

INFRASTRUCTURE P3s: *LESSONS FROM THE FIELD*



SUMMARY

A Bipartisan Policy Center review of select U.S. public-private partnership (P3) projects conducted by its Executive Council on Infrastructure yields four important lessons for any states and local governments that are considering such an approach.

While this review includes projects from different sectors and different parts of the country, these lessons are broadly applicable and serve as a baseline for understanding the role of P3s in addressing the nation's infrastructure challenges.



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1. The private sector can play different roles depending on the needs of the project.

P3s can be used as a procurement tool, a financing tool, or both. For a complex project, using a P3 as a procurement tool can bring several benefits, including increased expectation of on-time delivery and reduced risk for the public agency. This was the role played by the private partner in delivery of the [Oakland Airport Connector](#)—an automated, driverless connection between the BART rail system and the Oakland International Airport—and the [Long Beach Courthouse](#) project.

For a large project that costs more than a state or locality can provide with conventional financing, a private partner can help bridge the gap. [The Dulles Greenway](#) (a toll road in Northern Virginia) was largely financed by a private partner. The commonwealth of Virginia paid the higher cost for private financing rather than taking on a large public debt issuance. Without the private financing, the Greenway would likely not have been built.

In some cases, the private partner serves both needs: project delivery and financing. For example, in the case of the [Port Miami Tunnel](#), the private partner took on the difficult task of delivering a tunnel in an urban area, bearing the risk of construction delays and providing upfront financing. The Florida Department of Transportation will repay the costs over time.

2. There is no one-size-fits-all P3 structure.

While many P3s involve toll facilities (tolls are a clear source of revenue to pay back private financing costs), newer P3 structures have evolved to finance projects that do not have tolls. The city of Miami elected to not implement tolls on its new tunnel in order to avoid dissuading drivers from using it. Instead, the private partners will be paid over time with milestone and availability payments from state and local revenues.

There is a significant misperception that P3s can only be used for mega-projects. In fact, P3s can address a wide variety of U.S. infrastructure needs. While it is true that a project requires a certain amount of cost and risk to make using an alternative procurement approach cost effective, that does not mean smaller projects cannot benefit from this tool as well. For example, the city of Detroit opted for a P3 for its [Metro Freeway Lighting](#) project to increase safety, visibility, and energy efficiency. The [Pennsylvania Rapid Bridge Replacement](#) project bundled more than 550 small bridge projects into a single procurement to take advantage of the economies of scale that a P3 could offer. This model can potentially be used elsewhere to complete multiple smaller projects that states do not have the capacity to address all at once.

3. The benefits of private involvement in infrastructure are often overlooked.

While the cost of private capital is well understood and it is easy to calculate the total costs of construction and financing, it is more difficult to put a dollar figure on the benefits of long-term asset maintenance and the transfer of risks. As a result, the benefits of P3s are often undervalued.

One of the key benefits of a P3 procurement is that risks can be shared between the public and private partners. For example, in the case of the [Dulles Greenway](#) and the [Indiana Toll Road](#), most of the demand risk (i.e., the risk that the toll road would not be used as much as projected) was transferred from the public sector to the private sector. As a result, the public would not be on the hook for the costs of maintaining the roadways should toll revenues be insufficient. This protection against future liabilities has economic value but is rarely quantified. Observers, therefore, typically see the upfront costs of the project without having a complete picture of the long-term benefits.

Similarly, there is a benefit to the public sector of locking in long-term operations and maintenance costs. When appropriate protections are included in the contract for quality control, the public can guarantee a well-maintained asset without having to absorb unexpected future costs or compete for adequate funding in the legislature. The [Pennsylvania Rapid Bridge Replacement](#) project, for example, locks in maintenance costs for the next 25 years. The public benefit of this approach is the delivery of a well-maintained asset over that contract term, avoiding the possibility that state budget

priorities would require deferring maintenance in the years to come. There is economic value in having protection against that risk, but again, it is not often put into dollar terms for comparison against the costs.

4. Few projects are a 100 percent success or a 100 percent failure.

P3s are complex transactions with multiple parties, delivering major infrastructure projects. Evaluating them requires an understanding of how the needs of multiple stakeholders are, or are not, being met. For example, the [Indiana Toll Road](#) is sometimes referred to as a “failed” P3. However, it is only a failure from the perspective of the original private consortium, which declared bankruptcy after toll revenues did not meet projections amid the economic recession. From the state’s perspective, however, the people of Indiana received a benefit in the form of the original upfront payment from the private consortium, as well as the existence of a physical asset, the toll road itself, which is now available for use by residents and those traveling in the state.

Successes and failures must be measured along multiple axes and at multiple points in a project’s lifetime. Trying to fit projects neatly into a “success” or “failure” box precludes a more nuanced understanding of the various upsides and downsides of P3 projects. Public officials considering a P3 should keep in mind that P3s bring with them multiple benefits and costs that must be carefully evaluated.

As the case studies show, P3s have been used to develop a variety of infrastructure projects across the United States, from water treatment to freeway lighting to rapid transit. Bringing private capital and expertise to the table can move projects forward faster and improve outcomes over the long term. This approach is not static, but is continually evolving to fit the needs of communities of many sizes and varieties. As the P3 market in the United States grows, the Executive Council on Infrastructure intends to continue adding case studies that demonstrate the myriad situations in which a partnership between the public and private sectors can address infrastructure needs.



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