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Where Are the P3s We Need?

We ought to be doing what many other countries are doing: making far more use of public-private partnerships for infrastructure.

Public-private partnerships may seem like the latest innovative way to finance crucial public needs, but P3s have been around for a while — quite a long while. In a recent Governing Guide to Financial Literacy, Justin Marlowe describes a Revolutionary War public-private partnership as a key factor in George Washington's defeat of the British. After a grim winter spent at Valley Forge, where soldiers starved and died of disease, the Continental Congress authorized a reorganization of the army's supply system and gave private contractors wide latitude in managing the logistics.

As successful as this arrangement was early in our history, we make far less use of such partnerships today than many other developed countries do. A study by the U.S. House Transportation and Infrastructure Committee found that while more than $61 billion was spent on highway P3s in this country from 1989 to 2013, that amount represented just 1.5 percent of the costs of all highway projects completed during that period.

Why such a small percentage? Well, it isn't for lack of need. A 2015 Governing Institute survey found that half of state and local public officials believe lack of infrastructure investment is their most significant financial problem. Traditionally, governments have tapped tax-exempt bond markets to provide low-cost capital. But access to this market can be restricted for a variety of reasons, including limited bonding capacity or poor credit ratings, so P3s have the potential to bring in private-sector money to jump-start projects that might not happen otherwise. In countries that make strong use of them, P3s typically constitute about 5 to 10 percent of overall investment in infrastructure.

To be sure, there are hurdles to creating public-private partnerships. For starters, they require authorizing legislation. While most of the early P3s centered on transportation (California was first to pass legislation in 1989, followed by Florida and Missouri the next year) projects today can cover virtually every type of public infrastructure. P3 legislation varies state to state, and the National Conference of State Legislatures provides a detailed table of the specific types of authorized projects (including highways, toll bridges, buildings, and water and sewer systems) for each jurisdiction. As of this January, 33 states, Puerto Rico and the District of Columbia had enacted some form of legislation enabling P3s.

Given the gap between existing infrastructure needs and available funds, it's not surprising that a number of recent papers and reports offer analyses and recommendations to help catalyze the use of P3s. This May, the Bipartisan Policy Center issued "Bridging the Gap Together: a New Model to Modernize U.S. Infrastructure," which outlines the core principles of a new American model for investing in infrastructure centered on P3s. Those principles include public benefits identified and clearly stated; investment decisions based on a full life-cycle evaluation; project benefits, cost and risks completely accounted for and made publicly transparent; sharing by public- and private-sector partners of risks, costs and benefits; and comparing the costs of action against the costs of not investing.

In a recent paper, the West Coast Infrastructure Exchange points out that financing is just one of an entire set of project costs. The report segments these costs across the entire lifecycle of a project and describes how, through incentives, a focus on performance can integrate design, construction and maintenance responsibilities and counterbalance the higher cost of private capital to reduce overall project budgets.

That paper highlights British Columbia, with a relatively long history of using this performance-based P3 model, as a best-practice example: Since 2002, the province has completed 45 projects totaling $17 billion (with over $7 billion from the private sector). All of the projects were delivered on or before their due dates, and none had cost increases stemming from design or construction mistakes.

To be sure, developing a public-private partnership that's likely to succeed requires considerable public-sector expertise. But there is a growing body of resources available to government officials. Organizations such as the National Governors Association and the American Association of State Highway and Transportation Officials, for example, offer interactive courses and peer-to-peer workshops on infrastructure financing. The U.S. Department of Transportation offers technical assistance and resources for states. And three states — Florida, Texas and Virginia — have established dedicated agencies to help promote and evaluate P3 opportunities. Virginia has long been considered a leader in this approach, and its website is worthy of review.

Clearly there's a case for more use of P3s and other innovative approaches to meeting our growing infrastructure needs. The American Society of Civil Engineers' last infrastructure report card, issued in 2013, gave a grade of D-plus to the overall condition of the nation's infrastructure, citing conditions that are well known not only to public officials but also to the public: a backlog of overdue maintenance and a pressing need for modernization. ASCE's next report card is due out this year. Will our grade be better? If not, that will certainly drive home the point that doing nothing has a cost.

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BY BOB GRAVES | JULY 26, 2016