

## Public-Private Partnerships for Transportation Development

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Washington state's economic boom and rapid population growth impose congestion costs on our economy and lifestyle that magnify the need to expand our transportation system. At the same time, growing taxpayer fatigue restricts the resources available to communities to manage this problem.

State lawmakers met with vocal public opposition in 1997 when they attempted to find new funding for transportation infrastructure by increasing the gas tax. Recent polls suggest that public sentiment has not changed regarding the gas tax. After all, everyone thinks their taxes are already too high.

In this era of diminishing resources, governments around the world have developed innovative techniques to finance and construct expensive transportation infrastructure. They succeed in infusing private financial resources into the mix of traditionally taxpayer-funded projects. They also liberate both private and public sectors by giving to each of them those responsibilities they are best able to fulfill. While the standard model for providing transportation infrastructure is appropriate for much of our needs, other models involving profit and competition can mobilize a wider array of resources to serve our state's needs.

### Public-Private Partnerships

Stimulation of the talents, instincts and skills of the private sector can be as varied as the imagination. As adapted from a report by United Infrastructure Company to the American Legislative Exchange Council, different models for public-private partnerships exist for building transportation infrastructure.

#### **Build-Operate-Transfer (BOT):**

In this model, a private company or consortium of companies receives a concession to finance, build and operate a facility for a fixed period of time, after which ownership reverts to the public sector. An example of BOT occurred in Virginia, where a private developer now operates a toll road connecting Dulles Airport to Washington, D.C. under a 40-year franchise. The investors mobilized the capital for construction and accepted the risk that they can recover their investment and profits before the ownership reverts back to the public.

**Build-Operate-Own (BOO):** This type of arrangement occurs when a private interest is granted the franchise, then designs, finances, builds and operates the facility which it owns, using public support in land acquisition and related matters. Nineteenth century intercontinental railroads are an example of BOO. A modern example is the Ambassador Bridge connecting Detroit, Michigan and Windsor, Ontario, built and owned by a private consortium, which accepts all the

risks associated with building, owning and operating the bridge. The risk of ownership is not necessarily minimal, as the original investors in the Suez Canal and the Channel Tunnel can testify.

**Buy-Rehabilitate-Operate (BRO) or Lease-Rehabilitate-Operate (LRO):** Under these models, a private organization purchases or leases an existing facility from the government and repairs, refurbishes or expands it as appropriate. Under BRO, the investors retain ownership and exercises all responsibilities of ownership, collecting all revenues and paying taxes on property. Under LRO, the private developer operates the facility for a period of years before the property reverts back at the end of the lease.

#### **Advantages of Private Sector Involvement**

These models make sound public policy when the private sector can add value to the project. Typically, private contribution takes some or all of the following forms:

**Increased Capital Investment:** Public-private partnerships can provide additional financial resources for projects which the government could not fund from existing revenues.

**Source of New Tax Revenue:** A privately-owned or operated project generates both property and B&O taxes. The recently financed extension of the Dulles Toll Road in northern Virginia will pay property taxes of approximately \$96 million to Loudon County, and several hundred million dollars in state and federal corporate taxes over its lifetime.

**Reduced Design and Construction Costs:** A private owner can generally design and build projects more flexibly, and therefore more cheaply than

government - even if required by contract or statute to comply with prevailing wage requirements.

**Additional Infrastructure Projects Identified:** The private sector can often identify and finance projects not identified by the government. For example, in Great Britain, the transfer of the British Airport Authority to the private sector resulted in significant expansion of the British airport system.

**Introduction of New Technology:** The private partner is often in a better position to evaluate and accept the business risk of introducing new technologies into projects because they are relatively free of restrictive procurement regulations.

#### **Allocating the Risk**

Public-private partnerships will only work where both participants respect each others needs and the responsibilities, risks, and rewards are allocated in accordance with the strengths of each.

Typically, the public sector will define (a) the service needed; (b) assume the lead responsibility for site selection and acquisition (either through its own actions or through making eminent domain authority available to the private contractor); (c) retain law enforcement responsibility (i.e. enforcing speed limits on any private road); and (d) manage and facilitate all permit approvals to streamline the permitting process and reduce construction time.

The private partner typically brings its experience in integrating design, construction and operational considerations; it assumes financial risk in construction cost overruns and delays; and obtains its reward through profits from the

long-run successful operation of the facility.

The creativity that makes any project successful deals with (a) rate setting: how will rates be determined or changed?; (b) non-competition: will private owners be protected against competing public facilities and, if so, for how long?; (c) the extent of public financing: will the public facility participate in financing by grant, low cost loan, or loan guarantee?; And (d) other control issues: depending on the project involved, the public facility may have

other concerns such as safety standards, operating hours, and construction specifications. These are all appropriate subjects for negotiations as part of the project contract.

### **Conclusion**

Sharing the entrepreneurial benefits and risks of projects with the private sector can mobilize additional resources for highway projects (especially bridges), park and ride lots, and at least a portion of our ferry system, thus freeing tax dollars for other needed projects.

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