Testimony of Jennifer Aument

Group General Manager, North America
Transurban

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Introduction

Chairman Barrasso, Ranking Member Carper and members of the Senate Environment and Public Works Committee, thank you for the opportunity to speak to you today on the benefits available through the Transportation Infrastructure Finance and Innovation Act (TIFIA) and other efforts to leverage private sector financing and innovation to deliver transportation improvements. My name is Jennifer Aument, and I am the Group General Manager of North America for Transurban.

Transurban is the largest infrastructure company in Australia and among the largest toll road builders and operators in the world. We manage and develop urban toll road networks by partnering with governments to deliver innovative transportation solutions. Transurban has delivered $25 billion to upgrade capacity, ease road congestion and provide travel time savings in the cities in which we operate. We are currently working to deliver nearly $7 billion in additional improvements – construction of which is expected to put nearly 20,000 people to work.

Our partnerships with governments on both sides of the world have helped them deliver greater transportation and economic outcomes with their tax dollars. To be clear – our role is to enhance public transportation revenue – not replace it. Long-term, sustainable public funding remains the critical foundation for the nation’s transportation program.

There is much discussion in Washington, D.C. right now about the potential to leverage private capital to help available public funds go farther. It is often discussed in the abstract – translating one dollar into ten, or 200 million dollars into a trillion. I am pleased to be here today to provide concrete examples of how this model is working both here in the United States and around the world to deliver transformational transportation projects that unlock congested cities, provide travelers with more options, create thousands of jobs and inject billions into the economy.

The Australian experience: leveraging private capital and innovation

Australia has long embraced opportunities to leverage private capital. Currently Transurban is working with our government partners in Australia to overhaul some of the country's most critical transportation corridors.

NorthConnex is an $AUD3 billion, five-and-half mile tunnel project in Sydney, Australia. Currently under construction, this public-private partnership between New South Wales and Transurban will unlock the city's most congested corridor – pulling as many as 5,000 heavy commercial vehicles per day off local streets and helping commuters bypass the grueling, daily stop-and-go of twenty-one traffic lights. By leveraging its partnership with Transurban, the government is delivering greater improvements than originally planned, a decade faster, and for a billion dollars less than initial estimates.

Similarly, transformational improvements are underway in the city of Melbourne, where Transurban is working with the state of Victoria on finalizing the more than $AUD5.5 billion West Gate Tunnel project, which will be delivered and largely funded by the private sector. This new tunnel will use the latest technologies to relieve congestion on the city's major port access route, improve driver safety, create a new direct freight link to the Port of Melbourne and remove significant volumes of trucks from local neighborhoods.

Innovation at home: the Virginia Express Lanes

Here in the United States, Virginia has established itself as a key leader in embracing innovative transportation solutions. Our partnership with the Commonwealth for the $3 billion Express Lanes network on the Capital Beltway and Interstate 95 just across the river in Virginia is among the best examples in the country of how states can effectively engage in public-private partnerships.

The 495 and 95 Express Lanes projects are 43 miles of dynamically priced high occupancy toll (HOT) lanes. The Express Lanes, which run parallel to the existing regular lanes, provide an option for travellers to pay a toll to avoid the region's infamous congestion. Carpools and transit vehicles may access the lanes at no charge.

Both projects utilize the TIFIA program and Private Activity Bonds (PABs). The innovative financing approach enabled the Commonwealth of Virginia to leverage private capital to translate a $492 million public investment into $3 billion worth of transportation improvements. When factoring in construction costs as well as operations and maintenance, which Transurban is responsible for, the Commonwealth's direct return on its investment is twenty-nine times for the 495 Express Lanes and 110 times for the 95 Express Lanes.

The projects, which were both delivered on time, under budget and with industry leading safety records, have also provided substantial economic impacts for Virginia – creating more than 28,000 jobs during construction and generating $6.3 billion in economic activity.

Now in the operations phase, the projects have also delivered on the promise of relieving congestion, providing faster and more reliable trips, and enabling new express bus routes and other transit improvements.

In the last quarter, our Express Lanes customers experienced average time savings during rush hour of twenty-four minutes on the 495 Express Lanes and forty-nine minutes on the 95 Express Lanes. On busy summer vacation travel days, 95 Express Lanes customers can save as much as three and a half hours across a single, 30-mile trip. The network delivered to our customers a cumulative savings of more than 225,000 hours in January alone – saving local travelers more than $5.5 million in delay costs.

The Express Lanes have also strengthened HOV and transit in the corridor by providing a faster, toll-free travel option to carpoolers and buses during all times of the day. We serve more than 100,000 carpoolers and approximately 940 bus trips every week day across the network.

According to research from this past May, the traveling public sees value in the Express Lanes. A majority of local residents say the lanes benefit the region. More than 80 percent of toll-paying customers describe them as a good option. Support is particularly high among frequent users, of which 90 percent say they derive personal benefit from the toll roads.

Virginia is building on the success of this network. Later this month, the Virginia Department of Transportation and Transurban will break ground on the 395 Express Lanes, and we are also working on plans to extend the lanes south along I-95 to Fredericksburg. Through a $165 million FASTLANE grant, Virginia is able to leverage $565 million in private capital to advance a number of multi-modal improvements across these corridors, which serve a number of important Department of Defense assets, including the Pentagon and Washington Headquarter Services. Virginia is also leveraging substantial private capital to overhaul the congested Interstate 66 corridor.

Opportunities to leverage more private capital to meet transportation needs

Congress has the opportunity to adopt policies that will provide more United States communities with the resources, tools and incentives they need to advance the kinds of projects that are transforming regions like Sydney, Melbourne and Northern Virginia.

Over the last decade, significant progress has been made nationally in developing policy frameworks and educating states and local governments on the benefits of the public-private partnership model. While technical assistance is valuable, there is an even more impactful role the federal government could play, including:

- Funding and strengthening the existing TIFIA program;
- Expanding the use of Private Activity Bonds; and
- Providing meaningful financial incentives to encourage states to maximize public funding and assets, such as asset recycling.

These innovative financing programs are important elements of what must be a comprehensive program which also includes the adoption of new, sustainable funding sources; expansion of user pay and tolling options; the streamlining of environmental and regulatory reviews; and policies that promote the full utilization of advanced technologies to expand mobility and improve safety.

With that in mind, I would like to offer comments and recommendations in three specific areas: TIFIA, PABs and asset recycling.

Enhancing the Transportation Infrastructure Finance and Innovation Act

The success of Virginia's Express Lanes network would not have been possible without the TIFIA program.

Transurban is pleased to have been among the first to use TIFIA, and we understand well the positive impact the program has had. Thanks to the program's flexible terms and attractive interest rates, TIFIA enables major projects to be delivered that might not otherwise be possible.

Every year we are proud to host policy makers from around the world who visit our projects to learn about TIFIA and seek to mirror the program's success in their countries. We also have great respect for the dedicated and professional TIFIA team, who manage the program on a very modest administrative budget, and we place tremendous value on the partnership we have had with them for more than a decade.

As both a long-time TIFIA advocate and borrower, Transurban believes that administrative and policy changes are necessary to ensure the program can continue to deliver on its policy mission and realize its full potential in helping to meet our nation's transportation needs. TIFIA can deliver greater transportation outcomes by:

1) Promoting consistency in its loan terms and conditions;

2) Strategically managing risks across its portfolio to enable it to support more projects, while also protecting taxpayers; and
3) Providing greater certainty and speed in its evaluation and approval processes.

Promoting consistency in its loan terms and conditions.

There is a continuum of credit standards upon which any lender makes decisions, and lenders must assess and refine those standards to reflect changing market dynamics. No borrower would expect otherwise.

But projects benefit when borrowers can depend on consistency in major terms over time, and can have confidence in an underlying risk framework within which terms are defined and loan decisions made. This consistency is critical to the project planning process and to sponsors' ability to work with their government partners to develop transportation projects that meet policy needs and can ultimately be financed and delivered.

Our experience is that TIFIA's terms and risk profile shift from one project to the next, and even within the negotiation of a single transaction. These changes are well intentioned – often designed to address a risk identified in the last project or to anticipate new issues. However, sizeable shifts in terms over time can have the unintended consequence of creating greater uncertainty and risk, which drives up project costs, delays project implementation, and reduces the benefits that can be delivered.

For example, one of the key benefits of TIFIA is its subordinate position in the capital structure, which reduces the risk for senior lenders – maximizing the availability of capital and reducing the overall cost of capital. This feature has been instrumental in promoting TIFIA's policy directive to provide "facilitative" financing that brings other lenders and investors to the table. Over time, TIFIA has required terms that increasingly reflect senior debt status – progressively chipping away at a key benefit and policy objective of the program.

Policy and administrative recommendations to address this trend could include:

- Publishing an underlying risk framework and underwriting standards within which loans can be negotiated – providing a clear and more consistent road map for both the TIFIA team and its applicants.
- Creating a federal advisory committee to evaluate industry trends and periodically assess the effectiveness of TIFIA's risk framework in meeting its policy objectives.
- Providing some level of "grandfathering" for key terms that have already been negotiated for projects in development should TIFIA's underlying risk framework be subsequently changed.

Strategically managing risks across its portfolio to enable it to support more projects, while also protecting taxpayers.

The 495 Express Lanes project could not have been financed without TIFIA. High occupancy toll lanes were an untested concept at the time. Virginia and Transurban were seeking to finance and deliver the project amidst the global financial crisis. And we knew that the traveling public would take some time to adjust to new travel options, so the project would require a long ramp-up period before it could fully support its debt obligations.

TIFIA shared these risks on the 495 Express Lanes, and it has paid off for taxpayers and area commuters.

TIFIA was designed to take these kinds of risks. The program supports a portfolio that enables TIFIA to balance risks across projects of varying characteristics and complexities. It also requires a capital charge to offset the impact of some inevitable defaults. And it is resourced with practitioners who have industry experience in managing portfolios.

By managing risks across its portfolio, TIFIA can support the kinds of projects – like the 495 Express Lanes – that wouldn't otherwise be possible, and without putting taxpayers at undue risk.

In recent years, however, the TIFIA program has become increasingly risk averse. While some of these changes have been appropriate to address changing market dynamics, the program may ultimately shift too far away from projects like the 495 Express Lanes towards low-risk projects that could more easily secure financing from more conventional alternatives.

For example, while TIFIA applies a capital charge based on a project's risk profile to offset the impacts of potential default, it is increasingly seeking to further de-risk projects by requiring less flexible terms and standards in loan and inter-creditor agreements. The program must balance these extra protections with the additional costs and delays they may require.

Policy and administrative recommendations to ensure TIFIA can continue to take a portfolio approach may include the following:

- Congressional reporting that is focused not just on individual project performance, but the risk profile of the overall TIFIA portfolio, effectiveness of the credit review process and alignment with policy objectives.
- Primary dependence on the capital charge as the appropriate means to address project risk, instead of unnecessarily layering capital charges with risk-averse terms in loan and inter-creditor agreements.
- Reinforcement of TIFIA's role in supporting higher risk projects as part of its mission.

Providing greater certainty and speed in its evaluation and approval processes.

Transurban recently made the difficult decision not to pursue TIFIA to support the 395 Express Lanes project.

Looking at all aspects of the project, Transurban decided that the potential costs associated with the uncertainty of the TIFIA process outweighed the benefits that a TIFIA loan could provide.

Because of the trends described earlier, the project team faced uncertainty around the terms TIFIA would require for the 395 loan, as well as the timing and process for approval. In isolation, these challenges would have been manageable. But context is critical on major projects. Our design-builder could only hold the committed construction price for a few months, after which there could be increases in fuel, labor or other costs. The project also faced the risk of rising interest rates. To provide certainty for Virginia, Transurban had committed a $10 million bond that would be payable if we could not finance the project on schedule.

We were confident that the TIFIA team would do everything they could do to advance the process, but the risk was too high. A review of recent transactions found that financing timelines ranged from five to 15 months. Early indications were that some key terms could be inconsistent with previous TIFIA loans.

Fortunately, Virginia provided a loan from the Virginia Transportation Infrastructure Bank – a smaller, state-based program similar to TIFIA – to enhance the viability of the project and enable the team to deliver the full scope of planned transit and highway improvements.

The decision to proceed without TIFIA was in no way a reflection on the TIFIA team, but on the realities project sponsors face when advancing major transportation projects.

In the case of the 395 Express Lanes, Virginia was able to provide a solution to make the project work, and we look forward to breaking ground on improvements later this month. For some major projects across the country, there may not be viable alternatives to TIFIA financing.

That is why it is critical that Congress and TIFIA continue to find ways to accelerate and provide more certainty in the approval process.

Potential administrative and policy solutions include the following:

- Provide greater transparency for borrower on the loan review and approval process.
- Schedule regular and frequent TIFIA credit council meetings to facilitate timely and consistent decision-making.
- Prioritize high-impact projects that address critical transportation or safety needs, generate substantial economic impacts, and transfer material risk away from taxpayers.
- Prioritize projects that leverage private capital, whose investors often require greater certainty in process.
- Expedite reviews for projects with strong credit worthiness and experienced sponsors.
- Provide sufficient administrative funding to support program growth and accelerated timelines.
- Require regular reporting on time required to advance a project from bid selection to financial close, to more effectively track timelines prescribed in MAP-21.

Expanding Private Activity Bonds

Over the last decade, PABs have been a cornerstone of the transportation P3 industry, supporting sixteen of the twenty privately financed, major projects that closed over this time.

As governments look to increase the volume and breadth of projects delivered as P3s it must be anticipated that growing demand for PABs will require a significant increase in PABs authorization. Further, eligibility refinements will be needed to support new, diverse and innovative applications for PABs.

The need to remove the $15 billion cap on PABs has long been a topic of discussion, but the need goes further. When PABs eligibility was expanded under SAFETEA-LU to become available for surface transportation projects, the P3 market was opened up for investment. However, PABs are still eligible only for greenfield, not brownfield, projects.

Opening up the eligibility requirements for PABs issuances to include both greenfield and brownfield projects would incentivize more private investment in existing assets (including asset recycling) by reducing the cost of capital differential for private investors, enhance existing P3 projects by providing private sponsors with more cost-effective financing tools and reduce the amount of the public contribution toward P3 projects.

Providing incentives through asset recycling

In addition to improving existing programs, the United States could benefit from replicating certain programs from around the world that have proven to successfully attract private investment and help states increase the total funding available for infrastructure investment.

In 2014, Australia established the Asset Recycling Initiative (ARI), which incentivized state and local governments to sell or lease public assets to the private sector to raise funds for infrastructure improvements. If a state privatized an existing public (brownfield) asset such as a port, electricity transmission network or roadway, Australia's federal government paid the state government an additional fifteen percent of the negotiated lease or sale price. To receive this payment, the state had to reinvest the proceeds from the asset privatization into greenfield infrastructure projects.

In the 2016/17 year, the Australian federal government finalized agreements with four states and territories worth $AUD3.3 billion, which will unlock $AUD23 billion in infrastructure spending.

As an example, Sydney Metro is Australia's largest public transportation project, and when complete in 2024 it will deliver thirty-one metro stations (including underground stations) and new metro rail, connecting people across Sydney to areas of employment. While the concept had been proposed for many years, the project's second stage remained unfunded until 2014 when the New South Wales Government announced its commitment to an asset recycling program which funded the Metro project.

As a part of their asset recycling program, New South Wales leased the ports of Sydney and Newcastle as well as its electricity distribution network. Proceeds from these leases, combined with incentive payments of $AUD1.695 billion from Australia's federal government to New South Wales, have allowed for the delivery of more than $AUD20 billion worth of new infrastructure projects.

Looking at how the asset recycling model could be applied here, our review of the top ten public toll road agencies in the United States values them at up to $260 billion. After considering existing debt on these projects, we believe through an asset recycling-type program, these ten public toll agencies could generate as much as $150 billion to support greenfield projects.

Conclusion

I'd like to again thank Chairman Barrasso, Ranking Member Carper and the committee members for inviting me to be part of this important dialogue.

Leveraging private capital to meet transportation needs is not a new or abstract concept. It's a proven approach that leaders – like our partners in Virginia – are putting to work in their communities to improve mobility, provide travellers more choices, create substantial jobs and generate larger returns on their transportation investments. Federal programs like TIFIA and PABs are helping to fuel these innovative projects – supporting critical improvements that are transforming some of our most congested cities, and many of which may never have been possible without these programs.

Congress has the opportunity to champion new policies that will build on the success of programs like TIFIA and PABs and provide meaningful opportunities for private investors to work alongside our partners in government to help rebuild America’s infrastructure.