CHAPTER 5      SANTA ANA VIADUCT EXPRESS

Infrastructure Development Systems IDS-97-T-011

Research Assistant Om P. Agarwal prepared this case under the supervision of Professor John B. Miller as the basis for class discussion, and not to illustrate either effective or ineffective handling of infrastructure development related issues. Data presented in the case has been altered to preserve confidentiality. The assistance of T. Wallace Hawkes, Executive Vice President of URS Greiner, Inc., in the preparation of this case is gratefully acknowledged.

The Problem

In the late 1980's, the California Department of Transportation (Caltrans) faced a problem common to Departments across America: how to pay for a growing list of urgent highway capital projects, with resources dwindling and maintenance costs growing. The California legislature enacted Assembly Bill 680 to authorize Caltrans to solicit proposals and enter into long-term agreements with private entities for the design, construction, lease, and operation of up to four public transportation projects; one project each was required in the northern and southern sections of the state. The purpose was to “demonstrate” that Design-Build-Operate franchises were a workable alternative to the traditional

Beginning with the enactment of the Interstate Highway System legislation in 1956, highway construction and maintenance has been financed through a combination of dedicated gasoline taxes, motor vehicle registration fees, and direct federal aid. While this combination had proved effective for over a quarter century, the anti-tax movement, particularly in California, had made raising additional taxes very difficult. The need for improving, rehabilitating, maintaining, and, indeed, expanding California’s road system continued.
In the late eighties, a variety of possible methods for sustainable financing of road projects in California were being debated, including additional bond authorizations, the creation and levy of so-called “impact fees” on real estate developers, and sales taxes for transport improvements. In 1988, Bob Poole, of the Reason Foundation, proposed that the private sector might build private toll roads to fill the gap between the level of services demanded by the public and the public’s apparent unwillingness to permit the government to do so directly through additional tax or use charges.

Following a conference in August, 1988, at which a number of developers made presentations describing the potential benefits that alternate delivery methods might provide to meet the State’s unmet transportation needs, a number of California groups, with the cooperation of Caltrans, its then Director Robert Best, and its then Assistant Director Carl Williams successfully encouraged the California legislature, in Assembly Bill 680, to authorize Caltrans to solicit proposals and enter agreements with private entities for the construction, lease, and operation of up to four public transportation demonstration projects.

Salient Features of AB 680

AB 680 is described in the SR 91 Case presented in Chapter 4, see that description for a review of the legislation.

CALTRANS’ Pre-qualification Process

A ‘Privatization Advisory Steering Committee’ was set up under Carl Williams and after a first stage of screening, ten potential developers were pre-qualified by Caltrans to submit ‘Conceptual Proposals’. The Pre-qualification process is also described in the SR 91 Case.

Nine of the ten proposers were teams (special purpose joint ventures) of firms with different backgrounds and skills, but which together, provided the transportation, technology, design, construction, financing, and government experience Caltrans sought in its Request for Qualifications.