



2017 ARIZONA RURAL TRANSPORTATION SUMMIT

ITCA



INFRASTRUCTURE
Tax Credit Association

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REBUILDING ARIZONA'S RURAL ROADS – ENABLING PUBLIC-PRIVATE PARTNERSHIPS



Arizona's Rural Transportation Needs are Unique – and Critical

- Most of Arizona's population lives in urban Maricopa County, but most of Arizona – and its other 14 counties – is rural.
- Pima and other rural counties need significant help to repair and upgrade their roads and infrastructure.
- Over half of the nation's winter vegetables are either grown in or pass through Arizona from Mexico via Nogales or San Luis. Texas is courting Mexico's major produce companies by outspending Arizona on infrastructure.



Economic Growth Drives on Infrastructure

The life blood of Arizona is economic growth, and the life blood of Arizona's economic growth is transportation. That's true for Arizona's cities. It's absolutely true for rural Arizona.

But there's a severe shortage of traditional funds for transportation.

“There isn't enough money to solve transportation problems with conventional solutions...” ~AZ DOT Director John Halikowski,
Phoenix Business Journal, January 15, 2016

The five-year highway and surface transportation bill passed by Congress and signed by President Obama in 2015 fell far short of what is really needed – and there is no shortage of needs.



More Infrastructure

The public *wants* it.

Politicians *talk* about it.

The demands on government at both state and federal levels exceed the traditional resources of government.



Old Solutions Will Not Generate New Ideas

- Important groups are looking for new solutions
- Chris Spear, newly-appointed President of the American Trucking Association, announced that the ATA continues to support increasing the federal gas tax but understands political realities, and will now look for new infrastructure funding proposals to promote and support (October 5, 2016)



Our Proposal's Platform:

The Federal Low Income Housing Tax Credit

- Enacted by the Reagan Administration as a way to get private sector capital involved in building and rebuilding America's low income housing stock
- Allows and promotes private sector funds to help finance public sector assets
 - Has financed more than three million US rental homes since 1986
 - Responsible for more than 90% of affordable housing construction
- Federal Low Income Housing Tax Credit is a public-private partnership that harnesses the capital and entrepreneurial spirit of the private sector – which bears the financial risk – and offers a high level of accountability
- Thirty years of successive and successful experience
- Using this template, Infrastructure Tax Credit Proposal will work equally as well



Arizona Infrastructure Tax Credit Proposal

- A way for the state to help pay for needed infrastructure by including private sector funding as part of the financing stack
- A way to attract private capital by leveraging public infrastructure and create new sources of infrastructure funding without acquiring new debt



Enabling Public Private Partnerships (P3s)

“There’s bipartisan agreement that greater private participation in infrastructure can improve infrastructure delivery, help ensure on-time and on-cost delivery, create innovation in project design and construction, incorporate global expertise, and provide access to new sources of capital. America is decades behind virtually every other developed country in PPP utilization. One factor is the lack of financial instruments that can help reduce the cost differentials between government-issued debt and privately-issued debt associated with a PPP.”

~American Enterprise Institute’s J. Richard Geddes, December 26, 2016



Funding Public Private Partnerships (P3s)

Funding P3s is in the DNA of the Arizona infrastructure Tax Credit Proposal.

The federal government's Low Income Housing Tax Credit – the basis for our credit – created a new form of P3: investors from the private sector attracted by a tax credit from the public sector that fund private low income housing – a public goal.

Jim Miller, Partner

Total Spectrum



- Designed the Infrastructure Tax Credit Proposal
- Qualified for The Department of Justice Honors program in the Reagan Administration
- Deputy Assistant Secretary for Tax Policy and served for 4 years in the U.S. Department of Justice, Appellate Section, Tax Division in the administration of President George H. W. Bush
- 30 years' experience in tax policy
- Chaired and grew the legislative practice of three major American law firms

Roman Brilman, Sr. Vice President

Meridian Investments

- Modeled the tax credit to bring the maximum sale price per tax dollar and the maximum return on investment for private investors.
- Meridian Investments has completed over \$16 billion in total equity placements since 1981, and has been a leader in the Low Income Housing Tax Credit Industry since the federal enabling legislation was signed.
- Roman Brilman, Sr. Vice President
 - University of Buffalo (BS in Finance) and Boston College (MBA)
 - Responsible for financial modeling and analysis and new business development



Steve Gordon, Managing Director

Total Spectrum



When the political record of the late 20th and early 21st century is written, Steve Gordon will at least have a footnote.”

- *Former U.S. Senator Jim Talent (Republican-Missouri)*

- “Dean of Republican political guidance”
- 18-year association with former Senator and Asst. Republican Leader Jon Kyl; 2014 National Political Director for Colorado Senator Cory Gardner
- Retired from professional campaign financing in 2014
- Total Spectrum/Steve Gordon and Associates and Total Spectrum Arizona use advocacy, communications, and political engagement to achieve their client’s legislative and regulatory goals at both the federal and state level – specializing in tax, transportation, financial services, healthcare, and telecommunications



How Tax Credits Can Help Fund AZ Pilot Projects

- A few projects would be designated for inclusion of private sector funding through the sale of tax credits in the financing stack
- The Arizona Legislature would approve the amount of tax credits to be used for these pilot projects
- Developers of the projects in question would apply for the tax credits
- Investors and the developers would be brought together by the syndicator, a type of investment banker; investors would provide equity capital in exchange for tax credits
- There would be competition for the tax credits, and investors would bid up the price in a classic free market bidding process: the higher the bid price for the tax credits, the more private sector capital would go into the financing stack



How Tax Credits Can Help Fund AZ Pilot Projects

- The percentages of the financing stack would depend on the project
 - 20-30% of the financing can come from equity via tax credits; balance comes from bonds, federal and state grants, and subsidies
 - The more tax credits are used, the less debt is incurred for the state
- The state, developer, syndicators, and investors all would monitor the project to insure that it meets requirements and specifications
- Investors receive tax credits for five years based on the cost of the construction or rehabilitation
- Investors receive a reduction in their applicable taxes from the tax credits and also depreciation; there are no tolls or concessions
- The private sector will be fully accountable, and the tax payer will not be at risk



January 2015 through the 2016 Legislative Session

- Introduced to Arizona at a joint meeting of the Arizona Senate and House Transportation Committees
- Green lighted by Director Halikowski in March 2016
- An interpretation of this proposal was introduced in 2016 session by Chairman Worsley and Chairman Gray. Chairman Worsley passed it out of the Senate Transportation Committee with a few small amendments
- Improved language was sent to the Ducey Administration



2017 Legislative Goal and Activities

2017: Allow several pilot projects to use private sector funding raised from the sale of tax credits as part of their financing stack. These pilot projects can be inserted onto existing P3 legislation or as stand alone items.

We are working with Senate and House of Representatives leaders and the Governor's office.



Federal Validation of the Tax Credit Vision

- The Move America Act
 - Sponsored by Senator Ron Wyden (D-OR) and Senator John Hoeven (R-ND)
 - Includes a provision for Move America Credits that would leverage private equity investment in infrastructure.
- Like the Arizona Infrastructure Tax Credit Proposal, this provision has been modeled after the federal Low Income Housing Tax Credit



Let's Get Arizona Building Again

- The life blood of Arizona is development; the life blood of Arizona's continued rural and border development is infrastructure
- Arizona's urban infrastructure needs are vital; Arizona's rural and border infrastructure needs are critical
- The cost of unmet infrastructure is:
 - The cost of congestion
 - The cost of economic gridlock from transportation gridlock
 - The cost from damage to Arizona's competitive advantage
 - The cost to rural Arizona's commerce when one accident closes an entire freeway
- There is a cost to building roads, and there is a cost to doing nothing



Time to Use New *but* Proven Ideas to Create New Solutions

- The demands on state and federal government far exceed the resources of state and federal government
- It's time for a new but proven approach – one uniquely qualified to help rebuild Arizona's rural roads and enable public private partnerships.

The life blood of Arizona's economic growth is transportation.

**The Arizona Infrastructure Tax Credit Proposal can help enhance
Arizona's rural economy for years to come.**