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Are Public-Private Partnerships the Solution for the U.S. Infrastructure Issue?

BY CHRISTOPHER HANEWALD

Despite frequent mention in both local and national political campaigns, the United States' well-documented issue with crumbling national infrastructure just cannot seem to garner the attention that some feel it deserves. While many typically associate the buzz-word "infrastructure" with crumbling roads and bridges, the issues are far more pronounced than what we see on our daily commute. Recent tragedies involving aging municipal water pipes, overloaded sewer systems and even burst dams should remind us that these issues can amount to more than just delays in travel and, in fact, can be life-threatening.

Not only are the threats real, but the rate of deterioration of U.S. infrastructure is accelerating. In 2017, a report issued by the American Road & Transportation Builders Association found that 54,259 bridges throughout the U.S. were rated as "structurally deficient;" and the average age of those bridges was 67 years. Meanwhile, the Interstate Highway System, initially funded and signed into law by Dwight Eisenhower in 1956, is comprised of nearly 46,876 miles of roadway that were largely constructed in the succeeding two decades. More alarming than just the age of these

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systems, however, is that often times these bridges and roadways were constructed with the intent of carrying less than half of the daily traffic they handle today.

Compounding the rate of deterioration are new technological developments placing even further strain on existing infrastructure. The rise and dominance of e-commerce within the last decade means that, while the Amazon shipping might be free, the indirect costs are borne by state and federal governments in the form of increased traffic and usage of these ailing systems. Additionally, the increasing popularity and affordability of electric vehicles means that the free-rider problem on American roadways is only getting worse, as the Highway Trust Fund continues to be funded by the federal excise tax on gasoline and diesel, which has not been increased since 1993.

Moreover, with every passing year, the funding gap to repair and replace existing structures becomes ever more costly. The American Society of Civil Engineers, in a 2017 report, projected that the cumulative infrastructure funding gap would eclipse $2 trillion by 2025. Even more staggering are the direct and indirect costs associated with these projected funding gaps. It is expected that the economic consequences could amount to $3.9 trillion in losses to the U.S. GDP; $7 trillion in lost business sales; and 2.5 million lost American jobs all by 2025. Thus, as the numbers indicate, simply ignoring the problem will only further exacerbate these looming issues.

Perhaps it is the convergence of many of the issues mentioned above that has led to increased calls for public-private partnerships to alleviate or mitigate the ever-growing list of problems with U.S. infrastructure. The shape and structure of those partnerships, however, is a different story. Within the last decade, there is already at least one disastrous example of one such partnership, involving the Indiana Toll Road, not going according to plan.

While one glaring failure might temper expectations, investors both within the U.S. and globally still appear to have interest in these potential investment opportunities. The Port of Miami Tunnel project is hailed as a success for its unique financing structure, utilizing private dollars from a Paris-based investment fund and state and federal funds to complete the nearly $900 million project. As far as new projects are concerned, this type of creative bundling and packaging of financing to complete major infrastructure projects may become the new norm as the federal government continues to struggle to simply maintain what already exists.

Furthermore, provisions contained within last year's tax reform law, commonly called the Tax Cuts and Jobs Act (TCJA), might further stoke appetite for these investments, as favorable deductions for capital investments might benefit investment funds seeking long-term returns. On a state and local level, infrastructure upgrades in the immediate vicinity of large-scale real estate developments will continue to be funded through the use of local government grants and tax incremental financing. It is important to note though, due to another change brought about by the TCJA, depending on who is deemed to be the beneficial owner of a roadway improvement or a newly constructed parking garage, the receipt of funds might result in a taxable event.

Ultimately, as the variety of problems facing U.S. infrastructure continues to worsen and become more costly by the year, the only way forward might be through increasing dependence on the private sector. This will require development and financing of those projects to become progressively more complicated as tax incentives, government grants and private money are pooled together to keep America moving.