

October 25, 2018

Arizona Rural
Transportation Summit



Loughlin Enterprises

Agenda

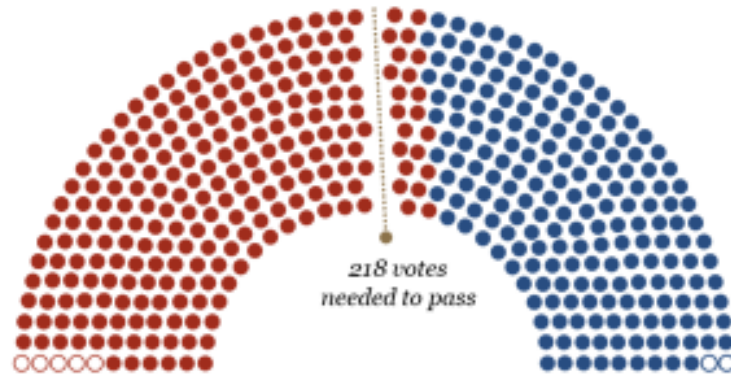
- Upcoming Elections and Impact on Transportation
- Outlook for Federal transportation funding
- Public-Private- Partnerships
- Federal Transportation Grant and Loan Programs

2018 Mid-term Elections

- Rule of thumb for mid-term elections: the president's political party will lose seats in Congress.
- **House:** Democrats need a net gain of 23 seats in order to take control of the House. Strong likelihood, but not a certainty.
- **Senate:** Democrats need a net gain of 2 seats to take control of the Senate. Much more difficult for Democrats to flip the Senate, but it could happen.

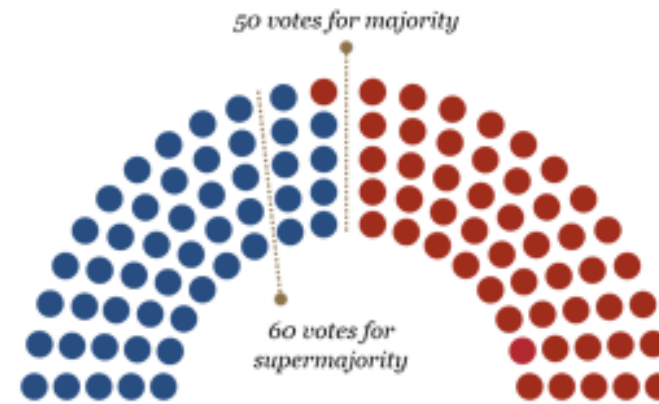
Current partisan breakdown of the 115th Congress

House of Representatives



Total Republicans	235
Total Democrats	193
Vacancies	7

Senate



Total Republicans	51
Total Democrats/Independents	49
Vacancies	0

If the Democrats take control of the House - 1

- Rep. Peter DeFazio (D-Oregon) is almost certain to chair the House Transportation and Infrastructure Committee.
- Del. Eleanor Holmes-Norton (D-District of Columbia) is almost certain to lead the Highway Subcommittee.
- New faces on the dais.



If the Democrats take control of the House - 2

- DeFazio is telling industry stakeholders that he plans to:
 - Push forward with a gas tax increase;
 - Push money out through existing programs;
 - Until 2021 when he plans to write the next highway bill.

If Republicans maintain control of the House

- There may be a fight to lead the House T&I Committee between Rep. Sam Graves (R-Missouri) and Rep. Jeff Denham (R-California), if Denham is able to win re-election.
- New faces on the dais.
- Trump infrastructure plan could see renewed attention



If the Democrats take control of the Senate

- Senator Tom Carper (D-Delaware) is likely to take the helm of the EPW Committee.
- Senator Shelley Moore Capito (R-West Virginia) is likely to become the Ranking Member of EPW.



If Republicans maintain control of the Senate

- Senator John Barrasso (R-Wyoming) will likely opt to continue to chair EPW for another two years
- Senator Tom Carper (D-Delaware) is likely to continue as Ranking Member of EPW



Trump Infrastructure Plan

- \$100 billion in matching funds to be made available to states and cities
- \$50 billion rural block grant program
- \$20 billion fund for “projects of national significance”
- \$20 billion for federal loan programs that underwrite private financing of profitable infrastructure projects.
- \$10 billion capital financing program that would fund the construction of federal office buildings and similar infrastructure for government use.

Infrastructure Funding – Now and Ahead

- Congress passed FAST Act – 2016 – 2020
- Funding landscape for next few years
- Greater funding crisis looms

Congress Takes Action and Passes Long-Term Highway and Transit Bill—FAST Act and the Highway Trust Fund (HTF)

- In December 2015, Congress approved a five-year \$305 billion bill to fund federal highway and transit programs
- Provides funding through 2020
- Keeps HTF funded through 2020
- Modest increase in funding levels, slightly higher than inflation

FAST Act Funding, 2016-2020

In millions of dollars HTF=Highway Trust Fund GF=General Fund

Program Category	FY 2015	FY 2016		FY 2017		FY 2018		FY 2019		FY 2020		5-Year Total	5-Year Avg
Highways (HTF and GF)	41,025	43,322	5.6%	44,215	2.1%	45,183	2.2%	46,218	2.3%	47,314	2.4%	226,252	45,250
Transit (HTF and GF)	10,695	11,789	10.2%	12,175	3.3%	12,175	0.0%	12,381	1.7%	12,592	1.7%	61,113	12,223
Highway Safety (HTF)	1,252	1,297	3.6%	1,376	6.1%	1,404	2.1%	1,428	1.7%	1,454	1.8%	6,959	1,392
Passenger Rail (GF)	1,390	1,670	20.1%	1,870	12.0%	2,046	9.4%	2,297	12.3%	2,472	7.6%	10,355	2,071
GRAND TOTAL (HTF)	50,842	53,744	5.7%	55,114	2.5%	56,111	1.8%	57,375	2.3%	58,709	2.3%	281,053	56,211
GRAND TOTAL (HTF and GF)	54,362	58,078	6.8%	59,636	2.7%	60,809	2.0%	62,324	2.5%	63,832	2.4%	304,679	60,936

The Good News

- States know how much money they will have for next few years
- Stops the practice of borrowing money from the general fund (for now)
 - Since 2008 Congress has shifted \$140 billion from general fund to the highway trust fund

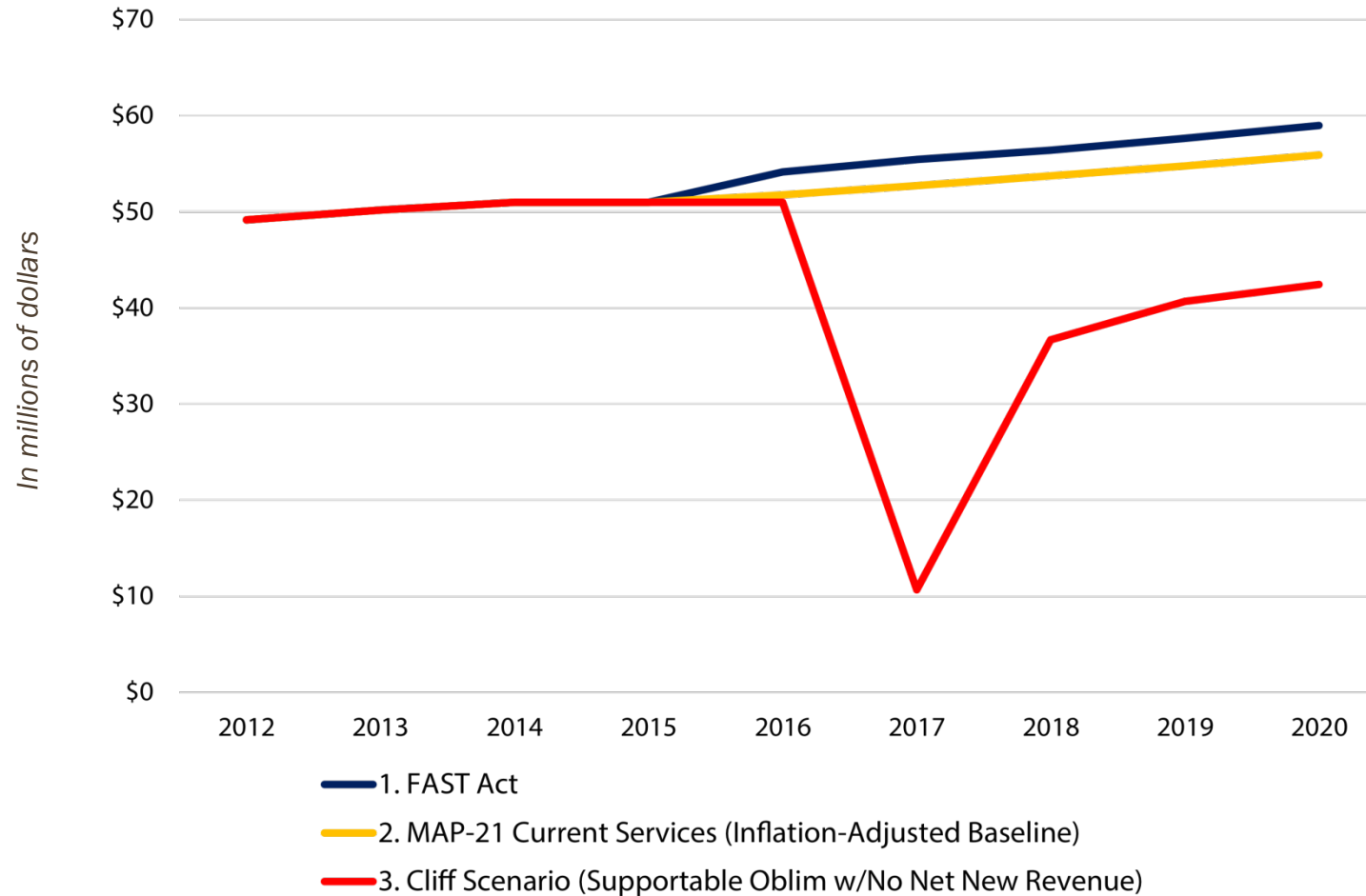
Congress Moving Away from Relying on User Fee Funded Program

- To fund FAST Act, Congress transferred \$70 billion from general fund
- “Pay-fors” include:
 - Transfer from capital surplus account of Federal Reserve (\$53 billion)
 - Dividend reductions for Federal Reserve’s member banks (\$6.9 billion)
 - Sale of 66 million barrels of crude from Strategic Petroleum Reserve (\$6.2 billion)

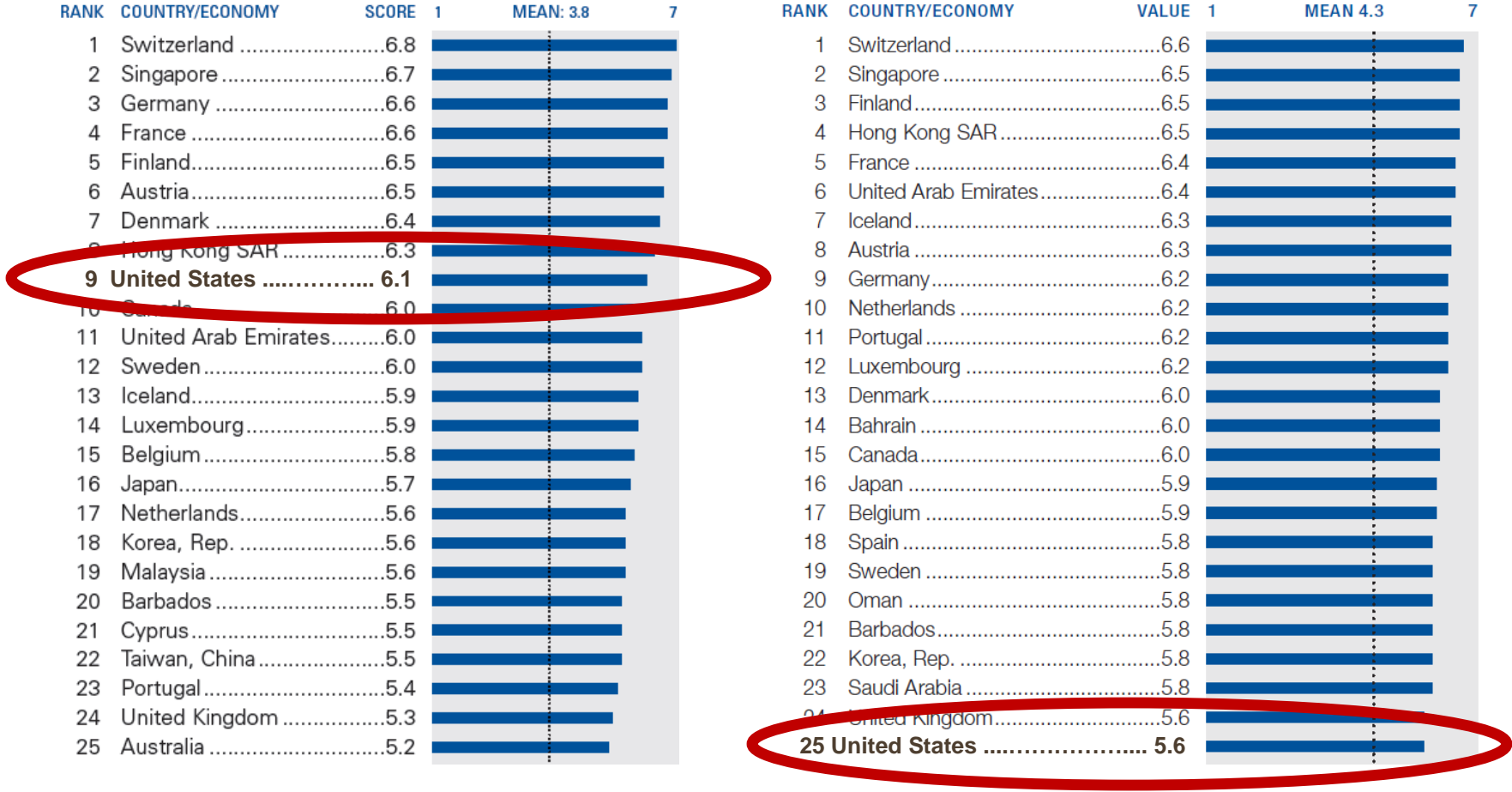
Funding Crisis Looming

- While FAST Act Funds Program for next few years, fiscal cliff awaits in 2021
- FAST Act did not provide a new sustainable revenue stream
- Expected annual gap between highway trust fund and spending in 2021 is expected to be \$20 billion each year

Comparison of Estimated Annual Highway and Transit Obligations

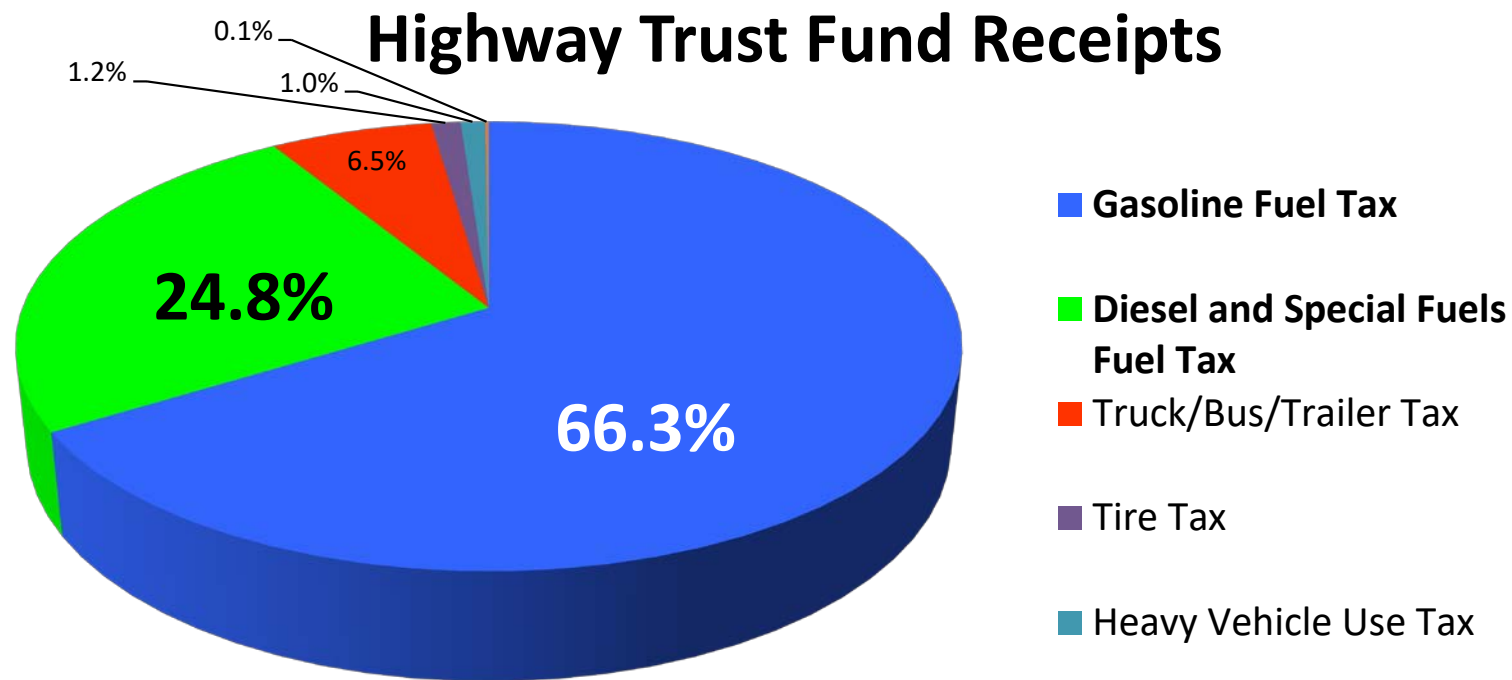


Compared to our global peers, we're falling further behind on the quality of infrastructure



SOURCE: World Economic Forum, *The Global Competitiveness Report*

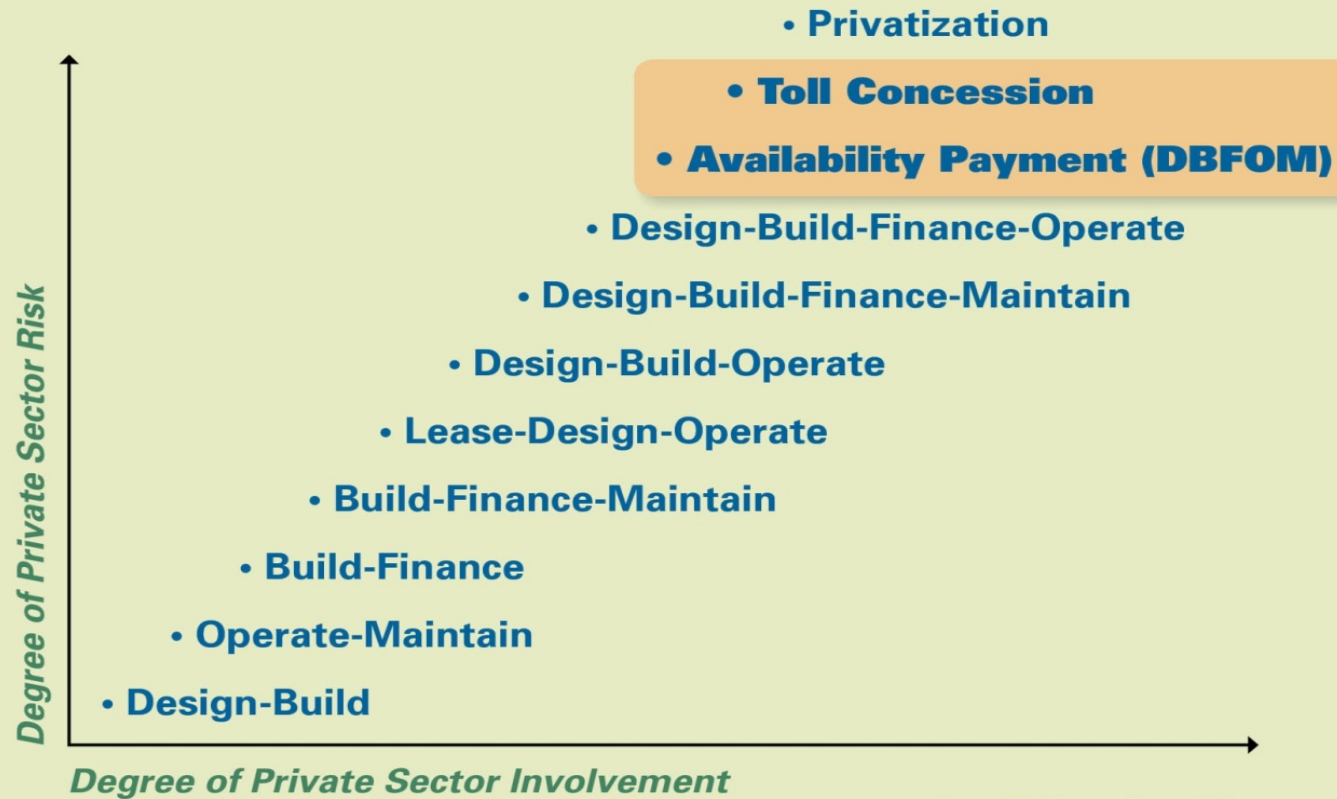
In 2011, motor fuel taxes comprised 91% of HTF revenues but they face an uncertain long-term future



Possible revenue and financing options

- Increase gas tax
- Vehicle Miles Traveled Tax (VMT)
 - FAST Act authorizes \$95 million to conduct research and study alternatives to gas tax
 - Captures all drivers, including fuel efficient vehicles
 - Concern over privacy
- Devolution of federal program
- Bonding and credit programs
 - Includes tolls and special taxes
- Public-Private partnerships
- Tolling

Range of P3 Models (Risk Allocation)



P3 Model Snapshots

Design-Build

The public sector contracts with a private partner to design and build a facility in accordance with specifications set by the owner. After completion, the owner assumes responsibility for the operations and maintenance.

Design-Build-Finance (Gap Financing)

The private sector designs, builds and finances a new facility in accordance with specifications set by the owner. Owner pays the private partner the less of compensation earned or funds available with balance due by pre-established deadline. After construction, the owner assumes responsibility for operations and maintenance.

Design-Build-Finance Operate-Maintain (Availability Payment)

The private sector design, builds, finances, operates and maintains a new facility for a specified term. Owner pays the private partner a pre-established payment schedule to performance and availability of the facility. At the end of the term, the facility is transferred to the public sector.

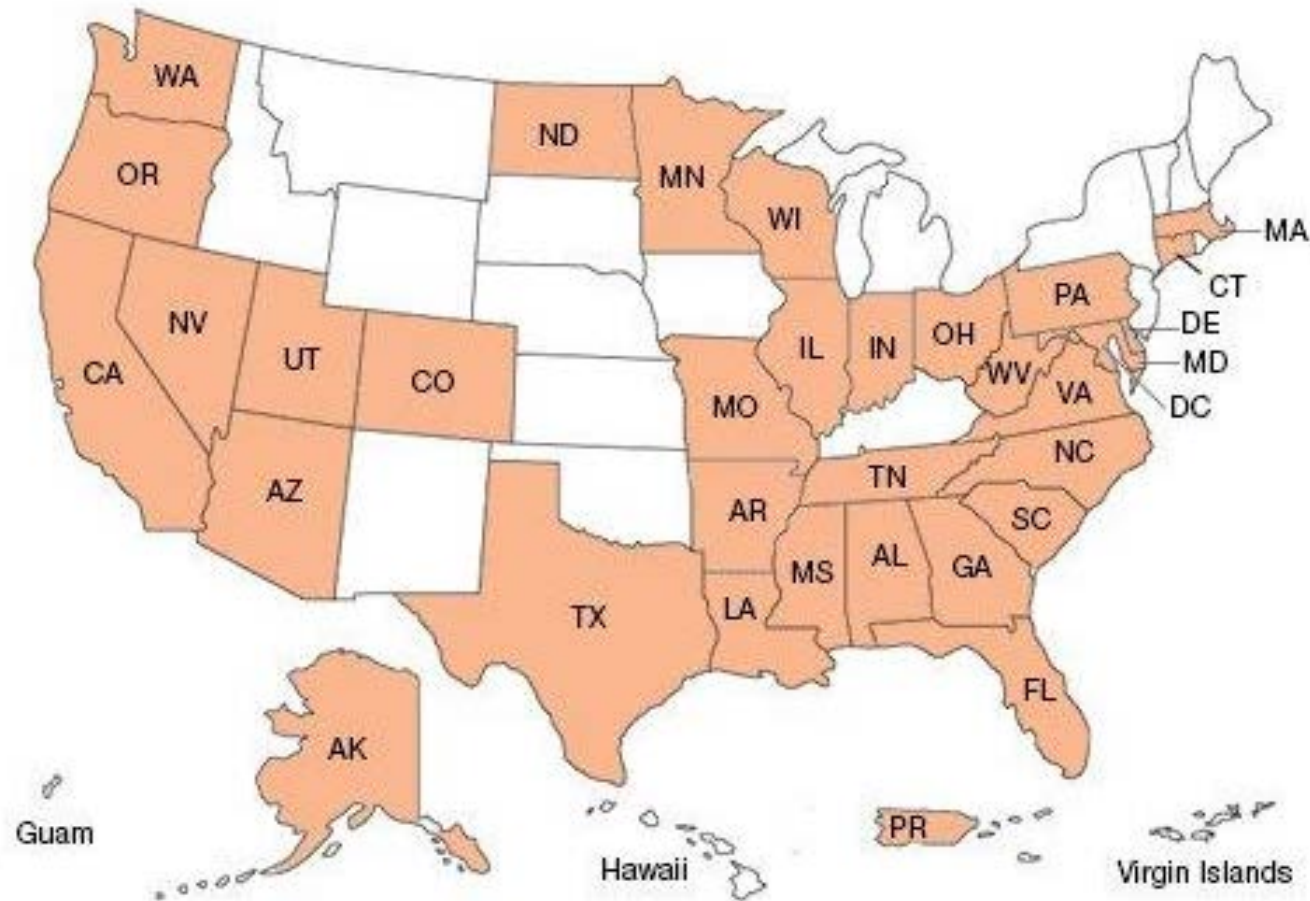
Design-Build-Finance Maintain (Full Concession/ Real User Fee)

The private sector designs, builds, finances, operates and maintains a new facility under a long-term lease. The private partner's payment for services is toll revenue. At the end of the lease term, the facility is transferred to the public sector.

Models on the Rise

- Gap financing gaining popularity
- Design-build with maintenance growing
- States bonding projects, not utilizing financing as often
- Pre Development Agreements
- Less interest in full concession, toll risk projects

States with PPP Enabling Legislation



Potential PPP Benefits

- Private financing and project acceleration
- Monetization of existing assets
- Cost and time savings
- Lifecycle efficiencies
- Improved project quality
- Risk transfer
- Accountability

Potential PPP Concerns and Controversies

- Loss of public control and flexibility
- Private profits at the public's expense
- Loss of future public revenues
- Risk of bankruptcy or default
- Transparency
- Environmental issues
- Foreign companies
- Toll road controversies
- Specific contract terms

Pre-Development Agreement Features

- An agreement to co-develop a project, primarily focused on concept definition (private) and environmental studies (public)
- Defines developer role until Financial Close
- Assigns both parties rights and contractual off ramps
- Staged commitments defined by milestones
- Developer expected to provide some level of development cost and sweat equity
- Affords Developer first right of refusal to negotiate project delivery
- Selection is largely based on project understanding and approach (technical, financial and construction) and value proposition

PDA Developer Activities

- NEPA and permitting support (as requested)
- Technical studies / value engineering
- Design
- Constructability studies
- Preparation of cost estimate
- Construction and project management plans
- Evaluate delivery model options / Value for Money analysis
- Right-of-way support
- Preparation of utility master agreements
- Community involvement (as requested)
- Financing solution

Project Finance Value Elements

- Ensure adequate financing and overall best value
 - Joint development of financing solution within existing obligations and policy constraints
 - Explore wide range of possible structures
 - Contractor, bank, private placement, bonds and TIFIA
 - Committed financing plan at close of PDA
- Schedule defined
- Appropriate sharing of risk
- Serve public interest

BUILD Grants

- Formerly known as TIGER grants, the “BUILD” grant program is a discretionary grant program to fund transportation projects that are locally or regionally significant.
- Funding for FY2019 currently under discussion in Congress. Final figure likely to range from \$750 million (House) and \$1 billion (Senate).

BUILD grants

Eligible Applicants include:

- State, local, and tribal governments, including U.S. territories, transit agencies, port authorities, metropolitan planning organizations (MPOs), and other political subdivisions of State or local governments;
- Joint applications permitted but must identify a lead applicant; and
- Lead applicant can submit ≤ 3 applications unless submitting a program of projects that generate revenue

Eligible Projects include:

- Highway, bridge, or other road projects
- Public transportation projects
- Passenger and freight rail projects
- Intermodal projects
- Planning, preparation, or design, including environmental analysis, feasibility studies, and other pre-construction activities of surface transportation projects

Infrastructure for Rebuilding America (INFRA) Grants

- Section 1105 of the FAST Act authorizes the DOT to award \$4.5 billion in grants during FY2016-20 under the FASTLANE (now called “INFRA”) grant program, a new discretionary grant program to fund nationally and regionally significant freight and highway projects.

Fiscal year	2016	2017	2018	2019	2020
Authorization	\$800 M	\$ 850 M	\$ 900 M	\$ 950 M	\$1.00 B

Eligible Applicants

- A State or group of States;
- A metropolitan planning organization that serves an Urbanized Area with a population of more than 200,000 individuals;
- A unit of local government or group of local governments;
- A political subdivision of a State or local government;
- A special purpose district or public authority with a transportation function, including a port authority;
- A Federal land management agency that applies jointly with a State or group of States;
- A tribal government or a consortium of tribal governments; or
- A multi-State or multijurisdictional group of public entities.

Distribution Among Large and Small Projects, Urban and Rural Projects

90% of funds reserved for large projects
Grants for large projects are at least \$25 million

10% of funds reserved for small projects
Grants for small projects are at least \$5 million

A minimum of 25% of total funding will be awarded to projects in rural areas.

Eligible Projects

- Highway freight projects carried out on the National Highway Freight Network;
- Highway or bridge projects carried out on the National Highway System, including projects that add capacity on the Interstate System to improve mobility or projects in a national scenic area;
- Railway-highway grade crossing or grade separation projects; or
- A freight project that is (1) an intermodal or rail project, or (2) within the boundaries of a public or private freight rail, water (including ports), or intermodal facility.

Merit Criteria

- National and regional economic vitality
- Potential for innovation
 - Safety
 - Environmental review and permitting
 - Project delivery approach
- Leveraging of federal funding
- Performance and accountability

- Additional considerations:
 - Geographic diversity among recipients
 - Project readiness

TIFIA

Credit Assistance Program – Provides direct loans, loan guarantees, and standby lines of credit

- Facilitates projects with significant public benefits
- Encourages new revenue streams and private participation
- TIFIA is funded at \$275 to \$300 million per year under the FAST Act and has a \$1 billion balance from previous bills

Conclusion

- Federal Election can have a significant impact on transportation funding
- Federal transportation funding landscape is only clear for next two years
- Federal grant programs and TIFIA are good tools for states and localities to consider
- PPPs not the sole solution to improve our infrastructure
- PPPs good candidates for complex, large projects
- Gap financing and PDAs are good tools to advance projects
- Tolls can tap new revenues for projects
 - Hot lanes projects are effective in addressing congestion