



What Is a Revenue-Risk Public-Private Partnership (P3)?

An alternative way to procure major infrastructure projects is via a long-term public-private partnership (P3). Instead of contracting only to design and build the project, the scope includes design, build, finance, operation, and maintenance (DBFOM). The P3 team is selected competitively based on its qualifications, experience, and with its detailed proposal having been judged to provide the best value.

The key advantages of a long-term DBFOM P3

- Long-term financing up-front, so the project gets implemented sooner.
- The private partner, rather than taxpayers, takes on the major financial risks, including cost-overruns and late completion.
- It minimizes the project's life-cycle cost instead of just choosing the option with the lowest initial construction costs.
- It offers potential design innovations.
- There is guaranteed maintenance due to long-term stewardship of the asset.

The alternative ways to finance a long-term P3

Revenue Risk (RR)

- Financing is based on user fee revenues from the project.
- The P3 company finances the project based on “investment-grade” revenue projection.
- RR financing is “non-recourse”—the state is not responsible for the private company's debt service or bankruptcy.
- The P3 company has a direct customer-provider relationship with project's users.
- RR project adds to total infrastructure investment due to new revenue source.

Availability Payments (AP)

- The state agrees to make annual payments linked to performance measures.
- The P3 company finances the project based on the state's commitment.
- Generally, the state draws on existing revenues for the annual payments.
- The AP commitment is a liability on the state's balance sheet.

When is Revenue Risk the better financing choice for the state and taxpayers?

- If direct user fees are feasible for the project.
- If the AP model is not allowed, due to state policy.
- If the state prefers non-recourse financing.
- If the state sees value in a direct customer-provider relationship.

For further information:

Robert W. Poole, Jr., [“Availability Payment or Revenue-Risk P3 Concessions? Pros and Cons for Highway Infrastructure,”](#) Reason Foundation, Nov. 2017

TRANSPORTATION POLICY CONTACT

- Bob Poole, Director of Transportation Policy (bob.poole@reason.org)