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# 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



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# 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



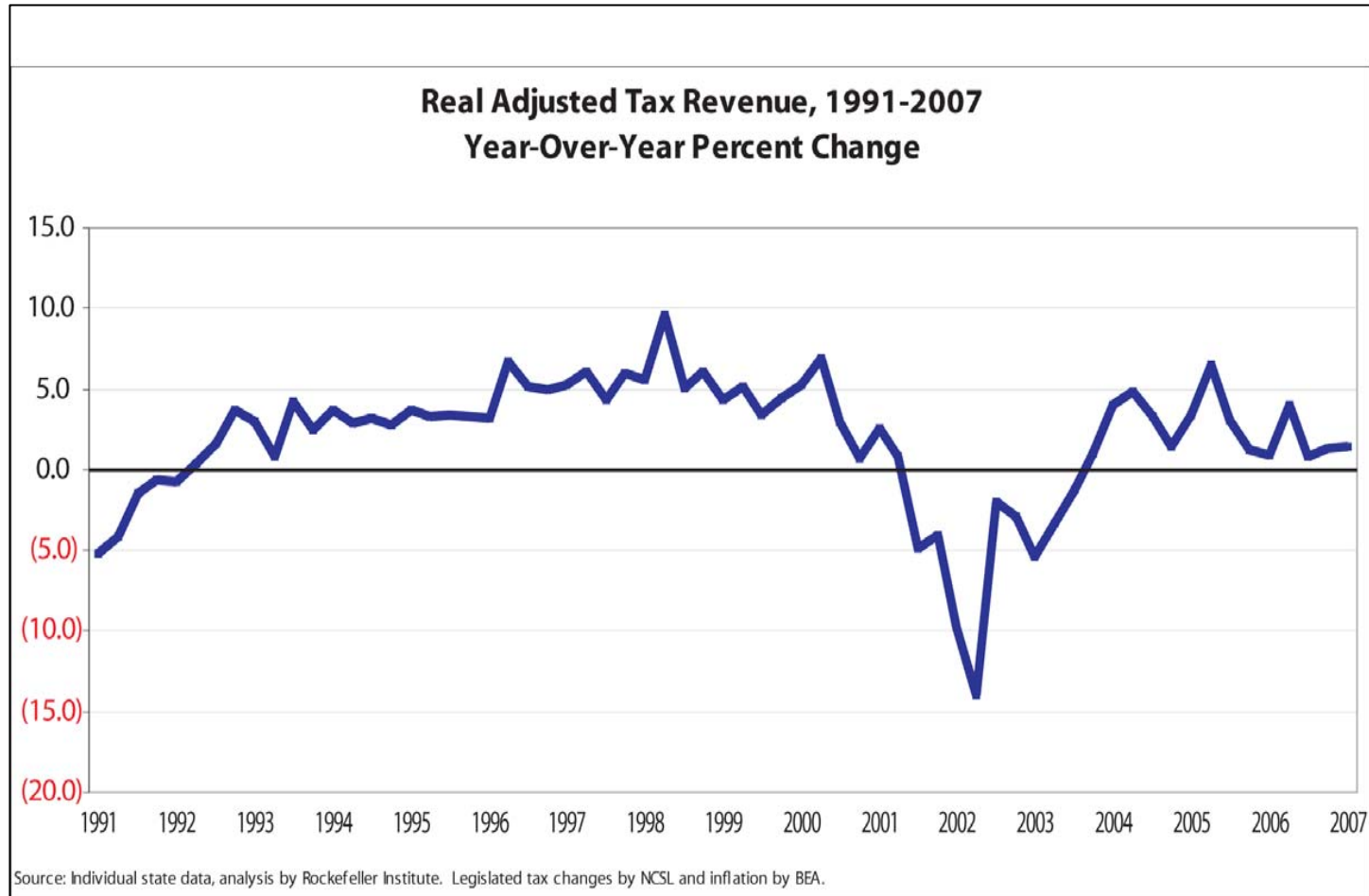


# I: Impetus for P3s: Leasing Public Assets

- 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



# 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

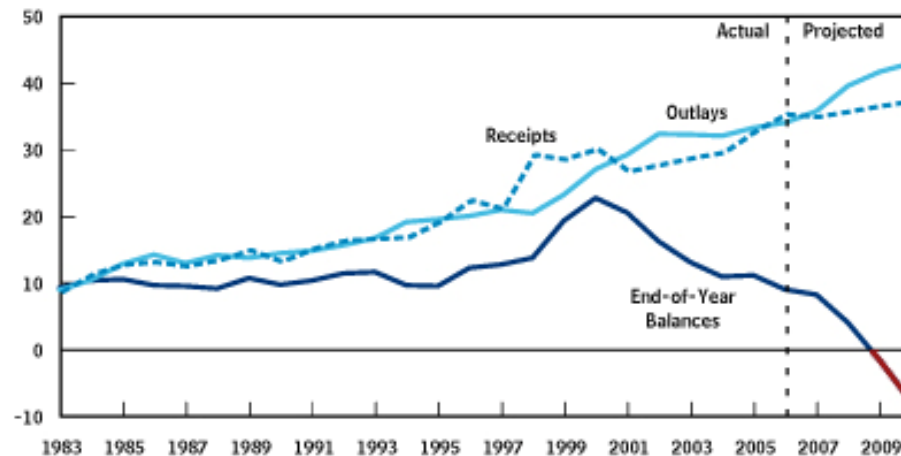
- 1) Federal Highway Trust Fund runs dry in 2009
- 2) U.S. transportation network needs major overhaul
- 3) States postponed routine maintenance during last downturn
- 4) Federal government not in a position to help
- 5) States face number of surging expenditure categories
- 6) Traffic congestion risen 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)

**The Highway Account, 1983 to 2010**

(Billions of dollars)



Source: Congressional Budget Office.

Note: Receipts are adjusted to remove the effects of a legislated shift in payment dates that reduced receipts by \$5 billion in 1998 and increased them by the same amount in 1999.

- 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



# Minneapolis I-35W Bridge Collapse, 2007



# I. Impetus for P3s: Federal Deficits and Mounting State Expenditure Categories

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

2007	2008	2009	2010	2011
(\$158)	(\$155)	(\$215)	(\$255)	(\$134)

- States Face Surging Expenditures in Healthcare, Education, Pensions, Prisons, Emergency Management and Transportation/Infrastructure

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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



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## 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.



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## 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.

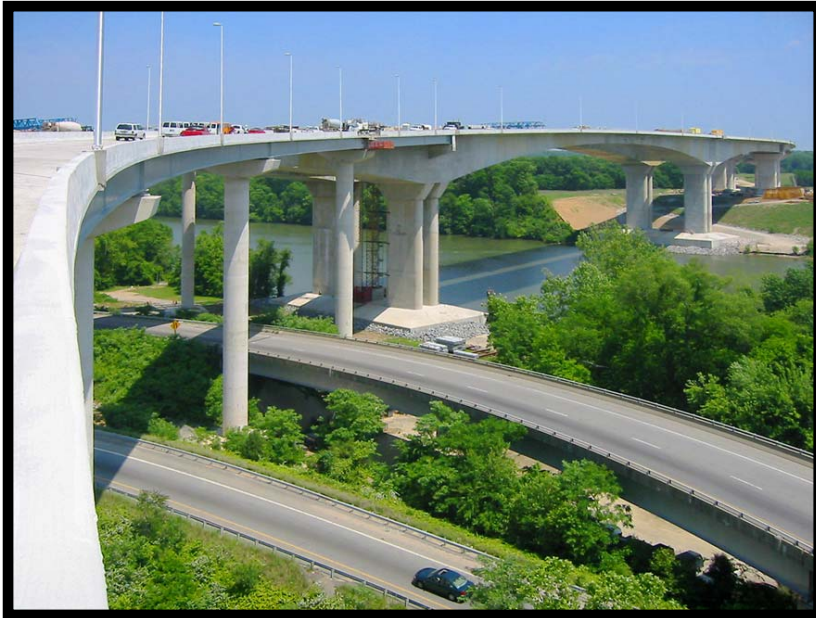


# III. Best Practices: Virginia

- Ensure Complete Transparency
- Focus on Business Considerations
- Employ Skilled Public Sector Staff
- Engage the Public at Every Stage
- Respect for Customers/Consumers



# Pocahontas Parkway, Virginia



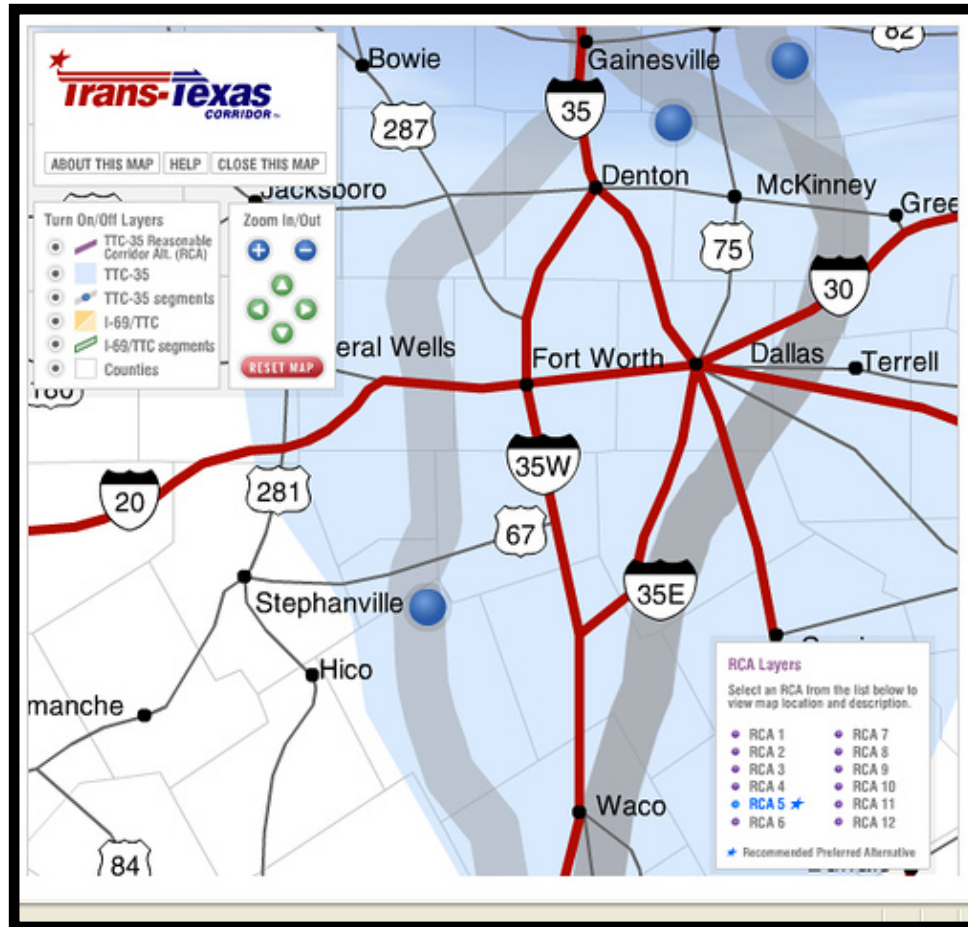
- First new construction project under *Public Private Transportation Act of 1995*
- Original Financing:
  - \$353 million Toll Revenue Bonds
  - \$18 million SIB Loan
  - \$9 million Federal funding
- Transurban and DEPFA (Australian consortium) proposed acquiring the right to collect tolls, operate 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



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## 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.”



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## 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)



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## 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



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## 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



Southern Legislative Conference



The Council of State Governments  
Sharing capitol ideas

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