



Update

January 2006

Background

Around the world, there is a direct connection between a modern transportation system and a healthy economy. Oregon's strong transportation infrastructure strives to keep the state competitive and provide long-term family wage jobs for Oregonians. As shown through analysis conducted for the 2005 - 2030 Oregon Transportation Plan, however, there are significant transportation improvement projects in the state for which there is no funding available in the foreseeable future — approximately \$5 billion worth.

Recognizing this funding constraint, the Oregon Legislature passed Senate Bill 772 in 2003, removing a number of barriers to the formation of public-private partnerships (PPP) that could help finance and deliver important transportation-related projects decades before they might otherwise be built, if ever. Yet these infrastructure investments are key to Oregon's economic health and quality of life.

Responding to the new legislation, the Oregon Department of Transportation established the Oregon Innovative Partnerships Program and gave it a charge to:

- boldly address the state's infrastructure needs and congestion problems by finding cost effective ways to accelerate the delivery of critical projects; and
- identify projects that could potentially be developed through a public-private partnership.

Under the Partnerships Program, ODOT chose an approach that would bring the private sector into a project at an early stage of development. The advantages of signing on a partner early are that private sector expertise and resources can be enlisted at the start of project development, thereby limiting the risks of unneeded work and accelerating necessary work.

On April 29, 2005, ODOT issued its first Request for Proposals for three projects of statewide significance that demonstrated a potential to benefit from PPPs:

- Sunrise Project;
- Newberg-Dundee Transportation Improvement Project; and
- South I-205 Corridor Project.

Two proposals were received and, after a thorough review, the Oregon Transportation Commission gave its approval on October 19, 2005, for ODOT to enter into negotiations with the Oregon Transportation Improvement Group to determine the feasibility and viability of developing the three projects.

Oregon Transportation Improvement Group

The OTIG consortium includes:

- Macquarie Infrastructure Group as the major partner and investor;
- Macquarie Securities USA as the financial advisor;
- Hatch Mott MacDonald as the technical advisor;
- Preston Gates Ellis as legal; and
- several other local and national sub-consultants.
(Further background on these companies is available on the OIPP web site through the link listed at the end of this document.)

There were several reasons ODOT and the Partnerships Program chose OTIG. Most notably:

- The OTIG team offers significant U.S. and international experience financing, building and operating high quality transportation facilities.
- OTIG is a financially strong, long-term partner offering to bring resources to Oregon, work with the communities involved, and take on significant upfront financial risk.
- In return, OTIG expects to eventually receive a long-term return on its investment.
- In its response for the initial Request for Proposals, OTIG proposed to develop all three projects, providing synergies and savings estimated at 30% of the standard costs of developing these projects.

A Two-Phase Approach

Development of the three projects will take place in two distinct phases: Pre-Development and Implementation. At its January 2006 meeting, the Oregon Transportation Commission approved moving to the next step in the process: allowing OTIG to conduct the Pre-Development phase.

- The Pre-Development phase will take approximately 12-18 months to complete and involves analyzing the feasibility of various technical, commercial and financial options for the projects.
- Throughout the Pre-Development phase, ODOT and OTIG plan appropriate public outreach and participation. Specific plans will be announced over the weeks ahead.
- Throughout the Pre-Development phase, ODOT and its consultants will review OTIG's work and progress.
- In conducting the activities, OTIG will adhere to all applicable regulations and requirements: environmental, public outreach, state, federal and any other relevant requirements.

Upon the successful conclusion of the Pre-Development phase, the OTC will be asked to approve allowing OTIG to move into the Implementation phase.

At this time, the Partnerships Program and ODOT are examining the feasibility and viability of the three specific projects — no development decisions have been made.

The Three Projects

The OTIG plan proposes to accelerate the development of the three statewide-significant projects mentioned previously and further described below.

Sunrise. The Sunrise Corridor Improvement Project will address freight movement, local street congestion and safety issues. It is divided into two projects:

- Sunrise Project includes construction of a five-mile, limited-access four-lane facility from I-205 east to Rock Creek Junction.
- Sunrise Parkway will address the need for additional transportation infrastructure to serve the newly incorporated city of Damascus.

Newberg-Dundee Transportation Improvement Project.

Traffic congestion on Oregon 99W is especially acute through Newberg, Dundee and the area west of Dundee to the McMinnville Bypass. The proposed bypass corridor would be approximately 11 miles long on the south side of Newberg and Dundee. This project is in an advanced stage and has the potential of removing heavy freight and commuter traffic from town centers and improving the economy and quality of life in the area.

South I-205. The South I-205 Corridor Project will address the growing congestion along this interstate corridor. The project will look at the feasibility of adding one lane in each direction from I-5 to OR 213S and widening the Abernethy Bridge over the Willamette River. Additional work may include improving the interchange at OR 43 and SW 10th Street in West Linn. OTIG will also study the feasibility and viability of extending the project from OR 213S up to I-84 East. This project has the potential of substantially reducing congestion on one of Oregon's busiest highways.

Benefits

The public-private partnership approach to these projects offers significant benefits to the state, taxpayers, communities, businesses and motorists. Potentially, this approach can:

- provide an alternate means of financing much-needed projects without new taxes;
- improve conditions for drivers and freight haulers in specific areas;
- relieve town centers of heavy freight and commuter traffic; and
- benefit Oregon's economy by improving Oregon's competitiveness, ability to move goods to market, and access to businesses and jobs, and by creating family-wage construction-related jobs and business opportunities.

Protections for the State

This innovative approach responds to needs the public has highlighted: provide critical transportation infrastructure improvements without increasing the gas tax. In addition, the approach contains several "off ramps" for the state — opportunities to stop moving forward with minimal financial impact.

Under the agreement, an initial feasibility study will be completed for Newberg-Dundee, and preliminary scoping studies will be completed for Sunrise and I-205.

- ODOT controls this process through its Pre-Development Agreement with OTIG – it will only proceed with the projects if the needs of the state and all partners are met.
- The projects must be consistent with environmental review requirements, applicable laws and regulatory approvals.

Pre-Development Costs

- ODOT has allocated \$20 million to the Pre-Development of these projects, none of which will be spent if the projects move successfully into implementation.
- The work is divided into milestones to reduce the cost risk. If ODOT and OTIG are not mutually confident that conditions exist for a viable project, they will not proceed into the next milestone.
- The total Pre-Development costs for the three individual projects is estimated at over \$26.5 million, but ODOT's risk is capped at \$20 million.
- Under this agreement, there are no costs to ODOT (other than ODOT internal costs), provided the projects move into the Implementation phase.

Why this approach works for ODOT and Oregonians

The negotiated Pre-Development Agreement offers a superior and more cost-effective outcome for the state than the standard project delivery process. OTIG is performing services which would otherwise largely be undertaken by consultants employed and paid by ODOT — and there are currently no funds available for this. Partnering with OTIG to undertake these services ensures that:

- there is strong commercial focus on a successful outcome;
- OTIG, rather than ODOT, is spending money and incurring interest;
- the scope of project risk is taken by OTIG;
- OTIG is providing its time and expertise for a contingent reimbursement reflecting only a portion of its true costs;
- because any reimbursement of OTIG costs by ODOT is capped at \$20 million (less any ODOT direct costs), there is considerable incentive for OTIG to reach successful completion and implementation on each project as early as practicable; and
- ODOT is obtaining development services which would normally cost \$30 - \$40 million for a commitment of \$20 million. (Pre-development and procurement costs for projects like these are typically in the 3 – 4% range based on the total project costs.)

How can I learn more?

Visit the OIPP web site at www.oregon.gov/ODOT/HWY/OIPP or contact the office at 355 Capitol St. NE, Room 115, Salem OR 97301, (503) 986-3193.