

Public Private Partnerships and Innovative Transportation Finance

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Lessons Learned from Public Private
Partnerships**

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OUTLINE

- Global Picture: The Perfect Storm
- How Can PPPs Help?
- Overcoming Financial Barriers: TIFIA and PABs
- Overcoming Legal and Policy Barriers
- Defining Success
- Quantifying (& Delivering) Benefits



The Perfect Storm: The Highway Funding and Performance Crisis

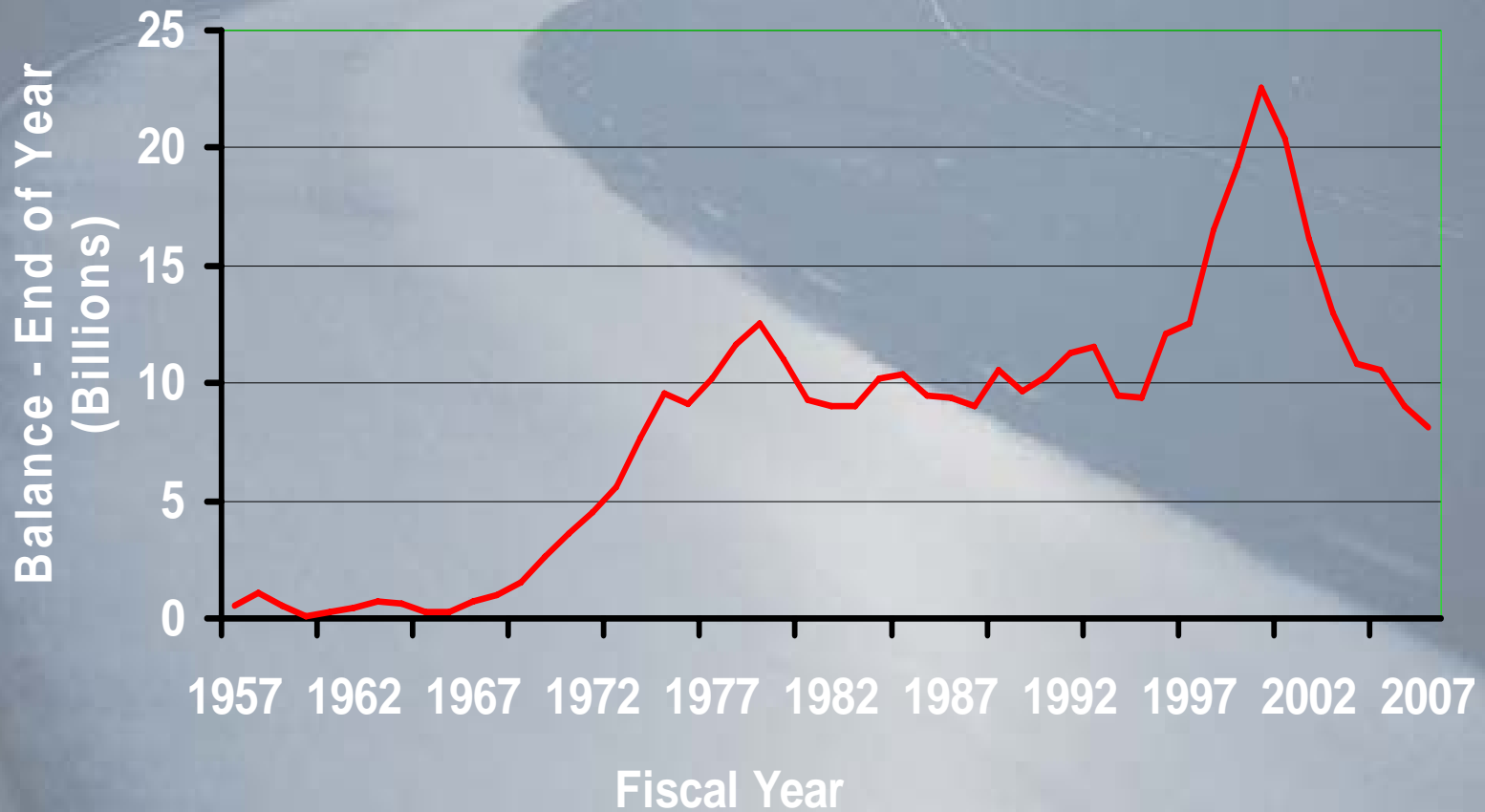
Four Aspects to Problem (on State and Federal Levels):

- Flat Revenue
- Escalating Costs
- Increasing Demand
- **Institutional Issues**



Highway Trust Fund Balance

Highway Account – End of FY – 1957-2007



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Transportation Funding: Some Possible Options for Dollars

- Changes to gas tax (index? Sales tax?)
- Mileage fees (pilot in OR)
- Increased use of tolling
- Cordon fees (a la London)
- Value capture – tax increment financing, special districts, developer donations



Institutional Issues: The Ribbon Vs. the Broom

Project Selection:

- Earmarking/politics skew funding decisions
- Most funding reserved for initial capital (re)construction, not maintenance

System Maintenance

- Incentives are for building new projects, not maintaining
- Design-bid-build discourages life cycle costing
- Public perception makes it hard to operate as a business (e.g., toll increases)



Institutional Issues: Options

Project Selection

- Change how funding flows (more user fees – let money follow users)
- Fast-track projects with higher demand (pricing/PPPs)

System Maintenance

- Shift responsibilities/risks/incentives =
Public-private partnerships



Can PPPs Fix This? Potential Benefits

- Conserving Public Capital
- Transferring Risks
- Economies of Scale/Efficiencies
- Long Term Provision for Operations & Maintenance
- Asset Management Effects



Can PPPs Fix This? Potential Limitations of PPPs

- Failure to anticipate future issues
- Perceived (or actual) loss of public control
- Value uncertainty
- Overpricing of risk by private partner



Barriers to Implementation

- Higher Cost of Private Financing
- Policy/Legal Complications



Narrowing the Gap between Public and Private Finance

- Public debt capacity increasingly limited: so cost of financing may be less relevant
- Transportation Infrastructure Finance and Innovation Act (TIFIA) can lower cost
- Private Activity Bonds (PABs) allow borrowing at nearly public rates



Transportation Infrastructure Finance & Innovation Act (TIFIA) Credit Program

- Federal credit @ Treasury rates for public and private transportation project sponsors
- Subordinated, junior lien with flexible features and low transaction cost:
 - No prepayment penalty, 35 year term
 - Repayments may be delayed up to 5 years after construction
 - Interest rate set at loan agreement

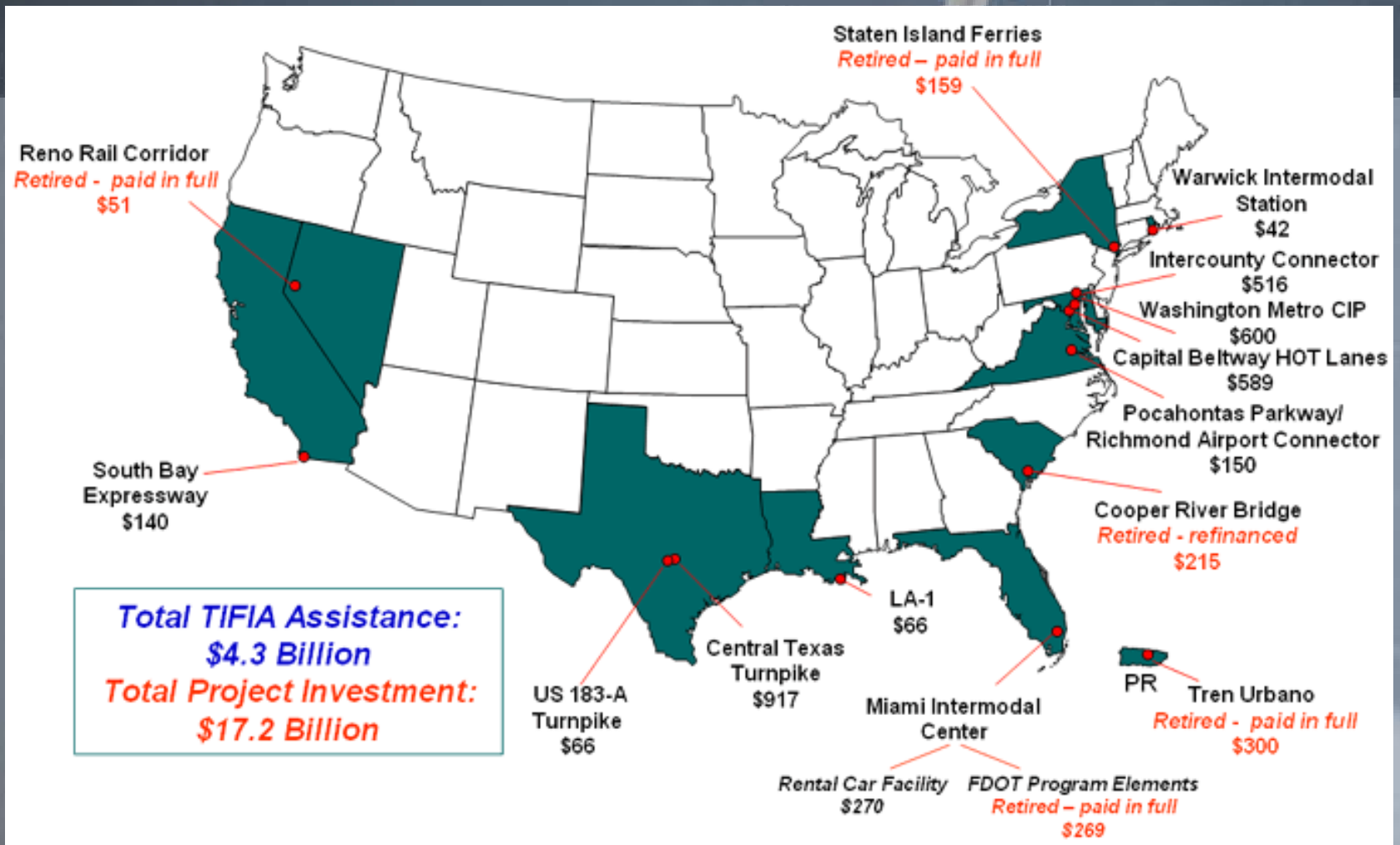


TIFIA: Status

- \$4.3 billion in face amount of assistance provided (mostly loans)
- Total project investment: \$17.2 billion
- TIFIA can now participate in refinancing/distressed projects (with eligible new construction)
- Approximately \$2.5 B available annually



TIFIA Projects



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Private Activity Bonds (PABs)

- Last transportation bill established a new category of PABs for surface transportation projects
- Allocations made by USDOT, not by states (i.e., above and beyond state volume caps)
- \$15 billion total available



PABs - Status

- \$3.3 billion in allocations distributed to various projects
- \$2.2 billion pending (for intermodal facilities)
- \$7.2 billion anticipated by end of FY; entire allocation may be consumed before end of FY 2009



Private Activity Bond Allocations: \$3.3 Billion Total

FL - Port of Miami Tunnel (availability payment concession)	\$900
MO - Safe & Sound Bridge Improvement Program (availability payment)	\$700
AK - Knik Arms Crossing (toll bridge)	\$600
VA - I-495 Capital Beltway (HOT lane concession)	\$800
TX - IH-635 (LBJ-Freeway – HOT lane concession)	\$288



Overcoming Legal and Policy Barriers: Federal

- New tolling pilots
- Special Experimental Project #15 (waiver program)
- New policies and eligibilities

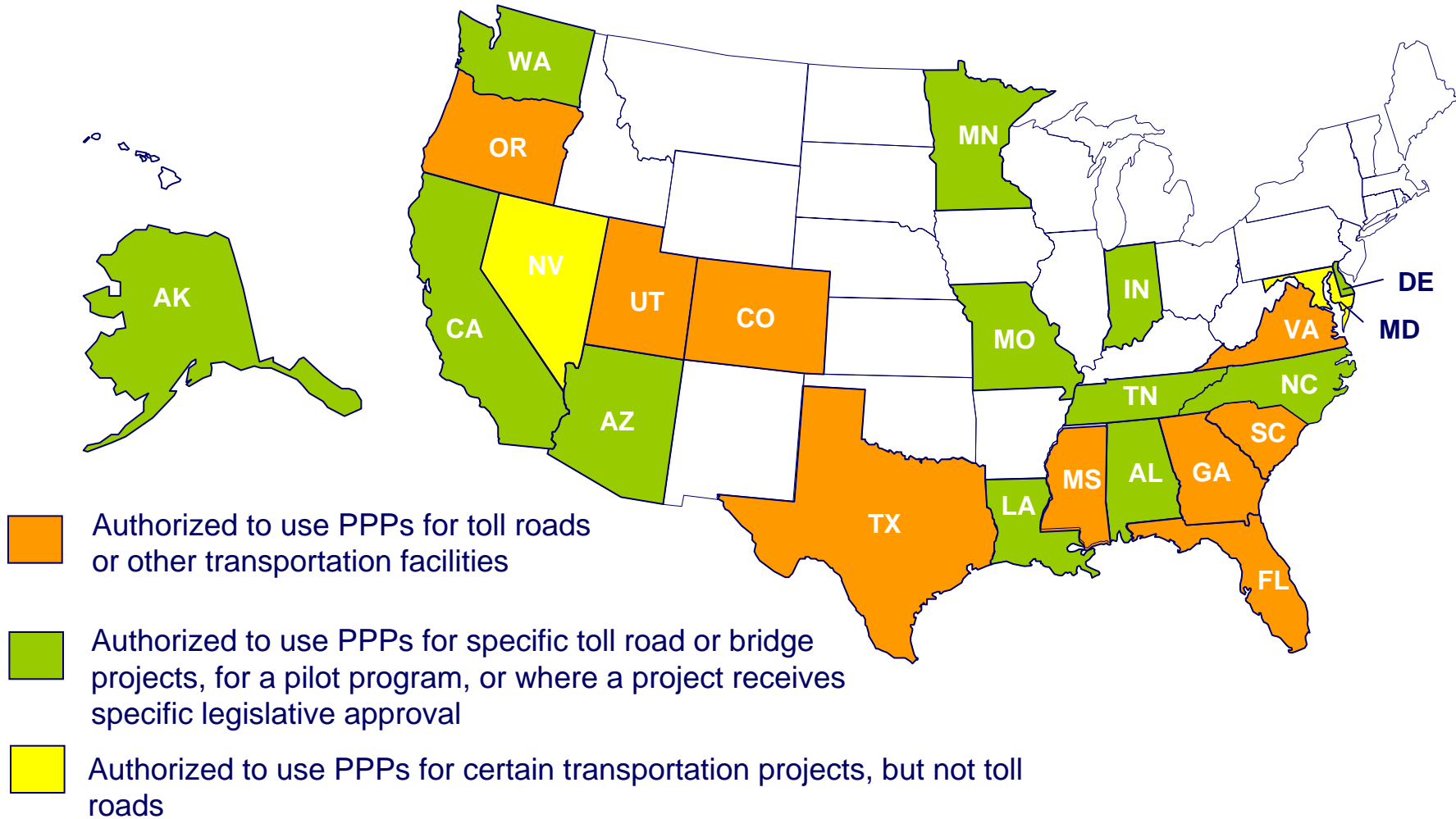


Overcoming Legal and Policy Barriers: State

- State Infrastructure Banks: first fiscal independence for many state DOTs
- Increasing role of local and regional authorities in metropolitan areas (with more flexible powers)
- Specific authorizing legislation



States With Legislation Authorizing PPPs



How Do You Define Success?

- Dulles Greenway (first incarnation)
- Highway 407
- State Route 91
- Camino Colombia



Risk Transfer Can = Real Savings

Public Cost Estimate: Port of Miami Tunnel: \$1.2 billion/\$68 million annual availability payment

Private Cost Estimate (and risk): \$865 million, including contingency reserve



Especially When Public Comparator is Often Idealized....(i)

U.K. Traditional Procurement

- 70% of publicly-procured projects with at least a six-month delay
- 73% with cost overruns

U.K. PFI:

- 89% of private finance initiative projects came in on time or early
- **NO** cost overrun for public sector



Especially When Public Comparator is Often Idealized....(ii)

Australian Traditional Procurement

- 23.5 percent of publicly-procured projects delayed
- 14.5% average cost overrun

Australian PPP

- 3.4 percent early, on average
- 1.2% average cost overrun



Especially When Public Project Cost Estimates Often Change

- 2002 study shows publicly-procured North American road projects, on average, come in 8.4% over budget (20% worldwide)



Noncompete: Lessons We Thought We Learned (i)

- Dulles Greenway -- Privately-funded extension of toll road in northern Virginia
- Free, parallel route 7 was improved at the same time
- With recession & competition, road didn't make targets



Noncompete: Lessons We Thought We Learned (ii)

State Route 91 Express Lanes--
Privately-funded toll lanes

- In light of Greenway, noncompete agreement didn't allow new public projects within 30 miles
- Partly due to noncompete, road was re-purchased by public sector



Noncompete: Lessons We Think We've Learned

State Route 125/South Bay Expressway

Public and private sector agreed to
projects already in long-range
transportation plans

If new project comes up, compensation
possible

No surprises for private sector: no real
strings for public sector



Can the Public Sector Do Better?

- **Chicago Skyway:** no toll increases for multiple years, no electronic tolling, minimal return on assets
- **Indiana Toll Road:** no toll increases for multiple years, lost money
- Maybe public sector could do better – but unless there's an alternative, it's hard to know!



How Do You Know When You've Made a Good PPP Deal (II)?

- Let's ask the corollary question:

- Are we getting good value out of conventional procurement now?

"Do something, even if it is wrong, because you can fix that, but you can't fix nothing."

--John Stevens, first Chief Engineer of the Panama Canal



Resources on Innovative Finance/PPPs

- Innovative Finance Homepage
www.fhwa.dot.gov/innovativefinance

- **PPP homepage**
www.fhwa.dot.gov/ppp

- FHWA Resource Center Finance Team

www.fhwa.dot.gov/resourcecenter

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