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Granof, Luby: P3s Won't Fix Funding Gap that Ails U.S. Infrastructure Needs.

President Donald Trump hasn't fully outlined his prescription for making American infrastructure great again, but he has called for a major dose of public-private partnerships – known as P3s. These P3s, he promises, provide "better procurement methods, market discipline and a long-term focus on maintaining assets."

True enough in some cases, but P3s are no cure-all for every public project. Despite the hype, the public-private approach does not provide new funding sources to communities, nor does it work for all types of public projects.

Most of us have seen a P3 at work in our community. The government contracts with a private company to finance, build and maintain a project – a road, for example. The company finances construction by borrowing money from banks or investors, or by issuing shares of stock. After some period, the company will turn over the road to the government. In the meantime, the company collects tolls on the road and is responsible for maintaining it. The tolls are expected to cover the maintenance, interest and principal on the debt and to enable the company to profit.

By contrast, in the more conventional arrangement, the government contracts with a private company to construct the road and finances the project by selling tax-exempt municipal bonds or pays for it with existing funds. The government is responsible for maintaining the road and for servicing the debt. It expects to cover its costs through taxes or tolls.

Think about what happens in both approaches. In both cases, a private company is contracted to do the work with financing from private-sector capital, and all of us bear the burden of cost, either through tolls or taxes. There is no "new" funding source.

P3s rearrange the risks and rewards of infrastructure projects. Under the P3 arrangement, the government does not appear to be incurring these costs, because it does not have to write the checks to pay for them. However, it is sacrificing the toll revenue collected.

The private-sector "owner" of the road bears the risk that tolls will not cover the costs, and it reaps the benefits if tolls exceed anticipated costs. But if the owner incurs major losses and is forced to declare bankruptcy, it falls upon the government to take back the project and ensure that it continues.

This situation is exactly what happened in Indiana recently when a private operator's bankruptcy filing threatened to cause significant construction delays on a partially completed road. Something similar happened in Texas with the Texas 130 toll road connecting San Antonio and Austin. Toll revenues did not meet expectations.

But P3s are not without their benefits. They can often launch without the lengthy procedures mandated by government. P3 debt is not subject to debt limitations that the government may face and does not appear on its balance sheet. In some circumstances, the private owner of the project may, in fact, be capable of operating it more efficiently and effectively than a government can.

But ease does not equal abundance. In fact, the P3 approach does nothing to solve the fundamental infrastructure funding challenge faced by governments at the local, state and federal levels. According to a 2013 analysis by the American Society of Civil Engineers, the U.S. has more than a $1 trillion gap between current funding and estimated needs for surface transportation, airports, water, wastewater, inland waterways and other infrastructure projects. In the end, it is the public that must provide the funding, regardless of the structure of the project.

Even P3 enthusiasts will admit that many of the nation's infrastructure needs are for projects that do not generate direct revenue that would make them attractive P3 candidates. Road repaving, bridge and building maintenance, school construction, and telecommunication system expansions are common projects that may not generate revenue streams collectible through tolls or other means. The conventional government infrastructure approach is probably the only viable option for these public works.

American infrastructure needs rebuilding, and P3s belong in the mix of remedies available to the government. However, clear heads realize that P3s are not a blanket cure for the nation's infrastructure ills, but rather a targeted remedy with limited effect on the larger problem – a lack of funding.

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