Public-Private Partnerships

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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 billion claim submitted
- Possible reasons include:
  - Catastrophic drill shaft failure (complex geological conditions)
  - Weather issues (hurricanes)
  - Working with existing traffic
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
PART THREE SUCCESSFUL FACTORS – RISK ALLOCATION

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

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

Case Study USA I-495 Express Lanes: https://github-managingppp-tools.s3.amazonaws.com/live/media/1436/gih_casesudy_usa_1-495-express-lanes.pdf

**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
PART THREE SUCCESSFUL FACTORS – PUBLIC AGENCY

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
PART THREE SUCCESSFUL FACTORS - STRONG PRIVATE CONSORTIUMS

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

PART THREE SUCCESSFUL FACTORS – MACROECONOMIC FACTOR

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 accepted

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

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 - NSWISFU for Sydney Harbor Tunnel, Hills Motorway (M2)

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: NICS GOV Australia
PART THREE SUCCESSFUL FACTORS - COMMUNICATION

Source: Construction Economics and Buildings
PART THREE SUCCESSFUL FACTORS – SOUND ECONOMIC POLICY

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
PART THREE SUCCESSFUL FACTORS - COMPETITIVE AND TRANSPARENT PROCUREMENT PROCESS

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
PART THREE SUCCESSFUL FACTORS – PUBLIC AND PRIVATE COMMITMENT

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