



OFFICE OF
TRANSPORTATION
PUBLIC-PRIVATE
PARTNERSHIPS

*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

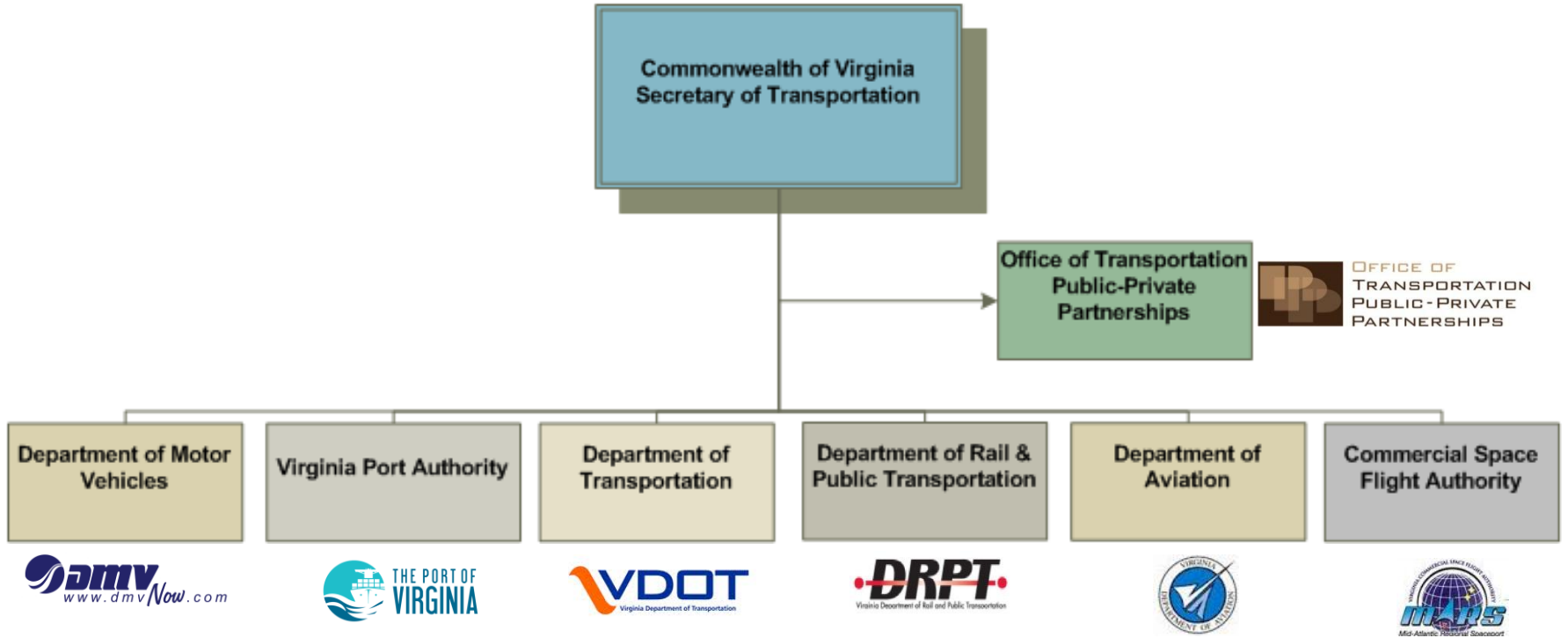


Updates to Virginia's P3 Program

- 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

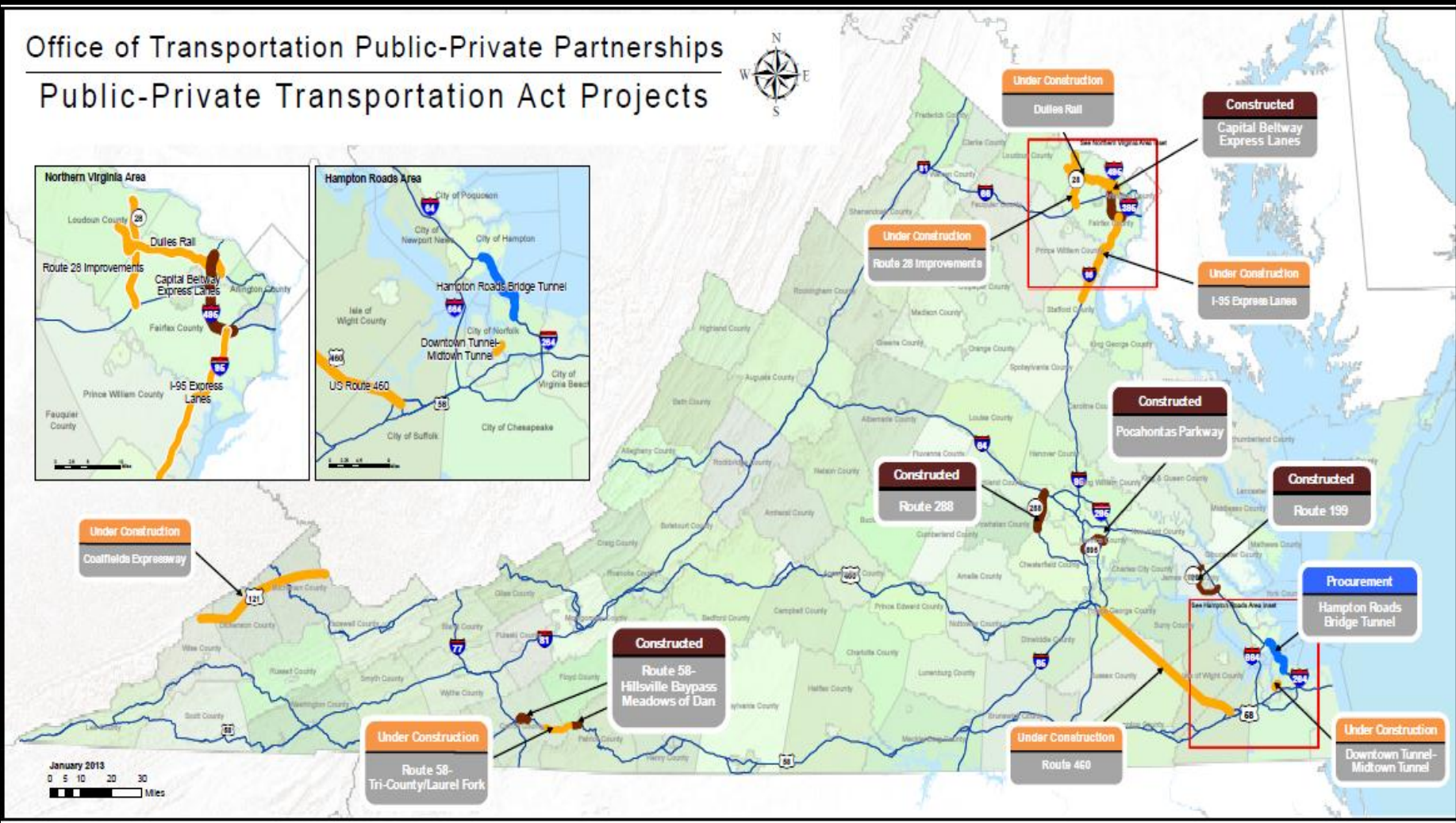


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Virginia's P3 Project Portfolio

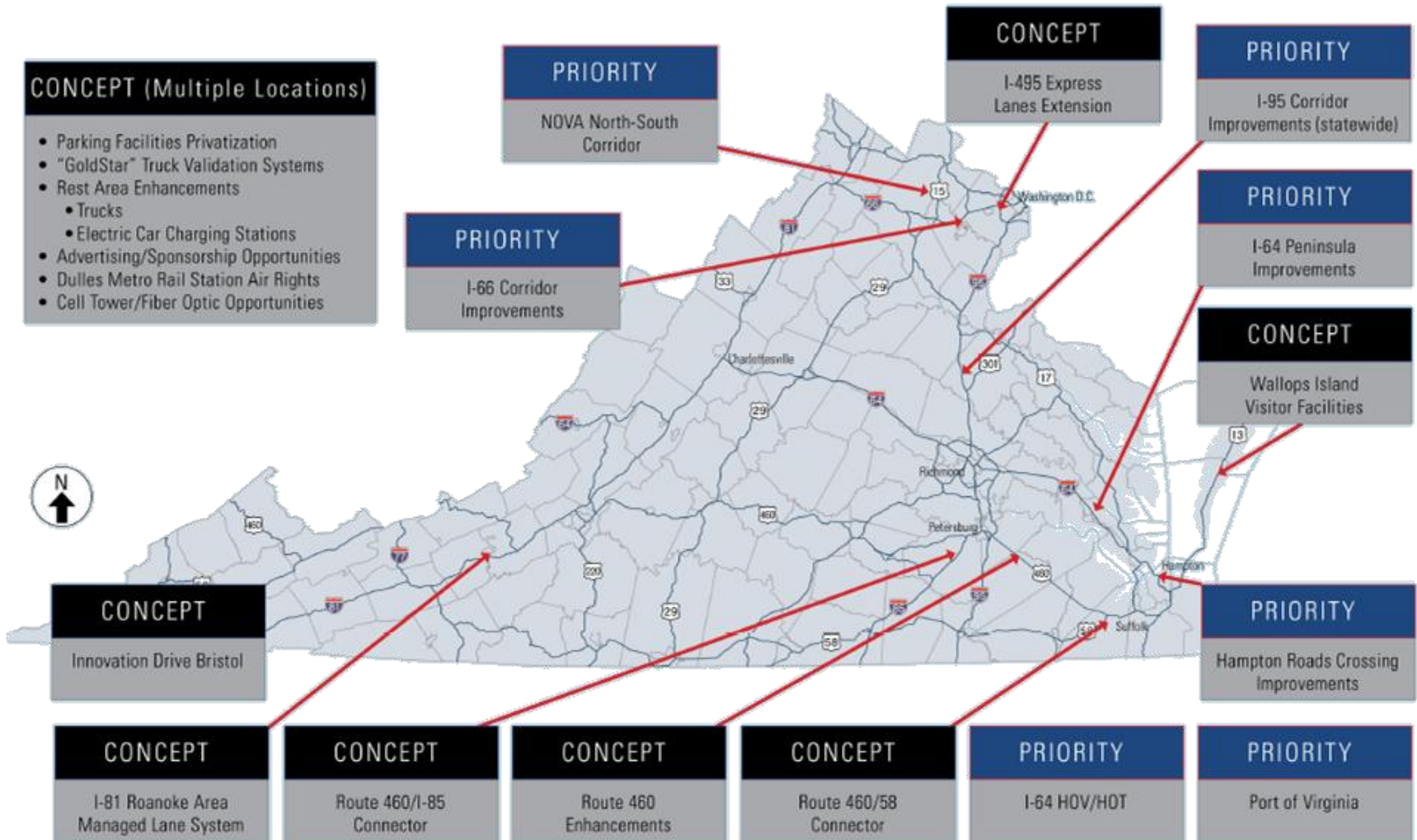
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Public-Private Transportation Act Projects



January 2013
0 5 10 20 30 Miles



Pipeline of P3 Projects



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



<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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)	<ul style="list-style-type: none">• Two-stage competitive procurement process• Develop procurement documents• Conduct procurement process• Update Value for Money Analysis• Select Preferred Proposer• Finalize Contract• Award Contract
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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.





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