FEBRUARY 2009

Volume 235

The international business guide to public-private partnerships and infrastructure finance, since 1988.

PUBLIC WORKS FINANCING™

IN THIS ISSUE

ACS Finances Florida I-595 Availability Pay Project

Against all odds, ACS-Iridium closed the interest rate swap on $780 million in loans from a 12-bank club at 10 am on March 3 to complete the $1.656-billion financing for Florida DOT's I-595 managed lanes project in Broward County.

"We are quite happy to have done it within program and in such turbulent times," says Francisco Fernandez Lafuente, general manager of concessions for ACS Group.

The $1.2-billion design-build project is Florida's first P3, the largest construction project in the state, and the country's first availability pay transportation project. It will also be a huge job generator in the hard-hit Fort Lauderdale region.

The project consists of the reconstruction, addition of auxiliary lanes and resurfacing of the I-595 mainline (including associated improvements to adjacent cross-roads, frontage roads and ramps) along a 10.5-mile urban corridor. Three new express lanes will be added in the I-595 median. These lanes will be operated as managed lanes with variable tolls to optimize traffic flow, and will reverse directions in peak travel times.

Key to the financial close was a $603-million, 35-year TIFIA loan at favorable terms. ACS Infrastructure Development (ACSID), advised by Macquarie Group, bid the project last September assuming it could issue $826 million in Private Activity Bonds. The collapse of the bond market forced it to restructure soon afterwards using a bank club. After defections and additions, a total of 12 banks plus TIFIA participated in the final deal. The TIFIA loans at the federal borrowing rate of 3.6% kept the borrowing cost within the bid budget. ACS equity is 12% of the financing at an IRR of 11.5%.

Jeffrey Parker & Associates and Nossaman LLP advised FDOT, and Taylor DeJongh advised US DOT on the TIFIA loan.

First Availability Pay Road Project a P3 Template

by Jeff Parker, President, Jeffrey Parker & Associates

The financial close of I-595 is the result of: close coordination between the Florida Department of Transportation (FDOT) and ACS; flexibility in the face of volatility and disruption in the capital markets; a clear focus on getting the deal done within the bid validity period; and a strong and dedicated concessionaire willing to leverage its corporate relationships, invest additional equity, and assume significant financing risks.

Over $600 million of TIFIA credit was the decisive factor in maintaining affordability. A comprehensive interest rate risk-sharing mechanism was built into the Request for Proposals. It contemplated movement in credit spreads as well as benchmark rates, and granted broad flexibility for FDOT to modify the financial plan in response to market conditions in return for accepting risk. This allowed the parties to respond rapidly to financial market changes. Perhaps most significantly, the role of FDOT's lead staff—Gerry O'Reilly and Joseph Borello—from the inception of the I-595 program provided the foundation for a successful outcome.

Within weeks of selecting the winning bid on October 24, FDOT began questioning the capacity of the financial markets to absorb the $900 million of Private Activity Bonds (subject to the Alternative Minimum Tax) that were assumed in the bid's financial plan. By mid-December the parties reached agreement on a complete restructuring of the transaction, switching from bonds to bank debt (maximum 10 years).

ACS and its legal and financial advisors did an extraordinary job of organizing the bank club, revising the financial model and modifying the documentation to effect this change—this was incredibly hard work and a virtuoso performance. Nossaman's team, led by Patrick Harder, anticipated key issues and supported FDOT Chief Counsel Alexis Yarborough and Clay McGonagill of her staff so that key decisions could be made efficiently by FDOT management. Similarly, as financial advisors, Jeffrey Parker & Associates provided direct support to District staff as well as to the headquarters financial management team—Leon Corbett, Gary Drzewiecki, Marsha Johnson and William Thorp who handled the decision-making and oversaw coordination with USDOT's TIFIA team.

Critical to the success of this process was the effort to keep the project's price (reflected as the maximum availability annual payment amount) within FDOT's affordability range while still absorbing interest rate risk—this requirement could not have been met without TIFIA's capacity to lend at U.S. government interest rates on a long-term basis. Falling TIFIA rates reduced the costs of the TIFIA portion of the debt, and TIFIA program flexibility allowed the tenor of the senior debt to be shortened, facilitating the bank solution. The TIFIA team's ability to keep pace with rapidly morphing events, arising from discussions among the bank club, and its dedication to working through difficult issues were critical success factors in this "miracle" closing.

From a policy perspective, I-595 brings multiple new dimensions to the P3 conversation in the U.S. and realizes many long-sought transportation goals in Florida and at the federal level:`

- It is the first availability payment transaction in the U.S.

- The private sector is assuming cost and schedule risk for completion; no public money will be paid to the concessionaire until the project is complete. The private sector also is assuming the risks associated with future operations, maintenance and resurfacing for over $1 billion in public infrastructure during a 35-year concession.

- Congestion-priced, reversible HOT lanes are being constructed on an existing interstate facility with the objective of maximizing throughput rather than revenue yield.

- The entire interstate tolling debate, typically intertwined with P3s, was avoided because FDOT will set the rates and retain all of the revenues, with Florida's Turnpike Enterprise handling electronic toll collections—there is no private sector "upside" or downside from tolls and no private benefit from congestion.

- A majority of the construction

investment is going to needed improvements to the free, general-purpose lanes adjacent to the HOT lanes.

- Strong, competitive bidding for a "shovel ready" project yielded a winning price of that was approximately $275 million (in net present value terms) under FDOT's construction, maintenance and finance estimates.

- A comprehensive approach to construction and design for a 10.5-mile corridor is yielding efficiencies, cost savings and reduced maintenance-of-traffic impacts compared to the conventional approach of issuing numerous contracts over more than 20 years.

- FDOT is sponsoring new Bus Rapid Transit services utilizing the HOT Lanes.

None of these outcomes would have been possible without the solid project development, planning and financial priority-setting conducted by FDOT. P3s are not just financial and legal undertakings. The department's in-house technical staff at District 4 and Reynolds Smith & Hills, its technical consultant, performed years of rigorous planning studies that preceded the launch of the P3 process.

Unlike many P3 projects that are brought to market with significant funding "gaps," limited right-of-way and environmental work in hand, and political consensus-building still in progress, FDOT had all of its homework done on I-595. The project was a top priority for the community, as well as for Gov. Charlie Crist, FDOT Secretary Stephanie Kopelousos, District Secretary James Wolfe, and local elected officials—they kept the pressure on the project team to get the deal done quickly, in the public interest, and to keep it affordable.

Despite the challenges, the financial close of I-595 in these turbulent times underscores the benefit of implementing P3 transactions in the U.S. market, utilizing the institutional structure of a well-run, line governmental agency. ■

Credit Spread Protection for Availability Pay Projects

Uniquely, movements in the credit spread on the I-595 debt were shared between ACS Infrastructure Development (ACSID) and Florida DOT to cover the tumultuous period between the bid last September and the financial and commercial close on Mar. 3.

The risk-sharing mechanism developed for the project covered the collective movement (upwards or downwards) of the following items in the final financial model:

- the credit spread, which was initially set at 300 basis points;

- the loan establishment fee, set at 300 basis points; and

- the LIBOR swap margin, set at 30 basis points.

FDOT had the unilateral right to decide whether the credit spread assumptions in initial bid (the basis for indexing) were reasonable.

According to Tuyen Mai, a director at Jeffrey Parker & Associates, who served as the firm's lead staff member on the project, the credit spread protection applied to both upward/downward movements, by way of a simultaneous increase/decrease to the MAP (Maximum Availability Payment) and a reduction/rise in the equity IRR.

The movements were shared by FDOT and ACSID at the rate of 75% to FDOT and 25% to ACSID, up to a $2.5-million MAP adjustment. The adjustment was made at the concurrent commercial and financial close on Mar. 3.

If upward movement exceeded $2.5 million, and FDOT elected to proceed with the project, then the excess movement would have been shared at the same 75%/25% ratio described above.

If downward movement exceeded $2.5 million, then FDOT would have been entitled to 100% of the benefit of the excess downward movement.

ACSID, which was forced to quickly shift from a Private Activity Bond structure to a bank group at the end of 2008, has relied on this risk-sharing mechanism throughout the financing structuring process. Initially crafted during the RFP stage, this protocol has been a key factor in delivering a successful financial close, says Mai. ■

❏ LaHood Considers PPPs, More Tolling

Having soundly rejected a vehicle miles traveled (VMT) charge to replace the gas tax, the Obama administration is saying for now that it also won't support any increase in the federal gas tax to support road and rail infrastructure. Instead, DOT Secretary Ray LaHood said in early March that the government would consider tapping private capital investment and making it easier for states to expand the use of tolling.

"With the economy the way it is right now trying to propose a 10-cent-a-gallon increase in the gas tax is not going to fly anywhere in America, including Washington D.C.," LaHood said.

In the Senate, climate legislation has a higher priority than reauthorization of the surface transportation bill and would substantially increase gas prices by 2015. A survey of existing studies by the George C. Marshall Institute estimated the Lieberman-Warner Climate Security Act (S.2191) would result in a 9% to 50% price increase per gallon in 2015.

Responding to a recent question about PPPs by state DOTs, LaHood said, "I think it's one of the things we need to think about . . . we need to think outside the box . . . I can tell you there are . . . people in the Senate, particularly Sen. [Mark] Warner (D-Va.), who spoke to me about this privately and publicly. And there are others who are thinking about it."

LaHood acknowledged that states need substantial funding beyond the $48 billion in stimulus money to keep their road and rail programs on track. He also said the highway trust fund will run out of money soon and that it suffered from a long-term structural imbalance.

To help address these problems, he said he favors "out-of-the box" thinking like increased tolling and private capital investment. The line of thinking may be gaining support in the White House from Obama economic advisor, Michael Furman, who was part of Citigroup's team on the Pennsylvania Turnpike privatization, and Roy Kienitz, designated Deputy DOT Secretary for Policy, who advised Gov. Ed Rendell on the same deal.

To spur private investment, most immediately LaHood could use $200 million of his discretionary stimulus money to recapitalize USDOT's TIFIA program. He could also support more flexibility of the use of TIFIA's lending and credit enhancement tools (to become more like an equity partner in public-private partnerships).

Language in the transportation stimulus package appears to support leveraging private capital with federal funds, according to rail lobbyist Ray Chambers (see p. 17). A liberal interpretation of the statute and a concerted push to get OMB and Treasury to agree would unleash $35 billion in Federal Railroad Administration lending capacity for high-speed rail and other programs, he says.

❏ California Passes Sweeping PPP Law

On February 20, 2009, California Governor Schwarzenegger signed sweeping PPP legislation, Senate Bill (SB) 4, which established the legislative authority until January 1, 2017 for public-private partnerships (PPP) in road, courthouse and prison development. The bill, which was included in a budget compromise, also established legislative authority until January 1, 2014, for a design-build demonstration program for the state by allowing a total of up to 15 demonstration projects, up to five for the local transportation agencies and up to 10 projects for Caltrans.

For the PPP concessions, according to Leonard Gilroy of the Reason Foundation, the bill includes the following provisions:

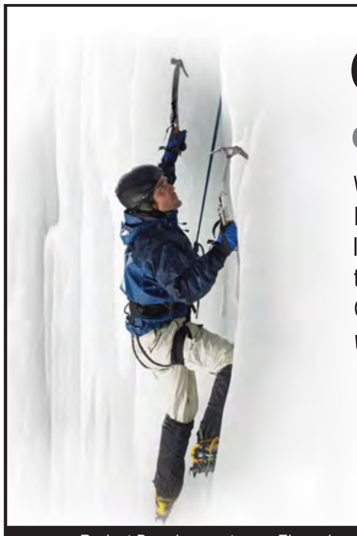
- It allows for both solicited and unsolicited proposals (and they have to compete the unsolicited proposals).

- It establishes a Public Infrastructure Advisory Commission, which mimics British Columbia's Partnerships BC, as an independent agency to advise on best practices and provide procurement-related services to government entities.

- To appease the Caltrans union, predevelopment services such as preliminary engineering may be performed by Caltrans or private consultants.

- Transportation PPP project selection by Caltrans will be based on three performance measures—improve mobility by improving travel times or reducing the number of vehicle hours of delay; improve the operation or safety of highways; provide quantifiable air quality benefits for the region.

- Public sponsors have to submit concession agreements to the legislature and an Advisory Commission established in the bill, but these overseers only get to provide comments; there is no legislative approval of projects.



- Bids can be evaluated on lowest offer or best value.

Fred Kessler of Nossaman LLP says a few clarifications are needed. It is unclear who has primacy in approving projects, Caltrans or the state's powerful regional transportation commissions. Whether they would require a public comparator analysis such as KPMG does for all Texas PPP projects also needs to be clarified.

Under earlier project-specific legislation, the Administrative Office of the Courts (AOC) sought DBFO qualifications last month for its first PPP project, a $200-million, 480,000-sq-ft complex in Long Beach (PWF 1/09, p. 10.) AOC, which hasn't built a new courthouse in 40 years, has a backlog of about $2 billion projects it would like to do as availability-pay PPPs. About 235 interested parties participated in a Dec. 3 webcast concerning the project.

For roads, given the long lead times for environmental permitting in California, high-occupancy toll or truck lanes, managed lanes and other congestion-priced toll projects already planned are possible candidates for PPPs. The California-based Reason Foundation lists as possible PPP projects:

- HOT Network for SF Bay Area (already in the region's long-range plan)
- Tolled truckway from Port of Oakland to I-5
- Tolled truck lanes on I-5 in Central Valley
- Toll truck lanes on I-15 from Barstow to the Nevada border
- HOT network in greater Los Angeles (LA, Orange, San Bernardino, and Riverside Counties)
- I-710 gap closure tunnel beneath South Pasadena (in SCAG's long-range plan)
- Glendale-Palmdale tunnel (extension of SR 2)
- Riverside-Orange County tunnel
- Tolled truckway from Ports of LA and Long Beach to Inland Empire and Barstow (in SCAG's long-range plan)
- San Diego HOT Network (in SANDAG long-range plan) ■

Cintra's PPP Innovation Meets I-635 Managed Lanes Challenge

Cintra soundly trumped its rival ACS Group in Texas this month by offering a much less costly solution for the I-635 managed-lanes project on the LBJ Freeway in north Dallas, one of the most complex transportation projects in the U.S. The Texas Transportation Commission conditionally awarded a 52-year comprehensive development agreement (CDA) to Cintra/Meridiam on Feb. 26, based on a "best value" determination. The $2.7-billion project is made possible by an $800-million federal TIFIA loan from the US Dept. of Transportation.

Particularly helpful terms were negotiated for the federal government's subordinated loan from the Transportation Infrastructure Finance and Innovation Act (TIFIA) program. The private consortium may defer 75% to 100% of the payments on principal for up to 25 years, if toll revenues are insufficient to cover operations and maintenance, senior debt service and potential revenue sharing with Texas. The TIFIA office has allocated up to $70 million to cover the cost of subsidizing the 35-year loan. The private team anticipates kicking in another $30 million towards the subsidy costs so that it can borrow the full $800 million. The TIFIA interest rate was 3.64% on March 2.

Cintra estimates the I-635 project will create 1,500 to 2,000 jobs, once construction gets started next year or in 2011. "This seems to be a full employment act for North Texas," said Texas Transportation Commissioner Ted Houghton.

The project includes dynamically priced managed lanes within the right-of-way of the I-635 beltway north of the city center, and elevated tolled managed lane direct connectors along I-35E. The project also completes a continuous frontage road system along I-635 from U.S. 75 to I-35E. All-electronic tolls will be priced based on continuously monitored demand, with the goal of keeping traffic flowing at no less than 50 miles per hour in all segments.

Up to $700 million in public funds were made available by the state to help bidders finance the project, but the Cintra bid taps just $445 million of that money. "It proves once again that this P3 model really works," says Fred Kessler, Nossaman LLP, the Texas Department of Transportation (TxDOT) procurement advisor.

TxDOT estimates it would take $1.7 billion in public money, plus another $300 million in secured debt, to complete the same $2-billion construction project itself.

ACS Infrastructure Development proposed an alternative and more costly design that included both mined and cut-and-cover tunnels. ACS says its design would reduce the project footprint and the impact on traffic during construction. It would also cost $3.9 billion, including financing.

TxDOT will also be spared from operations and maintenance over the entire 17-mile span, including both tolled and untolled lanes, during the 52-year contract. The net present value of long-term O&M is pegged at $1.5 billion.

PROJECT FINANCING

Execution of the CDA is scheduled for April 28, at which time TxDOT will put the public money in escrow and the concession team will increase its bond from $50 million to $75 million. Once the CDA is signed, it will take about six months for TxDOT and the developer to finalize project management plans and then construction could begin. However, the contract allows financial close to be deferred for as long as 18 months to allow the consortium to seek better terms for bank debt. Thus, five years of construction won't begin until sometime between mid-2010 and mid-2011.

The financing team aims to move as quickly as possible, depending on market conditions. The 52-year term of the concession begins when the CDA is signed; so delaying financial close would mean less time to collect tolls. The initial financing plan of $2.678 billion includes $598 million in private equity, $445 million in public equity, an $800 million federal TIFIA loan and $400 million each in bank debt and private activity bonds. Macquarie Capital is providing financial advice.

Because of the plan to wait for better debt terms, the consortium does not have committed financing at this time. However, it has received support letters from National Australia Bank Limited, RBC Capital Markets, Barclays Capital and Calyon Credit Agricole.

The concession team may lose deposits of $75 million if it fails to reach financial close within about one year. For an additional $25 million deposit, the closing can be deferred for a total of 18 months. However, the money won't be forfeited in a number of circumstances, including the failure of the TIFIA office to provide financing on or after Oct. 1, 2009. The TIFIA program will expire Sept. 30, unless Congress extends or reauthorizes it.

HIGH STAKES PARTNERSHIP

Adding variable-priced toll lanes to the LBJ Freeway is the top congestion-busting priority for the Dallas area. The highway was designed for 180,000 vehicles a day, but now carries 270,000 a day. By 2020, an estimated 450,000 vehicles will use the corridor daily. Initial toll rates are pegged at $7 for a 13-mile trip during rush hour. High occupancy vehicles (HOV) with two or more people traveling at peak times will pay 50% of the full fare. The Regional Transportation Council will cover the other 50% until the metropolitan area achieves air quality attainment goals, at which time HOV discounts would end.

A success on this project will also provide a shot in the arm for TxDOT and its controversial drive to build new toll roads through concession agreements with private developers.

This is the third toll road concession to be awarded to a public-private partnership in Texas; a Cintra-led consortium is on track to finance, build and operate all three. Construction will begin this spring on segments 5 and 6 of SH 130 between Austin and San Antonio (PWF 11/08, p. 7). Cintra was also selected as the best value proposer in January to take on the $2-billion North Tarrant Express managed-lanes project in the Fort Worth area (PWF 1/09, p. 5.)

Cintra will use the same equity partners and construction team it assembled for the North Tarrant Express. Cintra will provide approximately 51% of the equity, Meridiam Infrastructure Finance about 41% and the remaining share will come from the Dallas Police and Fire Pension System. The design-build team is a joint venture of Ferrovial-Agroman, a unit of Cintra's Spanish parent Ferrovial Group, and Houston-based contractor W.W. Webber LLC, which Ferrovial purchased in 2005.

Webber, which has a large precast concrete capability, is one factor in Cintra's ability to keep costs and prices down. When Cintra was bidding for the right to finish and toll SH 121 in 2007, it estimated its construction costs at $560 million. The North Texas Tollway Authority, which ultimately won the project with a higher upfront concession payment, pegged its construction costs at $700 million. Cintra’s parent, Ferrovial Group, didn't lose out entirely on SH 121, however. The NTTA awarded Webber a $220-million contract, its biggest ever, in September to build an interchange at SH 121 and U.S. 75.

The NTTA will provide toll collection services for the LBJ project.

CONSTRUCTION CHALLENGE

Financing the project is not nearly as complex as building and operating it, says Jose Lopez, president of Austin-based Cintra US. The corridor will be expanded to 18-20 lanes by digging a giant trench in the center of I-635. Six new lanes with variable tolls will be built in the trench. Eight reconstructed untolled lanes will be cantilevered above the managed lanes. In addition, at least two lanes of frontage roads in each direction will be improved and made continuous. Lopez says such a system of managed lanes, free lanes and frontage roads exists nowhere else in the world.

"This is not something for newcomers, that's for sure," Lopez says. Adds Joe Aiello, senior investment director for Meridiam: "The financial model is one thing. You really have to deliver on implementation." ■

❑ Port Mann Bridge Deal Collapses

Trying to raise an unprecedented amount of project debt in unprecedented times proved impossible this month for the world's most experienced infrastructure financier, Macquarie Group.

The company, whose stock is under sharp attack, failed to come to terms with its banks on about Cdn$1 billion (US$780 million) in nonrecourse toll-revenue debt for the Cdn$3-billion ($2.35 billion) Port Mann Bridge project in Vancouver, B.C. Deteriorating debt markets led the province to offer a Cdn$1-billion (US$780 million) loan last month at terms equal to the banks. That deleveraging wasn't enough to save what was one of the most sought-after PPP deals in the world, however.

Six consortia from six different countries were shortlisted down to three groups in 2007. Each of the three substantially designed a solution to the physical and traffic risk components of the project. Those plans are now owned by the province which will move ahead with its own financing, on a much more informed basis.

The province shut down negotiations on Feb. 27 and announced it will sign a Cdn$2.46-billion (US$1.96 billion) fixed-price design-build contract with Macquarie's partners, Peter Kiewit Sons Co. and Flatiron Constructors Canada Ltd., owned by Germany's Hochtief, under the same terms that Macquarie had negotiated.

Macquarie, which had been working on Port Mann for over two years, was awarded a financial advisory and toll consulting contract by the province that includes consideration for assigning its design-build rights to the province. Bridge tolls will remain the same under the public finance alternative at Cdn$3.00 (US$2.35) starting in 2013 with annual increases of 2.5% or CPI.

Sources say Macquarie had gotten commitments for the roughly Cdn$1 billion (US$780 million) in equity but failed to sign up its bank group. It included BNP Paribas, Caja Madrid, Société Générale and RBS, which recently reported the largest loss in UK corporate history.

A competing developer speculated that Macquarie's own financial troubles (see story p. 10) may have contributed to lenders' concern about the deal. "It's a nonrecourse debt financing," he says, "but there's still concern about Macquarie's corporate situation."

Given that, he says, "We look forward to the fairness auditor's report to make sure everything was done fairly."

Meanwhile, British Columbia recently shortlisted three groups for the Cdn $1-billion DBFM South Fraser Perimeter Road project. The project is a proposed new four-lane, 40-km route that will extend the highway network that links Vancouver with nearby port and industrial areas.

Both Port Mann and the South Fraser road are part of the Gateway project, designed to upgrade the roads around Vancouver.

For the South Fraser Road, BC shortlisted:

- Fraser Transportation: Iridium and Dragados, both units of Spain's Grupo ACS, and Zachry American Infrastructure of Texas.
- South River Connector: Babcock & Brown and Bilfinger Berger as equity partners, and builder Peter Kiewit.
- The Riverway Partnership: Cintra of Spain and SNC-Lavalin Inc. of Canada, with Cintra's sis-

ter company Ferrovial Agroman, and SNC subsidiary SNC-Lavalin Constructors.

❑ Macquarie's US Roads Have No Sale Value

Macquarie Infrastructure Group's (MIG) plummeting share price in the closing days of February led to expectations that, like Babcock & Brown, it could be forced to sell key assets, including its 30% share of the Highway 407 toll road in Toronto. Its U.S. and U.K. toll roads, while currently worthless in the auction market, have sufficient reserves so that they do not need to be recapitalized for years, allowing time for recovery of traffic and revenues.

MIG is one of two investors in the Dulles Greenway in northern Virginia and the South Bay Expressway near San Diego, and one of three in the Chicago Skyway and Indiana Toll Road, with Cintra as the managing partner in those operating concessions.

Highway 407, the market-regulated, 99-year concession for Ontario's first toll road, is the jewel in Macquarie's crown. Equity analysts at Macquarie Securities figure the 407 concession has an implied value of Cdn$2.8 billion (US$2.1 billion). That's 10% less than MIG's acquisition price in 2002.

The estimated sales price represents a relatively low multiple of 16x, said Macquarie analyst Ian Myles. He believes it's worth more—operating cash flow has increased 10 times (to Cdn$695 million in 2008) since the road opened in 2002; the project debt carries an A rating; and Canada's banks have not blown up, he says.

Selling assets into the currently depressed markets "is potentially a high-risk strategy," says Myles, "as no bites will reflect poorly on MIG's assets." He points out, however, that MIG is not being forced to sell quickly due to cash flow concerns. He also notes that investors have purchased some large infrastructure assets in the past few months—MIG sold its share of the Lusoponte bridge in Lisbon and Sydney's M7 toll road; Sacyr sold Itinere's toll road concessions; and Ferrovial is selling Gatwick airport in England.

All of MIG's highly leveraged assets are project financed, Myles points out, so he expects MIG would aggressively limit its investors' exposure in a bankruptcy. Recent behavior by a sister fund indicates that "if the asset is project-financed and the fundamentals do not stack up, the manager and the independent directors are willing to let the asset go back to the bankers. This behavior is critical in that it allows investors to carry the US/UK assets at zero value instead of a negative value," Myles says. "We are firmly of the belief that MIG will not bail out any of the U.S. assets or the M6 Toll project."

❑ Indiana Lawmakers Want Break ITR Trust

Democrats in the Indiana House of Representatives want to spend now, rather than save for later, $500 million that had been set aside from the lease of the Indiana Toll Road. But Republicans who control the state Senate aren't going along with the idea; they're calling it "generational theft."

Indiana received an upfront payment of $3.8 billion in 2006 for a 75-year lease of the toll road. Most of that money will be spent over 10 years for the "Major Moves" construction program. Lawmakers decided to put $500 million in a "Next Generation Trust" and tap the interest every five years.

The current economic crisis has hit Indiana particularly hard. The House voted in February to use the Next Generation trust fund money to create road and infrastructure jobs around the state. The Senate countered by passing a resolution to protect the fund with a constitutional amendment.

"Now is not the time to go into panic mode and go back on our commitment to the people of Indiana," said resolution author Republican Sen. Mike Delph. As of Sept 30, 2008, the fund contained $517 million, down from $550 million three months earlier before financial markets fell.

❑ Financing Commission: Paving The Way

The federal government should raise gas taxes immediately to shore up the shrinking Highway Trust Fund, while also expanding the ability of state and local entities to use tolling and pricing, say members of the National Surface Transportation Infrastructure Financing Commission. But the panel also concludes that the nation must transition quickly to a system that charges people by how much they drive, not by how much gas they use.

Now begins the even harder job of convincing Congress, the president and the public to make some tough choices. The Obama administration opposes both raising the gas tax and charging by vehicle miles traveled, or VMT (see p. 4). Transportation Secretary Ray LaHood was quickly slapped down by the White House press office when he suggested looking at VMT.

VMT is "very revolutionary," says commission member Kathy Ruffalo, a government affairs consultant. "There's a lot of concerns that have been raised, some of the concerns that I share. But we need to start a dialogue and we need to start evaluating a VMT transition today."

The 15-member commission released its report Feb. 26 after two years of study. More than 40 revenue options were explored based on a number of guiding principals, including promoting more efficient use of the highway system through direct and transparent user charges. The panel's unanimous recommendations surprised some observers, who thought the group had been stacked with individuals who favor tolling and private investment over any increase in taxes.

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The commission determined that fuel taxes aren't a sustainable revenue source for the long-term, and have a very weak impact on user behavior. However, it was the best short-term option for funding the federal share of transportation spending. The commission estimates that hiking gasoline taxes by 10 cents a gallon, and the diesel tax by 15 cents, will raise an additional $20 billion a year for the trust fund. The average household will pay an additional $9 a month. The federal gasoline tax of 18.4 cents a gallon has not changed since 1993.

The commission recommended deploying a comprehensive mileage-based fee system by 2020. To meet that goal, Congress must immediately launch an aggressive research, development and demonstration program to address privacy concerns, policy questions and technical challenges.

Despite the White House comments on VMT, the concept has been gaining traction in several states and among some members of Congress. Another Congressional panel, the National Surface Transportation Policy and Revenue Commission, also urged higher gas taxes and an eventual move to VMT in its January 2008 report (PWF 1/08, p. 1).

The new report comes from a panel created at the behest of the tax-writing committees on Capitol Hill. The Senate Finance and House Ways and Means committees will have a much more pivotal role in the reauthorization of the next surface transportation reauthorization bill. Revenue from motor fuels taxes and truck-related user fees won't support even current levels of federal spending: the Highway Trust Fund required an $8 billion infusion of general revenue last year. As people switch to more fuel-efficient vehicles, the gas tax will generate less money for infrastructure.

The financing commission also recommended a number of steps the federal government can take to help state and local entities pursue user-backed projects.

"We certainly anticipate there will be greater use of tolling and other facility-specific initiatives," says commission member Bryan Grote, a principal with Mercator Advisors.

These recommendations include:

- Encourage and facilitate private investment, but ensure appropriate controls are in place to protect the public interest. If state or local sponsors receive revenue from such projects, the money should be spent on surface transportation.
- Allow tolling of new capacity on the interstates, and of existing interstate capacity to relieve congestion in metropolitan areas of 1 million or more people.
- Reauthorize the TIFIA program and give it $300 million a year in annual budget authority to fund core credit assistance.
- Advance user-fee backed projects with pre-construction feasibility assessment grants and capital cost gap funding grants.
- Increase the number of slots from three to five in the demonstration program that allows tolling of existing interstates to pay for reconstruction and rehabilitation.
- Boost the cap on highway/intermodal private activity bonds from $15 billion to $30 billion, and limit the program's use to projects that create new capacity.
- Consider the use of tax credit bonds for capital projects with clear public benefits.
- Invest $3 billion over six years to re-capitalize state infrastructure banks. ■

❑ Financing Commission: VMT Takes A Toll

To finance highways while federal gas tax revenues decline, distance-based tolling "is the best path forward" the National Surface Transportation Infrastructure Financing Commission concludes this month. "Financial, intellectual and political costs will be high" it says, conceding that "little data exists to quantify the investment."

With the Commission report, a consensus in favor of nationwide electronic tolling, with charges linked to location, distance traveled, and time, appears to be forming. However, there is little agreement over how much such a system would cost.

Such a tolling system would need all vehicles to be fitted with on-board units (OBUs) equipped for satellite navigation and linked by cell phone technology to an administration organization. Fixed infrastructure and system administration would come on top.

With "little research or analysis" available, the Commission cites the U. S. Department of Transportation (DOT) investment forecasts for hardware, system development and start-up costs of around US$10 billion. Administration would cost 1.7% of revenues, or nearly 70% more than running the gas tax. Underscoring the diversity of forecasts, the Commission reports running costs of Oregon's VMT pilot program at twice that of its gas tax.

Another insight into costs comes from a proposal sent to the Commission by consultant Wilbur Smith Associate's Ed Regan. OBUs would represent under 1% of a car's cost and less than 2% of the revenue raised over its eight to 10-year life, estimates Regan. Including fees paid by service providers, "the net public sector cost" of running the system would be 5-7% of revenue, he adds.

Looking at international experience provides limited clues. Germany's 12,000-km system covering trucks over 12 tons, while dwarfed by a U.S. operation, is the largest going. Run by Toll Collect GmbH., the system relates to distance travelled, vehicles' emission classifications and number of axels. Rates per kilometer charged are Euro 0.14-2.0 (US$0.18-$2.50).

Employing some 520 people, Toll Collect delivers all its takings to the government's Federal Office for Goods Transport and earns fees of around Euro 600 million (US$755 million) a year, according to the transportation ministry. In its first four years Toll Collect handed over Euro 12.3 billion (US$15.5 billion). Of that, roughly half goes into highways, 40% railroads and the rest waterways.

Creating the system was costly for its developers. Germany privatized tolling, awarding a concession to Toll Collect in 2002. Technical problems delayed the scheme's start from August 2003 to January 2005, when a partial service began. Full operations followed a year later, amid compensation claims by the government.

Car maker Daimler, which owns 45% of Toll Collect, recorded an accumulated loss of Euro 1.4 billion (US$1.8 billion) in the three years to 2005. Deutsche Telekom has an equal holding and France's Cofiroute has the rest. The companies funded the project with equity and loans, and must maintain equity at no less than 15% of asset value till the concession ends, in 2015.

With technology better established, Germany's small neighbors followed. After Austria, Switzerland and the Czech Republic, Slovakia joined the club this January by signing a Euro 852-million (US$1.1 million) contract with SkyToll to install a tolling system and operate it for 13 years. It covers trucks over 3.5 tons on nearly 2,500 km of routes.

SkyToll is owned by the Ibertax-SanToll consortium, led by the French toll road operator SANEF. Germany's Siemens will supply SkyToll with OBUs. And Norway's Q-Free will provide, and run for three years, the central and enforcement systems.

Next in line will be the Netherlands. It recently began consulting on standards and norms to be used by commercial service providers on a system covering all vehicles. It aims to roll out tolling between 2011 and 2016, with a running cost target set at under 5% of revenues. But current projections are already above that. ■

Correction: PWF mistakenly stated last month that OHL Infrastructure's concession price for building 64 lane miles of the North Tarrant Express in Texas would require a $1-billion state subsidy. The correct number is $593 million.

Transportation Policy Review

by Robert W. Poole, Jr.

Second National Transportation Commission Gets It Mostly Right

Last winter I critiqued the very ambitious report of the National Surface Transportation Policy & Revenue Commission. While that body's report underscored the need for greater investment in vital infrastructure, I faulted it for over-reaching by proposing a major expansion of the federal role and for undermining the user-pays principle by converting highway fuel taxes into an all-purpose transportation slush fund.

I'm happy to report that the other commission—the National Surface Transportation Infrastructure Financing Commission—has done a much better job. Its February 26th report confines itself to highways and transit. And it focuses on shoring up the federal role in funding this infrastructure, with a near-term fix to restore the purchasing power of federal fuel taxes and a medium-term transition from fuel taxes to vehicle-miles-traveled (VMT) fees. I think the case the Financing Commission makes is better-argued and more internally consistent than that of the Policy & Revenue Commission. And despite a knee-jerk White House reaction against VMT fees, I think what the Financing Commission proposes is far more likely to shape the upcoming reauthorization bill than the grandiose agenda of the Policy & Revenue Commission.

Those of us who favor expanded use of tolling and public-private partnerships should be cheered by what the Financing Commission is proposing, at both a macro and a micro level. At a macro level, the whole thrust of the report reflects one of their six guiding principles: "The funding and finance framework should cause users and direct beneficiaries to bear the full cost of using the transportation system to the greatest extent possible." That's a powerful endorsement of continuing and strengthening the user-pays principle even as the country transitions away from petroleum-based fuels and hence to highway funding sources other than fuel taxes.

Federal policy based on that principle is a good thing in general. But the Financing Commission goes on from there to make a series of valuable policy proposals to enable this country to make greater use of tolling and PPPs to supplement fuel taxes during the transition to a post-petroleum funding system, and to make a future VMT fee system compatible with toll facilities. They recommend that Congress remove restrictions on tolling urban interstates, to permit MPOs and DOTs to make greater use of congestion pricing. And they propose expansions of the two current pilot programs that permit toll financing of (a) new Interstates and (b) reconstruction of existing Interstates. And they also propose very important expansion and liberalization of both the TIFIA and private activity bond (PAB) programs.

When it comes to possible federal regulation of PPP toll roads, the Commission's report calls for the federal government to ensure that states adequately protect the public interest. Given that we are talking largely about the Interstate system (and some other federal-aid highways), I think some kind of federal oversight role is justified.

But since all of these highways are actually owned and operated by the states, it's appropriate that "primary oversight responsibility should reside with the states." The feds should ensure that states make PPP decisions based on a "value for money" analysis (as the GAO also recommended last year) and can provide useful technical assistance on best practices for PPP oversight.

The report also calls for reinvesting any proceeds from toll concessions (whether for brownfields or greenfields) into highways and transit, as defined in Titles 23 and 49 of the federal code. Thus, states would continue to be free to lease existing toll roads via long-term concessions, but the proceeds would have to be reinvested in surface transportation infrastructure (as occurred in Indiana but not with the Chicago Skyway).

With all that said, my assessment would not be complete without noting some important shortcomings in the report, presumably necessary to the attainment of unanimity by all Commission members. One key challenge the Commission did not address was rethinking the federal role, as had been suggested last summer by Transportation Secretary Mary Peters in DOT's impressive Refocus, Reform, Renew report. The Commission accepted as given the 45% federal share of capital spending on highways and transit and went on from there. If the federal role were more narrowly defined, a given level of federal investment would go a lot further toward meeting unfunded needs in those areas.

Second, the report here and there mixes the infrastructure funding purpose of user fees with broader social concerns such as fuel economy and greenhouse gas reduction. I have elsewhere argued that true externalities (i.e., bad things that government policy seeks to reduce) should be dealt with via taxes proportional to the bad things (e.g., CO_2 emissions) and not built into fees paid to infrastructure providers for the provision, operation, maintenance, and expansion of that infrastructure. The Financing Commission never made this distinction between a user fee and an externality tax, which I think wise policy would clearly keep separate.

Third, in contravention of its user-pays guiding principle, the Commission guardedly endorsed the pernicious idea of tax-credit bonds, which is a sneaky way of getting general-fund taxpayers (rather than users) to pay for infrastructure.

Those are minor flaws, however, in what ought to become the guiding document for the 2009 reauthorization. The Financing Commission's important report was well worth waiting for. ■

Robert Poole, Jr. is the director of transportation studies at the Reason Foundation.

High-Speed Rail A Good Bet For Las Vegas

Now that President Obama is on board, the odds are pretty good that the first high-speed passenger rail line in the U.S. will be the DesertXpress, rail watchers say. Quietly making headway since 2002, it's a $3.5-billion steel-wheel, steel-rail train that's designed to run at average speeds of 150 mph on public rights of way along Interstate 15 for 200 miles between Las Vegas, Nev., and Victorville, Calif.

A draft EIS will be published in the Federal Register on March 13. A few months later, a memo will be sent to private developers seeking comment on a long-term DBFOM concession proposed by project manager Thomas Stone, President of TransMax Group LLC.

Stone expects to have a favorable Record of Decision from three federal agencies late this year. Liability issues, highway easements, insurance and other details are being worked out. "This country would have at least one shovel-ready high-speed rail project in the next year," he says.

A competing magnetic levitation project planned for the same corridor has the support of Senate Majority Leader Harry Reid (D-Nev.). The sudden earmark-like appearance of $8 billion for high-speed rail in the stimulus bill is being attributed by some to Reid's longstanding wish for a 300-mph train from Las Vegas to Anaheim, Calif.

However, its estimated cost—ten times the steel-wheel project—and its long-delayed development—$45 million in federal funding for an EIS has been stuck in Congress since former Rep. Bud Schuster put it there in 2005—make the maglev concept far from shovel ready.

DesertXpress backers have been meeting with Reid during the past three years to gain his support. "Reid is keeping an open mind," says Ray B. Chambers, a partner in Chambers, Conlon & Hartwell LLC, DesertXpress's Washington lobbyist.

The Obama Administration is betting big on intercity rail. Transportation Secretary Ray LaHood told reporters in late February that the stimulus funding will "transform intercity transportation in America, reduce our carbon footprint, relieve congestion on the roads and in the skies, and take advantage of a mode of transportation that has already benefited Europe and Japan for many years."

The stimulus legislation makes the $8 billion available only through September 2012, however, so speed is of the essence.

A General Accountability Office report (GAO) due out late in March is expected to assess the cost-benefit and deliverability of high-speed rail projects being proposed around the country. Many of the projects are for incremental upgrades of existing systems using 110-mph trains. The most ambitious—in California and Florida—call for 185 to 200-mph trains on dedicated rights of way.

BOMBARDIER TRAINS

All of the design-build bidders for DesertXpress will have to bid using train technology supplied by Canada's Bombardier Inc., a key DesertXpress investor. Stone points out that trains account for only about 5-10% of the project cost so rail equipment procurement will have little effect on the bidding. "Ninety percent of the project will be sourced locally," he says.

Bombardier and Fluor Corp. were partners on a high-speed rail public-private partnership bid in Florida in 2003. The company formed a joint liability company with Granite Construction Inc. to deliver a DBOM monorail project in Las Vegas in 2004.

The other investors in DesertXpress will be identified in the draft EIS in March, says Stone. "Tens of millions" in private venture capital have been spent to advance the project, he says.

A CAPTIVE MARKET

Stone believes the I-15 corridor is a captive market. DesertXpress traffic studies, independently confirmed by a Federal Railroad Administration (FRA) consultant, predict 22% of the 35 million car trips per year will divert to the train. Air trips are at capacity now.

Trip times from Victorville to the Las Vegas strip, Stone says, will be 84 minutes by train vs. 3 hours by car. And though hotel occupancy in Las Vegas is way down, the recession's effect on cross border travel has been minimal—it's only about 5% down from earlier years. "We're recession resistant," he says.

Victorville is a 30 to 45-minute drive away for about 5 million people who live east of Los Angeles County, says Stone. It's less than two hours away from most of the rest of the region's 21 million people. Victorville also is located at a choke point of I-15, where the roadway narrows from four lanes to three in each direction.

DEBT FINANCE HURDLE

A financial team will be selected in a few months. As proposed now, 30-50% of the DesertXpress financing would be equity and the balance would be 35-year-plus nonrecourse debt backed by future operating revenues. "We're still a purely private venture, with one caveat—the international debt markets," says Stone.

To access the capital markets, DesertXpress's investors are hoping to get some help from the Obama Administration. DOT Secretary LaHood is scheduled to unveil a strategic plan for high-speed rail in April. Ideally, a commitment to leverage federal rail funds will be part of that program, says Chambers.

"It would be in the country's best interest to enhance the debt element," says Stone. ■

High-Speed Rail: Federal Rail Loan Fund Should Be 'TIFIA-ized'

Long-time rail lobbyist Ray B. Chambers believes the new stimulus law contains language that would allow the burst of new rail funds from Congress to be substantially leveraged through an existing Federal Railroad Administration (FRA) loan program he helped to create in 1998.

First, however, administrative changes would have to be made to that Railroad Rehabilitation & Improvement Financing (RRIF) program (see below), he says, to make the credit terms more attractive. His model is the TIFIA credit assistance program run by the Federal Highway Administration under the Transportation Infrastructure Finance and Innovation Act (TIFIA) of 1998.

TIFIA loans for up to one-third of project costs are available as subordinated debt at slightly above the federal borrowing rate (3.62% on Feb. 28) with a five-year grace period on loan repayment. RRIF may loan up to 100% of a project at the government's cost of money.

"This full financing," Chambers says, "is one of the great advantages of the RRIF program for rail projects large and small. It is my strong view that a subsidy 'TIFIAzing' the $35-billion RRIF account will create a substantial fund to jump-start the national high-speed rail network," says Chambers, who was founding partner of Chambers, Conlon & Hartwell LLC, and is currently an independent consultant and of counsel to CC&H. "This could also be of great value in rebuilding the vulnerable infrastructure of short line and regional railroads."

The big difference between the two loan programs is that RRIF requires borrowers to pay a credit-risk premium to cover the risk of default on the loans made by Treasury. TIFIA in the past has subsidized that premium with its appropriated funds. The program is short of funds right now, however, and is telling potential new borrowers that they must prepay the default risk premium themselves in order to get a TIFIA loan. DOT Secretary Ray LaHood is considering whether to use $200 million in discretionary funds for the stimulus to recapitalize the program.

Chambers believes states now could use some of their stimulus funds to pay the credit risk premium on a RRIF or TIFIA loan. Treasury could be directed to refund part or all of the money to states at the end of the amortization period if there is no default, he says.

Chambers also seeks to drive RRIF's lending cost down to as low as 1% for "projects of national significance or with a high public-interest content," like President Obama's high-speed rail lines or rebuilding small railroad infrastructure to preserve America's feeder rail network.

Chambers is working on RRIF and reauthorization proposals with two groups: the National Railroad Construction and Maintenance Association (NRC), and the Railroad Cooperation and Education Trust (RAILCET), which is an organization of 30 rail construction companies and the two unions with which they hold a national agreement. The RAILCET unions are the Laborers International and the Operating Engineers.

The transportation portion of the stimulus package created an $8-billion high-speed rail kitty, a $1.5-billion discretionary fund for states, and a $27.5-billion state-apportioned highway

High-Speed Rail: RRIF $35 Billion Loan Kitty Largely Untapped

The Federal Railroad Administration's (FRA) Railroad Rehabilitation & Improvement Financing (RRIF) program, created in 1998, authorizes a total of $35 billion in direct loans and loan guarantees to acquire, improve, or rehabilitate intermodal or rail equipment or facilities; refinance outstanding debt; and develop or establish new intermodal or railroad facilities.

Twenty-two loan agreements, most under $50 million, have been made since 2002. Direct loans can fund up to 100% of a project with repayment periods of up to 35 years and interest rates equal to the cost of borrowing to the government. Eligible borrowers include railroads, state and local governments, government-sponsored authorities and corporations, joint ventures that include at least one railroad, and limited-option freight shippers who intend to construct a new rail connection.

All federal financial assistance programs must pay for the cost to the government of providing that financial assistance. In most cases this is done with appropriations from Congress. Since the RRIF program does not have an appropriation, this cost must be borne by the applicant, or another entity on behalf of the applicant,through the payment of a credit risk premium (called credit risk subsidies in most other federal loan programs).

The FRA Administrator will calculate the amount of the premium, which is paid only if a loan is approved. Each applicant also must pay an investigation fee to cover FRA's costs regardless of whether the loan is approved. The fee may not exceed 0.5% of the requested loan amount, but it is often substantially less. ■

account, all of which Chambers says can be used to leverage RRIF loans by paying credit risk premium or lowering the interest rate or creating a five or six-year holiday on the repayment of principal. “Frankly, I see no reason why that could not be done under the stimulus law,” he says.

For example, he says, the $27.5-billion flexible highway fund states explicitly: “Eligible projects include freight and passenger rail transportation projects.” Further, the law states that eligible projects include those that involve the “ . . . combining of private sector and public sector funds, including the investment of public funds in private sector facility improvements.”

“From this language there does not seem to be any restriction on combining RRIF loans for those projects and no reason why stimulus grants could not be used to create an ‘investment of public funds’ which is a goal of the statute. In addition, the state apportioned program permits funding ‘on a private facility providing public benefits for highway users’.” Chambers says, “The public good of congestion relief is a principal benefit of all high-speed rail projects.”

“In the off-chance that some of the ‘green eye shade people’ at OMB and Treasury disagree with my theory and attempt to block this innovative finance, then we should change the statute,” Chambers says. “I am sure there will be different opinions on this approach, so we may ultimately have to seek legislative change.”

Working with rail unions and contractors, he says, “Our broader legislative proposal will certainly recommend two new trust funds, one for freight rail projects and one for passenger rail projects. A key component will be using trust fund grants to cover the public interest components of the RRIF loan program. We will call for grant payment of the credit risk premiums (which is in fact done in all other federal loan programs-except they are called ‘credit risk subsidies’); allowing a principal payment holiday of five years from the initiation of operations; and lowering the interest rate to 1% on high speed-rail projects or other projects with a high public-interest component.”

“If we succeed with this program,” Chambers says, “either under the existing stimulus law, or the successor to SAFETEA-LU, or both, there is no question in my mind that public-private partnerships in the high speed rail arena will have a whole new life.” ■

High-Speed Rail: Obama Puts Real Money on the Table

If high-speed rail is finally going to become a reality in the United States, private sector players and potential P3 partners want to get on board.

President Barack Obama won $8 billion for high-speed rail projects in the economic recovery package (stimulus) passed by Congress in February. His budget proposal calls for another $1 billion a year for the next five years. It’s the biggest federal commitment ever made for high-speed rail.

“This is something the president wants for his transportation legacy,” says Transportation Secretary Ray LaHood.

LaHood must deliver a strategic plan to Congress by mid-April, and interim guidelines for competitive grant applicants by mid-June. LaHood says he’s already given Obama a memo outlining how several regions of the country could get started quickly on high-speed rail.

At the same time, LaHood must decide how to proceed or coordinate with another high-speed initiative mandated by Congress last year. The Passenger Rail Investment and Improvement Act requires the Federal Railroad Administration (FRA) to seek proposals to finance, design and build projects in 11 priority corridors (PWF 12/08, p. 4). About 80 companies or groups from around the world, as well as more than a dozen state transportation departments or other public entities, delivered contact information to the FRA in January.

“Certainly the fact that everybody took the first step means that nobody wants to be sitting on the sidelines if this thing really moves,” says Richard White, executive vice president of AECOM Transportation. “The interest is extremely high in all circles across the country, if the circumstances are right."

The FRA's request for expressions of interest seeks detailed responses in September, but offers no stipend for the work or any guarantee of federal money to develop the projects. How that might change as a result of the stimulus package and the new priorities of the Obama administration is not known. A meeting to explain more about the RFEI requirements and process is anticipated in the spring.

The $8 billion in the stimulus plan will be available for intercity rail development, with a priority on high-speed rail, through Sept. 30, 2012. The act allows the FRA, a relatively small regulatory agency not focused on making grants, to retain one-fourth of one percent of the money for administrative costs.

The California High-Speed Rail Authority has already outlined how it could spend $2 billion of the money by the 2012 deadline on right-of-way, grade separation, and other work. The authority estimates that the Los Angeles to San Francisco portion could cost $33 billion, with financing including about $7 billion from public-private partnerships.

In November, California voters approved selling $9 billion in bonds for high-speed rail. However, the authority hasn't been able to tap any of that bond money because of the California budget crisis, causing a short-term cash crunch. As a result, the authority temporarily halted payment on engineering and design contracts and banned signing any new contracts. Gov. Arnold Schwarzenegger signed a budget Feb. 20, clearing the way for the state's Pooled Money Investment Board to once again prepare bond packages for sale. ■

Public Works FINANCING • published monthly since January 1988

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Publication Office
147 Elmer St., Westfield, NJ 07090

Subscription Price
Public Works Financing publishes 11 issues annually for a yearly price of $897 private sector; $697 government; $997 outside North America, payable in US dollars drawn on a US bank.

ISSN.#1068-0748

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TRANSPORTATION

❑ Europeans Protect PPPs From Crisis

Dwarfed by President Obama's vast financial stimulus package, European efforts to prop flagging economies are nevertheless lending a hand to the PPP business. The U.K. is plugging lending gaps created by inactive banks and France has eased its procurement rules. Germany, however, appears to have caused some PPP confusion with its attempt at economic stimulus.

U.K.

On March 3, the U.K. Government announced its plans to rescue a number of battered PFI (private finance initiative)-funded infrastructure projects around the U.K. by lending directly to them. "In total, £13bn (US$18.2 billion) of public investment in procurement will be safeguarded," Treasury says. "This protection will assure the future of a broad range of public infrastructure projects including £3.5bn of waste treatment and environmental projects, £3.1bn of transport projects and £2.4bn of schools projects. . . . Funding will be provided initially from unallocated funds and Departmental 'underspends' on previous projects. Equity investors will continue to bear the primary risk in these projects and, where available, private sector debt will continue to be provided."

These government loans will bear interest and will be repaid over the life of the project. The Treasury hopes to sell the loans prior to their maturity, when the credit markets improve.

Projects, such as the widening of the M25, have been unable to get bank loans. Analysts currently believe there is a £400 (US$570) million shortfall in the funding for the M25 and that the deadline for the project–2012, in time for the Olympics–is in jeopardy if funding isn't found soon. Over 20 banks lined up to back the project last summer, but many have walked away, leaving financial close months delayed. The project is officially due to start construction this spring, with advance works already in hand.

In the U.K. about 110 PFI projects, worth about £13 billion (US$18.2 billion), are in varying stages of procurement but have not yet reached financial close, according to Michael Parkinson, head of research at Brewin Dolphin Investment Banking.? Construction data company Barbour ABI for Building estimates that roughly £9.5 billion (US$13.4 billion) worth of projects are on hold because of the inability to get bank loans.

With banks on a lending go-slow, projects now face a 40% funding gap, estimates Tim Pearson, a director of Innisfree infrastructure fund and a spokesman for the U.K.'s PPP forum. The European Investment Bank is still good for around 40% and equity is having to rise from around 10% to 20%, he estimates. The cost to government over the next 12-18 months would be about £4 billion (US$5.7 billion), he believes.

The U.K.'s PPP market began slowing down soon after the banking crisis began, and got gloomier last fall. In the year to August 2007, 37 deals closed, with a combined value of £3.6 billion (US$5.2 billion), according to finance ministry data. In the corresponding period a year later, the number of deals closed fell to 25. They were worth more, at £4 billion (US$5.7 billion), but two-thirds of that was on one defense project.

Nevertheless, "deals are still closing. PFI has not been stopped in its tracks," says Nick Greenwood, a project director at Partnerships U.K. Some British lenders, such as the now state-controlled Royal Bank of Scotland, have stopped backing PPPs. And "by and large, there are no bond issues in the PFI market and there haven't been for the whole of 2008," he adds.

But "there is still a banking market for PFIs," claims Greenwood, citing continuing interest from European and Japanese institutions. Many banks have more pressing calls on their capital "but from a credit perspective, nobody has challenged PFI as an asset class," he adds. Among active banks that Greenwood cites are some from France and Germany, where PPPs are also impaired by the credit crisis.

FRANCE

To make it easier to raise debt, the French government has amended PPP procurement rules for two years. The top constitutional court, Conseil d'État, in mid-February approved a measure allowing the separation of technical and financial bids for PPPs, explains a legal adviser for the construction association Fédération Nationale des Travaux Publics, Paris.

The move aims to increase the number of banks available to a preferred bidder, rather than forcing the dwindling number of lenders to commit themselves at an earlier stage. "We think it's a good idea," says Françoise Lavarde, deputy head of the Institut de la Gestion Déléguée, a not-for-profit public services think tank. "We still have some big projects . . . but they are not signed yet," she says.

Germany

In Germany, the federal stimulus package appears to be having a negative impact on PPP deal flow, suspect officials at the contractor's body Hauptverband der Deutschen Bauindustrie (HDB). Due for legislative approval late this month, the package represents an additional Euro 8 billion (US$10 billion) of total construction funding for each of the next two years, estimates HDB's chief economist Heiko Stiepelmann.

However, sub-national bodies may be delaying PPPs, hoping the new funds will allow conventional procurement, says Stiepelmann. HDB and other industry groups have been urging the federal government to clarify how PPP should fit in with its construction stimulus.

❑ Portuguese Road Deal Closes

The Iberian consortium Grupo Estradas da Planicie has financially closed a 30-year design, build, finance, operate and maintain contract for the Baixo Alentejo concession, covering 344 km of highways. The sponsors have committed 30% equity towards the Euro 565-million (US$717 million) total financing.

Financing includes Euro 190 million (US$241 million) in debt from seven banks arranged by Société Générale, the team's financial advisor. The European Investment Bank is lending another Euro 210 million (US$265 million), also with 27-year tenor.

The consortium will earn 55% of its revenues from state-owned Estradas de Portugal on an availability basis. It will also earn fees linked to toll revenues it collects on behalf of the highways agency. Grupo Estradas da Planicie is owned by Spain's Iridium Concesiones de Infraestructuras, S.A., with 49.5%, as well as Edifer (20%), Conduril (13%) and Tecnovia (7.5%).

With a construction cost of Euro 400 million (US$508 million), the contract covers two road sections. One runs inland from coastal Sines to Beja, near the Spanish border. The other section links Beja and Évora, in the north. Construction will start in the next six months and is estimated to end by mid-2012.

❑ PPPs To Complete Barcelona Metro Line

Having procured running tunnels of Barcelona metro's new Line 9 conventionally, Spain's Catalonia regional government will complete stations using privately financed concessions. The region's railroad infrastructure agency, IFERCAT, has signed contracts for two sections of the line and has yet to decide how to procure the remaining two.

The 47.8-km line, with 52 stations, is due to open in phases starting in 2012. Consortiums led by Fomento de Construcciones y Contratas (FCC) and a local unit of Iridium Concesiones de Infraestructuras, will complete stations in sections I and IV of the line, respectively. The consortiums will receive availability-based annual fees.

FCC and Iridium have begun work on their stations after closing bridge loans for Euro 671.8 million (US$856 million) and Euro 491.8 million (US$625 million) respectively, with Banco Santander, BBVA, La Caixa and Caja Madrid. They have committed part of their equity, which will rise to 10% when long-term debts are secured.

FCC's consortium will invest Euro 1 billion (US$1.3 billion) under a 32-year, eight-month concession. It will earn an annual fee of Euro 79.4 million (US$101 million). FCC holds 49% of the team, OHL has 36% and the local firm Copisa owns 15%.

The Iridium consortium will invest Euro 620 million (US$787 million) and will be paid Euro 52 million (US$66 million) annually under a 31-year, nine-month concession. The team is led by Iridium's Cat Desenvolupement de Concessions Catalanes with 39.6%. Acciona has 24.7%, Comsa 24.7%, and Acsa 11%.

❑ Last German Highway Deal Goes to Vinci

Germany's Baden-Württemberg state government this month named the preferred bidder for the country's last current A-Model highway PPP deal. A consortium led by France's Vinci Group won the 30-year contract for the A5 between Malsch, near Baden-Baden, and Offenburg, west of Stuttgart. But its main bidding partner Hochtief PPP Solutions is quitting, unhappy with the risk profile.

Valued at Euro 600 million (US$756 million), the contract calls for refurbishing an existing 60 km of highway and widening another 41.5 km. Under the A-Model system, concessionaires are eligible for construction grants as well as revenues based on the number of trucks weighing over 12 tons using the highway in question. No subsidy is being paid for the A5, according to Vinci.

Vinci has 50% of the consortium, which also includes the local firm Südgruppe. Uneasy about the project, Hochtief PPP Solutions retained 0.1% and will shed that. "We are avoiding [the] negative effects on our profit and loss account [caused by] the unbalanced distribution of chances and risks demanded by the client," explains a spokesman.

Given tough market conditions, "all activities worldwide must be subjected to renewed critical examination, particularly in respect of the anticipated return and the risk/return profile," says the spokesman. However, Hochtief retains an interest in "attractively shaped invitations to tender" for future highway deals, he adds.

The rival bidding group of Bilfinger Berger and John Laing was also uneasy about its original bid, made before last fall's market turmoil. It revised its offer before Christmas and was unsure if it would remain compliant.

The same team struggled last year to close the Euro 650 million (US$820 million) A1 contract, as its mandated lead arrangers, Royal Bank of Scotland, RBC and West LB, pulled out. The banks were replaced by HypoVereinsbank, Caja Madrid and DZ Bank. The debt was flexed, margins increased and the underwritten amount was reduced, according to Bilfinger Berger.

The A5 is the second A-Model success for Vinci, following the A4 in 2007. The consortium's financial adviser on the A5 is Deutsche Bank and Freshfields Bruckhaus Deringer is its lawyer.

❑ Ferrovial Offers Shares For Cintra

Spain's Ferrovial Group is seeking to acquire the 32% of toll road developer Cintra, Concesionaria de Infraestructuras de Transporte, S.A that it does not hold. Ferrovial, which plans to delist Cintra, is already highly leveraged and not interested in a cash transaction, so it will be an all-share deal.

To set relative share values, four independent Cintra board directors named Merrill Lynch as financial advisor. Ferrovial will decide on the final swap deal. Since Ferrovial announced its acquisition plan in December, Cintra shares have fallen some 27% by late February on the Madrid stock exchange. Ferrovial holds debt of Euro 27 billion (US$34.4 billion), 9.5 times this year's EBITDA.

The merger would give Ferrovial access to Euro 400 million (US$510 million) in cash held by Cintra. Additionally, Cintra is set to raise a further Euro 1 billion (US$1.255 billion) from the sale of its car park business and five Chilean highways.

On February 15, Cintra reportedly received non-binding bids for its car parks, valued last year at Euro 466 million (US$594 million), from France's Vinci, S.A., the U.K.'s Bridgepoint International,and the Spanish group Isolux Corsan. Sale of the Chilean toll roads, after payment of debt to local banks, will raise Euro 500 million (US$627 million).

. . . Latin American News

❑ Mexico's FARAC II Cancelled

Mexico's Secretaria de Transportes y Comunicaciones (SCT) cancelled an auction for sale of Proyecto del Pacífico toll road package when the bids received by the February 27 deadline fell below SCT's minimum sale amount. (SCT disclosed this amount only to bidders.)

SCT has said it will work with the state bank, Banco Nacional de Obras y Servicios Püblicos (Banobras), and the state infrastructure fund, Fondo Nacional de Infraestructuras (FONADIN), managed by Banobras, to alter the package in response to the current credit crunch. International bidders had previously approached SCT with suggestions to fragment the Pacífico toll road package, according to informed sources.

The Pacífico toll roads package, also known as Fonadin II, is 810 km of existing highways and new construction. Because of the uncertainty of traffic forecasts, developers and lenders were wary of commiting to a large package that combined existing roads and new construction. To help the developers, Banobras had approved a Mexican pesos 18-billion (US$1.3 billion) senior loan with a 20-25 year tenor, and Fonadin was to provide the winner with the Mexican peso equivalent of US$300 million in subordinated debt. Estimates put the value of the deal at roughly US$2.3 billion, so the winner would need to raise another US$700 million equivalent in Mexican pesos. Mexico requires the deal to be structured in pesos, which seemed to be impossible in this market.

SCT had twice before extended the bid date to allow bidders time to raise financing after the original December 2008 Pacífico package launch was halted by the global credit crisis.

This time bids were submitted by two local teams formed by Promotora de Desarrollo de America Latina, also known as IDEAL, and units of Grupo ICA forming Consorcio Integrado por Controladora de Operaciones de Infraestructura.

❑ DP World Plans Peruvian Investment

Dubai Ports World (DP) has proposed to the Peruvian government a 30-year concession for a US$1.3-billion container hub in Callao Bay serving the Latin American Pacific region. The hub would form an extension of the firm's emerging US$617-million Muelle Sur container terminal, due for completion under a concession in early 2010.

DP plans to invest US$630 million in building its proposed Muelle Norte terminal by 2015. Another US$315 million would be invested by 2020 and a final US$380 million by 2025. At three million 20-foot containers (TEU) a year, the new terminal's capacity would be twice that of Muelle Sur's.

Container handling charges at the new terminal, says DP, would be US$118 a unit and US$80 at the Muelle Sur facility. The state's operator, Enapu, charges US$500 at its existing terminal. DP has 70% of the Muelle Sur concession through its subsidiary P&O. The remaining 30% is held by Spain's Bilbao-based Uniport.

❑ Chile Delays US$1-Billion Tunnel

Because of engineering design revisions, Chile's public works ministry has postponed, by a year, bidding for a US$1-billion road tunnel to complete Santiago's Americo Vespucio ring road. The ministry is due in March to call for bids from design firms to review technical plans for the 13-km Vespucio Oriente, including 7 km of tunnels.

Prequalified bidders for the 30-year concession connecting the beltway's operating northern and southern segments, have been notified of the delay. They include Brazil's Companhia de Concessöes Rodoviarias, Spain's OHL, and Cintra teamed with Sweden's Skanska.

Concessionaires of the existing highway sections on either side of the project have also been formally notified. Iridium Concesiones de Infraestructura and Germany's Hochtief have the Americo Vespucio Norte Express contract. Itinere Infraestructuras currently holds the Americo Vespucio Sur concession, due to be transferred to Italy's Atlantia.

❑ Spain's Isolux-Corsan Breaks Into Brazil

Brazil's federal highway authority (ANTT) has awarded a 25-year concession for 680 km of federal highways in Bahia state to the RodoBahia consortium. ANTT took offers on January 21 from two teams bidding on lowest tolls, with a cap of Reais 2.80 (US$1.22), for sections of BR 116 and BR 324.

The winning consortium is 75%-controlled by Spain's Isolux Corsan, making its Brazilian debut. It won with a bid of Reais 2.212 (US$0.96). Tariffs will be revised annually using Brazil's consumer index. Local firms own the consortium's remaining 25%. The losing offer of Reais 2.517 (US$1.09) was bid by local firms, including a subsidiary of Canada's Conestoga-Rovers & Associates.

To attract bidders, ANTT decided not to require the up-front concession payment from the winning bidder, a system introduced to Brazil by ANTT. It also replaced a novel sliding rate of return on investment with a fixed 8.5% return. However, major local road operators still stayed away.

The contract, due to be signed before May, requires Reais 2.1 billion (US$886 million) of improvements, with about 70% of the investment made in the initial nine years. RodoBahia will double to four lanes sections of BR 116 by a fixed date

U.S. & Canadian Transportation Projects Scorecard

Contract Amount in nominal $ ($ millions)	Project Name	Owner	Private Risk	Notice to Proceed	Sponsors (DB component)
3,850	**Indiana Toll Road, IN**	Indiana Finance Authority	75-yr lease	6/06	Cintra Concessions/Macquarie
2,600	**ETR 407, Toronto, Ont.**	Ontario Ministry of Trans.	99-yr. lease	5/99	Cintra Concessions/Macquarie
1,998	**I-495 HOT Lanes, VA**	Virginia DOT	DBFO	7/08	Transurban/Fluor ($1.4bn Fluor/Lane)
1,830	**Chicago Skyway, IL**	City of Chicago	99-yr lease	1/05	Cintra Concessions/Macquarie
1,674	**Hudson-Bergen Lt. Rail , NJ**	NJ Transit	DB/Equip+O&M	10/96	Wash. Group/Itochu ($1.15bn Perini/Slattery)
1,650	**Canada Line, Vancouver, BC**	Gr. Vancouver Transit Auth,	DBFO	8/05	SNC Lavalin/Serco ($1.2bn SNC Lavalin)
1,430	**A 30, Montreal, Quebec**	Ministry of Transport	DBFO	9/08	Acciona/Iridium (Dragados/SICE/Arup)
1,376	**I-15 Reconstruction, UT**	Utah DOT	DB	3/97	Kiewit/Granite/Washington Group
1,369	**SH 130 Seg. 1-4, TX**	Texas DOT	DB	7/02	Fluor/Balfour Beatty/DMJM + Harris
1,358	**SH 130 Segments 5-6, TX**	Texas DOT	DBFO	3/08	Cintra/Zachy
1,340	**Edmonton, Alb., Orbital (NW)**	Alberta Transportation	DBFO	7/08	Bilfinger Berger (Flatiron/Parsons/Graham)
1,186	**T-REX Road/Rail Exp., CO**	Colo. DOT/RTD	DB	5/01	Kiewit/Parsons Trans. Group
980	**Jamaica-JFK Airtrain, NY**	Port Auth. NY/NJ	DB/Equip+O&M	9/99	Skanska/Bombardier ($980m Slattery/Perini)
814	**Golden Ears Bridge, BC**	TransLink/Partnerships BC	DBFO	3/06	Bilfinger BOT ($746m Bilfinger/CH2M Hill)
803	**Foothill Eastern Toll Road, CA**	Trans. Corridor Agencies	DB	6/95	Flatiron/Wayss & Freitag/Sukut/Obayashi
790	**San Joaquin Hills Toll Rd., CA**	Trans. Corridor Agencies	DB	9/91	Kiewit/Granite
773	**SR 125 So. + Connectors, CA**	San Diego Expressway L.P.	DBFO	5/03	Macquarie ($653m Washington/Fluor)
730	**Confederation Bridge, PEI**	Public Works Canada	DBOM	10/93	Vinci/BPC Marine/Ballast Nedam/SCI
712	**Alameda Corridor, CA**	Alameda Corridor Trans. Auth.	DB	11/98	Tutor-Saliba/O&G Indus/Pars. Grp + HNTB
689	**JFK Terminal 4, NY**	Port Auth. NY/NJ	DBFO	5/97	Schiphol/LCOR ($689m Fluor/Morse Diesel)
645	**Foothill South Toll Road, CA**	Trans. Corridor Agencies	DB	11/98	Flatiron/HBG/Sukut/Fluor Daniel
615	**Tacoma Narrows Bridge, WA**	Washington State DOT	DB	11/02	Bechtel/Kiewit
611	**Pocahontas Parkway Lease, VA**	Virginia DOT	99-yr lease	6/06	Transurban ($45m Fluor/WGI)
603	**Northwest Parkway Lease, CO**	Norhwest Parkway Authority	99-yr lease	5/07	BRISA/CCR
600	**Eastside Light Rail, CA**	Los Angeles County MTA	DB	7/04	Washington Group/Obayashi/Shimmick
597	**Sea-to-Sky Highway, BC**	BC MOT/Partnerships BC	DBFO	9/05	Macquarie ($354m Kiewit/Miller/Capilano)
555	**Northeast Stoney Trai**l, **Albta.**	Province of Alberta	DBFO	2/07	Bilfinger ($345m Flatiron/Graham/Parsons)
541	**Cooper River Bridg**e, **SC**	SC DOT	DB	7/01	Flatiron/Skanska + Parsons Brinckerhoff
530	**BART SF. Airport Ext., CA**	Bay Area Rapid Transit Dist.	DB	5/98	Tutor-Saliba/Slattery + HNTB
508	**Trenton River Light Rail, NJ**	NJ Transit	DB/Equip+O&M	6/99	Bechtel/Conti/Foster/Bombardier
500	**Trans Canada Highway, NB**	NB Trans Ministry	DBOM	11/98	Dragados-FCC/Vinci/Miller Paving
464	**Intercounty Connector, MD**	Maryland DOT	DB	6/07	Granite/Corman/GA & FC Waggoner
420	**I-64 St. Louis, MO**	Missouri DOT	DB	12/06	Granite Construction
395	**Edmonton Orbital SE, Altba.**	Alberta Min. of Trans.	DBOM	1/05	Macquarie/PCL/LaFarge
390	**SR 22 Improvements, CA**	Orange Cty CA Trans. Auth.	DB	9/04	Granite/C.C. Myers/Steve P. Rados Inc.
386	**Conway Bypass Highway, SC**	SC DOT	DB	3/98	Fluor Daniel
385	**Route 3 North, MA**	Mass. Highways	DBF/Maint.	8/00	Modern Continental/Roy Jorgenson
350	**Dulles Greenway Toll Road, VA**	TRIP II	DBFO	9/93	TRIP II ($150m Brown & Root)
348	**John James Audubon Br., LA**	LA DOTD	DB	5/06	Flatiron/Granite/Parsons
343	**Las Vegas Monorail, NV**	L.V. Monorail LLC	DB/Equip+O&M	10/00	Bombardier/Granite
328	**281 North Toll, TX**	Alamo Reg. Mobility Auth.	DB	5/08	Fluor/Balfour Beatty
324	**E-470 Beltway, Seg. 2&3, CO**	E-470 Public Hway Auth.	DB	8/95	Washington Group Intl/Fluor Daniel

and will tackle the rest as traffic demands. Road maintenance will take the other 30% of investment. Charging will begin when Reais 125 million (US$53 million) of tolling infrastructure is built. ■

U.S. & Canadian Transportation Projects Scorecard

Contract Amount in nominal $ ($ millions)	Project Name	Owner	Private Risk	Notice to Proceed	Sponsor Constructors (DB component)
295	**US 550 (was SR 44), NM**	New Mex. SH&TD	D/CM/Warranty	9/98	Koch Materials ($295m CH2M Hill/Flatiron)
291	**Hiawatha Light Rail, MN**	Minn. DOT	DB	9/00	Granite/C.S. McCrossan
267	**Gold Line Light Rail, CA**	LA-Pasadena Blue Line Const.	DB	4/00	Kiewit/Washington Group
243	**I-10 Bridges Escambia Bay, FL**	Florida DOT	DB	4/05	Tidewater Skanska
238	**TH 212, MN**	Minnesota DOT	DB	8/05	Fluor/Edward Kraemer/Ames
236	**Rt. 288, VA**	Virginia DOT	DB/Warranty	12/00	Koch/APAC/CH2M Hill
234	**St. Anthony Falls Bridge, MN**	MinnDOT	DB	11/07	Flatiron/Manson + FIGG
233	**E-470 Beltway, Seg. 4, CO**	E-470 Public Hway Auth.	DB	1/00	Kiewit/Washington Group
232	**Palm Beach-Ft. Laud. Rail, FL**	Tri-County Commuter Rail Auth	DB	8/01	Herzog/Granite/Washington Group
232	**US 52 Reconstruction, MN**	Minnesota DOT	DB	2/03	Fluor/Edward Kraemer/Ames
226	**Carolina Bays Pkwy, SC**	SC DOT	DB	11/99	Flatiron/Tidewater
323	**E-470 Seg. 1, CO**	E-470 Public Hway Auth.	DB	7/89	Fluor/Morrison Knudsen
220	**Blue Line Extension, DC**	WMATA	DB	4/02	Lane/Granite/Slattery Skanska
200	**Kicking Horse Canyon, BC**	BC Min. of Trans.	DBFO	2005	Bilfinger ($114m Flatiron/Parsons)
198	**Rt. 28 Corridor, VA**	VDOT	DB	9/02	Clark Const./Shirley Contracting Corp.
192	**US 17 Washington Bypass, NC**	NC DOT	DB	2/06	Flatiron/United Contractors
191	**Southern Connector, SC**	Connector 2000 Assn.	DB/F	2/98	Interwest ($na Thrift Bros.)
191	**Atl. City-Brigantine Tunnel, NJ**	NJ DOT	DB/F	10/97	Mirage Resorts ($191m Yonkers/Granite)
184	**U.S. 60 Upgrade, AZ**	Arizona DOT	DB	5/01	Granite/Sundt
180	**Northwest Parkway, CO**	NWP Public Highway Auth.	DB	6/01	Washington Group/Kiewit Western
178	**US 183, Austin, TX**	Central Tex. Mobility Auth.	DB	12/04	Granite/J.D. Abrams + URS
171	**Reno ReTRAC, NV**	City of Reno	DB	7/02	Granite/Parsons Trans. Group
170	**I-15 Bridge Replacements, UT**	Utah DOT	DB	1/06	Granite/Ralph L. Wadsworth Const.
148	**US Route 1, Key West, FL**	Florida DOT	DB	11/04	Granite w/Jacobs
136	**I-494 Reconstruction, MN**	Minnesota DOT	DB	8/04	Granite/C.S. McCrossan
132	**U.S. 64 Knightdale Bypass, NC**	North Carolina DOT	DB	6/02	Flatiron/Lane Const. Corp.
130	**CPTC 91 Express Lanes, ,CA**	CalTrans	DBFO	7/93	Level 3/Cofiroute/Granite (sold 1/03)
130	**U.S. 20, OR**	Oregon DOT	DB	7/05	Granite/TY Lin International
129	**U.S. 70, NM**	New Mex. SH&TD	DB	7/02	Granite/Sundt/James Hamilton+URS
125	**Portland Airport Max Rail, OR**	Tri Met	DB	10/98	Bechtel
120	**Okanagan Bridge, B.C.**	BC Dept. of Transport	DBFO	5/07	SNC Lavalin
102	**I-4 Over St. John's River, FL**	Florida DOT	DB	1/01	Granite/PCL Civil Constructors
86	**I-17 Thomas to Peoria, AZ**	Arizona DOT	DB	1/99	Granite/Sundt
85	**Camino Colombia Bypass, TX**	Texas DOT	DBFO	6/99	Granite + Carter & Burgess
83	**Highway 104 Cobequid Pass**	Nova Scotia MOT	DBOM	5/96	CHIC: Aecom/AMEC/Dufferin
82	**Hathaway Bridge, FL**	Florida DOT	DB/Warranty	6/00	Granite
81	**Sawgrass Expwy Widen, FL**	Fla. Turnpike Enterprise	DB	4/05	APAC/Parsons Trans. Group
57	**Anton Anderson Tunnel, AK**	Alaska DOT	DB	9/98	Kiewit +Hatch Mott MacDonald)
56	**Belt Parkway, NY**	NYC DOT	DB	7/02	Granite Halmar + Gannett Fleming
54	**Carolina Bays, ph. 2, SC**	South Carolina DOT	DB	5/03	APAC + LPA Group
53	**New River Bridge, FL**	Tri-County Commuter Rail	DB	2/03	Washington Group

GLOBAL NEWS BRIEFS

FEBRUARY 2009

AIRPORTS

Lima Airport Partners: The concessionaire for Manuel Benitez international airport sold US$165 million worth of international bonds to repay loans from the U.S. Overseas Private Investment Corporation and Germany's KfW., and to complete a new terminal. LAP is owned 70% by Germany's Fraport, 20% by the International Finance Corporation, and 10% by Peruvian funds.

BUILDIINGS

Chile health: Bidders for Chile's Maipu and La Florida hospitals have urged the health ministry to factor in higher loan charges by local banks in the 20-year concessions, structured two years ago. The hospitals are to be bid this year.

Hospital sale: HSBC Infrastructure Company Ltd. (HICL) this month bought Paris-based Bouygues's 19% equity in the Barnet Hospital PFI project for £1.7 million (US$2.4 million) cash, raising its interest to 100%. Bouygues's facilities management company Ecovert, will continue maintaining the buildings in London, where construction ended in April 2000. HICL, a listed fund, has 27, mainly U.K., infrastructure PPPs. The fund's interest in the portfolio's capital cost amounts to £2.6 billion (US$3.7 billion), equivalent to around 53% of the total.

Grain terminal: Réunion Island's Chamber of Commerce and Industry has signed a 30-year finance, build and maintain contract for a Euro 38-million (US$48 million) cereal terminal at Port Réunion with the SAS Terminal Céréalier consortium. It is the first PPP contract in Reunion, one of France's overseas departments and territories. The consortium includes Caisse des Dépôts et Consignations, Groupe OCEOR and a local Vinci unit OCIDIM. Construction is due to end in 2011.

ROADS

Brazilian roads: Brazil's national highway authority will, this June, invite offers for sections of BR 381 and BR 116 in Minas Gerais state, totalling 2,086 km. It will call for bids in November for 1,608 km of roads on the BR 470, BR 101 and BR 040 routes, in Minas Gerais.

Mexican buy: Spain's foreign development agency, Cofides, will acquire 24% of Aldesa's Mexican concessions for Euro 13.5 million (US$17.8 million). Aldesa holds highway concessions in Mexico's Chiapas state.

Slovak road: A consortium led by Bouygues, and including its Colas and Travaux Publics unit, was this month appointed preferred bidder for the concession to built 75 km of the D1 highway in Slovakia. Other consortium members include Doprastav, Intertoll-Europe, Mota-Engil, Váhostav.

Spain 'no truck' road: Valencia, Spain, has launched a novel plan for a 72-km toll highway, parallel to A3, for vehicles up to 3.5 tonnes only. The local government intends to call for bids for a 27-km stretch to Cheste.

SEAPORTS

El Salvador port privatization: El Salvador's legislature is preparing for the privatization of the recently completed La Unión-Acajutla Caribbean port. Draft legislation calls for an operator to pay US$1.2 million annnual rent plus a share of revenues, to help pay off the Japanese loans raised for the port's construction.

WATER

Australia desal: ACCIONA Agua, United Utilities, McConnell Dowell, and Abigroup Contractors, are preferred bidder to design, build and operate a seawater desalination plant at Port Stanvac, near Adelaide. The $1.4 billion Australian dollar AdelaideAqua contract includes a dedicated water distribution pipeline.

The renewable energy-powered plant will deliver 150,000 cu m of water a day by 2010 and double that by 2012, making the reverse osmosis plant the largest of its kind. The plant will deliver a quarter of the annual water needs of Adelaide's one million-plus inhabitants.

Desalter cash: Abu Dhabi's Shuweihat II independent water and power plant sponsors have secured a $900 million, nine-month bridge loan towards construction. The bank club includes Bayern LB, KfW IPEX, Calyon, Natixis, Standard Chartered Bank and National Bank of Abu Dhabi. The greenfield plant, 280 km from Al Taweelah, will generate 1,500 MW of electricity and 100 million gallons of water a day. Abu Dhabi Water and Electricity Authority owns 60% of the project and GDF SUEZ has the rest.

Saudi Water: France-based Veolia Water has won a five-year, Euro 605-million (US$760 million) O&M contract from Sipchem covering its Saudi Arabian Acetyl Complex. It is Veolia Water's firsindustrial operation contract.

COUNTRY AND COMPANY NEWS

Bilfinger Berger: Germany's Bilfinger Berger reports a 350% increase in 2008 in EBIT from concessions to Euro 9 million (US$11.3 million). In the year, concession numbers went up to 24 from 18, with equity committed rising 81% to Euro 291 million (US$367 million). Equity paid in increased 42% to Euro 101 million (US$127 million). The net present value of its concessions rose 29% to Euro 154 million (US$194 million), assuming a 10.5% average discount rate. Group sales rose 16% to Euro 10.7 billion (US$13.5 billion) yielding Euro 290 million (US$365 million) EBIT, up 30%. BB has this year closed another deal, a highway DBFO in Scotland.

Itinere sale: Citi Infrastructure Partners aims in March to bid for 100% of Spain's Itinere Infraestructuras, having obtained European Union approval. Spanish regulatory authorities are expected to approve the acquisition, due for closure in May. JP Morgan and Citi are advising Citi Infrastructure, which is owned 15% by Citi.

Latin links: A South American infrastructure council to coordinate projects good for regional integration is due to be formed this April. It will include Argentina, Bolivia, Brazil, Chile, Colombia, Peru, Ecuador, Paraguay, Uruguay and Venezuela. Guyana and Suriname may also join.

Skanska: Sweden's Skanska this month posted a 52% decline in revenue in 2008 in its infrastructure development business, to SEK55 million (US$6.2 million). The SEK 289 million (US$33 million) operating income increase, to SEK396 million (US$45 million), stems largely from Skanska's disposal of its interest in Brazil's Ponte de Pedra hydro plant. PPP volumes remain large in the U.K., says Skanska, and are growing in eastern Europe. Group sales rose 3.5% to SEK143.7 billion (US$16.4 billion) while operating income fell 24% to SEK4 billion (US$455 million).

Transurban: Australia's Transurban Group decreased its EBITDA in the second half of 2008 by 6.5% to A$284.4 million (US$182 million) below the corresponding period in 2007. Including one-off items, the underlying EBITDA rose 11.6% to A$297.3 million (US$190 million). Australia contributed a 9.7% revenue rise to A$415.8 million (US$266 million).

In Virginia, U.S, traffic on Transurban's Pocahontas 895 fell 10.1%, but a toll rate increase boosted revenue 4.4%. Construction of the Richmond Airport-Pocahontas Parkway highways, for which Transurban has the O&M contract, is due to start this March. Negotiations continue over the 94 km I-95/395 HOV/Bus/HOT lane project in Northern Virginia.

Vinci Group: France's Vinci group reports a 4.5% increase in concession sales to Euro 4.8 billion (US$6 billion) in 2008 over the year before, including some Euro 4 billion (US$5 billion) from its French toll road companies, ASF, ESCOTA and Cofiroute. French toll road revenues rose 3.2%, despite a small dip in traffic. Revenue from other concessions went up 15% to Euro 193 million (US$243 million), partly due to new deals, including Germany's A4 highway and France's Clermont-Ferrand Auvergne airport. Global car park revenues rose 11% to Euro 622 million (US$784 million). Group sales increased 10% to Euro 33.5 billion (US$42.2 billion).

Are Performance Bonds the Biggest Hurdle to P3's in the US?

by Matt Girard, Flatiron Constructors, Inc.

The P3 industry in the U.S. is playing catch-up. Compared to places like Spain, U.K., Australia, and more recently Canada, the U.S. is substantially behind in reaping the benefits of P3 deals. There are many reasons for this lagging position, including politics, private sector unfamiliarity, and public concerns over loss of control.

A close look suggests another primary reason, and that is the requirement for surety industry provided bonds (aka construction performance bonds). These performance bonds are mostly unheard of outside of Canada and the U.S., yet the US continues to play catch-up to Canada. One primary reason is that most Canadian projects don't require performance bonds on P3's. Why not?

P3 contract structure. A well structured P3 contract allows for the private sector to collect revenues (i.e. tolls/farebox revenue, or availability payments) only after the construction is complete and the facility is operational. In addition, these revenues only continue if the construction is sound and the facility maintains operations.

The historical purpose of a performance bond is to protect the public agency in the standard construction contract where they have paid interim payments during construction only to see the contractor not "perform".

In a P3 structure, the financial risk of non-performance by the contractor is now shed to those who have paid the contractor for the work, the equity and debt providers (i.e. lenders) in the P3 deal. The public sector only makes payments after construction is complete, and will only continue making payments if the facility continues operations. Therefore, the reasoning for a performance bond to the public agency no longer exists.

Lender requirements. The lenders now own the financial risk of non-performance by the contractor, and perform the due diligence as to what they will require from the contractor to protect themselves regarding this possibility. This due diligence normally requires two items from the contractor performing the work: (1) parent company guarantees from a very strong and financially sound company; and (2) irrevocable and unconditional letters of credit (LC's) in the amount of 10-20% of the construction value. Lenders typically do not mandate performance bonds.

Most public agencies, especially the larger State DOT's, understand the issue very well. A number of them have attempted to resolve the issue by changing state law and modify the existing 100% performance bonding requirements for P3's specifically. These attempts have typically focused on reducing the face value of the bond required to 25% of the project size, or to cap the required bond value at $250 million. With many P3 projects in the multi-billion dollar construction value range, this represents substantially less bonding being required by the agencies.

However, this lowered bonding requirement does not solve the issue. The surety industry's approach to these reduced value P3 bonds is that they still assess the full value of the project on (1) the bonding cost for that project, and (2) the contractor's overall company bonding limit.

Therefore, in this current state of P3 bonding requirements, the private sector contracting community faces a hurdle. They face the reality that on a single project they may substantially tap into both their corporate LC cap, as well as their bonding cap. That's not a prudent business decision when they can pursue other projects that require one or the other, but typically not both.

It's also not a prudent decision by the procuring agency considering these projects already have a limited pool of potential bidders due to their massive size, and these bonding requirements will likely make the number of players even smaller. Agencies want more competition, not less.

There is one simple solution to this significant problem, and that is to work towards changing state law such that performance bonds are not required on properly structured P3 contracts. ■

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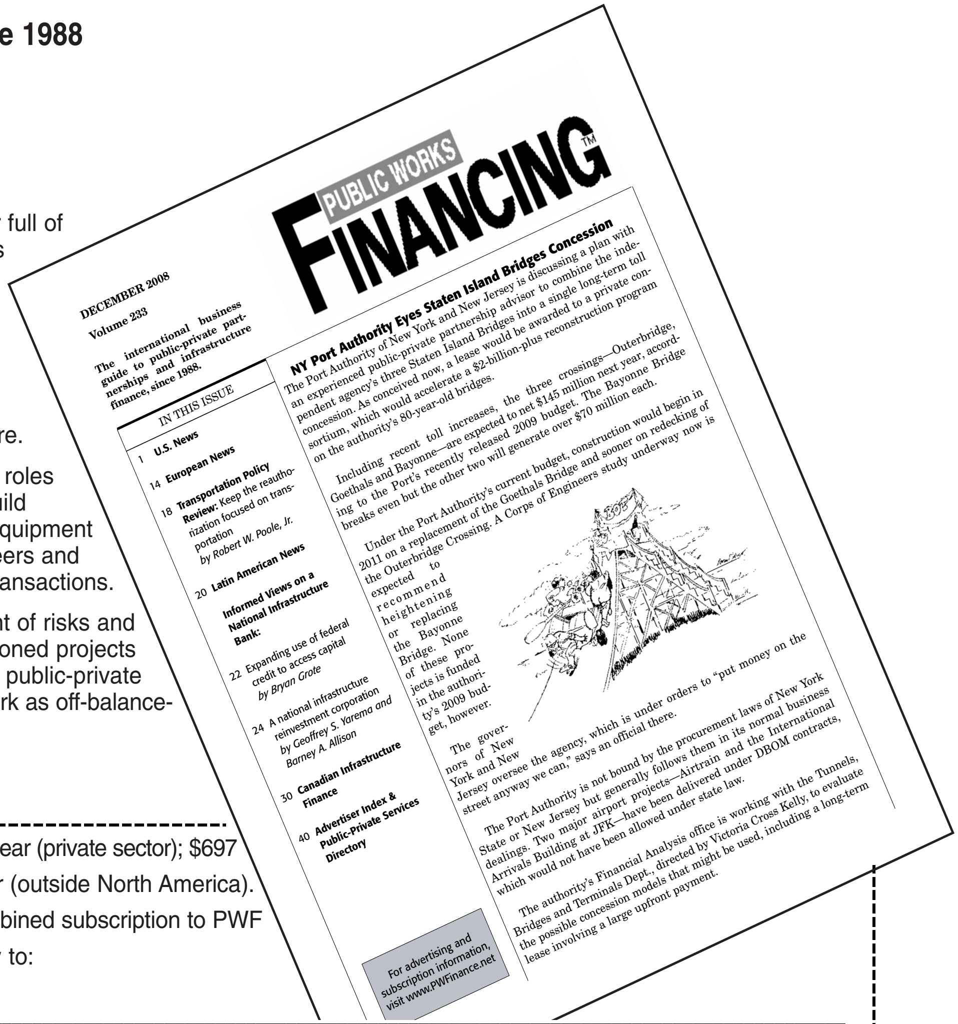

PUBLIC WORKS FINANCING™

DECEMBER 2008

Volume 233

The international business guide to public-private partnerships and infrastructure finance, since 1988.

IN THIS ISSUE

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NY Port Authority Eyes Staten Island Bridges Concession

The Port Authority of New York and New Jersey is discussing a plan with an experienced public-private partnership advisor to combine the independent agency's three Staten Island Bridges into a single long-term toll concession. As conceived now, a lease would be awarded to a private consortium, which would accelerate a $2-billion-plus reconstruction program on the authority's 80-year-old bridges.

Including recent toll increases, the three crossings—Outerbridge, Goethals and Bayonne—are expected to net $145 million next year, according to the Port's recently released 2009 budget. The Bayonne Bridge breaks even but the other two will generate over $70 million each.

Under the Port Authority's current budget, construction would begin in 2011 on a replacement of the Goethals Bridge and sooner on redecking of the Outerbridge Crossing. A Corps of Engineers study underway now is expected to recommend heightening or replacing the Bayonne Bridge. None of these projects is funded in the authority's 2009 budget, however.

The governors of New York and New Jersey oversee the agency, which is under orders to "put money on the street anyway we can," says an official there.

The Port Authority is not bound by the procurement laws of New York State or New Jersey but generally follows them in its normal business dealings. Two major airport projects—Airtrain and the International Arrivals Building at JFK—have been delivered under DBOM contracts, which would not have been allowed under state law.

The authority's Financial Analysis office is working with the Tunnels, Bridges and Terminals Dept., directed by Victoria Cross Kelly, to evaluate the possible concession models that might be used, including a long-term lease involving a large upfront payment.

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❑ Ontario To Extend Highway 407 As P3

The Ontario government has opted for a modified P3 model for the extension of toll highway 407, with a key operating change from the existing privatized section of the road. On the extension, the province will retain control of tolls, in contrast to the existing 108-km section of the highway, which is run by the private consortium 407 International under a 99-year lease.

The government is saying little about how the 67-km eastern extension project will be structured, other than it will be designed, built, financed and maintained by a private partner, but controlled by the province. The 407 consortium – Macquarie Infrastructure Group, Cintra and SNC-Lavalin – is watching the situation, and awaiting details. An RFP will be issued, but no date has been set.

The operator of the existing section would have an obvious advantage in bidding for the extension, said Sanford Borins, a University of Toronto management professor who has co-authored a book about the road. “407 International must be the favored competitor because it has the experience designing and maintaining the current road as well as the tolling technology,” he said in his blog.

The government said the extensions will be paid for by tolls, which the province will control. The government will also control customer service standards and ways of dealing with complaints about bills, which in the past were the focus of public disputes with the company.

Tolls on 407 have been a sore point with the government. Ontario launched an extended court challenge to try and establish its right to control tolls, but lost, leaving the consortium to set rates.

Borins suggested that if 407 International wins the extension contract, it will be able to make its targeted rate of return from the whole route by adjusting rates on the section it runs, even with the government controlling tolls on the new section.

The prospect of two tolling systems, with two transponders and two bills, would make life unreasonably hard for users. But under the ground lease which sets out the terms of the deal between 407 and the province, there are provisions for 407 to integrate its toll system with any new system. The lease also says the government can order 407 to build an extension.

The price would have to be “reasonable,” with disagreements referred to a dispute-settling mechanism.

The new section will extend the route from its current eastern end point, just north-east of Toronto, to the next major north-south route to the east, provincial Highway 35/115. The extension will run parallel to the existing free access Highway 401, as the 407 does now for its full length across the north of Toronto. The extension will be linked to the 401 through two major north-south spurs.

The extension, which has been in the works for years, is going through environmental and community assessments. It’s supposed to open in 2013.

❑ PP Deal With Epcor Ignites P3 Critics

An in-house transaction that saw the city of Edmonton “sell” the Gold Bar wastewater sewage treatment plant to its 100%-owned municipal water utility has exposed the divisions in the debate about infrastructure finance.

The deal, which was approved by the city council by just one vote, will boost profit at the utility – Epcor – and enable it to raise its payments to the city, proponents (such as the city administration) said. Making money for the city was the main rationale for the deal.

For opponents, however, the sale poses threats to the environment, citizen control, and the public interest. They also dispute the business case, arguing that the promised increased payments from Epcor to the city are based on faulty premises.

The deal, approved 7-6 after two days of hearings, reports and votes, will see the city get Cdn $75 million over seven years for the asset, and supposedly Cdn $190 million in additional dividends from Epcor over a decade. Moreover, the city council will still control rates, no city employees will lose their jobs, and Gold Bar will continue its award-winning environmental performance, city staff claimed.

For the opponents--environmentalists, anti-privatization activists, and unions, including leading P3 opponents the Canadian Union of Public Employees--all those benefits will be threatened. The deal may also open the city to NAFTA sanctions, as foreign water companies were not offered a chance to bid and Epcor provides water services in a number of communities outside Edmonton.

The city has legal opinions saying that's not correct. But the point of the deal was to get money for the city, and the city's case rests on the expectation that Epcor will be able to lever the expertise of Gold Bar staff, increase revenues from outside Edmonton, and sell more services to other communities, as it already does.

Epcor executives expect that some of the investments contemplated in its long-term plan and the chance of winning contracts in other communities are directly related to the transfer of the Gold Bar operation. With the plant, Epcor could borrow more and demonstrate more expertise when selling its services.

For the Keep Drainage Edmonton umbrella group which fought the deal, that means "the Gold Bar plant paid for by Edmontonians will be used as collateral for investments made in other cities." Edmonton residents will then benefit as other communities would subsidize its services through privatization.

❑ 407 Earnings Slip Slightly in 4th Quarter

The successful P3 toll road across Toronto is reporting a small drop in traffic at the same time as speculation mounts that one of its owners may be forced to sell its stake in the concession. Revenues at 407 International Inc., operator of the 407 electronic toll road, slipped in the final quarter of 2008 as traffic fell with the recession.

Even so, the company boosted its dividend by nearly 40% in February 2009, to about Cdn $47 million a quarter from about Cdn $34 million a quarter in 2008. The revenue drop and dividend increase were reported as Australia's Macquarie Infrastructure Group (MIG), 30% owner of the concession, took a huge writedown on its U.S. toll road assets [largely due to much lower traffic??.]. Australian analysts have calculated that MIG wasn't covering its payout to investors, reflected in the low price of its securities in the Australian stock market.

The financial strain prompted suggestions it will sell its 407 stake. "MIG has shifted to being a seller of its assets. The 407 is the most saleable" because it is still doing relatively well, compared with other toll roads, Macquarie Equities said in a recent report.

While 407's total trips slipped about 1.5 per cent in the final quarter of 2008, the company is in good shape, said co-president Huston Loke of Toronto's Dominion Bond Rating Service. Its traffic drop was small - compared with other toll roads and bridges - its users are heavily weighed to commuters, who will stay with the road as long as they have jobs, and it controls its own toll rates, now about 12 cents a mile. "The U.S. operators would be doing cartwheels over that," he said.

Final profit for the quarter was Cdn $79.4 million, compared with Cdn $23.5 million in 2007. 2008's profit included a Cdn $33.4 million future income tax recovery. There was no comparable item in 2007. Revenue was Cdn $133.5 million, compared with Cdn $135.8 million.

❑ Canadian Stimulus Ignores P3s

Canada's federal government announced a Cdn $12-billion, two-year boost to infrastructure funding in its January budget, but it's expected to have little impact on P3 projects. The federal plans "probably to a great extent won't affect the P3 projects," with their long procurement times, said Jane Peatch, executive director of the Canadian Council for Public Private Partnerships. P3s are "by and large, not the shovel-in-the-ground kinds of projects," which is what the government wants to create jobs.

In the financial community, the state of credit markets is seen as a more important factor than the federal program. But there may be some boost to P3s. For example, the proposed Cdn $1.2-billion Evergreen transit line in Vancouver is expected to be funded as a P3.

And because all federal commitments of more than Cdn $50 million have to be screened as potential P3s, larger projects may be done through partnerships.

But more than half the Cdn $12 billion is designated for repairs to existing provincial, college and university infrastructure, and repairs are not conducive to P3s. The timeline also works against partnerships. The focus is quick economic stimulus, and Canadian P3 projects tend to be large, long-term undertakings that take time to plan and structure.

Moreover, most direct infrastructure investments are provincial and municipal responsibilities; the federal money may help, or even be vital. But decisions are made at lower levels of government. ■

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Contact **Yale Lyman** at (831) 722-2716, fax (831) 722-4159 or at P.O. Box 50024, Watsonville, CA 95077. Our website is www.graniteconstruction.com

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