



TAPPAN ZEE BRIDGE/ I-287 CORRIDOR PROJECT

**New York State Department of Transportation
Metropolitan Transportation Authority Metro-North Railroad
New York State Thruway Authority**

Meeting Minutes

Finance Stakeholders' Advisory Working Group (SAWG) #4



September 10, 2009

Meeting Title: Finance Stakeholders' Advisory Working Group (SAWG) #4

Meeting Purpose: Exchange of information

Location/Date: Besso Community Room, Palisades Center
West Nyack, NY
6:00 P.M.

Attendees:

SAWG Members
Charles Borgman
Chris Bresnan Office of Assemblyman Kenneth Zebrowski
Darcy Casteleiro Office of Assemblywoman Ellen Jaffee
Harriet Cornell Chairwoman, Rockland County Legislature
Chris Crane Office of Westchester County Legislator Tom Abinanti
Patrick Gerdin Rockland County Department of Planning
James Hartwick Office of Senator Thomas Morahan
Elyse Knobloch Office of N.Y. State Assemblyman Adam Bradley
Walter Krislibas
Jon Marshall Quay Condominiums
Jack McLaughlin East Irvington Civic Association
Catherine Nowicki TZB Task Force
Mammen Samuel
Mary Jane Shimsky Office of Assemblyman Richard Brodsky

Project Team
Michael Anderson NYSDOT
Phil Ferguson NYSDOT
Yvette Hinds NYSDOT
Susan Kugler NYSDOT
Larry Fleischer MTA
Brian Sterman MTA MNR
Angel Medina NYSTA
Martha Wooding ML
Paul Plotczyk WSA
Rita Campon Parsons
Veronica Bailey-Simmons HSH

Paul Plotczyk, a facilitator with Work Systems Affiliates, welcomed the attendees, provided a brief overview of the previous meetings, and reviewed and responded to the parking lot item from the previous meeting:

Q: How is the Access to the Region's Core (ARC) project being funded?

A: The ARC project is an \$8.7 billion project. Funding includes \$3 billion of the Federal Transit Administration New Starts Grant, \$1.35 billion in other federal funds (possibly highway and others), \$3 billion commitment from the Port Authority of New York & New Jersey (PANYNJ), and \$1.25 billion from the New Jersey Turnpike Authority. In August of 2009, the FTA gave project an early systems work agreement to go ahead and spend \$1.35 billion due to insufficient authorization to use New Start funds. As part of New Jersey's contribution to the project, they are putting \$130 million of their federal stimulus funds into the project.

Mr. Plotczyk introduced Susan Kugler (NYSDOT), Director of the Financial Policy Bureau of the New York State Dept. of Transportation, and Phil Ferguson, Finance Study Project Manager. Ms. Kugler briefly recapped the objectives of the August 20th meeting (1) to review the various ways that transportation projects are currently funded in the State of New York and (2) to explore ways to fund the corridor project, while still funding existing infrastructure needs. She noted that this meeting is the second segment of the two-part discussion and will primarily focus on: (1) Finance – exploring the difference between pay-as-you-go funding and borrowing and (2) Procurement.

Ms. Kugler and Ms. Martha Wooding of Merrill Lynch then gave the presentation (see attached).

Questions and comments included the following:

Q: Is there any other known project that has used pay-as-you-go funding?

A: Most transportation and transit projects in the country have a portion of pay-as-you-go and a portion of money. The difference between the two is that one stream is used as cash and the other used to pay interest on debt. In most cases, most government entities allocate a minimum portion of revenue to pay-as-you-go. They will not go below that minimum because it is important to have a cash component.

Q: Are rating agencies concerned about the inclusion of pay-as-you-go money in construction projects?

A: Generally, they are not especially concerned about having pay-as-you-go cash on hand. They are more concerned about how leveraged the entity is.

Q: Are there any states or municipalities that have used 100% pay-as-you-go funding?

A: There may be projects of a smaller scale that have used this method of funding, but it's unlikely that any project of similar magnitude does. This is like making a down-payment (in cash) on a house.

Q: Does there need to be cash on hand in order to proceed?

A: Not many government agencies, not even at the federal level, have cash on hand at this stage. They are largely in the red.

Q: Are there plans to raise statewide/regional tolls to generate revenue for this project?

C: In the current statutory and legal construct, any increase in tolls to help fund the TZB project can only be done through the New York State Thruway Authority's (NYSTA) tolled facilities. The final financial plan must take into account all anticipated costs, including debt service, maintenance, operating costs, so that they are covered by revenues generated by the tolled facilities.

Q: Once the bridge is built, would maintenance cost be separate?

A: No, this has to be anticipated and included in the plan. Furthermore, the FHWA requires that capital, maintenance, and operating costs be included in plans. It is important that these issues are dealt with upfront because such determinations made during construction impact future operating and maintenance costs. Whatever is raised would be used to pay for the project and nothing else. We must find the smartest way to generate money — take a long-term perspective.

A discussion ensued on various funding sources, including bonds (municipal, GARVEE, Build America, General Obligation, Private Activity), TIFIA, and Full Funding Grant Agreements.

Q: What does the acronym GARVEE mean?

A: The Grant Anticipation Revenue Vehicles (GARVEE) bond was named for Jane Garvee, who proposed the program. GARVEE financing relies on the future federal-aid funding to repay debt.

Q: What will the role of the Finance SAWG be as you go through the process of deciding the types of funding options for the project?

A: The purpose of the SAWGs is to exchange information, solicit input and gather feedback. Although SAWG members will not vote on this decision, everyone will have a voice. At the SAWG meetings, the team explains the project process, where we want to go and how we will get there and has received great ideas from the groups so far. The project team needs as much support as possible to derive the smartest financing plan for the project. The expectation is that each SAWG member will convey information learned at these meetings to their constituents to help us make an informed decision. An intersection of policy that is fully informed by this public process and economic conditions will ultimately determine how the bridge will be financed. Also, flexibility within the policy guidelines is important.

Q: Who will make the final decision?

A: A consensus among the agencies, administration, and legislature.

Q: Who will crunch the numbers relative to all these funding sources?

A: NYSDOT, NYSDOB, NYSDOS, NYSTA, MTA MNR, Merrill Lynch, Winston & Strawn, and Loop Capital are all working together to crunch the numbers.

Q: This group is a tiny piece of the puzzle. Who are the real policy stakeholders who would decide the financial option for bridge?

A: This is a three-step process: (1) By the end of this year, the expectation of the SAWG is to derive a collection of the most sensible, attractive, funding, financing, and procurement options and put together a package which will be culled from a financial model. (2) The financial advisor will take

this package and refine it as the schedule, construction costs, and sequences are better defined. (3) The financial advisor will work as an agent to implement whatever is derived.

Q: Which entity will decide the financial plan?

A: No one entity will make that decision. NYSTA, MTA MNR, NYSDOT, Governor's Office, Legislature, Division of Budget, State Comptroller will all weigh in on the decision.

Q: What is the basis for the 20% cost savings in a design build project? What do we know about the circumstances in which design build works and doesn't?

A: In terms of measuring cost savings, there is a study done in Melbourne, Australia that looked at individual cost savings on individual projects. Also, there is a method study by the FHWA that examined different studies done by design build-type procurement that averaged out the 20% number. Cost savings were largely related to reduced, quicker delivery which led to reduced cost, construction inflation and labor costs.

There is an S&P report that looked at private sector procurement techniques or P3 [public-private partnership] execution of build projects that looked at everything from design build contracting to concession arrangement. It highlights areas where projects do not deliver extra cost savings. The biggest risk here is government interference or lack of experience in managing the process.

Q: Is there a risk sharing or profit sharing component associated with design build contract?

A: Yes. In design build, there is a correlation between cost and time of delivery. There are penalties that apply if the schedule is not met. These contracts are complex. Design build contracts are long-term, highly negotiated structure of short-, medium- and long-term risk sharing.

Q: I assume that WIC's law is part of this?

A: WIC's law applies to the transit portion of the project. As we get into the stations, they have to be dealt with.

Mike Anderson concluded the meeting by informing the members that the October/November session will be scheduled soon.

The meeting ended at 8:00p.m.