Update on P3s

Gail Lewis
Director, Office of P3 Initiatives
Arizona Department of Transportation
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ADOT

Arizona’s P3 Program

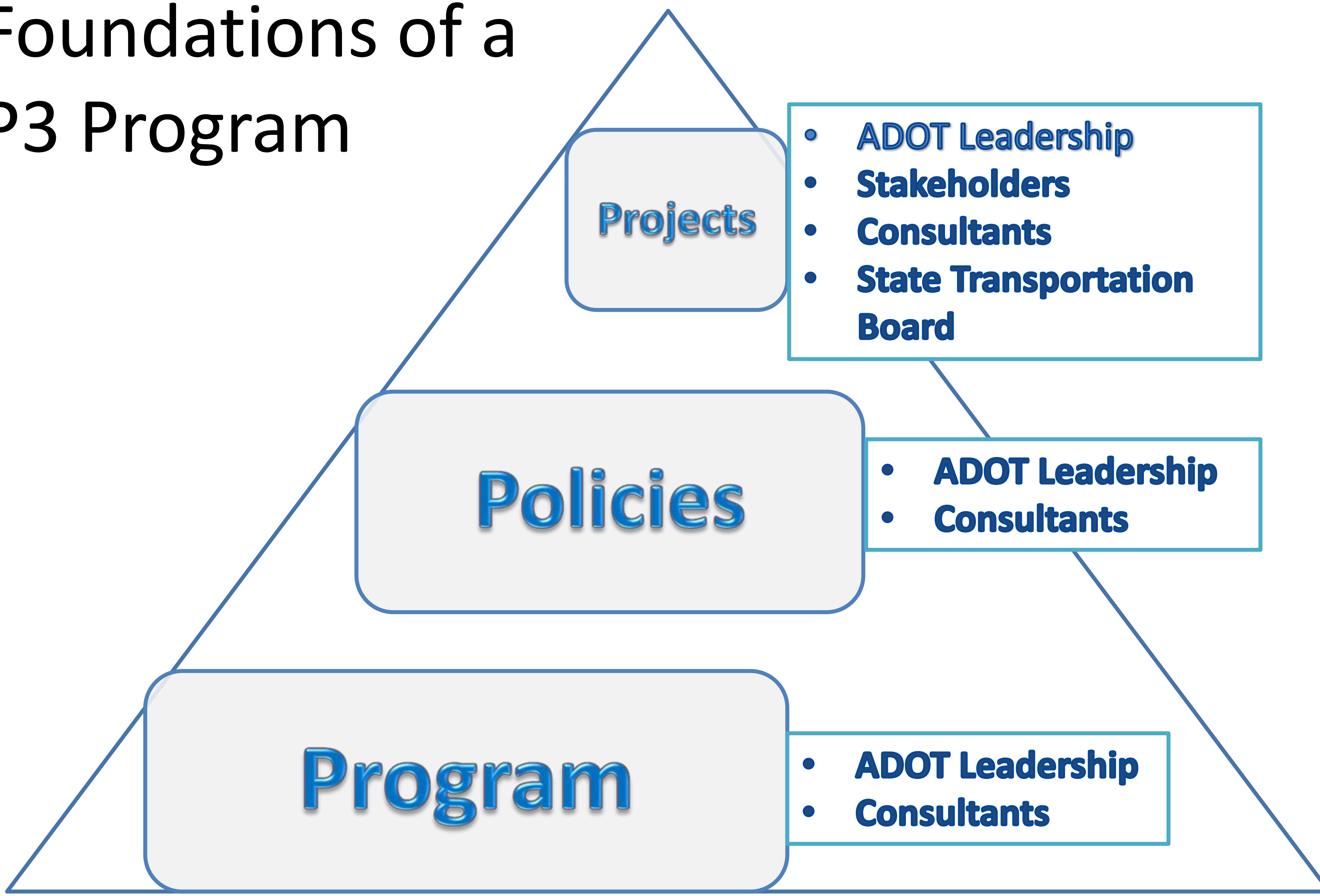
2009:

- ***Eligibility:*** enhanced, upgraded or new roads, rail, transit, and facilities, including vertical.
- ***Types of partnerships:*** design/build all the way to design/build/finance/ operate/maintain. Very flexible.
- ***Notable components:***
    - Exempts P3s from the procurement code, but does NOT exempt from competition.
    - Allows for ADOT to solicit projects, but also receive unsolicited projects.
    - Gives ADOT significant authority to enter into negotiations and agreements.
    - Can use a number of revenue sources as repayment, including revenue bonds, Grant Anticipation Notes, and tolls and fees.

2012:

- Added the ability to establish ADOT as the collector and enforcer of tolls or fees, and set protocols for enforcement.

Foundations of a P3 Program



How do P3s Differ from Traditional Procurement?

- Retention of public ownership and substantial control
- Long-term arrangements require long-term partnering approach to managing and allocating risks
- Traditional procurement focuses on a single factor = price to achieve a defined scope of work / design (e.g., design-bid-build)
- P3 procurement requires request for proposal process and consideration of multiple factors to determine "best value":
- Contractor experience and reputation
- Financial capability to sustain performance
- Understanding and approach to meeting long-term objectives
- Risk allocation
- Both capital cost and long-term O&M costs

The Broad Scope of P3 Transactions

- Water and wastewater
  - City of Rialto, CA (Rialto City / Rialto Water Services)
  - City of Allentown, PA (Allentown/Lehigh County Authority/KKR)
  - Tampa Bay Water
- Highways
  - Virginia, Florida, Texas, California, Pennsylvania projects
  - Entire roads, specialized facilities such as HOV or HOT lanes, bridge replacement and maintenance
  - Non-tolled such as South Mountain Freeway
- Public services
  - Detroit/MDOT Lighting Upgrades
- Housing
  - DOD military housing
  - University dorms

Types of P3s

- Design/Build –saves time and money by combing design and construction phases
- Mid-term to long-term O&M management contracts (O&M) – public owns but contracts out for long-term and performance-based O&M
- Design/build + O&M management contracts (DBOM) – Combines the two above but requires contracting and management that can accomplish all
- Design/Build, Finance, O&M Contracts (DBFOM) – includes some private sector finance, usually a combination of equity and debt finance, with repayment from user fees and/or traditional public sources.

DBFM Structure

Customers
- Pay fees for services provided (new or current fees)

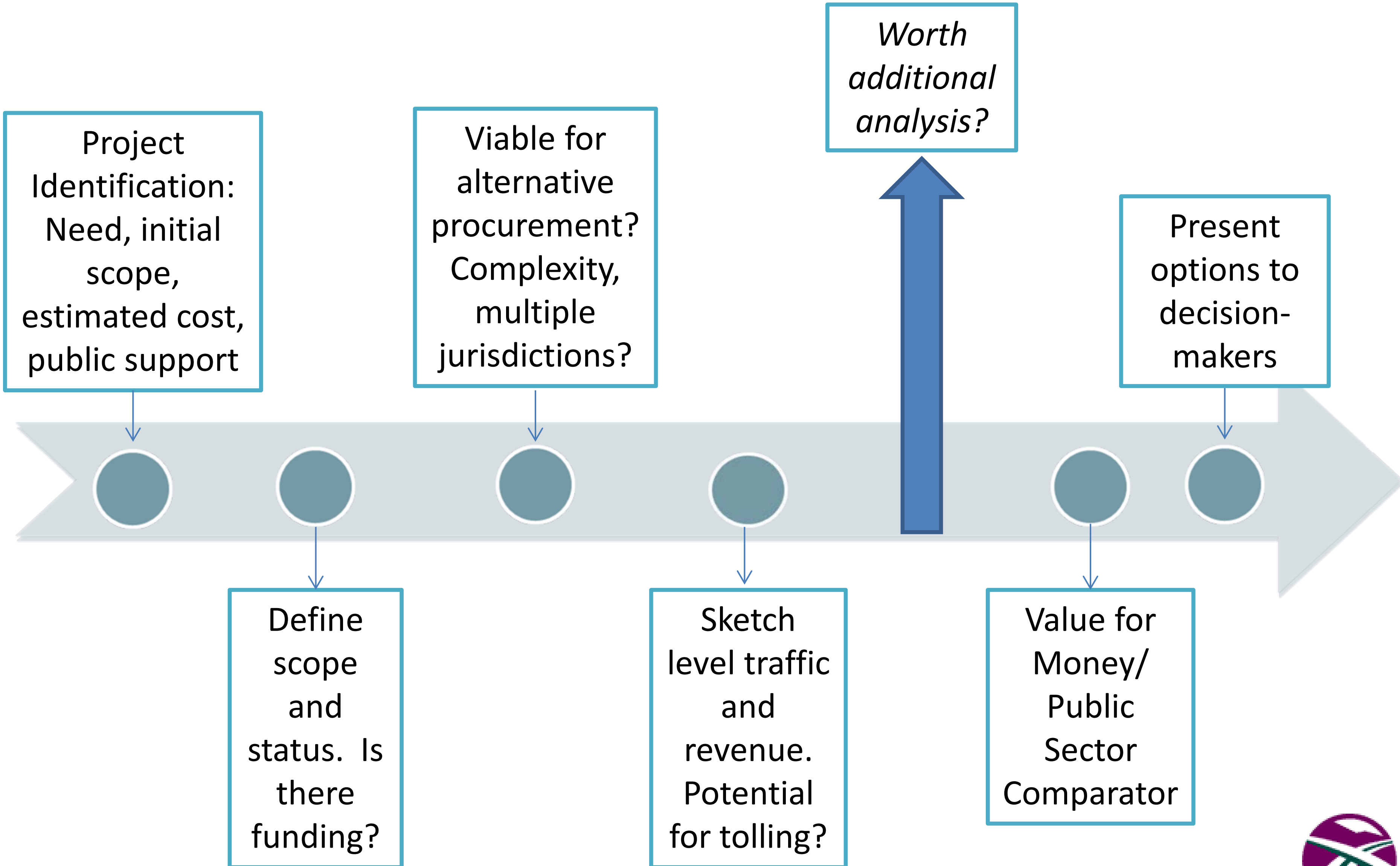
Public Entity
- Procures unified DBFM contract
- Sets & collects rates
- Pays service fee that includes component to repay capital financed by contractor

Design-Build, Finance, O&M Contractor

Lenders

- Provide financing via loan to DBFOM Contractor

Path to a P3



Project Identification: Need, initial scope, estimated cost, public support
Define scope and status. Is there funding?
Viable for alternative procurement? Complexity, multiple jurisdictions?
Sketch level traffic and revenue. Potential for tolling?
Worth additional analysis?
Value for Money/ Public Sector Comparator
Present options to decision-makers

Project Pipeline / Status

Concept Proposed 8

- *I-11*
- Connected Vehicle Infrastructure
- *Sonoran Parkway*
- I-40 Rancho Santa Fe TI
- *AAA Branding*
- CNG/EV infrastructure
- *I-15*
- Lake Havasu – London Bridge

Under Consideration 2

- SR-189 and Nogales Projects
- *"The Spine" (I-10/I-17 Improvements*

In Initial Evaluation 5

- *North-South Freeway*
- Rooftop Solar
- *I-17 Managed Lanes*
- ADOT Bldg. Renovation
- *SR-30*

In Detailed Evaluation 1

- Service AZ Website Advertising

Procurement Prep 3

- Freeway Lighting Upgrade
- *Stormwater Pump Rehabilitation*
- Cell Tower Project

Under PDA 1

- Flagstaff Facilities

Under Construction 2

- AZ Lottery/MVD
- *South Mountain Freeway*

In Operation 2

- Rest Area Maintenance
- *MVD Drivers Manual*

Trump Investment in Infrastructure

- President Trump is suggesting big investments in infrastructure, including more private investments.
- One idea: $125 - $175 billion in tax credits to fund private equity investments.
- Tax credits would be repaid through the additional taxes generated by the project, including revenues from additional wage income and contractor profits.

What are Tax Credits?

- A **tax credit** is a dollar-for-dollar reduction of the income **tax** owed. Credits reduce taxes directly and do not depend on tax rates.
- Sometimes credits can be sold or traded on the open market, so the recipient who cannot use a tax credit can sometimes sell to others. This feature can make credits more valuable.
- An infrastructure tax credit might allow investors to receive (or sell) a tax credit for up to 82 percent of an equity investment.

Some Issues and Questions

- Some infrastructure investments, such as utilities are already profitable.
- Tax credits generally have a limit – cannot reduce tax liability beyond zero.
- Tax credits would do nothing to attract non-profit investors, such as pension funds, that often invest in infrastructure.
- Unemployment so low many economists have question value of “new jobs” or additional tax revenue.

Some Issues and Questions

- Repayment from contractor profits – why would they pay but not investors?
- Equity is only part of investment. How does debt get repaid?
- Bottom line: Tax Credits are an enhancement, but NOT a substitute for repayment. Revenue is still an issue!

Thank You!