

# Public-Private Partnerships for Transit

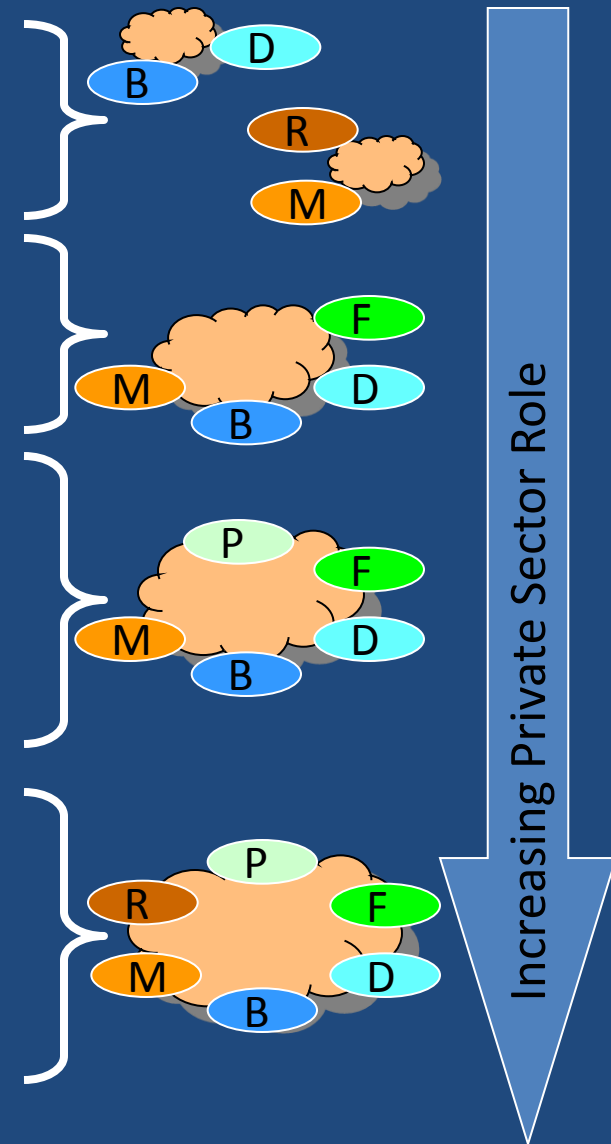


# What is a P3?

- An agreement between public and private sector partners which allows more private sector participation than is traditional:
  - Private sector may design, construct, finance, operate, maintain, renovate and / or manage a facility or system
  - Public sector usually “owns” the asset and leases it to the private section
  - Sharing of roles, responsibilities, risks and rewards
  - Possibility of Private Sector equity

# Types of P3s

- Design-Build (DB)
- Asset Management Contract
- Design-Build-Operate-Maintain (DBOM)
- Design-Build-Finance-Operate (DBFO)
- Build-Operate-Transfer (BOT)
- Build-Transfer-Operate (BTO)
- Joint Development Agreement (JDA)
- Concession
- Asset Lease/Sale



# Past 20 plus Years “P3s” in U.S.

- Outsourcing Partnerships in Government
  - Construction
  - Engineering (varies greatly by govt. entity)
  - Operations and Maintenance (varies)
  - **Major transit projects – DB or DBOM**
- Periodic private sector “equity”
  - Land donations very common
  - Partial or Full Cash investment – expressway interchanges or transit stations

# Characteristics of a P3

- Project Champion
- Longer-Term Agreements
- Private sector funding (equity and debt)
- Private sector operates multiple major project elements (design-build, plus operate-maintain, etc.)
- Sharing of risk between private sector and public owner

# What are the Benefits of P3?

- Accelerate High Profile Projects
- Economic Stimulus/Jobs
- Private Sector Expertise
- Use “Others” Money
- Promote Innovation in Project Development and Delivery – Profit Motive

# Facts vs. Fiction

- P3s increase funding for government?
- All P3s led by foreign firms?
- P3s “take away” work from U.S. based firms?
- P3s will replace “traditional” project delivery approaches?
- You need a PHD in P3s to understand this new tool?
- Expert advisors are essential for success?

# Environment for Success

- Outside the Box Thinking
- Political Support
- Project Champions
- Understanding/willingness to take risk
- P3 “owner” processes
- Select the right projects



# Uses Other People's Money

- Private equity partners, several types:
  - Developer, higher risk, generally first money in and first money out – lose it all or larger return
  - Equity partner, covers riskier time of project, generally early years
  - Longer-Term Equity Partner – patient investor
- Lenders, much like typical mortgage/bond financing from banks and public bond market

# Private Sector Funding

- “Skin in the Game” – meaning the private sector puts funding into the project - Equity funding that is at risk, not just debt
- Many areas of “at risk” - examples:
  - Cost/schedule guarantees where the private firm must cover all or selected overruns and/or delays;
  - shortfalls in estimated user fees;
  - Asset availability, with payment reductions if the facility is not open to use

# Why is Private Equity Critical?

- Traditional approaches for government debt have been damaged by financial crisis
  - Bond Insurance limited availability
  - Need for stronger credit structures, cutting ability for 100 percent project debt financing
- Private equity strengths
  - At risk funding – focused on success
  - Subordinated to project debt – “coverage factor”
  - Private firms delivering the project invest in effort

# Sharing of Risk

- The sharing of risk is a key benefit of P3s.
- The key is to balance the risk to the partner that can best manage/mitigate the risk.
  - Design/Construction – private
  - Environmental Clearances – public
  - Permits – generally shared, but project specific
  - Right-of-Way – generally public, but can be private
  - Operations/Maintenance – private or public, depending on the goals of the project

# Term of Agreements

- Some early P3s were too short and there was not adequate time for the private entity to recoup their investment
- A term “financial equilibrium” developed that helps define the point where the private sector and public sector financial interest intersect
- Led to longer-term P3s, generally 20 years and longer

# “Types” of P3s in Transportation

- Lease of Existing Asset
  - Asset “Owner” leases the facility such as toll road for extended term for payment from private entity
- Availability Payment
  - Private entity provides DBFOM receives periodic payment from “Owner” for availability of facility
- Revenue Risk
  - Private entity provides DBFOM and assumes risk of revenue stream (usually tolls) for payment
- Developer – CDD/TOD Type Approach

# Major P3 Project Examples

- **Leases of Existing Assets (Toll Facilities)**

Examples:

- Chicago Skyway raised \$1.8 billion  
([www.chicagoskyway.org](http://www.chicagoskyway.org))
- Indiana Turnpike raised \$3.8 billion  
([www.getizoom.com](http://www.getizoom.com))
- Pocahontas Parkway to restructure a challenged financial situation ([www.pocahontas895.com](http://www.pocahontas895.com))
- PR-22 and PR-5 – Puerto Rico raised \$1.4 billion  
([www.p3.gov.pr/?page\\_id=119?page\\_id=925&lang=en](http://www.p3.gov.pr/?page_id=119?page_id=925&lang=en))

# Major P3 Project Examples (cont)

- **Availability Payment Project examples:**
  - Port of Miami Tunnel ([www.portofmiamitunnel.com](http://www.portofmiamitunnel.com))
  - I-595 FL ([www.i-595.com](http://www.i-595.com))
  - Eagle P3 – Denver Commuter Rail ([www.rtd-fastracks.com/main\\_126](http://www.rtd-fastracks.com/main_126))
  - Presidio Parkway CA  
([presidioparkway.org/contractors/publicprivate\\_partnership\\_overview.aspx](http://presidioparkway.org/contractors/publicprivate_partnership_overview.aspx))
  - Windsor-Essex Parkway ON  
([www.infrastructureontario.ca/What-We-Do/Projects/Project-Profiles/The-Windsor-Essex-Parkway](http://www.infrastructureontario.ca/What-We-Do/Projects/Project-Profiles/The-Windsor-Essex-Parkway))



# Major P3 Project Examples (cont)

- **Revenue Risk Project Examples**
  - I-495 VA DC area Hotlines ([www.vamegaprojects.com/about-megaprojects/i495-hot-lanes/](http://www.vamegaprojects.com/about-megaprojects/i495-hot-lanes/))
  - North Tarrant Express TX  
([www.txdot.gov/project\\_information/projects/fort\\_worth/north\\_tarrant\\_express/default.htm](http://www.txdot.gov/project_information/projects/fort_worth/north_tarrant_express/default.htm))
  - LBJ Managed Lanes TX  
([www.newlbj.com/default.asp?p=1](http://www.newlbj.com/default.asp?p=1))
  - South Bay Expressway CA  
([www.southbayexpressway.com/](http://www.southbayexpressway.com/))

# Partnering with Growth

- Development Driven
  - Over 200 “development districts” in Florida
  - Numerous community redevelopment areas
  - Tax Increment financing common
  - Impact Fees and Related Fees
  - Developer contributions and partnerships
- Total amount generated not easy to discern – likely billions for infrastructure improvements

# Transit Oriented Development

- TOD's are a great opportunity for P3s in the transit sector
- Foster environment for private sector investment
- Solid process to accept/vet/select proposals
- **Transit components are critical, but private development must pencil out**
- Harness “value” where appropriate to the benefit of the transit system

# Design-Build-Finance

- Tool to advance medium to large projects when available funds are spread over time such as five to ten years
- Private Team borrows the “gap” needed to advance the project and is paid back over time
- Florida DOT has advanced twelve projects between 3 to 6 years totaling over \$2.4 billion
- All projects at or below the estimated cost and available funding.

# Private Sector Expertise

- Bottom Line Leads to Innovation
- Linking DB Saves Time, Sometimes Cost too
- Long-Term O&M Drives Quality DB
- Excellent Financial Modeling
- Lenders Watch Private Team Closely – same interest as owner
  - Closely examine technical/financial plans
  - Approve DB progress payments
  - Make sure asset is properly maintained

# Is Equity Really Available?

- “It Depends!” – For example:
  - Availability Payment – YES for entities with solid credit ratings
  - Lease of Assets – YES where asset have marketable value like priced parking
  - Revenue Risk – MAYBE – this is tough, but within very limited situations equity may take some revenue risk
  - Developments like TOD – YES, where the project pencils out

# Fad or Long-Term Trend?

- Needs are not going away
- Stresses on funding sources in government
- P3 market well developed internationally
- Further consolidation of U.S. construction industry with increasing foreign ownership
- Major capital raised for P3 market
- Success breeds further P3s

# Questions

Lowell Clary, President – Clary Consulting, LLC

– [Lowell.clary@claryconsulting.com](mailto:Lowell.clary@claryconsulting.com)

– 850-212-7772

– [www.claryconsulting.com](http://www.claryconsulting.com)