

CaP³ⁱ

Public Private Partnerships To Solve The Infrastructure Deficit

Frank V. Zerunyan, J.D.

Presentation for



March 10, 2009

© 2009 California P3 Infrastructure Group LLC. All rights reserved.

4/23/2009

Public Private Partnerships

CaP³ⁱ

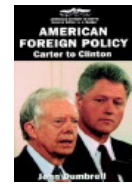
Public Private Partnerships Overview

- Also referred to as "PPP" or "P3"
- A contractual agreement between a government agency and a private sector entity that allows for greater private sector participation in the delivery of public infrastructure projects.
- PPP's are used to provide both economic and social infrastructure
- Characterized by sharing of investment, risk, responsibility and reward, with substantial risk allocation to private sector
- Do not represent privatization; Government retains ownership, controls and regulations, and remedies for non-performance
- Appropriate if life cycle risk adjusted cost of infrastructure is lower than if provided by the Government under conventional financing methods

Public Private Partnerships

CaP³ⁱ

Public Private Partnerships History



- Long history in many countries but grew popular in 1980's
- P3's have the longest tradition in the USA. In the 1950's and 1960's P3's were used as a tool for stimulating private investment in the inner city infrastructure and regional economic development.
- Carter administration: National urban policy and urban development action grant encouraged cities to go from private investment subsidies to equity joint venture P3's. The Reagan administration used P3's to reduce the size of government.
- The Clinton administration promoted P3's as a key component to its urban policy, and viewed P3's as a new way of governance and encouraged local government involvement.

CaP³ⁱ

Public Private Partnerships International History

- Spain; early examples 1960's; Toll roads developed by 1968
- UK, 1979 Conservative government concluded that government is too involved in the economy and needed to step down in favor of private capital. Thatcher administration turned to P3's as a method of economic regeneration.
- Netherlands introduced the P3 idea in its government policy statement of 1986.
- Norway initially did not need private capital due to its oil revenues, but is cooperating with the private sector now for infrastructure projects.
- Australia; started back in early 1990's and developed toll roads, hospitals, water and power plants, schools, courts, sea ports and airports.
- Canada followed .



CaP³ⁱ

Public Private Partnerships Types of Infrastructure

Economic:

- Transport
 - Railroad, Airports, Bridges, Roads
- Communications
 - Cable Systems, Satellite TV, Radio
- Energy and Utilities
 - Electricity Generation and Distribution
 - Water Supply, Wastewater Treatment



Social:

- Schools
- Hospitals
- Prisons
- Courthouses



CaP³ⁱ

Public Private Partnerships The Need for Infrastructure Investment

- 2006 Governor Schwarzenegger estimated California's infrastructure needs at \$500B over the next 20 years
- Most of California's Infrastructure was built in the fifties, sixties and early seventies for approximately 17.5 million Californians. California's population has more than doubled since that time.
- Issues with bonded indebtedness:
 - Infrastructure requirements often greatly exceed bonding capacity
 - Excessive bonding can negatively affect credit rating
 - Moody's downgraded all municipal bonds across the board
- Infrastructure funds often diverted to other areas with budget shortfalls such as pension obligations, public safety, labor costs and social/health services



CaP³ⁱ

Public Private Partnerships The Need for Infrastructure Investment

- Huge catch-up required: annual percentage of California GDP invested in infrastructure:
 - 1957 to 1967: 3.6%
 - 1967 to 1977: 2.6%
 - 1978 to 1987: 1.6%
 - 1988 to 2002: 2.2%
 - 45 year average: 2.5%
- To sustain 2.5% for next 10 years. State would have to invest \$527B

CaP³ⁱ

Public Private Partnerships Common Reasons to move towards P3's

- Fiscal crisis in the public sector
- Increased mobility of capital (availability in the private sector)
- Increased complexity of government tasks require overlap between the public and the private sectors
- Dominance of new ideas and reliance on market incentives.

CaP³ⁱ

The Case for PPP Cost Savings and Schedule acceleration

- Construction and life-cycle cost savings
 - UK National Audit Office Study projects average life-cycle savings of 17%
 - BC Canada Government study showed average savings of 9%
- On time and on budget delivery
 - UK Government study 2003
 - 73% of non PPP projects over budget, 70% delivered late
 - 22% of PPP project over budget, 24% late
- Reduces large initial cash requirement by spreading front-end cost over lifecycle of asset.
 - Conceptual design plans are paid for by private sector
- Savings from innovations and efficiencies in design
- Private sector investment in ongoing maintenance and capital improvements results in reduced operating and life cycle costs for the public sector
- Accelerated Schedule
 - Ability to start the entitlement process, including CEQA, concurrently with the design process
 - Reduces impacts of construction cost inflation

9

4/23/2009

CaP³ⁱ

The Case for PPP Shifting Risk & Responsibility To Private Sector

- Development risk transferred to the private sector, resulting in savings of cost and time.
 - Transferred Risk
 - Design, Construction Schedule, Construction Cost, Financing, Operating Costs, Maintenance Cost
- Strong incentive for contractor to accelerate construction completion so service payments can commence
- The private sector is subject to stipulated performance standards for maintenance and quality of construction
- Customer satisfaction metrics can be built into contract
- Enables public sector to focus on outcomes and core business
- Gives public sector steady predictable operation and maintenance costs

10

4/23/2009

CaP³ⁱ

Types of PPP's

The following are the most relevant types of PPP's for Social Infrastructure investment:

- **Design Build (DB):**
 - Private entity designs and builds to Government requirements
 - Government assumes financing, operating and maintenance responsibility
- **Design Build Finance (DBF):**
 - Private entity designs and builds to Government requirements
 - Private entity provides financing for a facility often through a long term lease
- **Design Build Finance Operate Maintain (DBFOM):**
 - Private entity designs and builds to Government requirements
 - Private entity provides financing through long-term lease, operating agreement or concessions
 - Private entity operates and maintains the facility, including capital replacements, at a predetermined price to Government standards

11

4/23/2009

CaP³ⁱ

Examples of PPP's

Access Health Hospital & Cancer Center
Abbotsford, Canada



Greater Manchester Police Authority – Police Stations
Manchester, UK



Birmingham Schools , UK



12

4/23/2009

CaP³ⁱ

Examples of PPP's



- US: California, Florida, Texas and Virginia have undertaken 18 PPP transportation projects at cost of over \$12B
- Ontario, Canada: Over \$5B of transportation and social infrastructure in over 50 projects completed or underway
- UK: Approx 15% of infrastructure expenditures through PPP (called Private Finance Initiative) model; 450 projects at cost of over \$80B to date including 100 schools and 130 hospitals

CaP³ⁱ

Examples of PPP's

Proposed Long Beach Courthouse

Long Beach, CA

- Estimated Size: 33 Courts (App. 400,000 s.f.)



- First large scale DBFOM social infrastructure project in CA and probably in the US is the 33 courtroom Long Beach Regional Courthouse project currently in RFQ stage; final selection expected in late 2009 with groundbreaking in mid 2010



PPP's Promote

Co-operation between public and private actors:

- At all stages of the project
- In a project specific organization
- Involving all project risks
- Under contractual arrangements
- With contributions from all parties
- With added value for all parties
- With opportunities to generate cash flow



PPP's Promote Profit

Both public and private actors try to make a profit

Orientation of the Private Sector:

- Achieving return on investment (ROI)
- Taking business risks
- Anticipating market and competitive developments
- Realization of corporate goals

Orientation of the Public Sector:

- Legislation, regulation and authority
- Political opinion and influence
- Democratic Decision making Process
- Minimization of risks
- Realization of social good or goal
- Focus on Core Business (Public safety etc.)

CaP³ⁱ

Time to PROFIT across sectors
Time for Intersectoral Leadership
Time for Public Private Partnerships

Frank V. Zerunyan
Principal

(310) 971-5219

fzerunyan@californiap3.com

www.californiap3.com

