



# *Emerging Trends in Transportation Finance*

## **“PPP Finance 101”**



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# *Outline of Presentation*

- 1) Myths**
- 2) Terminology**
- 3) Facts About PPPs**
- 4) Key Benefits**
- 5) SAFETEA-LU Changes**
- 6) Contacts for Additional Information**



# Myths about PPP

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- PPPs can solve all the Nation's Infrastructure Problems
- Every Project is a potential PPP
- All PPPs will net big financial rewards
- The United States is selling away all of its Assets
- The Traditional Grant Program is being replaced by PPP



# *Basic PPP and Finance Terminology*



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## *What is a Public-Private Partnership?*

"Public-private partnerships" (PPP) refer to contractual agreements formed between a public agency and private sector entity that allow for greater private sector participation in the delivery of transportation projects.



## ***Terminology You Need to Know***

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### **Basis Point:**

A shorthand financial reference to one-hundredth of one percent (.01 percent) used in connection with yield and interest rates.



## ***Terminology You Need to Know***

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### **Bond Counsel:**

A lawyer or law firm, with expertise in bond law, retained by the issuer to render an opinion upon the closing of a municipal bond issue regarding the legality of issuance and other matters including the description of security pledged and an opinion as to the tax-exempt status of the bond.



## ***Terminology You Need to Know***

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### **Bond Insurance:**

A financial guarantee provided by a major insurance company (usually AAA rated) as to the timely repayment of interest and principal of a bond issue. .



## ***Terminology You Need to Know***

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**Concession** – “A private company enters into an agreement with the government to have the exclusive right to operate, maintain and carry out investment in a public utility for a given number of years”.



## ***Terminology You Need to Know***

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### **Concessionaire**

The owner of the concession — *the Concessionaire* operates as an independent business and pays either a fixed fee, a percentage of revenue or profit, or both to the entity with the ability to assign exclusive rights for an area or facility. A concession may involve the transfer to the concessionaire of the right to use some existing infrastructure required to carry out a business.



## ***Terminology You Need to Know***

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### **Design/Build/Finance/Operate/Maintain (DBFOM):**

Public-private partnership arrangement involving private design and construction, private finance, private operation and maintenance for given period of time, and eventual transfer to public ownership. .



## ***Terminology You Need to Know***

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### **Equity**

Commitment of money from public or private sources for project finance, with a designated rate of return target.



## ***Terminology You Need to Know***

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### **Grant Anticipation Notes (GANs):**

Short-term debt that is secured by grant money expected to be received after debt is issued. Financial institutions may buy anticipation notes on behalf of project sponsors in advance of receiving other financial assistance, to enable a faster project start. Helps project sponsors advance projects, especially when unable to access capital markets.



## ***Terminology You Need to Know***

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### **Investment Grade:**

Describes the top four rating categories of relatively secure bonds suitable for a conservative investor. Standard & Poor's rating service looks upon all bonds between the AAA and BBB ratings as investment grade. Generally speaking, any bonds rated below BBB are considered to have speculative features and are deemed sub-investment grade or junk bonds. .



## ***Terminology You Need to Know***

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### **Junior Debt: (Subordinated)**

Debt having a subordinate or secondary claim on an underlying security or source of payment for debt service, relative to another issue with a higher priority claim.



## ***Terminology You Need to Know***

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### **Rating Agency:**

An organization that assesses and issues opinions regarding the relative credit quality of bond issues. The three major municipal bond rating agencies are Fitch Investors Service, Moody's Investors Service, and Standard and Poor.

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## ***Terminology You Need to Know***

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### **Senior Debt:**

Debt obligations having a priority claim on the source of payment for debt service.



## ***Terminology You Need to Know***

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### **TIFIA Credit Program**

Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA), authorize the Department of Transportation (DOT) to provide three forms of credit assistance - secured (direct) loans, loan guarantees and standby lines of credit - to surface transportation projects of national or regional significance



# Facts about PPPs

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*Public-private partnerships can be applied to a large range of transportation functions across all modes. These include:*

- Operation
- Maintenance
- Toll Collection
- Program Management
- Financial Planning and finance
- Construction



# Facts about PPPs

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## *Is special state legislation required for PPPs?*

***YES***

Many states have legislation inhibiting public-private partnerships. This type of legislation ranges from requirements for low bid awards on construction contracts and prohibitions against design/build or outsourcing certain agency functions. In addition, there may also be prohibitions against tolling or commingling public and private funds.

As of August 2006:

Fewer than half the states have passed legislation providing the legal authority for private sector participation in transportation projects to varying degrees

38 states have laws allowing the use of design-build

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# Why Are PPPs Becoming Popular ?

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State/Local government face difficult challenges in a time of fiscal stress and budget deficits

Growing infrastructure needs

Decaying infrastructure

Growing Gap Between Infrastructure Needs and Funding Resources

Shared Value between Public and Private

- Project Delivery vs. Concessions

Sharing the risks



# Key Benefits for Using PPPs

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*The primary benefits of using PPP's to deliver transportation projects include:*

- Expedited completion compared to conventional project delivery methods
- Project cost savings
- Improved quality and system performance from the use of innovative materials and management techniques
- Substitution of private resources and personnel for constrained public resources
- Access to new sources of private capital



# SAFETEA-LU Facilitates PPPs

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- Enhanced TIFIA Program
- Expanded SIB Program
- Private Activity Bonds -\$15 Billion
- Much Broader Tolling Authority including Interstates
- Design-Build Provisions



# US DOT/ FHWA Initiatives

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## Secretary's National Congestion Strategy

- “Unleashing private-sector investment resources”

**SEP 15**

**ACCT Workshops**



## *For More Information*

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### Contact:

Keith Bishop  
FHWA Resource Center

(410) 746-7693

### Website:

<http://www.fhwa.dot.gov/ppp/index.htm>

<http://www.fhwa.dot.gov/resourcecenter/teams/finance>



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# QUESTIONS?

<http://www.fhwa.dot.gov/ppp/index.htm>