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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

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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 contract s
– 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

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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

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