



Partnership Financing: *Improving Transportation Through Public Private Partnerships*

Executive Summary

- Long-term funding sources for transportation are uncertain, and innovative alternatives for both financing and funding infrastructure are urgently needed.
 - Public and private sectors are coming together worldwide to deliver high quality transportation assets through partnership financing in timely, cost-efficient ways that benefit all parties.
 - By working together and aligning incentives for each party to optimize outcomes, public-private partnerships (P3s) have successfully accelerated projects, encouraged innovation, and controlled costs.
 - In addition they have provided the ability to build essential infrastructure that otherwise may not be built, and have provided an avenue to maintain that infrastructure within contractually-defined standards
 - The Eno Center for Transportation convened a task force—under the direction of former Secretaries of Transportation—Mary E. Peters and Norman Y. Mineta, composed of leading P3 experts from the private, public, and non-profit sectors. The group studied successful and less successful P3 experiences in the U.S. to understand existing barriers and how to overcome them.
 - Eno uncovered keys to successful public private partnerships and published findings in the report *Partnership Financing: Improving Transportation Infrastructure Through Public Private Partnerships*.
 - When constructed properly, partnership-financed projects allow both sides of the partnership to benefit.
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Key Factors for Improving P3 Policy

To support P3s that protect public interests:

■ State and Localities Should:

- Adopt Strong P3 Enabling Legislation
- Establish a Dedicated P3 Administrative Entity
- Promote Responsive Public Engagement

■ Federal Policy Should:

- Incentivize state and local efforts to increase local revenues for transportation
 - Initiate a multi-modal partnership to administer federal P3 programs
 - Increase access to financing through TIFIA
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P3 Facts & Figures

- **Design-build projects are not partnership P3s.** P3s bring together the public and private sectors to deliver infrastructure. Both sides benefit by the private entity's long-term stake in designing, financing, operating and maintaining the project, and in assuming some project risk. Design-build projects do not offer the same benefits common in partnership-designed, financed, built, operated, and maintained P3s.
- **Private partners may provide an equity stake in the project** that—while requiring a reasonable rate of return on the investment—also builds incentive to design, build, finance, operate, and maintain the asset in a timely and cost-effective way.
- **The public sector maintains ownership of the asset** but the private partner manages construction, operation, and maintenance through the life of the contract, and typically hands back the asset to the sponsoring public agency in good condition at the end of the contract.
- **P3s are a model used globally** to effectively deliver transportation infrastructure.
- **P3s are increasingly considered because:**
 - Many state and local governments are facing limits on borrowing capacity and P3s provide an alternative for project financing.
 - P3s transfer much of the project risk to the private sector where they can be managed more effectively.
 - P3s inject competition into project delivery that can result in increased efficiency.

Funding vs. Financing

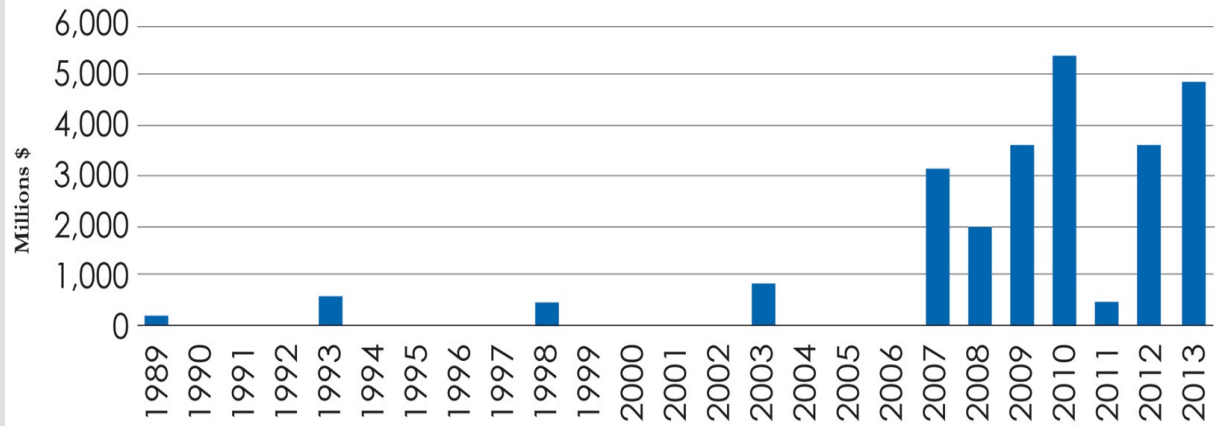
Funding and financing are not the same, and P3 projects require both

- Transportation investments require a funding source to pay for upfront capital improvements and on-going operation and maintenance.
- One of the most widely held misconceptions about public-private partnerships is that the private sector somehow provides funding—or free money—for infrastructure projects. **Private partners DO NOT provide funding.** They can, however, help to assemble financing packages that may include public and private loans or public bonds, but, like any debt, this requires repayment.
- In order to repay project debt there must be a secure, sustainable, and long-term funding source. Typically in P3 projects, this funding comes from toll revenues or dedicated state or local tax revenues.

P3 Activity in the US

- While P3s in transportation have been around for many years, there has been a substantial uptick since 2007.
- 33 states + DC have passed P3 enabling legislation.
- Less than half of states with legislation have used a P3.
- Only 5 states have done more than one P3 to deliver transportation infrastructure (CA, CA, FL, TX, and VA).
- 21 transportation P3s have reached financial closure.
- More than 30 projects are currently under consideration as P3s.
- TIFIA loans are part of the financing package for 13 out of the 16 P3s since 2003.

P3 Investment in U.S. Transportation by Year

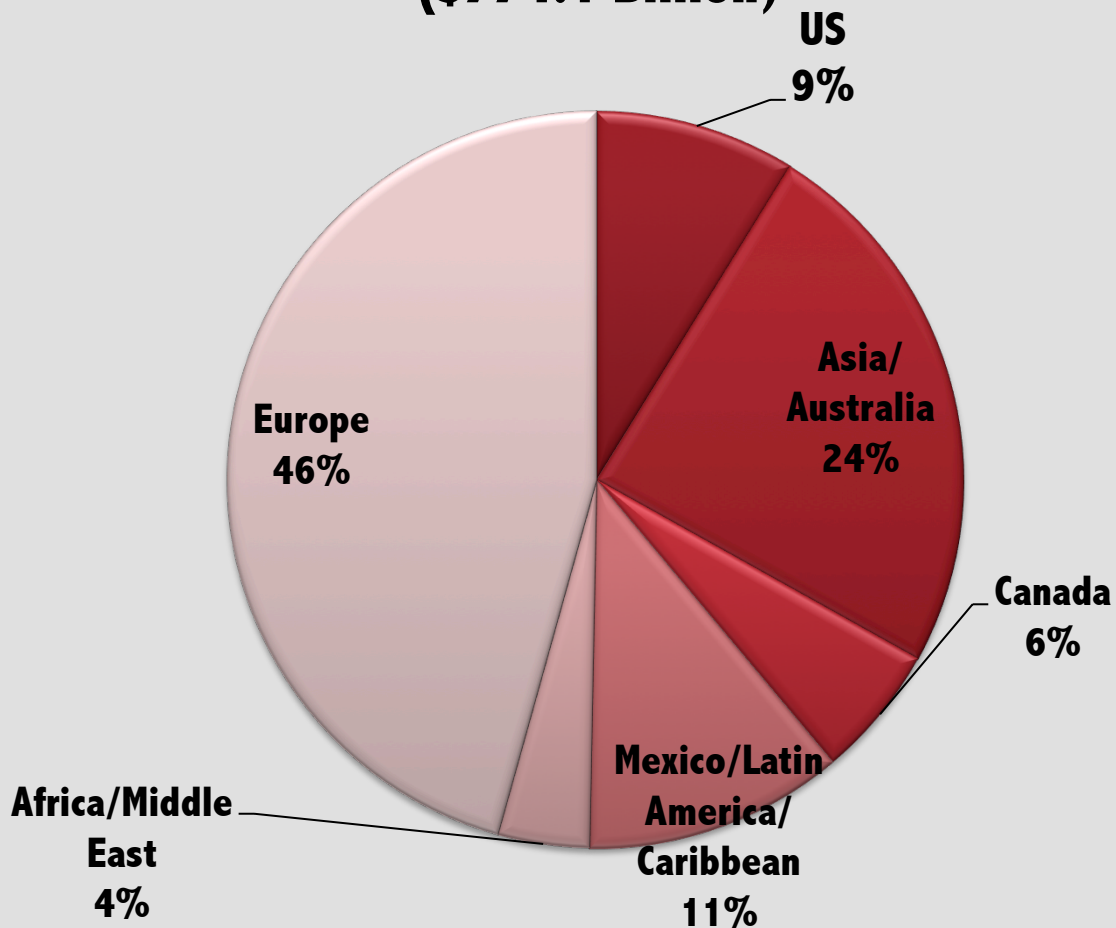


Source: Public Works Finance Database

Note: P3 investment is defined in this case to include P3-financed projects (including DBF, DBFM, and DBFOM) that reached financial closure in the year indicated

Global P3 Investment

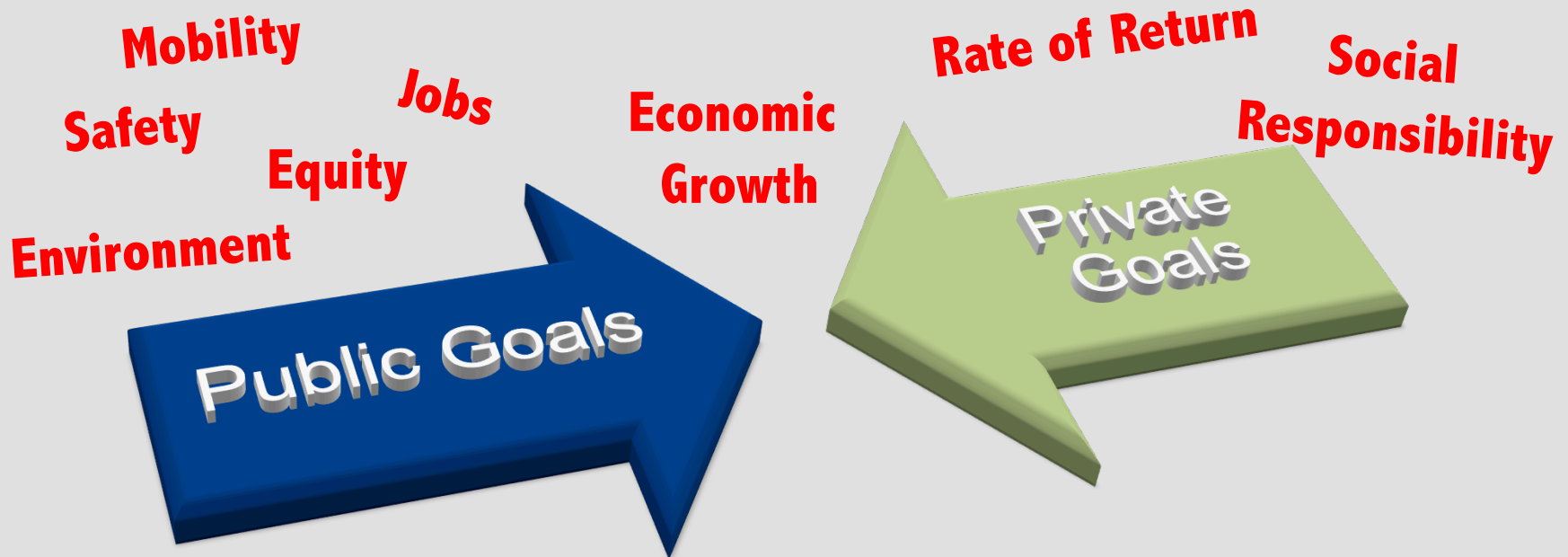
**1985-2014
(\$774.1 Billion)**



■ The US receives only 9% of all global P3 investment

■ 75% of P3 investment is concentrated in just 5 states (CA, CO, FL, TX, VA)

Public—Private Partnerships



P3s bring together public and private parties to design, build, finance, operate, and maintain projects to contractually-agreed standards.

Public goals for transportation P3 projects include: increased mobility, economic growth, jobs, safety, equity, and environmental protection.

Private goals include: generating a reasonable return on investment, building critical infrastructure, and economic growth.

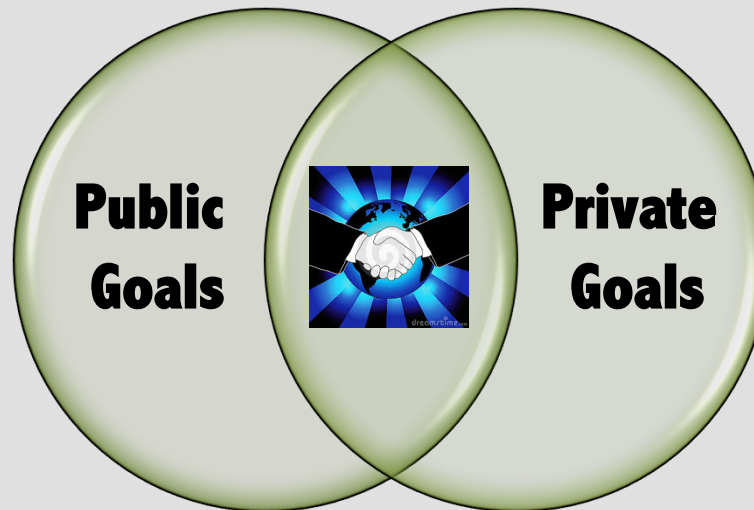
The Win-Win of Partnership Financing

Partnership financing is an approach to P3s that aligns the interest of private and public partners in a way that both parties have incentive to maximize positive outcomes.

Partnership-Financed P3 projects offer benefits:

- Use of Innovative technology
- Delivery of high quality assets
- Accelerated delivery
- Cost-effectiveness
- Reduced risk for the public sector
- Built-in long-term O&M
- Reasonable rates of return
- Long-term public ownership of assets

Win-Win Outcomes



Sources of Cost Reduction:

- Design innovations
- Economies of scale
- Better risk management
- Contractual deadlines
- Performance-based compensation
- Low-cost federal financing

Partnership Financing

Protecting the Public Interest

- Enabling legislation and contracts are the mechanisms for ensuring outcomes work for public good.
- Contracts define partnership responsibilities and compensation structures that ultimately ensure to protection of public interests.
- Enabling legislation determines how, where, when, and by whom P3 projects can be done, and spells out requirements, performance, and public protections P3s must achieve.

To protect public interests, it is essential to pass effective P3 enabling legislation, negotiate strong contracts, and put in place effective P3 implementation policies.

Keys to Effective Enabling Legislation



Project Eligibility

Keep project eligibility flexible and broad by avoiding modal, size, or location restrictions. The best enabling legislation is programmatic rather than project-based (the latter being inherently restrictive.)



Project Selection

Key provisions for strong enabling legislation include: 1) robust empirical evaluation to assess cost effectiveness and appropriateness as a P3; 2) rules for confidentiality; 3) a process for evaluating, managing unsolicited proposals; and 4) competitive bidding to ensure cost effectiveness and to test project marketability, especially for unsolicited proposals.



Funding Rules

Allowing user fees opens up many more viable project options. Allow the use of different funding sources including federal, state, and local.



Approval & Review

Build-in early-state review and approval. Avoid veto ability or late-state approval as this discourages private interests and ultimately reduces competition.



Contract Rules

Keep rules regarding contracts flexible to allow for project-specific contracts to be developed. Avoid mandating certain term lengths or compensation requirements through enabling legislation.

Keys to Effective P3 Implementation



Dedicated P3 Units



Staff Training for Public
Officials



Standardized Practices &
Documents

Establish a Dedicated P3 Administrative Entity. States that wish to advance more P3 projects are well served to create new institutions dedicated to managing P3 procurement. P3 units should develop policies and implementation guidelines to protect public interests, define and assign roles and responsibilities for carrying out important management functions, and provide training for public P3 staff to enable state and local entities to effectively engage with private sector experts. Dedicated P3 units promote programmatic approaches to P3 procurement and allow for more comprehensive institutional and in-house staff development. They also motivate state and local governments to standardize P3 procurement policies, documents, and procedures.

Key to Addressing Public Concerns



Engage the Public Early and Often

Promote Responsive Public Engagement. Public opposition can impede even the best P3 projects. Understanding public concerns is critical to design projects that meet public needs and to build public support. The public should be engaged early and often in meaningful ways to plan P3 projects. Instead of using public outreach to inform or persuade, public engagement can be a beneficial step in the process to inform project design and ultimately improve outcomes for all.

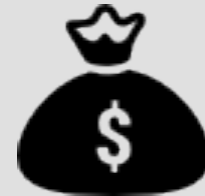
Key Improvements to Federal Policy

Federal Incentives for Increased Local Revenue



**Federal
Incentives**

**Local
Revenue**

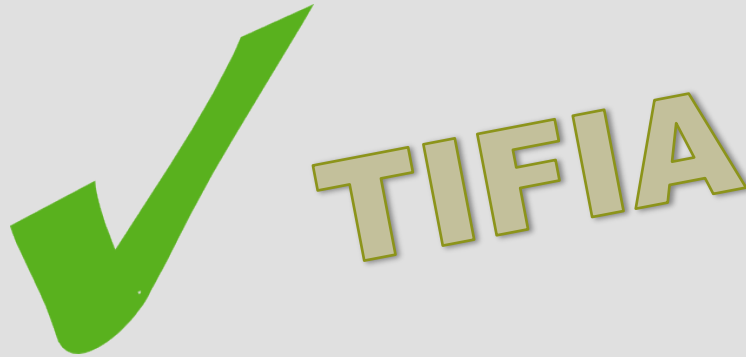


Incentivize state and local efforts to increase local revenues for transportation.

With the future of consistent federal transportation funding streams uncertain, state and local resources are increasingly needed to fill funding gaps. The federal government can provide incentives that encourage new revenue sources including increased gas taxes, dedicated sales taxes, and user fees. Federal incentives can motivate states to bring more dedicated local revenues to the table. Such incentives can take the form of additional matching funds, increased flexibility, decreased oversight, bonuses, or priority in discretionary grants programs.

Keys Improvements to Federal Policy

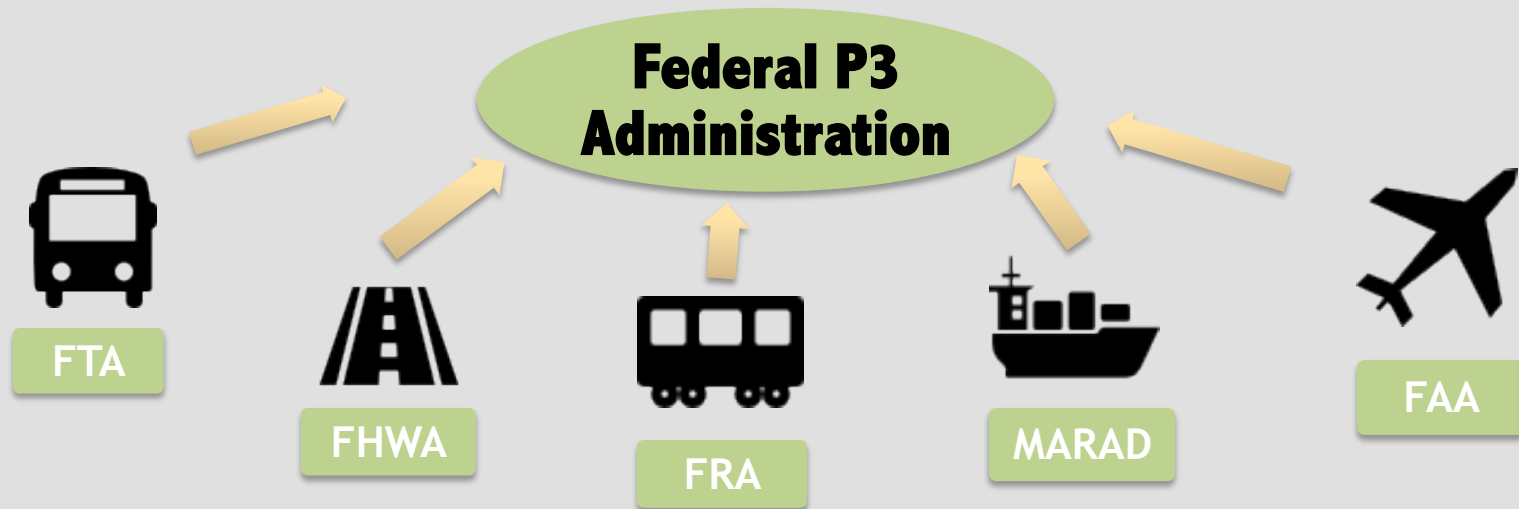
Increase Access to Federal Financing



Increase access to financing through the Federal Transportation Infrastructure Finance Innovation Act (TIFIA). TIFIA offers low-cost financing for certain transportation investments and has been demonstrably helpful in bringing P3 projects to fruition. Thirteen out of the 16 P3 projects that closed between 2003 and 2013 were financed with the help of TIFIA loans. There is currently a backlog of TIFIA projects under review at the U.S. Department of Transportation. Streamlining the pre-approval process, staffing the TIFIA program office with a ample qualified officers, and training TIFIA staff, will help reduce the time needed to bring approved projects to financial close. Ensuring access to Private Activity Bonds for transit, rail, and port projects also is important.

Keys Improvements to Federal Policy

Initiate a Multi-Modal Partnership for Federal P3 Programs



The Secretary of Transportation can coordinate P3 efforts and promote multi-modal infrastructure development by Involving agencies including public transit (FTA), rail (FRA), and air (FAA) and seaport agencies (MARAD) in research, policymaking, and P3 program administration. Specifically,

- Encourage access by projects of all modes to federal grant and loan programs.
- Develop model contracts for all modes, not just the road sector.
- Develop standard project appraisal methods applicable to all modes to compare the cost of P3 delivery with traditional public financing and determine the appropriateness of P3 use.
- Facilitate training of state, regional and municipal agency staff charged with conducting empirical evaluations of P3.

Eno P3 Courses

Developing a State or Local P3 Program

- Overview of policy and technical issues involved in Partnership Financing
- Beneficial for senior technical directors and staff directors of implementing transportation agencies
- Module delivered on-site

90-Minute On-Site Module

Delivering Public-Private Projects

- In-depth exposure to concepts of P3s financing and project delivery
- Beneficial for public staff tasked with directing P3 implementation, such as MPO Directors, Directors of DOT offices, and DOT field office Supervisors
- Course delivered on-site

30-Hour Online Course

Partnering with the Private Sector

- Introduction to P3 financing and project delivery
- Beneficial for technical and implementing staff
- Course taught online or on-site
- 8-12 participants

**10-Hour Online Course or
2-Day Seminar**

For more information or to book a course, contact Alex Bond, Director of Eno's Center for Transportation Leadership, at abond@enotrans.org