Lessons Learned from Early PPP Toll Road Projects

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Lessons learned in four areas:

- Funding alternatives
- Non-compete clauses
- Unsolicited proposals
- Specialized lanes

1. PPP Funding Alternatives More Robust than We Thought Early On.

- Traditional public authority: 100% debt, 30-year term, rigid coverage ratios.
- Early PPP models tried to replicate, but with taxable debt (91 Express, Dulles Greenway).
- Nonprofit corporation approach was another attempt—but no real ownership incentive (So. Connector in SC, Pocahontas Parkway in VA).

Today We're Thinking Outside the Box on Three Key Aspects.

- Much longer terms, under concession model (50-99 years).
- Mixed funding: equity, various kinds of debt, federal credit support.
- Public/private blended funding (e.g. TX "toll equity").

Long-Term Concessions

- More complex financial structures:
  - Sponsor equity
  - Shareholder equity
  - Bank debt
  - Several tiers of other debt
- Access to new pools of capital
  - Pension funds
  - Insurance companies
  - General public (IPOs)
- Can raise larger sums from a given traffic base
  - Longer terms
  - Depreciation write-offs

Federal Credit Support Adds Even More Options:

- TIFIA provides credit support and/or subordinated loans.
- Private Activity Bonds can provide tax-exempt debt to private concession projects.

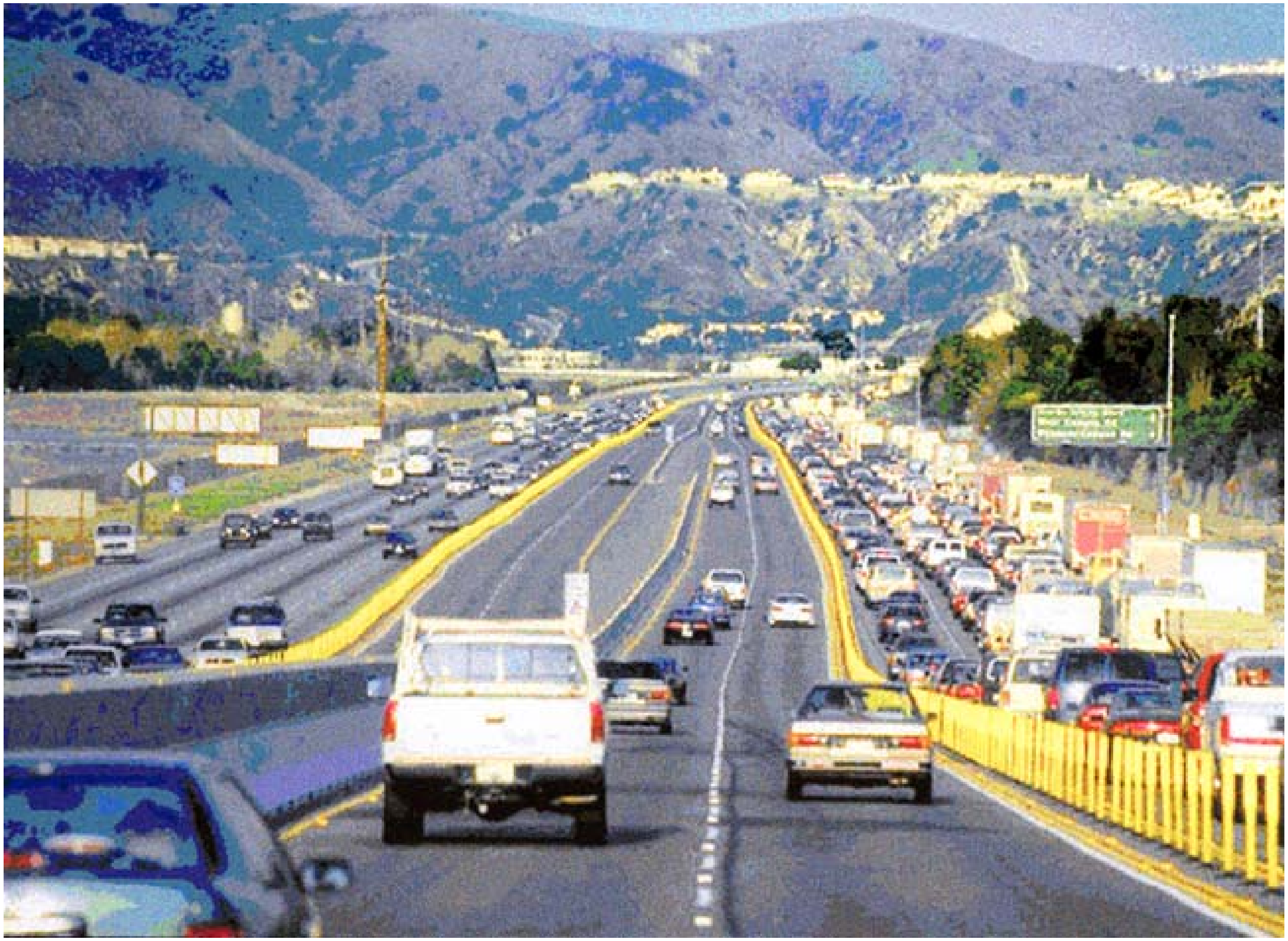
Mixed Public/Private Funding

- Texas "toll equity" buys down amount that must be toll-financed.
- Leverages limited state highway funds.
- May justify the state getting eventual return on this investment, if/when the project produces "surplus revenues."

2. Non-Compete Clauses: Tricky, but May Be a Necessary Evil.

- Absolute ban on adding GP lane capacity in corridor (as in 91 Express Lanes) too extreme.
- Trend seems to be limited protection, with compensation.

91 Express Lanes, Orange County, California



Recent Examples: 2nd-Generation Non-Compete Approaches:

SR 125, San Diego

- All projects in LRTP assumed built.
- Compensation for anything else within limited zone.

Indiana Toll Road

- Short highways (up to 20 mi long, w/in 10 mi. of Toll Road) allowed; otherwise, compensation.

Chicago Skyway

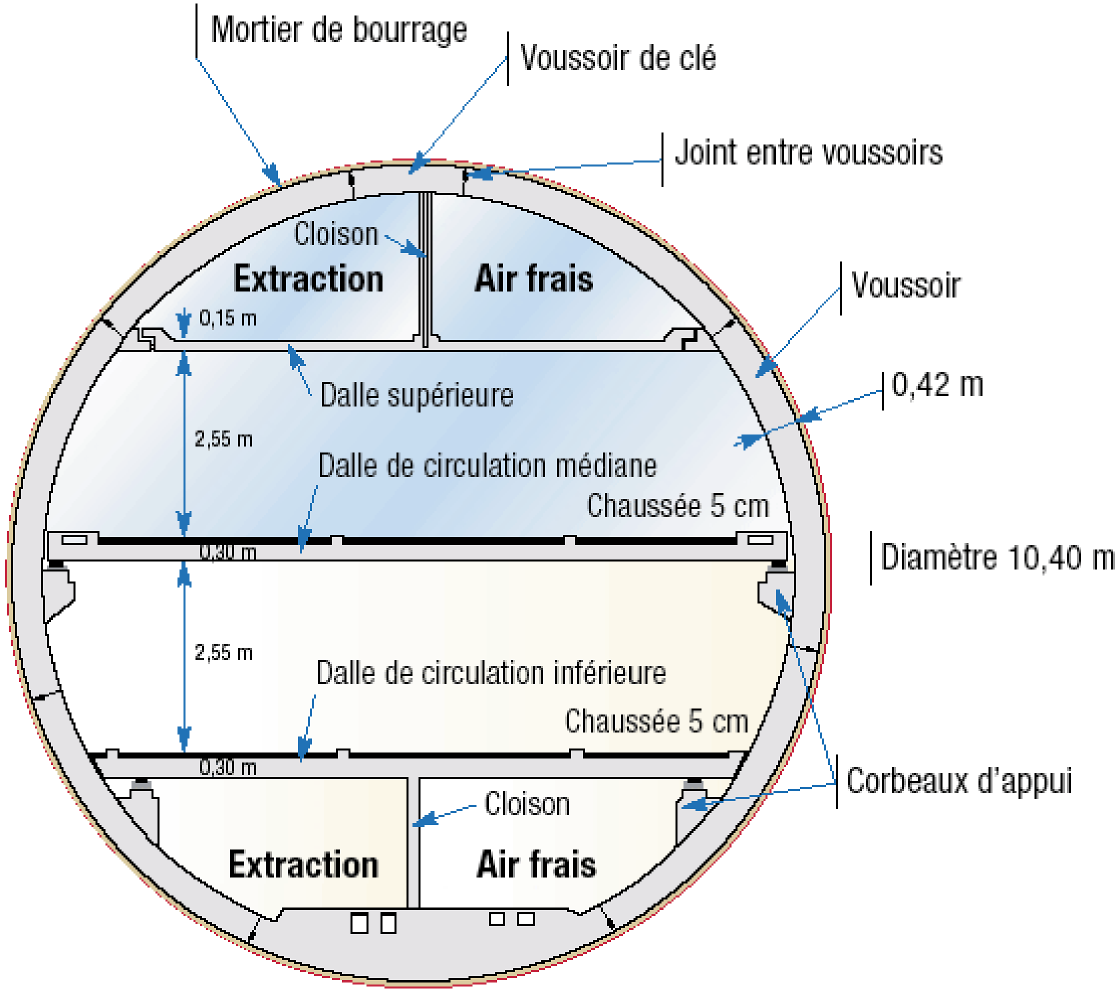
- No protection.

3. Unsolicited Proposals: Value of Innovations Offsets Complexity

- Kiewit's 91-X: HOT lanes and value pricing.
- Bechtel and Goldman: truck-only toll lanes for Atlanta.
- Fluor/Transurban: Beltway HOT lanes for 1/3 the cost of VDOT's planned HOV lanes.
- Cofiroute tunnel and Transurban sound tube—following slides.

Tunnel resolved missing link problem

Cars-only double deck saved space, cut cost



Transurban’s Sound Tube on Melbourne CityLink

Sound Tube shields residential area from elevated tollway noise

But Don’t Let the Tail Wag the Dog.

- GDOT’s first unsolicited proposal called for tolling existing highway.
- States must be able to say no, if proposal does not mesh with current plans.
- States should encourage “alternative technical concepts,” even in response to RFPs.

4. Consider Specialized Lanes in New Toll Corridors.

Niche-market customers may be willing to pay significantly higher tolls—if the new lanes provide significant value-added.

- Express toll lanes (commuters, delivery vans, etc.)
- Toll truck lanes

Value-Drivers for Toll Truck Lanes

- Congestion relief in urban areas:
  - Bypass of metro area (for long-haulers).
  - Port-to-distribution center (more turns/shift).
- Increased productivity in long-haul corridors
  - LCVs—long doubles and triples.
  - Productivity gains justify very high tolls.

Express Toll Lanes

- Target is high-value trips:
  - Some daily commuters
  - Many occasional commuters
  - Delivery and service trucks
- Calif. research findings:
  - 50% of price paid is for value of time saved; the other 50% is for reliability
  - Large "heterogeneity" in willingness to pay; hence, peak tolls up to 85 cents/mi.

Conclusions:

- Far more robust funding alternatives for PPP toll roads today.
- Need more nuanced 2nd-generation competition protections.
- Unsolicited proposals can generate important innovations.
- New toll roads should consider special-purpose lanes, if niche markets exist.

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