



PARTNERSHIP FINANCING:

Improving Transportation Infrastructure Through Public Private Partnerships

Key Findings:

- When constructed properly, partnership-financed projects allow both sides of the partnership to win.
- Private partners share the risk associated with large public infrastructure projects.
- Understanding public concerns is critical to designing projects that are responsive for public needs and to building public support.

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. Additionally 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*.

Eno identified that when constructed properly, partnership-financed projects allow both sides of the partnership to win. The public gets a transportation facility built, operated, and maintained to contractually defined standards by a private firm or consortium, often in an accelerated time frame. Private partners share the risk

Eno Center for Transportation
1710 Rhode Island Avenue, NW
Suite 500
Washington, DC 20036
www.enotrans.org
202.879.4700

associated with large public infrastructure projects, and costs can be reduced through innovation brought by the private sector and economies of scale. The private sector maintains ownership of the asset, but the private partner manages construction, operation, and maintenance through the life of the contract, and hands back the asset to the sponsoring public agency in good condition at the end of the contract.

Important improvements to federal, state, and local policies to promote good P3s include the following recommendations:

Key Factors for Building a Strong State or Local P3 Program

1. Adopt Strong P3 Enabling

Only nine percent of global P3 investment has gone to projects in the United States.

Legislation. Provisions in P3 enabling legislation are necessary for providing public entities legal authority to engage in P3s and for guiding

how P3s may be used. Effective enabling legislation contains provisions that protect public interests while attracting private partners,

and includes the following features:

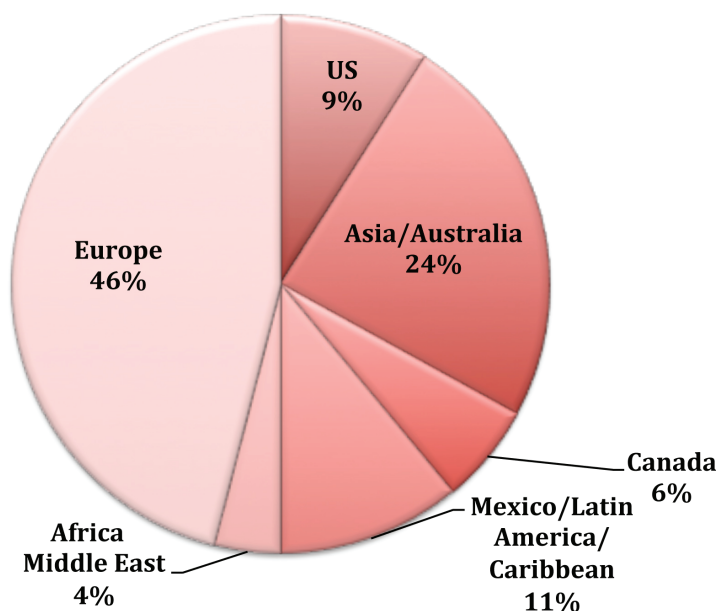
- **Project eligibility** should be broad and flexible and not restrict eligibility to certain modes, projects, or sizes.
- **Project selection** should be transparent and include empirical assessments of the appropriateness and cost effectiveness of P3 delivery compared with traditional procurement. Clear and transparent guidelines for protecting confidentiality should be developed and applied consistently. If unsolicited P3 proposals are per-

mitted, 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 allow the use of multiple (federal, state, local, etc.) funding sources.
- **Legislative approval and review** of P3 projects is important to ensure public goals are met, but policies that allow the governor, legislature, general public, or other public entity to veto projects, particularly late in project development, are a deterrent to private investment.
- **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.

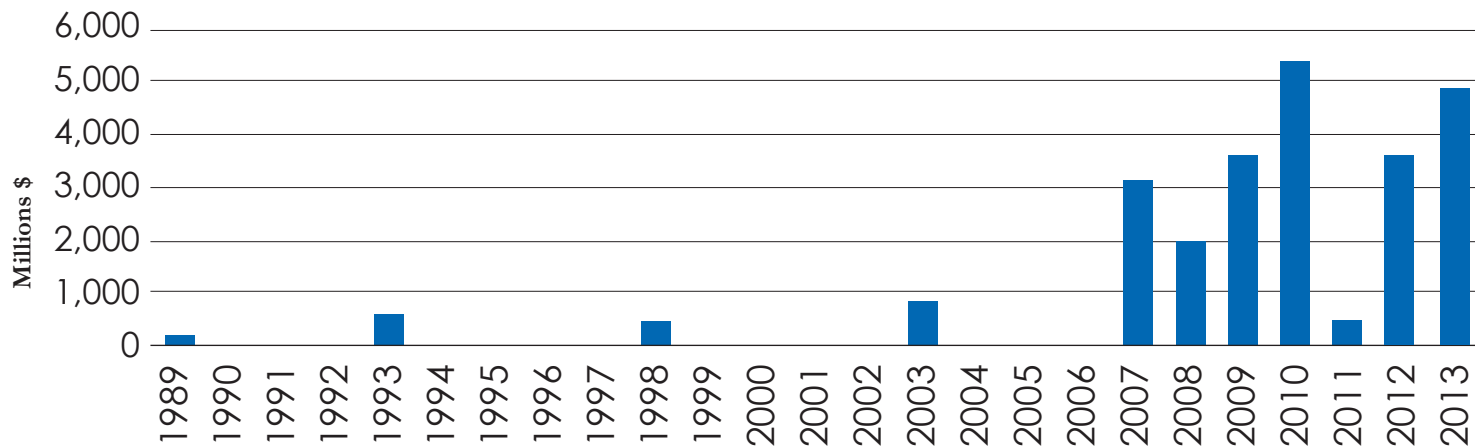
2. Establish a Dedicated P3 Administrative Entity. States that

Global P3 Investment 1985 - 2014 (\$774.1 Billion)



Source: Public Works Finance Database

P3 Investment in U.S. Transportation by Year



Source: Public Works Finance Database

wish to enable more P3 projects should 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.

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

3. Tangibly Engage the Public. Understanding public concerns is critical to designing projects that are responsive to 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.

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 encour-

age 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.

The federal government can provide incentives that encourage new revenue sources.

2. Initiate a Federal Multi-Modal P3 Investment Center to strengthen P3 potential in the U.S. The US-DOT 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.



1710 Rhode Island Avenue, NW, Suite 500
Washington, DC 20036
www.enotrans.org
@EnoTrans