

## MYTHS AND FACTS ABOUT TRANSPORTATION PUBLIC-PRIVATE PARTNERSHIPS

**Myth: PPPs Bring New Revenue to Transportation** – When a private firm agrees to provide up-front money to build a new toll road, they are basically providing a long-term loan. That loan must be paid off, generally through tolls. Government has the same ability to issue debt, albeit at a lower cost.

**Myth: PPPs Allow Governments to Avoid the Need to Find New Transportation Capital Revenues** - All new toll roads will require a public subsidy. A self-financing toll road can exist only where there are no free alternatives because a tremendous amount of traffic will be required to pay a significant toll in order to fully cover the costs of construction and operation of the highway. There are no highway corridors with significant traffic demand in the United States that are not already served by an existing road, which will be utilized to its maximum extent if toll rates on a competing road are too high.

**Myth: PPPs Will Cost Less than Publicly Financed Projects** – Private firms have higher long-term borrowing costs than public entities. According to one investment bank analysis, public sector costs for raising capital through debt are a full 35% less than the lowest cost that a private entity can hope to obtain. Government borrowing costs are lower because the government can issue tax-free bonds and bond traders are willing to accept lower interest rates on public bonds. These higher costs are passed on to motorists in the form of higher tolls – according to one analysis 20-30 percent higher than if the toll road was publicly financed.

**Myth: Privately Operated Roads Offset Cost Increases Through Efficiency Gains** – Relatively minor cost savings can be achieved by avoiding costs due to public-sector labor rules; even private sector toll road operators admit these savings are relatively minor, especially when compared with the much higher financing costs. Most operational savings are achieved through modernization of revenue collection (e.g. EZ Pass transponders). However, public and private sector operators are equally capable of adopting and utilizing these technologies. Furthermore, if there are efficiency gains from, for instance, outsourcing maintenance, this could easily be done within a publicly controlled agency.

**Myth: PPPs Have Been Used Successfully Around the World and Can Work in America Too** – While PPPs are common in Europe, Australia, Latin America and elsewhere, they are utilized out of necessity, not choice. No other country in the world enjoys the benefits of a federal Highway Trust Fund (and similar state funds) with revenue dedicated to funding transportation projects. In this regard, the U.S. is the envy of the world. Other countries have been forced to turn to PPPs due to a lack of dedicated funds and limited government borrowing capacity. Where PPPs have been used, they are very different to the U.S. experience. Such deals tend to be shorter (typically 25-40 years); the public sector retains much greater control; toll rate increases are smaller; and governments share in the revenue.

**Who are These Guys?** – Companies that finance PPPs are mostly foreign (primarily European and Australian) banks and infrastructure management firms. However, U.S. equity firms and pension funds have begun to take an interest. It is important to understand that the bottom line for these investors will always be the bottom line – they are interested in profits, not mobility, and the public interest will always be trumped by their responsibility to provide shareholders with the maximum return on investment.