



# PARTNERSHIP FINANCING:

## *Improving Transportation Infrastructure Through Public Private Partnerships*



### Key Recommendations for States and Localities

Long-term funding sources for transportation are uncertain, and innovative alternatives for both financing and funding infrastructure is urgently needed.



Around the globe the public and private sectors are coming together through public private partnerships (P3) to deliver high quality transportation in timely, cost-efficient ways that benefit all parties. By working together and aligning incentives for each party to optimize outcomes, P3s are used to accelerate the delivery of infrastructure projects, increase innovation, control costs, deliver essential infrastructure that otherwise may not be built, and maintain that infrastructure to contractually-defined standards. Yet the use of P3s in the United States is lagging behind other countries.



Only nine percent of global P3 investment has gone to projects in the U.S. While 33 states plus the District of Columbia have passed P3 enabling legislation, less than half have closed P3 projects, and seventy five percent of all P3 projects in the U.S. are concentrated in only five states (California, Colorado, Florida, Texas and Virginia). Barriers exist at the federal, state and local levels that challenge even the most robust P3 proposals.

Eno Center for Transportation  
1710 Rhode Island Avenue, NW  
Suite 500  
Washington, DC 20036  
[www.enotrans.org](http://www.enotrans.org)  
202.879.4700

The Eno Center for Transportation convened a task force, under the direction of former Secretaries of Transportation, Mary E. Peters and Norman Y. Mineta, comprised of leading P3 experts from the private, public, and non-profit sectors. The group studied successful and less successful P3 experiences in the US to understand existing barriers and how to overcome them. Eno uncovered keys to successful public private partnership, and published findings in the report, *Partnership Financing: Improving Transportation Infrastructure Through Public Private Partnerships*. Findings include the following recommendations:

## Key Factors for Building a Strong State and Local P3 Program

**1. Adopt Strong P3 Enabling Legislation.** Provisions in P3 enabling legislation are important for giving public entities legal authority to engage in P3s and guiding how P3s may be used. Effective enabling legislation contains provisions that protect public interests while attracting private partners and includes the following features:

- **Project eligibility** should be broad and flexible and not restrict eligibility to certain modes, projects, or sizes.
- **Project selection** should be transparent and include empirical assessments of the appropriateness and cost effectiveness of P3 delivery compared with traditional procurement. Clear and transparent guidelines for protecting confidentiality should be developed and applied consistently. If unsolicited P3 proposals are permitted, policies should ensure that unsolicited proposals are consistent with long-term transportation plans and that competitive bidding is assured.

- **Funding policies** should allow the collection of direct user fees and permit the use of multiple funding sources including federal, state, and local.

- **Legislative approval and review** of P3 projects is important to ensure public goals are met, but policies that allows the governor, legislature, general public, or other public entity to veto projects, particularly late in project development, is a deterrent to private investment, and ultimately stymies competition.

- **Contract provisions.** All projects are unique and contract stipulations should be determined on a project-by-project basis to align compensation with performance outcomes. Particular provisions, such as term length or compensation method, should not be mandated by legislation.

### 2. Establish a Dedicated P3

**Administrative Entity.** States that wish to advance more P3 projects are well served to create new (or enhance existing) institutions dedicated to managing P3 procurement. P3 units should develop policies and implementation guidelines to protect

public interests, define and assign roles and responsibilities for carrying out important management functions, and provide training for public P3 staff to enable state and local entities to effectively engage with private sector experts.

Dedicated P3 units promote programmatic approaches to P3 procurement and allow for more comprehensive institutional and in-house staff development. They also motivate state and local governments to standardize P3 procurement policies, documents, and procedures.

### 3. Promote Public Engagement.

Understanding public concerns is critical to designing projects that meet public needs and to building public support. The public should be engaged early and often in meaningful ways to plan P3 projects. Instead of using public outreach to inform or persuade, public engagement can be a beneficial step in the process to ultimately improve outcomes for all.

## Funding versus Financing

Transportation investments require a funding source to pay for upfront capital improvements and on-going operation and maintenance. One of the most widely held misconceptions about public-private partnerships is that the private sector somehow provides funding—or free money—for infrastructure projects. In fact, private partners do not provide funding. They can, however help to assemble financing packages that may include public and private loans or public bonds, but, like any debt, this requires repayment. In order to repay project debt, there must be a secure, sustainable, and long-term funding source. Typically in P3 projects, this funding comes from toll revenues or dedicated state or local tax revenues. Private concessionaires may provide an equity stake in the project which, while requiring a reasonable rate of return on the investment, also builds incentive to design, build, finance, operate, and maintain the asset in a timely and cost-effective way, with the private sector assuming much of the risk.

Funding and financing are not the same, but both are necessary for a P3 to work.



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Washington, DC 20036  
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@EnoTrans