



Presentation to:

Texas Transportation Forum

Regarding:

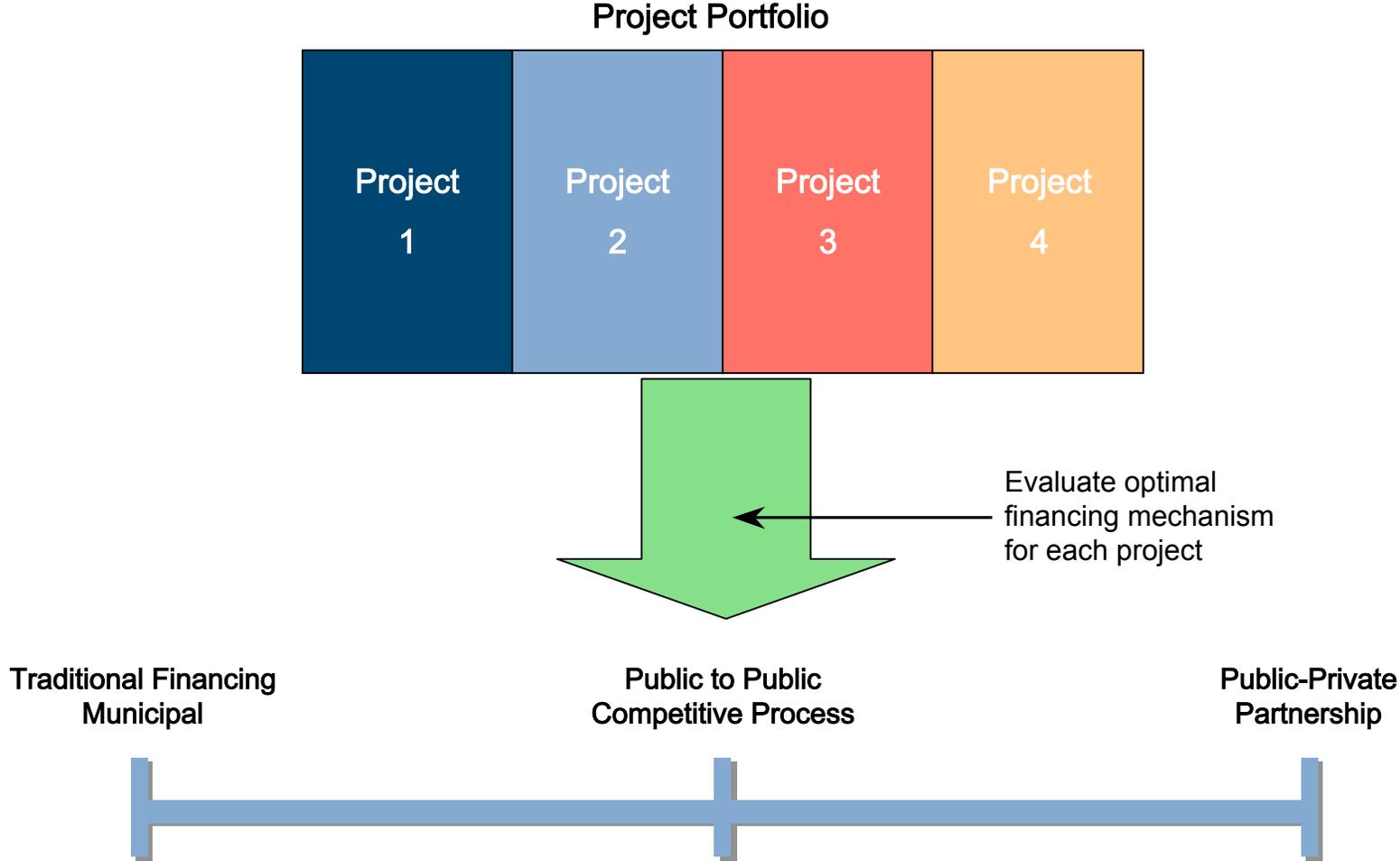
Overview of Infrastructure Financing Alternatives

July 20, 2007

The Dilemma

- The US is facing billions of dollars of necessary infrastructure investment in the coming years
- Public sector entities face acute hurdles to meeting these needs
 - 📁 Lack of financing capacity
 - 📁 Mismatched skill sets
 - Difficult to build expertise on a project by project basis and then disband when project is complete
 - Large learning curve and inherent inefficiencies when facing obstacles outside of core competency
 - 📁 Competing projects and allocation of resources

Public Sector entities should explore the 3 financing mechanisms available to them for meeting financing needs across their portfolio.



Delivery Mechanism #1: Traditional Public Finance

Strengths

- Large source of up-front capital, leveraging future dollars for current projects
- Structures the cost of the asset more prudently across the life of the asset, aligning capital burden with use of the facility
- Allows local authority to retain complete control of every aspect of the project, as well as ownership of the asset
- Revenue streams can be set aside to directly fund individual projects

Drawbacks

- Residents faced with higher taxes to finance the cost of the project
- Less upfront proceeds than other options
- Based on conservative tax-exempt growth assumptions
- Local Authority retains operating risk
- No “cushion” for slower than expected revenue growth
- Limited amortization term
- Adds to public indebtedness

Delivery Mechanism #2: Public to Public Competitive Process

Strengths

- Implementation time is generally shorter, as negotiation period is truncated
- Less politically polemic than Public-Private Partnerships
- Possibility of “gainsharing” where the profits from the restructuring are used to reward employees, with the bulk going towards lowering rates and funding further capital improvement
- Allows public entity with a different skill set or more financial capacity to participate

Weaknesses

- Access to capital is still restrained by accessing municipal markets only
- Skill sets developed by non-public entities could be excluded
- Lack of profit motive could lead to less efficiency and motivation

Examples

- NTTA’s mandate from TxDOT to oversee construction and tolling for SH-121
- Pennsylvania Turnpike Commission’s proposal to PennDOT
- The FDOT District One Traffic Operations ITS Section worked with the City of Lakeland/Lakeland Electric to fund a signal system upgrade that saved FDOT an estimated \$1.2 million in construction costs.

Delivery Mechanism #3: Public-Private Partnerships

Strengths

- Tax rates need not be raised to fund project
- Operating efficiencies (such as electronic tolling) may be more readily implemented by a motivated private entity that is more aggressive about controlling costs and responding to needs
- Often results in better customer service because the operators are market-oriented businesses with financial incentives to optimize performance
- Increased project scope possibilities because of larger and more flexible pools of capital
- Ability for public entities to focus their resources on projects in their portfolios that are within their core competency

Drawbacks

- Risk of unforeseen conflicts that are not accounted for in original agreement
- Can be politically divisive
- Loss of future bonding capacity if revenues outpace projections

Examples



- Indiana Toll Road, where Goldman Sachs was able to raise \$ 3.85 Bn in capital for the state



- Chicago Skyway, where Goldman Sachs was able to raise \$ 1.83 Bn

Case Study: Public/Public Partnership – PTC & PennDOT

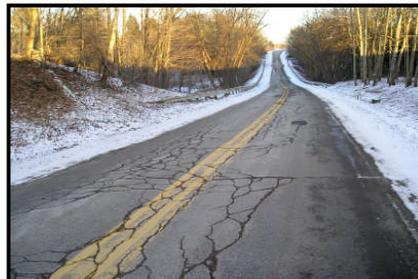
Pennsylvania's Transportation Crisis



Bridges

- 5,913 bridges in need of repair
- More than any other state
- Average age 50 years
- \$8 billion backlog

Need: \$230 million



Roads

- 8,528 miles of rough roads
- Backlog of repairs
- 36% construction cost increase last 2 years

Need: \$735 million



Transit

- Looming 25% service cuts
- 100 million fewer rides
- Loss of access to jobs, medical service and schools

Need: \$760 million

Total Need: \$1.725 Billion per year over the next decade

Pennsylvania Turnpike Commission's Proposal

Plan of Financing

- \$158 million from a new \$1 "congestion toll" collected from drivers exiting off the toll road in Harrisburg, Pittsburgh, Philadelphia, Wilkes-Barre/Scranton
- \$100 million from instituting tolls on Interstate 80 (not available until 2011)
- \$707 million from bond financing/toll increases to meet funding targets (estimated)
- **Total Proceeds: \$965 million**

Shortfalls

- Cost to citizens is high
- Does not address public transit funding needs

Other Funding Options

- Tax Oil Corporations Profits/Lease PA Turnpike
 - \$760 million from a 6.17% tax on the profits made by oil corporations*
 - \$965 million from the lease of the Pennsylvania Turnpike
- Tax Citizens/Lease PA Turnpike
 - \$286 million from a 0.5% Realty Transfer Tax
 - \$190 million from a new sales tax
 - \$100 million from a 73% increase in PennDOT fees
 - \$184 million from a 25% contribution from local government (passed to taxpayers)
 - \$965 million from the lease of the Pennsylvania Turnpike
- Transportation Funding Commission's Recommendations
 - \$576 million from a 0.9% Realty Transfer Tax
 - \$184 million from a 25% contribution from local government (passed to taxpayers)
 - \$815 million from the Oil Franchise Tax – the equivalent of 12.5 cents per gallon of gas
 - \$150 million from a 23% increase in license and registration fees

Other Public-to-Public projects are being set up around the country

■ Port of Miami Tunnel Project

- FDOT, in partnership with Miami-Dade County and the City of Miami, selected the Miami Access Tunnel consortium consisting of Babcock & Brown Infrastructure Group, Bouygues and Transfield Services to complete this project
- The consortium will receive an availability based payment for designing, building, financing, operating and maintaining the tunnel

■ New Jersey Turnpike

- “Mr. Corzine said he and State Treasurer Bradley I. Abelow were considering “an entirely different kind of proposal” that involved creating a public benefit corporation.”
- “One option is for the New Jersey Turnpike Authority to raise tolls and divert only the increased revenue to a newly formed public corporation, which would then issue bonds backed by that money. The amount of the bonds would be based on the value of the toll increases.” *New York Times, May 31, 2007*

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