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Slide 2

08/20/09 Finance SAWG

What we will explore tonight:

Part II of
“What is the smartest way to pay for this Project?”

(We do not have that answer yet.)
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

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?
Meeting Minutes – September 10, 2009
Finance Stakeholders’ Advisory Working Group (SAWG)

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Finance & Procurement

Project Delivery

REVENUE

FINANCE

PROCUREMENT

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Example: Building a House

Paying for the house:

- 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?
- Can you get a construction loan, then refinance to a mortgage?
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?

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)
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

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......
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

Questions

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

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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How much difference does the interest rate make?
Rough estimate on $16 b borrowed for 30 years

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State/Federal Borrowing Mechanisms

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

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
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

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-)
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

Questions

- Any questions about the various borrowing options?
Procurement Options

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

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
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

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
Control/Risk Transfer Continuum

- Design Build
- Construction Manager at Risk
- Design Build Finance Maintain Operate
- Build Operate Transfer
- Build Own Operate

Public Sector Responsibility → Private Sector Responsibility

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
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

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
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

Questions

- Any questions about alternative procurement options?