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Road to Success is Being Paved with Public-Private Partnerships.

Ground was broken this month on an anxiously awaited highway project outside of Washington, D.C., one of the latest examples of the public and private sector acting as partners to advance critical state and local infrastructure projects.

The June 6 launch of the Fredericksburg Extension Project – a 10-mile extension of express toll lanes on the Interstate 95 corridor in Northern Virginia nicknamed the "FredEx" – featured the leadership of a public-private partnership (P3) that will get the $565 million job done by the end of 2022. The state's governor and its transportation secretary launched the project as the public side of the P3, and executives from toll-road operator Transurban would be the private side of the partnership.

"Not only will this project reduce congestion and provide important corridor improvements, but as a result of this joint commitment from our public and private sector partners, this project is also estimated to create 9,100 jobs and generate $1.1 billion in economic activity for this fast-growing region," Gov. Ralph Northam said during the ceremony, summing up the basic premise of P3s, which are increasingly being formed to push through road projects designed to ease traffic congestion in the high-growth areas where new jobs and taxpayers are clustering.

Transurban's role in the project is to ride to the rescue of cash-strapped states and other governments by financing increasingly costly and urgently needed traffic projects in exchange for operational control and the ability to collect tolls from thousands of annoyed drivers every day. The Australia-based corporation has toll roads around the world and said in its most-recent annual report that its toll revenues had increased 8 percent to more than $2.2 billion for the year.

And the FredEx is not the last the Beltway region is going to see of Transurban. The company earlier this year announced its official handshake with Virginia on another P3, the 495 Extension Project, which will add about two miles of express lanes toward the Maryland state line and will include what the state's news release termed "an extension of current dynamic tolling and traffic-management systems," and also "an investment of approximately US$1 billion by Transurban in the Greater Washington area for these projects."

A toll road is considered the classic model of a P3 because it features a visible revenue stream that will pay the private partner back for their initial investment without tapping into public funds. Tolls, however, may not be appropriate for a road that doesn't have enough daily traffic. In fact, new highway construction is not necessarily the crux of the ongoing U.S. infrastructure crisis. A greater issue is maintenance of existing highways, local streets, bridges, and ramps.

Washington and many state governments have come around in seeing the P3 model as a not only convenient means of financing, but also in many cases, the only option. There is no official tally of P3 projects underway in the United States, but it is growing into the preferred method of financing highway improvements and other daunting infrastructure projects.

A 2018 report issued by the economic consulting firm The Brattle Group noted that the 2008 recession knocked many state and local governments back on their financial heels, which led to a surge in deferred maintenance that only caused roads and bridges to deteriorate further, which adds greatly to the cost of the eventual repairs. In addition, it is not permitted to use federal highway funds to pay for routine or even preventable maintenance. The third head of this highway hydra was a clause in the Trump administration's tax-reform bill that hamstrung the ability of local governments to refinance their highway bonds at lower rates, a practice known as advanced refunding that is similar to refinancing a home loan.

Brattle said the situation has left local governments with little choice besides joining up with the private sector in a joint effort to fix up roads and bridges that won't necessarily generate enough toll revenue to pay the tab. "Although the stereotypical P3 is a toll road, P3s need not involve user fees," Brattle report said. "They can be funded instead with government revenue, just like a conventionally procured, municipal bond financed project."

That funding is basically a contracted payment schedule in which the private-sector partner bankrolls construction and is also responsible for the maintenance and upkeep in exchange for a regular payment by the public side of the P3. For example, Pennsylvania's Rapid Bridge Replacement P3 teamed the state up with a private consortium of investment and construction firms to replace a whopping 558 bridges located along rural roads throughout the state. The $899 million project will have the consortium design, build, and finance the new pre-fabricated bridges in exchange for a 28-year payment schedule from the state.

The Southern Ohio Veterans Memorial Highway in the Appalachian region of southern Ohio was built toll-free by the Portsmouth Gateway Group, which will be paid by the state to maintain the 16-mile project for the next 35 years. A similar team led by the international heavyweight Fluor Corp. was selected in May to design and build the I-635 LBJ East Project in Dallas, which includes widening 11 miles of the highway connecting Dallas with neighboring Fort Worth and then collecting maintenance fees from the state.

Proponents of P3s say the concept's ability to unleash the private sector helps speed up road construction while keeping costs down.

But Brattle's report cautioned: "Projects that enter P3 procurement must be carefully selected and contracted with a payment mechanism that allocates risks appropriately for the project and the procuring government's needs. Avoiding financial failures and political backlash will be essential to encouraging state and local governments to bring more projects for P3 procurement."

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