

# Transportation Financing in Mexico: Realizing the Calderon Infrastructure Program

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# Setting: The State of Mexico's Transportation Infrastructure

- Mexico's infrastructure is currently ranked 61<sup>st</sup> in the world (World Economic Forum).
- Infrastructure holds down overall economic development
  - Overall economic ranking bests infrastructure ranking.
- Macro-economic stability scores are high
- World Economic forum has determined that Mexico ranks 65 out of 113 countries in facilitating trade.
- Mexico's legal and institutional framework guides the development of its transportation system

# The Calderon Vision

- Use the World Economic Forum ratings to benchmark Mexico's economic development
- Improve competitiveness through aggressive public and private investment in infrastructure
- Simultaneously improve all transportation modes and lessen infrastructure discrepancies between regions
- Use tax reform and the opening up of PEMEX to private investment and restructuring as a springboard
- Set forth a plan "Mexico 2030" that will provide continuity beyond one presidential term and establish Mexico as a logistics platform

# Completing the National Corridor System

## National Corridors in 2006



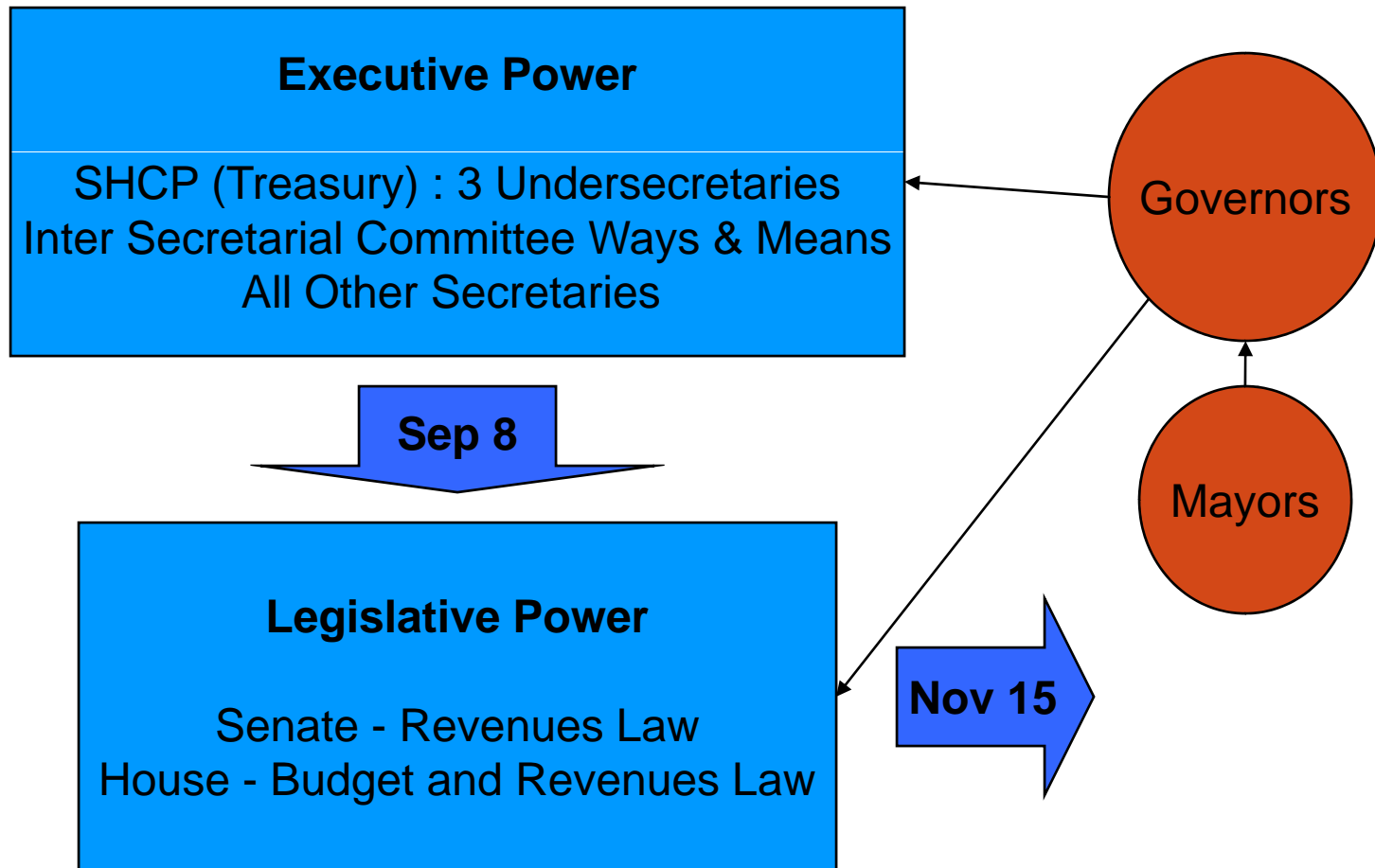
## National Corridors in 2012



# Key Regulations and Agencies: INDAABIN, SRE, FONADIN, SCT

- Regulatory laws permitting concessions for Highways (1993), Ports (1993), Railways (1995), Airports (1995), Multimodal (2008)
- SRE – Coordinates Border Infrastructure
- FONADIN – Newly created infrastructure fund (FARAC + FINFRA)
- INDAABIN – sets the value of land for government acquisition
- SCT
  - Responsible for all policies and programs related to transportation development (bounded by NDP)
  - Can directly construct and maintain transportation infrastructure or grant concessions for infrastructure projects

# Federal Budget Process



# Federal Revenue Sources

- Federal taxes include income, value added and excise taxes as well as import duties
- States and local governments have little revenue raising power
  - Fees from oil production approximately 40% of total revenue
- Most goes to a general fund not directed to any one source
- Government revenues as a percentage of Gross Domestic Product (GDP) is around 19 percent, compared to around 25 percent for the United States
- Until 2007 there were no dedicated funds for infrastructure building or maintenance, subject to yearly requests
- Most transportation funding related to SCT requests. In recent years, state driven supplements have grown.

# State and Municipal Infrastructure Financing

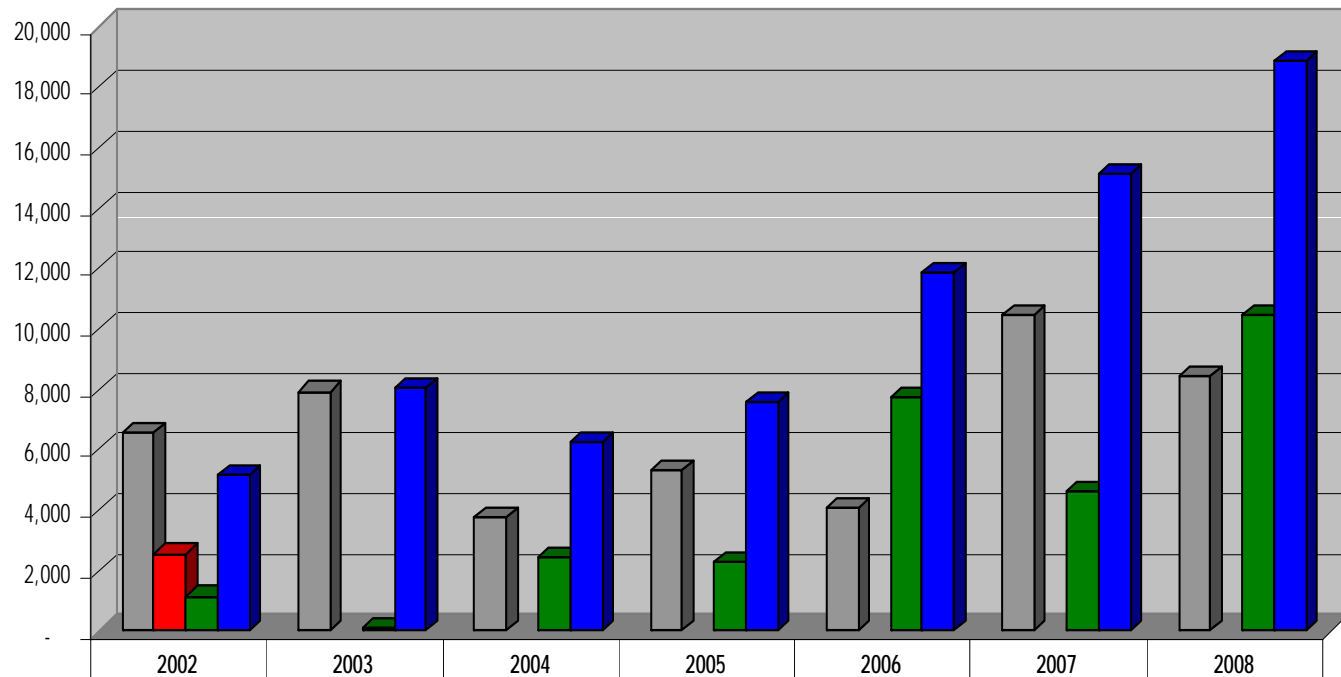
- Credit agreements for states and municipalities must be in Pesos and cannot be with any foreign government.
- Following the 1994-1995 crisis, the federal government bailed out many local governments, tightened restrictions on lending afterwards
- States like Aguascalientes, Tamaulipas, Durango, the State of Mexico and Oaxaca have passed amendments to the regulatory framework in order to give legal certainty to PPPs (Standard & Poor's, 2008).

# State and Local Revenue / Expenditures

- Most states have a bond rating, however only a small minority of municipalities are rated
- Cities are restrained in their ability to issue debt and respond to shortfalls in revenue
- The Fiscal Coordination Law - states give substantial revenue collection authority in exchange for direct transfers from the Federal Government (~20%)
- Most major projects are led by federal funding. States have taken interest in Inland Ports
  - Oriental in the state of Puebla used state grant, Monterrey uses federal funding
- Public works spending is spread between transportation, energy, water and other critical needs

# SCT Requests vs “Augmentation”

Source: SCT



■ Presupuesto Original	6,571	7,940	3,780	5,301	4,112	10,471	8,453
■ Reducción	2,562						
■ Ampliación	1,156	88	2,477	2,295	7,725	4,658	10,449
■ TOTAL	5,165	8,028	6,257	7,596	11,836	15,129	18,902

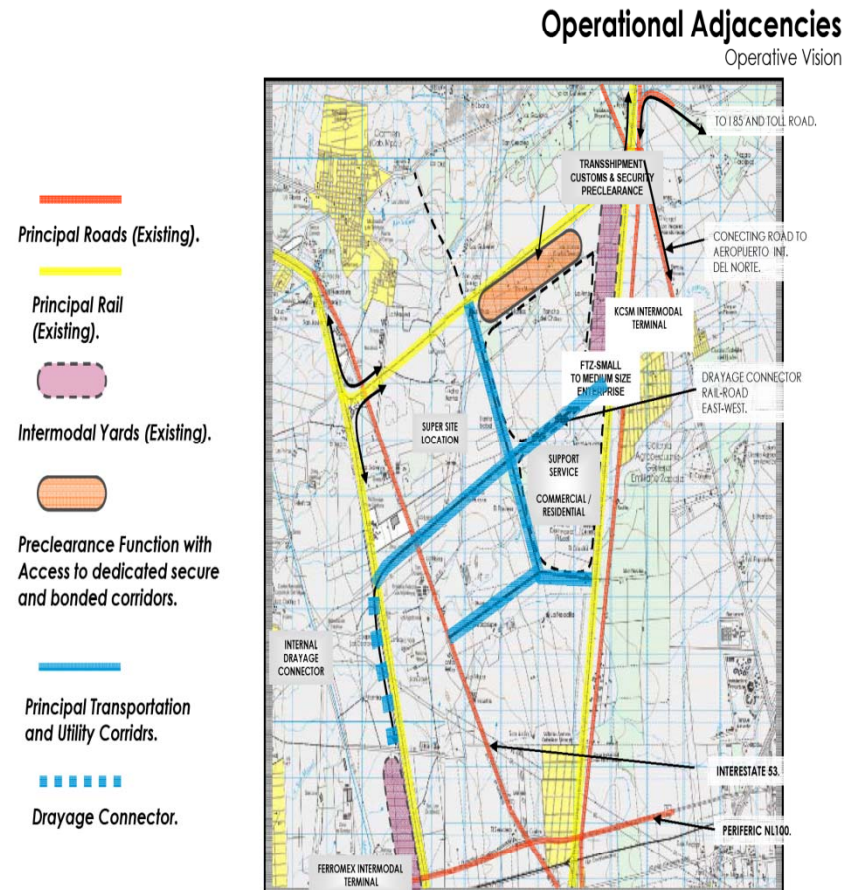
■ Presupuesto Original ■ Reducción ■ Ampliación ■ TOTAL

# Overview of Major Federal Expenditure Projects/Concessions

- Rail Concessions to KCS-M, Ferromex and Ferrosur using a 50 year concession model
- Marine terminal concessions at Manzanillo, Lazaro Cardenas, Veracruz are driven by private funding.
- Mazatlan-Durango Highway: One of the highest priorities in the infrastructure plan financed as part of a \$4.6 billion concession package through Goldman-Sachs
- Interpuerto Monterrey – Federal, State and Private sector
- Mexico City commuter rail Phase 1
  - \$580 million dollars
  - Federal allocations plus capital markets
  - Concession covers construction and maintenance

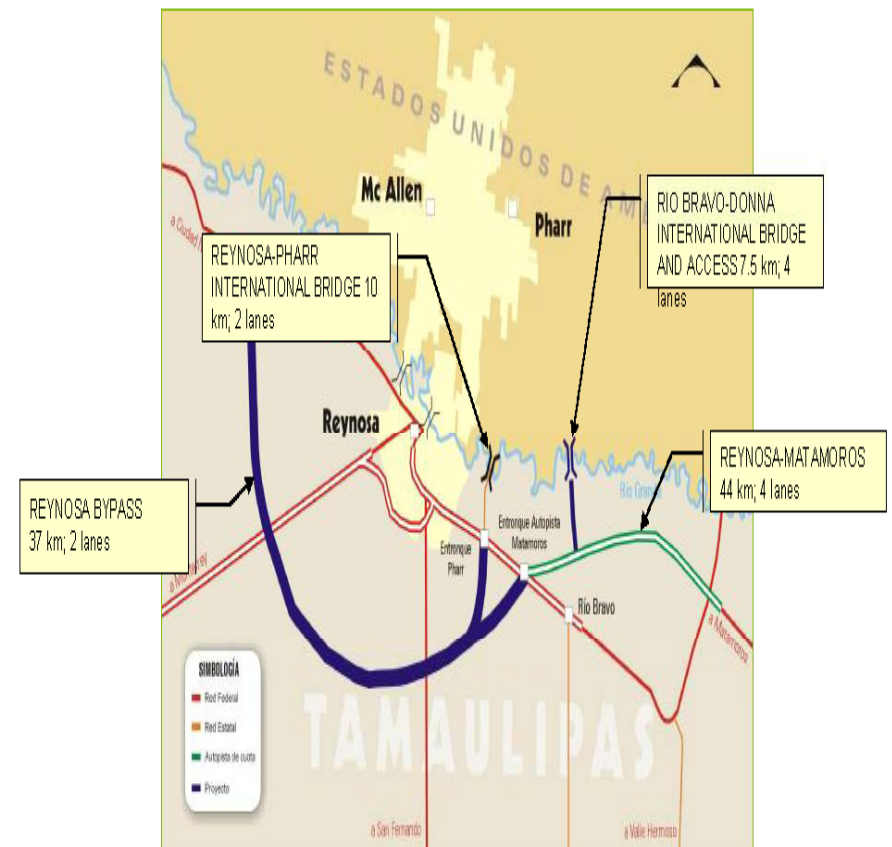
# Case Study: Interpuerto Monterrey

- Federal Government has committed \$50 million
- Also constructed supporting roadway connections
- State has invested resources in attaining permits and free trade zone
- Private investment responsible for largest single component



# Reynosa Bridge and Bypass

- Total cost estimated at 700 million pesos
- SCT will work with RMA
- According to Calderon, funds from the FINFRA Trust (*Fondo de Inversión en Infraestructura*) could absorb some costs related to the bridge (now FONADIN)



# Responding to the Financial Crisis

- Calderon's plan was strongly supported by record high oil prices and an active role by foreign investment banks such as Goldman Sachs
- Projections of government revenues and GDP growth are being slashed monthly.
- Pemex is being reformed, but its output is falling, compounding the problem
- Mexico has chosen to run a significant deficit of at least 1.8 percent of GDP. The first such deficit in years.
- Also reducing interest rates
- BANOBRAS, the state backed infrastructure bank, is expanding its loans to compensate for a fall off in private investment banks

*"Given the liquidity problem currently affecting the sector, Banobras needs to make sure there is enough financing so that infrastructure projects do not hit a standstill" Jorge Santiago, VP BANOBRAS*

# Conclusions: Outlook for Mexican Infrastructure Development

## Negative side

- Falloff in US Consumption
- Falling oil prices / Peso depreciation
- Collapse of international lending institutions
- Breakdown of supply chains involving US manufacturers
- Inability of regions and cities to access credit

## Positive Side

- Administration and legislature committed to using infrastructure as stimulus, willing to run deficits
- Program got off an early start
- Less rigidity in budgeting compared with US
- Mexico hedged oil prices/Stabilization fund
- More potential funding sources including VAT, income taxes in addition to oil revenues