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**September 12, 2023**

**The Honorable, Chair Ed Neilson**
**The Honorable, Chair Kerry Benninghoff**
**Members of the House Transportation Committee**

**RE: Challenges with Transit Funding**

Chair Neilson, Chair Benninghoff, and Members of the House Transportation Committee:

S&B USA (Shikun & Binui USA) extends its gratitude for the chance to provide testimony concerning challenges with transit funding to the Committee.

Funding shortages in transit systems can be particularly challenging, as they may directly impact the accessibility and quality of public transportation services.

Along with the traditional solutions to transit funding challenges, such as: increase fare revenue, pursuing federal funding, leveraging dedicated funding sources, increasing efficiency and reducing costs and exploration of value capture, we would like to use this platform to present in detail the advantages of funding through Public-Private Partnerships (P3s) along-side other funding sources. Funding through P3 procurement allows private investment of capital in exchange for long-term Availability Payments, revenue-sharing, advertising rights, or other concessions, can support existing projects in their operation and maintenance stages or projects to be constructed in the future. This will inevitably decrease budget burden and can save taxpayers money.

P3s involve collaboration between the public sector (typically a government agency) and the private sector (usually a private company or consortium) to finance, design, build, operate, and maintain critical projects including transit and transportation infrastructure. Here is how the P3 model can assist in overcoming transit funding challenges.

1. **Access to Private Capital**

   Private capital plays a critical role in financing the upfront costs of P3 projects. These costs can include design, construction, equipment, technology, and other necessary infrastructure investments. Private partners can invest substantial sums of money upfront, reducing the burden on public budget and tax need in any specific year. This is especially important for large-scale infrastructure projects that require substantial investment but would strain public finances if funded solely through public funds.

   Private entities often bring innovative financing solutions to the table, such as securing loans, issuing bonds, or attracting equity investment from institutional investors. These financing options can be more flexible and can complement traditional public financing mechanisms. Private partners often have access to financial experts, investment networks, and financial markets, which can help structure and secure financing packages for P3 projects. This expertise can optimize the financial aspects of the project.
   Private partners can provide a significant portion of the required funding and therefore typically have a vested interest in ensuring the efficient use of capital. They often focus

on cost-effective project delivery and long-term financial sustainability, which can benefit the public sector by reducing costs and maximizing value. P3 agreements can include revenue-sharing mechanisms, such as farebox revenue sharing or advertising revenue, which can generate additional income for public transit agencies over the long term. Access to private capital can also stimulate economic growth by creating jobs, supporting local workers and businesses, and attracting additional investment in the region where the P3 project is undertaken.

The benefit of access to private capital through other P3 transportation projects, for example for projects in the field of roads or bridges, may generate a budget surplus in the field of public transit. This is especially true where such budgets are managed under the same budget constraints.

In summary, access to private capital is a fundamental aspect of P3 projects that helps overcome funding limitations, reduce financial risks, and leverages the expertise and resources of the private sector.

**Access to Federal Funding**
The US DOT Federal Highway Administration is in support of P3 procurement as they established the Transportation Infrastructure Finance and Innovation Act (TIFIA) program as a federal funding mechanism that provides loans, loan guarantees, and lines of credit to support major infrastructure projects, including P3 projects. TIFIA funding can be a crucial component in the financing structure of P3 projects, offering several benefits:

- **Lower Financing Costs**. TIFIA loans offer favorable terms, including lower interest rates and flexible repayment periods compared to traditional financing sources. This can reduce the overall financing costs of a P3 project.

- **Flexible Financing Structures**. TIFIA allows for flexibility in structuring the financing of a P3 project. It can be combined with other sources of funding, such as private investment, state and local funds, and revenue from project users, to create a well-balanced financing package.

- **Leveraging Private Investment**. TIFIA funding can attract additional private sector investment to P3 projects. Private investors may be more willing to participate when they see that the project has secured a TIFIA loan, as it represents a form of federal support and enhances the project's financial stability.

- **Mitigating Risk**. TIFIA loans can help mitigate financial risks associated with P3 projects. By providing a stable source of funding, TIFIA can serve as a backstop in the event of unexpected cost overruns or revenue shortfalls.

- **Enhancing Creditworthiness**. The involvement of TIFIA funding can enhance the creditworthiness of a P3 project, making it more attractive to other investors and lenders. This can lead to improved financing terms and conditions.

- **Supporting Innovative Projects**. TIFIA funding is often used to support innovative and transformative transportation projects that may have a substantial impact on regional or national transportation networks. This includes projects that incorporate advanced technologies or address critical infrastructure needs.

- **Streamlining Project Delivery**. TIFIA financing can help expedite the delivery of P3 projects by providing timely access to capital during the construction phase, thereby reducing delays.

- **Public Benefit**. TIFIA funding is designed to support projects that provide significant public benefits, such as reducing congestion, improving safety, enhancing mobility, and promoting economic development. This aligns with the goals of many P3 projects.

**IIJA**. The $1.2 trillion Infrastructure Investment and Jobs Act (IIJA) is poised to change how the US views and implements P3s. The IIJA includes more than $39 billion in new federal investment for public transportation.

Overall, federal funding will play a crucial role in facilitating the financing of P3 projects in the United States, helping to make infrastructure developments financially feasible while promoting collaboration between the public and private sectors in addressing the nation's transportation needs, including those in public transit.

2. **Risk Sharing**

Risk sharing is a fundamental aspect of P3s, particularly in the context of project finance. In P3s, risks are strategically distributed between the public and private sector partners. This alignment of responsibilities ensures that each party manages the risks they are best equipped to handle, fostering a more efficient and collaborative partnership. When it comes to financial risks, risk sharing in P3s involves the allocation of responsibilities and potential losses related to the project's financial aspects. Both public and private partners are exposed to financing risks, but the allocation of these risks can vary.

**Finance, Revenue and Market Risks**. Private partners often take on the responsibility of securing project financing, which includes obtaining loans and credit at favorable terms. Public partners may retain the risk associated with fluctuating interest rates, which affect the cost of debt. Revenue risks pertain to the project's ability to earn money through avenues such as lease payments. In some P3s, the private partner assumes the responsibility of mitigating revenue shortfalls that arise from lower-than-anticipated usage or other factors. Such revenue risks can be lessened through mechanisms like demand guarantees or revenue-sharing arrangements. P3 projects may be influenced by market volatility, varying economic conditions, and changes in demand. In certain situations, private partners take on the risk of market shifts, including, for example, alterations in fuel prices for transportation initiatives or fluctuating demand for facility usage.

**Construction and Maintenance Risks**. P3 agreements commonlyallocate construction risks to the private partner. This includes the responsibility for cost overruns, delays, and quality assurance during the construction phase. Private partners must ensure the project is completed on time and within budget to protect their investment. Once the project is operational, private partners typically assume responsibility for its day-to-day operations and maintenance. This includes managing operational risks such as maintenance costs, performance standards, and regulatory compliance. Private partners often assume responsibility for the long-term maintenance and operation of transit assets. P3s can also involve private partners taking on asset management responsibilities, including the renewal and replacement of transit infrastructure. This can help ensure that transit systems remain in good condition over the long term and can free up public funds that would otherwise be allocated to these ongoing costs.

**Availability and Performance Risks**. Many P3 contracts include performance-based payment mechanisms where the private partner receives compensation based on meeting specific performance targets. Availability and performance risks are transferred to the private partner, motivating them to maintain high service standards.

By appropriately allocating and managing financial risks, P3s aim to optimize project outcomes, ensure financial viability, and protect the interests of both public and private partners.

3. **Efficiency and Innovation**

P3s can expedite project delivery by leveraging the private sector's expertise in project management and construction. Private partners are incentivized to complete projects on time and within budget, which can save money and reduce financing costs. Private sector involvement can lead to innovation in transit project design and operations. Private companies may bring new technologies, management practices, and cost-saving ideas to the table, resulting in more efficient and cost-effective transit services.

As mentioned above, the solution does not necessarily solely lie in budget savings in transit alone, but in a broad vision that includes effective approach for releasing funds from the overall budget for transportation, among other things, for the needs generated by the transit system. Within the strategies the Committee will be reviewing to address funding shortages in transit, we encourage the Committee to look beyond traditional funding sources like government appropriations, and explore alternative financing options, such as P3s.

We thank you for this opportunity to share insights on these vital topics. We believe the judicious application of these methods can lead to more efficient, innovative, and cost-effective projects that serve the best interests of the Commonwealth.

Sincerely,

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