

U.S. Contractors and Long-Term Public-Private Partnerships (P3s)



Some U.S. construction firms think long-term P3s are unfair to them, with state departments of transportation (DOTs) contracting with international companies. They also fault DOTs for not selecting contractors based on the lowest bid. A new study explains the differences between traditional construction and long-term design-build-finance-operate-maintain (DBFOM) P3s.

1. DBFOM projects are different from traditional design-bid-builds:

- ❖ A single team is selected to design, build, finance, operate, and maintain a major project for a long term (e.g., 50 years).
- ❖ Most highway DBFOMs are financed based on user-fee revenue, not state transportation funds.
- ❖ To be selected, a P3 team must demonstrate experience with DBFOMs.
- ❖ Selection is based on best value, including life-cycle cost, not only initial construction cost.

2. DBFOM projects yield important benefits:

- ❖ Long-term financing means major projects get built sooner.
- ❖ Many megaproject risks are shifted from taxpayers to investors.
- ❖ Long-term stewardship ensures proper ongoing maintenance.
- ❖ DBFOMs minimize life-cycle cost, rather than only initial cost.

3. Anti-P3 arguments are bogus:

- ❖ Initial construction costs might be higher, but life-cycle costs are lower.
- ❖ Risk transfer reduces costs to state DOT/taxpayers.
- ❖ Long term contracts do not tie a DOT's hands, due to early-termination provisions.
- ❖ Private financing may lead to revenue sharing with the DOT (as in Texas and Virginia).

4. U.S. companies are involved in P3s:

- ❖ For 18 DBFOM projects, eight involved U.S. design-build contractors.
- ❖ Local subcontractors averaged 54% of project budgets, with 260 subs per project.
- ❖ U.S. DB contractors are gaining the experience needed to qualify for DBFOM projects.

5. Revenue-financed projects expand a state's construction market:

- ❖ A \$1 billion highway project done as a DBFOM P3 with 90% revenue-based financing enables the state DOT to get a \$1 billion project for only \$100 million.
- ❖ This increases the number of construction projects the state DOT can fund.

Takeaway: U.S. contractors benefit from P3s

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