PUBLIC PRIVATE PARTNERSHIPS

Description

A Public Private Partnership (PPP) is an agreement for a private company to fund and/or operate new and existing roadways over which a public agency normally has jurisdiction. This allows a group of private companies to perform different combinations of design, development, finance, construction, maintenance, repair, and operation. There are several different types of PPPs.

- **Comprehensive Development Agreements (CDA):** A CDA is the current method used by TxDOT to enter into a PPP. A CDA may be used for toll projects, improvement projects that include both tolled and non-tolled lanes, improvement projects in which a private entity has an interest in the project, or improvement projects financed wholly or partly with private activity bonds. A state highway subject to a CDA with a private entity is public property.
- **Design-Build (DB) and Design-Build-Maintain (DBM):** In a Design-Build, a private partner designs and constructs a project for a public agency, which in turn, is responsible for the operation and maintenance of the facility after construction. This type of PPP saves time and money.
- **Build-Operate-Transfer (BOT) or Build-Transfer-Operate (BTO):** The facility is built by a private partner as specified by the public agency. The private partner operates the facility for a specified period of time and then transfers the facility to the public agency. The length of time that the private partner operates the facility is usually determined by the amount of financing they provided. The operation period allows the private entity to collect enough user fees to realize an adequate return on its investment.
- **Facility Operations, Maintenance, and Management:** A public agency enters into a contract with a private entity to operate, maintain, and/or manage a facility. The public agency maintains ownership, and the private entity's return on investment is realized through toll charges.
- **Sale/Leaseback**: This financial arrangement occurs when the public or private owner of a facility sells it to another entity, and then leases it back from the new owner. This could involve the sale of a public facility to a public or private holding company for the purposes of limiting governmental liability or "refinancing" public bond debt. The public agency that sold the facility would continue to operate it.

Who: State
Cost to Collect: N/A
Sustainability: N/A
Reliability: N/A
Implementation: Complex

How Will This Help?

Reduces cost to the public – A Public Private Partnership allows public agencies to share costs with the private sector. Reducing the required capital for any single projects allows the dedicated transportation dollars to be stretched to encompass more projects.

Help funds keep pace with rising highway construction costs – Since 1991, roadway construction costs have almost doubled, while Texas transportation revenues have grown at a much slower rate. Engaging in PPPs would help the slower growing transportation revenues keep pace with rising construction costs**.**

For more information, please refer to: http://mobility.tamu.edu/mip/strategies.php.

Fuel tax revenues are eroded by increased fuel efficiency – Fuel tax revenues will likely decrease over time. The expected growth in population means more people traveling on the roadways and consuming more fuel. However, today's more fuel efficient cars and trucks pay lower fuel tax per mile than when the tax rates were set twenty years ago. As vehicles become more fuel efficient and alternative fuel vehicles become more common, the number of gallons needed to go the same distance will decrease. While benefits such as a smaller carbon footprint and the ability to travel further per gallon are gained, the resulting decrease in fuel consumption means less gas and diesel tax revenue raised to tackle the rising transportation needs. Utilizing creative financing strategies will help slow the effects of decreasing fuel tax revenues.

Reduce need for borrowing – Texas has increasingly turned to debt mechanisms such as bonds as a way to finance transportation improvements. Allowing the use of PPPs would reduce the amount of public capital needed and slow the growing trend of using the "credit card" to pay for roadway projects.

What's the Down-Side?

- **Some public agencies have limited power –** The Texas Transportation Code limits the regional tollway authorities' power to enter into agreements.
- **Loss of operating revenue –** Revenue generated from the operation of a privately maintained or operated facility would not solely benefit the public agency.
- **Public opposition to private ownership –** The public has been opposed to giving private companies what they perceive as an ownership interest in state roadways.

Implementation Issues

- Low cost to implement.
- Legislative action is required to implement this funding change.
- Voters/users would need to be educated regarding the costs and benefits.

Around the Nation

Thirty-one states and Puerto Rico have authorized legislative framework for PPPs, and 18 states have broad legislative authority. More than $46 billion has been invested in PPP projects in the last 2o years.

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