Lesson Three: Should Highways be Financed and Funded by Public-Private Partnerships?

Value Conflict Warm-Up

Background: The final class activity is going to be a Highways Financing Options Case Study that asks you in a small group to evaluate four different options for funding, financing, operating, and maintaining a new, 25-mile section of highway. The activity requires you to make value judgments about the roles of government and private enterprise. This warm-up activity prepares you for that challenge.

Task: Use the scale below to state your opinion about the following eight statements.

A = Agree B = Uncertain C = Disagree

_____ 1. If the government doesn't have money to build a highway, the highway should not be built. I am not going to use it anyway.

_____ 2. When the government is unable or unwilling to pay for a needed highway, it should seek private funding.

_____3. Government highway projects are often over budget, inefficient, and not on time. There is no financial reward for good work and no financial loss for poor work.

_____4. A state highway is a necessary public good that should be available free for all citizens to use whether they are rich or poor.

_____5. I think the public will get more value for their money if they limit the role of government in highway design and maintenance and encourage private enterprise.

_____6. I think new highways should be funded by the drivers who use the highway with tolls rather than general tax funds. It is only fair.

_____7. I like the idea of turning over the ownership of state highways to private companies to take advantage of their industrial expertise and on time delivery record.

____ 8. Government should raise taxes high enough to obtain the revenue needed to provide high quality, free highways for all citizens.

Public-Private Partnership Worksheet Draft

Definition: Public-Private Partnerships (PPP) are contractual agreements between a government agency and a private sector entity that allows for greater private sector participation in the delivery of public infrastructure projects.

The private role in a PPP might include planning, financing, funding, designing, construction, operation and maintenance.

Task: Meet with a partner and brainstorm potential advantages and disadvantages for Public-Private Partnerships. Try to come up with at least two advantages and two disadvantages.

Potential Advantages of Public-Private Partnerships Include:

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Potential Disadvantages of Public-Private Partnerships Include:

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Final Public-Private Partnership Worksheet

The combination of enormous infrastructure needs and scarce government financial resources has led to increased interest in a method for financing and managing public infrastructure called Public-Private Partnerships. Public-Private Partnerships (PPPs) are contractual agreements between a government agency and a private sector entity that allows for greater private sector participation in the delivery of public infrastructure projects. The private role in a PPP might include planning, financing, designing, construction, operation, and maintenance.

There are many variations of PPPs, some being very complex arrangements. Below are three examples to illustrate different forms:

1. A city government contracts with a private company to build and manage a city water treatment plant. The city owns the plant but leaves the management and maintenance completely to the private company.
2. A state government contracts with a private construction company to finance, build, and maintain a section of a state highway.
3. A city government contracts with a private construction company to build a sports facility and manage its maintenance.

Potential advantages of PPPs for infrastructure development include:

1. Ability to obtain funding unavailable to government through taxation.
2. Incentive to complete projects on time without repeated cost escalations.
3. If managing project maintenance, strong incentive to do high quality construction.
4. May offer greater technological innovation.
5. Can transfer some or all project risk from pubic sector (government) to the private sector.
6. Don't have to raise taxes or divert government funds from other social needs.

Potential disadvantages to PPPs for infrastructure development include:

1. May be more expensive because government has lower borrowing costs.
2. May be more expensive because the private organization needs to earn a profit to compensate for assuming project risk.
3. Project may cause political protest because of opposition to profits from public infrastructure.
4. Some PPPs have failed, gone into bankruptcy, forcing government to take over project, and assume all risk.
5. There may be conflict between public interest and desire for maximum profit.

Highway Funding Options Case Study

Tasks: You are a member of a small consulting group hired to select one of the options listed below for the state government to use to build a new, 25-mile section of highway. In your group, discuss the strengths and weaknesses of each option and then vote on one to recommend. Also, select someone to present your recommendation and your reasoning to the class.

Background: Public-private partnerships have recently become an option for the building and managing of new roads. This case study includes four possible options for building a new section of highway. One is a traditional government option and three are variations of public-private partnership approaches.

Option A: Traditional Government
Government uses revenue from taxes to finance, fund, build, and maintain the new section of highway which will not have tolls. There is some uncertainty because tax revenue is dependent on the strength of the economy and the need for legislative approval.

Option B: Performance Based Private Contract
Government contracts with a private company to build and maintain the new section of highway. Performance standards are set with financial bonuses if the company exceeds standards and penalties if it fails. The private company cannot charge tolls. Government pays for everything and assumes all the traffic demand risk.

Option C: Tolls with Guaranteed Private Contract
Government and a private company contract to share the risk of building and maintaining the new section of highway. Government agrees to provide additional financial support if cost estimates prove to be too low. Tolls will be charged to users of the highway with government regulation of the toll price over time. If highway use is too low for the private company to make a reasonable profit, government will reimburse the private company.

Option D: Tolls with No Guaranteed Private Contract
Government contracts with a private company to finance, fund, design, build, operate and maintain the new section of highway for 35 years. Private tolls collected from the users of the road will finance the design, building, operating and maintaining of the highway. No government money will be used. The private company will use the laws of supply and demand to set the toll prices. All risk for success or failure rest with the private company. After 35 years, the government takes back control of the highway section from the private company.