The Federal Highway Administration (FHWA) recently implemented a policy that will allow State Departments of Transportation (DOTs) to use Federal-aid funds in innovative long-term contracts with private developers. In such agreements, the State grants exclusive rights (a “concession”) to a developer—concessionaire—who assumes responsibility for the highway’s construction, operations, and upkeep. Such contracts often allow the concessionaire to collect tolls, but tolling may not prove suitable for every project. Instead, some States agree to regularly scheduled payments (“availability payments”) that the concessionaire earns via its ability to make the highway available to the public at prescribed levels of service.

The new FHWA policy will allow those considering the availability payment public–private partnership (P3) delivery method to count on a level of Federal assistance comparable with that of a traditional public works project. Although San Francisco’s Presidio Parkway was the first project in the country to use Federal aid for availability payments, these new and expanded policy flexibilities will make it easier for other States to follow suit and take advantage of this form of innovative financing.

**Federal-Aid Participation**

The subject policy allows (1) Federal-aid reimbursement for the profit (to include return on equity) found in availability payments and (2) Federal-aid participation in a unitary availability payment, as opposed to individual cost items.

- FHWA defines the performance-based concession agreement itself as the “project” in which it participates. In doing so, FHWA acknowledges a basic principle inherent in every private contract, namely the existence of profit. The profit (to include returns to private equity) in a project delivered via an availability payment concession will have the same eligibility for Federal-aid participation as the profit embedded in the bid prices found in a traditional project. The profit is considered “reasonable” because the availability payments are negotiated on a competitive basis and are intended to reflect the true cost to the State DOT.
Program Areas of the FHWA Center for Innovative Finance Support

The FHWA Center for Innovative Finance Support is a one-stop clearinghouse for expertise, guidance, research, decision tools, and publications on highway program delivery innovations. Our website, workshops, and myriad resources support transportation professionals in the use of innovative approaches for delivery of highway projects.

Public Private Partnerships (P3s)
The FHWA Center for Innovative Finance Support’s P3 program focuses on resources and capacity building for consideration and use of design-build-finance-operate-maintain (DBFOM) concessions funded through tolls or availability payments.

Alternative Project Delivery
The FHWA Center for Innovative Finance Support’s Alternative Project Delivery program provides information on contractual arrangements that allow for greater private participation in infrastructure development by transferring risk and responsibility from public project sponsors to private sector engineers, contractors and investors.

Project Finance
The FHWA Center for Innovative Finance Support’s Project Finance program focuses on alternative financing, including State Infrastructure Banks (SIBs), Grant Anticipation Revenue Vehicles (GARVEEs), and Private Activity Bonds (PABs).

Tolling and Pricing
The FHWA Center for Innovative Finance Support’s Federal Tolling and Pricing program focuses on the use of tolling and other road user charges as a revenue source to fund highway improvements, and the use of variably-priced tolls as a tool to manage congestion.

Value Capture
The FHWA Center for Innovative Finance Support’s Value Capture program explores strategies for tapping into the added value that transportation improvements bring to nearby properties as a means to provide new funding for surface transportation improvements.

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Benefits of Availability Payments

FHWA anticipates that State DOTs, facing fiscal constraints and engineering challenges in delivering major new infrastructure, will increasingly consider the availability payment concession as an alternative to traditional project delivery.

- States can choose to make regular, scheduled payments to the concessionaire over the term of the P3 agreement, virtually eliminating the “revenue risk” that often poses the greatest hurdle to attracting project investors.

- States compensate the concessionaire based on performance, as measured by delivery date, incident response, state of good repair, etc.

- Although larger payments may be scheduled in the early years, the long-term availability payment concession relieves much of the State’s need for upfront capital.

- The availability payment schedule locks in the maximum public costs (and private revenues) over the project’s lifespan.

- An availability payment concession model will spur innovation because the concessionaire will realize increased profits when it costs less to deliver a consistent level of performance.