

Presidio Parkway: California's Latest P3 Experiment

<http://www.dollarsandsense.org/archives/2012/1112bondgraham.html>

PRIVATE INTEREST:

Hochtief: a German construction company operating nine privatized toll roads in Greece, Germany, Austria, and Chile. Hochtief also has contracts to build and operate 123 schools in Canada, Germany, Ireland and the UK, and to build and operate 18 police stations in Canada, examples of what the company calls "social infrastructure" development. Meridiam Infrastructure: a French private equity fund owned and operated by the Credit Agricole bank. Meridiam has "equity" stakes in private highways and railways in Canada, France, the UK, Poland, Slovakia, and Finland. In the United States Meridiam is behind the P3 North Tarrant Expressway toll road in Texas and the Port of Miami Tunnel in Florida.

PRIVATE FINANCING:

Investor equity: \$44.5 million

TAX-EXEMPT (SUBSIDIZED) PRIVATE FINANCING:

Private activity bonds: \$150 million

PUBLIC FINANCING:

IFIA loan: \$150 million

In 2010, the outgoing Republican administration of Gov. Arnold Schwarzenegger moved fast to select a project intended to prove the merits of P3 development. They chose Presidio Parkway, a 1.6 mile stretch of road running from the edge of downtown San Francisco to the iconic Golden Gate Bridge.

When it was first planned by the state as a traditional design-bid-build project, Presidio Parkway had a price tag of \$499 million. By switching to a P3 contract, under which a private partner would finance, build, operate, and maintain the road for 30 years, the up-front construction cost dropped to roughly \$173 million. However, the state would have to make availability payments of at least \$30 million a year for 30 years upon the road's completion 2015. These availability payments are estimated to total between \$1.1 and \$1.4 billion, but no one can say exactly what they will cost the state because the actual payments must be calculated from a complex formula measuring the contractor's compliance with a variety of performance measures.

Two state agencies opposed conversion of Presidio Parkway into a P3 project. Staff members of the California Transportation Commission (CTC), the state's ultimate authority on infrastructure matters, complained that use of availability payments "would effectively establish and endorse a means of committing state transportation funds that bypasses state programming procedures designed to ensure statewide funding accountability and equity." California's Legislative Analyst Office (LAO) also opposed privatization of the roadway on these grounds. Most recently, the LAO analyzed the project's financing, concluding that Presidio Parkway is probably costing taxpayers an extra \$140 million as a P3.