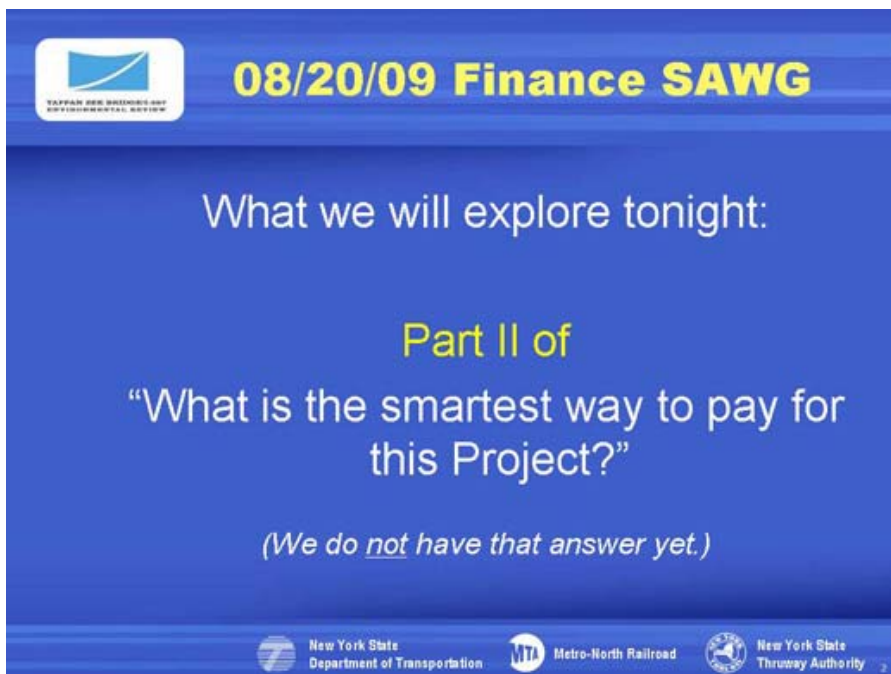


Slide 1



Slide 2

Slide 3




Review: Smart Solutions should balance...

- Policies (Federal, State, Regional, Local)
- Best Financing Outcomes (borrowing costs, upfront cash, etc.)
- Common Sense (quickest; easiest; innovative; etc.)
- Highway and Transit requirements – best match for Capital, Operating, Maintenance

Final Solution will likely be a combination of many options

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Slide 4

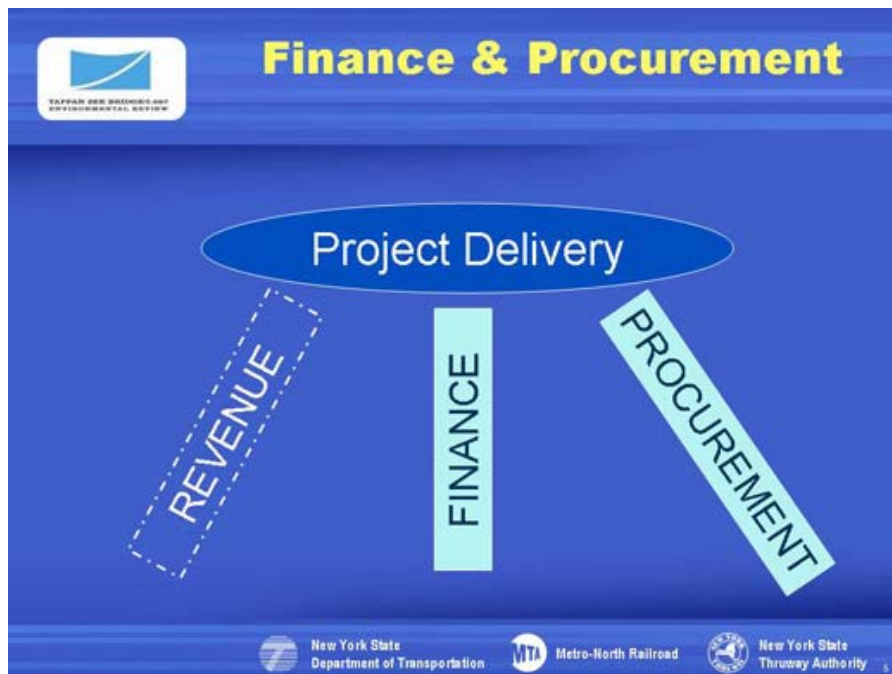


Tonight's Outline

Elaborate on FHWA presentation in July 22 SAWG

- 1) Finance: Pay-as-you-go & Borrowing
- 2) Procurement – why look at alternative procurement options?

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Slide 5

Slide 6 is titled "Example: Building a House" in yellow text on a blue background. In the top left corner is a logo for "TAPPAW FOR BUSINESS AND ENVIRONMENTAL ACTION". Below the title is the text "Paying for the house.....". A bulleted list follows, containing five questions: "What's your income? Is your job stable?", "Shopping for mortgages – who has the best interest rates?", "Do you want 10, 20, or 30 year mortgage?", "Do you have a down payment?", and "Can you get a construction loan, then refinance to a mortgage?". At the bottom of the slide are three logos: "New York State Department of Transportation", "MTA Metro-North Railroad", and "New York State Thruway Authority".


Slide 6

Slide 7




Example: Building a House


- Would you want an adjustable rate mortgage?
- Should you refinance when interest rates change or you're making more money?
- Do you have enough to pay for heat, electricity, everything else?
- What ways can you cut your expenses?
- Can you get any tax breaks?
- Can Mom & Dad help?



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Example: Building a House

Contracting....


- Who's going to be the contractor? How will you choose?
- How do you know they'll stay on schedule?
- What if the cost goes up after they start? Is it a fixed price contract?
- How can you start building as soon as possible?
- Should you build in stages? First the house, then the garage? Will waiting make the garage more expensive?




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Finance: Two Kinds of Money

- Pay-as-you-go financing
- Borrowing
- Balancing combination ... options not mutually exclusive

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What do we mean by "Pay-as-you-go"

Pay-as-you-go = CASH

(Money that is NOT borrowed)

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Slide 10




Why is Pay-as-you-go Funding Important?

- Any pay-as-you-go construction funding will significantly reduce long term interest payments
- Up-front cash investment in construction will reduce borrowing needs – could permit lower tolls, fares, tax or fee rates
- Can't use tax-exempt borrowing for two critical costs:
 - Operating
 - Debt Service on bonds

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Slide 11



Pay-as-you-go Benefits


Order of Magnitude:

- Each \$1 billion not borrowed would equate to about \$60 to \$90 million a year in lower debt service....
- \$60 to \$90 million a year = about 1 to 1-1/2 cent of gas tax statewide.....

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Slide 12

Slide 13




Potential Pay-as-you-go Fund Sources

- Federal Highway & Transit capital grants (earmarks, FTA Full Funding Grant Agreements)
- Reauthorization - - Projects of Regional & National Distinction? National Infrastructure Bank?
- Raise additional tolls or fares at earliest point (before or at start of construction) – invest to earn interest or pay current costs
- State and Federal transit operating aid




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Questions

- Any questions about pay-as-you-go?

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Why Consider Many Borrowing Options?


Different borrowing options will yield best combination of interest rates and pay-back schedules

Mix of borrowing should:


- maximize how much can be leveraged
- minimize the cost of borrowing



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Key Considerations

What are some key considerations in comparing borrowing options?


- Revenues
 - Source (Federal vs. other)
 - Reliability (established vs. new)
- Who's the borrower? State, Authority, Private?
- Tax Treatment – Taxable vs. Tax Exempt?
- Other statutory and bond covenant provisions



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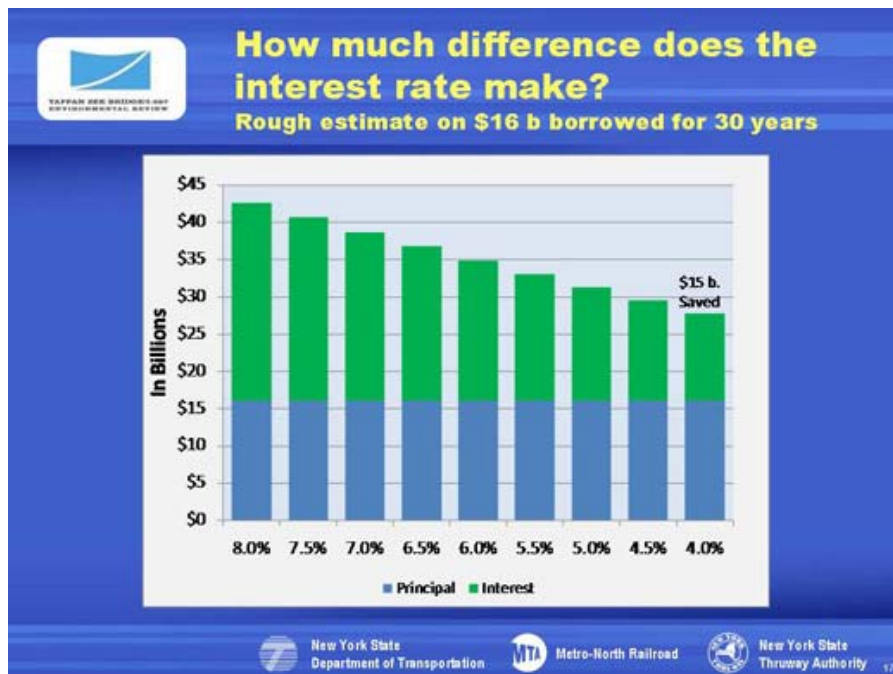
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State/Federal Borrowing Mechanisms

- Tax-Exempt Municipal Bonds
- TIFIA Loans
- GARVEE Bonds
- General Obligation Bonds
- Build America Bonds
- Other

Logos: New York State Department of Transportation, MTA Metro-North Railroad, New York State Thruway Authority


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Tax Exempt Municipal Bonds - Examples


- Generally government issued only
- Currently issued by Thruway, MTA, State Comptroller (general obligation bond approved by voters)
- Thruway sells their own General Revenue Bonds – plus NYSDOT “DHBTF” & “PIT” bonds



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Tax Exempt Municipal Bonds

- Usefulness will depend on the economy and marketability at time of sale;
- May be more difficult for project startup
- Principal & Interest must paid throughout
- Generally a good option, but other options may complement tax-exempt bonds – or provide other benefits (eg., TIFIA loan)



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Federal TIFIA Loans

- Up to 1/3 of total project cost for both Highways & Transit; share may increase in reauthorization
- Up to five years to start repaying – good for start up
- Borrower can be public or private
- Debt is subordinate – other bonds MUST be first in the queue to repay
- Competition from other states' projects
- Must meet competitive criteria to qualify
- Long and involved process; limited additional loan capacity at present



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GARVEE Bonds


- Not yet sold in NYS
- Pledge of future Federal highway aid to repay borrowing
- Large potential – but Federal highway aid is already fully subscribed for Pay-Go use and future significant increases are unlikely
- Can advances project delivery – capital cost savings outweigh interest costs



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Full Funding Grant Agreements

- Grant anticipation borrowing against future payments from executed Transit Full funding grant agreements (New Starts)
- Short term bonds borrowed against cash flow



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General Obligation Bonds


- GO Bond Act
- Requires vote by citizens
- Maybe part of a statewide program?
- 2000 bond act vote failed; 2005 bond act succeeded
- Voting outcome is difficult to rely upon
- Best interest rates of all tax-exempt – backed by the State's General Fund (rated AA/AA3/AA-)



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Build America Bonds/Other (Finance)

- ARRA Build America Bonds (BABs): Taxable bonds give access to the conventional corporate debt markets
 - Treasury Department direct payment to issuer = 35 percent of the interest
 - Able to reach more sources of borrowing
- Private Activity Bonds (PABs) – special IRS exemption to sell tax-exempt bonds mixed with private use or funding
 - Currently a challenged product to market post credit crisis
- Good precedents but extension is uncertain beyond 2010



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Questions


- Any questions about the various borrowing options?



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Procurement Options

- Traditional Procurement
- Alternative Methods
- “Everything in between”

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Traditional = “Design/Bid/Build”

NYSDOT & Thruway = “Design Bid Build”

- Engineers fully design the project before bidding the project; project is competitively bid; contract is awarded
- Long history of “success” in the public sector
- All risks belongs to the State

MTA: Can use Design/Build where appropriate

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Why look at alternative procurement methods?

- Evaluate Risk Transfer
- Can/should risks be shared?
 - Nationally, public policy and practices continue to morph
 - Necessary and appropriate in this mega-project to explore how alternatives could help

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Slide 30

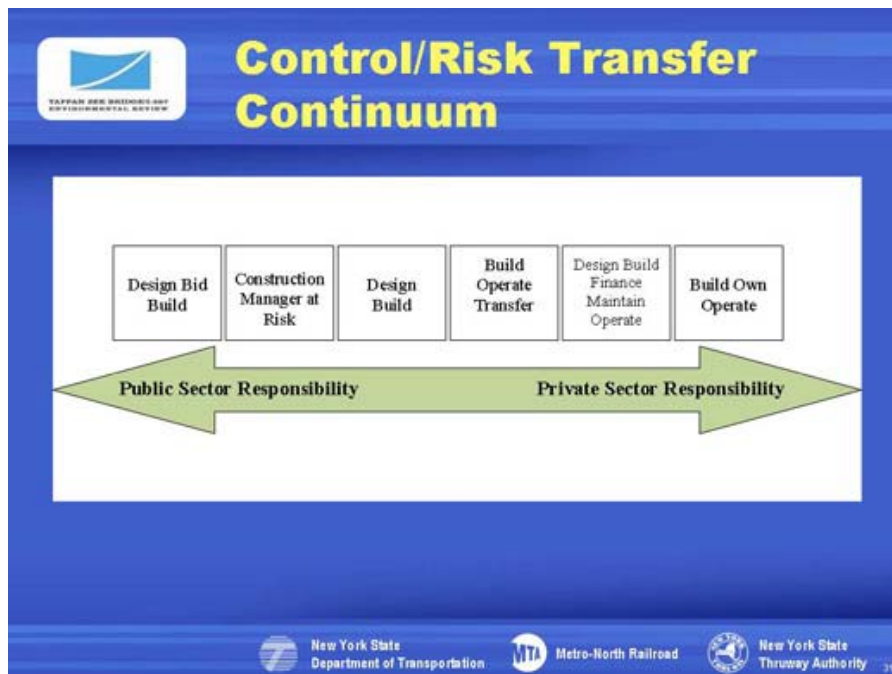


Risks include....

- Cost of construction
- Construction schedule
- Usage – are tolls & ridership going to occur as projected?
- What will change as the economy changes? Interest rates? Steel? Fuel?
- Operating & Maintenance Risks –including unforeseen events

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SAM Commission – Evaluation Concepts

June 2009 – Statewide Asset Maximization Final Report
(www.nysamcommission.org)

- Did NOT make recommendations on this project
- Key components for State's consideration
 - Allocating Risks
 - Cost Savings (Value for Money)
 - Private Sector's Ability to Perform

The slide features a blue background with yellow text for the title. The content is in white text. A logo for 'TAPPAW RIVER BRIDGE/PORT AUTHORITY ENVIRONMENTAL REVIEW' is in the top left corner. Logos for the New York State Department of Transportation, Metro-North Railroad, and New York State Thruway Authority are at the bottom.

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Evaluate Risk Allocation

"Project risks are allocated between the public and private sector based on each partner's ability to most effectively price and manage certain risks"

- *Property Acquisition
- *Design
- *Construction
- *Financing
- *Operation
- *Maintenance

Each Phase x 3 Project Components
Highway + BRT + CRT

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Evaluate Cost / VFM

- Cost of capital
- Comparisons over the life-cycle of the project
- Ability to generate the greatest investment in the near term
- Able to advance the investment
- Stimulate the economy with job creation

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Evaluate Private Sector Ability

- Size of company, diversity, competencies needed, complexity, suitability of private sector financing and risk taking
- Solvency and performance track record of company
- Partners guiding principals are aligned with State – hiring, contracting policy standards, workers rights
- Clearly defined “Rules of Engagement”
- Transparent screening and selection process

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Questions

- Any questions about alternative procurement options?

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