What's next for P3s for state and local infrastructure?

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U.S. Congressman Paul Ryan (R-WI) **recently indicated** that he thinks the states should have more latitude to use tolling to fund roadways. As chairman of the House Committee on Ways and Means, Ryan oversees the federal highway trust fund, which is due to go broke in May due to a drop in gas tax revenues.

Of course, where there's discussion of tolling, discussion of public-private partnerships (P3s) is not far behind. **According to the National Conference of State Legislatures** (NCSL), 42 states and the District of Columbia already have tolling authorities in place (as of 2013). Twenty of those states have privately operated tolling facilities.

However, major toll road concessions tend to be the domain of global mega-corporations with convoluted and (often times) controversial financing schemes. But, the state and local architecture, engineering, and construction (AEC) market is taking tentative steps toward P3 arrangements for other types of infrastructure. For example, Indianapolis is **finalizing a $1.6 billion arrangement** with Paris concern for an integrated justice facility. This is one of the highest profile contracts in what might be an emerging trend of "**social infrastructure**" partnerships at the sub-federal levels. In fact, **a whole summit** was recently dedicated to the topic.

Senior strategists for AEC firms will need to familiarize themselves with the types of P3 arrangements in play and the risks they entail. Fortunately, Brookings has done some **great work in this area**. (See Brookings chart below.)

However, given the fact that P3 failures can result in billion dollar losses for one party or the other, the debate often gets bogged down in who assumes most of the risk—the contractor or the taxpayers. Firms that seek to maximize the win-win aspect of P3s should focus on usage projections. Any public facility with a strong fee-for-service revenue stream (e.g., courts, jails, parking garages, parks, etc.) can be a target for a P3 arrangement. Yet, the long-term success of any deal will depend on complex usage forecasts based on population growth, crime rates, and so forth. Any forecast—especially one tied to political winds—looking more than a few years out becomes highly speculative.

Deltek's Take

- Even the most elegant and politically savvy P3 arrangement will fail if revenue projections based on overly optimistic usage fees come up short. Somebody will be left holding the bag.
- Contractors should seek a P3 relationship where the buyer holds enough risk to ensure honest appraisal of future usage of the facility but not so much that incumbent and future politicians run the risk of being accused of giving away the store to the contractor. Privatization watchdog groups are becoming ever-more vigilant and effective in their ability to inflict political and legal pain on parties to bad P3s.
- Taking lessons learned from past P3 failures, an emerging concept of "**availability-payment**" is intended to balance the contractor's need for compensation with the public's need for contractor

performance, but the model has only just begun to be tested in the real world.