Background of Public/Private Partnerships for Transportation Infrastructure in Washington State

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What is driving P3 development in the U.S.?

Mounting public sector challenges

- Aging infrastructure
- Growing population in urban centers
- High service level expectations
- Cost overruns and project delays under traditional procurements
- Construction cost increases
- Budgetary constraints
- Slowing revenue growth
- Resistance to tax increases

Potential value of P3's

- Innovation
- Output/outcome driven solution
- Competition
- Risk sharing
- Single "tool in the toolbox"
- Whole-life costing
- Value for money (cost & time savings)
- Leveraging limited public capital
- Affordability

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Transportation Commission early involvement in P3's

WSTC, circa 1992:

- Statewide policy, programming (project prioritization), and oversight of WSDOT
- Secretary of Transportation hired by, and reported to, the WSTC
- WSTC acted as Board of Directors for Washington State DOT
- Political party and geographic residency requirements for Commissioners
- Not the designated ferry fare or toll-setting agency

Washington State Transportation Policy Plan Steering Committee

- Subcommittee on Public-Private Partnerships ("Privatization")
- Subcommittee Report and Recommendations: Advent of the *Public-Private Initiatives in Transportation* (PPIT or PPI) Act

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Transportation Commission's legislative recommendations

HB 1006: Public-Private Initiatives in Transportation Act

- Up to six projects to be developed as public-private partnerships
- Projects must be funded solely from "private investment"
- Repayment: from "user fees"
- Projects must be proposed by private investors -- <u>not by government</u>
- Projects selected and contracts negotiated by WSDOT Secretary, but approved by the Transportation Commission
- Project pricing, lease term (maximum of 50 years), and the rate of return (including reasonable profit) all subject to negotiation

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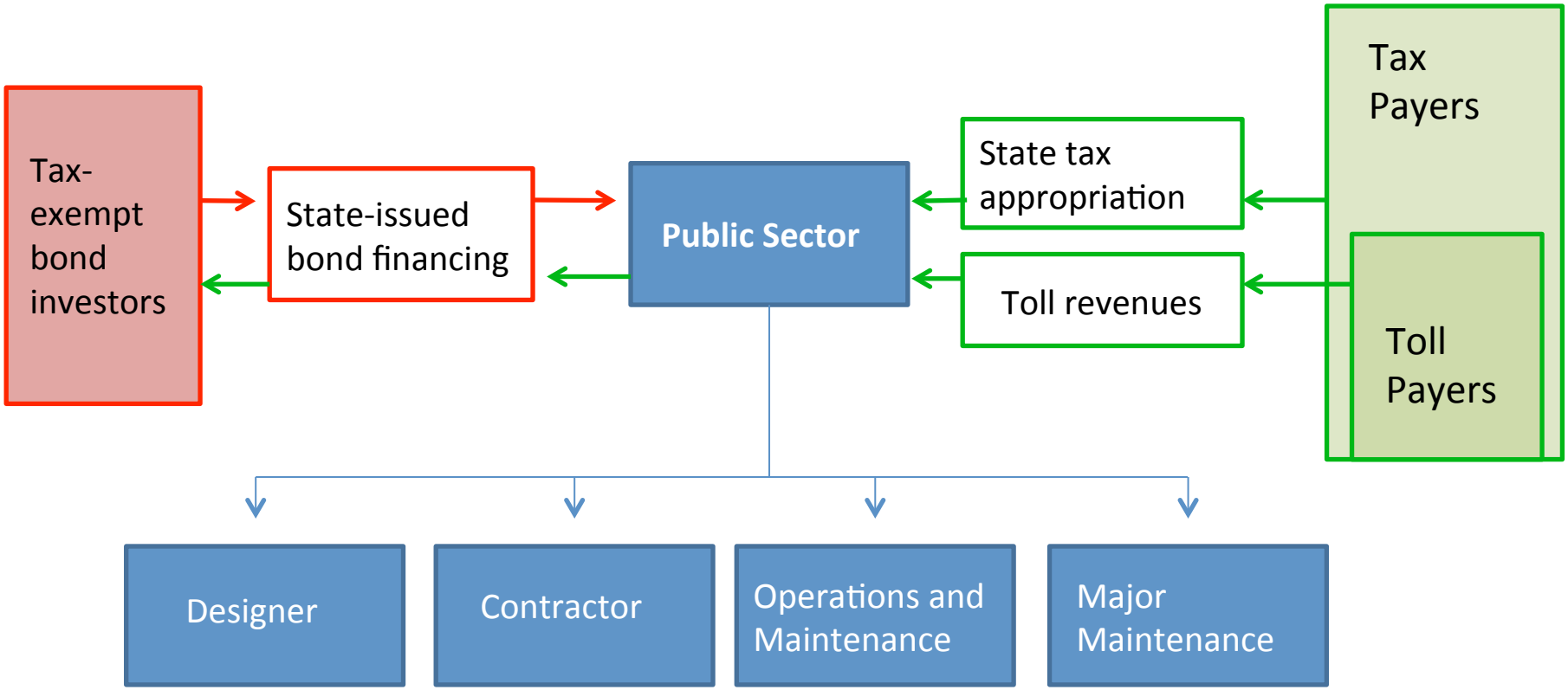
Typical Public Financing for Toll Project (New Facility)



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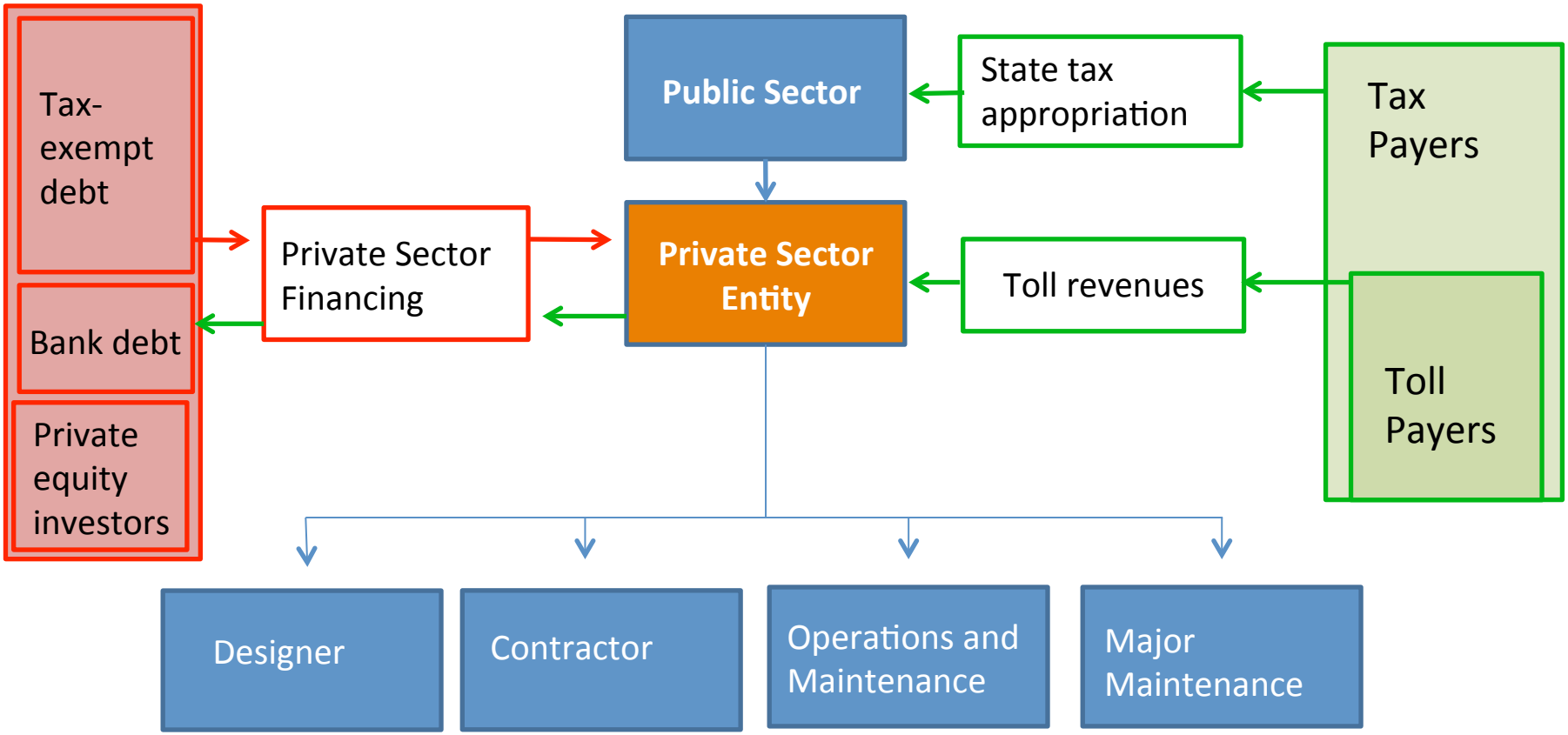
Basic P3 Financing for Toll Project (New Facility)



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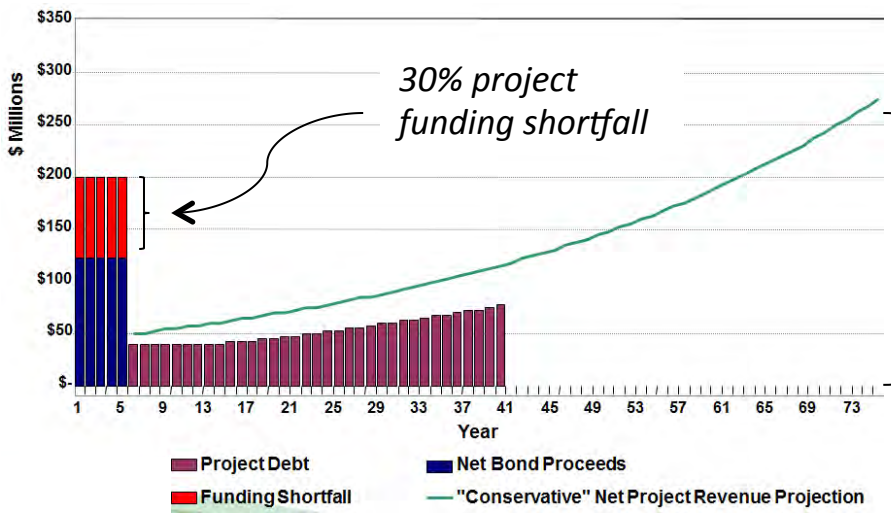
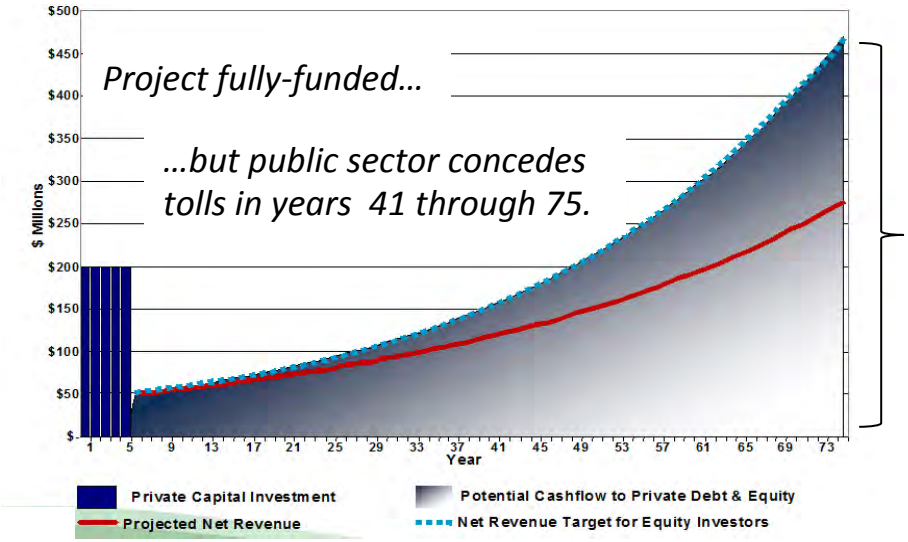
How Private Investment Delivers More Up-Front Funding… For a Price

Public Toll Finance:
More conservative revenue and borrowing assumptions are applied to meet investment-grade expectations of bond investors. Result: less up-front cash (potential funding shortfall).



Toll collection period matches bond repayment: 40 years. No tolls collected in years 41 through 75 – public sector retains this option.

P3 Financing with Private Investment:
Private equity investors are willing to take more risk: more aggressive tolling assumptions over a longer period. This provides more up-front cash, but at a price: private investors set all toll rates and retain all revenue for duration of the contract.



In exchange for the larger up-front cash payment, private investors collect tolls over the full 75-year period. Since repayment is "at-risk" (i.e., not guaranteed), investors seek 15-20% return on their equity investment.

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Washington State's Public-Private Initiatives (PPI) Program:

- 14 submittals representing 12 projects (2 each for SR 520, and Tacoma Narrows Bridge)
- 12 projects evaluated and down-selected to 6 (maximum allowed under PPI law)
    - **SR 18** Corridor between I-5 and I-90
    - **SR 520** including the Evergreen Point Bridge
    - Puget Sound Congestion Pricing project (**I-5 Express Toll Lanes**)
    - **SR 522** from Woodinville to Monroe
    - **King County Park and Ride** lot improvements
    - **SR 16/Tacoma Narrows Bridge**

Reactions:

- Legislators were shocked (!) to discover source of funding: tolls
- 6 sudden toll projects, no public discourse, "radical" concepts such as congestion pricing and ROI (Return on Investment)
- 1994 state legislative elections

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Realigning the Traditional Roles

Tacoma Narrows Bridge PPI Project (1998)

Public Sector		Private Sector
Acquire Right-of-Way (ROW)		
Design	→	**Design**
		Build
Finance	→	**Finance**
Operate	→	**Operate**
Maintain	→	**Maintain**
Own (reversionary)		

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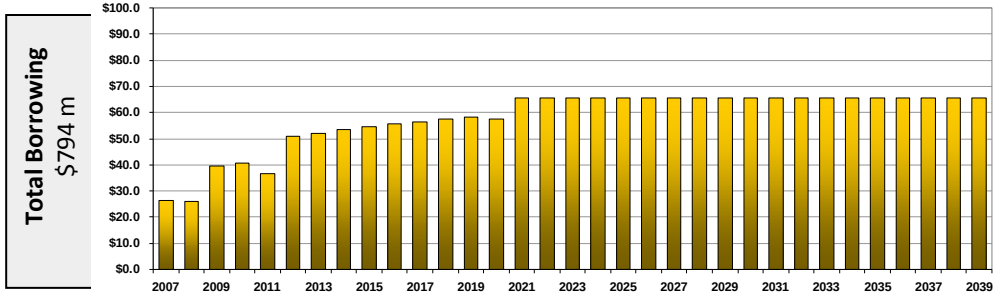
Cost Savings by Reversing Financing of TNB

It is estimated that toll-payers will save at least $336 million over 24 years. But there is a price associated with these savings: more risk to statewide taxpayers.

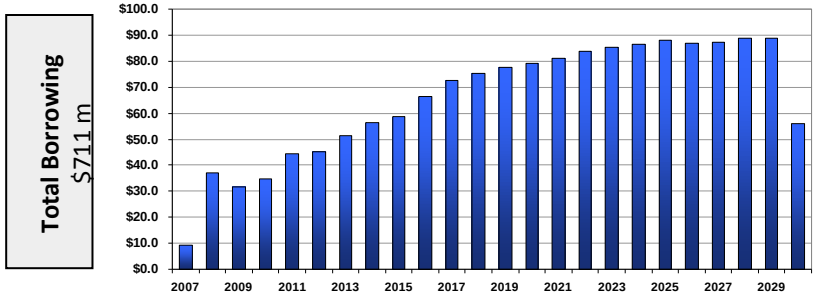
Original TNB "Private Public Partnership": 63-20 financing



Mortgage Statement: Total Principal and Interest Over 34 Years Estimated at $1.908 billion*

*United Infrastructure Washington (UIW) Preliminary Financing Plan dated January 25, 2001.

Traditional State Bond Financing**



Mortgage Statement: Total Principal and Interest Over 24 Years Estimated at $1.572 billion

**Seattle Northwest Securities, assumptions as of May 10, 2005 (interest rates as of 5/10/2005 + 50 BP with CABs issues 7-9).

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Revised Tacoma Narrows Bridge PPI Project (2003)

Public Sector		Private Sector
Acquire Right-of-Way (ROW)		
Design	→	Design
		Build
Finance	←	Finance
Operate	←	Operate
Maintain	←	Maintain
Own (reversionary)		

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Lessons Learned from State's PPI Program

- Low level of legislative understanding about "private equity" investment.
- PPI program was an *extremely* aggressive program. WSDOT and WSTC paid the penalty for being on the "bleeding edge."
- Public and legislative skepticism about contractor selection and resulting price.
- Lack of meaningful public discussion about the need for the projects (unsolicited process) -- and the need for tolls to pay for them.
- Persistent lack of recognition of the financial risks (and opportunities).

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Washington's *2005 PPP Act: Transportation Innovative Partnership Program (TIPP)*

Key Elements:

- Public sector owner will decide highest-priority projects for PPP development (project registry)
- Projects can be large or small, any mode and any state-owned property
- State highway toll projects must be financed with state bonds – *TNB financing approach is institutionalized*
- Legislative approval is (effectively) required for toll projects

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Financing Restrictions in Washington's Current PPP law

RCW 47.29.060 provides:

"Any debt issued to pay for the transportation project must be issued by the state treasurer."

The default financing mechanism is state-issued debt. Any deviation effectively requires legislative approval to allow for alternate forms of financing, including private financing.

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Proposition Bet: What are the chances of being "right" about Traffic & Revenue (T&R) forecasts?

Denver Post June 1, 2006

Truth be tolled | first in a three-part series

Roads to riches

Paved with bad projections

"…A review of 23 new turnpikes nationwide shows that a clear majority are failing to meet revenue projections to justify their costs.

Even with adjustments for the break-in period in the opening years, 86 percent of new toll roads in states failed to meet expectations in their first full year.

By year three, 75 percent – 15 of the 20 that have been open that long – remained poor performers."

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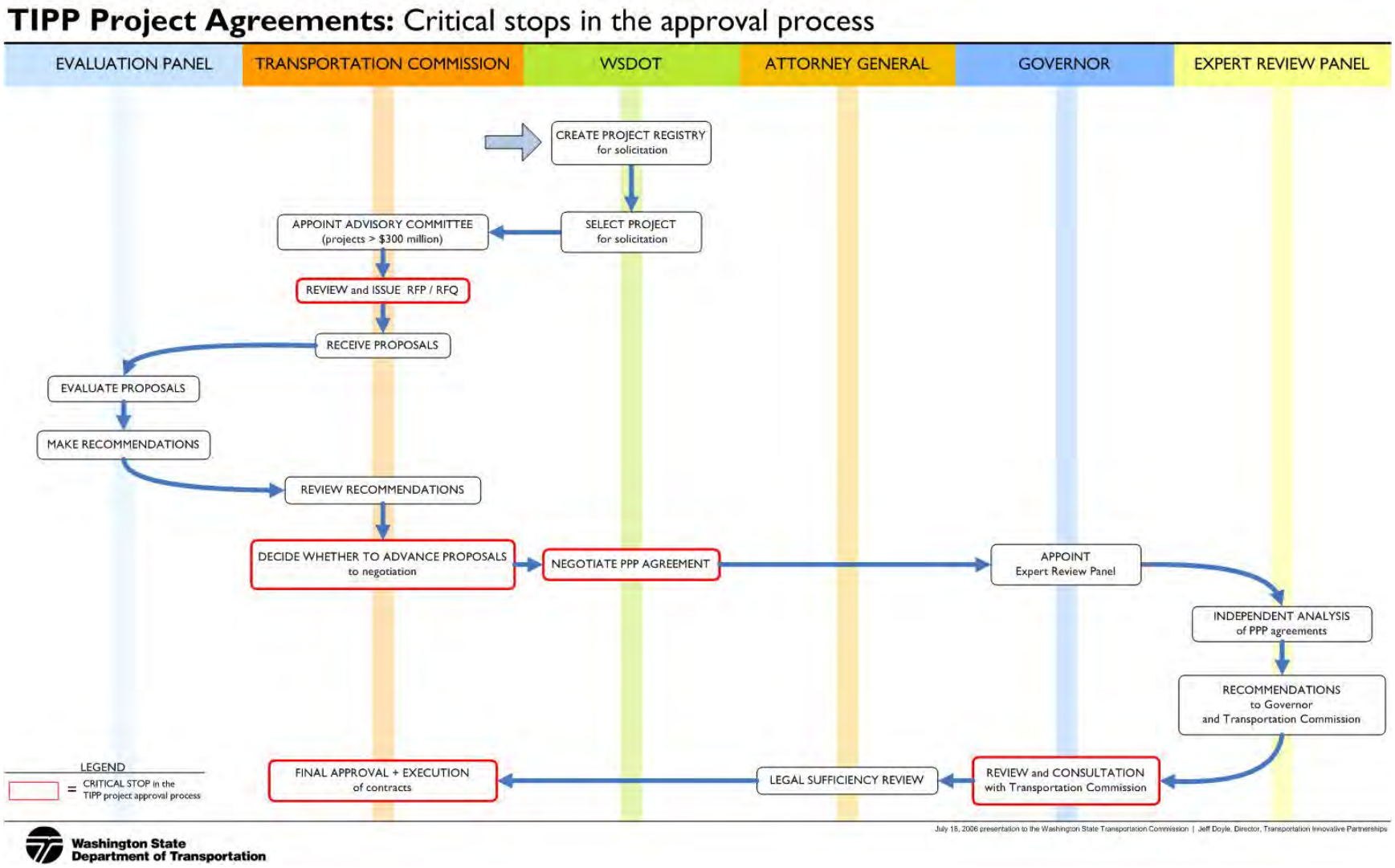
Project Approval Process -- Washington's PPP Law



Challenges With Washington's PPP Law

- The state law and administrative rules create an *overly complex*, slow and costly *approval process* – thwarts smaller, easier PPP project that don't involve tolls.

- The financing restrictions contained in the RCW are very restrictive, assuming *state-backed debt is always the best* method. No mechanism to conduct comparative analysis.

- *No incentive* for WSDOT to develop projects under Commission's TIP program.

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Legislative Evaluation of PPP's for State Transportation Projects (2011-12)

Questions to be addressed:

- Can a new law be crafted to ensure that the Public Interest is always protected?
- Is there an analytical tool that can be used to determine which projects are likely to provide a better value for taxpayers if developed as a P3?
- What is the right balance between legislative oversight and executive power to successfully implement a P3 project?
- Are the following 5 projects good candidates for a P3, once the screening and evaluation methods are applied?

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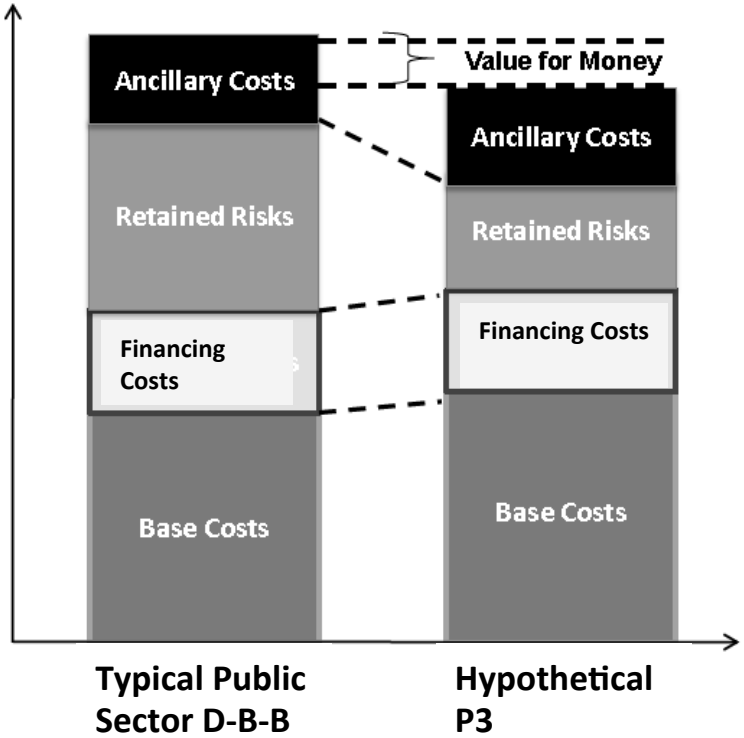
Are P3's a viable strategy for Washington projects?

Value-for-Money Analysis (Full Lifecycle)



Under Washington's laws & programs:

Provide "New Money"? **No.**
Lower financing costs? **No.**
Lower construction costs? **Marginal.**
More upfront construction funding? **Yes.**
Lower toll rates? **Likely higher.**
Lower lifecycle costs (R&R)? **Yes.**
Lower operating costs? **Maybe.**

Washington already utilizes many techniques that capture the value offered by a P3 (e.g., advanced risk management, alternative contracting, and design/build efficiencies). The greatest benefits a P3 can offer in Washington are lower lifecycle costs and more *flexible* (but not cheaper) project financing.

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Common PPP Misperceptions in Washington

1. We should replicate Canadian P3's – see especially, Partnerships BC model.

2. Washington State does not utilize PPP's for major transportation project delivery

3. Institutional investors (especially local pension funds) would be ideal investors for Washington state PPP projects

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Thank you. Questions?

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