

The Case for Public/Private Partnerships in Transportation Planning *Building transportation projects in Washington State*

By Michael Ennis, Director, Center for Transportation Policy

State legislators will likely make decisions regarding transportation funding during this Legislative Session. With the Regional Transportation Investment District (RTID) and the second phase of Sound Transit on the horizon, many questions remain unanswered about how the region will pay for the Alaskan Way Viaduct and the 520 floating bridge. To give legislators another tool, Washington Policy Center proposes looking at the private sector and encouraging Public/Private Partnerships (PPP's).

Introduction

With rising costs and the uncertainty around how future projects will be paid for, policymakers are looking for effective alternatives for funding new, and maintaining the current transportation infrastructure in Washington State. Using the Public/Private Partnership concept, a group of businesses have joined forces to answer the call of policymakers in the search for a new approach.

This group calls itself the Plateau Transportation Partnership (PTP), and consists mostly of residential and commercial development companies around Pierce County. They include Quadrant Homes, Miles Sand & Gravel, Cascadia, Falling Water and Plateau 465 (a partnership between Investco Financial, Tucci & Sons, Inc., and Homeland Ventures).

The Plateau Transportation Partnership is laying the groundwork for Public/Private Partnerships in Washington State and lawmakers should take notice.

Their mission is to leverage public and private funds to improve transportation infrastructure. To do this, the PTP generally proposes to pool financial and construction related resources from their membership to build and finance projects. Commonly known as Public/Private Partnerships, these tools have been used across the country because of their effectiveness and ability to reduce costs and construction times. The PTP is laying the groundwork for Public/Private Partnerships in Washington State and lawmakers should take notice.

Traditional funding sources are insufficient to cope with rising project costs and transportation needs. Since the fuel tax is not indexed with the value of the dollar, its purchasing power slows as inflation rises. And as the price of oil climbs, its demand falls; further eroding revenues produced from taxing the sale of fuel. In addition, the state has raised the gas tax 14 ½ cents, since 2003. Other traditional funding sources for transportation include the Motor Vehicle Excise Tax (MVET) and sales tax.

Overall, there is very little political support to draw on these traditional sources further. Nationally, trends point to a growing popularity in tolling and various forms of congestion

pricing. But alone, these concepts are no panacea. They could be incorporated into a larger strategy of PPP's.

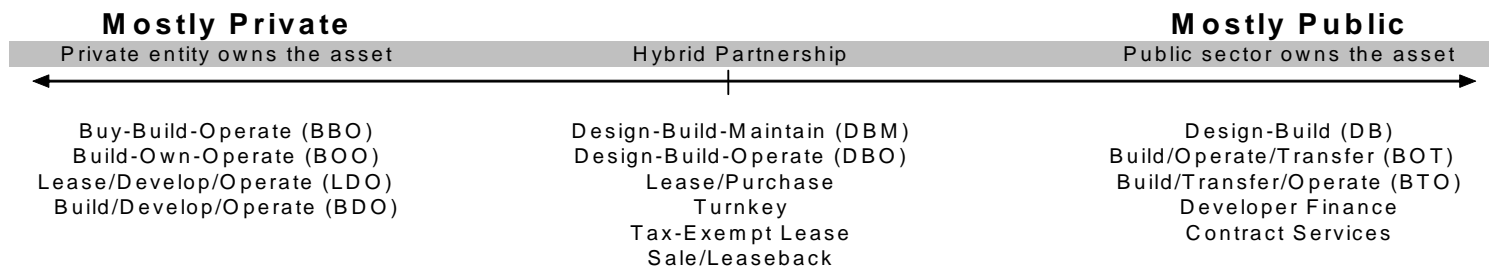
Public/Private Partnership

Relative to the rest of the United States, Washington has been slow to fully embrace the PPP strategy. Relying on traditional funding mechanisms such as the fuel tax, sales tax and the Motor Vehicle Excise Tax (MVET), officials have generally ignored the private sector for support. Yet, across the United States, many public transportation projects have succeeded through private partnerships. For example, in 1988, New York officials partnered with three development and leasing firms to redevelop Union Station for \$170 million. Other large Public/Private Partnerships include:

- Trans-Texas Corridor, Texas – \$7.2 Billion – 2006
- Pocahontas Parkway, Virginia – \$318 Million – 2003
- New York Metro Station, New York – \$90 Million – 2006
- Indiana East-West Toll Road, Indiana – \$3.85 Billion – 2006

A PPP is defined as a contractual relationship between a public agency and an organization from the private sector. These partnerships can take many forms. According to the National Council for Public-Private Partnerships, there are generally about a dozen types of PPP's. Attached to this report is an appendix explaining the different PPP's.

Partnerships can range between mostly private to mostly public and several types incorporate a balance of both public and private. The following chart measures several common types of partnerships and their degree of involvement between the public and private sectors.¹



There are many considerations that must factor into which type of partnership is right. Public oversight, asset ownership, long term maintenance, liability and labor are all important matters that will dictate which PPP is a better fit. In the past, these issues have been treated as obstacles and prevented partnerships from forming. Yet, these questions have been addressed by other states by adapting the various types of partnerships. Undoubtedly, these concerns are important but they should not deter the benefits of a Public/Private Partnership.

Partnership Benefits

Creating mechanisms that loosen the reliance on public dollars by encouraging private sector spending produces a winning answer for taxpayers, consumers and road users. Without the support of a PPP, it is unlikely there would be enough public money to build the transportation projects our region needs. Partnering with the private sector is one way to

¹ Information adapted from the Types of Public-Private Partnerships. The National Council for Public-Private Partnerships. Available online at: <http://ncppp.org/howpart/ppptypes.shtml>.

leverage resources and get roads built; otherwise, funding becomes insurmountable, roads are not built and our system continues to deteriorate.

In some cases, the private sector can avoid unnatural costs that are commonly found in government projects. Transportation planning in the public sector is required to overcome two barriers, natural and unnatural. Natural costs include geography, construction, materials and labor. Unnatural costs are those that are manufactured by the government and include prevailing wages and environmental and labor regulations. It is estimated that these unnatural expenses can inflate a public sector project by up to 40%.

Depending on the relationship, and with proper oversight, a PPP can avoid many of these unnatural increases and complete a project cheaper and faster than a government agency working alone.

Recently, *The Seattle Times* reported that project costs planned by the RTID have risen 31%. As a result, many of the original improvements are in danger of not being funded. A PPP could preserve some of these projects.

For example, the Plateau Transportation Partnership has proposed partnering with RTID and the Washington State Department of Transportation (WSDOT) to contribute toward the State Route 162 project. Through its membership, the PTP wants to provide the local match of several million dollars. The PTP has also proposed a partnership with Pierce County to extend Rhodes Lake Road East. The PTP would contribute resources to complete the planning, environmental review, design and construction of an extension and realignment of the road.

In both cases, the PTP would only contribute resources to complete the projects and ownership of each asset would remain with the public sector. The PTP does not plan to impose tolls or congestion pricing.

Improving transportation infrastructure not only promotes economic development but it also accomplishes some of the land use conditions in the Growth Management Act (GMA). A PPP can create the concurrency required by the GMA while at the same time providing extensive public benefit. A private developer can leverage its traffic mitigation dollars to expedite project approvals and, more importantly, to produce more efficient and meaningful traffic improvements. These partnerships are a winning combination because taxpayers save money, transportation projects are built and if desired, the state maintains control of the assets.

Conclusion

Public/Private Partnerships have a proven track record across the United States and should be embraced by public officials in Washington. The Plateau Transportation Partnership is one example of how PPP's can work in our region and they should be encouraged. There are several types of partnerships that can be tailored to address the concerns associated with including the private sector in transportation projects.

The transportation system in Washington is in a state of crisis. The population in the Puget Sound is projected to increase by 1.2 million people by 2030. As a result, commute times and delay, two common measures of congestion are predicted to become worse than they are today. Our region is paralyzed by the current process and Public/Private Partnerships can get things moving again.

Appendix: Types of Public/Private Partnerships

Build/Operate/Transfer (BOT) or Build/Transfer/Operate (BTO)

The private partner builds a facility to the specifications agreed to by the public agency, operates the facility for a specified time period under a contract or franchise agreement with the agency, and then transfers the facility to the agency at the end of the specified period of time.

Build-Own-Operate (BOO)

The contractor constructs and operates a facility without transferring ownership to the public sector. Legal title to the facility remains in the private sector, and there is no obligation for the public sector to purchase the facility or take title.

Buy-Build-Operate (BBO)

A BBO is a form of asset sale that includes a rehabilitation or expansion of an existing facility. The government sells the asset to the private sector entity, which then makes the improvements necessary to operate the facility in a profitable manner.

Contract Services

A public partner contracts with a private partner to provide and/or maintain a specific service. Under the private operation and maintenance option, the public partner retains ownership and overall management of the public facility or system.

Design-Build (DB)

A DB is when the private partner provides both design and construction of a project to the public agency. The public sector partner owns the assets and has the responsibility for the operation and maintenance.

Design-Build-Maintain (DBM)

A DBM is similar to a DB except the maintenance of the facility for some period of time becomes the responsibility of the private sector partner. The public sector partner owns and operates the assets.

Design-Build-Operate (DBO)

A single contract is awarded for the design, construction, and operation of a capital improvement. Title to the facility remains with the public sector unless the project is a design/build/operate/transfer or design/build/own/operate project.

Developer Finance

The private party finances the construction or expansion of a public facility in exchange for the right to build residential housing, commercial stores, and/or industrial facilities at the site. The private developer contributes capital and may operate the facility under the oversight of the government. The developer gains the right to use the facility and may receive future income from user fees.

Lease/Develop/Operate (LDO) or Build/Develop/Operate (BDO)

Under these partnerships arrangements, the private party leases or buys an existing facility from a public agency; invests its own capital to renovate, modernize, and/or expand the facility; and then operates it under a contract with the public agency.

Lease/Purchase

A lease/purchase is an installment-purchase contract. Under this model, the private sector finances and builds a new facility, which it then leases to a public agency. The public agency makes scheduled lease payments to the private party. The public agency accrues equity in the facility with each payment. At the end of the lease term, the public agency owns the facility or purchases it at the cost of any remaining unpaid balance in the lease.

Sale/Leaseback

This is a financial arrangement in which the owner of a facility sells it to another entity, and subsequently leases it back from the new owner. Both public and private entities may enter into a sale/leaseback arrangements for a variety of reasons.

Tax-Exempt Lease

A public partner finances capital assets or facilities by borrowing funds from a private investor or financial institution. The private partner generally acquires title to the asset, but then transfers it to the public partner either at the beginning or end of the lease term.

Turnkey

A public agency contracts with a private investor/vendor to design and build a complete facility in accordance with specified performance standards and criteria agreed to between the agency and the vendor. The private developer commits to build the facility for a fixed price and absorbs the construction risk of meeting that price commitment.

Source: Types of Public-Private Partnerships. The National Council for Public-Private Partnerships. Available online at: <http://ncppp.org/howpart/ppptypes.shtml>.

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Published by Washington Policy Center

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