# *P3 or Not P3: That Is the Question.*

**Partnerships in Transit Conference**

**National Council on Public-Private Partnerships**

**Philadelphia, Penna.**

**September 18, 2008**

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## *The key question: What role can Public Private Partnerships ("P3") play in reducing the required public subsidy for transit?*

To answer that question, we need to determine:

- What do we mean by "P3"?
- What are the potential benefits/risks?
- What <u>underlying revenue source</u> pays the return to investors?
- Are there circumstances where P3's may ***not*** represent the best approach?

# *A Suggested Template for Categorizing Transit P3's*

| Project Activity | Traditional Governm't'l Delivery | Design-Build with Public Funding | Design-Build with Value Capture | DBOM with Public Financing | DBOM with Project Financing |
|---|---|---|---|---|---|
| Delivery | Public | Private | Private | Private | Private |
| Operation | Public | Public | Public | Private | Private |
| Financing | Public | Public | Public & Private | Public | Private |
| Ownership | Public | Public | Public | Public | Public & Private |
| Examples | *Standard Transit Agency Capital Program* | *BART SFO Airport Connector* | *WMATA New York Ave. Station; Portland Airport MAX Extension* | *Hudson-Bergen Light Rail; Trenton-Camden Light Rail.* | *Las Vegas Monorail; Oakland Airport Connector* |

## *What is the Value Proposition for a P3?*

- Accelerated Construction Completion/Savings?
- Transfer of Risk?
  - Construction Completion
  - Performance
  - Financial Performance
- Operational Efficiency?
- Better / More Innovative Service?
- New Sources of Capital…?

# Potential Value-Added of P3's and Innovative Finance

PD = Project Delivery AM = Asset Management IF = Innovative Finance

**Key: PPP Tool's Estimated Level of Benefit** Small: ○ Medium: ◉ Large: ●

| Technique | Examples | Type of Tool | Accelerates Investment? | Reduces Public O&M Costs? | Shifts Risks to Private Sector? | Increases Resources in Near-Term? | Comment |
|---|---|---|---|---|---|---|---|
| **Design-Build Procurement** | Utah I-15 Reconstruction; Denver T-Rex | PD | ● | | ● | ○ | Procurement approach that can expedite projects and shift risks to private sector, but does not generate funds directly. |
| **Long-Term Warranty** | US 550 (NM); Route 288 (VA) | AM | | ○ | ● | | Transfers risk to private sector; project sponsor pays upfront premium in return for outsourcing capital renewal responsibilities over 15-20 years. |
| **GARVEE Bond** | At least 14 states totaling $5 B | IF | ◉ | | | ◉ | A way to accelerate projects by monetizing federal grant receivables; debt service will consume formula grants in out-years. |
| **TIFIA Loan** | Miami Intermodal Center; Staten Island Ferries | IF | ◉ | | | ◉ | Federal loan / credit assistance can increase debt capacity with flexible financing terms; often used to leverage new user fees / beneficiary charges. |
| **State Infrastructure Bank Assistance** | At least 32 states, including Penna. (62 loans, $39 M) | IF | ◉ | | | ◉ | SIB assistance may increase debt capacity through low interest rates and flexible terms; must be capitalized initially with federal / other grants; often used to leverage new revenue streams. |
| **Asset Sale (Toll Facility)** | Chicago Skyway ($1.8 B); Indiana Toll Road ($3.8 B) | IF, AM | ◉ | ● | ● | ◉ | By generating upfront cash, may enable seller to fund other projects sooner, but government will forego residual asset revenues in out-years; dependent upon asset being *cash-flow positive* (such as toll road, not transit system). |
| **New Toll Facility -- Private Concession Project Financing** | Dulles Greenway (VA); SR 125 (CA) | PD, AM, IF | ● | ● | ● | ● | Represents a way to harness a new toll revenue stream and shift development, financing and operating responsibility to private sector. |
| **New Toll Facility -- Public Sponsor Project Financing** | Denver E-470; Transportation Corridor Agencies (CA) | PD, IF | ● | ◉ | ◉ | ● | Represents a way to harness a new toll revenue stream and shift development and financing responsibility to private sector. May involve governmental subsidy in funding operations. |
| **New Transit Line -- DBOM ✷** | Hudson-Bergen & Camden-Trenton Light Rail (NJ) | PD, AM | ● | ○ | ◉ | ○ | Method for delivering and operating transit projects; still requires public subsidy stream, as fare revenues generally cover less than half of operating expenses and none of capital outlays. |
| **Private Activity Bonds for Highways & Intermodal Freight** | New USDOT program, $15 B national authority | IF, AM | ◉ | ● | ◉ | ◉ | Allows projects with long-term private participation to access up to $15 billion of tax-exempt debt financing; requires a "bankable" user-backed revenue stream. |
| **Outsourced Highway Maintenance** | I-81 & I-95 (VA); I-75 (FL); I-20 (TX) | AM | | ○ | ◉ | | Marginal cost saving on O & M may free up some resources for other needs. |
| **Outsourced Bus Operations** | Numerous smaller routes in US; London Transport | AM | | ○ | ◉ | | Marginal cost saving on O & M may reduce the required public subsidy. |

✷ DBOM stands for Design, Build, Operate & Maintain

# *Conclusion*

- P3’s encompasses a wide range of arrangements--one “size” does not fit all.

- P3’s are a project delivery/service management tool--they do *not* generate resources in and of themselves.

- P3’s *can* help shift risks, accelerate projects, introduce innovations and bring efficiencies.

- P3’s can also access *new* sources of capital--but whether they are advantageous depends on the project.

- The P3 decision should be driven by suitability, not ideology.