The Evolution of Public-Private Partnerships & Best Practices for States

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Presentation Outline

• About Us
• P3 Market Conditions in the U.S.
• P3 Characteristics & Trends
  – Advantages and Disadvantages
  – Financing: Challenges and Policy Tools
  – Project Risks
• Best Practices for Policymakers
• Continuing Policy Discussions and P3 Evaluation
• Research projects on P3s
  – Data needs for socioeconomic assessment of infrastructure P3s
  – Viability of multi-jurisdictional transportation P3s: an institutional framework review
  – Does political contestability affect implementation of P3s?
  – Renegotiation of transportation P3s
  – Cost differences of P3s and traditionally procured highway projects in the U.S.

• White Papers
  – Research & policy issues white paper
  – Best practices white paper

• Co-sponsoring National Conference on P3s
• Graduate Education: Master-level courses on P3s
• Conference Participation & Outreach Activities

Center Website: p3policy.gmu.edu
P3 Market Conditions in the U.S.

Number of P3 Financial Closes in the U.S. 1988-2013, by Sector

Source: Public Works Financing
P3 Market Conditions in the U.S.

- Types of US P3 projects that reached financial close, 1986-2013

Source: Public Works Financing
P3s: Advantages & Disadvantages

Advantages

• Utilization of private financial resources
• On-budget, on-time delivery
• Innovative technologies and management know-how of the private sector
• Improved operation and maintenance efficiency
• Improved asset management

Disadvantages

• Substantial transaction costs
  – Legal, financial and technical consulting service fees
  – Higher interest costs in cases of private debt-financing
• Complexity makes the projects more prone to risks
P3s: Common Financing Options

Revenue Streams
• Direct User Charges (Tolls, Transit Fares, User Fees)
• Public sector contribution/subsidy (e.g., Availability Payments)

Debt & Equity Sources: repaid through revenue sources
• Private shareholder equity
• Non taxable bonds (private activity bonds)
• Taxable bonds
• Bank debt (senior and/or subordinate)
• State infrastructure bank loans
• Federal loans
P3s: Government Support for Financing

**Equity participation**: Monetary and in-kind (e.g. right-of-way) government contribution to a project
- Assures public involvement and support for its implementation and operation
- Helps achieve a more favorable debt-equity ratio when other sources of equity capital are not available or limited

**Government loans**: Loans with favorable terms to reduce financing costs
- Subordinated loans to transportation projects with dedicated funding sources (e.g., tolls), but might not be fully financeable without assistance
- Can account for no more than 49% of the project cost

**Other policy tools**:  
- Private Activity Bonds (PABs)  
- Other forms of credit support (e.g., loan guarantees, line of credit)  
- Performance guarantees (e.g., revenue guarantee)  
- Tax benefits  
- Protection from competition (e.g. non-compete clause)
P3s: Typical Project Risks

Risks for the Developer/Contractor

• Political
  – Confrontational political climate: “politicizing” projects
  – Changes in law
  – Changes in political leadership

• Regulation
  – Permit
  – Environmental lawsuits

• Capital Expenditures
  – Project schedule overrun
  – Inflation / material and labor costs

• Revenue
  – Lower than projected traffic and toll revenue/income
  – Changing market conditions

• Operation & Maintenance (O&M)
  – Performance risk
  – Operating cost overrun

• Financing
  – Spread between O&M and revenue growth rates
Best Practices and Readiness Indicators

Best Practices for successful P3s (Center White Paper, OECD Action Points)

• Enabling Legislation:
  – Legal basis for project development, financing, and operation

• Champions and Stakeholder Development
  – Importance of government, business, and community support for P3

• Project Selection and Agency Priorities
  – Clear and consistent procedures for the private sector; Project assessment and appraisal norms that focus on value for money

• P3 Administering Office
  – Sufficient authority and staff to manage the project pipeline

• P3 Procurement Plan and Process
  – A credible pipeline of robust projects under consideration

• Funding and Financing
  – Careful selection based on risks and objectives, including investor protections and transparency

• P3 Structures
  – Various approaches depending on project requirements
Continuing Policy Discussions and P3 Evaluation

Current Status: Both successes and failures
• What constitutes a P3 success?
  – Distinct perspectives: citizens, policy makers, operators, investors, etc.
• Are they really achieving value for money?
• Evaluation is difficult:
  – Few mature US P3 concessions: Other countries have successfully used P3s to invest in infrastructure and providing social services; U.K., Canada, Australia, etc.
  – Each jurisdiction is a unique market with distinct institutions
• Need for unbiased public education and more research into performance evaluation and practice improvement

Very Recent Policy Activity
• The President’s Build America Investment Initiative
  • Transportation Investment Center
  • Interagency Working Group
  • Infrastructure Investment Summit
• Final Report just released by the House Transportation and Infrastructure Committee’s Panel on Public-Private Partnerships
For more information:

Visit us at: p3policy.gmu.edu
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