

Public-Private Partnerships in the USA

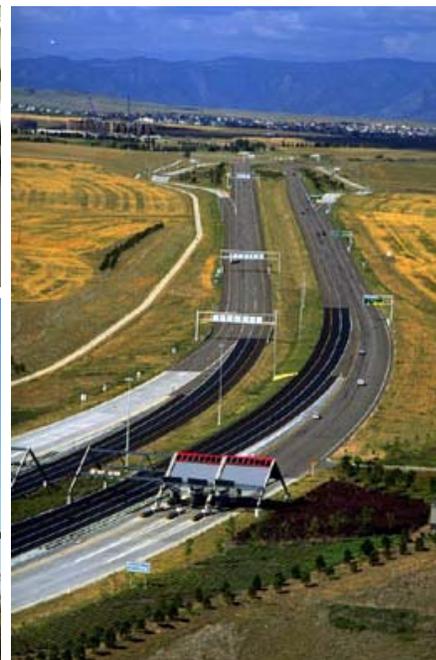
The Future or Fading Fad?



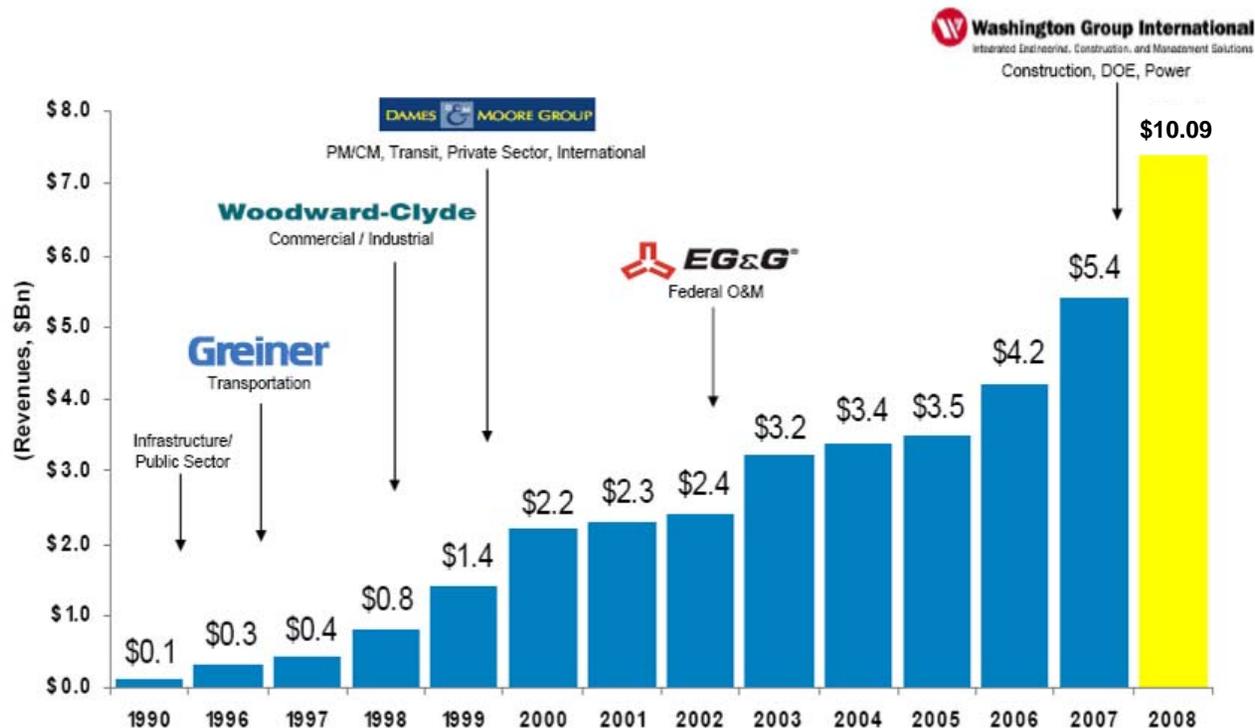
Mark Bader-Hellstrom
Sr. Vice President

Despite significant progress in alternative delivery methods, the future of PPP Concessions in the USA remains in doubt.

1. History of PPP Development in USA
2. Current Concession Models in use Today
3. Challenges to the Concession Model
4. Lessons Learned
5. Predicting the Future



- Fully Integrated engineering, construction and technical services firm to support the complete Project Life Cycle.
 - *Leader in Infrastructure, Facilities Management and Environmental Engineering.*
 - *Serves Federal, State and Local Government Agencies, and Multinational Fortune 500 Companies.*
- More Than 50,000 Employees in over 30 Countries, 1500 in Asia Pacific.
- Operates Through Three Divisions: URS Division, EG&G Division & Washington Division.
- NYSE Listed- code: URS



- Current Offering
 - Engineering; All Disciplines
 - Environmental Services Provider
- Major Markets
 - Transportation, Mining, Water, Oil & Gas, Infrastructure
- Stepping Up in Australia
 - Client Side Program Management
 - EPCM Services
 - Transportation – Rail & Highway
 - Water – Major Hydro and Conveyance
 - Mining



E470 Highway- Denver
41.5mile toll road



New James River Crossing- Virginia
High-rise bridge, clear waterway structure



Hudson-Bergen Light Rail- New Jersey
20miles light rail with 23 stations

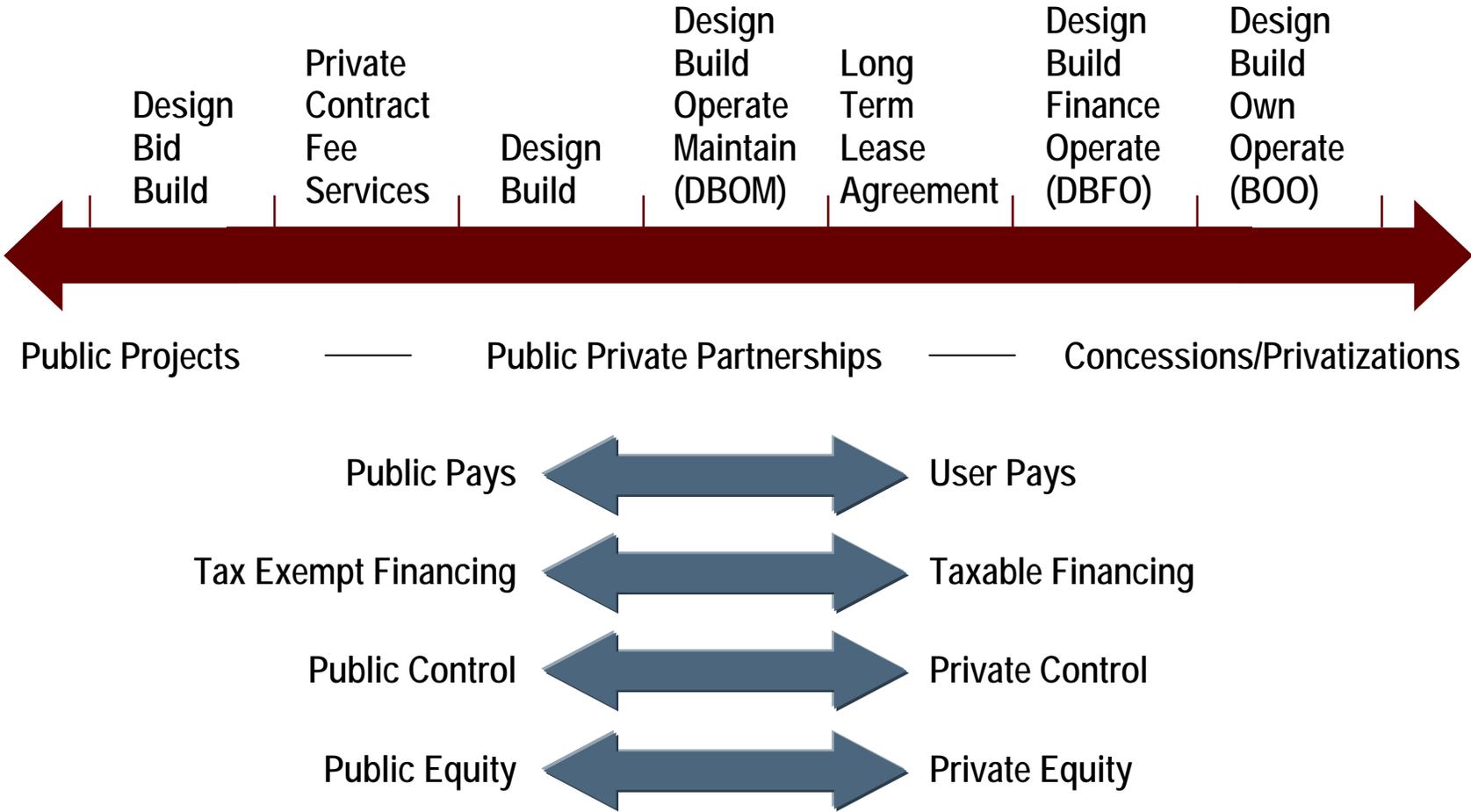


Dulles Metrorail-Virginia
Heavy rail system extension 22 miles, 11 stations
Largest US PPP ever undertaken

Project Delivery Continuum



Alternative Approaches

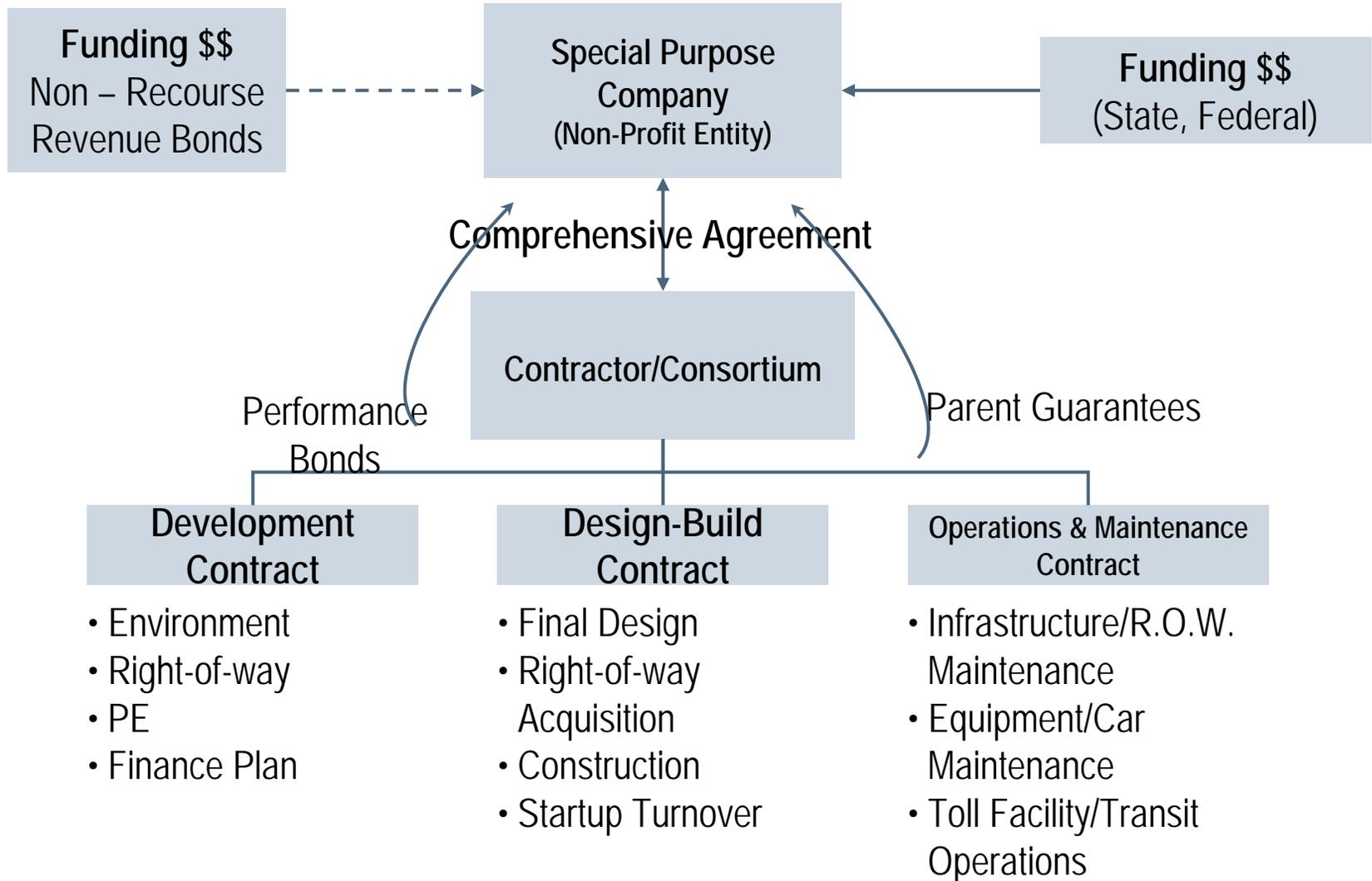


Traditional Delivery of Projects in USA is Design-Bid-Build

- Deterioration of Existing Infrastructure, especially highway and rail capacities.
 - ASCE Study Estimates over \$2.2 trillion in repairs and upgrades is needed over the next five years to meet adequate conditions.¹
 - Total Federal Investment in transportation (highway, rail, airport) in FY 2008 was \$42.2B.
- Growing population base – 32% increase by 2050².
 - Significant congestion in all major cities in USA.
 - National Highway system constructed primarily in the late 1950's.
- Reduced Investment of State Tax Revenues for Transportation.
 - Social programs given priority; aging population in many states.
- States, unlike the Federal Government, must balance budgets.
 - States cannot go into debt to fund major capital programs.
 - Seeking alternative funding to deliver major projects.
- Economic Stimulus Package Influence
 - Increased funding for near term projects
 - Increased role of Federal Government

- A 1953 statute establishes the Florida Turnpike Enterprise, which operates like a private-sector business within the Florida DOT.
- 1989 – California AB680 Legislation allow up to four “Demonstration Projects” using Concession Model.
- 1995 - Virginia’s Public-Private Transportation Act authorizes PPPs and allows solicited and unsolicited proposals.
- Opens Move by Some States to Tax Exempt Entity Developments:
 - Virginia I-895 Connector \$325M, 14km new toll way & bridge.
 - Colorado E470 \$560M, 65km new toll road.
 - South Carolina Greenville Connector \$200M, 25km toll road.
 - Colorado Northwest Parkway, \$200M, 15km new toll road.

Typical Tax Exempt Entity Structure



PPP History in USA (1995 to 2008)

Transition from Fixed Price to Concessions

- 1995 – 2002 States Move to Design-Build and Alternative Deliveries.
 - California SR91 Express Lanes Opened Under Concession Model.
 - Utah \$1.3B reconstruction of 21km Interstate 15, 142 bridges, 13 interchanges, Design-build.
 - Colorado \$1.2B reconstruction of 17km Interstate 25, 20km of new double track light rail + 13 stations, Design-Build.
 - South Carolina \$632M Cooper River Crossing, 4 km, Design-Build.
 - Los Angeles Metro Gold Line \$260M, 22km new light rail + 13 new stations, Design-Build.
 - Texas SH130 \$1.3B Highway, 62km of new highway, Design-Build.
 - New Jersey \$1.1B Hudson Bergen Rail, 15km new light rail + 16 stations and maintenance & operations facilities, DBOM.
- 2003 – 2008 Move toward Full Concessions.



*Los Angeles
Metro Gold Line*

Current Concession Models in USA

New Capacity Concessions

- Two Types of Concessions in the USA; New Capacity and Concessions of Existing Assets
- Texas enacts PPP legislation in 2003:
 - “Comprehensive Development Agreements” for long term concessions.
 - Broad Legislation giving Counties and transportation authorities ability to create “Regional Mobility Alliances” (RMA’s) with tolling authority.
 - 2005 Trans Texas Corridor TTC-35 Concession Signed.
 - 50 Year Development, 960km, \$6B Investment.
 - Direct Payments to TxDOT during Development of \$1.2B.
- 2007 – Virginia I-495 Capital Beltway “HOT Lanes” Reaches Financial Closure, \$1.8B DBOMF (Transurban & Fluor).
 - 23km, 80 year concession
- 2009 - Florida Closes Financing on \$1.6B I-595 DBOMF.
 - First Availability Concession in the USA.

Current Concession Models in USA

Concession of Existing Assets

- 2006 - City of Chicago Leases Sunshine Skyway Toll Bridge - 99 Year Term for \$1.8B.
 - Money used to retire City debt and fund other social programs.
- 2006 - 251km Indiana Toll Road Leased for 75 Years @ \$3.8B.
 - Money used to fund long range transportation improvements.
- 2006 -Pocahontas Parkway:
 - 99 year lease with Transurban.
 - Transurban takes toll revenue risk.
 - Commitment to build new 2.5km toll road Construction.
 - Excess revenue shared with Virginia.
- 2007 -Northwest Parkway:
 - 99 Year lease with Brisa/CCR.
 - Excess revenue sharing with Northwest Parkway Authority.

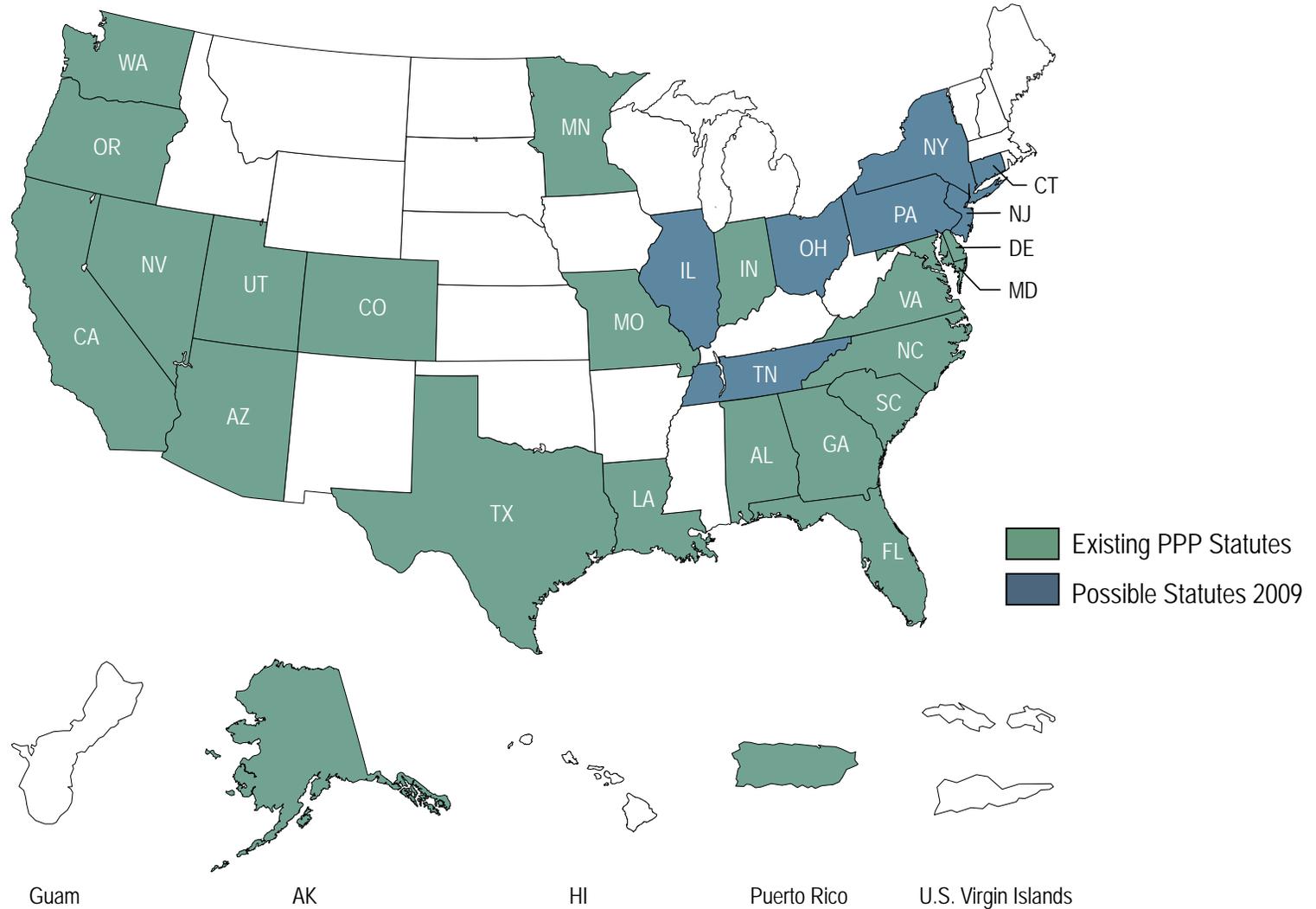


Pocahontas Parkway bridge

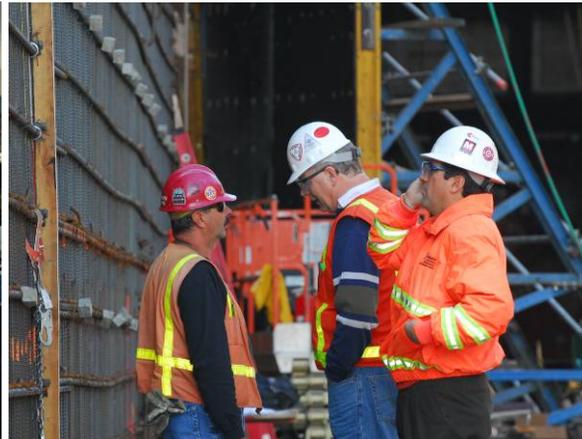
- Private Activity Bonds (PABs)
 - Assistance to finance privately developed and operated highway and freight transfer facilities
 - Maintains tax exempt status of bonds
 - PABs issued by public entity, private developer is borrower and responsible for repayment
 - \$589M Used for Capital Beltway Program in Virginia (Transurban)

- TIFIA (Transportation Infrastructure Finance and Innovation Act of 1998).
 - Provides Federal Credit assistance to major transportation investments of national importance.
 - TIFIA credit assistance is flexible.
 - Subordinated to Senior Debt may be provided as a Direct loan, loan guarantee or line of credit.
 - TIFIA credit can be us up to 33% of project cost.
 - \$140M subordinated debt on South Bay Expressway.
 - \$588M loan for Capital Beltway.
 - \$430M loan for Texas SH-130 Concession.

USA States with Significant PPP Authority



- Public Perception
- Political Sustainability
- Public vs. Private Concession Cost
- Investment Required by Engineering & Contractor Firms
- Value for Concession of Existing Assets



- With some exceptions (FL, NY, VA, NJ, PA, TX) most public consider user fee facilities to be “double taxation”.
- USA Highways system, the “Freeways” have always been without charge and built with taxpayer dollars.
- User “Right” to free movement.
- Foreign ownership of public infrastructure assets is wrong (Lack of Control).
- Public acceptance/apathy of over crowded highways and transit lines.

Challenges to Concessions

Political Sustainability

- Many PPP projects in the USA have been identified by proponents without moving forward.
- From January 2005 to May 2008 FHWA reports 25 concessions solicited. Of those 3 have reached financial closure³.
- Many projects become politically unattractive for governmental leadership.
- Some Departments of Transportation see PPPs as a threat to status quo.
- **Projects must have overriding public support to ensure long term engagement by political leaders.**
 - Dulles Metro, 35km \$5B new rail line in Washington D.C. providing new service to the airport.

Challenges to Concessions

Public Concession vs. Private Concession

Public Concession

- Tax exempt debt (20%-40% less than taxable interest)
- Revenues in excess of debt service go to the government stakeholders to be used elsewhere
- Term of tolled project usually less than 40 years
- No private equity

Private Concession

- Taxable debt (tax exempt debt may be available for a portion of the project through Industrial Development bonds)
- 30%-40% equity required by debt
- Equity returns expected to be 12.0% or higher
- Term of tolled project can be up to 99 years

More Projects are Viable as Public Concessions

Challenges to Concessions

Investment Required by E&C Firms

- Significant Investment is Required in the form of “Sweat Equity” by engineering and contracting firms for major PPPs.
- Result of little development or design being performed at public expense.
- A nominal \$1B project could have \$10M - \$15M in at risk costs.
 - Projects usually have 3-4 competitors.
- Stipends paid by agencies to date typically have returned less than 10% of investment required.

The Math Does Not Add Up for E&C Firms

Challenges to Concessions

Value for Concession of Existing Assets

- With large sums paid to Chicago and Indiana for existing toll facilities more public authorities considering PPPs for existing assets.
- Pennsylvania solicited bids for a concession of the 850km Pennsylvania Turnpike.
- \$12.8B bid received from Consortium (Abertis/Citi/CaixaCorp).
 - Value Determined to be too low.
 - \$26B Valuation determined by legislature.
- Lawmakers noted loss of flexibility in surrendering rights to a key state asset for 75 years.
- Lawmakers recognized need to increase tolls without privatization to generate future revenue stream.
- Recognition that Turnpike is highly valued asset to deliver significant returns to the State.

- Public need must be overwhelming.
- Solid legislation and commitment by public agencies to PPPs a fundamental requirement.
- Projects must demonstrate financial viability early in the process.
- Compensation to bidding E&C parties must be fair.
- Leadership and a commitment to project success by major stakeholders.
- Political will must be in place.



PPPs are likely to continue in States where:

- There is an acceptance of user fees.
- Good legislation.
- Knowledgeable staff who believe in PPPs.
- Strong, committed political leadership.

Despite Significant progress in alternative delivery methods, the future of PPP Concessions in the USA remains in doubt.

1. 2009 Report Card for America's Infrastructure
Produced by the American Society of Civil Engineers
<http://www.asce.org/reportcard/2009>

2. [^] ["World Population Prospects: The 2006 Revision, Highlights, Working Paper No. ESA/P/WP.202; Table A.2" \(PDF\)](#). United Nations, Department of Economic and Social Affairs, Population Division (2007).
http://www.un.org/esa/population/publications/wpp2006/WPP2006_Highlights_rev.pdf. Retrieved on 2009-01-10.

3. The Growing Use of PPPs in the United States (2009)
<http://www.fhwa.dot.gov/reports/pppwave/04.htm>