Public Private Partnerships (P3s) in Transportation: Trends from the States

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Four Main Parts:

I. Impetus for Public Private Partnerships (P3s)

II. Pros and Cons of P3s

III. Best Practices/Core Principles from States (Virginia, Texas and New Jersey)

IV. Specific P3 Strategies Explored by States
I. Impetus for P3s: Broad Trends

- Raising taxes remains politically radioactive
- 22 states currently have legislation permitting P3s
- Federal government encouraging P3s
- Tremors in the national and state economies
- Selling or leasing state assets has become an attractive option to raise funds
States with PPP Enabling Statutes, 2006
I: Impetus for P3s: Leasing Public Assets

- Highways (NJ, IN, PA, VA, TX, Chicago)
- Lotteries (CA, IL, IN, IA, MD, NJ, TX)
- Student Loan Portfolios (MO, IL)
- Liquor Stores (PA)
- Parking Meters (Chicago)
- Naming Rights for Transit Stations (CT)
- Commuter Railroads (South Bend, IN/Chicago, IL)
- Airports (NY, IL)
- Advertising Space on Bus Shelters, Newsstands, Garbage Cans (NYC)
- Naming Rights to Stadiums (San Francisco, Boston)
I. Impetus for P3s: State Finances

[Graph: Real Adjusted Tax Revenue, 1991-2007, Year-Over-Year Percent Change]

Source: Individual state data, analysis by Rockefeller Institute. Legislation and changes by NCSL and inflation by BBE.
I. Impetus for P3s: National and State Economies

- National economy buffeted by:
  - Exploding energy market
  - Shrinking housing/construction markets
  - Tightening credit market
  - GDP forecast for 2008 has been lowered

- Several states already signaling budget shortfalls in 2008 and 2009, including FL, CA, MO, MD, VA, IL, AZ, NJ, NY and NV

- Sales tax inflows shrinking in a number of states, a sign of a contracting economy
I. Impetus for P3s: Specific Reasons

1) Federal Highway Trust Fund runs dry in 2009
2) U.S. transportation network needs major overhaul
3) States postponed routine maintenance during last downturn
4) Federal government not in a position to help
5) States face number of surging expenditure categories
6) Traffic congestion risen to unmanageable levels
7) Private, mostly foreign, equity firms looking to invest in U.S. infrastructure
8) Raising taxes remains politically radioactive
I. Impetus for P3s: Shrinking Highway Trust Fund (HTF)

- In 2000, HTF had a balance of nearly $23 billion.
- By 2006, balance had shrunk to $6 billion.
- By 2009, it will be $1.7 billion in the red and plunge to - $8.1 billion by 2010.
I. Impetus for P3s: U.S. Highways Badly in Need of Repair Amidst Rising Congestion

- According to latest research,
  - 33% of nation’s major roads in “poor or mediocre” condition
  - 36% of major urban highways congested
  - 26% of bridges are “structurally deficient or functionally obsolete”
  - In 1955, the nation’s highway system carried 65 million cars and trucks
  - Today, that number has nearly quadrupled to 246 million
I. Impetus for P3s: Federal Deficits and Mounting State Expenditure Categories

- Projected Federal Deficits, 2007 to 2011 in Billions (Congressional Budget Office)

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I. Impetus for P3s: Foreign Equity Intent on Investing in U.S. Infrastructure

- Investors across the globe have accumulated vast amounts of excess capital brought on by strong economic growth, business profits and the surge in oil prices
- Low interest rates make traditional instruments like U.S. Treasury bonds less attractive
- Consequently, many companies and countries decided that investing in the infrastructure of the largest economy in the world is prudent
- Australia’s Macquarie Bank is a global leader here
II. Pros of P3s

- Tolls not taxes;
- Private equity versus public debt;
- Expedited completion times;
- Project cost savings;
- Enhanced quality and system performance;
- Substituting private resources and personnel for limited public resources;
- Access to new sources of private capital.
II. Cons of P3s

- Lack of in-house public sector expertise to negotiate complex P3 agreements;
- States lose control/access of key public infrastructure assets;
- P3 toll facilities may be insufficiently regulated sufficiently to protect the public from unreasonably high toll rates or excessive profits;
- Non-compete clauses;
- Length of the terms of agreements;
- Role of the federal government in approval process;
- Solicited (or unsolicited) P3 projects might result in adverse fiscal outcomes for states.
III. Best Practices: Virginia

- Ensure Complete Transparency
- Focus on Business Considerations
- Employ Skilled Public Sector Staff
- Engage the Public at Every Stage
- Respect for Customers/Consumers
First new construction project under Public Private Transportation Act of 1995

Original Financing:
- $353 million Toll Revenue Bonds
- $18 million SIB Loan
- $9 million Federal funding

Transurban and DEPFA (Australian consortium) proposed acquiring the right to collect tolls, operate and manage Parkway for profit

Transurban & VA DOT negotiated a 99-year agreement for project for $611 million
III. Best Practices: Texas

- During 2007, legislation passed that “placed a temporary moratorium on involving private equity in the building of toll roads in Texas.”

- “Troublesome” features in TX plan:
  - Non-compete clause;
  - Buyout clause;
  - Contract length;
  - Profits;
  - Number of proposals
Proposed Trans-Texas Corridor
III. Core Principles: NJ (Gov. Corzine)

- “New Jersey’s roadways will not be sold; and they will not be leased to a for-profit or foreign operator;
- Allowable uses of proceeds (reducing State debt and capital investments) will be identified upfront and subject to public and/or legislative approval with safeguards against diversions for other uses;
- New Jersey citizens will retain ownership and the benefits from both initial proceeds and ongoing operations;
- Safety, maintenance and operating standards will be provided at current or improved levels.”
III. Core Principles: NJ (Cont.)

- “Sufficient funding to meet the long-term capital needs required to improve our roadways and reduce congestion will be provided;

- Terms and conditions of employment for current employees and contractors will remain unchanged with prevailing wage and competitive contracting procedures retained;

- Toll schedules will be open, predictable and available to the public;

- There will be a substantial, open and public discussion in advance of any transaction. I will hold 21 town hall meetings in 21 counties.”
IV. Many Forms of P3s

- **Design-Bid-Build**
  - Hiawatha Light Rail Transit (Minneapolis, MN)

- **Operations and Maintenance Contract Fee Services**
  - District of Columbia Streets (Washington, D.C.)
  - Anton Anderson Memorial Tunnel (Prince William Sound, AK)

- **Private Contract Fee Services**
  - Transportation Infrastructure Model for Economic Development/TIMED (statewide LA)
  - 27 in 7 (statewide SC)
IV. Many Forms of P3s (Cont.)

- **Design-Build**
  - E-470 Tollway (Denver, CO)
  - Hiawatha Light Rail Transit (Minneapolis, MN)
  - I-15 Corridor Reconstruction Project (Salt Lake City, UT)
  - Texas State Highway 130 (central TX)
  - Anton Anderson Memorial Tunnel (Prince William Sound, AK)

- **Build Operate Transfer/Design Build Operate Maintain**
  - Hudson-Bergen Light Rail (Hudson and Bergen Counties, NJ)
  - Las Vegas Monorail (Las Vegas, NV)
  - Route 3 North (Boston, MA)
IV. Many Forms of P3s (Cont.)

- **Long Term Lease Agreements**
  - Chicago Skyway (Chicago, IL)
  - Indiana Toll Road (northern IN)
  - Pocahontas Parkway (Richmond, VA)

- **DBFO Real Toll Franchise**
  - Dulles Greenway (northern VA)
  - South Bay Expressway/SR 125 (San Diego, CA)

- **DBFO 63-20 Public Benefit Corporation Models**
  - Las Vegas Monorail (Las Vegas, NV)
  - Route 3 North (Boston, MA)
  - Pocahontas Parkway (Richmond, VA)
Long Term Agreements: Chicago Skyway

- 7.8 mile elevated Toll Road connecting I-94 in Chicago to I-90 (Indiana Toll Road) in IN
- 99-year lease
- Cost $1.83 billion
- Private Partners - Cintra/Macquarie
- Tolls: $2.50 until 2008, $3.50 until 2013
- First long-term lease of a toll road
Long Term Agreements: IN Toll Road

- Stretches 157 miles across northernmost part of IN to connect with the Chicago Skyway and downtown Chicago
- 75-year lease
- Cost $3.85 billion
- Private Partners – Cintra/Macquarie
- Concession agreement establishes toll rates and possible increases and limits ROI for concessionaire
IV. Many Forms of P3s (Cont.)

- **BOO**
  - Foley Beach Express (Baldwin County, AL)

- **Other Innovative PPP Options**
  - New Mexico/SR-44 (northwest, NM)
  - King Coal Highway (statewide, WV)
  - Heartland Corridor (VA, WV, KY and OH)
  - CREATE (Chicago, IL)
  - SmartWay (I-5 Corridor, OR)
Otay River Bridge on the South Bay Expressway, San Diego County, California
IV. Many Forms of P3s (Cont.)

- Road pricing refers to charges levied on motorists for the use of roads;

- Road pricing seeks to generate revenue (fuel taxes, tolls, license fees) and control congestion (using HOT lanes, fee to enter a controlled area of a city);

- Congestion pricing charges motorists a fee for entering a controlled area within a city and/or at specified times;

- Singapore, Norway, Sweden, Malta and cities of London and Rome have congestion pricing; proposed in NYC by Mayor Bloomberg.
Thank You

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