



STATE OF CONNECTICUT
GOVERNOR DANIEL P. MALLOY

Governor's Transportation Finance Panel Public Hearing Minutes
June 23, 2015

Members in Attendance: Cameron Staples (Chair); Joan Carty; Oz Griebel; Paul Timpanelli; Stanley Mickus; Emil Frankel; Beth Osborne; Bert Hunter; William Bonvillian

Invited Speakers: Samara Barend, AECOM, Michael Likosky, 32 Advisors; Mark Morehouse, William Blair & Company; Prof. Jonathan Peters, The College of Staten Island; Joseph Seliga, Mayer Brown

Item	Topic	Discussion
I.	Welcome and Comments, Cameron Staples, Chair	Chairman Staples called the meeting to order at 9:08 a.m.
II.	Approval of Minutes	Chair requested a motion to approve the May 18, 2015 meeting minutes. Motion made by Beth Osborne, seconded by Joan Carty. All in favor. Minutes approved. Chair asked panel members to introduce themselves.
III.	Invited Speakers	Chair invited speaker Samara Barend, Development Director and Sr. V.P., AECOM Capital, to address the panel. Ms. Barend provided a brief overview of the services provided by AECOM with regard to Public Private Partnerships (P3s). The firm has been involved with every aspect of P3's globally, approximately 600 projects in total. Ms. Barend provided an overview of a performance-based P3 structure that she described as moving forward in the U.S., a model that guarantees that the public has full performance over the long-term, something that does not exist with a traditional model. Ms. Barend indicated that P3's are being used on transit projects (Denver light rail project was first in U.S.), railroads, water, waste water, highways, bridges, airports, and so forth. Ms. Barend directed members to page 4 of her presentation regarding Traditional Comparator for P3's for traditional delivery. Ms. Barend stated that typically the public sector is controlling the whole procurement and the public is managing all of the pieces in the delivery of the project. Ms. Barend indicated that this can cause problems because of a

lack of incentivization. She described some of the problems as cost-over runs, scheduling delays, and that there is very little look at the long term. Provided overview of the basic P3 model and went over the risks and benefits of the various P3 models.

Ms. Barend indicated that a number of P3 models exist (not just traditional versus P3):

- Design-build
- Design-build finance
- Design-build maintain
- Full spectrum of P3 that has the financing

Ms. Barend stated that there are two steps to take/think about:

- Conduct screening process of projects (does P3 make sense; there is a # of criteria that go into it from the initial sniff test);
- Conduct Risk analysis/Risk workshop to determine if financially it makes sense to do a P3.

Ms. Barend provided an overview of the key screening considerations to take into account when determining alternative delivery or P3:

- Is there a spending need or cost savings? Is the project truly suitable or large enough for private sector?
- What are the regulatory and legal issues? Have all issues been shored up?

Ms. Barend stated that Value-for-Money is critical, indicating that many states have faltered in not releasing this information without doing analysis. It builds more credibility if the public is aware of why the project is being done and done in such a way.

Ms. Barend pointed members to a comparison slide of approximately 6 projects.

In summary, Ms. Barend recommended the following to panel members:

- Determine a P3 or design-build approach.
- Determine if all issues been shored up on the legislative side. Recommended setting up the legislative framework.
- Up-front analysis is critical.
- Transparency around the purpose for the plan to be selected in order to build credibility.
- Various models exist to look at.

Emil Frankel commented that there's a sense among people who are unfamiliar with infrastructure and P3s that this is free money. Revenue streams have to be established in relation to P3s. Mr. Frankel asked Ms. Barend to speak to this given her experience as leader of a transportation task force in NY.

Ms. Barend remarked that what has been seen in P3s is the ability to move forward projects that otherwise wouldn't move forward, but that a funding stream is necessary. You want an availability-structure project (a project that doesn't have a toll). There are projects that even if you added a toll, it doesn't necessarily lower the cost... but the benefit of a P3 is that it will significantly lower the cost. Ms. Barend commented that it's a balance; P3s will not create new money (there has to be a revenue stream) *but* they can be huge cost savings generators.

Beth Osborne mentioned TIFIA and Private Activity Bonds (PABS), remarking that while she was at DOT, she found that P3's were negotiated before the project sponsor came in to TIFIA and then the federal government had its own opinion about their standing with regard to the project. Beth Osborne asked Ms. Barend to comment on how projects sponsors should approach this scenario and to also provide a sense of what the cost difference is in using TIFIA versus Private Activity Bonds (PABS).

Ms. Barend responded that accessing TIFIA has been an issue. PABS have been easier because the process is smoother. She recommended that as soon as a State knows that they have a project that is ripe for p3, to start the conversations *early* with the US-DOT. She remarked that TIFIA is cheaper than tax-exempt financing.

Chair invited speaker Michael Likosky of 32 Advisors to address the panel.

Mr. Likosky provided a brief introduction of his firm. 32 Advisors focuses on advising governments & financial institutions and design-construction firms on P3s.

Mr. Likosky made the following key points to the panel:

- Different municipalities/states have varying stances toward P3s and innovative financing.
- A lot of these come down to the first 5 years and how the state thinks about capital planning but also needs in different parts of the state.
- Clearly there are quite different needs throughout the state, some of which are suitable for P3s.
- More traditional financing mode makes sense in other areas, where there needs to be more innovative approach for others.
- It may make sense to think about cross-subsidizing regions and projects with one another that makes best use of the state's assets.
- It is important to see P3s as a co-investment mechanism and a delivery mechanism where the federal/state & local government share responsibilities over the asset; it is not a situation where the control over the financing mechanism and delivery is entirely transferred over to the private sector.
- P3s have been active in the most recent period in the U.S. since around 2006-07. There have been a fairly large number of projects.

- It is a question of thinking about thinking about the needs holistically in the state and then how best to address the needs given that there is a range of different financing mechanisms.
- Be mindful of the diversity of partnerships that are available. Don't be agnostic about P3s but be innovative.

Chair welcomed Senator Martin Looney to address the panel.

Sen. Looney provided a brief summary of the budget agreement and the transportation funding provided in the budget.

Key points made by Senator Looney:

- Some of the work that is now charged to the panel was done in the General Assembly; the CGA was able to create a mechanism to get started on that project because it had been decided to target sales tax revenue both for an incentive to provide property tax relief to municipalities and also to partly fund the transportation initiative.
- There is a stream of revenue dedicated to transportation purposes beginning in FY16. The budget includes a \$2.8b increase for transportation infrastructure over the next 5 years, and this budget dedicates 0.5% of the sales tax to modernizing/rebuilding roads and rail lines, and improving bicycle and pedestrian trails. 158.6m in FY16 & 279m in FY17 in sales tax revenues to the STF.
- The City of New Haven can serve as a model due to its transit system. Sen. Looney spoke briefly to this partnership.
- Would like to leverage by making it easier for CT to have the New Haven/Hartford/Springfield rail line brought online.
- Emphasized the need for better planning for mass transit, for not just rail but also buses. It has been 30 years since the state has examined bus routes within the greater new haven region.
- Commuting patterns by bus have changed greatly over the last 3 decades. Emphasized the importance of public transportation as relates to employment.
- Hopeful that the panel will look at the *whole range* of transportation issues. Extraordinary need. Pointed out the issues with I-95 gridlock with regard to time it takes to get between major Fairfield county towns & cities.
- Indicated the need to ramp up a capacity of skill, engineering and managing capacity within the CT-DOT, in the ramp-up period, to avoid undue reliance on outside hires and outside contracts.

Mr. Frankel commented regarding the possibility for a special session to relook at some of the revenue measures that have been passed in the recent budget. Asked Sen. Looney to comment.

Senator Looney stated that the sales tax initiatives for both transportation purposes and property tax relief purposes were the two pillars on which the recent budget was built. Both he and the Governor agreed that this is the pillar piece of the budget.

Chair welcomed Mark Morehouse of William Blair to address the panel.

Mr. Morehouse introduced himself as the managing director and head of public private partnership and investing at William Blair & Company, a Chicago-based investment bank with a strong presence in CT and presence and reputation for advising the public sector on public-private partnerships throughout the country. Mr. Morehouse:

- Provided overview of concept of P3s.
- P3 structure offers an opportunity to tap private capital, to tap private sector expertise, and innovation to deliver projects that are built to last and priced out over a life cycle. Can be delivered more quickly, efficiently than available traditional procurements.
- Introduced three key aspects:
 1. P3 definition (versus what they are not): A P3 is a contractual relationship between the two sectors to design, build, and maintain any type of transportation asset. Always involves a transfer of risk between sectors. Offers opportunity for innovation and expertise from the private sector to be brought to CT. P3 is *not* free money. There is a component of an equity return/debt the private sector will raise, but they can bring this money up front whereas public may be bumping up against debt cap or other. Not a solution to every problem (there are projects that will not be suited for P3). Screening process important.
 2. Examples of successful P3s in neighboring states. Port Authority of NY/NJ has done a mix: Goethals Bridge, Bayonne Bridge, central terminal building at LGA. CT has done a P3 for surface plazas on highways.
 3. The keys to success.
 - Base of pyramid is public support/champion such as the governor;
 - Next is regulatory approval.
 - Tip of pyramid is revenue (tolls, user-fees, or availability payments that can be counted on)

Encouraged members to have legislation in place both to allow P3s and to allow the revenue source to be in place. Encouraged to pick a project that is easy for the public to understand “managed lane” “train stations”. Go to advisors early.

Chair welcomed Prof. Jonathan Peters, The College of Staten Island, to address the panel.

Highlights:

- Transportation is a *national* problem.
- Cautioned members to always look at the cost of the collection of revenue;
 - Administrative costs
 - Compliance cost to the users
 - Social cost

		<ul style="list-style-type: none"> • Most DOT's heavily rely on the sales tax. CT is relying on gas tax; tolling in CT will have a lot of administrative and operational costs. • VMT charging: it will be expensive to equip all vehicles to collect revenue. • Full privatization: cautioned to think carefully about the structure of CT deals. Strongly recommended having a good consultant. State DOT is usually dominated by engineers, but finance is very complex. • Consider whether you would allow a resale without state approval? • Pointed members to the Spaniards, who have a long history of privatization. • Social Equity: Stated that it is very important to determine who will be impacted as pricing is added (People react behaviorally, e.g., they may change their routes). <p>Chair welcomed Joseph Seliga of Mayer Brown, LLP to address the panel.</p> <p>Mr. Seliga introduced himself as a Partner with the law firm, Mayer Brown, LLP.</p> <ul style="list-style-type: none"> • Outlined various projects globally in which Mayer Brown advised regarding procurement and the approaches made by each entity, and the importance of having legal protections in place. • Critical to know when P3 is right for a project and what type. • Indicated that most successful states are the ones that have a plan. • Protecting the public interest is paramount, with strong oversight requirements and operating standards. • Having a public champion is critical. • Reliable legal framework is critical. • Important to have credibility with constituents, investors, and consultants.
IV.	Public Speakers	<p>Chair welcomed members of the public who signed up to speak. First was Karen Burnaska, coordinator for Transit for Connecticut.</p> <p>Ms. Burnaska gave remarks on behalf of 6 organizations as follows:</p> <ul style="list-style-type: none"> • CT Association for Community Transportation • CT Construction Industries Association • Capital Region Council of Governments • CT Fund for the Environment • Regional Plan Association • Tristate Transportation Campaign <p>Letter was sent in April to the panel members which highlighted the importance of three major areas:</p> <ol style="list-style-type: none"> 1) The need to define short-term and long-term funding options; 2) Define funding mechanisms for both Capital <i>and</i> Operating expenses; and 3) Look at all the levels of funding: federal, State, regional, local, user-fees and the private sector.

The organizations wish to urge members to consider developing criteria to evaluate the various funding options. Consider several points:

- Long term funding viability
- Funding security
- Make certain clearly defined project benefits
- Consideration of funding from of all levels
- Diversity of revenue resources, ease of collection & Cost of collection

Chair welcomed Don Shubert, President of CT Construction Industries Association, to address the panel:

Mr. Shubert suggested that when thinking about durable transportation financing and funding, also think about protecting that funding with a lock box, constitutional amendment, or some other vehicle; Not only the funding but also to protect other items being added to the funding.

Long term stable funding is very important. Construction industry needs long term certainty.

Oz Griebel asked Mr. Shubert for any data that can be shared in terms of what the investment and infrastructure would mean to construction employment.

Mr. Shubert indicated that American Equipment Dealers just came out with some interesting figures. For every job that you create in construction, you are creating between 2 and 5 jobs. The industry is ramping up all of its programs and trades. Before downturn there was an aging workforce problem. They are ramped up and ready to go. If this transportation plan happens, the job aspects will immediately be seen right away, and then the multiplier is what's really going to make a difference.

Mr. Griebel asked for payroll and taxes associated with the change. Anything than can be shared as the members put a proposal forward. Mr. Shubert will get this information to the members.

Mr. Shubert also requested that the members make sure they are CT jobs and good paying jobs.

Chair welcomed Lyle Wray, Executive Director, Capitol Region Council of Governments.

Thanked the state for investing in CTfastrak which is above projections and working well. Asked what is the role of local and regional referenda around the country? 60-70% of referenda passing on transportation initiatives.

Something to consider is the role of regional and local referenda, whether its sales tax or other kinds of taxations, for two reasons: 1) a skin in the game at the local level, and 2) perhaps communities have different appetites for transit or other kinds of enhancements.

Using Denver as an example, he explained that people are aware of what they are getting and why, so the vision conversation is one piece but the other is diversification of revenue.

In summary, consider the puzzle piece of regional and local referenda as part of the vision.

Mr. Griebel asked if there is anything specifically that you would recommended. What would be the mechanism? Who would be responsible for championing the referendum? Where would the money come from? Asked him to be more specific.

Mr. Wray referenced the Massachusetts law which has an authorization to use a portion of the sales tax. When you have more and more remote use of funds, it becomes harder to sell.

Mr. Wray suggested a law change in CT, the regional entities would be the councils of government.

Chair welcomed Paul Brady, Executive Director, American Council of Engineering Companies of Connecticut.

- Very important the infrastructure within the state be addressed.
- Offered any information or assistance to the panel at their request.
- The American Council of Engineering's national organization also has information they can access.

Chair welcomed Rick Dunne, Executive Director, Naugatuck Valley of Council of Governments.

- The ability to raise revenue or process revenue in one way shape or form, that the taxpayers trust, will remain in the transportation system.
- Lack of faith is what we are dealing with.
- Getting the public to understand that the legislature will not divert any funds. The funds need to stay in the transportation system.
- Public would need to understand that the revenue was not going to pass through the normal appropriations process.
- Urged the members to consider the development of an operating authority similar to the Port Authority.

Chair welcomed Dave Glidden, Executive Director, CSEA/SEIU Local 2001.

Mr. Glidden stated that the CSEA/SEIU represents over 25,000 active and retired public and private sector union members in CT including the transportation professionals in the CT DOT. Offered testimony on behalf of members who are excited by the opportunity of moving forward on building a world class transportation system.

- Spoke to how the \$ can be spent effectively and efficiently.

- In addition to dedicating funding sources, important for panel to look at financing that is already available.
- DOT conducted analysis of cost-effectiveness evaluations; the evaluations clearly show that it is far more effective to use in-house staff than it is to use consultants.
- Transportation engineers have calculated that the damage caused by a single tractor trailer to our roads is equivalent to that of approx. 2000 passenger vehicles.
- Monitor closely commercial traffic.
- Many weigh stations sit idle. Additional staff to run the weigh stations would help fund the project.

Chair welcomed Michael Reilly, Motor Transport Association of Connecticut.

Mr. Reilly stated that every truck that operates in CT pays CT the equivalent amount of diesel taxes as if they purchased fuel in state. Trucks pay 54.5 cents a gallon in taxes for diesel fuel in CT (based on the diesel fuel rate).

Pointed out that whereas some P3s have been successful, others have been disasters. Encouraged members to look these over. Consider also that companies go out of business.

Regarding the New Haven/Hartford/Springfield rail line and expanded bus routes, there are limits to what can be done with the Special Transportation Fund.

Mr. Griebel: Even if the sales tax .5% proposal goes forward the way it is in the budget, we are going to be short of monies. Do you have a suggestion on what would be the next option that would be acceptable?

Mr. Reilly: Fees, fines for Title 14, permit fees, registrations, license fees. The STF pays money to the group that does restitution of victims of crime. Tolling's got to be on the table, P3s have to be on the table. Recommended constitutional amendment that clearly defines what the funds can be used for.

Mr. Griebel: so a clear definition of what the monies can be used for.

Chair welcomed Michael Piscitelli to address the panel. Mr. Piscitelli was not present.

Chair welcomed James Dee, Hamden resident, to address the panel.

Mr. Dee made key points as follows:

- 1) Efficiency – how we get that \$100 billion doesn't necessarily mean by taxes or tolls, but rather by looking at areas where we can save money and increase revenue, and we should look to increase ridership on transit systems that we already provide. A simple way is to spend a little amount of money to tell people that these services are already around. Other things to look at

NH/Springfield/Hartford rail corridor – put more money into this to encourage people to ride it in an effort to postpone highway work. Hybrid buses because less money will be spent on paying for gas. Put solar panels on metro north in order to sell off excess electricity throughout the state. Suggested prioritizing projects on efficiency.

- 2) Bonding – create a state infrastructure bank. Put money into this bank and do payments back through the bond measures (move money through the pipeline into other and different projects). Recommended bringing back the CT Turnpike Commission where highways have the ability to collect its own tolls and revenues through bonds that it can levy to build the transportation projects.
- 3) Toll everyone equally as not to negatively impact only certain populations. In consideration of tolls, it might be worth it to lower the gas tax. Tolling would be more supported if people were paying for the tolls on the roads in which they are going to be built.

Chair concluded the public hearing portion and called a recess at 11:20. Meeting reconvened at 11:30 a.m.

Chair reintroduced invited speakers for Q&A session. Mr. Likosky, Mr. Morehouse, Mr. Seliga, and Prof. Peters were present for the Q&A.

Ms. Osborne asked the speakers to comment on P3 projects that have run into trouble. She stated that normally when P3s run into trouble it is because the traffic projections for the road have not materialized. Ms. Osborne stated that projections have been off by orders of magnitude. She asked speakers to comment on the premise that if private sector is so good at identifying risk, why have these numbers not improved at all?

Prof. Peters remarked that it has to do with forecasting, and stated that states will really want to look at this because when you have too many linked entities, it is very hard to get good work product.

Mr. Likosky remarked that there are different types of P3s. The projects that have had these problems are existing roads usually where the government is paid a lump sum payment for control over the road for a period of time, and revenue for a period of time, and that could cause incentives problems (on part of investor and government).

Ms. Osborne asked how the government could control for that. Mr. Likosky stated that with two deals that have had this problems, one was the Indiana toll road because toll projections were done in-house rather than using outside expertise, and that is not great practice. The second was a toll road that went through San Diego county. The recession put it under because there weren't enough drivers to meet toll projections. There's going to be dips in road usage when it comes to P3s. The way that P3 contracts are written in the U.S. say that if something goes wrong with a project, the project is wrong, rather than all the project sponsors need to get around the table to find a way to get away from the bumps in the road.

Discussion ensued about Indiana tolling project, travel projections at length.

		<p>Prof. Peters indicated that if a state wrote a P3 and it failed, he would be very careful about acquiring the asset. You don't want to overpay and you don't want to underprice. Consistently undershooting on the cost side is very problematic as is overshooting on the revenue side.</p> <p>Mr. Frankel asked Prof. Peters to talk about availability payments. What are they? How do they relate to the question of funding these capital projects?</p> <p>Prof. Peters stated that it is a fixed payment that would be paid based on the use of the road. Prof. Peters described the pricing/financial structure of the Goethals Bridge versus a Greenfield project. Stated that the Spaniards return to the table to renegotiate contract.</p> <p>Mr. Griebel asked speakers to comment on the equity and funding sources themselves regardless of structure, and also the value of authority.</p> <p>Mr. Seliga: VMT system is one that is going to have be thought through the implementation of this system, as a country. Something to be said for considering VMT. The challenge with tolling is when you toll in some areas and not others. Regarding the authority, having not only the dedicated funding stream but protecting that stream. If you are putting a plan in place, there are sufficient protections to make sure the funds do not get diverted to other uses.</p> <p>Mr. Likosky provided a brief overview of purpose of quasi-public authorities historically which have public powers but are nimble as private organizations. Debt was held differently by them.</p> <p>Prof. Peters encouraged placing the authority under CT DOT control to ensure management and operations are closely coordinated. With regard to VMT, look at cost of deployment. Electronic readers have to be protected because their information will be tracked and they will be charged; suggested armoring readers technologically to avoid hacks as there will be tampering; this is a major cost of operations due to the need for collection of data for all cars as well as gas stations. He stated that he would send potential revenue sources to members. He encouraged members to consider how tolling will impact regional development plans. It will impact certain households and regions. Mentioned a study will be coming out on impact of equity and tolling.</p> <p>Mr. Hunter commented that there are some aspects of P3s that are good, but is concerned by the part of the process from design-build onward. Asked speakers if there is a point at which you decide that even at the design & build stage, is it a good idea to bring in the private sector? What criteria would you look at where you would transfer that asset off for an indefinite or permanent period of time?</p> <p>Prof. Peters recommended being careful with how the deal is originally structured. Reiterated that Spaniards return to table to renegotiate. Also</p>
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		<p>suggested trying to determine the tail construction/the day it arrives back on public sector books.</p> <p>Mr. Morehouse suggested looking at the project on a lifecycle basis.</p> <p>Mr. Hunter asked what if you've transferred the risk but the entity isn't there due to bankruptcy for example. What deep pocket can you go after? If in the end it ends up going back to the government, have you really saved anything?</p> <p>Mr. Morehouse stated that there are layers of protection: Entity, Lenders to that entity, work completed and maintained.</p> <p>Discussion ensued.</p> <p>Mr. Seliga – the certainty is bought into their lifecycle cost risk and the various layers of security. The equity investment is tied into the payments during the term, so the risk to the private sector is they're going to lose their equity investment if they don't comply with the contract. Mr. Seliga further described the contract requirements and the cost risk as applies to all parties in P3s.</p> <p>Where the biggest risk occurs is toward the end of that 30-40 year period. The way to deal with it is End of Term security/ letter of credit or performance bond that is put in place during last 5 years of the term.</p> <p>Mr. Hunter asked for clarification of definition of lender with regard to P3s. Mr. Seliga: tax exempt debt through TIFIA loans is an example. Letter of interest is submitted. Members discussed here which states have TIFIA loans and specifications.</p> <p>Mr. Frankel asked what would you imagine the relevance of P3s moving forward on the new haven line...</p> <p>Mr. Timpanelli: Has there been successful ways of bundling projects? Mr. Likosky provided examples of successful bundling: structurally deficient bridges (like Pennsylvania) and small-medium sized projects throughout the state would be good to bundle.</p> <p>Chair thanked the speakers.</p>
V.	Next Meeting Date	Bypassed.
VI.	Other Business	Bypassed.
VII.	Adjournment	Chair Staples declared the meeting adjourned 12:25 p.m.