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Private builder-operator for TZ?

BY **NANCY CUTLER** • DECEMBER 28, 2008
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One sentence has appeared in almost every brief, news story or editorial about the Tappan Zee Bridge/Interstate 287 Corridor project, pegged to cost \$16 billion, with \$6.4 billion of that to pay for a new bridge.

Cue the line: "No funding has been identified for this project."

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In September, the state's TZB/I-287 Project Team outlined plans to replace the bridge and create a "bus rapid" transit system across the 30-mile I-287 corridor. That new bridge would also be capable of carrying commuter rail from Suffern, across Rockland and into Metro-North's Hudson commuter line south of the Tarrytown station. The big announcement also unveiled the big price tag - without answering how the project would be paid for.

Indeed, when it comes to funding for desperately needed infrastructure repairs across the nation, the TZ has to get in a long line. Even the hundreds of billions of dollars in infrastructure investment - from bridges and roads to an improved electrical grid and new wastewater treatment facilities - promised by President-elect Barack Obama won't help the Tappan Zee. The TZ project is years from being "shovel-ready," that is, ready



The Tappan Zee Bridge is pictured from Tarrytown March 22. (Mark Vergari/The Journal News)

for construction to start, with studies just beginning on the first part of the two-phase project. Even with Obama's proposed level of investment, there's not enough federal money to meet the needs of fraying infrastructure around the nation.

The Tappan Zee, and other projects, will likely end up getting built through a "public-private partnership" - an emerging tool for paying for, building and maintaining such public works initiatives. State Department of Transportation Commissioner Astrid Glynn and state Comptroller Thomas DiNapoli continue to mention positive possibilities for so-called PPPs in the overall financing of the Tappan Zee replacement.

New York State Thruway Authority Executive Director Michael Fleischer has said it is an important option to explore. At the same time, Gov. David Paterson's 22-member "New York State Commission on State Asset Maximization" put much focus on the Tappan Zee project in a preliminary report issued last week. The commission's final report on potential public-private partnerships for infrastructure projects is due by April 2, 2009. Paterson's deputy communications director, Marisa Shorenstein, said it is too early to tell the commission's view of the Tappan Zee's potential for a PPP. But Shorenstein, the point person for the panel, acknowledged that the Tappan Zee was one project the commission would "drill into" as it figured out the role of PPPs for New York.

Lessons On Leasing

What exactly is a public-private partnership? Among the hundreds of PPPs around the world, each one is different, as with any complex business arrangement. In most deals, a private investor leases some public asset, maybe a highway or airport or bridge that needs to be replaced. The private investor could take responsibility for building the "asset" or operating it, or both. All or some portion of tolls and fees charged users would go to the investor, though the government contract might regulate the rate or amount of increases. Usually, at some future date, the property reverts to government ownership.

Private-sector funds are available for such ventures. As with municipal bonds, PPPs deals are seen as low-risk investments. Investors are ready to inject huge amounts of cash in desperately needed infrastructure projects, even with Wall Street's troubles.

While the PPP concept is gaining popularity across the U.S., not everyone's a fan. Some see PPPs as trading away long-term capital for the short quick fix. PPPs often mean higher fees and tolls for public users and a significant profit for operators. But many projects, like the Chicago Skyway and Indiana Toll Road, are considered well run and incredibly efficient, descriptions rarely heard about public authorities.

Chicago Mayor Richard Daley has been a huge proponent of PPPs. He has leased downtown parking garages. He signed a 99-year lease in 2004 with Australian and Spanish investors for \$1.83 billion to operate



New York State Department of Transportation Commissioner Astrid Glynn, along with county executives C. Scott Vanderhoop, and Andrew Spano, discuss the decision to build a new Tappan Zee Bridge during a press conference in Tarrytown Sept. 26. (Stuart Bayer/The Journal News)



State Comptroller
Thomas DiNapoli.

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the Chicago Skyway. He recently pushed the privatization of Midway Airport, and this month announced a \$1.1 billion deal to lease his city's downtown parking meters for 75 years.

The Skyway deal was a good way to raise cash quick, but what do the costs to consumers look like now? The 7.8-mile-long Skyway's tolls are 50 percent higher, according to reports in the Chicago Tribune. Under the leasing deal, tolls could increase by 100 percent by 2017. Those proceeds, though, do not have to be spent on easing traffic congestion.

On the Indiana Toll Road, a PPP agreement has mandated improvements in a highway that had fallen into disrepair and added many traffic-flow improvements. But that agreement has allowed tolls to rise quickly. The Tappan Zee project is much more complex than these two examples, but lessons can be found. Tolls will surely be higher under a PPP deal - after all, private firms are about turning a profit. That efficiency, and eye toward the bottom line, can tame construction and maintenance costs.

TZ The 'gold Standard'

What makes a PPP attractive to investors and favorable for government? An asset that has a proven track record. And a PPP contract that's carefully written.

"The Tappan Zee Bridge would be the gold standard," said Jonathan Peters, a finance professor at The College of Staten Island who is also a research fellow with the University Transportation Research Center at The City College of New York. The bridge has built-in volume that would spell success for the private operator. Projects in densely populated areas, with lots of people lots of destinations are the most successful, from an investor's point of view.

But what about those who live and work nearby? "You should be very concerned," Peters said. He said studies show that those who live near the bridge or road are the ones who pay for the bulk of its upkeep through tolls, because they often have few alternatives to using the roadway.

There's also concern that long-term leases, like the 99-year term for the Chicago Skyway, mean that the government essentially loses control because contracts are so old. Peters pointed out that in Spain, where the Skyway's operator is based, the government caps PPPs for new roads at 40 years and 20 years for an existing structure. "You're selling the whole value of a bridge up front."

Even with contracts that have a more sensible timetable, the deals can be tricky. Peters pointed out that at the airport in Sydney, Australia, a premium is charged for parking in the shade. Why? Because the private operator wasn't restricted by the contract. No one thought about it.



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Advocates say a key ingredient for PPP success is visionary leadership, someone brave enough to sign the deal and willing to take the political heat from naysayers. Shouldn't that same visionary leader be able to raise tolls and fees to afford the construction and operation? That may not be enough.

When a politician pledges to raise tolls 20 years from now, that's not bankable for bond issuers, said Peters, the finance professor. That politician likely won't be around to make sure the promised toll hikes happen. But, with a PPP, that fee hike is in black and white. That's a promise of future revenue that can be borrowed against.

Several experts on PPPs, including Peters and several speakers at Manhattan Institute's fall symposium on PPPs, used the phrase, "the devil's in the details" when talking about how to ensure a contract fits the government's needs for the long term.

Questions Remain

The basics of how a PPP for the Tappan Zee would work remain cloudy. The executive director of Paterson's PPP commission, Samara Barend, attended a discussion on "The Private Role in Public Infrastructure" in October at The Manhattan Institute. She was vague on details. Yet she expressed interest in the daylong discussion of the various kinds of PPPs, including those plans that contract with a private operator to design and construct an asset, like a road or tunnel, and then take over its day-to-day operation. She said a "build-operate-transfer project" could be in the offing for the new Tappan Zee, Barend said.

For the Tappan Zee Bridge, some form of PPP may be the best way to ensure the project is done as soon as it is needed. And that's very soon, considering the yawning need to replace the 3-mile span - it is considered structurally safe but is severely taxed every day by thousands of more vehicles than ever anticipated and its upkeep costs us millions of dollars each year.

Careful steps must be taken when shaping a public-private partnership for the Tappan Zee that would benefit not only the investors, but government and, of course, the traveling public.

The writer is opinion editor in Rockland.

A Journal News editorial

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