TAPPING PRIVATE INVESTMENT FOR MAJOR TRANSPORTATION PROJECTS

Robert Poole
Director of Transportation Policy
reason FOUNDATION

What is a long-term public-private partnership (P3)?

- Design-Build-Finance-Operate-Maintain (DBFOM)
- Financed either by:
  - User fees paid to company by customers (Revenue-Risk P3)
  - Availability payments paid by state to company (A-P P3)
- Note: P3 is not, per se, a funding source.
- P3 is a procurement method.
- P3s enable long-term stewardship of the asset.

Advantages of DBFOM model

- Financing project up-front means major projects get built sooner and open sooner.
- Risk transfer: cost overruns, late completion, traffic & revenue (if Revenue Risk).
- Minimize life-cycle cost, not initial cost.
- Guaranteed maintenance.
- Design innovation.

Revenue-risk P3 benefits

- New user fee adds to transportation revenues.
- Shifts traffic & revenue risk to investors.
- Financing is non-recourse—state not liable if company goes bankrupt.
- Guaranteed maintenance.
- Direct incentive for P3 company to attract and please paying customers.

Availability Payment P3 benefits

- Shifts cost-overrun and late-completion risks.
- Guaranteed maintenance.
- Works when direct user fees are not feasible.
- In hybrid version, tolls cover part of cost, but state takes the traffic & revenue risk.

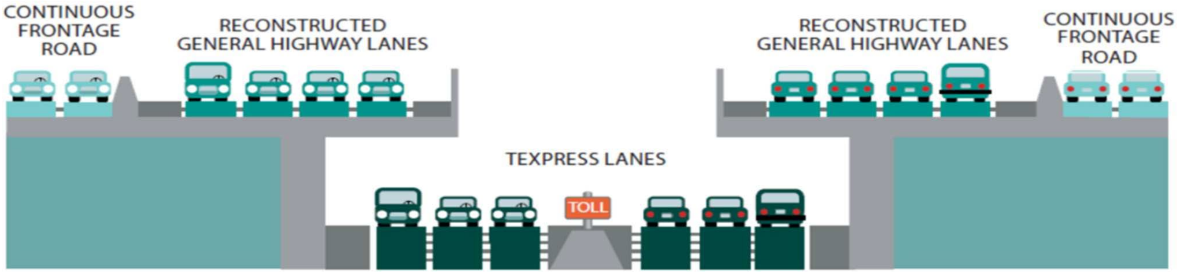
A-P example: Port of Miami Tunnel

- Goal: shift truck/bus traffic from 2-lane bridge to new tunnel.
- Tolling would be counter-productive.
- Florida DOT lacked tunnel-boring experience.
- Competitive procurement, based in part on lowest A-P rate.
- $863 million project completed on budget, nearly on time.
- Major risks shifted to P3 company.

Revenue-Risk example: LBJ express toll lanes

- TxDOT pledge: no further widening of the corridor.
- Winning proposal rejected tunnel, opted for unique design.
- $2.6 billion project completed on-time, on-budget.
- Major risk transfers from taxpayers to investors.
- Similar success with North Tarrant Express in Ft. Worth.

Completed ahead of time and on budget



- **LBJ**: 3 additional managed lanes per direction
  completed Oct 2015, **3 months ahead of schedule, on budget**
- **NTE:** 2 additional managed lanes per direction
  completed Sept 2014**, 9 months ahead of schedule, on budget**

Financial Highlights:

- **$5.34bn** initial investment, **27% savings** due to delivery efficiencies
- **$1.16bn** NPV of Future Investment and Maintenance
- **$1.12bn** Public Contribution

Other successful DBFOM P3s

Availability Payment P3s

- Denver Eagle Transit--$2.1B
- Pennsylvania Rapid Bridges--$1B
- NY-NJ Goethals Bridge--$1.2B (hybrid*)
- Florida I-595 express lanes--$1.6B (hybrid*)
- Ohio River Bridges--$1.3B (hybrid*)

* Hybrid = state-collected tolls

Other successful DBFOM P3s, continued

Revenue-Risk P3s

- Colorado US 36 express toll lanes--$197M
- Newark Airport CONRAC--$480M
- North Carolina I-77 express toll lanes--$632M
- Texas SH 288 express toll lanes--$849M
- Virginia Mid-Town Tunnel--$2.0B
- Virginia I-495 express toll lanes--$2.3B

Best fit for DBFOM P3s

- Megaprojects with strong revenue prospects (A-P or R-R)
- Why? Procurement is long, complex, costly
  - Study/conceptual design
  - RFI (possibly)
  - RFQ
  - Shortlist
  - RFP
  - Best-value selection
  - Negotiation of long-term agreement

Likely investors

- 3 main categories:
  - Public pension funds
  - Insurance companies
  - Infrastructure investment funds
- Objective: invest *equity*, seeking low double-digit ROI.
- Project finance: typically 25% equity/75% debt.
- Equity return not guaranteed; bondholders have priority.
- Over $500 billion raised for P3 infra over past 5 years.

Long-term agreement is very detailed

- Enforceable performance measures
- Guaranteed maintenance requirements
- User fee rate structure
- Hand-back provisions
- Termination provisions
  - For convenience (with compensation)
  - For cause (no compensation)

States need comprehensive P3 legislation

- 38 states have transportation P3 laws; projects in only 10.
- Many states do not allow tolling.
- Others don’t allow A-Ps (must be recorded as state debt)
- Should have a specialized P3 unit in DOT or budget office.
- Budget for outside legal & financial expertise.
- Colorado, Puerto Rico, Virginia are good examples.

Conclusions re DBFOM P3s

- A procurement method, not a funding source
- Best-suited to mega-projects
- Up-front financing means major projects get done sooner.
- Large risk transfers from state/taxpayers to investors.
- Improved stewardship:
  - Lower life-cycle cost.
  - Eliminates deferred maintenance.

Questions?

Contact information:

Bob.Poole@reason.org