



RESEARCH SERVICES

OFFICE OF POLICY ANALYSIS,
RESEARCH & INNOVATION

TECHNICAL SUMMARY

Technical Liaison:

Ken Buckeye, Mn/DOT
Kenneth.Buckeye@state.mn.us

Administrative Liaison:

Dan Warzala, Mn/DOT
Dan.Warzala@state.mn.us

Principal Investigator:

Zhirong Jerry Zhao, University
of Minnesota

PROJECT COST:

\$74,929



The P3 enabling Virginia's Capital Beltway (I-495) high occupancy toll lanes helped fund infrastructure improvements such as the reconstruction of bridges over the wider highway.

Clarifying Public-Private Partnership Options in Transportation Projects

What Was the Need?

There are many arrangements by which private firms can aid in funding or assume risk for delivering transportation projects. Some of these arrangements are already standard Mn/DOT practice such as design-build contracting in which a contractor assumes responsibility for much of the design phase of a project as well as for the construction phase. This shifts risk from Mn/DOT and reduces delivery time by overlapping the design and construction phases.

The term "public-private partnership" is often associated with controversial arrangements like the leasing of the Chicago Skyway, where a private firm assumed operations and maintenance responsibilities for an existing toll highway in exchange for being able to keep the toll revenue for a 99-year term. However, several other types of P3s are being used to help government entities finance and deliver transportation facilities effectively and efficiently.

Mn/DOT needed to better define P3s and clarify what factors need to be taken into account to determine whether any given arrangement is truly in the public interest.

What Was Our Goal?

By reviewing literature and contacting involved public agency staff about existing P3s involving state highway development, investigators aimed to explain the range of P3s to address Mn/DOT's concerns about when a P3 produces desirable outcomes for the public and what approaches can mitigate the risks of P3s to public sector interests. This document would then help to educate Minnesota stakeholders about when and how to choose a P3 arrangement.

What Did We Do?

Investigators drew on academic research, news articles, agency publications and other sources of information about cross-sector collaboration and contract management to identify a number of P3 examples in the United States and abroad. Investigators then categorized and annotated the examples to highlight the type of project, manner of private involvement, and the key benefits and issues involved. Particular cases were reviewed further to gather lessons learned and best practices on selecting and implementing P3s. Additional literature reviews looked into public concerns surrounding P3s and state and federal laws that affect P3 arrangements. Results of these investigations were organized into a comprehensive report.

What Did We Learn?

The report discusses economic reasons for pursuing P3s along with their history, global pervasiveness, and the political and legal climate surrounding them. Appropriate P3 legislation needs to be in place before private sector involvement to achieve the best project outcomes.

Investigators clearly defined P3 alternatives, detailing how risks are transferred with each option and the costs and benefits involved, which included additional capital and budget revenue, competition in delivery among alternative options, the infusion of private expertise and new technologies, and life-cycle considerations. In many cases,

A report explaining public-private partnership options will help Minnesota transportation stakeholders to leverage private funding while protecting the public interest, producing substantial benefits for the state.

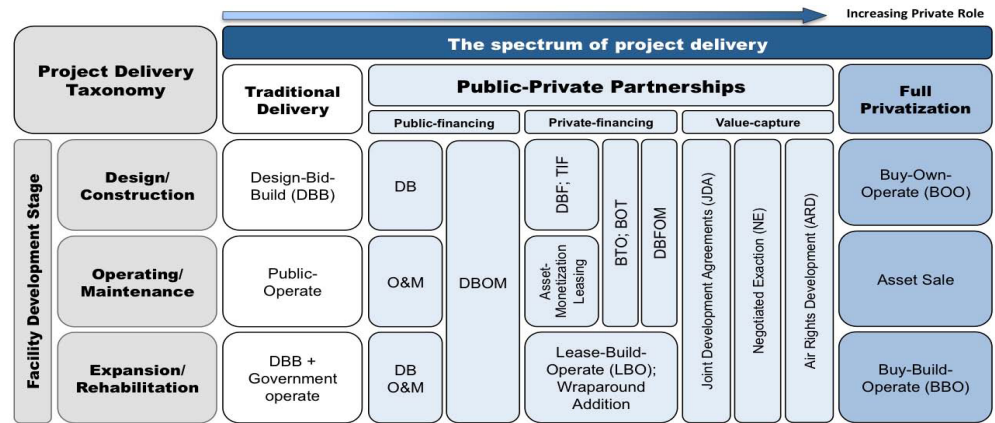
“There was a lot of confusion and misunderstanding on P3 options and costs. This report helped to clarify what P3s could be and hopefully dispelled a lot of myths and the fear that goes with them.”

—Ken Buckeye,
Value Pricing Program
Manager, Mn/DOT Office
of Policy Analysis,
Research & Innovation

“For certain long-term, large-scale projects, new procurement strategies for private financing can produce substantial benefits, as with the HOT-lane design/build/finance/operate/maintain arrangements in Virginia and Florida.”

—Brad Larsen,
Traditional & Innovative
Finance Director, Mn/DOT
Office of Financial
Management

Produced by CTC & Associates for:
Minnesota Department
of Transportation
Research Services Section
MS 330, First Floor
395 John Ireland Blvd.
St. Paul, MN 55155-1899
(651) 366-3780
www.research.dot.state.mn.us



Investigators provided a framework to categorize P3 options by the level and type of involvement (the horizontal axis to the chart above) and what stages the private firm is involved in (the vertical axis). The abbreviations stand for different arrangements; for example, “DB” is design-build, described at the beginning of this summary.

the key benefit of a P3 is expediting a project: Private financing doesn’t entail raising additional public revenue.

Often illustrating with specific P3 experiences, the report details factors key to a successful P3 implementation, including:

- Selecting suitable candidate P3 projects and evaluating whether a P3 will provide more benefit than traditional project delivery.
- Specifying procurement methods: who can initiate proposals, when to process procurements, whether they should be negotiated or bid, and decision rules to choose contractors.
- Developing P3 contracts, including specification of payment options, contract length, tolling rate policies, expected rate of return, noncompete clauses and hand-back provisions.
- Managing projects, including contract oversight, contract change management, transparency and public participation, and the use of P3 revenue.

What’s Next?

An outreach effort began in spring 2011 with several presentations of these findings at academic and transportation conferences. Funding has been sought for a \$120,000 follow-up study to develop an evaluation methodology and tool to provide decision support for determining whether a P3 approach should be pursued for a given project using a value-for-money or public-sector comparator analysis. The project would also apply this methodology to one or two specific projects.

Also as a response to this report, Mn/DOT has tasked the University of Minnesota’s Humphrey Institute to lead a P3 task force made up of legislators; Mn/DOT, metro and local government representatives; industry groups; and other stakeholders to build an understanding of P3s and eventually evaluate specific prospective P3 projects. To pursue P3s requires specific legislation, and this task force is there to represent and allay public concerns that approved arrangements will not result in increased costs or agency loss of control over public infrastructure.

This Technical Summary pertains to Report 2011-09, “Advancing Public Interest in Public-Private Partnership of State Highway Development,” published February 2011. The full report can be accessed at <http://www.lrb.org/PDF/201109.pdf>. For more information about the P3 task force, please contact Brad.Larsen@state.mn.us.