

Public-Private Partnership Policy Primer--Challenges and Best Practices: A U.S. Perspective

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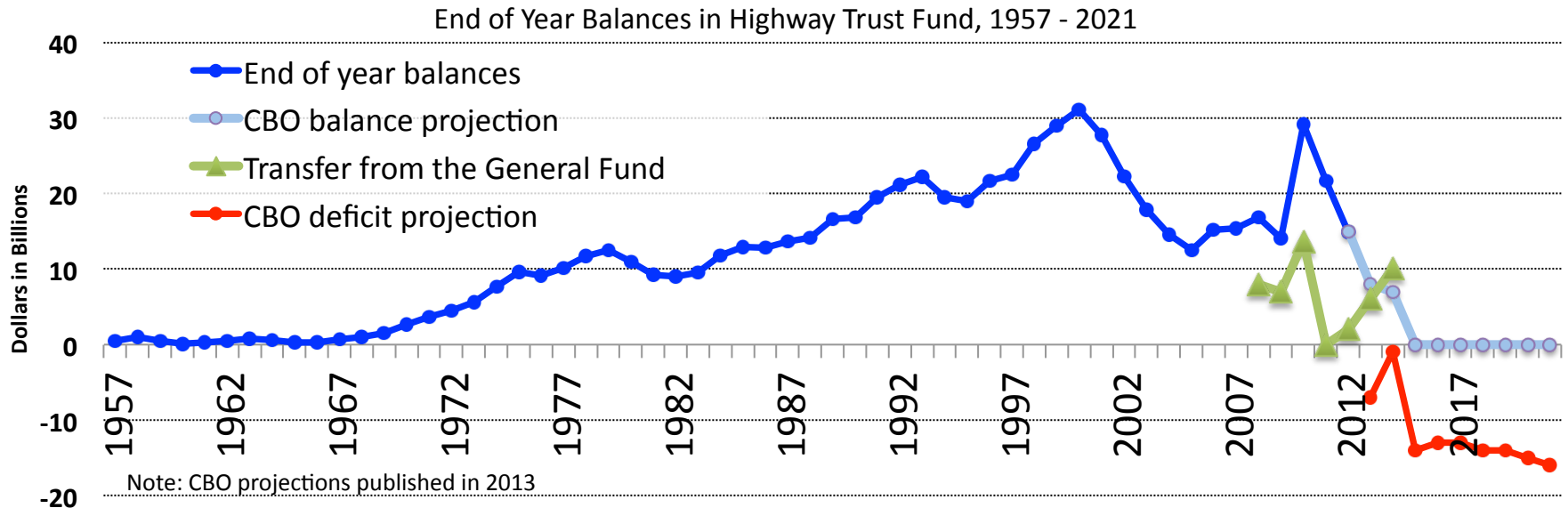
Presentation to
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Outline

- Background of U.S. P3s: traditional approaches faltering
- U.S. P3 Policy:
 - Federal initiatives
 - Initiatives of U.S. states
 - Municipal Bond market
- P3 Best Practices
 - Enabling Legislation
 - Champions and Stakeholder Development
 - Project Selection and Agency Priorities
 - P3 Administering Office
 - P3 Procurement Plan and Process
 - Funding and Financing
 - P3 Structures
- George Mason University School of Public Policy P3 Policy Program

Background:

Issues with Traditional Transportation Funding



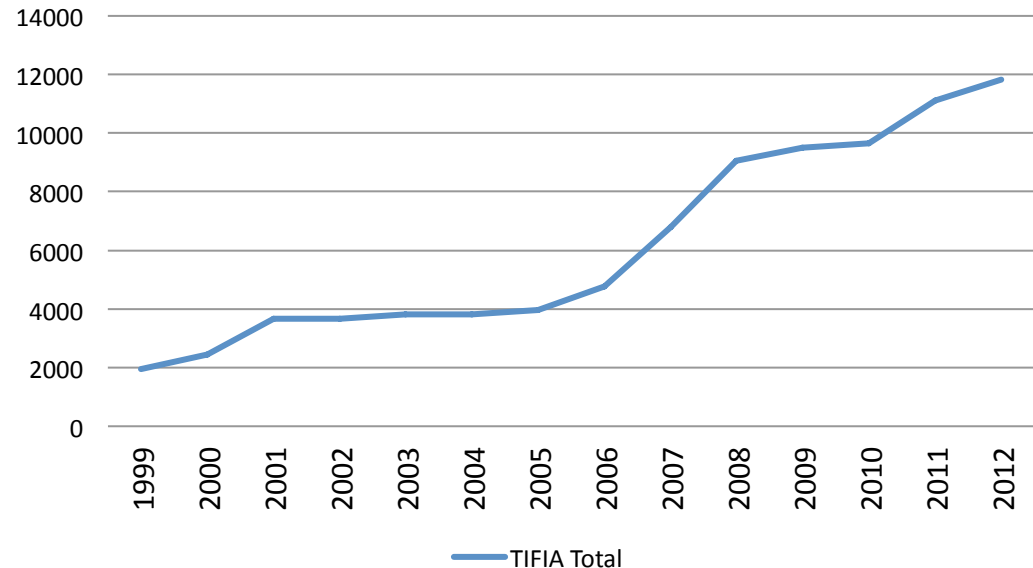
Funding Crisis = Seeking Alternates:

- Increasing costs of construction
- Aging infrastructure = increasing cost of maintenance / renewal
- Improving fuel efficiency (e.g. electric vehicles do not pay for roads use)
- Political hurdles to raise gas tax

Federal P3 Initiatives

- Federal infrastructure financing programs supporting P3s
 - Transportation Infrastructure Financing and Innovation Act (TIFIA, 1998)
 - Credit assistance with fixed rates lower than private market
 - (e.g. 2.92% for a 35-year loan)
 - Assistance Types:
 - Direct Loan
 - Loan Guarantee
 - Credit Lines
 - TIFIA total: \$10.5 Billion, for projects totaling \$42.2 billion
 - Active: \$8.9B for projects of \$32.2B
 - Retired: \$1.6B for projects of \$6B
 - Other Federal Credit Support (RRIF, SIBs)

TIFIA Project Assistance in millions of dollars by Year



Federal P3 Initiatives

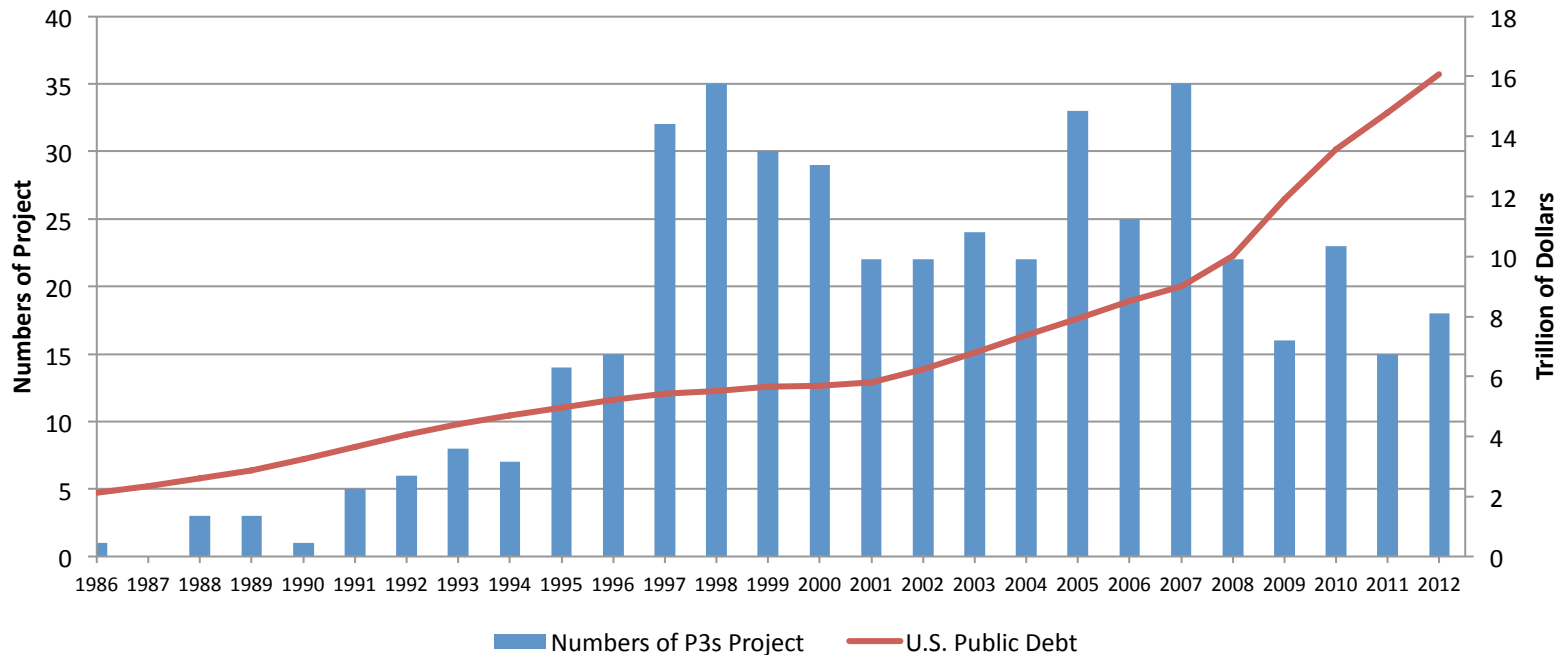
- Most recent U.S. highway/transit legislation:
 - Moving Ahead for Progress in the 21st Century Act (MAP-21, July 2012)
 - Budget Authority for TIFIA increased by \$1.75 billion:
 - \$750 million for 2013
 - \$1.0 billion for 2014
 - USDOT expects to offer \$17 billion in credit assistance
 - Could leverage \$20-\$30 billion in transportation infrastructure investment.
- New features
 - Rural set-aside of 10%
 - Raised participation limit from 33% to 49%
 - Added directive: agency “shall assess the appropriateness of a P3 to deliver the project.”

P3s: the State of Affairs in the U.S.

- Current State of legislation
 - 33 U.S. States and one U.S. territory with statutes enabling the use of various P3 approaches for transportation infrastructure.
 - Most P3 activities occur in California, Florida, Texas, New Jersey, Massachusetts, New York and Virginia.
- Financing Mechanisms
 - Revenue Sources
 - Direct user charges
 - Shadow tolls
 - Availability payments
 - Debt/Equity Sources
 - Private equity
 - In-kind land donations
 - Bonds
 - Bank loans

P3s: the State of Affairs in the U.S.

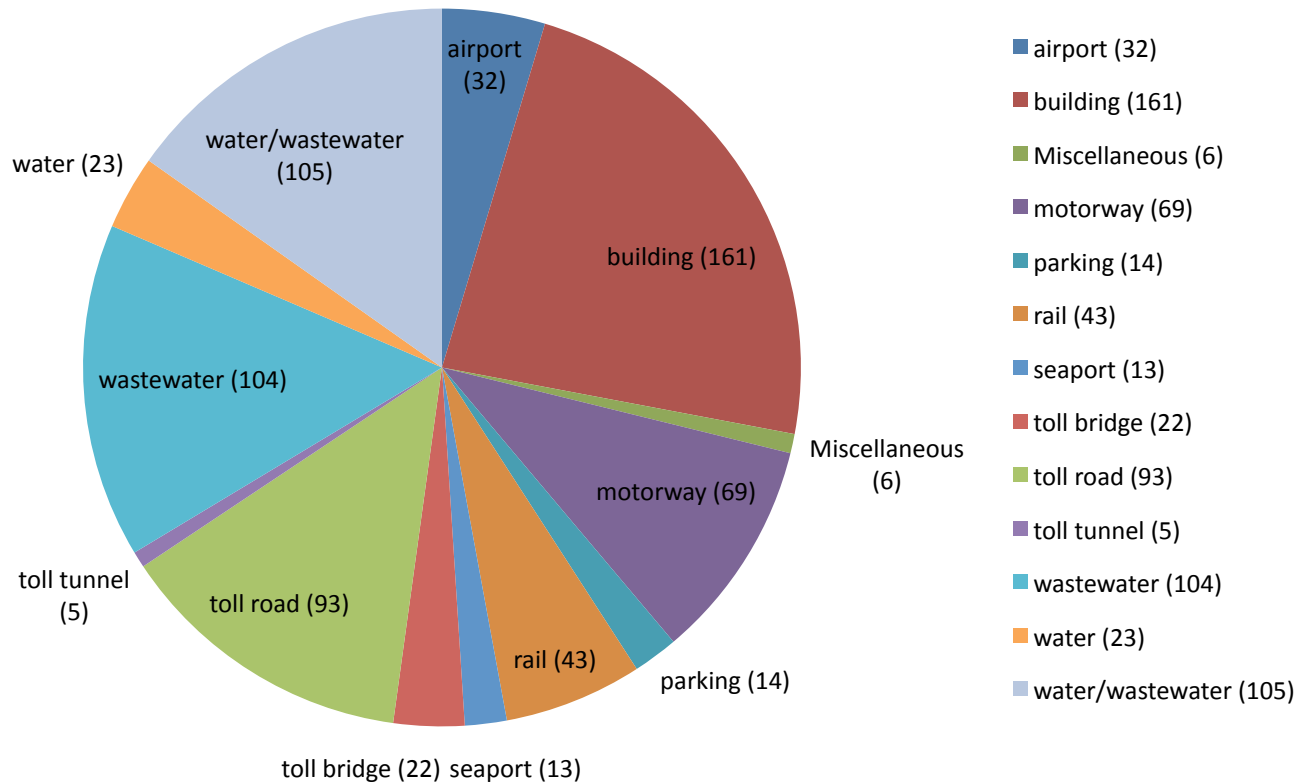
Number of P3 Projects Reaching Financial Close in the U.S., 1986 -2012



Source: Public Works Financing and U.S. Department of Treasury, Bureau of Public Debt

P3s: the State of Affairs in the U.S.

- P3 arrangements are used for various types of infrastructure systems
- Types of US P3 projects that reached financial closure, 1986-2012



Note: including both proposed P3s, completed P3s and P3s under construction.

Source: Public Works Financing

U.S. Municipal Bond Market for P3 Projects

- U.S. Municipal Bonds
 - Total state – local debt is \$2.8 trillion
 - Historically stable to size of economy (15-20% of GDP)
 - Types:
 - General Obligation Bonds (“full faith and credit” of issuing governments)
 - Revenue Bonds (non-guaranteed, with particular revenue stream for repaying obligations)
- Characteristics of U.S. Municipal Bonds
 - Tax Exemption: U.S. Government exempts interest income paid to bond holders
 - Allows lower interest rates for muni. bonds than for taxable bonds
 - Legal authority for infrastructure debt-financing varies across states
 - States with constitutional pay-as-you-go requirements vs.
 - States that have debt capacity
- Other Hybrids
 - Private Activity Bonds
 - 63-20 Non-Profit Corporations

Local Infrastructure Trusts

- Chicago Infrastructure Trust
 - Nonprofit organization established by Chicago’s City Council
 - Projects may include wide range of transportation and other municipal infrastructure (e.g., energy retrofits)

- DC Public-Private Infrastructure Trust (proposed)
 - Would include a Social Impact Fund

- Goals
 - Facilitate infrastructure projects by offering innovative financing strategies
 - Attract capital from diverse types of investors
 - Achieve and demonstrate real risk transfer to 3rd-party investors
 - Aggregate different governmental agencies within a common plan of finance
 - Create efficient capital structures.

P3 Best Practices: Enabling Legislation

- Characteristics of the most effective enabling legislation
 - Creates a focus of governmental responsibility
 - Grants appropriate statutory powers with enough flexibility
 - Adequate staff and consultant budgets
 - Existence of some advocates and/or enthusiasts in state government.
 - Clear delineation of the solicitation process
 - Clear state role on land acquisition & environmental clearances
 - Clear anticipation on state funding
 - Does not require final, post-agreement, approval by legislative bodies

P3 Best Practices: Champions and Stakeholder Development

- Communications and Governor's Support
 - Colorado Eagle P3 Commuter Rail
 - Virginia's Midtown Tunnel (drew heavy fire)
 - Legal challenge set aside on October 31st
 - California's South Bay Expressway (SR-125) overcame environmental hurdles and string of supplemental approvals, but cost burdens and economy undermined financials
- Multiple derailments from stakeholders and environmental community and legal challenges
 - P3 not attempted for Maryland's Intercounty Connector
 - Will try again with Purple Line

P3 Best Practices: Project Selection and Agency Priorities

- A clear mechanism for project selection and the setting of agency priorities provides a firm foundation for P3 procurement
 - Virginia's OTP3 has process, reviews with local authorities, publishes pipeline list of projects
 - The Eagle P3 Commuter Rail locked down desired scope but left approach relatively open
 - Florida I-595 Managed Lanes did project development, built consensus
- Project must be viable from a business perspective

P3 Best Practices: P3 Administering Office

- P3 administering office must have well-trained staff covering several disciplines and back it up with expert consultant support
 - Virginia's OTP3 given relative independence, broad multi-modal responsibilities and access to needed resources to advance P3s
 - The Eagle P3 Commuter Rail: RTD set up dedicated project management office, retained experienced consultants

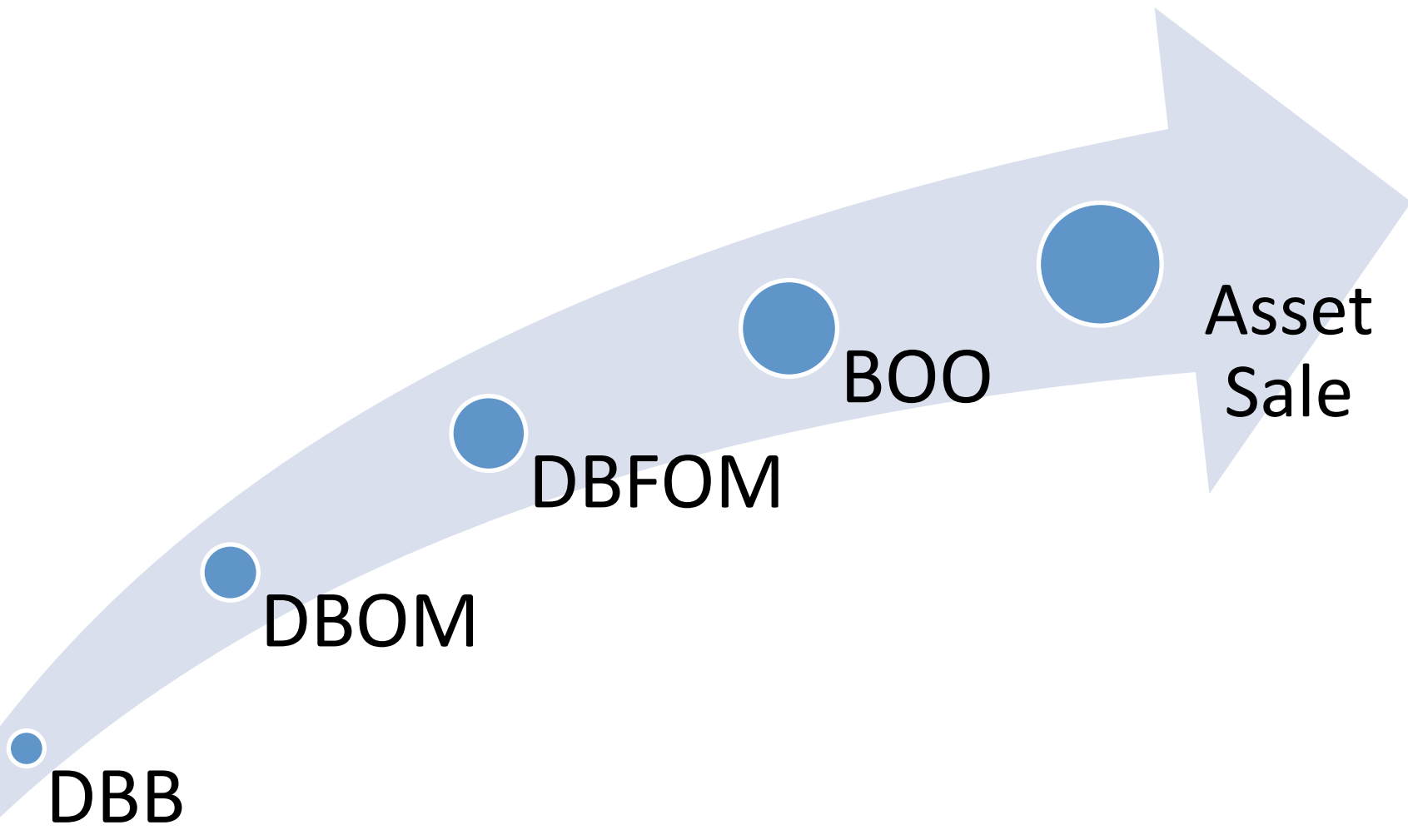
P3 Best Practices: P3 Procurement Plan and Process

- Solicited or Unsolicited Proposals?
 - The Eagle P3 Commuter Rail stayed open to alternative technical and payment concepts
 - Virginia's I-495 accepted express lanes alternative to realize planned HOVs
- Protections Against Financial Distress
 - Florida I-595 had flexibility to maneuver financial crisis
 - Miami Tunnel restructured several times before closing
 - Las Vegas Monorail underestimated demand risk, 63-20 format led to local boosterism
 - Southbay Expressway (SR-125) completed and operating, but weak economy overran long delays, cost increases

P3 Best Practices: Funding and Financing

- Need a good understanding of debt/equity structures and options
 - 63-20 Format may reflect project weaknesses: Virginia's Pocahontas Parkway and South Carolina's Southern Connector
 - Florida's Miami Tunnel: tolls not working, moved on to share availability payments
 - California's South Bay Expressway: private partners took most demand and cost risk, project accomplished
 - Las Vegas Monorail demand risk overflowed
 - Both South Bay and Las Vegas completed, opened for service

P3 Best Practices: P3 Structures



Transportation Public-Private Partnership Policy Program at George Mason University School of Public Policy

- Conducting P3 Case Studies
- White Papers Completed
 - Research & policy issues white paper
 - Best practices white paper
- Co-sponsoring National Research Conference on P3s
 - In partnership with the 25th Annual American Road & Transportation Builders (ARTBA) P3 Conference, July 2013, in Washington, D.C.
 - Will continue in 2014
- Planning Graduate & Executive Education Activities
- Established P3 Research Center at GMU
 - Building website focused on P3s
- Conference Participation & Outreach Activities

Transportation Public-Private Partnership Policy Program at George Mason University School of Public Policy

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For more information and electronic versions of white papers:

Visit us at: p3policy.gmu.edu