# Public-Private Partnerships CP

## 1NC

### Partnerships CP – 1NC

#### Through public-private partnerships, the United States Federal Government should provide \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to areas in the United States in which private actors will guarantee at least one-half of the funding for a minimum of twenty years. In negotiating these partnerships, the United States Federal Government will open infrastructure plans to modification, including the possible transfer of project ownership to private actors when appropriate, and will require infrastructure built by private actors to meet performance criteria.

#### That proposal works

Puentes, senior fellow at the Brookings Institution, 8/23/2010

(Robert, “New Partnerships for Accelerating Infrastructure Investments,” Testimony for Mayor of Los Angeles and Senator Barbara Boxer, http://www.brookings.edu/research/testimony/2010/08/23-los-angeles-puentes)

So as Congress continues to develop its plans for the reauthorization of the nation’s surface transportation law it should **support metro areas that raise their own revenue** for the long term. **Though a new partnership**, **the federal government should provide incentives to metropolitan areas that secure long-term and substantial regional funding sources approved for a minimum of 20 years and that equal a** significant (one-third to **one-half**) **portion of** the **annual** federal transportation **funding** received. As to the incentives, a possible menu of options might include: more direct funding to metropolitan planning organizations (MPOs), more flexible “mode neutral funding,” more streamlined planning processes, more direct reporting to federal agencies, and reduced bureaucracy.[7]

#### Requiring commitments upfront brings forward billions in private funding – even with enforceable performance criteria

Cooper Donna Cooper is a Senior Fellow with the Economic Policy team at American Progress. 12 (2/16/12 “Meeting the Infrastructure Imperative An Affordable Plan to Put Americans Back to Work Rebuilding Our Nation’s Infrastructure” <http://www.americanprogress.org/issues/2012/02/infrastructure.html>)

Improving how the government approaches planning for, paying for, and financing infrastructure can **increase the impact of every dollar spent and result in higher levels of private investment**. Given that so much of this plan relies on more private-sector investment, the reforms necessary to attract this level of investment are essential to achieving our goal. If the reforms we propose are adopted, CAP projects that **nearly $60 billion per year in private investments could materialize**.

We estimate that most of the new private-sector investment will be directed in the energy sector. With carefully calibrated federal incentives including loans, loan guarantees, grants, and tax credits, we estimate that as much as $40 billion in new annual private investment will enable the build-out of the smart grid as well as expanded renewable energy generation and distribution capacity to desired levels.

**The balance of the private investment is likely to occur in the transportation sector**. In this sector, **new private investment will most likely occur** through the formation of new entities **where the public sector and private sector join forces to undertake large-scale infrastructure improvements financed with private capital** and where the projects generate revenues that can pay back private investors while the private investor and the government share the risk of the project being financially viable. The most likely candidates for this approach to financing are airports, ports, inland waterways, new tolled roads, some existing roads that might be tolled, and tolled bridges.

**To reach the desired level of upfront private investment**, the **public must have a deeper understanding and trust that** the government and **private partners jointly share the risk** and responsibility for a high-quality infrastructure. These models will need to rely on creative partnership structures that offer private investors the opportunity to earn a rate of return beyond interest on their investment. Likewise, partnership agreements need to ensure that the taxpayers are assured that **high expectations of performance must be met and are enforceable**, users are not exploited to cover costs and profits, risk is appropriately shared among all parties, and workers are not shortchanged in an effort to maximize profits.

#### That avoids politics and tradeoff

Cooper Donna Cooper is a Senior Fellow with the Economic Policy team at American Progress. 12 (2/16/12 “Meeting the Infrastructure Imperative An Affordable Plan to Put Americans Back to Work Rebuilding Our Nation’s Infrastructure” <http://www.americanprogress.org/issues/2012/02/infrastructure.html>)

Private investors have partnered with state or local governments to build roads, expand highway systems, and build or repair bridges. Typically in this case **the private investor pays the public entity upfront an estimated market value for the transportation asset**, and then is required under an agreement to cover the cost of improving the asset. In addition, these agreements permit the investor to charge tolls or receive dedicated tax payments while also establishing clear maintenance requirements. Investors enter into these agreements where the tolls or dedicated taxes are projected to cover all costs and profits and are most attractive to investors when the level of earnings has the potential to exceed projections. Federal credit subsidies lower the overall project costs, which in turn reduces the pressure on tolls and/or dedicated taxes, which then has the positive results of **making a project more politically and financially feasible**.

#### The CP spills over – federal government is a model for all infrastructure projects

Marks, guest editor of *Infrastructure Journal* and partner in Milbank Tweed Hadley and McCloy’s Global Project Finance, 4/11/2011

(Allan, “U.S. Infrastructure: Challenges, Politics and Opportunities,” http://www.milbank.com/images/content/6/6/6634/MARKS-US-Infrastructure-Infrastructure-Journal-04-11-2011-.pd.pdf)

The federal government through TIFIA today provides not just a source of funding for infrastructure projects but also general **expertise in the PPP area**. **This knowledge is largely wasted and should be** compiled and **disseminated in a more coherent way**. No national center of expertise exists in the United States (compared to, say, Canada or the United Kingdom) to foster PPPs. Because the federal government has the experience of witnessing infrastructure deals made across the country, it is in an ideal position to accumulate best practices. Complete standardization of the types of deals that merit approval based on a “value for money” analysis or other rubric would not be desired. Regional experimentation and innovation are critical. However, at a minimum, identifying best practices and **establishing model templates** and suggested procedures for state and local governments would streamline the PPP procurement and contacting process and **avoid having to reinvent the wheel each time new enabling legislation or a new project at the state or local level is on the table**. Aside from providing expertise on the PPP process in general, **the federal government can facilitate the building of infrastructure by stepping up its role** in encouraging states to look more seriously at PPPs. While TIFIA has sometimes been the last resort for states that have been unable to secure funding elsewhere for their projects, the statute can be an even more **effective tool for bridging the “investment gap”** for states. **With some expansion of the current provisions** of TIFIA, and an increase in its capital, **PPPs can become more of a part of institutional knowledge and more widely used to move state infrastructure projects forward by leveraging private capital** to lower life cycle costs. The 2009 economic stimulus package provided needed funding for the nation’s infrastructure, but that “stimulus” is ending. Gasoline tax revenues are falling, while congestion is increasing. Water systems and levies are crumbling, yet **there is little consensus on how best to fund infrastructure investments over the long term**.

#### That’s necessary to solve U.S. competitiveness and climate change

Puentes, senior fellow at the Brookings Institution, 8/23/2010

(Robert, “New Partnerships for Accelerating Infrastructure Investments,” Testimony for Mayor of Los Angeles and Senator Barbara Boxer, http://www.brookings.edu/research/testimony/2010/08/23-los-angeles-puentes)

The 30/10 plan is a prime example of the kind of 21st century compact that this country needs. It at once challenges our nation’s state and metropolitan leaders to develop **deep and innovative visions to solve the most pressing transportation problems**. At the same time, the federal government must become a **permissive partner that also holds these places accountable for advancing their tailor-made, bottom-up vision**. The reauthorization of the nation’s surface transportation law presents an important opportunity to put in place several key components of this new partnership.

There are also several megatrends that make this a salient and critical conversation today:

Our national economy is in the midst of broad and intensive restructuring. This is partially unintentional and precipitated by the most severe economic crisis in more than a generation. The reverberations from the Great Recession are still strongly felt. In response, major attention is being given to moving away from the over-leveraged, consumption-driven economy that preceded the recession to one focused on globalization, technology, and production.[1] Los Angeles exemplifies this trend with its post-recession emphasis on exports, low carbon infrastructure, and innovation.[2]

At the same time, the U.S. is undergoing the most remarkable socio-demographic changes it has seen in nearly a century. The number of seniors and boomers already exceeds 100 million, and racial and ethnic minorities accounted for 83 percent of our population growth this last decade. But unlike our international counterparts in Europe and parts of Asia, the U.S. is also growing rapidly overall. Our population exceeded 300 million in 2006, and we are on track to hit 350 million in the next 15 years.[3]

Cities and large metropolitan areas—Los Angeles, in particular—are leading this transformation and will, in many ways, determine the path forward. America's 100 largest metros already account for two-thirds of our population and generate 75 percent of our gross domestic product. Comparing Los Angeles’ metro economy to that of other entire nations, it is just about the size of Turkey: the world’s 17th largest.[4] What is more is that most of the future growth of the U.S. is expected to occur in these places. About 60 percent of the future residential growth will be in just the 50 largest metros. Any path to prosperity will run directly through our metropolitan areas.[5]

The challenge is for us to connect this macro vision to metro reality, the macro to the metro. We need to **leverage** the **market energy and creativity** found in our metros **with smart**, **game-changing federal** and state **actions**. Because how, where, and in what form we build in the future carries **far-reaching implications for** the health of **our** **environment**, our **energy** and economic **security**, and will continue to be a barrier to our metropolitan areas' **economic success and** our **ability to compete globally**.

But it also demands that we follow a different path than the one pursued in the past decade. Significant new constraints have emerged that will require us to throw out the old 20th century playbook and devise **fundamentally new approaches** for how we think about the built environment, growth and development patterns, and the quality of place.

One is the imperative of lower carbon. The world economy is rapidly moving away from carbon-based fuels and towards new sources of energy, driven in part by state, national, and international goals and agreements. Current discussions are too narrow have obscured how profound and market-driving a transition this will be.

Another is our nation’s current fiscal situation. After several years of national economic uncertainty, **a tense new climate of austerity has sharpened debates over government spending**, economic development, and the physical growth of states and metropolitan areas. Leaders in this environment are eager for fiscally prudent ways to simultaneously invest in what matters, stimulate their economies, create and retain jobs, and operate smarter and more efficiently.

The U.S. is also facing unprecedented constraints when it comes to its natural resources. Driven by cheap land, abundant water, and low cost energy, American development patterns over the last several decades followed the same sprawling, consumption-oriented style as our national economy. Accommodating future growth will require a **long-time partnership of all relevant actors**—**public**, **private**, and non-profit—to design the kinds of accessible and sustainable communities the market is increasingly demanding.

#### (OPTIONAL) Climate change causes extinction

Tickell 8 (Oliver Tickell, Environmental Researcher, 2008, “On a planet 4C hotter, all we can prepare for is extinction”, http://www.guardian.co.uk/commentisfree/2008/aug/11/climatechange)

We need to get prepared for four degrees of global warming, Bob Watson [PhD in Chemistry, Award for Scientific Freedom and Responsibility from the American Association for the Advacement of Science] told the Guardian last week. At first sight this looks like wise counsel from the climate science adviser to Defra. But the idea that we could adapt to a 4C rise is absurd and dangerous. Global **warming on this scale would be a catastrophe that would mean**, in the immortal words that Chief Seattle probably never spoke, "the end of living and the beginning of survival" for humankind. Or perhaps the beginning of our **extinction**. The collapse of the polar ice caps would become inevitable, bringing long-term sea level rises of 70-80 metres. All the world's coastal plains would be lost, complete with ports, cities, transport and industrial infrastructure, and much of the world's most productive farmland. The world's geography would be transformed much as it was at the end of the last ice age, when sea levels rose by about 120 metres to create the Channel, the North Sea and Cardigan Bay out of dry land. Weather would become extreme and unpredictable, with more frequent and severe droughts, floods and hurricanes. The Earth's carrying capacity would be hugely reduced. Billions would undoubtedly die. Watson's call was supported by the government's former chief scientific adviser, Sir David King [Director of the Smith School of Enterprise and the Environment at the University of Oxford], who warned that "if we get to a four-degree rise it is quite possible that we would begin to see a runaway increase". This is a remarkable understatement. The climate system is already experiencing significant feedbacks, notably the summer melting of the Arctic sea ice. The more the ice melts, the more sunshine is absorbed by the sea, and the more the Arctic warms. And as the Arctic warms, the release of billions of tonnes of methane – a greenhouse gas 70 times stronger than carbon dioxide over 20 years – captured under melting permafrost is already under way. To see how far this process could go, look 55.5m years to the Palaeocene-Eocene Thermal Maximum, when a global temperature increase of 6C coincided with the release of about 5,000 gigatonnes of carbon into the atmosphere, both as CO2 and as methane from bogs and seabed sediments. Lush subtropical forests grew in polar regions, and sea levels rose to 100m higher than today. It appears that an initial warming pulse triggered other warming processes. Many scientists warn that **this historical event may be analogous to the present**: **the warming caused by human emissions could propel us towards a similar hothouse Earth**.

## Competition

### AT: Perm – Do CP (Slam Dunk Version)

#### The plan commits to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. The counterplan does 50% or less of that federal government investment, and private actors provide the rest. This permutation severs half the plan.

#### Severance is a voting issue and never justified – shifting the plan in the 2AC can eliminate the whole neg strategy. The stable plan is the sole focus of the debate. We test one policy at a time and use it for research and pre-round prep.

### AT: Perm – Do CP (Long Version)

#### 1. The plan commits to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. The counterplan does 50% or less of that federal action, and private actors provide the rest. This permutation severs half the plan.

#### Severance is a voting issue and never justified – shifting the plan in the 2AC can eliminate the whole neg strategy. The stable plan is the sole focus of the debate. We test one policy at a time and use it for research and pre-round prep.

#### 2. The counterplan isn’t federal investment. Either the perm severs or the plan wasn’t topical:

#### “its” is possessive

Oxford Dictionary 10 (“Of”, http://www.oxforddictionaries.com/definition/its?view=uk)

Pronunciation:/ɪts/

possessive determiner

belonging to or associated with a thing previously mentioned or easily identified:turn the camera on its side he chose the area for its atmosphere

#### “Investment” requires capital expenditure

Anderson 6 (Edward, Lecturer in Development Studies – University of East Anglia, et al., “The Role of Public Investment in Poverty Reduction: Theories, Evidence and Methods”, Overseas Development Institute Working Paper 263, March, http://www.odi.org.uk/resources/docs/1786.pdf)

1.3 Definitions

We define (net) public investment as public expenditure that adds to the public physical capital stock. This would include the building of roads, ports, schools, hospitals etc. This corresponds to the definition of public investment in national accounts data, namely, capital expenditure. It is not within the scope of this paper to include public expenditure on health and education, despite the fact that many regard such expenditure as investment. Methods for assessing the poverty impact of public expenditure on social sectors such as health and education have been well covered elsewhere in recent years (see for example, van de Walle and Nead, 1995; Sahn and Younger, 2000; and World Bank, 2002).

#### The counterplan removes capital expenditure from the government

McMillan, Senior Lecturer in politics at the University of Sheffield, No Date Given

(Alistair, “Public-Private Partnership,” About.com Political Dictionary, http://www.answers.com/topic/public-private-partnership)

PPP Agreement between government and the private sector regarding the provision of public services or infrastructure. Purportedly a means of bringing together social priorities with the managerial skills of the private sector, **relieving government of the burden of large capital expenditure**, and transferring the risk of cost overruns to the private sector. Rather than completely transferring public assets to the private sector, as with privatization, government and business work together to provide services. The British Government has used PPPs to finance the building of schools, hospitals, for defence contracts, and specific capital projects such as the Channel Tunnel Rail Link, the National Air Traffic Services, and improvements to the London Underground. The system has been criticized for blurring the lines between public and private provision, leading to a lack of accountability with regard to funding, risk exposure, and performance (see also Private Finance Initiative).

#### 3. The counterplan’s is insubstantial federal investment. Our 1NC Puentes card says the private sector covers the substantial investment.

#### The counterplan avoids substantial federal commitments

**Mattei** Ivan Mattei is a corporate partner and Chair of the firm's Project Finance and Infrastructure Group. et al **11** (Project Finance By Ivan Mattei, partner, and Michael McGuigan, associate, Debevoise & Plimpton. October 2011 “The current catalysts for US PPP development” Lexis AB)

Since the 1990s, PPPs have been estab­lishing a credible track record in many US jurisdictions. The well-publicised monetisations of the Chicago Skyway toll bridge and the Indiana Toll Road, as well as the use of PPPs to procure numerous other significant transportation facilities, such as the Dulles Greenway, SR-91 in California, the new international air terminal (Terminal 4) and its recent expansion at JFK International Airport, the Port of Miami Tunnel, the North Tarrant Expressway and I-635/LBJ Freeway in Texas, and Denver's FasTracks commuter and light-rail project, have all been note­worthy PPPs. Each of these projects has had important demonstration effects, including most notably the fact that PPP procurement compels all parties to plan and budget for the full life cycle costs of maintaining and operating (and not just building) the project in question. This is a significant change from the traditional model of transportation infrastructure procurement, in which the life cycle costs to be incurred years and decades into the future are neither considered nor budgeted for at the time of procurement. Aside from leaving state and local governments with a potentially significant over­hang of unfunded operation and maintenance obligations, the traditional pro­cure­ment model has not always focused the parties' attention on the fact that design decisions at inception can have important effects on life cycle costs. There is also growing appreciation by state governments that PPPs can be used to effect an efficient transfer of various risks (eg. construction overruns and revenue shortfalls) and obligations (eg. operating an airport in accordance with rigorous stan­dards) to the private sector, thereby allow­ing the government to focus its resources and efforts on core governmental services. The private sector is also willing and able to contribute significant equity to PPPs, which can be used to lever debt financing for transportation infrastructure projects, reliev­ing the government of **substantial** financial commitments. Although several states have experiment­ed with PPPs since the 1990s, the more recent resurgence of this market can be traced to the Chicago Skyway and Indiana Toll Road transactions, each of which was essentially a monetisation of a valuable government asset. Such deals have become increasingly unpopular, however, because they can be perceived by the public (or portrayed by opponents) as little more than sales of valuable assets at bargain prices, resulting in increased user fees without construction of meaningful new transportation capacity or visible service enhancement.

#### “Substantial” means more than 50%

UNEP 2 (United Nations Environmental Program, 10-2, www.unep.org/geo/geo3/english/584.htm)

Change in selected pressures on natural ecosystems 2002-32. For the ecosystem quality component, see the explanation of the Natural Capital Index. Values for the cumulative pressures were derived as described under Natural Capital Index. The maps show the relative increase or decrease in pressure between 2002 and 2032. 'No change' means less than 10 per cent change in pressure over the scenario period; small increase or decrease means between 10 and 50 per cent change; substantial increase or decrease means 50 to 100 per cent change; strong increase means more than doubling of pressure. Areas which switch between natural and domesticated land uses are recorded separately.

#### 4. The counterplan allows private investors to make efficiency improvements to the plan. That makes the perm severance by definition.

DornanDaniel L. Dornan, P.E. Senior Consulting Manager AECOM Consult, Inc. 7 (7/7/07 “Case Studies of Transportation Public-Private Partnerships in the United States” <http://www.fhwa.dot.gov/ipd/pdfs/us_ppp_case_studies_final_report_7-7-07.pdf> AB)

Public-private partnerships are defined by the US DOT as follows. 􀂳A public-private partnership is a contractual agreement formed between public and private sector partners, which allows more private sector participation than is traditional. The agreements usually involve a government agency contracting with a private company to renovate, construct, operate, maintain, and/or manage a facility or system. While the public sector usually retains ownership in the facility or system, the private party will be given additional decision rights in determining how the project or task will be completed.􀂴1 This definition emphasizes that with a PPP the public and private sectors share responsibility for the delivery of the project and/or its services. By expanding the private sector role, the public sector is better able to avail itself of the technological, managerial, and financial resources to leverage scarce public funds and expedite the delivery of a project and/or services in a more costeffective manner and with reduced risk to the public agency sponsor. As noted above, the public sector bore most project delivery, financial, and operational risks. By sharing responsibility and resources for the delivery of a PPP project, both public and private sectors share in the potential risks and rewards from the delivery of the facility or service relative to what they retain responsibility for.2

#### 5. The counterplan does not guarantee federal involvement – it’s conditioned on private investors. The plan does guarantee it:

#### “Resolved” means a specific course of action

AHD 6 (American Heritage Dictionary, http://dictionary.reference.com/browse/resolved)

INTRANSITIVE VERB:1. To reach a decision or make a determination: resolve on a course of action. 2. To become separated or reduced to constituents. 3. Music To undergo resolution.

#### “Should” means mandatory

Foresi 32 (Remo Foresi v. Hudson Coal Co., Superior Court of Pennsylvania, 106 Pa. Super. 307; 161 A. 910; 1932 Pa. Super. LEXIS 239, 7-14, Lexis)

As regards the mandatory character of the rule, the word 'should' is not only an auxiliary verb, it is also the preterite of the verb, 'shall' and has for one of its meanings as defined in the Century Dictionary: "Obliged or compelled (to); would have (to); must; ought (to); used with an infinitive (without to) to express obligation, necessity or duty in connection with some act yet to be carried out." We think it clear that it is in that sense that the word 'should' is used in this rule, not merely advisory. When the judge in charging the jury tells them that, unless they find from all the evidence, beyond a reasonable doubt, that the defendant is guilty of the offense charged, they should acquit, the word 'should' is not used in an advisory sense but has the force or meaning of 'must', or 'ought to' and carries [\*\*\*8] with it the sense of [\*313] obligation and duty equivalent to compulsion. A natural sense of sympathy for a few unfortunate claimants who have been injured while doing something in direct violation of law must not be so indulged as to fritter away, or nullify, provisions which have been enacted to safeguard and protect the welfare of thousands who are engaged in the hazardous occupation of mining.

#### “Should” means immediate

Summers 94 (Justice – Oklahoma Supreme Court, “Kelsey v. Dollarsaver Food Warehouse of Durant”, 1994 OK 123, 11-8, http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=20287#marker3fn13)

¶4 The legal question to be resolved by the court is whether the word "should"[13](http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=20287" \l "marker3fn13) in the May 18 order connotes futurity or may be deemed a ruling *in praesenti*.[14](http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=20287" \l "marker3fn14) The answer to this query is not to be divined from rules of grammar;[15](http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=20287" \l "marker3fn15) it must be governed by the age-old practice culture of legal professionals and its immemorial language usage. To determine if the omission (from the critical May 18 entry) of the turgid phrase, "and the same hereby is", (1) makes it an in futuro ruling - i.e., an expression of what the judge will or would do at a later stage - or (2) constitutes an in in praesenti resolution of a disputed law issue, the trial judge's intent must be garnered from the four corners of the entire record.[16](http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=20287" \l "marker3fn16)

[CONTINUES – TO FOOTNOTE]

[13](http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=20287#marker2fn13) "*Should*" not only is used as a "present indicative" synonymous with *ought* but also is the past tense of "shall" with various shades of meaning not always easy to analyze. See 57 C.J. Shall § 9, Judgments § 121 (1932). O. JESPERSEN, GROWTH AND STRUCTURE OF THE ENGLISH LANGUAGE (1984); St. Louis & S.F.R. Co. v. Brown, 45 Okl. 143, 144 P. 1075, 1080-81 (1914). For a more detailed explanation, see the Partridge quotation infra note 15. Certain contexts mandate a construction of the term "should" as more than merely indicating preference or desirability. Brown, supra at 1080-81 (jury instructions stating that jurors "should" reduce the amount of damages in proportion to the amount of contributory negligence of the plaintiff was held to imply an *obligation* *and to be more than advisory*); Carrigan v. California Horse Racing Board, 60 Wash. App. 79, [802 P.2d 813](http://www.oscn.net/applications/oscn/deliverdocument.asp?box1=802&box2=P.2D&box3=813) (1990) (one of the Rules of Appellate Procedure requiring that a party "should devote a section of the brief to the request for the fee or expenses" was interpreted to mean that a party is under an *obligation* to include the requested segment); State v. Rack, 318 S.W.2d 211, 215 (Mo. 1958) ("should" would mean the same as "shall" or "must" when used in an instruction to the jury which tells the triers they "should disregard false testimony"). [14](http://www.oscn.net/applications/oscn/DeliverDocument.asp?CiteID=20287#marker2fn14) *In praesenti* means literally "at the present time." BLACK'S LAW DICTIONARY 792 (6th Ed. 1990). In legal parlance the phrase denotes that which in law is *presently* or *immediately effective*, as opposed to something that *will* or *would* become effective *in the future [in futurol*]. See Van Wyck v. Knevals, [106 U.S. 360](http://www.oscn.net/applications/oscn/deliverdocument.asp?box1=106&box2=U.S.&box3=360), 365, 1 S.Ct. 336, 337, 27 L.Ed. 201 (1882).

#### 6. Counterplan is clearly different from the plan

Dutzik et al 11 (Tony Dutzik, Senior Policy Analyst with Frontier Group specializing in energy, transportation, and climate policy, holds an M.A. in print journalism from Boston University and a B.S. in public service from Penn State University Jordan Schneider is an analyst in the Frontier Group Santa Barbara office. Before joining Frontier Group in the fall of 2010, she worked as a reporter, page designer and copy editor for small newspapers in both southeastern Alabama and in Colorado. In 2008, she wrote grants for the Catamount Institute in Colorado Springs, Co., and worked as a communications assistant for the Gulf Restoration Network in New Orleans. She has a strong interest in conservation and natural resources management issues, especially concerning the American tropics and the U.S. Gulf Coast. She completed independent studies in coastal Ecuador in 2009. Jordan is a 2008 summa cum laude graduate of Loyola University New Orleans. She majored in print journalism.Phineas Baxandall is the Senior Policy Analyst for Tax and Budget issues for U.S. PIRG Education Fund. He Mr. Baxandall is a leading expert in his field and has appeared on numerous talk shows and conducted studio interviews and debates for outlets such as CNN, MSNBC, Fox and PBS. His op-eds have appeared in dozens of newspapers across the country and he has been quoted in numerous publications such as the New York Times and the Economist. He often presents at conferences and has been invited to testify before state legislatures, Congress, and the U.S. Department of Transportation. His blogs appear often on the National Journal Transportation Expert blog and on Huffington Post. He serves on the executive board of the transportation coalition Transportation for America, as well as the privatization study group, In the Public Interest. Summer 2011 “High-Speed Rail: Public, Private or Both? Assessing the Prospects, Promise and Pitfalls of Public-Private Partnerships” <http://cdn.publicinterestnetwork.org/assets/85a40b6572e20834e07b0da3e66e98bf/HSR-PPP-USPIRG-July-19-2011.pdf> AB)

The term “public-private partnership” (PPP) is vague. In the broadest sense, it can be construed to include almost any part of the economy. In the most commonly used sense, however, PPPs are arrangements in which government and private sector firms share in a project’s risks, responsibilities and rewards. PPPs are distinguished from traditional government contracting in that the private sector partner is more integrally involved in a project’s development and execution than as a “contractor for hire.” Private-sector firms might be involved in helping to design a piece of infrastructure, finance it, or operate it once construction is complete.

### AT: Perm – Do Both

#### 1. The perm links to politics – it spends a lot of government money unnecessarily

#### And that deters private investment – (the politics DA takes out perm solvency)

Geddes, visiting scholar at AEI, 4/6/12 (R. Richard Geddes, American Enterprise Institute, “Private Investment for infrastructure”, April 6th, 2012, http://www.aei.org/article/economics/private-investment-for-infrastructure/)

Despite its long history of private investment in railroads, canals, electricity, natural gas, water systems and many other sectors, the United States now lags behind many other countries in private infrastructure investment. After controlling for the relative size of the economies, Canada has seven times more private investment in infrastructure than the United States. Mexico, Latin America and the Caribbean have about 3½ times as much - as does Europe. **The hostile environment created by some U.S. politicians is an important deterrent to private investment**. With the Bingaman amendment, the Senate highway bill effectively penalizes states for using innovative infrastructure financing. **It is likely to have a chilling effect on future public-private partnerships** at a time when U.S. infrastructure needs every dime of investment it can get.

#### 2. Our solvency turns are disads to the perm – government-run programs ruin infrastructure projects

#### 3. Doesn’t solve our partnerships good net benefit—

#### (a) Trust is key – that’s Cooper from the 1NC. The perm has the government builds their own project despite their offer to private actors.

#### (b) Must set a clear model – that’s Marks 2011.

#### 4. Private capital must be required upfront – that’s the only way to share risk and ensure project success.

#### 5. Upfront private capital is key – the perm deters investment

DornanDaniel L. Dornan, P.E. Senior Consulting Manager AECOM Consult, Inc. 7 (7/7/07 “Case Studies of Transportation Public-Private Partnerships in the United States” <http://www.fhwa.dot.gov/ipd/pdfs/us_ppp_case_studies_final_report_7-7-07.pdf> AB)

BENEFITS OF PPPs **PPPs have the potential to offer benefits that may not otherwise be achievable through traditional public procurement procedures** or through privatization. PPPs offer an opportunity for the public sector to reap the benefits of private sector involvement in infrastructure procurement while meeting community obligations and retaining control over potentially important public assets. These and other potential benefits of PPPs are described below.

Stronger Working Relations **In comparison to shorter-term procurements methods**, PPPs provide the opportunity for public sector agencies and private sector providers to develop long-term, high trust relationships. With the need to concentrate on long-term objectives, **there is greater incentive for public sponsors and private providers to understand goals and share information to develop better long-term solutions**. Further, the opportunity to develop strong long-term relationships provides a better forum in which to resolve problems and issues. With transportation assets typically having long effective lives, a need exists for the public sector to develop a long term relationship with a provider to assist the development of transportation infrastructure, guide capital expenditure decisions and ensure that assets are maintained, safe and are of high quality upon transfer. However, the development of a long-term relationship will need to account for the possibility that there may be a reduced desire on a provider􀂶s part to seek the best solution due to the security of the relationship. Public sponsors will also need to be mindful of the partnership proposing and selecting options that minimize damage to the relationship, but may not maximize community benefits. Reduction of Financial Constraints Many projects proposed by public entities are postponed or do not proceed due to limited financial resources, and in particular, the provision of upfront capital. PPPs provide an advantage with respect to financing by allowing the private sector to finance projects using private funds, in effect providing a form of off-balance sheet financing for public agencies. In turn, financing commitments from the private sector often bring forward the development of projects that may otherwise not proceed due to a lack of capital.

### AT: Perm – Do Both (Highways)

#### Government highway construction discourages private companies

Roth, Transportation Economist, 2010

(Gabriel, June 2010, CATO Institute, “Federal Highway Funding”, http://www.downsizinggovernment.org/transportation/highway-funding, KH)

By subsidizing the states to provide seemingly "free" highways, federal financing discourages the construction and operation of privately financed highways. A key problem is that users of private highways are forced to pay both the tolls for those private facilities and the fuel taxes that support the government highways. Another problem is that private highway companies have to pay taxes, including property taxes and income taxes, while government agencies do not. Furthermore, private highways face higher borrowing costs because they must issue taxable bonds, whereas public agencies can issue tax-exempt bonds. The Dulles Greenway is a privately financed and operated highway in Northern Virginia, which cost investors about $350 million to build.37 The Greenway must compete against nearby "free" state highways. It has been tough going, but the Greenway has survived for 15 years. Typical users of the Greenway pay 36 cents in federal and state gasoline taxes per gallon to support the government highways, plus they pay Greenway tolls, which range from $2.25 to $4.15 per trip for automobiles using electronic tolling. If the Greenway and other private highways were credited the amounts paid into state and federal highway funds, their tolls could be lowered and more traffic would be attracted to them. That would make better use of private capacity as it could develop in coming years and relieve congestion on other roads.

### AT: Perm – Plan + Other Partnership

#### 1. This links to politics, tradeoff, and our solvency turns

#### 2. This perm is intrinsic – neither the plan nor the counterplan creates a partnership on other issues. Intrinsicness is a voting issue: it allows the aff to garner unpredictable advantages, and the neg can’t even counterplan them out, and it proves the plan insufficient.

#### 3. \_\_\_\_\_\_\_\_\_\_\_\_ is the key issue to solve our partnerships good net benefit:

#### (Insert link or solvency card about their aff.)

## Solvency

### Private Funding Solvency – 2NC

#### Private money is sitting on the sidelines – the CP attracts billions of dollars in funding

Gilroy, director of government reform at the Reason Foundation, and Kenny, policy analyst at the Reason Foundation, 2012

(Leonard and Harris, May 24 2012, <http://reason.org/news/show/states-and-cities-going-private-wit>) CMO

States and municipalities across the U.S. continue to grapple with the lingering effects of the Great Recession. City leaders continue to struggle with depressed revenues, and 30 states are expected to close budget deficits totaling $49 billion this year, according to the Center on Budget and Policy Priorities. Further, many government bodies are struggling to maintain their credit ratings in an uncertain economy. As public debts grow, cities and states simultaneously face pressing needs to repair and modernize critical infrastructure assets that can't wait if citizens hope to keep goods and services moving in the economy. For example, many interstate highways, which are owned and maintained by states, are reaching the end of their useful lives and will cost tens of billions of dollars to reconstruct. Yet, projected federal and state fuel tax revenues will come nowhere close to covering the bills. When factoring in similarly large investment needs in water, aviation, schools and other public infrastructure facilities, it becomes abundantly clear that new infrastructure financing models and sources of capital will be the only viable option to support and sustain growth. Enter the private sector, where investors are demonstrating a willingness and capability to partner with governments to modernize and expand infrastructure, according to Reason Foundation's recent Annual Privatization Report 2011. The report finds that the amount of capital available in private infrastructure equity investment funds reached a new all-time high last year. And since 2006, the 30 largest global infrastructure investment funds have raised a total of $183.1 billion dedicated to financing infrastructure projects; the bulk coming from U.S., Australian and Canadian inventors. In fact, eight major privately financed transportation projects were under construction in the U.S. in 2011 totaling over $13 billion. For a preview of the future, just look to Puerto Rico, where innovative infrastructure financing has been a priority of Governor Luis Fortuño's administration. Prior to his tenure, massive budget deficits and weak credit ratings left the territory with a limited ability to finance infrastructure. In fact, public infrastructure investment (as a share of GDP) had been on a steep decline in Puerto Rico since 2000. Put simply, if Puerto Rico was going to maintain-much less expand and modernize-its infrastructure, it was going to need outside help. Policymakers proactively adopted a 2009 law authorizing government agencies to partner with private firms for the design, construction, financing, maintenance and/or operation of public facilities across a wide spectrum that includes transportation, ports, schools and other asset classes. The law also established a Public Private Partnership Authority (PPPA), a new unit of the Government Development Bank, to conduct due diligence on these infrastructure partnerships and take worthy projects to market in competitive procurements. So far it's been a smashing success. Last fall the PPPA finalized its first major highway deal, closing on a 40-year, $1.5 billion lease of two toll highways to a private concessionaire now responsible for operating the facilities and making major capital investments in pavement, signage, lighting and other safety enhancements. Lawmakers are also poised to privatize operations of San Juan's Luis Muñoz Marin International Airport this summer. Two weeks ago PPPA officials selected two consortia eligible to compete for a $1 billion, 50-year lease expected next month. The deal pays off $900 million in public debt, and results in a virtual reconstruction of the entire airport, pursuant to officials' goal of turning the airport into the preeminent gateway to the Caribbean. PPPA is also in the middle of a new K-12 school modernization program whereby officials are contracting with private developers to design, build and maintain a package of approximately 100 schools in 78 municipalities across the territory. This effort will address a severe need to upgrade aging, deteriorating schools and tackle chronic deferred maintenance. Puerto Rico isn't alone though. For example, Chicago Mayor and former Obama chief of staff Rahm Emanuel stood with former President Bill Clinton last month to propose an ambitious $7.2 billion infrastructure program that will rely heavily on public-private partnerships and private financing for a broad spectrum of projects including roads, water, transit and more. To implement this program, city policymakers recently created a new Chicago Infrastructure Trust, a nonprofit infrastructure bank that can package deals and blend public and private financing to advance projects. Early pledges of up to $1 billion in private capital from several financial institutions, including Citibank, Macquarie and JPMorgan suggest the model may be viable. Elsewhere, both Texas and Connecticut enacted broad-ranging laws to authorize private sector financing for state and local assets in 2011. In New York, The Yonkers Public Schools recently hired a team of financial, legal and technical consultants to evaluate the potential to tap private financing to help deliver a $2 billion K-12 school modernization program. Like Puerto Rico, Yonkers has a number of aging facilities over 70 years old that need reconstruction, yet lacks the ability to undertake large-scale renovation through traditional taxes and bonds given current fiscal and financial constraints. Ultimately, policymakers are beginning to realize that the status quo of financing infrastructure through taxes and municipal debt is broken. Fortunately the private sector is poised and ready to invest in infrastructure, with hundreds of billions of dollars in privately sourced capital sitting on the sidelines looking for worthy public infrastructure projects in which to invest. While governments continue to struggle even with the basics of balancing budgets, much less long-term crises like entitlement spending and underfunded public pensions, the question is not if, but when, will more policymakers like Fortuño and Emanuel step up and embrace the private sector? Infrastructure represents the arteries and capillaries of our economy, and if we let those deteriorate, the heart itself will soon follow. Leonard Gilroy is the director of government reform and Harris Kenny is a policy analyst at Reason Foundation, a Los Angeles-based think tank. Gilroy and Kenny are both editors of Reason's Annual Privatization Report 2011, available at www.reason.org/apr2011. This article originally appeared here on Real Clear Markets on May 17, 2012.

#### Private sectors have the money

NCSL 10(NSCL, October, 2010, <http://www.ncsl.org/documents/transportation/PPPTOOLKIT.pdf>, “Public-Private Partnerships for Transportation” KC)

 By providing access to additional capital from private-sector financing sources, PPPs can facilitate the delivery of projects that otherwise might have been delayed or not built at all because of state and local fiscal constraints. **More than $180 billion in private capital is estimated to be available now for infrastructure investment**.31 Innovative financing mechanisms such as availability payments or Grant Anticipation Revenue Vehicles (GARVEEs) (see Glossary) **may help further by spreading the public sector’s investment in a project over an extended period of time**.32

#### Public-private partnerships avoid spending links

Pound et al 10 (William T. Pound, executive director of the national conference of legislators, along with Jaime Rall James B. Reed Nicholas J. Farber, October 2010, <http://www.ncsl.org/documents/transportation/PPPTOOLKIT.pdf>, DS)

By providing access to additional capital from private-sector financing sources, PPPs can facilitate the delivery of projects that otherwise might have been delayed or not built at all because of state and local fiscal constraints. More than $180 billion in private capital is estimated to be available now for infrastructure investment.31 Innovative financing mechanisms such as availability payments or Grant Anticipation Rev- enue Vehicles (GARVEEs) (see Glossary) may help further by spreading the public sector’s investment in a project over an extended period of time.32

#### Private entities can cover half the burden of all national infrastructure

Cooper Donna Cooper is a Senior Fellow with the Economic Policy team at American Progress. 12 (2/16/12 “Meeting the Infrastructure Imperative An Affordable Plan to Put Americans Back to Work Rebuilding Our Nation’s Infrastructure” <http://www.americanprogress.org/issues/2012/02/infrastructure.html> AB)

CAP’s analysis in this report finds that in sum, **federal investments represented by federal appropriation levels, alongside federally mandated matching funds from state and local governments,** and the estimated level of private investment in capital improvements to our infrastructure that was attracted by federal **appropriations was approximately $132.9 billion in 2010. F**or this paper, to ensure consistency among all data sources, we use FY 2010 as the base year for our analysis. (See the Appendix on page 79 for a breakdown of the methodology used to make our calculations in this paper.) **To meet our country’s infrastructure capital repair and improvement needs, CAP analysis estimates that an additional $129.2 billion a year** in new capital investment is warranted **over the next 10 years.** This research also indicates that investing at this level for each of the next 10 years will appropriately address the backlog in infrastructure repairs and fund needed capacity improvements. Doing so would bring the total level of infrastructure investment up to $262.1 billion annually, which our research indicates is the minimum required. This paper describes how we arrived at this figure and it recommends a specific set of proposals to generate the funds to pay for this increased level of federal spending and the essential policy changes needed to ensure that our existing and new investments are wisely spent. If the policies we propose are adopted, **CAP’s analysis indicates that private capital investment in infrastructure can be expected to increase to roughly $60 billion per year. The balance of the new investment must come from the public sector**.

### AT: Private Infrastructure Fails

#### The CP’s performance criteria solve their turns

Mansour and Nadji 06 (Ashieh Mansour and Hope Nadji, Managing Director of Research RREEF and Director Research RREEF, US Infrastructure Privatization and Public Policy Issues, http://www.irei.com/uploads/marketresearch/69/marketResearchFile/Infr\_Priv\_Pub\_Policy\_Issues.pdf, 6/23/12)

The key to successful privatization is a free market setting, **along with appropriate government oversight**. Indeed, studies show that privatization can lead to economic gains in societies that have free market systems, even in the quasi-monopoly infrastructure sectors. However, the government must exercise a level of regulation and enforcement commensurate to the risk of unhealthy monopolistic influences. A proper balance between the users and owners/operators of an infrastructure asset **safeguarded by performance-based and enforceable contractual agreements should attenuate objections and help control this process**. This balance may shift over time, and the appropriate mechanisms should be in place for recalibration along with a defined implementation process. From the perspective of public pension funds, there exist numerous social and political benefits in supporting privatized infrastructure investments. Infrastructure investments are essential assets serving communities and supporting local economic growth; assets with which pensioners can identify. It demonstrates support of development in the local community since a solid pace of infrastructure investment is highly correlated with economic growth.

#### Don’t evaluate their “private sector bad” cards-the question isn’t whether either side is bad, it’s how they should be combined

National Economic council 11, (National Economic Council, Council of Economic Advisers, and Office of Science and Technology Policy, February 2011, <http://www.whitehouse.gov/sites/default/files/uploads/InnovationStrategy.pdf>, DS)

Given the central importance of innovative activity to our economic growth, the public interest in sustaining innovation is clear. The key follow-on question is whether markets alone can provide suf- ficient incentives for such investments. The standard lesson from economics, and history, is that an innovation-friendly environment requires public support on specific dimension. 4 The appropriate role for government can be understood by clarifying the precise circumstances where markets, despite their many strengths, will not produce a sufficient stream of innovations on their own. Thus, the true choice in innovation policy is not starkly between government management and no government involvement, but rather choosing the right role for government in supporting private sector innovation.

### AT: Doesn’t Solve Federal Signal

#### The counterplan solves signal: The federal government initiates the counterplan and has complete oversight – there is no distinction.

#### It’s a model – the CP is a way for the federal government to step up its visible role. That’s Mark 2011 from the 1NC.

#### It’s a game-changing federal policy – that’s Puentes.

### High Speed Rail Solvency

**Successful high-speed rail requires public-private partnerships**

**Dutzik et all 11** (Tony Dutzik, Senior Policy Analyst with Frontier Group specializing in energy, transportation, and climate policy, holds an M.A. in print journalism from Boston University and a B.S. in public service from Penn State University Jordan Schneider is an analyst in the Frontier Group Santa Barbara office. Before joining Frontier Group in the fall of 2010, she worked as a reporter, page designer and copy editor for small newspapers in both southeastern Alabama and in Colorado. In 2008, she wrote grants for the Catamount Institute in Colorado Springs, Co., and worked as a communications assistant for the Gulf Restoration Network in New Orleans. She has a strong interest in conservation and natural resources management issues, especially concerning the American tropics and the U.S. Gulf Coast. She completed independent studies in coastal Ecuador in 2009. Jordan is a 2008 summa cum laude graduate of Loyola University New Orleans. She majored in print journalism.Phineas Baxandall is the Senior Policy Analyst for Tax and Budget issues for U.S. PIRG Education Fund. He Mr. Baxandall is a leading expert in his field and has appeared on numerous talk shows and conducted studio interviews and debates for outlets such as CNN, MSNBC, Fox and PBS. His op-eds have appeared in dozens of newspapers across the country and he has been quoted in numerous publications such as the New York Times and the Economist. He often presents at conferences and has been invited to testify before state legislatures, Congress, and the U.S. Department of Transportation. His blogs appear often on the National Journal Transportation Expert blog and on Huffington Post. He serves on the executive board of the transportation coalition Transportation for America, as well as the privatization study group, In the Public Interest. Summer 2011 “High-Speed Rail: Public, Private or Both? Assessing the Prospects, Promise and Pitfalls of Public-Private Partnerships” <http://cdn.publicinterestnetwork.org/assets/85a40b6572e20834e07b0da3e66e98bf/HSR-PPP-USPIRG-July-19-2011.pdf> AB)

Potential Benefits of PPPs Risk Sharing One of the most important potential benefits of public-private partnerships is the ability to share the risk inherent in a major capital investment among a variety of public and private actors. High-speed rail lines are typically multi-billion dollar endeavors subject to a variety of risks—from unexpected difficulties building tunnels through mountains or densely packed urban areas to delays in the completion of adjoining transportation infrastructure. Sharing risks between government and private entities can—if done correctly—make it more palatable for both entities to “take the leap” in building a project with great benefits for society. PPP agreements can share risk in a variety of ways: • In a public tender contract, private contractors are held liable for building a piece of infrastructure—often at a particular price and on a particular schedule. • In an availability payment (designbuildmaintain) concession, private contractors are held accountable for quality workmanship by also being given responsibility for maintaining the line over a period of time. • In a traffic-based concession agreement, private entities take on the risk that ridership, and therefore revenue, on the high-speed rail line will be less than anticipated. The potential for risk sharing is one of the primary selling points used by PPP proponents to encourage public-private partnerships—and is a particularly powerful selling point at a time of tight fiscal constraints. However, the ability of a PPP to shelter the government from risk depends on the details of the agreement. Evidence from abroad shows that even specific contract provisions designed to protect the government from risk may fail to do so because the fate of the project becomes inexorably tied to the fate of a particular private company—a problem known as “lock-in.” (See page 17.) Advantages in Speed, Cost or Quality PPPs are often touted as being able to deliver infrastructure projects faster, cheaper or with better quality than a public-sector entity. This is not to say that private entities are inherently better suppliers of infrastructure than public agencies. Private entities bring many inherent disadvantages, including higher capital costs and the need to cover financial returns to shareholders. The process of undertaking a PPP also incurs transaction costs—such as the potential need to pay stipends to would-be bidders to help defray the cost of preparing proposals.24 States and localities that have pursued toll road PPPs in the United States, for example, typically pay millions to auditing, consulting and legal firms. A key question for government agencies considering PPPs is the degree to which the savings purportedly delivered by private companies are real or illusory. Real savings can result from a private company’s access to expertise and experience, its ownership of proprietary technologies, or economies of scale. In the case of high-speed rail, there are several international firms that have amassed decades of experience in the construction and operation of high-speed rail lines, and may be effective competitors to build similar systems in the United States. However, PPP savings can also be illusory if savings are merely generated by avoiding labor and wage requirements or regulatory standards that would otherwise govern projects built directly by government agencies. These changes might produce a nominal cost “savings” in the short run, but they are achieved by externalizing costs onto or transferring benefits from other residents and employees in the state rather than by adding unique value that can only be delivered by the private sector. To assess whether a PPP approach delivers added value to taxpayers, governments must carry out a “value for money” test, such as the public sector comparator. These tests are intended to determine whether a PPP or traditional public-sector contracting will deliver the greatest value, taking into account quality, price and risk. Access to Capital Access to capital is not typically a strong suit of private entities. Government agencies are capable of borrowing large amounts of money to finance public infrastructure at relatively low cost. However, in the current atmosphere of constrained public budgets, access to private capital may make the difference between building necessary high-speed rail projects and leaving them on the drawing board for years to come. Because of the multi-billion dollar price tag of most high-speed rail projects, governments in both Europe and the United States have stated that private investment will be necessary to build out their high speed rail networks.

#### High-speed rail system will fail without partnerships

Dutzik et al 11 (Tony Dutzik, Senior Policy Analyst with Frontier Group specializing in energy, transportation, and climate policy, holds an M.A. in print journalism from Boston University and a B.S. in public service from Penn State University Jordan Schneider is an analyst in the Frontier Group Santa Barbara office. Before joining Frontier Group in the fall of 2010, she worked as a reporter, page designer and copy editor for small newspapers in both southeastern Alabama and in Colorado. In 2008, she wrote grants for the Catamount Institute in Colorado Springs, Co., and worked as a communications assistant for the Gulf Restoration Network in New Orleans. She has a strong interest in conservation and natural resources management issues, especially concerning the American tropics and the U.S. Gulf Coast. She completed independent studies in coastal Ecuador in 2009. Jordan is a 2008 summa cum laude graduate of Loyola University New Orleans. She majored in print journalism.Phineas Baxandall is the Senior Policy Analyst for Tax and Budget issues for U.S. PIRG Education Fund. He Mr. Baxandall is a leading expert in his field and has appeared on numerous talk shows and conducted studio interviews and debates for outlets such as CNN, MSNBC, Fox and PBS. His op-eds have appeared in dozens of newspapers across the country and he has been quoted in numerous publications such as the New York Times and the Economist. He often presents at conferences and has been invited to testify before state legislatures, Congress, and the U.S. Department of Transportation. His blogs appear often on the National Journal Transportation Expert blog and on Huffington Post. He serves on the executive board of the transportation coalition Transportation for America, as well as the privatization study group, In the Public Interest. Summer 2011 “High-Speed Rail: Public, Private or Both? Assessing the Prospects, Promise and Pitfalls of Public-Private Partnerships” <http://cdn.publicinterestnetwork.org/assets/85a40b6572e20834e07b0da3e66e98bf/HSR-PPP-USPIRG-July-19-2011.pdf> AB)

In the American context, there are two types of public-private partnerships that are likely to come into play in development of the nation’s high-speed rail network. The first type involves partnerships between the government and the owners of existing freight railroads that are proposed for upgrades in the federal high-speed rail program. Many of the initial highspeed rail projects approved for funding under the 2009 American Recovery and Reinvestment Act (ARRA) fit into this category, representing incremental improvements in service on existing rights of way owned by incumbent freight railroads. Any attempt by the government to encourage high-speed rail service on these existing lines will likely require regulations paired with government provision of either subsidies or capital investments to entice freight railroads to accommodate high-speed passenger services on their tracks. These partnerships—while critical to the development of an effective passenger rail network for America—are not the focus of this report. Instead, we focus here on the use of public-private partnerships for the construction of high-speed rail lines on new rights of way. These projects—which include the California high-speed rail network, the proposed construction of a true highspeed rail system in the Northeast, and the previously proposed Florida network—are likely to be the most expensive projects in the development of the nation’s high-speed rail system, but also the projects with the greatest impact. It is critical—both for the protection of the public purse and for the future of the nation’s high-speed rail program—that these projects be managed and executed effectively. As a result, it is important that the nation approach the use of PPPs in the realization of these projects with care.

#### Partnerships are key in HSR

Dutzik et al 11 (Tony Dutzik, Senior Policy Analyst with Frontier Group specializing in energy, transportation, and climate policy, holds an M.A. in print journalism from Boston University and a B.S. in public service from Penn State University Jordan Schneider is an analyst in the Frontier Group Santa Barbara office. Before joining Frontier Group in the fall of 2010, she worked as a reporter, page designer and copy editor for small newspapers in both southeastern Alabama and in Colorado. In 2008, she wrote grants for the Catamount Institute in Colorado Springs, Co., and worked as a communications assistant for the Gulf Restoration Network in New Orleans. She has a strong interest in conservation and natural resources management issues, especially concerning the American tropics and the U.S. Gulf Coast. She completed independent studies in coastal Ecuador in 2009. Jordan is a 2008 summa cum laude graduate of Loyola University New Orleans. She majored in print journalism.Phineas Baxandall is the Senior Policy Analyst for Tax and Budget issues for U.S. PIRG Education Fund. He Mr. Baxandall is a leading expert in his field and has appeared on numerous talk shows and conducted studio interviews and debates for outlets such as CNN, MSNBC, Fox and PBS. His op-eds have appeared in dozens of newspapers across the country and he has been quoted in numerous publications such as the New York Times and the Economist. He often presents at conferences and has been invited to testify before state legislatures, Congress, and the U.S. Department of Transportation. His blogs appear often on the National Journal Transportation Expert blog and on Huffington Post. He serves on the executive board of the transportation coalition Transportation for America, as well as the privatization study group, In the Public Interest. Summer 2011 “High-Speed Rail: Public, Private or Both? Assessing the Prospects, Promise and Pitfalls of Public-Private Partnerships” <http://cdn.publicinterestnetwork.org/assets/85a40b6572e20834e07b0da3e66e98bf/HSR-PPP-USPIRG-July-19-2011.pdf> AB)

Private sector companies are likely to play a major role in the construction of high-speed rail lines in the United States. Even as California nears construction of the nation’s first high-speed rail line, however, it remains unclear just how the private sector will participate in building out the nation’s high-speed rail network. Publ ic-pr ivate pa r tner ships—or “PPPs”—have come to play an important role in the construction of high-speed rail lines around the world. In a PPP, the public and private sectors are supposed to share the risks, responsibilities and rewards of infrastructure development. The experience with high-speed rail PPPs around the world, however, has been mixed. While PPP arrangements have brought private capital and expertise to the task of building high-speed rail, PPPs have also resulted in cost overruns, government bailouts, and other serious problems for the public. America must learn from these experiences and pursue PPPs only in situations in which they make sense—and do so in keeping with a series of key principles designed to protect the public interest. Public-private partnerships will likely be part of the development of high-speed rail in the United States. • High-speed rail systems require billions of dollars in financial capital, which cash-strapped state and federal governments are likely to seek through partnerships with the private sector. • California is moving forward with the creation of the nation’s first true highspeed rail system, and it is required by ballot initiative to obtain private investment in the project. • Amtrak is seeking to involve private investors in its plan to bring true high-speed rail service to the busy Northeast Corridor. • The U.S. Department of Transportation has signaled that private investment will play a key role in achieving President Obama’s goal of linking 80 percent of the U.S. population via high-speed rail by 2035.

#### Public Private Partnerships work in the status quo with rail

Business World 12( May 22, 2012 Tuesday “Two PPP projects gain ground” Lexis AB)

TWO MORE PROJECTS in the government's priority public-private partnership (PPP) list have advanced towards final approval, together with three other projects, the National Economic and Development Authority (NEDA) said in a statement yesterday. The statement said the five projects, worth a total of P32.67 billion, have been endorsed by the socioeconomic planner's Investment Coordination Committee (ICC) for approval by the NEDA Board headed by President Benigno S.C. Aquino III. The list is led by two PPP projects, namely: the Transportation department's P9.76-billion Light Rail Transit Line 2 (LRT-2) east extension project and the Health department's P5.69-billion modernization project for the Philippine Orthopedic Center (POC). The LRT-2 east extension project involves the construction as well as operation and maintenance of a 4.19-kilometer railroad from the existing Santolan Station in Pasig City to the Masinag Junction in Antipolo City. The contract for POC modernization, meanwhile, includes the construction of a 700-bed orthopedic hospital in the National Kidney and Transplant Institute Complex along East Avenue in Quezon City, purchase of modern equipment as well as operation and maintenance of the facility. Also approved were the: \* P6.12-billion Bridge Construction Acceleration Project for Calamity- Stricken Areas Phase II that will be partially funded by Austria; \* P8.4-billion National Roads Bridge Placement Project, which will be supported by aid from the United Kingdom; and \* P2.7-billion upgrading and rehabilitation of the Navotas Fish Port Complex, which involves repair of structures, establishment of cold storage facilities and installation of a waste water treatment facility, among others. Since the PPP program was first presented to investors in the fourth quarter of 2010, only one project has been awarded, so far: Ayala Corp's P1.956-billion Daanghari-Southern Luzon Expressway Link Road. The second in the pipeline, the P10.04-billion PPP for School Infrastructure Project, has six groups prequalified for bidding: BF Corp.- Riverbanks Development Corp. Consortium; Citicore Holdings Investment, Inc.-Megawide Construction Corp, Inc.; D.M. Consunji, Inc.; Makati Development Corp.-Fist Balfour, Inc.; D.M. Wenceslao & Associates, Inc.- DATEM, Inc.; and Makati Development Corp.-DDT Konstract, Inc.

#### PPP empirically works for upgrading rail

ITAR Tass the ITAR-TASS News Agency is one of the world's largest international information agencies **12** (June 22, 2012 Friday 05:17 PM GMT+4 “Eurasian Development Bank to invest 10 bln rubles in Western High-Speed Diameter” Lexis AB)

The Eurasian Development Bank will invest 10 billion rubles in the public-private partnership project of the St. Petersburg Western High-Speed Diameter. LCC Magistral Severnoy Stolitsy (MSS) - a consortium involving VTB Group as the main shareholder and Gazprombank - and a syndicate of VTB Capital plc, Gazprombank, Vnesheconombank, the EBRD and the Eurasian Development Bank signed a credit agreement. The banks undertook to fund the construction of the central segment of the Western High-Speed Diameter tool road. The funding will near 60 billion rubles. This is the world's largest public-private partnership project in road construction. It is a part of the federal target program "Development of the Russian Transportation System in 2010-2015."

#### PPPs are a positive for the feds and the private sector and needs to be enacted specifically for HSR

Dutzik et al 11 (Tony Dutzik, Senior Policy Analyst with Frontier Group specializing in energy, transportation, and climate policy, holds an M.A. in print journalism from Boston University and a B.S. in public service from Penn State University Jordan Schneider is an analyst in the Frontier Group Santa Barbara office. Before joining Frontier Group in the fall of 2010, she worked as a reporter, page designer and copy editor for small newspapers in both southeastern Alabama and in Colorado. In 2008, she wrote grants for the Catamount Institute in Colorado Springs, Co., and worked as a communications assistant for the Gulf Restoration Network in New Orleans. She has a strong interest in conservation and natural resources management issues, especially concerning the American tropics and the U.S. Gulf Coast. She completed independent studies in coastal Ecuador in 2009. Jordan is a 2008 summa cum laude graduate of Loyola University New Orleans. She majored in print journalism.Phineas Baxandall is the Senior Policy Analyst for Tax and Budget issues for U.S. PIRG Education Fund. He Mr. Baxandall is a leading expert in his field and has appeared on numerous talk shows and conducted studio interviews and debates for outlets such as CNN, MSNBC, Fox and PBS. His op-eds have appeared in dozens of newspapers across the country and he has been quoted in numerous publications such as the New York Times and the Economist. He often presents at conferences and has been invited to testify before state legislatures, Congress, and the U.S. Department of Transportation. His blogs appear often on the National Journal Transportation Expert blog and on Huffington Post. He serves on the executive board of the transportation coalition Transportation for America, as well as the privatization study group, In the Public Interest. Summer 2011 “High-Speed Rail: Public, Private or Both? Assessing the Prospects, Promise and Pitfalls of Public-Private Partnerships” <http://cdn.publicinterestnetwork.org/assets/85a40b6572e20834e07b0da3e66e98bf/HSR-PPP-USPIRG-July-19-2011.pdf> AB)

Potential Benefits of PPPs Risk Sharing One of the most important potential benefits of public-private partnerships is the ability to share the risk inherent in a major capital investment among a variety of public and private actors. High-speed rail lines are typically multi-billion dollar endeavors subject to a variety of risks—from unexpected difficulties building tunnels through mountains or densely packed urban areas to delays in the completion of adjoining transportation infrastructure. Sharing risks between government and private entities can—if done correctly—make it more palatable for both entities to “take the leap” in building a project with great benefits for society. PPP agreements can share risk in a variety of ways: • In a public tender contract, private contractors are held liable for building a piece of infrastructure—often at a particular price and on a particular schedule. • In an availability payment (designbuildmaintain) concession, private contractors are held accountable for quality workmanship by also being given responsibility for maintaining the line over a period of time. • In a traffic-based concession agreement, private entities take on the risk that ridership, and therefore revenue, on the high-speed rail line will be less than anticipated. The potential for risk sharing is one of the primary selling points used by PPP proponents to encourage public-private partnerships—and is a particularly powerful selling point at a time of tight fiscal constraints. However, the ability of a PPP to shelter the government from risk depends on the details of the agreement. Evidence from abroad shows that even specific contract provisions designed to protect the government from risk may fail to do so because the fate of the project becomes inexorably tied to the fate of a particular private company—a problem known as “lock-in.” (See page 17.) Advantages in Speed, Cost or Quality PPPs are often touted as being able to deliver infrastructure projects faster, cheaper or with better quality than a public-sector entity. This is not to say that private entities are inherently better suppliers of infrastructure than public agencies. Private entities bring many inherent disadvantages, including higher capital costs and the need to cover financial returns to shareholders. The process of undertaking a PPP also incurs transaction costs—such as the potential need to pay stipends to would-be bidders to help defray the cost of preparing proposals.24 States and localities that have pursued toll road PPPs in the United States, for example, typically pay millions to auditing, consulting and legal firms. A key question for government agencies considering PPPs is the degree to which the savings purportedly delivered by private companies are real or illusory. Real savings can result from a private company’s access to expertise and experience, its ownership of proprietary technologies, or economies of scale. In the case of high-speed rail, there are several international firms that have amassed decades of experience in the construction and operation of high-speed rail lines, and may be effective competitors to build similar systems in the United States. However, PPP savings can also be illusory if savings are merely generated by avoiding labor and wage requirements or regulatory standards that would otherwise govern projects built directly by government agencies. These changes might produce a nominal cost “savings” in the short run, but they are achieved by externalizing costs onto or transferring benefits from other residents and employees in the state rather than by adding unique value that can only be delivered by the private sector. To assess whether a PPP approach delivers added value to taxpayers, governments must carry out a “value for money” test, such as the public sector comparator. These tests are intended to determine whether a PPP or traditional public-sector contracting will deliver the greatest value, taking into account quality, price and risk. Access to Capital Access to capital is not typically a strong suit of private entities. Government agencies are capable of borrowing large amounts of money to finance public infrastructure at relatively low cost. However, in the current atmosphere of constrained public budgets, access to private capital may make the difference between building necessary high-speed rail projects and leaving them on the drawing board for years to come. Because of the multi-billion dollar price tag of most high-speed rail projects, governments in both Europe and the United States have stated that private investment will be necessary to build out their high speed rail networks.

### Railroads Solvency

#### Private sector is best at taking care of railways and makes them financially possible

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Similarly, governments throughout the world are discovering the potential benefits of having the private sector finance and often operate railroad services. The Channel Tunnel Rail Link (connecting England and France by rail through the Channel Tunnel) is an example of a PPP approach to the development of railways. Revenues: Taking over the existing rail services can be a challenge for project finance models, as they are often unprofitable. This is particularly true of routes that are primarily passenger-oriented. Recovering operating costs alone can be difficult. It is often the intervention of the private sector to support such projects for the benefit of the community that makes rail projects financially possible.

### Airports Solvency

#### Airport terminals and ports have had huge success with PPP

Mattei Ivan Mattei is a corporate partner and Chair of the firm's Project Finance and Infrastructure Group. et al 11 (Project Finance By Ivan Mattei, partner, and Michael McGuigan, associate, Debevoise & Plimpton. October 2011 “The current catalysts for US PPP development” Lexis AB)

At present **there are three active airport privatisations in the US PPP pipeline, all of which fall under the FAA's airport privatisation pilot programme. The preliminary appli­cation for the privatisation of Puerto Rico's Luis Munoz Marin International Airport**, dis­cussed earlier in this article, received FAA approval in late December 2009. In May 2010, **the FAA approved the preliminary application for the privatisation of Briscoe Field Airport in Gwinnett County, Georgia,** which is located about 64km from Atlanta, Georgia, and in May 2011, **the Gwinnett County Board of Commissioners approved the issuance of an RFP for the privatisation of the airport.** In October 2010, **the FAA approved the preliminary application for the privatisation of AirGlades Airport in Hendry County, Florida**. AirGlades is a general aviation reliever airport with a new general aviation terminal and a number of corporate hangars. In addition, **the proposed privatisation of Chicago's Midway Airport remains a possi­bility**, although it is not being actively pur­sued at the moment. This transaction was preliminarily approved by the FAA in Octo­ber 2006, and **the city selected a consortium to operate Midway under a 99-year lease in exchange for an upfront payment to the city of $2.521 billion**. However, the trans­action never reached financial close and the win­ning bidder forfeited its security deposit of nearly $126 million. Despite this set­back, Midway's application remains in effect. The only completed transaction under the current pilot programme was the privatisation of New York's Stewart International Airport pursuant to a 99-year lease granted to National Express in 2000. However, in late 2006, the Port Authority purchased the lease and control of the airport was returned to the public sector. Airport terminals Although privatisations of entire airports have proved challenging, **there has been noteworthy success in the application of PPP techniques at the level of individual terminals within a larger airport**. The prime example is **the widely acclaimed Terminal 4 project at John F Kennedy International Air­port in New York. The** underlying **arrangement reflects a true, custom-tailored PPP between a private entity** (as lessee) **and the Port Authority** (as lessor). **The private lessee of Terminal 4 was responsible for construct­ing the original, $1.2 billion terminal**, and is now responsible for constructing a $800 mil­lion expansion project that achieved finan­cial close in December 2010. **In addition to its construction obligations, the private lessee is responsible for the** daily **operation and maintenance of the terminal** pursuant to a long-term lease.

#### Privatized Air Ports are proven around the world to be more efficient and innovative then Federal funded airports.

**Poole** and **Edwards,** director of transportation policy and Searle Freedom Trust Transportation Fellow at Reason Foundation. Poole, an MIT-trained engineer, has advised the Ronald Reagan, the George H.W. Bush, the Clinton, and the George W. Bush administrations. , director of tax policy studies at Cato and testified to Congress on fiscal issues many times, and his articles on tax and budget policies have appeared in the Washington Post, Wall Street Journal, and other major newspapers,**2010**( Robert,Chris,June 2010,http://www.downsizinggovernment.org/transportation/airports-atc/#4)**CMO**

Virtually all commercial airports in the United States are owned by state and local governments.12 But around the world, airports are becoming viewed more as business enterprises, and less as monopoly public services. Governments in both developed and developing countries are turning to the private sector for airport management and development. The benefits of a more entrepreneurial approach to running airports include increased operating efficiency, improved amenities, and more rapid and efficient expansion in capacity to reduce congestion. Airlines, passengers, private-plane owners, and taxpayers can all benefit from this new commercial approach to airport management. For existing state and local airports, the simplest form of privatization is to contract out management of the airport on a short-term basis. But long-term leases can shift much greater responsibility and entrepreneurial incentive to the airport company, while liberating much of the city's previous investment in the airport. To create new airport facilities, the private sector can be brought in as a partner and granted either a long-term or perpetual franchise to finance, design, own, and operate the new facility. Full private ownership and management of airports is also possible and is becoming fairly common in Europe. Airports have been fully or partly privatized in many foreign cities, including Amsterdam, Athens, Auckland, Brussels, Copenhagen, Frankfurt, London, Melbourne, Naples, Rome, Sydney, and Vienna. Britain led the way with the 1987 privatization of British Airports Authority, which owns Heathrow and other airports. Other countries followed with a wide range of commercialization reforms under which private firms own or operate various aspects of airport facilities. Since 1987, more than 100 airports have been partly or fully privatized worldwide. A recent survey found that there are about 100 companies around the world that own and operate airports, finance airport privatization, or participate in projects to finance, design, build and operate new airports or airport terminals.13 Here are some examples of airport privatization reforms in recent years: •France's Aeroports de Paris, which owns Charles de Gaulle and Orly airports, was partially privatized in 2006. •Most of Italy's larger airports have been privatized, including those in Rome, Florence, Naples, Parma, Pisa, and Venice. •Greece plans to sell part of the remaining share of the Athens airport that it retains, and it may privatize some of its larger regional airports. •Spain's government announced in 2008 that it will sell major stakes in the 47 airports operated by state agency AENA. •Mexico has privatized numerous airports, and the country boosts three successful airport operators that plan to expand abroad. •Brazil is planning to privatize Galeao International Airport in Rio de Janeiro. •Most of Australia's major airports have been either privatized or contracted out to private operators under long-term leases.14 Why has the United States resisted these types of airport reforms occurring around the world?15 One reason is that U.S. state and local airports have for decades received federal aid for development and construction. Federal law generally provides that governments that have received federal aid for an infrastructure facility have to repay previous federal grants if the facility is privatized. Moreover, the FAA has interpreted a legal provision requiring that all "airport revenues" be used solely for airport purposes to apply to any lease or sale proceeds, which prevents a city from selling its airport and using the proceeds for its general fund. Another important factor is that state and local governments can issue tax-exempt bonds to finance airports because they are government-owned facilities. Thus, borrowing can be done at a lower cost than borrowing by private airport owners issuing taxable debt. However, this bias against private ownership can be overcome. The federal government could pursue tax reforms to reduce or eliminate the tax exemption on municipal bond interest. Alternatively, the government could permit private airport operators to make use of tax-exempt revenue bonds ("private activity bonds"), as it has done for companies involved in the toll road business. A final hurdle to airport privatization in the United States has often been the airlines. For various structural reasons, they worry that their costs may be higher or they may face more airline competition if airports were privatized. Typically, major airlines are like an anchor tenant in a shopping mall. At U.S. airports, major airlines generally have long-term lease-and-use agreements, which often give them control over terminals or concourses and the right to approve or veto capital spending plans. That gives them the power to oppose airport expansion if it would mean more airline competition in that location. In the 1990s, numerous state and local officials saw what Margaret Thatcher had done in Britain and were inspired to sell or lease their own airports. But the airlines and federal administrators objected for the reasons cited. So privatization proponents went to Congress, and it passed the very modest reform in 1996: the Airport Privatization Pilot Program. This program allows exemptions from the most onerous provisions of airport grant agreements for up to five U.S. airports. Cities whose airports are accepted for the pilot program do not have to repay previous grants and they are allowed to keep any airport sale or lease proceeds.16 However, the airlines lobbied hard to include a provision specifying that to keep sale or lease proceeds a city had to get the approval of 65 percent of the airlines serving an airport, which created a substantial hurdle to reform. As a result, progress toward privatization has been very slow over the last decade. The only airport privatized under the 1996 Pilot Program—Stewart International Airport north of New York City—did not get the local airline's approval. Therefore, New York State was required to use its lease revenues for improvements to Stewart and other state-owned airports. The airport operated under a 99-year lease to the U.S. subsidiary of the U.K.-based National Express Group.17 But that lease was later terminated by mutual consent due to National Express's change in corporate strategy to focus on its intercity bus and rail business. The Port Authority of New York and New Jersey, a government agency, took over the remaining years of the lease. This change freed up that slot in the Pilot Program, making all five available as of 2010. Some other airports where local officials have recently considered applying to the Pilot Program are Austin, Hartford, Jacksonville, Kansas City, Long Beach, Milwaukee, New Orleans, Ontario (California), and San Juan. Chicago has been close to a deal on privatizing Midway airport, but the financial crisis has put that plan on hold for now.18 One positive development is that a small but growing number of U.S. airports have management contracts with private companies. Indianapolis International Airport did a successful medium-term management contract with BAA Indianapolis LLC, a wholly owned subsidiary of the British BAA plc. Other contract-managed airports include Albany, Burbank, and White Plains/Westchester. Another bright spot is that an entirely privately financed, built, and operated commercial airport opened near Branson, Missouri, in 2009.19 A group of entrepreneurs created Branson Airport LLC, acquired a parcel of land, received airspace approvals from the FAA, and set about raising money. With $140 million in hand, they have created a one-runway airport with a contractor-operated control tower and a modest terminal building for commercial flights by Airtran and other carriers. One more reason to privatize airports can be found by looking at the effects of airline deregulation. In 1978, President Jimmy Carter signed into law the Airline Deregulation Act, which removed government controls over airline fares, routes, entry, and mergers. Under deregulation, prices fell and the volume of air travel dramatically increased. Airlines reconfigured their routes and equipment and improved their capacity utilization. Many new airlines opened for business.20 Consumers continue to save tens of billions of dollars a year from these reforms. However, it is also true that today's airline service often leaves much to be desired, with frequent delays, overcrowded planes, and other inconveniences. If service by some airlines is so bad, why haven't airline entrepreneurs broken into such markets to offer better alternatives? It turns out that many are trying, but they often have difficulty obtaining gates at such airports. The reality is that airline deregulation is an unfinished revolution until it includes airport deregulation and privatization. All too many U.S. airports are still run in an old-fashioned and bureaucratic manner typical of the pre-deregulation era. Their management style is more passive and risk-averse than that of the world's privatized airports. Investor-owned airports are run as businesses, trying to make profits by tailoring their services to meet the needs of different groups of customers, not just airlines. Detailed research by scholars at Oxford University has shown that the management approach of privatized airports is significantly more "passenger friendly" than that of traditional airports.21 Private airport managers are also more willing to take on the risks of new investments, such as the creation of new terminal space to provide gates for new airlines. By contrast, under typical U.S. airport management practice, the major incumbent airlines have signed long-term exclusive-use gate-lease agreements. From the standpoint of risk-averse airport managers, these long-term agreements give them a guaranteed revenue stream. In exchange for this security, they give up substantial control to the major airlines. Usually, the long-term agreements give airlines what amounts to veto power over terminal expansions. That means that when new-entrant airlines want to start service to such an airport, there are often no gates available, which reduces competition. By contrast, experience has shown that privatized airports generally do not cede de-facto control over their facilities to the large airlines. At most such airports, the gates remain under the control of the airport company, and they are allocated hour by hour to individual airlines, as needed. That is why at many European airports, and the more commercially run airports in Canada, you will observe that the airline signage at each gate is electronic, so that it can be changed in moments from one airline's name to another's. In sum, airline competition would be expanded and consumers would benefit if we reformed the outmoded ownership and management structures of U.S. airports. Much of the world is moving to a new paradigm—the airport as a for-profit enterprise—that is more consistent with a dynamic, competitive airline market. In the end, all groups—airlines, passengers, and cities—would benefit from airports that were self-funded, more efficient, and more innovative than current U.S. airports following an old-fashioned bureaucratic approach.

#### Airport privatization works Australia proves

Myer, The Age, 2006(Rob Myer, September 13, 2006, http://www.lexisnexis.com/hottopics/lnacademic/)CMO

THE Tourism & Transport Forum has delivered a big tick to airport privatisation, releasing a report saying private airports have made big efficiency gains and that they are lifting revenue through new business. However, the report by the forum - which is made up of representatives from across the travel industry - attributes at least some of the improved financial outcome to higher aeronautical charges. These have been a point of conflict between some airports and the airlines that use them. The report, launched by Sydney Airport chairman Max Moore-Wilton, found that efficiency in terms of revenue per unit of traffic carried had jumped nearly 25 per cent on average since the four major airports Sydney, Melbourne, Brisbane and Perth were privatised. The revenue efficiency gains have come from diversification into new revenue sources such as property development and the charging of market rents on property assets. Airport yields have jumped, with earnings before tax and depreciation amounting to 48.2 per cent of revenue after privatisation compared with 46.1 per cent beforehand. Passenger numbers have also increased. For the five years before privatisation, the average annual passenger growth for the four airports was 4.5 per cent domestically and 5.3 per cent for international passengers. Since passing into private hands, the domestic passenger growth rate is up to 5.3 per cent and the international rate is up to 6.9 per cent. Total average passenger numbers were 11.5 million before privatisation and 12.9 million since. Investment levels have actually fallen. In the five years before the airports were sold, $1.84 billion was spent on capital investment compared with $1.14 billion since. However, Melbourne Airport spokesman Geoffrey Conaghan said governments had invested to get airports upgraded before privatisation, and Melbourne Airport had actually spent more since it went into private hands. Qantas executive Grant Fenn said airports were more efficient following privatisation, but there was concern that airports had an unfettered ability to raise charges and apply non-commercial operating terms and conditions.

#### Privatization of Airports is inevitable

Ott The Weekly of Business Aviation, 2011(James, January 10, 2011, http://www.lexisnexis.com/hottopics/lnacademic/)CMO

As many as 10 U.S. airports could be privatized by the end of the decade, predicts Greg Principato, president of Airports Council International-North America. Economic pressures on cities and states will drive local authorities to accept a buyout, leasing or other forms of privatization. Political attitudes will shift, he says, «once a mayor cashes a $2 billion check» from a buyout—cash that will help solve financial dilemmas facing many local and state governments. Principato expects the change not to occur quickly, but over time. Airport operators also are also attracted to the prospect of «a little more freedom» under privatization, he says. Another driver is the large federal deficit, which likely will wield a strong influence on the incoming Congress and restrain Airport Improvement Program funding. There also are questions about whether Congress will approve an increase in passenger facility charges that would enable and improve financing, the ACI president says. Airport infrastructure is in need of upgrading to meet forecast traffic growth, and funds also are necessary for repair, the executive points out. In the past two years, airports have won a reprieve from the alternative minimum tax under the federal stimulus program, a move that «thawed out the market for bonds,» Principato says. Some $10 billion worth of airport revenue bonds of the $16 billion sold in that period can be traced to the tax reprieve, he says. As a direct result, Sacramento International Airport was able to continue with its terminal project, and an upgrade at Las Vegas McCarran International Airport became possible, among other projects, according to the ACI executive.

### Airports Solvency – AT: Restrictions

#### Bills will pass to remove the law against partnerships at airports

Mattei Ivan Mattei is a corporate partner and Chair of the firm's Project Finance and Infrastructure Group. et al 11 (Project Finance By Ivan Mattei, partner, and Michael McGuigan, associate, Debevoise & Plimpton. October 2011 “The current catalysts for US PPP development” Lexis AB)

**In the airport sector, the key constraint** on state experimentation **with PPPs is a general federal prohibition against the use of airport revenues for non-airport purposes**. Thus, as with the federal prohibition against tolling existing interstate highways**, PPPs in this sector depend on the availability of an exemption under Federal law.** For airports the relevant exemption is found in the Federal Aviation Administration's (FAA**) airport privatisation pilot programme, which authorises the privatisation of up to five US airports, including one large hub airport, and permits the private participant to make a reasonable profit from airport revenues.** Unfortunately, at present not a single US airport is privatised under the pilot pro­gramme. This is due in significant part to a requirement under the programme that any airport privatisation must be approved by airlines representing 65% of both the sched­uled airlines serving the airport and the total landed weight of all aircraft landing at the airport. Not surprisingly, airlines handed this significant bargaining leverage have used it to their advantage and this has made it more difficult to structure viable transactions. **In early August 2011, the FAA legislation was again extended, for the 21st time**, through mid-September 2011, after lapsing on 22 July 2011. While Congress continues to debate long-term FAA reauthorisation legis­lation, **one very positive note for airport PPPs is that reauthorisation bills in both houses of Congress would ease some of the restrictions that have burdened the FAA's airport privatisation pilot program**. Most sig­nificantly, the **airline approval requirement would be eliminated. Instead, the airport grantor would be required to consult with air carriers serving the subject airport,** and the consent of the US secretary of trans­portation would be required in order for any airport privatisation to proceed. **These bills would also increase the permitted number of privatised airports from five to ten, and remove the one large hub limitation**.

### NextGen Solvency

#### The Government cannot do NextGen effectively ineffective funding, tech limitations, and politics get in the way

**Poole** and **Edwards,** director of transportation policy and Searle Freedom Trust Transportation Fellow at Reason Foundation. Poole, an MIT-trained engineer, has advised the Ronald Reagan, the George H.W. Bush, the Clinton, and the George W. Bush administrations. , director of tax policy studies at Cato and testified to Congress on fiscal issues many times, and his articles on tax and budget policies have appeared in the Washington Post, Wall Street Journal, and other major newspapers,**2010**( Robert,Chris,June 2010,http://www.downsizinggovernment.org/transportation/airports-atc/#4)**CMO**

Many aviation **experts predict serious trouble in coming years as air travel demand grows faster than the ability of the U.S. air traffic control system to expand capacity**.22 In the 2003 reauthorization of the FAA, **Congress acknowledged** the seriousness **of the problem by creating** the Joint Planning and Development Office to coordinate the transition to a Next Generation Air Transportation System (**NextGen**). NextGen will be a major redesign of the ATC infrastructure, as described by the Congressional Budget Office: The new system is designed to accommodate up to three times the volume of current air traffic by making more efficient use of both the national airspace and airport facilities. The new air traffic control system would be more decentralized than the one currently in place in the United States. Guidance systems on planes would work in conjunction with satellites of the Global Positioning System (GPS) to supplement direct supervision by ground-based controllers and radar stations. As a result, each plane would depend less on instructions from an air traffic controller and more on its own resources for maintaining a safe flight pattern and would be better able to adjust to the particular air traffic conditions in its vicinity.23 The JPDO has estimated that not expanding the ATC system's capacity will be costing the U.S. economy $40 billion per year by 2020 because the overburdened system will force significant rationing of flights. That rationing would increase prices and eliminate some trips entirely. To avoid this crisis, JPDO has called for restructuring the ATC system to safely and efficiently handle the heavier demand. One **problem is the mismatch between the growth in air traffic and the projected growth in FAA revenue. The FAA will need about $1 billion more per year over the next 20 years just to implement NextGen. In 2007 the FAA proposed a user-fee-based funding reform that could provide a more efficient and growing revenue source.** The idea was to make each air transportation user's burden on the ATC system more closely match that entity's cost for using the system. That approach has thus far been ignored by Congress. However, the challenge ahead for the ATC system is more complex than just financial. NextGen will be a major paradigm shift—from 20th-century (manual) air traffic control to 21st-century (semi-automated) air traffic management—and it will be more complex and riskier than any other challenge the FAA has previously attempted. Given the FAA's management and cost overrun problems in the past, simply fixing the funding problem for the ATC system without dramatically reforming its governance poses risks of larger and more dramatic failures and greater congestion down the road. Here are three key problems with the current government-owned and operated system of air traffic control: •Inflexible Funding. Government funding sources tend to be static and subject to political considerations, and they are decoupled from changing market demands. Changes in aviation over the past decade have hurt the FAA's funding base. A large part of the FAA budget comes from aviation excise taxes, especially the 7.5 percent tax on airline tickets. As average ticket prices have fallen over time, ATC funding has been squeezed. Payroll costs of the current labor-intensive ATC system consume most of the available budget, leaving less funding for capital investment. Making the transition to NextGen will require billions of dollars of new investments in advanced technologies. The FAA's capital budget is still focused mostly on patching up the existing system, such as replacing antiquated display consoles. Such investments are needed in the short-term, but won't add very much capacity to the system. But that is nearly all the FAA can afford under the current funding structure. Some people argue that Congress could solve the funding problem by appropriating a larger amount of general federal revenue for the ATC system. But given the giant federal budget deficit, federal discretionary spending is going to be severely squeezed in coming years. The solution, as discussed below, is to create a commercialized ATC system that can flexibly respond to changing conditions and access private capital markets for investment. •Technology Implementation Risks. The FAA has been attempting to modernize its system, expand capacity, and increase its productivity for decades. But dozens of reports over the years from the Government Accountability Office and the Office of Inspector General in the Department of Transportation have faulted the FAA for poor management of major projects, which are often delayed and over budget.24 The Advanced Automation System, Wide Area Augmentation System, and other major projects have had large cost overruns and been years behind schedule or cancelled, as discussed above. In 2005 two OIG researchers presented an overview of the FAA's failed efforts over the years to modernization the National Airspace System.25 In reviewing what went wrong, they concluded that FAA modernization efforts had neither reduced costs nor increased productivity: NAS modernization plans have been consistently subverted by requirements growth, development delays, cost escalations, and inadequate benefits management. All these things were symptomatic of the fact that FAA didn't think it needed to reduce operating costs.26 Many experts are greatly concerned that the FAA's institutional culture is poorly suited to implementing anything as dramatic as NextGen. In 2004, the National Academy of Sciences convened an expert panel to assist the GAO in understanding the cultural and technical factors that have impeded previous ATC modernization efforts. It found that "the key cultural factor impeding modernization has been resistance to change... [which is] characteristic of FAA personnel at all levels" and that "the key technical factor affecting modernization... has been a shortfall in the technical expertise needed to design, develop, or manage complex air traffic systems."27 As a government agency, the FAA is not designed to judge risks, aim at the most efficient investments, manage people to produce results, reward excellence, or punish incompetence. It is therefore not equipped to fundamentally reform the ATC system. Thus, major institutional change is probably a prerequisite for implementing the advanced ATC system the nation needs to meet rising aviation demand. •Political Constraints. A third impediment to ATC reform is political. The redesign of the ATC system foreseen in NextGen could potentially deliver major cost savings and greatly expand ATC capacity. However, realizing those gains would require retirement of large numbers of costly radars and other ground-based navigation aids and the consolidation of ATC facilities. One current proposal would replace 21 en route centers and 171 terminal radar approach control (TRACON) facilities with just 35 air traffic service hubs in a redesign of U.S. airspace.28 Physical control towers located at many smaller airports would gradually be phased out as "virtual tower" functions are built into the new super-hubs. However, Congress tends to resist consolidating ATC facilities because of concerns about job losses and the like, which is similar to the political resistance to closing post offices and military bases. A major 1982 proposal for consolidating ATC facilities was quietly dropped after it became clear that getting it through Congress would be very difficult. Similarly, Congress came extremely close to forbidding the FAA's recent success in outsourcing its Flight Service Station system, which involved reducing the system from 58 facilities to 20. The prohibition was defeated only by a credible veto threat from the White House. In sum, as long as ATC remains government-owned and controlled, making the needed reforms to improve efficiency and implement NextGen will be very difficult.

#### The Private Sector can solve these problems

**Poole** and **Edwards,** director of transportation policy and Searle Freedom Trust Transportation Fellow at Reason Foundation. Poole, an MIT-trained engineer, has advised the Ronald Reagan, the George H.W. Bush, the Clinton, and the George W. Bush administrations. , director of tax policy studies at Cato and testified to Congress on fiscal issues many times, and his articles on tax and budget policies have appeared in the Washington Post, Wall Street Journal, and other major newspapers,**2010**( Robert,Chris,June 2010,http://www.downsizinggovernment.org/transportation/airports-atc/#4)**CMO**

The way to address all three of these organizational problems is to take the ATC system out of the federal budget process and make it a self-supporting entity, funded directly by its customers. Variants of this commercialization approach have been recommended by a series of federal studies and commissions over the past 15 years. As part of Vice President Al Gore's efforts at "reinventing government" in the 1990s, for example, the Clinton administration proposed turning the ATC system into a separate, self-funded, nonprofit government corporation within the Department of Transportation. The 1997 National Civil Aviation Review Commission, which was chaired by Norman Mineta, similarly proposed moving toward a self-supporting air traffic control organization.29 Commercialization would entail shifting from aviation-related taxes paid to the U.S. Treasury to fees for ATC services paid directly by customers to a new self-supporting Air Traffic Organization. This change would allow fees to grow in proportion to the growth of flight activity, rather than being tied to a less-stable variable, such as fuel prices or airline ticket prices. Moreover, a predictable revenue stream that was not subject to the federal budget process would provide the basis for the ATO to issue long-term bonds for funding capital investments. Commercialization would also address the management problems that have plagued the FAA's efforts to modernize. A non-civil-service ATO could attract the best private-sector managers and engineers skilled at implementing complex technology projects. Such an ATO could hire, fire, and compensate its employees as other high-tech businesses do. Private sector managers would have an incentive to ask tough questions about whether new investments offered real value for the money, a process that often doesn't occur at the FAA or in Congress. In addition, a separate, self-supporting ATO—no longer part of the FAA—would be overseen at arm's length for aviation safety by the remaining FAA. Numerous studies have pointed out that the FAA's air-safety role is compromised when it comes to the ATC system, since that system is operated "in-house" by a different branch of the same FAA. All other players in aviation—pilots, mechanics, aircraft manufacturers, airlines, and so forth—are regulated at arm's length for safety by the FAA. This separation of ATC operations from safety regulation is especially critical given the major changes entailed by shifting to the semi-automated NextGen, where numerous safety versus capacity questions will need to be addressed in a rigorous and transparent manner. Finally, a self-supporting ATO would address the political obstacles to improving system efficiency, such as making decisions to close facilities. By passing the enabling legislation for ATC reform, Congress would delegate such contentious issues to the customer-oriented ATO organization. During the past two decades, nearly 50 governments have commercialized their air traffic control systems. That means they have separated their ATC activities from their transport ministries, removed them from the civil service, and made them self-supporting from fees charged to aircraft operators. These new air navigation service providers (ANSPs) are usually regulated at arm's length by their government's aviation safety agency. Britain's ATC system has been commercialized by means of a "public-private partnership." National Air Traffic Services is a jointly owned company, with British airlines owning 42 percent, airport company BAA owning 4 percent, employees owning 5 percent, and the government owning the remaining minority stake. NATS is operated on a not-for-profit basis. Canada's ATC system has been fully commercialized.30 In 1996, Canada set up a private, nonprofit ATC corporation, Nav Canada, which is self-supporting from charges on aviation users. The Canadian system has been widely praised for its sound finances, solid management, and its investment in new technologies.31 The Canadian system is a very good reform model for the United States to consider. Nav Canada's corporate board is composed largely of aviation stakeholders.32 It has 4 seats for the airlines, 3 for the government, 2 for employees, and 1 for the non-commercial aviation industry. Those 10 stakeholders select 4 directors from outside aviation, and then those 14 select the company president, who becomes the 15th board member. To further strengthen governance, neither elected officials nor anyone connected with suppliers to Nav Canada can serve on the board. Nav Canada also has a 20-member outside Advisory Committee. A number of studies have found that ATC commercialization has generally resulted in improvements to service quality, better management, and reduced costs.33 At the same time, air safety has remained the same or improved in the countries that have pursued reforms to set up independent ANSP organizations. A thorough 2009 report by Glen McDougall and Alasdair Roberts compared the performance of 10 commercialized ATC systems and the FAA during the 1997 to 2004 period.34 They looked at large amounts of performance and safety data from the systems in the various countries and conducted over 200 interviews with managers, workers, and users of the different systems. The researchers found: ANSP commercialization has generally achieved its objectives. Service quality has improved in most cases. Several ANSPs have successfully modernized workplace technologies. The safety records of ANSPs are not adversely affected by commercialization, and in some cases safety is improved. Costs are generally reduced, sometimes significantly. Other risks of commercialization—such as erosion of accountability to government, deterioration of labor relations, or worsened relationships between civil and military air traffic controllers—have not materialized.35 For the United States, a commercialized ATC organization would be more likely than the FAA to efficiently implement the major aviation infrastructure advances that the nation desperately needs. Air traffic control is more complex and dynamic than ever, and it needs to be managed in the sort of efficient and flexible manner that only a commercialized environment can offer. Countries like Canada have shown the way forward for air traffic control, and U.S. policymakers should adopt the proven organizational reforms that have been implemented abroad.

### Highways Solvency

#### PPP’s are effective for building highways

Brown, Division Administrator Federal Highway Administration Texas Division, 2009, (Janice, Public-Private Partnerships for Highway Infrastructure: Capitalizing on International Experience, March 2009, <http://international.fhwa.dot.gov/pubs/pl09010/pl09010.pdf>, AM)

Public-private partnership (PPP) programs for highway infrastructure are not widely used in the United States. The Federal Highway Administration, American Association of State Highway and Transportation Officials, and National Cooperative Highway Research Program sponsored a scanning study to collect information about PPP programs for highway infrastructure in Australia, Portugal, Spain, and the United Kingdom, where PPP experience is more extensive. The scan team learned that PPPs are an effective strategy for delivering highway projects, and they are service arrangements as much as financial ones. The team observed that potential PPP projects must be analyzed and structured thoughtfully to preserve public interests and that managing the partnership over the life of the contract is critical to providing the services expected. Team recommendations for U.S. implementation include convening workshops, developing training guidelines, establishing an expert task group, developing a research strategy, and publishing principles and guideline documents on PPP topics.

#### Concerns for highways require PPP aid

CBO 12(Congressional Budget Office, January 2012, <http://www.cbo.gov/sites/default/files/cbofiles/attachments/01-09-PublicPrivatePartnerships.pdf>, “Using Public-Private Partnerships to Carry Out Highway Projects”, KC)

Although the comprehensive costs of financing a highway project with private capital or with public borrowing are largely the same, the incentives associated with private financing may encourage the partners in the project to reduce its costs and shorten its schedule. In particular, giving a private partner an equity stake in a project as well as control over the project’s execution generally encourages more efficient management than the traditional approach affords. Under the traditional approach, a contractor may have only a limited incentive to control costs because cost increases in many cases can be passed on to the government. In contrast, holders of equity claims usually have more of an incentive to control a project’s costs because they are the last to be paid on a project and will receive a payment only if the cash flows—from the state or local government directly or from toll revenues— are sufficient to cover costs. (Chapter 3 further examines the effects of incentives in controlling the costs and speed of completion of highway projects.) However, equity financing is not the only way to provide incentives to contractors to manage projects efficiently. Governments can use the traditional approach in conjunction with other mechanisms to achieve the same ends. Alternatives include incentive payments or penalties that are contingent on the private contractor’s meeting specific milestones regarding costs or the project’s completion.

### Roads Solvency – AT: Tolling Restrictions

#### Reforms are in place that allow PPP on roads

Mattei Ivan Mattei is a corporate partner and Chair of the firm's Project Finance and Infrastructure Group. et al 11 (Project Finance By Ivan Mattei, partner, and Michael McGuigan, associate, Debevoise & Plimpton. October 2011 “The current catalysts for US PPP development” Lexis AB)

**US law** generally **restricts the tolling of roads that are constructed using federal funding**, a class that includes most inter­state highways in the country. **As such, statu­tory exemptions to federal law are necessary in order to allow PPPs to charge tolls on such roads**. On 10 August 2005, the Safe, Accountable, Flexible, Efficient Trans­por­tation Equity Act: A Legacy for Users (**SAFETEA-LU) was signed into law and provided a number of such exemptions to federal law, in many cases in the form of limited pilot programmes. One of the most important exemptions under SAFETEA-LU is an express lanes demonstration programme, which authorises 15 express toll lane projects on congested interstates**. Other notable SAFETEA-LU pro­grams include the authorisation of high occu­pancy toll (HOT) lanes projects where existing high occupancy vehicle (**HOV) lanes may charge tolls to vehicles that do not meet the passenger requirements,** an inter­state con­struction toll pilot programme, under which up to three states may impose tolls on new interstates to support the financ­ing for their construction, and up to $15 billion of tax-exempt private activity bonds (PABs) for long-term PPPs. The most recent tem­porary extension of SAFETEA-LU is set to expire on 30 September 2011, and pres­ent­ly there are two primary competing bills for long-term reauthorisation of SAFETEA-LU. Representative **John Mica,** chairman of the House of Representatives transportation and infrastructure committee, has **introduc­ed legislation that would overhaul SAFETEA-LU. This proposal will limit spending to $230 billion over the next six years, which is the amount of federal gasoline tax revenue projected to be deposited into the Highway Trust Fund during that time**. Representative Mica's plan also calls for increasing annual TIFIA funding from $122 million to $1 billion, incentives for state infrastructure banks, the elimination or consolidation of dozens of federal transpor­tation programs, and streamlining the pro­ject approval process. Senator Barbara Boxer, chairman of the environment and public works committee, has proposed a 2-year extension of SAFETEA-LU that is intended to provide a foundation for long-term improvements to US transportation infrastructure. Senator Boxer's legislation would also consolidate numerous SAFETEA-LU programmes and increase TIFIA funding to $1 billion per year. However, unlike Representative Mica's proposal, it would continue funding at cur­rent levels, which are higher than the rev­enues deposited into the Highway Trust Fund on an annual basis. In addition to the various programmes available under SAFETEA**-**LU**,** the Transpor­tation Infrastructure Finance and Innovation Act of 1998 (**TIFIA**) **authorises** **the US Department of Transportation to assist in financing up to 33% of the cost of trans­portation infrastructure projects, includ­ing PPPs**, with a value of at least $50 million. **TIFIA has proven to be one of the most effective federal funding tools for transportation projects and, in addition to proposals to increase the annual TIFIA funding limits**, many have suggested that the maximum loan amount should be increased from 33% to 49% of the cost of the related project.

### Ports Solvency

#### Privatized ports work better Britain and other countries prove

Edwards, Senior Partner at CATO, 2009(Chris, February 2009, http://www.downsizinggovernment.org/privatization, Privatization, RW)

Nearly all U.S. seaports are owned by state and local governments. Many operate below world standards because of inflexible union work rules and other factors. A Maritime Administration report noted that "American ports lag well behind other international transportation gateways such as Singapore and Rotterdam in terms of productivity."5 Dozens of countries around the world have privatized their seaports. One Hong Kong company, Hutchinson Whampoa, owns 30 ports in 15 countries. In Britain, 19 ports were privatized in 1983 to form Associated British Ports. ABP and a subsidiary, UK Dredging, sell port and dredging services in the private marketplace. They earn a profit, pay taxes, and return dividends to shareholders.6 Two-thirds of British cargo goes through privatized ports, which are highly efficient. Because of the vital economic role played by seaports in international trade, this should be a high priority reform area in the United States

## Politics Net Benefit

### Avoids Politics

#### Private sector involvement avoids politics

Tisch, chairman emeritus, U.S. Travel Association, 12 (Jonathan, April 16th 2012, “How to pay for infrastructure”, The Hills’ Congress Blog, <http://thehill.com/blogs/congress-blog/economy-a-budget/221733-how-to-pay-for-infrastructure>, AM).

With Congress back in Washington, taking action on a long-term transportation bill is now at the top of the agenda. But when it comes to fixing our nation’s crumbling infrastructure, Washington is “just out of money,” House Majority Leader Eric Cantor explained in delaying a recent vote on the $109 billion legislation. But what if the answer – and the dollars – could be found outside the Beltway? Across America, innovative public-private efforts are showing our nation’s leaders not only how to upgrade aging infrastructure, but, more importantly, how to pay for it. Can innovative thinking and creative private sector involvement overcome partisan politics, wary taxpayers, and over-stretched government budgets? There is some reason for optimism.

#### Partnerships avoid angering any key constituencies

Mattei Ivan Mattei is a corporate partner and Chair of the firm's Project Finance and Infrastructure Group. et al 11 (Project Finance By Ivan Mattei, partner, and Michael McGuigan, associate, Debevoise & Plimpton. October 2011 “The current catalysts for US PPP development” Lexis AB)

**There has been much greater success with PPPs based on a different model in which the private party undertakes con­struc­tion of meaningful incremental capacity for users willing to pay for enhanced ser­vice,** and agrees to operate and maintain to a high standard a less congested toll-free option for other users. **HOT and managed lanes projects are examples of this type of transaction**. **Its political success is founded on the ability to deliver benefits to all relevant constituencies**.

### Avoids Politics – Spending Links

#### Partnerships are acceptable to Congress – the CP avoids our spending links to politics

Marks, guest editor of *Infrastructure Journal* and partner in Milbank Tweed Hadley and McCloy’s Global Project Finance, 4/11/2011

(Allan, “U.S. Infrastructure: Challenges, Politics and Opportunities,” http://www.milbank.com/images/content/6/6/6634/MARKS-US-Infrastructure-Infrastructure-Journal-04-11-2011-.pd.pdf)

Despite ongoing reports from analysts about the ailing state of infrastructure in the United States, **the US Congress continues to focus more on the federal budget deficit than the infrastructure deficit**. Although securing financing for new infrastructure projects can be a challenge, the recession has created an excellent opportunity to take advantage of historically low interest rates and underutilized construction capacity to invest in critically needed infrastructure upgrades. Because there has been less and less money available from traditional funding sources to meet the ever-growing need, both for new capacity and to repair and upgrade aging facilities, **governments at federal**, state, and local **levels have been reluctant to invest in many new projects and have stalled existing projects**. **Fortunately**, **public-private partnerships** (PPPs) **offer an attractive tool to bridge this gap**.

#### Policymakers understand that partnerships reduce financial demands

NCSL 10(NSCL, October, 2010, <http://www.ncsl.org/documents/transportation/PPPTOOLKIT.pdf>, “Public-Private Partnerships for Transportation” KC)

 **A variety of factors have negatively affected states’ ability to pay for necessary maintenance of transportation infrastructure and to build new capacity to keep pace with and encourage economic development and job creation.** These factors include changing economic conditions, a delayed federal transportation reauthorization bill, the declining value of the fuel tax (due to a number of factors) and a reluctance to increase it, and growing infrastructure needs. In this environment**, public-private partnerships** (PPPs or P3s) **have been increasingly** studied and **pursued by** state **policymakers** as one alternative method, among others, to procure transportation infrastructure improvements. S**uch partnerships combine a leveraged mix of public and private dollars to better bridge the gap between transportation needs and the financial resources available to meet those needs.**

### AT: Privatization is Controversial

#### No partisan opposition to privatization

Mansour and Nadji 06 (Ashieh Mansour and Hope Nadji, Managing Director of Research RREEF and Director Research RREEF, US Infrastructure Privatization and Public Policy Issues, http://www.irei.com/uploads/marketresearch/69/marketResearchFile/Infr\_Priv\_Pub\_Policy\_Issues.pdf, 6/23/12)

Interestingly, **infrastructure privatization in the US is not a particularly partisan issue**. For example, the Democratic mayor of Chicago has privatized a portion of the region’s transport infrastructure (the Chicago Skyway), while the Republican Governor of Indiana has privatized the Indiana Toll Road.

## Partnerships Good Net Benefit

### Partnerships Key to National Infrastructure

#### Partnerships key to revitalize infrastructure

Sprague, Bill is managing director at Gruppo, Levey & Co. responsible for capital formation, both private capital markets and structured finance 12 (Bill is also a writer forThe Deal Pipeline February 13, 2012 Monday “U.S.'s infrastructure future” Lexis AB)

Remember the federal stimulus program of 2009 that funneled billions of dollars to "shovel-ready" projects to help upgrade this country's crumbling infrastructure? How much of those funds were actually spent and whether that money was spent wisely is for others to decide, but there is still much more to be done. According to a recent study by the Urban Land Institute, **in the next several years the United States needs to spend more than $2 trillion to rebuild infrastructure, including bridges, roads, water lines, dams, schools and sewage treatment plants**. And **even that total ignores the funds needed for new construction**. With the federal government in the middle of a budget crisis and state governments clearly without the resources to write the checks to pay for the necessary repairs, let alone prepare for the future, just what does the future hold? New York Gov. Andrew Cuomo in an op-ed piece distributed to newspapers around the state in December hinted at a viable solution when he called for creation of the New York Works Initiative. A **proposed investment partnership, in part capitalized by funds from the state pension funds, would "promote innovative public-private partnerships with business and labor" to finance repair and development of the state's ailing infrastructur**e. Increasingly, it appears that **such public-private partnerships will become a popular alternative to typical** municipal **bond underwriting**. Such an approach makes sense when considering how cash-strapped state, county and local governments are. **With both employment and consumer spending down, income and sales tax revenues are at all-time lows**, and no one truly believes that they will increase in the near future. There also is reluctance among governments - and taxpayers - to increase municipal debt. **Issuing** municipal **bonds is undesirable right** **now** because of the requisite public hearings and the fear of harming credit ratings. Today, **when going to voters for authority to issue bonds, the answer is** often **no**. Last summer, Nassau County, N.Y., voters rejected the bond approach to finance construction of a new sports arena, even though the outcome of such a vote may be the loss of the local hockey team, the New York Islanders. Even sports teams are not immune to these trends. In addition, **states' initiatives to hold the line on tax increases,** such as New York's legislatively imposed 2% limit on property tax increases, **serve as a disincentive to using general credit**. The private sector is in a bind as well. **Utilities** companies, for example, must upgrade electric grids, yet they too **are hesitant to tap their debt capacity because of the potential impact on their credit ratings**. Raising equity capital at depressed levels is also unappetizing. Creating liquidity by tapping into the value of their physical assets is one alternative that is being explored by an increasing number of companies. Among the main providers of capital, the investment mindset has changed significantly in the aftermath of the financial industry's collapse. As recently as 2005-2006, double-digit returns were the expected norm, and selling deals for short-term results trumped long-term risk assessment. Today the pendulum has swung back, and investors are closely scrutinizing the risk-reward characteristics of every investment opportunity. While investors still want high returns, today they are much more likely to trade higher returns for investments in more stable long-life assets, where they do not have to worry about taking reinvestment risks every two years. A solution here is to use pension assets to build, invest in or acquire infrastructure assets. The investment characteristics of many infrastructure projects - long life, low risk - are appealing, especially to those investors who have comparable long-life liabilities that they need to match. Infrastructure investment can be beneficial to more than just pension fund managers. Consider insurance companies, colleges, universities and wealthy individuals seeking low-risk assets with returns for the next 20 years. **The key is matching investment opportunities with the right private capital sources.** California Public Employees' Retirement System, which has $225 billion in assets, for instance, recently committed to invest up to $800 million into the state's energy-related infrastructure over the next three years. In Canada, the Caisse de dÃ©pÃ´t et placement du QuÃ©bec, a large fund manager of mainly Quebec public and private pension and insurance funds, recently bought a 17% stake ($850 million) in the United States' largest refined petroleum products pipeline, Colonial Pipeline Co. In England, Britain's Chancellor of the Exchequer George Osborne is asking pension funds to contribute &pound;20 billion ($32 billion) or more to U.K. infrastructure projects over the next 10 years. **The pressure to find alternative financing for companies, states, counties and cities is only increasing**. In Harrisburg, Pa., the city may be forced to sell its parking lots. **In Illinois, the state privatized toll-road collections**. **Each corporation or government entity must approach its unique needs in its own best way, but it's clear that the future infrastructure requirements of this country will be met with the burgeoning of a strong system of public-private partnerships that matches the right capital to specific projects**. Bill Sprague is managing director at Gruppo, Levey & Co. responsible for capital formation, both private capital markets and structured finance.

#### Partnerships are key to revitalizing national infrastructure

Little is a senior fellow in the Price School of Public Policy at the University of Southern California 12 (The New York Times June 10, 2012 Sunday Late Edition - Final “The Bridges To the Future” SECTION: Section BU; Column 0; Money and Business/Financial Desk; LETTERS; Pg. 3 Lexis AB)

**There are mechanisms in place to generate funds for the repair and replacement of the highways and other infrastructure so vital to our economic well-being**. Unfortunately, the **user fees that support this work aren't going to be raised anytime soon by Washington. If revenue streams like the gasoline tax were leveraged with private capital through various forms of public-private partnerships, there would be ample money for a robust program of maintenance and renewal**. The more serious issue is this: **We seem to be hobbled by a lack of political courage to do what's necessary to make the investments that the nation needs to secure its future.** Unlike money, that can't be borrowed.

#### The US is too reliant on public sector, now is key to implement partnerships in infrastructure

Istrate and Puentes 11(Emilia Istrate and Rober Puentes, December 9th, 2011, <http://www.brookings.edu/up-front/posts/2011/12/09-infrastructure-puentes-istrate>, “A Path to Public Private Partnerships for Infrastructure”, KC)

Often when making the case for U.S. infrastructure investment, someone will point overseas to Europe or Asia and wonder aloud why other countries have world-class, economy-shaping infrastructure and the United States doesn’t. There are obviously many reasons but a key problem is that, unlike other nations, **the United States is still over-reliant on the public sector for delivering infrastructure projects. Today, those public resources are strained**, especially for transportation projects. On the federal level, the Congressional Budget Office estimates that the highway trust fund will be unable to meet obligations sometime next summer, if not sooner. And while money from the American Recovery and Reinvestment Act provided roughly $335 billion to support the physical infrastructure, those funds are largely spent with little prospect for additional dollars anytime soon. State funding sources are also shrinking. In addition to the 21 states that saw transportation program cuts in fiscal year 2010, more are proposed for the next fiscal year. While states have spent billions on energy efficiency and renewable energy programs over the decade, these programs are also under budgetary microscopes and short term prospects for funding are strained. Other state sources--such as revenue from sales taxes--that are earmarked for infrastructure projects are also in decline due to the recession. So what to do? To paraphrase the physicist Ernest Rutherford, “We’ve run out of money; it’s time to start thinking.” The kind of economy shaping next generation infrastructure we need will require a new way to deliver projects. In an ideal world, the federal government would set a strong platform for transformative investments by establishing new vehicles for infrastructure finance and by radically overhauling the regulatory and administrative barriers that stifle innovation and execution. But the likelihood of meaningful federal action in today’s environment of polarized partisanship is slim. So we must create a new norm and practice of transformative investments the hard way--from the ground up, despite political odds and fiscal obstacles. For one, the United **States needs to take better advantage of and facilitate the use of public/private partnerships (PPPs) for investments. A poll by the financial advisory** firm Lazard shows strong willingness for public entities to consider private investment in infrastructure. However, our recent Brookings report shows that the United States lags in this area. In the quarter-century from 1985 and 2011, there were 377 PPPs in the U.S., a scant 9 percent of total amount of infrastructure PPPs around the world. The problem is not just the unwillingness to consider these arrangements. Increasingly, it seems to be an institutional challenge as public entities are ill-equipped to execute such deals while at the same time fully **protecting the public interest. As a result, nothing gets done. Today the private sector is seeking more legislative certainty prior to bidding on projects and has little appetite for negotiating transactions that are subject to legislative or other major political approvals. While 31 states have PPP enabling legislation for highways, roads and bridges, and 21 for transit projects, the wide differences between th**em makes it time-consuming and costly for private partners wishing to engage in PPPs in multiple states to handle the different procurement and management processes. The United States should learn from the experiences of the 31 other countries that have established specialized units throughout various governmental agencies to assist with the expanding opportunities for PPPs. These so‐called PPP Units fulfill different functions such as quality control, policy coordination, and promotion. In the U.S., the primary purpose would be to provide technical, non‐binding information, assistance and advice to states and metropolitan governments. But while the federal government can certainly be helpful, the real action is going to come from the states. Today three states (Virginia, California, and Michigan) have established dedicated PPP units. While too early to tell if they are successful, states are rapidly learning that they need to build capacity for development of PPP projects. We learned at a recent Brookings event that private sector firms and investors focus on what they call “can-do” states. Those are not just the ones where they can work unfettered, but those where they know the public policy risk is minimized by a fruitful legislative and institutional environment. They need to know they’ll get a fair shake and deals won’t be scuttled at the last moment. Without a doubt, public/private partnerships are not a silver bullet that will solve all our infrastructure finance and delivery woes. Yes, we understand that PPPs do not represent free money and someone always pays. And certainly there is potential for deals to go wrong and for American taxpayers to be left holding the bag. But these problems are solvable. During this sluggish economic recovery we need new ways to deliver the right kinds of projects. Inaction is no longer an option. The hope is that more states, cities, and metro areas will act and, ideally, the federal government will follow.

### AT: Privatization Kills Jobs

#### The economic activity created by privatization actually increases jobs

Mansour and Nadji 06 (Ashieh Mansour and Hope Nadji, Managing Director of Research RREEF and Director Research RREEF, US Infrastructure Privatization and Public Policy Issues, http://www.irei.com/uploads/marketresearch/69/marketResearchFile/Infr\_Priv\_Pub\_Policy\_Issues.pdf, 6/23/12)

A second, and quite vocal, opposition to privatization centers on the potential loss of public sector jobs and reduced pay. To the extent that the private operator is more efficient than the previous publicly-owned operator, this fear is likely to be real. The impact of job loss, however, can be mitigated through the contractual agreement. For example, redundant jobs can be eliminated through attrition or transfer to other government agencies. Pay scales can be maintained through the contractual agreement. Taking a broader view of the impact on jobs, however, empirical studies of the impacts of privatizations suggest that they increase jobs and incomes in the longer term. These studies conclude the improvements in infrastructure through increased investment and more efficient operations result in greater economic productivity. This increased economic activity results in job growth and higher wages.

## Solvency Turns Net Benefit

### Solvency – 1NC

#### 1. Turn: Bureaucracy and regulations ruin federal infrastructure projects

Edwards, director of tax policy studies at Cato, 2011 (Chris, November 16th 2011, Testimony given to the Joint Economic Committee United States Congress about Federal Infrastructure Investment, <http://www.cato.org/publications/congressional-testimony/federal-infrastructure-investment>)

There are calls today for **more federal spending on infrastructure**, **but advocates seem to overlook the downsides of past federal efforts**. Certainly, there have been federal infrastructure successes, but there has also been a **history of pork barrel politics and bureaucratic bungling** in federal investment spending. A substantial portion of federal infrastructure spending has gone to low-value and dubious activities.

I've examined spending by the two oldest federal infrastructure agencies — the Army Corps of Engineers and the Bureau of Reclamation.7 While both of those agencies constructed some impressive projects, they have also been known for proceeding with uneconomic boondoggles, **fudging the analyses of proposed projects**, and spending on activities that serve private interests rather than the general public interest. (I am referring to the Civil Works part of the Corps here).

Federal infrastructure projects have often suffered from large cost overruns.8 Highway projects, energy projects, airport projects, and air traffic control projects have ended up costing far more than originally promised. Cost overruns can happen on both public and private infrastructure projects, but the problem is exacerbated when multiple levels of government are involved in a project because there is less accountability. Boston's Big Dig — which exploded in cost to five times the original estimate — is a classic example of mismanagement in a federal-state project.9

Perhaps **the biggest problem with federal involvement in infrastructure is that when Washington makes mistakes it replicates those mistakes across the nation**. Federal efforts to build massive public housing projects in dozens of cities during the 20th century had very negative economic and social effects. Or consider the distortions caused by current federal subsidies for urban light-rail systems. These subsidies bias cities across the country to opt for light rail, yet rail systems are generally less efficient and flexible than bus systems, and they saddle cities with higher operating and maintenance costs down the road.10

When the federal government subsidizes certain types of infrastructure, the states want to grab a share of the funding and they often don't worry about long-term efficiency. High-speed rail is a rare example where some states are rejecting the "free" dollars from Washington because the economics of high-speed rail seem to be so poor.11 The Obama administration is trying to impose its rail vision on the nation, but the escalating costs of California's system will hopefully warn other states not to go down that path.12

**Even if federal officials were expert at choosing the best types of infrastructure to fund**, **politics usually intrudes on the efficient allocation of dollars**. Passenger rail investment through Amtrak, for example, gets spread around to low-population areas where passenger rail makes no economic sense. Indeed, most of Amtrak's financial loses come from long-distance routes through rural areas that account for only a small fraction of all riders.13 Every lawmaker wants an Amtrak route through their state, and the result is that investment gets misallocated away from where it is really needed, such as the Northeast corridor.

Another problem is that **federal infrastructure spending comes with piles of regulations**. Davis-Bacon rules and other federal regulations raise the cost of building infrastructure. **Regulations also impose one-size-fits-all solutions** on the states, even though the states have diverse needs. The former 55-mph speed limit, which used to be tied to federal highway funds, is a good example. Today, federal highway funds come with requirements for the states to spend money on activities such as bicycle paths, which state policymakers may think are extraneous.14

Decentralizing Infrastructure Financing

The U.S. economy needs infrastructure, but state and local governments and the **private sector** are generally the **best** places **to fund and manage it**. The states should be the "laboratories of democracy" for infrastructure, and they should be able to innovate freely with new ways of financing and managing their roads, bridges, airports, seaports, and other facilities.

It is true that — like the federal government — the states can make infrastructure mistakes. But at least state-level mistakes aren't automatically repeated across the country. If we ended federal involvement in high-speed rail, for example, California could continue to move ahead with its own system. Other states could wait and see how California's system was performing before putting their own taxpayers on the hook.

A big step toward devolving infrastructure financing would be to cut or eliminate the federal gasoline tax and allow the states to replace the funds with their own financing sources. President Reagan tried to partly devolve highway funding to the states, and more recent legislation by Rep. Scott Garrett (R-NJ) and Rep. Jeff Flake (R-AZ) would move in that direction.15 Reforms to decentralize highway funding would give states more freedom to innovate with the financing, construction, and management of their systems.16

One option for the states is to move more of their **infrastructure financing to the private sector through** the use of **public-private partnerships** (PPP) and privatization. The OECD has issued a new report that takes a favorable view on the global trend towards infrastructure PPPs, and notes the "widespread recognition" of "the need for greater recourse to private sector finance" in infrastructure.17 The value of PPP infrastructure projects has soared over the past 15 years in major industrial countries.18

#### 2. Turn: Speed of delivery

DornanDaniel L. Dornan, P.E. Senior Consulting Manager AECOM Consult, Inc. 7 (7/7/07 “Case Studies of Transportation Public-Private Partnerships in the United States” <http://www.fhwa.dot.gov/ipd/pdfs/us_ppp_case_studies_final_report_7-7-07.pdf> AB)

Faster Delivery PPPs can **expedite the financing and delivery of transportation projects** through the involvement of the private sector in these phases of a project, that **lower project costs by avoiding inflationary cost increases**, applying best practices and new technology, and transferring more technical and other risks to the private sector which is often better able to manage these risks. The private sector has an incentive to minimize construction delays in order to minimize costs and bring forward their revenue stream. Contract conditions including early completion bonus payments and the inclusion of the construction period within the concession period can provide further incentives to bring forward delivery.

#### 3. Turn: Budget politics -- Government investment deters necessary local funding

Edwards, director of tax policy studies at Cato, 2011 (Chris, November 16th 2011, Testimony given to the Joint Economic Committee United States Congress about Federal Infrastructure Investment, <http://www.cato.org/publications/congressional-testimony/federal-infrastructure-investment>)

There are many advantages of infrastructure PPP and privatization. One advantage is that we are **more likely to get funding allocated to high-return investments** when private-sector profits are on the line. Of course, businesses can make investment mistakes just as governments do. But unlike governments, businesses have a systematic way of choosing investments to maximize the net returns. And when investment returns are maximized, **it stimulates the largest gains to the broader economy**.

One reason that privatized infrastructure is efficient is that private companies can freely tap debt and equity markets to build capacity and meet market demands. By contrast, **government investment suffers from the politics and uncertainties of the federal budget process**. You can see the problems with our air traffic control system, which needs long-term investment but the Federal Aviation Administration can't count on a stable funding stream. For its part, the FAA's management of ATC investment has been poor. The agency has a history of delays and cost overruns on its technology upgrade projects. The solution is to privatize our air traffic control system, as Canada has done with very favorable results.31

#### 4. Turn: Risk management –

#### (a) Only partnerships let the public sector manage risk wisely

DornanDaniel L. Dornan, P.E. Senior Consulting Manager AECOM Consult, Inc. 7 (7/7/07 “Case Studies of Transportation Public-Private Partnerships in the United States” <http://www.fhwa.dot.gov/ipd/pdfs/us_ppp_case_studies_final_report_7-7-07.pdf> AB)

Risk Management PPPs allow public sponsors to share the risk of a project with the private sector. In the risk sharing process, public sponsors have the opportunity to pass risks that may be more effectively managed by the private sector while retaining risks where it is in a better position to manage them or deal with their consequences. For instance, the private sector may be more effective in managing the variance in construction, operating, and maintenance costs while public agencies may be more effective in managing public liability, environmental clearance, and permitting risks.

#### (b) That’s key to solvency

Marks, guest editor of *Infrastructure Journal* and partner in Milbank Tweed Hadley and McCloy’s Global Project Finance, 4/11/2011

(Allan, “U.S. Infrastructure: Challenges, Politics and Opportunities,” http://www.milbank.com/images/content/6/6/6634/MARKS-US-Infrastructure-Infrastructure-Journal-04-11-2011-.pd.pdf)

In countries in Europe, Asia, and Latin America, and in Canada, PPPs are an established solution to deliver high quality infrastructure projects. Under contracts between the government and private entities, funding for projects often comes from a combination of government money and private investment. More importantly, **innovative risk allocation unlocks value**, **adds efficiencies**, **and improves quality of service**. The private entities involved are generally responsible for construction, operation and maintenance of the project and receive a certain amount of revenue in return, sufficient to cover operating costs, cost of capital, and a reasonable return to incentivize reliable performance to contractual standards. In this way, **the risk for projects is shared between the public and private sectors**.

### Ext. #1: Bureaucracy

#### Private sector is extremely efficient – multiple warrants

Delmon Jeffery (Jeff Delmon is a Senior Infrastructure Specialist at the Finance and Guarantee Group of the FEU Department in the World Bank. Jeff is a lawyer specialized in project finance transactions in the infrastructure sectors. He worked in a wide range of transactions during his previous experience with Allen & Overy in London, 2009, *Private Sector Investment In Infrastructure: Project Finance and PPP*, JS)

The private sector is often considered to provide greater levels of efficiency when running infrastructure projects than can the public sector '1`his increased efficiency results from many factors, including; is improved financial engineering leverage reducing weighted average cost or capnai; focus on cost-effectiveness, in particular rationalizing the cost of labour and materials; commercial approaches to problem-solving; incentives to improve efficiency and performance, and encourage innovation; creation of amis length relationships between government and service providers, enabling better, less politically oriented, enforcement of obligations, better governance to improve transparency, competition and accountability, and thereby improve value for money; bring hidden costs into the open, for example the high transaction costs often associated with PPP project development must also be incurred in public projects but are simply absorbed into other public budgets without being accounted for; reduced opportunities for patronage; is improved transparency and competition to reduce opportunities for corrupt practices, and insulation from political considerations. ln particular, private sector management allows the grantor to package risks in a more efficient manner, often known as single point risk allocation. This means that design, construction, installation, commissioning, operation, maintenance and refurbishment risk are all allocated to and managed by one entity. Single point responsibility reduces the interfaces between different project functions that can result in errors, delays and a “claims culture” (where different contractors blame each other for any defects discovered, the number of interfaces facilitates such blame games). Under single point responsibility, these interfaces are managed by the project company (who is likely more capable of performing this function than the grantor). Single point responsibility is also closely related to the use of fixed price construction contracts and fixed, or tightly controlled, operating costs in PPP projects. The likelihood of cost over-runs and delays is therefore greatly reduced in PPPI3 A recent Standard & Poor's survey showed that 88% of PPP projects were delivered on time and at cost while only 30% of traditionally publicly procured (non-PPP) projects achieved the same result. Single point responsibility also places emphasis on operating costs and effective maintenance that is often provided by private investment and the competitive procurement processes used.

### Ext. #2: Timeframe

#### Public-private partnerships save time and money

Pound et al 10 (William T. Pound, executive director of the national conference of legislators, along with Jaime Rall James B. Reed Nicholas J. Farber, October 2010, <http://www.ncsl.org/documents/transportation/PPPTOOLKIT.pdf>, DS)

Current data indicate that PPPs often can result in significant project cost and time savings compared to traditional procurement. Causes can include direct incentives to the private contractor for on-time delivery; use of warranties (see Glossary) or performance-based contracting; competition among bidders; transfer of risk to the private sector for cost and schedule overruns or revenue shortfalls; and lifecycle efficiencies (see below).

### Ext. #3: Investment Decisions

#### Government investment formulas put money in the wrong places and deter local spending

The Economist, 2011

(April 282011, “Life in the Slow Lane”, The Economist http://www.economist.com/node/18620944, KH)

The federal government is responsible for only a quarter of total transport spending, but the way it allocates funding shapes the way things are done at the state and local levels. Unfortunately, it tends not to reward the prudent, thanks to formulas that govern over 70% of federal investment. Petrol-tax revenues, for instance, are returned to the states according to the miles of highway they contain, the distances their residents drive, and the fuel they burn. The system is awash with perverse incentives. A state using road-pricing to limit travel and congestion would be punished for its efforts with reduced funding, whereas one that built highways it could not afford to maintain would receive a larger allocation. Formula-determined block grants to states are, at least, designed to leave important decisions to local authorities. But the formulas used to allocate the money shape infrastructure planning in a remarkably block-headed manner. Cost-benefit studies are almost entirely lacking. Federal guidelines for new construction tend to reflect politics rather than anything else. States tend to use federal money as a substitute for local spending, rather than to supplement or leverage it. The Government Accountability Office estimates that substitution has risen substantially since the 1980s, and increases particularly when states get into budget difficulties. From 1998 to 2002, a period during which economic fortunes were generally deteriorating, state and local transport investment declined by 4% while federal investment rose by 40%. State and local shrinkage is almost certainly worse now. States can make bad planners. Big metropolitan areas—Chicago, New York and Washington among them—often sprawl across state lines. State governments frequently bicker over how (and how much) to invest. Facing tight budget constraints, New Jersey’s Republican governor, Chris Christie, recently scuttled a large project to expand the railway network into New York City. New Jersey commuter trains share a 100-year-old tunnel with Amtrak, a major bottleneck. Mr Christie’s decision was widely criticised for short-sightedness; but New Jersey faced cost overruns that in a better system should have been shared with other potential beneficiaries all along the north-eastern corridor. Regional planning could help to avoid problems like this.

#### Earmarks guarantee an inefficient allocation of funds

Roth, Transportation Economist, 2010

(Gabriel, June 2010, CATO Institute, “Federal Highway Funding”, http://www.downsizinggovernment.org/transportation/highway-funding, KH)

Federal aid typically covers between 75 and 90 percent of the costs of federally supported highway projects. Because states spend only a small fraction of their own resources on these projects, state officials have less incentive to use funds efficiently and to fund only high-priority investments. Boston's Central Artery and Tunnel project (the "Big Dig"), for example, suffered from poor management and huge cost overruns.21 Federal taxpayers paid for more than half of the project's total costs, which soared from about $3 billion to about $15 billion. Federal politicians often direct funds to projects in their states that are low priorities for the nation as a whole. The Speaker of the House of Representatives in the 1980s, "Tip" O'Neill, represented a Boston district and led the push for federal funding of the Big Dig. More recently, Representative Don Young of Alaska led the drive to finance that state's infamous "Bridge to Nowhere," discussed below. The inefficient political allocation of federal dollars can be seen in the rise of "earmarking" in transportation bills. This practice involves members of Congress slipping in funding for particular projects requested by special interest groups in their districts. In 1982, the prohibition on earmarks in highway bills in effect since 1914 was broken by the funding of 10 earmarks costing $362 million. In 1987, President Ronald Reagan vetoed a highway bill partly because it contained 121 earmarks, and Congress overrode his veto.

Since then, transportation earmarking has grown by leaps and bounds. The 1991 transportation authorization bill (ISTEA) had 538 highway earmarks, the 1998 bill (TEA-21) had 1,850 highway earmarks, and the 2005 bill (SAFETEA-LU) had 5,634 highway earmarks.24 The earmarked projects in the 2005 bill cost $22 billion, thus indicating that earmarks are consuming a substantial portion of federal highway funding. The problem with earmarks was driven home by an Alaska bridge project in 2005. Rep. Don Young of Alaska slipped a $223 million earmark into a spending bill for a bridge from Ketchikan—with a population of 8,900—to the Island of Gravina—with a population of 50. The project was dubbed the "Bridge to Nowhere" and created an uproar because it was clearly a low priority project that made no economic sense.

#### Only public-private partnerships solve corruption

Delmon Jeffery (Jeff Delmon is a Senior Infrastructure Specialist at the Finance and Guarantee Group of the FEU Department in the World Bank. Jeff is a lawyer specialized in project finance transactions in the infrastructure sectors. He worked in a wide range of transactions during his previous experience with Allen & Overy in London, 2009, *Private Sector Investment In Infrastructure: Project Finance and PPP*, JS)

Good governance endeavors to provide transparency, equal treatment, and open competition. Lack of good governance makes investors and lenders worry (increasing the cost of money), reduce competitive pressure on bidders (increasing costs and reducing quality of solutions proposed) and increase the likelihood of rent seeking/bribery and other forms of competition (which add costs and delay project implementation). PPP provides an opportunity to implement good governance into every aspect of project implementation and thereby reduce the opportunities for corrupt practices. For example: the use of finance and fiduciary management, in particular ring fencing revenue and subsidy flows from the government, improving public access to information about the project and the procurement process, for example through a dedicated website with all relevant contract award information to attract bidders and improve competition.

### Ext. #3: Investment Decisions (Highways Link)

#### Federal Highway Funding fails- Diverted to Non-Highway Activities

Roth, Transportation Economist, 2010

(Gabriel, June 2010, CATO Institute, “Federal Highway Funding”, http://www.downsizinggovernment.org/transportation/highway-funding, KH)

Since 1982, increasing amounts of revenues from the FHTF have been diverted to non-highway uses. The Surface Transportation Assistance Act of 1982 raised the federal gas tax by five cents, with one-fifth of the increase dedicated to urban transit. The 1991 Intermodal Surface Transportation Efficiency Act substituted "flexibility" and "intermodalism" for the "dedication" of fuel taxes to highways. That wording change meant that any transportation-related activity could lay claim to highway money. Under the most recent highway authorization—SAFETEA-LU of 2005—transportation scholar Randal O'Toole figures that only about 59 percent of highway trust fund dollars will be spent on highways.25 Funds from the FHTF will go to mass transit (21 percent), earmarks (8 percent), and a hodge-podge of other activities such as bicycle paths (12 percent). Note, however, that some of the earmark funds will also go to highways. The main diversion is to rail transit, which can be a very inefficient mode of transportation, as discussed in a related essay. Most Americans do not use rail transit and should not have to subsidize expensive subways and rail systems in a small number of major cities that prohibit the use of more modern and effective transit methods, such as shared taxis. Is the FHWA table (www.fhwa.dot.gov/safetealu/safetea- lu\_authorizations.xls) indicates, Congress allocates highway money to truck parking facilities, anti-racial profiling programs, magnetic levitation trains, and dozens of other non-road activities. O'Toole finds that the House version of upcoming transportation authorization legislation would reduce the highway portion of FHTF spending to just 20 percent. It would add high-speed rail at 10 percent, fund transit at 20 percent, and provide about 50 percent of the funds to the states to spend on "flexible" projects and earmarks.26

### Partnerships Solve the Turns: Innovation

#### Partnerships bring innovation – only way to solve the turns

DornanDaniel L. Dornan, P.E. Senior Consulting Manager AECOM Consult, Inc. 7 (7/7/07 “Case Studies of Transportation Public-Private Partnerships in the United States” <http://www.fhwa.dot.gov/ipd/pdfs/us_ppp_case_studies_final_report_7-7-07.pdf> AB)

Innovation and Expertise Private sector involvement encourages the development of new and creative approaches to financing, economies of scale, development, implementation and operation/maintenance. The private sector can also offer expertise in project, operational and risk management. In particular, financial markets have become savvy in the methods that they use to structure finance to suit infrastructure projects through the use of stepped margin and indexed bonds.

Greater Cost Efficiency and Productivity The private sector has an incentive to ensure its operations are as cost efficient as possible. In particular, the private sector is often better at managing third-party usage of facilities, thus reducing the net cost of a facility to transportation agencies. A private operator would also be motivated to increase the productivity and return from assets, with greater interest in implementing practices such as yield management and demand management when limited capacity exists and is expensive to create. Integration The potential integration of design, construction, maintenance, and operation provides incentives for the private sector to optimize expenditure and maximize innovation to achieve the greatest level of cost efficiency over the life of the asset through a life-cycle approach to asset delivery rather than minimizing the cost of a specific part of the asset lifecycle e.g. construction costs.

Greater Choices Project sponsors can match specific types of PPPs to individual projects based on their characteristics and the capabilities and needs of public sector sponsors and private sector providers. This model was successfully used in Hong Kong before being incorporated into China when a number of transportation infrastructure projects were developed, each using a different project delivery approach (DB, DBOM, DFOM, BTO, etc.), based on the nature of each project and the interests and risk tolerance of the participating members of the partnerships. Increased Competition PPPs also can enhance competition in how highway facilities and services are provided from a functional, organizational, technological, and process perspective by engaging the private sector through properly transparent contracting procedures that can leverage public sector capabilities.

#### Public-private partnerships allow leeway to newer, state-of-the art tech at a stronger quality

NCSL 10(NSCL, October, 2010, <http://www.ncsl.org/documents/transportation/PPPTOOLKIT.pdf>, “Public-Private Partnerships for Transportation” KC)

**Analysts have identified several ways in which PPPs can potentially improve project quality**. Innovative contracting methods can give a **private contractor more flexibility to incorporate state-of-the-art technologies and techniques,** which may result not only in better quality for one project, but also provide examples of best practices that can be applied to other projects.39 Use of warranties or performance-based payment arrangements can give a private contractor direct incentives to build a higher-quality project. Integrated project delivery approaches can also, in theory, **encourage a private contractor to prioritize quality during design and construction, in order to lower costs during the operations and maintenance phase.**40

#### Public-private partnerships improve project quality

Pound et al 10 (William T. Pound, executive director of the national conference of legislators, along with Jaime Rall James B. Reed Nicholas J. Farber, October 2010, <http://www.ncsl.org/documents/transportation/PPPTOOLKIT.pdf>, DS)

Analysts have identified several ways in which PPPs can potentially improve project quality. Innovative contracting methods can give a private contractor more flexibility to incorporate state-of-the-art technologies and techniques, which may result not only in better quality for one project, but also provide examples of best practices that can be ap- plied to other projects.39 Use of warranties or performance- based payment arrangements can give a private contrac- tor direct incentives to build a higher-quality project. Integrated project delivery approaches can also, in theory, encourage a private contractor to prioritize quality during design and construction, in order to lower costs during the operations and maintenance phase.40

### AT: Transportation is a Unique Government Responsibility

#### The same economic principles apply to infrastructure

Block, Ph.D. degree in economics from Columbia University, 2009 (Walter, April 16, http://mises.org/daily/3416, A Future of Private Roads and Highways)

In advocating a free market in roads, on one level, we shall be merely arguing that there is nothing unique about transportation; that the economic principles we accept as a matter of course in practically every other arena of human experience are applicable here too. Or at the very least, we cannot suppose that ordinary economic laws are not apropos in road transportation until after the matter has been considered in some detail.

#### Benefits, responsibilities and risks of normal business apply to transportation infrastructure

Block, Ph.D. degree in economics from Columbia University, 2009 (Walter, April 16, http://mises.org/daily/3416, A Future of Private Roads and Highways)

**As such, all** the usual benefits and responsibilities that are incumbent upon private enterprise would affect roads**.** The reason a company or individual would want to build or buy an already existing road would be the same as in any other business—to earn a profit**.** The necessary funds would be raised in a similar manner—by floating an issue of stock, by borrowing, or from past savings of the buyer. The risks would be the same— attracting customers and prospering, or failing to do so and going bankrupt**.** Likewise for the pricing policy; just as private enterprise rarely gives burgers away for free, use of road space would require payment**.** A road enterprise would face virtually all of the problems shared by other businesses: attracting a labor force, subcontracting, keeping customers satisfied, meeting the price of competitors, innovating, borrowing money, expanding, etc. Thus, a highway or street owner would be as much a businessman as any other, with much the same problems, opportunities, and risks.

# Aff

### Links to Politics

#### Partnerships link to politics

Marks, guest editor of *Infrastructure Journal* and partner in Milbank Tweed Hadley and McCloy’s Global Project Finance, 4/11/2011

(Allan, “U.S. Infrastructure: Challenges, Politics and Opportunities,” http://www.milbank.com/images/content/6/6/6634/MARKS-US-Infrastructure-Infrastructure-Journal-04-11-2011-.pd.pdf)

Unlike in the rest of the world, PPPs have not been as widely accepted in the United States. **PPPs still remain a somewhat misunderstood mechanism that the public views with skepticism and**, as a result, **politicians may not be as willing to promote**. Further, potential lenders and investors are concerned about pursuit costs and the **high degree of political risk** and uncertainty in the procurement process. In particular, the **lack of political will to select PPP projects** that are economically viable and to execute concessions after lengthy bid processes makes these projects risky. Even when there has been political support in the procurement process, projects are sometimes cancelled after bids are awarded due to a lack of political will or coordination. So, the pace of privatization of the infrastructure market in the United States has not reached the level seen in many other countries. Yet, it has been growing in fits and starts. Encouraging the development of PPPs in the United States can be one of the keys to spurring further infrastructure investment and to spending infrastructure dollars more wisely. **The political challenges faced by PPPs exist at all levels of government**. Regardless of whether an infrastructure project is at the local or state level, the potential political pitfalls it may encounter are often the same. The public continues to hold misperceptions that PPPs result in selling public assets to foreign companies, excess profits, lack of transparency, diminished environmental protections or a decrease in jobs. While certain areas of the country, such as the states of Virginia, Texas, and Florida, may have a longer history of successfully implementing PPPs as a result of state enabling statutes and bi-partisan support for these partnerships, most states are not in quite so supportive situation, and many lack PPP enabling statutes altogether.

#### Politicians fear partnerships – they’re unpopular with voters

Mansour and Nadji 06 (Ashieh Mansour and Hope Nadji, Managing Director of Research RREEF and Director Research RREEF, US Infrastructure Privatization and Public Policy Issues, http://www.irei.com/uploads/marketresearch/69/marketResearchFile/Infr\_Priv\_Pub\_Policy\_Issues.pdf, 6/23/12)

Given that governments at all levels are highly reluctant to raise taxes and therefore have been disinclined to fund long term investment needs, private investment in infrastructure can be a logical solution. Pension funds can be a source of funds for long-term infrastructure capital and maintenance that are unpopular to fund out of tax revenue. However, **politicians with an eye to the next election are also hesitant to enter into public-private partnerships that could create additional costs for users**, **who are also voters**. Public acceptance for tolls that pay for additional capacity or allow motorists, in essence, to buy their way out of congestion appears to be rising as it is offered as an option rather than a mandate.

### Doesn’t Solve

**PPPs create lopsided allocation of risks that hurts the public sector**

**Dutzik et all 11** (Tony Dutzik, Senior Policy Analyst with Frontier Group specializing in energy, transportation, and climate policy, holds an M.A. in print journalism from Boston University and a B.S. in public service from Penn State University Jordan Schneider is an analyst in the Frontier Group Santa Barbara office. Before joining Frontier Group in the fall of 2010, she worked as a reporter, page designer and copy editor for small newspapers in both southeastern Alabama and in Colorado. In 2008, she wrote grants for the Catamount Institute in Colorado Springs, Co., and worked as a communications assistant for the Gulf Restoration Network in New Orleans. She has a strong interest in conservation and natural resources management issues, especially concerning the American tropics and the U.S. Gulf Coast. She completed independent studies in coastal Ecuador in 2009. Jordan is a 2008 summa cum laude graduate of Loyola University New Orleans. She majored in print journalism.Phineas Baxandall is the Senior Policy Analyst for Tax and Budget issues for U.S. PIRG Education Fund. He Mr. Baxandall is a leading expert in his field and has appeared on numerous talk shows and conducted studio interviews and debates for outlets such as CNN, MSNBC, Fox and PBS. His op-eds have appeared in dozens of newspapers across the country and he has been quoted in numerous publications such as the New York Times and the Economist. He often presents at conferences and has been invited to testify before state legislatures, Congress, and the U.S. Department of Transportation. His blogs appear often on the National Journal Transportation Expert blog and on Huffington Post. He serves on the executive board of the transportation coalition Transportation for America, as well as the privatization study group, In the Public Interest. Summer 2011 “High-Speed Rail: Public, Private or Both? Assessing the Prospects, Promise and Pitfalls of Public-Private Partnerships” <http://cdn.publicinterestnetwork.org/assets/85a40b6572e20834e07b0da3e66e98bf/HSR-PPP-USPIRG-July-19-2011.pdf> AB)

Governments that engage in PPPs often do so in the hope of sharing the risks of a project with a private partner. However, **the very nature of PPPs often leads to a lopsided allocation of risks that leaves the public sector on the hook when unexpected problems arise in a project**. **Public and private entities come to PPPs with inherently different motivations**: **the government to deliver a given infrastructure project** **on time** and with the lowest possible public outlay, **and the private partner to maximize profit**. The initial negotiation of the contract is the time at which the public sector has maximum leverage, with the ability to choose the best of a competing set of bids from private entities. **Once a PPP bidder is chosen and a contract is signed, however, the balance of power shifts. The government entity remains accountable to the public for delivering the project on time**, and becomes dependent on the private partner to meet that objective, giving the private partner leverage in subsequent renegotiations of the contract. Once a project is initiated, **the ultimate source of leverage for a private sector firm is the threat that the entity will go bankrupt or walk away from a project**—leaving the governmental partner with an unfinished infrastructure project it may be ill-equipped to complete. **Once a project is seen as moving forward, decision-makers will make budgetary and infrastructure plans under the assumption that the PPP will be completed, increasing the disruption and costs for the government side to exit the process**. **Poorly written PPP contracts may give private-sector partners other points of leverage**: including the ability to slow down work or change the terms of delivery of the high-speed rail service. Even in cases where the language of a PPP contract may appear to be clear-cut, **the mere threat of protracted litigation, arbitration or delays** **may be enough to force concessions from the government.** This situation—known as “lock-in” 27—is not dissimilar to the situation faced by the U.S. government during the financial crisis of 2008, in which the government faced the difficult choice of bailing out banks or allowing them to fail, risking the onset of a second Great Depression. **When PPP projects become “too big to fail”—or when it is too difficult to replace an incumbent firm mid-project**—then risks that the public sector thought it was avoiding may instead be magnified. Lock-in is a particular problem with high-speed rail PPPs because ren**egotiation of contracts is so common. High-speed rail projects are incredibly complex, meaning that it is nearly impossible for contract writers to anticipate every possible condition that will arise over the course of the project.** When circumstances change and contracts must be renegotiated, new opportunities emerge for private firms to exert leverage over their public sector partners.28 **There are ways to reduce the threat of lock-in.** **One is to eschew PPPs for projects that are too big or too important to fail.**29 Another is to structure PPPs in such a way as to ensure that **no individual vendor becomes indispensible to the project**. In addition, **PPP contracts can be written to require private-sector actors to post bonds guaranteeing completion of the project,**30 to purchase insurance or establish escrow accounts against certain risks, to create clear expectations for which parties are responsible for certain types of unanticipated changes (e.g. changes in applicable safety standards), and to establish clear processes for dispute resolution and contract renegotiation. Monitoring and Complexity

**PPPs create monitoring and controlling issues**

**Dutzik et all 11** (Tony Dutzik, Senior Policy Analyst with Frontier Group specializing in energy, transportation, and climate policy, holds an M.A. in print journalism from Boston University and a B.S. in public service from Penn State University Jordan Schneider is an analyst in the Frontier Group Santa Barbara office. Before joining Frontier Group in the fall of 2010, she worked as a reporter, page designer and copy editor for small newspapers in both southeastern Alabama and in Colorado. In 2008, she wrote grants for the Catamount Institute in Colorado Springs, Co., and worked as a communications assistant for the Gulf Restoration Network in New Orleans. She has a strong interest in conservation and natural resources management issues, especially concerning the American tropics and the U.S. Gulf Coast. She completed independent studies in coastal Ecuador in 2009. Jordan is a 2008 summa cum laude graduate of Loyola University New Orleans. She majored in print journalism.Phineas Baxandall is the Senior Policy Analyst for Tax and Budget issues for U.S. PIRG Education Fund. He Mr. Baxandall is a leading expert in his field and has appeared on numerous talk shows and conducted studio interviews and debates for outlets such as CNN, MSNBC, Fox and PBS. His op-eds have appeared in dozens of newspapers across the country and he has been quoted in numerous publications such as the New York Times and the Economist. He often presents at conferences and has been invited to testify before state legislatures, Congress, and the U.S. Department of Transportation. His blogs appear often on the National Journal Transportation Expert blog and on Huffington Post. He serves on the executive board of the transportation coalition Transportation for America, as well as the privatization study group, In the Public Interest. Summer 2011 “High-Speed Rail: Public, Private or Both? Assessing the Prospects, Promise and Pitfalls of Public-Private Partnerships” <http://cdn.publicinterestnetwork.org/assets/85a40b6572e20834e07b0da3e66e98bf/HSR-PPP-USPIRG-July-19-2011.pdf> AB)

**PPP deals also create significant legal and monitoring costs for governments**. **Developing and implementing a PPP agreement requires the participation of an army of financial analysts, lawyers, and experts in infrastructure development**. Even after a contract is signed and work begins on a project, expert consultants are needed throughout the contract term to interpret the contract and potentially litigate to ensure that the private operator is upholding the terms of the deal. **These ongoing costs to government are rarely considered as part of the cost of a PPP project**. Coordination Issues Successful high-speed rail services are more than just trains running on tracks. They are the confluence of many systems— from power supply and train control to ticketing and station operations—all working together seamlessly. In traditional state-owned railways, these systems were designed and operated under a single corporate roof. **PPP-based project delivery plans, however, can include dozens of individual contracts for various pieces of the high-speed rail system. Failures of coordination among the various contract holders can result in unplanned costs or quality concerns.** Ensuring that contractors coordinate their efforts can also add another monitoring and enforcement burden for the government agency initiating the PPP project. In addition, **because high-speed rail is generally built one line at a time, rather than as a completed network, new lines must be integrated seamlessly into the broader network**. **Dividing the ownership or operations of multiple lines within a network among different firms has the potential to impose new challenges in ensuring that the system works as a cohesive whole.**

**PPPs have huge capital costs that takes away incentive for private companies**

**Dutzik et all 11** (Tony Dutzik, Senior Policy Analyst with Frontier Group specializing in energy, transportation, and climate policy, holds an M.A. in print journalism from Boston University and a B.S. in public service from Penn State University Jordan Schneider is an analyst in the Frontier Group Santa Barbara office. Before joining Frontier Group in the fall of 2010, she worked as a reporter, page designer and copy editor for small newspapers in both southeastern Alabama and in Colorado. In 2008, she wrote grants for the Catamount Institute in Colorado Springs, Co., and worked as a communications assistant for the Gulf Restoration Network in New Orleans. She has a strong interest in conservation and natural resources management issues, especially concerning the American tropics and the U.S. Gulf Coast. She completed independent studies in coastal Ecuador in 2009. Jordan is a 2008 summa cum laude graduate of Loyola University New Orleans. She majored in print journalism.Phineas Baxandall is the Senior Policy Analyst for Tax and Budget issues for U.S. PIRG Education Fund. He Mr. Baxandall is a leading expert in his field and has appeared on numerous talk shows and conducted studio interviews and debates for outlets such as CNN, MSNBC, Fox and PBS. His op-eds have appeared in dozens of newspapers across the country and he has been quoted in numerous publications such as the New York Times and the Economist. He often presents at conferences and has been invited to testify before state legislatures, Congress, and the U.S. Department of Transportation. His blogs appear often on the National Journal Transportation Expert blog and on Huffington Post. He serves on the executive board of the transportation coalition Transportation for America, as well as the privatization study group, In the Public Interest. Summer 2011 “High-Speed Rail: Public, Private or Both? Assessing the Prospects, Promise and Pitfalls of Public-Private Partnerships” <http://cdn.publicinterestnetwork.org/assets/85a40b6572e20834e07b0da3e66e98bf/HSR-PPP-USPIRG-July-19-2011.pdf> AB)

Potential Problems of PPPs High and Volatile Capital Costs Private companies have higher long-term borrowing costs than public entities. According to analysis by Dennis Enright at NW Financial Group, an investment bank, public sector costs in 2007 for raising capital through debt were a full 35 percent less than the lowest cost a private entity could hope to obtain.25 Other academic studies confirm these consistently higher private capital costs.26 And since the recession it has become relatively more expensive for the private sector to borrow capital compared with the public, with U.S. government debt remaining at near rock-bottom interest rates. Because government officials can issue tax-free bonds and bond traders are willing to accept lower interest rates on public bonds, deals based on private capital are inherently more expensive than public financing. When investors purchase stocks or other forms of equity in private infrastructure companies, they take on greater risk than if they purchase private infrastructure bonds; therefore, they expect even higher rates of return. Thus, regardless of whether private companies raise capital through debt or equity, their costs will be higher than public financing. Another key credit-related risk of PPPs is the possibility that the cost of credit will increase—or that credit will dry up entirely—midway through a project. A private entity’s inability to obtain capital, or to obtain capital at the cost anticipated when the PPP was originally devised, can jeopardize the entity’s ability to carry out the project—leaving the government responsible either for bailing out the private entity or taking over the project midstream. Such a situation occurred with the construction of Taiwan’s high-speed rail line. (See page 21.) Lopsided Allocation of Risk

#### The private sector has been reluctant to get involved in the past

Ybarra, Senior Transportation Analyst at the Reason Foundation, 08 (Shirley Ybarra, former Secretary of Transportation for the Commonwealth of Virginia, 7/28/08, <http://reason.org/news/printer/public-private-partnerships-in-1>, “Public Private Partnerships in Transportation”, DS)

Presidents G.W Bush and William Clinton issued executive orders (Executive Orders 12803 and 12893, respectively) to encourage private sector involvement in infrastructure investment. However, little private sector involvement was forthcoming. The states had {PAGE }statutes on their books that were aligned with the traditional funding and procurement mechanisms. These statutes would have to be addressed on a state by state basis. In addition, there were long standing practices embedded in the federal and state bureaucracies as well as in the contracting community.

**PPPs spark a loss in control with large end delays**

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Loss of Control **A PPP arrangement involves a swapping of risk for control**. In a traffic-based concession agreement (in which the private partner uses the revenue from high-speed rail service to pay for the cost of building the line), the government theoretically sheds a great deal of risk, but also provides the private company with a greater deal of control over how a high-speed rail line is operated. This is because p**rivate entities are less willing to depend on revenues from ticket sales and other user fees to recoup their investment unless they feel protected against government actions that might curtail those revenues.** Availability payment concessions (design-build-maintain) on the other hand continue to expose government to ridership risk, but also give the government greater control over how the high-speed rail line will operate. **The public faces dangers that a PPP may create a publicly subsidized piece of infrastructure that is primarily used to serve the profit-maximizing purposes of a private entity in ways that conflict with the public interest**. The most obvious example of this tension arises in the setting of ticket prices. A private concession operator will tend to want higher-priced tickets as a way to maximize their revenue for shareholders, even if higher ticket prices depress total ridership and therefore diminish the positive public impact of the route. The concessionaire for construction of England’s High Speed 1 line was forced to charge abovemarket access fees to recoup its investment. The British government later took over the company, a move intended to expand the use of the line. A similar example occurred in the development of Great Britain’s first highspeed rail line, High Speed 1, which was built by London & Continental Railways (LCR) under a concession agreement with the British government.31 In an effort to maximize revenue and pay back its debts, LCR assessed track access charges to companies providing rail service on the line that were higher than commercial rates and were thought to be high enough to make it unprofitable for would-be competitors to offer service on the line.32 Had the situation continued, the public interest imperatives of maximizing the use of the infrastructure would have run headlong into LCR’s financial imperative to maximize revenue. As it turned out, **the British government**—which had already agreed to guarantee LCR’s debt—took formal control of the company in 2009 and e**ntered into a new PPP for operation of the line.**33 By taking full ownership over LCR, the British government made it possible to offer lower track access charges and gain greater use of the high-speed rail line, though at the cost of absorbing much of the risk it thought it had offloaded to LCR in the first place. **Delays at Front End of Project PPPs often promise to complete construction faster than publicly built projects**—in part because penalties for late delivery included in PPP contracts drive improved performance by contractors. **The difference in speed, however, often depends on when one starts the clock. PPP projects are often more difficult to get off the ground than publicly built projects,** especially if they are conducted with due diligence and proper input from stakeholders. Th**e first hurdle in building a project using PPPs is to design one that is attractive to private investors while also satisfying public interest objectives.** This can be difficult. The Perpignan-Figueres high-speed rail line connecting France and Spain—often considered a successful PPP—is one example. Preparation of the concession agreement began in 2000, with publication of the request for bids in July 2001. One year later, in July 2002, the binational agency responsible for building the line chose a preferred bidder, only to walk away from negotiations in early 2003, citing “unacceptable” conditions demanded by the private sector bidders.34 The collapse of negotiations forced the contract to be opened for bid once again. The final contract was issued in early 2004 and financial close on the deal was not accomplished until February 2005.35 **The ability of the bi-national agency to hold firm during the first set of negotiations helped protect the public against an inadequate deal, but it also resulted in a significant delay in the start of the project.**

#### Private-Public Partnerships lock cities into bad deals

Cohen, former co-founder and president of the Center on Policy Initiatives, 2012 (Donald, “Fool Us Twice? The Peril of Rahm Emanuel's Public Private Partnerships”, Huffington Post, <http://www.huffingtonpost.com/donald-cohen/peril-of-public-private-partnerships_b_1442572.html>, AM)

The city council is balking because Chicago knows from experience how partnerships can sour. Former Mayor Richard Daley's sale of the city's parking meters is now widely recognized as a poorly negotiated partnership that locked the city into a bad deal (for the city, not the investor partners) for 75 years. And now the ink is dry and Chicagoans have to live with it -- a deal's a deal. Dozens of websites and tons of business literature warn about the perils of partnerships. They all say: pay attention to the details now or pay the price later in litigation over ambiguities, poorly drafted language or the unanticipated and unpredictable future; make sure you really trust your new partner shares your interests and vision; and above all don't rush into it until you are absolutely certain.

#### Public Private Partnerships spiral beyond control; no democratic control, expensive and reduce employment

Lucas, Public Employees Federation DOT Executive Board Member, 2011 (Edward, May 16, 2011, Why Public Private Partnerships Are

A Bad Deal for New Yorkers, <http://www.pef175.org/communications/PPP%20Senate%20Testimony%20%205-16%20final.pdf> , AJ)

It is tempting to believe that a public private partnership would produce massive new funds for infrastructure construction. But that is a false promise. There is no such thing as free money. In the end someone has to pay. And, when there are private investors or corporations this also means there is also the need for a monetary return on their investment. You can use nice words to describe it, but the fact remains, the source of revenue for transportation projects will always be the same- either taxes or tolls. Today’s buzzword is partnership. The term evokes warm and fuzzy feelings about cooperation and a sense that it is a smart way to save tax dollars while providing a profit for the private sector. A win-win situation. But the reality is very different. History shows us that time after time, public-private toll road projects mean higher cost to all of the taxpaying public, but especially to those who rely on the roads for their livelihoods. I would like to address today three dangers of PPPs. The potential to default, non-compete clauses and, finally, high costs. Although not all of these were transportation projects, a global study of PPPs done by the analyst Dexter Whitfield showed that some 1,000 PPPs, valued at a half a trillion (with a “T”) dollars, failed or were radically reduced in the decades since PPPs first became popular in the 1970s and 1980s. Whitfield writes – and I quote – “there is now a significant evidence base to show that most PPP projects have little or no democratic control or transparency, are costly, (provide) poor value, lack innovation and flexibility, reduce employment and erode public service values. “ Whitfield reports that there were 58 PPP failures in Europe, North America and Australia in recent years, the majority occurring between 2000 and 2008 with more than a third of which were transportation projects, according to his book, the “The Global Auction of Public Assets.” “There have been further PPP failures since I completed the book in late 2009,” Whitfield told our researchers at PEF.

### AT: Bureaucracy Turn

#### Bureaucrats will also interfere with the CP

GTZ 05( Deutsche Gesellschaft für Technische Zusammenarbeit, 2005, <http://www2.gtz.de/dokumente/bib/05-0412.pdf>, “Private Sector Involvement in Solid Waste Management”, KC)

Many of the origins of hostility towards private sector participation are to do with attitudes, perceptions and prejudices, rather than facts. In some countries senior local government officials may be accustomed to autocratic control of certain functions and of their subordinate employees. Consequently they may oppose efforts to involve the private sector for political, emotional and personal reasons, because control is being passed to private sector managers and actions are restricted by contracts. This opposition may express itself in the creation of obstructions to the processes of tendering and awarding contracts, in the delaying and reduction of payments, or in personal hostility towards private sector managers. Politicians and officials may be suspicious of the motives of private enterprises in negotiating long-term concessions on landfill sites and plant, fearing that the companies wish to use the assets for other purposes. Senior public officials may seek to retain some control by instituting systems of penalties that give them control, rather than basing penalties on the reports prepared by subordinates and on the provisions of the contract. They may also expect the contractor to do extra work as personal favours in the way that they previously used municipal workers, and be angry if their requests are refused because they are outside the scope of the contract. Private sector participation may be the policy of national government, but local officials may informally oppose it, perhaps for reasons of political beliefs. Whilst the best approach is to win the support of senior local officials for the idea of private sector involvement, a fall-back position is to ensure that the contract guards as much as possible against the abuse of power, and that there are quick and effective means of resolving disputes. Political and individual opposition to private sector involvement may be based on the perception that such arrangements lead to excessive profits for the companies concerned. Some municipal managers may object to dealing with small enterprises because they regard as the leaders of these enterprises as socially inferior. Experiences of unsuccessful involvement of the private sector may discourage officials from considering engaging the private sector once more.

# Tax Credits

## Solvency

### Tax Credits – 1NC

Edwards, director of tax policy studies at Cato, 2011 (Chris, November 16th 2011, Testinmony given to the Joint Economic Committee United States Congress about Federal Infrastructure Investment, <http://www.cato.org/publications/congressional-testimony/federal-infrastructure-investment>, AM).

The first thing to note about America's infrastructure is that most of it is not provided by the government, but by the private sector. A broad measure of private infrastructure spending — on items such as buildings, factories, freight rail, pipelines, and refineries — is much larger than government infrastructure spending on items such as roads and airports. In Figure 1, data from the Bureau of Economic Analysis show that private gross fixed investment was $1.7 trillion in 2010, which compared to gross fixed investment by federal, state, and local governments of $505 billion.1 When defense investment is excluded, government infrastructure spending was just $388 billion, or less than one-quarter of private infrastructure spending. One implication of this data is that if Congress wants to boost infrastructure spending, the first priority should be to make reforms to encourage private investment. Tax reforms, such as a corporate tax rate cut, would increase the net returns to a broad range of private infrastructure investments. Regulatory reforms to reduce barriers to investment are also needed, as illustrated by the delays in approving the $7 billion Keystone XL pipeline from Alberta to Texas. Despite its smaller magnitude, public-sector infrastructure spending is also very important to the U.S. economy. But the usual recommendation to simply spend more federal taxpayer money on infrastructure is misguided. For one thing, the government simply can't afford more spending given its massive ongoing deficits. More importantly, much of the infrastructure spending carried out by Washington would be more efficiently handled by devolving it to state and local governments and the private sector.

### AT: Perm – Do CP

#### Tax Incentives aren’t government spending

Marron, Director of the Tax Policy Center, 11 (Donald, “Any difference between tax breaks and spending programs?”, Christian Science Monitor, <http://www.csmonitor.com/Business/Donald-Marron/2011/0411/Any-difference-between-tax-breaks-and-spending-programs>, AM)

In a 5-4 decision, the Court ruled that the challenged tax credit was not government spending and therefore the claimants lacked the standing to sue allowed in Flast. Unlike spending, the majority argued, tax expenditures do not necessarily affect the tax bills of others; that is, the government won’t necessarily raise taxes to cover the revenue cost of a tax credit. In fact, the opinion claimed, “the purpose of many governmental … tax benefits is ‘to spur economic activity, which in turn increases government revenues.’” And further, private school tuition assistance might induce some students to switch from public to private schools, thus reducing government costs. Since tax expenditures thus don’t necessarily harm taxpayers, they have no right to sue.

### Solvency – Transportation Infrastructure

#### Tax Incentives support greater investment- key to program success

Grote, Principal, Mercator Advisors LLC, 11

(Bryan, March 30, 2011, Testimony before the United States House of Representatives, “Improving and Reforming our Nation’s Surface Transportation Programs”) KH

Another way the federal government can leverage scarce resources and attract private investment is to subsidize the cost of desired investments through tax incentives. Like credit assistance, tax incentives can support greater investment as a just a fraction of the scored cost of the traditional grants. Although tax code changes are not under this Committee’s jurisdiction, they should be considered in developing any comprehensive federal financing strategy for surface transportation.

#### Tax credits are an efficient way of financing infrastructure projects

CBO 09 (Congressional Budget Office, October 2009, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/106xx/doc10667/10-26-taxpreferredbonds.pdf>, Subsidizing Infrastructure Investment with Tax-Preferred Bonds, DS)

 Replacing tax-exempt interest with tax credits could, in principle, increase the efficiency of financing infrastruc- ture with tax-preferred debt. Tax-credit bonds transfer to issuers all of the federal revenues forgone through the tax preference; in addition, the amount of the tax credit can be varied across types of infrastructure projects, thus bringing the federal revenue loss in line with the benefits expected from the investment.

### **Solvency – Railroads**

#### Benefits of tax incentives outweigh the cost for rail

Association of American Railroads, 2011

(March 2011, Association of American railroads, “Tax incentives for Freight Railroad Infrastructure Investments”)

America’s transportation demand will surge in the years ahead railroads are the most affordable and environmentally responsible way to meet this demand. They have been reinvesting record amounts back into their networks and will continue to reinvest heavily in the years ahead. However, to take full advantage of the railroads’ unparalleled potential to lower shipping costs, promote economic recovery, provide much-needed jobs, take trucks off the highways, save fuel, and reduce harmful emissions, more rail investment is needed. Federal tax incentives for investments in new track, bridges, and tunnels that would allow more freight and people to move by rail, as well as for investments in positive train control (PTC) systems, are the way to go. All businesses that make capacity-enhancing rail investments, not just for railroads, should be eligible. The economic and public benefits associated with a rail infrastructure tax incentive would greatly exceed its costs.

#### Tax incentives key to sustain railroads- key to economy

Association of American Railroads, 2011

(March 2011, Association of American railroads, “Tax incentives for Freight Railroad Infrastructure Investments”)

As they do today, freight railroads will continue to pay the overwhelming majority of the costs of their tracks, bridges, tunnels, and other infrastructure. However, there is a gap between the socially-optimal level of rail capacity and what railroads are likely to be able to afford on their own. Smart public policy is needed if we are to take full advantage of railroads’ unparalleled potential to lower shipping costs, ease highway congestion, save fuel, and reduce emissions. A sensible way to help is to enact legislation that provides tax incentives for projects such as new track, bridges, tunnels, and intermodal facilities-that expand freight rail capacity. All businesses that make capacity-enhancing rail investments, not just railroads, would be eligible. Costs associated with a recent unfunded Congressional mandate for railroads to install positive train control systems should also be eligible for the tax incentive.

## Aff

### Tax Incentives Reduce Economic Growth

#### Tax subsidies for infrastructure reduce economic growth

CBO 09 (Congressional Budget Office, October 2009, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/106xx/doc10667/10-26-taxpreferredbonds.pdf>, Subsidizing Infrastructure Investment with Tax-Preferred Bonds, DS)

Concerns about economic efficiency are particularly acute for the federal tax preferences that help finance private-sector investment in infrastructure, because those preferences risk transferring resources from taxpayers to private investors without obtaining a commensurate payoff in terms of the value of the infrastructure services that would not have been provided without that subsidy. For example, the fact that those infrastructure facilities are in private hands indicates that owners can capture— through user fees and other charges—a sizable portion of the value of the services they provide. Hence, public benefits from those investments may be small relative to those of infrastructure owned and operated by govern- ment, and determining the appropriate degree of subsidy—or whether any is warranted—may be difficult. If the private-sector investment would have taken place even without a subsidy, then the tax preference simply shifts resources from taxpayers to private investors. Because tax preferences for private-sector borrowers lower the cost of financing and hence the return needed to make an investment attractive, they can also reallocate capital from profitable projects to projects that otherwise would not have been undertaken, thereby potentially reducing economic growth.11

# Privatization CP

## Solvency

### Privatization Better than Infrastructure Bank

#### Infrastructure banks will fail and privatization solves

Winstron, Senior Fellow of Economic Studies Brookings Institute,2010(Clifford, September 29, 2010, http://www.brookings.edu/research/opinions/2010/09/29-infrastructure-privatization-winston)

The notion of an “infrastructure bank” seems to be gathering steam among the cognoscenti as an effective way to put our long-term economic recovery back on track. Creating an infrastructure bank would be a nice coup for the Obama administration because it would reinforce its strategy of massive spending to solve the nation’s economic ills while simultaneously enlisting the participation of Wall Street and the business community. Unfortunately, an infrastructure bank would be compromised by the same political pressures that our current transportation system faces, and it would also fail to address the most glaring problems with the nation’s infrastructure. The Administration could improve the nation’s infrastructure—and also improve its standing with Wall Street and the business community—by selling some roads and airports outright to the private sector. Privatizing infrastructure would also help cut the federal deficit by raising revenues and reducing expenditures. The bank’s funds would consist of private capital and general funds, which would allegedly be allocated by an appointed Board to projects that meet national economic objectives instead of local political objectives. Really? Why would state and local sponsors bring candidate projects to the bank unless they thought they could apply political pressure to get their projects approved? Would Florida stand by while California got funding for a large project and it got nothing? And is it plausible to believe that states and cities would support allocating public funds primarily on the basis of maximizing private investors’ returns? Do governments often think that way? Moreover, even if an infrastructure bank existed, it would not address the public sector’s inefficient pricing, investment, and production policies. Consider highways, airports, and urban transit. Motorists and truckers pay a gasoline tax but they are not charged for delaying other vehicles on the road; truckers are not charged for damaging pavement and stressing bridges; aircrafts pay a weight-based landing fee but they are not charged for delaying other planes that want to takeoff or land; and bus and rail transit users pay fares that only cover a modest fraction of operating costs and no capital costs—in fact, some, like federal employees, obtain subsidies to ride completely free. Prices that are set below costs send the wrong signals for investment by justifying expenditures to expand a crowded road when the problem would be fixed by simply charging peak-period tolls. The bank may try to force states and cities to consider pricing options but politicians have made it clear that they prefer to spend money on their constituents, not to charge them a user fee. The way we waste money on our transportation infrastructure is appalling. Road pavement is not built thickly enough to minimize the sum of maintenance and up-front capital costs. The cost of highway projects is inflated by Davis-Bacon regulations that require labor to be paid at the prevailing union wage rate in a metropolitan area, and by cost overruns that occur because the bidding process selects the firm that is the lowest-cost bidder even though those costs do not tend to end at the bid thanks to renegotiable (mutable-cost) clauses in the contract for underestimated project expenses. Boston’s Big Dig, which came in at a large multiple of the bid price, comes to mind. Airports are a nightmare because they take several years to add runways thanks to opposition from local residents, environmental groups, and regulatory hurdles such as EPA environmental impact standards. And building a new large airport from scratch is basically impossible for the same reasons. Only one has been built over the last 35 years. Mass transit—busses, subways and trains—run too many schedules that make little sense, which is why on average, most buses and subways fill roughly 20% of their seats—and routes don’t change even if population centers shift. At the same time, the cost of providing transit service is inflated by regulations such as “buy American” provisions that mandate that transit agencies first offer contracts to domestic producers instead of seeking the most efficient suppliers of capital equipment. Other perverse incentives include giving extra federal dollars to transit agencies to replace their capital stock prematurely rather than maintaining it efficiently. And it is basically impossible to lay- off or fire a transit employee because to do so could result in severance packages that approach $400,000 per worker. An infrastructure bank would do nothing to address those inefficiencies. And if an infrastructure bank is going to be funded by outside institutional investors, why not allow the private sector to have a greater stake in infrastructure performance by selling them ownership? Privatization of the system would have at least three positive effects. First, private operators would have the incentive to minimize the costs of providing transportation service and can begin the long process of ridding the system of the inefficiencies that have developed from decades of misguided policies. Second, private operators would introduce services and make investments that are responsive to travelers’ preferences. Third, private operators would develop new innovations and expedite implementation of current advances in technology, including on-board computers that can improve highway travel by giving drivers real-time road conditions, satellite-provided information to better inform transit riders and drivers of traffic conditions, and a satellite-based air traffic control system to reduce air travel time and carrier operating costs and improve safety. The technology is there. But it hasn’t been deployed in a timely fashion because government operators have no incentive to do so. The private sector does. The major and legitimate concern with privatization is that private firms would be able to set excessive prices and drastically cut service because they face little competition or that they might experience serious financial difficulties. Thus, experiments are needed to provide evidence on the intensity of various potential sources of competition, firms’ financial performance, and the evolution of capital markets to fund a privatized system. Congressional legislation for airports and highways has included funding and tax breaks to explore privatization, so the idea of experiments is not new (nor is the idea of private infrastructure in most parts of the world). Supporters of an infrastructure bank claim it would treat infrastructure like a long-term investment, not an expense. Yet, unlike privatization, a bank would do little to curb wasteful expenses. The case is not difficult to make: the country would clearly benefit from a policy that has great potential to spur innovation and growth and has the added bonus of budgetary relief. Privatization, instead of a bank, is the real long-term solution to the nation’s transportation infrastructure problems.

### Airports Solvency

#### American should privatize the FAA

Poole, director of transportation policy at the Reason Foundation 10 (Robert is also a Searle Freedom Trust Transportation Fellow at Reason Foundation, holds a degree from MIT in engineering, “Airports and Air Traffic Control” <http://www.downsizinggovernment.org/transportation/airports-atc#_edn0>, AM)

Many experts are predicting major problems with U.S. aviation infrastructure in coming years as large demand growth outstrips the capacity of available facilities. In addition to a rising number of airline passengers, the average size of planes has fallen, which increases the number of planes in the sky that the ATC system needs to handle. On the supply side of the aviation equation, the FAA has long had problems with capital funding, high labor costs, and an inability to efficiently implement new technologies. Major changes are needed because the increased air traffic will soon bump up against the limits of the current air traffic control system. The United States should embrace the types of reforms adopted around the world to privatize airports and commercialize air traffic control services. Investor-owned airports and commercialized ATC companies can better respond to changing market conditions, and they can freely tap debt and equity markets for capital expansion to meet rising demand. Such enterprises also have greater management flexibility to deal with workforce issues and complex technology implementation. There is vast foreign experience that can be drawn on in pursuing U.S. reforms, such as European airport privatization and Canadian air traffic control commercialization. The next section provides a brief history of federal involvement in airport funding and air traffic control. The subsequent sections describe the global trend toward airport privatization, the brewing crisis in air traffic control, and ways to reform the ATC system.

#### Privatization of Airports creates benefits for everyone

Poole, director of transportation policy at the Reason Foundation 10 (Robert is also a Searle Freedom Trust Transportation Fellow at Reason Foundation, holds a degree from MIT in engineering, “Airports and Air Traffic Control” <http://www.downsizinggovernment.org/transportation/airports-atc#_edn0>, AM)

Virtually all commercial airports in the United States are owned by state and local governments.12 But around the world, airports are becoming viewed more as business enterprises, and less as monopoly public services. Governments in both developed and developing countries are turning to the private sector for airport management and development. The benefits of a more entrepreneurial approach to running airports include increased operating efficiency, improved amenities, and more rapid and efficient expansion in capacity to reduce congestion. Airlines, passengers, private-plane owners, and taxpayers can all benefit from this new commercial approach to airport management. For existing state and local airports, the simplest form of privatization is to contract out management of the airport on a short-term basis. But long-term leases can shift much greater responsibility and entrepreneurial incentive to the airport company, while liberating much of the city's previous investment in the airport. To create new airport facilities, the private sector can be brought in as a partner and granted either a long-term or perpetual franchise to finance, design, own, and operate the new facility. Full private ownership and management of airports is also possible and is becoming fairly common in Europe.

### AT: Private Actors Drive Up Costs (Highways)

#### The free market will bankrupt any mismanagers of the road

Block, Ph.D. degree in economics from Columbia University, 2009 (Walter, April 16, http://mises.org/daily/3416, A Future of Private Roads and Highways)

Another common objection to private roads is the spectre of having to halt every few feet and toss a coin into a toll box. This simply would not occur on the market. To see why not, imagine a commercial golf course operating on a similar procedure: forcing the golfers to wait in line at every hole, or demanding payment every time they took a swipe at the ball. It is easy to see what would happen to the cretinous management of such an enterprise: it would very rapidly lose customers and go broke. If roads were privately owned, the same process would occur. Any road with say, five hundred toll booths per mile, would be avoided like the plague by customers, who would happily patronize a road with fewer obstructions, even at a higher money cost per mile. This would be a classic case of economies of scale, where it would pay entrepreneurs to buy the toll collection rights from the millions of holders, in order to rationalize the system Free-Market Transportation: Denationalizing the Roads into one in which fewer toll gates blocked the roads. Streets that could be so organized would prosper as thoroughfares; others would not. So even if the system somehow began in this patchwork manner, market forces would come to bear, mitigating the extreme inefficiency.

## Aff

### Private Sector is Exploitative

#### Government projects are less expensive, whereas private projects are exploitive

CBO 09 (Congressional Budget Office, October 2009, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/106xx/doc10667/10-26-taxpreferredbonds.pdf>, Subsidizing Infrastructure Investment with Tax-Preferred Bonds, DS)

Considerations of economic efficiency and equity—that is, ensuring that sufficient infrastructure services are pro- vided and that they are widely available—determine the relative amounts of public- and private-sector investment in infrastructure. In particular, the extent to which infrastructure is likely to be undersupplied by private firms largely accounts for the degree of responsibility that government will assume for it. For example, some infrastructure projects, such as roads and water systems, display pronounced economies of scale; that is, they have high up-front (or fixed) costs to build and low incremen- tal (or marginal) costs to operate and maintain, making it economically feasible for only one entity to undertake them (commonly referred to as a “natural monopoly”). Such projects may require public ownership—or at least public oversight—in order to maintain the price and supply of those infrastructure services at or near an economically efficient level (basically a level that is no higher than what is required to cover the cost of supply- ing the services). By contrast, a private firm in such a position would be expected to try to maximize profits by restricting supply and raising prices.

### No Incentive to Provide Infrastructure

#### Private sector has inadequate incentives to provide infrastructure

CBO, Congressional Budget Office, 2011 (Congressional Budget Office, the office that prepares estimates of how much each piece of legislation will cost, Spending and Funding for Highways, <http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/120xx/doc12043/01-19-highwayspending_brief.pdf>, AM)

In the United States, almost all highway infrastructure is provided by the public sector. Although private firms play a large role in building, operating, and maintaining highways, the federal government and state and local governments typically determine which projects to undertake and how much to spend on them. The public sector provides most highway infrastructure for several reasons that tend to limit the role of the private sector. First, such infrastructure displays, at least to some degree, important characteristics of “public goods.” Such goods are usually not profitable for the private sector to produce, because once they have been produced, they are available to anyone who wants to use them; as a result, they are often provided by the public sector. Second, because such infrastructure is costly to build, though less expensive to operate and maintain, having competing highway networks is not practical. As a result, such “natural monopolies” are often either provided directly by the government or regulated by it. Third, the benefits of highways—promoting commerce, for instance—may extend beyond the places where they are built and beyond the people who use them directly. All three of those characteristics of highway infrastructure tend to limit the incentives for the private sector to provide it. The private sector, on its own, would provide less of that type of infrastructure than is socially beneficial.