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P3s Can Solve States' Infrastructure Woes.

Mitch Daniels, one-time director of the Office of Management and Budget and now president of Purdue University, has worked on many financing policies and initiatives at the local, state and national levels. These include public-private partnerships, of which he is a strong proponent. Purdue is currently participating in a P3 with the city of West Lafayette Indiana.

In recent testimony before a U.S. Senate panel, Daniels, who, before assuming his current post, served as governor of Indiana, shared his thoughts on how public-private partnerships can be a major component of strategies to solve national infrastructure problems.

While testifying before the U.S. Senate Finance Committee on his state's effective use of P3s to build infrastructure projects, Daniels offered several pieces of advice on how ensure their efficacy. He urged Congress to encourage states' use of P3s to finance upgrades to existing assets, not just to fund new construction, and as a way of generating revenue. He also urged Congress to allow states to continue to carry debt on tax exempt bonds that were issued to fund new construction when entering into a P3 to expand or improve that project. Currently, states must pay off the debt or finance it as taxable bonds at a potentially higher interest rate, he pointed out.

Daniels called on states to invest revenues from P3 infrastructure projects in similar projects rather than spending it on current government operations. He also encouraged the federal government to change and expand programs that permit states to charge tolls on new, expanded or reconstructed interstate facilities in order to pay for infrastructure projects and attract partners that would be willing to bear most or all of the financial risk.

As governor, Daniels used the $3.8 billion sale of a 75-year lease for the Indiana Toll Road to fund a 10-year initiative, now in its ninth year, to build more than 100 new infrastructure projects and more than 1,000 bridges. "We became the only state in the union to have a fully-funded, 10-year infrastructure plan that required no new taxes and no new debt," said Daniels.

The state also put $500 million into a permanent trust fund to finance future projects. Under the toll road sale — which, in the state's hands, was valued at no more than $1.92 billion because of the cost to the state to collect the tolls — the private partner agreed to upgrade, maintain and operate the road and be paid through the tolls it collected. The partner also agreed to expand lanes, add electric tolling and make other improvements valued at an additional $450 million. To prevent taxpayers from bearing a burden, the tolls were to remain at 1985 rates for passenger cars for 10 years and rate increases were limited to inflation, GDP growth or 2 percent.

The poor economy reduced the road's anticipated use and the private operator of the toll road, which had to absorb the loss, declared bankruptcy last year; another firm stepped in to purchase the lease.

Daniels described two other successful P3 infrastructure projects that the state negotiated during his tenure as governor. The Ohio River Bridges project started out as a joint Indiana-Kentucky venture to be paid for with state and federal funds. When both legislatures decided to permit P3s as a financing option, Indiana negotiated an availability payment P3 for one of the bridges through which a private partner would finance, build and maintain the bridge for 35 years. The states would set and collect the tolls, using the revenue to compensate the private partners. The cost of building the bridge, which is scheduled for completion next year, will be $225 million less — a 23 percent savings — than the original estimate, reported Daniels. “Most importantly, over the next 50 years, the project is expected to generate an average of 15,000 jobs a year and a total of $30 billion in personal income and $87 billion in economic output for the region.”

Another project was the Cline Avenue Bridge, which had been condemned due to structural weaknesses in 2009. The state negotiated a P3 that called for the private partner to fully finance the construction of a replacement bridge, with no risk to the government, invest $3 million in improvements to a state road leading to it and return a share of all toll revenue to the local community. Carefully devised P3 agreements like this can protect taxpayers from incurring the risks inherent in big infrastructure projects funded and conducted by the state, Daniels said.

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