Bundling PPP projects

Sakshi Sharma

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The Pennsylvania Department of Transportation (PennDOT) recently selected a consortium led by Plenary Group as preferred bidder for its $899 million rapid bridge replacement PPP project. The consortium will rehabilitate 558 bridges across the state beginning summer 2015.

Bundling several projects under a single PPP contract is not a new concept, certainly not for mature PPP markets like Canada and the UK. However both countries have only applied the bundled approach to social infrastructure PPPs so far. The Canadian province of Alberta procured a bundle of schools under one contract in 2012, while the UK is currently in procurement for a schools bundle under its PF2 model.

Bundling projects has its efficiencies on both the procurement and financing side, but it also carries certain challenges for the public and private sector. If successful, PennDOT's latest attempt at procuring several bridges under a single PPP contract may motivate other states across the US to consider a similar approach.

Public-private procurement efficiencies

Bundling several assets under one concession can introduce complexity, one sponsor notes. Risks may arise if one section of the larger bundle experiences construction or operational delays. However, public authorities are able to tackle this by introducing greater design standardisation prior to construction commencement.

On the rapid bridges PPP PennDOT will provide preliminary designs for an initial set of 60 bridges to accelerate construction, which is scheduled to start in 2015. The private sector consortium will then have the freedom to plan the phased construction schedule for the remaining 500 bridges. Construction is expected to be completed by mid-2018.

Standardisation will also lead to cost savings for the procurement authority. Bryan A. Kendro, policy director at PennDOT's PPP office, says that taking a bundled approach will help realise total cost savings of around 40%. “There is a lot of repetition in the design for these bridges and combining eliminates costs." He adds, "We believe we would be able to achieve at least 30% cost savings on the design itself.” Further savings, of at least 10%, will be seen on technical components like raw material and manufacturing of bridge beams, Kendro says.

The State of Missouri realised similar benefits during the design-build procurement of a bundle of 802 bridges under its $685 million Safe & Sound Bridge Improvement Program. The Missouri Department of Transportation (MoDOT) launched the program in September 2008 and aimed to complete rehabilitation and construction of the projects in three and a half years. In-terms of design standardisation, Missouri set the average bridge height at 150ft long and 24ft wide.

KTU Constructors, a joint venture of Kiewit, Traylor Brothers and United Contractors was selected as the design-build contractor for the project in 2009. While they committed to finish the project by 31 December 2013, construction was completed by early 2012. The state delivered the first set of 250 bridges through a monthly letting schedule. The remaining 554 bridge replacements were built by the consortium under a single design-build contract.

While MoDOT chose to finance the project itself, PennDOT has included financing, operation and maintenance in the PPP contract.

Financing

Equity investors view bundled projects as a more favourable investment than a single asset as they are able to write a larger check, which helps sponsors justify higher bidding and internal resource costs. Pricing efficiencies are also seen on the public side, as authorities are able to lock in the price of several projects in a single procurement.

PennDOT's bundled bridges project will be financed using a combination of private activity bonds and sponsor equity. The availability payment based PPP project has been allocated $1.2 billion in private activity bonds (PABs). PABs are particularly appealing to investors and sponsors as they are tax exempt. They have been allocated to several recent transport PPP projects such as; Indiana's Interstate 69, Goethals Bridge Replacement project, Ohio's Portsmouth Bypass and North Carolina's Interstate 77.

In addition, bond investors have grown more comfortable with construction risk projects, especially those that are well structured and involve investment grade contractors, says one underwriter.

The structure of capital payments is also key in making sponsors comfortable when bidding for a bundled project. For instance, PennDOT will begin making availability payments in 2016 based on the proposed schedule and completion of more than 50 bridges. The department will make four payments during construction tied to completion of bridges.

PennDOT has already begun procurement for another bundled PPP project. Under the contract, the private partner will design, build, finance, operate and maintain CNG filling stations at up to 37 transit facilities around Pennsylvania. The project has an estimated cost of $100 million. While Pennsylvania's commitment towards bundling projects is clear, it remains to be seen whether other states will follow.