

National Rural Leadership Lenders' Roundtable
Rural Community Infrastructure Roundtable Meeting
Denver, Colorado

Raymond James Public Finance

PREPARED BY

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Opportunities to Support Rural Transportation Needs

July 24, 2018

RAYMOND JAMES

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SECTION 1

Overview of Raymond James Financial

- Full-service securities firm founded in **1962** and public since **1983** (“RJF” on NYSE)
- Fiscal 2017 net revenue of more than **\$6.3 billion**; net income approximately **\$636 million**
- Total market capitalization of approximately **\$13 billion**; client assets under administration **\$693 billion**
- Over **17,000** employees and independent contractors
- **120** consecutive quarters of profitability



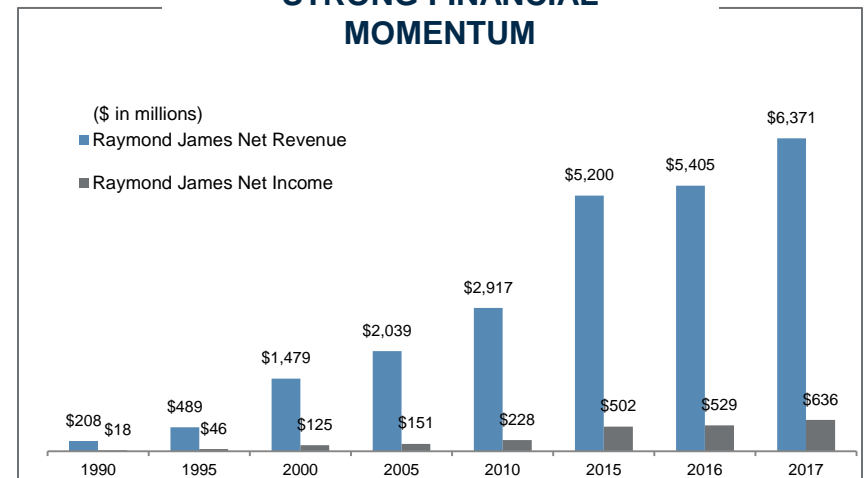
GEOGRAPHIC PRESENCE:

- Approximately **3,000** offices throughout the United States, Canada and overseas
- European operations in the United Kingdom, France, Belgium, Germany and Switzerland
- More than **25** North American and international investment banking and institutional sales offices

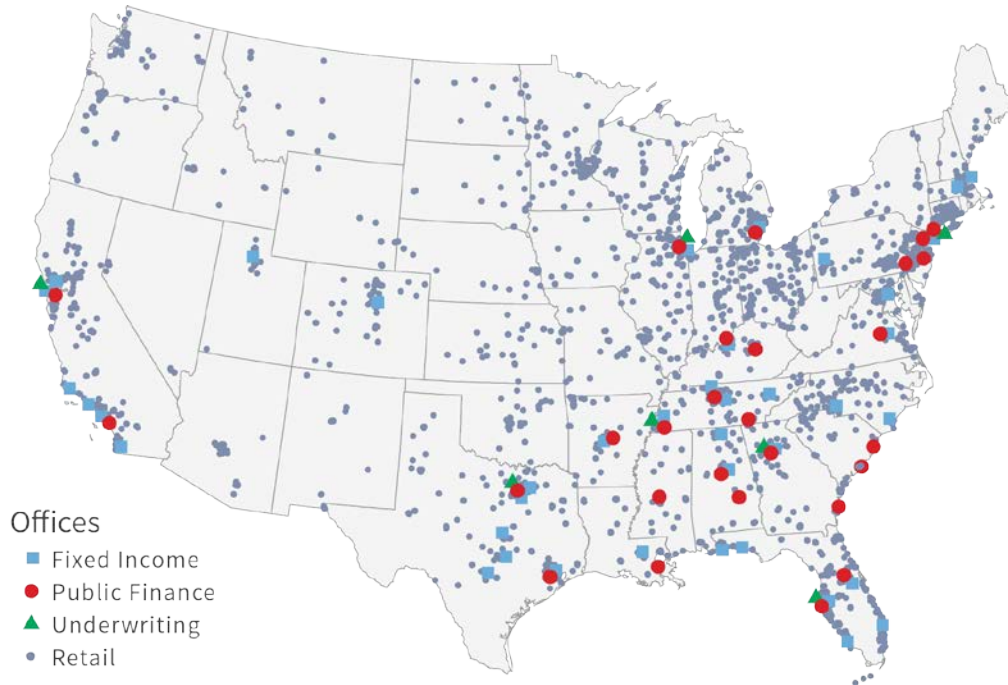
MARKET CAP OF SELECTED GROWTH FIRMS



STRONG FINANCIAL MOMENTUM



NATIONAL PRESENCE



Raymond James Public Finance is consistently ranked as a Top 10 senior managing underwriter nationally*

BY THE NUMBERS:

- 180** Public Finance professionals
- 27** Office locations nationwide
- 350+** Institutional Fixed Income sales and trading professionals
- 7,400** Financial advisors

AREAS OF EXPERTISE:

- General Obligation
- Utilities
- Water and Sewer
- Public Power
- Privatized Student Housing
- Charter Schools
- School Districts
- Special Districts
- Transportation and Aviation
- Non-Ad Valorem Revenues
- Taxable Financings
- Healthcare
- Housing
- POBs/OPEB
- Higher Education
- USDA Financing and Advisory
- Tobacco Securitization

*Source: Thomson Reuters, based on total par amount (2013-2017)

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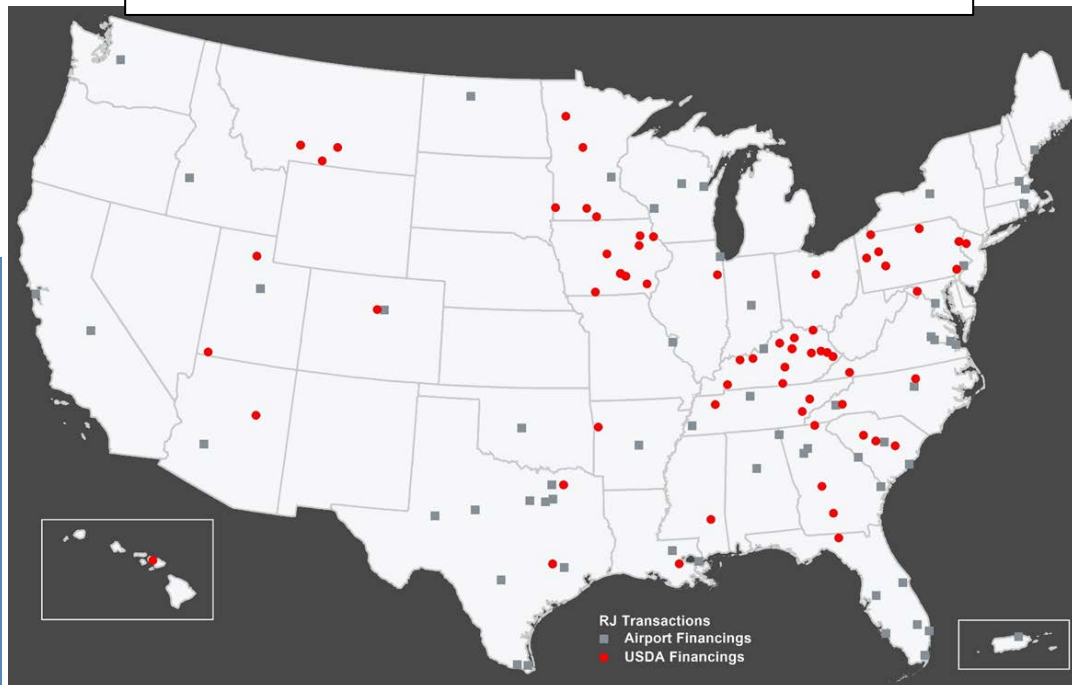
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Our Airport Group has one of the strongest airport resumes among U.S. investment banks having senior managed over 50 airport issues with a total par amount of \$3 billion since 2010.

Our USDA team, with over 85 years of combined experience, has worked on over 1,100 USDA transactions, totaling over \$7 billion in commitments.

SECTION 2

Transportations Needs, Current Practices, and Outlook

- **January 2018.** The US Department of Transportation reported that the backlog of highway and transit infrastructure projects had reached \$926 billion with many billions more over the next two decades to keep up with the demand.
- **February 2018.** The American Road and Transportation Builders Association noted that 55,710 bridges in the US are now considered deficient.
- **March 2018.** The American Society of Civil Engineers Infrastructure Report Card in March 2018 which was perhaps the most comprehensive independent review of American Infrastructure, provided a grade of D+.
- **Summer 2017.** Hurricanes and Massive Flooding demonstrated that aging dams and other structures were failing at high levels.
 - Public Transit has not kept pace with demand. Infrastructure is expensive and aging.

State and federal funding is not sufficient to meet the needs or demands. Seven states in the last several months have raised their gas tax on users to support additional needs.

➤ **S & P Global Ratings**

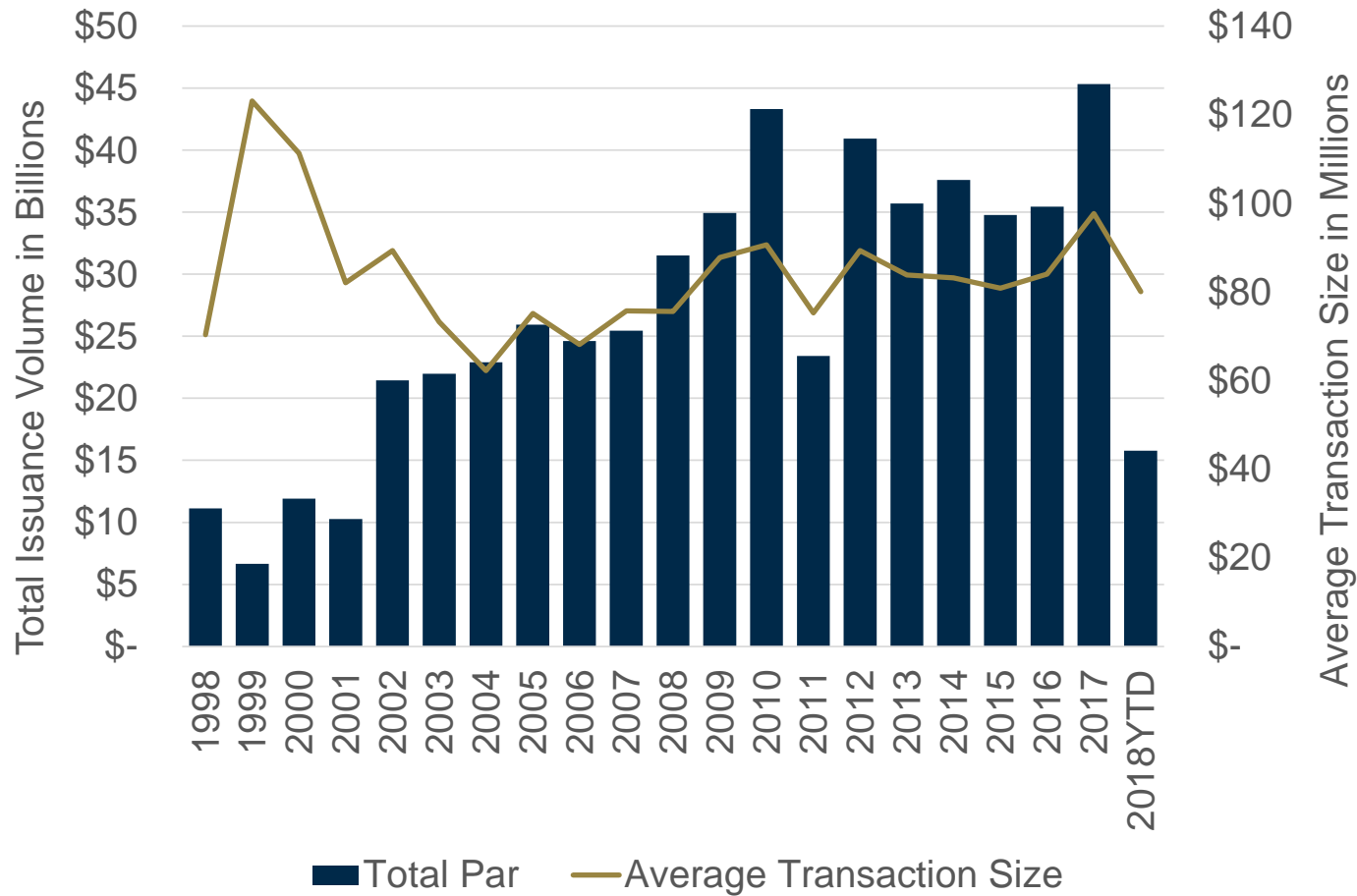
- The economy is continuing to expand
- Capital needs are large and continuing to rise
- Trade policies are shifting
- Local funding and contributions to match federal investments on the rise
- Economic growth is likely to support transportation demand
- Implementation of revenue-maximizing technologies will increase
- P3's will continue to develop
- From a debt perspective, all sectors of transportation sector are either stable or positive

➤ **Fitch Ratings**

- Solid growth overall
- Continued rate-making flexibility with ports, airports, and toll roads
- All sectors stable

➤ **Moody's Investor Services**

- All transportation sectors either stable or positive
- Depending on sector, economic outlook positive and growing in 2018
- Small and non-hub airports will have the strongest enplanement growth
- Economic expansion will see growth in containerized cargo globally
- Toll rate expansion can be supported
- P3 growth is positive in 2018 and can be supported



- As transportation issuance has increased, average issuance size has remained relatively constant

Source: Thomson Reuters

President Trump's broad infrastructure financing and policy blueprint includes a \$200 billion program that aims to incentivize a larger \$1.5 trillion investment.

- Keys to its successful implementation and sustainability, will be just how realistically individual states and municipalities can respond, knowing that the federal government is contributing just \$200 billion to this 10-year program.
- To achieve the goal of \$1.5 trillion in infrastructure investments, the bulk of funding to rebuild roads, bridges, waterways, energy projects, rural infrastructure, public lands and other projects would need to come from state and local governments or the private sector.
- Success is a function of focus, private and local support, and champions from various sectors to develop the program and implementation plans.
- Many political pundits suggest that the President's Infrastructure Plan will be pushed to 2019 following fall mid-term elections. This creates an opportunity to plan, develop, and outline opportunities for the future.

- Incentive Program - \$100 Billion for increased state, local, and private investments. Innovation and modernization critical.
- **Rural Infrastructure Program – \$50 Billion for Block Grant Funding to states.**
- Transformative Projects Program - \$20 Billion for ambitious and exploratory projects for transportation, drinking water, energy, commercial space, and broadband.
- Financing Programs - \$20 Billion to expand TIFIA, RRIF, WIFA, and Rural Utilities Services. Purpose: increase capacity and hopefully qualify for Private Activity Bond financing.
- Federal Capital Revolving Fund - \$10 Billion for a revolving fund to fund the purchase, construction, and renovation of federally owned land. The theory, buy rather than lease.
- Public Lands and Federal Assets – Statutory changes would direct revenue generated from public lands or the sale of public lands to further improve public lands.
- Improving Infrastructure Permitting – Expedite the permitting processes across the board. Expansion of tolling, commercialize interstate rest areas, and incentives regarding state infrastructure banks.

- The Economy is and has been expanding with moderate GDP growth in 2018.
- President Trump's Infrastructure Plan is broad and aims to incentivize a much larger public and private sector investment. Block grants for rural infrastructure could be a significant boost to projects throughout the United States.
- Revenue growth at the state and local levels has been generally robust throughout the U.S.
- P3 initiatives, while generally used on large scale projects, are growing for moderate and small projects (\$10M - \$50M).
- Credit Rating agencies are positive on the states' credits and infrastructure development in general, therefore providing debt financing options at the state and local levels.

SECTION 3

Rural Transportation Infrastructure

- On April 25, 2017, President Trump established the Interagency Task Force on Agriculture and Rural Prosperity through Executive Order 13790 and appointed Secretary Sonny Perdue as its chair. The purpose was to identify legislative, regulatory, and policy changes to promote agriculture, economic development, job growth, infrastructure improvements, technological innovations, energy security, and quality of life in rural America.
- On October 21, 2017, Secretary Perdue issued the report listing over 100 actions government should consider. These recommendations revolved around five areas:
 - E-Connectivity for Rural America
 - Improving Quality of Life
 - Supporting a Rural Workforce
 - Harnessing Technological Innovations
 - Economic Development
- At the heart of many of the specific recommendations involve improvements and expansions of transportation and other infrastructure.

‘We have to make sure American farmers and their families, wherever they may be, wherever they may go, have the infrastructure projects that they need to compete and grow.’

President Donald J. Trump

- The President’s Infrastructure Plan will establish a \$50 billion Rural Infrastructure Grant Program to invest in rebuilding and modernizing rural infrastructure.
- The \$50 billion dedicated to rural America represents 25 percent of all federal funds in the President’s Plan.
 - 80% will go directly to the Governor of each state as determined by formula.
 - 20% will be provided to selected states that apply for rural grants.
- The Plan seeks to:
 - Grow business revenue and personal incomes
 - Enhance regional connectivity
 - Spur economic growth by closing infrastructure gaps
 - Improve overall planning efforts to grow business revenue and personal incomes
 - Set aside funds to improve infrastructure for Tribal and territorial infrastructure

- Flexibility in the Plan will help address the unique needs of rural communities.
 - Limited to no burdensome requirements on how states utilize the funds.
 - Funds go directly to the Governor's Office of the state receiving the funds.
 - Governors make the decisions.
 - Specific allocation formula is still being discussed but would include factors of rural lane miles of roads and population.

- Broad Eligibility including Broadband Access, Transportation, Water and Wastewater, Power and electric facilities. Flood mitigation efforts, Railways, and Clean Water.

Infrastructure, or a lack thereof, can be a fundamental determinant of economic growth or decline. Rural infrastructure—such as roads, water systems, and broadband—is in dire need of upgrades and repair, which adversely impacts rural communities’ efforts to create jobs and stimulate economic growth.

Bipartisan Policy Center 2017, “Putting Private Capital to Work in Rural Infrastructure”

- **Types of Private Capital Necessary to Invest in Rural Infrastructure**
 - Loans from Financial Institutions or other private entities
 - Contributions or exchanges from private companies
 - Public-Private Partnerships (P3s)
 - Public Debt Issuance
 - Expansion of PAB’s to private investors for transportation projects

- **Rural Areas can face particular challenges in developing effective partnerships with the private sector. Several issues continue to persist in rural communities.**
 - Project Size
 - Institutional Capacity
 - Limited Funding and Financing Options

➤ **Rural Infrastructure Opportunity Fund**

- Pools private capital that is made available to rural projects. CoBank and AgStar Financial Services pledged \$10 billion that is managed by a private asset-management firm. USDA helps identify projects and lowers financing costs.

➤ **TRAX Transit (Texas)**

- Transit system (Ark-Tex Regional Commission) in a nine-county region in rural northeast Texas. Hospital and local business support the system to close the gap in public funding.

➤ **Coalfields Expressway (Virginia)**

- US Route 121 running through rural and mountainous Southwest Virginia that will connect rural roads to Interstate systems in West Virginia, Kentucky, and Tennessee. Projects were funded through public funds and a partnership with the coal companies that would provide their equipment to prepare the roadbed in exchange for the ability to recover the coal, a 45% reduction in overall cost.

➤ **Prichard Intermodal Gateway (West Virginia)**

- State partnered with Norfolk Southern Railway to construct an intermodal freight facility in a rural county. Improves the existing freight movement to other states, the Heartland Rail Corridor, and the Port of Virginia.

U.S. Secretary Sonny Perdue highlighted the USDA investment of \$40 Millions in FY 2017 that will help construct or improve 31 infrastructure projects.

- Surface transportation
- Aviation
- Ports
- Water and storm resources
- Energy production and generation
- Electricity transmission
- 22 Separate states

The USDA Rural Development Office announced in May 2018, that more than \$84 million was going to be invested in four community facility projects.

- VCU Health Community Memorial Hospital received \$65 million to construct a replacement hospital and physician office building.
- The City of Galax, Virginia received \$17 million to renovate and add space to the Galax Elementary School.
- Mental Health and Mental Retardation Properties, Inc. received a \$2,200,000 loan to purchase and renovate two buildings for mental health and substance abuse treatment, including opioid treatment for the counties of Essex, Gloucester, King and Queen, King William, Mathews, Middlesex, Lancaster, Northumberland, Richmond, and Westmoreland.

SECTION 4

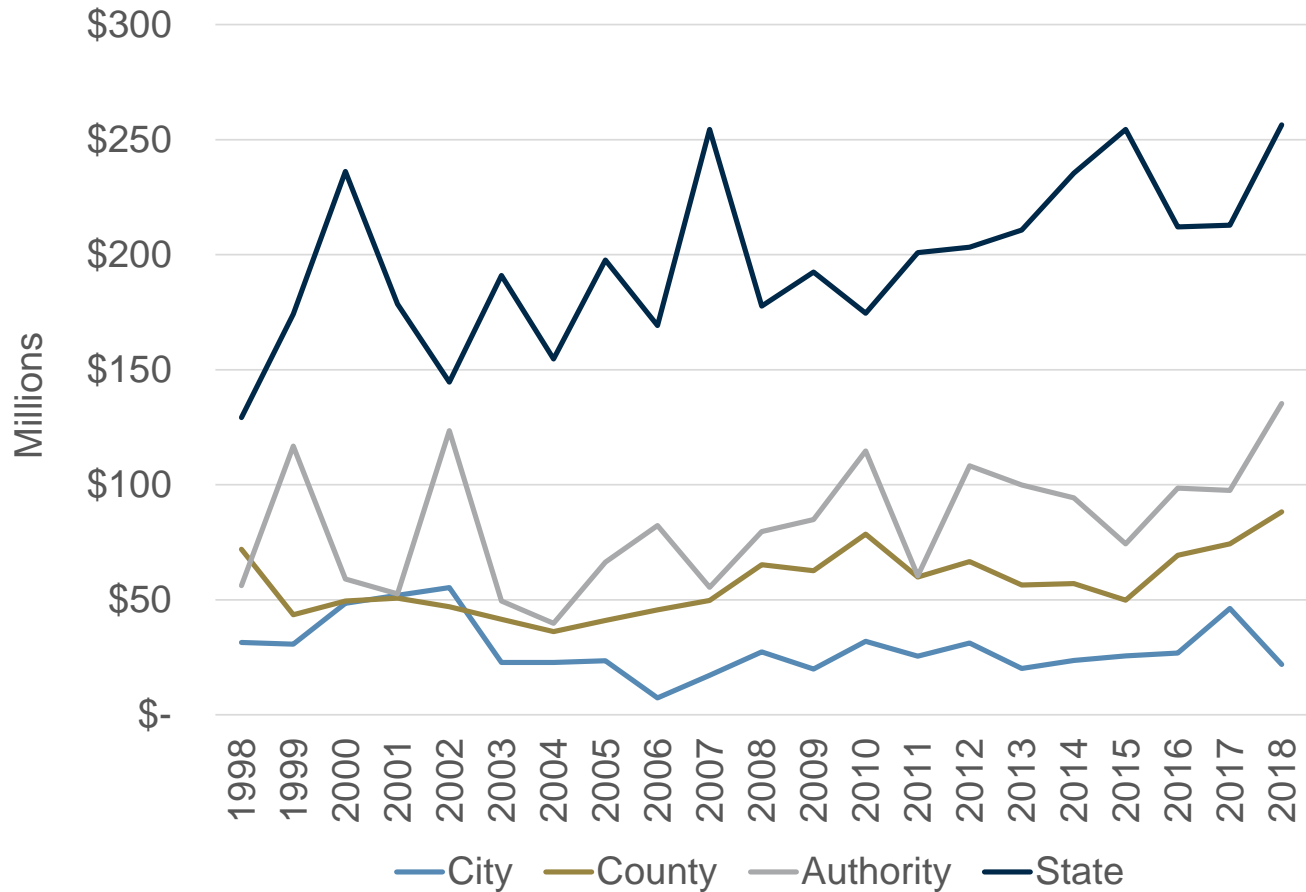
Security and Repayment Options to Consider

- Rural communities have overwhelming infrastructure needs but often lack the economies of scale necessary to attract private investors who can help finance infrastructure projects.
- Rural officials and other staff often lack the resources and expertise to negotiate financing approaches with the private sector and governmental sponsors.
- Private investors will need to be repaid and many rural communities lack available funding due to their smaller populations and tax base.
- Many rural areas have not and do not access the capital markets, issue bonds on a regular basis, or have credit ratings which when combined, will limit access to the markets at affordable rates.

- **Targeted Funding.** Many states and state transportation departments have available funds to assist with rural infrastructure needs. The President's Infrastructure Plan includes substantial funding for a variety of different rural initiatives including grants, block funding, and loans. **They must continue.**
- **Project Bundling.** Combining projects can create size to draw upon a larger revenue base and take advantage of the economies of scale.
 - Rapid Bridge Replacement Program (PA). 33 bridges bundled together
 - Natural Gas Fueling Stations (PA). Rural counties using Compressed Natural Gas for transit systems. 29 CNG Facilities managed privately and publicly supported.
- **Regional Coordination.** Can draw upon a larger revenue base. Rural communities combine forces to bring about viable projects.
 - Rural Water Systems
 - Virginia's Smart Scale scoring system prioritizes projects based on criteria that fits the urban and rural areas
- **Local Capacity.** Expand staff and resources either permanently or on a temporary basis for project delivery.
- **Accessible Financing.** Federal, State, Local, and Private Sources.

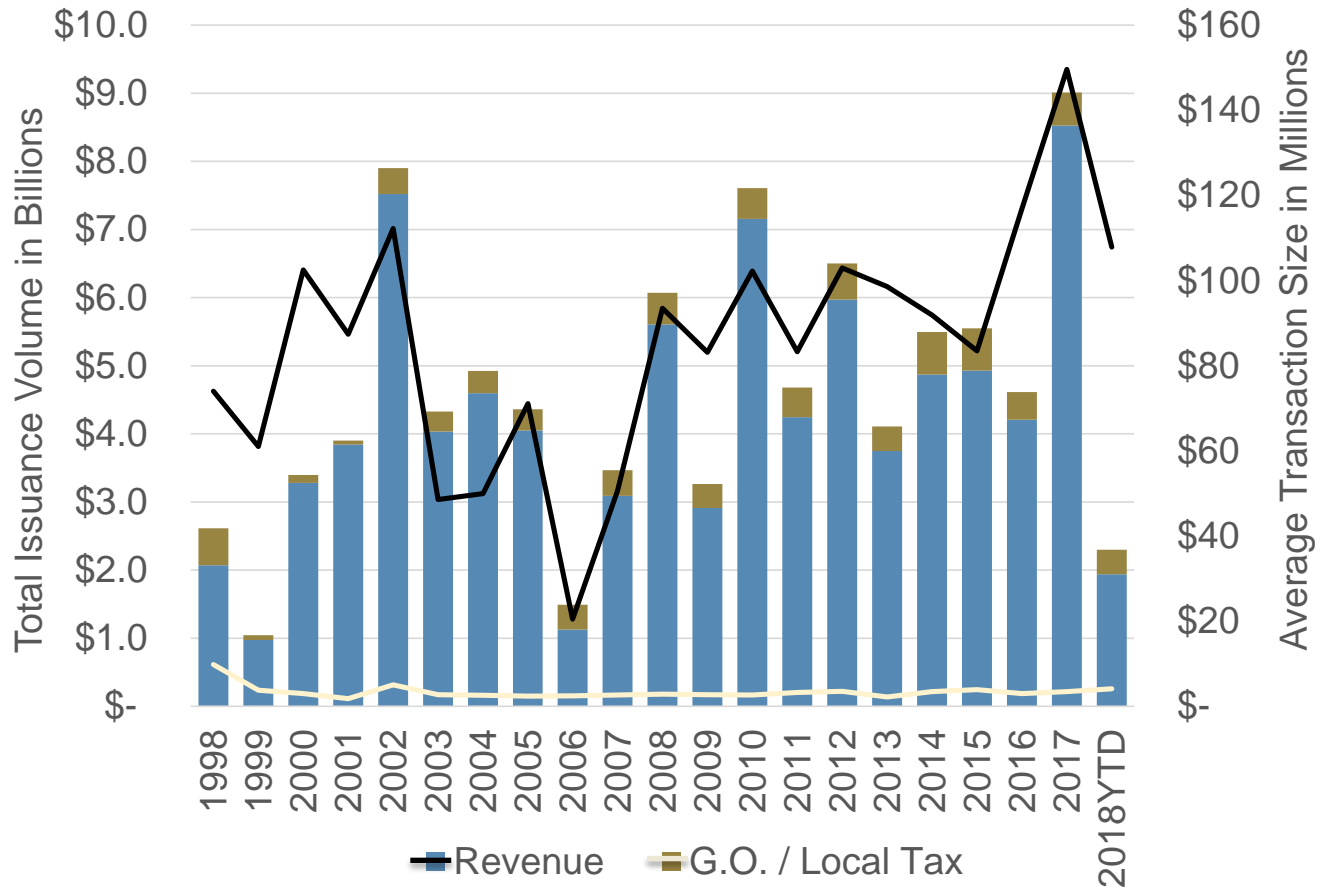
SECTION 5

Candidates for USDA Financing



- City and County projects are most likely to qualify for USDA financing, with average transaction sizes of \$21mm and \$88mm respectively in calendar year 2018 to date

Source: Thomson Reuters



- Local government transportation funded by user fees constitute the largest share of transportation issuance
- General obligation or other local tax-supported issuances tend to be smaller, and often represent rural projects

- Accomplished through municipal bonds, bank loans, bond banks, state and federal transportation grants and loans, and USDA financing and grant programs.
- Funding sources can include tax revenues, user fees, and private capital. Financing terms are typically 20-30 years, but can be longer. Sources in rural areas are generally tax revenues. Longer terms for the debt is generally more affordable to rural localities.
- Interest rates for public and bank debt are based on credit quality and bonds are largely tax-exempt. Projects involving private use may be subject to AMT. USDA and other program funding may help reduce this interest cost.
- Voter approval may be required for General Obligation Bonds while other bond security arrangements may not need voter approval. Referendums typically demonstrate the local support for projects and the commitment to the repayment of the obligations.
- Economic benefit and potential revenue enhancement should be demonstrated for purposes of a USDA loan.

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- Rural America is not homogenous. Some are on the outskirts of major cities and other are far removed from population centers.
 - There are overlapping jurisdiction in many states and in others all are separate political subdivisions.
 - Federal agencies use a variety of definitions for determining eligibility for “rural programs.”
 - President’s Proposed Infrastructure Plan: Under 50,000
 - USDA Community Facilities: Under 20,000
 - Rural Utilities Services’ Water and Environmental Program: Under 10,000
 - EPA: Under 10,000 for State Revolving Funds
 - EPA: Water Infrastructure Finance and Innovation Act: Under 25,000
 - Federal Transit Administration: Under 50,000 outside of urbanized areas
 - Transportation Investment Generating Economic Recovery: Under 50,000
 - HUD Grants: Under 50,000 for Cities and under 200,000 for Counties
 - For Transportation programs under the proposed legislation and program development, a definition will need to be resolved within the federal government and Congress and among the operating and control federal agencies.

- State grants provide important but potentially unpredictable financing for rural long-term projects, therefore, ongoing program support should be expanded.
- Safety, access to critical services and lack of redundancy create unique challenges in many rural area transportation networks.
- 40% of Federal-Aid highways not part of the National Highway System are owned by local governments.
- Local match dollars are required for many programs.
- Many transportation projects are stalled due to lack of adequate revenues for the additional debt – some may become feasible when USDA Direct Loan features are applied.
- Rules and guidelines between and among the various funding programs need to be enhanced and coordinated.

- The President needs “Congressional Champions” to lead his Infrastructure Investment Program through Congress.
- State and Federal grants must continue to assist rural infrastructure projects.
- Surface transportation is just one part of the greater needs which include: broadband, water and wastewater projects, power and electric facilities, and waste management facilities.
- Financing programs must be flexible because rural communities differ in size, scope, needs, and location each full filling different missions with differing objectives.
- Barriers must be removed, incentives must be created and expanded, alternative project deliveries must be explored and adopted, and private investment needs to occur to streamline the process and accelerate delivery of projects.
- Enhanced and coordinated guidelines for the definition of rural are essential to allow projects to qualify under a multitude of funding and grant programs at the state and federal levels.
- Enhanced programs should embrace the use of private capital in the development of projects.

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