

Public-Private Partnerships (PPPs)  
in Transportation

Technical Report

MARCH 2012



HUMPHREY SCHOOL  
OF PUBLIC AFFAIRS  
UNIVERSITY OF MINNESOTA  
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## **I. INTRODUCTION**

The Public-Private Partnerships in Transportation Task Force Study was commissioned by MnDOT in December 2010 to identify and examine the potential for expanding Public-Private Partnerships within a regional and state context. Key was the assembly of a task force, responsible for identifying potential outcomes and recommending mutually agreed upon strategies toward implementing successful PPPs in Minnesota. Findings from the PPP task force are intended to be used in further discourse by other state groups.

The PPP Task Force Policy Team was comprised of individuals from the Humphrey School of Public Affairs and representatives from MnDOT. Over the course of the year, the team accomplished several tasks. The team further defined regional PPP opportunities and challenges and promoted in-depth discussion of PPP value among all relevant stakeholders, as well as staffing a Policy Task Force to further examine these policy issues.

The Policy Task Force included 28 members, involving a diverse set of regional stakeholders, including legislators, local elected officials, transportation leaders, and business, labor, environmental, and community leaders. The University convened six monthly task force meetings between May and December 2011. The task force was charged with developing a list of potential PPP project options that could benefit the state, refining criteria for evaluating PPP opportunities and challenges, and recommending PPP strategies for state implementation. The task force issued its findings and recommendations in a report dated December 2011.

The PPP Transportation Study technical report is designed to detail the work done by participants and task force. It serves in conjunction with the executive summary and recommendations issued by the assembled task force. It includes relevant details of proceedings, including a timeline, presentations, and key discussion points and outcomes.

## **II. SCOPE OF PROJECT**

### **Understanding Public-Private Partnerships**

PPPs are defined by the US Department of Transportation as:

“A contractual agreement formed between public and private sector partners, which allows more private sector participation than is traditional. The agreements usually involve a government agency contracting with a private company to renovate, construct, operate, maintain, and/or manage a facility or system. While the public sector usually retains ownership in the facility or system, the private party will be given additional decision rights in determining how the project or task will be completed.”

Zhao et al. propose a PPP taxonomy framework “along two dimensions: (1) facility development stages, and (2) the level and type of private involvement.” Development stages include design/construction, operating/maintenance, and expansion/rehabilitation. Type of private involvement includes public-financing, private-financing, and value-capture. The definitions that follow are categorized as traditional delivery, public-financing PPP, private-financing PPP, value-capture PPP, or full privatization and come directly from pages 9 through 12 of the Zhao et al. (2011) report.

PPPs are NOT synonymous with outsourcing or privatization, and are not a panacea for all projects. Each project must be carefully considered to understand whether or not a PPP would be a good fit for the project. Finally, PPPs are not only about cheaper financing. Some projects may benefit from being delivered by PPPs although public financing may be comparable.

### **Evaluating Public Private Partnerships in a Regional Context**

Many factors have affected Minnesota’s ability to build new transportation infrastructure or to pay for the necessary maintenance, which further influence regional economic development and job creation. These factors include changing economic condition, a delayed federal transportation reauthorization bill, declining value of the fuel tax and growing infrastructure needs. Therefore, PPPs, as an alternative method, have been increasingly studied and pursued by state policymakers. Twenty-nine States have enacted authority for a state transportation agency to consider and enter into PPPs for highway projects. Minnesota may have fallen behind other states in forming innovative public-private partnerships in some ways. PPPs in transportation have many benefits for the public sector and public interest, as well as potential concerns and controversies. The significance, controversial character, and misunderstanding of PPPs need to be further studied and examined. This study was beneficial for leaders to express their concerns and to understand what issues must be addressed for PPPs to be acceptable to the public and policymakers.

### **Desired Outcomes**

The final analysis will inform policy makers about the potential opportunities and challenges related to PPPs. Alternative strategies for expanding PPPs in Minnesota will be suggested by the task force to assist MnDOT and state legislators in making policy decisions.

### **III. PPP TASK FORCE**

#### **Collaboration with University of Minnesota**

A multidisciplinary team at the Humphrey School of Public Affairs developed guidelines for a PPP task force and identified a list of potential members of a PPP task force in consultation with MnDOT leaders and other relevant stakeholders. Monthly task force meetings were held and a policy workshop on PPPs was conducted with a representative from the National Conference of State Legislators. National and international experts broadly identified key issues and opportunities in PPPs and examined potential expansion of PPPs in Minnesota. After the task force results were finalized, the Humphrey team summarized general findings from the task force and provided recommendations to assist in further public outreach.

#### **Assembling the PPP Task Force**

The task force was assembled to ensure a broad range of state and regional interests were adequately represented. The proposed task force included legislators, local elected officials, transportation leaders, business, labor, environmental, and community interests. Invitations were extended to prospective task force members. The final list of participants can be found in Appendix 1.

#### **Objectives of the PPP Task Force**

John Gunyou (City of Minnetonka) was elected chairperson of the group, and the first task force commenced May 11, 2011. Primary objectives included:

- Welcoming the task force and inviting members to comment on their expectations.
- Ensuring the interests of all potential public and private partners were equally considered
- Determining strengths and weaknesses of specific PPP case studies to begin establishing models best suited for Minnesota
- Working in small groups to identify and assess aspects of PPP model: Value Capture, Value for Money, and Pricing
- Providing comprehensive recommendations to be used by MnDOT and future committees

The Policy Task Force met monthly for six months. Table 1 provides a meeting schedule and agenda outline.

**Table 1: Meeting Minutes**

<p><b>Meeting #1 May 11, 2011</b></p> <ul style="list-style-type: none"> <li>-Welcome &amp; Introduction</li> <li>- Zhao Presentation</li> <li>- Dibble Comments</li> <li>-Larsen Comments/Handouts</li> <li>- Discussion of the Task Force future working schedule</li> </ul>	<p><b>Meeting #2 June 29, 2011</b></p> <ul style="list-style-type: none"> <li>- Reed Policy Workshop Presentation</li> <li>- Task Force Discussion and Action items</li> </ul>	<p><b>Meeting #3 August 4, 2011</b></p> <ul style="list-style-type: none"> <li>- Wischnack Presentation</li> <li>- Poteat Presentation</li> <li>- Task Force Discussion and Action items</li> </ul>
<p><b>Meeting #4 August 31, 2011</b></p> <ul style="list-style-type: none"> <li>-Review and Approve Aug 4 meeting minutes</li> <li>- Larsen/Benouaich Presentation</li> <li>- Small Discussion Groups (Value for Money, Value Capture, Pricing)</li> </ul>	<p><b>Meeting #5 Nov 3, 2011</b></p> <ul style="list-style-type: none"> <li>-Review Oct meeting minutes</li> <li>- Large Group Discussion (Value Capture, Value for Money)</li> </ul>	<p><b>Meeting #6 Dec 1, 2011</b></p> <ul style="list-style-type: none"> <li>-Presentation of Summary and Recommendations</li> <li>- Task Force Discussion and Review</li> </ul>

**PRESENTATIONS**

Several experts in the field presented findings to the task force designed to illustrate key concepts and provide a framework for task force members’ further participation. Jerry Zhao and Brad Larsen (MnDOT) presented findings from their research on PPPs. (See Appendix 2 &3) Jim Reed (National Conference of State Legislatures) gave a presentation titled *Evaluating PPPs for Transportation: An Analytical Approach for State Legislature*. (Appendix 4) Julie Wischnack, the Community Development Director of the City of Minnetonka, presented on the Hwy 169/Bren Road Interchange. Atkins’ senior vice president of transportation gave a presentation on Value for Money. (Appendix 5) Each presenter focused on defining PPPs, providing evidence of their utility, weighing costs and benefits, and providing a set of principles to guide Minnesota stakeholders. Summaries of each presentation follow.

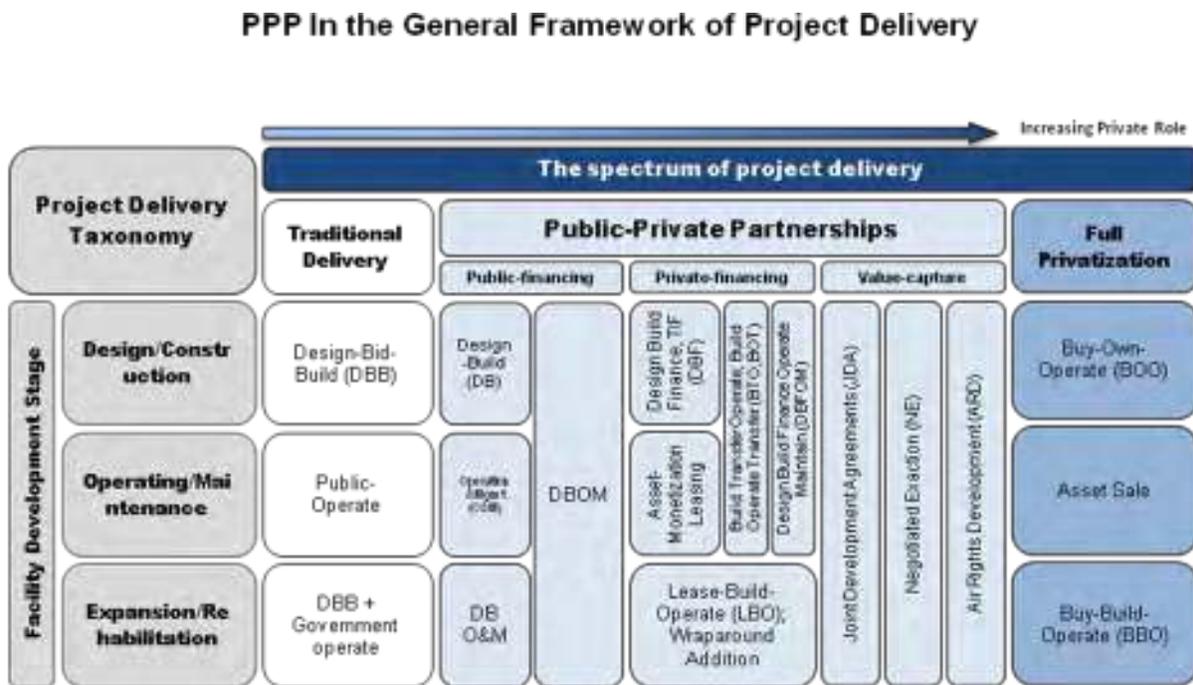
***Jerry Zhao, Assistant Professor – Humphrey School of Public Affairs***  
***Public-Private Partnerships in State Highway Development***  
 (Appendix 2)

Defining PPPs, viewing them in context, and identifying the details of implementation are necessary components to understanding their regional viability.

PPP’s can be defined as an arrangement in which a government and a private entity jointly perform or undertake a traditional public activity. A narrower definition states that a PPP is a complex contractual relation involving both public and private sector to deliver capital-intensive public infrastructure. In terms of transportation, PPP’s constitute a formal contractual agreement

that allows more private sector participation than is traditional. (USDOT, 2004) The taxonomy of PPPs is illustrated by Figure 1, taken from the Zhao et al. (2011) report.

**Figure 1 - A General Framework of Infrastructure Delivery Options**



(Source: Zhao et al. 2011)

### Acronyms Defined

*Design Bid Build (DBB)*: It is a traditional method of public sector project delivery where project is first designed then bid and then build.

*Design Build (DB)*: Design-build is a project delivery method that combines two, usually separate services into a single contract. With design-build procurements, owners execute a single, fixed-fee contract for both architectural/engineering services and construction.

*Design Build Operate & Maintenance (DBOM)*: Under this model the operation and maintenance functions are also contracted out to private sector.

*Design Build & Finance (DBF)*: Under this scenario DB entity is also responsible for financing the project.

*Design Build Finance Operate & Maintain (DBFOM)*: Under this approach DBOM entity is also responsible for financing the project. Under this approach nearly all the project functions are contracted out the public sector owner.

Advantages of PPPs include innovation and diffusion (Knowledge transfer between public and private sectors), competition in delivery, and potential new business sector of private delivery of traditional public sector functions. Specific PPP options have other advantages associated directly with them. Risk transfers within PPPs include a general principle that each risk should be assigned to the partners who can best handle the risk. Elemental risks include planning/authorization, design/construction, and operation/maintenance. Global risks address political uncertainty and financial market volatility.

The use of PPPs for transportation projects has a long history, dating to the 1790s. However, the U.S. has fallen behind in recent years, due to fuel-tax based highway trust funds and unique tax-exempt municipal bonds. Recently, a revived interest in PPPs is the result of insolvency of highway trust funds, declining state and local debt capacity, and increased interest from the private sector. There are, however, several significant legal and regulatory constraints against the PPP model. 28 states have PPP-specific legislation, ranging from limiting PPP to cautiously positive. Additional legal constraints include environmental review, limited use of tolling, and local vetoing power. Public concerns over PPPs are rooted in fear of losing public control and risk of increased public costs, but may be mitigated by greater public engagement and education. Additional state legislation and broader institutional support are also key for adoption.

Implementing PPPs require assessing managerial issues and protecting public interest. There are four main steps to assess possible implementation:

*Project Selection and Delivery:* Evaluation tools for specific PPP options include quantitative and qualitative methods such as Value for Money, Public Sector Comparator and measures for equity, efficiency, and accountability.

*Procurement types* include Solicited/Unsolicited proposals, procurement type (e.g. DB, DBF, DBFO, DBFOM) procurement phasing options (such as procurement with environmental approval), and bidding/negotiation.

*Contract Development* include PPP payment options, contract length, tolling rate policies, non-compete clauses, and hand-back provisions.

*Managing PPP Projects:* Management involves oversight and monitoring, transparency and public participation, use of proceeds, and contract modification strategy.

Concluding remarks suggest that PPPs are worth additional consideration, but are needful of broader institutional support and public education, as well a closer look at capacities of contract management.

***Brad Larsen, MnPASS Policy Manager – MnDOT  
& Michael Benouaich, Principal Manager – P3 Advisory Services  
MnDOT P3 Program Recent Activity: P3 Project Screening and Assessment Study  
(Appendix 3)***

Primary State PPP Legislative Authority:

- Toll Facility/P3 Procurement Authority under MS 160.84-98 (e.g. 1995 TranSmart P3 Toll initiative, which was ultimately vetoed by municipality)
- Agreements w/Nongovernmental Entities under MS 174.02(6)
- Other types of Minnesota PPPs include 1998 Fiber Optic project, 2005 I-394 MnPass project, and R&D partnerships (e.g. MN Guidestar and TERRA pavement research boards)

There has been increasing PPP activity in Minnesota, including Alternative Finance Program Development, TED Pilot Program (e.g. TH 169/Bren Rd. Interchange), NICE Ride Bike Sharing Partnership, Alternative Financing Legislative Proposal, among others. A primary activity has been the P3 Project Screening and Assessment Study, led by Michael Benouaich.

The P3 Project Screening and Assessment Study objectives included:

1. Identifying a list of best (most promising) project candidates most likely to generate greater value through PPPs
2. Developing recommendations to analyze and implement these projects using PPP delivery

Looking at a list of 38 prioritized transportation projects across all districts, a two-step rigorously assessed screening was established.

Level One identified fatal flaws, project size and complexity, criticality, revenue potential, implementation timeframe, and planning status. In some cases, projects were bundled to reach critical size/complexity and increase opportunities for economies of scale, schedule, and cost efficiencies. MnPASS is an example of projects that were bundled.

Level Two examined cost recovery analysis for revenue-generating projects, as well as qualitative risk transfers and schedule/cost efficiencies. The general approach to cost recovery analysis included discounted cash flow analysis and a comparison of net revenue after coverage to initial capital expenditures. Assumptions regarding traffic/toll revenue and financing are kept as consistent as possible with past studies. Identifying contractual forms, financing, scope of work and services, allocations of risks, and sources of efficiencies made up the bulk of the research. Case studies were developed, as well as examples of more “common” P3 projects.

Figure Two provides an illustration of the overall process, as well as notes current regional placement within the process.

**Figure 2: P3 Program & Project Development Proces**



Next steps include creating a rubric for legislation that provides transparency and predictability throughout procurement, institutional capacity, and performance standards for P3 contracts. Subsequently, a full Value for Money analysis needs to be developed, including a realistic Public Sector Comparator and Shadow Bid. A thorough VfM analysis will answer the question of the P3’s viability.

***Jim Reed - National Conference of State Legislatures***  
***Evaluating PPPs for Transportation: An Analytical Approach for State Legislators***  
 (Appendix 4)

NCSL is a bipartisan organization that serves 7,382 legislators to research and inform on pertinent topics, provide technical assistance and training, and lobbying at the federal level for states’ interests.

The national recession, state budget shortfalls, and declining tax revenues have created a transportation funding crisis. The PPP option can complete large scale transportation projects that cannot be fully funded by traditional means and can create cost savings in terms of initial investment and long-term operation and maintenance. Finally, bringing private sector practices and innovations into public projects may increase overall efficiency.

The NCSL project on PPPs was created due to intense legislative interest in the matter, and resulted in several educational workshops and a development of a written guide using multiple sources to create a State Legislator’s Toolkit. The toolkit includes context for understanding PPPs, state government roles in PPP process, and principles for good governance as applied to PPP issues. Individual states’ requirement of legislative approval for PPP projects varies broadly. Advantages of requiring approval include projecting public interest and promoting accountability. Disadvantages include added uncertainty and possible discouraging of private investment. Framing the debate in terms of benefits and concerns is beneficial.

The centerpiece of the toolkit is the nine principles that promote a sound public policy approach to the consideration of PPPs. They relate mainly to the stages of the process in which legislatures are most directly involved: deciding whether or not a state will engage in PPPs and creation of the policy framework.

Principle 1: Be informed.

Principle 2: Separate the debates.

Principle 3: Consider the public interest for all stakeholders.

Principle 4: Involve and educate stakeholders.

Principle 5: Take a long-term perspective because PPPs are long-term.

Principle 6: Let the transportation program drive PPP projects – not the other way around.

Principle 7: Support comprehensive project analyses.

Principle 8: Be clear and transparent about financial issues.

Principle 9: Set good ground rules for bidding and negotiations.

NCSL's ongoing work includes disseminating PPP Toolkit, continuing to analyze state PPP legislation, and public education and outreach.

***Julie Wischnack, Community Development Coordinator - City of Minnetonka***

Julie presented an overview of the Highway 169/Bren Road Interchange, a successful PPP located in Minnetonka's Opus II Business Park.

In 2007 and 2008, two major commercial occupants of Minnetonka's Opus II Business Park had significantly expanded their individual facilities. However, city analysis of the park's road infrastructure during the earlier construction had revealed the Bren Road interchange at State Highway 169 – the only freeway entrance to the 640-acre park – was close to capacity and would not accommodate the additional traffic from the proposed development or other development without significant capital reconstruction.

The city of Minnetonka created a unique funding structure using multiple public and private resources and traffic counts generated by new commercial development to finance a \$20 million capital expansion of State Highway 169 into the Opus II Business Park. The city partnered with UnitedHealth Group to initially capitalize one-half the total costs for improvements to the business park's only freeway interchange entrance at State Highway 169 and Bren Road. The state of Minnesota committed to finance permanently, through grants, the remaining one-half as a match to the local and private obligations. Revenue from "trip fees" will be used to pay back the local/ private financing partners over time, as the business park redevelops.

The effect of securing financing for the road infrastructure has been to immediately initiate redevelopment in an important city economic development corridor, the initial construction of which will add an estimated \$40 million to the region's property tax base and garner \$700,000 in construction permit revenue for the city.

To the city's knowledge, this is the first time this specific financial structure has been implemented to finance larger capital road infrastructure improvements over multiple years.

***Victor Poteat, Senior Vice President of Transportation – ATKINS***  
**Value for Money and the Use of the Public Sector Comparator**  
(Appendix 5)

VfM is achieved when the P3 option creates more monetary (quantitative and qualitative) benefits to the public than the conventional/traditional government model. The Public Sector Comparator provides a feasible measure of the benefits/costs of the P3. Calculating the PSC includes:

- Competitive Neutrality (Taxes, Insurance)
- Transferable Risks (Construction costs)
- Baseline Costs (Direct/Indirect Costs: Construction and Administration)
- Retained Risks (Change of Law, Right of Way Acquisition)

The PSC in the PPP process has several steps:

1. Assemble PPP Team
2. Policy Development
3. Project Selection
4. Develop Project Business Case
5. Complete PSC Process (wherein risks are calculated and final PSC is calculated)
6. VfM – Approval to Procedure
7. Develop Procedure Document
8. Implement Procurement
9. Open Bids (Compare PSC to Bids, Calculate VfM)
10. VfM – Decision to Award

Two case studies presented included the Sea-to-Sky Highway from West Vancouver to Whistler and Kicking Horse Canyon Highway, both in Canada.

In sum, VfM and use of the Public Sector Comparator take place throughout various stages of procurement process. It is a challenging analysis that includes numerous assumptions, in which costs and risk allocations are evaluated to provide like-to-like comparisons. Benefits to the public sector, however, may be quantitative and qualitative.

## **GROUP DISCUSSION**

Secondary meetings provided opportunities for task force members to apply principles discussed in previous sessions to regional and state interests. The members were separated into three key groups: Value Capture, Value for Money, and Pricing.

*1. Value Capture:* Transportation infrastructure adds value to adjacent land, and that added benefit can justifiably be captured to help pay for the cost of those improvements. Value capture

is particularly applicable to interchanges and light rail stations, since those capital investments enhance access. For example, higher density mixed-use developments are more economically viable with such improvements. In addition to more localized added value, secondary economic benefits can also accrue to land owners in the vicinity of roadway and transit corridors, as a result of enhanced regional access to the overall area.

Key findings from the group:

Several Value Capture Tools were identified, including:

- Special Assessments (SA)
- Tax Increment Financing (TIF)
- Negotiated Exactions (NE)
- Joint Development (JD)
- Air Rights (AR)
- Transportation Utility Fees (TUF)

Changes were suggested to facilitate the formation of effective public private partnerships – especially those related to potential light rail corridors.

- **Administrative reorganization.** It is recommended that a **central coordinating office** be established within MnDOT to provide a single point of contact for local and state agency partnerships.
- **Expanded funding.** Existing programs that provide relatively minor levels of funding for transportation projects related to economic development should be expanded to leverage private interest in partnerships.
- **Enabling legislation.** To facilitate the formation of public private partnerships for transit corridors and major interchanges, legislation enabling the formation of Value Capture Districts should be pursued. VCD would allow capture of the added value created by allocating the increment of new property taxes generated by new development to pay for the public improvements.

\* While expanded use of value capture tools for transportation infrastructure is warranted in Minnesota, additional funding for transportation projects through traditional methods (examples include gas tax and tab fees for roads, as well as sales tax and GO bonding for transit) will also be required to meet long term needs.

2. *Value for Money:* Value for Money (VfM) analysis calculates the difference between the costs and benefits associated with both traditional and PPP procurements. An estimate of VfM is achieved by comparing the costs of doing a proposed PPP project against the costs of doing that project through a public delivery model, namely a Public Sector Comparator (PSC). The PSC aims to replicate the financial outcome of a traditional procurement process with public provision of operation and maintenance services. A standardized set of risks should be defined to “put value to” those included in all analyses. VfM analyses must also be sufficiently flexible and dynamic to meet the needs of specific projects.

Key findings from the group:

While PSC is a primary tool in estimating costs, there are different approaches and cost capture techniques being used in PPP reviews globally. Minnesota should review approaches and develop a framework mindful of best practices and fit for each project.

VfM is not a funding resource, it is an analytical methodology that can help an agency deliver projects more efficiently and cost-effectively. The experiences of those government agencies already effectively using VfM provide useful guidance for successfully incorporating the strategy into state specific infrastructure development. Specifically:

- **Education.** Policy makers, stakeholders and legislatures need to better understand the Value for Money analysis and its relationship to assessing the benefits and risks with P3 financing and delivery.
- **Transparency and accountability.** First and foremost, VfM analyses must be transparent, and must allow full accountability for the decisions made with the information. Any standard risks should be listed. Underlying assumptions must be clear, and an appropriate public process must appropriately allow input from all interested and potentially affected parties.
- **Consistency, with flexibility.** A standardized set of risks should be defined to “put value to” those risks that should be included in all analyses. At the same time, VfM analyses must be sufficiently flexible and dynamic to meet the needs of specific projects.
- **Review process.** There should be a clearly defined process and well articulated steps for all interested parties to participate in PPP projects, including long range planning, screening of potential projects, VfM guidelines, and decision criteria.
- **Oversight committee.** An independent forum should be established to oversee the VfM process. Although such a group would necessarily work closely with MnDOT, DEED and other transportation and economic development agencies, it should be separate and independent to mitigate potential misperceptions of political positioning, and better focus on long-term needs.

3. *Pricing:* Revenue streams may vary for PPPs, although two primary streams are tolling and public funds. Public fund approaches can take a variety of forms including availability payments, shadow tolls and construction milestone payments.

Key findings from the group:

Overall, Minnesota’s PPP model should be flexible (yet protective of the public interest) in the types of revenue streams, financing arrangements and structures, and procurement and partnering approaches that can be taken. The current Toll Facilities/PPP statute is outdated, overly restrictive and does not adequately address certain public interest protection concerns. It should be broadened to any type of transportation project and perhaps any type of public infrastructure project.

## **Outcomes from Small Group Discussions**

All three groups focused on non-traditional PPPs. There was little interest displayed for full-privatization delivery model. Instead, focus was primarily on Value Capture and Value for Money. There was a strong trend toward selective choice regarding delivery options and regional P3 processes.

## **IV. CONCLUSIONS**

The task force worked together in final sessions to deliver comprehensive recommendations to assist future PPP research and development in Minnesota. This report was compiled and delivered by John Gunyou in December 2011. (Appendix 6) The report was based directly on task force proceedings and was the product of open communication and collaboration between the task force chair and each of its members. The final meeting of the task force was provided a forum for feedback resulting in a final draft. The final draft was adopted by the task force members.

**APPENDIX 1:**

List of Task Force Members

## **Task Force Members**

John Gunyou, Chair, City of Minnetonka  
John Bailey, Envision Minnesota  
Bob Benke, Community Resource Partnership, Inc.  
Patrick Born, Metropolitan Council  
Scott Dibble, Minnesota State Senator  
John Doan, Atkins North America, Inc.  
Margaret Donahoe, Minnesota Transportation Alliance  
Gail Dorfman, Hennepin County Commissioner  
Adam Duinick, International Union of Operating Engineers Local 49  
Kristin Hanson, Minnesota Management and Budget  
John Hausladen, Minnesota Trucking Association  
Mike Jungbauer, Minnesota State Senator  
Kathy Kardell, Hennepin County Office of Budget and Finance  
Jay Kiedrowski, Humphrey School of Public Affairs  
Jay Lindgren, Dorsey & Whitney LLP  
Arlene McCarthy, Metropolitan Council  
Tom McCrossan, C.S. McCrossan  
Jennifer Munt, AFSCME Council 5  
Dan Murray, American Transportation Research Institute  
Tim Penny, Southern Minnesota Initiative Foundation  
Khani Sahebjam, HDR, Inc.  
Dan Salomone, Minnesota Department of Revenue  
Bill H. Schreiber, Messerli & Kramer  
Glenn Schreiner, Parsons Brinckerhoff  
Derrell Turner, Federal Highway Administration, Minnesota Division  
Dave Van Hattum, Transit for Livable Communities  
Tim Worke, Associate General Contractors of Minnesota  
Tom Workman, Carver County Commissioner

## **Humphrey School of Public Affairs Staff**

Lee Munnich, Director of State and Local Public Policy Program  
Adeel Lari, Director of Innovative Finance, State and Local Policy Program

**APPENDIX 2:**

Jerry Zhao Presentation – “Public-Private Partnerships in State Highway Development”

**For the PPP Taskforce**

Zhirong (Jerry) Zhao, assistant professor, 05/2011

# Public-Private Partnerships in State Highway Development



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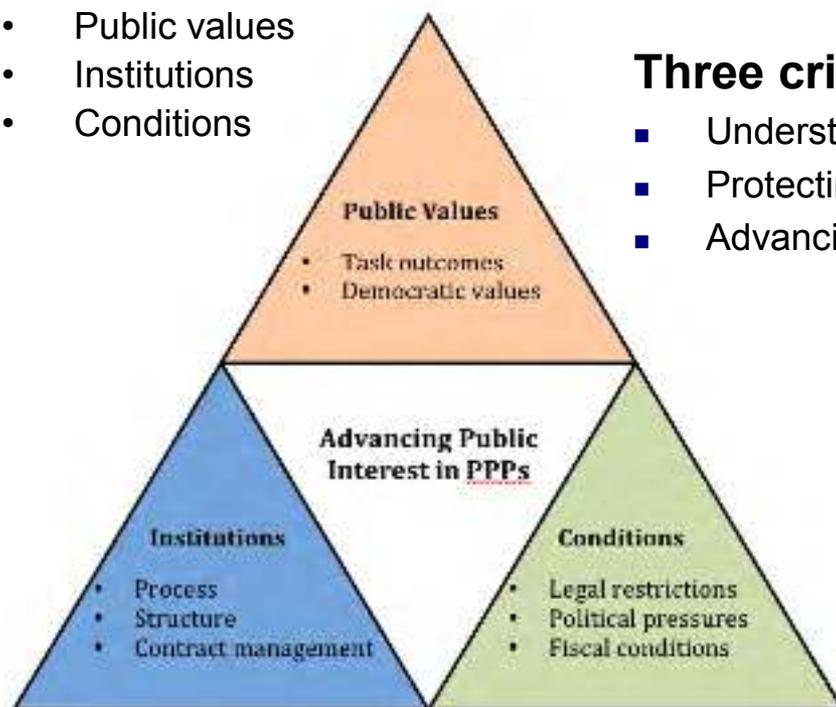
# Background

- Increasing interest in PPP
- Widespread concerns over PPP
- Public interest and PPP
  - What is PPP
  - Setting PPP in context
  - Implementing PPP

# Research framework

## Three key elements:

- Public values
- Institutions
- Conditions



## Three critical steps:

- Understanding how PPP relate to public interest
- Protecting public interest in launching PPP
- Advancing public interest in implementing PPP

# Understanding PPP

# Understanding PPP

- What are public-private partnerships?
- Common confusion about PPPs
- The taxonomy of PPPs
- Risk transfers associated with PPPs
- Advantages of PPPs

# Definition of PPP

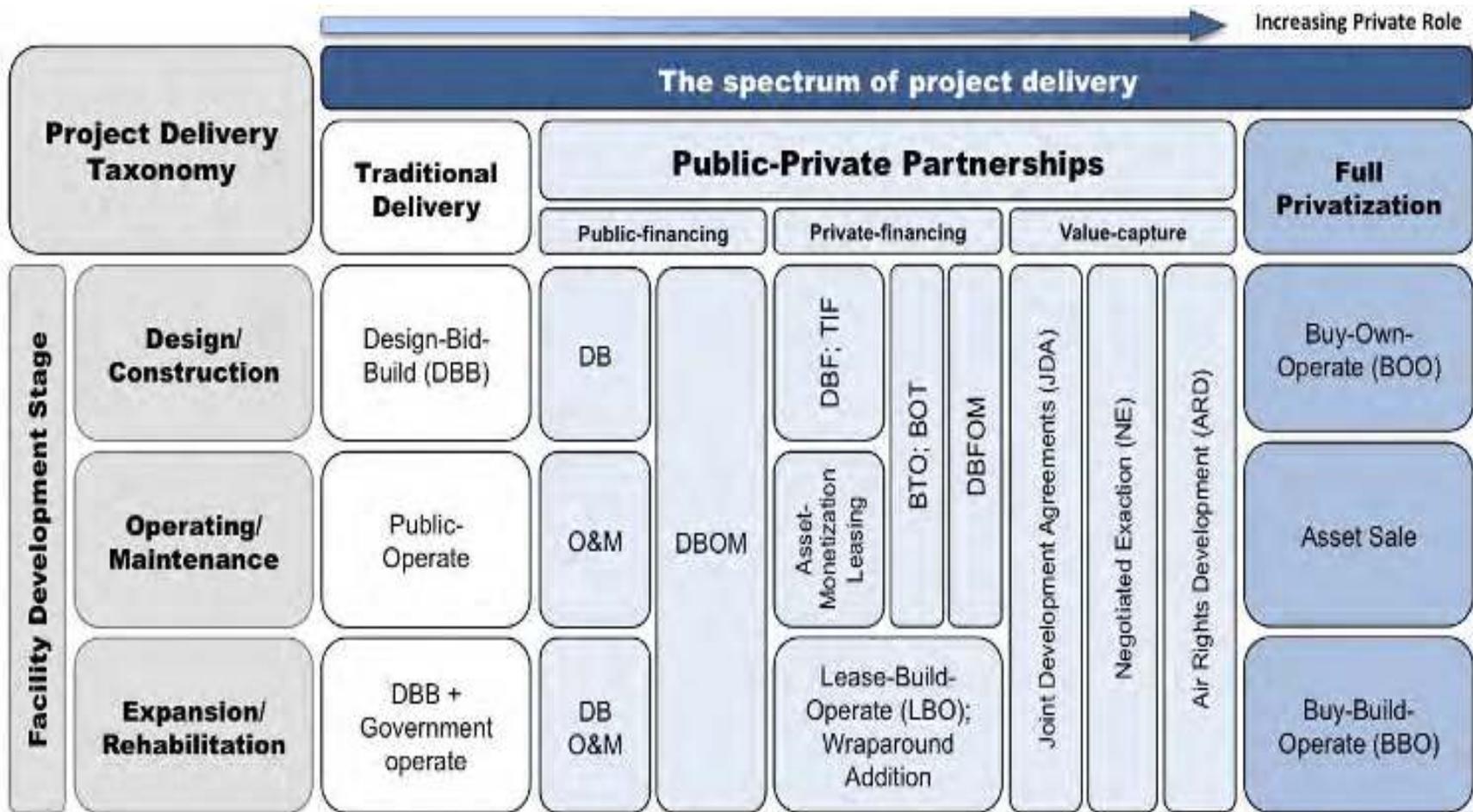
- A broad definition
  - An arrangement in which a government and a private entity jointly perform or undertake a traditional public activity (Baxandall, 2009)
- A narrower definition
  - A complex contractual relations involving both public and private sector to deliver capital-intensive public infrastructure (Savas, 2000)
- In transportation
  - Formal contractual agreements that “allow more private sector participation than is traditional” (USDOT, 2004)

# Common confusion about PPPs

- PPP vs. privatization
- PPP vs. concession
- PPP vs. asset-monetization
- PPP as a financing or funding tool

# The taxonomy of PPPs

- By property delivery stages
  - Design/construction, O&M, expansion
  - Single stage or consolidated delivery
- By levels of private involvement
  - Public-financing PPP
  - Private-financing PPP
  - Value-capture PPP



## A general framework of infrastructure delivery options

# Advantages of PPPs

- Associated with specific PPP options
  - PPP with a single-stage development – Private expertise
  - PPP with combined delivery – Life-cycle consideration
  - PPP with private financing – Expedite development
  - PPP with upfront payments – Budget revenues
- General PPP advantages
  - Innovation and diffusion
  - Competition in delivery
  - New business sector

Advantages		Types of PPP Options			
		Public-Financing PPP		Private-Financing PPP	Value-Capture PPP
Specific Advantages	Design/ Construction	DB: Private expertise	DBOM: Private expertise; lifecycle-cost	DBF: Private expertise; private capital	DBFOM, BOT, BTO: Private expertise; private capital; lifecycle-cost
	O & M	O&M: Private expertise		Long-term Lease: Upfront or regular payment	
	Expansion/ Rehabilitation	DBOM: Private expertise; lifecycle-cost		LBO/Wraparound Addition: Private capital	
General Advantages	Innovation & Diffusion	PPP encourages innovation in project design, construction, operation, and maintenance that provide additional benefits.			
	Competition in Delivery	PPP promotes competition among different approaches of infrastructure delivery and create benchmarks of best practice.			
	New Business Sector	PPP creates a new and promising business sector.			

## Advantages of public-private partnerships

# Risk transfers of PPPs

- General principle
  - “Each risk should be assigned to the partners who can best handle it” (Savas, 2000b)
- Elemental risks
  - Planning/authorization
  - Design/construction
  - Operating/maintenance
- Global risks
  - Financial market
  - Political uncertainty
  - Others

## The Allocation of PPP Risk

Risk Type			Public Risk Retaining	Contract-Based Risk Sharing	Private Risk Taking
Elemental Risks	Planning/ authorization	Legislative risk	Most PPP options	Joint Development	
		Land acquisition risk			
		Environmental risk		O&M contract	"B"-related PPP
	Design/ Construction	Design risk	O&M contract	Joint Development	DB; DBF; DBOM, BOT; BTO; DBFOM
		Technology risk			
		Cost-overrun risk			
		Latent defect risk			
	Operating/ Maintenance	Operating risk	DB; DBF	Joint Development	O&M; DBOM; DBOFM
		Revenue risk	Availability payment	Shadow tolls	Long-term lease
Maintenance risk		Traditional o&m	Maintenance warranty		
Global Risks	Financial Market	Debt-service risk	PPP without private finance	Most PPP with private finance	Long-term lease
		Exchange rate risk			
	Political uncertainty	Change in law	Most PPP		Insurance
		Dispute resolution		Most PPP	
	Others	Force Majeure		Insurance	

## Risk allocation in public-private partnerships

# Setting PPP in Context

# Fiscal, legal, and political constraints about PPP

- Historical and international comparisons
- Legal and regulatory constraints
- Public concerns over PPP

# Setting PPP in context

- PPP in road development date in 1790s
- US falls behind in PPP in recent decades
  - Fuel-tax based highway trust fund
  - Unique tax-exempt municipal bonds
- Raising interest about PPPs
  - Insolvency of highway trust fund
  - Declined state and local debt capacity
  - Interest from the private sector

# Legal and regulatory constraints

- Federal policies to encourage PPP
  - SAFETEA-LU: \$15b private activity bonds
- State PPP-specific legislation (28 states)
  - Aggressive policies (IN, TX, VA)
  - Positive but cautious (MN)
  - Wary (AL, MS, TN)
- Additional legal constraints
  - Environmental review
  - Limited usage of tolling
  - Local veto power regarding PPP

# Public concerns over PPP

## ■ General concerns

- Fear of losing public control
- Risk of increased costs to the public
- Erosion of democratic values

## ■ Strategies to address public concerns

- Public education and public engagement
- State legislation and broader institutional support
- Contract development and project management

# Implementing PPP

# Implementing PPP

- Managerial issues about PPPs
  - Steps of PPP implementation
  - Internal capacities rather than external factors
  - Technical or procedure issues
- Protecting public interest in
  - Project selection and delivery option
  - Procurement options
  - Contract development
  - Project management

# Project selection and delivery

- Early screen of PPP candidate projects
  - MnDOT's PPP project screening and assessment
  - Level I: complexity, criticality, timeframe, etc.
  - Level II: debt capacity, revenue, qualitative indicators
- Evaluation tools for specific PPP options
  - Quantitative measures
    - Value for Money & Public Sector Comparator
  - Qualitative measures
    - Equity, efficiency, accountability

# Procurement types

- Solicited vs. unsolicited proposals
  - Mechanisms to increase competition and transparency
  - Unsolicited proposals could be considered
- Procurement phasing options
  - PPP procurement with environmental approval
  - Pre-development agreement during envir. process
- Bidding, negotiation, and selection criteria
  - Pure bid (Spain)
  - Pure negotiation (UK)
  - Combined approaches in other countries

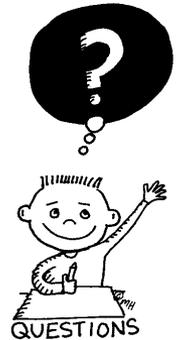
# Contract development

- PPP payment options
  - Toll, shadow toll, construction or availability payments
- Contract length
  - Concerns over 99 year long-term lease
- Tolling rate policies and rate of return
  - Utility-style payment
  - Revenue sharing based on rate of return
- Non-compete clause
  - Built-in flexibility of future negotiation
- Hand-back provisions
  - Timing and procedures

# Managing PPP projects

- Oversight and monitoring
  - Construction and operation
  - Performance standards and monitoring process
- Transparency and public participation
  - Project selection: transparency vs. confidentiality
  - Procurement: open competition
  - Public inputs beyond procurement (financial audits, etc.)
- Use of proceeds
  - Transportation usage only?
- Contract change management
  - Contract modification strategy

# Q & A



- What is PPP?
  - Taxonomy, risks, advantages
- Setting PPP in context
  - Fiscal, legal, political environments
- Implementing PPP
  - Selection, procurement, contract, management
- Conclusion
  - PPP is worth additional consideration
  - Public education and engagement
  - Broad institutional support
  - Capacity of contract management

**APPENDIX 3:**

Brad Larson/Michael Benouaich Presentation – “MnDOT P3 Program Recent Activity: P3 Project Screening and Assessment Study”

A long-exposure photograph of a multi-lane highway at night, showing light trails from cars. In the background, a city skyline with illuminated buildings is visible under a dark blue sky. A green highway sign is visible on the right side of the road.

# MnDOT P3 Program Recent Activity: P3 Project Screening & Assessment Study August 31, 2011 – P3 Task Force

Presented by

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# Agenda

- Objectives
- Minnesota P3 Program
  - Background
  - Recent Activity
- P3 Project Screening & Assessment Study
  - Public and Private Procurement and Financing
  - Screening Study Objectives
  - Projects Under Consideration
  - Screening Process Overview
  - Level I Screening
  - Level II Screening
  - Cost Recovery Analysis
  - Risks and Efficiencies
- Next Steps



# Public-Private Partnership (P3) Background in MN

- Primary State P3 Legislative Authority
  - Toll Facility/P3 Procurement Authority under MS 160.84-98
  - Agreements w/Nongovernmental Entities under MS 174.02(6)
  
- P3 Procurement Projects under MS 160.84-98
  - 1995 TranSmart P3 Toll initiative - Hwy.212 toll road P3 project Municipality vetoed project (by one vote)
  
- Other types of P3s
  - 1998 Connecting MN Fiber Optic project
  - 2005 I-394 MnPass Project
  - Research & Development Partnerships (ex. MN Guidestar and TERRA pavement research boards)



# Recent P3 Activity in Minnesota

- Alternative Finance Program Development (a/k/a Innovative Finance Program)
- P3 Project Screening & Assessment Study
- St. Croix River Crossing Innovative Finance Study
- Advancing Public Interest in P3s Research Project
- Truck Haven & Truck Parking P3 Research Project
- P3 Task Force
- Transportation Economic Development (TED) Pilot Program (ex. TH 169/Bren Rd. Interchange)
- NICE Ride Bike Sharing Partnership among MnDOT, City of Minneapolis and Blue Cross/Blue Shield
- P3 “Value for Money” Analytical Tool Development
- Alternative Financing Legislative Proposal



# A Public-Private Partnership Is NOT

- P3s are **not synonymous with outsourcing** - Contracting with private sector for goods or services while the public sector remains responsible for their provision
  - No risk transfer
- P3s are **not synonymous with privatization** - Complete shifting of functions and responsibilities to the private sector, including the transfer of ownership of all the public sector assets
  - Partnership is reflected in contract terms
  - Public sector retains rights and obligations
- P3s are **not a panacea** for all projects
  - Project should be carefully analyzed to determine whether its characteristics are likely to achieve a better value under a P3
- P3s are **not primarily about cheaper financing**
  - Projects are delivered under P3 even though cheaper, public financing may be available

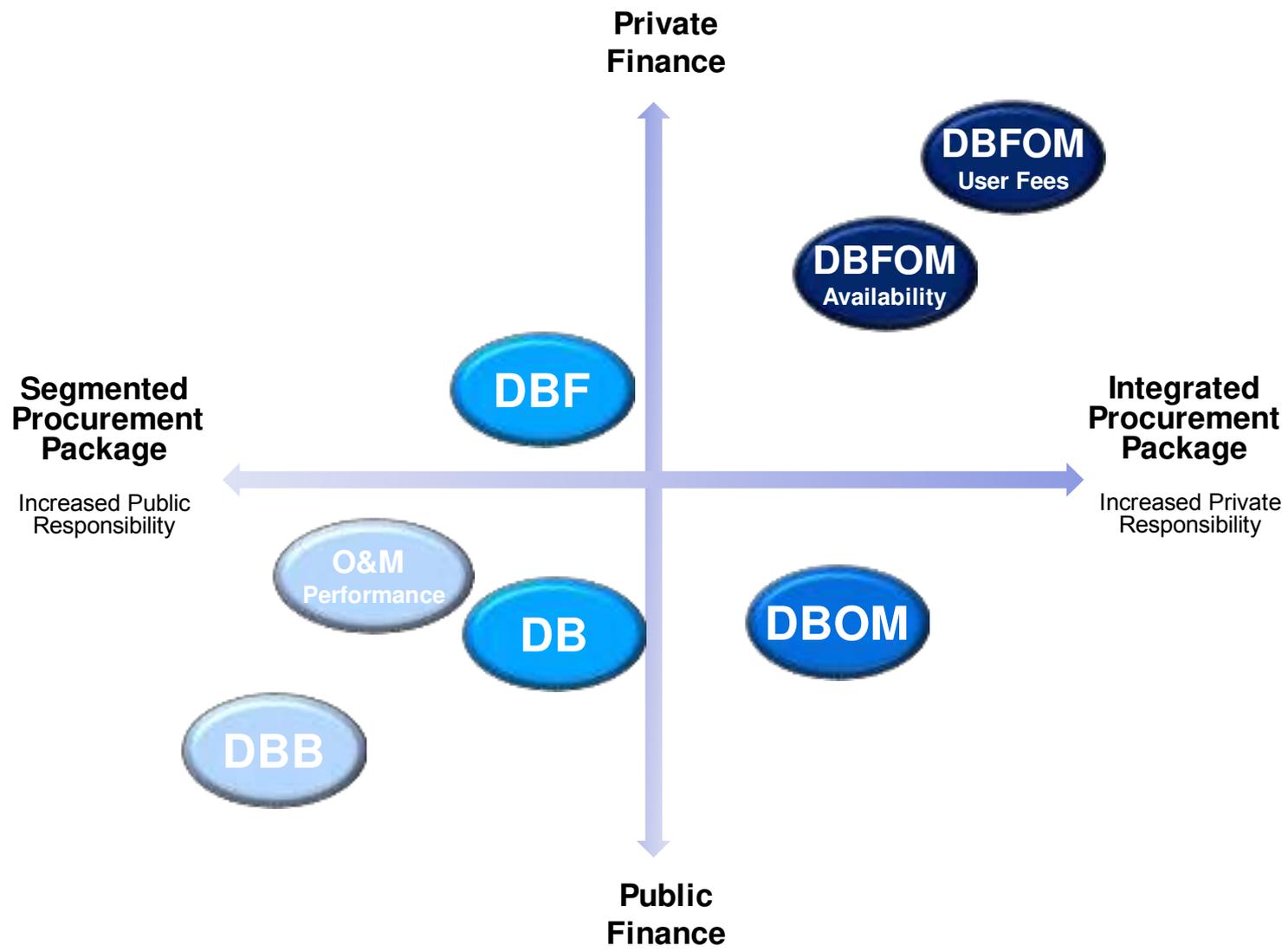


# A Public-Private Partnership Is

- A **contractual agreement** between a public agency and a private sector entity, or not for profit, where:
  - The skills and assets of public and private sectors are creatively combined in delivering overall **‘best value’ service** for the benefit of the general public through:
    - Risk transfers and mitigation measures
    - Improved delivery performance
    - Lower lifecycle costing and other (non-financial) efficiencies
    - Competition
  - Each party shares in the **risks and rewards** in the delivery of assets and services
- Currently MnDOT also includes under the “P3 umbrella”
  - Transportation economic development projects
  - Value capture projects
  - Research & development partnerships



# Range of Project Delivery and Financing Options





# Screening Study Objectives

1. Identify a list of **the best project candidates** most likely to generate greater value through P3
  - Short-term: 2-3 years
  - Medium-term 4-11 years
  
2. Develop recommendations to **analyze further and implement** these projects using P3 delivery
  - **The goal is not to identify all P3 candidate projects, but only the most promising**



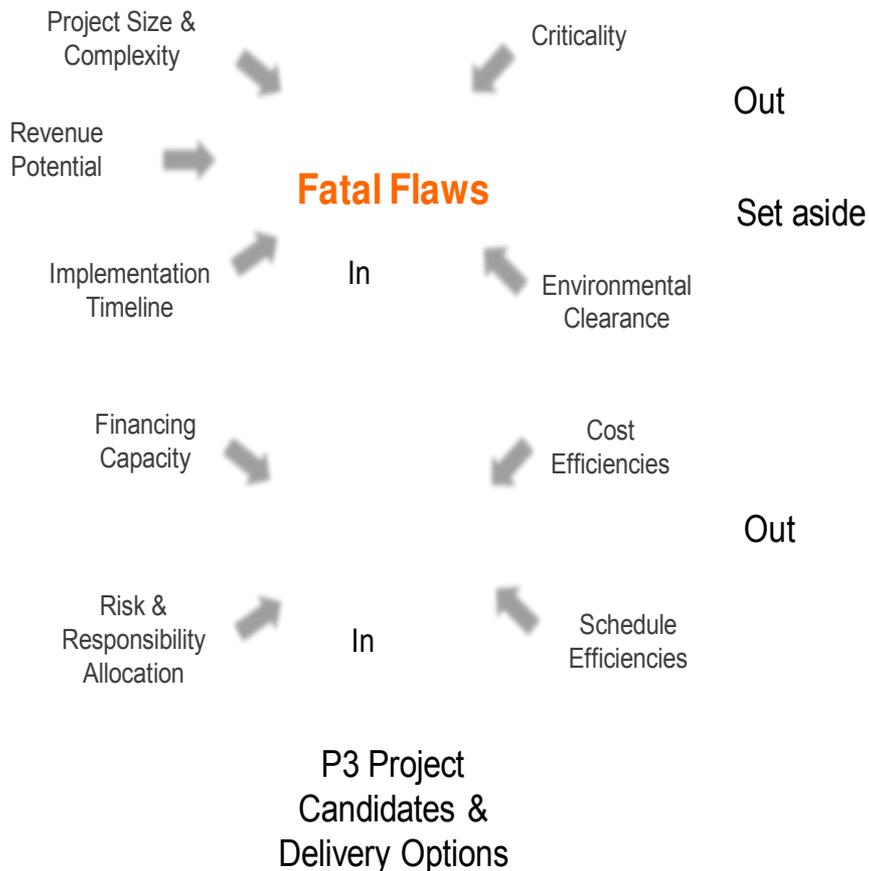
# Projects Under Consideration

- **38 transportation projects from among MnDOT's statewide priority investments**
  - Across all Districts
  - Multimodal: highway, transit, freight
  - Multipurpose: interstates, trunk highways, bridges, preservation
  
- **Projects included in**
  - 2010-2013 State Transportation Improvement Program
  - Statewide 2020 Highway Investment Plan
  - MnPass System Study Phase 2
  - Annual Trunk Highway Bridge Improvement Program 2010
  - Greater Minnesota Transit Plan 2010-2030
  - Minnesota Comprehensive Statewide Freight and Passenger Rail Plan 2010
  - Chapter 152 Bridge Improvement Program
  - Pavement Preservation Program
  - Truck Haven & Truck Parking Program



# Screening Process Overview

- **Two step screening**
  - Level I – Fatal Flaw
  - Level II – Assessment
- **Rigorous assessment** using screening criteria that are
  - Objective
  - Systematic
  - Aligned with MnDOT’s objectives
  - Reflective of market conditions
  - Mix of qualitative and quantitative criteria
- **Not bound by current legal authority**





# Level I Screening Criteria

- **Fatal flaw** and opportunity-based scan relying on
  - Existing documentation
  - Interviews with District staff
- **Project size and complexity**
  - Highway, rail or transit improvements: at least \$400 million
  - Bridge improvements: at least \$250 million
- **Criticality**
  - Safety
  - Legislative Obligations
  - System Preservation
  - Mobility
  - Network Completion
- **Revenue potential**
- **Implementation timeframe**
- **Planning status** / Environmental approval status





# Approach to Project “Bundling”

- Certain projects had to be evaluated at the **portfolio level** to
  - Reach critical size/complexity
  - Match criticality criteria
  - Enhance transportation performance at the system/network level
  - Increase opportunities for economies of scale
  - Increase opportunities for schedule and cost efficiencies
  
- Examples
  - Managed Lanes (MnPass) Projects
  - Bridge Replacement Program
  - Pavement Preservation Program
  - Truck Havens

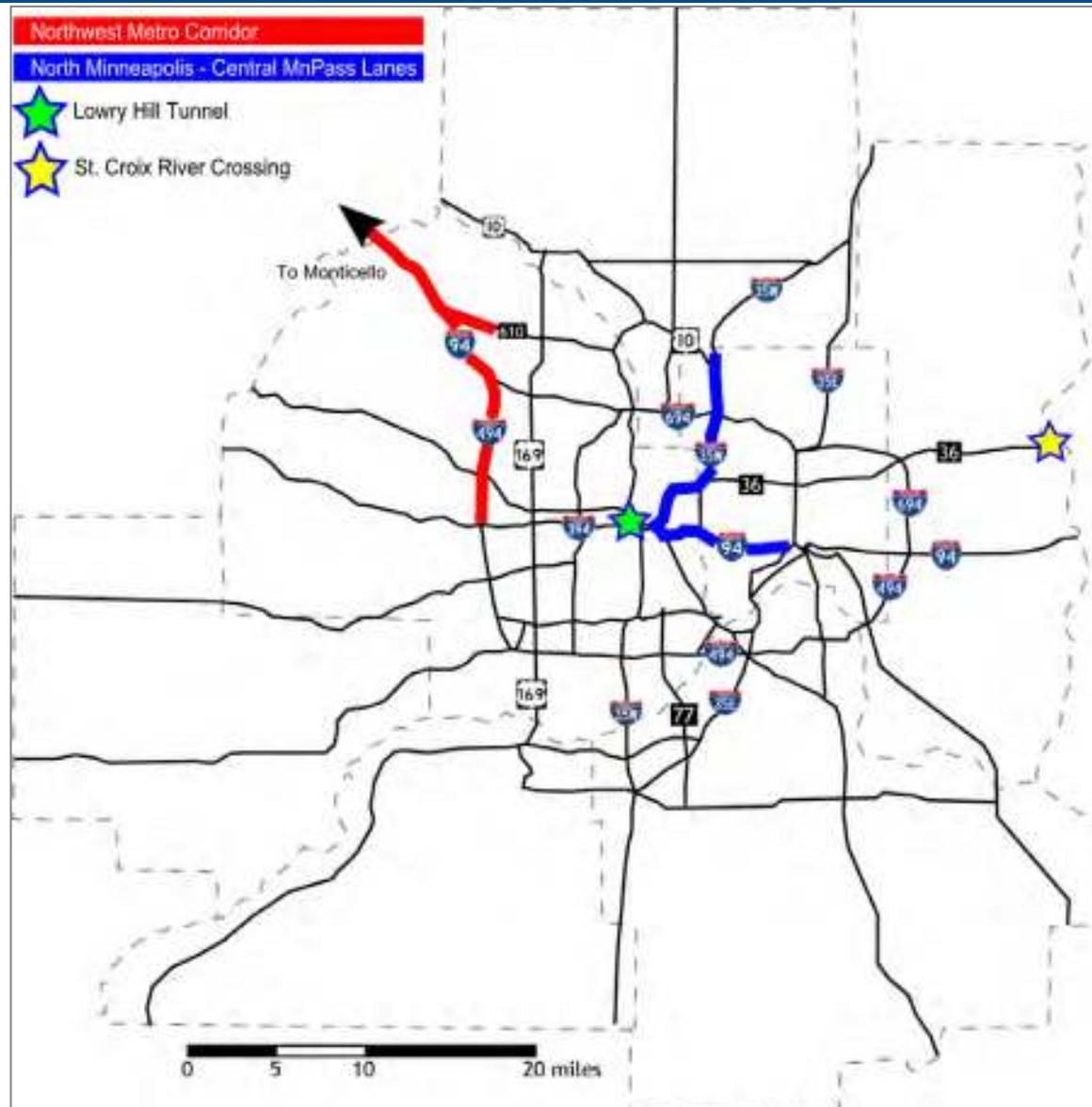


# Combination of MnPass Projects

- Select corridors combined for **system efficiency**
  
- **I-35W (north) / I-94 (central)**
  - System elements / efficiencies for downtown connections
  - Reduce diversion via TH-280
  - Readiness factors (conceptual design / operations analysis)
  
- **I-94 / I-494 (northwest) / TH-610 (completion)**
  - Shared market
  - Continuity of service (to I-394)
  - Interchange considerations



# Revenue-Generating Projects Advanced as P3 Candidates





# Level II Screening

## 1. Cost recovery analysis for revenue-generating projects

- MnPass Projects
  - Northwest Metro Corridor (I-94/I-494 and TH610)
  - North Minneapolis-Central MnPass Lanes (I-35W/I-94)
- St Croix River Bridge
- Lowry Hill Tunnel

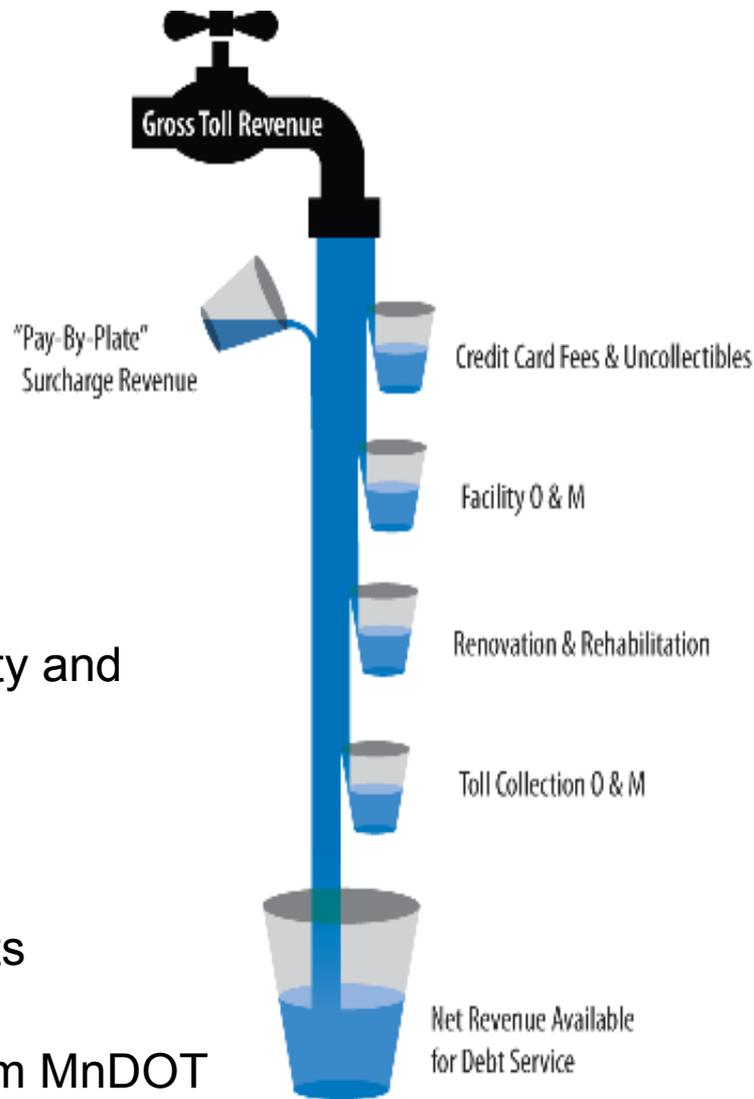
## 2. Qualitative risk transfers and schedule and cost efficiencies

- Pavement Preservation
- Chapter 152 Bridge Program
- Truck Havens



# Cost Recovery Analysis – General Approach

- **Discounted cash flow analysis**
  - Gross toll revenue
  - Annual O&M cost
  - Life-cycle cost forecast
  - Debt coverage requirements
- **Net revenue after coverage compared to initial CapEx**
  - Estimate bonding capacity
  - Not a proxy for P3 feasibility (Does not include the cost of equity and value of risk transfers)
- **Data sources limited to**
  - Existing planning studies
  - PB's experience on similar projects (benchmark)
  - Order-of-magnitude estimates from MnDOT





# Cost Recovery Analysis – Assumptions

- **Assumptions as consistent as possible with past studies**
- **Traffic and toll revenue**
  - Existing forecasts for MnPass and St Croix River Crossing
  - Base toll form \$1 to \$3, depending on the project
  - Toll path
    - 2.5% p.a. +¢5 p.a. for video charges for the St Croix River Crossing (*Innovative Financing Study*)
    - 10% every 5 years for MnPass and Lowry Hill Tunnel (*MnPass Phase 2*)
  - When T&R forecast not available, traffic assumed to decrease by 10% for a \$1 toll and 25% for a \$2 toll w.r.t. no-toll alternative
- **Financing (*MnPass Phase 2*)**
  - Debt Service Coverage Ratio: 1.5x
  - Interest rate: 6.25%
  - Maturity: 20 years for MnPass projects, 40 years otherwise



# Cost Recovery Analysis – Assumptions

- **Annual O&M costs**
  - Roadway/Facility
  - Tolling/ITS/Enforcement, including toll equipment maintenance, administration, marketing and public relations, enforcement, FIRST service patrol, technical service, utilities, contingency, credit card transaction
  
- **Major maintenance, rehab, and replacement costs**
  - Roadway/Facility (asphalt crack sealing, patching, mill & overlay, pavement marking)
  - Tolling equipment
  
- **O&M and major maintenance cost escalation**
  - 2.0% to 3.0% per year depending on the project



# Cost Recovery Analysis – Data Sources

## ■ MnPass Projects

- Cambridge Systematics, “MnPass System Study Phase 2: Draft Final Report,” Minnesota Department of Transportation, July 28, 2010

## ■ St Croix River Crossing

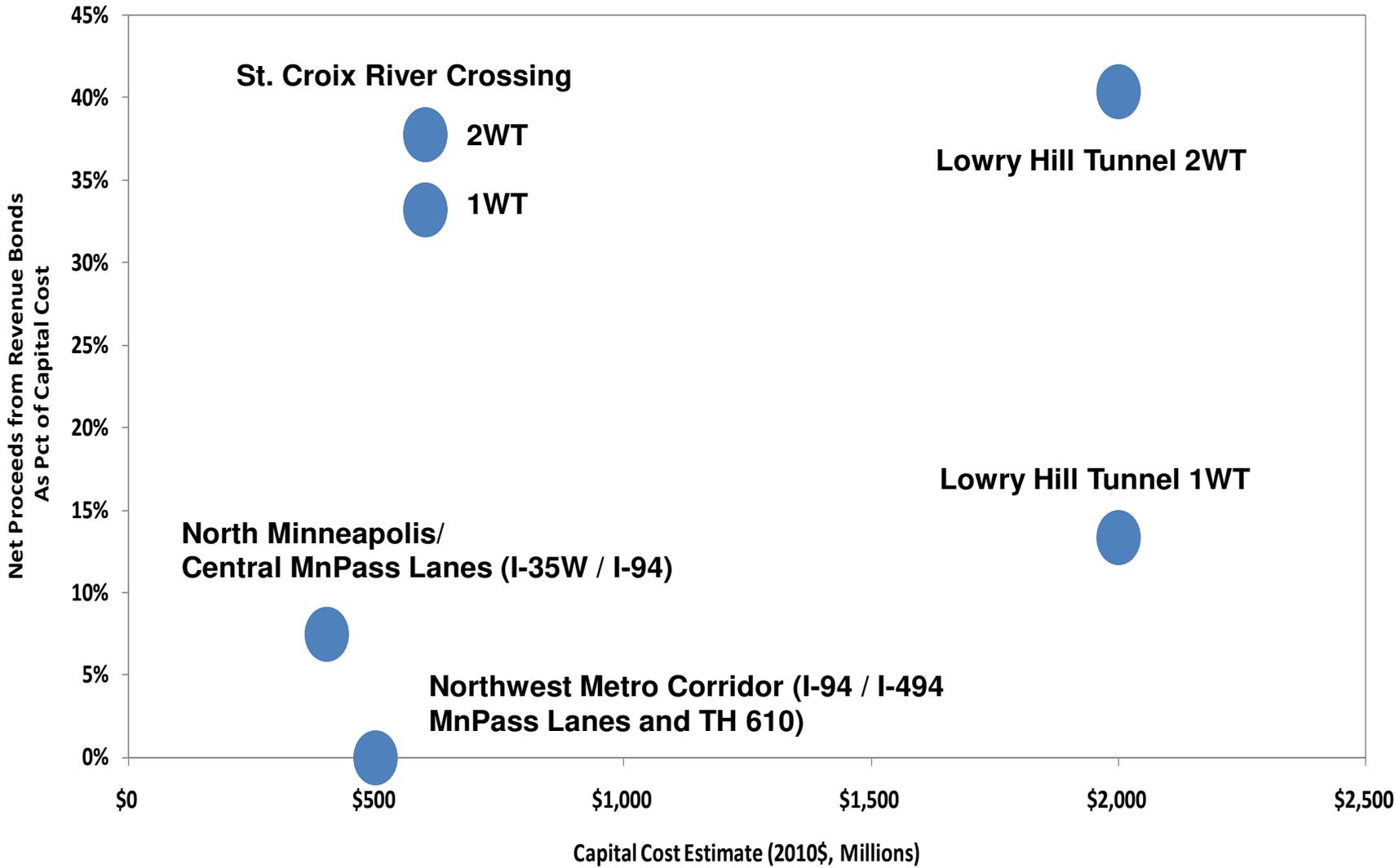
- 2005 Supplemental Final Environmental Impact Statement (SFEIS)
- Draft St Croix River Crossing Project: Innovative Financing Study, HNTB, 10/21/10

## ■ Lowry Hill Tunnel

- Downtown Minneapolis Freeway Study, MnDOT, 5/07



# Cost Recovery Analysis – Results



“1WT” one-way tolling; “2WT” two-way tolling



# Level II – Risk Transfers and Efficiencies

- Identify
  - Contractual forms
  - Financing
  - Scope of work and services
  - Allocation of risks and responsibilities
  - Sources of efficiencies
  - Lessons learned and next steps
- Develop case studies for
  - Pavement preservation
  - Bridge program
- Identify framework, limitations, and examples for Truck Havens
- Identify examples for more “common” P3 projects
  - Bridges
  - Tunnels
  - Managed lanes



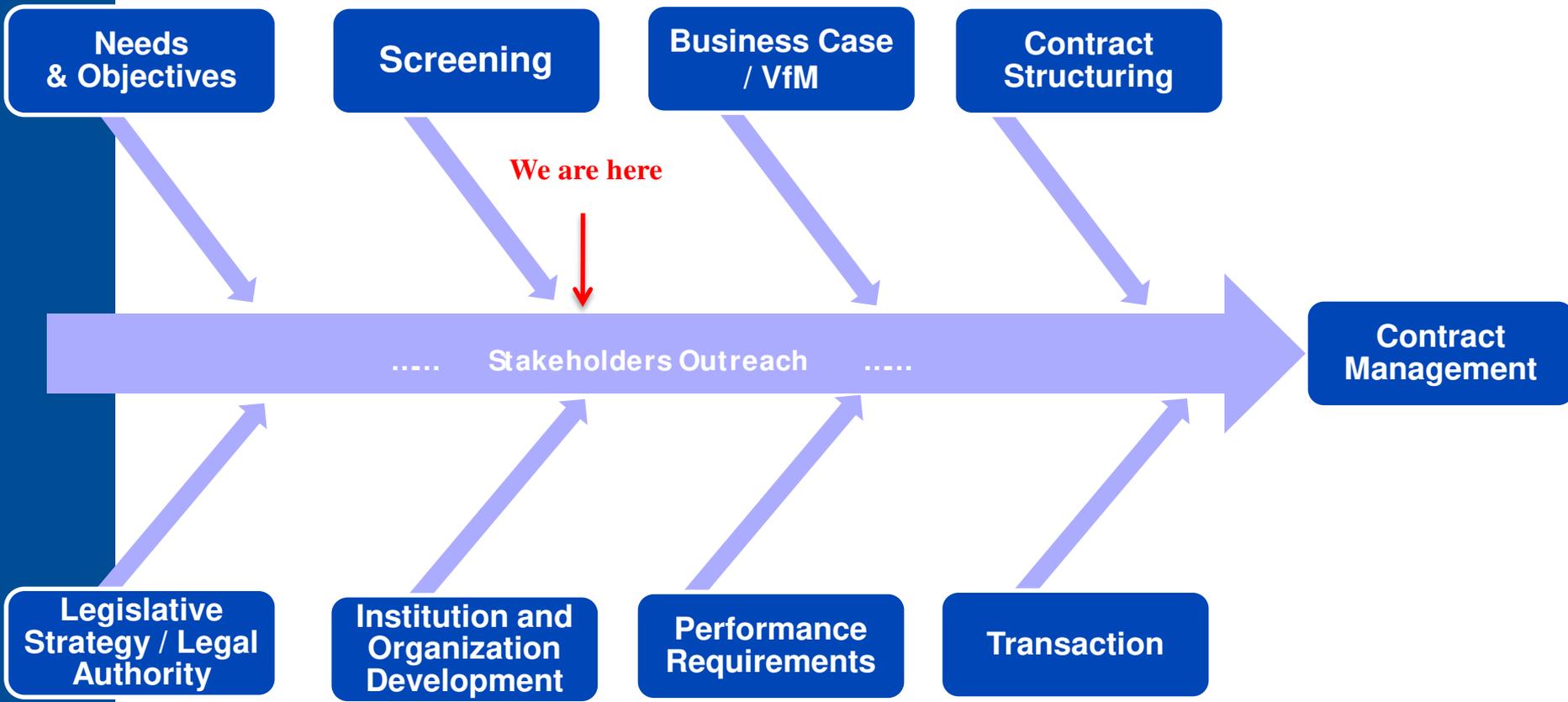
# Level II – Risk Transfers and Efficiencies

Risks / Delivery Method	DBB	DB	O&M	DBOM	DBFOM	
					User Fees	Availability
Site	●	◐	●	◐	◐	◐
Design & Construction	◐	○	●	○	○	○
Interface	●	◐	●	○	○	○
O&M	●	●	○	○	○	○
Market/ Demand	●	●	●	●	○	●
Financing	●	●	●	●	○	○
Project Management	●	◐	◐	○	○	○
Political	●	●	●	◐	◐	◐
Oversight	●	●	●	●	●	●

- Mainly Public
- ◐ Shared
- Mainly Private



# P3 Program & Project Development Process





# Next Steps - Legislative Framework “Musts”

- **Provide transparency and predictability throughout procurement**
- Publicly-debated and well-publicized legislative package
- Clear authorization to lease or transfer assets and operating responsibilities to private entities
- Ability to enter into long-term binding agreements for financial support
- Authorization to compensate the private partner using availability payments and clarity regarding the enabling appropriation mechanisms
- Clarity as to the authority of the private partner to impose/determine user fees
- Mandating use of quantitative decision-making tools (VfM, economic benefits)
- Clear definition of the process to be followed, including RFQ, RFP, public hearings, and required legislative and administrative approvals and timelines
  - Guarantee a fair treatment of competitors transparent competition
  - Eliminate risk of late stage approval or veto (predictability of process)
- Best value award and competitive negotiations (if so desired)
- Clarity regarding home rule
- Clarity regarding tax treatment
- Separation of tolling from P3 considerations but secure enforcement (ETC)



# Next Steps - Institutional Capabilities

- **Institutional capacity necessary to**
  - Ensure that the State is effectively represented throughout the evaluation, procurement, and negotiation phases
  - Create a center for excellence supporting objective decision-making
  - Provide the general public the confidence that the public interest is protected
  - Provide a long-term source of information and advocacy for the program
  - Communicate the State’s commitment to the private sector
  - Provide appropriate levels of oversight and long-term contract management
  - Support development of P3 market by ensuring deal flow
  
- **Next steps**
  - Assess skills needed
  - Inventory existing capabilities (MnDOT, DEED, treasury, etc.)
  - Establish in-house vs. consultant functions/competencies
  - Ramp up from initial “task force” to permanent P3 program office
  
- **Skills required** can be broadly divided by project development phases





# Next Steps – Performance Standards

- P3 contracts must be based on **performance specifications**
  - Linked to payment terms
  - DBB: prescriptive design requirements and choice of means and methods
- **Design-build standards**
  - MnDOT’s strong existing capabilities
- **Operating standards**
  - Highway availability
  - Incident response time
  - Train on-time arrival performance
- **Maintenance standards**
  - “Pavement shall have a roughness of X as measured by the international roughness index (IRI)” vs. specific thickness and asphalt mix requirements
  - Existing MnDOT pavement performance measures
- **Next steps**
  - Develop full set of standards



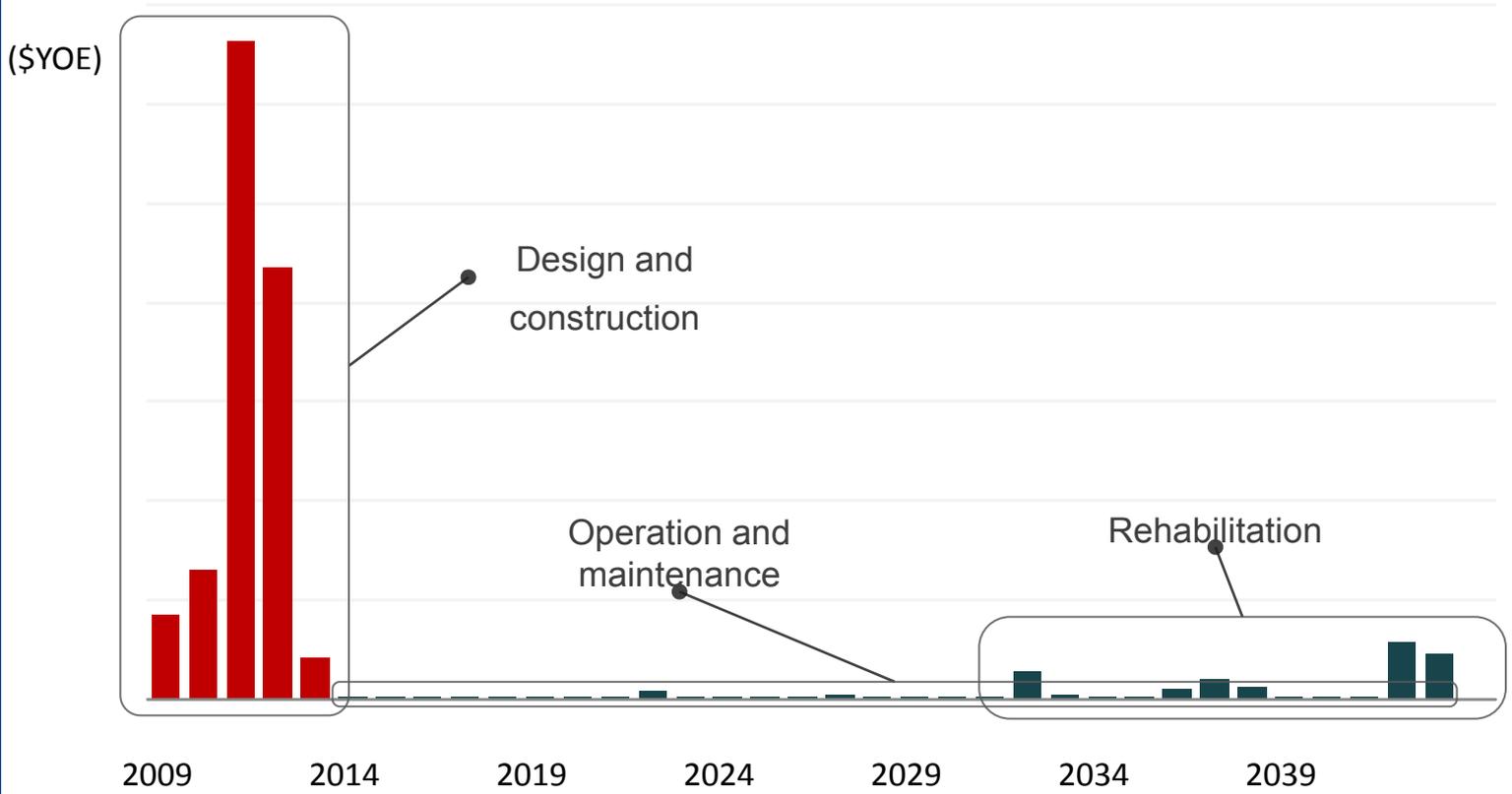
# Next Steps – Value-for-Money Analytical Framework

- **Develop realistic Public Sector Comparator (PSC)**
  - Hypothetical, risk-adjusted, life-cycle costs if the project were to be funded, financed, built, operated, and maintained by the public sponsor
  - PSC must reflect risks of change orders, cost overruns, and schedule delays
  - International benchmark for public-sector “optimism bias” (Bent Flyvbjerg)
    - At 50% certainty: bias up-lift of 15%
    - At 80% certainty: bias up-lift of 32%
- **Review appropriate P3 delivery methods**
- **Decide on public/private allocation of risks and responsibilities**
- **Develop Shadow Bid**
  - Reflect risk transfers, schedule acceleration, life cycle costs, and efficiencies
  - Reflect market conditions and investors target return
- **Quantitative estimation of risks** (Monte Carlo simulation)
- **Choose appropriate discount rate**
- **Compare NPV** of the risk-adjusted, life-cycle, public-sector procurement cost (i.e. the PSC) with the NPV of the likely private bid under the P3 option (i.e. the Shadow Bid)



# Next Steps – VfM Analysis Results

- DBB typical public-sector nominal cash flow (PSC)

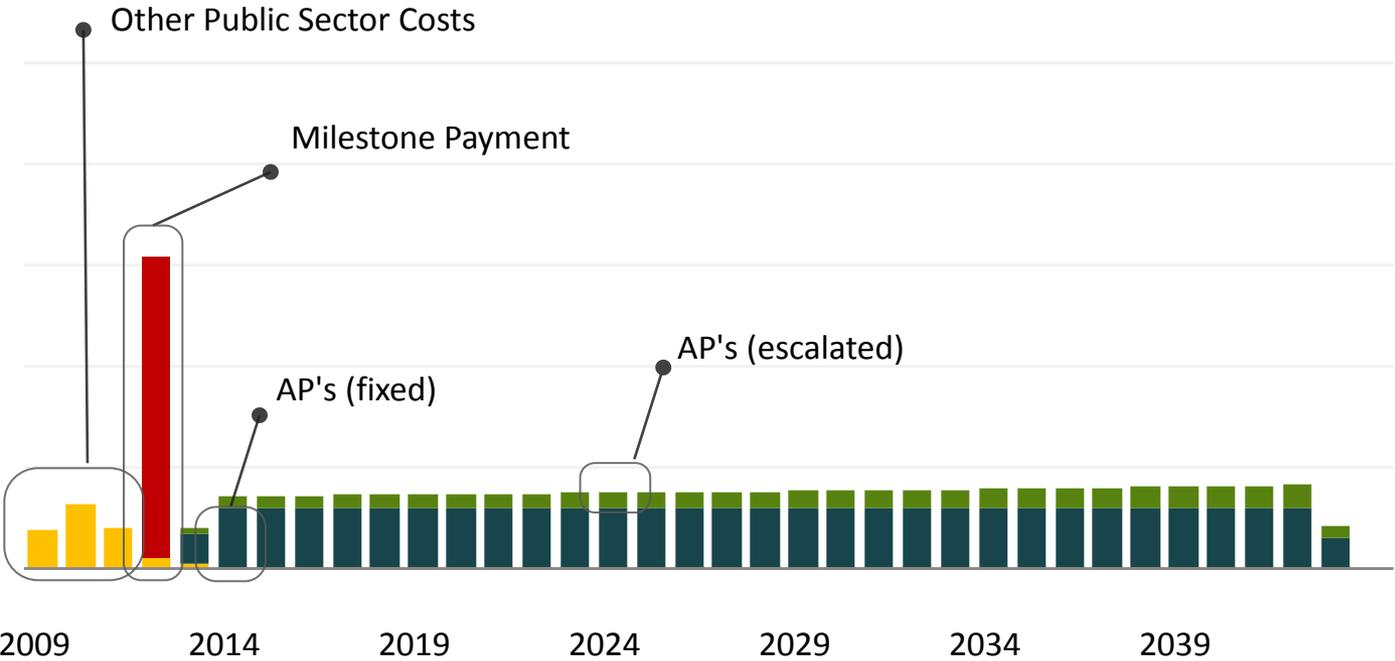




# Next Steps – VfM Analysis Results

- DBFOM with availability payment (AP) typical public-sector nominal cash flows (based on Shadow Bid requirements)

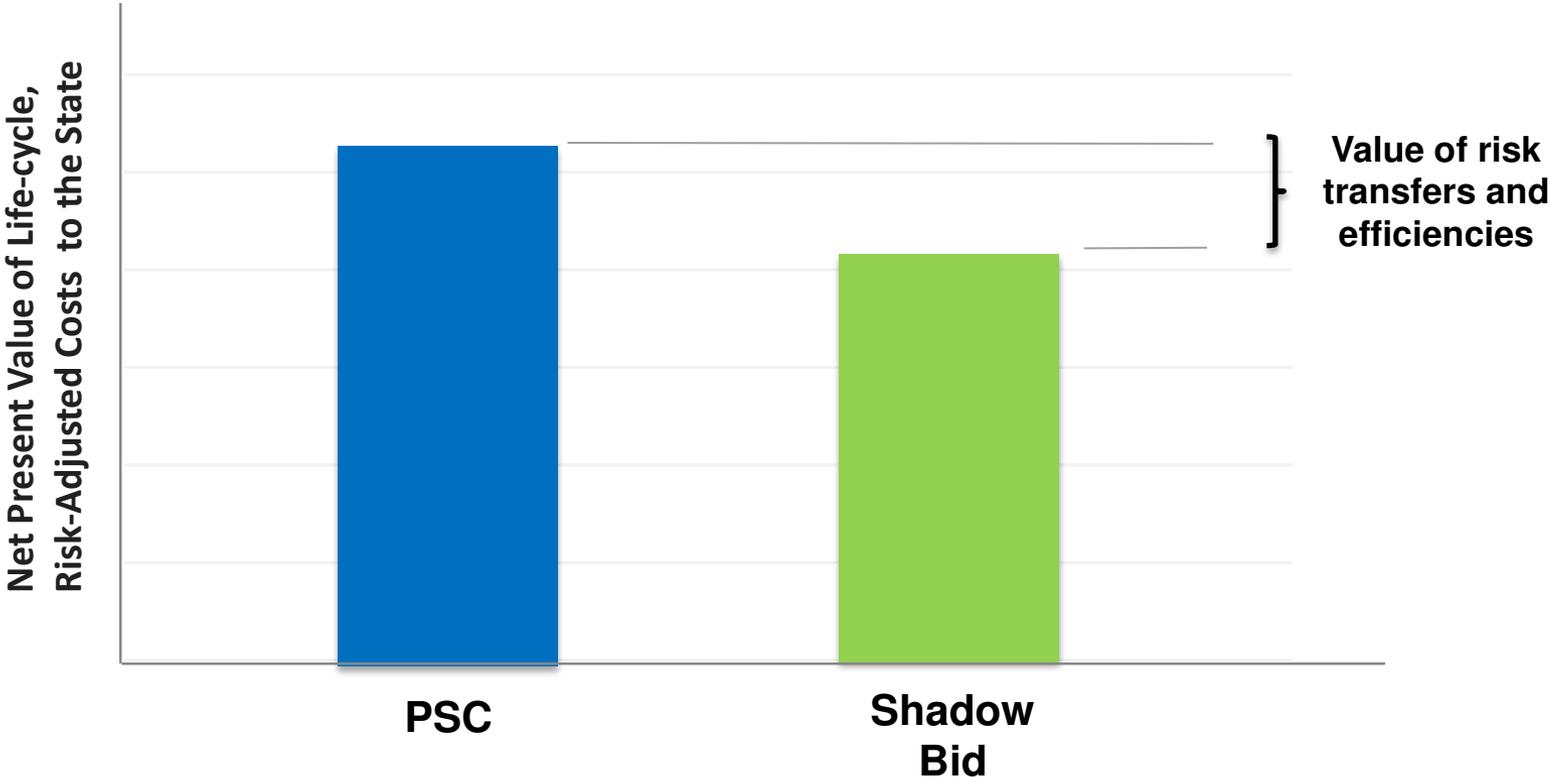
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# Next Steps – VfM Analysis Results

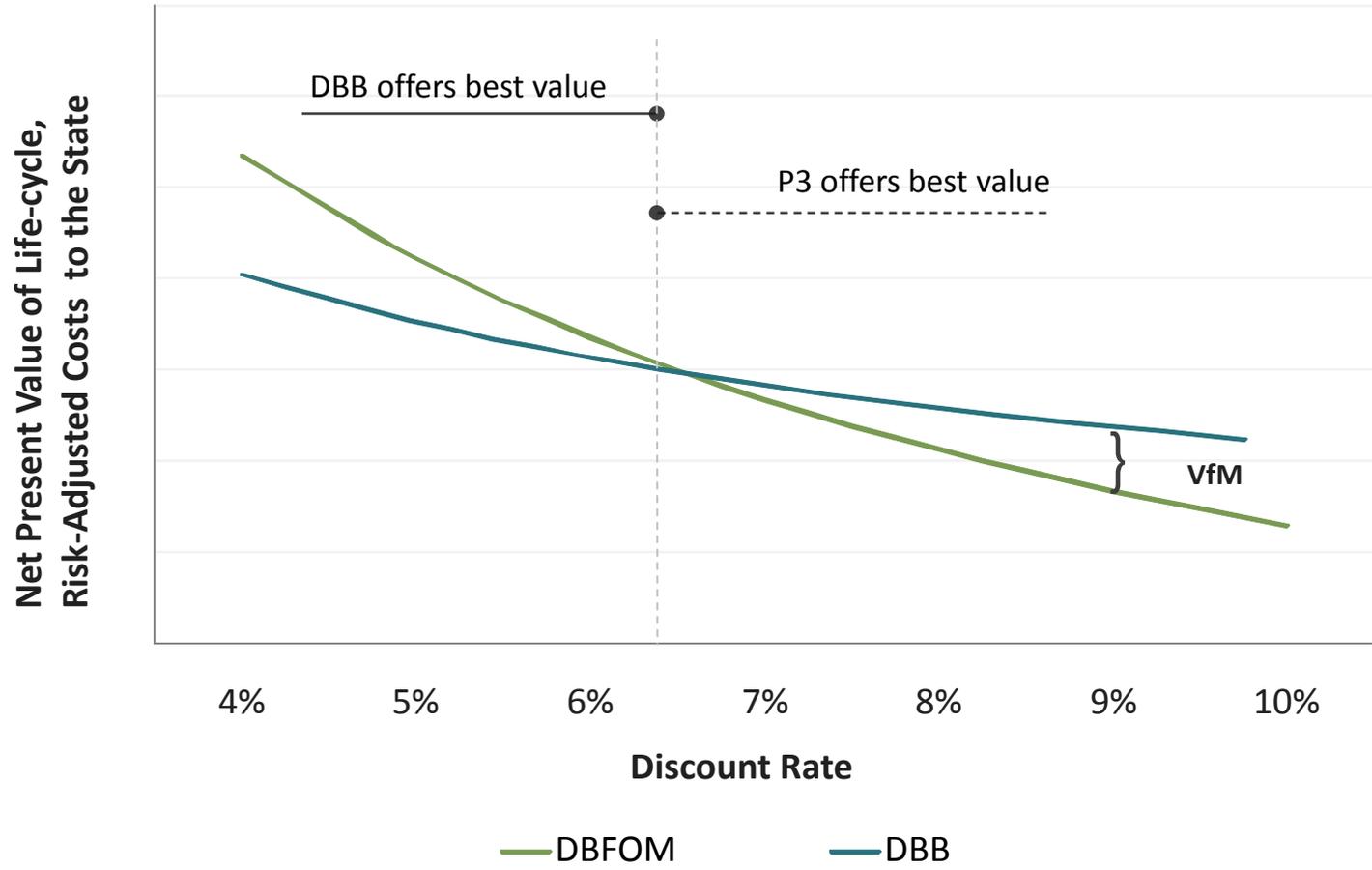
- When does it make sense to enter into a P3 agreement?



- VfM must be confirmed prior to award with actual bids
- Strict enforcement of the P3 contract must be maintained throughout the performance period



# Next Steps – VfM Sensitivity to Discount Rate



# *Discussion*



*Thank You*

## **APPENDIX 3:**

Handout



# Public Private Partnerships (P3s)

May 11, 2011  
P3 Task Force

## Background

P3's are being used around the country and world to advance transportation improvements. Some recent U.S. examples include:

Financial Close	Project	State	Const Amt (\$M)	Term	P3 Type
Dec-07	I-495 Capital Beltway	VA	1,010	80	Toll Concession
Mar-09	I-595 HOT Lane Project	FL	1,760	35	Avail. Pmt.
Oct-09	Port of Miami Tunnel	FL	760	30	Avail. Pmt.
Nov-09	N.Tarrant Exprwy.	TX	2,013	52	Toll Concession
Jun-10	I-635 LBJ Exprwy.	TX	2,700	52	Toll Concession
Jul-10	Eagle P3 Pass. Rail	CO	1,637	27	Avail. Pmt.
Jan-11	Presido Pkwy.	CA	456	30	Avail.Pmt.

## Definition

Many types of transportation projects can be referred to as P3's. However, the most common type of project that is currently referred to as a P3 at the national level involves a procurement method whereby a private entity designs, builds, finances, operates and sometimes maintains a transportation facility for a long period of time (30-50 yrs.). These projects are generally very large highway projects that involve some form of tolling or congestion pricing. However, a few non-toll highway projects and one transit rail project have successfully used this P3 approach. Some smaller projects may also be a good fit for P3 approaches under certain circumstances.

## Mn/DOT P3 exploratory activities

- **P3 Project Screening & Assessment Study** (Dec-10) – Report analyzes Mn/DOT's best near and medium term P3 project candidates
- **St. Croix River Crossing Innovative Finance Study** (Jan-11) – Report analyzes the feasibility of tolling, P3 and value capture options for the St. Croix Bridge
- **Advancing Public Interest in P3s Research Project** (Feb-11) – Report provides a taxonomy of P3s and analyzes ways to optimize public benefits from P3s
- **Truck Haven & Truck Parking P3 Research Project** – Project is analyzing P3

For More Information  
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[brad.larsen@state.mn.us](mailto:brad.larsen@state.mn.us)  
or visit  
[www.dot.state.mn.us/funding/innovative](http://www.dot.state.mn.us/funding/innovative)

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business models to help address truck parking and rest area needs – final report due June 2011

- **P3 Task Force** – Beginning work
  - **P3 “Value for Money” Study** – Currently seeking funding to 1) develop a "Value for Money" analytical tool that can help evaluate whether a P3 approach for financing and delivering a transportation project would provide a better return on investment than a traditional approach, and 2) test the tool on 1-2 specific projects.
- .....

### **Other Mn/DOT projects that can be referred to as P3s**

- **Transportation Economic Development (TED) Pilot Program** – Projects like the Hwy. 169/Bren Rd. Interchange project in the City of Minnetonka where United Health group contributed approximately one quarter of the project’s cost have been called P3s. Several other projects that were approved for funding in the 2010 TED solicitation also have private contribution or local value capture elements and could be referred to as P3s.
- **Alternative Financing Legislative Authority** – Legislation is currently pending in the legislature to allow Mn/DOT, on a single project pilot basis, to enter into a financing agreement with a private entity whereby a private party could loan Mn/DOT the money to accelerate a project and Mn/DOT could agree to repay the loan on specified terms. This type of project could be referred to as a P3.
- **Parking Facilities (i.e. ABC Ramps)** – Some of the activities at the ABC ramps in the City of Minneapolis like the NICE Ride bike sharing partnership among the City, Mn/DOT and Blue Cross/Blue Sheild have been referred to as P3s.
- **Value Capture** – Mn/DOT has limited value capture authority, but it is continuing to explore value capture opportunities. The TED Pilot Program referenced above is one of the department’s primary value capture initiatives. It has also explored transit oriented development and joint development approaches, as well as air rights lease opportunities. As indicated above, these types of projects could be referred to as P3s.
- **Minnesota Guidestar Board and TERRA Pavement Research Board** – The activities of these boards often involve partnerships between the department, other governmental entities and private businesses to advance new technology research and deployment, and thus could be referred to as P3s.

For additional information about P3s, go to:

- Federal Highway Administration (FHWA): [www.fhwa.dot.gov/ipd](http://www.fhwa.dot.gov/ipd)
  - National Council for Public Private Partnerships: [www.ncppp.org/](http://www.ncppp.org/)
  - InfraAmericas P3 news and information site: [www.infra-americas.com](http://www.infra-americas.com)
  - AASHTO: [www.transportation-finance.org/](http://www.transportation-finance.org/)
  - Mn/DOT’s Innovative Finance site: [www.dot.state.mn.us/funding/innovative](http://www.dot.state.mn.us/funding/innovative)
- .....



## Potential future activities

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- Legislative proposals
- Unsolicited project proposals
- Program development

Developing and utilizing a Value for Money tool to determine whether to pursue a P3 for financing and delivering a transportation project is one of the key next steps in the department's exploration of the P3 innovative finance technique. It was identified as a key step in two previous consultant studies and one research project. It is used by other states and countries to evaluate P3 approaches for specific projects. Mn/DOT requires consultant experience and expertise to help us develop and test the tool. P3 approaches offer Mn/DOT the potential to get a better return on investment on certain transportation improvements.



**APPENDIX 4:**

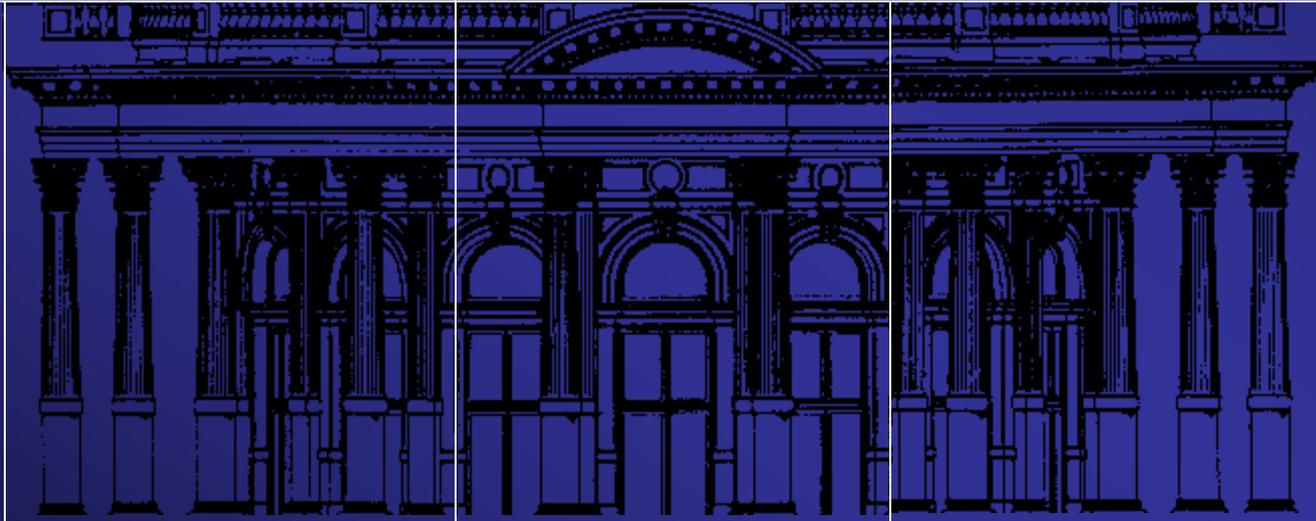
Jim Reed Presentation – “Evaluating PPPs for Transportation: An Analytical Approach for State Legislators”



**NATIONAL CONFERENCE  
of STATE LEGISLATURES**

*The Forum for America's Ideas*

**Evaluating PPPs for Transportation:  
An Analytical Approach for State  
Legislators**



**Jim Reed**

**National Conference of State Legislatures**

**June 2011**

NATIONAL CONFERENCE  
*of* STATE LEGISLATURES

*The Forum for America's Ideas*

## NCSL Overview

- Bipartisan organization
- Serves the 7,382 legislators and 30,000+ legislative staff of the nation's 50 states, its commonwealths and territories
- Covers all topics, not just transportation
- Activities:
  - Research and information on topics of interest to the states
  - Technical assistance and training
  - Opportunities for policymakers to exchange ideas
  - Lobbying at the federal level for states' interests





# Transportation Funding Crisis

- National recession
- State budget shortfalls
- Declining gas tax revenues
- Political reluctance to raise gas tax
- Previous underinvestment in infrastructure
- Aging infrastructure
- End of ARRA monies
- Uncertainty of federal program going forward

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## Average Annual State Sources of Transportation Revenue by Percent

- State motor fuels taxes—28%
- Federal funding—27%
- Motor vehicle/truck fees and taxes—16%
- Bonding, borrowing—12%
- Tolls—5%
- State general fund—4%
- Misc. and other—6%
- Local gov't contribution—2%
- 
- NCSL Report, page 59



## The PPP (P3) Option

- Public-Private Partnerships:
- Can complete large scale transportation projects that cannot be fully funded through traditional means.
- Expand the pool of available money for transportation projects- private equity.
- Can create cost savings in terms of lower initial project cost to the public, quicker project completion and long-term operation & maintenance
- Private sector takes on a portion of the financing risk and other risks.
- Bring private sector practices and innovations into public projects, which can increase efficiency.



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## 31 States with PPP Enabling Legislation





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## NCSL Project on PPPs

- Created due to intense legislative interest
- Links legislators, legislative staff and private sector entities to analyze legislators' needs and develop nonpartisan, balanced, useful materials to aid legislators' decision-making
- Focused on publicly held surface transportation systems, esp. roadways
- It involved a dozen educational workshops, and development of written guidance using multiple resources.



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## NCSL Partners Project on PPPs

- NCSL Foundation
- Legislators: Ariz., Ind., Mass., Minn., Nev., Ore., Texas, Wash.
- Legislative Staff: Pa., Texas, Wis., W.V.
- Association and private sector partners: AECOM, AAA, AFSCME, ARTBA, ATA, Cintra US, Design-Build Institute, Dorsey and Whitney, Lane Construction, Macquarie Capital, Reason Fdn, Transurban, U.S. Chamber of Commerce
- Technical Resource: Univ. of Minnesota



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*Public-Private Partnerships for Transportation:  
A State Legislators' Toolkit*

- Goal: Provide nonpartisan, balanced, useful materials to aid legislators' PPP decision-making
- Includes:
  - Context for understanding PPPs
  - State gov't roles in the PPP process
  - Principles for good governance as applied to PPP issues
- Focus on roadways
- Extensive Toolkit released December 2010.



## Key Assumptions

- The states are and should be primarily responsible for PPP policy and implementation decisions .
- Solid, balanced, and comprehensive state enabling legislation is the key to thorough consideration of PPP proposals and the protection of the public interest.
- Though PPPs are not ideal for all transportation projects, they have been shown to reduce upfront public costs through accelerated or more efficient project delivery. PPPs don't create new money for states. The public sector will still have to pay back the private investment with revenue that can come from various places, such as existing taxes or tolls.



## PPP Definition

- “A public-private partnership is a contractual agreement formed between public and private sector partners, which allows more private sector participation than is traditional. The agreements usually involve a government agency contracting with a private company to renovate, construct, operate, maintain, and/or manage a facility or system.”
- PPPs cover as many as a dozen types of innovative contracting, project delivery and financing arrangements between public and private sector partners. In PPPs, the private sector performs functions and takes on certain risks normally undertaken by the government.



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■ **Legislative Roles**

- Deciding to engage a state in PPPs
- Creating a policy framework: enabling legislation (31 states and Puerto Rico)
- Legislative approval (9 states)

■ **Executive Roles**

- Implementation within legislative guidelines
- Programs, projects, procurement, contracting, contract mgmt. and oversight



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■ Shared Roles

- Building public-sector capacity
- Supporting and funding robust PPP project analyses
- Establishing centers of expertise
- Engaging in public outreach and stakeholder participation
- Selecting/approving projects (in states where legislative approval is required)



## Legislative Approval

- ***Some Form of Legislative Approval for Some or All PPP Projects:*** 9 states
  - Delaware, Florida, Indiana, Maine, Missouri, North Carolina, Tennessee, Washington, West Virginia (In 2011, Indiana repealed leg. approval for most projects.)
- ***Only to Convert Existing Facilities to Privately Operated Toll Roads:*** Utah and Puerto Rico
- ***Legislative Review or Involvement but not Approval:*** 8 states
  - Alabama, Alaska, California, Louisiana, Maryland, Mississippi, South Carolina, Texas



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## Legislative Approval

- Pro: Protects public interest and promotes accountability through legislative branch review.
- Con: Adds uncertainty, may discourage private investment, particularly if review is late in process.
- Options:
  - Craft comprehensive enabling legislation to carefully address protection of the public interest and key policy issues.
  - Statutorily provide structured legislative involvement other than project approval, like reporting and review and comment opportunities.





## Framing the Debate: Benefits

- Private Financing and Project Acceleration
- Monetization of Existing Assets
- Cost and Time Savings
- Lifecycle Efficiencies
- Improved Project Quality
- Risk Transfer
- Public Control and Accountability

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## Framing the Debate: Concerns

- Loss of Public Control and Flexibility
- Private Profits at Public Expense
- Loss of Future Public Revenues
- Risk of Bankruptcy or Default
- Accountability and Transparency
- Environmental Issues
- Labor Concerns
- Foreign Companies
- Toll Road Controversies
- Specific Contract Terms

## PPP Principles

- The centerpiece of the toolkit is the ***nine principles*** that promote a sound public policy approach to the consideration of PPPs.
- Drawn from the literature and the combined wisdom of the NCSL Project, the principles relate mainly to the stages of the process in which legislatures are most directly involved: deciding whether a state will engage in PPPs and creation of a policy framework.
- Some also relevant to stages where legislative involvement is less direct, like development of a PPP program; project selection; procurement processes such as negotiation and bidding; contracting; and contract management and oversight.



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■ Principle 1: Be informed.

*State decision makers need access to fact-based information that supports sound decisions.*

- Nationwide knowledge and experience gap about PPPs
- Options: Commissions, separate P3 office, expert advisors, centers of excellence (e.g. Calif., Mich., N.Y., P.R., Va.)

■ Principle 2: Separate the debates.

*Debates about the PPP approach should be conceptually distinct from issues such as tolling, taxes or specific deals.*

- Legislators and exec. agencies can clarify issues internally and for other stakeholders



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■ Principle 3: Consider the public interest for all stakeholders.

*State legislators should consider how to protect the public interest throughout the PPP process.*

- Public interest: the welfare of involved or affected stakeholder groups
- Legislators can work to protect public interest through statutory guidelines for the rest of the PPP process, esp. for contracts.
- Compare to traditional project delivery
- Identify and understand motivations of participants.



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■ Principle 4: Involve and educate stakeholders.

*Stakeholder involvement—early and often—helps protect the public interest, improve buy-in and mitigate political risk.*

- Opportunities for debate, explanation and education—and to address misconceptions
- Need to balance transparency, accountability and confidentiality



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- Principle 5: Take a long-term perspective because P3s are long-term.

*State legislators should approach PPP decisions with the long-term impacts in mind, looking beyond short-term considerations.*

- Potential positive and negative effects on overall transportation program, environment, economy, other elements of public interest



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- Principle 6: Let the transportation program drive PPP projects—not the other way around.

*PPPs should be pursued to support a state's transportation strategy, not just to raise short-term revenue.*

- Fiscal crisis: States are largely considering PPPs for financial benefits, faster completion
- Legislation can address consistency with transportation plans, how to handle unsolicited bids
- Develop priority projects that are financially feasible under a variety of funding options



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■ Principle 7: Support comprehensive project analyses.

*Before pursuing a PPP, it should be shown to be a better option than traditional project delivery.*

- International best practice: Value for Money, Public Sector Comparator, qualitative tests
- More limited U.S. use
- Legislation can require project analyses (e.g. Fla., Md., P.R., Wash.)
- Need sufficient funding and support to do these well



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- Principle 8: Be clear and transparent about the financial issues.

*States must carefully assess financial goals, an asset's value and how to spend any proceeds.*

- Principle 9: Set good ground rules for bidding and negotiations.

*Legislation should promote fairness, clarity and transparency in the procurement process.*

- Can address procurement approach, evaluation criteria, proposal review process, fees and payments, and transparency and confidentiality



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## Ongoing Work

- Widely Disseminate the PPP Toolkit and Findings.
- Continue to Analyze State PPP Legislation.
- Upon Invitation, Work with Individual State Legislative Entities.
- Continue NCSL PPP Working Group Meetings and Host Educational Sessions on PPPs at NCSL Meetings.



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## NCSL-NGA-AASHTO Effort

- Impending project to bring state teams together from about a dozen states to work on P3 issues.
- Would involve legislators/legislative staff, governor's staff and DOT staff.
- September 2011 time frame.



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# Legislative Provisions

- See worksheet.



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## Conclusion and Q&A

### Contact:

Jim Reed, NCSL

7700 East First Place

Denver, Colorado 80230

Tel: 303-856-1510

Fax: 303-364-7800

<http://www.ncsl.org>

[jim.reed@ncsl.org](mailto:jim.reed@ncsl.org)

<http://www.ncsl.org/default.aspx?tabid=17528>



**APPENDIX 5:**

Victor Poteat Presentation – “Value for Money and the Use of the Public Sector Comparator”

**ATKINS**

# Value for Money and Use of the Public Sector Comparator

August 4, 2011

Plan Design Enable

# Victor Poteat. PE

- Senior Vice President, Transportation
- 36 years transportation experience
- Tolling and P3 legislation / policy development consulting to Legislatures and state DOT's in NC, PA, KY, WA



# Agenda

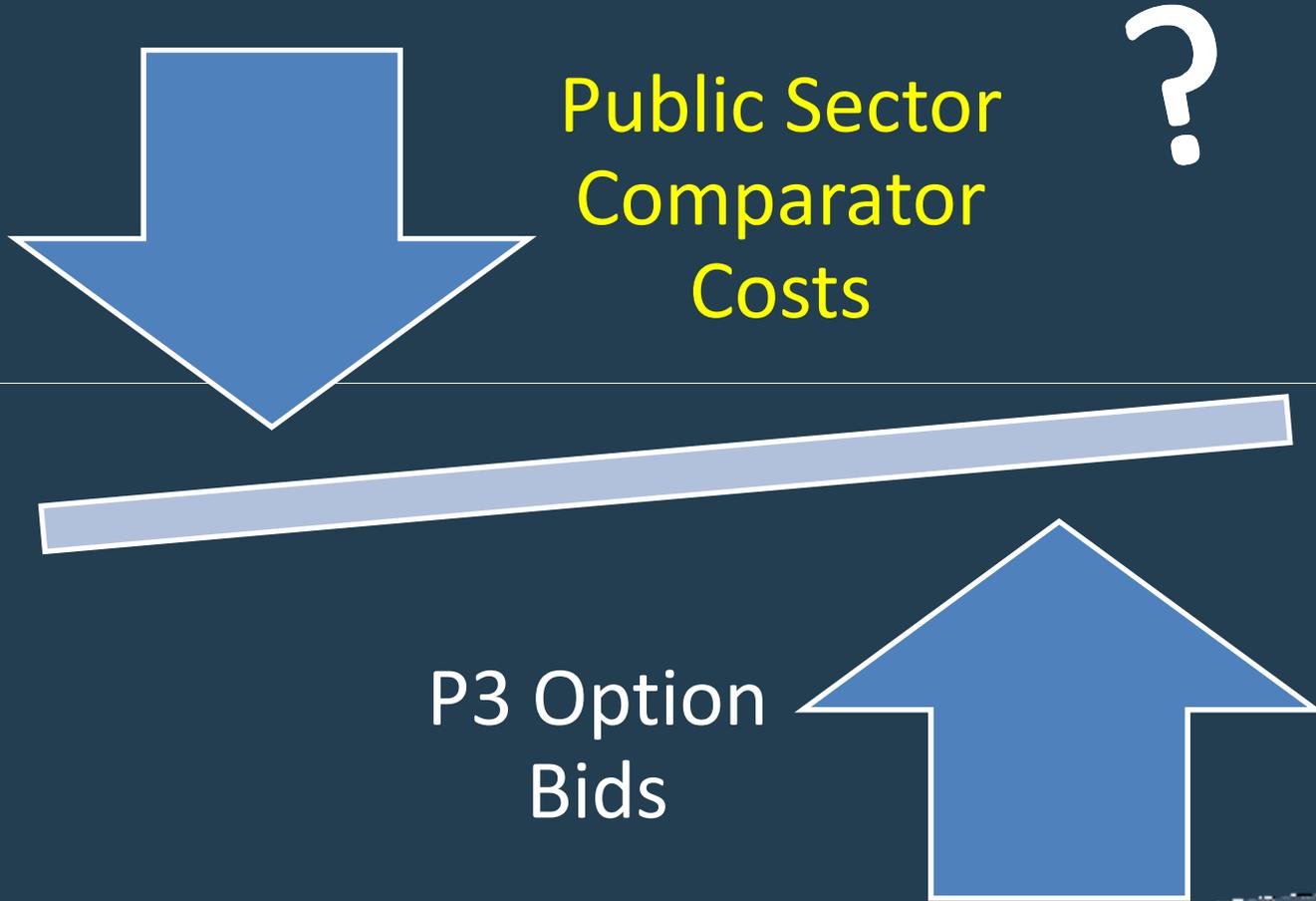
- Value for Money
- Public Sector Comparator
- Case Studies
- Close

# Value for Money (VfM)

- Core concept for P3 delivery selection

*VfM is achieved when the P3 option creates more monetary (quantitative and qualitative) benefits to the public than the conventional/traditional government model*

# VfM Analysis



# VfM... *When and Where?*

## Stage 1

- Authorization to release an RFP

## Stage 2

- Authorization to enter into the project agreement

## Stage 3

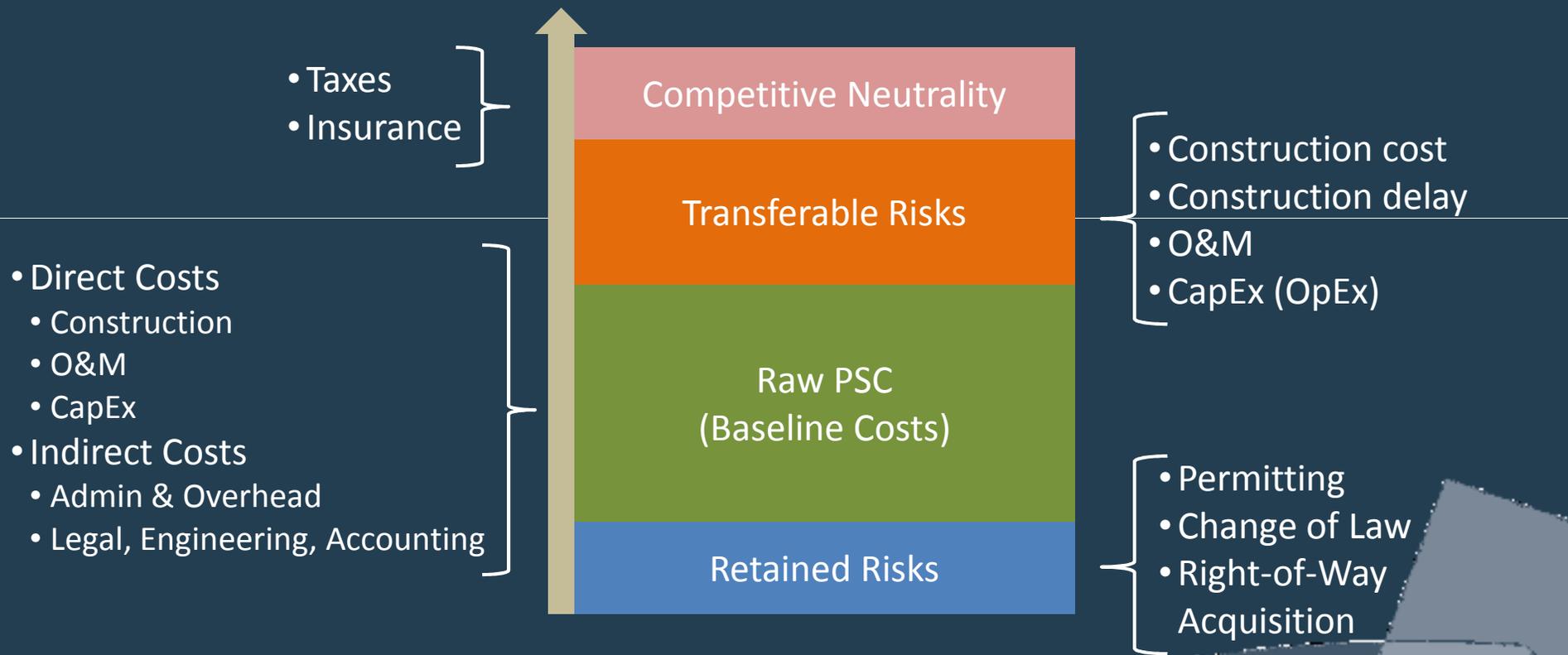
- Publication of the VfM analysis

# PUBLIC SECTOR COMPARATOR

# Public Sector Comparator

- Hypothetical, risk adjusted cost...
- Public sector providing the service to the same standards required in the bid from the private sector

# Calculating PSC



# PSC in the P3 Process

Assemble P3 Team

Legal, financial, VE, risk analysis,  
performance auditing, capital  
budgeting, accounting, etc.



# PSC in the P3 Process



Assemble P3 Team

Policy Development

- Educate
- Develop policy issues
- Prepare policy guidelines
- Prepare project selection criteria

# PSC in the P3 Process

Assemble P3 Team

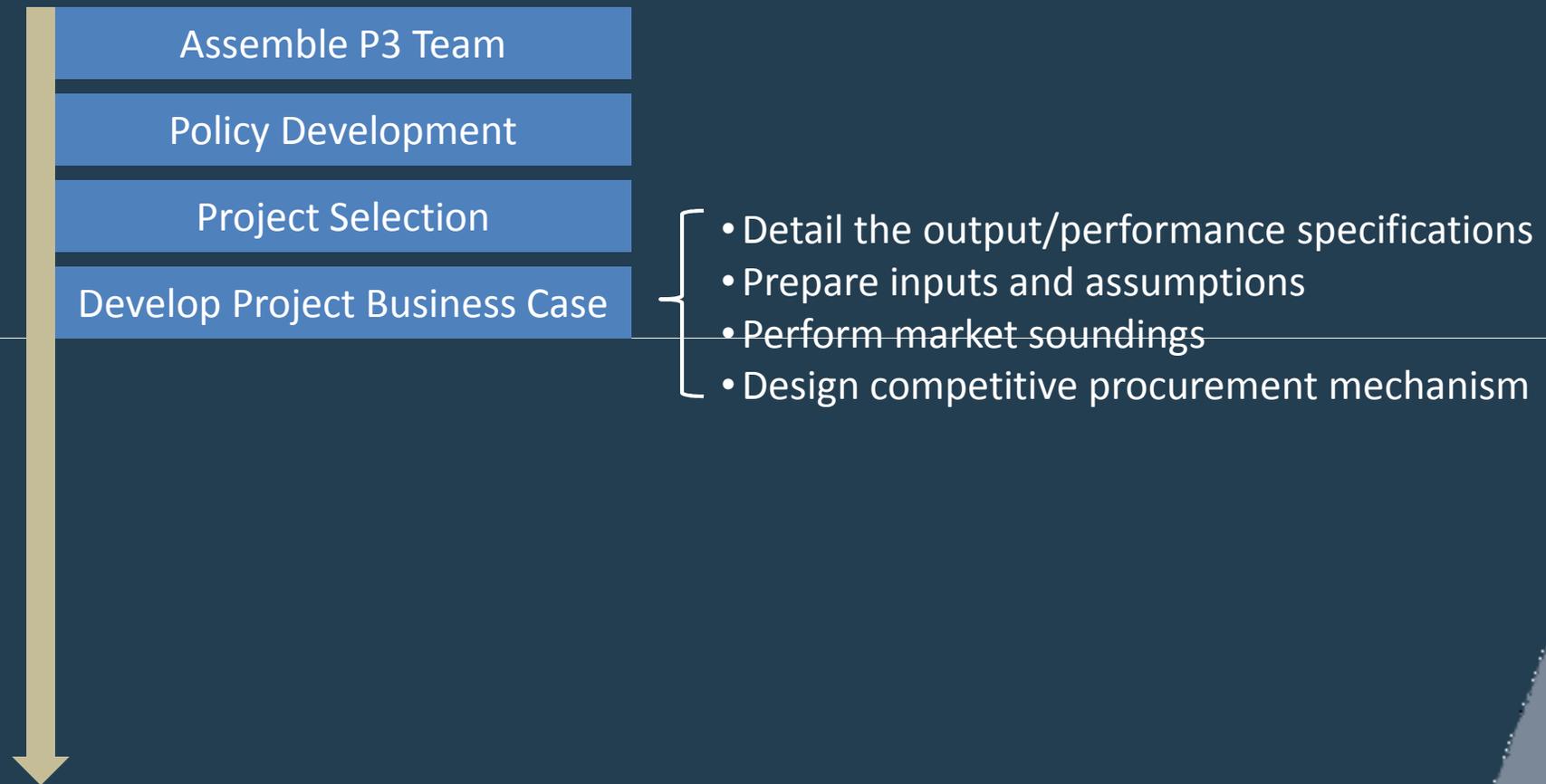
Policy Development

Project Selection

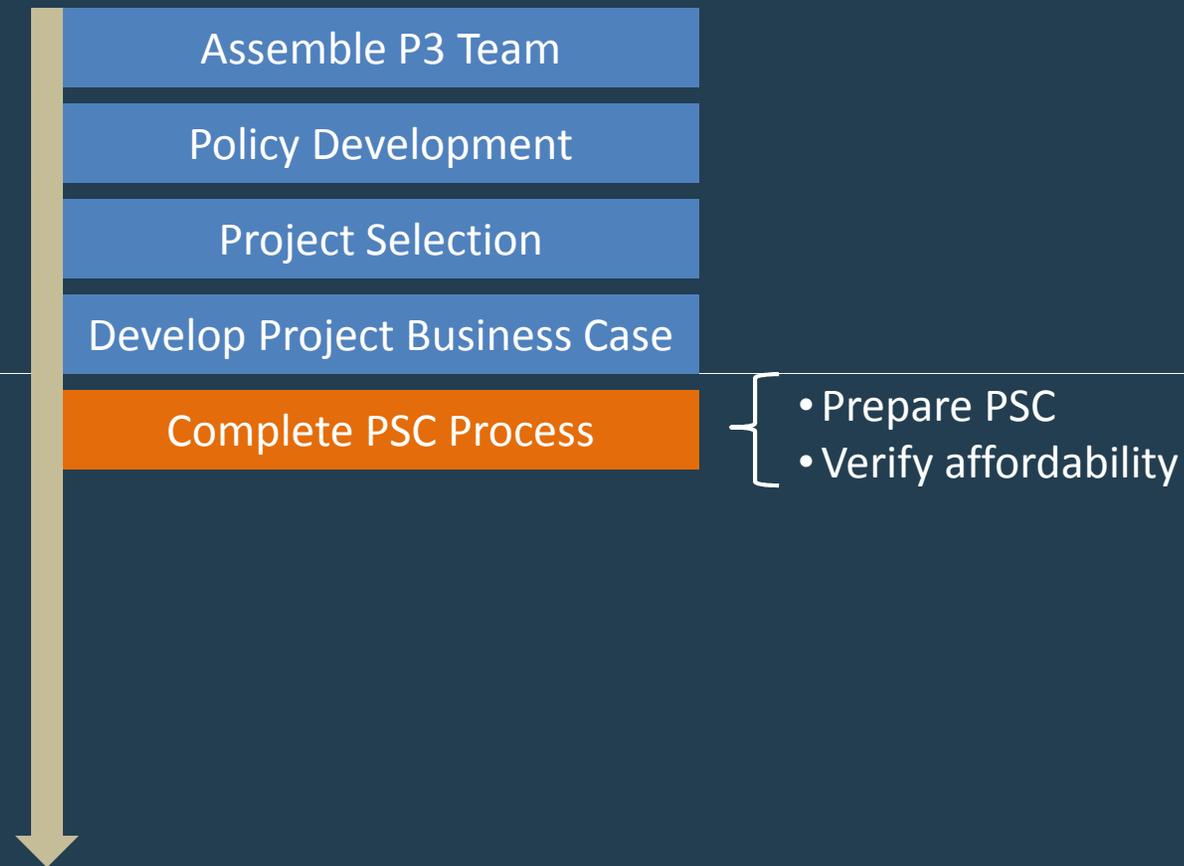
- ID candidate project
- Is a PSC warranted?



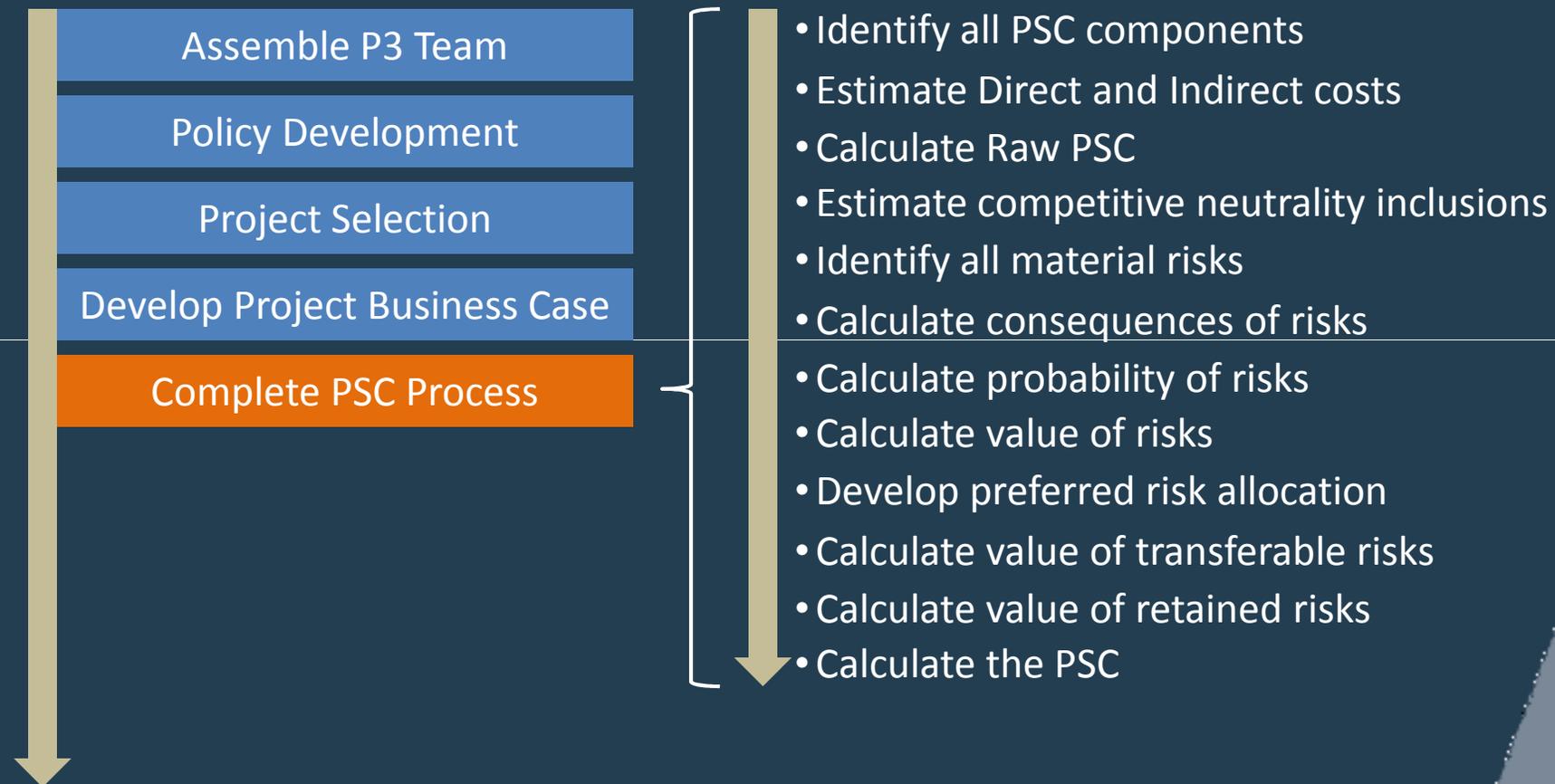
# PSC in the P3 Process



# PSC in the P3 Process



# PSC in the P3 Process



# PSC in the P3 Process



# PSC in the P3 Process



- Finalize risk allocation scheme
- Finalize all costs and assumptions
- Refine PSC as needed
- Develop draft P3 contract

# PSC in the P3 Process



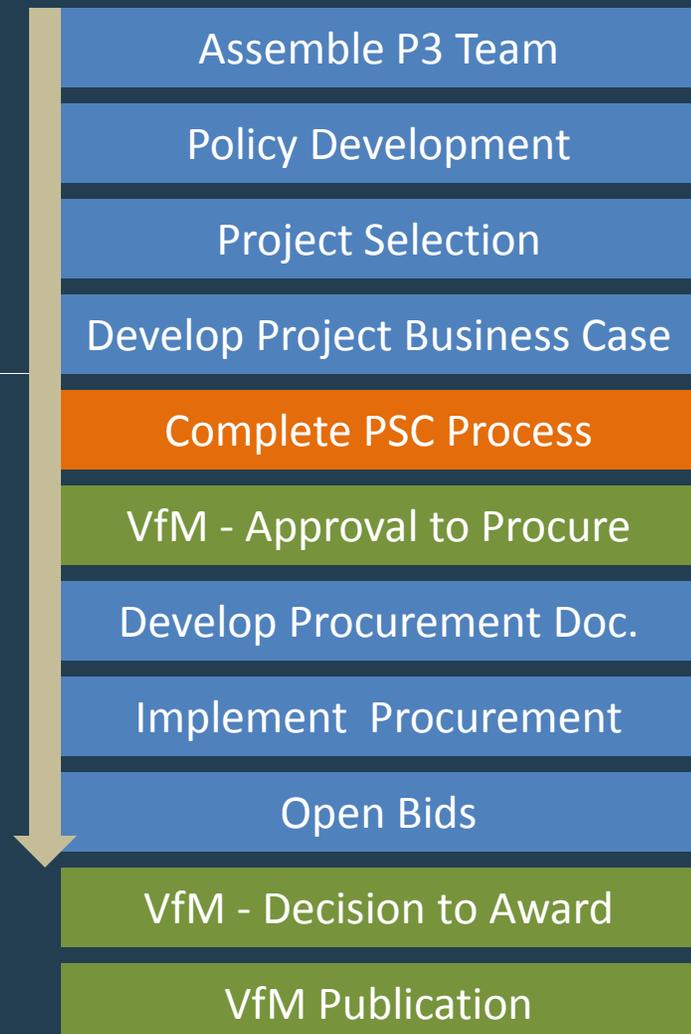
- Advertise procurement
- Qualify bidders
- Open data room with draft contract
- Conduct 1-on-1 meetings
- Receive comments on draft contract
- Refine contract as needed
- Accept final proposals/bids

# PSC in the P3 Process



- Compare PSC to bids
- Calculate VfM

# PSC in the P3 Process





*Sea-to Sky Highway Improvement Project*

# VALUE FOR MONEY CASE STUDY 1

# Sea-to-Sky Highway

- 95-km section of Highway 99 from West Vancouver to Whistler
- Improvements to widen, straighten, increase capacity, provide travel reliability, enhance safety; completed before Vancouver Winter Olympics
- MoT chose to procure a combination of DBFO and DB contracts



# Final Contract

- 25-year performance-based contract
- Private entity will:
  - DBF baseline highway improvements along P3 portion
  - Provide additional incremental improvements to the P3 portion
  - Provide O & M and rehabilitation to whole corridor
- Identify allocation of risks
- Protect public interests and provide incentives
- Establish availability payments
- MoT retains ownership

# Benefits to the Province



## Baseline improvements plus

Additional passing lanes and median barriers

Improved highway maintenance response

Additional shoulder and center line rumble strips

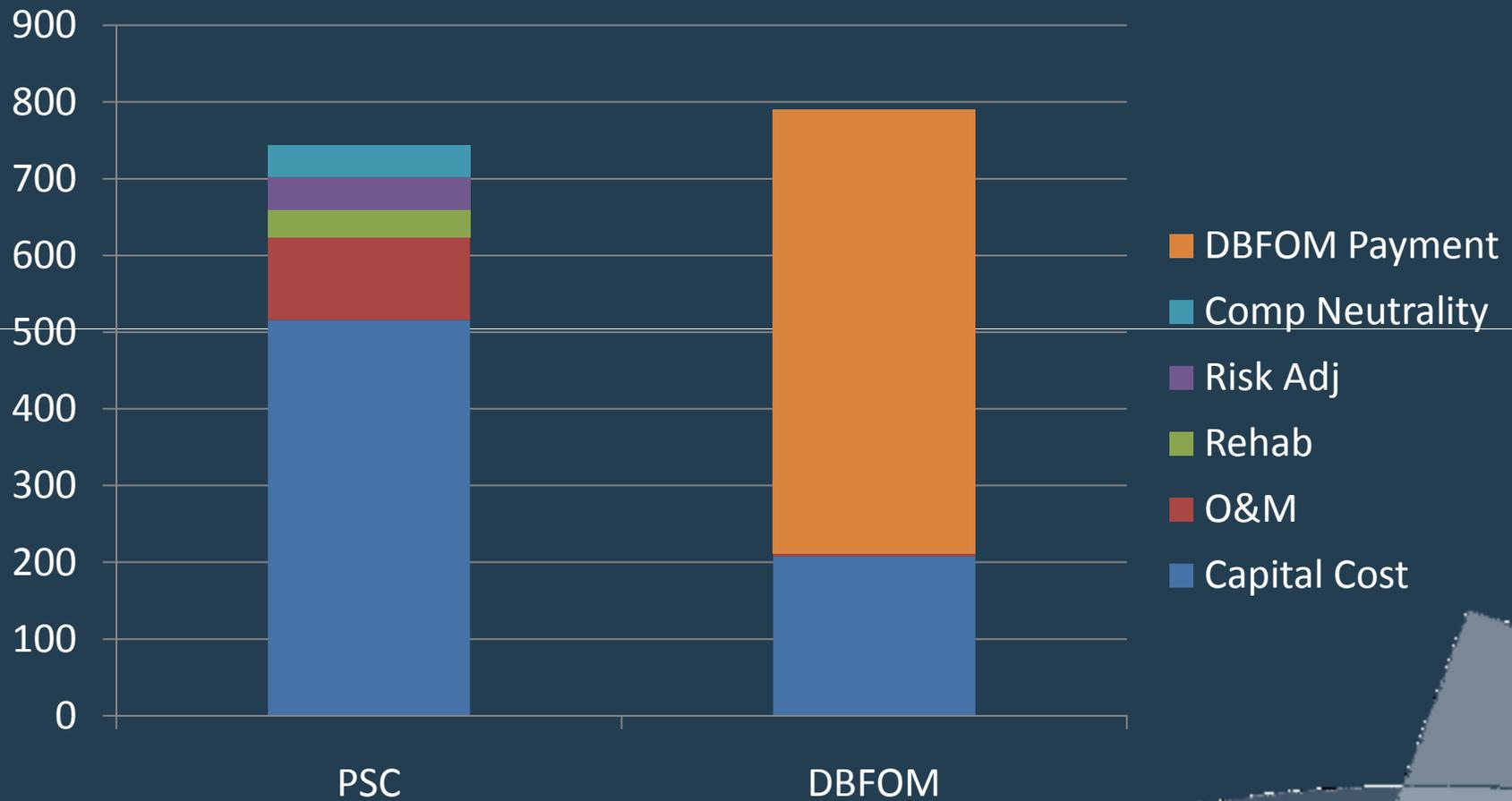
Improved lighting and wider shoulders

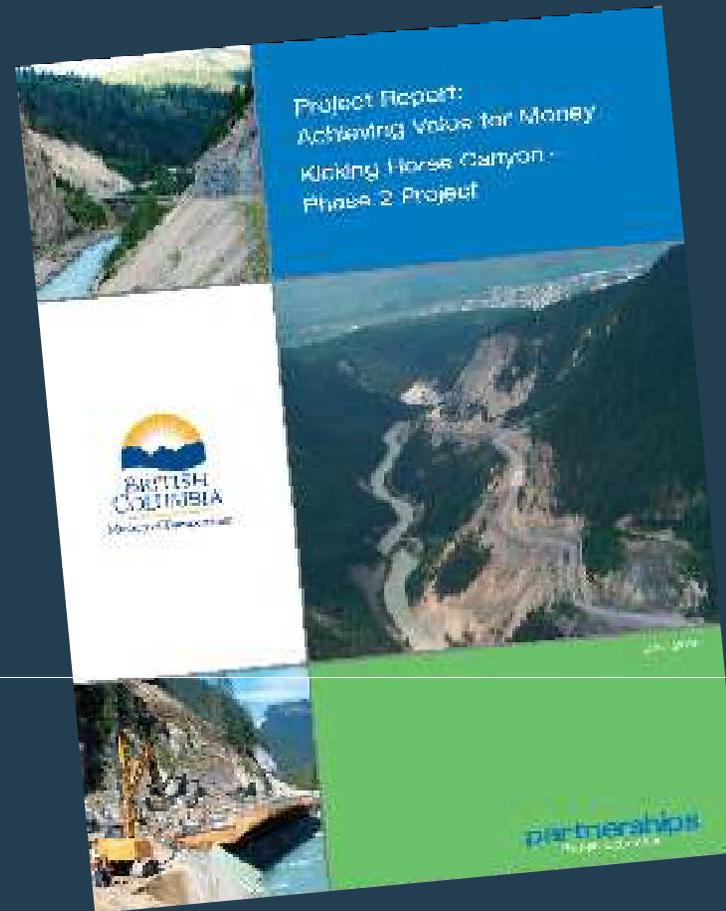
Improved recreational trail

## Comparison of Net Present Costs

Description	2003 Analysis (\$M)	2005 Analysis (\$M)
<b>Public Sector Comparator</b>	Net Present Costs	Net Present Costs
Capital Costs	515.9	516.0
O & M Costs	105.7	107.5
Rehabilitation Costs	32.7	36.3
Risk Adjustment	38.9	42.9
Competitive Neutrality Adj.	62.5	41.3
Total Cost – Risk Adjusted	755.7	744.0

# Final Sea-to-Sky VfM Comparison





*Kicking Horse Canyon – Phase 2 Project*

# VALUE FOR MONEY CASE STUDY 2

# Kicking Horse Canyon Highway

- Upgrade 26-km of highway to a modern, four-lane standard, including bridge replacements



# Phase 2 Improvements

- DBF 5.8-km section of Kicking Horse Canyon Highway
- O&M and rehabilitation of entire 26-km section of highway for 25 years



# Final Contract

- 25-year performance-based contract
- Private entity will:
  - Deliver new Park bridge and safety and capacity improvements within a 25-month period
  - Operate, maintain, and rehabilitate the entire 26-km corridor to established standards during the 25-year contract
- Allocation of risks
- Shared financing: Government of Canada provided \$62.5M in funding
- Availability performance payments
  - Construction
  - Availability and safety
  - Traffic volume (incentive-based payment)

# Final Contract



# Benefits to the Province



## Capital cost savings plus

Early completion

Safety and  
quality benefits

Protection from  
cost overruns

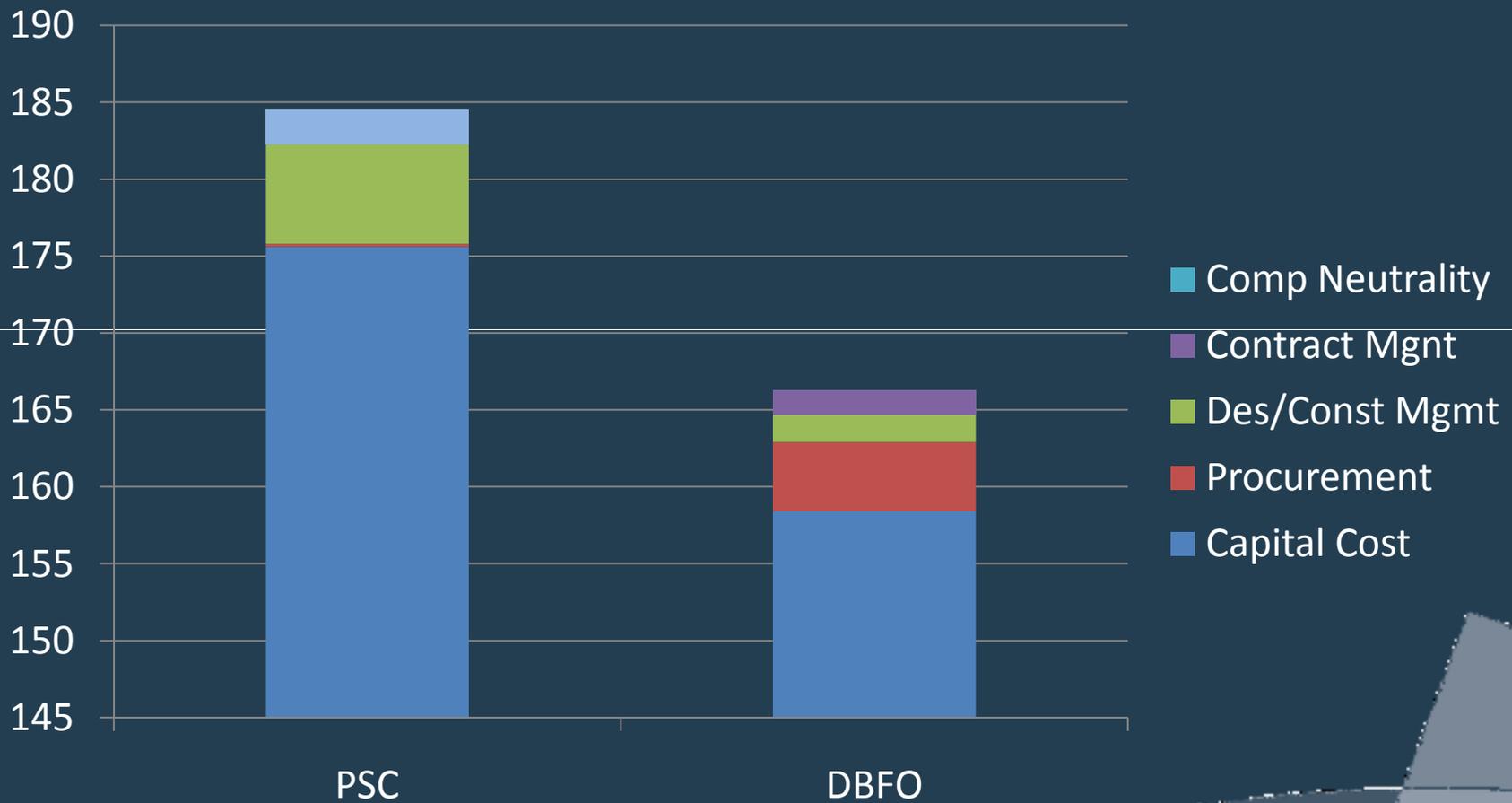
Additional  
eastbound rest  
area and truck stop

Additional center-  
line and shoulder  
rumble strips

# Comparison of Net Present Costs

Description	Public Sector Comparator	DBFO Delivery
Risk Adjusted NPC @ discount rate of 6.95%	\$175.6	\$158.4
Taxation adjustment	2.2	0
Procurement costs	0.2	4.5
Design/Construction Management costs	6.5	1.8
Contract management costs	0	1.6
<b>Totals</b>	<b>184.4</b>	<b>166.3</b>
<b>Cost Differential</b>		<b>-\$18.1</b>

# VfM Comparison



# SUMMARY

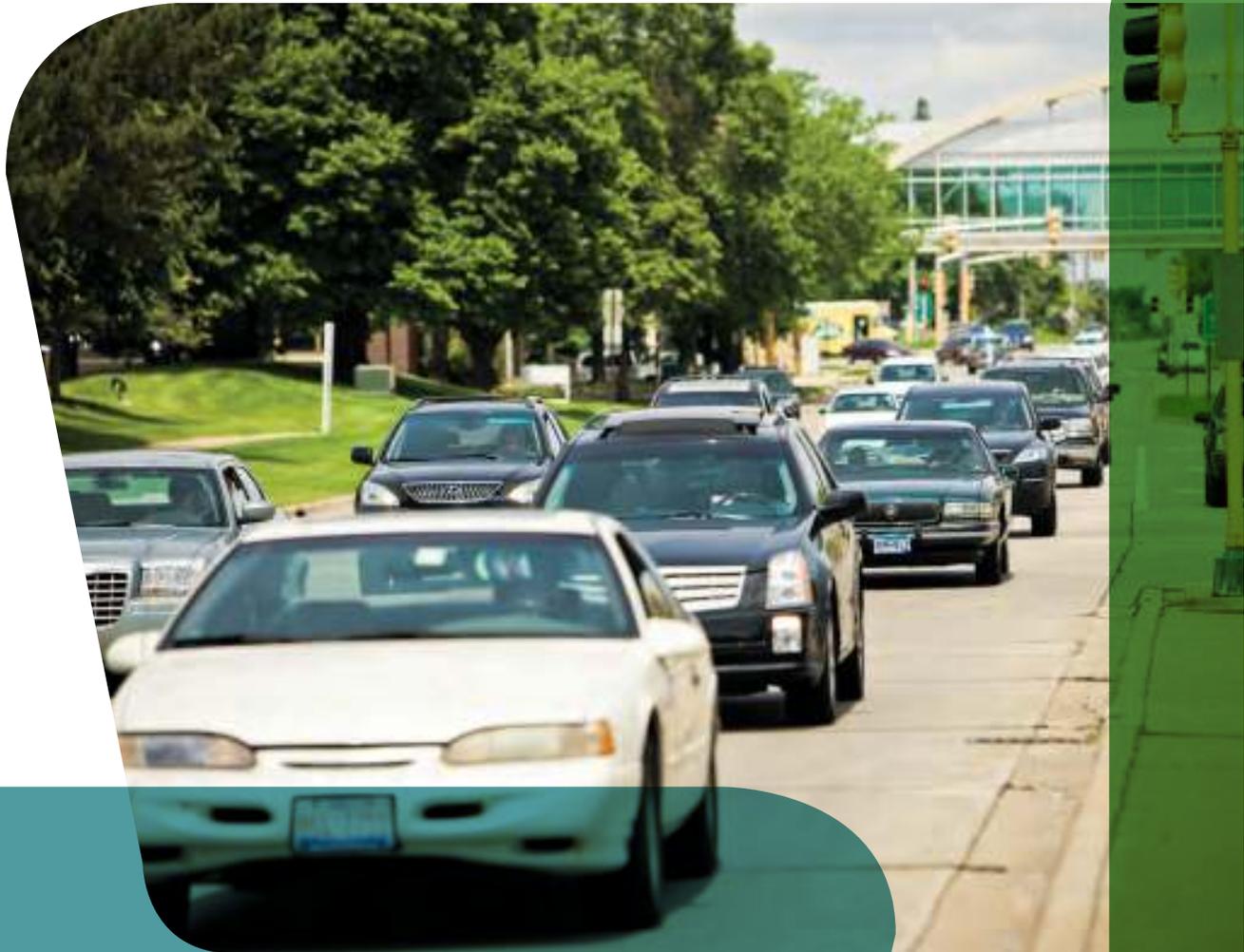
# VfM and PSC

- History of the use in evaluating P3 options
- Takes place throughout various stages of the procurement process
- Challenging analysis includes numerous assumptions
- Benefits to the public sector include both quantitative and qualitative
- Costs and risk allocations are evaluated to provide like-to-like comparisons

CLOSE

**APPENDIX 6:**

Task Force Final Report



Public-Private Partnerships (PPPs)  
in Transportation

**Policy Task Force Recommendations**

DECEMBER 2011



HUMPHREY SCHOOL  
OF PUBLIC AFFAIRS  
UNIVERSITY OF MINNESOTA  
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## **About the Public-Private Partnerships (PPP's) in Transportation Policy Task Force**

The goal of the Policy Task Force on Public-Private Partnerships in Transportation (PPP's) was to engage a broad range of stakeholders, with the intent of identifying and examining the potential for expanding the use of PPPs in Minnesota.

Task force members are listed in the back page of this report.

This report was prepared by the Humphrey School of Public affairs at the University of Minnesota in December 2011. The study represents the views of the Policy Task Force on Public-Private Partnerships in Transportation and does not necessarily represent the views or policies of the Minnesota Department of Transportation or the University of Minnesota. The Humphrey School of the University of Minnesota is hospitable to a diversity of opinions and aspirations. The Humphrey School itself does not take positions on issues of public policy.

The MnDOT Management Team consisted of Brad Larsen and Phil Barnes. The Humphrey School team consisted of Lee Munnich and Adeel Lari.

**Front Row:** Dan Murray, John Gunyou, Scott Dibble, Bill Schreiber, Tom McCrossan, Lee Munnich

**Second Row:** Adeel Lari, Craig Lenning (for Khani Sahebjam), Brad Larson, Jay Kiedrowski, Tom Workman, Glen Schreiner

**Last Row:** Philip Barnes, Adam Dvininck, Darrell Turnen, Matt Shands, Arlene McCarthy, Dave Van Hattum



The Public-Private Partnerships (PPPs) in Transportation Policy Task Force was convened by the Minnesota Department of Transportation (MnDOT) in April 2011 to identify and examine the potential for expanding the use of PPPs in Minnesota, and to recommend strategies for implementation.

The PPPs Policy Task Force consisted of two dozen members that included state legislators, local-elected officials, transportation, business, labor, environmental and community leaders, who were asked to consider the potential opportunities and challenges related to transportation PPPs in Minnesota. The Task Force met monthly during 2011, with staff support provided by the University of Minnesota's Humphrey School of Public Affairs.

### Why Public-Private Partnerships (PPPs) in transportation?

Many factors are affecting Minnesota's ability to build and maintain its transportation infrastructure, and these limitations are negatively impacting mobility and economic growth. The PPPs Policy Task Force believes the expanded use of PPPs, if appropriately implemented, can effectively leverage traditional resources used for transportation infrastructure, and significantly contribute to the timely and cost-effective delivery of projects.

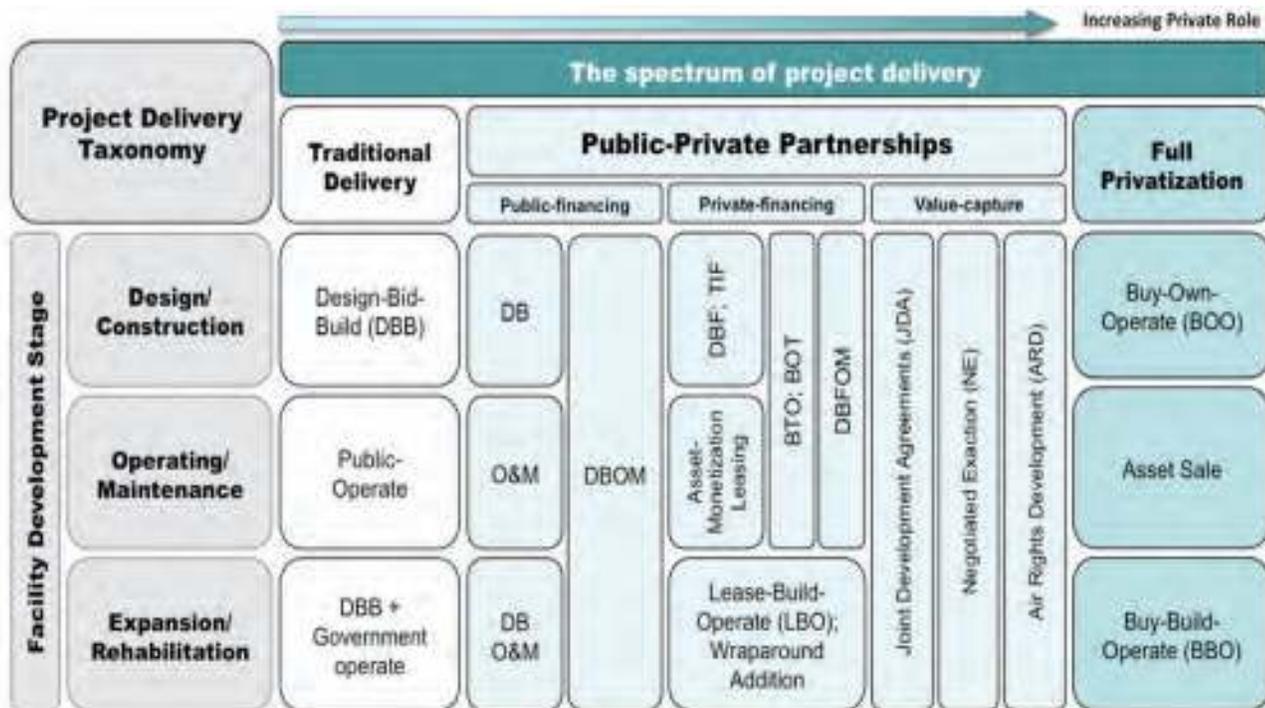
However, the PPP Policy Task Force also believes that PPP tools should only be used to supplement, and not replace, traditional funding sources. Additional funding for transportation projects through traditional methods, such as fuel taxes and tab fees for roads, sales taxes for transit, and property taxes and motor vehicle sales taxes for both roads and transit, will also be required to meet Minnesota's long-term transportation infrastructure needs.

**While additional funding will still be required to meet Minnesota's long-term transportation infrastructure needs, PPPs can effectively leverage traditional funding sources, when appropriately and responsibly implemented.**

## Understanding Public-Private Partnerships

PPPs are defined in many ways, and cover a diverse range of contracting, project delivery and financing arrangements. As illustrated in the chart, and described in detail in the accompanying report, *A List of Public-Private Partnership Project Options for Minnesota and Criteria for Evaluation*, PPPs can encompass everything from design/build contracting methods to long-term lease agreements for existing transportation facilities.

## A General Framework of Infrastructure Delivery Options



(Source: Zhao et al. 2011)

After hearing from a number of experts and reviewing this full range of options to expand the use of PPPs to support transportation infrastructure throughout the state, the PPPs Policy Task Force Task focused on those tools they determined to be most promising for Minnesota: Value for Money Process and Value Capture.

## Principles for Public-Private Partnerships

Three general principles are recommended to guide PPP policy decisions:

- All entities must be active partners. PPP standards and criteria must be broad enough for the private sector to come to the table, and also tight enough to ensure that public interests are protected.
- PPPs must be transparent and fair to maintain the public trust, as well as the trust of private partners. Benefits must be clearly articulated, measured and balanced against costs and risks.
- PPPs must be flexible, since one size does not fit all levels of government, nor all potential private partners.

Policy officials are also encouraged to consider the principles and guidance set forth in the National Conference of State Legislators' (NCSL) recent PPPs Report: <http://www.ncsl.org/documents/transportation/PPPTOOLKIT.pdf>

## TASK FORCE RECOMMENDATIONS

### Central coordinating office

The PPPs Policy Task Force recommends that a single point of contact for all PPP activities be established within MnDOT to provide local technical assistance, coordinate the efforts of other public private partner agencies, and analyze the myriad funding options most appropriate for the specific situation.

**A central office should be established within MnDOT to coordinate all PPP activities.**

In the long-term, consideration should be given to further improving coordination by expanding this function to include the Department of Employment and Economic Development (DEED), which currently co-manages the Transportation Economic Development (TED) program with MnDOT, Minnesota Management and Budget (MMB), and other public agencies.

### Value for Money Process

The decision to use PPP procurement strategies for specific projects must be based on sound analytical processes that justify such decisions. Analytical methods like Value for Money (VfM) analysis, which compare the net present value of traditional and PPP approaches to financing and delivering a project, should be developed.

**Analytical methods, like Value for Money (VfM) analysis, should be developed and utilized to guide transportation project procurement.**

- **Advisory committee.** An independent advisory committee should be impaneled to establish and maintain trust in VfM and other public benefit analytical processes. The role of this permanent forum, which should be comprised of representatives from public and private organizations with diverse expertise in infrastructure engineering and financing, would be to validate the process and analytical assumptions, and would be advisory to the MnDOT Commissioner.

The experiences of the many public agencies already effectively using VfM and other public benefit analytical processes throughout the country and world provide useful guidance for successfully incorporating the strategy into Minnesota's transportation infrastructure development. Specifically:

- **Transparency and accountability.** Public benefit and VfM analyses must be transparent, and allow full accountability for the decisions made. Underlying assumptions must be clear, and the public process must appropriately allow input from all interested and potentially affected parties.
- **Consistency, with flexibility.** A standardized set of risks should be defined to "put value to" those included in all analyses. At the same time, public benefit and VfM analyses must be sufficiently flexible and dynamic to meet the needs of specific projects.

**Decisions about funding options, like tolls, congestion pricing, taxes or fees should be separate policy decisions from Value for Money analyses.**

## Value Capture

The concept of value capture is straightforward. Improving transportation access adds value to adjacent land and to benefitting businesses, and that added value can justifiably be captured to help pay for the cost of those transportation improvements. Value capture is particularly applicable to freeway interchanges and transit stations, since those capital investments enhance access, which can support higher density and commercial development.

Minnesota's existing value capture financing mechanisms, such as special assessments, tax increment financing and negotiated exactions, are not as applicable for large scale transportation improvements – particularly in those situations where secondary economic benefits accrue to land owners in the vicinity of major roadway and transit corridors. Several changes are suggested:

**Value Capture mechanisms should be enhanced to facilitate the formation of effective PPPs.**

- **More flexible planning process.** Traditional long-term infrastructure planning does not readily accommodate near-term opportunities that may arise; such actions are often seen as “queue jumping.” A more flexible process should be developed to allow consideration of these prospects, while still retaining consistency with sound transportation and land use planning.
- **Economic development funding.** Existing programs are limited in their flexibility and provide only minor levels of funding for transportation projects related to economic development. Both grant and revolving loan programs should be expanded to leverage private interest in PPPs, with metrics established for such criteria as job creation, public benefits and return on public investment.
- **Value capture districts.** Legislation should be pursued to enable the formation of value capture districts, which would allow the capture of taxes, fees or other value generated by expanded development. These increments could pay for the public improvements either within a single area, or potentially for transit corridors in multiple jurisdictions.



## Public-Private Partnerships (PPPs) in Transportation Policy Task Force

John Gunyou, Chair, City of Minnetonka  
John Bailey, Envision Minnesota  
Bob Benke, Community Resource Partnership, Inc.  
Patrick Born, Metropolitan Council  
Scott Dibble, Minnesota State Senator  
John Doan, Atkins North America, Inc  
Margaret Donahoe, Minnesota Transportation Alliance  
Gail Dorfman, Hennepin County Commissioner  
Adam Duininck, International Union of Operating Engineers Local 49  
Kristin Hanson, Minnesota Management and Budget  
John Hausladen, Minnesota Trucking Association  
Mike Jungbauer, Minnesota State Senator  
Kathy Kardell, Hennepin County Office of Budget and Finance  
Jay Kiedrowski, Humphrey School of Public Affairs  
Jay Lindgren, Dorsey & Whitney LLP  
Arlene McCarthy, Metropolitan Council  
Tom McCrossan, C.S. McCrossan  
Jennifer Munt, AFSCME Council 5  
Dan Murray, American Transportation Research Institute  
Tim Penny, Southern Minnesota Initiative Foundation  
Khani Sahebjam, HDR, Inc.  
Dan Salomone, Minnesota Department of Revenue  
Bill H. Schreiber, Messerli & Kramer  
Glenn Schreiner, Parsons Brinckerhoff  
Derrell Turner, Federal Highway Administration, Minnesota Division  
Dave Van Hattum, Transit for Livable Communities  
Tim Worke, Associate General Contractors of Minnesota  
Tom Workman, Carver County Commissioner

