There has been much discussion in the transportation industry over the past 15 years on public-private partnerships (P3s). Those early conversations progressed from conceptual to actual, and are now being implemented across the nation. This article focuses on greenfield P3 projects. Greenfield is the term used for a project that lacks any constraints imposed by prior work. It also describes a new company or relationship that forms to take part in a new activity without assets or capital, and involves sizable financial risk.

Revenue risk and government-backed are two major funding structures for greenfield P3 projects. Revenue risk applies when the private sector assumes the risk of revenue sources managed by the private team. Tolls are an example of this funding stream, which are collected over time to repay funds borrowed for project. Government-backed applies when a public owner agrees to repay resources, over a period of time, borrowed by the private team to build the project.

The main government-backed approach in the United States is the availability payment structure. This structure is when the public owner pays the private team a set periodic amount (may be adjusted for inflation) and the payment is reduced if the facility is not available for use under the terms of the P3 agreement.

While serving as the Assistant Secretary for Finance and Administration at the Florida Department of Transportation, I was fortunate enough to participate in the development of the Port of Miami Tunnel and I-595 Expressway availability payment structure. It is believed to be the first use of this methodology in the United States.

Since the meltdown of the financial markets in 2008, developing new revenue-risk P3s, such as new alignment toll roads, has been extremely challenging. The financial community is currently unwilling to risk investing in P3 projects unless the repayment is backed by the public owner or the revenue stream is based on actual traffic counts.

The Transportation Infrastructure Finance and Innovation Act (TIFIA) provides federal financial assistance and is a key tool for moving P3 projects forward. TIFIA can include flexible repayment terms and the interest rate

The Port of Miami Tunnel Project is currently being built by MAT Concessionaires LLC, in partnership with the Florida Department of Transportation, Miami-Dade County, and the City of Miami. Photo: Port of Miami Tunnel.
is indexed to a low rate for taxable debt. TIFIA can also be subordinate to the repayment of senior debt, such as bonds or bank loans in all cases except in bankruptcy of the P3.

All major P3 projects, since 2008, included TIFIA as a key component of the finance plan. A number of states have programs like TIFIA titled state infrastructure banks (SIB) that may be available for smaller scale projects. TIFIA and SIB loans, in combination with senior debt, can be essential to maintaining a P3 project schedule and delivery.

Senior debt relates to other project funding instruments typically, bonds, bank loans, or equity participation from the P3 team members. The importance of the TIFIA and SIB programs to the transportation industry cannot be overstated. Efforts to sustain these programs must be supported as Congress deliberates the new transportation bill.

An emerging project-funding strategy is garnering recognition as an innovative alternative. This creative approach, called design-build-finance (DBF), allows the design-build team to provide gap financing to be repaid by the public owner over a period of time extending beyond the completion of the project. Florida has successfully implemented eight DBF projects.

The DBF methodology is not without risk. Examples of those associated risks include the contractor having to assume the gap finance amount on their balance sheet, and the lack of gap fund proceeds being available to the surety company.

I developed an innovative, cost-effective method for DBF projects to provide tax-exempt bond finance to the public owner through the design-build contractor. This creative method advances the gap funds to the contractor at no risk for the repayment of the bond principal and interest and also ensures the gap funds are available to the surety company in the case of a default by the contractor. The first project using this funding method is the I-95 DBF project on the Space Coast of Florida, which should reach financial close in the summer of 2012.

Transportation funding and finance is a major challenge today. We must consider innovative methods and strategies. The goal is to deliver the maximum number of transportation assets with the available resources, while striving to generate additional funds for future transportation demands.

P3 Successes

In 2012, a number of states, including California, Colorado, Florida, Texas, and Virginia, successfully implemented P3 strategies to deliver the following greenfield projects:

- Presidio Parkway, San Francisco, Calif.
- Eagle P3, Denver, Colo.
- Port of Miami Tunnel, Miami, Fl.
- North Tarrant Express, Dallas, Tex.
- I-495 Capital Beltway Express Lanes, Va.

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