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FEDERAL FINANCIAL TOOLBOX UNCERTAIN AS DEPLETED HIGHWAY TRUST FUND LOOMS

The slow uptake of the Private Activity Bond (PAB) capacity for transportation projects has put replenishment of the \$15-billion demonstration program on the back burner in Congress and among P3 advocates.

PABs Wakeup Call

That's a mistake, say PAB experts. A concerted effort must begin soon to convince the tax committees in Congress to add capacity to the demonstration program or to remove limits on PAB use altogether, they believe.

"I can't even think of what would happen if we lost PABs," says a lawyer with deep experience negotiating P3 contracts.

It took 18 years to win approval of the PAB carve-out in SAFETEA-LU in 2006. Tax-writing committees are notoriously ponderous, says an ARTBA spokesman, and they are consumed now with overall tax reform, which, he says, may include eliminating PABs altogether.

Ominously, the congressional Joint Tax Committee indicated its intent to review the scoring impact of combining PABs with TIFIA loans in the MAP-21 reauthorization next year.

Cries for help on PABs won't be heard in Congress until there is substantial deal flow of PAB-assisted projects. That may come sooner than most expect. Barclays

Capital estimates show the PABs cap running out late in 2015, based on procurement schedules for greenfield projects announced by governments for 20 P3 projects (see chart).

Barclays estimates \$7.9 billion in PABs allocations would be needed by the end of 2015 to support the financing needs of the announced procurements. Of the 20 projects in that pipeline, five have already received PABs allocations totaling \$2.7 billion. Fifteen others will need \$5.2 billion, according to Barclays.

Barclays is the PAB expert. Even if they're off by a year or two, it's possible that P3 developers will run out of PABs before Congress can act.

The result would be a substantial reduction in P3 deal flow. "I'd estimate by 50% as government sponsors grapple with taxable deals at 100 to 150 bps higher costs than tax-exempt," says a P3 banker.

The loss of PABs would hurt the public owners and users in the following ways,

according to Barclays:

- > Tax-exempt financing allows for long-term concession financing—a critical element of cost-effective project financing.
- > Benefits associated with PABs are fully transferred to

\$15 billion PABs authorized in 2006

- \$3.8 billion used up
- \$5.5 billion allocated, unspent
- \$5.7 billion new loan capacity remaining
- \$5.2 billion in PABs allocations will be required to meet estimated deal flow
- leaving only \$500 million remaining by end 2015

Source: USDOT, Barclays*

government.

- > P3s are procured through highly competitive RFQ and RFP selection processes which compete bidders to deliver projects with the lowest cost of capital.
- > The procuring authority receives the PAB benefits in the form of more private funding for construction or lower availability payments.
- > Federal programs such as MAP-21 that maximize infrastructure funding benefit both state and federal governments, both from an infrastructure modernization and a fiscal policy perspective.

PABs By The Numbers

Congress in 2006 amended the tax code and gave USDOT \$15 billion in tax-exempt private activity bond

(PAB) authority as a demonstration program to support the financing of privately developed transportation projects, including freight transfer facilities.

> \$3.8 billion used for eight projects

As of May 10, 2013, \$3.8 billion of that loan authority has been allocated by USDOT's Credit Council to eight projects:

- \$589 million—495 Capital Beltway, Virginia
- \$400 million—North Tarrant Express, Texas
- \$615 million—LBJ Express, Texas
- \$398 million—Denver Eagle Rail, Colorado
- \$225 million—CenterPoint Intermodal Centers (2), Joliet, Illinois
- \$675 million—Midtown Tunnel, Virginia
- \$253 million—I-95 HOT Lanes, Virginia
- \$677 million—East End Bridge, Indiana

TRANSPORTATION P3s DEPEND ON PABs

Recent Major Greenfield Transportation P3s							
Date	Project	State	Size (\$mm)	Type	Use PABs	Use TIFIA	Private Capital
Mar-08	SH 130 Seg 5+6	TX	\$1,326.0	Toll	No	\$430.0	Yes
Jul-08	I-495 Express	VA	1,937.0	Toll	\$589.0	589.0	Yes
Feb-09	I-595 Improvements	FL	1,592.0	Availability	No	603.0	Yes
Oct-09	Port of Miami Tunnel	FL	863.0	Availability	No	341.0	Yes
Dec-09	North Tarrant Express	TX	2,047.0	Toll	400.0	650.0	Yes
Aug-10	Denver RTD Eagle P3	CO	2,046.0	Availability	396.0	280.0	Yes
Jun-11	LBJ Expressway	TX	2,618.0	Toll	615.0	850.0	Yes
Apr-12	Midtown Tunnel	VA	2,100.0	Toll	675.0	422.0	Yes
Jun-12	Presidio Parkway	CA	365.0	Availability	No	150.0	Yes
Dec-12	I-95 HOT Lanes	VA	940.0	Toll	253.0	300.0	Yes
Mar-13	ORB - East End Crossing	IN	1,151.0	Availability	677.0	No	Yes
Total P3 Infrastructure Investment			\$16,985.0		\$3,605.0		

Note: List includes greenfield transportation projects over \$250mm under a P3 concession agreement since 2005

Note: Project sizes include all sources of funding, including PABs, TIFIA, taxable bonds, loans, private equity, grants, contributions and revenues during construction

Source: Public Works Financing

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GREENFIELD P3 DEAL PIPELINE COULD EXHAUST PABs CAPACITY BY 2016

Upcoming Major Greenfield Transportation P3s							
Est. Close	Project	State	Est. Size (\$mm.)	Type (exp.)	Use PABs (est.)	Use TIFIA (est.)	Private Equity
2013-2015	Goethals	NY-NJ	\$1,500.0	Availability	Yes	Yes	Yes
2013-2015	NTE Phase II	TX	1,500.0	Toll / Demand	Yes	Yes	Yes
2013-2015	US-36	CO	140.0	Toll / Demand	Yes	Yes	Yes
2013-2015	LaGuardia Central Terminal	NY	2,600.0	Toll / Demand	Yes	Yes	Yes
2013-2015	I-4 Managed Lanes	FL	2,150.0	Availability	Yes	Yes	Yes
2013-2015	Knick Arm Bridge	AK	1,000.0	Availability	Yes	Yes	Yes
2013-2015	SH-183	TX	940.0	Availability-style	Yes	Yes	Yes
2013-2015	LA Metro / ARTI	CA	750.0	Availability	Yes	Yes	Yes
2013-2015	I-77 HOT Lanes	NC	500.0	Toll / Demand	Yes	Yes	Yes
2013-2015	I-225 Light Rail Project	CO	350.0	Toll / Demand	Yes	Yes	Yes
2013-2015	SH-288	TX	320.0	Toll / Demand	Yes	Yes	Yes
2013-2015	Jefferson Parkway	CO	204.0	Toll / Demand	Yes	Yes	Yes
2013-2015	Brent Spence Bridge	OH	2,400.0	TBD	Yes	Yes	Yes
2013-2015	DC Streetcars	DC	1,200.0	Availability	Yes	Yes	Yes
2013-2015	Illiana Expressway	IL	1,100.0	TBD	Yes	Yes	Yes
2013-2015	Purple Line LRT	MA	1,000.0	Availability	Yes	Yes	Yes
2013-2015	I-15 (Project Neon)	NV	800.0	Availability	Yes	Yes	Yes
2013-2015	Portsmouth Bypass	OH	600.0	Availability	Yes	Yes	Yes
2013-2015	I-69	IN	400.0	Availability	Yes	Yes	Yes
2013-2015	Tide Light Rail	VA	235.0	Toll / Demand	Yes	Yes	Yes
Total P3 Infrastructure Investment			\$19,689.0	Funding Assumptions:	40%	40%	20%
Potential Funding Needs Through 2015					\$7,875.6	\$7,875.6	\$3,937.8

Note: List includes upcoming greenfield transportation projects over \$250mm under a P3 concession agreement expected through 2015

Note: All information is preliminary and subject to change; estimated sizes reflect estimated full project size including all sources of funding

Source: Barclays; industry research.

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>\$5.5 billion allocated to 10 projects, unused

The 10 projects below have been allocated \$5.5 billion but the capacity is unused as of May 10, 2013:

- \$600 million—Knik Arm Bridge, Alaska
- \$100 million—U.S. 36 managed lanes/BRT Ph. 2, Denver, Colorado
- \$1.2 billion—Goethals Bridge, New York
- \$98 million—East End Crossing, Indiana
- \$450 million—North Tarrant Express 3A & 3B, Texas
- \$350 million—I-77 managed lanes
- \$576 million—I-80 Railport, Seneca, Illinois
- \$475 million—CenterPoint Intermodal Center, Kansas City, Missouri
- \$1.1 billion—CenterPoint Intermodal Center, Joliet, Illinois
- \$555 million—RidgePort Logistics Center, Will County, Illinois

Of these PABs allocations approved by the Credit Council, \$1.7 billion are for intermodal freight transfer

projects in Illinois. All are being developed by CenterPoint Properties, which is owned by California's public employee pension fund, CALPERS.

CenterPoint owns and operates 12 intermodal freight centers—10 of them in Illinois. Including PABs allocations granted by USDOT for Centerpoint's project outside of Illinois, CALPERS controls 40% of the 100-150-bp capital subsidy provided to transportation P3s by using tax-exempt PABs.

Some project sponsors overestimate their needs. The East End project had an allocation of \$775 million and used \$677 million, for example. Others don't use their full allocation of PABs by a negotiated deadline. Both free up capacity that DOT's credit council can allocate to new projects. In the past, DOT has been slow to reallocate unused capacity but that may change if capacity constraints limit allocations for new projects. ■