

Public Private Partnerships For Federal Facility Projects

"Can Transportation PPPs Be a Model
For Value Capture in Federal Facilities"

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Richard G. Little, AI CP
USC Keston Institute for Public Finance
and Infrastructure Policy



The Keston Institute
for Public Finance and
Infrastructure Policy

Public Finance 101

- z There are two ways the public sector raises money to pay for what it needs, taxes or fees
- z There are 100 pennies in a dollar and you can only spend them once.
- z If we want to buy more of one thing, we need to take the pennies from another pile (defense, education, healthcare) or raise more dollars.

What does this mean for infrastructure?

Unless there is a fundamental sea change in how we approach funding for public facilities and infrastructure, necessary rehabilitation and new capacity will be long-delayed if provided at all. This is a classic budget tradeoff situation.

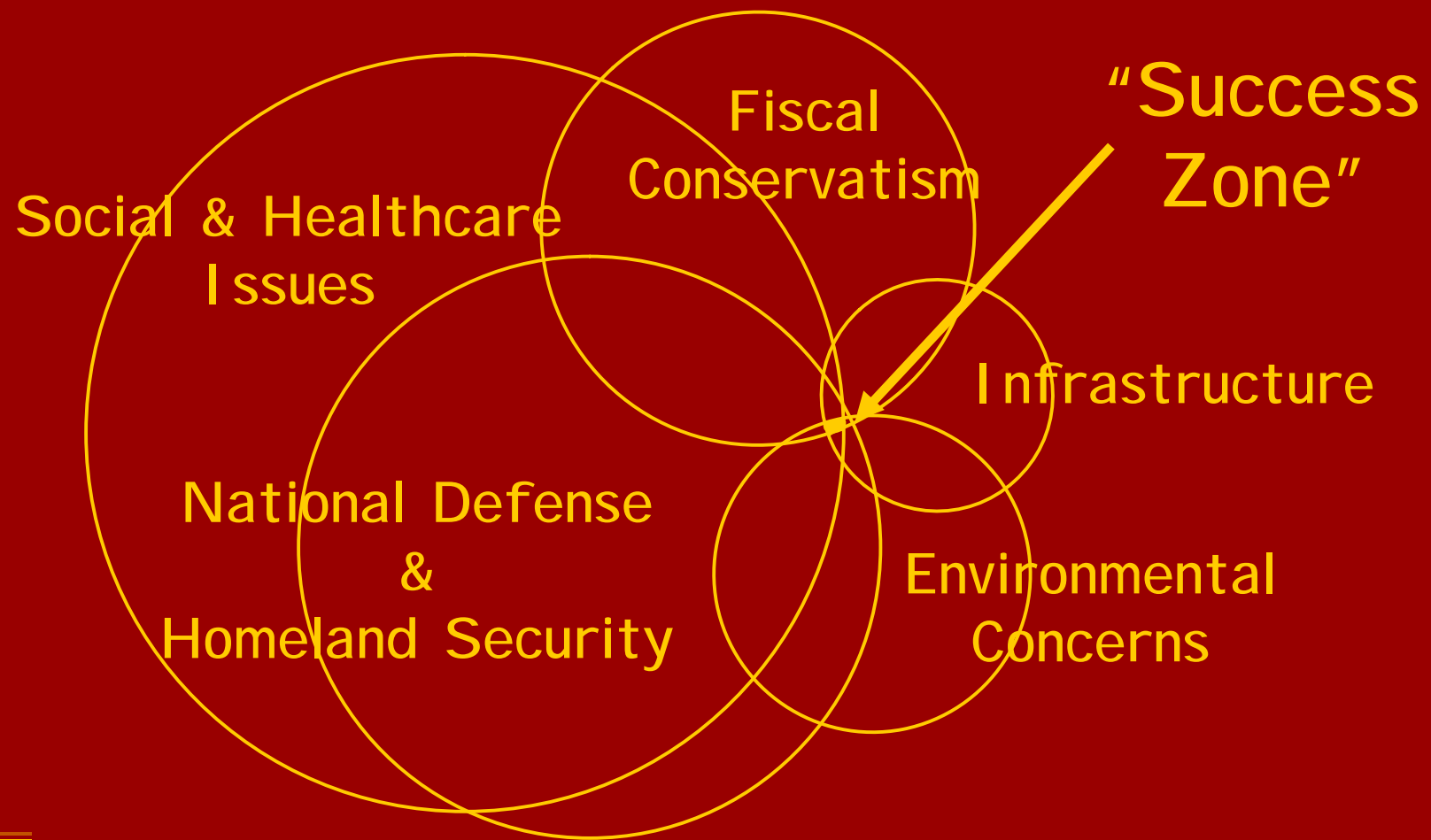
Tradeoffs used to be rather simple



or



Today's decisions must achieve multiple objectives and satisfy many stakeholders



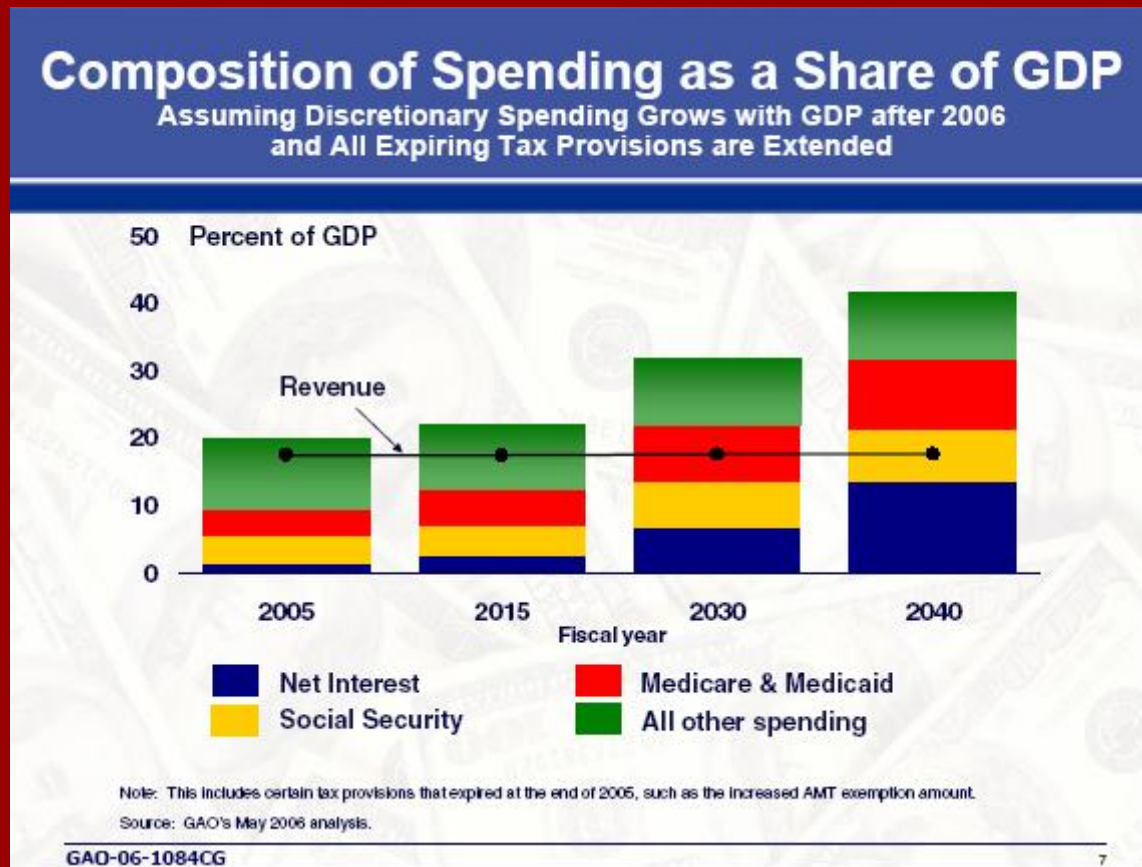
How has transportation infrastructure traditionally been funded?

- z "Pay as you go" – current revenues from fuel and sales taxes, general revenue, and user fees
- z Debt – selling bonds or notes backed by "full faith and credit" or revenue streams
- z Intergovernmental transfers – grants from one level of government to another (Highway Trust Fund)

State and local funding sources are not up to the task

General and special tax revenues continue to provide only a portion of the necessary funds required to maintain, rebuild, and expand the nation's transportation system—we will need to find more creative solutions to ensure the continued viability of critical services.

The prospects for increased federal infrastructure spending are bleak!



So, is there a crisis in transportation infrastructure funding?

If you define crisis as having needs that far outstrip any readily sustainable way to pay for them, then yes, we have an “infrastructure funding crisis.”

There is a role here for innovative thinking and financing mechanisms

- z** Demand management strategies, including congestion pricing, as an integral part of project planning
- z** More user fees (TOLLS!!!) where the beneficiary pays for services received
- z** Non-enterprise resource streams outside of general revenues
- z** Increased use of private equity capital to fund traditionally public services

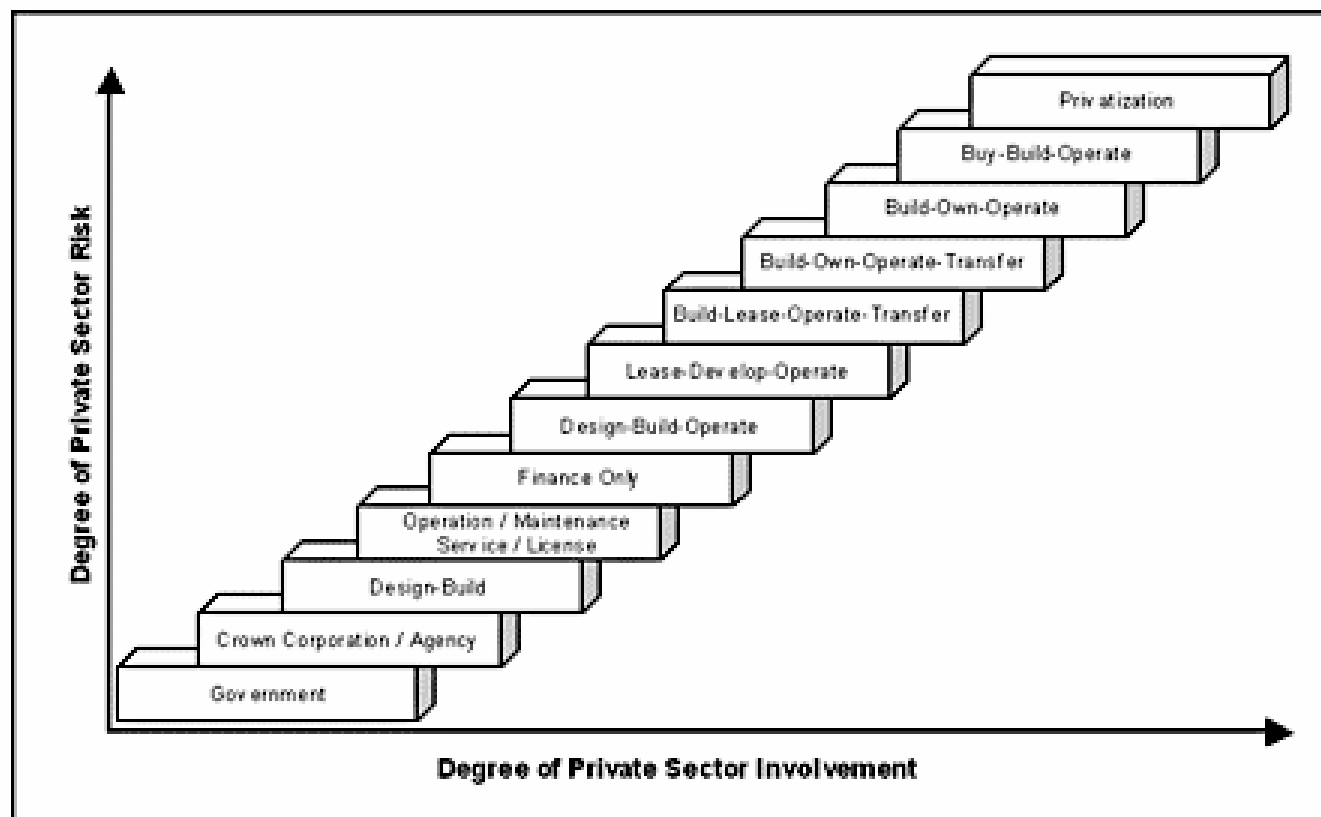
New ways of thinking about what we do, how we do it, and how it's paid for.

PPPs —when public funding isn't enough

Public Private Partnerships (PPPs) are contractual agreements between the public and private sectors wherein the private sector agrees to deliver services in exchange for a fee.

The private sector typically agrees to finance, build, operate, and maintain the infrastructure assets (mostly, but not exclusively, transportation) necessary to deliver the services.

Partnering of the public and private sectors takes many forms



Motivations for Public Private Partnerships

Public Sector Motivations

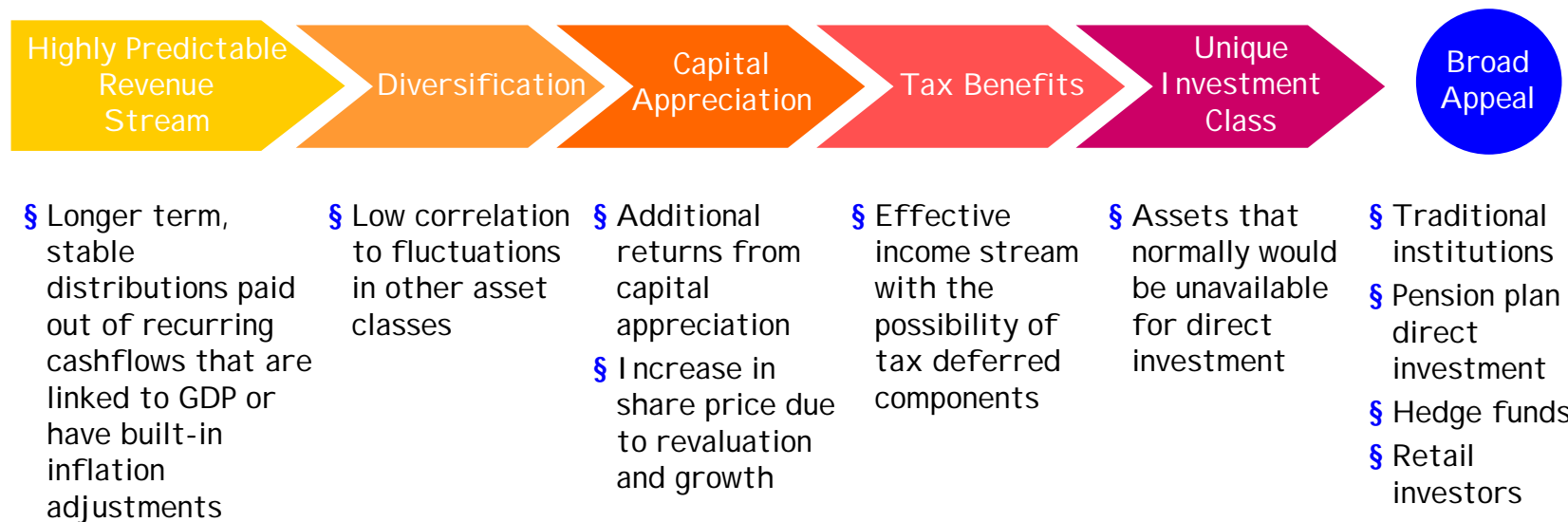
- z Constraints on public sector's ability/willingness to raise new revenues; desire to leverage multiple sources of funding
- z Opportunities to take advantage of project finance techniques not available to the public sector and/or to transfer new project risks to private sector
- z Introduction of "market pricing mechanisms" to manage constrained resources and move toward "user pays" approach

Private Sector Motivations

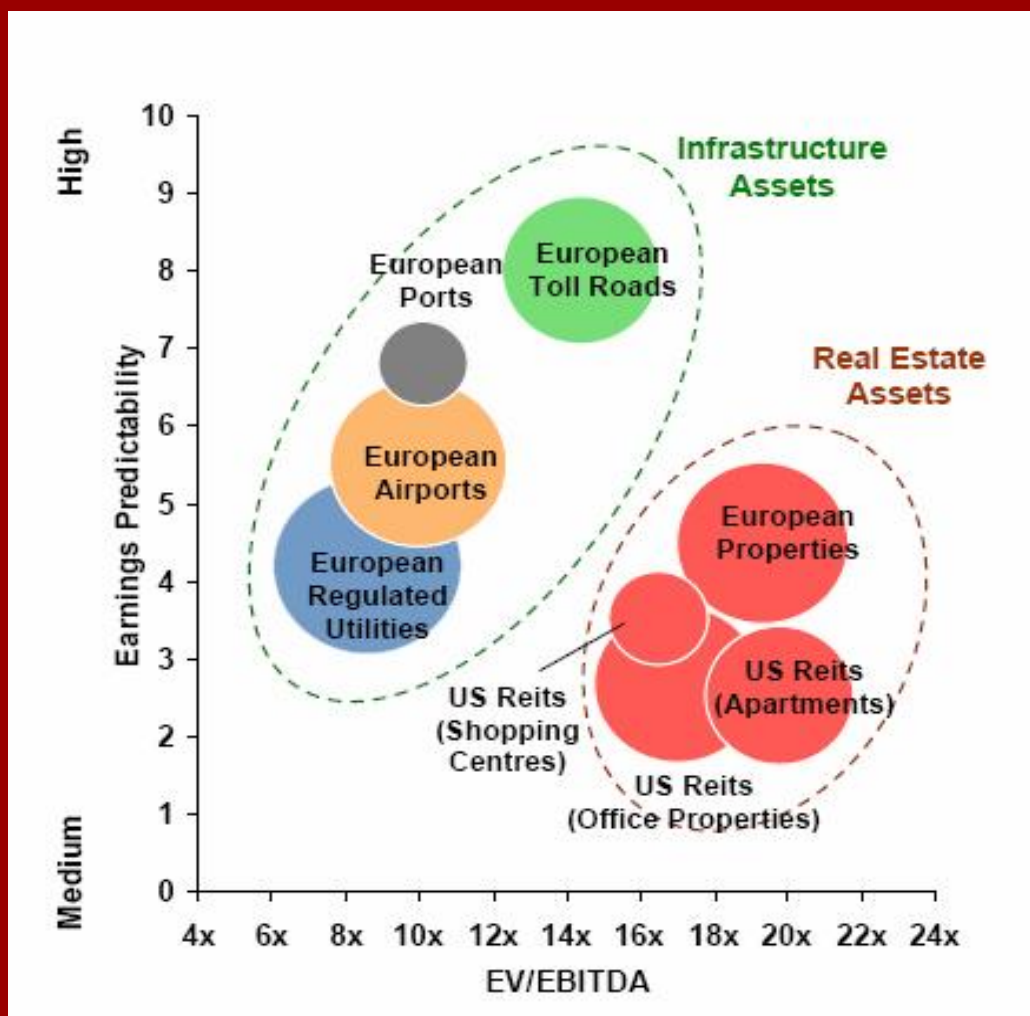
- z Returns from stable long duration cash flow profile of essential infrastructure assets
- z Opportunity to deploy integrated design, construction and operation capabilities and reap the benefits of innovation

Why is public infrastructure attractive to the private sector?

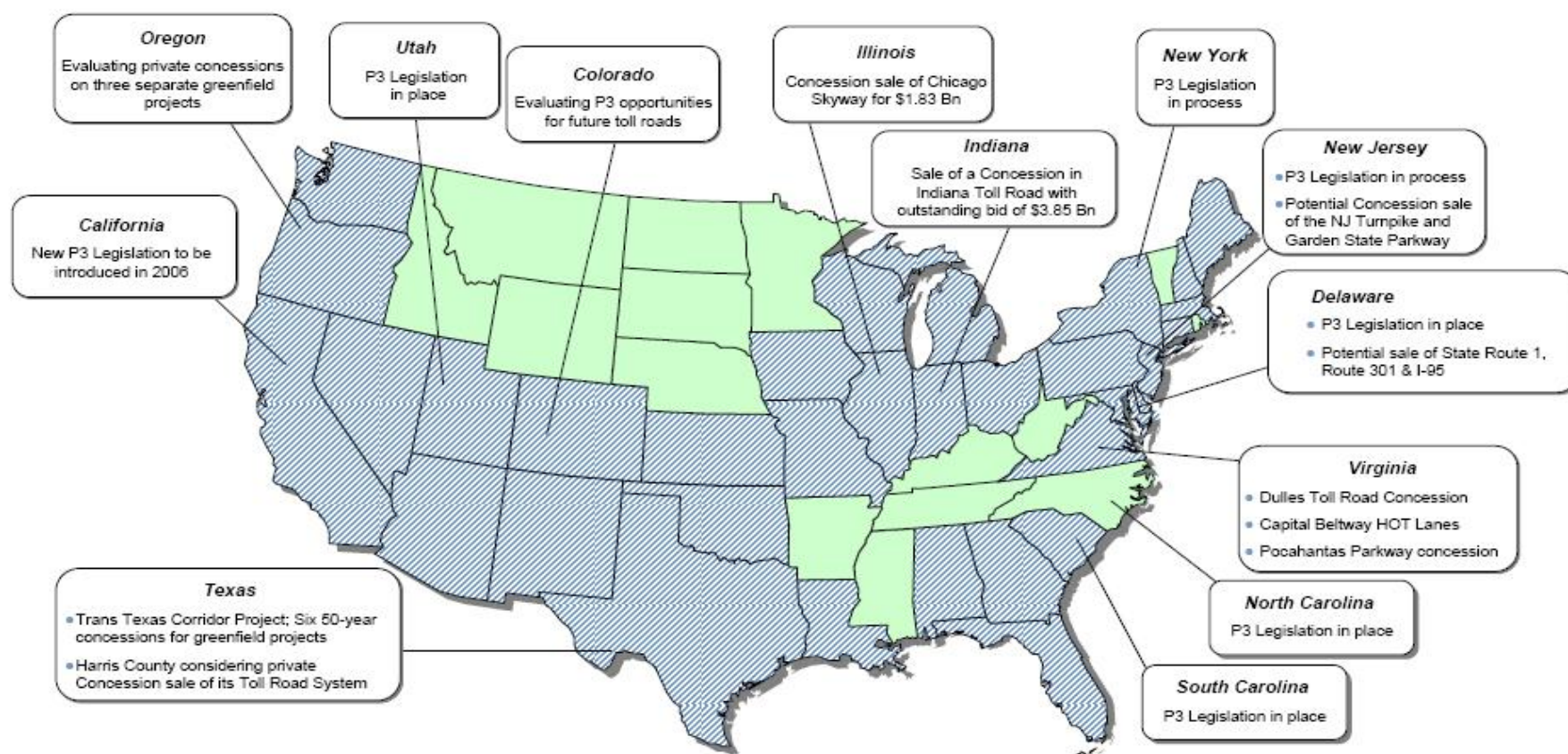
Public Infrastructure Assets are Attractive to Investors



Public infrastructure may be undervalued when compared to similar investments



Many states have utilized PPPs or are considering them



The value of PPP concessions is impressive

Recently Completed Toll Road Deals						
	Sector	Geography/ vendor	Date	Acquirer	Transaction value (\$mm)	Transaction profile
South Bay Expressway	Toll Road	San Diego	May-03	Macquarie	\$185	Greenfield, 35 yr concession
Chicago Skyway	Toll Road	Chicago	Oct-04	Macquarie/Cintra	\$1,830	Brownfield, 99 yr concession
Dulles Greenway	Toll Road	Virginia/Investor Group	Aug-05	Macquarie (MIG)	\$450	Brownfield, 51 yr concession
Indiana Toll Road	Toll Road	Indiana	Feb-06	Macquarie/Cintra	\$3,800	Brownfield, 75 yr concession
Pocahontas Parkway	Toll Road	Virginia	May-06	Transurban (Aust)	\$441	Distressed, Brownfield, 99 yr concession
Texas SH 130 segments 5 & 6	Toll Road	Texas	June-06	Cintra/Zachry	\$1,300	Greenfield, 50 yr concession
Tampa East West	Toll Road	Florida	Jan-07	Plenary Group	\$150	Greenfield, terms pending
Texas SH 121	Toll Road	Texas	Feb-07	Cintra/JPMAM	\$3,436	Greenfield & Brownfield, 50 yr concession, pending ratification by Transportation Commission

There are serious investor groups with a focus on infrastructure

Financial Investors

North American Investors					Australasian / European Investors				
Potential Investor	Country	Financial capacity	Long-term commitment	US focus	Potential Investor	Country	Financial capacity	Long-term commitment	US focus
AIG	US	●	●	●	3i Investments	UK	●	●	●
bciMC	Canada	●	●	●	AMP Capital	Aus.	●	●	●
Borealis Infrastructure	Canada	●	●	●	Access Economics	Aus.	●	●	●
CalPers	US	●	●	●	ANZ Infrastructure Services	Aus.	●	●	●
Carlyle	US	●	●	●	Babcock & Brown	Aus.	●	●	●
CDP Capital	Canada	●	●	●	Challenger Financial Services	Aus.	●	●	●
CPP Investment	Canada	●	●	●	Cheung Kong Infrastructure	HK	●	●	●
Credit Suisse / GE	US	●	●	●	Colonial First State	Aus.	●	●	●
Fortress	US	●	●	●	DB RREEF Infrastructure	Aus.	●	●	●
Goldman Sachs	US	●	●	●	Galaxy Fund	UK	●	●	●
John Hancock	US	●	●	●	Hastings Funds Management	Aus.	●	●	●
JPMorgan	US	●	●	●	Industry Fund Management	Aus.	●	●	●
Kilmer van Nostrand	Canada	●	●	●	Macquarie	Aus.	●	●	●
Morgan Stanley	US	●	●	●	Star Capital	UK	●	●	●
Ontario Teachers Pension Plan	Canada	●	●	●	Transfield Services	Aus.	●	●	●
OP Trust	Canada	●	●	●	Transurban	Aus.	●	●	●
UBS	US	●	●	●					

Can transportation PPPs be a model for value capture in federal facilities?

The government wants:

- facilities and infrastructure to carry out its mission
- minimum life-cycle costs
- adequate & timely maintenance and repair
- “green” and other technology updates as available

Investors want:

- steady, stable long-term return on capital
- opportunity to take advantage of value “locked” in public assets
- ability to use innovation to meet performance goals

Private sector innovation can reap benefits

z Private sector profit motive induces innovation

- § Financing solutions
- § Life-cycle cost containment
- § Design solutions
- § Construction means and methods
- § Lease payment solutions
- § Maintenance methods

z How can public sector capture these innovations?

- § Contract terms and conditions
 - Performance measures and standards
 - Sharing of benefits from approved deviations
 - Flexibility
- § Effective competition

What are some of the public sector concerns with PPPs?

Value for Money – making sure the desired services are provided at the same or less cost

Transparency – negotiating in open competition with details available for public scrutiny

Don't look foolish – avoiding the appearance that a bad deal was negotiated out of ineptitude or ignorance

What's the key to making this work?

- Commit to doing things differently!**
- z Clear understanding and statement of objectives
 - z Mutual respect for the goals of each party
 - z Transparency
 - z Capable, knowledgeable people on both sides

Can PPPs be a win-win for the U.S.?

If the private sector can deliver desired facilities or services at lower overall cost to the public at large and make a profit at the same time, why should we care?

This is America, after all!

Thank You!

Richard G. Little, AI CP
Director
The Keston Institute for Public Finance
and Infrastructure Policy
University of Southern California
RGL 236
Los Angeles, CA 90089
phone: (213) 740-4120
fax: (213) 821-1039
email: rglittle@usc.edu
Website: www.usc.edu/keston



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Infrastructure Policy