

# Public-Private Partnerships for Mass Transit

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# What is a P3?

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- Public good or service that is
  - provided (designed, built, operated, & maintained)
  - and funded
  - by one or more private firms
  - in partnership with the government.
- Risks and benefits are shared.
- Not privatization.
- Not a procurement contract.

# The Economics of Public Transit

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- Private investment requires a predictable revenue stream.
- Two primary sources of transit revenue: Fares and adjacent/joint development (value capture).
- Both fares and adjacent development rely on good routes: Do the routes go from where people are to where they want to go?
  - Ridership
  - Tenants and patrons of residential and commercial real estate developments.
- A good route can be profitable. (e.g., Hong Kong).
- Advertising opportunities exist, but limited. NYC Subway brings in nearly \$3B in fares and \$60M from advertising each year.

# New York Subway P3 (1913)

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- P3 agreements (“Dual Contracts”) executed in 1913. System complete by 1918.
- One of the largest infrastructure projects in U.S. history, yet opened on time and essentially on budget – advantages of a P3.
- Scale: construction cost exceeded that for the entire Panama Canal, completed in the same era.
- More than 300 miles of track in just over 3 years.



# NYC Subway P3

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- Routes determined through contract negotiations.
- Funding secured prior to contract execution. (Bond laws amended to increase City's contribution and banks signed funding commitments).
- Tiered revenue distribution to maximize private financing. Private debt > public debt > profit.
- Two private partners. Ongoing competition.
- Fares fixed at 5 cents...forever.



# Denver Commuter Rail P3 (2010)

- “Eagle P3” is a Design-Build-Finance-Operate-Maintain (DBFOM) P3 for Denver’s entire commuter-rail system (3 lines, 54 trains, and maintenance facility). First in the U.S.
- \$500M private financing. \$1B FTA grant.
- RFQ/RFP in 2008/09. Concessionaire selected 2010. FTA grant secured in 2011. Opened 2016.
- Denver pays Concessionaire each year. Two payments:
  - Financing/construction payment
  - Availability payment for O&M
- System owned by Denver. Concessionaire leases for P3 term for nominal amount.



# The Gold Standard: Hong Kong MTR

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- Hong Kong Subway is the most successful mass transit system in the world.
- P3 with MTR Corp. 185% farebox recovery ratio. 30% profit margin. 99.9% on-time ratio.
- First class cars.



- “Rail plus property” value capture.
- MTR sets its own rates and government provides subsidies (e.g., stipend).