Public-Private Partnerships to Revamp U.S. Infrastructure

Eduardo Engel - Yale University
Ronald Fischer - University of Chile in Santiago
Alexander Galetovic - Universidad de los Andes in Santiago
Public-Private Partnerships in Brief

• Private partner is responsible for both the construction phase and operation/maintenance phases of a project.

• Temporary ownership, large initial investment

• Key strength of PPPs is the incentive they create to minimize project life-cycle costs.

• Common problems with PPPs: demand uncertainty, renegotiations, government overspending
Dulles Greenway / Orange County 91 Express Lanes

Dulles Greenway (Virginia)
• 12.5 mile road, joins Leesburg bypass to the Dulles Toll Road,
• Opened in 1995 with 40 year concession
Demand failed to meet expectations
• Virginia widened Route 7 (untolled)
  – Concessionaire defaulted in 1999
  – Contract renegotiated: term extended to 60 years

Orange County 91 Express Lanes (California)
• $130 million project -- ten-mile electronically tolled corridor along a congested route
• Opened in 1995, 35-year franchise
Stuck in traffic for years because of non compete clause
• 1999: need for additional public lanes
  – Non-compete clause prevented capacity increase
  – Four year conflict: fair compensation?
  – Finally bought out in 2003 for $207 million
When to Use PPPs?

**Wrong Reason:**
- Relief for government budgets

**Right Reasons:**
- Screen bad projects:
  - if financed via user fees
  - and no renegotiations
- Avoids charging unrealistically low user fees
- Better and cheaper maintenance
How to Use PPPs?

Governance:
- Separate selecting/awarding projects from enforcing contracts
- Ensure that renegotiations are ‘profit neutral’

Budgetary Accounting
- PPPs should count as public debt: avoids “selling the future”

Designing the contract:
- Present-value-of-revenue (PVR) contracts and auctions
  - lower risk premium
  - Dulles: would have avoided default and renegotiations
  - Orange County Express Lanes: no 4 years of negotiations
  - avoids need for non-compete clause
Large Numbers

- Transport PPP investment, average annual growth:
  - 2006-2009: 14.5%
  - 2005-2009 or 2004-2009: much higher

- Annual transport PPP investment by 2020:
  - $34.1 billion: “conservative”, could be 10 times higher

- U.S. Maintenance Deficit: $2.2 trillion

- PVR contracts:
  - reduction in risk premium: 33%
  - better and cheaper maintenance
  - fewer renegotiations → select more efficient firms