

Accountability Report Transmittal Form

Agency Name	<u>South Carolina Transportation Infrastructure Bank</u>
Date of Submission	<u>September 15, 2003</u>
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**South Carolina Transportation Infrastructure Bank
Annual Accountability Report
Fiscal Year 2002-2003**

Section I- EXECUTIVE SUMMARY

Description of the Transportation Infrastructure Bank:

The General Assembly of the State during its 1997 session enacted Act No. 148 which created the South Carolina Transportation Infrastructure Bank (SCTIB) to select and assist in financing major qualified projects by providing loans and other financial assistance to government units and private entities for constructing and improving highway and transportation facilities necessary for public purposes including economic development.

Mission and Values

The mission of the SCTIB is to utilize available funding sources to effectively provide financial assistance through authorized means to major qualified transportation projects while ensuring the financial integrity of the Bank.

Values – Ensure projects selected for financial assistance provide public benefit in one or more of the following areas:

Enhancement of mobility and safety
Promotion of economic development
Increase in the quality of life and general welfare of the public

Key Strategic Goals For Present And Future Years

- Develop and maintain long-term business and financial plan.
- Issue bonds as necessary to ensure cash availability to meet project payouts.
- Consider additional qualified projects for financial assistance utilizing available capacity, if any.

Opportunities and Barriers

The Act which created the SCTIB provided mechanisms, such as the issuance of revenue and general obligation bonds, for the SCTIB to provide financing for major transportation projects. The Act also provided sources of revenues to support revenue bonds. Since its inception in 1997, the SCTIB has taken maximum advantage of the funding mechanisms and has provided financial assistance to nine major transportation projects through the issuance of over \$1.5 billion in revenue bonds and other funds of the SCTIB. There is a need to fund additional major transportation projects as evidenced by applications submitted and interest expressed by local communities. Additional recurring non-tax funding sources are essential for the SCTIB to provide financial assistance to other projects.

Major Achievements From the Past Year

The SCTIB has been recognized nationwide for its effectiveness in providing funding solutions for over \$3 billion in projects and for its expediency in approving the funding which results in accelerated project construction. Since approval of the first project in 1998, the SCTIB has expended over \$1.5 billion for major transportation projects. Many of the projects are complete, such as the Conway Bypass and Carolina Bays Parkway in Horry County and others are under construction. With the exception of Phase II of the Palmetto Parkway in Aiken County, all projects currently funded through the SCTIB are expected to be complete by 2006.

During FY2003, the SCTIB provided the balance of the funding requested for Horry County RIDE II projects in the amount of \$63 million and approved an additional \$37 million for projects in the Upstate GRID Program (Anderson, Greenville, Spartanburg Counties).

In October 2002, the Bank issued \$285,195,000 of senior lien revenue bonds at an interest rate of 4.86% bringing the total revenue bonds outstanding to over \$1.5 billion. In addition, in March 2003, the SCTIB received approval from the Budget and Control Board to issue up to \$60 million in general obligation bonds. These have not yet been issued. The sources of repayment for the bonds are the payments to be made to the SCTIB by Charleston County and the State Ports Authority for the Cooper River Bridge replacement project.

In October 2002, the SCTIB Board adopted an Asset/Liability Management Policy which provides the guidelines for reviewing and maximizing savings on SCTIB's outstanding debt.

In December 2002, in accordance with the Asset/Liability Management Policy, the SCTIB Board approved a fixed-to-floating interest rate swap transaction. Bids were received for the transaction on January 9, 2003. The winning bidder was Citigroup, NA with a fixed interest rate of 3.595% to be paid to the SCTIB on a semi-annual basis. This rate is applied to the notional amount of \$49,440,000, for a semi-annual payment to the SCTIB in the amount of \$888,684. In exchange, SCTIB pays a variable interest rate on a monthly basis. Since the effective date of the transaction, SCTIB has paid six monthly payments for a total of \$265,865.15. The average interest rate paid is 1.08%, so the gain to the SCTIB from the interest rate spread has averaged 2.515%.

Section II - Business Overview

Board of Directors

The SCTIB is governed by a board of directors consisting of seven voting members, including the chairman of the SCDOT Commission, ex officio; two directors appointed by the Governor, one of whom shall be chairman; one director appointed by the Speaker of the House of Representatives; one director who shall be a member of the House of Representatives appointed by the Speaker of the House of Representatives, ex officio; one director appointed by the President Pro Tempore of the Senate; and one director who shall be a member of the Senate appointed by the President Pro Tempore of the Senate, ex officio.

The members of the SCTIB Board of Directors as of June 30, 2003 are:

Donald D. Leonard Chairman	Appointed by the Governor of South Carolina
Tee Hooper	Chairman, South Carolina Department of Transportation Commission, ex officio
Ernest L. Duncan	Appointed by the Governor of South Carolina
Hugh K. Leatherman, Jr.	Member of the South Carolina Senate, appointed by the President Pro Tempore of the South Carolina Senate, ex officio
Richard L. Tapp Secretary	Appointed by the President Pro Tempore of the South Carolina Senate
Ronald P. Townsend	Member of the South Carolina House of Representatives, appointed by the Speaker of the South Carolina House of Representatives, ex officio
Maxson "Max" K. Metcalf	Appointed by the Speaker of the South Carolina House of Representatives

The SCTIB has no employees. The day-to-day administration including preparation of and accounting for all financial transactions is managed by a SCDOT employee designated as the director of the SCTIB Office within the SCDOT. This office is located in the SCDOT Headquarters Building in Columbia. The SCTIB also has contracted with outside entities to provide financial management and legal services.

Expenditures/Appropriations Chart

Base Budget Expenditures and Appropriations

Major Budget Categories	01-02 Actual Expenditures		02-03 Actual Expenditures		03-04 Appropriations Act	
	Total Funds	General Funds	Total Funds	General Funds	Total Funds	General Funds
Personal Service	\$1,610	\$	\$1,715	\$	\$2,000	\$
Other Operating	\$387,070	\$	\$498,524	\$	\$412,800	\$
Special Items	\$	\$	\$	\$	\$	\$
Permanent Improvements	\$100,771,575	\$	\$110,962,229	\$	\$300,000,000	\$
Case Services	\$	\$	\$	\$	\$	\$
Distributions to Subdivisions	\$	\$	\$	\$	\$	\$
Fringe Benefits	\$	\$	\$	\$	\$	\$
Non-recurring	\$	\$	\$	\$	\$	\$
Total	\$101,160,255	\$	\$111,462,468	\$	\$300,414,800	\$

Other Expenditures

Sources of Funds	01-02 Actual Expenditures	02-03 Actual Expenditures
Supplemental Bills	\$	\$
Capital Reserve Funds	\$	\$
Bonds	\$289,814,836	\$295,137,467

Interim Budget Reductions

Total 01-02 Interim Budget Reduction	Total 02-03 Interim Budget Reduction
\$	\$

Key Customers

Like the South Carolina Department of Transportation (SCDOT), the key customers of SCTIB are the motoring public of South Carolina. The SCTIB coordinates with the SCDOT to evaluate projects which have been submitted for financial assistance and enters into agreements whereby SCDOT provides and is reimbursed for project management services. The motoring public is the beneficiary of safety improvements and reduction in congestion on the state's highways.

Key Stakeholders

Key stakeholders of the SCTIB include the local governments which participate with the SCTIB as applicants and major beneficiaries of the major transportation improvements funded by the SCTIB. These transportation improvements promote economic development in the local areas and throughout the state.

Key Suppliers

The SCTIB has few suppliers. The primary expenditure of funds is to highway project contractors which are under contract with the SCDOT for design, construction, and other activities related to selected projects.

Section III – Elements of Malcolm Baldrige Award Criteria

Category 1: Leadership

The Board of the SCTIB provides leadership direction both short term and long term. Because the sole mission of the SCTIB is to provide financial assistance to major transportation projects, the principal direction of the Board is to maximize funding for qualified projects. The Board has developed an application evaluation process which provides guidance in selecting projects for funding. The SCTIB has a contract with a financial management firm for the purpose of developing and refining the short and long-term business and financial plans of the SCTIB.

Category 2: Strategic Planning

Strategic Planning and implementation is a continual process. Since its inception, the strategic objective of the SCTIB Board has been to maximize funding availability for major transportation projects. This is accomplished by using innovative financing methods, requiring match funding from local communities and others, encouraging recurring, non-tax repayment sources, ensuring payments due to the SCTIB are made in a timely manner and are meeting projections, and other initiatives and efforts to ensure an excellent credit rating for bond financing. These are constantly reviewed and monitored and the short-term and long-term financial plans of the SCTIB are reviewed frequently to determine funding availability for additional projects.

Category 3: Customer Focus

The key customers of SCTIB are the motoring public, both citizens of South Carolina and those who visit our state for business or pleasure. In addition, key customers would include local governments and businesses in the state which benefit from a well developed transportation system. To ensure the needs of the key customers are met, the criteria used to evaluate potential projects submitted for SCTIB funding assistance includes promoting public benefits in one or more of the following areas: enhancement of mobility and safety; promotion of economic development; or, increase in the quality of life and general welfare of the public. This criterion is substantiated in the applications by inclusion of such information as traffic studies; resolutions from local governing bodies that the project is essential to economic development in their area; certificate that the project is essential to economic development in the state from the Advisory Coordinating Council for Economic Development of the Department of Commerce; local support of the project from residents through petitions or comments at public hearings; and resolutions from municipalities, county councils, advisory groups, Metropolitan Planning Organizations or Councils of Government.

Category 4: Information and Analysis

The performance measures which will be evaluated to determine whether the SCTIB is meeting expectations and short and long term goals include maintaining an “A” credit rating, amount of funding provided for major transportation projects, and number of approved projects completed on time and within budget.

Category 5: Human Resource Focus

Because the SCTIB does not have any employees, this section does not apply.

Category 6: Process Management

The processes related to the delivery of the services provided by the SCTIB are developed, managed and implemented by a group of key individuals who perform these functions on a day-to-day or as needed basis. This working group is comprised of the contract financial manager, a representative from the Office of State Treasurer, legal counsel, bond counsel, and the Director of the SIB Office within SCDOT. These persons, individually or collectively, review and update the business and financial plans of the SCTIB, develop funding mechanisms which create the most benefit to the SCTIB, determine timing of bond issues, prepare all documents related to the issuance of bonds, and manage the expenditure of all funds of the SCTIB. All actions of the working group are at the direction of the Board of the SCTIB and the Board takes action based on recommendations of the working group. The formal business plan of the SCTIB is updated periodically as needed based on input from the working group and is presented to the SCTIB Board for review when updated. The business plan sets forth expected capital outlays for all approved projects, estimates future revenue receipts, and provides a recommended plan for bond issuance, cash and other financing for all approved projects. The SCTIB Board annually adopts a budget based upon the recommendations set forth in the business plan.

Category 7: Business Results

In the six years since the creation of the SCTIB, with approximately \$75 million in annually recurring state revenues as provided in the act, the SCTIB has provided financing to over \$3 billion in major transportation projects in South Carolina. The sources of funding which have contributed to the tremendous success of the SCTIB include a one-time contribution from the state General Fund surplus in FY1997 in the amount of \$66 million, truck registration fees in the average annual amount of \$52 million, and an annual contribution from SCDOT in the approximate amount of \$23 million. In addition, state agencies, local governments, and private entities have made substantial contributions towards the financing of the SCTIB projects. The flexibility provided in the SCTIB Act which allows the SCTIB to issue revenue bonds has had a significant role in the successful financing of the \$3 billion in major transportation projects. Financing of these projects through the SCTIB is a major component of SCDOT's "27 in 7" program in which 27 years of road and bridge projects are compressed into a seven year acceleration program.

Prior to providing a loan or other financial assistance to a qualified borrower, the SCTIB must obtain the review and approval of the South Carolina Joint Bond Review Committee (JBRC). JBRC must also approve bonding anticipated for funding the projects whether revenue or general obligation bonds, and the state Budget and Control Board must approve all general obligation bonds to be issued. In March 2003, the Budget and Control Board approved the issuance of up to \$60 million for SCTIB projects, but as of June 30, 2003, these bonds have not been issued.

To date, the SCTIB has issued over \$1.5 billion in revenue bonds with interest rates ranging from 4.34% to 5.44%. These are excellent rates on revenue bonds given that the SCTIB has only been in existence since 1997. These rates reflect the strength of the SCTIB and the revenues which support the bond repayments. The low interest rates on the bonds are a result of the strong credit ratings of the SCTIB

since it's first request for credit ratings in 1998. In October 2002, FITCH reaffirmed its "A" rating of the SCTIB and Moody's Investor Service reaffirmed its "A1" rating of the SCTIB.

Projects Approved by the SCTIB and the JBRC

The SCTIB is a funding entity that only provides loans and other financial assistance to approved projects pursuant to the Act. The SCTIB does not own, construct, manage the construction of, or maintain any of the projects it has approved for funding. The SCTIB has no financial obligation to fund any portion of any project other than that which is selected by action of the SCTIB Board, approved by the JBRC, and subject to a valid and enforceable intergovernmental agreement or loan agreement.

The SCTIB has approved and, as required by the Act, the JBRC has reviewed and approved, the following applications for loans and other financial assistance:

Horry County RIDE I Project - Total Horry County RIDE I Project costs are estimated to be \$888,000,000. Funding for the Horry County RIDE I Project consists of a \$131 million contribution by the SCTIB (excluding financing costs), a \$114 million contribution by the SCDOT to the SCTIB for the project, a \$95 million interest bearing loan to the project by the SCTIB to be repaid by the SCDOT for the Conway Bypass, a \$300 million interest free loan to be repaid by Horry County, and a \$248 million interest bearing loan to be repaid by Horry County. The Conway Bypass has been completed and is in operation and other projects are under construction;

Horry County RIDE II Project - Total approved Horry County RIDE II project costs are \$198 million with an approximate \$2 million contribution by Horry County from Admissions Tax District revenues;

Beaufort County Project - Total Beaufort County Project costs are estimated to be approximately \$104.7 million. Funding for the Beaufort County Project consists of a \$64.7 million contribution by the SCTIB, a \$29.9 million contribution by Beaufort County, and a \$10.1 million contribution by the SCDOT. Construction of the project is underway;

Cooper River Bridge Replacement Project - The total estimated Cooper River Bridge Replacement Project costs are \$650 million. Funding for the project consists of a \$325 million contribution by the SCTIB, a \$96.6 million contribution by the SCDOT from federal funds, approximately \$13 million from other sources, and a loan from the Federal Highway Administration ("FHWA") to the SCTIB in the amount of 33% of the project costs, not to exceed \$215 million, which will be repaid by the SCTIB from sources available to it. The SCTIB will receive reimbursements on its repayment of the loan from the SCDOT in the amount of \$200 million and from Charleston County in the amount of \$75 million. In addition, the State Ports Authority will contribute \$45 million to the project. Construction on the project is underway;

Lexington County Project - Total Lexington County Project costs are estimated to be \$115 million. Funding for the Lexington County Project consists of a \$48 million contribution by the SCTIB, a \$6 million contribution by the SCDOT a \$2 million in-kind contribution by Lexington County and a \$59 million contribution by SCE&G. The SCTIB, the SCDOT and Lexington County have executed an Intergovernmental Agreement. The SCTIB has also executed an agreement with SCE&G. Construction on the project is underway;

Upstate GRID Project (Anderson, Greenville and Spartanburg Counties) - The Upstate GRID Project consists of fourteen component projects which have a total estimated cost of \$617 million. Funding for the Upstate GRID Project consists of a \$406 million contribution by the SCTIB and a \$211 million contribution by Anderson, Greenville and Spartanburg Counties. Anderson, Greenville and Spartanburg Counties, the SCDOT and the SCTIB have executed an Intergovernmental Agreement and construction is underway;

York County Project - The York County Project consists of four component projects which have a total estimated cost of \$257 million. Funding for the York County Project consists of a \$158 million contribution by the SCTIB and a \$99 million contribution by York County. The SCTIB and York County have executed an Intergovernmental Agreement and construction is underway;

Aiken County Project - The Aiken County Project consists of construction of a new bridge over the Savannah River and a new route as an extension into South Carolina of I-520. Total project costs are estimated at \$198 million. Funding consists of a contribution from the State of Georgia for one-half of the cost of the new bridge, approximately \$16 million, a contribution from Aiken County in the amount of \$15 million, a \$2 million contribution by SCDOT and \$165 million from the SCTIB. Currently, the SCTIB has only authorized \$65 million for the project with the balance to be authorized as funding becomes available; and

Median Barrier Project - The Median Barrier Project is a statewide project with a total estimated cost of \$34 million. Funding for the Barrier Project consists of a \$30 million contribution by the SCTIB and a \$4 million contribution by the SCDOT. The SCTIB and the SCDOT have executed an Intergovernmental Agreement and installation of the barriers is underway.

As evidenced by the information contained in this report, the SCTIB has been extremely successful in the six years of its existence due to the foresight of the General Assembly in providing flexibility for financing options and requiring preference be given to projects which have local financial support. The Board of the SCTIB has utilized various funding options to maximize the availability of funding to approved projects. Throughout the state, additional transportation project needs exist with no current funding. In order to finance additional projects and also maintain the excellent credit ratings, additional non-tax sources of revenue are critical.