



**TeamTX**

# Public-Private Partnerships (3P) Lessons Learned

Presentation to  
Team TX Engineering Focus Group  
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by  
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# Public-Private Partnerships (3P)

## Lessons Learned - Generally

### What is a 3P?

- Collaborations between governments and private companies to improve public infrastructure in a way which captures the benefits of private sector involvement while maintaining public accountability.
- An effective way of delivering delayed or shelved public infrastructure projects while minimizing taxpayer costs and risks.
- *ENR*: Nearly 45% of public infrastructure and transportation projects will be implemented as either “Design-Build-Finance (DBF)” or 3P by 2010.
- *FHWA* recently reported that current U.S. highways capital investment is \$68 billion; this is \$6 billion less than what’s needed to simply maintain the roadway network. Additionally, \$51 billion is needed to provide network expansion to meet future forecasted travel needs.

**Lesson:** 3P is a long-term leasing arrangement for delivering infrastructure projects. It involves trade-offs for public agencies.

1. Leases are negotiated from 35 to 99 years; is longer better?
2. Current capital needs vs. long-term needs for agencies.
3. A “sure thing” (upfront payments) or riskier future lease payments.



# Public-Private Partnerships (3P)

## Lessons Learned – Transportation Companies

### Where do Transportation Engineering Companies Fit?

- Conventional Toll Road Engineering Services.

1. Vertical and Horizontal Construction.

- Building Construction is More Architecturally Oriented.
- Re: Toll Plazas and Transponder Sales Centers.

**Lesson:** Very much a “niche market” with contracting limitations.

2. Public or Private Sector Roles.

- Public Sector: Owner’s Representative, EOR.
- Private Sector: EOR, Sub-consultant.

**Lesson:** Select your role based on prior experience & staff NOT “margins”.



# Public-Private Partnerships (3P)

## Lessons Learned – Transportation Companies

### 3P Pre-award Activities

- Early prospect identification is necessary and preferred.
  - Public and private sector lease terms & conditions should be established from the outset.

**Lesson: Essential for flexibility in establishing team members.**

- Making a decision to pursue is significant and involved.
  - Should include an evaluation of potential contractors and/or concessionaires.
  - Established prior relationships tend to influence this decision.

**Lesson: When evaluating the pursuit decision, remain as objective as possible.**



# Public-Private Partnerships (3P)

## Lessons Learned – Transportation Companies

### 3P Pre-award Activities (continued)

- When working for a private sector client ...
  - An MOU is necessary for documenting the negotiated “Deal”.
  - The MOU should define the pre-award reimbursement formula negotiated with the client.

**Lesson: “Sweat Equity” is NOT your only option.**

- When serving in an EOR role...
  - Usually responsible for preparing and coordinating the Technical Proposal component of the Request for Proposal (RFP) Submittal Package.
  - The Technical Proposal “score” will typically account for 20-30% of the overall evaluation process.

**Lesson: Contractor and Concessionaire practices will affect the EORs role & contribution level.**



# Public-Private Partnerships (3P)

## Lessons Learned - State & Local Agencies

### What are the advantages of 3P toll roads?

- *Delivery of needed transportation infrastructure.* Consistent with recent FHWA findings (see next slide), 3P toll roads offer public agencies the ability to fund new capacity roads that otherwise would not be built. This provides policymakers an alternative to tax hikes for financing added capacity.

**Lesson: State retains ownership of the assets while shifting financing risks to the private sector.**



# Public-Private Partnerships (3P)

## Lessons Learned - State & Local Agencies

### What are the advantages of 3P Toll Roads? (continued)

- *Ability to raise large new sources of capital for toll projects.* An effective way of delivering delayed or shelved highway infrastructure projects while minimizing taxpayer costs and risks. Four factors appear to drive these differences:
  1. Concession agreements add certainty to future toll rates that are less predictable under public agencies.
  2. The private sector is more aggressive in attracting motorists and in reducing costs.
  3. The private sector can take depreciation as a write-off but toll agencies can't. Toll agencies do not pay income taxes.
  4. Toll roads have become an acceptable asset for investors that do not normally invest in tax-exempt toll-agency bonds.

**Lesson:** Long-term concession models can generate more funding for a given toll project than traditional government financing models.



# Public-Private Partnerships (3P)

## Lessons Learned - State & Local Agencies

### What are the advantages of 3P Toll Roads? (continued)

- *Shifting risk from taxpayers to investors.* The private sector for these deals nearly always take the risks of construction cost overruns and traffic/revenue shortfalls; public agencies handle rights-of-way and environmental permitting.

**Lesson: Shifting construction overruns & traffic/revenue risks to concessionaires is a major advantage.**

- *More businesslike approach.* When compared to agencies, private toll road companies are less susceptible to narrow political interests. They are more inclined to adopt cost-saving and customer-service oriented technologies.

**Lesson: The lack of politics alone is advantageous.**



# Public-Private Partnerships (3P)

## Lessons Learned - State & Local Agencies

### What are the advantages of 3P Toll Roads? (continued)

- *Major Innovations.* One of the most important advantages of toll road companies is their motivation to innovate for solving difficult problems or improving customer service. Several examples of this are:
  1. HOT Lanes on Capital Beltway.
  2. A86 Ring Road in Paris.

**Lesson:** Agencies & contractors should include EOR considerations early-on.



# Public-Private Partnerships (3P)

## Lessons Learned – State & Local Agencies

### Protecting the Public Interest in a 3P

- The public's interest is protected only to the degree that the concession agreement contains enforceable, detailed requirements such as:
  1. Paying for future expansions or up-grades.
  2. Performance standards for both the agency and the private toll road company.
  3. Protections provided by the agency to the toll road company from agency-funded competing routes.
  4. Specified limits on toll rates or rate of returns (if applicable).

**Lesson:** As is the case for any partnership, no amount of specificity or detail is too much.



# Public-Private Partnerships (3P)

## Lessons Learned – All

### Within the United States (US) what are the 3P toll road projects?

- There are nearly \$30 billion of 3P highway projects being planned or already approved in the U.S. The largest 3P is in Texas (TTC-35); a \$7.2 billion concession awarded to Cintra/Zachry.
  1. Concession fees were \$1.2 billion in return for a 50-year agreement.
  2. \$6 billion is planned for construction of a new alignment toll road to provide relief for motorists on congested I-35.
  3. The 316-mile route is between Dallas and San Antonio; future extensions to Mexico and Oklahoma are planned.
- U.S. transportation 3Ps are relatively new having been built over the past 15 years under long-term lease agreements with state governments.
  - Camino-Columbia Toll Road near Laredo, TX.
  - SR-125 Toll Road in San Diego, CA.
  - The Dulles Greenway in Northern Virginia.
  - The 91 Express Lanes in Orange County, CA.

**Lesson:** In all, 22 states have passed legislation enabling the use of 3Ps for highway projects.



# Public-Private Partnerships (3P)

## Lessons Learned – Motoring Public!

### Future 3P Considerations from the Motoring Public

The following points were expressed by individuals attending the 98 public information meetings sponsored by TxDOT and TTA for the TTC-35 corridor.

- Isn't a 50-year lease too long for operating a toll road concession?
- Do these foreign toll road concessionaires ever go bankrupt? If so, how do our public agencies deal with recovering our assets? Are there terms in the negotiated agreement to address this?
- What protects US motorists from exorbitant toll rate increases imposed by foreign companies looking only to make more profits?
- Couldn't TTA and TxDOT raise just as much money as these private concession leases?

**Future Lessons Forthcoming.**



# Public-Private Partnerships (3P)

## Lessons Learned Presentation

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**THANK YOU**

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