

IBTTA Transportation Finance Summit Investment Potential of "OTR"

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Highway Capital Investment in Perspective

Highway Capital Spending 1993-2005 (\$743 Billion Total)

Public (Tax-Backed): \$694 B (93.5%) **Private (User-Backed): \$49 B (6.5%)**

* Includes proceeds from lease of Chicago Skyway
Sources: Federal Highway Administration, Public Works Financing

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Federal Financing / Leveraging Incentives

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How Finance Tools May Facilitate Investment

- **Better Leverage Existing Resources**
 - Garvee-type debt (Garvees, Rvees, T-GANs)
 - State Infrastructure Banks (depending on repayment sources)
 - Shadow tolls / availability payments
 - Long-term leases of existing assets
 - Incremental financing depends on longer investment horizon and more aggressive revenue generation
- **Help Create New Revenue-Generating Assets**
 - Tax-exempt debt
 - Private activity bonds
 - Taxable debt / private equity
 - "Greenfield" development concessions
 - TIFIA and other federal credit enhancements
 - Other tax subsidies

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Debt Burden Share Relatively Constant

Percent of Annual Disbursements by States for Highway Purposes

Min: 6% (1958, 1990) Max: 16% (1993) 50-yr Avg: 8.3% 2004: 8.5%

Source: FHWA Highway Statistics

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Investment Proposition of Finance Tools

- Enable or facilitate project financing
- Induce "private" (user-backed) investment
- Accelerate key improvements to address infrastructure backlog
- Help close the funding gap

→ *How compelling do you find this proposition?*

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Investment Potential of Finance Tools

- How many “suitable” toll facilities / user-backed projects will be advanced in coming years?
- What portion of such projects will take advantage of these finance / leverage tools?
- How often will these tools enable new investment that otherwise would not occur?
- Or will they instead facilitate additional capital through greater leveraging of revenue streams?

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Assessing Potential of Finance Tools

- How many “suitable” toll facilities / user-backed projects will be advanced in coming years?
 - Focus on start-up user-backed projects tapping new revenues
 - Recent: roughly \$1 billion / yr

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Assessing Potential of Finance Tools

- What portion of such projects will take advantage of these finance / leverage tools?
 - Subsidy required for project financing (credit enhancement, equity contribution, tax subsidy, etc.)
 - Recent: 70% have sought TIFIA-style credit enhancement

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Assessing Potential of Finance Tools

- How often will these tools enable new investment that otherwise would not occur?
 - Difficult to argue that most projects would not have happened “but for...”
 - Project pipeline more often affected by non-finance factors
 - Desired projects typically do advance – albeit more slowly / less efficiently
 - But financing assistance may be decisive for some borderline user-backed credits

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Assessing Potential of Finance Tools

- Or will they instead facilitate additional capital through greater leveraging of revenue streams?
 - Financing assistance is helpful if not decisive
 - Achieved through lower interest rates, thinner debt service coverage, more flexible payment structures, etc.
 - More investment (debt and /or equity) supported by given revenue streams

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Parting Thoughts

- Finance tools can be significant for advancing major projects
- But their national investment impact is quite modest
- Underlying revenues → potential universe of “accelerated” projects
- Finance tools → how much acceleration potential is realized
- Using finance tools to accelerate projects can reduce the infrastructure backlog
- But debt repayment / equity return reduce future funds available to close the long-term gap
- Yet addressing the backlog reduces long-term investment needs

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Recent Tool: Private Activity Bonds

- **Extent of utilization / potential investment impact?**
- **Access to lower nominal cost of capital for “privatized” projects**
 - Long-term “incentivized” management contracts enabled
- **But constraints on development concessions**
 - Limited structuring flexibility (lack of accretion)
 - Straight-line depreciation
 - Refinancing restrictions
- **And complications with acquisition financings (existing asset leases)**

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Potential Tool: Tax Incentives

- **Potentially effective tool for inducing private investment**
 - Support investment without federal spending or borrowing
 - Promote private investment in targeted sectors
 - Amortize the cost of the government subsidy
- **Other sectors have used tax incentives to great advantage**
 - Energy, housing, etc.
 - Transportation is 8% of the discretionary budget (\$70 / \$900 billion)
 - Transportation is ½% of the income tax expenditure budget (\$3 / \$725 billion)

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