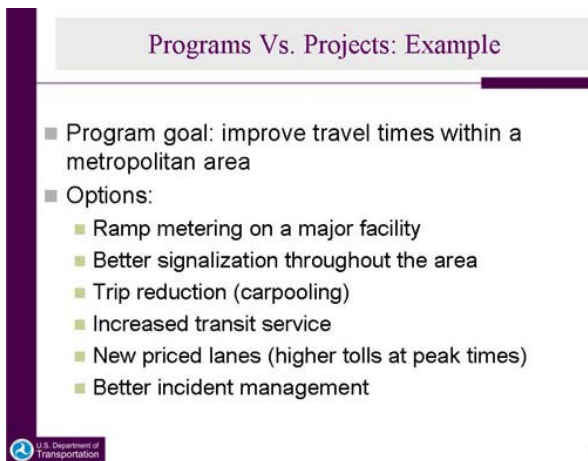




Slide 1. The establishment of this office – the HQ Office of Innovative Program Delivery – demonstrates FHWA's organizational commitment to innovation in financing, tolling and procurement while still maintaining the traditional Federal-aid grant based program.



Slide 2.



Slide 3.

Program Delivery

Current Process: Challenges

- More focus on facilities (outputs) than on mobility (outcomes)
- Project-by-project funding decisions - without considering potential revenue streams
- Large projects fall out of the picture
- Cost-effectiveness not always considered



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Slide 4. Large projects “fall out of the picture” since they are not easily funded under current programs.

Program Delivery

Current Process: Implications

- Ribbons more than brooms
- System operations at end of food chain
- Lifecycle costs not part of the picture
- Quantity trumps quality in programming
- Process may impede innovation




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Slide 5.

Getting to the Right Questions

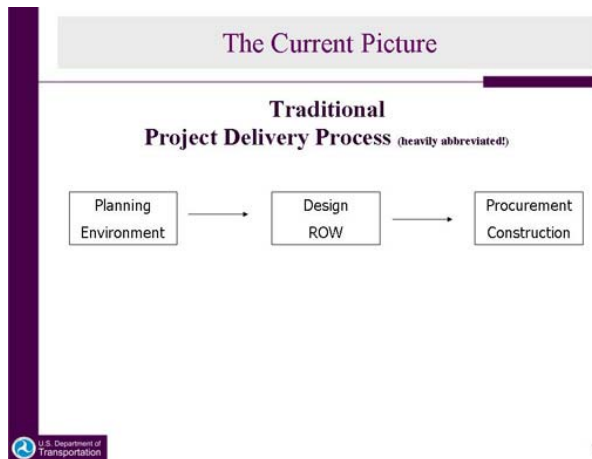
Project Delivery

- After you identify needed project(s) in your program, how do you deliver them?
- How do you keep them operating in good condition?
- How do you replace them when you need to?



6

Slide 6. To get participants thinking about transportation project delivery on a systems basis – moving beyond a single project focus to life cycle considerations.



Slide 7. Traditional process almost always relies on Federal-aid grant funds.

Legacy of the Highway Program

Traditional Process

- With motor fuels tax funding, revenue/finance were not a primary focus (needed funds were simply "programmed" from appropriate categories)
- Program initially discouraged borrowing
- "Projects" ended at construction
- Traditional process worked well for building the national backbone, the Interstate highway System

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Slide 8. Since "projects" ended at construction, Federal interest often wanes as well.

Traditional vs. Innovative Process

- **Traditional Process "Pro's"**
 - Predictability & security of Federal-aid funds
 - Tried and true process
 - Solid Federal/state relationship
- **Traditional Process "Con's"**
 - Scarce, insufficient Federal-aid funds
 - Time consuming processes
 - Disincentive for creativity

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Slide 9.

- Tried and true process: sometimes we're just tired of change!
- Disincentive for creativity: "We've always done it this way"!

Traditional vs. Innovative Processes

- **“Pro’s” of Innovative Process**
 - Leveraging of scarce funds
 - Ability to tap into private capital
 - Avoidance of ROW and construction inflation
 - Ability to streamline procedures
- **“Con’s” of Innovative Process**
 - Need to identify new taxes and/or revenues
 - Potential limitations in capacity
 - Payment of interest and profits
 - Heightened concern re: protecting public interest



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Slide 10. Limitations in capacity refers to possible scarcity in construction contractors, materials and labor, as well as Federal/state project management capability. Possible shortages and price spikes.

Why Are Feds Involved?

- I-287 corridor is integral part of Interstate Highway System
- Corridor is regionally/nationally significant
- FHWA Federal-aid grant funds may be provided
- FTA may provide capital funds
- USDOT credit assistance may be provided
- Federal Private Activity Bond authority may be allocated
- It's all about the money...



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Slide 11. They're so pesky! Why do we need to deal with them?
...honey, as well as the national interest

Introduction to new Office of Innovative Program Delivery

OIPD is a FHWA program office, like Safety, Operations, or Environment

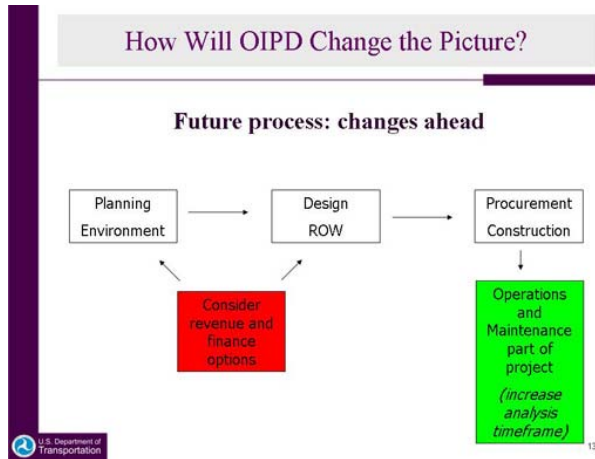
How we're different:

- We focus on revenue, finance, and procurement, but cut across other program areas as well
- We want to help states get to the bottom line: delivering transportation services (whether through building facilities, or other means)
- We don't have all the answers: we want to improve the questions (process improvement)



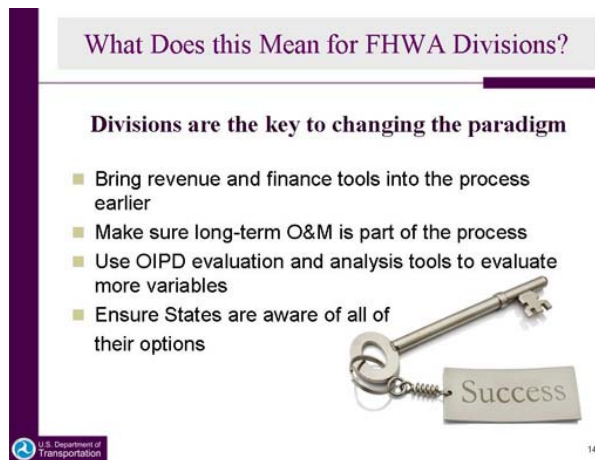
12

Slide 12.



Slide 13. Revenue options may include plain jane tolling, as well as congestion pricing, both of which may require Federal approval. Joint development revenue may also be considered. Finance options include FHWA and FTA grant funds, Federal credit assistance, Private Activity Bonds, grant anticipation credit, State Infrastructure Bank credit, plus whatever additional options are made available by the new Transportation Bill.

OIPD has played a key role in assessing revenue and financing options for many major projects, including I-595 in Florida, Intercounty Connector in Maryland, I-635 (LBJ) and North Tarrant Express in Texas, and Capital Beltway HOTLanes and Dulles Metro Extension in Virginia.



Slide 14.

What Tools Does OIPD Own?

To deliver a project, you need three things:

- A financing vehicle
 - To address funding gaps
- A revenue source
 - To repay the financing
- A procurement method
 - To deliver the project



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Slide 15.

Example Project: New Bridge Lanes

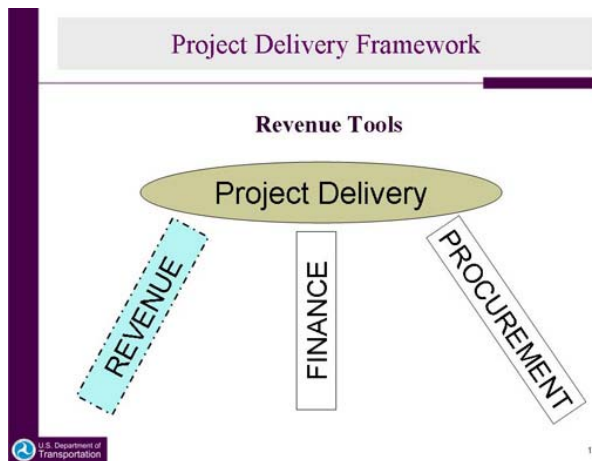
- Let's say a state needs to expand a bridge crossing:
 - Adding four new lanes will cost at least half the State's apportionments
 - Neither the State DOT nor metro area has up-front funding
 - Where do you start in delivering the project?

The OIPD Project Delivery Framework can help...

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Slide 16.



Slide 17. Project sponsor needs three things to deliver a project: a financing tool to address any funding gaps, revenue to repay financing, and a procurement method.

The revenue leg is dotted because it's usually the revenue piece that is missing....and you can't fix a revenue problem with a finance or procurement tool.

Transportation Revenue Options: The Menu

User-Based Fees	Broad-Based Taxes
<ul style="list-style-type: none"> Tolls Transit Fares Park and Ride Fees Congestion Charges Lease Revenue 	<ul style="list-style-type: none"> Motor Fuels Tax Sales Tax Property Tax Hotel Tax Rental Car Tax Also, General Revenues
Development Based Fees & Taxes (Beneficiary Shares in Cost)	
<ul style="list-style-type: none"> Tax Increment Special Assessments Development Fees 	

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Slide 18. "General Revenues" refers to the totality of revenues available to a state or local, regardless of source.

Key Message (TBD)

Background (TBD)

Interactivity (TBD)

Notes (TBD)

Revenue Tools

Questions

- Isn't the motor fuels (gas) tax a cheaper way to raise revenue? Why do anything else?
 - Gas tax is cheaper, but are you looking to build facilities or delivery mobility?
 - If you use gas taxes to build more lanes, more cars will fill the lanes
 - Priced tolls deliver mobility, not just a facility
 - Other types of user fees can match costs to users or benefits received

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Slide 19.

Tolling and Pricing Programs

With limited funds, tolling/pricing is one option

Tolling on Federal-aid routes must currently be done through various programs:

- Express Lanes Demonstration Program
- High Occupancy Toll (HOT) Lanes Program
- Value Pricing Pilot Program
- Interstate System Construction Toll Pilot Program
- Interstate System Reconstruction and Rehabilitation Pilot Program
- Section 129 Toll Agreements Required

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Slide 20.

High-Occupancy Toll Lanes (HOT Lanes)

- A High Occupancy Toll (HOT) lane allows drivers of single occupancy vehicles to buy their way into an HOV lane
- Typically, tolls vary by time of day (pricing)
- Ten HOT lanes are in operation around the country, while an additional 60 are under development
- One way to expand capacity while protecting mobility
- Not appropriate for every project



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Slide 21.

Tolling and Pricing

Questions

- Q: *Why should I pay for a road I've already paid for? Isn't that double taxation?*
 - A: You paid for your house. Does that mean you're never going to paint it again? Or put on a new roof?
- Q: *Isn't a HOT lane just a "Lexus Lane" for rich people?*
 - A: Why not call them FedEx lanes? They're available for an extra cost when you absolutely have to be there.



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Slide 22. People talk about not wanting to toll "existing capacity." But the truth is, most "existing capacity" isn't going to exist long without a funding source to maintain and rehabilitate it.

As for Lexus Lanes: studies show that these lanes are used by people of all income levels, mostly based on situation (think of rushing to catch a flight or getting to day care before late fees kick in). Adding priced capacity adds options that didn't exist before - When they created FedEx, did rich people stop using stamps?

Example: Revenue Options for New Bridge Lanes

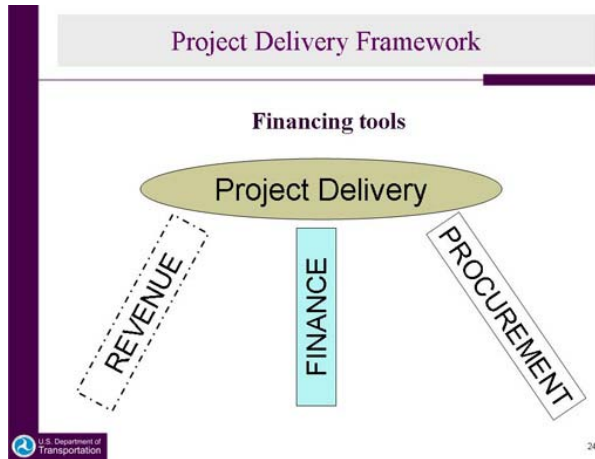
- To provide revenue for the lanes, a State may consider one or more of the following:
 - Priced tolls (to maintain free flow)
 - Local motor fuels, sales or hospitality taxes (if project is of sufficient local interest)
 - Parking fees
 - Special assessments (where certain property owners will benefit from better access)
 - Joint development arrangements



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Slide 23. Local option taxes may require permissive legislation.

The final four options could apply just as easily to transit as highway improvements.



Slide 24. We are now moving from revenue tools to financing tools.

Pay as You Go or Finance?

Two basic options:

- Pay as you go (traditional)
- Borrow/finance

If you borrow, you need to pay it back with a revenue stream

- "Can I pay my MasterCard with my Visa?"

The U.S. Department of Transportation logo is in the bottom left corner, and the number "25" is in the bottom right corner.

Slide 25. Distinguish throughout where necessary: the considerations for selecting the procurement model are different from the considerations for selecting the project.

Public Finance Challenges

- State and local governments have finite borrowing/debt capacity
- To protect credit ratings, public finance community often follows conservative borrowing policies (making it a challenge to raise sufficient capital)
- For multi-jurisdictional projects, it may be challenging to reach agreement on "who borrows for what"

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Slide 26.

Project Finance Challenges

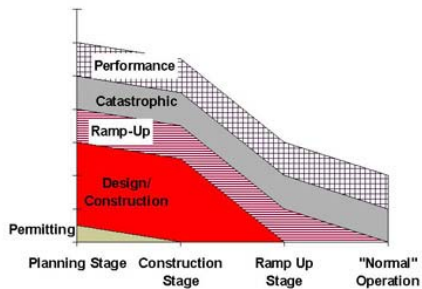
- High start-up risk – design and construction risks aren't fully known until after construction begins
- Mismatch between timing of project revenue and project expenditures
- If privately financed, differential between public and private costs of financing



27

Slide 27.

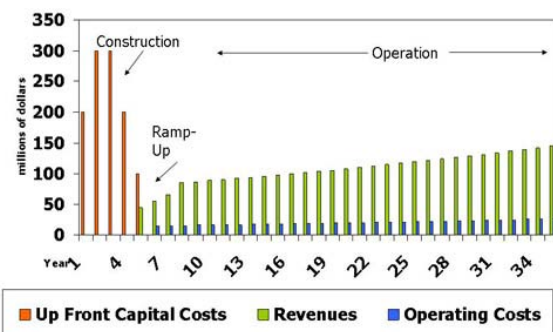
Project Risks by Stage



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Slide 28.

Project Cost and Revenue Profile



Slide 29. This graph illustrates the “mismatch” between design/construction costs and revenue flows.

Transportation Finance Options: August 31, 2009

The Menu

<p>Bonds</p> <ul style="list-style-type: none"> ■ General Obligation Bonds ■ Grant Anticipation Revenue Bonds ■ Revenue Bonds (based on toll and non-toll revenues) <p>Loans</p> <ul style="list-style-type: none"> ■ Transportation Infrastructure Finance and Innovation Act (TIFIA) Credit Assistance ■ Commercial Bank Loans 	<p>Financing Linked to Private Procurement Options</p> <ul style="list-style-type: none"> ■ Private Activity Bonds ■ Commercial Bank Loans
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Slide 30.

Bonds (General Obligation and Revenue)

- Governments can issue bonds to borrow for projects; these include General Obligation (GO) & Revenue Bonds
- Grant Anticipation Revenue Bonds (GARVEE Bonds) are repaid, all or in part, with future Federal-aid funds
- Bonding capacity is usually limited by state laws and/or constitutions
- Governments may have many competing projects seeking to borrow

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Slide 31. GARVEE Bonds are just one type of Revenue Bond.

TIFIA Loans

Transportation Infrastructure Finance and Innovation Act

- Low-cost loans (currently < 5%) for eligible surface transportation projects
- Minimum project size \$50 million (\$15 million for Intelligent Transportation System projects)
- Other kinds of credit assistance also available (loan guarantee, line of credit)
- Assistance available for up to 33 percent of eligible project costs

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Slide 32.

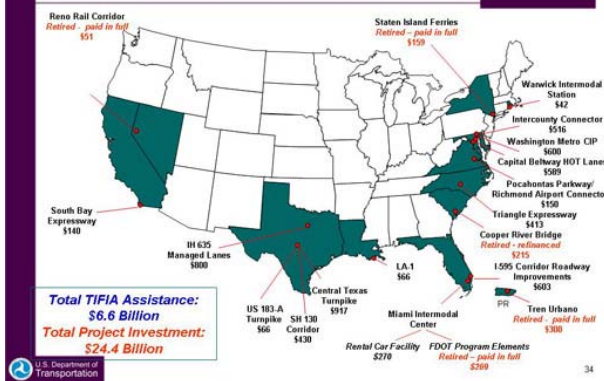
How Does TIFIA Help?

- By offering low-cost financing, reducing the gap between public and private financing costs
- By providing access to the capital markets for "borderline" projects
- By offering flexible repayment schedules
- By increasing public and private financing capacity
 - Leaves more capacity for other projects



Slide 33.

TIFIA Project Portfolio – As of April 2009



Slide 34.

Private Activity Bonds (PABs)

- Allow issuance of tax-exempt bonds for projects that are developed, designed, financed, constructed, operated, and/or maintained by the private sector
- PAB authority gives you a "license to issue" debt that is tax exempt, even with private activity on the project
- Issued through conduit, public sector entity
- Tax-exempt debt = cheaper financing for the project
- Allocations made by USDOT on a national, competitive basis
- \$15 billion total available

Slide 35. \$15 billion allocation "cap" may be increased; PAB initiative may be extended.

PAB Requirements

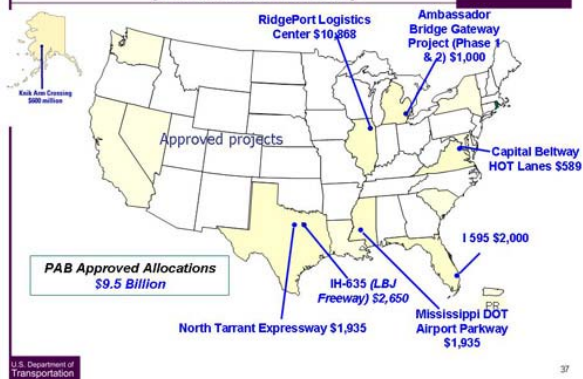
Qualified projects

- Qualified projects include:
 - Any surface transportation project receiving Title 23 funds
 - International bridge or tunnel projects
 - Intermodal facilities that receive Federal assistance under Title 23 or Title 49
- Projects may be subject to Davis-Bacon, Buy America, and other Federal aid procurement requirements
- Must also adhere to IRS requirements for bonds

Slide 36.

Private Activity Bond Projects

(PAB allocation in millions)



Slide 37. Some of the amounts are “suspect”! Ridge Port and Mississippi Parkway, for example. Use for conceptual purposes only!

How TIFIA and PABs Can Help the Public Sector

Questions

Don't financing tools just mean more debt? How can they increase revenue if it's borrowing?

- Cheap, flexible financing encourages investors to bring revenues to the table (that would otherwise not go to transportation)
- Facilitating private sector financing reduces public debt burden and enables innovative procurement

Slide 38.

Illustration: Finance Options for New Bridge Lanes

- TIFIA Loan
- Grant Anticipation Credit Instrument
- Toll Revenue Bond (where tolls imposed)
- Sales Tax Bond (where sales tax dedicated)
- If P3 used:
 - Private Equity
 - Private Activity Bond (PAB)
 - Commercial Bank Loan

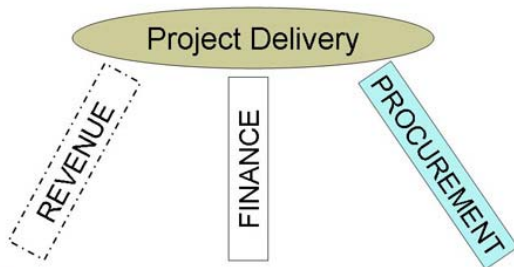


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Slide 39.

Project Delivery Framework

Procurement tools



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Slide 40.

What is a P3?

- A P3 is any arrangement where the private sector takes on more risk than under the traditional process
- Availability payments and toll concessions are two types of P3s
- Both involve the private sector taking on one or more elements of design, construction, finance, maintenance and long-term operation of projects



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Slide 41.

P3s/Innovative Procurement

Potential project benefits

- Cost and schedule certainty (liquidated damages for delay, overruns not borne by public sector)
- Customer service orientation
- Cost savings through innovation
- Long-term view of asset management
- Optimal lifecycle cost

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Slide 42.

P3s/Innovative Procurement

Potential process benefits

- By considering P3s, public agencies take a good look at their own process
- Comparing public to private sector may lead to public sector getting more resources and/or improving in-house
- Long-term concessions lengthen the timeframe for project lifecycle
 - This can get the public agency long-term funding for O&M

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Slide 43.

P3s

Potential limitations

- P3s may not always be the way to go:
- Capital may be higher cost
- Agreements may be challenging to negotiate
- The U.K. has found that some risks/projects are better handled by public sector



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Slide 44.

P3s: Innovative Procurement Options

Questions

Is it a good idea to have the private sector take over control of facilities?

- Innovative procurement means changing the traditional model, but it doesn't have to mean giving up **control**
- Typical public-private arrangements have very long, very specific contracts that protect the public interest



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Slide 45.

Illustration: Procurement Options for New Bridge Lanes

- A State could either make availability payments or provide a toll concession
- Under availability payments, the State could pledge to pay a certain amount per year over a given period for the availability of a project
- Under a toll concession, the concessionaire would receive the tolls during the term
- In either case, the concessionaire assumes design, build, finance, construction, maintenance and operational risks



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Slide 46. A State could combine the availability payment and toll concession model as well.

Availability Payment Example – I-595

- Project objective is to reduce corridor congestion in South Florida
- \$1.2b construction and 35 years of O&M
 - Congestion-priced, reversible HOT lanes with BRT
 - Improvements to free lanes, ramps and access roads
- First availability payment-based P3 in US



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Slide 47.

Availability Payment Example – I-595

- Availability Payment Arrangement:
 - States sets toll rates and retains revenues
 - State pays no public money to concessionaire until project is complete
 - Substantial cost savings
 - Project completion advanced 15 years
 - Successful financing despite current economic uncertainty



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Slide 48.

Major Project Case Study

Capital Beltway

- Beltway experiences 4–6 hours of congestion daily
- Limited ability to build
 - State design would have taken 400+ houses
- No new capacity in 30 years
 - Existing traffic would quickly fill two new lanes, even if they could be built
- Insufficient funds
 - No financing capacity for project



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Slide 49.

Significant Improvements to the Capital Beltway

Lane Configuration: Beltway (I-495) HOT Lanes

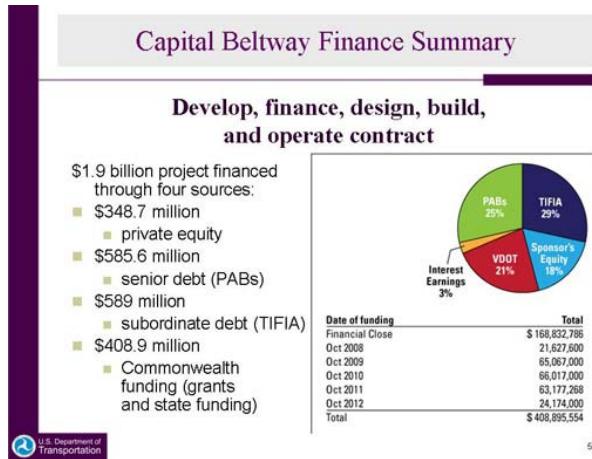


- 14-mile segment of beltway based on a fixed-price, fixed-time, design-built contract, with 80-year concession
- Variable tolls, HOV-3 free
- Two new HOT lanes in each direction
- Congestion-free network for transit service
- Replacement of more than \$260 million of aging infrastructure, including more than 50 bridges and overpasses



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Slide 50.



Slide 51.



Slide 52.



Slide 53.

Wrapping Up

What we offer

- One-stop shopping for innovative program delivery
- Problem-solving experts in finance, public-private partnerships, procurement, pricing and major project development
- New ways to do business from beginning to end
- Decision tools
- Research
- Publications
- Web pages



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Slide 54.

Innovative Program Delivery Teams

Program Development Team	Strategic Delivery Team	TIFIA JPO	Project Delivery
Establishing Foundation	Culture Changing	Credit Assistance	Project Expertise
Strategic Planning	Tolling, Pricing and P3 Programs	Loans	Cost estimate reviews
Outreach	Innovative Finance	Lines of Credit	Financial Plans
Policy/Legislation	Project Delivery Process Change	Loan Guarantees	Project Management Plans
Research		PAB Advice	Critical Project Reviews
Capacity Building			

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Slide 55.

Innovative Program Delivery Office

Director – Regina S. McElroy
Senior Technical Advisor – Mark Sullivan, 202-366-8006
Program Support Assistant- Ingrid Perkins, 202-366-8006

Program Development Team	Strategic Delivery Team	TIFIA JPO	Project Delivery
Jen Mayer Acting Team Leader 415-744-2634	Vacant Team Leader	Duane Callender Acting Director 202-366-9644	Carl Gottschall Team Leader 202-366-1561
Research Darren Timothy 202-366-4051	Pricing Patrick DeCoria-Souza 202-366-4075	Loan Origination Cheryl Jones 518-325-6020	Cost Estimates Chris Allen 202-366-4104
Capacity Building Thay Bishop 404-562-3695	P3s Jim Hatter 404-562-3929	Suzanne Sale 602-352-8987	Financial Plans Cindy Bobik 202-366-8495
Outreach Jen Mayer 415-744-2634	Project Finance Fred Werner 404-562-3680	Duane Callender 202-366-9644	Project Management Plans Vacant
Market Surveillance Prabhat Dikshit 720-963-3201	Environmental Vacant	Loan Monitoring Oscar Bedolla 202-366-0368	

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Slide 56.