Value for Money (VfM) Analysis
Virginia’s experiences and lessons learned

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Virginia’s Enabling P3 Legislation

- Public-Private Transportation Act of 1995
  - Intent is to encourage investment by private entities
  - Authorizes private entities to develop and operate qualifying transportation facilities
  - Allows for solicited and unsolicited proposals
  - Requires the development of guidelines that detail the proposal acceptance and review process
  - Allows for the imposition of user fees
  - Includes opportunities for comment on proposals by the public and affected jurisdictions
  - Procuring agency not required to accept lowest price offer
Updates to Virginia’s P3 Program

- Governor McDonnell renewed Virginia's commitment to P3 delivery in 2010
  - Established a separate, multi-modal P3 office
  - Developed programmatic approach to P3 procurement and project delivery
  - Revised existing PPTA implementation guidelines
  - Developed standard processes for P3 project screening and prioritization
Office of Transportation Public-Private Partnerships
Virginia’s P3 Project Portfolio
Pipeline of P3 Projects

CONCEPT (Multiple Locations)
- Parking Facilities Privatization
- "GoldStar" Truck Validation Systems
- Rest Area Enhancements
  - Trucks
  - Electric Car Charging Stations
  - Advertising/Sponsorship Opportunities
  - Dulles Metro Rail Station Air Rights
  - Cell Tower/Fiber Optic Opportunities

CONCEPT
- Innovation Drive Bristol

CONCEPT
- I-81 Roanoke Area Managed Lane System

CONCEPT
- Route 460/I-85 Connector

CONCEPT
- Route 460 Enhancements

CONCEPT
- Route 460/58 Connector

CONCEPT
- I-495 Express Lanes Extension

CONCEPT
- I-95 Corridor Improvements (statewide)

CONCEPT
- I-64 Peninsula Improvements

CONCEPT
- Wallops Island Visitor Facilities

CONCEPT
- Hampton Roads Crossing Improvements

CONCEPT
- I-64 HOV/HOT

CONCEPT
- Port of Virginia

CONCEPT
- NOVA North-South Corridor

CONCEPT
- I-66 Corridor Improvements
PPTA Implementation Manual

• 2010 updates PPTA Implementation Manual:
  
  – New roles and responsibilities for OTP3
  – Establishes standing PPTA Steering Committee to determine which projects move forward as P3s
  – Outlines process (including timeframes) for screening candidates for solicited procurements and unsolicited proposal
  – Value-for-money analysis used at critical points in procurement process to aid decision-making
  – Allows for two-step procurement (RFQ and RFP)
  – Commonwealth retains flexibility to modify the procurement process and schedule as needed to address the specific needs of a particular project
Virginia’s P3 Project Delivery Phases

- Solicited/Planned Projects
  - High-Level Screening
    - Decision Point 1
    - Detail-Level Screening
      - Decision Point 2
      - Project Prioritization
  - Project Development
    - Decision Point 3
    - Project Procurement
      - Decision Points 4 & 5
      - Contract Award

- Unsolicited Projects
  - Policy Review
    - Detail-Level Screening
      - Decision Points 4 & 5
      - Project Procurement
        - Contract Award
Virginia’s P3 Project Delivery Phases

**Project Identification**
- Two primary sources – Solicited Projects and Unsolicited Projects
- Coordination with multiple sources for candidate P3 projects
- OTP3, in coordination with sponsoring agency, manage project identification process

**Project Screening and Prioritization**
- Organized in two phases - high-level screening and detail-level screening followed by the prioritization
- Systematic and consistent application of evaluation criteria to candidate projects
- Assists OTP3 with determination of suitability delivering projects under the PPTA

**Project Development**
- Prepare project for procurement with assistance from relevant disciplines within the Agencies
- Coordinate project development activities, (scope, design concept and schedule; obtain regulatory approvals; update cost estimates; conduct initial VfM; determine procurement method)

**Project Procurement**
- Two-stage competitive procurement process
- Develop procurement documents
- Conduct procurement process
- **Update Value for Money Analysis**
- Select Preferred Proposer
- Finalize Contract
- Award Contract
PPTA Guidelines

• 2011 & 2012 Guidance documents:
  – PPTA Project Identification and Screening Guide
  – PPTA Risk Analysis Guide
  – PPTA Value for Money Guide
  – Operations and Maintenance Lifecycle Costs Guide
Background to VfM Guidance in Virginia and U.S.

- Virginia DOT was the first State to publish draft VfM Guidance (June 2011)
- Designed to test whether potentially higher risk premiums and finance costs from a PPP concession could be offset partially or completely by efficiency gains from risk transfer under DBFOM
- Federal Highway Administration (FHWA) recently published VfM Guidance Manual (January 2013)
- Other jurisdictions in the US have developed project-specific VfM Assessments but not a standardized process or guidance
  - Florida DOT for I-595 and Port of Miami Tunnel
  - San Francisco County for Presidio Parkway
Background to VfM Guidance in Virginia and U.S.

• VfM Studies undertaken in the US to date have adopted very different methodologies and assumptions, particularly with respect to discount rates and risk transfer efficiencies

• Tolled concession agreements have not been subject to Value for Money assessment, but have typically been subject to “Market Valuation”

• VDOT was the first agency to publish a guidance manual that aims to standardize processes for inputs to a VfM assessment that is capable of handling both tolled concession agreement and availability payment deals
Challenges and Lessons learned

• Timing of assessment can be difficult to determine
  – Too early = not much data available, lots of uncertainty around the project,
  – Too late = pressure to deliver the (right) result
• Inherently difficult calculation – complexity in risk analysis
• Aim is to compare, not to calculate an absolute value to several decimal places (beware of false accuracies)
• Qualitative analysis is very important in the development of costs, risk adjustments, schedules, revenues and financial assumptions
• Keep good records of major assumptions, try to get consensus
• Range of cost and revenue inputs and discount rates
• VFM can be difficult to communicate to stakeholders
  “..you can’t spend Present Value dollars..”
• VFM decision should not be made on quantitative or qualitative basis alone, but on a combination of both
Challenges and Lessons learned

• Potential for double counting “risk premium”

• The Financial Analyst (FA) and Technical Analyst (TA) need to work in partnership (with the client of course)

• Choice of discount rate is difficult to determine
  ✓ Another way of accounting for risk
  ✓ Significant impact on calculation due to cash flow profiles

• Approach to modeling differences in appetite between public and private sectors for toll revenue risk is based on assumptions that have been widely reported but difficult to market test.

• In future VfM assessments, more use could be made of outturn costs from a variety of projects delivered using different methods of procurement including design-bid-build, design-build and concessions.