

Public-Private Partnerships (P3s)

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Definition

- Involves private financing and bundling together (at minimum) the design, build, and finance (DBF) aspects of a project
- Most incorporate long-term private operation and/or maintenance of assets into a long-term contract



Project Delivery Models Along a Continuum of Private Sector Involvement

INCREASING PRIVATE ROLE

TRADITIONAL
APPROACH
(NON-PPP)

*Design-Bid-
Build (DBB)*

*Design-Build
(DB)*

*Operations
and
Maintenance
(O&M)
contract*

*Design-Build
Operate
Maintain
(DBOM)*

*Design-Build
Finance
(DBF)*

*Other private
financing*

*Design-Build
Finance-
Operate-
Maintain
(DBFOM)*

*Design-Build
Finance-
Operate
(DBFO)*

*Long-term
lease
concession*

*Build-
Transfer-
Operate
(BTO)*

*Lease-
Build-
Operate
(LBO)*

*Build-
(Own)-
Operate
(BOT or
BOOT)*

FULL
PRIVATIZATION
(NON-PPP)

*Build-Own-
Operate (BOO)*

*Private sector
owns and
operates*

*Asset
sale*

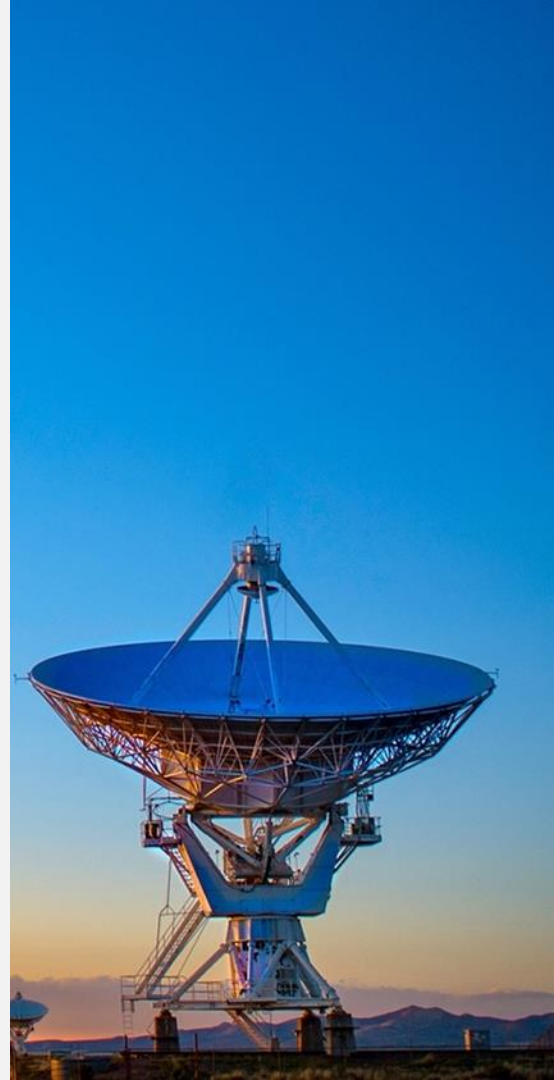
*Buy-Build-
Operate (BBO)*

PUBLIC-PRIVATE PARTNERSHIPS (PPP)

Source: National Conference of State Legislatures

Project Types

- Transportation
 - Tolls roads
 - Managed lanes
- Water infrastructure
- Broadband
- Public buildings
- University housing
- Energy & Utilities
- Sports & Entertainment facilities
- Resiliency projects



Market Scope

- Continued growing popularity for P3s – both demand-based (i.e. user fees) and availability-based (payments from grantor), or a hybrid version
 - 57% of U.S. P3s were availability-based from 2015-2017
- Future funding levels uncertain – growing federal interest in P3s
- Over 70% of states have P3-enabling legislation
- State/local governments realizing potential benefits of risk transfer, cost certainty related to P3s

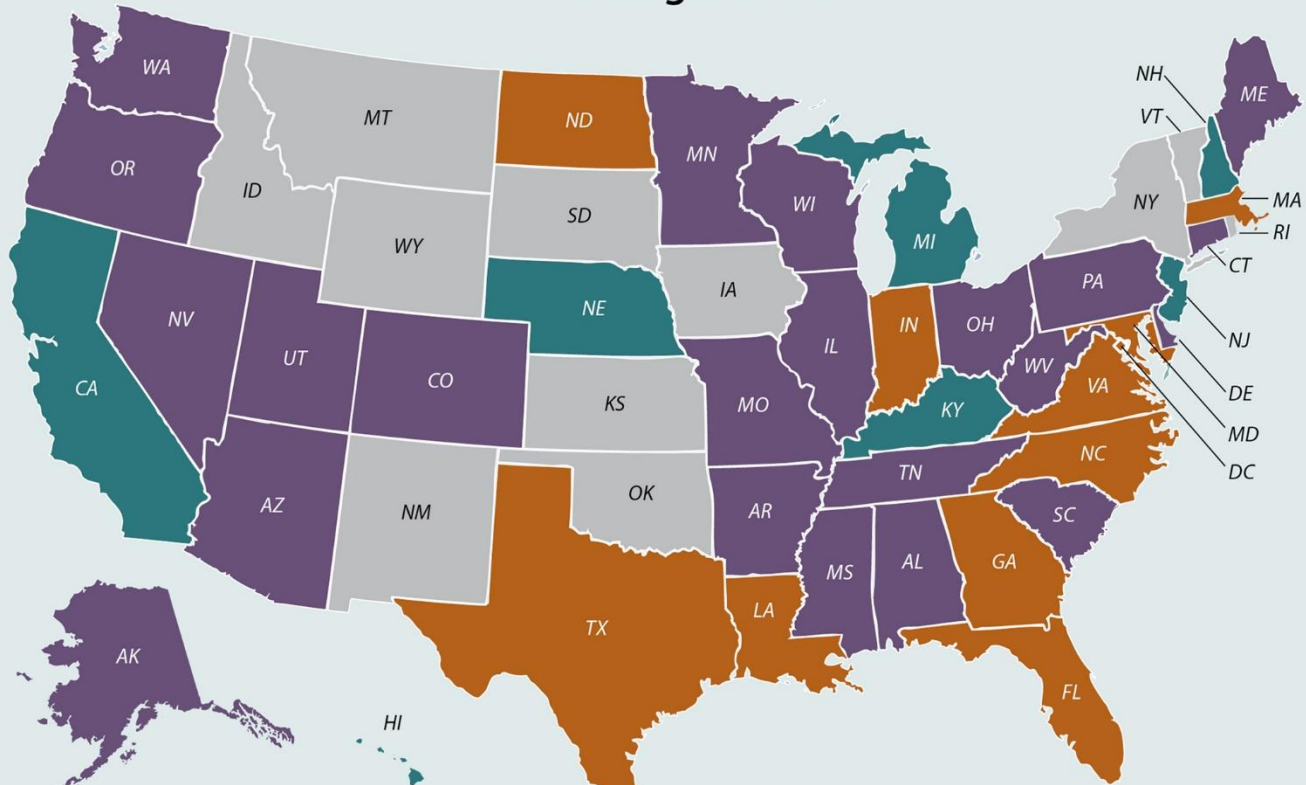


U.S. P3 Pipeline



Source: The Brattle Group

P3 Enabling Statutes



- Transportation only
- Transportation and additional sectors
- Non-transportation sectors only
- No legislation



5 Current Market Trends

1. Rise of ‘Social Infrastructure’

- Accounted for 24% of active projects in 2017 (second only to transportation at about 45%)
- Use availability-payment model
- First notable project was Long Beach Courthouse (2010, \$495M)
- Project types:
 - Public buildings
 - Higher education
 - Convention centers
 - Streetlights
 - Health care facilities
 - Justice/correctional facilities

2017-2018 Significant P3 Closings

1. LAX Automated People Mover
2. LAX Consolidated Rent-a-Car Facility
3. Denver Airport (Jeppesen Terminal)
4. Colorado's I-70
5. Purdue University Student Housing
6. Lansing Correctional Facility, Kansas
7. Howard County, Maryland Courthouse
8. Massachusetts Bay Transit Authority Automated Fare Collection System
9. Michigan's I-75
10. Wayne State University Residences
11. Texas Woman's University Student Housing
12. Virginia's I-395
13. Virginia's 'Transform 66'



LAX Automated People Mover

2. Size Matters

- P3s particularly suited for large projects (\$125M+)
- Very few are under \$50M
- Bundling of smaller projects into a larger contract becoming increasingly popular
- Pennsylvania bridge replacement: 558 bridges (\$899M), first of its kind
- Kentucky state-wide fiber network

Canada requires all projects > C\$100M to be screened for P3 suitability.

3. Risky Business

- Nearly all P3 projects include D-B delivery
 - Significant risks for engineers and other A/E team members

Project Risks:

- Risk of financial failure
- Risk of political backlash
 - Political ‘champions’ key
- Risks related to time and completion
 - Average P3 process (pre-solicitation to financial close) is 2.5 years
 - Uncertainty around permitting/approvals

Potential Benefits	Potential Concerns
Innovative financing structures	Loss of public control and flexibility
Project acceleration	Private profits at public expense
Monetizing of existing assets	Loss of future public revenues
Cost and time savings	Risk of bankruptcy or default
Lifecycle efficiencies	Accountability and transparency
Improved project quality	Environmental issues
Risk transfer	Labor concerns
Enhanced performance management oversight	Risk negotiation
Access to cutting-edge technology	Increased consulting needs/costs
Enhanced operations and maintenance	Limited government oversight
Revenue sharing	Foreign companies
Increased long-term quality	Specific contract terms

4. Savvy Owners are Key

- Quality of procurement process and agreements critical
- Project preparations and procurement costs higher (for both government and proposers) for P3s
- Need for balanced quantitative and qualitative selection criteria
- Opportunities for short-listed bidders to comment on draft RFPs
- Understanding the type of payment model
- Greater sophistication in deal-making from public entities desired
- Initiatives in building expertise in state/local governments
 - Some states have centralized P3 offices
 - U.S. DOT – Build America Bureau
 - U.S. EPA – Water Infrastructure and Resiliency Finance Center

5. Airport P3s are Taking Off

- Significant and growing market
- Second to only roads in transportation sector
- \$51.7 Billion in procurement (2017)
- Post-2017 pre-launch through closing:
 - Century City Cargo Complex
 - Hartsfield-Jackson Atlanta International Airport
 - JFK Terminals 5, 6, 7 JetBlue Redevelopment
 - LaGuardia Airport AirTrain
 - San Diego Airport Terminal 1 Development
 - South Suburban Airport
 - Virginia Regional Airport Runway Maintenance

Federal Advocacy

- Support for Private Activity Bonds (PABs)
- Permitting/approval streamlining
- TIFIA/WIFIA – only applies to a small subset of potential P3 projects
- Most P3s do not receive federal support
- No 2018 projects that closed received grants; takes time to secure government funding



Federal P3s

- Historically federal government has not undertaken many P3s
- Agencies that have undertaken P3s include:
 - U.S. General Services Administration: ‘Lease-Construct’ build-to-suit projects and FBI field offices
 - U.S. Dept. of Veterans Affairs: Clinics
 - Dept. of Defense: Military housing
- New U.S. Army Corps of Engineers Pilot Projects: 4 announced; Cape Cod Canal’s Sagamore/Bourne bridges originally 5th project, but is not moving forward this year

Concluding Thoughts

- P3s not suitable for all project types
- In the U.S., P3s are still a minor force in financing and delivery of infrastructure
- Upward trend seems likely to continue
- Economic and political considerations key
 - Infrastructure funding
 - Interest rates
 - Investment interest

“... the market remains positioned to become one of the world’s largest.”
- Moody’s (2016)





Thank You



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