November 25th, 2013

Morteza Farajian
Office of Transportation Public-Private Partnerships
600 E. Main Street, Suite 2120
Richmond, VA 23219

Subject: OTP3 Request for Information Response – Interstate 66

To whom it may concern:

VINCI Concessions is pleased to have the opportunity to respond to this OTP3 RFI for I-66 in Northern Virginia. The project is of interest to VINCI Concessions and our affiliates and we have the capacity and interest in developing the I-66 corridor when Virginia releases the RFQ for response.

Please let us know if you have any questions or thoughts concerning our responses.

We look forward to the project and will be available for further discussions and steps at your request.

Sidney R. Florey

North America Business Development Director
370 Lexington Ave.
Suite 1215
New York, NY 10016
General:

1. Please describe your firm, its experience in relation to public-private partnership projects, and its potential interest in relation to the Project (e.g., design/engineering firm, construction firm, operations and maintenance firm, lender, equity investor, etc.)?

VINCI and their affiliates are, collectively, fully turnkey firm(s). VINCI Concessions is a developer and “Industrial Investor” providing equity on major infrastructure projects. Our group activities include, but are not limited to development, financing, construction and operations and maintenance. As an industrial investor we are long-term investors in projects where we provide leadership to our construction and O&M activities.

Through this leadership, VINCI Concessions supports a holistic design approach to optimize the whole life cycle cost on a Project. Being a long term industrial investor, VINCI Concessions provides assurance that the design and construction will be executed with a level of quality that will take into account the maintainability and useful life of a Project.

Advantages include evaluation of the lifecycle early in the design, allocation of risk to the private sector, schedule enhancement, lump sum contracts and innovation.

2. Are there any particular concerns with any of the information that has been provided in this RFI, the Detail-Level Project Screening Report or the DEIS? Please explain any concerns and provide any proposed solutions or mitigations to address those concerns.

As a result of our preliminary of the project as detailed in the Screening Report and the DEIS, we offer the following suggestions:

- We concur that HOT lanes should be free for HOV 3+ rather than HOV2.
- We suggest that the managed lanes be two lanes in each direction rather than conversion of only the single existing HOV lane in each direction. This will accommodate more traffic and be advantageous for maintenance and emergency situations.
- The inclusion of BRT and the METRO extension are risks to the private sector should it be a toll concession and will need to be accounted for by the concessionaire.

3. What, if any, advantages will the Commonwealth potentially gain by entering into an agreement in which operations and maintenance, lifecycle responsibility, and/or traffic and revenue risk are transferred to the private sector? How do you assess the likely magnitude of such advantages? What are the potentially offsetting disadvantages?

- A DBFOM contract includes a long term investment part, with a comprehensive whole life cycle analysis integrated in the design, the construction and the maintenance of the infrastructure and ultimately provides the most optimal service to the final user, hence its agreement with the public investment strategy. A whole life approach for construction, operation and maintenance of the project will generate significant costs savings and minimize interoperability issues. Core project economics and public sector financial expectations are key to structure sustainable and reliable funding and revenue frameworks for the project.
DBFOM approach provides a single point of contact towards the public Authority, which enables timely and efficient decision-making benefiting the overall project schedule and which reduces the role of the authority to its core task, providing a service to community. A long-term contract period also provides access to competitive long term financing options. For an availability-based scheme, the burden of the Project on the VDOT budget in the short term is reduced as the Project can be amortized over a longer period.

- The transfer of traffic and revenue risk to the private sector is evaluated on a case-by-case basis. On a project with the high volume of existing traffic and existing congestion as is the case with the subject stretch of I-66, the transfer of T&R risk is acceptable to both the private sector partner and the public entity. When the T&R risks are more certain, the public sector can obtain a more optimal bid. In projects that have more uncertain traffic volumes, the public sector is better equipped to absorb the T&R risk.

- A disadvantage would be to have prescribed specifications where the developer cannot provide the best value for money through new technology enhancements that are proven. Using a P3 and then using prescriptive specifications takes away from the benefit as life cycle costs cannot be enhanced with performance based specifications where life cycle durations may be better suited.

**Procurement Process:**

4. Do you have any particular concerns with or major observations about the milestone schedule provided in this RFI? Please provide your views on proposed solutions to address these concerns?

The major concern noted is the procurement schedule. The schedule detailed in the RFI, shows the Final RFP being released in February of 2015 followed by Commercial/Financial Close in Summer 2015. While an aggressive schedule is understood, this schedule is unrealistic. A more realistic schedule would be:

- Final RFP February 2015
- Bid Submission September 2015
- Preferred Bidder October 2015
- Commercial/Financial Close January/February 2016

5. What are the critical path items for the procurement of this Project and why?

- Completion of the NEPA process, receipt of Tier 2 ROD. This eliminates uncertainty related to project scope
- Determination of procurement method – toll risk concession, availability payment, etc. Not all potential bidders will pursue toll risk project projects.
- Purchase of project ROW by public entity. This eliminates a risk to the private entity that is difficult to manage/quantify.
- BRT considerations – public or private operation, separate guide way or use of managed lanes, etc. BRT typically requires sizeable public subsidy.
- Utility relocations well defined and if possible agreements in place with the utility companies for the required scope of work.
6. Looking ahead over the next two to three years, do you believe your firm will be interested in submitting a committed proposal for the development of the Project (any or all of the build concepts)? Are there any particular concerns that may prevent your firm from getting engaged in the project development? How might those concerns be resolved?

   *Our firm is well positioned to take advantage of any delivery method Virginia use. Revenue risk, availability payments and milestone payments are all delivery methods we are familiar with and comfortable with. Traffic studies are an essential part of the process so having enough time to substantiate the Clients study would be extremely helpful in light of so many traffic risk projects having difficulty of late.*

7. What is the minimum amount of time that your firm requires to develop and submit a committed detailed proposal for the Project after issuance of potential RFP?

   *Based on our recent experiences, an optimal and realistic timeline for the process from RFQ to financial close is typically as follows:*

<table>
<thead>
<tr>
<th>Timeframe</th>
<th>Duration</th>
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<tbody>
<tr>
<td>RFQ issued</td>
<td>T</td>
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<tr>
<td>Responses to RFQ</td>
<td>T + 2 months</td>
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<tr>
<td>RFP issued</td>
<td>T + 3 months</td>
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<tr>
<td>Responses to RFP</td>
<td>T + 12 months</td>
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<td>Preferred Proponent</td>
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<tr>
<td>Commercial Close</td>
<td>T + 17 months</td>
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<tr>
<td>Financial Close</td>
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   *The timeline strongly depends on the complexity of the project, the number and diversity of stakeholders involved and obtaining in a timely fashion the necessary local, state and federal authorizations. Developers can easily accommodate aggressive timelines provided that the project is well prepared before the procurement is launched and key risk allocation is well defined from the start. In relation to a toll concession, it is imperative that a Level 2 traffic and revenue study has been executed by the authority and shared with the private partners at the start of the RFP phase.*

   *Preferentially and to the contrary of many projects in the US, commercial and financial close could occur on the same date as this will enable a kick-start of the works as contractual obligations and funding will concur simultaneously.*

**Technical Challenges and Alternative Solutions**

8. Based on your experience in the development of similar projects and characteristics of the I-66 corridor, please explain the technical challenges that may be encountered with the highway and transit improvement concepts described in the Tier 1 DEIS. Please provide recommendations for mitigating or overcoming those challenges.

   *Some of our employees were involved in the construction of the Metro at Vienna as well as the new alignment of Route 29. We feel that the logistics of traffic management is one of the largest technical challenges. The corridor is widely used and serves as a major commuter artery*
between Washington DC and Warrenton. The traffic is challenging on a normal day but during construction a significant amount of detail must be put into maintaining the flow of existing traffic.

9. Do you believe a bifurcated highway system along the I-66 corridor is technically feasible? Please provide any experience and supportive information that you may be able to share from similar projects.

Further details will need to be reviewed but based on the volume of traffic, especially at the Beltway Interchanges, a bifurcated highway system along the I-66 corridor has challenges but may have merit. One needs the opportunity to study the system in greater detail to look at all the potential options.

10. What are the most significant cost drivers in the development and operation of the ML and BRT concepts along the I-66 corridor? How can these concepts be implemented in such a way as to preserve the potential for rail extension?

Significant cost drivers are the maintenance of traffic, operation and maintenance, and the timely procurement of ROW so that construction is not delayed. The rail corridor is an essential mode of transport for how commuters would get in and out of not only Washington DC but Tysons Corner and potentially Dulles once the Silver Line is complete. To have an intermodal design concept with a clear understanding how travelers would use both the transit system and the BRT would be essential for an adequate revenue study to be relied on by investors.

11. What, if any interoperability issues do you foresee with the current tolling system on I-495 Express Lanes.

Interoperability with the current system utilized along I-495 Express Lanes would need to be detailed in the specifications. In addition to interoperability with the I-495 project, VDOT would probably like to ensure interoperability with other regional tolling systems like EZ-Pass, for example. This interoperability eases enforcement and collection duties of the concessionaire. It also provides for a more robust platform with less cost leakage. Linking the two systems could pose a problem with ridership certainties.

12. What suggestions do you have for better coordination between this Project and other projects currently under design or construction along the I-66 corridor?

A Northern Virginia traffic plan is important to share with all the potential proposers. The plan must be robust enough to provide a level of understanding for what is currently planned. An example of this would be the link between Dulles and I-66 on Metro. Will there eventually be a Station at Route 29 or a Kiss and Ride Parking facility to get people onto an LRT that could connect the I-66 corridor with the needs to get to Dulles? The Metro will need to continue beyond Vienna to a point West to relieve the over capacity on the I-66 corridor. Managed Lanes will, in all likelihood, not be enough to solve the problem that needs to be addressed.

13. What challenges are associated with managing the lifecycle costs for the improvement concepts as described in the Tier 1 DEIS? What measures would you suggest to mitigate these risks?
The main challenge for lifecycle costs is to design and construct a durable asset right from the start, in order to minimize costs and traffic disruptions over the life of the project. This can be mitigated by the following measures:

- **Output performance specification instead of a prescriptive design encourages innovations because it obliges the private partner to take on his responsibilities on the long term. An obligation of results rather than an obligation of means provides better value for money to the Public Authority.**

- **A long-term concession allows the Concessionaire to develop dedicated risk analysis and maintenance plans with consideration to the design (optimization of the overall life cycle costs).**

14. What adjustments to the Project scope, or development strategies (including potential phasing of project elements) would you consider/recommend to reduce the upfront capital costs and/or the lifecycle costs of the overall project costs?

*Provide for the opportunity to use new technology and let the developer be accountable to the lifecycle requirements. As developers we know that new technology can drive costs lower. The technologies used by those of us who are long term investors can drive down not only up front capital costs but lifecycle costs as well.*

15. Please explain in detail any alternative technical solutions that may enhance the development of the Project. Identify the risks associated with the alternative technical solutions and discuss the potential cost of each technical solution.

*The uses of new technology for pavement or electronic monitoring are a few areas we would look to for potential ATCs. These plus technical enhancements that provide for future connections between I-66 and the Metro would be a high priority so that the client can continue to develop their vision for an intermodal concept.*

**Commercial and Financial Structure:**

16. Please explain your firm’s interest in the improvement concepts discussed in the Tier 1DEIS. What is your recommended approach for financing the capital cost of each concept?

*A DBFOM delivery method delays the funding required from the Commonwealth to pay for the Project, compared to a design-bid-build or a design-build project, which frees up budget capacity for the Project but also for other projects the Commonwealth wants to realize in the near future. A long-term contract period provides access to competitive long term financing options, including Private Activity Bonds (PABs) or TIFIA (see below). To achieve the best value for money for the Project, the contract term should match the design life of critical elements of the asset, in order to optimize the whole life cycle analysis.*

*From the broad and diverse experience of our Group both in Design-Build and DBFOM contracts models, we trust that the long term Public Private Partnership model provides the public sector with the best value-for-money, under an availability payment structure or a toll concession. In the case of an availability payment contract, the Developer doesn’t bear the traffic risk, and relies on appropriation of funds to make availability payments. With counterparties with good credit quality, such a project benefits from a higher leverage, with lower cost of capital, to the*
benefit of the project feasibility. To ensure that the project risk profile benefits fully from the Commonwealth credit risk, as opposed to the actual revenue from the facility, the commitment to make payments would be irrespective of the traffic and revenue on the facility. Pledging the revenue of the facility to the developer might confuse the risk profile picture potentially triggering a revenue due diligence for the lenders and/or investors.

In the case of a toll concession, the project has a lower leverage than an availability payment project. To improve feasibility, it is in the interest of the Commonwealth to reduce the private investment amount. The use of public funds in the financing plan to fund construction costs directly (i.e. through progress payments, with no requirement for a bridge financing for the public funds) is an efficient way to deal with this issue.

Should the Commonwealth decide to procure the project as a toll concession, we would want to see sufficient evidence upfront that the financial plan is feasible from a revenue perspective. We would need to review traffic and revenue studies undertaken by the Commonwealth and get comfortable that, taken together with the public funds available, the project can achieve investment grade ratings and provide reasonable return to the equity investors for a project of this nature.

There are a number of efficient financing tools available at the federal level to help financing projects in individual states.

- Tax exempt private activity bonds (PABs) are a popular financing tool for finance Public Private Partnerships. This financing makes available to the Project a long term source of financing provided by investors with strong appetite for stable and reliable assets, and benefits from a tax exempt status, to make it a competitive source of financing. The tax exempt municipal market is a very large market with experienced bond underwriters and sophisticated investors which provide reasonable comfort for placing the bonds. PABs are the only readily available private source of long term financing, together with taxable bonds, which are less competitive. Two investment grade ratings are required to issue Private Activity Bonds; however the three major rating agencies are now very familiar with the features of DBFOM type projects, and are stabilizing their methodologies to issue a growing number of ratings in the BBB and A categories in North America.

- The TIFIA subordinated debt program, is a solution that is ideal for bridging the financing gap on projects that make perfect economic sense, but for which the prevailing market conditions might impose an adverse pressure due to complexity and or size of the project. This program is unique in the project finance world, and adapts perfectly to long term transportation projects. This long term subordinated financing is a useful complement to more traditional sources of financing. We recognize however that TIFIA could possibly delay the financial close as it brings additional complexity to the structure (including intercreditor issues), requires a rating for the senior debt, and a lengthy process is necessary to achieve closing. Typically, bidders would not be given the opportunity to negotiate TIFIA terms before submitting their bid, but would use common assumptions provided by the Commonwealth, while any deviation from those terms at financial close will trigger compensation. For these reasons, using TIFIA in the financing requires careful planning and structuring from both the Commonwealth, their experienced advisors, and the private partner. Delays and undue compensation can be mitigated with engaging with TIFIA early during the procurement.
Although it is difficult at this stage to have an accurate estimation of savings brought about by PABs and TIFIA, we strongly encourage the Commonwealth to apply for an allocation to enhance the Project feasibility. Notwithstanding the benefits that the above financing instruments will bring to the financing of the Project, we would keep on investigating other financing structures like senior bank debt, taxable bonds, and private placement of debt in order to ensure that the optimal financing solution will be achieved.

Another key to success is to ensure there is significant political support and that all the stakeholders have been involved in the process. Lenders will not commit to provide financing unless they are comfortable that the obligations of the parties with respect to permits, approvals, environmental conditions, Project scope and Project payment mechanism are clearly defined and not open for further discussion and change.

17. Please discuss your firm’s interest in: a. Accepting traffic and revenue risk in a toll concession

VINCI Concessions is one of the prime toll operators in the world and as such is interested in a traffic risk deal. It is of critical importance that bidders be provided access to a Level 2 traffic and revenue study which should address willingness to pay in detail and evaluate different tolling options for local or long-distance travel.

As long as the traffic modeling provides for a level of detail that the rating agencies will support and the lenders will find acceptable we would be interested in projects including traffic and revenue risk. The importance of a good traffic study that can be supported and ultimately validated is essential. This means the client will need to provide us with a clear vision of potential competing assets that may be under consideration. On an asset such as the I-66 corridor there are many ways to get on a competing asset to avoid the managed lanes. A clear vision of the future traffic movement or people movement will need to be shared.

b. Accepting performance risk in an availability structure

VINCI Concessions has equally robust experience with availability based deals based on performance criteria. In this case, the performance based criteria should not be prescriptive but output based in order to challenge bidders to put their most creative solutions forward and to achieve best value for money for VDOT.

We own and operate some of the most strategic assets in the world and are held to performance requirements that we manage. Performance risk is understood and quantifiable if they are reasonable and proportional with the penalty.

18. What is a reasonable concession term for a ML or a BRT concept? Why?

For an availability concession, the amount of availability payments received by the concessionaire is determined at financial close. With a long concession term, the authority is going to benefit from the back ended long term sources of financing available in the market (Private activity bonds and TIFIA). Typically, the term exceeds the maturity of the financing by a short period of time, named the “tail”, usually around 2 years. Under the current market conditions, average term is 35-40 years for an availability payment structure.
For a toll revenue concession, the concessionaire bears traffic risk and the revenues are not known at financial close. Given this additional risk, revenue concessions usually have a longer term than availability concessions to compensate for a more uncertain return on investment. Longer tails provide lenders with comfort that there is additional revenue available after the scheduled repayment of the debt, should a shortfall of revenue occur during the early years of the project. It also gives the investor a wider window to recover in case of early year revenue shortfall. Ideally, terms are around 40-50 years for road concessions.

Additional Considerations:

19. If your firm is a Disadvantaged Business Enterprise (“DBE”) or a Small, Women-owned, and Minority-owned Business (“SWaM”), please provide any suggestions or comments on how OTP3, VDOT or DRPT can help to develop teaming opportunities with prime contractors. NA

20. Based on characteristics of the I-66 corridor, suggest the number of persons per vehicle that should be required to qualify as a high-occupant vehicle. Explain why selecting this number may be in public interest and beneficial to comply with the federal Clean Air Act of 1990? Please provide quantitative and qualitative evidence to support your arguments.

- **HOV 3+**

21. What additional challenges or risks should OTP3, VDOT, DRPT or CTB be aware of in regard to Project’s scope, procurement process, delivery method, term of contract, technical and financial feasibility, etc.?

22. Other than the answers that you have already provided, what information would help your firm to make the business decision to engage in the development of the Project?

*Political support is essential. With the complexities of a project such as this the stakeholders are many and they should be well informed and provide acceptance of the project with their constituents.*