METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

RECOMMENDATION PAPER

FINANCE AND DULLES CORRIDOR COMMITTEES

CONSIDERATION OF PRIVATE FINANCING PROPOSALS IN THE DESIGN-BUILD PROCUREMENT FOR PHASE 2 OF THE DULLES CORRIDOR METRORAIL PROJECT

JANUARY 2012

Key themes from the Request for Information:

- Phase 2 is not an obvious candidate for privately sourced financing.
- There is no precedent for private financing longer than 20 years without a transfer of O&M responsibility.
- A financing requirement may impact competition for the Phase 2 design-build contract.

The Airports Authority would have to secure private financing at a cost substantially below tax-exempt rates to generate a significant reduction in annual toll rates.

For a five-year investment, the interest cost rate would need to be at least 100 basis points (1.00%) lower than tax-exempt rates to produce a five cent reduction in annual toll rates.

A 15-year investment would need to be at least 50 basis points (0.50%) lower to produce a ten cent reduction in annual toll rates.

Given the lack of relevant precedent and the potential impact on the cost and schedule for the Phase 2 design-build procurement, the Financial Advisors do not recommend soliciting private financing proposals.

A decision to not include financing in the scope of the design-build procurement for Phase 2 will not preclude the Airports Authority from seeking financing from sovereign wealth and global infrastructure funds.

REPORT TO THE FINANCE AND DULLES CORRIDOR COMMITTEES

RECOMMENDATION TO ELIMINATE CONSIDERATION OF PRIVATE FINANCING IN THE DESIGN-BUILD PROPOSALS FOR PHASE 2 OF THE DULLES CORRIDOR METRORAIL PROJECT

JANUARY 2012

RECOMMENDATION

Mercator Advisors LLC and Frasca & Associates LLC, the Financial Advisors for the Dulles Corridor Enterprise, recommend the pre-solicitation terms for Phase 2 design-build proposals not include a request or requirement that proposers provide private construction financing. Management concurs with the analysis and recommendation.

DISCUSSION

The Financial Advisors and staff participated in the review and evaluation of responses to the Request for Information (RFI) issued by the Airports Authority to obtain input on the potential merits and viability of requesting project financing proposals as part of the design-build solicitation for Phase 2. On January 4, 2012, Financial Advisors reported on three key themes from the responses:

- Phase 2 is not an obvious candidate for privately sourced financing given the toll revenue risk that would be borne by investors, the $1.3 billion of outstanding toll revenue debt, and the lack of opportunity for the private sector to realize a return by managing operations and maintenance (O&M) of the Dulles Toll Road or the Metrorail Project.
- Design-Build-Finance procurements in the U.S. have generally involved short-term financing and there is no precedent for private financing longer than 20 years without a transfer of O&M responsibility
- A financing requirement may impact competition for the design-build contract.

Committee members requested a cost savings analysis that would illustrate the potential impact of private financing on projected toll rates. Financial Advisors analyzed a range of potential scenarios with varying amounts of private investment and different repayment terms (see Attachment A). The analysis indicates that the Airports Authority would have to secure private financing at a cost substantially below tax-exempt rates to generate a significant reduction in annual toll rates. For a short-term loan (five years or less), the interest cost rate would need to be at least 100 basis points (1.00%) lower than tax-exempt rates to produce a five cent reduction in annual toll rates. A longer term loan (15 years) would need to be at least 50 basis points (0.50%) lower to produce a ten cent reduction in annual toll rates.

CONCLUSION

Given the lack of precedent for private financing at the levels required to enable lower toll rates on the Dulles Toll Road, and the likelihood that adding a financing component would increase cost and lengthen schedule, the Financial Advisors and staff do not believe it would be prudent to complicate the design-build procurement process for Phase 2 by requesting financing proposals.

A decision to not include financing in the scope of the design-build procurement for Phase 2 does not preclude the Airports Authority from seeking alternative sources of financing. The Financial Advisors are prepared to work with the Finance Staff to investigate potential interest from sovereign wealth and global infrastructure funds. In addition, the Airports Authority could explore potential financing opportunities with the successful bidder for the design-build contract after negotiations have been completed.

Prepared by:

Office of Finance and
Dulles Corridor Financial Advisors, Mercator Advisors LLC and Frasca & Associates LLC
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