



Using Public-Private Partnerships For Toll Facilities

Greg Hulsizer

Cambria Solutions

September 10, 2012

Benefits of Private Equity Participation

- Accelerate delivery of new roads, bridges, etc.
- Realize untapped value from existing facilities
- Leverage Capital
- Bring Expertise
- Transfer Risk
 - Construction risk
 - Traffic risk
 - Technology risk
 - O&M cost risk
 - CapEx risk
 - Financial risk



The 'old' Olympic Parkway during rush hour!

Caltrans reports there is a noticeable effect on the 805 - traffic dropped 11% and speed increased by 20-mph!

South Bay Expressway

Private Capital

- **Why does private capital like toll facilities?**
 - Long term assets
 - Predictable cash flows
 - Long term growth potential - growth from both traffic increases and toll increases
- **What scares private capital?**
 - Long development cycles
 - Government approvals
 - Environmental issues
 - Right of Way acquisition
 - Public opposition
 - Political instability

*Toll Road Firm Says Suit Will Hurt Taxpayers
Driving: Riverside County's legal challenge to its franchise will delay solutions to 91 Freeway congestion, a company spokesman says.*

August 22, 2001

|DAN WEIKEL | TIMES STAFF WRITER

Private Investment Considerations

- Underlying economics
- Government/stakeholder support
- Development patterns/growth potential
- Existing and future traffic volumes
- Demographics/Psychographics
- Ability to control toll rates
- Length of concession
- Competing facilities
- Risk factors – environmental, right-of-way, public opposition, litigation



The Public Sector

- **Why does the public sector like private capital?**
 - Leverage transportation dollars
 - Provides expertise
 - Shifts risk from taxpayers to investors
- **What scares the public sector?**
 - Being taken advantage of by sophisticated investors
 - “Profits vs. public interest”
 - “Selling our roads to foreigners”
 - Labor concerns



Roles

- **Public sector's key role is setting the agenda – “Turns the Dials”**
 - Specify desired outcome – result as opposed to means and methods
 - Take on risks it is more suited to deal with (legislative, government approvals, ROW, environmental)
 - Determine public investment
 - Determine concession form – tolled, availability payment
 - Controls terms of operation, including toll changes, operation and maintenance standards, right to make future changes, etc.
 - Maintains legal title to asset
- **Private sector's role**
 - Calculate financial impact of policy decisions
 - Educate on concession model –how it addresses needs/concerns and impact of policy decisions
 - Responsible for development, maintenance, and operations costs
 - Must comply with enabling legislation and concession agreement

Public Sector Turns The Dials

- **Some key dials to consider:**
 - Public investment
 - Performance standards
 - Who clears environmental and acquires right-of-way
 - Concession length
 - Tolling schedule
 - Who collects revenue
 - Use of availability/performance payments
 - Uses of revenue
 - Revenue sharing
 - Non-compete clauses
 - Opportunity for community amenities
 - Existing employees labor agreements



Success Formula

- A project that makes sense (not necessarily only the difficult ones)
- Elected and Administration champions
- Customers willing to pay tolls or revenue stream for availability payments
- Interested investors
- Supportive political, stakeholder and community environment
- An agreement that is equitable to all parties with appropriate risk/reward sharing
- Strong local public sector oversight facilitator/project manager
- Experienced concessionaire
- All parties taking a long-term view

*That doesn't mean it always
 out for the equity*



91X and SBX (SR125)

- Roads were built; bringing congestion relief and economic development and quality of life benefits decades earlier than would have been possible without private investment
- Additional public benefits were realized
- Risk was transferred to the private sector
- 91X sold to OCTA
- SB sold to SANDAG
- We learned valuable lessons



Presidio Parkway

- New gateway between Golden Gate Bridge and City of San Francisco
- Developed under SB4
- 1.5 mile viaduct and tunnel structure
- Approximately \$1 billion construction cost
- Project Received \$150 million TIFIA financing
- Availability payment (performance-based) structure
- 30-year contract to design, build, finance, operate, and maintain.
- Project has been subject of litigation
- Recently reached financial close
- Expected to open 2015



Going Forward

- Need has increased
- Today there is more experience and more private sector players
- No two projects are alike – need to have flexibility
- We need legislative and administrative champions at all levels of government
- Most likely will be more shared financing and shared risk
- Consider government clearing environmental and right-of-way issues
- Likely to be more managed lanes opportunities than green-field projects. May need to look at definition of HOV or consider partial public funding, availability payments with performance requirements to attract private sector investment

Wishing You Great Success!

Greg Hulsizer
Cambria Solutions
ghulsizer@cambricasolutions.com
619.864.2689