legitimate projects that are simply not eligible for federal funds. To address this situation, the PIB's have set up separate funds so that money is not co-mingled and the federal dollars can lose their federal identity and attending restrictions as soon as possible.

In Pennsylvania there are four accounts in the SIB. First is the federal highway account, which is funded entirely by federal funds. Second is the State highway account, consisting entirely of state funds. These funds are used as part of the Federal match or for a "state" loan. Repaid loans go into this fund. Third, there is a Federal transit account. Forth, there is a state transit account. The management of the transit funds is governed by PA Title 74 (Public transportation assistance law). Additionally, under Pennsylvania law motor license funds (gas taxes, and license registration fees) can only be used for highway purposes.

Federal Project and State Project Segments

The public and private market segments also consist of federal project and state project segments. This distinction is significant given the restriction on federal funds and the imperative to lose the federal identity. Specific methods to target the federal funds segment are set forth in this business plan.

5. PIB FINANCIAL PRODUCTS AND CURRENT LENDING PRACTICES

FINANCIAL PRODUCTS

Although authorized to issue loans, credit enhancements, guarantees, and other financial products, the PIB presently limits its financial products exclusively to loans with an interest rate of one-half of the prime rate. The PIB is able to offer such deeply discounted rates because it does not have a cost of funds; the loan pool comes from direct State and Federal funding. At the low rate of one-half of the prime, a loan-only policy is the best approach to fund worthy transportation projects and, as a matter of policy, the PIB will continue to offer loans for the immediate planning period.

COMPETITION

Given the PIB's unique lending parameters, there is no entity which competes by lending to transportation oriented projects. The closest form of competition comes from the Department of Community and Economic Development's various economic development-oriented loan programs. However, the DCED does not directly fund transportation components, such as right-of-ways and access roads. While commercial banks do fund transportation components of private real estate development projects, they are not serious competition, given the PIB's significantly lower interest rates. In fact, both the DCED and commercial banks are potential collaborators with the PIB, since their respective loan products are complementary, not competitive.

6. OPPORTUNITY & ISSUE ANALYSIS:

SUMMARY OF MAIN MARKETING ISSUES

The PIB faces three major marketing issues:

1) Removing Federal restrictions to broaden the potential borrower base;
2) Encouraging borrowers to seek shorter loan payback terms;
3) Overcoming the general lack of awareness of the program.

Adequately addressing these marketing issues through a well-designed and executed marketing and promotions plan will ensure that the PIB's overriding mission – preserving a revolving loan fund to lend to worthy transportation projects – will be achieved.

THREATS AND OPPORTUNITIES

Threats

The PIB's biggest threats are: 1) loss of the loan fund principle due to unrecoverable, defaulted loans; 2) a PENNDOT management decision to, for what ever reason, terminate the bank's operations. The PIB has managed both threats very well. For the first, the PIB requires all borrowers post irrevocable letters of credit, issued from a creditworthy bank, or a pledge of liquid fuel tax allocations, for which PENNDOT controls the disbursements. Accordingly, the only loan non repayment risk the PIB faces is one of bank failure or an accounting error on PENNDOT's part to improperly pay liquid fuel tax allocations where loans are in default. For the second risk, the PIB is clearly enabling transportation infrastructure through its products. According to feedback from existing borrowers interviewed as part of this market plan's research, the PIB enjoys a very high level of customer satisfaction from both public and private borrowers. This feedback should serve as a sound basis for senior PENNDOT management to continue the program at its current loan level or increase through additional funding the scope of the PIB lending program.

Opportunities

The PIB's biggest opportunity stems from the overwhelming acceptance of the program and demand for PIB loans among those public and private borrowers aware of the PIB. Every current borrower interviewed as part of this plan's research expressed praise for the program and the benefits it offers. The PIB has a potentially large pool of prospective borrowers. The requirement of letters of credit to collateralize the loans removes the creditworthiness decision, so the PIB enjoys the luxury of offering a well-secured financial product in great demand to a potentially large borrower pool.

PRODUCT STRENGTHS AND WEAKNESSES

This plan, to be effective, must capitalize on the PIB's strengths and address the weaknesses as discussed below.

The PIB loan program's primary weakness lies in the Federal fund entanglement, more fully explained in the Task I and Task II reports attached hereto. The net result to federal requirements is that deserving, otherwise creditworthy projects often go unfunded due to the cost and time required for Federal compliance.

However, this critical weakness is counterbalanced by the primary strength of the PIB's loans: the flexibility with which they can be made pursuant to the enabling statute. This is particularly true with respect to adjusting interest rates to stimulate demand for federal fund loans to facilitate "recycling," a part of this plan set forth below.

7. MARKETING OBJECTIVES

OBJECTIVE 1: RECYCLE REMAINING FEDERAL FUNDS

The main goal of Objective One is to recycle remaining Federal funds within three years. The measure of success will be whether the remaining Federal funds will be completely repaid by 2004. Estimated marketing costs consist primarily of the opportunity cost of lower interest rates plus printing costs for the special loan promotion program described in the Marketing Strategies and Action Tasks sections below.

OBJECTIVE 2: PROMOTE SHORTER TERM LOANS

Currently, roughly 12 million of the 14 million dollars approved are in loans with five-year paybacks or longer. While longer loan periods generate more interest revenues, they also tie up PIB funds, preventing loans to a broader range of borrowers. The measure of success for Objective 2 is for all loans during the next two years be balanced between those over five years' payback and those under five years.

OBJECTIVE 3: INCREASE AWARENESS OF THE PIB LOAN PROGRAM

The primary goal of Objective 2 is to increase the PIB loan products to public and private borrowers. The PIB will inform the potential borrower pools of the program part of this objective to create a mechanism where the Bank can monitor inquiries to determine the promotion program's effectiveness. A secondary goal of this objective is to determine and quantify, based upon increased inquiries and loan applications, whether sufficient worthy project demand warrants seeking additional State funds to expand the loan pool. The path to increased PIB awareness is set forth in the Action Task section below.

8. MARKETING STRATEGIES

LOAN SALE FOR FEDERAL FUNDS

The PIB should hold a "loan sale" for qualified borrowers who meet all Federal requirements. Specific promotional activities for this segment are outlined below to get the message to this market segment.

A sliding scale, based upon both interest rate and amortization period, is likely to be attractive to prospective qualified borrowers. The shorter the loan period, the lower the interest rate. Table 1 sets forth some starting parameters.

Table 1. Loan rate starting parameters.

Period	**Rate**
0 to 24 months	0%
25 to 36 months	One-eighth of prime rate
37 months and up	One quarter of prime rate

These rates and loan periods are only to serve as starter point. Actual demand patterns may necessitate adjusting the rates and periods to achieve full disbursement of Federal funds. Applications and borrower response must be monitored to make this determination. These rates shall remain in effect until all Federal money is disbursed.

SHORT TERM LOAN SALE

In order to encourage shorter-term loans, the PIB will adjust its interest rates, giving the best rates to the shortest loans. Table 2 presents new rates to encourage shorter terms. It is noteworthy that the highest rates are still significantly below market and according to research underlying this plan, are sufficiently low to still attract public and private borrowers.

Table 2. Loan rates to encourage shorter terms.

Period	**Rate**
0 to 24 months	One half prime
25 to 48 months	One half prime plus .5 %
49 to 60 months	One half prime plus .75 %
61 months and up	One half prime plus 1 %

REFINANCING

Due to the recent drops in prime, the Bank is receiving numerous inquiries regarding refinancing. Here, the Bank can harness this interest to refinance current loans by requiring shorter loan paybacks.

9. ACTION TASKS

Making adjustments made to the PIB "Federal" and "State" loan products presents the PIB with the opportunity for a well coordinated, new products roll out. A PIB Loan Awareness Program outline, set forth below, is designed to capitalize on the loan product changes.

PREPARATION OF NEW PROMOTIONAL MATERIAL

Description: This task involves preparation of updated brochures and inserts outlining general PIB program information. Additionally, the task includes preparation of inserts or other materials describing the Federal loan sale material, internal marketing materials and other special promotions. The guiding principle in preparing new promotional materials is to be flexible in being able to change materials to adapt to changing financial circumstances. Here, for example, folders with easily changeable inserts, provide a cost effective solution.

Timeframe: Short term and ongoing

Responsible person: Outsourced

Cost: $50,000 in 2002
$10,000 per year in 2003, 2004, 2005, 2006
$50,000 in 2007
$10,000 in 2008, 2009, and 2010.

ALTERATION OF LOAN DOCUMENTS TO CONFORM WITH LOAN PROMOTION PRACTICE

Description: Since the interest rate and possibly other terms may be changed as part of the loan "sale" for Federal funds, loan documents reflecting changed terms for these promotional loans must be prepared. Additionally, if the Bank management decides to charge fees to cover administrative expenses, as was suggested in the Phase II report, the loan documents must be altered to reflect this loan condition.

Timeframe: Short term

Responsible person: Chief Counsel's Office; Bank Manager

Cost: $0

PRESENTATIONS TO ASSOCIATIONS AND TARGETED POTENTIAL BORROWERS

Description: This task involves face-to-face meetings, small and larger audience sideshow presentations, and disseminating promotional materials. Here, the focus is on presenting to purchase decision makers (targeted potential borrowers) and purchase decision influencers. The focus is on key targeted borrowers, such as fast growing municipalities and entities needing to purchase easements for later federal reimbursement. Additionally, this task involves presentations to the Pennsylvania Association of Township Supervisors, the State Association of Boroughs, the Pennsylvania League of Cities and Municipalities, and the Pennsylvania Builder's Association, along with other groups with an economic development focus. An important aspect of this task is establishing a mechanism to identify deadlines for getting on agendas for these groups, with a goal of presenting to each one every two years

Timeframe: Ongoing

Responsible person: Bank Manager

Cost: $2,000 per year

INTERNAL MARKETING WITHIN PENNDOT AND OTHER STATE AGENCIES

Description: In order to increase the PIB's general visibility within PENNDOT and to overcome disparities across districts as to how they "push" programs, this task requires face-to-face meetings and small audience presentations to key personnel. Accordingly, the Bank Manager will meet with key districts and work to gain heightened visibility within PENNDOT at the deputy secretary level and up.

Start date: Ongoing

Responsible person: Bank Manager

Cost: $0

TARGET PROMOTIONS TO MUNICIPAL FINANCIAL MANAGERS / GENERAL MANAGERS

Description: This task involves an outreach to municipal financial managers and general managers who tend to make the loan purchase decisions. The campaign includes mass mailings of approximately 2,500 folders / brochures, phone calls, and personal visits to key potential borrowers.

Timeframe: Near term

Responsible person: Bank Manager; mailing outsourced

Cost: $5,000

STRATEGIC MARKETING PARTNER OUTREACH

Description: An important task for the PIB is reaching out to strategic partners capable of assisting in informing potential borrowers of the Bank's program. Here, the primary focus is contacting parities that directly or indirectly benefit from the Bank's program. These tend to be economic development oriented agencies, such as the Governor's Action Team and the Department of Community and Economic Development and the Pennsylvania Builder's Association. Additionally, the PIB will reach out to commercial banks and associations who represent them; commercial banks can both refer customers and might also benefit from issuing letters of credit as the PIB's collateral.

Timeframe: Near term and ongoing

Responsible person: Bank Manager and Chief Counsel

Cost: $0

WEB SITE REMAKE AND LINKS TO OTHER SITES

Description: Since the PIB's web presence is housed within PENNDOT's website, and is very difficult to find, the promotional program includes creating a PIB stand alone website. The site will serve as both an electronic brochure and, eventually, an interactive mechanism for submitting inquiries, loan applications and other information flows. The site makeover will include user-friendly features such as a loan calculator, downloadable forms, Frequently Asked Questions, and a current interest rate link to the Federal Reserve.

Timeframe: short term and ongoing

Responsible person: Outsourced

Cost: $30,000 plus $5,000 per year for maintenance and technical assistance

BOARD OF ADVISORS CREATION AND RECRUITMENT

Description: The PIB will recruit a volunteer Board of Advisors. As is common in the private sector, the Board's function is advisory only and will not have any oversight functions; the Board's purpose is to expand the PIB's network and client base, provide market feedback, and establish benchmarks and metrics by which the Bank is measured. Accordingly, the PIB will recruit Board members who can contribute advice for the Bank's operations and marketing practices. Additionally, Advisory Boards are typically useful in raising additional capital in the private sector. Here, the Board may be useful in advising how to seek additional funds. The Board of Advisors will be recruited from the following areas: 1) Legislators interested in transportation and/or economic development issues; 2) influential municipal managers representative of the potential customer base; 3) at least one past borrower, on a rotating basis; 4) a representative from the commercial banking community, possibly a member of the Pennsylvania Banker's Association; 5) experts from the transportation community, including PENNDOT and nongovernmental entities such as PTI; 6) a representative from DCED and the Governor's Action Team.

Timeframe: Near term and ongoing

Responsible Person: Bank Manager, Chief Counsel

Cost: $2,000 per year (travel expense reimbursement)

10. FINANCIAL DISCUSSION

As of September 30, 2001, the Bank had $18,767,330 available to lend; of this, $10,118,238 were in the State highway and transit accounts, $8,649,092 in the Federal accounts. This Plan is designed to serve as a guidepost in how the Bank will increase its visibility and dealflow over the next several years. Exactly how those funds will be loaned remains to be seen and is based upon a complex mix of components including demand, interest rates, availability of competing funds for transportation projects, and lending policy decisions. Accordingly, this plan's purpose is to lay the groundwork for the PIB to increase its marketing activities; forecast models can be built based upon the responses to the marketing campaign.

CASH FLOW FROM EXISTING LOANS

Attached as Exhibit 5 is a financial model showing cash flow from existing loans. The model's purpose is twofold. The first is to show the PIB's cash flow levels and timing from existing loans, through the life of the loans. The second is to serve as a management tool, enabling the Bank Manager to see the cash flow effect of new loans, whether actually funded or proposed on a what if basis.

The model shows annual cash flow, on a loan-by-loan basis and assumes that all payments are made on December 31 of each year. Accordingly, the model shows funds available to loan as of December 31 of each year; in reality, those funds will likely be loaned in the following year. Moreover, the model makes no effort to match the timing of incoming funds with interest accrual beyond a simple annual approach. Instead, the model is designed, as a first order of magnitude management device to show approximately what cash flow from loan repayments will look like over time.

11. CONTROLS AND FEEDBACK

ANNUAL MARKETING PLAN REVIEW

The Bank Manager will be responsible for implementing and reviewing the marketing plan on an annual basis, comparing the tasks set forth in this plan and the activities actually undertaken to complete the tasks. Additionally, the Board of Advisors will offer an annual review, offering a fresh perspective for the Bank Manager to draw upon. This is especially important, since the Board is tasked with establishing performance parameters and metrics to measure the PIB's performance.

APPENDIX A

EXHIBIT ONE: TASK I REPORT

TASK I SUBMISSION

REPORT OF " BEST" PRACTICES

Keith McClellan
Sheila Ryan
Gary Gittings

Pennsylvania Transportation Institute

February 15, 2001

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EXHIBIT ONE: TASK I REPORT

1. FEDERAL AND STATE STATUTORY PARAMETERS

The State Infrastructure Bank (SIB) pilot program was created by the National Highway System Designation Act of 1995 (NHS). At that time, the US Department of Transportation established 10 SIBS: Arizona, California, Florida, Missouri, Ohio, Oklahoma, Oregon, South Carolina, Texas, and Virginia. The DOT Appropriations Act of 1997 expanded the SIB program and provided $150 million in general funds to capitalize new and existing SIBs. Disbursements of federal funds to the SIB must be matched by a state deposit of at least 25 percent of the Federal contribution or 20 percent of the total deposit.

SIBs are authorized to offer a broad range of financial assistance, with the exception of grants. The NHS allows SIBs to provide assistance to any public or private entity that is building a public transportation infrastructure. Examples of financial assistance permitted include:

- Low interest loans for all or part of a project
- Loans with interest-only periods in early years.
- Construction period financing
- Refinancing
- Extended-term credit
- Lines of credit
- Credit enhancement
- Subordinated debt instruments for bond revenue
- Polled credit for small issuers of debt

The Pennsylvania Infrastructure Bank (PIB) is authorized under a broadly written enabling law (Section 2015). The enabling law was broadly written to provide the maximum flexibility possible to the bank.

KEY CONSTRAINTS: FEDERAL IDENTITY OF FUNDS

Under current federal law (Public Law 104-59), initial SIB capitalization from Federal funds may be used for highway construction as broadly defined in Title 23, U.S.C., or transit capital projects as defined in Title 49, U.S.C. Projects receiving assistance from the SIB must comply with the Federal requirements that generally apply to projects under Title 23 when the assistance is derived from:

- The Federal funds deposited into the SIB
- The non-federal matching funds
- Repayment amounts from a Federal source
- Any investment income generated from these funds.

Repayments not derived from Federal funds may be treated as State funds. Projects receiving assistance from non-Federal repayments must comply with State laws and are exempt from those Federal requirements specific to Title 23.

The restriction of the initial federal funds has proved a challenge for many SIBs, because for some projects the federal paperwork requirements and time-consuming process make SIB financing less attractive than other alternatives. Additionally, some states like Pennsylvania have legitimate projects that are simply not eligible for Federal funds. To ease the challenge, many SIBs set up separate funds so that money is not co-mingled and the federal dollars can lose their Federal identity and attending restrictions as soon as possible. For example, it is Pennsylvania's goal to have only a State-funded bank.

In Pennsylvania there are four accounts in the SIB. They are the Federal Highway, Federal Transit, State Highway and State Transit accounts. The Federal Highway account is funded by Federal funds and the required State match; a Federal/State Transit Highway account consists solely of State funds; a Federal/State Transit account, which has a combination of State and Federal funds; and a State-only funded Transit account. The management of the transit funds is governed by PA Title 74 (Public Transportation Assistance Law). Additionally, under Pennsylvania law, motor license funds (gas taxes and license registration fees) can only be used for highway purposes.

OTHER STATUTES IMPACTING SIB

Several other Pennsylvania statutes have an impact on the infrastructure bank program. These statutes include Article 8, Section 11, PA Constitution, 71 PACS Sec. 512, and 74 PACS 1301-1313.

2. LITERATURE AND WEB SITE REVIEW

There is an increasing amount of information publicly available about State Infrastructure Banks. The Federal Highway Administration web site http://www.fhwa.dot.gov has a section on Innovative Finance that contains general information about infrastructure banks, as well as a quarterly newsletter that provides updates on SIBs and other financing innovations applicable to the transportation field. In addition, there is an on-going project, "Innovative Financing Clearinghouse Project" that is sponsored by the National Cooperative Highway Research Program. It is hoped that the Clearinghouse will provide a web-based, one-stop resource of on-line information on transportation finance issues. The web site is expected to be operational in the spring of 2001.

States are also using the Internet to provide information and applications for the SIB programs. Below is a survey of some of the state's web sites and outstanding features that can be adapted for Pennsylvania's SIB.

Florida. Florida's SIB is accessed via the Florida Department of Transportation web site at http:// www.dot.state.fl.us/financialplanning/sib.asp. The web site is self-sufficient in that potential applicants have access to application forms, evaluation criteria, and sample loan agreements. The site provides an overview of the State and Federal SIBs that are operational in Florida. Differences in each program are highlighted, providing information that helps potential applicants to choose among the funds. The site also lists prior projects that have been approved and financed. The site provides links to applicable statutes and guidelines for background information.

Michigan. Michigan's SIB is accessed via the Michigan Department of Transportation web site at http://www.mdot.stat.mi.us/programs/sibank/. The site does not have the same extensive information as Florida's site, but it does have contact names and numbers, the SIB application, and the SIB guidelines (which are extensive) available for downloading. There is only a brief description of the program.

Ohio. Ohio's SIB web site is part of the Ohio Department of Transportation web site and can be accessed at http://www.dot.state.oh.us/sib1/default.htm. There are links to the program summary, policies, and guidelines, the approval process, and a project application. There is a link to environmental requirements for the project and a list of active projects. Contact names and numbers are also included.

Texas. Texas' SIB has an extensive web site. Its links include: current loan information, contacts, introduction (how the SIB works), background, purpose, eligibility (broken down by applicant and project), SIB administration, financial assistance management (including underwriting standards, loan requirements), application process, application form, application review process, project management, and rules governing the Texas SIB.

3. DISCUSSION OF FHWA BEST PRACTICES STUDY

In the summer of 2000, the Federal Highway Administration announced it would conduct a best practices study of all SIBs. According to the FHWA, "A primary goal of the review is to monitor states' recent experience with the SIB program, to pinpoint areas where improvements are possible, to focus attention on practices that have worked well, and to identify new opportunities for the SIB program today and in the future." The study used a written questionnaire sent to all SIBs. Rather than rely upon written responses to the questions, the FHWA held personal meetings with SIB administrators and asked for verbal responses, which were then recorded.

The Best Practices Study fundamentally differs from PTI's effort in several ways. First, it is an effort to be a comprehensive inquiry, contacting all SIBs. PTI's work is limited to personal and telephone interviews to states that are representative of a varying range of lending and marketing practices. Second, the PTI study's goal is not to establish best practices, but merely to establish a range of SIB practices to provide the starting point of preparing PIB's operations and marketing plan. In fact, when PTI was preparing its research methodology, the FHWA asked that PTI's efforts not duplicate the questions they were asking so as to increase our mutual response rates. Accordingly, PTI's emphasis was on marketing and promotion practices for the SIBs interviewed, with an eye toward using the FHWA results to establish lending practice parameters.

The FHWA study results were released February 28, 2001.

4. "BEST PRACTICES" VS. "APPROPRIATE PRACTICES"

In conducting the interviews with PIB and other SIB personnel, it became apparent that "best practices" is an extremely situational concept. The incredible range of variables – enabling statute restrictions, program goals, availability of state funds, demographics, availability of economic development funds, staffing levels, cultural practices, among others – make any kind of state-to-state comparison in a vacuum virtually meaningless. For example, Maine's SIB has no web site, does not participate in promotional activities, uses a two-page loan agreement, and conducts virtually no credit review. At first blush, these practices would seem questionable. However, Maine's circumstances make these practices both appropriate and efficient. Likewise, judging an SIB's performance based upon the number of loans made or the amount under contract is neither fair nor accurate.

Accordingly, the emphasis of this report is to focus on the range of practices (primarily marketing and promotion) states employ in an effort to define a range of appropriate practices for the PIB.

5. APPROPRIATE PRACTICES FROM OTHER SIBS

LENDING PRACTICES AND OPERATIONS

Interest Rate Strategies

Interest rates ranged from zero to 75 percent of prime. Interest rate strategies are driven by two main considerations: the SIB's operating goals and desire to stimulate demand. SIBs without goals of creating an ongoing fund appear more likely to make interest free loans. SIBs with a goal of establishing an ongoing lending operation tend to charge rates similar to loans from economic development entities. Most SIBs interviewed adjusted rates downward to stimulate demand for their programs.

State statutes and other considerations also drive interest rate strategies. For example, the Texas statues mandates lowest interest rates to disadvantaged counties or border regions. Missouri's interest rate is tied to the tax-exempt revenue bond rate.

Florida's SIB has a unique interest rate strategy of permitting the prospective borrower to propose an interest rate and amortization period. The future cash flow to the SIB are discounted to a net present value using the proposed interest rate. Higher interest rates and shorter amortization periods yield higher net present values. The SIB selects projects with highest NPVs.

An interest rate bidding strategy might work well where demand for loans exceeds the amount of funds available. However, it presumably would work well as a means of stimulating demand. Allowing borrowers to propose their own rates and amortization periods would at least generate interest and publicity in the program.

Amortization Period Strategies

Most SIBs use a 10 to 15 year amortization period, similar to loans made by economic development entities. Arizona's longest loan period is five years and prefers even shorter periods, which is possible because the DOT is a borrower and the funds are available on a shorter basis.

In theory, Florida's program provides for much shorter periods and offers a good model of blending attractive interest rates and amortization periods. In order to both stimulate demand and recycle federal funds, the PIB could offer interest free loans for relatively short repayment periods.

Disbursement Options

Disbursement options ranged from a mere accounting entry to closely monitored phased draws similar to commercial construction loans. Disbursement preference appears to be a function of administrative resources or unique circumstances. Maine's accounting entry disbursement is possible only because of a pre-existing program into which the SIB was dovetailed. SIBs with administrative resources tend to use a disbursement request – draw system.

Service Fees and Administration Fees

Imposition of service and administration fees vary greatly and appear to be a function of each bank's operating goals and lending culture. Maine's accounting entry approach makes service and administration fees unnecessary. At the other end of the spectrum are SIBs operated or influenced by economic development agencies. For example, the Vermont Economic Development Agency charges a fee for each credit analysis plus an ongoing servicing fee of one percent once a loan is funded. Ohio adds to the interest rate one quarter of one percent to the interest rate, for the life of the loan, as an administrative fee.

Generally, SIBs operating like "traditional" economic development lending entities tend to charge fees to cover administration costs, which are passed on to the borrower, typically rolled into the loan.

Credit Review Procedure

A critical operational aspect of SIBs is determining the creditworthiness of loan applications. The most common review process appears to be an informal meeting with applicants to determine project eligibility and "first cut" creditworthiness, followed by a written application. Most SIBs interviewed used informal interviews and felt it was a way to prevent wasting time and resources in reviewing applications with little chance of approval.

Following the informal review, written applications are reviewed, either by the SIB staff or outsourced to an economic development agency. Arizona has a unique approval mechanism. There, a seven-member board, consisting of two SIB staff members and five private citizens, approves loans that have been screened by a technical committee. Many SIBs have a statutorily imposed review mechanism for all loans approved by SIB staff members. For example, Vermont has a 12 person Board of Directors selected by the Governor that approves all loans.

In terms of time, many SIBs accept applications on a rolling basis, while others accept quarterly applications.

Effect of Federal Regulations on Other SIBs and Strategies

Most SIBs establish several "Banks" or accounts – Federal Highway, Federal Transit, State Highway and State Transit accounts. Many SIBs interviewed expressed concern with the Federal compliance procedures and the costs and delays the regulations cause. The disdain for Federal requirements even creeps into the SIBs vernacular, with one SIB respondent referring to non-Federal money as "clean money" where others call it "recycled." Some interviewed felt the Federal restrictions were scaring potential borrowers away.

Almost all SIBs interviewed expressed some type of strategy or desire to recycle Federal funds to remove the restrictions. In fact, only one state did not express concern for the regulatory burdens or have a strategy for recycling funds. Some states had loaned out all Federal funds.

Arizona employs a unique method of recycling Federal funds. There, borrowers can swap Highway User Funds for Federal Funds to remove regulatory restrictions. The swap is made at a $10 Federal Fund to a $9 HURF. Borrowers are willing to buy the unrestricted money at a ten percent discount, presumably because the cost of Federal compliance is at least that much.

The willingness to allow a project to become "Federalized" is proportional to the size of the loan. Large borrowers seem more willing to deal with the regulations, implying there may be economies of scale in compliance costs.

Staffing Patterns

SIBs exhibit a wide range of staffing patterns. One state's SIB had no staff and was run by a committee, while another outsourced all operational and marketing functions to an economic development authority. A few other states employ staff who focus entirely on SIB matters, while a common pattern is for SIB administrators and staff to have other functional responsibility areas.

MARKETING AND PROMOTIONS

Importance of Promotional Activities

SIBs expressed a wide range of opinions as to whether promotional activities were an important aspect of their operations. Those who felt promotional activities were not important tended to be in situations where the money had already been loaned out or where demand was sufficient. Where demand was high, some banks felt they got there with promotional activities and were just in a maintenance mode. The "we've already got the word out" phenomenon might reveal some interesting characteristics about the borrower pool. Public borrowers fall into small, readily identifiable groups, such as municipalities, with clearly defined communication channels. Once the SIB penetrates this market segment, the need for a high level of promotional activity may trail off.

Demand Patterns and Impact of Demand on Promotional Activities

Demand for SIB loans and other financial products vary greatly. A few states felt there was more SIB money available than demand. A few SIBs attribute low demand to costs and difficulties in federal regulatory compliance. One SIB believed potential borrowers viewed loans as an unfavorable option because they are used to receiving grants. Other SIBs experienced moderate to high demand for their products. Here, some states have reduced promotional activities, feeling that the cost and effort was not necessary. Others maintained a moderate to high level of promotional activities, either because the practice had become institutionalized or to seek the desired type of borrower in light of the SIBs operating and marketing goals.

Leveraging Strategies

SIBs were asked about leverage strategies from two perspectives: leveraging relationships with other entities and debt leverage. Regarding leveraging relationships with other entities, most SIBs had formal or informal marketing relationships with the State's economic development agency. One state had "relationships" with commercial banks and used them as a source of loan leads and referrals.

In the area of debt issuance as leverage, many SIBs use bonds, in one form or another, to raise capital for their banks. Again, this practice is driven by each state's enabling statute and by custom and practice. Some states have the ability to issue debt, but refrain from doing so. In Texas, the SIB and Smith Barney are exploring methods of leveraging cash in the bank and using bonds to raise additional capital.

Oregon has a unique leverage practice. Under State law, the SIB is able to borrow funds from the state treasury and loan it out, subject to a maximum outstanding loan limit of $100 million. Ohio's statute permits the issuance of bonds solely backed by the SIBs credit or the cash flow from a particular loan. These bonds do not rely upon ODOT's or the State of Ohio's credit. Ohio has yet to issue a bond, but will do so in the future when the right loan opportunity presents itself.

Promotional Practices

There is a wide range of promotional practices among SIBs interviewed, from a "we don't need it" approach to a full time marketing person with no other job duties. Most SIBs, however, engage in some form of promotion. A few had informal marketing plans, but none interviewed had written marketing and promotions plans outlining strategies, identifying target market segments, planned promotional programs, costs, and other items normally found in such plans.

A common promotional practice is to send literature to and speak before meetings of municipal organizations, metropolitan planning organizations, and groups representing potential public borrowers. These also include county engineers associations, port authority councils, and public works departments. Florida's SIB hosted a Transportation Finance Workshop, inviting city, county, and other governmental officials to attend. Florida SIB staff felt this was a cost-effective promotional method. Arizona's full-time marketing person attends as many city, organizational, or highway-oriented meetings as possible. This person's strong relationship with city managers across the state was established before he came to work for the SIB and is of great benefit to the SIB. Many SIBs also use web sites, but it was unclear how effective web sites are. All web sites appear to be set up as electronic brochures; most are housed within the State's DOT web site.

Other SIBs rely on high visibility loan projects to generate publicity for their programs. Large loans generated publicity, as did small loans to particularly needy municipalities. Ohio issues press releases after each loan closing.

Oregon's approach is more surgical, pinpointing leads through various sources, including monitoring news media for remodeling projects, which might need financing. SIB staff members also scan the STIP for financing gaps where the SIB could be of assistance and search sources for grant applications, which have been turned down. Ohio uses a similar approach of targeting entities turned down for other sources of funding.

Borrower Types and Impact on Promotions

In the broadest sense, the market for SIB borrowers consists of two major segments: public borrowers and private borrowers. SIBs statutorily permitted to lend to private borrowers tend to employ the same promotional strategies, such as presentations to groups of potential borrowers, but with different audiences. For example, Vermont's SIB regularly presents to local Chambers of Commerce and other economic development-oriented audiences containing private entities such as real estate developers.

Borrower types and impact on promotions raises an important issue for many SIBs. Most SIBs interviewed were authorized to lend to private entities in some fashion. However, as a matter of policy, most did not lend to private entities or target them for promotion. The critical first step in designing marketing and promotion efforts for any SIB is establishing, as a matter of policy, the range of acceptable borrowers. This decision is driven by a number of considerations, including the enabling statute, the SIB's organizational culture, and availability of other sources of financing for public and private projects. SIBs operating within a "pure" economic development culture, such as Vermont, tend to evaluate loans based upon criteria similar to commercial lenders. Accordingly, the tendency is to promote to both private and public borrowers with equal vigor.

Interest Rates

Interest rates (and other terms) represent a critical component of the SIBs product and a marketing opportunity to offer special terms to stimulate demand. Most SIBs recognize the importance that interest rates have on demand and many have adjusted rates downward to stimulate borrower activity. A few offer reduced rates to stimulate demand in a particular borrowing segment. Ohio has held "loan sales," offering subsidized interest rates for six months, to stimulate demand.

Internal Marketing

Some SIBs view internal marketing as an opportunity to promote the bank to "front line" personnel at the district level. For example, Oregon also networks with project managers, reminding them the SIB can help with cost overruns and timing issues.

6. CONCLUSIONS AND PRELIMINARY ASSESSMENT

SIBs use a wide range of operational and marketing practices. A "best" practice should only be defined in light of each SIB's statutory, political, financial, and other circumstances. Clearly, the PIB has a range of options available to enhance its current efforts and address existing issues. Federal regulatory "strings," for example, hamper the PIB's lending efforts and those of other SIBs. In response to this problem, at least one state has created a fund swapping strategy to remove Federal identity of funds. The PIB might pursue a similar strategy or create one of its own, such as funding a loan with Federal funds and funding a second loan to retire the Federal money debt. While the complete Operational and Marketing Plan to be developed in a subsequent phase of this project will suggest specific promotional practices, it is worth noting that current PIB practices fall within the range of other SIBs' practices.

For all SIBs interviewed, operational policies and goals influenced how they target borrowers and the manner by which they promote and ultimately fund loans. While this may state the obvious, it is important to reiterate, since policy strategies and decisions greatly influence the selection of lending and marketing activities. For example, there are several options to grow the PIB loan fund through Federal fund identity recycling strategies or bonds exclusively secured by specific loans. Similarly, there are many pricing and promotion strategies available to increase the PIB's visibility in the private borrowing sector. The issues become where and how much the PIB wishes to lend, as a matter of policy, and whether demand exists within those targeted segments to support the PIB's activity. Later phases of this project, particularly Phase III, address demand assessment in light of ongoing discussions with PIB regarding its current and planned operational goals and policies.

EXHIBITS

A: Representative Web sites and Other Promotional Materials
Supplied as separate appendix.

B: Maine SIB Interview Summary

- Bank has loaned ~ 3 million across 23 projects; not a pilot state; state statute limits activities to loans to municipalities and government entities
- Collector Road Development Program was already in place when issue of SIB came up; that program required 25 percent local funding
- CRDP and SIB were administered jointly (borrowers didn't know they were receiving SIB money; 23 projects from SIB, other 75 loans came from bond fund (CRDP); CRDP was already in place and a convenient place to administer SIB
- Program funds small projects, under 400,000, which are identified by the municipal borrowers
- Program has three phases of awards, ends next summer; GOAL WAS NEVERTO BE SELF SUSTAINING
- 3 accounts: highway, transit, and second generation
- Source of repayment for loan is Local Road Assistance Program funds, which is administered by MDOT; thus, once loan is in place, repayment is merely an accounting entry (although a few communities request a bill)
- No dedicated SIB staff; two people administer it along with many other programs
- Types of loans:
    - Reconstruction of small sections of collector roads
    - Lots of drainage projects
    - 15K loan to fix a culvert in small, poor town
    - no minimum limit; smallest loan was 10K
    - loan to purchase large crane for port of Portland; found out about the opportunity via freight transportation division
- Marketing
    - No attempt to promote program to municipalities because the municipalities already submitted needs to a proposed project list, which was used to select loans

- Very cautious as to how they promote within MDOT; spoke with a few people on the program side in area of freight transportation and passenger transportation
- Received good public relations for $15K culvert loan to small, poor community
- Because CRDA was already in place, there wasn't a need to promote SIB
- Collaborate with economic development people behind the scenes; no overt effort; State Planning Office is who they work with
- Maine Municipal Association is key communication channel

- Simplicity of program and "accounting entry" nature of SIB reflected in a one-page loan agreement

C: Vermont SIB Interview Summary

- Program administration outsourced from VTRANS to Vermont Economic Development Authority (VEDA)
  - VTRANS approached VEDA for the arrangement, since VTRANS didn't have any lending experience and VEDA is the major public sector / ag lender in state
  - Program funded at 1.5 million from federal funds, 375K from state
  - VEDA and VTRANS jointly lobbied to get enabling act passed, which specifies joint VEDA VTRANS operation
  - Statute requires program be administered by Board of Directors and qualification of BD members; governor selects the board
  - Agreement between VEDA and VTRANS where VEDA: 1) performs loan analysis; 2) does credit write-ups: 3) manages fund(s) and does accounting; 4) closes and services loan
  - Operation run like a commercial bank, with loan officer assigned to each loan
  - VEDA responsible for publicizing program
- Financial product: direct loan program to private sector or municipality borrowers
  - Must have BOTH economic development AND positive transportation benefit such as reducing traffic
  - Credit decisions are made by Board, based upon VEDA recommendation
  - Upon approval, VEDA closes it
  - Two percent of the loan fund is allocated for administration
  - VEDA charges a per – analysis fee plus ongoing one percent servicing fee
  - Board meets quarterly
  - RE: eligibility issues, VEDA sends it to VTRANS who send it to FHWA for determination

  NOTE: there is no effort to separate the Federal and State money; the funds are commingled and all projects must meet Federal standards
- Several loans approved but not funded because borrowers have found it too much hassle to comply with Federal requirements; when this happens, VEDA considers lowering interest rate to make it worth putting up with the hassle. One loan closed, but borrower jumped gun, started building, before Federal requirements satisfied

- Loan specifics:
  - Smallest: $180K to municipal borrower for road repair

- Largest approved $750K to private borrower to build propane transfer station (did not close because VEDA required personal guarantees and borrower's principles didn't want to)
  - No statutory limit on amount
  - Have closed two loans for $500K each to private borrower for tank farms / intermodal facilities
  - Interest rates: initially, five percent for municipals, 75 percent of prime for private sector; changed this to five percent fixed for private, 3.5 percent fixed for municipalities to stimulate demand
  - Amortization period no longer than 15 years
- Haven't focused on recycle strategy; focus is on obtaining funds
- Use a rolling application process
- Promotion activities:
  - Have $575K left to lend and are doing the following:
  - Press releases to VT League of Cities and Towns, Regional Development Corporations, Regional Planning Commissions,
  - VEDA news letter covers SIB
  - VEDA director presents statewide speeches on VEDA programs and includes the SIB
  - VEDA interacts, networks with commercial banks; have completed 15-20 presentations to banks and groups of borrowers
  - Banks good lead on VEDA side, not as much on SIB side
  - Attend monthly meetings of Regional Development Corporation

- Demand issues:
  - Demand currently low because: 1) haven't gotten the word out; 2) not many private sector borrowers doing these projects; 3) municipals have other VTRANS programs that are more attractive because they are grants
  - Usually get 3-4 calls regarding each press release
- Application process
  - VEDA talks through the application first
  - These discussions usually occur because a prospective borrower saw a press release or learned of a program from VTRANS
- Measures of success:
  - Lending money out to quality loans (high probability of repayment, well secured)

D: Ohio SIB Interview Summary
- Structure: one fund, four accounts
  - Federal
  - State (general revenue account)
  - Gas tax (Title 23, lots of strings attached, no transit projects allowed)
- Borrowers
  - Municipalities (~40 percent)
  - Counties (~40 percent)
  - Port Authorities (five percent)
  - Metropolitan Planning Organizations (10 percent)

    - Private entities (five percent; must have local government entity backing the loan)

- Financial products and loan info
    - Direct loans, although have wide statutory latitude to offer other products
    - Smallest: $335K for industrial park road
    - Largest: $20 million for reconfiguration of main gateway to Cincinnati
    - Most loans are in 1-2 million range
- Loan process
    - Application (taken any time, rolling process)
    - Reviewed by SIB Administrator, considering: Ability to repay and public need
    - Term sheet prepared (see example)
    - Special outside counsel does loan contract (two firms approved by Attorney General; SIB chooses specific counsel)
        - Use boilerplate and modify from there
    - Loans are done on draw based upon disbursement requests
    - ODOT processes disbursement request
- Structure: SIB is housed within Ohio DOT's own Office of Economic Development, which is separate from State Office of Economic Development
- SIB is administrator's "majority" full-time job
- Repayment sources and security:
    - If payment is from tax increment financing district, then source of funds is unclear (because these deal with growth in future income tax for a district) but still take security interest in these funds; this is a moral obligation to repay and thus doesn't count against debt limit
    - LOC, assignment of revenues, first lien position
    - Applicant refusal rate is 1 in 10 because loans are already informally vested
- Capitalization
    - $90 Million – Federal
    - $40 million – General Revenue
    - $12 million – Pilot State Funds
- Interest rate
    - Highest: .75 of prime
    - Range: 3-6 percent
    - Lowest for: depressed areas, short term loans, small amounts
- Administrative fees: one quarter of one percent administration fee for life of loan; year one is interest free; administration fee is added to interest rate
- Promotional activities:
    - Administrator makes regular presentations to:
        - MPO's
        - County Engineers Association
        - Port Authority Council
        - Public Works Departments
        - Department of Development
    - ODOT district offices mention SIB as tool
    - Make pitch to potential borrowers who've been turned down for other sources of transportation funding

- Web site
- Issue press release each time a loan closes and for important or big impact loans
- Internal marketing to ODOT: article in ODOT news letter, presentations to planning staff
- Offer "loan sales" of subsidized interest rate for six months

- Leverage activities
  - Have bonding authority, but haven't issued bonds yet
  - Will issue bonds solely backed by SIB's cash flow stream (or specific loan cash flow) NOT ODOT's credit
  - Waiting for the right loan, do bond issuance based only on loan
  - No leverage or interaction with commercial banks
  - Interact closely with State Economic Development Agency; they look to ODOT to fill in transportation component of projects
  - Work closely with rail commission
- Re: recycling Federal funds and finding these projects
  - SIB focuses on MPO's who have limited obligation authority, so SIB loans to them
  - SIB solicits county engineers to find bridge projects
- No loan defaults to date

E: Pennsylvania Department of Community and Economic Development

- Current credit review practices for PIB
  - Since most loans are to municipals, overall, the loan review process is minimal as compared to other loan applications DCED reviews
  - For municipals, credit review is simply financial data from year end audit and a pledge of liquid fuels tax
  - For private borrowers, since most are LLP's formed specifically for the project, review is limited to cash flow projections and project valuation
  - Number of turn downs: none
    - One project, private developer, was over leveraged, but PIB wanted to fund loan anyway
- Turnaround on review can be as short as one week if all the paperwork is complete
- DCED outsourcing capabilities for PIB
  - Loan closings
  - Have capability to manage draw downs
- Potential joint promotions
  - Include PIB in financing matrix in their promo material and on website
  - Link DCED and PENNDOT web sites
  - Loan referrals where transportation component is needed (where its not necessarily pure economic development) e.g. DCED gets calls from townships and boroughs for assistance in building bridges; could establish a formal referral mechanism)

F: Telephone Interview Summary

1) Florida: Key point is how they permit borrowers to "bid" on loans

- 2 SIBS:
  - State funded SIB: $50 million over three years
    - First awards were in October 2000
    - Make awards twice per year
    - Goal is to have a revolving fund; no plans to loan it all out
    - Award criteria: must only meet local requirements
    - Have mix of projects; lend to 1) transportation providers e.g. expressway authorities 2) FL DOT
- Federal SIB: all money is loaned out
- Run program on 10-year planning horizon
- Approval and funding process:
  - Applicant proposes interest rate and amortization period; NPV of cash flow, based on rate and amortization period is compared against competing projects
  - All federal funds loans were done at zero interest rate
  - Want funds to revolve and be available for more loans
  - Disbursements made on draw basis
- Promotional activities:
  - Web site
  - No longer a need to advertise because of penetration into the MPO and Expressway Authority organizations
  - Hosted a Transportation Finance Workshop, invited city, county, and other governmental officials to attend

2) South Carolina

Borrowers:

All are local governments, but no restrictions on borrowers, but that is how the SIB was set up.

Loan Size

All of their projects are major projects (over $100 million). When the State legislature created the bank they listed the six projects that they wanted to fund. Recently, they did give money to a $30 million guardrail project.

The SIB is not really giving out loans because it functions as a participation or match repayment program. For example, the largest funded project was $888,000,000 of which the local government had to contribute $548,000,000. Of the amount contributed to the bank, there is no interest charged rather there is a one-time fee that goes to the bank. The repayment period for this project is 20 years.

Recycling of Federal Funds

The only Federal money in the bank is the initial $3 million. This money will be paid back by the $888,000,000 project, and once that occurs all of the funds in the bank will be State dollars.

Marketing:

There is no formal marketing plan because the bank already had its funds earmarked from its initiation by the legislature. Should funds become available again then they will circulate a brochure to the local governments that consists of general information about the program and an application.

No partnership with economic development agencies or other entities.

Leverage:

The bank uses bonds as a method of raising money. Also, they just applied and were approved for a loan from the Federal TIFIA program.

Loan Documents:

Because all six of their projects have been different and are typical loans there are no sample loan documents. Documents were drawn up at the time to reflect specifics of the deal.

Unusual characteristic:

The South Carolina bank has no employees; rather a seven-member board runs the bank. Ms. White acts as a liaison between the DOT and the board. She does not expect this arrangement to change.

3) Texas

Borrowers

Primarily cities. But also counties, port authority, utility companies, and toll authorities.

Loan Size

Loans range from $46,625 - $29.4 million. The average loan is $3 million.

Interest Rates

Interest rates range from four to five percent. They are permitted to go anywhere from zero to 100 basis points below the municipal bond rate. State law requires them to give the lowest interest rates to either disadvantaged counties or border regions. Repayment periods are loan specific with the most generous terms going to disadvantaged counties and border regions. Repayment terms range from three years to 25 years.

Other Financial Products:

Can do credit enhancements, lines of credit, bonds, etc but most are direct loans except for two counties where they purchased tax notes. State law makes a distinction between cities and counties and their borrowing capacity. Counties are not permitted to borrow for roads and bridges with the approval of the public, i.e. through voter sanctioned bond financing. Because this proved costly to the counties in fees, the legislature is expected to change the anomaly this year. In the meantime, the SIB is purchasing the counties tax notes, and charging the same interest as if they were part of the regular program.

Federal Funds

Bank must be funded in 80/20-ratio Federal/State money. As of January 1, 2001 there was $42.58 million of State money in the bank, and $170.3 million of Federal money in the bank. The State match then becomes Federal money and all is subject to Federal restrictions. Once it comes back, then it is "clean money".

Currently there is $1.5 million of "clean money" and it is anticipated that this will increase to $3.5 million by May. This money may or may not be used for Federal projects, depending on the funding needed and the funding available. It doesn't matter though because no matter where it goes it will always be "clean money".

Marketing:

There is no formal marketing plan, but because of the high visibility of the SIB funded projects the word is out about the bank and what it can do. The 25 regional district offices are responsible for contacting and working with the NPO planning offices, and local Chambers of Commerce. There is a web site with application materials posted.

Planning cycle:

It is a continuously revolving loan process. Loans are given out throughout the year as applications come in.

Leverage:

Discussions are currently underway with entities such as Smith Barney to leverage the cash in the bank and/or to use bonds to raise additional money. Nothing definite has happened yet.

Other:

The Federal government authorized the bank in 1995. The State authorized it in 1997. Dorn expects the bank to continue to grow as more major highway projects are undertaken.

The 25 district offices play an interactive role in the loan process. Applicants get the application handbook off of the SIB web site and then go to the regional transportation office. They (district engineers) are the first line contacts for loan applicants, and they make sure the project is in line with environmental requirements, etc. If they clear the loan then the loan application makes its way to Austin, Texas.

4) Missouri

Borrowers:

The borrowers are local governments and not-for-profit transportation corporations. At this time they have no loans with private entities.

Loan Size

$29,000-$28,000,000, with the average being $5,000,000. The average term of the loans is three to four years,

Interest is tied to the tax-exempt revenue bond rate.

Products:

They mainly provide loans. Have provided "debt service reserve".

Pilot state issues:

Missouri is one of the four T21 states. They have separate funds for the Federal money and the State money.

Under T-21 the State provides the matching dollars to the Bank, and not to a specified account.

Marketing:

Ready for an aggressive marketing plan, however, all plans are on hold while the legislature hammers out their long-term transportation plan. Apparently, the legislature has committed to provide significant dollars to transportation infrastructure and the plans should be finalized this year. Things are on hold until entities learn what projects will be funded.

Missouri has been newly authorized to issue bonds to raise money for the bank, but again they are waiting until the LT transportation plan is finalized. Once the plan is finalized, Patty expects there to be an aggressive marketing plan, and the bank will target private entities.

Economic development agency: Although Patty has some contact with the agency; she believes the relationship could be and should be strengthened. The SIB is highlighted at transportation conferences. There is no other formal marketing strategy at this time.

Planning:

Patty believes that the SIB is getting involved in the planning process later than they should be. Everything revolves around the STIP, which generally has a five-year planning horizon.

Leverage:

Missouri's SIB is run by a Board of Directors, and leveraging funds is one area that they want to focus on in the near future. Again, things are in a holding pattern until the legislature acts.

Other:

Private entities: In Missouri there is a law, which allows corporations to organize as either a not-for-profit transportation corporation or a political subdivision. These forms allow the entities to maximize their borrowing eligibility as well as receive other benefits. Theoretically, then Missouri will not be loaning to private entities because those entities will organize themselves as Not-for-Profit transportation companies. For example, there was a Casino that wanted the road in front of there property improved. Instead of investing their own money they reorganized as either a Not-for-profit or political subdivision making themselves eligible for more government monies.

Missouri's SIB is organized as a Not-for-profit corporation, which gives them more flexibility because they are outside the authority of the State agencies.

5) Oregon

Borrowers:

- Local governments
- Special districts
  - Transportation districts
  - Port districts
- Cities
- Counties
- No private entities although they are authorized to loan to them.

Loans:

$225,000--$4.4 million is range of loans.

$1.4 million is the average loan.

All the loans are different because they are tailored to meet the needs of the borrowers. The interest rates have ranged from .4 percent to 4.32 percent. Repayment terms range from two years to 20 years. Four to five years is the typical repayment period.

Products:

Mainly loans. There have been no requests for credit enhancement. They are authorized by statute to sell bonds and they are considering selling bonds to raise money. They have not done so yet. But if they have a request for a large loan they will consider floating bonds.

Pilot State Issues:

They are one of the original pilot states. Although they have the Federal/State dollar issue they have no strategy to minimize it. Everything comes down to the repayment source. Many times the repayment source is Federal money so the program is federalized from day one. Also, many of their loans are related to the STIP and already federalized. For example, a significant repayment source for Oregon is a local government's receipt of a Federal grant. He said yes some projects don't want to be federalized, but then it comes down to the money involved. A $20,000 project the sponsors will not bother, but at $7 million the sponsors may say the federalization is worth it.

Loan characteristics:

Loan characteristics depend on: 1) source of the repayment; and 2) project stream of income. Terms of the loans are designed to match the borrower's revenue stream. The lender's ability to shorten loan terms is directly related to borrower's ability to repay. This hampers attempts to create a strategy to loan out federal dollars on a short-term repayment schedule.

Planning Process:

Planning is tied to the STIP, which has four-year horizon, and is updated every two years. The project dictates at what time the SIB gets involved. Until there is a project there is no loan to be made.

Marketing:

The SIB is offering a product no one wants, because everyone wants grants; so marketing efforts are undertaken in this context. There is no specific outreach program with the economic development agency although Paul has communication with them. Additionally, he scans the STIP for financing gaps, and he scans major newspapers in the state looking for remodeling projects that may need financing.

Internally, he has an ongoing dialogue with project managers reminding them that the SIB can help with cost overruns and timing issues. He attends various conference workshops, and tries to build relationships with city officials. His main goal is to build awareness of the SIB. He also stays in contact with the legislature and contacts entities that were turned down for grants.

6) Arizona

Borrowers:

Borrowers included cities, towns, counties, and the DOT. There are currently no applications from private entities and they would not loan directly to a private entity. But a private entity would be eligible in partnership with some type of governmental agency.

Loan Characteristics

There are 13 outstanding loans and the range is from $300,000 to $100 million. There are loans for $24 million, $26 million, $6 million, $10 million, and $17 million.

Interest Rate

Interest rates range from 3.59 percent to 4.5 percent. There is a loan rate policy, which she will forward to me. The longest repayment term is five years. The agency prefers short-term loans because most of the larger loans are to the DOT and generally the funds are available within the next few years.

Products:

Loans only.

Federal/State distinction:

There are two funds:

Restricted funds: initial capitalization from the Federal government.

IF a loan is repaid with Federal money, then the money goes into the restricted fund. For example, some of their loans were issued to cover emergency repair to roads. The FHA will repay the loans and the money must go back to the restricted account.

Unrestricted funds: State legislature funds, no restrictions.

Goal is to get all of the funds into the unrestricted funds. Some of the rural communities do not like the restrictions, particularly the "Davis Bacon" wage rate restriction.

Unique Mechanism for removing fund restrictions:

Entities can swap Federal funds for HURF funds and get a discounted amount with no restrictions. The HURF is State administrated and is funded by gas taxes, etc.

Entity could take the $10 Federal dollars and swap it for $9 of HURF dollars without restrictions.

Marketing:

The bank has three staff members, one devoted to marketing.

Mass mailings to all cities, counties, etc.

He attends any city organizational, or highway type meeting he can.

He comes from a government agency where he also did marketing, so he has established relationships with city managers.

No formal relationship with economic development agencies.

Planning Process:

It is a continuous, revolving loan program.

The bank is administered through the HELP loan program.

There is an advisory committee made up of seven members (five private citizens) who review and recommend approval for all loans.

The State Transportation Board then makes final decision. Prior to the advisory committee the technical committee reviews first. The committee reviews the application for completeness, appropriateness, economic value, environmental compliance, and financial feasibility.

Leverage:

The legislature granted the bank BFO authority. This means that the bank can borrow from the State Treasury and then loan that borrowed money out. The maximum amount that they can have outstanding at any time is $100 million. The funding for their $100 million project was done this way. Due to paybacks, they are eligible currently to get another $25 million.

Loan documents:

Loan documents and promotional material are all on the web site, which is continually updated.

F: PENNDOT Personnel Interview Summary

These notes combine telephone interviews with Messrs. Smedley and Roth and the verbal response to FHWA survey questions.

- Loan process:
  - Application
  - Credit analysis by Department of Community and Economic Development
  - Check on availability of funds
  - Negotiate deal, collateral
    - Take lien on liquid fuels tax allotment
    - Require LOC or other security on private deal; to date, LOC has been used and is preferable to lien on real property
  - Recommend to Program Management Committee (DOT secretary, deputy secretaries)
  - Secretary of Transportation makes final decision
  - Prepare loan agreement
  - Funds disbursement
  - Loan monitoring
- SIB management and administrative funds do not come from SIB funds; JS spends half of the time on SIB, the other half as Chief of Long Range Planning

- Financial product types:
  - Loans; no credit enhancements yet, but could do it
  - Projects limited to transit, highways, bridges and intermodal
  - Loan of choice: construction

- Loan parameters
  - Non negotiable interest rate: one half of prime
  - Term: up to 10 years, with flexible repayment schedules
  - No statutory minimum or maximum loan amounts
  - Funds disbursed in lump sum; interest earned on disbursement must be applied to debt retirement or returned (no draw disbursements do to resource limitations to manage it)
    - Funds are may be disbursed into an escrow operated by Treasury, which operates a programs for municipalities where Treasury will invest the money on their behalf; only one borrower chose to use this program
    - All other loans have been disbursed into accounts in private bank
    - Borrowers are prohibited from speculative investments

  - View PIB as lender of last resort to munis who can't float bonds; local debt is regulated by the Department of Community and Economic Development; trying not to replace / compete with private sources of funding

- Application process
  - Is driven by Department of Community and Economic Development
  - Of 16 applications, all approved except one; the process is designed to weed out weak applications and discourage frivolous applications
    - Self filtering, based upon series of informal or verbal go/no go discussions
    - As matter of policy, no application fees
- Four SIB accounts
  - Federal Highway Account (initial SIB funding)
  - State Highway Account (25 percent State match)
  - Federal Transit Account
  - State Transit Account
- State account loans are much faster and streamlined
- Loan agreements
  - Prepared in house
- Loan monitoring
  - Payments schedule included in all loan agreements
  - Controller has formal debt collection procedure

- Promotional activities
  - Website is contained within PENNDOT's web site
  - Presentations by JS to:
    - Township Supervisor's Association
    - Boroughs Association
    - MPO's

- Potential sources of leverage / collaboration:
  - PennVest, loan program for water ports; DCED was to run that program
  - Lots of discussions to extend existing program to aviation, rail freight

- Issue of Federal Funds
  - Loans out of the Federal funds account are more difficult to close due to additional requirements and conditions borrower must satisfy, including:

  - Project must be designed, bid, etc. as a Federal project in compliance with all federal regulations; this becomes a problem where prospective borrowers request a loan on a project where prior phases have not followed federal regulations. To go back and make adjustments adds considerable time, delays, and costs to the project.

APPENDIX B

EXHIBIT TWO: TASK II REPORT

TASK II SUBMISSION

REVIEW OF PIB OPERATIONS AND CREDIT PRACTICES

Keith McClellan
Sheila Ryan
Gary Gittings

Pennsylvania Transportation Institute

April 24, 2001

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EXHIBIT TWO: TASK II REPORT

1. PREFACE

Work during Task II focused upon comparing PIB policies and practices against those of other SIBs interviewed during Task I. Findings and preliminary recommendations on the basis of these comparisons are presented in this working paper. Please note that the recommendations may be modified or significantly adjusted as a result of findings in subsequent tasks.

2. LENDING PRACTICES AND OPERATIONS

POLICY AND STRATEGY OVERVIEW

Task One work concluded with a review of lending, operations, and marketing practices of representative SIBs. The goal was to establish a range of appropriate practices against which PIB practices are compared and new strategies developed. Before new strategies can be developed, it is necessary to establish overriding policy goals for the PIB. These goals will influence which practices are best suited for the PIB.

Based upon interviews with PIB personnel, the following goals appear to be those, which should drive shifts in PIB practices:

Maintain and operate the PIB as a revolving loan fund.

This means making loans with a reasonable amortization schedule so that loans are repaid fast enough to replenish the fund for future loans. It also means that the PIB must make loans under terms and conditions so as to minimize risk of nonpayment. Maintaining or possibly growing the fund may have some implications vis a vis interest rates on loans.

Make loans for projects having a positive impact on the transportation needs within the Commonwealth of Pennsylvania.

The PIB is authorized to make loans to both private and public borrowers. The enabling statute is sufficiently broad that the PIB may give the "worthiness" of a project considerable or little weight. Thus far, the PIB has made the most of its loans to public borrowers, with only two loans to private entities funded or approved.

RECYCLING FEDERAL FUNDS

These two goals taken together give rise to a third, specific goal for the PIB: Recycle Federal funds so as to remove Federal requirements. As a result of interviews with PIB and other SIB staff, it is evident that the requirements placed upon borrowers and projects receiving Federal funds can impede the PIB's efforts to maintain a revolving fund and finance deserving projects.

Accordingly, a near term strategy the PIB should pursue, based upon its current situation and the practices of other SIBs, is to place a high priority on disbursing Federal funds. This strategy is in use with other SIBs and the rationale is straightforward: requirements associated with Federal money reduce the eligible borrower pool and leave otherwise creditworthy, deserving projects unfunded.

Targeting borrowers eligible for Federal funds will be a strong component of the marketing and promotion plan. Operational issues, addressed in this portion of the project, center on how best to structure loan interest rates, periods, and other aspects of the financial product PIB offers.

Federal for State Funds Swap

Arizona's strategy of permitting borrowers to swap Highway User Funds (HURF) for Federal funds may provide a general model for a swap strategy. It also raises a potential issue for the PIB. The FHWA Western Region Finance Manager has taken the position that the use of any funds from a Federal source to repay a Federal SIB loan prevents the entire loan repayment from being recycled. Thus, repayments of a loan from the State bank could lose their State identity if one dollar can be traced to Federal sources. In order to circumvent this FHWA position, Arizona's program permits borrowers to pledge and use HURF funds, as entire repayment for the loan, thereby insuring there is no commingling of Federal and State funds.

Here, the PIB might pursue a slightly different swap. First, it could surgically target (per the promotion plan) borrowers who qualify for Federal funds. Then, the borrower could apply for a second loan from State bank funds to pay off the first. The transaction is essentially a fund swap in the form of a second "loan" transaction.

Such a fund swap is attractive for both PIB and the borrower. For the PIB, it quickly recycles federal money. Otherwise, the funds would be recycled over a period of years, as the loan is repaid. Although the borrower must initially comply with Federal requirements, funds from the second loan relieve the borrower from continuing Federal compliance. In Arizona, for example, the ability to remove Davis Bacon wage requirements enabled small municipal borrowers to afford projects otherwise out of reach.

LENDING PRACTICES AND OPERATIONS

Below are specific suggestions to changes in current lending and operational practices as a result of reviewing other SIB practices.

Interest Rate Options

Loan Sale for Federal Funds

If a Federal for State fund swap is unworkable for legal or political reasons, an alternative strategy is a loan sale for Federal funds. Currently, the PIB loans are all written at a fixed, non-negotiable rate of one half of the prime rate. However, the interest rate presents an opportunity to stimulate demand in desired market segments. Since the enabling statute provides wide latitude to charge different interest rates, this strategy presents the PIB with a viable option.

Since an important goal is to recycle Federal funds first, the PIB should, as a matter of policy, charge a lower interest rate to stimulate demand for these loans. Essentially, the PIB should hold a "loan sale" for qualified borrowers who meet all Federal requirements. Specific promotional activities for this segment are outlined below to get the message to this market segment.

The issue is at what discount should these loans be made? A sliding scale, based upon both interest rate and amortization period, is likely to be attractive to prospective qualified borrowers. The shorter the loan period, the lower the interest rate. Table 3 sets forth some starting parameters.

Table 3. Loan rate discounting parameters.

Period	Rate	Loan fees
0 to 12 months	0%	Waived
13 to 24 months	1%	Waived
25 to 36 months	One eighth of prime rate	Discounted by 75%
37 months and up	One quarter of prime rate	Discounted by 50 %

These suggested rates and loan periods are only to serve as a starter point. Actual demand patterns may necessitate adjusting the rates and periods to achieve full disbursement of Federal funds. Once the Federal bank funds are fully loaned out, then the PIB can focus on other interest rate and lending strategies.

Interest Rate Strategies for State Bank Funds

Concurrently with efforts to recycle Federal funds, the PIB can use several other strategies vis a vis loans to State Bank borrowers.

Tiered Rates According to Borrower Type

The issue of private entities, such as real estate developers, competing for the same pool of funds with municipalities and other public borrowers was raised in discussions with PIB and other SIBs. As a matter of policy, the PIB might determine to charge a slightly higher (but below market) for private borrowers. A higher rate might be justified on the basis of risk. Private borrowers generally might pose a greater lender risks, as real estate development transactions tend to be highly leveraged (although no data was sought or collected in Task I to assess private borrower risk.) Private borrowers arguably pose a higher risk because, unlike public borrowers who pledge liquid fuel tax payments from PENNDOT, their collateral comes from an intermediary, a bond or letter of credit issuer. For a public entity loan default, the PIB need only set off against the liquid fuels allocation. For a private borrower default, the PIB must make a claim against a bond issuer or draw on a letter of credit; to a certain extent, the PIB is exposed to the risk of financial failure of the third party, but this risk is likely slight.

A differentiated interest approach could take several forms. One is simply to charge a slightly higher interest rate across the board for private borrowers. For example, the rate could be increased to 60 percent of prime. It is important to track demand over time to understand the elasticity of demand as a function of interest rates. At zero percent interest, demand is likely to be very high, while the closer the rate is to prime, borrowers are likely to look at other funding sources. Accordingly, the goal is to discover the maximum interest rate chargeable to private borrowers without "scaring them away."

Alternatively, the PIB could institute a system where private borrowers bid on loans, proposing an interest rate (above the floor rate, that charged to public borrowers) and loan period. Entities with the highest loan NPV are awarded the loans.

Yet another alternative is to establish a range of rates based upon loan periods. Loan rates would be published similarly to table 4.

Table 4. Loan rates based on periods.

Period	**Rate**
0 to 24 months	One half prime
25 to 48 months	One half prime plus .5 %
49 to 60 months	One half prime plus .75 %
61 months and up	One half prime plus 1 %

Regardless of the approach, it makes sense to establish target ratios of public to private borrower loans in the portfolio. This ensures that sufficient "worthy" projects are funded while opening up the borrower base to private entities. The actual percentage should be determined from the demand assessment work in Task III, but other SIBs seem to be in the 20 to 40 percent range for private borrowers.

Loan Period Strategies

The loan period is also a very important issue for the PIB. It must find the right balance between short loan periods to meet the revolving fund needs, while offering needy public borrowers with a sufficiently long period that the debt is indeed serviceable. Clearly, all things being equal, the shorter the period, the better, especially since the PIB charges below market interest rates. Currently, roughly 12 million of the 14 million dollars approved are in loans with five year paybacks or longer.

Disbursement Options

The PIB's current practice is to disburse all loan proceeds at once. Other SIBs tend to disburse funds in phases or draws, similar to construction loan practices commercial lenders employ. The rationale behind using a draw disbursement is that lenders are able to ensure that construction funds are actually used on the project as promised. It is a risk reduction strategy used as "belt and suspenders" along with the borrower's collateral. A drawback to using draws is administrative expense.

Presently, the lump sum disbursement is working satisfactorily for the PIB. All loans are well secured, with borrowers providing their liquid fuel tax allocations as collateral or letter of credit. Moreover, loan conditions and covenants prohibit borrowers from reaping a windfall by investing the loan proceeds. Accrued interest must be applied to the loan repayment.

So long as the PIB is well secured with liquid fuel tax allocations or letters of credit, it's probably not necessary to incur the added expense of a draw system. The ability to declare a default for using funds for purposes other than the loan project and making a claim against the bond is the functional equivalent of withhold funds in a draw system. It is also a good substitute for requiring personal guarantees of private borrowers' principals, as the bond issuer usually requires blanket liens and guarantees. Should the PIB deviate from its practice of bonds or letters of credit, and then it should reconsider funding loans in one disbursement.

Service and Administrative Fees

Currently, the PIB does not charge borrowers service or administrative fees. SIB management and administrative costs are not paid for with SIB funds. Most SIBs operating a revolving fund tend to charge borrowers some level of service fees to offset administrative costs such as document preparation and loan monitoring.

Credit Review Procedure

Informal Process

The PIB, like most other SIBs, holds discussions with prospective borrowers long before submission of a loan application. This practice enables the PIB to both explain the program and learn about the proposed project. This practice enables the PIB to more efficiently use its resources in processing loan applications and should be continued.

Formal Process

The Department of Community and Economic Development (DCED) conducts the formal loan application review process. The DCED reviews the latest two years audit results of public borrowers. For private borrowers, the DCED reviews the last two years of income and cash flow statements. The PIB relies entirely on DCED's credit review and recommendation.

PIB's reliance on the DCED is justified, especially in consideration of the following factors. First, the DCED is already staffed with personnel capable of credit reviews and is better equipped than PIB for such activity. Second, given the Bank's well-secured position (liquid fuel tax pledge or letter of credit), should a loan enter default due to poor credit decisions, the bank will likely realize full recovery of principle and interest due. However, it should be noted that authorities, which do not receive liquid fuels tax allocations and must offer other forms of collateral. Accordingly, it is prudent to carefully structure the collateral portion of the loan as well as making sure the DCED performs an adequate creditworthiness inquiry.

3. MARKETING AND PROMOTIONS

FRAMEWORK

In examining the PIB's Marketing and Promotions practices, it is important to define the two terms. Marketing refers to a process, which includes the following:

1) Definition of Mission and Goals, 2) Analysis of external and internal environment (opportunity and demand assessment), 3) Formulation of marketing mix (product, price, place and promotion), 4) Implementation, 5) Monitoring and Feedback into step one.

DEFINITION OF MISSION AND GOALS

All SIBs operate pursuant to enabling legislation, which set forth the Bank's mission and goals. Most SIBs interviewed also operated under more specific operating goals. Since this project's focus is on examining operations and marketing practices, the PIB's underlying policies and goals were not compared with those of other SIBs.

The PIB's Operating Manual sets forth the following goals:

- Leverage Federal and State revenues by attracting local and private financial participation in projects;
- Accelerate priority projects;
- Spur economic development;
- Facilitate non-traditional projects, (i.e., inter modal facilities and Intelligent Transportation Systems);
- Attract local and private financial participation in transportation projects;
- Quickly respond to emergencies such as floods or other disasters.

These goals set forth the range of PIB's "worthy projects," one of the three overriding goals specified above. The PIB's overriding goal is to make creditworthy loans, which achieve the above objectives so as to maintain and grow a revolving fund for future loans. It is within this framework that the rest of the marketing and promotions practices are examined and compared against other SIB's practices.

ANALYSIS OF EXTERNAL AND INTERNAL ENVIRONMENT (OPPORTUNITY & DEMAND ASSESSMENT)

Some SIBs use a planning horizon of up to 10 years in analyzing external and internal environments; others appear to focus on near term operations. The PIB utilizes various opportunity and demand assessment tools. For example, part of this project's purpose is to assess and define demand for PIB's financial products. However, in order to become more "market driven" the PIB should integrate market planning into its overall planning process. Ideally, PIB should commission market studies to conduct qualitative and quantitative studies of demand. However, given the PIB's relatively narrow range of borrowers and limited operational budget, such ongoing market studies are neither necessary nor cost effective. Several less expensive and extensive methods are readily available.

For example, the PIB could implement a tracking system for all inquiries to track over time the source of potential borrowers, type of loan or other financial product sought, trends of repayment capacity, collateral offered and other indices of creditworthiness, interest rate and loan period sought. Essentially, the tracking system would cover everything from initial phone calls into the PIB to "informal loan approvals." Another inexpensive means of assessing demand is to monitor and catalogue web inquires and web site visits. Finally, the system should track the success of each promotional activity (discussed below). For instance, each time the PIB administrator gives a presentation to a group, this is an opportunity for market feed back. The tracking system should include a system for gathering market information for each presentation given.

FORMULATION OF MARKETING MIX (PRODUCT, PRICE, PLACE, AND PROMOTION)

The Marketing Mix is a traditional marketing analytical tool consisting of four components: the product offered, the price, the place where the customer and product come together, and promotion. Frequently, "marketing" and "promotion" are incorrectly used interchangeably. Promotion is the way to "get the word out" regarding, for example, the PIB's product (loans), its price (interest rate, loan period, service fees) and the place where the product is sold (loan closing at PIB's office). Marketing, in contrast, involves the entire process, from establishing goals to creating an assessment and feedback mechanism.

Product

The PIB's product consists largely of loans for construction, with at least one feasibility or engineering study funded. Both PIB and existing borrowers (confirm this with other borrowers than one already spoken with) seem to be happy with product configuration, except in the Federal funds area discussed above. The funds swap will represent an expansion of PIB's product line.

Price, Place

Price issues, including interest rate and loan period are discussed above. Place is typically thought of as where the product sale occurs, what the setting is, and the like. This marketing mix component is less important in the PIB context.

Promotion

Promotional activities are vital to the marketing mix and generally consist of advertising, personal selling, sale promotions, and public relations. As compared to other SIBs, the PIB practices are consistent with other banks.' Currently, PIB engages in advertising (web site, Operations Manual, brochure) and public relations (presentations to MPO's and similar organizations). Sales promotions (such as loan sales) and personal selling (targeted pitches to hot prospect borrowers) are areas of opportunity for PIB and will be specifically addressed in the latter tasks of the project.

IMPLEMENTATION, MONITORING, AND FEEDBACK

The last two parts of the marketing process, implementation and monitoring / feedback were not specifically addressed in interviews with other SIBs. These are direct outcomes of formal, written marketing plans. Like other SIBs, PIB does not yet have a written marketing plan, which institutionalizes the implementation and monitoring tasks as part of the process. However, this project will culminate in such a written plan, including these tasks.

4. PRELIMINARY RECOMMENDATIONS

The following are a few preliminary recommendations based upon the findings from Tasks I and II. These recommendations are preliminary in the sense that they may be modified in subsequent tasks as a result of findings from those tasks.

FOCUS ON RECYCLING FEDERAL FUNDS

Presently, the PIB has approximately \$8.5 million in the Federal Highway account available to lend; the State Highway account, by contrast, has approximately \$4 million to lend. Given the additional time and expense imposed by federal requirements, the PIB should, as a matter of policy, take all steps to quickly loan out and recycle federal funds. While a swap of state for federal money is the quickest way to recycle, this option raises some issues as to the legality and how to implement it. The alternative, loaning to qualified borrowers at a low or zero interest for loans periods up to one year, seems attractive. Existing borrowers expressed interest in short-term, low interest loans. Specifics of how to target qualified borrowers for short term "recycle loans" will be contained in the marketing plan.

ENCOURAGE SHORTER LOAN TERMS

Since an important operating goal is to maintain a revolving fund, the PIB should encourage shorter loan periods. Here, the PIB should adopt the following policy for negotiating loan periods:

- Federal fund loans: Encourage short terms, using no interest or low interest rates to promote one to two year paybacks.

- State fund loans to public entities: Negotiate, as a matter of policy, loans with terms of five years or less and limit the percentage of five to 10-year loans to less than 25 percent of the portfolio. Where two borrowers are competing for same pool of money, award loan to shorter proposed loan period.

- State fund loans to private entities: Evaluate and rank loan applications with an Net Present Value calculation based upon the borrower's proposed interest rate and loan period.

CHARGE ADMINISTRATIVE AND SERVICE FEES TO COVER EXPENSES

Here, the PIB should reexamine its practice of absorbing administrative costs. Discussions with other SIBs and existing PIB borrowers indicates a reasonable and acceptable practice is to charge fees to cover expenses for specific loans as well as general administrative expenses. Many other SIBs charge fees, so the PIB charging them is in accordance with common practices. Borrowers felt fees were acceptable so long as reasonable, especially in light of the below market interest rates.

5. CONCLUSIONS

The PIB has many exciting opportunities to adjust its operations and marketing activities to achieve its goals of maintaining a revolving fund and funding worthwhile projects. The Operating Manual should be amended to provide the flexibility to implement such things as "loan sales." Additionally, the manual should provide the framework and infrastructure to institutionalize marketing practices in the PIB.

APPENDIX C

EXHIBIT THREE: TASK III REPORT

TASK III SUBMISSION

RESEARCH OF MARKET FOR PIB LOANS

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Pennsylvania Transportation Institute

June 22, 2001

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EXHIBIT THREE: TASK III REPORT

1. PURPOSE AND METHODOLOGY

The purpose of Task III is to establish a basis for understanding demand for PIB loan products. Work in this phase was designed to give an overview of demand patterns and parameters, not to provide statistically significant findings. However, as patterns emerge among respondents, it sheds some light on what prospective borrowers are thinking and provides the basis for statistically significant survey research should the PIB desire to do so.

The market for PIB loans consists of two overriding segments: public borrowers and private borrowers. Task II's work involved selecting representative borrowers from these segments and conducting telephone interviews according to the same brief protocol. The interviews were designed to take between three and five minutes to increase participants' willingness to answer key questions. A cross section of small, medium, and large cities, boroughs, and townships were identified from both rural and urban areas of the state. Fifteen calls to public borrowers were completed. On the private borrower side, based upon PIB's lending experience to date, private entities likely to seek loans consist of real estate developers. Accordingly, the Pennsylvania Builders Association supplied a list of small, medium and large developers located throughout the state. Of the 15 private prospects called, only two took the time to complete the interviews, with many saying they were too busy to talk.

Most municipal respondents were not actively seeking loans from other entities in the near future. Accordingly, the interviewers had to ask them to answer in the hypothetical in order to get some useful information from the calls. Again, it bears emphasizing that the calls do not produce statistically significant results, only broad parameters and some insight into prospective borrowers' thinking.

During work on task one, reviewing appropriate practices from other infrastructure banks, it became apparent that few, if any infrastructure banks offered anything other than loans. Presumably, the reason is that borrowers find low interest loans much more attractive than credit enhancements. This is certainly the case in Pennsylvania. Accordingly, the interview protocol exclusively focused on loans as PIB's financial product offering.

2. SUMMARY OF RESPONSES

Below is a list of questions asked and summaries of responses.

1) Are you familiar with the Pennsylvania Infrastructure Bank program?

Of the 15 public prospects interviewed, 14 had not heard of the program. None of the developers had heard of the PIB program. This is probably the single most important finding in Task III. Although virtually nobody interviewed was aware of the PIB, virtually all were keen to learn more about the low interest aspect of the program, as discussed below.

2) How did you hear about or learn of the program?

The finance person from the single municipality aware of the program learned of it from the Public Works Manager and the Township Manager. This is consistent with some responses of current borrowers who also learned of the program from supervisors and MPO coordinators. Additional sources of information for current borrowers also included a State Representative, the *Township Supervisor Magazine*, Township Engineer, and the Bureau of Public Transit.

Finding the right way to get PIB's message out is a difficult challenge as evidenced by the fact that nobody seems to know of the program. Although there is some variation, most municipal borrowers have a finance person who makes the loan purchase decision. The finance person seems to learn of the program through indirect means – a supervisor or some other third party. Here, PIB has an opportunity to change its promotional practices and communicate directly with people who perform the finance functions – and are more likely to drive a municipality's decision to seek PIB loans.

3) Are you planning on applying for a loan from the Infrastructure Bank during the next two years?

Those who had not heard of the program were not asked this question. The municipality who did answer indicated it might seek a PIB loan if a county grant application is denied.

Obviously, with only one municipality responding to this question, it's difficult to reach any conclusions. However, if this pattern holds true for others who have heard of the program, once they learn of low interest loans, prospective borrowers will keep the PIB on their "radar screen" for future financing needs.

4) What is the nature of the project that you might be seeking a PIB loan for? (and question 5, approximately what size loan will you seek?)

The municipality answering this indicated it had a bridge project in mind and would be seeking $250,000.

5) If you do not receive the loan, what alternative financing will you seek?

The respondent indicated PIB would be the first choice and offered no alternative.

6) What length of payback are you seeking?

Ten years is the term sought.

7) What interest rate are you willing to pay?

The municipality responded that an interest rate between four and six percent is what it expected to pay.

8) Will you be applying for any loans from other entities (other than the PIB) during the next two years?

Two responded "not sure," eight "no", and four "maybe." Curiously, of those responding to this question, not a single municipality indicated they would look at other sources of borrowing. One explanation is that the municipality mindset, currently, is to seek grants and bond proceeds and not consider "bank" debt. This perspective could change if the finance people know about the PIB's very favorable interest rate.

9) From whom will you seek the loan?

Here, although most did not respond with a firm yes that they were seeking loans from other sources, there were other entities mentioned. The respondents indicated they'd look to the local bank, PennVest, float a bond or seek grants.

The responses to this question shed some light into where else municipalities seek project funding. However, bonds, grants and bank loans could be used for transportation projects, while PennVest funds other types of non-transportation oriented infrastructure projects.

10) What amount will you seek?

The responses ranged from $100,000 to $500,000. For the PIB, if these limited numbers of responses are indicative of other borrowers, smaller loans seem to be in demand. This is probably due to the relatively high transaction costs associated with bonds. For smaller financing projects, loans are a more cost effective method.

11) What will the loan be used for?

Projects included road improvement, upgrading existing infrastructure, replacing a bridge, and building an exit from an interstate highway. These responses indicate a broad range of projects municipalities are considering.

12) What payback period will you ask for?

Almost all respondents were looking for loan terms of between five and 10 years, with one seeking a 15 year payback. Five years seemed to be the preferred term for six of the respondents.

The implication for PIB here is that prospective borrowers want loan terms in the payback range it has been offering current clients. However, if the strategy is to loan out

Federal funds for a quick payback and recycling, it will be necessary to offer borrowers financial incentives to accept shorter amortization periods.

13) What interest rate do you expect to pay?

Of those responding to this question, the highest interest rate was six percent, with less than three percent as the lowest rate. Most expected to pay five percent or less.

3. ADDITIONAL CURRENT BORROWERS' COMMENTS

As a follow-up on to Task II work, five current borrowers who were unavailable for interviews during that phase were contacted. Below is a summary of those interviews:

Questions regarding how they found out about the PIB loan program and their sources of communication:

These borrowers found out about the program from various sources, including: State representative, PENNDOT, *Township Supervisor Magazine*, Township Engineer, and the Bureau of Public Transit. When asked for ideas on getting the word out, several suggested *Township Magazine* and direct mail.

Questions regarding loan application, approval and funding process:

Generally, the comments were all favorable and including the following:
- Quick
- Helpful
- No improvements needed
- A lot easier than a bank
- Not cumbersome
- Easy to apply
- Turn around time was good
- Smooth
- Received a great deal of assistance from PENNDOT especially Jim Smedley

Questions regarding willingness to pay service fees:

Here, current borrowers felt service fees were an important consideration and offered the following comments:

- Depending on amount, it would affect the decision on whether to go with the program
- If the fees were too much, the loan would not be attractive
- Would have to factor the fees into the project budget

Interest rates question:

All borrowers agreed that the interest rate is attractive and a major factor in seeking PIB assistance.

Other comments:

When asked for other comments, the borrowers offered the following:

- Would like to have a payment book or invoice system
- Without the Infrastructure Bank, they would not have been able to do the project
- No changes needed – thanks to PENNDOT for all of the help

4. OBSERVATIONS AND RECOMMENDATIONS

First, the single most striking observation from this task is the low number of prospective borrowers who were aware of the PIB and its loan program. Since the phone calls were directed to finance personnel, those who are most likely to influence the purchase decision making process, this is an astonishing find. One possible explanation of PIB's low visibility among this group is that current promotional activities are not specifically targeted to finance people. Targeting selected municipal finance personnel for promotional materials and tracking their responses is a good way to test this explanation.

Second, the phone interviews did not provide much insight into the needs of the private borrowers. Those called had little time or patience for interviews (probably due to a barrage of calls from telemarketers). However, based upon past inquiry patterns to the PIB from private borrowers, it is safe to assume that private borrowers are interested in ANY below market loan, especially when profit margins are thin and competition is fierce.

Third, there appears to be demand for smaller loan amounts (below $1 million), but a desire to pay them back over longer periods. Offering lower rates for shorter amortization periods could induce a faster payback.

Fourth, concerning current borrowers, there appears to be a high rate of customer satisfaction among the five contacted. One recurring comment, however, bears considering, even though it appears to be a minor issue: borrowers would like to be furnished with payment books. The easier it is for borrowers to make payments (i.e., with the use of payment coupons), the lower the risk of late or missed payments.

APPENDIX D

EXHIBIT FOUR: TASK IV REPORT

TASK IV SUBMISSION

STRATEGIC RELATIONSHIP LEVERAGE STRATEGIES FOR THE PIB

Keith McClellan
Gary Gittings

Pennsylvania Transportation Institute

August 21, 2001

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EXHIBIT FOUR: TASK IV REPORT

TASK IV REPORT: STRATEGIC RELATIONSHIP LEVERAGE STRATEGIES FOR THE PIB

BACKGROUND

Initially, the scope of work for this project included an emphasis in Task IV on exploring strategies to leverage PIB funds with other entities, such as, on a matching basis. However, Task III of the project revealed a general lack of awareness of PIB's loan program among municipal and private borrowers. Accordingly, the PIB Administrator requested that the Task IV focus shift to one of examining ways to establish and leverage *marketing* relationships with other entities.

Generally, strategic marketing relationships, teaming arrangements, and the like are driven by circumstances where the parties offer complementary, non-competing products or services. Here, the PIB has an opportunity to establish strategic marketing relationships with other entities offering non-competing products and services to the same PIB customer base: municipalities and real estate developers.[1] Three representative strategic partner categories examined during this phase of work were 1) economic development oriented entities (the "economic development community"); 2) associations; and 3) commercial banks. These three groups were the most obvious, but other types may also offer promise. Companies selling products to municipalities for which PIB loans could be used to finance the purchase could be effective strategic partners to help get PIB program information to potential borrowers. Traffic control product manufacturers, for instance, could fall into this category.

ECONOMIC DEVELOPMENT COMMUNITY

For the purposes of this report, the "economic development community" includes public and private agencies whose mission is to promote economic growth. Here, the most obvious strategic partner for PIB is the Pennsylvania Department of Community and Economic Development ("DCED"). There currently exists a relationship with DCED on the loan application and processing functions. However, the DCED is a large organization and those persons doing credit evaluation, for example, may not be ideally suited as a marketing partner. Instead, the PIB should seek out relationships with divisions within DCED whom directly interact with the potential borrowing groups.

One such division is the Governor's Action Team, which interacts extensively with municipalities on land use and other issues to revitalize communities throughout the Commonwealth. Although the Task Force Director was aware of the PIB, it was only through during an interview with the research team that he began to realize the potential

[1] There are other potential borrower types, but consistent with existing PIB loans and practices of other SIBS interviewed during the project, the vast majority of borrowers fall into these two categories.

to promote the PIB as a means of achieving the Task Force objective of community revitalization. For example, a contributor to decaying downtown areas is a declining transportation system and infrastructure. A borough faced with a failing bus or train station could look to borrow PIB funds for renovations as part of a program to retain "downtown" business and mitigate urban sprawl.

The Task Force Director has expressed an interest in promoting the PIB program to key players and representatives of townships and boroughs as the first step in establishing a strategic relationship with the PIB. This promotional effort might include PIB Administrator presentations to the Task Force Director on the PIB's features and benefits; the Task Force Director thus gains first hand knowledge on how to promote the PIB program to other potential municipal borrowers.

Two key observations came out of the task force interview. First, even those who are aware of the PIB program are not necessarily aware that "transportation projects" may be fairly broad in scope. Thus, it is important to maintain an ongoing dialogue with those who are aware of the PIB. Second, once an economic development professional recognizes that the PIB program can help a wide range of their clients, he or she is likely to become a valuable strategic marketing partner, creating a relationship that benefits both partners. Thus, it is critical that PIB constantly seek potential partners within the economic development community where their respective clients could benefit from PIB loans.

ASSOCIATIONS

Associations represent a tremendous opportunity to create strategic marketing relationships. The key is selling PIB features and benefits to the association director, who in turn, will pass on PIB information to association members.

Here, several associations are obvious candidates for marketing partnerships. The State Association of Boroughs and the Township Supervisor's Association both serve a common market with PIB municipal borrowers. According to the Governor's Action Team Director, these are the two key and influential associations with which the PIB should develop relationships.

Other associations representing the economic development community and commercial banking community are also strong potential partners. For example, the Pennsylvania Economic Development Association (PEDA) represents Industrial Development Corporations ("IDCs) throughout the Commonwealth. According to the PEDA Director, IDCs could benefit from PIB loans to finance the transportation components of IDC projects. Another association suggested from interviewees is the Council for Urban Economic Development.

On the private borrower's side, the Pennsylvania Builder's Association represents potential borrowers – real estate builders and developers. The Builder's Association's promotion of PIB loans would be a strong benefit to the membership. When contacted on this matter, the association showed a moderate interest in such a relationship. Likewise, the Pennsylvania Banker's Association is also a potential partner. The commercial banking opportunity is discussed below.

COMMERCIAL BANKS

Commercial banks present an interesting marketing partnership opportunity for the PIB. At first blush, banks would not seem likely partners; they are also in the business of lending money for real estate development (which includes a transportation component), but can't match the PIB below market interest rate because their cost of funds is higher. Nonetheless, banks are potential partners in a couple of areas. First, the real estate lenders stand to benefit by passing off the risk of financing the transportation component to the PIB. Put another way, real estate lenders are principally in the business of financing shopping centers, not roads, traffic signals, etc. for shopping centers. PIB funds could be the final one or two percent of a financing package needed to make the total financing of a real estate development feasible.

This approach sounds plausible in theory, but when real estate lenders were interviewed, they saw the low interest loan as only part of the potential benefit to both they and their borrowers. The other benefit is that the bank has an opportunity to generate fee income by issuing the letter of credit necessary to obtain a PIB loan. Accordingly, the letter of credit department is the second area within the bank having an economic interest in promoting PIB loans to clients.

This discussion raises an important issue to bear in mind when contacting banks as potential strategic partners. The organizational structure varies from bank to bank; asking for the letter of credit department may only open up a dialogue with the person drafting the letter of credit, not the person selling letters of credit. It is the latter that will benefit from the PIB program (by being rewarded for letter of credit sales) and it is this person who must be sought out to establish the relationship. The same principle applies for real estate lending. In some instances, such as one of the bank personnel contacted during this phase of work, they are the same person.

CONCLUSIONS

The PIB has many opportunities to establish strategic marketing relationships. The key principles learned during this phase of work are: 1) seek out entities who will benefit directly or indirectly from the PIB program. (banks benefit directly; associations and economic development professionals benefit indirectly). These are the potential partners who will be motivated to promote the program on PIB's behalf; 2) don't assume that because an entity is aware of the PIB program that they will proactively promote it. The DCED is a good example of being aware of the program, but not fully understanding how it could apply to and benefit many of their clients' situations. Applying these principles in establishing strategic marketing relationships will increase the chance of creating long lasting, mutually beneficial strategic relationships.

APPENDIX E

EXHIBIT FIVE

TASK IV SUBMISSION

FINANCIAL MODEL SHOWING CASH FLOW FROM EXISTING LOANS FOR THE PIB

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August 21, 2001

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EXHIBIT FIVE: CASH FLOW FROM EXISTING LOANS

CASH FLOW FROM EXISTING LOANS

Attached as Exhibit 5 is a financial model showing cash flow from existing loans. The model's purpose is twofold. The first is to show the PIB's cash flow levels and timing from existing loans, through the life of the loans. The second is to serve as a management tool, enabling the Bank Manager to see the cash flow effect of new loans, whether actually funded or proposed on a what if basis.

The model shows annual cash flow, on a loan-by-loan basis and assumes that all payments are made on December 31 of each year. Accordingly, the model shows funds available to loan as of December 31 of each year; in reality, those funds will likely be loaned in the following year. Moreover, the model makes no effort to match the timing of incoming funds with interest accrual beyond a simple annual approach. Instead, the model is designed, as a first order of magnitude management device to show approximately what cash flow from loan repayments will look like over time.

Borrower	Amount	Date Funded	Term	Payment Due Date	Payment Amount	1999	2000	2001	2002	2003	2004	2005	2006
Moon Township	$ 3,909,799	9/21/99	8	Oct 1 Annual	$577,720		$ 577,720	$ 577,720	$ 577,720	$ 577,720	$ 577,720	$ 577,720	$ 577,720
Sharon Township	$ 123,800	1/29/1999	10	Monthly	$ 1,246	$12,460	$ 14,952	$ 14,952	$ 14,952	$ 14,952	$ 14,952	$ 14,952	$ 14,952
Springfield Township		11/15/1999	3	Monthly	$ 280	$ 280	$ 3,360	$ 3,360	$ 3,360				
Harrisburg Redevelopment Authority	$ 1,400,000						$ 511,876	$ 502,833	$ 484,750				
Londonderry Township	$ 383,000	1/4/2001	5	Annual	$ 15,600								
Buffalo Center Associates	$ 70,470	6/12/2000	5	Monthly	$ 1,309		$ 7,854	$ 15,708	$ 15,708	$ 15,708	$ 15,708	$ 7,854	
Harrison & Grass	$ 3,900,000	10/3/2000	10	Annual			$ 99,531	$ 170,625	$ 495,625	$ 506,406	$ 516,094	$ 524,688	$ 532,188
Ferguson Twp Centre	$ 1,377,336	12/1/2000	10	Annual	$171,840			$ 171,840	$ 171,840	$ 171,840	$ 171,840	$ 171,840	$ 171,840
Penn Township	$ 50,000	6/13/2001	5	Annual	$ 11,254				$ 11,254	$ 11,254	$ 11,254	$ 11,254	$ 11,254
Cumberland County	$ 900,000	10/1/2001	3								$ 991,125		
(Insert new loans as made or proposed)													
Total Loans	$12,114,405			Annual Cash Flows		$12,740	$ 1,215,293	$ 1,457,038	$1,775,209	$1,297,880	$1,307,568	$1,308,308	$1,307,954
							Principal	$18,767,330					
							Funds Available to Loan	$20,224,368	$1,775,209	$1,297,880	$1,307,568	$1,308,308	$1,307,954
							Less Admin Expenses						
							Less Loans Funded						
							Plus repayments						
							Balance Forward	$20,224,368	$1,775,209	$1,297,880	$1,307,568	$1,308,308	$1,307,954
				Interest rate on balance forward			4%						

2007	2008	2009	2010	2011	Life of Loan Totals	Borrower	Amount	Date Funded	Term	Payment Due Date	Payment Amount
$ 577,720					$ 4,621,762	Moon Township	$3,909,799	9/21/99	8	Oct 1 Annual	$577,720
$ 14,952	$ 14,952				$ 148,274	Sharon Township	$ 123,800	1/29/1999	10	Monthly	$ 1,246
					$ 10,360	Springfield Township		11/15/1999	3	Monthly	$ 280
						Harrisburg Redevelopment Authority	$1,400,000				
						Londonderry Township	$ 383,000	1/4/2001	5	Annual	$ 15,600
					$ 78,540	Buffalo Center Associates	$ 70,470	6/12/2000	5	Monthly	$ 1,309
$ 538,594	$543,906	$573,125	$600,156			Harrison & Grass	$3,900,000	10/3/2000	10	Annual	
$ 171,840	$171,840	$171,840	$171,840		$ 1,718,400	Ferguson Twp Centre	$1,377,336	12/1/2000	10	Annual	$171,840
					$ 56,270	Penn Township	$ 50,000	6/13/2001	5	Annual	$ 11,254
					$ 991,125	Cumberland County	$ 900,000	10/1/2001	3		
						(Insert new loans as made or proposed)					
$1,303,106	$730,698	$744,965	$771,996	$ -	$ 13,232,757	Annual Cash Flows					
						Principal					
$1,303,106	$730,698	$744,965	$771,996	$ -		Funds Available to Loan					
						Less Admin Expenses					
						Less Loans Funded					
						Plus repayments					
$1,303,106	$730,698	$744,965	$771,996	$ -		Balance Forward					