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It's a real pleasure to come before the Economic Development Committee again. I want to thank Chairman Kowall and members of the Senate Economic Development Committee for inviting me back.

My name is Sam Barend and I am the Strategic Development Director of Public-Private Partnerships (PPP) for AECOM, a Fortune 500 company and global provider of construction, architectural and engineering services. AECOM has participated in about 90% of the PPP projects delivered in North America and more than 600 PPP projects globally. AECOM is currently serving as the designer on several significant PPP projects currently being built, such as the Port of Miami Tunnel project, Florida I-595, and the Texas North Tarrant Expressway. In addition, AECOM played an instrumental role in creating Meridiam, one of the most successful infrastructure investment funds in North America.

Last year, AECOM responded to the Michigan Department of Transportation's request for expressions of interest (RFEI) to the New International Trade Crossing (NITC)project. Since responding to this RFEI, I have closely followed the debate over whether to build another fully privatized bridge or a government owned bridge. The key issue I have heard repeatedly is the overarching desire to protect the public interest and reduce the risk and burden on taxpayers. A critical factor in mitigating the public's exposure to risk is the ability to transfer the project's traffic risk to the private sector. This risk transfer can be most successfully achieved in a way that delivers the best value for taxpayer money through a public-private partnership (or a performance based delivery approach), something I will expand upon after reviewing the three potential delivery options.

For the benefit of putting this all into context I want to clarify that there are generally three options the State can employ for delivering this bridge: a traditional design-bid build approach, a fully privatized approach, or a performance-based delivery/Public-Private Partnership approach.

If the State were to deliver the NITC bridge through the manner by which it normally undertakes a major infrastructure project, a traditional design-bid-build delivery approach would be utilized. In this case, the State would take on almost all project risks, bearing responsibility for construction and design costs, and project delivery, thereby assuming the burden for increases in raw material costs – which can be extraordinary – for schedule delays, for project scope changes, etc. Combined, these factors often cause the final cost of a public works project to grossly exceed the project's budgeted cost. A principal cause of such negative outcomes is that in this project delivery model, engineers typically produce the project design to 100% in isolation from the contractor. The contractor then has to implement what the engineer has designed, resulting in conflicts with scope and budget, causing huge delays to a project schedule as well as oftentimes massive cost overruns.

With a fully privatized delivery approach, such as the Ambassador Bridge, the private sector takes on all risks for project delivery and schedule, so concerns regarding cost overruns and schedule delays are shifted from the State to the private sector. Unlike a traditional design-bid-build approach, in a fully privatized approach the private sector typically owns the bridge and has complete control over tolling and all other issues with regard to upkeep, inspection, safety, etc. Accordingly, in a fully privatized model, it is much harder for the State to provide public protections and dictate the performance of the bridge. Consequently, taxpayers would be subject to the following risks: unregulated toll increases, excessive private sector profits at their expense, and little enforcement or protection against poor service and maintenance issues on the bridge.

In between these two extremes of project delivery models is that of public-private partnerships – which should be termed a performance based delivery approach with private finance. The term public-private partnership can unfortunately mean many things to many people. In this regard I am speaking about a model of project delivery that has delivered tremendous success in Canada, the UK, and now in over 30 US States over the past several years. Michigan to date has never undertaken a PPP in this sense of the term, where an asset is designed, built, financed, maintained, and operated by the private sector. Like a privatized delivery approach, a public-private partnership can provide the State with budget and schedule certainty, ensuring that the NITC project would not exceed a fixed price and protecting taxpayers from uncontrolled cost overruns. If a project does go over budget then it is the private sector that is on the hook.

However, a PPP will incentivize competition and innovation, thereby driving down construction and operation and maintenance costs which results in lower tolls for taxpayers. This makes the public-private partnership approach a different situation than the Ambassador Bridge. A recent example of such value for money through the PPP approach is the Port of Miami Tunnel project which entailed a 35-year contract with a private consortium to design, build, finance, maintain and operate three miles of tunnel. The winning team employed significant value engineering to produce a bid that was %54 below, or $534 million in savings, the preliminary cost estimate of $1.2 billion prepared by the State's technical advisor.

In addition to delivering cost savings, a PPP will allow the State to retain control over the performance of the bridge and to incentivize (or regulate) bidders to keep the tolls as low as possible. In addition, a PPP can guard against excessive profits by the private sector through revenue sharing arrangements where the private sector must distribute profits above a certain rate of return.

Most importantly, a PPP can shield the public sector from taking on the risk of traffic and revenue forecasts. In preparing to bid for a PPP project the private sector undertakes its own due diligence and traffic and revenue forecasts. This is done for a few reasons – in a PPP, the private sector developers are assuming considerable financing and project delivery risks and will be contractually required to deliver the project on time and on budget. Further, in order to raise the necessary debt to privately finance a PPP project, developers must produce an investment grade traffic and revenue forecast that will pass the detailed scrutiny of lenders and credit ratings agencies. The public sector's Traffic and Revenue forecast typically will not pass muster with lenders given the fact that the thoroughness of the analysis is usually less rigorous. Consequently, in the beginning of a PPP procurement process, a private sector bidder will develop - at their own expense – a sophisticated Investment Grade Traffic and Revenue model that includes the following:

- A comprehensive and detailed modeling of both passenger and commercial traffic
- Multiple values of time and willingness to pay based on trip purpose, income, and other demographic factors to be considered in analyzing alternative tolling structures and toll levels;
- Projections to take account of transit service in the same corridor whereas different and increasing levels of transit investment are often important distinguishing features among EIS

alternatives;

- Future macro economic conditions – as reflected in the Gross Domestic Product; [GDP], Consumer Price Index [CPI], and other variables - need to be explicitly incorporated into the toll revenue projection process;
- A toll revenue forecasting methodology that must:
  - be capable of assessing numerous scenarios and sensitivities as part of the financial planning process;
  - provide a fine level analysis required to analyze a wide range of tolling, mode choice and network scenarios specific to the project;
  - communicate and model complex responses to the introduction of new roadway network configurations such as Managed Lanes, about which relatively little is known with regards users' willingness to pay and how this will be related to time of day;
  - facilitate multiple scenario analyses and sensitivity tests of a range of demographic, economic, network, mode, pricing and other with transparent and timely reporting of results.

There are many examples of full or partial toll risk transfer to the private sector in a PPP. In these arrangements, the public sector does not bear any risk for fluctuations in traffic patterns and the variations in costs or revenues. An example of this is the Indiana Tollway PPP; notably, over the past several years as the economy has declined, the returns for the private sector have been considerably less than projected. Despite this loss of forecast revenue, the State will not suffer any direct loss nor incur any risk.

In addition, a few years ago the State of Florida tried to advance the Alligator Alley toll road project but no bidders showed up for the procurement because when the private sector did their own analysis they assessed that the traffic and revenue projections from the State were too optimistic. Therefore, the moral of the story is that if the Traffic and Revenue forecast is not financeable then the private sector will not bid for the project. If the private sector believes the project to be financeable, based on their independent analysis, then they will come to bid and assume the risk of their traffic forecast.

In closing, AECOM would like the opportunity to compete against other interested parties, including the Ambassador Bridge Company, for the chance to design-build-finance-operate-and maintain the New International Bridge Crossing. Through the innovation that a free market PPP competition drives, the taxpayers of Michigan can get a better performing bridge that delivers lower tolls and greater value for money. In addition, a PPP will achieve a range of policy objectives through a contractual guarantee of performance and level of service. Now more than ever is the time for us to be bold, to think creatively, and to do more with taxpayer dollars. With your support behind Senate bills 410 and 411, Michigan will be empowered to harness private investment and engage the private sector, gathering their ideas and their ability to share risk.

Thank you very much for this opportunity to testify.