Transportation Funding, Financing, and Choices

CLARY CONSULTING, LLC

Agenda

- The Funding Challenge
- What are Other States Doing?
- Overview of Florida
  - Summary of Transportation Funding
  - Use of Choices to Help Solve Mobility
- Very Brief Overview on Innovative Finance/Delivery
- Next Steps

Preaching to the Choir!

- Picture for Federal funding for transportation is not pretty and very unclear.
- Lot of discussion, very little action to increase funding at Federal level.
- Motor fuel tax challenges
- Funding challenge falling to states/locals
- Transportation system needs continue to grow both for current system and capacity needs

What Passed in Other States?

- **Gas Tax Increase** – recent examples – CA (10%); MA (3 cents); MD (4 cents); NH (4 cents); VT (5.9 cents); WY (10 cents)
- **Sales Tax** – AK (1/2 cent); GA (3 regions); VA (replaced gas tax);
- **General/Other Sources Directed to Transportation** – AK (GO bonds); ME (Bonds); OH (Raise Turnpike Tolls); PA (Comp package); TX (oil/gas revenues)

What is Being Considered?

- All states have realized that Washington/ Congress is not likely to drop a big pile of money from the sky for transportation
- **"Everything" is being considered to increase transportation funding at state/local levels**
- The list of bills filed across the states to increase funding are limitless – Gas Tax; Tolls, Sales Tax; Bonding; General Fund; Pricing; etc.

Tolling/Road User Fee/Pricing

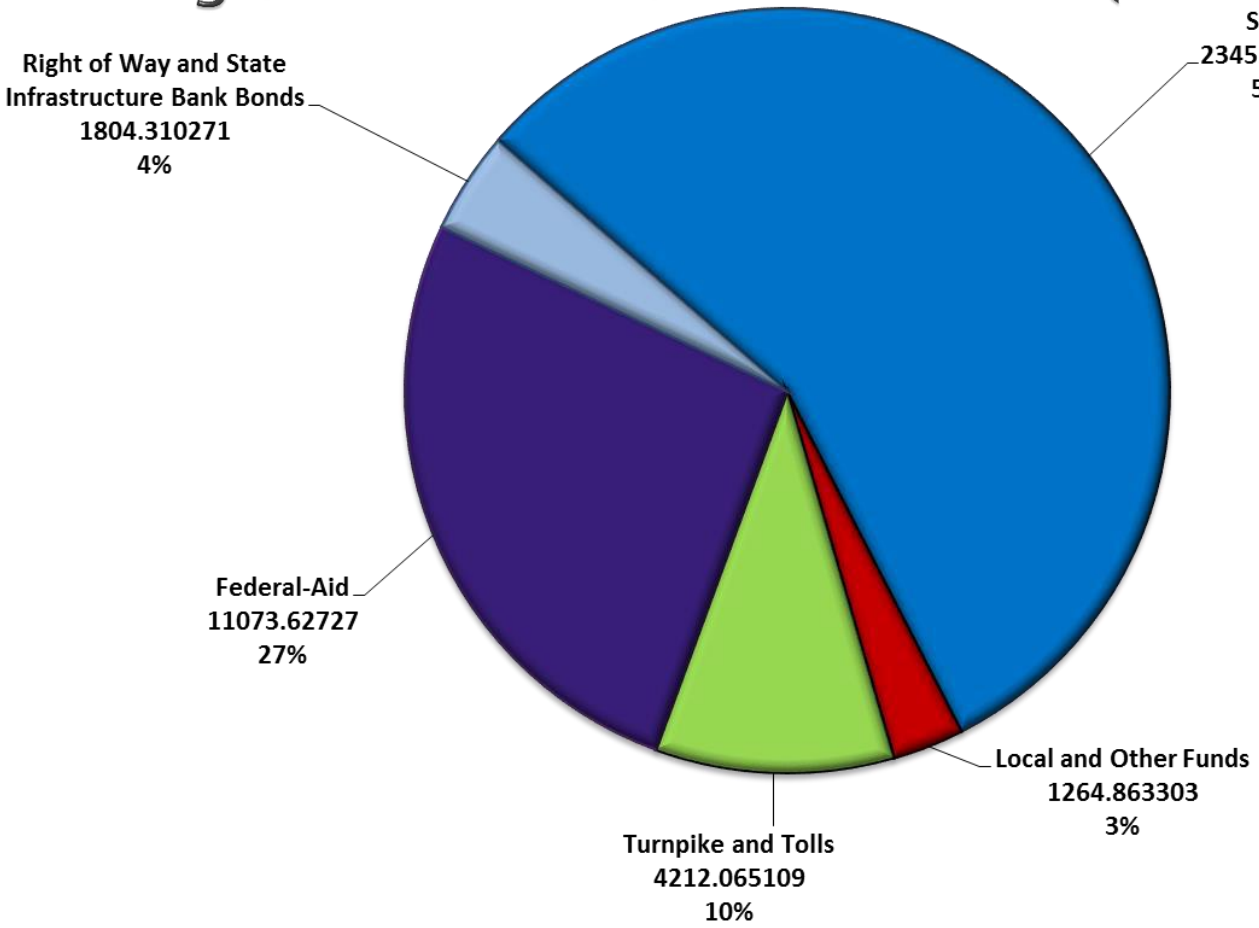
- Many states are studying implementing or expanding tolling and long-range road user fee/pricing option
  - Tolling – technology allows Open Road Tolling (no stopping for toll booths)
  - "Pricing" similar to tolling, but may be used to replace existing sources like gas tax and increase funding based on transportation system use
  - Gas tax eventually must be replaced

Florida Case Studies

- Overview of Florida Transportation Funding
- Choices becoming more popular
  - Local option taxes
  - Express Lanes/Mobility Choices
- Use economic growth to support increases in transportation funding with NO tax increases
  - Mobility 2000
  - Pay As You Grow – 2005

Five Year Work Program
FY 2015-2019

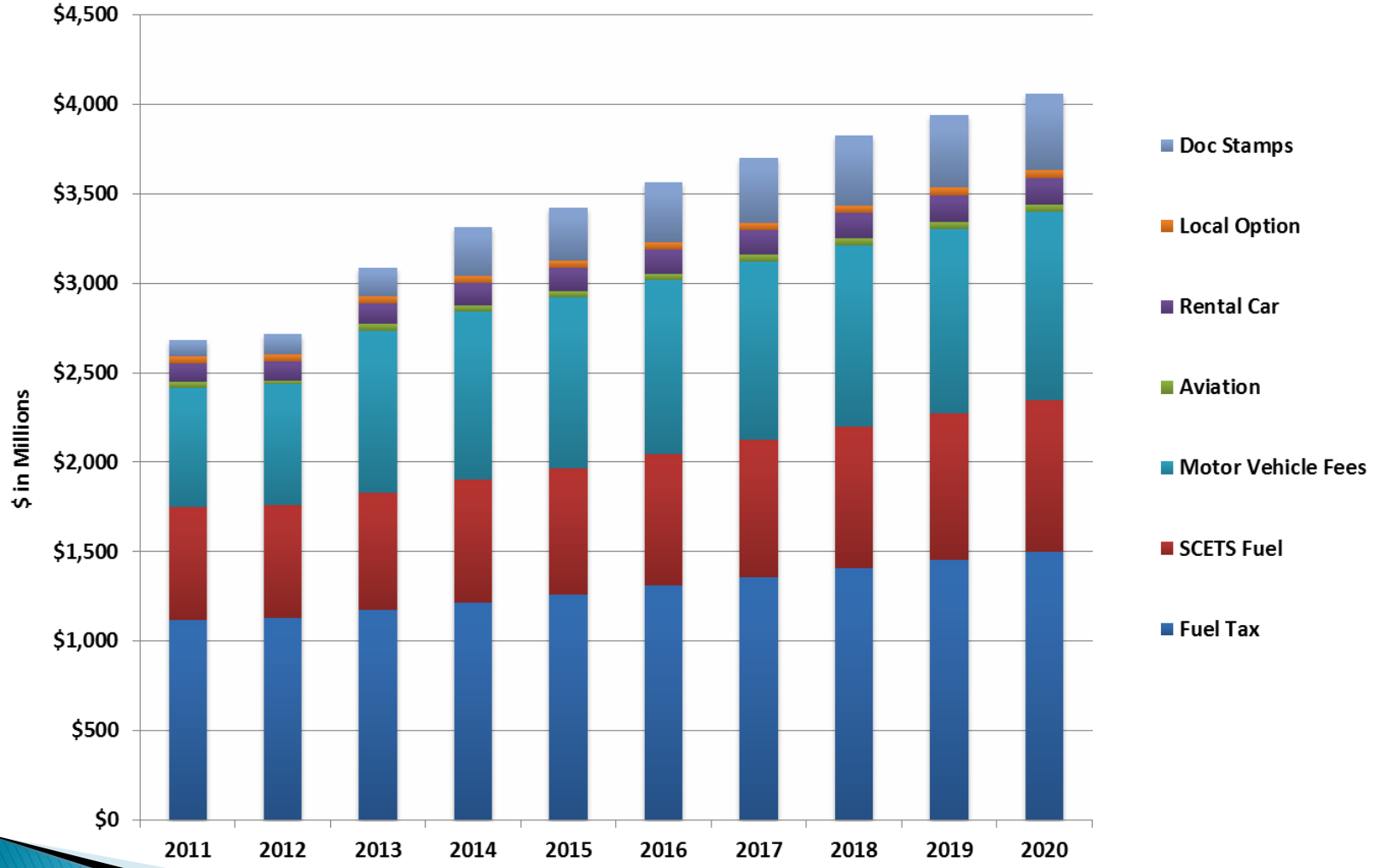
Funding Sources for Commitments (in millions)



Total Adopted 5-Year Work Program $41,807M

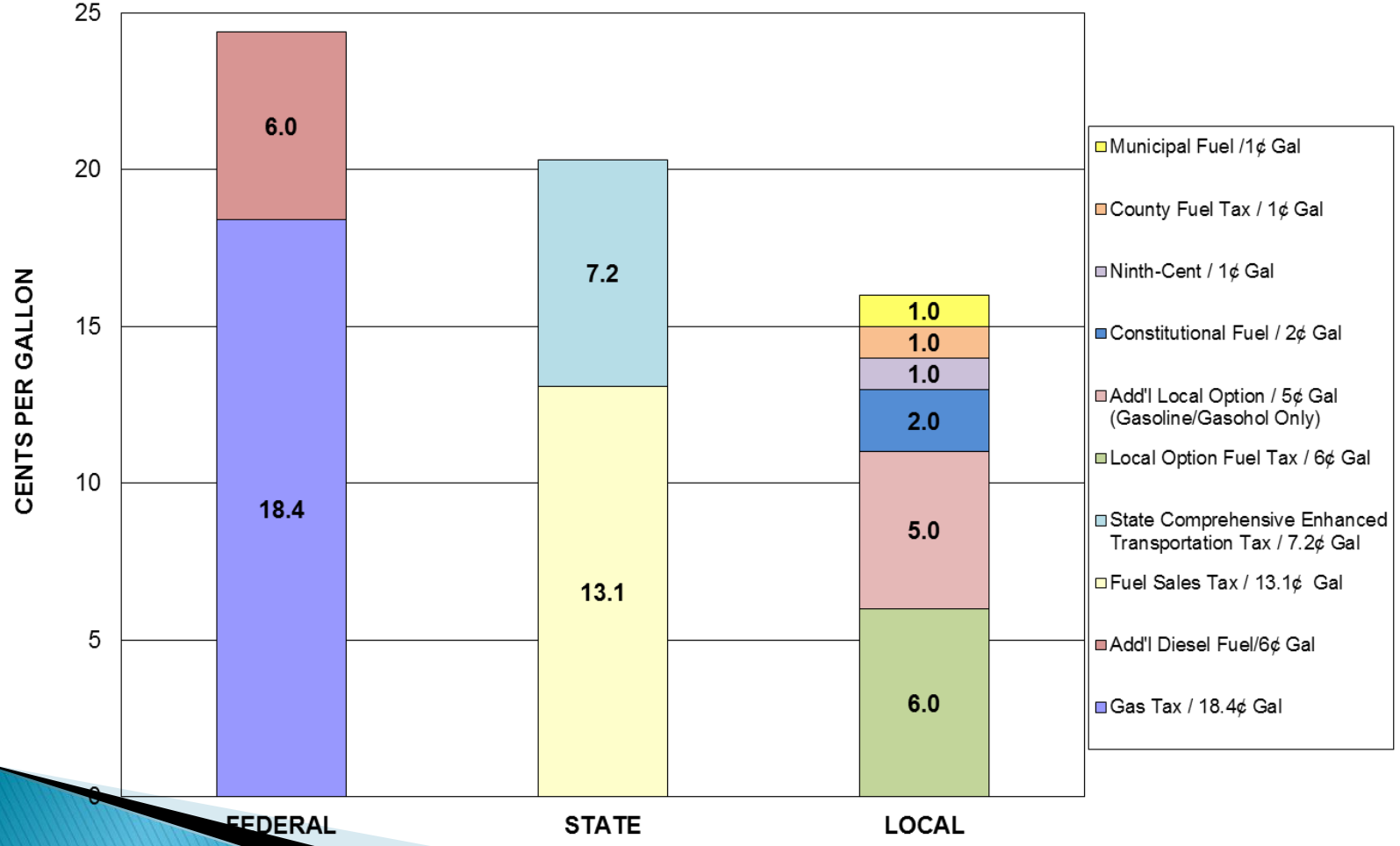
July 2014
Adopted Work Program

State Transportation Revenue

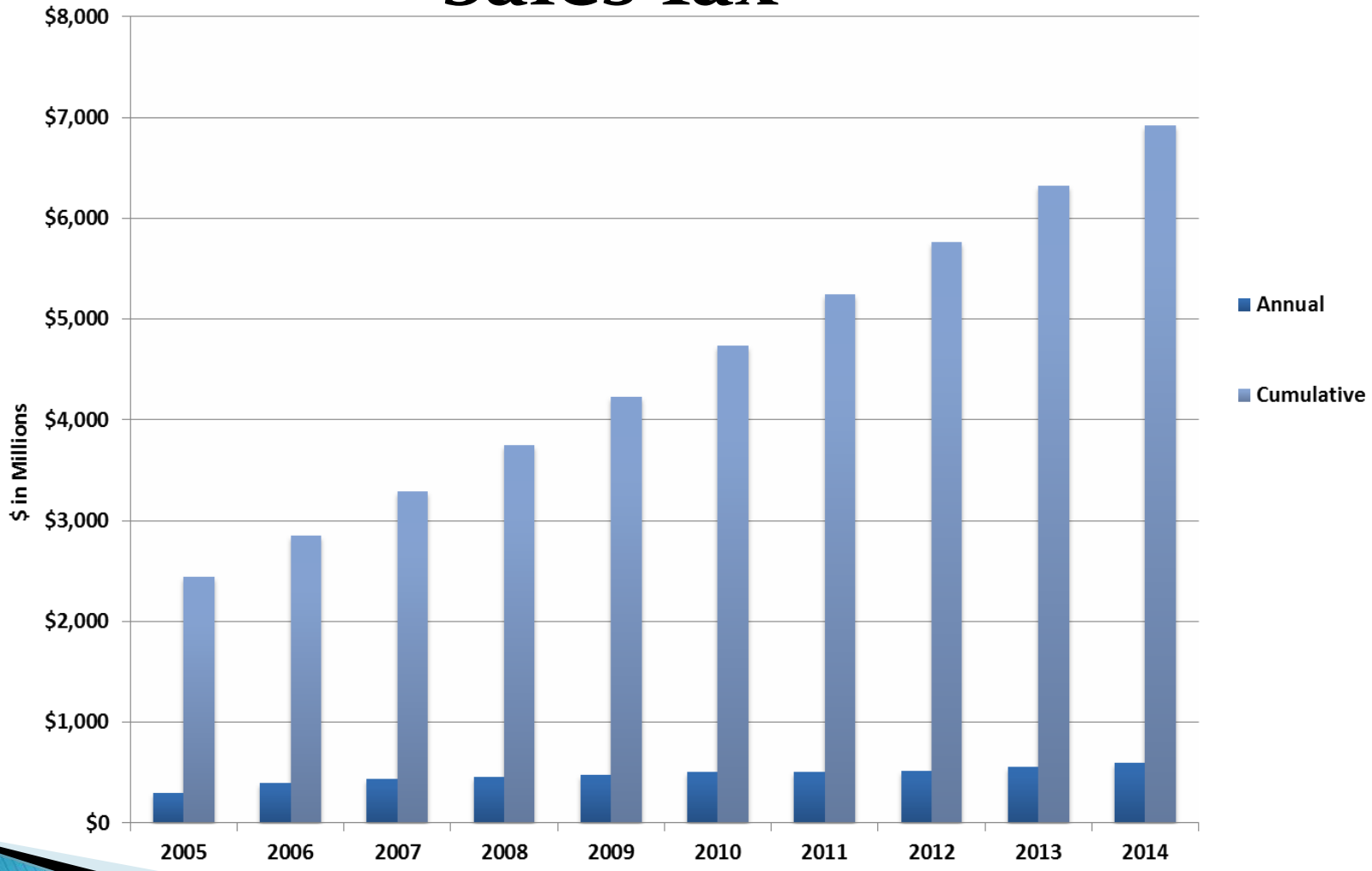


Actual through fiscal year 2014, 2015 through 2020 based on Summer 2014 Revenue Estimating Conference

Calendar Year 2014 Fuel Tax Rates
(cents per gallon)



Impact of Indexing Fuel Sales Tax



Florida Local Transportation Revenue Sources

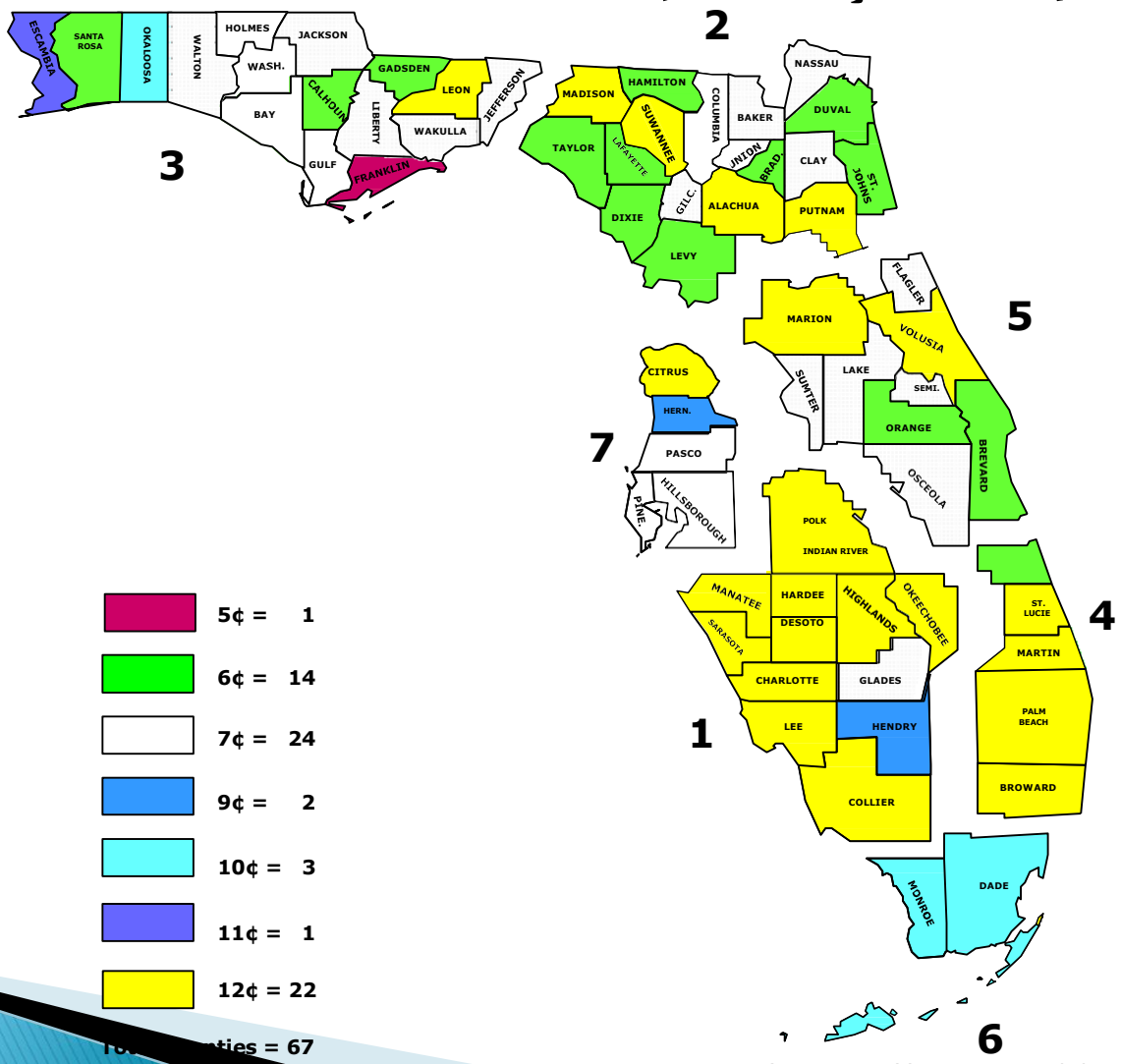
- Constitutional and Legislative Motor Fuel Taxes (3 cents for county, 1 cent for cities)
- Local Option Fuel Taxes (1-12 cents)
- Local Option Infrastructure Sales Tax (.5 or 1 percent)
- Local Fees (impact fees, permits, etc.)
- General government contributions (property tax, development tax, etc.)

How are Choices Being Used?

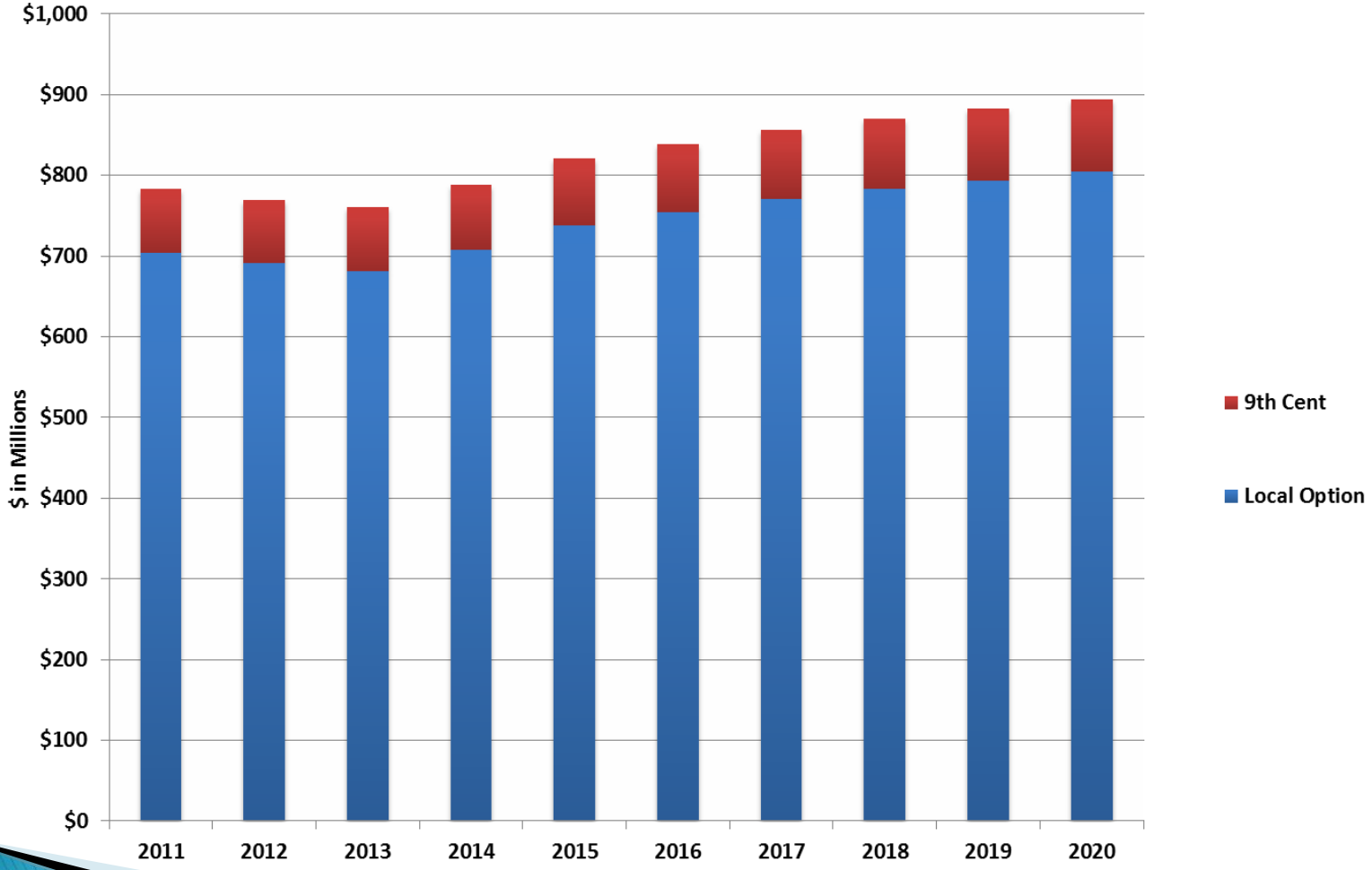
- Local Option Taxes/Fees
  - Local Option Gas Tax up to 12 cents
  - Local Option Sales Tax – two types
  - Development Fees/Partnerships
- Toll Road/Bridges
- Express Lane Networks
  - Southeast Florida, Orlando, Tampa Bay, Jacksonville
- Transit Options

Locally Imposed Fuel Tax

Fuel Tax Rates as of January 1, 2014



Locally Imposed Fuel Taxes
Distributed to Local Governments



Actual through fiscal year 2014, 2015 through 2020 based on Summer 2014 Revenue Estimating Conference

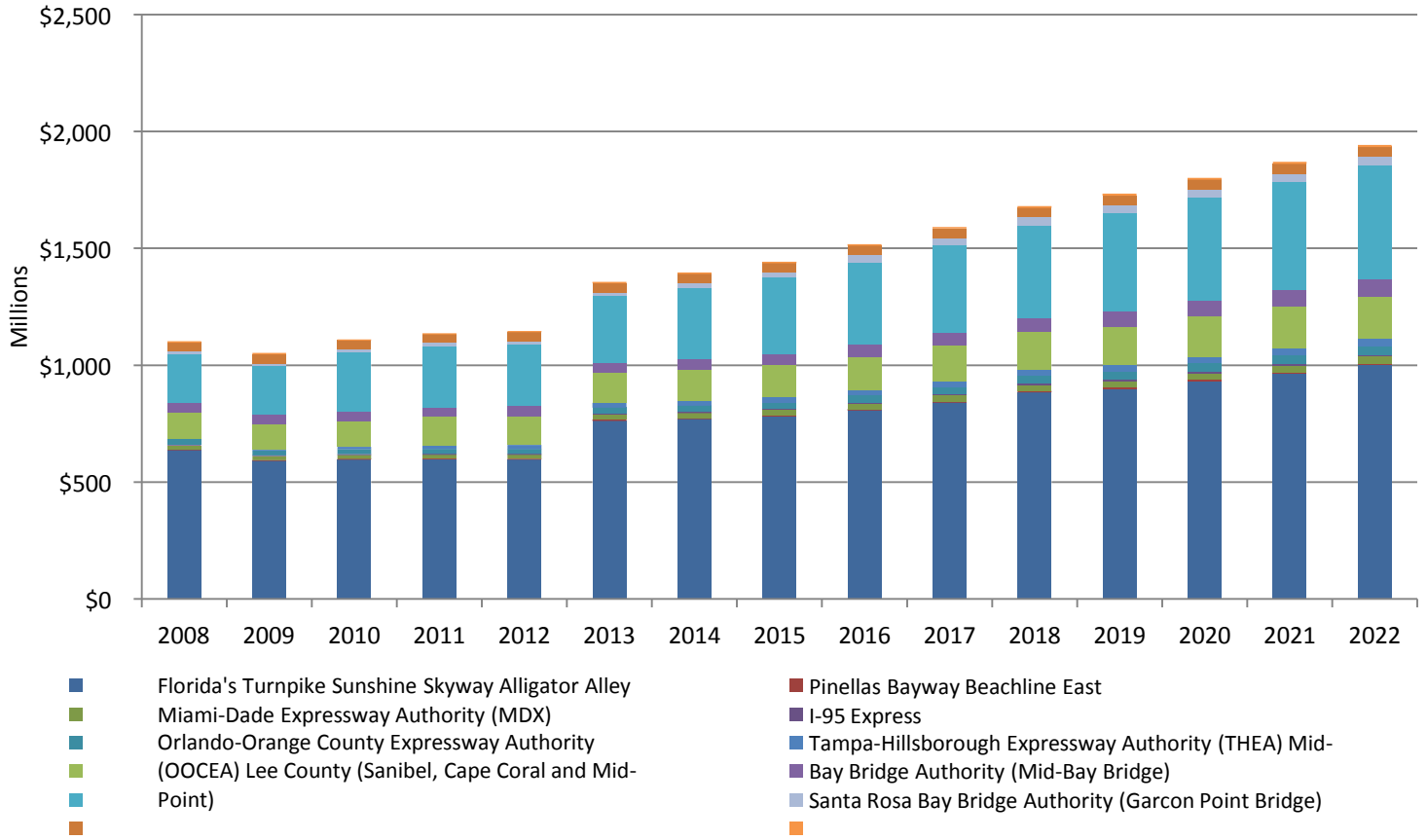
Local Option Sales Tax

- Charter County Transportation System Surtax – approved by vote of citizens
  - 31 counties are eligible to levy the surtax
  - Duval, Walton, and Miami-Dade have enacted
- Local Government Infrastructure Surtax
  - All counties eligible to levy the surtax, 17 have enacted
- Small County Surtax - http://edr.state.fl.us/Content/ to find the Counties that have implemented the tax as of 2013

Local Developed Toll Facilities

- Florida toll roads/bridges were developed to meet specific needs supported by locals
- Almost all new centerline miles developed through toll facilities since early mid-80s
- Electronic tolling – moving to Open Road Tolling making use of tolls less challenging
- Three examples of developer/land owner developed toll roads/bridge

Gross Toll Revenue By Facility



Actuals through fiscal year 2013, 2014 through 2022 forecasted

Express Lanes/Networks

- Express Lanes are tolled lanes to facilitate "express service" adjacent to "free lanes"
- I-95 in Southeast Florida started as a "Pilot" in 2007 – would be impossible to remove express lanes now!
- Support/Demand for complete network in Southeast Florida, I-4 in Orlando, I-275/I-4 – Tampa Bay and I-295 in Jacksonville

Southeast Florida Express Lanes Network

Mobility Choice

- Regional
- Meet Needs of Commuter Trips
- Encourage Shift in Peak and Mode
- Complemented by New or Improved Transit Service – Express Service
- I-95, I-595, I-75, Turnpike, Palmetto Expressway, Dolphin Expressway, Turnpike Homestead Extension


EXIT
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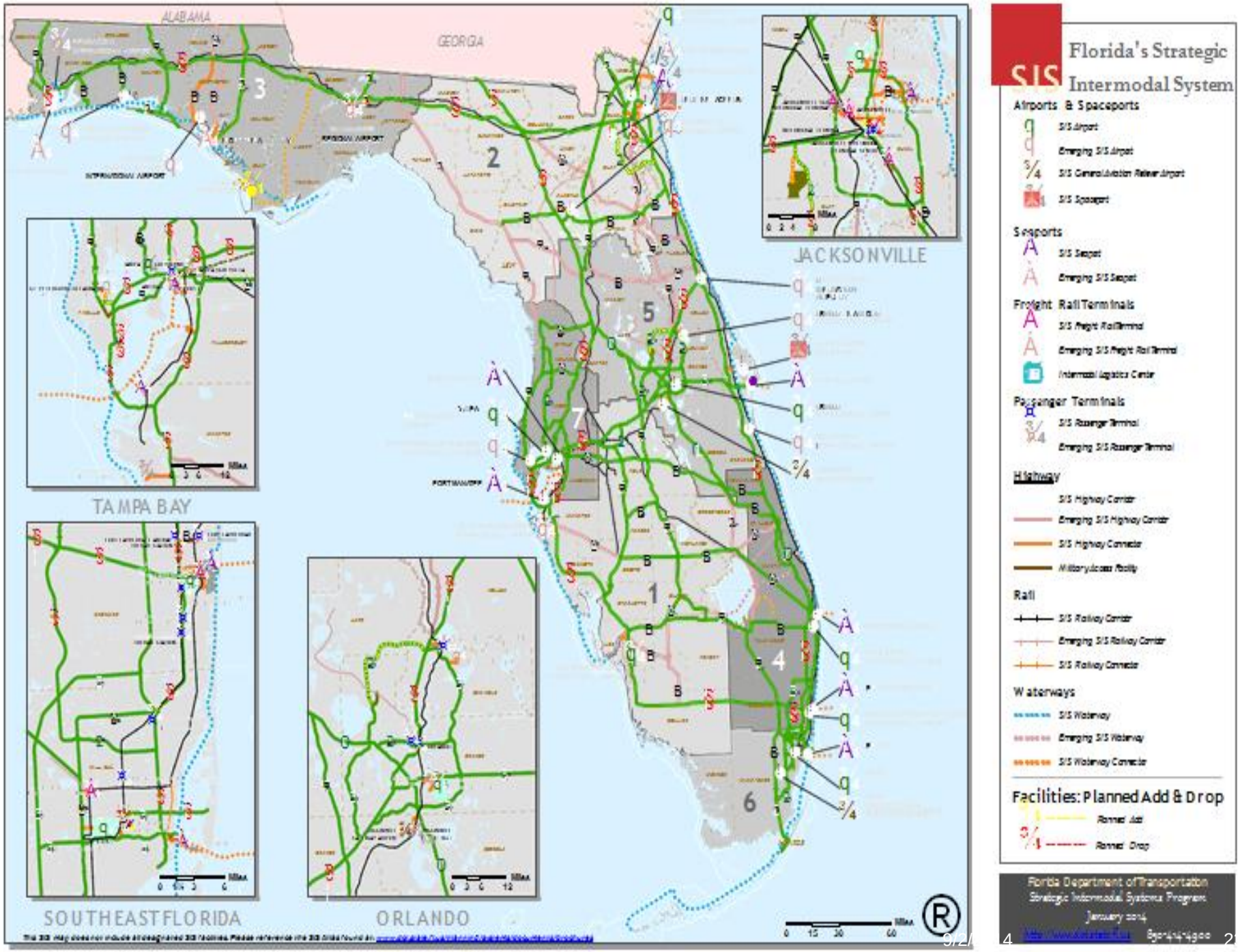
Mobility Options

- Strategic Intermodal System – focuses on moving people and goods
- Express Lanes in Urban Areas – Bus Rapid Transit in Express Lane Corridors
- Intermodal Centers in many large urban areas
- Transit system “new starts”
- Law requires minimum 15% of State funds for Transit, Aviation, Ports, Rail, Intermodal


ALABAMA
GEORGIA
JACKSONVILLE
TAMPA BAY
SOUTHEAST FLORIDA
ORLANDO
SIS
Florida's Strategic Intermodal System
Airports & Spaceports
SIS Airport
Emerging SIS Airport
SIS General Aviation Reliever Airport
SIS Spaceport
Seaports
SIS Seaport
Emerging SIS Seaport
Freight Rail Terminals
SIS Freight Rail Terminal
Emerging SIS Freight Rail Terminal
Intermodal Logistics Center
Passenger Terminals
SIS Passenger Terminal
Emerging SIS Passenger Terminal
Highway
SIS Highway Corridor
Emerging SIS Highway Corridor
SIS Highway Connector
Military Access Facility
Rail
SIS Railway Corridor
Emerging SIS Railway Corridor
SIS Railway Connector
Waterways
SIS Waterway
Emerging SIS Waterway
SIS Waterway Connector
Facilities: Planned Add & Drop
Planned Add
Planned Drop
Florida Department of Transportation
Strategic Intermodal Systems Program
January 2014

Mobility 2000

- State revenue estimates were strong
- "Redirected" General Funds to Transportation Trust Fund – about $350M/year
  - "Service Charges" on Gas Tax, MVL Fees, etc.
  - Seed capital for flexible State Infrastructure Bank "state account" – allowed to bond loan portfolio
- Leveraged Advanced Construction Program
- Authorized GARVEE Bonds – never issued!
- Added/Advanced over $6B in projects

Pay As You Grow – 2005

- State revenues were strong
- Redirected $750M a year General Fund source to transportation – "growth" documentary stamp tax on real estate transactions
  - Majority of funds on Strategic Intermodal System
  - Created discretionary programs
    - TRIP – 50/50 – state system or some local system
    - CIGP – 50/50 – state system more local system
    - SCOP – 75/25 – small counties more local system
    - Transit New Starts – focused on local BRT/rail projects

What Happened Later?

- All changes in Mobility 2000 “stuck”
- State Budget Challenges (2009 to 2013)
  - Required a few years of “raids” from Transportation Trust Fund
  - Temporarily rolled back some of the Pay As You Grow annual funding
- Growth Returning (2014 to 2015)
  - Recent growth is moving part of Pay As Your Grow back to transportation

Revenue Stream Challenge: The Future of Fuel Tax

- Various market pressures are driving up average vehicular fuel efficiencies
- Corporate fuel economy standards for new cars will increase from 35.5 MPG in 2016 to 54.5 MPG in 2025
- The average driver will pay less for use of the roadway network in the future
  - Fuel taxes paid decrease as fuel efficiency increases
- The fuel tax will become a less sustainable and less equitable fee for road use

Key Difference in Programs

- Georgia must have funds on hand before projects can be let to contract
- Florida operates with a "Commitment – Cash Flow" basis of program management
  - Projects "programmed" in "Financial Management" System
  - Includes contingencies for changes
  - Revenue sources forecasted and cash flow matched to "Programmed Projects" via Annual 10-Year Finance Plan and Monthly 5-Year Cash Forecast – monitored monthly and annually

Summary on Florida

- Florida has experienced major growth since 1950s and this led to many innovations out of pure necessity:
  - Major Toll Systems
  - Local Option Revenue Sources
  - Focus on Mobility/Congestion Relief
  - Strategic Intermodal System
  - Innovative Finance/Delivery – A+B, Incentives, DB, DBF, DBFOM, SIB, Selected Bonding

Brief Summary on Innovative Finance/Delivery

- Revolving Loan and Bond Programs
- Incentives – A+B, Incentives/Disincentives
- Risk Allocation and Speed of Delivery
  - Asset Maintenance
  - Design-Build
  - Design-Build-Finance
  - Design-Build-Finance-Operate Maintain

Bonding Programs

- Revenue Bonds common in transportation
  - GARVEE – pledge of future Federal funds
  - Gas Tax or other source
  - Toll Revenue backed bonds
    - System Pledge
    - Stand Alone Project
  - Growth supported taxes or tax increments
    - Community Development/Improvement Districts

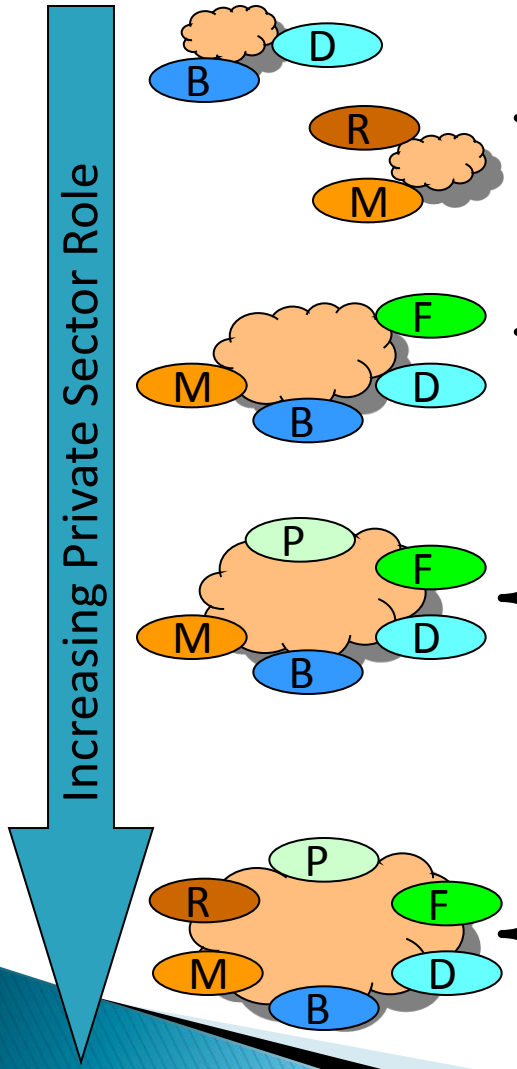
Bonding Programs

- Bonds of themselves are NOT new money, simply advancing future revenues
- The KEY is to integrate bond programs with pay-as-you-go transportation program to not "overcommit" the future
- Bonds are efficient for major projects with dedicated revenue streams for the project
- Program level bonding can be "touchy"

Revolving Loan Programs

- State run revolving loan programs such as State Infrastructure Banks can be very efficient in moving key projects forward
- Remember these are “LOANS” and not grants so the loan recipient must repay it
- Many states like Georgia have SIBs
- Florida SIB has loaned:
  - Federal Account – $422M in loans leveraged $1.48B in projects
  - State Account – $960M in loans leveraged $7.72B in projects

Types of P3s



- Design-Build (DB)
- Asset Management Contract
- Design-Build-Finance (DBF)
- Design-Build-Operate-Maintain (DBOM)
- Design-Build-Finance-Operate (DBFO)
- Build-Operate-Transfer (BOT)
- Build-Transfer-Operate (BTO)
- Joint Development Agreement (JDA)
- Concession
- Asset Lease/Sale

What is BF/DBF?

- Design-Build, can be Design-Bid-Build
- Public Owner
  - Funds “programmed” and/or in “cost feasible” plan in the future, subject to annual appropriation
  - Procurement process for BF/DBF
- Private Team
  - builds the project now
  - borrows the “gap” needed to advance project
  - paid when funds available from public owner

When Might BF/DBF Make Sense?

- Desire for economic stimulus
- Periods of highly competitive industry pricing
- Breaking up projects that could/should go together due to funding
- Key safety issues like closed/posted bridges
- Interest rates favorable compared to inflation of construction costs
- Public sector does not want to borrow funds long term and/or has debt cap challenges

Florida DOT Case Study

- FDOT started first DBF in 2004 and has now advanced twelve DBF/BF projects between 3 to 6 years totaling over $2.4 billion
- All projects were at or below the programmed future estimated cost and available funding
- FDOT requires 100% Performance Bond on DBF Projects
- Gap Funding Consider “Below the Line” by FDOT, meaning responsibility of DB Team

2012 Conditions in Florida

- Strong desire for economic stimulus
- Bids were coming in well below DOT estimate
  - Some – took savings and added more projects
  - Others – added “bid options” to get more done
- Interest rates at near all time lows, lower than forecasted inflation
- Combined several projects and matched up other projects to “advance” key roadway segments

Florida DOT Sample Results

- 2012 Project Examples:
  - I-95 Brevard/Volusia DBF Project
    - Capped Amount – $120,539,036
    - Proposed Amount – $118,370,00 (includes cost of financing, plus added 16 miles of widening)
    - Gap Financing – $38,655,000
  - Jacksonville 9-B DBF Project
    - Capped Amount – $104,626,299
    - Proposed Amount – $ 94,901,300 (includes cost of financing, plus all “bid options”)
    - Gap Financing – $59,110,000

Use of P3s Nationwide

- P3s, whether P3 “light” meaning DB or DBF or comprehensive P3s are gaining traction across the United States
- A number of states have entered the space recently:
  - Pennsylvania
  - Maryland
  - Ohio
  - Illinois
  - Others continuing forward: California, Florida, Indiana, Virginia, Texas, and others

Brief Discussion of P3s

- P3s are the exception not the rule for the delivery of projects – normally larger projects
- Desire for risk transfer is a key consideration
- Cost of capital comparisons alone normally leads to false results
- Harder to quantify value of risk transfer and combination of project phases – but can be done to provide a better comparison
- Results show P3s on schedule and little price increases compared to price proposals

P3s Fad or Long-Term Trend?

- Needs are not going away
- Stresses on funding sources in government
- P3 market well developed in a number of states and internationally
- Further consolidation of U.S. construction industry with increasing foreign ownership
- Capital raised for P3 market
- Success breeds further P3s

Next Steps

- The transportation needs are not going away, only getting larger
- Competition among States – those addressing infrastructure will be more competitive for economic development
- There are many options available:
  - Maximize efficient use of available resources
  - Choices for the movement of people and goods
  - Redirect existing resources to transportation?
  - Add new or increase existing taxes or fees?

Georgia's Decision?

How will Georgia stack up in the future on transportation infrastructure?

Questions/Follow Up

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