


ROADS

to funding

Public-Private Partnerships Help States Bridge the Gap

As Congress debates funding and other issues in transportation, states are turning to the private sector to meet the needs of their communities.

By Kristi Guillory



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Transportation issues are likely to become a major focus of Congress. The current Congress will have to examine methods to deal with the deficit in the federal Highway Trust Fund, the need to develop a national infrastructure for the national highway system and ways to manage the competing needs of state, federal and local responsibilities for infrastructure construction and funding.

The next highway reauthorization law, which is due in early 2010, is expected to prompt debate about changing the funding mechanism that has paid for construction of the nation's interstate system for the past 50 years. By 2009, the Highway Trust Fund, which funds major highway projects, is projected to have a \$700 million deficit. The federal 18.4 cents-a-gallon tax on gasoline is the primary source of funding for the Highway Trust Fund, but this amount has not been increased since 1993.

Since the mid-1980s, states have been turning to public/private partnerships (PPPs) in order to supplement their transportation funding needs. The Government Accountability Office (GAO) defines public-private partnerships as "a contractual agreement formed between public and private sector partners, which allows more private sector participation than is traditional. The agreements usually involve a government agency contracting with a private company to renovate, construct, operate, maintain and/or manage a facility or system. While the public sector usually retains ownership in the facility or system, the private party will be given additional decision rights in determining how the project or task will be completed."

Many states utilize alternative sources of funding, namely in the form of PPPs, in order to accomplish needed projects. As of August 2006, 22 states have significant transportation PPP authority. These states have leveraged this authority to fund bridges, toll roads, highways and other highway projects. Of all these projects, toll roads have been utilized with the most frequency.

In 1988, Virginia became the first state to enact legislation enabling PPPs that involved highways. The Dulles Greenway was the first purely private toll road built in the United States in more than 100 years, with construction of the toll road completed in September 1995. Financing for the toll road came from a variety of both domestic and international sources: Italy's toll road operator Autostrade, the Texas-based engineering and construction firm of Brown & Root and the Toll Road Investors Partnership.

Initial traffic volume on the Dulles Greenway fell short of the forecast at the time of construction, with only 8,000 vehicles, rather than the projected 35,000 vehicles, using the facility each day. The decreased volume caused financial strain, and an Australian company purchased a portion of the toll road in 2005 for \$617.5 million.

In January 2005, the City of Chicago reached an agreement with the Skyway Concession Company, a consortium jointly

owned by MIG and Spain's Cintra, for a 99-year lease to operate and maintain the Chicago Skyway. The Skyway is a 7.8 mile tollway connecting Interstate 90 on the west end and the Indiana Toll Road on the east end of the city. The contract price was \$1.83 billion.

The consortium is required to carry out all capital improvements, and the city is required to collect and retain all toll revenues during the term of the lease. The lease agreement contains a schedule for toll increases, beginning in January 2007 through 2017. The City of Chicago plans to use the proceeds from the Skyway to repay nontransportation needs such as the city's obligations, fund operating budget shortfalls, and also fund other programs, such as winter heating assistance and homeless shelters.

In June 2006, Indiana closed a 75-year deal with Statewide Mobility Partners for the operation and maintenance of the Indiana Toll Road. The contract price for the 157-mile toll road was \$3.8 billion. While the negotiation was underway, Indiana Gov. Mitch Daniels raised the fee for the toll for the first time in 21 years. The lease agreement includes increases to the toll charges as well as a non-compete clause that prohibits Indiana from building or improving any limited access highway within a 10-mile corridor on either side of the toll road. The state of Indiana plans to use the proceeds from the toll road largely for transportation-related projects.

Current funding for surface transportation is not enough to maintain existing transportation systems, nor is it enough to meet increased demand, which is why states have turned to PPPs to fund projects. PPPs can be used to help finance new or existing infrastructure development by adding new capacity to the overall transportation system.

There are several common features of PPP agreements worth noting.

One common feature of PPPs is the length of the lease agreement, which can range anywhere from 55 years to 99 years. These long lease agreements provide potential tax benefits in the form of accelerated depreciation, normal depreciation and amortization, all of which can contribute to reducing the cost of the lease.

Another common feature of PPP agreements is a schedule for increased toll prices, which provides security to those involved in the agreement for future increased revenue.

These partnerships allow states to resolve the transportation funding shortfalls, without waiting on the federal government.

—Kristi Guillory is senior policy analyst and assistant counsel in CSG's Washington D.C. office.