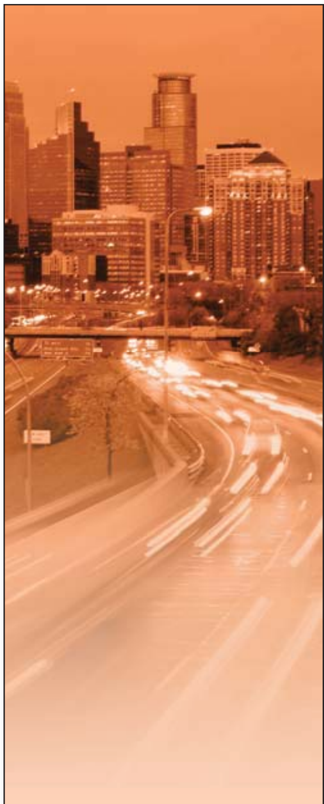
Public–Private Partnerships (P3s)

Innovative Program Delivery



PUBLIC–PRIVATE PARTNERSHIPS

Quick Facts

- P3s include any contractual arrangement in which the private sector takes on more risk than what is traditional.
- P3 goals may vary from raising funds from lease of an existing facility (Brownfield), to constructing a brand-new facility (Greenfield).
- P3s do not necessarily involve toll facilities.

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PUBLIC–PRIVATE partnerships (P3s) are contractual agreements between a public agency and a private entity that allow for greater private participation in the delivery of transportation projects. Typically, this participation involves the private sector taking on additional project risks, such as design, finance, long-term operation, and traffic revenue. At present, there are more than 40 anticipated P3 projects in the U.S. portfolio. Generally, the value of each of these P3s ranges from a few hundred million dollars to a few billion dollars.

P3 Project Goals

P3s are undertaken for a variety of purposes. In some cases, the purpose is to use existing assets to generate funds (brownfield), such as with the Chicago Skyway. In other cases, P3s are used to develop greenfield, or new construction, projects (e.g., the South Bay Expressway in California) or to rehabilitate and provide expansion to existing facilities or a hybrid (e.g., the Capital Beltway high-occupancy toll lanes). It is important to note that P3s are a procurement option, not a revenue source. Although P3s may increase financing capacity and reduce costs, the public sector still has to identify a source of revenue for the project.

P3 Procurement Models

Under traditional procurement, private contractors construct projects based on a public design with public financing and turn them over to the public upon completion for operations and maintenance. Under P3 models, the private sector may also participate in design, finance, operations, maintenance, and toll revenue collection. "Availability payments" are a type of payment model in which the private sector designs, builds, finances, and operates a facility over a specified term in exchange for an annual payment. Under a toll payment model, the private concessionaire receives the right to collect toll revenues from the facility instead of collecting a specified payment.

I-495 Capital Beltway high-occupancy toll lanes

Potential P3 Benefits

P3s can provide access to private capital, reduce costs borne by transportation agencies, accelerate project delivery, shift project risk, spur innovation, and provide for more efficient management. One key benefit of long-term concessions can be improved asset management—the same party that constructs the project is responsible for long-term operation. This creates incentives to build a higher quality facility that is easier to maintain.

Potential P3 Constraints

Barriers to P3s include technical challenges, such as determining the appropriate level of return on investment for the private

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sector, ensuring fair rates for users, lack of professional capacity to evaluate a P3 approach early in the project development process in order to negotiate a viable agreement and to work with the concessionaire over the life of the project, public resistance, and in over half of the States, the absence of enabling P3 legislation. It is important to note that although P3s can offer access to capital, P3s do not provide States with new revenue; in fact, P3s need a revenue stream to work. Finally, P3s may not be the most cost-effective or appropriate procurement model for projects if the public sector can deliver better value without it. Most countries with P3 programs require a "value for money analysis," which shows the added value, if any, of delivering the project through a P3 procurement model.

I-595 Availability Payments: A P3 Example

The Florida Department of Transportation (FDOT) identified a package of improvements, including capacity, ramp, and interchange upgrades and bus rapid transit, to address the I-595 corridor's congestion problem. Yet the State lacked the up-front capital to construct them and would have required 25 years to complete the project under traditional methods. Implementing three innovative tools—priced lanes, P3s, and a low-interest loan under the Transportation Infrastructure Finance and Innovation Act (TIFIA)—FDOT will be able to have this project constructed in one-third of the time. FDOT selected a concessionaire through a competitive process to finance, design, and construct the project over 5 years, and then to operate and maintain it from 2014 until 2044. Under an availability payment model, the concessionaire will not receive any tolls collected from the project, nor be involved in toll policy decisions. Instead, FDOT will compensate the concessionaire with an annual "availability payment" for providing the facility in the specified condition. This will be the first availability project in the United States. ■

I-595 corridor roadway improvements

The Federal Highway Administration's (FHWA's) Role in P3s

FHWA's Office of Innovative Program Delivery works to ensure that decisionmakers are aware of alternative procurement and payment models, that they understand the benefits as well as the risks, that they have the analytical and evaluation tools necessary to determine when P3s are appropriate, and that they have the professional capacity to manage implementation of a P3 project delivery model.

► **Education/Research :** FHWA's Web site provides information gained from P3 experience in the United States and abroad, including sample legislation, decision tools, and case studies.

► **Finance:** Financial assistance is available for eligible projects under the TIFIA program, as well as allocations of Private Activity Bonds.

► **Stewardship/Oversight:** FHWA provides oversight and stewardship, as required, on P3 projects that involve Federal-aid funds or TIFIA assistance.

The FHWA Office of Innovative Program Delivery helps State and local transportation officials consider innovation in revenue sources, financial tools, and procurement.

For more information, see the Web site:
www.fhwa.dot.gov/ipd

PROGRAM AREAS OF THE OFFICE OF INNOVATIVE PROGRAM DELIVERY

IPD provides a one-stop source for expertise, guidance, research, decision tools, and publications on program delivery innovations. Our Web page, workshops, and other resources help build the capacity of transportation professionals to deliver innovation.

PROJECT DELIVERY

IPD's project delivery team covers cost estimate reviews, financial planning, and project management and assists FHWA Divisions with statutory requirements for major projects (e.g., cost estimate reviews, financial plans, and project management plans).

PROJECT FINANCE

IPD's project finance program focuses on alternative financing, including State Infrastructure Banks (SIBs), Grant Anticipation Revenue Vehicles (GARVEEs), and Build America Bonds (BABs).

PUBLIC–PRIVATE PARTNERSHIPS

IPD's P3 program covers alternative procurement and payment models (e.g., toll and availability payments), which can reduce cost, improve project quality, and provide additional financing options.

REVENUE

IPD's revenue program focuses on how governments can use innovation to generate revenue from transportation projects (e.g., value capture, developer mitigation fees, air rights, and road pricing).

TIFIA

The Transportation Infrastructure Finance and Innovation Act (TIFIA) program provides credit assistance for significant projects. Many surface transportation projects—highway, transit, railroad, intermodal freight, and port access—are eligible to apply for assistance.

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