CONGESTION PRICING: PUBLIC PRIVATE PARTNERSHIP

DOT believes that PPPs are integral to the long-term re-thinking of how the United States provides highway and transit infrastructure. Unlike traditional approaches to funding and procurement, which do little or nothing to address increasingly evident policy failures, PPPs offer an innovative alternative that responds to the failures of status quo approaches:

Chronic undercapitalization: Since PPPs are long-term investments, investors are more likely than governments (who are subject to annual budgetary pressures) to sufficiently capitalize a transportation asset up front in order to reduce operating and maintenance costs over the life of the asset.

Congestion/declining system reliability: Private operators have strong incentives to ensure high levels of throughput (and speed), because more vehicles equals greater investment returns.

Misallocation of investment resources: Private investment is research-based and follows demand, not political influence.

Accountability to the user: Private infrastructure providers typically provide higher levels of customer service.

Accountability to the taxpayer: Users pay directly for the benefits they receive and subsidies are transparent and justified.

Faster project delivery: Investors cannot afford to have capital tied up indefinitely so construction and design delays are avoided.

Need for system expansion and reconstruction: An increasing portion of state transportation dollars support preservation and maintenance of the existing system, leaving an unfilled gap to expand or reconstruct.

The private sector designs and constructs the vast majority of surface transportation projects in the United States today. The question is whether PPPs can successfully transfer risks from the taxpayer to the private sector more comprehensively than can be done through traditional procurement. State and local authorities are enthusiastic about PPPs because they reduce costs, accelerate project delivery, transfer project risks to the private sector (including design, construction, financing, operation, and maintenance risks) and provide innovative and high-quality projects. Projects that can't be done using traditional approaches to funding and procurement may be viable as PPPs.

Since 2004, more PPPs for surface transportation facilities have reached commercial and financial close than during any comparable period in U.S. history. These projects include long-term concessions to operate and maintain existing toll facilities, and long-term concessions to design, build, finance, operate and maintain new capacity or capital improvements. There are more than 20 major PPP projects currently at various stages of procurement in the United States.

Congress and DOT have undertaken a number of initiatives to increase the role of the private sector in highway and transit projects, including the establishment of the Private Activity Bonds program for highways and freight facilities, the TIFIA program (which was updated in 2005), Interstate Tolling programs, the SEP-15 program, and FTA's Public-Private Partnership Pilot Program.

While there are risks in PPPs, including risks of monopoly pricing, corruption, institutional inexperience, lack of sufficient competition, and others, these risks are manageable and can be mitigated by creating well-balanced PPP programs, performing rigorous due diligence before committing to projects, and carefully negotiating concession agreements. Best practices will continue to be developed as more and more PPPs are procured and State and local jurisdictions explore and implement innovative solutions that manage these risks.

U.S. Department of Transportation

1200 New Jersey Ave., SE
Washington, DC 20590