Oregon Department of Transportation

OTIG Oregon Transportation Improvement Group

OREGON INNOVATIVE PARTNERSHIPS PROGRAM

The Power of Public-Private Partnerships

Background

In January 2006, the Oregon Department of Transportation (ODOT), under the Oregon Innovative Partnerships Program (OIPP), signed a Public-Private Partnership (partnerships) agreement with the Oregon Transportation Improvement Group (OTIG) to deliver new transportation infrastructure projects to the state.

What is a Public-Private Partnership?

A Public-Private Partnership is a long-term contractual agreement between a government agency and a private partner for the delivery of goods or services. As partners, each party shares in the potential risks and rewards inherent in the delivery of the goods or service, including financial risks and responsibilities, and quality assurances for the taxpayer.

Public-Private Partnerships are not privatizations because the government entity involved in the agreement retains control and ownership of the project. In fact, partnerships under the Oregon Innovative Partnerships Program are no different from the way in which many other essential services are already delivered in Oregon, like electricity and gas utilities, which are largely developed and managed by a private partner but operated under governmental regulation.

Different Kinds of Partnerships

There are many different kinds of Public-Private Partnerships with varying levels of private sector involvement. The most common is called a Design-Build-Finance-Operate (DBFO) transaction, where the government grants a private sector partner the right to develop a new piece of public infrastructure. The private partner takes on full responsibility and risk for delivery and operation of the public project against pre-determined standards of performance established by government. The private-sector partner is paid through the revenue stream generated by the project, which could take the form of a user charge (such as a highway toll) or, in some cases, an annual government payment for performance (often called a "shadow toll" or "availability charge"). Any increases in the user charge or payment for performance are typically set out in advance and regulated by a binding contract.

Guaranteeing the Work

In a Public-Private Partnership, the government keeps control over the quality of public infrastructure in a number of ways:

- The government typically owns the infrastructure (this is the case in Oregon), while the private-sector has a lease or a right to use the infrastructure, which expires at the end of the contract agreement (sometimes referred to as a "concession" or "franchise").
- The government establishes the performance standards and penalizes the private-sector partner in the event standards are not met.
- The government establishes the user charges and terms on which the public can access the infrastructure.

Advantages of Public-Private Partnerships

When ODOT delivers new highway projects without using a Public-Private Partnership it would typically:

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- Employ and take responsibility for private-sector consultants who would design and engineer all or part of the road and then bid construction to a private-sector company. Taxpayers would bear the responsibility of any budget overruns or delays.

- Issue a bond to private-sector investors to finance construction; taxpayers would be responsible for repayment of interest and principal.

- Take responsibility for operating and maintaining the facility, elements of which might be contracted out to a private company. Again, taxpayers would bear responsibility for any quality defects or unexpected problems.

By entering into a Public-Private Partnership, all of these activities are integrated into one long-term contract with a private-sector partner to the advantage of the taxpayer.

- **Project acceleration.** Projects can be delivered years ahead of when they might otherwise be available. There are often stipulations that construction is completed on time and within budget, thus shielding taxpayers from cost overruns and delays.

- **Cost-effective design and construction.** The private partner brings the efficiencies and innovations of the private sector to the job—because funding is available up front, major infrastructure projects do not have to be phased in as funds become available, thus greatly reducing overall cost and time. Additionally, the design meets the performance standards at the lowest possible construction cost, and this can result in significant cost savings compared to traditional methods.

- **Risk and responsibility.** The private partner takes the responsibility and risk for interest rates and repayments, lifting that burden from taxpayers. The private partner is also responsible for all maintenance and operations in accordance with standards set by the government.
- **Users pay.** Users, rather than taxpayers, pay for what they use. Thus, those who benefit most from the project pay for it with tolls, thereby freeing up tax dollars for other projects and needs.

Why Are Innovative Public-Private Partnerships Important for Oregon?

Like most states, Oregon's growing economy and population is dependent on a sound, safe and reliable transportation infrastructure. Unfortunately, like most states, Oregon's interstate highways are nearing 50 years of age, and many of its roads and bridges are much older and in need of replacement, retrofit or reconstruction. In addition, growing traffic congestion in urban areas calls for new ways to wring more capacity out of the existing infrastructure.

Innovative partnerships have proven to be an effective way to bring private capital and expertise to the solution of pressing public problems.

- Over $26 billion in Public-Private Partnerships have been completed in the United Kingdom over the past 15 years.

- The concept of Public-Private Partnerships, especially for highway projects, has been embraced throughout the United States. There are now a number of successful examples, including the DBFO for the South Bay Expressway in San Diego, CA; Dulles Greenway in Virginia and the recent grant of concessions for the Chicago Skyway and the Indiana Tollroad. Other partnerships are in the works, notably in Texas and Virginia.