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When Public-Private Partnerships Fail: A Look at Southern Indiana's I-69 Project.

The United States has major transportation infrastructure needs. According to the American Society of Civil Engineers, the surface transportation sector—defined as highway, public transportation, and rail facilities—will face an investment shortfall of approximately $1 trillion over the next decade.

Public-private partnerships (P3s) are often mentioned as a solution to this shortfall.1 This idea is simply wrong. State and local government project sponsors do not lack access to financing but rather have insufficient tax revenues to repay new project debts. As the U.S. Treasury Department notes, "All infrastructure investments ultimately depend on either user fees, government tax revenues, or a combination of both."2 Government project sponsors can access low-cost financing through the municipal bond market and the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program at the U.S. Department of Transportation.3 Private financing in the form of private activity bonds (PABs) and equity capital are still project obligations that must be repaid. Simply changing the source of project debts through a P3 does not resolve the two most common restraints on government revenues: economic hardship and insufficient political support.

Public-private partnerships offer state and local governments the ability to shift project risks to a private concessionaire in ways that are not possible through traditional design-bid-build procurement. When structured properly, P3 agreements allow project sponsors to offload three categories of risk: delivery, finance, and operations.4 The private concessionaire charges a premium price for taking on project risks. A key challenge for project sponsors is determining the appropriate risk-adjusted price to ensure that the procurement is cost-beneficial. Given the nation's major need for expanded and improved surface transportation infrastructure, it is crucial that policymakers understand that risk transference through P3s is not guaranteed.

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Center for American Progress

By Kevin DeGood

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