

High Capacity Transit Task Force: Funding Opportunities Breakout Session

HCT Task Force
September 29, 2017

Phoenix
Infrastructure Group



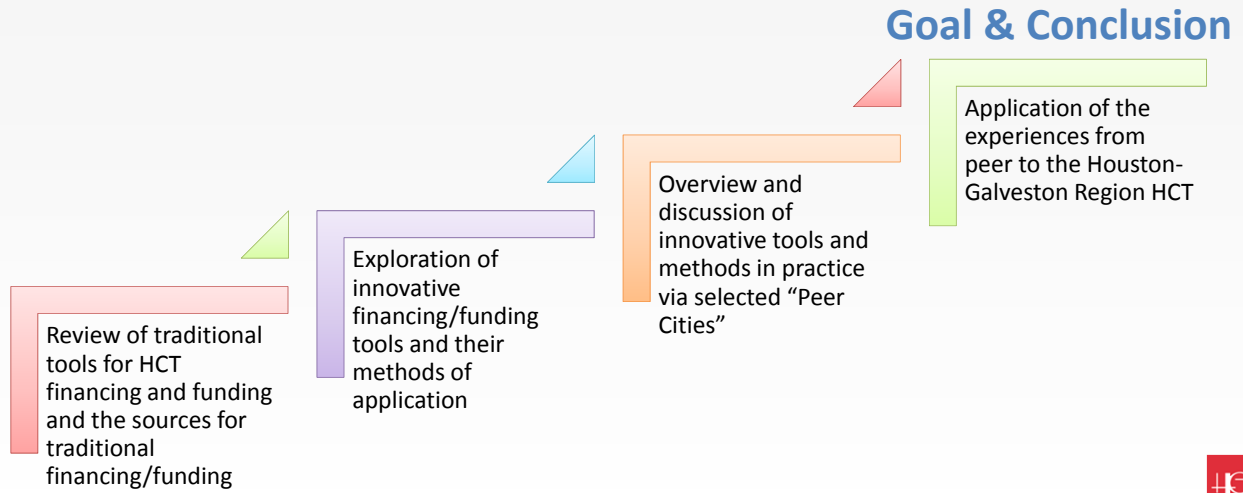
Introductory Briefing

- Funding Opportunities overview
- Peer region review
- Economic Impact analysis workgroup session
 - Purpose
 - Approach
 - Meeting Schedule
 - Deliverables



Introduction: Outline of the Discussion

This breakout session will present the group with the following process towards the goal of developing potential innovative financing and funding solutions for the H-GAC region:



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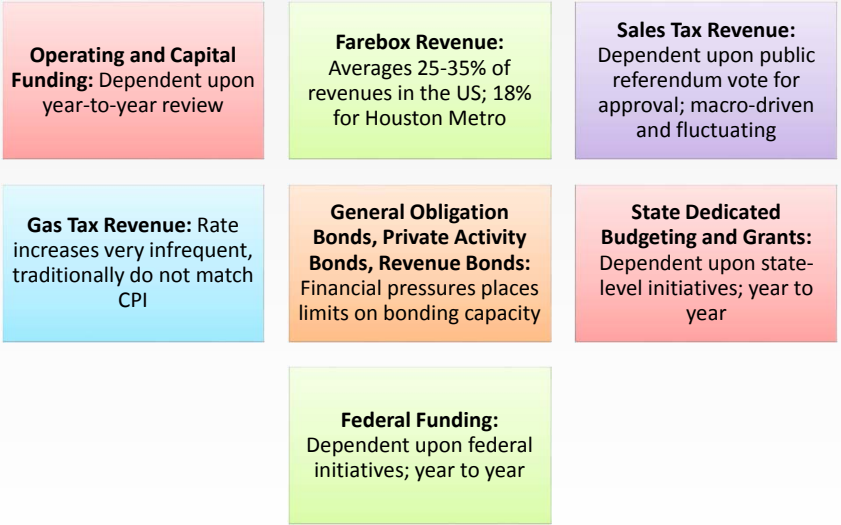
Traditional Funding Tools and Approaches



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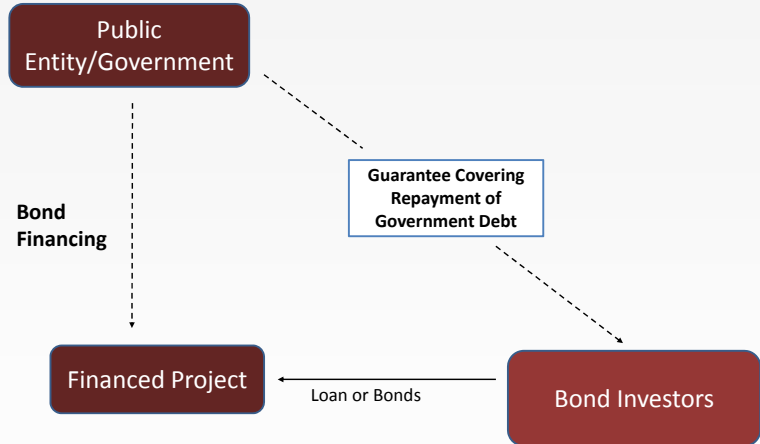
Traditional Sources of Finances

Risks attached to the project maintained by the public entity, and oftentimes neglected...



Traditional Sources of Finances: Structure and Risk

In a traditional HCT project financing, the public entity/government guarantees the loan financing the project, as illustrated below:



*Financing does not traditionally include Operations and Maintenance



Traditional Sources of Finances: Structure and Risk

Along with the financing risk, the public entity is responsible for additional risks related to the project. The most significant of these risks are listed below:

Financial Risk: Debt obligation, interest rate risk, structure risk, macro-economic risks related to repayment

Project Risk: Risk that the project will be done on-time and under-budget

Life-Cycle Risk: Operations and maintenance costs over the life of the project

Political and Stakeholder Risk: Engagement with all related participants

Innovative Funding Tools and Approaches

Innovative Financing Sources: Federal and Private Financing

Federal financing and private investors provide an opportunity for the public sector to transfer risk

Why Infrastructure Activity?

- Federal initiative to move funding and risk in infrastructure from public to private participants.

Federal Finance Sources

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Railroad Rehabilitation and Improvement Financing (RRIF)

Private Finance Sources

Infrastructure Funds/Private Equity

Insurance Companies

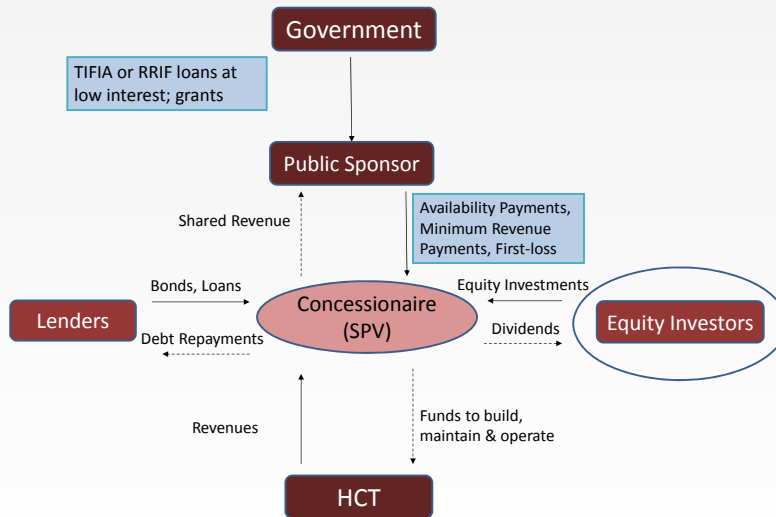
Pension Funds

Why Infrastructure Interest?

- Stable, attractive, long-term returns, hedge against stock/bond portfolio.

Innovative Financing Sources: Structure and Transfer of Risk

Innovative Financing enables a dynamic structuring of an HCT project that ultimately transfers risk. An example is below:



Innovative Financing Sources: Structure and Transfer of Risk

Transfer of risk from the public to private sector is the critical dynamic for innovative financing structures.

Reduction of Financial Risk:
The combination of private capital with flexible federal lending mitigates financial risk.

Reduction of Political Risk:
The private investor will be responsible for engagement with the communities of the project

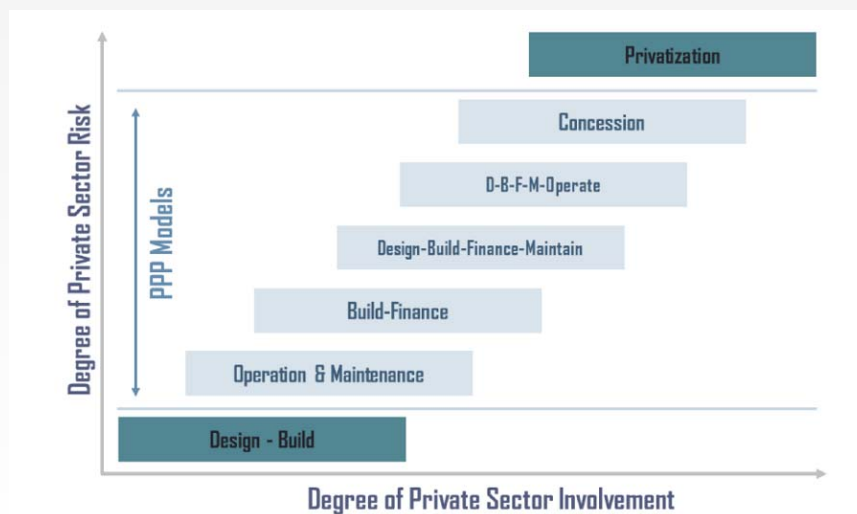
Reduction of Life-Cycle Risk:
The private investor will be responsible for providing long-term operation and maintenance services for the project.

Reduction of Project Risk:
The private investor will be responsible for the contracted project to be delivered on-time and under budget.



Innovative Financing Sources: Structure and Transfer of Risk (In Detail)

Transfer of risk from the public to private sector: As the project responsibilities move from public to private through innovative finance, the a variety of project-related risks move from public to private as well.



Source: Canadian Council on Public-Private Partnerships



Innovative Sources of Finances – Identification of Pros and Cons

The illustration below further demonstrates some of the pros and cons associated with innovative finance structures:



Pros

- Enhanced financing in return for compensation to (i) operate and maintain the facility, (ii) repay project debt and (iii) recoup a reasonable return on its investment;
- Up-front, risk transfer and whole life cycle costs;
- Tackling of large, complex projects



Cons

- Difficult and complex planning required;
- A poorly designed contract can result in a mismatch between compensation and efforts and risk by the different parties;
- Policy changes may require contract amendments;

Peer City Case Studies

Washington DC/Maryland – Purple Line Project - Maryland Transit Authority (MTA)

Contracted agreement to design, build, operate, finance and maintain 16-mile light rail system connecting two counties

Background Information

- 2016 Estimated MSA Population: 6,131,977
- 2010 Census MSA Density: 1,084 persons/square mile
- METRO (Heavy Rail) – first section opened in 1976; continuously expanded



Financing & Funding Approach

- Total Project Size: \$5.6bn
- Private Investment: \$138mm
- TIFIA loans: \$875mm
- Private Activity Bonds: \$313mm

Transaction Snapshot

- Financial close: 17/06/2016
- Value: \$2.4bn
- Equity: \$1.2bn
- Debt: \$1.9bn
- Debt/Equity Ratio: 49:51
- Concession period: 36 years
- PPP: Yes

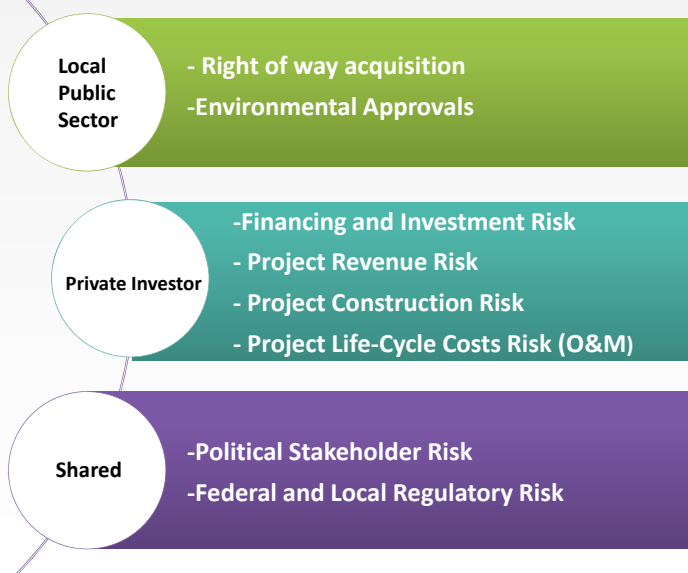
Stakeholders Participating

- Project Sponsors: Maryland Dept. of Transportation, Maryland Transit Agency
- State lender: US Department of Transportation
- SPV: Purple Line Transit Partners, LLC



Washington DC/Maryland – Purple Line Project - Maryland Transit Authority (MTA)

Risk/Responsibility Allocation



Purple Line: Risk Transfer Summary

The Purple Line Project transferred several financial and project risks that due to scale and scope were difficult for the state and MTA to handle alone:

- The Private sector assumed all project financing (\$5.6bn) and financial risk from the Public Sector
- Private sector assumed all life-cycle costing risk for the project over a 36-year period
- Other significant project-related risks to the project shared between the two parties



Funding Opportunities Workgroup Breakout Session



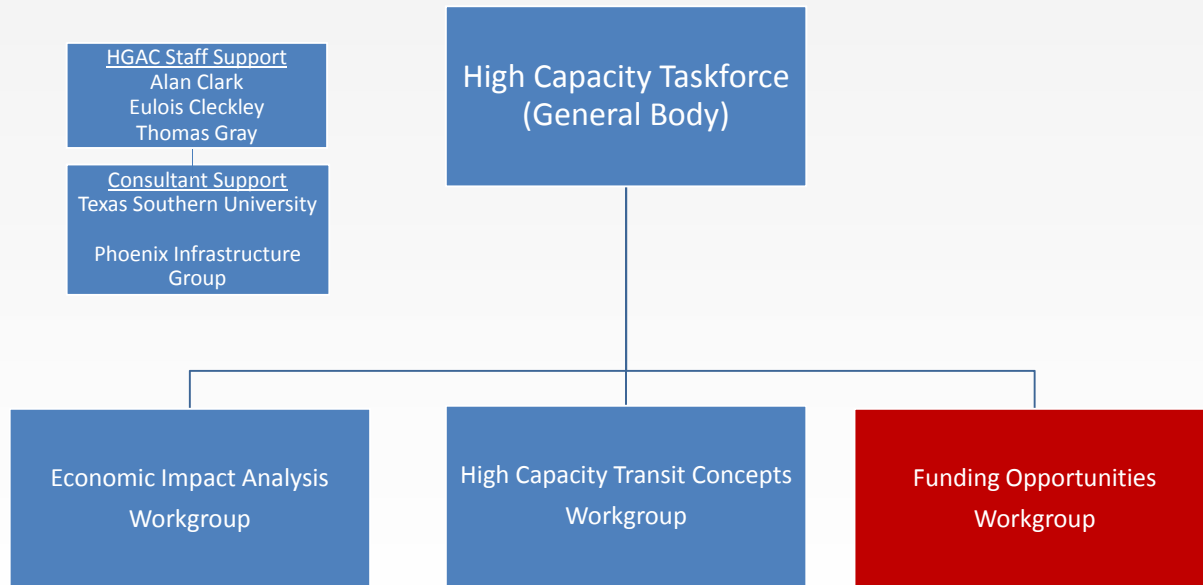
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Funding Opportunities Workgroup Breakout Session Agenda

- Purpose of Workgroup
- Workgroup Approach
- Key Topics to be Investigated First
- Meeting Schedule(s)
- Deliverables



Taskforce Structure



Purpose of Funding Opportunities Workgroup

- Understand and document traditional and non-traditional funding sources and approaches
- Identify funding approaches for Houston region
- Inform other workgroups of analysis



Workgroup Approach to Funding Opportunities - Activities and Assignments

- **October and November:**
 - Research and analyze peer cities
 - Catalog and assess innovative financial structures
 - Evaluate best practices and structures for HCT
- *Phase One Deliverable**



Workgroup Approach to Funding Opportunities- Activities and Assignments

- **February, March April**
 - Develop detailed financial scenarios and structures for Houston-Galveston HCT
 - Apply scenarios and structure to Houston-Galveston region HCT
 - Develop recommendation for financial structure for Houston-Galveston HCT
- *Phase Two Deliverable**



Key Deliverables

- Peer region assessment and case studies (HGAC staff)
 - July-September 2017
- Report on economic impact of HCT (workgroup)
 - Phase One: July-October 2017
 - Phase Two: February 2018-April 2018
- Report on HCT service concepts (workgroup)
 - November 2017-February 2018
- **Report on funding and governance (workgroup)**
 - **Phase One: July-October 2017**
 - **Phase Two: February- April 2018**
- Final report and recommendations (HGAC Staff)
 - May-August 2018



Timeline

Activity	Jul-17	Aug-17	*Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
Peer region assessment and case studies				★										
Economic impact analysis			★	★				★			★			
HCT service concepts			★	★		★		★						
Funding and governance	■	■	★	■				■	■	■	★			
Corridor focus groups										★	★		★	
Final report and recommendations														★
						★			★		★			★

- ★ Full Taskforce Meeting
- ★ Deliverable/Outcome
- ★ Work Group Meeting

*Taskforce workshop scheduled for September 29th

