

AMERICAN STYLE P3

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Despite the worst financial crisis in generations, the US saw in 2009 several major road transportation P3 deals close. In many ways, these deals were more impressive than the headliners of the past few years – Indiana Toll Road and Chicago Skyway – because they were not leases of existing assets but represent investment in new infrastructure with large amounts of construction during initial project years. What’s more, these deals show that P3 is here to stay and that it is gaining ground. These are not one-off projects with obscure characteristics. These projects are targeted at basic infrastructure for metropolitan areas. They build on previous trends in project delivery such as design-build and represent an evolution in procurement and project financing.

Four projects – I-635 LBJ Freeway, North Tarrant Express, Port of Miami Tunnel and I-595 – representing a total more than \$6 billion in value rose in the face of deep recession and financial chaos to affirm the continuing trend of P3 in the US. Another wave of projects is already moving through procurement this year. These include Midway Airport which fell apart in the midst of the financial crisis, Eagle P3 urban transit in Denver, several cities’ parking facilities, Puerto Rico’s and New Orleans’s airports and others. The P3 trend has spread from its initial foothold in Texas and the Southeast and now is on the table in states from California to New York.

The Obama Administration has helped bring infrastructure to center stage with the American Recovery and Reinvestment Act (ARRA) and a focus on sexy infrastructure like high speed rail. Infrastructure holds a position on the political agenda that it hasn’t enjoyed for many years. The potential for P3 to help deliver this infrastructure has been touted by Transportation Secretary Ray LaHood. There has even been talk of a National Infrastructure Bank to expand the Transportation Infrastructure Finance and Innovation Act (TIFIA) program and spread its approach to projects in other sectors of the economy.

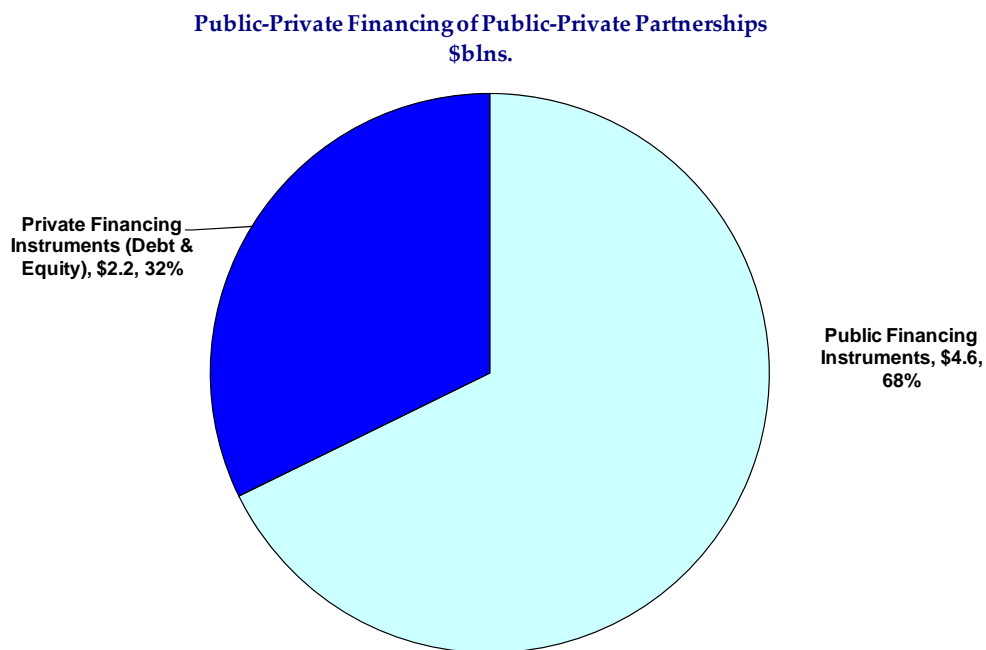
In considering support for infrastructure investment and P3s going forward and in analyzing the major deals of the past year, one trend emerges as particularly interesting. It is the development of a distinctly American version of the P3 model that borrows the best in contracting and risk transfer from its international counterpart and combines it with innovative financial tools provided by one of the US’s most unique markets – the municipal bond market.

The table and graph below show the trend clearly. American P3s are not only partnerships at the operational level but also at the financing level. These evolved, umbrella contracts bringing design, construction, operations and maintenance under one seamless project that is wholly managed by the private sector have relied on public financial instruments more than private financing. This is a break from the international model in which bidding consortia of firms bring with them their own financing for projects.

The four deals highlighted here relied heavily on state grants, Private Activity Bonds and the TIFIA lending program. These public financial instruments have brought in 68 percent of the capital for the projects, leaving private bank debt and private equity each with a little more than 15 percent of the capital.

Public-Private Financing of Public-Private Partnerships						
	Public Financing Instruments			Private Financing Instruments		Total
	State Grant	PABs	TIFIA	Bank Sr. Debt	Private Equity	
I-495 HOT Lanes	\$409.0	\$589.0	\$589.0	\$0.0	\$350.0	\$1,937.0
North Tarrant Express	\$573.0	\$398.0	\$650.0	\$0.0	\$426.0	\$2,047.0
Port of Miami Tunnel	\$209.8		\$341.0	\$341.5	\$80.3	\$972.6
I-595	\$232.0		\$603.0	\$781.1	\$207.7	\$1,823.8
Total	\$1,423.8	\$987.0	\$2,183.0	\$1,122.6	\$1,064.0	\$6,780.4

Source: PFM

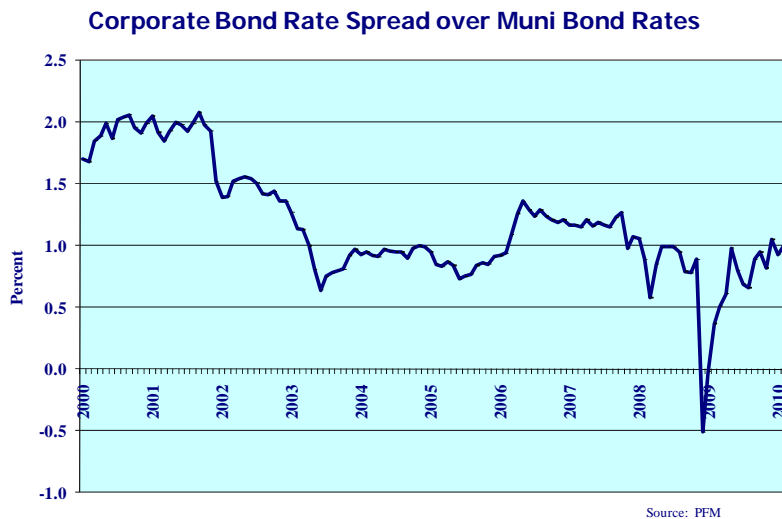


Source: PFM analysis of North Tarrant Express, I-595, I-495 HOT Lanes and Port of Miami Tunnel.

Why is public financing so persistent? As already stated, the US municipal bond market is indeed a unique market. The value of outstanding municipal bonds is approaching \$3 trillion. Each year, state and local governments and their agencies issue \$350-\$400 billion worth of bonds. This year, issuance is expected to peak at \$450 billion. So, the market is well established, highly liquid and transparent.

Some comparisons to other countries might be helpful to put things in perspective. In 2009, the UK's GDP was a little less than \$1.4 trillion, about half the size of the US municipal bond market. The UK is the recognized world leader in the P3 field, with its Private Finance Initiative churning out projects in practically every sector of the economy. Since its inception in 1992 to date, the program has closed deals worth approximately \$86.5 billion. This is roughly equivalent to 20 percent of one year's worth of US municipal bond issuance.

Another reason for reliance on public financing is a simple price issue. Corporate debt generally carries a higher interest rate than municipal debt. This can be seen in the graph below. The spread is typically 0.5-2.0 percent, although this did reverse itself during the financial chaos of September 2008, states and municipalities can generally raise funds at a lower cost than their private sector partners.



Moving forward, the trend to rely on public financial instruments for P3s will continue as evidenced by other recent deals. For several of those, Public Financial Management, Inc. (PFM) served as the public sector's independent financial advisor.

The North Carolina Turnpike Authority (NCTA) is a start-up organization created to study, plan, develop, construct, operate, and maintain toll roads in the state of North Carolina. PFM was retained by the Authority in early 2006 to develop and implement financing plans for each of the Authority's five toll road projects. PFM developed financial plans to identify and explore financing vehicles available to the NCTA. Though contemplated as tax-exempt municipal financings, each project is being developed with P3 features, including fixed-

price design-build construction contracts and privatized toll collections, operations and maintenance. The first of these projects to come to fruition was the Triangle Expressway, the first Greenfield toll road project since the onset of the financial crisis. The project's \$1 billion financing includes \$353 million of Build America Bonds secured by \$25 million in state annual appropriations, \$270 million in bonds payable from project toll revenues and a \$387 million TIFIA loan secured on a subordinate basis by toll revenues.

PFM was retained by the Maryland Ports Authority in fall 2008 to serve as P3 advisor for a project to tap the private sector to expand, operate and maintain the Seagirt Marine Terminal. This was the first project in Maryland to be undertaken as a P3 project. After guiding MPA through project feasibility and procurement stages, Ports America was selected as the preferred bidder. While the private company offered its own financing plan, PFM's analysis showed that if MPA assisted Ports America with a tax-exempt financing, the overall value of the concession would increase from MPA's point of view. This resulted in an increase of the upfront payment to MPA from \$110 million to \$140 million. The final financing package included \$170 million of revenue bonds and \$88.5 million of Private Activity Bonds. Financial close was reached on January 12, 2010, at which time the Concession went into effect.

In Florida, PFM's analysis of the proposed Ponciana Parkway has lead the public partner to pursue a financing strategy that includes public instruments such as a TIFIA loan and federal grants to combine with the private developer's equity to provide the necessary capital for the project.

These projects and those already discussed show the importance of considering innovative uses of public financial instruments to finance P3s. Including public financing in P3 structures often brings the most Value for Money to the public sector. While some governments may pursue P3s because they have reached their debt limits or are unable to issue debt for other reasons, those governments that are able and willing to access debt markets on their own can have the best of both worlds and in the process contribute to the development of a distinctly American style of P3.