



Highlights of [GAO-08-1052T](#), a testimony before the Subcommittee on Energy, Natural Resources, and Infrastructure, Committee on Finance, U.S. Senate

Why GAO Did This Study

The private sector is increasingly involved in financing and operating highway facilities under long-term concession agreements. In some cases, this involves new facilities; in other cases, firms operate and maintain an existing facility for a period of time in exchange for an up-front payment to the public sector and the right to collect tolls over the term of the agreement. In February 2008 GAO reported on (1) the benefits, costs, and trade-offs of highway public-private partnerships; (2) how public officials have identified and acted to protect the public interest in these arrangements; and (3) the federal role in highway public-private partnerships and potential changes in this role. The Senate Finance Committee asked GAO to testify on this report and to highlight its discussion of tax issues. GAO reviewed the experience of projects in the U.S. (including the Chicago Skyway and Indiana Toll Road agreements), Australia, Canada, and Spain.

What GAO Recommends

This testimony makes no new recommendations. In February 2008, GAO recommended that Congress consider directing the Secretary of Transportation, in consultation with Congress and other stakeholders, to develop objective criteria for identifying potential national public interests in highway public-private partnerships, in order to allow the Department of Transportation (DOT) to play a targeted role in ensuring that national interests are considered.

To view the full product, including the scope and methodology, click on [GAO-08-1052T](#). For more information, contact JayEtta Hecker at (202) 512-2834 or heckerj@gao.gov.

HIGHWAY PUBLIC-PRIVATE PARTNERSHIPS

Securing Potential Benefits and Protecting the Public Interest Could Result from More Rigorous Up-front Analysis

What GAO Found

Highway public-private partnerships provide potential benefits, such as sharing risks with the private sector, more efficient operations and management of facilities and, through the use of tolling, increased mobility and more cost-effective investment decisions. There are also potential costs and trade-offs—there is no “free” money in public-private partnerships and it is likely that tolls on a privately operated highway will increase to a greater extent than they would on a publicly operated toll road. There are also financial trade-offs. Unlike public toll authorities, the private sector pays federal income taxes and can deduct depreciation on assets for which they have effective ownership. The extent of these deductions and the amount of foregone revenue, if any, to the federal government is difficult to determine. Demonstrating effective ownership may require lengthy concession periods and, according to experts involved in the lease of the Chicago Skyway and Indiana Toll Road, contributed to the 99-year and 75-year concession terms on these two facilities, respectively. Experts also told us that in the absence of the depreciation benefit, the concession payments to Chicago and Indiana would likely have been less than \$1.8 billion and \$3.8 billion, respectively.

Highway public-private partnerships in the U.S. that GAO reviewed sought to protect the public interest largely through concession agreement terms prescribing performance and other standards. While these protections are important, governments in other countries, such as Australia, have developed systematic approaches to identifying and evaluating public interest and require their use when considering private investments in public infrastructure. Similar tools have been used to some extent in the United States, but their use has been more limited. Using up-front tools can also assist public agencies in determining the expected benefits and costs of a project and an appropriate means to deliver the project. Not using such tools may lead to certain aspects of protecting the public interest being overlooked.

While direct federal involvement has been limited to where federal investment exists and while the DOT has actively promoted them, highway public-private partnerships may pose national public interest implications such as interstate commerce that transcend whether there is direct federal investment in a project. However, given the minimal federal funding in highway public-private partnerships to date, little consideration has been given to potential national public interests in them. GAO has called for a fundamental reexamination of our surface transportation policies, including creating well-defined goals based on identified areas of national interest. This reexamination provides an opportunity to identify emerging national public interests (including tax considerations), the role of the highway public-private partnerships in supporting and furthering those national interests, and how best to identify and protect national public interests in future highway public-private partnerships.