Lease on life

MoDOT develops PPP to add years to bridges

BY LARRY CAUDLE

Since their introduction in the late 1980s, public-private partnerships (PPP) have gained in popularity and are becoming a preferred contracting method.

Is the PPP approach viable for improving and rebuilding the nation's existing infrastructure? The Missouri Department of Transportation (MoDOT) set out to do just that.

MoDOT got it right, but simply ran into bad timing. States across the country should follow MoDOT's lead.

Caring for 802

Under its Safe & Sound Bridge Improvement Project, MoDOT identified 802 of its lowest-rated bridges across the state and requested proposals from teams willing to repair, rehabilitate and/or rebuild all 802 bridges within a five-year period under a design-build arrangement. Teams also were required to include in their proposals maintenance of the bridges for a 25-year period commencing at the end of the five-year construction period. Finally, MoDOT's budget was insufficient to cover the cost of design and construction, teams were asked to finance such costs over 25 years with no money passing hands from the department to the successful team until after the initial five-year construction period. MoDOT took advantage of a new innovative financing mechanism—private activity bonds (PABs). PABs are issued by the public transportation entity on behalf of the private developer.

The private developer is deemed the borrower and is ultimately responsible for repayment to bond investors. However, PABs are tax exempt just like a publicly issued bond. When Congress passed SAFETEA-LU, it placed a cap of $15 billion on the total amount of PABs that could be authorized, and the Secretary of Transportation is responsible for allocating that amount among qualified facilities. MoDOT obtained an allocation of $700 million in PABs from the Secretary of Transportation, and it made this financing mechanism available to teams submitting proposals for the project.

The successful team would receive from MoDOT availability payments over the 25-year maintenance period, which it would use to retire the PAB debt, finance the maintenance operation and recover its profit. Availability payments would be reduced if bridges are not fully open to traffic or if the conditions of bridges fall below specified ratings.

Credit crunched

MoDOT planned to award the project to the team that offered the best value. Like most design-build projects, the "best value" was determined from a combination of technical and financial terms.

MoDOT placed most of its technical emphasis on deck replacement strategies offered by the teams, communication and impacts to the traveling public.

On the financial side, MoDOT was seeking the lowest yearly payments over the 25-year term. Unfortunately, the procurement process encountered a substantial delay, and rather than receiving proposals in July 2007, financing proposals were not received until November. This four-month delay pushed contract negotiations into 2008 when credit markets began to freeze and the cost of borrowing exceeded MoDOT's budget by over $20 million per year. Although MoDOT's PPP approach was ultimately scrapped in favor of more traditional contracting methods, PABs remain a viable means of making private money available to state DOTs for repairing our aging infrastructure.

MoDOT got it right, but simply ran into bad timing. State DOTs across the country should follow MoDOT's lead and further investigate PABs as a means of infusing much-needed capital into existing infrastructure.

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