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# Public Private Partnerships

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## Public Private Partnerships in Transportation

The traditional means of contracting for infrastructure projects uses a design-bid-build (DBB) model. Under this model, the public sector designs the project, bids out each phase of the project, and uses public funds to pay a private contractor to build the project. Subsequent operations and maintenance costs are typically the responsibility of the public agency, either performed by public employees or contracted out. In this traditional delivery model, most project risks are borne by the public sector, including the need for up front capital to pay for the project, and budgeting for ongoing operations and maintenance.

An alternative to traditional delivery is a method known as public private partnerships, or P3s. As defined by the Federal Highway Administration, “A public private partnership (P3) is a contractual agreement formed between public and private sector partners, allowing more private sector participation than is traditional. The agreements usually involve a government agency contracting with a private company to design, renovate, construct, operate, maintain, and/or manage a facility or system.” In P3s, the private sector performs all or some of the functions normally undertaken by the government, but the public sector retains legal ownership of the facility.

The P3 delivery approach includes a range of potential partnership structures, which transfer risk to the private partner in increasingly greater degrees. As the private partner takes on greater risk, it also gains greater control of the project, including the opportunity for a return on its investment. In addition, the private party is incentivized to innovate and value engineer to drive down costs and mitigate risks. The right structure for a particular project may depend on project complexity, public policy goals, private sector interest, and a Value for Money analysis (see definition below).

P3 delivery is not suitable for all infrastructure projects. Many believe that P3s should be considered for projects that meet some or all of the following criteria:

- major technically-complex projects that are part of a capital plan;
- that need to be delivered faster to realize economic development and/or quality of life benefits;
- that could realize an upfront cost savings through alternative delivery;
- that could show cost savings through operating and maintenance efficiencies;
- and/or that may lack financing.

While P3s can offer alternative project delivery methods or financing mechanisms, in the long term they do not provide new money for infrastructure. Revenues to repay the private investment must come from the same sources of public funding – tolls, fees or taxes.

### How do Public Private Partnerships Add Value? Isn't Tax-Exempt Financing Cheaper?

In order to decide if a P3 structure could benefit the public partner, a *Value for Money (VfM)* analysis is typically conducted to compare the total estimated lifecycle costs of traditional public procurement to those of a hypothetical P3 procurement. If the estimated costs of the P3 procurement are less than those of the traditional public procurement, then there may be a positive Value for Money, and the potential P3 project may warrant further analysis. The VfM analysis is a way of ensuring that the public interest is consistently calculated and weighed in all decisions regarding project delivery.

Because municipal tax exempt interest rates are generally lower than corporate taxable interest rates, other savings stemming from a project's cost and financing structure are necessary for a P3 to show a positive VfM. Experience in other states and countries has shown that despite the higher financing costs of taxable financing, the benefits of transferring project delivery and long-term maintenance and preservation risks to the private sector can sometimes result in cost savings to the public.

The following considerations are important concerning the use of private financing vs. traditional tax-exempt financing:

- Private capital can help fast track projects when public funding and/or financing is not available or insufficient;
- Through the use of private financing, a P3 may allow some projects to be delivered with no effect on the State's debt capacity;
- A number of tools exist that can reduce the financing cost for private entities to levels that are more competitive with tax-exempt state and municipal financing rates. These tools include Federal TIFIA loans, private activity bonds, state infrastructure banks which provide access to low-interest or tax-exempt debt to private sector entities for transportation projects, and the ability of private investors to depreciate various capital costs over the long-term – a tax benefit available to private investors but not to public entities; and
- Through a competitive procurement and risk sharing (particularly revenue risk) approach, the access to equity investment allows a P3 structure to potentially leverage a significantly greater amount of up front capital than a publicly-financed approach under equivalent or comparable projects scope and assumptions.

#### ***Potential P3 Benefits***

- *Private financing and project acceleration*
- *Monetization of existing assets*
- *Cost and time savings*
- *Lifecycle efficiencies*
- *Improved project quality*
- *Risk transfer*
- *Public control and accountability*

*SOURCE: NCSL's P3 for Transportation Toolkit for Legislators*

#### ***Potential P3 Concerns and Controversies***

- *Loss of public control and flexibility*
- *Private at the public's expense*
- *Loss of future public revenues*
- *Risk of bankruptcy or default*
- *Accountability and transparency*
- *Environmental issues*
- *Labor concerns*
- *Foreign companies*
- *Toll road controversies*
- *Specific contract terms*

*SOURCE: NCSL's P3 for Transportation Toolkit for Legislators*

#### **Sources:**

- AECOM, "Evaluation of Public Private Partnerships," Joint Transportation Committee, January 2011. [http://www.leg.wa.gov/JTC/Documents/Studies/P3/P3FinalReport\\_Jan2012Web.pdf](http://www.leg.wa.gov/JTC/Documents/Studies/P3/P3FinalReport_Jan2012Web.pdf).
- NCSL, "Public Private Partnerships in Transportation: A Toolkit for Legislators," December 2010. <http://www.ncsl.org/issues-research/transport/public-private-partnerships-for-transportation.aspx>
- [FHWA's Public Private Partnerships page](#)

## Public Private Partnerships in Washington State

Since the early 1990s, Washington State has experimented with public private partnerships. In 1993, the Legislature passed the Public Private Initiatives in Transportation (PPI) Act (HB 1006, codified as [RCW 47.46](#)) to create a legal framework for transportation P3s. Fourteen project proposals were received from the private sector, and six were approved for further consideration. Over the next several years, five of these six projects were dropped from consideration due to funding concerns, legislative opposition, or lack of public support.

The last project was a new SR 16 Tacoma Narrows Bridge. In 1997, a private consortium led by Bechtel Infrastructure and Kiewit Pacific was selected to construct and operate the bridge as a P3. The project was unable to proceed as a P3, however, because the State Supreme Court ruled that WSDOT had no statutory authority to impose tolls on the existing bridge, which was critical to the project's finance plan.

In 2002, the P3 developer and the Legislature agreed to amend the law to allow tolling of the existing bridge, so long as state-issued bonds financed construction. The State also assumed operations and maintenance responsibilities from the private consortium.

The Legislature subsequently directed the Legislative Transportation Committee to study barriers to public private partnerships in Washington State, resulting in the enactment of the 2005 Transportation Innovative Partnerships Act ([Chapter 47.29 RCW](#)). It maintained the requirement for state-issued debt for P3 projects. As a result, no P3 projects for toll facilities have been undertaken since the law's enactment. Only small, non-tolled projects have advanced under the current program.

*No P3 projects for toll facilities have been undertaken since the enactment of the 2005 Transportation Innovative Partnerships Act.*

In 2011, the Legislature directed the Joint Transportation Committee to study whether P3s can benefit the state's delivery of transportation projects. As part of the 2011 study, the consultant team recommended a number of statutory changes that would be needed if the state were to pursue development of a viable transportation P3 program. It would require complete rewrite of the P3 statute, to allow private financing of transportation projects, to improve public interest protections, and other revisions.

### Transportation Commission's Role under RCW 47.29 (TIP Program)

The Transportation Innovative Partnership (TIP) program is administered by WSDOT's Innovative Partnerships Office, but certain aspects of the program are overseen by the Washington State Transportation Commission, including the following:

- Creating the administrative rules for how the TIP program will be administered;
- Ensuring that the competitive process for receiving, scoring, and selecting proposals complies with all rules and regulations;
- Establishing expert review panels where warranted (such as high-cost projects);
- Reviewing the terms of any proposed contracts and partnership agreements to insure that the State's interest has been protected; and
- Approving or rejecting negotiated agreements.

In 2006, the Washington Transportation Commission formally adopted administrative rules for the Transportation Innovative Partnership Program. The program rules can be found at [WAC 468-600](#).

## **WSDOT's Responsibilities for the TIP Program**

WSDOT's Innovative Partnerships Office (IPO) is responsible for engaging the private sector in public private partnerships that can help advance transportation projects, programs, or policies.

The Office is funded at \$600,000 in operating funds, with 2 FTEs, and is overseen by the Chief Financial Officer for the agency.

The IPO relies on short-term contracts with consultants to conduct specialized research and due diligence of potential projects. Typically, funding is provided specifically for this purpose, and is not part of the program's ongoing budget.

Since 2012, the IPO has worked with the Transportation Commission on the [Washington Road Usage Charge Pilot Project](#).

The Innovative Partnerships Office is responsible for conducting the administrative functions and responsibilities of the TIP program. These tasks generally include the following:

- **Consultation and advisory services**, providing information and advice to public officials on the use of P3s to develop projects.
- **Analysis and assessment**, carrying out economic feasibility studies and business assessments on basic project viability.
- **Project development** for those projects that demonstrate feasibility and where the state has resources to enter a partnership.
- **Liaison and representation**, serving as the conduit between the state, the private sector, and transportation stakeholders interested in P3 projects.

Since no tolled projects have advanced under the TIP program, the active projects have been limited to non-toll projects, which include the following:

- The West Coast Green Highway, a joint initiative by Washington, Oregon, California and British Columbia to promote the use of fuels with low- or no-carbon emissions.
- A West Coast Electric Highway Project, a partnership with the private sector to build a network of electric vehicle fast-charging stations along I-5, I-90 and US-2.
- Proposed joint development at Washington State ferry terminals (Edmonds, Anacortes and Colman Dock).
- A pilot project to generate revenue from digital advertising on WSDOT websites.
- A pilot project to develop retail amenities at state-owned Park-and-Ride facilities.
- A feasibility study to finance a portion to the Colman Dock Ferry Terminal as a P3.
- A feasibility study to pilot use of Transit Oriented Developments on agency owned park and ride facilities.
- A deployment of at least \$1 million in grant funds via the Electric Vehicle Infrastructure Partnerships Program.

### **Sources:**

[Washington State Transportation Commission Innovative Partnerships Program](#)

[WSDOT's Innovative Partnerships page](#)

[WSDOT's Electric Vehicle Infrastructure Partnerships Program](#)

## Chronology of Washington's Public Private Partnerships Programs

- 1993** HB 1006, Public Private Initiatives in Transportation (PPI), is enacted into law (RCW 47.46). A program is created within WSDOT to implement the law.
- 1994** WSDOT issued a Request for Proposals (RFP) inviting private firms to submit proposed projects for consideration. Fourteen project proposals were received. Six projects were selected and approved by the Transportation Commission for further consideration:
1. SR 18 Corridor between I-5 and I-90 (dropped in 1994 due to lack of public involvement and support)
  2. SR 520 including the Evergreen Point Bridge
  3. Puget Sound Congestion Pricing project
  4. SR 522 from Woodinville to Monroe
  5. King County Park and Ride lot improvements
  6. SR 16/Tacoma Narrows Bridge
- 1995** PPI law was amended to require WSDOT to conduct an advisory vote on projects that were challenged by a petition of 5,000 signatures. The Puget Sound Congestion Pricing project was dropped from consideration.
- 1996** PPI law amended to require legislative funding for environmental, engineering, and public involvement work before proposed projects could proceed. Only the Tacoma Narrows Bridge project received legislative appropriations. Therefore, SR 520 and SR 522 were dropped from further consideration.
- 1997** King County Park and Ride lot improvement proposal was dropped from consideration due to local funding concerns. United Infrastructure of Washington (UIW), a joint venture of Bechtel Infrastructure and Kiewit Pacific, was selected as the project development and construction team for the SR 16 Tacoma Narrows Bridge (TNB) project. Included on the team, is the design-builder, Tacoma Narrows Constructors, also a joint-venture of Bechtel and Kiewit.
- 1998** The Legislature passed legislation to provide sales tax deferrals on construction of the TNB project; require the initial roundtrip toll to not exceed \$3; and provide \$50 million state contribution to the project. The advisory vote was held, with 53 percent of the voters in the affected area favoring the project.
- 1999** The Legislature authorized the \$50 million state contribution. WSDOT entered into a contract with UIW to develop the project.
- 2000** The Governor approved \$800 million in privately-issued tax exempt financing for the TNB project. However, the State Supreme Court ruled that WSDOT lacked statutory authority to impose tolls to improve the existing Tacoma Narrows Bridge. In effect, this halted the project from advancing, as toll revenues collected from existing bridge users is required to fully finance construction of the new bridge.
- 2002** The Legislature authorizes the use of state-issued bonds and public financing for the Tacoma Narrows Bridge Project. The Legislature appropriated \$849 million for the project, which included \$800 million to be obtained from the sale of the bonds, which will then be paid back through tolling. WSDOT took over management of the construction and operation of the project, reimbursing UIW for their development efforts to date. Also, the Legislature

directed a study of barriers to public private partnerships, and also established a legislative oversight committee to monitor the design-build contract.

- 2005** The Transportation Innovative Partnerships Act of 2005 was enacted (codified as Chapter 47.29 RCW), phasing out the prior P3 law. The new law allows transportation-related projects and programs of all modes to be eligible for development as a public private partnership under the Transportation Innovative Partnership Program (TIPP). The TIPP program is administered by WSDOT but overseen by the Washington State Transportation Commission (Commission). The Commission has final approval authority for any TIPP agreement negotiated between WSDOT and a private partner. The Commission was directed to enact administrative rules to carry out the TIPP program.
  
- 2006** The Commission formally adopted administrative rules to implement the Transportation Innovative Partnership Program, which was created in RCW 47.29.
  
- 2007** The Legislature provided funding for WSDOT's new Transportation Partnership program, and specifically funded analysis for two projects: (1) public/private partnership development opportunities at public ferry terminals; and (2) economic feasibility of using state-owned property to host alternative refueling/recharging stations along Interstate 5.
  
- 2008** The Transportation Partnerships Office (TPO) completed analyses of potential P3s at public ferry terminals and for alternative refueling/recharging stations along the I-5 corridor. Both projects demonstrate basic financial feasibility and are proposed for development.
  
- 2009** The Legislature authorized the TPO to pursue a joint development project at the Edmonds Ferry Terminal. A Request for Proposals was issued, but no financially-qualified proposals were submitted for this project. The Legislature also provided \$50,000 for business analysis on whether advertising on WSDOT's website could generate revenue for the state.
  
- 2010** The Legislature provided \$75,000 in seed funding for a pilot project to generate revenue from digital advertising on WSDOT's website. Separately, the TPO was awarded \$1.6 million from U.S. Department of Energy funds, for a public private partnership to develop a network of fast-charging stations for electric vehicles in Washington State. This funding was further leveraged through a partnership with AeroVironment, a private company providing the services.
  
- 2011** The TPO solicited conceptual proposals from the private sector for joint development at the Anacortes Ferry terminal. The conclusion of the development community was that a year-round business is not financially viable at the Anacortes terminal location. WSDOT drops the Anacortes terminal from further joint-development consideration.
  
- 2012** The Legislature authorized the TPO to develop a pilot project allowing retail amenities at state-owned Park-and-Ride lots. A RFP was issued for providing food and beverage services at specific locations that were not over parking capacity. No responses were received due to the lack of sales potential outside of the weekday commute period at Park and Ride lots. The TPO created and trademarked the tri-state branding for the West Coast Electric Highway and oversaw the installation of a network of electric vehicle charging in 12 communities and two highway safety rest areas.
  
- 2013** The TPO successfully implemented the digital advertising pilot project and transferred project oversight to WSDOT's Communications Office.

- 2014** Supported the Washington State Legislature’s Joint Transportation Committee’s study on Business Models for Financially Sustainable EV Charging Networks.
- 2015** The Legislature directed the TPO to develop a pilot program to support deployment of EV charging infrastructure that is supported by private financing.
- 2016** Conducted public outreach and rulemaking for WSDOT’s Electric Vehicle Infrastructure Program.
- 2017** Implemented WSDOT’s Electric Vehicle Infrastructure Partnerships Program with \$1M in grant funding to leverage an additional \$1.5M in public/private match to deploy electric vehicle fast charging in 15 communities along highway corridors in western and eastern Washington.