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A Tale of Two States: Comparing PPPs in North Carolina and Ohio.

As states struggle to build and renew their infrastructure assets, they are increasingly turning to the private sector for solutions. States like Virginia have used these so-called public-private partnerships (PPPs) for decades to collaborate with private firms to design, build, finance, operate, and maintain certain public infrastructure facilities.

This procurement model was recently taken up for the first time by Ohio and North Carolina, with differing degrees of success.

Charlotte has outpaced the nation in job creation and is one of the top 20 metros for post-recession economic growth. Concurrently, traffic along I-77, a key regional arterial, increased by 20 percent over the last five years. To alleviate traffic along this corridor, the state requested proposals to add a new high-occupancy toll lane (HOT lane) that will give drivers the option to pay to use a congestion-free route.

Cintra, a multinational transportation company, agreed to design, build, finance, operate, and maintain the HOT lane for 20 years, in exchange for the right to collect tolls. While the state has to compensate the company if revenue falls below a certain threshold, Cintra is covering 85 percent of the projected \$650 million in construction costs and is assuming most of the risks associated with the construction and operation of the road—including maintenance on the non-tolled lanes.

The story in Ohio, unfortunately, has fewer potential upsides for the state. The Southern Ohio Veterans Memorial Highway project will create a 16-mile bypass across a primarily rural corridor that has seen decreasing population and declining vehicle miles traveled for years. The most optimistic projections indicate that using the bypass to skirt the city of Portsmouth will save drivers 16 minutes. According to the state, the primary benefits of the PPP are an accelerated construction timeline and economic growth, but the projections are vague and, according to critics, the improvements to regional connectivity will be limited.

Beyond the weak rationale for adding new highway capacity, perhaps most disturbing is that the deal puts most of the risks on the state. While the concessionaire, Portsmouth Gateway Group, bears the financial and construction risk at the outset of the project, the state is required to cover all operation and maintenance costs over the 35-year contract term. In total, the road will cost the state \$1.2 billion—much more than the originally published \$429 million that included only construction costs. Finally, the deal is structured as an “availability payment,” which means that the concessionaire gets paid regardless of how many drivers use the road.

A well-executed PPP aligns the interests of the public and private sector to deliver projects on time with better value for taxpayers. Examples like the Long Beach Courthouse in California, the I-495 express lanes in Northern Virginia, and the PortMiami Tunnel in Florida demonstrate the potential of this procurement model.

By balancing the risks between the public and private sectors, North Carolina’s I-77 HOT lanes have

a good chance of becoming one of these success stories. While it is too early to tell if Ohio's Veterans Memorial Highway will deliver on its vague promise of economic stimulus, it is clear that the structure of the PPP fails to shield taxpayers from many of the potential downsides of a project that delivers limited transportation benefits to the region.

Brookings

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