

# Public Private Partnerships For Federal Facility Projects

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

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# *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.



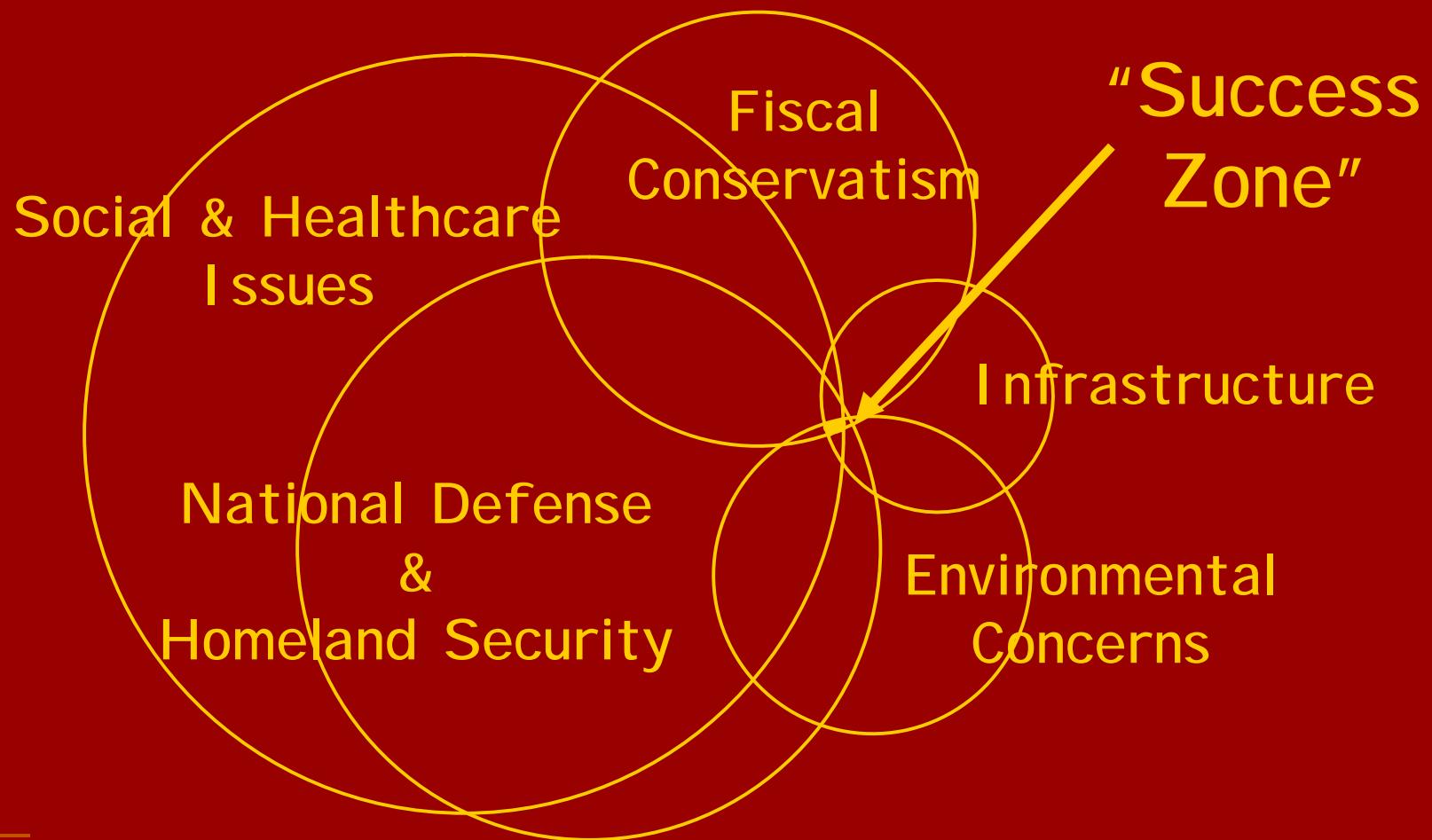
*Tradeoffs used to be rather simple*



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)

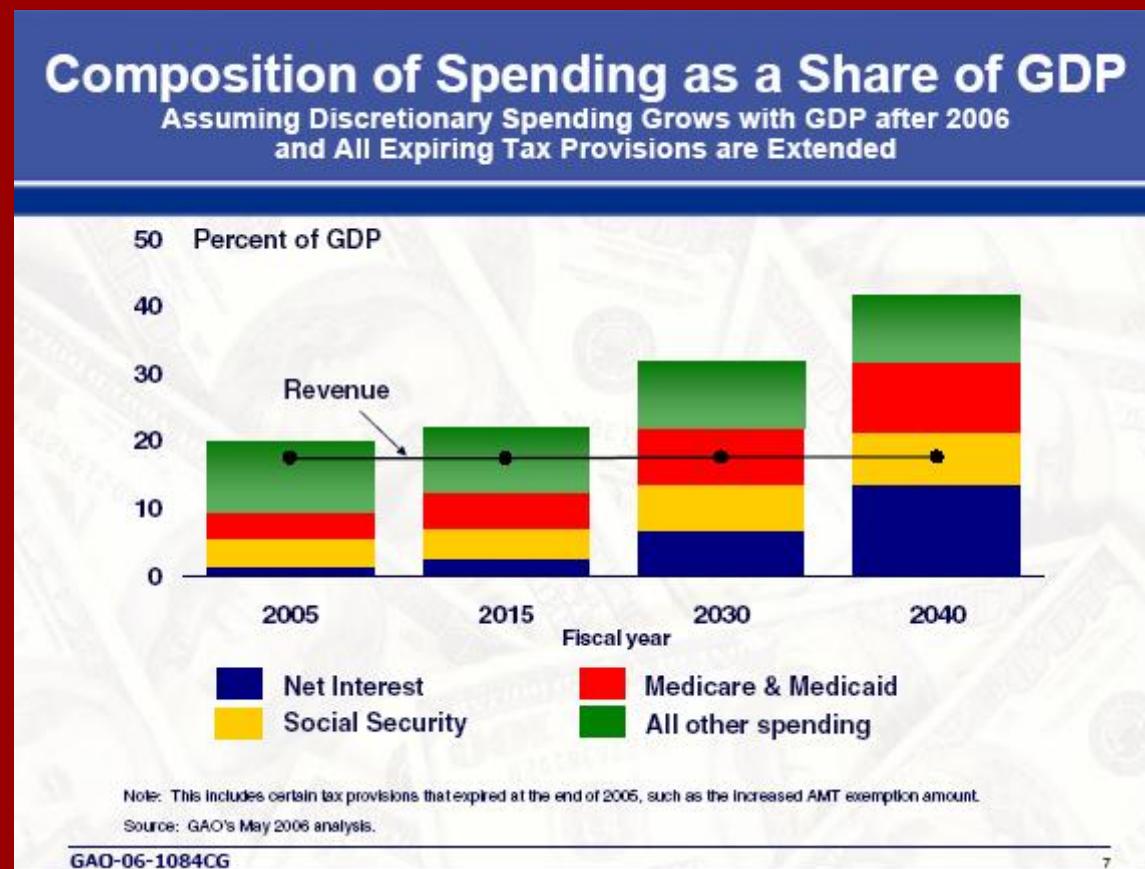


## *State and local funding sources are not up to the task*

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.



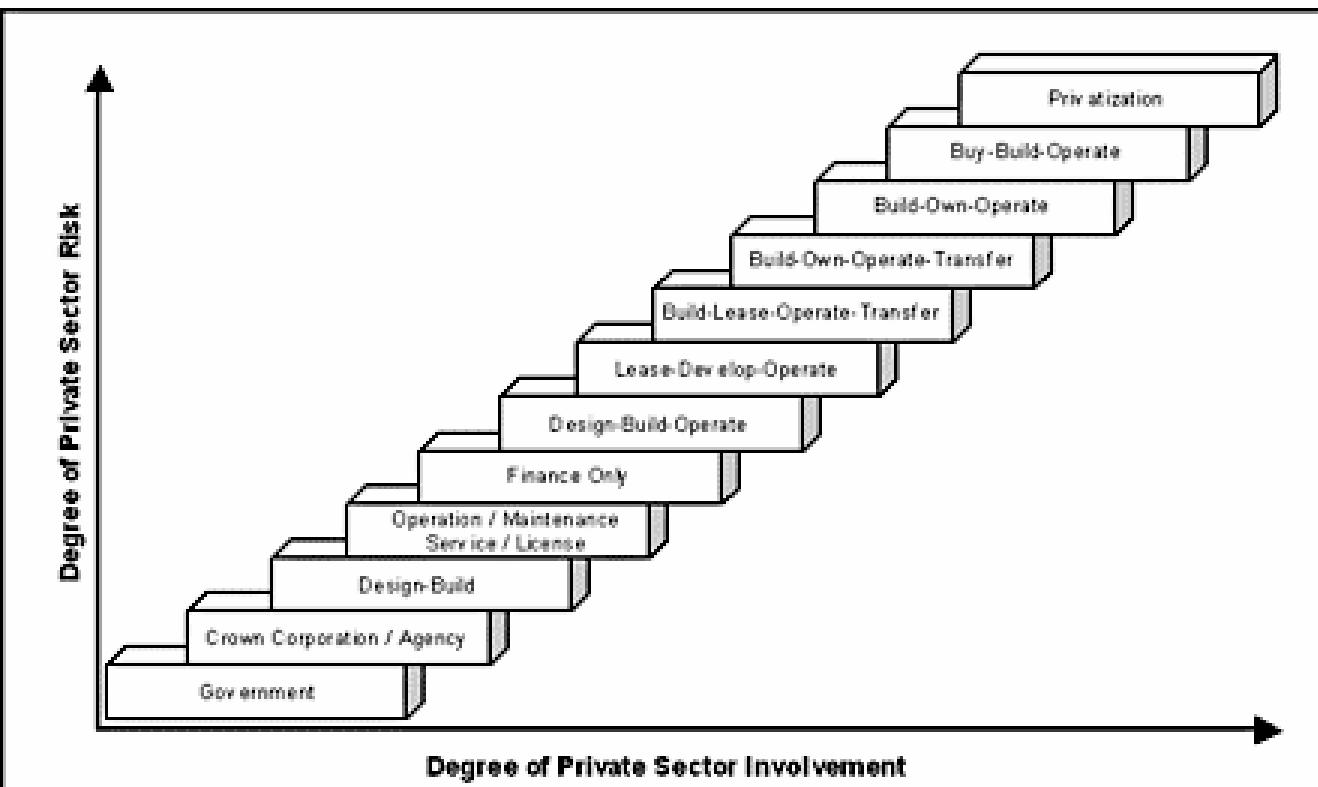
# *PPPs —when public funding isn't enough*

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

Highly Predictable Revenue Stream

Diversification

Capital Appreciation

Tax Benefits

Unique Investment Class

Broad Appeal

§ Longer term, stable distributions paid out of recurring cashflows that are linked to GDP or have built-in inflation adjustments

§ Low correlation to fluctuations in other asset classes

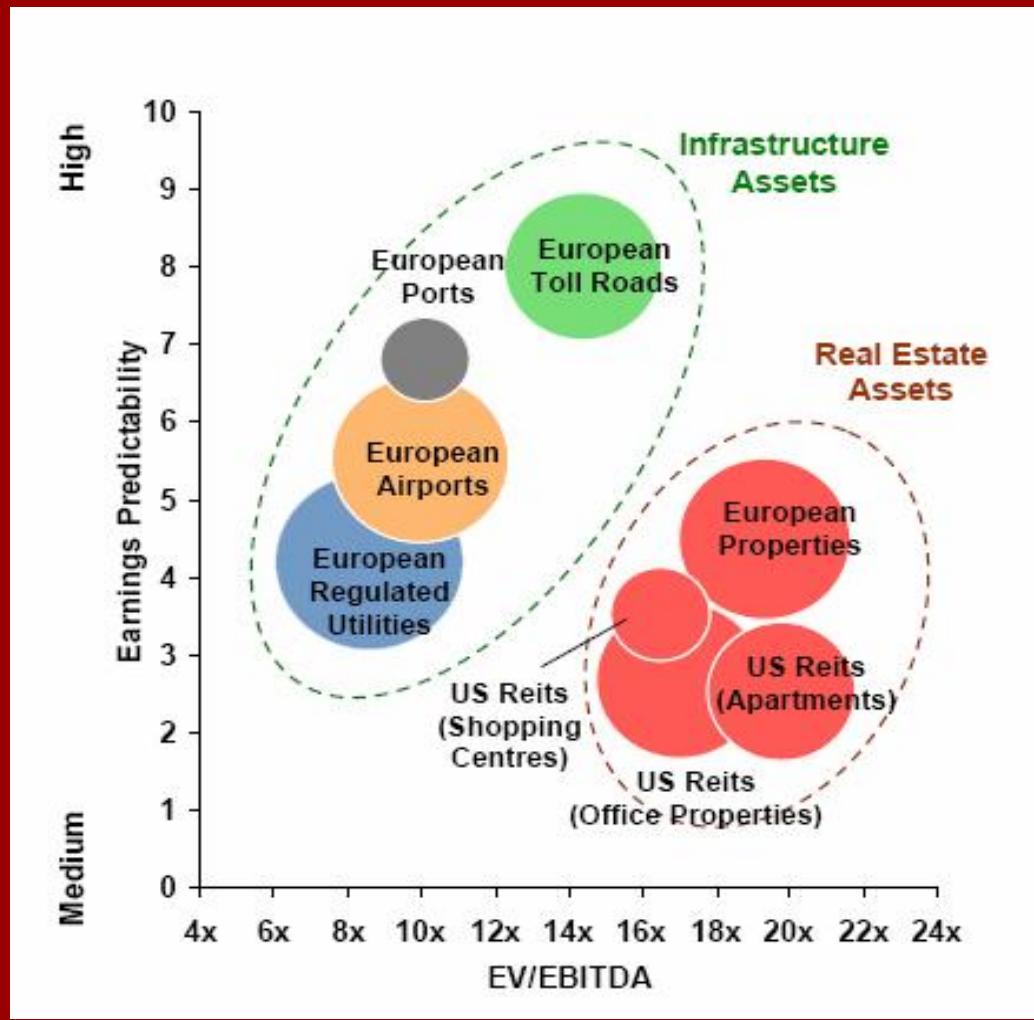
§ Additional returns from capital appreciation  
§ Increase in share price due to revaluation and growth

§ Effective income stream with the possibility of tax deferred components

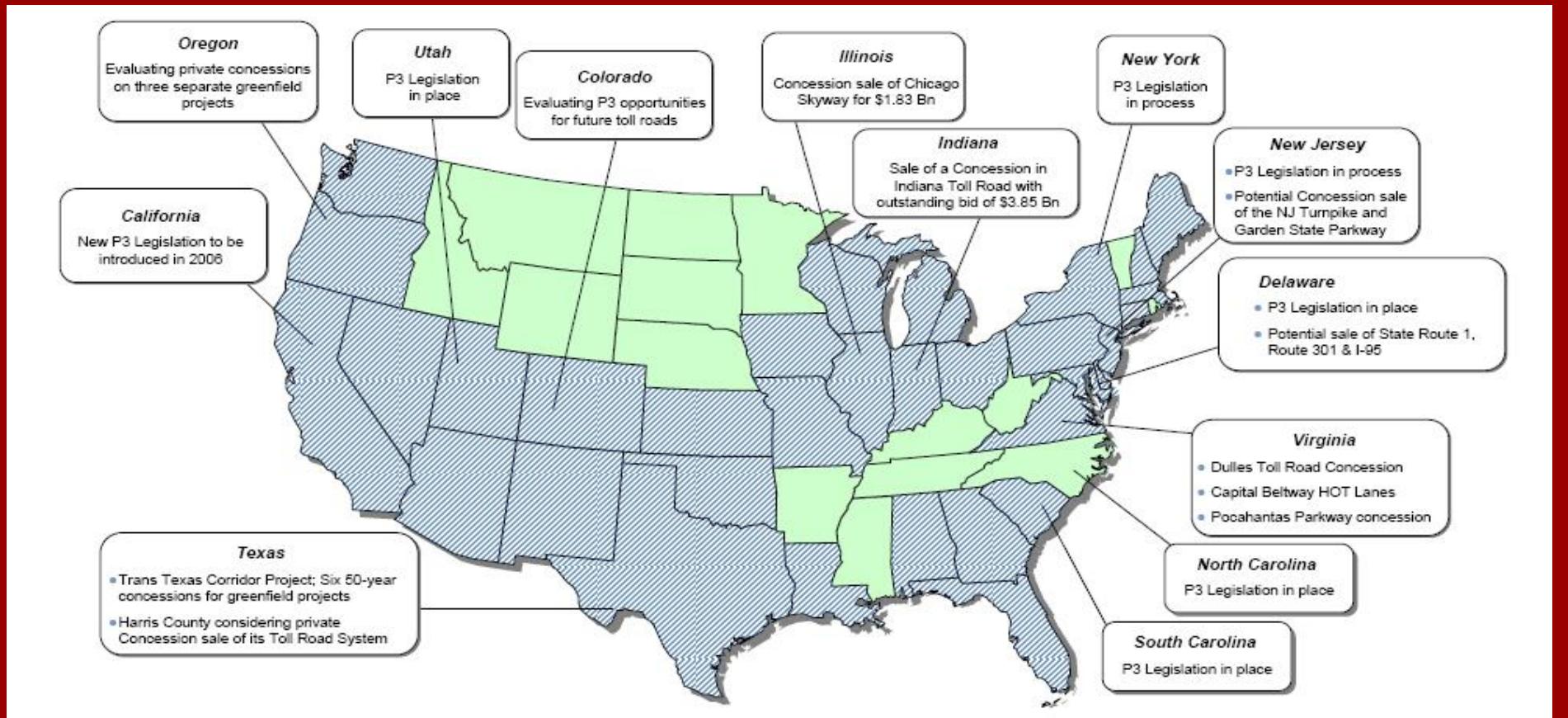
§ Assets that normally would be unavailable for direct investment

§ Traditional institutions  
§ Pension plan direct investment  
§ Hedge funds  
§ Retail 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         | \$115                    | 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)   | \$355                    | 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) | \$111                    | 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          |         |                    |                      |          |
| Potential Investor                | Country | Financial capacity | Long-term commitment | US focus |
| AIG                               | US      | ●                  | ●                    | ●        |
| bclMC                             | Canada  | ●                  | ●                    | ●        |
| Borealis Infrastructure           | Canada  | ●                  | ●                    | ●        |
| CalPERS                           | US      | ●                  | ●                    | ●        |
| Carlyle                           | US      | ●                  | ●                    | ●        |
| CDP Capital                       | Canada  | ●                  | ●                    | ●        |
| CPP Investment                    | Canada  | ●                  | ●                    | ●        |
| Credit Suisse / GE                | US      | ●                  | ●                    | ●        |
| Fortress                          | US      | ●                  | ●                    | ●        |
| Goldman Sachs                     | US      | ●                  | ●                    | ●        |
| John Hancock                      | US      | ●                  | ●                    | ●        |
| JPMorgan                          | US      | ●                  | ●                    | ●        |
| Kilmer van Nostrand               | Canada  | ●                  | ●                    | ●        |
| Morgan Stanley                    | US      | ●                  | ●                    | ●        |
| Ontario Teachers Pension Plan     | Canada  | ●                  | ●                    | ●        |
| OP Trust                          | Canada  | ●                  | ●                    | ●        |
| UBS                               | US      | ●                  | ●                    | ●        |
| Australasian / European Investors |         |                    |                      |          |
| Potential Investor                | Country | Financial capacity | Long-term commitment | US focus |
| 3i Investments                    | UK      | ●                  | ●                    | ●        |
| AMP Capital                       | Aus.    | ●                  | ●                    | ●        |
| Access Economics                  | Aus.    | ●                  | ●                    | ●        |
| ANZ Infrastructure Services       | Aus.    | ●                  | ●                    | ●        |
| Babcock & Brown                   | Aus.    | ●                  | ●                    | ●        |
| Challenger Financial Services     | Aus.    | ●                  | ●                    | ●        |
| Cheung Kong Infrastructure        | HK      | ●                  | ●                    | ●        |
| Colonial First State              | Aus.    | ●                  | ●                    | ●        |
| DB RREEF Infrastructure           | Aus.    | ●                  | ●                    | ●        |
| Galaxy Fund                       | UK      | ●                  | ●                    | ●        |
| Hastings Funds Management         | Aus.    | ●                  | ●                    | ●        |
| Industry Fund Management          | Aus.    | ●                  | ●                    | ●        |
| Macquarie                         | Aus.    | ●                  | ●                    | ●        |
| Star Capital                      | UK      | ●                  | ●                    | ●        |
| Transfield Services               | Aus.    | ●                  | ●                    | ●        |
| Transurban                        | Aus.    | ●                  | ●                    | ●        |

# *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



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# *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!



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# Thank You!

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