Coalition for America's Gateways and Trade Corridors

The Role of Public-Private Partnerships in Freight Infrastructure Funding

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There is a growing discussion among elected officials, transportation interests, and communities concerning the appropriate role for public-private partnerships (PPPs) in financing transportation projects. This debate over transportation funding and the role of PPPs is linked closely to the fact that there is an enormous gap between available funds and the level needed to accommodate the anticipated growth in transportation demand, and particularly goods movement demand. Moreover, the large backlog of needed transportation infrastructure projects, especially those which are passenger oriented, has absorbed much of the capacity of state DOTs, thereby extending the time required to develop critical freight transportation projects.

Facing this staggering shortfall in transportation funding, traditional funding approaches have been increasingly augmented by the establishment of PPPs, which during the last five years have begun pumping larger amounts of money into the system. There appear to be significant amounts of capital, foreign and domestic, available for private financing initiatives. There are many forms of PPPs and ways for the public and private sectors to collaborate as partners to leverage scarce public resources and expedite needed transportation projects, while protecting and promoting public interests.

Members of the Coalition for America's Gateways and Trade Corridors (CAGTC) have united around the need for additional and adequate investment in infrastructure for the safe and efficient movement of goods since 2001. A safe, efficient, NATIONAL goods movement system is vital to the nation's overall well-being and global economic competitiveness.

Transportation planners at the federal, state and local levels should have access to the largest possible toolbox of financing mechanisms, strategies and options. Accordingly, there is an important, indeed necessary, role for PPPs as part of an overall infrastructure program, although they are only one piece of the total transportation financing picture.

From America's earliest transportation efforts, PPPs have played a vital role in building America's transportation network, particularly within the context of goods movement. In fact, the development of our nation's transportation infrastructure has historically been a joint venture between the public and the private sectors.

History has shown that trade gateway and corridor infrastructure in particular is well suited to financing through PPPs. In the early decades of our country, toll roads dominated land transportation. In the 1800s, private investment and public subsidies built the transcontinental railroads. In the early 1900s, private monies built and operated many ports and port facilities.

Today, marine terminals across the country, from the San Pedro Bay Ports to the Port Authority of New York and New Jersey have been developed and still operate on a PPP based model. That is, based on a defined public interest, capital is raised through public (e.g., municipal bonds) or private sources to finance infrastructure, which is then often leased to private terminal operators. In recent years, private investment has delivered substantial capacity enhancement, safety and environmental benefit with the development and operation of marine and intermodal terminals and facilities.

We are seeing an evolution of the traditional PPPs to address some of our nation's critical need for improved and expanded transportation infrastructure. As different PPP arrangements have emerged, public acceptance and response have varied widely. The Indiana toll road lease generated criticism and debate, as have similar proposals in Pennsylvania and Ohio. It is, primarily, privatization of existing assets (also called 'brownfield projects') that generates the most negative reactions. Others, especially new capacity and infrastructure projects ('greenfield projects'), have generated widespread positive reaction.

Partnership with the private sector can produce positive results for the public and national economy. For example, the PrePass weigh station bypass service for commercial vehicle operators was developed in response to a decision that federal monies would not be made available for Intelligent Transportation System deployments even though the technology was a product of public research and development funds. The weigh-in-motion technology allows credentialed vehicles to avoid time-consuming stops at weight stations, while reducing backup bottlenecks and idling emissions and improving safety by allowing inspectors to focus on those carriers most likely to be non-compliant. Today, PrePass is offered in 28 states through a PPP in which state officials and motor carriers sit as equal partners in setting operational policies. PrePass has resulted in expedited deliveries, reduced environmental impacts and enhanced safety incentives.

A well known project, the Alameda Corridor, illustrates how private monies can assist new capacity, more efficient freight movement, improved safety, reduced community impact, and improved air quality. The Alameda Corridor - East corridor extends these same benefits over an additional 282 miles of freight mainline corridor through a funding collaboration of cities, counties, private railroads, state government, and the federal government funding.

The common theme in these examples is the leveraging of public dollars and a quantifiable public benefit with little or no diminution of the utilization of the asset, which may be the key to gaining popular support. Examples abound that demonstrate how market forces and private investment can help control the cost of transportation projects, optimize facility utilization, accelerate completion and corresponding delivery of project benefits beyond that possible if only traditional financing strategies were used.

Large, usually complex freight mobility projects are well suited to public-private partnerships. In fact, in most instances a strong private sector role is a necessity. The entire supply chain – highway, port and marine terminals; rail infrastructure; private ocean, rail and trucking companies; not to mention the ultimate customer – the beneficial owner of the cargo – includes both public and private sector stakeholders. Ownership of the transportation infrastructure involved in any given project is often both public and private.

Unduly restrictive policies and regulations on PPPs could constrain important freight infrastructure such as intermodal facilities, NHS connectors, highway/rail grade crossings, new highways or toll bridges, from going forward.

However, PPPs should not be viewed as a replacement for traditional public funding approaches. PPPs will likely, for the foreseeable future, constitute a small percentage of overall transportation infrastructure projects, including freight mobility projects. Further, there must be guidelines and transparency requirements, which protect the public from transportation asset transfers that result in monopolistic abuse. These guidelines must also preserve the integrity of the transportation planning process through state agencies and regional planning organizations.

As this century progresses, we may very well find both the public and private sectors playing different roles in the development and operation of transportation infrastructure, with each sector moving closer to the middle in partnership. For example, public ports may find that in helping state DOTs implement critical transportation infrastructure "outside the terminal gate," freight movement "inside the terminal gate" may also improve.

Many freight mobility projects necessitate public-private cooperation to facilitate multi-modal efficiency. Therefore CAGTC offers the following recommendations to public policy makers as they consider possible legislation affecting PPPs.

- The development of new capacity is essential, whether developed through traditional funding approaches or PPPs.

- The precise circumstances surrounding each potential PPP arrangement are not the same. Each should be evaluated on its own merits.

- Revenue streams from investments should remain fair, equitable and fully transparent.

- Revenue from asset sales, leases or concessions should be reinvested in transportation projects, not diverted to other areas.

- The maintenance of our transportation infrastructure is also vital and, where appropriate, PPP approaches may offer public benefit by expediting repairs, improving operating performance and lowering costs.

- Laws and regulations should encourage and facilitate private participation in complex freight projects, especially with respect to encouraging cross-modal linkages.

- There should be a strong concurrent effort in state capitols to educate policy makers and train state DOT staff and other relevant transportation agency professionals in the range of issues attendant to the development and negotiation of successful PPPs.

- During the next surface transportation reauthorization, public policy makers should establish a new, stable and dependable Federal Freight Trust Fund or separate and firewalled account within the federal Highway Trust Fund dedicated to freight. The 2009 reauthorization should also expand federal innovative financing and encourage maximum private participation, particularly for ‘greenfield’ and new capacity projects.

- Public and private benefits should be measured for each PPP. The private standard should accurately project “return on investment,” reflecting the fact that the private sector is in fact ready to pay for value received, while the public standard should focus on measurable public benefits (such as congestion relief, safety, energy savings, carbon pollution reduction, etc.).

- Transparency in the planning and development of any projects is essential, with justification, implementation process and public benefits all made clear. PPP projects should include a public education and outreach strategy.

There is room for both traditional funding and PPPs. The history of freight mobility in America has demonstrated how partnerships can add capacity, free federal funds for other projects and concurrently improve system efficiency, safety and air quality.