



COMMONWEALTH of VIRGINIA

Office of the

SECRETARY of TRANSPORTATION

# Transform66: Outside the Beltway P3 Procurement Update

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Virginia Department of Rail and Public Transportation



# McAuliffe Administration Philosophy

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- **Protect the taxpayers**
- **Use P3s *only* when they are in the best interest of the public**
- **Deliver a project that best meets the needs of the public**
- **Be transparent and accountable to the public and elected officials**
- **Embrace P3 reforms of HB1886 (2015)**

# McAuliffe Administration P3 Philosophy

Protect the taxpayers	Reformed P3 Process – Saved \$2.5 billion
Use P3s only when in the best interest of the public	Developed a public option and created competition with private sector
Deliver a project that best meets the needs of the public	Project provides travel choices, congestion relief, and improved reliability. Created \$500M in additional funding from private sector to address transportation needs in the corridor
Be transparent and accountable	Established open and accountable process
Embrace HB 1886 P3 Reforms	Established major business terms at the outset of procurement

# How did we get here?

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- **Identified flaws in original P3 process**
- **Found that entire P3 process needed to be reformed to put Virginia taxpayers first**
- **Developed new philosophy and process for P3s**
- **Established the cost for the state to build the project without private sector investment**
- **Challenged private sector to compete against state-funded public option**

# Flaws with Original P3 Process

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- **Original P3 development process analysis showed the project:**
  - Required significant public funding – Public would need to pay \$900M to \$1B to build the project
  - Did not deliver the full project and benefits for the public – transit and future corridor improvements
- **Started with assumption that a P3 procurement was the right answer**
- **Assumed risks for project same as other P3 projects despite unique nature each project**
- **Failed to explore all public financing options**

# Flaws with Original P3 process

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**Value for Money analysis found that P3 would reduce cost to Commonwealth by \$186M**

- **Risk that toll revenues would be off by 25% - or \$828M in NPV**
  - **Public option more than 20% of the revenues were unused during the term of the project**
- **Assumption that politics would interfere with maintenance and state of good repair of tolled facility - \$122M in NPV**
  - **State law requires toll revenues to be used first for maintenance of a toll facility**

# Determining New Path Forward

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- **How do we ensure P3 deals are consistent with the Administration's policy?**
- **What do we want to accomplish?**
- **How much does it cost?**
- **What are the revenues?**
- **What are the risks?**

# What would it cost the public to build the project?

	Original P3 Process Analysis	Public Option
Upfront Public Funding	900 to 1,000	400 to 600
Support for Corridor Transit	No	Yes - 800
Funds for Future Corridor Improvements	0	200 to 500

Figures in millions



# Established Competitive Process

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- Offered private sector opportunity to compete against the public state-financed option
- Public option will remain on the table until deal is signed with private partner
- Issued RFQ for
  - Design-Build-ATC with public financing
  - Design-Build-Operate-Maintain with public financing
  - Toll concession

# Summary Results from RFQ Responses

(\$ millions)	Concession		DBOM		DB-ATC	
	Low	High	Low	High	Low	High
<b>Upfront Public Funding</b>	(600)	148	(1,420)	(416)	(1,218)	(564)
<b>Future Corridor Improvements<sup>1</sup></b>	350	350	241	289	248	320
<b>Net Public Funding</b>	(250)	498	(1,131)	(175)	(898)	(300)

(1) Present Value.

Note: Dollars in millions and in nominal terms, unless otherwise noted. Present value calculations are discounted at 6.14% as of November 15, 2020.

# Established Competitive Process

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- **Based on responses Administration moved forward with toll concession P3 procurement**
- **Final RFP issued with deal terms on July 29, 2016**
- **Two teams submitted compliant bids**
  - **Transurban/Skanska**
  - **Cintra/Meridiam/Ferrovial**

# How did we evaluate the proposals?

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- **Cost - 70% of score**
  - Lowest project cost received 70 points
  - Score for other team determined based on relative difference to lowest score with each additional \$10M in cost reducing score by 1 point
- **Technical factors - 30% of score**
  - Customer service, hand back condition, structure durability, tolling, long-term partnership, public outreach
  - Evaluated by executive team: Deputy Secretary, Deputy Commissioner, Chief Financial Officer, Chief Engineer, NOVA Assistant District Administrator

# Results of the Procurement

	Original P3 Analysis	2015 Public Option	Cintra/ Meridiam/ Ferrovial
Upfront Public Funding	(900 to 1,000)	(400 to 600)	0
Transit Capital and Operating	0	800	800
Future Corridor Improvements	0	350	350
Concession Payment to TTF	0	0	500

Figures in millions

# Comparison with Past P3 Deals in the Commonwealth

	Pocahontas Parkway	495 Express Lanes	Midtown/ Downtown	Route 460	95 Express Lanes	Transform 66
Public Funding	0	495	582**	1,150	83	0
Private Equity	141	630*	33	0	280	1,522
Potential Future Liabilities	0	HOV usage	\$700M+	N/A	HOV usage / Route 1 upgrades	0
Team	Transurban (hand over to senior lenders)	Transurban /Fluor/Lane	Macquire/ Skanska	Ferrovial (cancelled)	Transurban- Fluor/Lane	Cintra/ Meridiam/ Ferrovial

Figures in millions

\*Deal restructured in 2014

\*\* Additional public funding invested after financial close to reduce tolls

# Comparison with Past P3 Deals in the Commonwealth

	Pocahontas Parkway	495 Express Lanes	Midtown/ Downtown	Route 460	95 Express Lanes	Transform 66
Competition	N	N	N	Y + N	Y + N	Y
Major Business Terms Established at Outset	N	N	N	N	N	Y
Pressing Transportation Need	N	Y	Y	N	Y	Y
Determination of Public Cost to Deliver	N/A	N	N	N/A	N	Y

# Other Benefits to the Commonwealth

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- **\$300M will return to the High Priority Project Program in SMART SCALE for statewide competition**
  - Increases available funding for SMART SCALE from ~\$700M to \$1B
- **\$500M now available for additional improvements to the I-66 Corridor subject to Code requirements**
- **\$300M will return to the Northern Virginia Transportation Authority for other key regional projects**



# Why were we successful?

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- **Governor made it clear he would rather have no project than a bad deal**
- **Kept the public option on the table – able to walk away from a bad deal**
- **Established competitive process to leverage better deal from private sector**
- **Detailed key business terms at outset of procurement and maintain terms throughout**