Public-Private Partnerships

COLUMBIA | CBIPS
Center for Buildings, Infrastructure and Public Space

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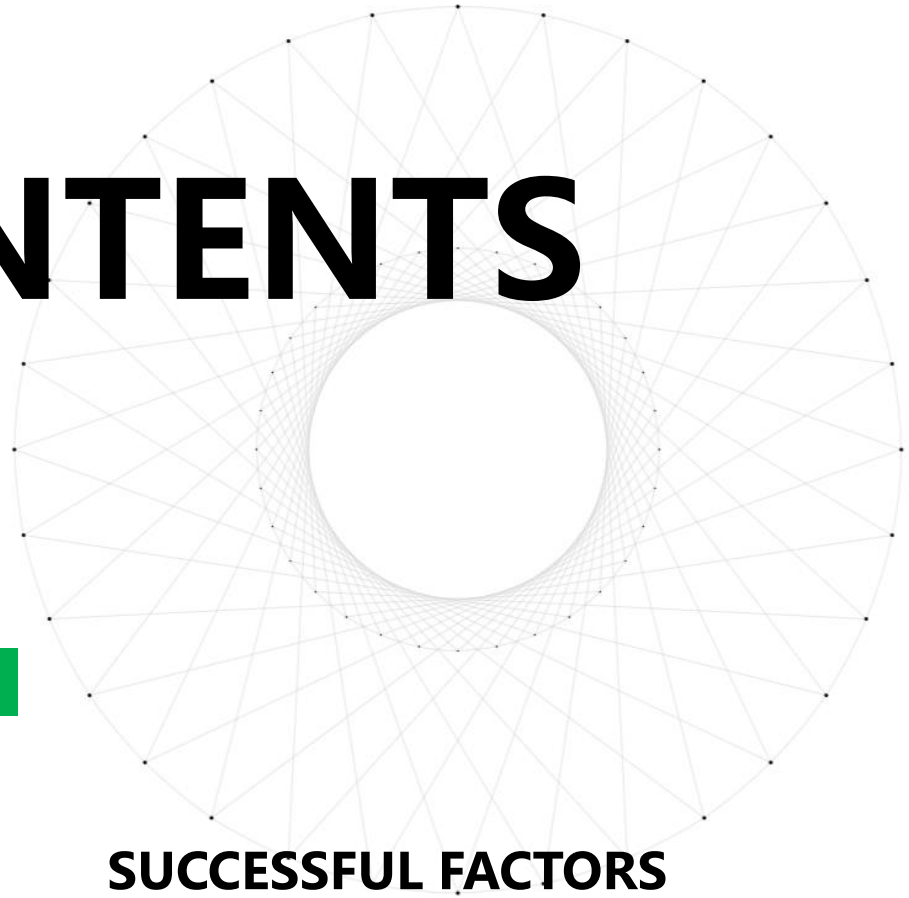

CASE STUDIES

PART ONE

PROBLEMS

PART TWO

SUCCESSFUL FACTORS

PART THREE

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I-4 Ultimate

- Reconstructing 21 miles of I-4 from Orange County to Seminole County
- Divided into 4 zones
- $2.3 Billion project
- 40-year lease period
- Time period: 6.5 years
- Construction delayed by 245 days
- $100 illion claim submitted
- Possible reasons include:
  - Catastrophic drill shaft failure (complex geological conditions)
  - Weather issues (hurricanes)
  - Working with existing traffic

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LaGuardia Airport Central Terminal

- LaGuardia Airport – development of the central terminal
- Total number of terminals - 4
- PPP project with LaGuardia Gateway Partners (Skanska, HOK, and WSP) as private partners and Port Authority of New York and New Jersey as public partner
- 20th busiest airport with traffic of more than 29.7 million passengers
- Value of contract – $4 Billion
- Lease period – 35 years or until 2050
- Possible reasons/problems include:
  - Long procurement process
  - Construction risks
  - Revenue risk

PART TWO PROBLEMS

1. **Responsibilities**
   - Transfer control and ownership to private part
   - Example - LaGuardia Airport
2. **Design changes**
   - Causing delay
   - Extra cost
3. **Inexperienced government**
   - Private investors would not feel comfortable
   - Communication
4. **Construction risk**
   - Unforeseeable site condition
   - Cannot be in the framework
   - Example - Goethals Bridge
5. **Bidding process**
   - Long time to close the contract
   - Expensive and complicated bidding process
     Example -.LaGuardia Airport
6. **Lack of expertise in the private sector**
   - PPP requires a unique formation that involves law, financing, and engineering
   - Examples - SR 125 and Trans Texas Corridor

PART TWO PROBLEMS

7 **Insufficient details**

- Active PPP projects
- Upcoming PPP projects
- Example - details of private partners in PPP projects

8 **Statutory authority**

- Model legislation of 2007
- Establish authorities for transportation agencies
- Only 33 out of 50 states have a PPP statutory authority; New York and New Jersey do not have one

9 **Stringent laws**

- Deter construction of parallel roads
- Affect revenues
- Examples - Chicago Skyway and Indiana Toll Road

10 **Monetary support**

- Government financial support
- Examples – Australia and Colombia

11 **Revenue risk**

- Public can borrow at a lower interest rate
- Long-term user demand is unpredictable
- Example - LaGuardia Airport

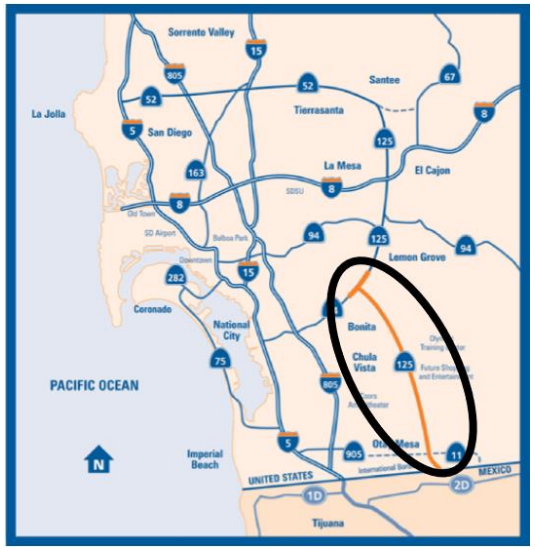
12 **Lack of public support**

- Privatization
- High returns

APPROPRIATE RISK ANALYSIS METHODOLOGY

- Prudent risk management is fundamental to the success of any capital project delivery
- Risk workshop
  - Risk identification
  - Risk assessment
  - Risk allocation
  - Risk mitigation

SOUTH BAY EXPRESSWAY (SR-125) TOLL ROAD, SAN DIEGO COUNTY, CALIFORNIA



Threat:

- Environmental clearance process

Mistake:

- The private partners bore the responsibility to carry out the full environmental review and clearance process.

Result:

- Took more than nine years to complete.

Reference: Case Studies of Transportation Public-Private Partnerships in the United States

PART THREE SUCCESSFUL FACTORS – FAVORABLE LEGAL FRAMEWORK

- Increasing capability of government agencies to deliver
  - Reduce cost of the learning curve
  - Risk of mistakes
  - Transfer skills
- Structured way of reconciling disparate objectives
  - Expectations
  - Training
  - Skill development
  - Improves longevity of PPP Program
- Making sure that whole-of-government risk is limited
  - Government reputation
  - Fiscal risks
- Generating market interest
  - Competitive procurement process
  - Drive down price
  - Promote innovation
  - Reduce investors' perception of risk

Case: Poland A1 Toll Motorway Project

August 1997

- Gdansk Transport Company
- Autostrada A1 from Gdansk to Torun
- Key piece of PPP legislation was missing

7 years

- Renegotiations
- Adjustments

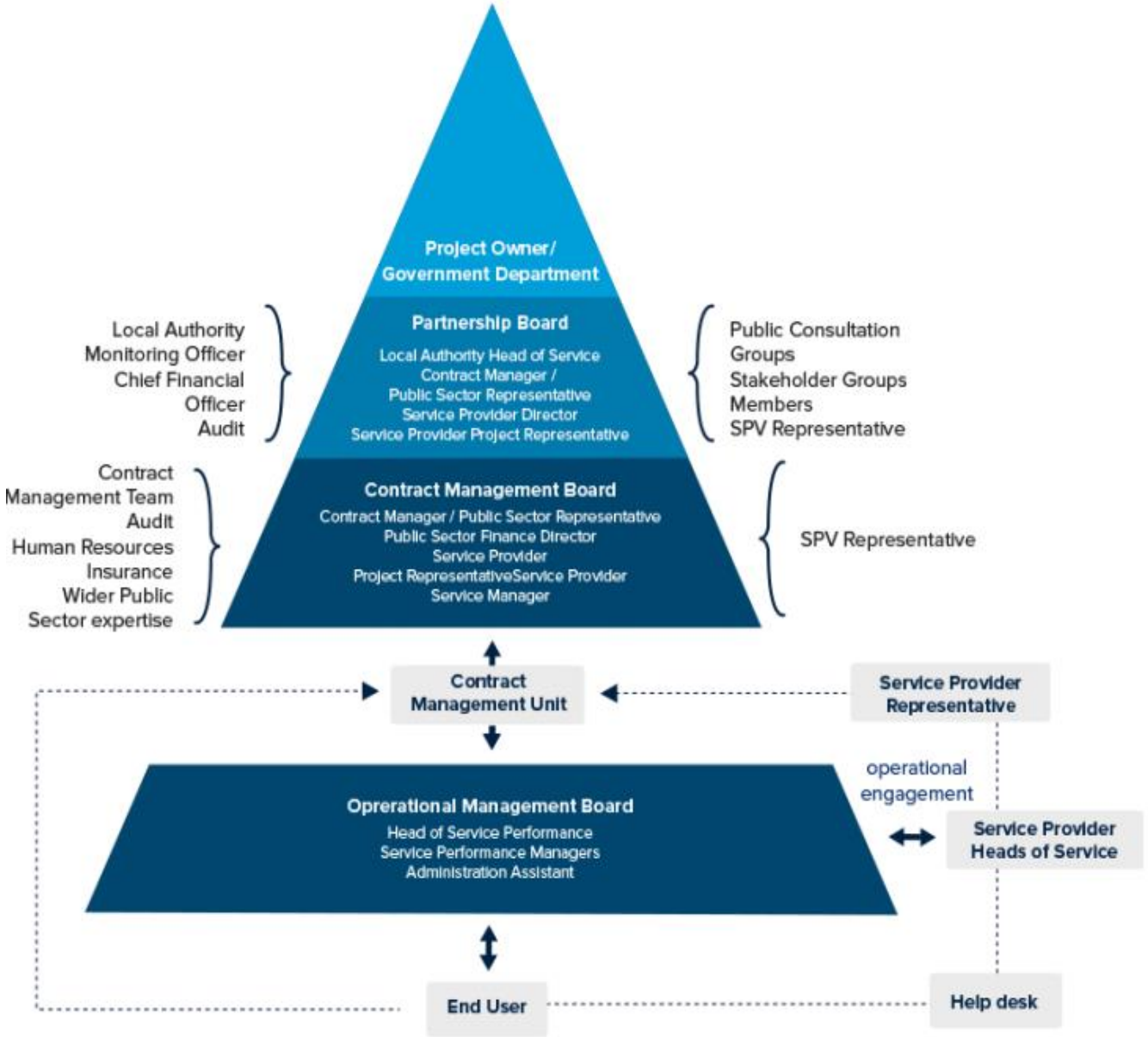
August 2004

- The Concession Agreement was signed
- The specifications of the project were significantly changed
- The construction was divided into two projects

Reference: World Bank Presentation

Case Studies of Transportation Public-Private Partnerships in the United States

PART THREE SUCCESSFUL FACTORS – GOOD GOVERNANCE STRUCTURE



USA

I-495 Express Lanes

Threat:

- Early engagement

Mistake:

- Public engagement with key stakeholders
- Robust and early engagement with end users
- Allocation of operational responsibilities

Result:

- Customers also needed to learn where they could get on and off the network

Reference: The APMG Public-Private Partnership (PPP) Certification Guide

Case Study USA i-495-Express Lanes: https://gihub-managingppp-tools.s3.amazonaws.com/live/media/1436/gih_casestudy_usa_i-495-express-lanes.pdf

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3 Agencies

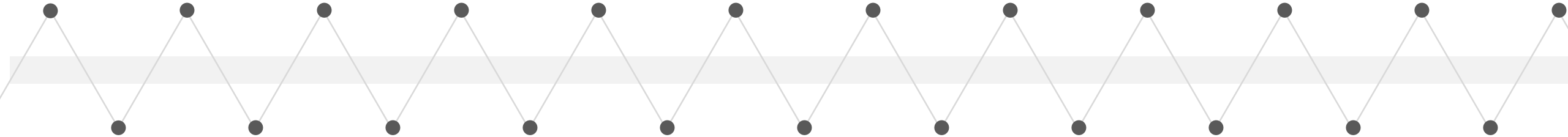
- Promotion
- Advisory
- Evaluation

Financial self-sufficiency

- Independency from political changes
- Technical institution
- Attention to infrastructure overbuilding

Different in every nation

"An agency must be structured and run in a way that is optimal for PPP transactions in the particular government, and what works for one country may create problems in another." -------*Director of PUK*



Providing expertise

- PPP sector lack of people with the necessary preparation
- Unique field

Cheaper and shorter bidding process

- 3 months to decide on a winner
- 8 months to close

Strong private consortiums

Stimulate competition

- Public advantage

Examples

- Only three companies
- JFK - four proposals
- Dulles Green Way - one proposal
- Charlotte Water Plant – four proposals

Competitive bidding process

- Possibility of noticing inconsistency

Greater number of projects

https://www.cbpp.org/research/state-budget-and-tax/its-time-for-states-to-invest-in-infrastructure

Colombia example

- US $50 Billion in Colombia
- 4,350 miles in Colombia

Higher return

- More competition
- Cheaper for the public
- PPP development
- Higher risks are acceppted

Lower risks

- Risk matrix
- Less accurate framework needed, business planning
- Mistakes in traffic forecast

https://www.investincolombia.com.co/news/768-financial-times-big-plans-to-transform-colombia-s-infrastructure.html

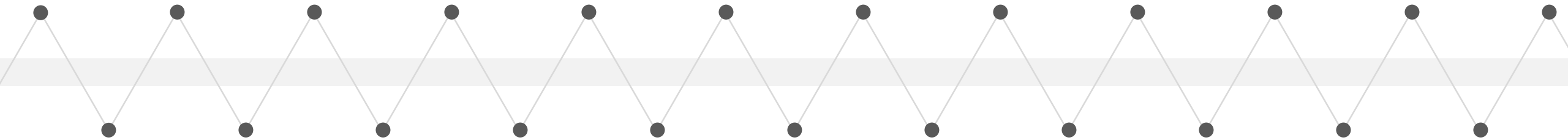
PART THREE SUCCESSFUL FACTORS - GOVERNMENT AND POLITICAL SUPPORT

Senior public officials

- Increase engagement of senior public officials by actively involving and educating them
- Officials need to be well-informed of the process

Political leaders

- Minimize misperceptions by the public about the value of PPP
- Mayor to deliver a champion project addressing fiscal challenges in the process
- Example – The Mayor of London for the Central London Congestion Charging PPP Program



Public sector monetary support

- Provide concessional finance, as in the case of Australia; example _ The NAIF- Queensland Treasury up to $5 Billion
- Valuable contribution as in the case of Colombia

Public sector involvement

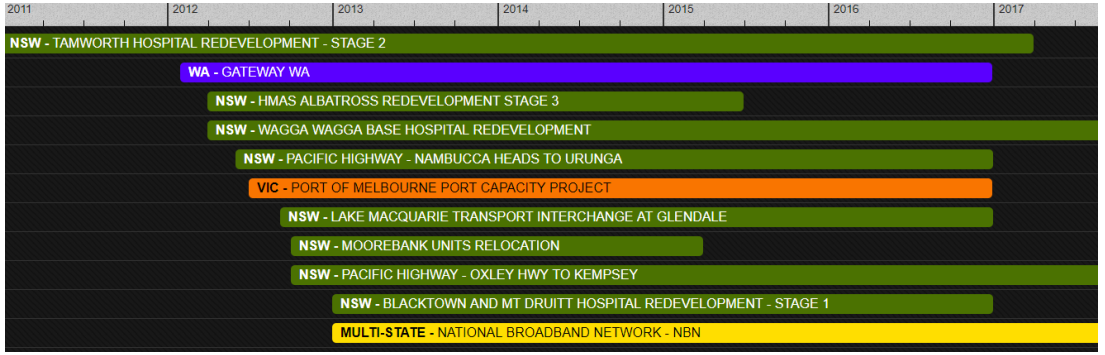
- Ongoing monitoring of performance with respect to safety and maintenance as stipulated in contract
- Recourse rights in case of private partner defaults

Transparency

Creating a transparent environment for all active and upcoming projects, as in the case of Australia's National Infrastructure having a construction schedule

Contract disclosure

- Less than 45 days consistent with government guidelines after the contract becomes effective
- Example - NSW ISFU for Sydney Harbor Tunnel, Hills Motorway (M2)



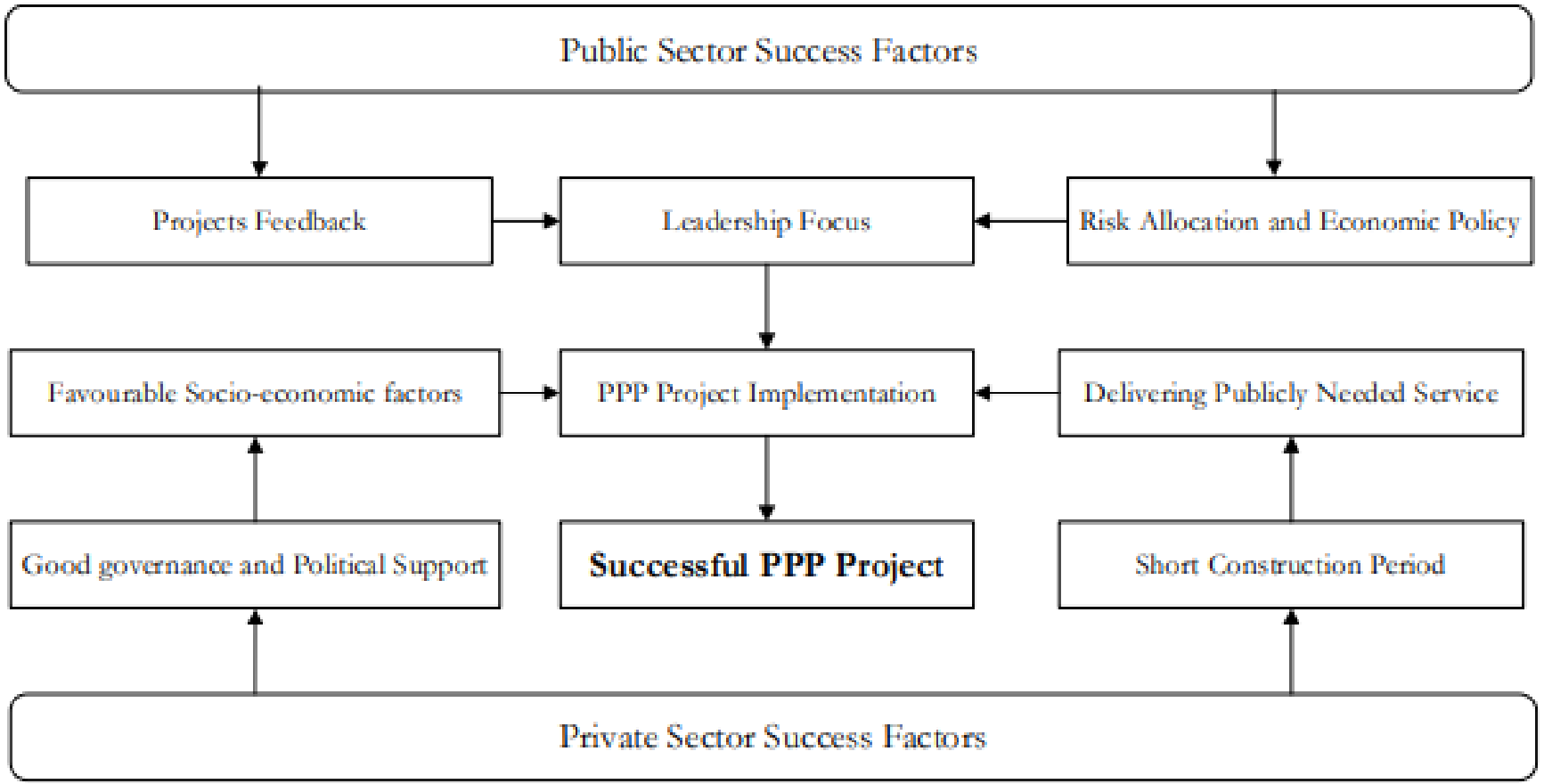
Source: NICS GOV Australia

Encourage strong competitive bids

- International investment as in the case of Australia
- Limited complexity to ensure lower transaction and monitoring costs

Practitioners guide

- Helps in following the success of different PPP projects in terms of performance flexibility



Source: Construction Economics and Buildings

Bidding cost refunded

- Percent of losing bids refunded as in the case of Colombia, which will invite more investments

Public sector comparisons

- Compare outputs and costs of PPP proposal against neutral benchmark called PSC adjusted for risk, for example as in Australia

Raising capital

- Improve finance availability by inviting more participants

Tendering situation

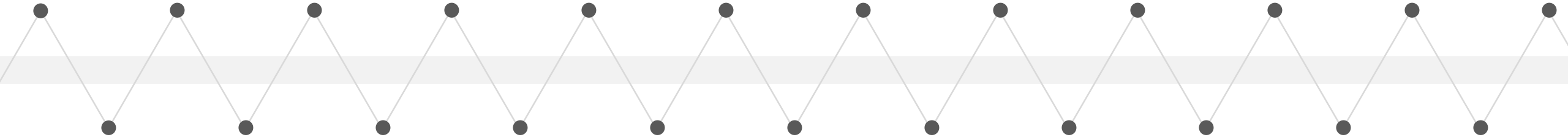
- Australia – the time was 40% shorter than in the UK because of transparent pipeline

Unsolicited Proposals

Private sector motivation
- Intellectual property rights
- Lack of private sector interest
- Cost efficiency
- Speed of project development

Current systems
- Bonus system
- Swiss challenge system
- Best and final offer system

Policy choices
- Project development cost
- Time constraints
- Coordination among agencies
- Effective sector planning
- Finding appropriate Incentives



Need
- Avoids corruption
- Promotes innovation
- Reduces cost
- Allows for systematic planning

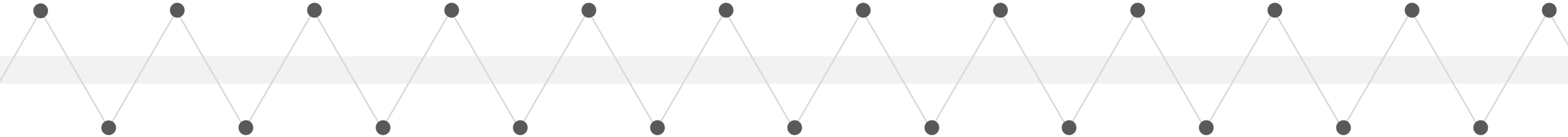
Implementation
- All documents are public
- Evaluation criteria are clear
- Minimum number of bidders

Public requirements

- Permits
- Access to financial markets
- Public support
- Legal framework

Private requirements

- Cost-effective services
- Work as integrated team
- High-quality standards
- Understand public interest



Need

- Mitigate political uncertainty
- Long-term leases
- Foster teamwork

Examples

- Colombia's mitigation of revenue risk
- Pacific Highway upgrade in Australia

THANK YOU