



P3s: Where Wall Street Meets Main Street

The Possibility of Expanding Work in the Public Interest

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Across America, governments of all levels continue to face fiscal conditions that limit their ability to provide more and better services. In these tough budgetary times, however, governments need to spur long-term economic growth by finding ways to increase, rather than curb, internal investment. With fewer resources, the public sector has turned to the business community to help make up the shortfall and expand investment beyond the amounts to which governments are already committed.

An April 22, 2014 policy brief by the Illinois Economic Policy Institute (ILEPI) investigates the pros and cons of a new method of providing public services – public-private partnerships (or “P3s” or “PPPs”) – in the construction industry.

A P3 is collaboration between the public sector and private sector on a mutually beneficial project in which decision-making, risks, and benefits are shared by both parties. The “collaborative development” structure of P3s enables governments to invest in and reap the benefits of infrastructure improvements. In the short term, the direct jobs that are created are well paying, high-road jobs. Over the long run, upgrading and expanding infrastructure increases a region’s economic growth, international competitiveness, worker mobility, and quality of life.

P3s offer substantial benefits to the public sector. P3s allow the

government to leverage private funds to increase internal investment beyond dedicated amounts; to capitalize on the managerial efficiencies, technological innovations, and skills and talents of private companies; and to provide projects of an acceptable quality at the lowest cost to the taxpayer. P3s also help foster an efficient network in which those who consume the infrastructure predominately pay for it instead of other taxpayers who do not. Finally, P3s have been found to build infrastructure slightly less expensively and slightly more quickly in both the United States and the United Kingdom.

While private contractors face significant risks, the benefits of P3s for private entities often outweigh the costs. First, infrastructure assets provide portfolio diversification for private sector actors. Annual usage volatility of “Core and Core Plus” infrastructure— such as roads, bridges, water systems, and energy transmission systems— was generally between just 1 and 2 percent from 1998 to 2008. Compared to the 16 percent volatility in the stock market, infrastructure assets are safer and more stable investments. P3s also effectively grant a monopolistic position to the private actor. Even with government regulations to curb the price of user fees, which can be collected, long-term returns are typically linked to inflation or economic growth, providing a predictable stream of annual revenues. Finally, P3s permit private

See **PUBLIC INTEREST** on page 15

PUBLIC INTEREST from page 3

entities to borrow cheaply at rates typically enjoyed only by financially solvent governments.

So far, P3s on highway projects have been shown to provide large benefits to the public sector:

- The Chicago Skyway P3 allowed the City to repay \$855 million in debt, close a \$375 million budget shortfall, save millions of dollars annually in interest payments by improving its debt rating, fund \$875 million in reserves, and invest \$100 million in other infrastructure.

- The Indiana Toll Road P3 allowed the State to contribute \$2.6 billion to a 10-year transportation plan which will have constructed 87 new roadways, resurfaced 49 percent of the state's highways, and rehabilitated or replaced 19.5 percent of the state's bridges by the end of 2015.

- The Denver metropolitan region's Northwest Parkway P3 generated \$603 million in revenues with the potential for additional toll revenues for the public agency.

P3s on potential highway projects in the Midwest are also expected to deliver significant benefits. The Illiana Expressway in the Chicago metropolitan area, for example, will support 24,000 vehicles per day. In the construction phase, the expressway will support about 3,800 construction jobs, over \$1 billion in worker income, and

more than \$2 billion in economic output. In the long run, the project will sustain at least 3,400 jobs and produce \$21 billion in GDP, well above the initial cost of \$1.3 billion. The Ohio River Bridges project in the Louisville area, as another example, is predicted to stimulate 4,200 construction jobs initially and about 18,000 total jobs per year on average over 30 years while producing \$8 billion in cumulative economic output.

P3s are justified when they allow governments to expand the delivery of public works and services of an acceptable quality at lower costs to taxpayers. To improve America's infrastructure and address potential costs of P3s to the public sector, several policy positions are recommended:



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- Governments should increase P3s, but only in "Core and Core Plus" projects. P3s in retail developments, sports stadiums, and schools have been found to be an inefficient use of taxpayer dollars, which often socialize private costs onto taxpayers.

- P3s should include Project Labor Agreements and pay the prevailing wages of the communities in which the projects occur.

- P3s should incorporate a competitive bidding process with multiple bidders. This practice limits the possibility of collusion between the public sector and a politically preferred firm.

- P3s should allow the private sector to collect user fees for the delivery of the service.

- To eliminate monopolistic practices, the government should cap user fee prices and incorporate a benefits-sharing agreement.

- P3s should include stakeholder input throughout the process to ensure transparency and accountability.

Ultimately, P3s can bring transportation efficiency gains, remove debt from public agency balance sheets, save on distortionary taxes, support thousands of jobs for workers in a weak labor market, and spur billions of dollars in economic development. ■

Collaborative Development: The Pros and Cons of P3s on Construction Projects is available at www.illinoisepi.org/policy-briefs-countryside.