

Using Innovative Approaches to Fund Projects

BY SALLYE PERRIN AND DANIEL KRAUSE ON SEP 22, 2014

www.masstransitmag.com/article/11665934/using-innovative-approaches-to-fund-projects



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existence for many years and has been utilized successfully throughout the world — public-private partnerships (P3s). P3s are contractual agreements formed between a public agency and a private entity that allow private sector participation in the financing, design, construction, operation and maintenance of public infrastructure.

In a P3, the private entity is responsible for delivering a public good, facility or service that has traditionally been provided and managed by a public entity, such as a state agency, local government or regional authority. The goal of the collaborative partnership is to deliver benefits to the public through value-added private sector engagement.

Benefits of P3s include job creation, design innovation, efficiencies in project finance, transfer of risk, optimization of resources and capabilities, as well as the timely delivery, operations and long-term maintenance of public infrastructure. This unique model has demonstrated that projects are delivered on-time and within budget, utilizing innovative ideas and products to create long-term, life-cycle operational and maintenance efficiencies.

United States

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Public agencies and authorities throughout the U.S. and the world are facing an increase in public demand for new infrastructure. At the same time, aging infrastructure requires repair and/or replacement and continued fiscal challenges limit available funding for infrastructure improvements or development. To meet these challenges, some transportation agencies and authorities in the United States are turning toward alternative procurement models to address infrastructure needs for their communities. One model, although “new” to the U.S., has been in

P3s: More than Just Financing

While financing is often an alluring factor that encourages public agencies and legislators to consider procuring a project as a P3, it is the innovation, technical acumen and competition that creates tremendous public value while utilizing this life-cycle procurement model. P3s bring projects to the market sooner, creating local jobs and long-term economic development.

P3s incorporate a blend of publicly available financing programs with private funding to achieve project goals.

Federal programs such as TIFIA, PABs, grants and, in some cases, RRIF, are combined to stabilize the financial foundation. These credit enhancement programs enable agencies to stipulate revenue risk or availability payments as the principal method of engagement during the operations and maintenance phases of a project.

Transit P3s in the U.S.

In Colorado, the Regional Transit District (RTD), has embarked on an ambitious voter-approved transit development program (FasTracks) to improve mobility and provide additional linkages in the Denver area. The 2004 referendum that established the FasTracks program mandated aggressive service delivery dates. As the implementation progressed, it became clear that to meet the mandates and address the challenging economic conditions following the passage of the referendum, alternative delivery options needed to be evaluated. The core of the new commuter rail system was evaluated and selected for procurement as a P3.

The resulting Eagle P3 is the first transit P3 in the U.S. The project includes nearly 23 miles of new electric commuter rail with 5 stations connecting downtown Union Station with Denver International Airport. The new service would allow passengers to connect from downtown to the airport in 35 minutes, providing an alternative to the automobile. The Eagle P3 proposal provided real value to RTD. The winning proposal was \$300 million lower than RTD's budget (\$2.1 billion vs \$2.4 billion). Their schedule included a 6-year construction period with the East Corridor completed by 2016, nearly a year earlier than the RTD schedule. The construction is on schedule and more than half way to completion.

A procurement is now underway in Maryland for a new light rail transit system. The \$2.2 billion Purple Line is a 16-mile LRT system running east-west from Bethesda in Montgomery County to New Carrollton in Prince George's County. The Purple Line provides significant intermodal connections that enhance local and regional mobility. In evaluating procurement options, the Maryland Department of Transportation (MDOT) determined that a P3 would offer an opportunity for private sector innovation which could result in cost and schedule savings. The efficiencies of the P3 approach (risk transfer, life cycle planning, and schedule and cost incentives) also offered the potential for long-term financial savings relative to traditional delivery options. The project is now in the proposal phase of procurement with construction scheduled to start in the spring of 2015.

United States

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One of the most intriguing areas that transit agencies are moving into is the leveraging of their properties for real estate development next to rail stations. Transit agencies can increase revenues from the sale/lease of land holdings, and indirectly from increased ridership due to new development. Opportunities for large scale transit-oriented development (TOD) are often found where large surface parking lots are present at rail stations. These huge parking lots are now often viewed as underutilized assets, much more valuable than previously perceived.

Recently, a large TOD was completed on a parking lot owned by the Washington Metropolitan Area Transit Authority (Metro) at the Rhode Island Metro Station. Rhode Island Row, as the new development is called, was formed out of a public-private partnership between Metro and Urban Atlantic. A&R Development was also involved in developing the project. This project created an instant town center with a main street, lined with shops and cafes, with housing above. The development, a mixed-income community, consists of 274 housing units (including affordable, workforce, and market-rate apartments) and 70,000 square feet of retail.

The Rhode Island Row project is one of many TOD projects underway or completed along the Metro rail system. As TOD increases both the population and activity around Metro stations, revenue will continue to grow for Metro. While these revenues are typically not large enough to build new lines, they add to the overall budget, which can keep rail systems in good repair.

The TOD model, which has been more aggressively pursued in the Washington, D.C., area than anywhere in the country, is now being emulated across the nation. Even in car-loving California, Los Angeles is now pursuing several large TODs around its subway and light rail system. Additionally, the California High Speed Rail Authority is examining ways to use value capture from the real estate development in the vicinity of planned high-speed rail stations. These revenues can help fund stations and amenities in the surrounding areas.

The US High Speed Rail Association devotes a significant amount of time promoting TOD as a way to increase the success of rail projects, from streetcar to dedicated high-speed rail lines.