Incentivizing Expanded Use of Private Capital in Transportation Infrastructure

Abstract

It has been estimated by the American Society of Civil Engineers (ASCE) that deferred investment, or the underfunding of repairs and maintenance, in existing U.S. infrastructure is in excess of $3.6 trillion. This is a deferred investment total and does not take into consideration expansion and modernization of infrastructure that will be necessary to meet future demands. Given the budget constraints and competition for scarce capital at all governmental levels, (i.e., Federal, State and Local), it is questionable as to whether this infrastructure crisis can or will be addressed by traditional funding methods.

One of the mechanisms that has been used effectively throughout the world, is the expanded use of public-private partnerships (P3s). These have been used in the U.S., but not to the degree that they are used in other developed countries. One of the reasons is the reticence on the part of the public to cede control of revenue streams to the private sector. For example, highway infrastructure projects that are financed by tolls assessed to users where the revenue is committed to the private sector developer.

P3s provide a mechanism to fund much needed improvements with capital that is readily available from the private sector. There is also the potential to connect the on-going maintenance associated with a particular investment with the private developer. This could result in reduced cost exposure to the public. Private sector investment in public infrastructure might also tend to insure that the projects with the most merit receive priority and are awarded outside of political influence.

During the week of September 17, 2014, the House Transportation and Infrastructure Committee’s Panel on Public-Private Partnerships issued a final report and recommendations on how to balance public and private interests when using P3s to finance the nation’s infrastructure. It also recommends growing public sector capacity to better structure agreements to allow for partnerships to be more easily considered. The ASCE agreed with the report’s assessment but also favored more public investment. There have been a number of papers and studies on the subject that provide a blueprint on how to develop a successful project and outline the potential pitfalls associated with the infrastructure funding mechanism.

Primary Resources:

States with Transportation PPP Enabling Legislation as of Feb. 8, 2014

- Broad enabling legislation
- Limited or project-specific legislation
- No legislation

US Infrastructure Public-Private Partnerships: Ready for Takeoff?

Public-Private Partnerships for Transportation: A Toolkit for Legislators

Public-Private Partnerships for Transportation: Obstacles and Recommendations

Public-Private Partnerships for Transportation: Federal Updates and Connections
U.S. Public-Private Partnership (P3) Market Poised for Growth

Given the sheer size of its infrastructure and growing urban population, the U.S. has the potential to become the largest market for public-private partnerships (P3s) in the world. An increasing number of U.S. states are authorizing the use of P3s for transportation projects, typically the first type of P3 project in a new market, and the use of P3 models has been steadily increasing over the last five years.

How P3s in the U.S. Have Been Financed

- Low-cost financing in the form of tax-exempt private activity bonds (PABs) and federal Transportation Infrastructure Finance and Innovation Act (TIFIA) loans is stimulating the U.S. P3 market. These long-term, low-cost sources of financing help balance the cost-of-funds debate between tax-exempt municipal bonds and taxable bonds or bank loans issued for P3s. Low market interest rates, a weak supply of infrastructure debt and high investor demand have pushed the price of taxable bonds and bank loans close to tax-exempt rates for some P3 projects, depending on the credit profile.

Fixing America’s Surface Transportation Act (FAST Act)

- Transportation Infrastructure Finance and Innovation

  The FAST Act will cut annual investment for the TIFIA credit assistance program from the $1 billion per year authorized in FY 14 and FY 15 to the following levels: FY16 - $275 million, FY17 - $275 million, FY18 - $285 million, FY19 - $300 million, and FY20 - $300 million.

Review of the U.S. Public P3 Sector in 2014

- 2014 was a robust year for the U.S. P3 market. Building on the momentum gained in 2013, several significant projects reached commercial or financial close, with many projects in active procurement across a wide range of industry sectors.

- There continues to be a patchwork of state and local laws, of varying scope and utility that can confound the use of the P3 model and diminish its benefits. There also remains in many communities a long-standing bias in favor of public control of infrastructure that is financed by taxpayers and ratepayers and managed by their elected representatives.

Drivers of Successful P3s

- The public sector requires a better understanding of the P3 structure, how to consider proper risk and reward sharing, and the purpose and the rationale behind these arrangements. Success drivers include:
  - Creating a strong legal framework at the state level.
  - Prioritizing projects based on quantifiable public goals.
  - Picking politically smart projects.
  - Understanding what the private sector needs.
  - Finding the right revenue stream.
  - Creating a clear and transparent process.
  - Building an empowered team.
  - Actively engaging with stakeholders.
  - Monitoring and learning from the partnership.

Government and Industry Organizations

- U.S. Federal Highway Administration Innovative Program Delivery (IFPD) Office: established in October 2008 to provide a comprehensive set of tools and resources to assist the transportation community in exploring and implementing innovative strategies to deliver programs and projects.

- AASHTO Transportation Finance Clearinghouse: provides comprehensive funding and financing information for surface transportation. This website includes an encyclopedia of various revenue and financing tools available to project sponsors, an examination of current state-level transportation revenue and funding efforts, a 50-state database of transportation funding and governance frameworks, a set of case studies highlighting unique and complex projects, and a list of useful resources and links in the transportation finance sector.