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REPORT

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Lead Report

Financing & Development

States Face Infrastructure Funding Dilemma As Federal Assistance Remains Uncertain

States will continue to struggle with budget shortfalls and unemployment caused by the recession and uncertainty about future federal infrastructure policy and funding in 2011, and they will have to get ever more creative to meet their infrastructure needs.

The sixth extension of federal surface transportation policy, since the law originally sunset in 2009, is set to expire March 4, but the outlook for a major overhaul of the system or increased revenue looks bleak, and states will no longer be able to rely on Recovery Act dollars in 2011 to buttress their infrastructure programs, as they did for the last 18 months.

Strong sentiments against raising taxes during the recession will likely force more states to consider public-private partnerships and local ''self-help'' taxing referenda if they don't want to make further cuts in their transportation and infrastructure budgets. In fiscal year 2010, 21 states cut transportation programs to balance their budgets, and another 11 states have considered cutting transportation spending in fiscal year 2011, according to a National Association of State Budget Officers report.

Even as states try to cobble together a package of spending cuts and creative financing, the need for more revenue to fund infrastructure will remain.

State Gas Tax Increases Unlikely in 2011. State-level motor vehicles fuel taxes or gasoline taxes are one of the main revenue sources for state transportation programs, and states provide the largest share of transportation revenue of any level of government. States provide 46 percent of transportation revenue, compared with 32 percent from local governments and 22 percent from the federal government, according to Jim Reed, director of the National Conference of State Legislatures.

Normally about a dozen states consider gas tax increases each year, and three or four actually pass an increase, but in 2010 no states increased their gas tax, Reed told BNA.

''There does seem to be a general attitude that the citizens are already having a hard enough time in this economy, so let's not hurt their pocketbook anymore, even with a small gas tax increase,'' Reed said.

In the past two years, a handful of states have considered increasing their state gas tax to raise revenue for transportation infrastructure. In 2009 Oregon, Rhode Island, and Vermont passed gas tax increases.

Several other states debated gas tax increases in 2009 and 2010, but less than usually do, Reed said. The issue could come up again in 2011 as states face the end of federal stimulus money for transportation projects and a continuing decline in gas tax revenues, but Reed said he does not expect to see many states passing increases in 2011.

''I don't think that will happen in 2011, I think we have another year of tough times,'' Reed said. ''Maybe in 2012, if things continue to improve.''

States that might consider a gas tax increase in 2011 include Pennsylvania, where departing Gov. Edward Rendell (D) proposed raising the state's gas tax and vehicle registration fees to close a transportation funding shortfall last summer (1 IIPR 17, 8/30/10). The state legislature adjourned after the November elections without voting on transportation funding legislation.

Proposals to increase the gas tax in Iowa and South Dakota were shot down in 2009 and 2010, respectively, although supporters in both states left open the possibility that a gas tax hike could be brought up again (1 IIPR 24, 2/8/10). Reed also said that Wyoming, South Carolina, Nebraska, and New Jersey might consider gas tax increases in 2011.

While no states increased their gas tax in 2010, a few states increased other revenue sources for transportation infrastructure. According to data from the National Conference of State Legislatures, Connecticut passed an increase in motor vehicle fees, and Hawaii raised the tax on petroleum products by 5 cents a barrel to $1.05 to raise revenues.

Massachusetts Gov. Deval Patrick (D) proposed raising the state gas tax in February 2009, but stiff opposition from the legislature made that proposal a nonstarter. However, a 1.25 percent increase in the sales tax with a portion going towards transportation needs was passed (1 IIPR 26, 6/29/09).

Revenue Raisers Are a Tough Sell. To sell a gas tax increase to constituents, state politicians are going to have to sell a new approach to doing business to convince voters that their tax dollars are being put to good use, Robert Puentes, a senior fellow at the Brookings Institution, told BNA.

''In a lot of states, there's still a frustration with how projects are chosen,'' he said. ''It's not just that they're broke, but [the system is] broken. . .It's still a system with its roots in the 1950s, and few states have really updated it to the challenges of today.''

If states want to increases infrastructure revenue and maintain public support, they will have to convince voters that infrastructure spending is fundamentally connected to economic recovery.

One way to do that is to draw a very close connection between the revenue raising measure and the specific projects being built. This approach has been successful in several states and localities where voters have consistently voted for increased taxes and fees when they knew what projects the money would pay for.

'Self-Help' Initiatives on the Rise. The most broadly publicized example is Los Angeles' Measure R, a 2008 ballot initiative approved by voters that established a half-cent sales tax for specified transit projects. The initiative has drawn attention because of Los Angeles Mayor Antonio Villaraigosa's (D) "30/10 Initiative" for accelerating construction on specific transit projects by borrowing federal money and using Measure R revenue to repay the loans over the long-term (1 IIPR 9, 10/18/10).

''I think you're going to see much more of this self-help,'' Puentes said.

Salt Lake City, Denver, Phoenix, and other metropolitan areas are also raising significant amounts of money to pay for their own transportation infrastructure maintenance and upgrades, he said.

''If you make the appropriate argument to the citizens, and you let them know exactly what they're going to get for their money, they're going to be more likely to support it,'' Kerry O'Hare, vice president of Building America's Future, told BNA. At the federal level, it's harder to see the connection, she said.

''Those referenda have been very successful at the local level. I think you're going to see a lot more of that in the next year or two,'' O'Hare said.

This approach has worked at the state level, for example in Washington where voters upheld a gas tax increase approved by the legislature that included a list of projects that would be accomplished because of the increase, Reed said. However, making the connection between revenue and projects is a lot easier to accomplish at the local level, he said.

But state government does play a role in local taxing. Georgia passed legislation in 2010 that will allow districts within the state to vote on whether to increase the sales tax within their district by 1 cent to pay for a list of local projects that will be developed before the referendum (1 IIPR 20, 6/7/10).

At least 15 states have laws that allow localities to levy an additional gas tax, on top of the federal and state gas taxes, Reed said. The last time the Texas Legislature was in session, in 2009, they considered a local option gas tax that ultimately did not pass, but the proposal could come up again in 2011, he said.

Putting the decision in the hands of voters is an attractive option ''in this no new taxes environment and in states that have such population diversity,'' with a mix of urban and rural areas, Reed said.

P3s Gain Traction in States. An increasing number of states are considering public-private partnerships (P3s) to finance infrastructure projects as budgets get tighter, and the trend is likely to continue in 2011.

A December 2010 NCSL report found that in 2010, 21 states and the District of Columbia considered 52 legislative measures on transportation P3s. Seven states adopted or enacted 11 P3 measures, while 17 bills were still pending.

In total, 29 states and Puerto Rico have passed laws authorizing P3s in some capacity, but a comprehensive framework that allows for broad consideration of P3s beyond individual projects is in effect in only 18 states and Puerto Rico.

The measures that passed in 2010 ranged from tweaks to existing P3 legislation, like Indiana's measure that allowed the Illiana Expressway to be developed as a P3, to fairly comprehensive legislation authorizing P3s in Maine.

Legislative consideration of P3s has increased over the last three years, Reed said. States that considered comprehensive legislation in 2010 (Illinois, Michigan, New York, Ohio, Pennsylvania, Rhode Island, and South Carolina) might try to pass legislation again in 2011, he said.

A Pennsylvania House committee released legislation authorizing state and local government entities to enter into public-private partnerships, but the bill did not pass before the legislature adjourned for the year (1 IIPR 19, 10/18/10). Frank Rapoport, an attorney with McKenna Long & Aldridge in Philadelphia, told BNA he expected the Pennsylvania Legislature to pass the bill by March, saying that ''no one is against it.''

When Governor-elect Andrew Cuomo starts working with the New York Legislature in 2011, proposals from the State Asset Maximization Commission report, released in June 2009 (1 IIPR 27, 6/8/09), such as a streamlined P3 process, could reemerge in legislation, Rapoport said.

Texas is also likely to take up legislation in 2011 because they have a moratorium on P3s that they have to address because legislation expired in 2009, Reed said.

Hurdles to P3 Development. Despite states showing an increasing interest in P3s, most states lack the technical or institutional capacity to structure contracts with the private sector to deal with problems in the short term and protect the public interest in the long term, Puentes said.

''Many of the states are really lacking of the capacity that they need to deal with the private sector investors in ways that make legislatures and the general public comfortable with these deals,'' Puentes said.

Other countries with more P3 experience, like Canada, have P3 units at the national level that provide legislatures and policy-makers with the expertise, advice, and analytics that are needed for these complex deals.

The climate in Washington has become more favorable for P3s and some sort of federal center for best practices to assist the states could be included in a surface transportation reauthorization in 2011, O'Hare said.

James Oberstar (D-Minn.), departing chairman of the House Transportation and Infrastructure Committee, included an Office of Public Benefit that would have veto authority over public-private transportation agreements in his proposal for surface transportation reauthorization (1 IIPR 5, 6/29/09). This proposal would have ''micromanaged'' P3s and stifled development, Rapoport said.

''You have a completely different climate in Washington,'' Rapoport said. Incoming Chairman of the House Transportation and Infrastructure Committee John Mica (R-Fla.) would prefer to give states the final say in transportation projects involving private-sector funds (1 IIPR 5, 11/1/10).

Revenues Have to Be Raised Eventually. P3s alone will not solve the states' transportation problems. Unless there is a toll attached to a P3 project, the project will eventually have to be paid for with state and/or federal funds, Reed pointed out.

''There's an inevitability to the kind of approaches that they're going to take, in the near future they're going to have to figure out how to raise revenue,'' Puentes said.

By Kate Naseef

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News

Environment

Congressional Research Service Report Cites Water Infrastructure Needs, Funding Issues

While the 112th Congress is expected to seek federal spending cuts, it is not yet clear whether clean water and drinking water programs will be among those targeted for cuts or whether infrastructure investments will be seen as supporting economic activity, according to a Congressional Research Service report released Dec. 27.

Changes in Congress resulting from the 2010 election ''are likely to alter the political dynamics and future debates on many issues, possibly including infrastructure,'' according to the report to Congress, *Water Infrastructure Needs and Investment: Review and Analysis of Key Issues*.

Republicans gained six seats in the Senate and won control of the House by picking up 63 seats during the midterm elections.

The report is a summary of several studies citing the need to improve aging clean water and drinking water infrastructure and examining issues addressed by the Environmental Protection Agency, Congress, states, and municipalities.

For example, EPA's most recent wastewater needs survey, conducted in 2008 and issued in 2010, estimates that $322 billion is needed for projects and activities to address water quality or water quality-related public health problems during the next 20 years, the report said. Compared with the previous survey four years earlier, the largest increases in reported needs were for wastewater treatment and stormwater management.

EPA's most recent drinking water needs survey, conducted in 2007 and issued in March 2009, covers the period from 2007 through 2026. The survey indicated systems need to invest $334.8 billion in drinking water infrastructure improvements during the next 20 years to comply with drinking water regulations and ensure safe water, an amount similar to its previous survey.

''EPA acknowledges that needs estimates generally have been conservatively biased,'' the report said. EPA requires reported needs in both surveys to be documented with project-specific information, according to the report. Also, it said, needs that are ineligible for state revolving loan funding are not reflected; thus, in the drinking water survey, needs for fire flow, dams, and untreated reservoirs are omitted.

In addition, the report said neither EPA survey explicitly accounts for infrastructure needs linked to population increases, since growth-related projects are ineligible for funding. The wastewater needs survey also does not include information about privately owned facilities.

Needs Called 'Potentially Very Large.' ''Whether water infrastructure needs over the next 20 years are $200 billion or $1 trillion, they are potentially very large, and the federal government is unlikely to provide 100 percent of the amount,'' the report said.

On the other hand, localities say they cannot be expected to meet water and sewer needs alone and are seeking more federal support, the report said.

A 2010 analysis by the Congressional Budget Office of public spending on transportation and water infrastructure asserted that infrastructure demand could be better aligned with supply if services were priced to reflect the full cost of providing and using the infrastructure. CBO suggested that the federal government could fund certain infrastructure projects where the funding benefits the nation as a whole, and it could choose to fund projects for particular states and localities only if it is expected to generate benefits for taxpayers nationwide.

In each Congress since the 107th, House and Senate committees have acted on legislation to reauthorize and modify infrastructure financing programs in the Clean Water Act and Safe Drinking Water Act, but no bills were passed.

One issue that has hindered passage is how federal funds are allocated among the states. According to the report, crafting an allotment formula has been one of the most controversial issues debated during past reauthorizations of the Clean Water Act.

The report added that the Obama administration is supporting a ''sustainable practices'' approach to reduce the potential gap between funding needs and spending.

The Congressional Research Service report, Water Infrastructure Needs and Investment: Review and Analysis of Key Issues, *is available at http://op.bna.com/env.nsf/r?Open=thyd-8cjmbb.*

Pipelines

Republicans Push for Keystone Pipeline, Though Environmental Concerns Raise Doubts

House Republicans sent a letter Dec. 22 to Secretary of State Hillary Clinton urging her to help expedite approval of a cross-border permit authorizing construction of a crude oil pipeline stretching from the oil sands of western Canada to the petroleum refineries on the Texas Gulf Coast.

The letter, signed by more than 30 House Republicans and organized by Colorado Rep. Doug Lamborn, asserts: ''It would be a mistake for the United States to abandon an important source of energy from a major trading partner and friendly neighbor.''

The State Department currently is working toward a final environmental impact statement (EIS) that supporters of the massive project hope will be released in January. The department has not set a date for release.

However, even when the environmental review process is completed, the decision on whether to grant a permit could take more time, a State Department official told BNA.

After the final EIS is issued, there will be a 90-day period to allow for additional consultation among the dozen or so federal agencies involved in the review process before a presidential permit may be granted, under the department's current timetable.

The State Department, as the lead agency, issued a draft environmental impact statement in April concluding that any environmental consequences could be mitigated.

A round of public hearings across the country ended in June in Washington, D.C., with business and industry groups praising the economic and national security benefits of the oil pipeline, while environmental groups and landowners questioned the impacts on public health and safety.

The $7 billion pipeline, known as Keystone XL, was proposed by TransCanada Corp. of Alberta and would transport up to 900,000 barrels a day of crude oil from the Alberta tar sands to the heavy-oil refineries near Houston.

Request for Supplemental EIS Under Review. The State Department is still considering a request by Sen. Mike Johanns (R-Neb.), in a Nov. 4 letter to Clinton, urging the department to conduct a supplemental EIS because he opposes the route through Nebraska proposed by TransCanada.

''I ask that you focus on the interests of American citizens and on the potential impact on irreplaceable natural resources such as the Ogallala Aquifer,'' Johanns said in his letter. The aquifer is an important source of drinking water in Nebraska.

Johanns wants the State Department to formally consider an entry route parallel to TransCanada's existing Keystone pipeline that connects to Illinois refineries, and he wants the department to examine the environmental implications of routing the new Keystone XL pipeline through the Sandhills and Ogallala aquifers on its way to the Gulf Coast.

A key supporter of the project is Rep. Fred Upton (R-Mich.), who will be chairman of the powerful House Energy and Commerce Committee in January. Upton sent a letter to Clinton in November urging speedy approval for a project that he said would stimulate $20 billion in new spending for the U.S. economy and would create tens of thousands of new jobs.

Clinton Ties to Lobbyist Questioned. Major environmental organizations have said the pipeline would increase U.S. dependence on crude oil from Canadian oil sands for decades to come and would lead to more greenhouse gas emissions.

Friends of the Earth submitted a Freedom of Information Act (FOIA) request Dec. 13 to the State Department asking for all communications between the department and Paul Elliott, a former campaign official for Clinton during her 2008 presidential bid.

Elliott is now a lobbyist for TransCanada Pipelines Ltd., which is seeking approval for the Keystone XL project. Joining in the FOIA is Corporate Ethics International and the Center for International Environmental Law.

In a response issued by the State Department, the agency said Clinton's past association with Elliott does not represent a conflict of interest. ''The department is considering this permit application on its merits. The department is not, and will not, be influenced by prior relationships that current government officials have had.''

Environmentalists want Clinton to recuse herself from the decisionmaking process because she has already said that she is inclined to approve the project.

Her comments prompted 10 Senate Democrats to request a thorough analysis of numerous environmental and economic issues. Tar sands oil is ''dirty oil,'' the senators wrote to Clinton.

On the State Department's Web site for the Keystone XL proposal, the department stresses that ''no decision has been made on this application, nor will any decision be made, until all necessary steps of the environmental review and interagency consultation process have been completed.''

BY LYNN GARNER

: The State Department Web site for the Keystone XL pipeline project is located at: http://www.keystonepipeline-xl.state.gov/clientsite/keystonexl.nsf?Open.

: The State Department draft environmental impact statement is available at: http://www.keystonepipeline-xl.state.gov/clientsite/keystonexl.nsf?Open.

The FOIA request submitted to the State Department is available at: http://www.foe.org/keystone-xl-pipeline.

Transportation

Proposed House GOP Rules for Funding Transportation Draw Protest From Industry

A draft of proposed rules released by House Republicans Dec. 22 would result in underfunding for highway projects and cause a loss of jobs, according to a Dec. 28 letter submitted by 21 transportation organizations to members of House leadership.

The proposed rule changes would reduce restrictions on amendments to the general appropriations bill while protecting the balances of the Highway Trust Fund, according to a section-by-section analysis of the proposed changes provided by House Republicans. However, the groups said the change would ''make annual federal highway and transit investments subject to the whims of the appropriations process.''

According to the groups, current House rules ensure that all revenue paid into the Highway Trust Fund is used for highway and transit improvements on an annual basis.

''Prior to the adoption of this rule in 1998, it was common for Congress to engage in a shell game by reducing Highway Trust Fund spending so that spending elsewhere could be increased. As a result of these abuses, the balances in the trust fund soared, while much-needed infrastructure investment was deferred,'' the letter said.

The recession combined with not having a multi-year reauthorization of federal highway and public transportation programs has resulted in significant state cutbacks of transportation programs, the letter said. ''This

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proposal would inject further uncertainty into an already destabilized U.S. transportation construction marketplace,'' the letter stated.

John Mica (R-Fla.), incoming chairman of the 75-member House Transportation and Infrastructure Committee, has said the committee mandate is to ''do more with less.''

The House rules package is a principal focus of the GOP Majority Transition Team and their commitment to fulfilling an election promise of ''greater transparency and accountability to the people.'' House Republicans will meet Jan. 4 to consider any amendments and the resolution will be voted on Jan. 5, the first day of the 112th Congress.

A copy of the letter is available at http://downloads.transportation.org/Rules_Change_Letter_122810.pdf.

The proposed House rules are available at http://rules-republicans.house.gov/Media/PDF/112-Hres5-CP_xml.pdf.

The section-by-section analysis is available at http://rules-republicans.house.gov/Media/PDF/HRes%205%20Sec-by-Sec.pdf.

Energy

Interior Issues Request for Interest In Second Offshore Wind Farm Lease Area

The Department of Interior, in a notice to be published in the Federal Register Dec. 29, is issuing a request for interest in commercial wind projects off the coast of Massachusetts, a preliminary step the department must take to issue new leases on the outer continental shelf.

According to the notice published by the Bureau of Ocean Energy Management, Regulation, and Enforcement, it is seeking interest in ''one or more commercial leases'' for an area of about 2,224 square nautical miles, beginning approximately 12 nautical miles south of Martha's Vineyard and Nantucket. It would be the second wind power development approved off the Massachusetts coast, following approval of the Cape Wind project in October.

The request for interest is being published as part of the Interior Department's ''Smart from the Start'' program, announced Nov. 23, which seeks to speed siting, leasing, and construction of offshore wind energy projects along the Atlantic Coast, with the goal of getting new leases issued as soon as 2011.

Parts of the area that is the subject of the request for information may be identified by the Interior Department as a wind energy areas, areas on the outer continental shelf that appear ''to be most suitable for commercial wind energy development'' and will be studied further, the notice said.

After evaluating the responses to the request for interest, the bureau will prepare an analysis under the National Environmental Policy Act for public review, and it will prepare an environmental assessment to evaluate the effects of issuing leases, and if found necessary, it will prepare an environmental impact statement, the notice said.

The Interior Department issued its first commercial lease for a wind farm on the outer continental shelf Oct. 6 to Cape Wind Associates LLC for a 130-turbine wind farm to be located off the coast of Massachusetts in Nantucket Sound, marking what Interior Secretary Ken Salazar said was the ''beginning of a new era'' in the nation's development of its offshore wind resources.

BY ARI NATTER

For further information, contact Jessica Bradley, Renewable Energy Program Specialist, Bureau of Ocean Energy Management, Regulation, and Enforcement, Office of Offshore Alternative Energy Programs, at (703) 787-1300.

Public-Private Partnerships

State Legislatures Group Provides Lawmakers with Toolkit on P3s

DENVER—States need model legislation on public-private partnerships (P3s) as they consider ways to meet critical transportation infrastructure needs, a state lawmaker in Pennsylvania told BNA Dec. 29.

''We need legislation that stands the test,'' Pennsylvania State Rep. Rick Geist (R) told BNA. Geist said a new National Conference of State Legislatures ''tool kit'' on P3s will help provide the resource-sharing that states need as they struggle to finance and construct essential transportation infrastructure projects.

''Infrastructure is crumbling all over the country, and elections don't fix bridges and roads,'' he said. ''Every state is going to become more and more self-reliant. They will have to be able to build large projects without the feds.''

P3s are agreements that authorize private companies to take on government's traditional role of building infrastructure projects, while keeping the public sector accountable financially for a project and overall to the public. In a typical P3, a government agency, like a state department of transportation, contracts with a private company to finance, design, build, operate, manage, and maintain a project.

Nine Principles. The NCSL toolkit is designed to help state lawmakers in creating P3s. It includes nine principles of a sensible public policy approach to P3s, presenting bipartisan sources of information, and focusing on how state legislatures can navigate the complex process of developing P3s.

''This toolkit is an excellent resource for states about to embark on a P3 program, as well as those states that are already building a P3 program,'' said Geist. ''I consider it required reading for legislators and policymakers who want to do it right.''

NCSL identified maintaining transportation and infrastructure among its top policy issues facing legislators in 2011, as states are now seeing the end of federal stimulus money for their projects. The end of funding could spell trouble for road projects, coupled with the fact that a continuing decline in income from the gas tax leaves a widening gap between available revenue and actual money needed for infrastructure maintenance and new transportation projects, NCSL said.

Little Appetite. With little appetite for raising transportation fees and taxes, lawmakers will be forced to cut their transportation budgets or consider legislation to establish public-private partnerships and other innovative funding approaches, the conference said.

States continue to await a sweeping new federal transportation reauthorization that could supply new money and potentially change the way federal funds are distributed.

Twenty-nine states and Puerto Rico have passed laws authorizing a framework for transportation P3s, and more than $46 billion has been invested in such projects over the last 20 years, NCSL said. The trend grew in 2010 as 21 states and the District of Columbia considered 52 legislative measures on transportation P3s.

''Solid enabling legislation is the key to thorough consideration and success of PPP projects,'' said William Pound, NCSL executive director. ''The focus of the [toolkit] is on promoting good governance and a sound public policy approach for states to consider when evaluating these kinds of projects.''

Polarizing Debate. Although there is growing interest in P3 projects in the states, debate over their use has become somewhat polarized, NCSL said.

''It is critical that elected officials educate themselves and the public when considering P3s against traditional procurement approaches,'' said Indiana State Rep. Terri Austin (D).

The toolkit is the product of a working group formed by NCSL to assemble reliable information for states as legislators make overall transportation funding decisions.

By Tripp Baltz

More information on the NCSL toolkit for legislators is at http://www.ncsl.org/default.aspx?TabId=20321.

Insurance

Monoline Startup Aims to Enhance Credit On Infrastructure Projects Outside U.S.

NEW YORK—While the U.S. monoline insurance industry attempts to recover from its recent collapse, former industry executives are working to create a financial guarantee company that would provide credit enhancement to infrastructure and essential public services projects occurring outside the United States.

Since 2004, David C. Stevens, a former MBIA Inc. executive who left that monoline insurance firm to help start and lead a rival monoline insurer, has worked on launching a new financial guarantee insurer, Delaware-registered Affinity MacroFinance Inc., which would focus on providing credit enhancement to large infrastructure projects in developing countries.

Stevens and others are currently seeking financing and a credit rating for the firm.

The newest insurer would eventually operate as a mutual company in part to focus the firm's attention on financing so-called ''public goods'' and other infrastructure needs, such as roads, airports, and sewer systems, Stevens told BNA in December. The firm would also aim to finance essential public services such as housing, education, and health care, he said.

'Quixotic' Campaign. Because of differences between U.S. debt markets and those outside the United States, Affinity MacroFinance's business model probably would not work in the United States, Stevens said. ''I think I have a solution but it's for the foreign markets,'' he said. Yet certain aspects of his plan, such as mutual ownership of the company, could be utilized by a financial guarantee company in the United States, he said.

''It's very idealistic. I think when people hear about it they say it's a fabulous idea, and it is, but the devil is in the details. So that's what we've been working on, getting the details right,'' Affinity MacroFinance Managing Director Marianne Pellegrini told BNA Dec. 8.

''It's definitely a quixotic campaign on my part,'' Stevens said. '' It's a tough sell and I've been at it a long time, and I'm very committed to it, but I think it will come together or it won't over the next six months.''

Stevens, Pellegrini, and others essentially work as volunteers for the company.

Business Suited to Overseas Markets. Monoline insurance essentially transfers the insurer's credit rating to the financial instrument, such as a bond or other debt security, it insures. A higher credit rating may allow a securities issuer to borrow money from investors less expensively, even when the cost of the insurance is calculated into the total cost of borrowing.

Affinity MacroFinance needs a credit rating and a significant amount of initial capital before it can offer finance guarantees to projects. The firm has approached South Africa-based ratings agency Global Credit Rating Co. to obtain a rating.

While many credit ratings agencies operate around the world, Stevens is seeking a rating from the South African firm in part because it operates or has affiliates in many of the developing markets where he wants to focus Affinity MacroFinance operations, he said.

Stevens said the firm needs about $200 million in equity and another $100 million of debt capital to secure an A+ rating. ''It remains to be seen whether GCR will agree with that assessment, but that's our plan,'' he said Dec. 7.

Hedge Against Devaluation. Affinity MacroFinance will guarantee borrowings in developing countries' local currencies, which should help prevent bond defaults in the event of local currency revaluations, Pellegrini said.

And the A+ rating, if attained, should translate into the highest credit rating, AAA, when the AMF offers guarantees in a local market, Pellegrini said.

The mutual ownership of the company, moreover, should ensure the business is driven by credit decisions and not by overt financial considerations, she said.

''I think the business model that we've come up with for AMF . . . is taking the old business model and tweaking it to make it stronger and better,'' said Pellegrini, a former Moody's Investors Service Inc. analyst who, like Stevens, used to work for MBIA.

Development Bank Involvement. Affinity MacroFinance is trying to raise needed startup capital from development banks, foundations, and other investors around the world, Stevens said. The firm has received an ''expression of interest'' that would amount to about one-third of the capital needed to launch the firm, Stevens said, but declined to mention the source of that possible funding.

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AMF's business model is based on an assumption that the difference, or spread, between a bond issued in an emerging economy without credit enhancement and a bond carrying the insurance is more significant in emerging economies than in a developed market such as the United States, Stevens said.

While monoline insurance could save a U.S. municipal borrower perhaps 50 basis points on their interest payments, the insurance could save as much as 200 basis points, or more, for a bond financing an infrastructure project in an emerging economy, he said.

''I don't think necessarily the business model that I'm pursuing overseas would work perfectly in the United States. The markets overseas are much more inefficient. That means there are much greater spread relationships among bonds of different ratings. And so that means that as a bond insurer you can earn a higher premium,'' he said.

Mutual Company Envisioned. A key concept of Affinity MacroFinance is to have its corporate structure evolve from ownership by the initial investors into a mutual company owned by bond issuers obtaining financial guarantee insurance from the company. Insurance premiums would be disbursed to the company's initial investors in exchange for a portion of their ownership stake in AMF.

Over a period of years, initial investor ownership positions will essentially be bought out by the insured bond issuers. The initial investors will realize a healthy profit for their financial commitment while the insured issuers will end up owning the company, Pellegrini said.

Such a structure would focus the company's attention on financing public infrastructure and essential public services instead of on demands associated with the financial interests of shareholders, Stevens said.

''The idea here is that the benefit goes to the entities that are being insured over time. . . . The culture of the company is to be more of a not-for-profit almost, or a for-profit where the profits go to the developing countries,'' Pellegrini said.

Six-Year Push for Firm. In the 1990s, Stevens led the surveillance unit of MBIA, once a monoline insurance industry leader, before leaving that firm to help launch another monoline insurer, XL Capital Assurance, now known as Syncora Guarantee Inc., a subsidiary of Syncora Holdings Inc.

He was XL Capital Assurance's chief executive officer before leaving in 2004 to focus more attention on developing Affinity MacroFinance Inc.

A predecessor to Affinity MacroFinance, Capital Markets Development Corp., ''almost'' launched in September 2007—it received two credit ratings and possessed commitments for $300 million in capital—but the U.S. financial crisis that began in the summer of 2007 helped quash that company's chances of launching, Stevens said.

''I think this company or this idea is definitely going to happen within the next few years. . . . [E]ven if we don't somehow become successful, five years from now this company will exist in the world. Someone will do this because it makes sense,'' Pellegrini said.

By Stephen Joyce

Legal News

Energy

Montana Court Finds Power Line Developer Has No Authority to Condemn Private Land

MISSOULA, Mont.—A Montana district judge has ruled that a Canadian developer of a high-voltage power line has no authority to condemn private property (*MATL LLP v. Larry Salois*, Mont. Dist. Ct., No. DV-10-66, 12/12/10).

The Dec. 12 ruling could affect other developers of electric power projects that are trying to meet the demands of wind developers seeking greater transmission capacity.

Montana Alberta Tie Ltd. (MATL), a Calgary-based subsidiary of power transmission developer Tonbridge Power Inc. of Toronto, had filed a complaint for condemnation against Shirley Salois, after the owner's son, Larry Salois, asked the company to relocate the power lines away from Native American archeological sites and a wetland on his mother's property.

The issue before Judge Laurie McKinnon was whether MATL had the authority to exercise the right of eminent domain. MATL argued it had the right to condemn private land because it is pursuing an authorized public use, citing a construction permit granted by the Federal Energy Regulatory Commission.

Salois's attorney, Hertha Lund of Bozeman, argued that MATL cannot exercise eminent domain because the company is not the state or an agent of the state. He said that under Montana law, private individuals and corporations have no inherent power of eminent domain and that their authority to condemn must come from legislative grant.

Court Finds No Precedent. McKinnon, in her order to grant the defendant's motion to dismiss, wrote, "No judicial decision that the Court is aware of provides authority for MATL's position that a private merchant transmission line . . . may pursue eminent domain proceedings."

Two hundred and fifty Montana landowners are affected by the MATL project, but this was the first time the company attempted to condemn private property. MATL is in negotiations with other Montana landowners. Lund represents 20 who are asking for changes in the line's location.

MATL has been developing the $209 million, 300-megawatt merchant power transmission line between Great Falls, Mont., and Lethbridge, Alberta, since 2004. A merchant power line, unlike a utility-built, rate-based line, is built entirely with private funds and sells capacity at market rates to shippers wishing to move power. Montana-based wind energy projects have already bought the full capacity of the 214-mile line, which will connect the electricity markets of the state and the province for the first time.

Construction of the MATL transmission line began near Cut Bank, Mont., in July 2010, and poles began going into the ground in August near the Salois property. In early December, the Montana Department of Environmental Quality found MATL in violation of its permit, after equipment ran over a Native American archeological site, a crane became mired in the mud, and landowners complained that the poles were being placed inside their field boundaries.

MATL is one of three wind energy transmission lines currently planned for Montana. NorthWestern Energy, the state's largest utility, is planning the $1 billion Mountain States Transmission Intertie, and Tonbridge had joined forces with Gaelectric, an Irish renewable energy developer, to plan the Green Line between Great Falls and Townsend, Mont. All three projects must have rights-of-way across privately held ranches and farms and are running into local resistance.

BY PERRI KNIZE

Transportation

D.C. Circuit Backs Expansion of Airport In Florida, Cites Transportation Benefits

A federal appeals court on Dec. 28 upheld a proposed runway expansion for Fort Lauderdale-Hollywood International Airport over the objections of two nearby cities, which said an alternative site was environmentally preferable (*City of Dania Beach v. FAA*, D.C. Cir., No. 09-1064, 12/28/10).

The U.S. Court of Appeals for the District of Columbia Circuit denied a petition for review of the Federal Aviation Administration's decision on the expansion project, filed by the Florida cities of Dania Beach and Hollywood, as well as by several individuals.

The petitioners based their challenge on two statutes, the Airport and Airway Improvement Act and the Department of Transportation Act of 1966, and Executive Order 11,990, issued in May 1977. All three require the FAA to weigh alternatives to airport projects that have environmental impacts, including destruction of wetlands.

Both alternatives—Alternative B1b, which was preferred by Florida airport owner Broward County and the FAA, and Alternative C1, which was preferred by the two cities—had environmental shortcomings, the court said. In particular, each would destroy about 15 acres of wetlands and cause noise problems for some area homes.

With this in mind, the D.C. Circuit said it concluded that the selected alternative, B1b, would have "a radical edge in meeting the transportation purposes of reducing delays, ensuring safety, and increasing capacity."

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Two Choices, Similar Issues. At issue is the proposed expansion of one of three runways at the airport. Two are widely spaced and run parallel in the east/west direction on either side of the terminal. One of these is the main runway, which is 9,000 feet long, and the other is the shorter south runway. The third runway runs diagonally from northwest to southeast.

Broward County, the owner of the airport, asked the FAA for permission to extend the south runway by 150 feet to 8,600 feet and to close the diagonal runway.

The FAA approved the county's proposal, designated Alternative B1b.

Expansion opponents said the FAA should have chosen Alternative C1, which consisted of a new runway to the north of the main runway. Environmental benefits to Alternative C1 included sparing a neighborhood park called Brooks Park.

Protected Resources. All the alternatives the FAA considered would cause some level of environmental harm, the appeals court wrote. Even Alternative C1 would cause additional noise for 285 households, could result in the destruction of 15 acres of wetlands in order to relocate displaced airport tenants, and could affect a federally listed species.

On the other hand, Alternative B1b would increased noise for 1,051 households and destroy 15 acres of wetlands.

There were ''protected resources'' on ''both sides of the balance,'' the appeals court wrote.

The opinion was written by Senior Circuit Judge Stephen F. Williams and joined by Douglas H. Ginsburg, circuit judge. Judith W. Rogers, circuit judge, concurred in part, dissented in part, and concurred in judgment.

The FAA has been considering the expansion of the airport since 1996. The FAA issued a draft environmental impact statement and two supplemental draft impact statements on the expansion plans in 2001 and 2002.

BY ROBERT C. COOK

Text of the U.S. Court of Appeals for the District of Columbia Circuit's decision in City of Dania Beach v. FAA *is available at http://pacer.cadc.uscourts.gov/common/opinions/201012/09-1064-1285049.pdf.*

Insights

FINANCING & DEVELOPMENT

Addressing State and Local Funding Shortfalls for Infrastructure Spending: Potholes As Far As the Eye Can See

BY BARRY B. LEPATNER

In his definitive blow-by-blow account of the 2008 Wall Street meltdown that triggered the financial crisis, Andrew Ross Sorkin quoted Richard Fuld, the head of soon-to-be-bankrupt Lehman Brothers. Fuld acknowledged the myriad of shortterm profitable but long-term investment mistakes he had allowed to go on that eventually led to his firm's demise. According to Sorkin, Fuld said, '' 'It's paving the road with cheap tar. When the weather changes, the potholes that were there will be deeper and deeper.' '' ''Now,'' wrote Sorkin, ''here they were, potholes as far as the eye could see, and [Fuld] had to admit, it was worse than he'd ever expected.''

As the nation's governors and state transportation commissioners realize the lack of funding available for needed road and bridge projects in their respective states, one can readily imagine that they are beginning to feel a kinship to Richard Fuld. They too are seeing a lot of potholes (and myriad other infrastructure problems), but have no money to fix them.

For decades, states—and their fund-dispensing sugar daddy, the federal government—have spent most of the hundreds of billions of dollars in infrastructure funds they received on new roads, bridges, airports, and related transportation projects. Having ignored their existing inventory of aging facilities for too long, the states now have to accept the $2.2 trillion dollar price tag, which according to the American Society of Civil Engineers reflects the cost of remediation.

Unlike the crisis that the banking industry triggered, which was rewarded with a massive bailout by the U.S. Treasury Department, state and local governments have no hope of similar assistance to alleviate the deficits they are facing in their transportation budgets. Nor is there a sense of urgency to address how roads and bridges will be funded after the current surface transportation act expires in March, after having been extended six times since it originally sunset in September 2009. Even without renewed funding of the Highway Trust Fund, which is derived from the federal gas tax, state governments are already reeling from depleted treasuries and transportation budgets that are at historic lows.

If there is any sense of concern in state capitals, it is more likely addressed to their weakened financial strait owing to the burden of underfunded pension liabilities, general obligation debts, and the possibility of having to slash the budgets of schools, fire departments, and police forces. State transportation departments are, in general, as they have been for decades, being told to hold the line. They must do the best they can do with whatever funding may be channeled to them, but should manage without any expectation that new monies for deteriorating roads and bridges are on the way. In essence, the continuing mantra of government officials to those who point to the facts about the desperate condition of our transportation system is that it is ''too big to fall.''

Is the infrastructure situation as bad as some would like to characterize? Can state transportation commissioners maintain the status quo over the next few years without fixing ailing highways and bridges that are in failing condition? Can our nation hope to compete globally in the distribution of its commercial products when it is only spending 2.7 percent of GDP on infrastructure while China is spending as much as 9 percent?

Infrastructure Spending Cuts

U.S. counties, of which there are more than 3,000, provide a large segment of the nation's road repairs. Yet, a recent survey by the National Association of Counties (NAC) disclosed they anticipate serious shortfalls in funding from state and federal aid, and almost half are suffering from declines in the revenues they rely on from local property taxes. This year 21 states have announced intentions to reduce transportation investments for the next year. Even the funds received as part of federal economic stimulus plan failed to have a significant impact on the budget woes of the counties. The NAC survey, reported in June 2010, showed that:

- Sixty-five percent of responding counties reported between $100,000 and $50 million in shortfalls at the beginning of their fiscal year.

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■ Twenty-six percent reported starting their fiscal years with a $1 million to $5 million shortfall, and 1 percent reported a projected shortfall between $200 million and $250 million.

■ Fifty-six percent of counties said that the shortfall increased after the start of their fiscal year.

■ Forty-eight percent of counties with additional shortfalls reported that these additional shortfalls were from a low of $250,000 to a high of $5 million.

■ Six percent report additional shortfalls between $50 million and $425 million.

There is no general belief that the outlook for state and county budgets will be improving in the near future. Many states were relying heavily on a timely renewal of the Highway Trust Fund, which would extend funds for projects promised by the Obama administration, including the rebuilding of 150,000 miles of roads, the construction of over 4,000 miles of anticipated new rail lines, and the reconstruction of 150 miles of airport runways. Rep. John Mica (R) of Ohio, who will assume the role of chairman of the House Committee on Transportation and Infrastructure in January, has indicated it may take a while to construct a new transportation bill that could be enacted in the first quarter of 2011.

It is also important to note that following the recent elections, state governors have begun to renounce federal funding in the billions of dollars in order to protect their states from the responsibility of huge construction cost overruns that often accompany such megaprojects.

In fact, that was the major reason why Gov. Chris Christie (R) of New Jersey canceled a long-planned $8.7 billion rail tunnel under the Hudson River. And newly elected governors in Wisconsin and Ohio withdrew support from $1.2 billion in rail projects for the same reason. Is this a rational approach to addressing state budget deficits? Can states afford to concede billions of dollars of federal funding that provide, as in the case of New Jersey, enough jobs for 6,000 construction workers, some of whom must now join the 1.7 million other workers already out of work?

Hidden Costs

With the lack of concern permeating from state and federal leaders, could it be possible that there is no compelling need to fix our roads, bridges, dams, and ailing airport runways? Let's take a look at the facts to see if cutbacks in transportation funding for roads and bridges alone are sustainable for the near term future. According to a Texas Transportation Institute study in 2009:

■ The overall cost to our economy from congested roads (based on wasted fuel and lost productivity) reached $87.2 billion—more than $750 for every U.S. traveler.

■ The total amount of wasted fuel for vehicles tied up in traffic topped 2.8 billion gallons—three weeks' worth of gas for every traveler.

■ The amount of wasted time totaled 4.2 billion hours—nearly one full workweek (or vacation week) for every traveler.

Our national bridge inventory continues to face increasing shortfall impacts due to the fact that over 50 percent of our 600,000 bridges have exceeded their intended life spans. More than a quarter of these bridges are slipping into a condition that requires transportation agencies to limit the amount of traffic that can go over them due to a loss of structural integrity.

Since 1989 we have seen nearly 600 bridge failures, an astounding number. Bridge engineering experts say the situation is even worse. When a bridge, due to a lack of proper maintenance, begins to face fracture cracks, frozen bearings, and corrosion through critical structural members, it has—as a matter of engineering fact—failed. To wait for tragedy, as happened to the I-35W Bridge in Minneapolis on Aug. 1, 2007, where 14 people died and 145 were injured, is to tempt gravity. And in every instance where we fail to maintain our structurally deficient bridges gravity wins.

Most significantly, political and transportation leadership must learn what "fracture critical" really means. The term refers to those 18,000 bridges that were built in the 1960s and '70s, which were designed without the ability to handle loads where a critical member has failed. As a result, for such bridges, when a critical member fails, the structure goes straight down.

The I-35W Bridge was both structurally deficient and fracture critical, a toxic combination that only results from protracted lack of maintenance. In the United States today, there are a total of 7,980 bridges—on average 160 in every state—that are so designated. As we wait for the day when these bridges meet their anticipated fates, we are playing Russian roulette with the lives of those who use them everyday. We do so because of an unforgivable inability on the part of entrusted leaders to recognize the critical importance of addressing infrastructure remediation in this country.

Were our leaders in Washington, D.C., and in state capitals across the nation to acknowledge these facts, how would we find the ways to fund the massive amount of projects needed to correct these problems? Even if the political will was mustered, where should we look for the revenue and investment dollars needed to improve our perilous roads and bridges?

Infrastructure, Construction Unemployment

First and foremost, the political will should be prompted by the critical immediate need to put the nearly two million unemployed construction workers back to work. In every recent recession, public works investment involving the construction industry has led the nation's return to solvency. Putting these workers on projects to repair only the top third of the 8,000 structurally deficient/critical bridges would cost an estimated $9 billion and remove the immediate threat of collapse these bridges face.

In fact, various studies have shown that for every $1 billion in infrastructure investment we employ over 30,000 workers—from contractors to all of those whose products are a part of large-scale projects. Removing these workers from the long-term unemployment ranks is a first step to restoring our economy and will alleviate the need to keep these workers on extended unemployment benefits at great cost to state and local governments.

Recalling how our nation addressed similar problems in our history may be instructive. President Ronald Reagan, in the midst of a recession shortly after taking office and facing unemployment in excess of 10 percent, fought hard in support of a gas tax increase, despite the disapproval of his fellow conservatives. In the end, Congress passed the Surface Transportation Assistance Act of 1982, which provided for a 5-cent gas tax increase, which, in turn created hundreds of thousands of jobs.

The most recent increase of 4 cents occurred during the term of President Bill Clinton.

Unfortunately, there is little chance the gas tax will be increased any time soon from the 18.4 cents it rose to in 1993 during the Clinton administration. In fact, Rep. Mica has said he will not propose increasing the gas tax in his new surface transportation legislation. This is so despite the recognition by many that a long overdue increase in the gas tax is well justified to address the fact that those who do not regularly use the roads are heavy subsidizers of our congested highways.

The reality is that U.S. gas prices, when compared to those around the world then and now, are inexplicably low, reflecting the mindset that Americans should have the unfettered freedom to drive on our roads without paying the true cost of imported gasoline. This is a premise that is no longer supportable, especially with the growing reality that we are going to need fresh funding to restore our national highway system, now over 50 years old, to its original condition.

Amazingly, if we were to raise the gas tax by even a few cents a gallon, improvements to the quality of our roads would save money for U.S. drivers. Currently, automobile drivers pay $335 per driver in annual repair costs to their vehicles due to roads larded with potholes and other pavement problems. An increase in the gas tax would provide funding to improve these roads and turn out to be a very good investment for the money spent by each driver.

Finding the Funds

Finding funds to address our massive infrastructure needs will be a daunting task. Clearly, we will need to look to more prosperous places than simply increasing the gas tax. It will entail the development of new, creative relationships between the public and the private sectors. But merely proceeding with current formulas for structuring public-private partnerships (PPPs) will not provide the framework for success in raising the necessary funding.

The rebuilding process should start with the establishment of national and regional, as opposed to state-centric, goals. To preclude politicians from hijacking transportation funds for non-transportation uses, the mechanism for distributing transportation funds needs to be revised. We need to build more efficiently and use true fixed price contracts to prevent the inefficiencies of the construction industry from creating unwarranted cost overruns that threaten most transportation projects. We must implement new methods for attracting private investment, such as the proposed national infrastructure bank, Build America Bonds, and public-private partnerships. Options that balance out the varying interests of the stakeholders involved.

The current proposal for a national infrastructure bank remains one of great potential. By providing seed money for programs to fund infrastructure projects, the NIB concept purports to provide grants, direct loan guarantees, long-term tax credits, and incentives for general purpose bonds. However, some opponents argue it has to undergo much refinement before it is able to accomplish its intended objectives.

Critics point to the fact that the $60 billion currently proposed as funding from the federal government is inadequate. Second, they contend the bank is not really a bank, in that it would not lend money on a sustainable basis, i.e., requiring borrowers to pay it back. Finally, it is argued that the current proposal fails to show how the bank would be a source of revenue bonds through which users would pay for services provided by the new infrastructure it would create. Most importantly, the current NIB proposal fails to include an understanding that when projects are completed they will need an annual stream of funding to maintain the infrastructure that is built with this approach.

Nor are P3s a knee-jerk approach to securing needed private financing. As I detail in *Too Big to Fall: America's Failing Infrastructure and the Way Forward*, government must be mindful not to assume that this modality represents some kind of silver bullet for the nation's infrastructure funding shortfall. Yes, it is true that there are billions of dollars of private infrastructure funding ready, willing, and able to invest in long-term concessions with a steady rate of return. However, a host of questions and careful analysis must be undertaken in each instance where government entertains this type of methodology for the long term leasing of an infrastructure asset.

The current system of distributing transportation funding to the states is broken. Too much of the funding needed to repair our ailing infrastructure goes to new, as opposed to existing, projects. Too much money is siphoned off for non-transportation purposes. If we are to succeed in filling all the holes in the deficits of state and local governments for critical road and bridge projects, we must ensure that we get the best value for the funds dispersed by the federal government. Every dollar counts.

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State News

California

Judge Issues Restraining Order on Presidio Parkway P3; Injunction Hearing on Dec. 30

An Alameda County, Calif., Superior Court judge Dec. 22 issued a temporary restraining order against the California Department of Transportation to prohibit the agency from entering into a public-private partnership for phase two of the Presidio Parkway project in San Francisco (*Professional Engineers v. California Department of Transportation*,Calif., Super. Ct., RG10544672, 12/ 22/10).

Judge Wynne Carvill granted the ruling following a Dec. 21 request for the order from the Professional Engineers in California Government, and a letter released Dec. 20 by the California Legislative Analyst's Office stating that the project is not a ''good fit'' for a P3 agreement (1 IIPR 17, 12/27/10).

The California Transportation Commission May 20 approved the use of P3s on reconstruction of the Presidio Parkway, the southern access point to the Golden Gate Bridge (1 IIPR 26, 5/24/10). Construction on phase two of the estimated $1 billion project is expected to begin in 2011.

PECG Nov. 2 filed a lawsuit against Caltrans, CTC, and the San Francisco County Transportation Authority alleging that the agencies are illegally entering into a P3 agreement to fund part of the reconstruction for the Presidio Parkway. According to court documents, PECG said the project is ineligible for a P3 under California laws, and construction should be fully funded on competitive bids as a ''design-bid-build'' project.

''PECG feels the state is on the verge of entering into a financing agreement that is in violation of the law, has not followed proper oversight procedures as required by the Legislature and will waste critical public transportation funds,'' PECG said in a statement.

A judge is scheduled Dec. 30 to decide whether to grant a preliminary injunction against Caltrans and the other defendants.

According to a court order, all parties in the case are scheduled to meet at 10 a.m. in Oakland, Calif. where a judge will decide whether to prolong the ban on the defendants' attempts to enter into a P3 for the remainder of the trial.

By Jewel Edwards

International News

India

Environment Ministry Toughens Rules For Large, Multi-Sectoral Projects

MUMBAI—India's federal environment ministry has ordered that integrated and inter-linked industrial or infrastructure projects with components spanning different sectors must prepare a single, consolidated environmental impact assessment before requesting environmental approval.

In a circular dated Dec. 24, the Ministry of Environment and Forests said such projects shall prepare a common EIA covering the impact of each of the component in a comprehensive manner after obtaining terms of reference from each of the respective sectoral expert appraisal committees.

The ministry said it is seeking to plug the loophole that project developers have been using to seek bit-by-bit approval for large projects without making clear the integrated project's environmental impact. Often, once a large section of the project has been completed through piecemeal environmental clearances, political pressure builds to let through even components found to be environmentally unfriendly.

Ministry officials said proper assessment of the adverse environmental impact of large projects is possible only after all the information is available. The circular stated that project proponent shall submit applications to each sector simultaneously. The proponent must provide details of the project comprehensively for the integrated/interlinked projects as well as the particular sector-specific component in the pre-existing prescribed format and the pre-feasibility report.

The respective sectoral appraisal committees will consider the project with specific emphasis on their respective sectors and will prescribe terms of reference that will look over the project as a whole, not just the individual sector, according to the document.

Final project clearance will be taken up for consideration only after all the individual appraisal committees submit their recommendations.

In November, the environment ministry applied a similar approach to coal-related projects such as thermal power, steel, and sponge iron plants. These projects need environmental and forest clearances for the coal block or mine concerned before they can apply for clearance for the project itself.

By Madhur Singh

The circular is available at http://moef.nic.in/downloads/public-information/integrated-interlinked-prjt.pdf.

Argentina

World Bank Lends Argentina $600 Million For Roads, Water, Sanitation Projects

BUENOS AIRES—The World Bank is lending Argentina $600 million to boost infrastructure in its impoverished northern provinces, providing $400 million for roads paving and improvement, and $200 million for water and sanitation projects, the bank's Buenos Aires office said Dec. 21.

The funds will support projects in the states of Catamarca, Chaco, Corrientes, Formosa, Jujuy, Misiones, Salta, Santiago del Estero, and Tucuman. These provinces have a combined population of 7.5 million, 72 percent of whom live in poverty or extreme poverty.

In the area, only 20 percent of the provincial road network is paved, 15 percent of the population lacks running water, and 61 percent lacks sewers.

The $400 million loan will help reduce transportation costs for users of the road network in selected regional corridors, improving the area's integration and competitiveness, the Bank said.

The $200 million lending will be used to increase access to drinking water and urban drainage, helping improve the situation of 1 million people lacking access to drinking water or sanitation services and reducing the incidence of water-related disease.

The loans have a variable interest rate, a 26 ½-year maturity period and a 27-year grace period.

By David Haskel

Russia

Russia Passes New Regulations For Concession Agreements With Investors

MOSCOW—The Russian government adopted a decree to approve new regulations on infrastructure projects, including concession agreements, according to the governmental press-service's announcement on Dec. 28.

The decree, signed by Prime Minister Vladimir Putin and dated Dec. 14, approved rules to select investment projects eligible to receive federal loan and bond guarantees.

According to the rules, the governmental commission is allowed to select projects worth $175 million-$350 million that are at least 15-percent funded by private investors. However, loans and bond issues guaranteed by the federal government should account for no more than 50 percent of the project financing.

Decree No. 1016 set forth terms and conditions of the selection process, including rules to assess infrastructure projects and retain financial consultants.

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Other Developments. On Dec. 14, the government approved guarantees of bonds issued by the state company Russian Highways (RHW SC or Avtodor) totaling 3 billion rubles ($99 million). RHW SC has announced plans to issue bonds totaling 7 billion rubles ($231 million) in 2011 and 10 billion rubles ($330 million) in 2012. RHW SC was created by the government to build toll roads in Russia, using concession agreements and public-private partnerships. In December 2009, the government allowed the company to have up to 18,300 kilometers of federal highways in trust management.

The Russian federal government also adopted Decree No. 1088, dated Dec. 22, to approve distribution of direct road construction subsidies from the federal government to Russian regions in 2011.

By Sergei Blagov

The full text of the Decree No. 1016 is available in Russian at: http://base.consultant.ru/cons/cgi/online.cgi?req=doc;base=LAW;n=108319.

Brazil

Rio on Schedule for 2016 Olympics, City Officials Tell IOC Representatives

RIO DE JANEIRO—According to the mayor of Rio de Janeiro, most of the city's projects for the 2016 Olympics are on schedule.

On Dec. 28, Mayor Eduardo Paes and other officials involved in Olympics planning met with representatives of the International Olympic Committee to go over preparations for Rio 2016. Afterwards, Paes said that the city was congratulated by the IOC team for its preparations, which he said are moving ahead.

''Our goal is to have all of the projects underway by the end of the first semester next year,'' Paes said. ''From the federal government, we already have $880 million in financing available to prepare for the Olympic Games.''

The city government has in recent months initiated work on ambitious projects to build three bus rapid transit lines totaling 55 miles with a total estimated cost of $2.2 billion. Also, a city program establishing tax breaks for new hotels bore fruit on Dec. 21 with the announcement by the Hyatt chain that it will build a new luxury beachfront hotel in the city.

The governor of the state of Rio, Sergio Cabral, said the projects that are the responsibility of the state government are underway, including an extension of the city's subway system and a major modernization of Rio's famed Maracana soccer stadium. Rio will also be one of the Brazilian cities that will host games for the 2014 Fifa World Cup of soccer.

Cabral, however, complained that the federal government's airport authority has failed to make progress in preparing Rio's international airport for the World Cup and the Olympics, calling the situation ''a rock in our shoe.'' The Rio airport currently can handle 11.4 million passengers a year and by 2014 it is projected to increase that total to 16.4 million. But the airlines believe that demand in 2014 will be 20.7 million passengers, well above the airport's projected capacity.

Brazil plans to invest $3 billion to expand and modernize 16 airports by 2014. Critics, though, have charged that as long as the federal airport authority remains in charge of airport construction, these goals will not be met. In addition to its chronic inefficiency, the agency is hampered by a lack of investment funds.

Cabral said that the only solution is to privatize the airport but the federal government has refused to consider privatization, claiming it would be too difficult.

In his comments, Paes also announced that an international tender will be held to select the project for the Olympic Park, which will house a majority of the venues for the Rio Games. The park will be built on the site of Rio's auto racing stadium and track. According to Paes, part of the extensive area will be sold to the private sector for the possible future construction of a shopping center or condominiums. Funds from this sale will be go into the city's Olympics financing package, Paes said.

By Ed Taylor

India

Statistics Ministry Report Says Several Infrastructure Sectors Miss Their Targets

NEW DELHI—Several infrastructure sectors have missed the targets set by the Indian government, according to figures released in December by the Ministry of Statistics and Programme Implementation.

Roads have performed the worst, according to the report. The target for the period April-October 2010 was to build 1,168 kilometers of new roads or upgrade the existing ones. But the National Highways Authority of India widened or upgraded only 859 kilometers of roads, a shortfall of 309 kilometers or 26.5 percent, the report found.

Over the span of 2001 to 2008, the length of national highways increased from 57,737 kilometers to 66,754 kilometers, a rise of only 2.09 percent, according to the report, *Infrastructure Statistics 2010*.

The report also found that road density in India increased only by 3.3 percent from 2001 to 2008, while the number of motor vehicles increased from 55 million in 2001 to more than 89 million in 2006.

Report Notes Overruns on Infrastructure Projects. The report also noted that India has lost $26.6 billion since the current government first came to power in 2004, owing to cost overruns in 203 infrastructure projects, a figure that works out to be 63 percent of the original cost of these projects.

The ministry, set up specially to keep an eye on the progress of infrastructure projects, monitored around 600 large projects and found 203 to be the worst offenders. The ministries found guilty of the worst delays and cost overruns are the railways, urban development, petroleum, and water resources, according to the report.

Approximately 260 of the 600 projects have overshot their time frame by as much as five years, the ministry said. Reasons cited for the delays include land acquisition, clearances required from multiple government agencies, environmental clearances and delays in the awarding of contracts.

These perpetual difficulties have prompted the Infrastructure Development Finance Corporation to train government officials on how to prepare projects so that they receive the level of investment required, are completed on time, and experience no cost overruns.

The training covers bidding, contracting, implementing and monitoring. The outcome of the training project, which will cover around 10,000 officials, will also be monitored.

No Increase in Ports. Shipping showed the next largest shortfall after roads. Cargo handled between April-October by the major ports was short by 30 million tons, or 8.8 percent, from the target of 351 million tons.

The reports says that the number of major ports in India remained at 12 during the period 2003 to 2008, while the number of non-major ports increased by just two, from 185 in 2003 to 187 in 2008.

Power generation during April-October 2010 was 480 billion units, 2.5 percent lower than the target set for the period. Coal production also fell short by 7.3 per cent for the same period.

''The noticeable feature of installed generating capacity is the higher growth rates shown by renewable energy during 2003 to 2009 as compared to fossil fuels,'' the report says. The percentage share of hydro and renewable power increased from 12.5 per cent in 2003 to 19 per cent in 2009.

On storage infrastructure, the report shows hardly any increase, with the total warehousing capacity increasing from 9.15 million metric tons in 2003 to 9.93 million metric tons in 2008.

''We wanted to see which sectors are progressing according to schedule and which ones are falling behind and need special attention,'' Sriprakash Jaiswal, minister for statistics and programme implementation, told BNA.

AMRIT DHILLON

For the full Infrastructure Statistics 2010 report, see http://mospi.nic.in/Mospi_New/upload/infra_stat_2010.htm.

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Journal

DOMESTIC CONFERENCES & MEETINGS

January

Electric Energy Storage—Maximizing Your Renewable Initiatives While Making the Business Case for Energy Storage, Jan. 12–13, Phoenix. Presented by Marcus Evans, 455 North City Front Plaza Drive, 9th Floor, Chicago, Ill., 60611; (312)540-3000 Ext. 6625; http://www.marcusevans.com/marcusevans-conferences-event-details.asp?EventID=17127&ad=CCBJ&SectorID=3.

Wind and Solar Integration Summit, Jan. 24–26, Millenium Resort Scottsdale McCormick Ranch, Scottsdale, Ariz. Presented by Infocast, 46800 Owensmouth Ave. Suite 300, Canoga Park, Calif. 91303; (818)888-4444; http://www.infocastinc.com/index.php/conference/427.

Energy, Utility & Environment Conference, Jan. 31–Feb. 2, Phoenix Convention Center, Phoenix. P.O. Box 66076, Tucson, Ariz. 85728; (520)615-3535; http://www.euec.com/index.aspx.

February

High Speed Rail Summit, Feb. 8–10, Washington, D.C. Sponsored by the U.S. High Speed Rail Association, 10 G St. NE Suite 710, Washington, D.C. 20002; (202)248-5001; http://www.ushsr.com/events/washingtondc2011.html.

INTERNATIONAL CONFERENCES & MEETINGS

January

Public-Private Partnership Advanced Modeling With Legal Analysis, Jan. 13-14, Toronto, Canada. Sponsored by Torys LLP and The Vair Companies, Inc.; 1191 Cleburne Avenue Atlanta, Ga. 30307; (866)410-8247; http://www.vaircompanies.com/courses/course1115.jsp.

March

Infrastructure Investor: India, March 30–31, Mumbai. Sponsored by Infrastructure Investor; 3 East 28th Street 7th Floor, New York, N.Y. 10016; (212)645-1919; http://www.peimedia.com/product.aspx?pid=215172&ignorestatustag=1.

May

Impact Assessment and Responsible Development for Infrastructure, Business and Industry, May 28-June 4, Puebla, Mexico. Sponsored by International Association for Impact Assessment.; 1330 23rd Street South, Suite C; Fargo, N.D. 58103-3705; (701)297-7908; http://www.iaia.org/conferences/iaia11/submissions/submit-session-proposal.aspx.

RELEVANT TRADE MISSIONS

February

Trade Mission to Jordan and Israel, Feb. 20-24, Amman, Jordan; Jerusalem, Tel Aviv, and Eilat, Israel. Sponsored by the U.S. Chamber of Commerce; http://frwebgate3.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=nyKvzy/2/2/0&WAISaction=retrieve.

Water Technology Trade Mission to India, Feb. 28-March 4, Bangalore and Mumbai, India. Sponsored by the U.S. Chamber of Commerce; http://frwebgate1.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=PQgjMZ/2/2/0&WAISaction=retrieve.

March

Business Development Mission to Egypt and Morocco, March 25-April 1, Cairo and Alexandria, Egypt; Casablanca and Tangier, Morocco. Sponsored by the U.S. Chamber of Commerce; http://frwebgate1.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=en7O0f/3/2/0&WAISaction=retrieve.

April

Trade Mission to Mexico in Conjunction With Trade Winds Forum—The Americas, April 5-12, Mexico City, Guadalajara, and Monterrey, Mexico. Sponsored by the U.S. Chamber of Commerce; http://frwebgate1.access.gpo.gov/cgi-bin/TEXTgate.cgi?WAISdocID=VJrxM1/2/1/0&WAISaction=retrieve.

June

Transportation and Energy Products and Services Trade Mission, June 5-10, Doha, Qatar; Abu Dhabi and Dubai, U.A.E. Sponsored by the U.S. Chamber of Commerce; http://frwebgate2.access.gpo.gov/cgi-bin/PDFgate.cgi?WAISdocID=uOE7in/2/2/0&WAISaction=retrieve.