P3s – Public-Private Partnerships?
Or Peripatetic Pain in the Pants

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How large is the highway funding shortfall?

- Federal, state, and local capital investment.
- 2008 FHWA C&P report (all roads)*:
  - “Sustain” scenario: $27B/year short
  - “Improve” scenario: $59B/year short

*Using B/C>1.5; no tolling/pricing
Federal Funding Realities

- Tight Bill
- “Livability” and “High Speed” rail
- Will Feds and States change?
  - User fees?
  - Setting priorities
  - Using innovations
Why public-private partnerships (PPPs)?

- Especially suited to major projects (mega-projects)
- Significant risk transfer to concession firm:
  - Construction risk
  - Completion risk
  - Traffic & revenue risk
- Incentive to design to minimize life-cycle cost, not initial cost
- Proper maintenance assured, long-term
- Growing U.S. as well as global track record.
States continue passing P3 enabling legislation

In recent years

- Alabama
- Arizona
- California
- Massachusetts
- Puerto Rico
Types of projects (1): urban congestion relief

- Rebuilding inadequate freeways (I-595)
- Adding Managed Lanes (LBJ, NTE, Beltway in northern Virginia)
- Building/operating Managed Lanes networks (Atlanta, San Francisco)
- Port-related toll truckways (Los Angeles, Miami, Tampa)
Types of projects (2): bridge repair & replacement

- MO, NY bridge rehab programs
- VA—Jordan and Dominion bridges
- CA—two LA port bridges
- NY—Tappan Zee, Port Authority bridge replacements
- MI—new Detroit River crossing
Types of projects (3): new and aging Interstates

New routes (tolled):
- Las Vegas to Phoenix
- I-69 Texas to Indiana

Rebuild with tolls + added capacity:
- Key long-haul truck routes
- Missing links in LCV network (see map)
Interlude—The Market in a Recession

- Credit Crunch
  - Miami port tunnel
  - Midway
- Problem is debt, not equity
- Infrastructure investment funds still looking to make deals
Long-Term Concession

- Company finances, builds, operates, charges for use of facility for $N$ years;
- Competitive selection process;
- Project financed based on credible revenue stream;
- Usually, revenue = user charge (but can be govt payment stream).
Advantages of Concessions

- Better-targeted investment (ROI vs. politics);
- Increased investment (project finance);
- Fairness (user pays);
- Risk transfer (especially on mega-projects);
- Innovation (thinking outside the box).
Protecting the Public Interest

Monopoly aspects; hence, some form of regulation.

Alternatives:

- Public utility commission
- Concession agreement terms

The latter is more flexible.
One Investment Need Is Improved Goods Movement

- Two types of toll truckway project:
  - Short-haul port connectors.
  - Long-haul, multi-state corridors.
- Truckers willing to pay for:
  - More “turns”/shift in short-haul setting.
  - Greater payloads in long-haul setting.
- Keys to trucking industry support:
  - Voluntary usage.
  - Value-added, in exchange for tolls.
Another Investment Need Is Urban Congestion Relief

- HOT lanes
- Express Toll Lanes
- HOT/Express Toll Networks
- Missing links in freeway system
- New suburban toll roads, where growth is occurring
What Does the Concession Model Have to Offer?

- Why not continue with public toll agencies?
- Private concession model offers:
  - Large pool of new capital
  - Ability to raise more for a given project
  - Risk transfer
  - Multi-state potential
  - A more commercial approach
  - Innovation
Long-Term Concession Funding vs. U.S. Toll Agency Funding

- More complex financial structures:
  - Sponsor equity
  - Shareholder equity
  - Bank debt
  - Several tiers of other debt

- Access to new pools of capital
  - Pension funds
  - Insurance companies
  - General public (IPOs)

- Can raise larger sums from a given traffic base
  - Longer terms
  - Depreciation write-offs
  - Certainty of annual toll increases
Debates over P3 concessions

- Both national commissions said this tool should be encouraged.
- NCHRP synthesis 391: how to protect the public interest in P3s.
- Pew Center report: lessons learned from failed PA Turnpike lease.
- TX Legislative Study Committee report.
Politics of Tolling and PPPs

- Tolling itself still controversial in many states.
- Good survey data shows majorities prefer tolls to tax increase, to fund new roadways.
- But left-wing and right-wing populists can still stir up significant anti-toll opposition.
Toll Concessions Add Other Issues, Besides Tolling:

- Foreign companies
- Too long a term?
- Huge up-front payments—wasted?
- Excessive toll rates?
- Private company seizing land?
- Non-compete provisions?
- Termination/buyout provisions?
Need for P3 process reforms

- Best practices, value-for-money
- Separate entities, as in Australia, Canada:
  - California’s Public Infrastructure Advisory Commission
  - Michigan’s new P3 office
  - Puerto Rico’s new P3 agency
- Principles for concession agreements
- Project selection via Public Sector Comparator
Outlook for Toll Road Concessions:

- Underlying case very strong.
- Political backlash has happened before (Arizona, California, Minnesota, Washington in 1990s).
- More, better educational outreach is crucial.
- States that get it right will compete better for business.