PARTNERSHIP FINANCING:

Improving Transportation Infrastructure Through Public Private Partnerships

Key Recommendations for Federal Policy

Long-term funding sources for transportation are uncertain, and innovative alternatives for both financing and funding infrastructure are urgently needed. Around the globe the public and private sectors are coming together to deliver high quality transportation assets through partnership financing in timely, cost-efficient ways that benefit all parties. By working together and aligning incentives for each party to optimize outcomes, public- private partnerships (P3) have successfully accelerated projects, encouraged innovation, and controlled costs.

In addition they have provided the ability to build essential infrastructure that otherwise may not have been built, and have provided an avenue to maintain that infrastructure within contractually defined standards. Yet only nine percent of global P3 investment has gone to projects in the United States. While 33 states plus the District of Columbia have passed P3 enabling legislation, less than half have closed P3 projects, and 75 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.

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

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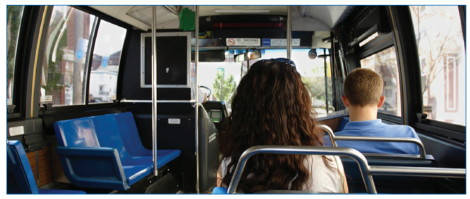

Key Improvements for Federal P3 Policy

1. Incentivize state and local efforts to increase local revenues for transportation. With the future of consistent federal transportation funding streams uncertain, state and local resources are increasingly needed to fill funding gaps. The federal government can provide incentives that encourage new revenue sources including increased gas taxes, dedicated sales taxes, and user fees. Federal incentives can motivate states to bring more dedicated local revenues to the table. Such incentives can take the form of additional matching funds, increased flexibility, decreased oversight, bonuses, or priority in discretionary grants programs.

2. Initiate a Federal Multi-Modal P3 Investment Center to strengthen P3 potential in the U.S. The USDOT can have a strong role bringing together public and private partners to promote the effective use of P3 financing for all modes of transportation infrastructure. This Federal initiative can help states and localities build P3 programs and expertise to effectively partner with the private sector and offer potential private partners financing for rail, transit, and port projects, as well as roads, bridges, and tunnels. We recommend the following policy improvements:

- **Federal grant programs** should encourage access by projects of all modes.
- **Model contracts** are needed for P3s across all modes, not just the road sector.
- **Develop standard project appraisal** methods to compare the cost of P3 delivery with traditional public financing of projects of all modes, and support the training of state, regional and municipal agency staff charged with conducting empirical evaluations of P3 projects.

3. Increase access to financing through the Federal Transportation Infrastructure Finance Innovation Act (TIFIA). TIFIA offers low-cost financing for certain transportation investments and has been demonstrably helpful in bringing P3 projects to fruition. Thirteen of the 16 P3 projects that have closed since 2003 were financed with TIFIA loans. There is currently a backlog of TIFIA projects under review at the U.S. Department of Transportation.

- **Streamlining the pre-approval process** and boost staffing at the TIFIA program office with highly-skilled staff will help reduce the time needed to bring approved projects to financial close.
- **Ensuring access** to TIFIA loans and Private Activity Bonds for transit, rail, and port projects is essential for building a multi-modal transportation network with P3 financing.

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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