



Committee on Transportation and Infrastructure
U.S. House of Representatives

Bill Shuster
Chairman

Washington, DC 20515

Nick J. Rahall, III
Ranking Member

Christopher P. Bertram, Staff Director

James H. Zoia, Democrat Staff Director

June 13, 2014

BACKGROUND MEMO

TO: Members, Panel on Public-Private Partnerships
FROM: Staff, Panel on Public-Private Partnerships
RE: Roundtable Policy Discussion on “Ways the Financial Community Can Invest in Infrastructure Using Public-Private Partnerships”

PURPOSE

On Monday, June 16, 2014, at 10:00 a.m., in Conference Room A, 6th Floor of the Jacob K. Javits Federal Building, 26 Federal Plaza, New York, New York, Members of the Panel on Public-Private Partnerships will participate in a roundtable discussion on “Ways the Financial Community Can Invest in Infrastructure Using Public-Private Partnerships”. The Panel will hear from Jamison Feheley, Managing Director, J.P. Morgan; Karl Kuchel, Chief Operating Officer, Macquarie Infrastructure Partners; Thomas Osborne, Executive Director of Infrastructure, IFM Investors; Steve Howard, Director of Infrastructure Project Finance, Barclays; and Elliott Sclar, Professor of Urban Planning and International Affairs, Columbia University.

BACKGROUND

Over the last several months, the Panel has held a series of roundtables exploring the use of public-private partnerships (P3s) to advance highway, transit, water, airport, and public building infrastructure projects. The Panel has also explored the use of public-private partnerships internationally, and the experience States have had in carrying out these complex arrangements.

One consistent theme across these events has been the need for the Nation to re-invest in its infrastructure, portions of which are nearing or have reached the end of their useful life. For example:

- Highways and Transit. The U.S. Department of Transportation has estimated that inflation-adjusted spending on highways needs to be between 23 percent and 46 percent above the 2010 level to improve highway conditions and performance, and there is currently a backlog of \$86 billion in needed transit investments to bring transit systems to a state of good repair.¹
- Water Infrastructure. The needs of municipalities to address water and wastewater infrastructure are substantial. According to studies by the Environmental Protection Agency, the Congressional Budget Office, and the Water Infrastructure Network, the cost of addressing our Nation's clean water infrastructure needs over the next 20 years could exceed \$400 billion, roughly twice the current level of investment by all levels of government. The needs for drinking water infrastructure drive this figure even higher.
- Airports. Many of the Nation's large and mid-sized airports were built decades ago, and airport authorities are being challenged by the need to rehabilitate or replace those outdated terminals with modern facilities. Airport construction projects are financed by a variety of sources including the federal Airport Improvement Program, passenger facility charges (PFCs), bonds, and state and local funds.
- Public Buildings. All levels of government face challenges improving their real estate portfolios, as public buildings age and suffer from a lack of on-going maintenance. For example, the Government Accountability Office has labeled the Federal Government's real estate management as "high risk" because of excess and underutilized properties, deteriorating and aging facilities, and the use of operating leases for long-term space needs that can be more costly than options that lead to ownership.

Given fiscal constraints at all levels of government, addressing these enormous needs will be difficult. At the same, the private sector is looking for investment opportunities, particularly for entities like pension funds, which look for stable returns over a long period of time. Public-private partnerships may be a tool to accelerate infrastructure development, particularly for large complex projects.

¹ U.S. Department of Transportation, Report to Congress, *2013 Status of the Nation's Highways, Bridges, and Transit: Conditions and Performance*. February 2014

The Panel has held several hearings and roundtables that have addressed issues that the public sector considers when evaluating public-private partnerships, but has not heard the financial community's perspective on P3s. This roundtable will explore where the needs of the public sector and the interests of the private sector may align and address the following questions:

- 1) What types of projects are best suited for a public-private partnership?
- 2) What conditions must be present, and what factors does a financial institution evaluate, to determine whether to finance a P3 project?
- 3) In a P3 agreement, what risks should be transferred to the private partners and what risks are well suited for the public sponsor?
- 4) P3 agreements may involve numerous structures, including asset monetization agreements; revenue-risk agreements; demand-risk agreements; and availability payment agreements. What rates of return are necessary (on both equity and debt investments) for financial institutions to participate in each of these types of agreements?
- 5) Given that the private sector requires a rate of return on its equity investment (e.g., 10-15 percent) and its cost of capital is higher, how can a P3 agreement provide a good, long-term investment for the Federal taxpayer? What are specific examples of any efficiencies or innovation cited?
- 6) Can the traditional procurement process be improved to deliver better infrastructure without the use of the private sector? Or is the private sector's "discipline" critical to deliver the cited efficiencies?
- 7) What lessons have you learned from P3s that you would not repeat, and the Panel should consider?
- 8) What is the most appropriate role for the Federal Government with regard to P3s? How important is federal tax policy (including depreciation) to P3 agreements?

ATTENDEE BIOGRAPHIES

Jamison Feheley, Managing Director

J.P. Morgan

- Mr. Feheley is Managing Director and Head of Public Finance Investment Banking at J.P. Morgan in New York. He has been providing investment banking services for 22 years and brings significant experience in traditional public finance, as well as infrastructure project finance and public-private partnerships. He maintains strong relationships with infrastructure investors that are relevant to both traditional and innovative taxable and tax-exempt financing structures, including infrastructure private equity and debt funds, institutional investors and public pension systems.
- Mr. Feheley recently served as lead banker on the \$1 billion project financing for the Carlsbad Desalination Project that received the North American Water Project Finance Deal of the Year award in 2012. In addition, he has also recently served as lead banker to the State of Washington on an inaugural toll revenue bond financing program for the construction of the \$1.1 billion SR 520 Bridge program in Seattle and the Metropolitan Washington Airports Authority on the inaugural issuance of \$1 billion Dulles Toll Road Revenue Bonds that was the overall Bond Buyer Deal of the Year recipient in 2009.

Karl Kuchel, Chief Operating Officer

Macquarie Infrastructure Partners

- Mr. Kuchel is Chief Operating Officer (COO) and sits on the Investment Committee of Macquarie Infrastructure Partners Inc. (MIP), the manager of the company's three U.S.-based private infrastructure funds: MIP I, MIP II and MIP III. He oversees \$6 billion in investor funds committed to U.S. and Canadian infrastructure investments.
- In his role as COO, Mr. Kuchel is directly involved in the capital allocation, cash flow management, valuation, financing, and business planning across all portfolio investments within the MIP funds. Mr. Kuchel is also active in pursuing acquisition and sale opportunities for the MIP funds, including MIP III's \$1.5 billion acquisition of Goethals Bridge in November 2013, MIP I and MIP II's \$4.8 billion sale of Global Tower Partners in September 2013 and MIP II's \$2.1 billion acquisition of Elizabeth River Tunnels in April 2012.
- Mr. Kuchel joined Macquarie in 2003 in Sydney, Australia, where he was involved with acquisition and asset management activities for Macquarie Infrastructure Group and Macquarie Communications Infrastructure Group, before transferring to MIP's New York offices in 2004. He holds a Bachelor of Commerce with Honors and a Bachelor of Laws from the University of Queensland, Australia.

Thomas Osborne, Executive Director of Infrastructure

IFM Investors

- Mr. Osborne joined IFM Investors in January 2013 and is responsible for relationship development, origination, analysis, structuring, and execution of investments for the fund.
- Previously Mr. Osborne worked as Head of Americas Infrastructure in the Investment Banking Division of UBS Investment Bank, where he was the founding group head of the Americas infrastructure advisory practice and responsible for strategic advisory, mergers and acquisitions, lending and capital markets financing for major investors in infrastructure. At UBS, he also held the roles of Co-Head of US Infrastructure and Managing Director - Power and Utilities. Prior to UBS, Mr. Osborne worked as Director - Power and Utilities Group at Credit Suisse First Boston and as First Vice President - Utilities Group at PaineWebber Incorporated.
- Mr. Osborne holds a Bachelor of Arts with honors from the University of Virginia.

Steve Howard, Director of Infrastructure Project Finance

Barclays

- Mr. Howard has 30 years of experience financing a broad range of infrastructure projects for public and private clients. Mr. Howard's non-recourse project finance experience spans all sectors, including transportation, water, and social infrastructure.
- Under Mr. Howard's direction, Barclays acted as the lead underwriter for the private concessionaire for the \$1.2 billion Goethals Bridge Replacement Project, the \$1.3 billion North Tarrant Expressway project, the \$2.1 billion Midtown Tunnel/Elizabeth River Crossing Project, and the \$1.6 billion Denver FasTracks Eagle P3 Project.
- Mr. Howard's team also acted as co-senior managing underwriter, financial advisor and equity placement agent for the \$925 million Poseidon Resources Desalination Plant and Pipeline in Carlsbad, CA. In 2011, Mr. Howard was the lead banker advising SANDAG on its acquisition of the State Route 125 Managed Lanes Project funded by a post-bankruptcy TIFIA loan refinancing.
- Mr. Howard's other recent transportation financing experience includes negotiating the TIFIA loan for the Port of Miami Tunnel Project on behalf of the private sponsors, the Texas SH-121, IH-635 Managed Lanes, and Indiana Toll Road concession bids and the \$1.2 billion International Arrivals Terminal 4 Redevelopment Project at John F. Kennedy Airport.
- Mr. Howard is a graduate of the Columbia University Graduate School of Business Administration and University of New Hampshire Whittemore School of Business and

Economics. Mr. Howard's certifications include the FINRA Series 7 and 63 examinations.

Elliott Sclar, Professor of Urban Planning and International Affairs
Columbia University

- Professor Sclar is a professor of urban planning and Director of the Center for Sustainable Urban Development, The Earth Institute at Columbia University. Professor Sclar's research interests include urban economic development planning, transportation and land use planning, and the economics of privatization.
- Professor Sclar is a nationally recognized expert on privatization. His research includes *The Political-Economics of Private Infrastructure Finance: The New Sub Prime* (2009) and *Amtrak Privatization: The Road to Failure* (2003). His book, *You Don't Always Get What You Pay For: The Economics of Privatization* (2000), won two major academic awards: the Louis Brownlow Award for the Best Book of 2000 from the National Academy of Public Administration and the 2001 Charles Levine Prize from the International Political Science Association and Governance magazine for a major contribution to public policy literature.
- Professor Sclar received Master of Arts and Ph.D. degrees in economics from Tufts University.