

Major Project Financial Strategies



Major Project

- ▶ FHWA definition:

A project with a total estimated cost of \$500 million or more that is receiving Federal financial assistance is designated as a Major Project.

- ▶ Expanded definition:

Any project that could have significant financial implications for overall agency programs, cash flows, and debt.

Financial strategy

- ▶ **Addresses both funding and financing**
- ▶ **Funding:**
 - Existing revenue sources
 - New revenue sources
 - New fees or taxes
 - Tolling or facility user charges
- ▶ **Financing:**
 - Pay-as-you -go
 - Short-term debt
 - Long-term debt
 - Cash flow and cash management

Financial strategy impacts

- ▶ **Which environmental process to follow**
 - Federal, state, local, or some combination
 - Who issues the ROD/need for multiple RODs
- ▶ **Scope of environmental process**
 - Alternatives
 - Scope of and cost of improvements
 - Socio-economic analysis and environmental justice

Financial strategy impacts

- ▶ **Design, procurement, and delivery**
 - Design–bid–build (DBB)
 - Design–build (DB)
 - Design–build–finance (DBF)
 - Design–build–finance operate–maintain (DBFOM)
- ▶ **Project phasing**
 - Distinct and operationally independent phases
 - Projects with independent utility

Financial strategy impacts

- ▶ **Access to federal funding and loans**
 - Commitment of federal construction funds
 - New Starts applications
 - TIFIA
 - RRIF (FRA)
- ▶ **Need for new or amended legislation**
 - DB
 - P3
 - Tolling
 - Fuel taxes
 - User fees
 - Sales taxes
 - Property taxes

Financial strategy impacts

- ▶ **Agency-wide program decisions**
- ▶ **Schedule**
 - On FHWA major projects, no commitment of construction funds without major project financial plan
 - State and local “anti-deficiency” requirements

“Your Town” –Urban Bridge

► Project

- Major bridge replacement and interchanges
- Estimated project cost \$1 B
- Project environmental complete
- Preliminary design complete
- \$535 M shortfall
- Estimated \$100 M expended to date
- RFQ for DB released to industry



“Your Town” –Urban Bridge

► Context

- Little capacity for long-term debt
- Not suited to tolling
- Great opposition to increased taxes
- Poor P3 candidate
- Intense political pressure to move forward



“Your Town” –Urban Bridge

► Impacts

- Rework environmental/design for phasing and alternative bridge type
- Tough choices–postponed projects to create capacity for debt
- Political/social fall out



“Our City” –Commuter Rail

- ▶ Project
 - New commuter rail project
 - Estimated cost \$900 M
 - 50/50 split local/federal (New Starts)
 - Project is 100% funded
 - Design about 30% complete
 - RFQ issued to industry
 - About \$35 M spent to date



“Our City” –Commuter Rail

► Context

- Tremendous political pressure to move forward
- Federal funds expected over 4+ years
- Federal funds lag cash flows by 2+ years
- Project has a financing not a funding issue
- RFQ's issued to industry did not include DBF



“Our City” –Commuter Rail

► Impacts

- Opportunity to use DBF lost
- Project phasing for financial and other reasons
- NEPA rework required to use RRIF loan program
- Political/social fall out



“Their State” –Major River Crossing

► Project

- Major Signature Bridge
- Estimated cost \$1.4 B
- Current shortfall about \$475M
- NEPA and 100% design complete
- Project developed with no cost constraints
- \$150 M spent to date



“Their State” –Major River Crossing

► Context

- State-wide funding shortfall
- Competes with other state mega projects
- Tolling unacceptable and insufficient
- Local taxes unacceptable and insufficient
- Poor candidate for P3
- Tremendous political pressure to move forward



“Their State” –Major River Crossing

► Impacts

- Modify scope, design, and phasing to reduce costs
- Revisit tolling and local taxes
- Rework of NEPA
- Postpone other projects in state program
- Project could be cancelled altogether
- Political/social fallout



Common themes

- ▶ **“Hail Mary” financial planning**
- ▶ **Tremendous political pressure**
- ▶ **Scoping little constrained by funding**
- ▶ **Financial planning significantly lagged large expenditure on environmental and engineering**
- ▶ **Environmental and design work not informed by project financial strategy**

Common impacts

- ▶ **Significant project delay or cancellation**
- ▶ **Additional cost or substantial lost investment:**
 - Environmental and design rework
 - Inflation and lost opportunity
- ▶ **Stress on overall agency programs**
- ▶ **Difficulty managing public expectations**
- ▶ **Political/public fall out**

Major project financial strategies:

Closing thoughts

- ▶ **Start at the front end**
- ▶ **It's never perfect**
- ▶ **It's never done**
- ▶ **It will save you time and money**

Thank you!