

# InfrastructureUSA

Guest on THE INFRA BLOG

**Andrew Curtis Right, Executive Director, Build America Transportation Investment Center (BATIC)**

**Conversation with Steve Anderson, Managing Director, InfrastructureUSA**

## **Public Private Partnerships Are For Financing, Not Funding**

DOT realizes that each project is unique, and some are better suited than others for a P3 structure. Every project sponsor should be able to assess their project's options and utilize the best delivery method available. P3s are procurement- and financing-type projects, not necessarily funding-type situations, and so at DOT we are working to provide the training, tools, and resources to help sponsors make the assessments that could lead to an increase in the pipeline of potential P3 deals. So not every project is suited for a P3. You can look at it in a couple ways. It may increase the financing cost over time, but ideally P3s can shift the risk so that cost overruns flip to the private sponsor and frankly in a lot of cases the private sponsors have given enough flexibility in the way they're allowed to bid, can come up with much lower numbers than if the sponsor or the public sponsor had scoped out the project and said that this is what we want you to do. So that is one way to look at it. The other way to look at it is in recognition that private investors need a return. The DOT has numerous federal credit programs that are at below market rates, which allow you to offset some of those extra costs if you utilize those federal credit programs. So you can actually get close to cost parity and then you've got all the advantages of the P3s outside of that.

## **How Private Capital Can Help Public Projects**

If you're going to build a road today you've got to bid out the contract, and someone has to pay for it. And in the past the money has typically come from the Highway Trust Fund, or from the federal government, or from state and local taxes, et cetera. Going forward, the issue is a P3 really involves a different layer of procuring and risk sharing, and effectively of financing, where the state or the municipality or the sponsor doesn't have to pay up front as part of a contract, but they may pay over time in terms of availability payments or they may concession something out. Ultimately what that is is just paying over time or financing, as opposed to funding, because the state or the sponsor still has to find the dollars from somewhere. Now that can come from tolls, or adding tolls or increasing tolls, or it can come from availability payments that ultimately come out of the state budgets, or it could come out of payments from the Highway Trust Fund. But the point is there's still a finite number of dollars there today, and you still have to figure out how to get more dollars into it to get these things done. Now you don't need as many dollars today if you're going to finance it over time, but you're still going to need the fact for that money to be there over a long term or else you're not going to be able to put in place a P3 or a financing that's going to get you the asset built up front.

### **What's Keeping Us From Using More P3s?**

I think the biggest obstacle really is a lack of comfort with P3s and the increased risk public sponsors perceive with P3s. So we're making a concerted effort here at BATIC to address this through increased training and project-specific assistance. Another obstacle is being able to assess the value for money proposition, and quantify all the non-financial benefits of the P3 structure. Sometimes the lowest bid isn't the best overall value, so at DOT were working on a user friendly model to help with this kind of analysis. And finally I would just say it's going to take some time. As people do one P3 and get comfortable with it they'll do another, and another, and some P3s take 5 years to even complete. So you really are looking at a multi-decade sort of transition before you start to see P3s, in my mind, becoming really actively used in all the states. And the other piece of this is a third of states don't even have P3 enabling legislation right now. So that's another issue.

### **BATIC: Making Innovative Financing Mainstream**

The Build America Transportation Investment Center serves as a single point of contact and coordination for states, municipalities, and project sponsors looking to utilize federal transportation expertise, apply for federal transportation credit programs and explore ways to access private capital in public private partnerships. So BATIC addresses the procedural permitting and financial barriers to increased infrastructure investment and development by intervening earlier in project life cycles, actively helping sponsors navigate and accelerate the often complex federal permitting and procedural requirements, centralizing project coordination, and cultivating public private partnerships—or P3s. So BATIC's main goals over the next year are really to expand, innovate, and deliver. So we think about that as expanding the use of federal transportation credit programs such as TIFIA and RRIF, innovating new approaches to project development processes and funding challenges, and institutionalizing technology and best practices across credit programs and modal teams, and delivering streamlined technical and financial assistance to accelerate project delivery. We've had an enthusiastic response from the industry since the official launch of BATIC 2.0 in late September. We're actively engaging at industry conferences, events; we have an open-door policy for those interested in coming in and meeting our team. And so far we're fully engaged in a number of projects, different life-cycle stages, from scoping to final credit. We're also engaging the state governments, providing capacity-building opportunities through the BATIC Institute, which is under a cooperative agreement with AASHTO. We feel like the responses have been very good so far, and on a good trajectory. We think that we obviously will look to improve and increase the opportunities to get things out there in the future.

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