Everything Jersey

P3s ease the burden of infrastructure fixes

Published: Friday, October 29, 2010, 6:43 AM

Star-Ledger Editorial Board

By Mike McNally

The cancellation of the nation's largest public works project — the $9 billion-plus ARC rail tunnel connecting New Jersey and New York — is the most glaring example of the financial struggle this nation faces to build much-needed infrastructure improvements.

Government officials on both the local and federal levels are rightfully concerned that taxpayers will bear the burden of cost overruns. However, there is way around the problem. It's called a public/private partnership. P3s, as they are known around the world, essentially allow the private sector to fund, build, own and maintain large-scale infrastructure projects such as tunnels or turnpikes.

The concept, similar to how utilities do business in the United States, has been popular for at least 20 years in Europe. The Swedes have used P3s to fund wind projects. In the United Kingdom, they have been employed to build 800 projects since 1992, including power plants. In Poland, they are building a public hospital. Now, other parts of the world are embracing P3 opportunities. In Chile, which has a strong economy, instead of spending money on roads, the government is investing it in health care, with great success, and leaving transportation to the private sector, easing congestion, improving safety and modernizing travel.

Until recently, the United States has been late to embrace public/private partnerships because we have long been told that it's the government's job to provide basic services, such as laying highways. But the railroads were built by private companies. Our electricity, gas, telephone and television are privatized and regulated.

But what has been a foreign concept is now taking hold in Florida, where two highway projects are under way; Texas, with two massive roadway deals executed this year; and Virginia, where private companies are rebuilding the Capitol Beltway, as well as the Midtown Tunnel beneath the Elizabeth River connecting Portsmouth to Norfolk. All are P3 projects.

Fundamentally, a P3 involves the procurement of a public service (such as a toll road) by the private sector on a long-term contractual basis, usually lasting anywhere from 20 to 50 years.

The private sector executes and manages the finance, design, construction, tolling, traffic management, operations, maintenance, safety and sustainability efforts that deliver cost-efficient assets to government, without raising taxes. At the end of the contract period, the facility, and management of it, is handed back to the public sector at no cost.

By developing public/private partnerships, government provides incentives for quality work and demands accountability for operations and maintenance. Through a performance-based contract, P3 projects remain mostly controlled by the government, which can fine or fire a developer throughout the contract if it fails to perform. Private firms have every incentive to build and operate the asset with maximum care to make the partnership with government work — and keep the public happy.

Increasingly, municipalities understand the value and promise of P3s. About half of all states, including Georgia and New York, have enacted legislation that permits public-private initiatives on state projects. But the private sector must also come to the table with the leadership and expertise necessary to complete one of these projects, along with a solid business case based on value for money. There must be transparency on both sides, along with a genuine partnership between the government and the private entities.

Although Gov. Christie rejected the idea of a P3 offer from an investment team, indicating he did not want to pay interest to take back the tunnel, there are many ways such deals can be structured to absorb costs from taxpayers.

As more and more municipalities face these tough decisions, we urge them to consider a public/private partnership for the sake of the economy, the environment and a public benefit to commuters who now bear horrible congestion that impedes business growth and diminished quality of life.

We all understand the reality that government simply cannot afford to pay for our growing infrastructure needs. Right now, there is a $2 trillion need for infrastructure development. The good news is that there is about $190 billion in available private capital ready to invest and create more than 1.5 million jobs nationally. P3s are the right answer, at the right time.

Mike McNally is president of Skanska USA, which has completed 19 public-private partnership projects, including toll roads, hospitals, schools, water treatment plants, hydro-power and prisons.

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