

**American Association of State Highway and Transportation Officials
(AASHTO) Presentation – Transportation Funding Trends, June 20, 2006**

The Highway Transportation Fund Today and Funding in the Future:
Presentation by Janet F. Kavinoky, AASHTOPg. 2

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State Projects – Innovative Transportation Funding Projects

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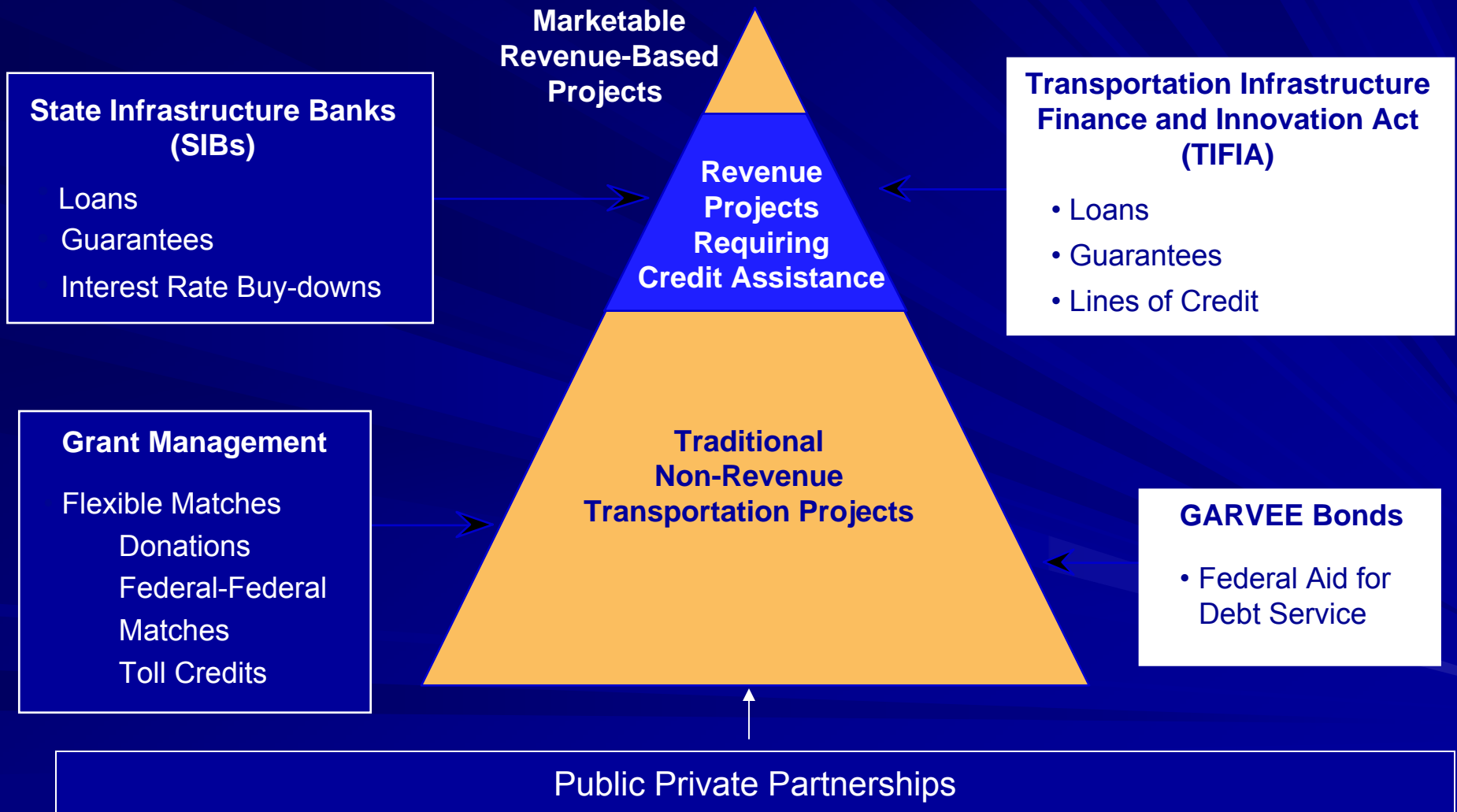
The Highway Trust Fund Today *and* Funding in the Future

Janet F. Kavinsky
American Association of State Highway and
Transportation Officials
June 20, 2006

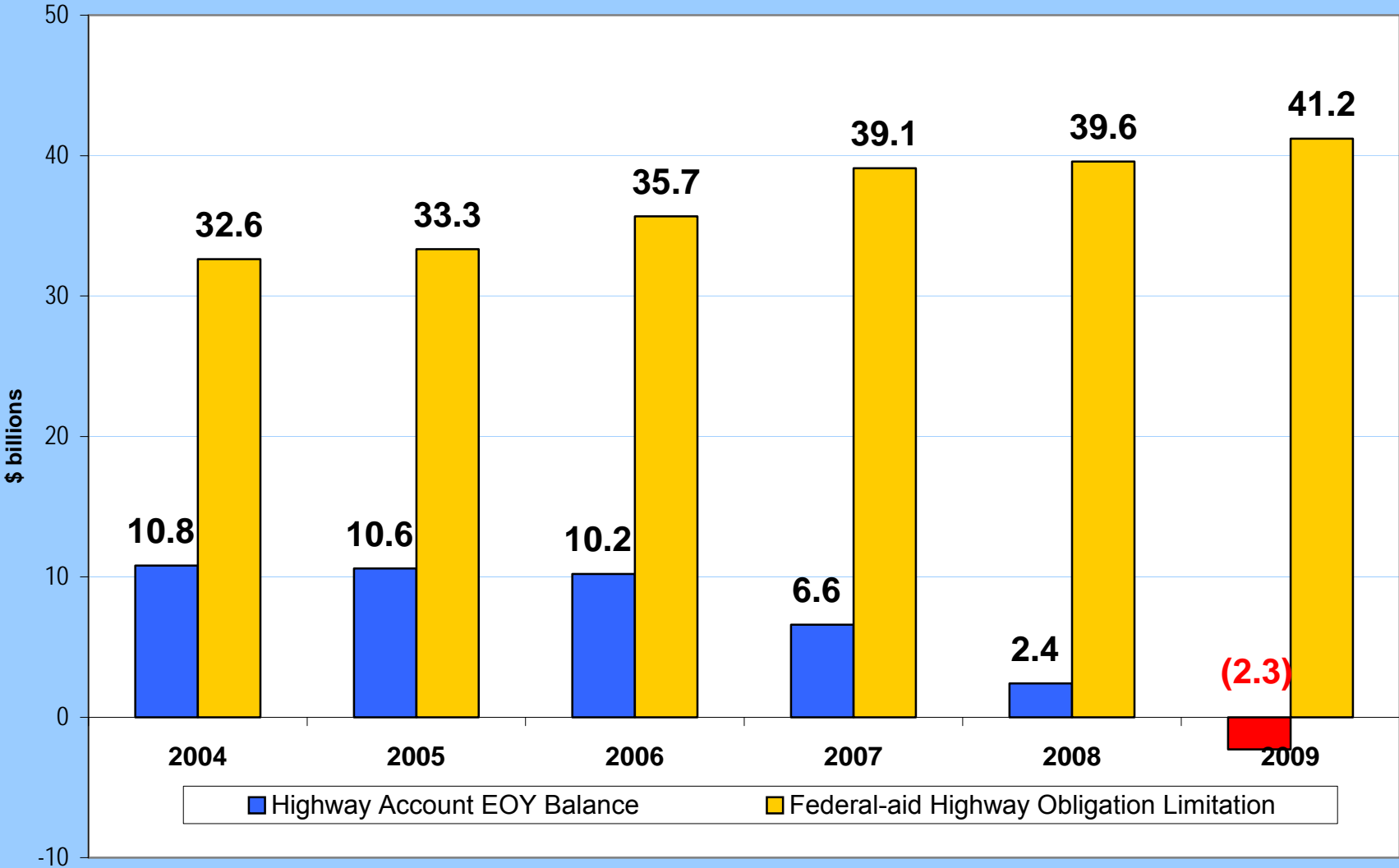
SAFETEA-LU

- Record level funding:
 - \$295 billion contract authority
 - \$286.5 billion obligation limitation
 - \$241 billion highways
 - \$52.3 billion public transportation
- New provisions to expand financing options

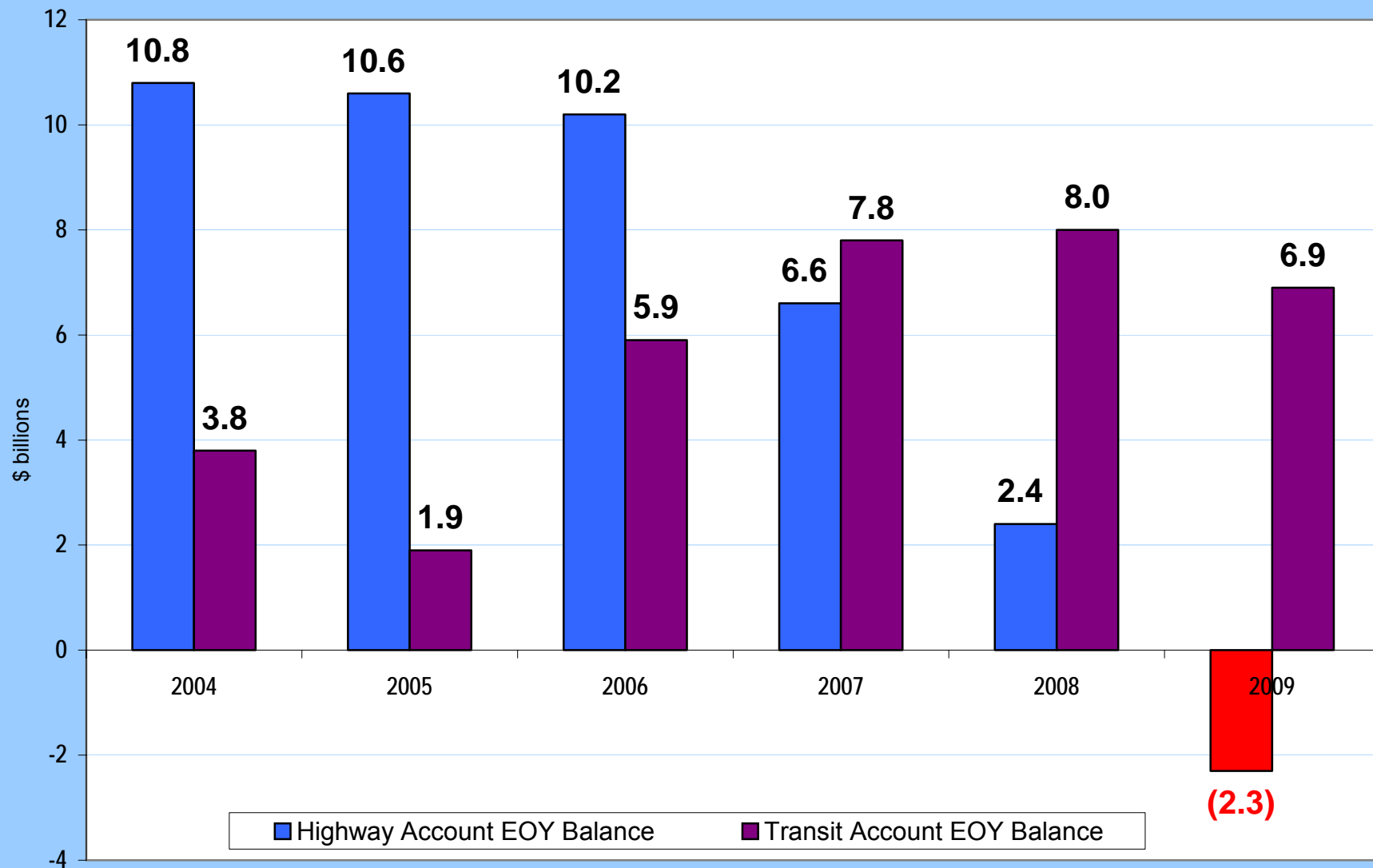
Federal Project Finance Tools



Highway Account Balance vs. FAHP Obligation Limitation



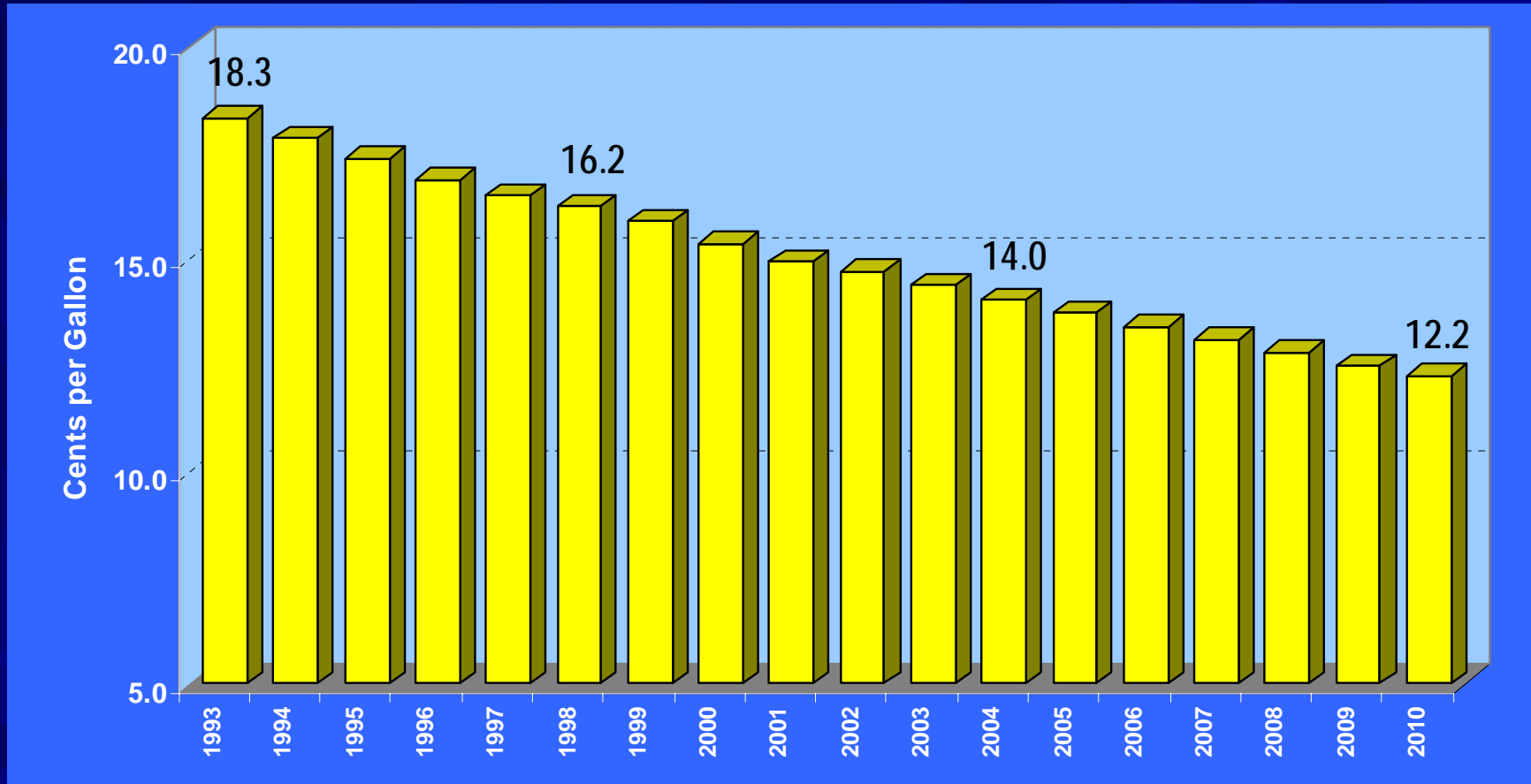
Highway and Transit Account Balances



Funding Crisis Now!

- Action is required soon
- US Chamber Report recommendations
 - Indexing fuel taxes – Federal and State
 - Closing exemptions to the HTF
 - Crediting interest to the HTF
 - Dedicating Customs revenues
 - Innovative financing tools
 - Private participation

Gas Tax Purchasing Power Erosion



*Courtesy of William R. Buechner
Vice President, Economics and Research
American Road & Transportation Builders Association*

Mid-Term Funding Potential

- Technology will provide for new methods of collection.
- Tolls will fill niches for funding.
- Innovative financing accelerates investment.
- Political will essential.

Long-Term Funding Issues

- Key question: how do we replace Trust Fund income as the gas tax declines as a revenue source?
- Other proposals are in the offing
 - Commission to study future of revenue sources to the Highway Trust Fund
 - State-by-state experiments underway
 - We need to recognize the need for change and embrace it

Beyond the Funding Issues

- The key to the future of the Federal program is found in the past.
- All transportation needs will dramatically expand over the next twenty years.
- Lack of vision is weakening arguments for increased investment.

Next Generation Legislation

- Needs-resources gap
- Transportation – economy linkage
 - International competitiveness
 - Economic Security
 - Quality of life
- Exploding increases in freight movements
- Dramatic increases in VMT and year over year increases in congestion
- Aging
 - Infrastructure
 - Population

Clear Goals & Barriers

- The Goal: an integrated, modernized transportation system that addresses the movement of people and freight in the most efficient manner.
- What are the barriers?
 - **Clear vision**
 - Unified support
 - Political will
 - Firefighting versus long-term planning

Summary of Challenges

VISION

Now (!)

- Highway Trust Fund going broke

Sooner

- Gas tax growth rates decline

Later

- Gas tax receipts decline

MERCATOR ADVISORS LLC



Financing Options for Roadway Improvements

prepared for



June 20, 2006

Discussion Outline

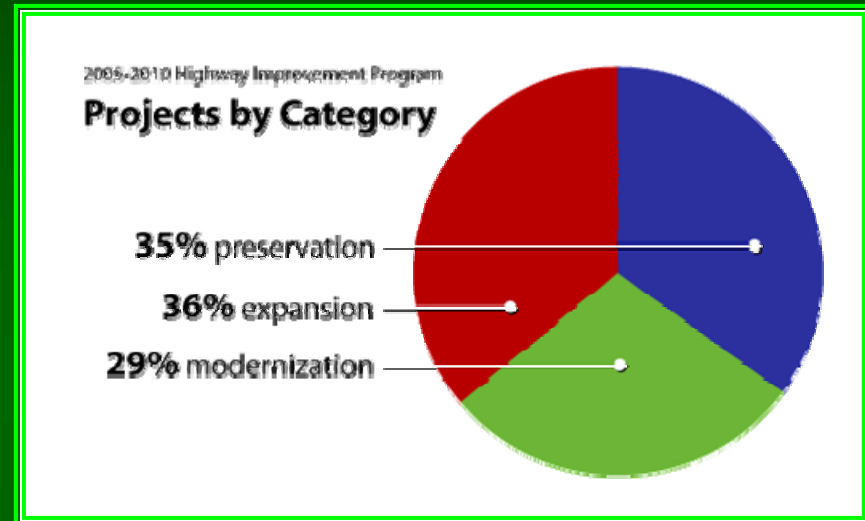
- Context for a Local Finance Initiative
- Potential Funding Sources
- Developing a Finance Plan
- Partnering with the Private Sector
- Federal Support for Public-Private Ventures

Context for a Local Finance Initiative

Limited Resources

Lake County's 2005-2010 Highway Improvement Program totals **\$194 million**.

Sources of tax funding for Five Year Program are County Bridge Tax (12%), Matching Tax (27%), Motor Fuel Tax (45%) and Non-tax sources (16%).



Growing Consensus for Action?

March 2004 Sales Tax Referendum - 40,299 "yes" to 48,770 "no"

April 2005 Sales Tax Referendum - 46,901 "yes" to 53,518 "no"

Context for Local Finance Initiative

Relevant Examples:

- **Route 28** (Virginia)
Property tax surcharge on commercial and industrial property with intercept of future state funding if necessary
- **Southern Connector** (South Carolina)
Toll financing subsequently recognized as soft match for additional state funding
- **Northwest Parkway** (Colorado)
Toll facility developed by a non-profit corporation with loan from private contractor. Project funding included acquisition of open space and conservation easements.
- **Hays County Road Improvements** (Texas)
State reimburses County for significant portion of project costs by paying "shadow tolls" in pass-through financing arrangement

Potential Funding Sources

TAXES	USER FEES	THIRD-PARTY FINANCING	IN-KIND CONTRIBUTIONS
<i>Motor Fuel Taxes</i>	<i>Tolls</i>	<i>Air rights; fiber optic conduit</i>	<i>Right-of-way and easements</i>
<i>Dedicated Sales Taxes</i>	<i>Parking</i>	<i>Advertising / Naming Rights</i>	<i>Utility relocation</i>
<i>Special Assessments / Development Fees</i>	<i>Vehicle Registration</i>	<i>ITS Technologies</i>	<i>Maintenance agreements</i>

- Funds can be used to pay project costs directly or to secure project debt
- Revenue pledge can be subject to appropriation; limited in term and amount; and /or have automatic termination provisions.
- Impact on local and/or frequent users can be mitigated through discounts, caps, and premium services.

Developing a Finance Plan

- Project Definition

Additional Capacity ≠ Enhanced Mobility

- Preliminary Cost Estimates

Life cycle cost is important

- Determining Financial Feasibility

Value engineering versus creative financing

- Closing a Funding Gap

Political challenge or inadequate return on investment?

Partnering with the Private Sector

Potential Benefits

- Value engineering analyses
- Funding for up-front costs and/or ancillary development
- Operating expertise

Partnering Options

- Solicit proposals
- Establish criteria for unsolicited proposals

Federal Support for Public-Private Ventures

SEP-15	Special Experimental Project Number 15 (SEP-15) allows the Secretary of Transportation to waive certain requirements of title 23 , on a case-by-case basis, in four major areas of project delivery: contracting, right-of-way acquisition, project finance, and compliance with the National Environmental Policy Act (NEPA) and other environmental requirements.
\$15 Billion Private Activity Bond Authority	SAFETEA-LU added highway facilities and surface freight transfer facilities to the list of activities eligible for exempt facility bonds . Qualified projects must already receive Federal assistance.
TIFIA	TEA-21 created Federal credit assistance program (direct loans, loan guarantees, and lines of credit). SAFETEA-LU increased amount authorized and lowered minimum project cost to \$50 million.
SIBs	SAFETEA-LU enables all states and territories to establish State Infrastructure Banks (SIBs) capitalized with Federal transportation funds.
PPP Web Page	www.fhwa.dot.gov/ppp

Hays County Road Improvements (Texas)

Turner Collie & Braden served as Project Manager for this county-wide project. Turner Collie & Braden provided program administration, preliminary design as well as environmental compliance to develop improvements to 77 miles of the Hays County roadways. Turner Collie & Braden developed a strategy to assess and prioritize the identified roadway improvements, including coordination with TxDOT and creation of a project procedures manual. This project included 13 county roadway and 8 state roadway design contracts.

<http://www.statesman.com/news/content/news/stories/local/05/25hays.html>

Hays County leaders have been talking for close to four decades about the need for an eastern loop around San Marcos and the tangle of development on Interstate 35.

Today, the Texas Transportation Commission will probably approve an agreement that would allow the county to begin building that loop, to be called FM 110, and make improvements on two other crucial state roads. Under the "pass-through financing" deal, Hays County would have to come up with the money first and ultimately would shoulder 10 percent to 20 percent of the total cost.

The \$133.1 million agreement, assuming Hays County commissioners are able to borrow the money to pay for the work, would enable the county to do these projects:

- Build about 3.5 miles of FM 110, from I-35 at McCarty Road to Texas 123, at a cost of \$30.4 million. The remaining 85 percent or so of the loop is much further behind in the planning and right-of-way acquisition process and would not be a part of this agreement.
- Widen RM 12, a two-lane road now, to five lanes from the west city limit of San Marcos to RM 32, a distance of 10.3 miles. The estimated cost is \$52.7 million.
- Widen FM 1626 from two lanes to five lanes from RM 2770 to Bliss Spillar Road, a six-mile stretch, at a cost of \$69.8 million.

That amounts to \$152.9 million in 2006 dollars for construction, right of way, engineering and design.

Under the pending agreement, the state would refund the county up to \$133.1 million over the next 10 to 20 years.

The county would cover the initial cost, using a combination of money authorized by voters in a 2001 general obligation bond program (borrowing covered by property tax revenue) and, mostly, by issuing revenue bonds covered by what the state is promising to give Hays County over the next two decades.

The state would pay the county a "shadow toll" of 14 cents for every vehicle-mile traveled on the road, with an annual minimum of \$6.6 million and a maximum (if traffic is unexpectedly higher than estimated) of \$13.3 million a year.

"It's their money, and it's their risk," said Amadeo Saenz, the state Transportation Department's director of engineering. "If the project cost overruns, they'll eat that."

Separately, according to Hays County Commissioner Will Conley, the state plans to make about \$8 million of safety improvements (such as left turn lanes and broader shoulders) to Texas 21

between San Marcos and the Travis County line. The county would split the cost equally with the state, Conley said. Saenz said that project is not included in the pass-through deal.

The agreement with Hays County and another with Comal County, assuming the transportation commission approves them today, would be the eighth and ninth pass-through financing agreements by the state Transportation Department in the past couple of years, including a \$60.6 million deal with the City of San Marcos completed in February.

The state agreed in October to reimburse Williamson County up to \$151.9 million for six road projects, paying them 10 cents per vehicle mile.

Travis County has shown no interest in pursuing a pass-through financing agreement.

Saenz said the reimbursement rate is higher in Hays County because the expected traffic volumes are lower. At Williamson County's 10 cent rate, he said, it would probably take much longer than 20 years to pay back Hays County.

Overall, including the Hays and Comal agreements, the state Transportation Department will have committed about \$750 million of future gas tax revenue to pay off the local road expenditures.

Northwest Parkway (Colorado)

http://www.northwestparkway.org/about_us.html

Northwest Parkway is Colorado's newest toll road that opened November 24th 2003. It connects with E-470 and I-25 at 157th Ave. The Parkway travels west and south to 96th Street. At 96th Street, traveling south it turns into a local traffic 4-lane, 45 m.p.h. arterial allowing access to US 36, Interlocken Business Park and FlatIron Crossing Mall.

The Northwest Parkway is comprised of three member jurisdictions, the City and County of Broomfield, City of Lafayette, and Weld County. Ex-officio members are Jefferson County, City of Arvada, Regional Transportation District (RTD), Interlocken Metropolitan District, and the Colorado Department of Transportation (CDOT).

The Northwest Parkway is a 100% privately funded road. No federal funds were used on the Parkway. Financing for the project is non-recourse toll revenue bonds to be repaid with toll revenues.

The Authority is organized on the philosophy of a small core staff with the majority of services being provided via contract. Currently there are only eight full-time employees.

The Northwest Parkway Public Highway Authority is located at the mainline toll plaza on the Northwest Parkway at, 3701 Northwest Parkway, Broomfield, CO. 80020.(Source: Website)

Full Members:

City & County of Broomfield
City of Lafayette
Weld County

Ex-Officio Members:

Regional Transportation District
Colorado Department of Transportation
Interlocken Metropolitan District
City of Arvada
Jefferson County

When you travel the full length of the road you pay \$2.00* at the main line toll plaza, which is just west of Lowell Blvd. If you only travel the U.S. 287 to Boulder TurnPike portion, you pay \$.50 when you enter the road at U.S.287westbound, or when you exit at U.S. 287 eastbound.

Note* \$2.00 demonstrates the amount a two axle vehicle will have to pay. Vehicles with more than two axles will have to pay more per axle. For a trip calculator go to www.expresstoll.com and click on the Toll Calculator link.

http://www.nwpsy.org/newsletter/NWP_newsletter_06.06.html

Route 28 (Virginia)

<http://www.28freeway.com/>

The project is being built under Virginia's Public-Private Transportation Act, which allows private entities to propose innovative solutions for designing, building, financing and operating transportation improvements. VDOT will contribute state highway funds, and revenue bonds backed by proceeds from the Route 28 Tax District will be utilized to finance the balance of the project. Landowners along Route 28 agreed to pay for improvements to the corridor in 1988 through a special tax district. (Source: Website)

In 1987, the Virginia General Assembly gave localities the go-ahead to create special tax districts to finance transportation improvements. Fairfax and Loudoun Counties quickly teamed up with Route 28 landowners to form the first transportation improvement district in the Commonwealth.

The two counties enacted a special levy of twenty cents per one hundred dollar valuation on all commercial and industrial property inside the 10,204-acre district. Bonds were issued to fund the construction, and the debt service was paid by Route 28 tax revenues with a back-up guarantee by the Commonwealth. One year later, construction was underway to widen the two-lane road to six lanes and build interchanges at Routes 50, 7 and the Dulles Toll Road. The 14-mile widening, from Route 7 in Loudoun County to I-66 in Fairfax County, was completed in 1991.

In 1995, the General Assembly passed the Public-Private Transportation Act. This Act enables private entities to propose innovative solutions for designing, constructing, financing and operating transportation improvements.

In September 2002, VDOT, The Clark Construction Group, Inc. and Shirley Contracting Company, LLC signed the Route 28 Corridor Improvements Comprehensive Agreement that provides a combined commitment of approximately \$200 million in improvements over the next four years. Under this phase, six at-grade, signalized intersections will be replaced with high-capacity grade-separated interchanges. Ultimate plans call for construction of a total of ten interchanges and widening Route 28 to eight lanes.

Clark Construction and its road-building subsidiary, Shirley Contracting, are responsible for all right-of-way acquisition, utility relocation, site development, design and construction services. VDOT will contribute more than \$70 million and provide project support and guidance in accordance with the agreement to ensure the project's success.

Funding for this project is largely provided by the district's tax revenues. The revenues will support the sale of tax-exempt bonds that are backed by the moral obligation of both Fairfax and Loudoun Counties. (Source: Website)

Owner: Virginia Department of Transportation

Developer: Partnership between Route 28 Corridor Improvements, LLC, The Clark Construction Group, Inc., and Shirley Contracting Company, LLC.

Designer: Dewberry & Davis, LLC.

Southern Connector (South Carolina)

<http://www.innovativefinance.org/projects/highways/grnville.asp>

Name: Southern Connector

Location: Greenville, South Carolina

Description: 16-mile, 4 lane toll road of Greenville, SC between I-185 and I-385. Includes 4 interchanges and 23 bridges. Once the bonds are retired, the operation and ownership of the road will be transferred to the state. Electronic toll collection is used.

Sponsor: Connector 2000 Association

Cost: \$191.3 million

Type of Finance: \$200 million tax exempt bonds sold by 63-20 corporation

\$66.2 million in senior current interest bonds

\$87.4 million in rated senior capital appreciation bonds

\$46.6 million in unrated subordinate capital appreciation bonds

\$17.5 million state funding

Revenue Sources: Toll

Project Delivery/Contract Method: Joint development agreement

Private Investor Partner: Interwest Carolina Transportation Group, LLC

Project Advisors: Lehman Brothers

Haynsworth Sinkler Boyd, PA

Southern Municipal Advisors

Leatherwood, Walker Todd & Mann

Wilbur Smith & Associates

Physical Status: Opened 2/01, 9 months ahead of original schedule

Financial Status: Closed

Innovations: Design Build

Contact: Joan Peters

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(Toll Calculator)