



Public-Private Partnerships (PPPs)
in Transportation

Policy Task Force Recommendations

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About the Public-Private Partnerships (PPP's) in Transportation Policy Task Force

The goal of the Policy Task Force on Public-Private Partnerships in Transportation (PPP's) was to engage a broad range of stakeholders, with the intent of identifying and examining the potential for expanding the use of PPPs in Minnesota.

Task force members are listed in the back page of this report.

This report was prepared by the Humphrey School of Public affairs at the University of Minnesota in December 2011. The study represents the views of the Policy Task Force on Public-Private Partnerships in Transportation and does not necessarily represent the views or policies of the Minnesota Department of Transportation or the University of Minnesota. The Humphrey School of the University of Minnesota is hospitable to a diversity of opinions and aspirations. The Humphrey School itself does not take positions on issues of public policy.

The MnDOT Management Team consisted of Brad Larsen and Phil Barnes. The Humphrey School team consisted of Lee Munnich and Adeel Lari.

Front Row: Dan Murray, John Gunyou, Scott Dibble, Bill Schreiber, Tom McCrossan, Lee Munnich

Second Row: Adeel Lari, Craig Lenning (for Khani Sahebjam), Brad Larson, Jay Kiedrowski, Tom Workman, Glen Schreiner

Last Row: Philip Barnes, Adam Dvininck, Darrell Turnen, Matt Shands, Arlene McCarthy, Dave Van Hattum



The Public-Private Partnerships (PPPs) in Transportation Policy Task Force was convened by the Minnesota Department of Transportation (MnDOT) in April 2011 to identify and examine the potential for expanding the use of PPPs in Minnesota, and to recommend strategies for implementation.

The PPPs Policy Task Force consisted of two dozen members that included state legislators, local-elected officials, transportation, business, labor, environmental and community leaders, who were asked to consider the potential opportunities and challenges related to transportation PPPs in Minnesota. The Task Force met monthly during 2011, with staff support provided by the University of Minnesota's Humphrey School of Public Affairs.

Why Public-Private Partnerships (PPPs) in transportation?

Many factors are affecting Minnesota's ability to build and maintain its transportation infrastructure, and these limitations are negatively impacting mobility and economic growth. The PPPs Policy Task Force believes the expanded use of PPPs, if appropriately implemented, can effectively leverage traditional resources used for transportation infrastructure, and significantly contribute to the timely and cost-effective delivery of projects.

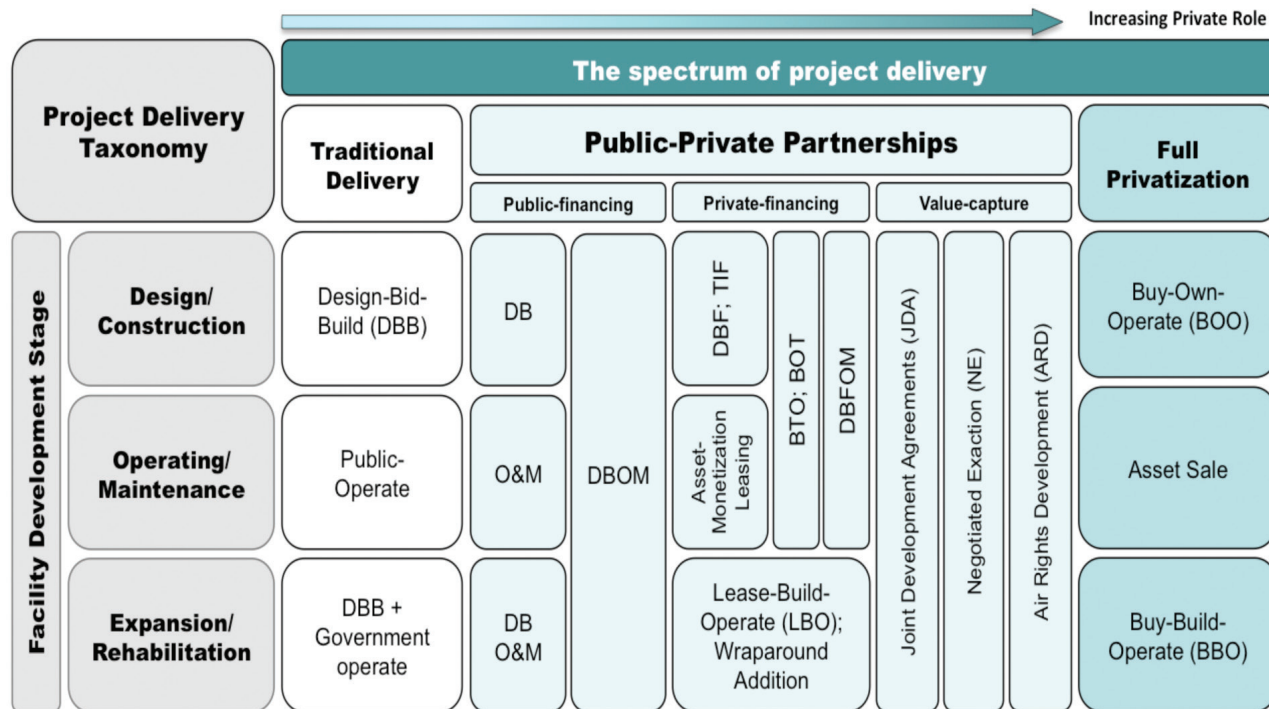
However, the PPP Policy Task Force also believes that PPP tools should only be used to supplement, and not replace, traditional funding sources. Additional funding for transportation projects through traditional methods, such as fuel taxes and tab fees for roads, sales taxes for transit, and property taxes and motor vehicle sales taxes for both roads and transit, will also be required to meet Minnesota's long-term transportation infrastructure needs.

While additional funding will still be required to meet Minnesota's long-term transportation infrastructure needs, PPPs can effectively leverage traditional funding sources, when appropriately and responsibly implemented.

Understanding Public-Private Partnerships

PPPs are defined in many ways, and cover a diverse range of contracting, project delivery and financing arrangements. As illustrated in the chart, and described in detail in the accompanying report, *A List of Public-Private Partnership Project Options for Minnesota and Criteria for Evaluation*, PPPs can encompass everything from design/build contracting methods to long-term lease agreements for existing transportation facilities.

A General Framework of Infrastructure Delivery Options



(Source: Zhao et al. 2011)

After hearing from a number of experts and reviewing this full range of options to expand the use of PPPs to support transportation infrastructure throughout the state, the PPPs Policy Task Force Task focused on those tools they determined to be most promising for Minnesota: Value for Money Process and Value Capture.

Principles for Public-Private Partnerships

Three general principles are recommended to guide PPP policy decisions:

- All entities must be active partners. PPP standards and criteria must be broad enough for the private sector to come to the table, and also tight enough to ensure that public interests are protected.
- PPPs must be transparent and fair to maintain the public trust, as well as the trust of private partners. Benefits must be clearly articulated, measured and balanced against costs and risks.
- PPPs must be flexible, since one size does not fit all levels of government, nor all potential private partners.

Policy officials are also encouraged to consider the principles and guidance set forth in the National Conference of State Legislators' (NCSL) recent PPPs Report: <http://www.ncsl.org/documents/transportation/PPPTOOLKIT.pdf>

TASK FORCE RECOMMENDATIONS

Central coordinating office

The PPPs Policy Task Force recommends that a single point of contact for all PPP activities be established within MnDOT to provide local technical assistance, coordinate the efforts of other public private partner agencies, and analyze the myriad funding options most appropriate for the specific situation.

A central office should be established within MnDOT to coordinate all PPP activities.

In the long-term, consideration should be given to further improving coordination by expanding this function to include the Department of Employment and Economic Development (DEED), which currently co-manages the Transportation Economic Development (TED) program with MnDOT, Minnesota Management and Budget (MMB), and other public agencies.

Value for Money Process

The decision to use PPP procurement strategies for specific projects must be based on sound analytical processes that justify such decisions. Analytical methods like Value for Money (VfM) analysis, which compare the net present value of traditional and PPP approaches to financing and delivering a project, should be developed.

Analytical methods, like Value for Money (VfM) analysis, should be developed and utilized to guide transportation project procurement.

- **Advisory committee.** An independent advisory committee should be impaneled to establish and maintain trust in VfM and other public benefit analytical processes. The role of this permanent forum, which should be comprised of representatives from public and private organizations with diverse expertise in infrastructure engineering and financing, would be to validate the process and analytical assumptions, and would be advisory to the MnDOT Commissioner.

The experiences of the many public agencies already effectively using VfM and other public benefit analytical processes throughout the country and world provide useful guidance for successfully incorporating the strategy into Minnesota's transportation infrastructure development. Specifically:

- **Transparency and accountability.** Public benefit and VfM analyses must be transparent, and allow full accountability for the decisions made. Underlying assumptions must be clear, and the public process must appropriately allow input from all interested and potentially affected parties.
- **Consistency, with flexibility.** A standardized set of risks should be defined to "put value to" those included in all analyses. At the same time, public benefit and VfM analyses must be sufficiently flexible and dynamic to meet the needs of specific projects.

Decisions about funding options, like tolls, congestion pricing, taxes or fees should be separate policy decisions from Value for Money analyses.

Value Capture

The concept of value capture is straightforward. Improving transportation access adds value to adjacent land and to benefitting businesses, and that added value can justifiably be captured to help pay for the cost of those transportation improvements. Value capture is particularly applicable to freeway interchanges and transit stations, since those capital investments enhance access, which can support higher density and commercial development.

Minnesota's existing value capture financing mechanisms, such as special assessments, tax increment financing and negotiated exactions, are not as applicable for large scale transportation improvements – particularly in those situations where secondary economic benefits accrue to land owners in the vicinity of major roadway and transit corridors. Several changes are suggested:

Value Capture mechanisms should be enhanced to facilitate the formation of effective PPPs.

- **More flexible planning process.** Traditional long-term infrastructure planning does not readily accommodate near-term opportunities that may arise; such actions are often seen as “queue jumping.” A more flexible process should be developed to allow consideration of these prospects, while still retaining consistency with sound transportation and land use planning.
- **Economic development funding.** Existing programs are limited in their flexibility and provide only minor levels of funding for transportation projects related to economic development. Both grant and revolving loan programs should be expanded to leverage private interest in PPPs, with metrics established for such criteria as job creation, public benefits and return on public investment.
- **Value capture districts.** Legislation should be pursued to enable the formation of value capture districts, which would allow the capture of taxes, fees or other value generated by expanded development. These increments could pay for the public improvements either within a single area, or potentially for transit corridors in multiple jurisdictions.



Public-Private Partnerships (PPPs) in Transportation Policy Task Force

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