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WRITTEN STATEMENT OF BEVERLEY SWAIM-STALEY
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AND HAZARDOUS MATERIALS
COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE
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Chairman Denham, Ranking Member Brown and Members of the Subcommittee, I am very pleased to be here today to share my experience on innovative financing. My name is Beverley Swaim-Staley and I am the President and CEO of the Union Station Redevelopment Corporation (USRC), a non-profit corporation established in 1983 by the Secretary of Transportation to manage Washington's Union Station through its redevelopment and protect the Federal Government's interest in the building which is owned by the United States Department of Transportation. By law, Washington's Union Station is to be operated in a manner that protects the historic building, continues its usage as a multimodal transportation facility and ensures it as a commercially viable entity which does not require ongoing funds from the federal government.

Washington's Union Station was the largest rail station in the world when it was built in 1907. Designed by Daniel H. Burnham, it is considered to be one of the finest examples of the Beaux-Arts style of architecture in the United States. In 1969 the station was added to the national register of historic places, although the building had fallen into major disrepair. In 1981, Congress passed legislation to protect the historic building, transform it into an intermodal transportation center and establish the building as a commercial complex. The public-private partnership formed to redevelop the station resulted from the Federal Government's desire to restore and preserve the historic station as a transportation center while limiting its exposure to future federal maintenance requirements. The redevelopment of Union Station in the 1980s created a vibrant transportation center and a successful commercial enterprise which proved transformative to the neighborhoods adjacent to the station.

The short term goals for redevelopment were to renovate the historic building after years of neglect and to find a commercial partner willing to enter into a long term lease for commercial development and operation of the station. The station was leased to Union Station Venture (USV) and the commercial redevelopment began in 1986. USV group comprised LaSalle Partners, a full service commercial real estate company, and two firms with expertise in urban specialty projects - William Jackson Ewing, a retail development and leasing firm, and Benjamin Thompson and Associates, an architectural firm. The District of Columbia completed the parking garage and built the shell for the new train concourse. The station opened in 1988 with over 200,000 square feet of leasable retail space. Today the station serves over 100,000 visitors daily. While still preserving its historic character, the station is a transportation hub of the District of Columbia. Not only is the station the second largest Amtrak station, it is a connection for commuter rail serving Maryland and Virginia, the busiest station in the WMATA subway system and the new station for intercity bus services. It will also be the terminus for the new District of Columbia Streetcar serving H Street within the next year.

Experience in Maryland

I am the third CEO in 25 years, having been in the position for 10 months now. My prior experience was at the Maryland Department of Transportation (MDOT) where I served as CFO, Deputy Secretary and finally Secretary of Transportation for three years. In my testimony today, I was asked to convey some of my experience at MDOT with regard to innovative financing and Public-Private Partnerships (P3).

Like many states around the country, Maryland was hit very hard by the recession. We had to look at expanding the tools in our toolbox to secure more financial resources for transportation. Maryland has never shied away from innovative financing for transportation. You could say that the very creation of the Maryland Department of Transportation was, in part, an innovative approach to financing transportation. Like the federal model, all state-level transportation functions were assembled under one umbrella funded by the Transportation Trust Fund that stands separate from the State's General Fund. The Maryland Transportation Authority was also created as an entity of the Maryland Department of Transportation. The Authority oversees Maryland's toll facilities and has a trust fund and financing program independent of the MDOT trust fund. The combination of dedicated transportation revenues and the ability to issue debt backed solely by that tax revenue and revenues from department-wide operations, has been an effective model for Maryland for over 40 years.

One of the best recent examples of pulling together several innovative financing techniques to develop a project financial plan is the Intercounty Connector (ICC). The ICC (MD 200) is an 18.8-mile, limited access, six-lane, tolled highway connecting the I-270/I-370 corridor in Montgomery County with the I95/US 1 corridor in Prince George's County. The project had been the subject of decades of planning.

The ICC is essentially completed and now open to traffic. The total cost of the project was $2.425 Billion. The financial plan included:

- GARVEE Bonds - $750 Million
- Transportation Authority Revenue Bonds - $571 Million
- TIFIA Loan - $516 Million
- General Funds - $265 Million
- Transportation Trust Fund - $180 Million
- Transportation Authority Cash - $124 Million
- Federal Funds - $19 Million

This financial plan marked the first time that Maryland ever used GARVEE Bonds and a TIFIA loan for a project. Even a portion of the Transportation Authority Revenue Bonds had an innovative twist in that approximately $375 million of those bonds were issued as Build America Bonds created pursuant to the American Recovery and Reinvestment Act of 2009. Some of the financing tools were restricted for certain purposes while other sources could be applied to all aspects of the construction.

In 2009 we needed to rebuild two significant revenue generating facilities, our largest container terminal in the Port of Baltimore and our travel centers on our heavily traveled Interstate 95 north of Baltimore. We simply did not have the funding. We found ourselves asking if there were any businesses that would view certain transportation investments more effective for them than we viewed that investment for us. That thought process led us directly to Public-Private Partnerships (P3).

Maryland now has two excellent examples of what are proving to be successful partnerships with the private sector—the Seagirt Marine Terminal at the Port of Baltimore and the Travel Plazas along the I-95 Corridor.

The Seagirt Marine Terminal is the primary container facility in the Port of Baltimore. The terminal was 20 years old with only three berths served by cranes that were nearing the end of their useful life and becoming functionally obsolete as wider container ships visited the port. While the main channel in the Chesapeake Bay is maintained to a depth of 50 feet, none of the Seagirt berths were deep enough to accommodate larger ships expected after the expansion of the Panama Canal. If the Port of Baltimore was going to maintain and expand its market share in the next ten years, new shipping berths and cranes were needed.

The Maryland Department of Transportation, the Maryland Port Administration (operator of Seagirt), and the Maryland Transportation Authority (owner of Seagirt) began a search for a private sector partner willing and able to undertake a long-term lease of the facility. The goals for the P3 were clear and concise.

- Fund the construction of a new 50-foot berth to be operational before the expansion of the Panama Canal is completed.
- Repay the Maryland Transportation Authority for its initial investment in the terminal.
- Provide an on-going revenue stream to the Maryland Port Administration (MPA).

The effort resulted in the formation of a strong partnership between Maryland, Highstar Capital, and Ports America. The agreement, which began in January 2010, covers a period of 50 years. Over that term, the total investment and revenue has the potential of reaching $1.8 Billion. Some of the specific components of the deal include:

- $140 Million up-front payment to the Maryland Transportation Authority that will be used for highway and bridge improvements;
- $105 Million investment in the 50-foot berth and cranes;
- $378 Million of fixed annual payments to MPA over the term of the agreement; and
- $699 Million of variable payments to MPA over the term of the agreement.

It was also estimated that the project would create 5,700 new jobs and generate $15 million in new tax revenues.

Maryland is 3 ½ years into the agreement. Container volumes have increased by 129,000 between FY 2009 and FY 2012, an increase of 50 percent. The new berth is complete and the new cranes are on-site and functioning—two years before deadlines established in the agreement.

The I-95 travel plazas are owned and operated by the Maryland Transportation Authority. The two travel facilities which serve over a million visitors per year are called the Maryland House and the Chesapeake House. The Maryland House is almost 50 years old and the Chesapeake House is almost 40 years old. Both facilities had exceeded their life expectancy. The project appeared to be the perfect P3 candidate.

The effort to secure a P3 arrangement for the travel plazas was driven by three core goals.

- Obtain new or like-new facilities to replace the current Chesapeake and Maryland Houses.
- Ensure that the facility design and operation will provide a positive customer experience.
- Provide a fair return to the State, and provide for transfer of the facilities in satisfactory condition at the end of the term.

In the end, a 35-year lease agreement was reached with Areas USA. The parent company of Areas USA, Areas S.A., has been in the travel services industry for more than 40 years in locations all around the world. The total value of this partnership to the State is estimated to be $577 – $662 million over the 35-year term of the agreement. The significant components of the deal include:

- $56 Million to replace both travel plazas;
- $442 – $488 Million in revenue payments; and
- $41.5 – $45.5 Million in capital reinvestments in the facilities.

Construction is underway with the expectation that both new plazas will be open by September 2014.

My Observations from Maryland Projects

From my experience in Maryland trying to create innovative financing structures to solve long term infrastructure problems, I have several observations.

First, every project is different, there is no one size fits all approach. Each project must be custom fit based upon the financeable components of the project and the benefits to the users.

Second, all financing – public or private must have a credit-worthy repayment stream. There is no free money. In my experience, the public frequently has the erroneous perception that in a public-private partnership, the user's cost will be transferred to the private sector. This is not typically the case. The investor must ultimately be paid back with an incentive for providing the original investment.

Third, funding is the final solution. Before the financial equation can be solved, the project must be clearly defined with its goals and benefits. The first two questions to be answered are: 1. Is the project viable from an engineering and constructability standpoint? and 2. Does someone want this project enough to pay for its benefits?

Fourth, define the elements of the projects for which there is a direct connection between benefit and costs. For example, in many transit oriented developments the building of a parking garage is the first step because people are willing to pay for parking due to its direct benefit to a service they want.

Fifth, can the revenues and benefits from single assets, like a parking garage, be used to leverage financing for all or portions of the project?

Plans for Union Station

Just five blocks from the U.S. Capitol, Union Station provides an unparalleled opportunity to demonstrate this country's commitment to developing the best intermodal transportation centers in the world. A victim of its own success, Union Station has seen passenger volumes triple since its restoration and redevelopment in 1988. Ashkenazy Acquisition Corporation is the current developer leasing Union Station. Akridge, a local developer, owns the air rights over the rail yard north to K Street. Currently stretched to capacity, intercity and commuter rail passenger volumes are predicted to once again triple in the next 20 to 30 years. USRC, along with Amtrak and the developers are now planning a transformation of the station which will increase the capacity and improve the passenger experience for travelers by rail, subway, streetcar, taxi, bus, bicycle, walking, rental car and private car. The plans also call for a three million square foot commercial center with parks, plazas and civic spaces atop the rail yard.

The expansion of the intermodal center will catalyze job creation and economic development throughout the National Capital Region in the coming decades. Increased passenger capacity will facilitate housing (market rate and affordable) and job growth (at all levels of the income spectrum) through enhanced mobility within and to and from the region. Increased intercity travel and access to regional airports will drive hospitality and tourism growth. The new commercial center at the station will reknit neighborhoods long separated by train tracks and bolster recent proximate neighborhood growth, without displacing any current occupants.

Beyond providing a model for sustainable economic growth and leveraging existing transit assets, the transformation of Union Station can demonstrate high-priority regional and national priorities. The plans call for celebrating, enhancing and preserving the historic character of one of our country's most celebrated buildings. The grand public spaces and structures will signal the importance we assign to intermodal facilities. Finally, this redevelopment will highlight the principles of sustainable design and enhanced safety and security.

Through regional cooperation and the full engagement of local and federal stakeholders, we plan to partner with and leverage the private sector's access to broader capital markets and ability to take on greater risk. While we are still in the concept planning stage, the project elements provide a promising list of ingredients which are conducive to a wide range of funding and financing techniques. Increased ridership, sales and real estate taxes, development rights, parking operations and other revenue increments present ideal opportunities for securitization, risk-sharing, public private partnerships and other financing techniques. As our planning process begins to solidify the project's many uses and beneficiaries, we will seek to optimize and integrate as many funding sources as possible to minimize public investment and risk. While we will continue to study successful models from other cities, we are confident that as with similar projects, Union Station's expansion will require its own tailored financing solutions.

During our planning and design process we hope to learn from other urban transportation center development around the country. I would like to invite you all to visit the station and hear more about our plans. Thank you. I will be pleased to answer any questions you have.