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.

Innovative Program Delivery

- What is a transportation program?
  - Moving goods and people
  - Improving safety
  - Protecting the environment

Innovative **program** delivery means helping states and project sponsors do all of these things, faster and at a lower cost. Sometimes that will mean building new projects – but not always.

Slide 3.

Programs Vs. Projects: Example

- Program goal: improve travel times within a metropolitan area
- Options:
  - Ramp metering on a major facility
  - Better signalization throughout the area
  - Trip reduction (carpooling)
  - Increased transit service
  - New priced lanes (higher tolls at peak times)
  - Better incident management
Slide 4. Large projects “fall out of the picture” since they are not easily funded under current programs.

Slide 5.

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.

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

Slide 9.
- Tried and true process: sometimes we’re just tired of change!
- Disincentive for creativity: “We’ve always done it this way”!
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.

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

Slide 12. 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)
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.
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.
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)

Slide 19.

Slide 20.
Meeting Minutes – July 22, 2009
Finance Stakeholders’ Advisory Working Group (SAWG)

Slide 21.

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.

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?

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.

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

Slide 26.
Slide 27. This graph illustrates the "mismatch" between design/construction costs and revenue flows.

Slide 28.

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

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

Project Risks by Stage

Project Cost and Revenue Profile
Slide 30.

### Bonds
- General Obligation Bonds
- Grant Anticipation Revenue Bonds
- Revenue Bonds (based on toll and non-toll revenues)

### Loans
- Transportation
- Infrastructure Finance and Innovation Act (TIFIA)
- Credit Assistance
- Commercial Bank Loans

### Financing Linked to Private Procurement Options
- Private Activity Bonds
- Commercial Bank Loans

---

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

---

Slide 32.

**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
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

TIFIA Project Portfolio – As of April 2009

Total TIFIA Assistance: $16.6 Billion
Total Project Investment: $24.4 Billion

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 33.

Slide 34.

Slide 35. $15 billion allocation “cap” may be increased; PAB initiative may be extended.
Slide 36.

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

Slide 38.

How TIFIA and PABs Can Help the Public Sector

Questions

- Don’t financing tools just mean more debt? How can they increase revenue if they’re 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 39.

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

Slide 40.

Project Delivery Framework

Procurement tools

Project Delivery

REVENUE
FINANCE
PROCUREMENT

Slide 41.

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
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

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

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
Slide 45.

**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

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

**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

Slide 47.

**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
Availability Payment Example – I-595

- Availability Payment Arrangement:
  - States set toll rates and retain 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

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

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-build 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 $290 million of aging infrastructure, including more than 50 bridges and overpasses
Slide 51.

Capital Beltway Finance Summary

Develop, finance, design, build, and operate contract

$1.9 billion project financed through four sources:
- $345.7 million: private equity
- $585.6 million: senior debt (PABs)
- $586 million: subordinate debt (TIFIA)
- $408.9 million: Commonwealth funding (grants and state funding)

Date of Funding | Total
---|---
Financial Close | $158,422,105
Oct. 2009 | 21,027,920
Oct. 2010 | 63,967,920
Oct. 2011 | 66,617,920
Oct. 2012 | 63,170,920
Total | $408,905,924

Slide 52.

Capital Beltway Project Innovation

Innovative Project Delivery
- First major improvement to the Capital Beltway in more than 30 years
- First project using PABs
- Largest ever private sector investment in a US greenfield P3 contract
- Innovative revenue-sharing agreement with public sector

Slide 53.

Capital Beltway, Benefits of Innovation

- Innovative project development
  - New design reduced home takings to under 10
- Innovative finance tools
  - TIFIA, PABs, private equity all made it possible
- Innovative revenue sources
  - Tolling/variable pricing brings “new” money to the table as well as reduces congestion
- Innovative asset management
  - Long-term concession contract puts incentives in the right place
**Meeting Minutes – July 22, 2009**

**Finance Stakeholders’ Advisory Working Group (SAWG)**

---

**Slide 54.**

**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

---

**Slide 55.**

**Innovative Program Delivery Teams**

<table>
<thead>
<tr>
<th>Program Development Team</th>
<th>Strategic Delivery Team</th>
<th>TIFIA JPO</th>
<th>Project Delivery</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing Foundation</td>
<td>Culture Changing</td>
<td>Credit Assistance</td>
<td>Project Expertise</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>Tolling, Pricing &amp; P3</td>
<td>Loans</td>
<td>Cost estimate reviews</td>
</tr>
<tr>
<td>Outreach</td>
<td>Programs</td>
<td>Lines of Credit</td>
<td>Financial Plans</td>
</tr>
<tr>
<td>Policy/Legislation</td>
<td>Innovative Finance</td>
<td>Loan Guarantees</td>
<td>Project Management</td>
</tr>
<tr>
<td>Research</td>
<td>Project Delivery</td>
<td>PAB Advice</td>
<td>Plans</td>
</tr>
<tr>
<td>Capacity Building</td>
<td>Process Change</td>
<td></td>
<td>Critical Project Reviews</td>
</tr>
</tbody>
</table>

---

**Slide 56.**

**Innovative Program Delivery Office**

**Director – Regina S. McElroy**

Senior Technical Advisor - Mark Sullivan, 202-366-8901
Program Support Assistant - Ingrid Perkins, 202-366-8909

**Program Development Team**

- Jan Mayer (Acting Team Leader)
  - 202-366-6401
  - Email: Jan.Mayer@tasd300.org

**Strategic Delivery Team**

- Patricia DeCoste, 202-366-6402
- Telephone: 202-366-6402
- Email: Patricia.Decoste@tasd300.org

**TIFIA JPO**

- Quanne Colferden (Acting Director)
  - 202-366-6401
  - Telephone: 202-366-6401
  - Email: Quanne.Colferten@tasd300.org

**Project Delivery**

- Carl Gortenscholl (Team Leader)
  - 202-366-6401
  - Telephone: 202-366-6401
  - Email: Carl.Gortenscholl@tasd300.org

---