



Public Private Partnerships (PPPs) – The Need, Concept, Terminology, Trends and Challenges

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Agenda

- ◆ Highlight infrastructure needs
- ◆ Discuss PPPs
 - Concept
 - Terminology
 - Trends
 - Benefits and Challenges
- ◆ Answer your questions

Our infrastructure is in poor condition!

2005 Report Card for America's Infrastructure

Aviation	D+
Bridges	C
Dams	D
Drinking water	D-
Energy	D
Hazardous waste	D
Navigable waterways	D-
Public parks & recreation	C-
Rail	C-
Roads	D
Schools	D
Security	I
Solid Waste	C+
Transit	D+
Wastewater	D-
America's Infrastructure G.P.A.	D

**Total investment needs = \$1.6 Trillion
(estimated 5 year need)**

Source: ASCE, 2005 Report Card for America's Infrastructure

Future growth will have major impacts

Indicator	2006	2055	% change
Population	300 million	435 million	45
Vehicles	230 million	400 million	74
VMT*	3 trillion	7 trillion	133

Source: AASHTO. *Transportation Invest in Our Future – A New Vision for the 21st Century*. July 2007.

*Vehicle miles by travel

Our nation's infrastructure challenge is significant

- Numerous studies have concluded that our nation's infrastructure needs significantly exceed available government funding.
- Existing infrastructure requires major renovation and upgrading.



- Growth in population, economic activity, and related demand requires huge new infrastructure investment.
- We must identify new sources of funding and delivery approaches.

Typical real world problems

- We cannot build priority infrastructure without new funding.
- Our competitiveness is being hurt by congested, aging infrastructure.
- We lack the expertise/resources to plan, design, implement, and maintain our infrastructure.
- We need to avoid cost over-runs, missed schedules, and inadequate service levels.
- We need to leverage/monetize our infrastructure to generate revenues to fund other projects.

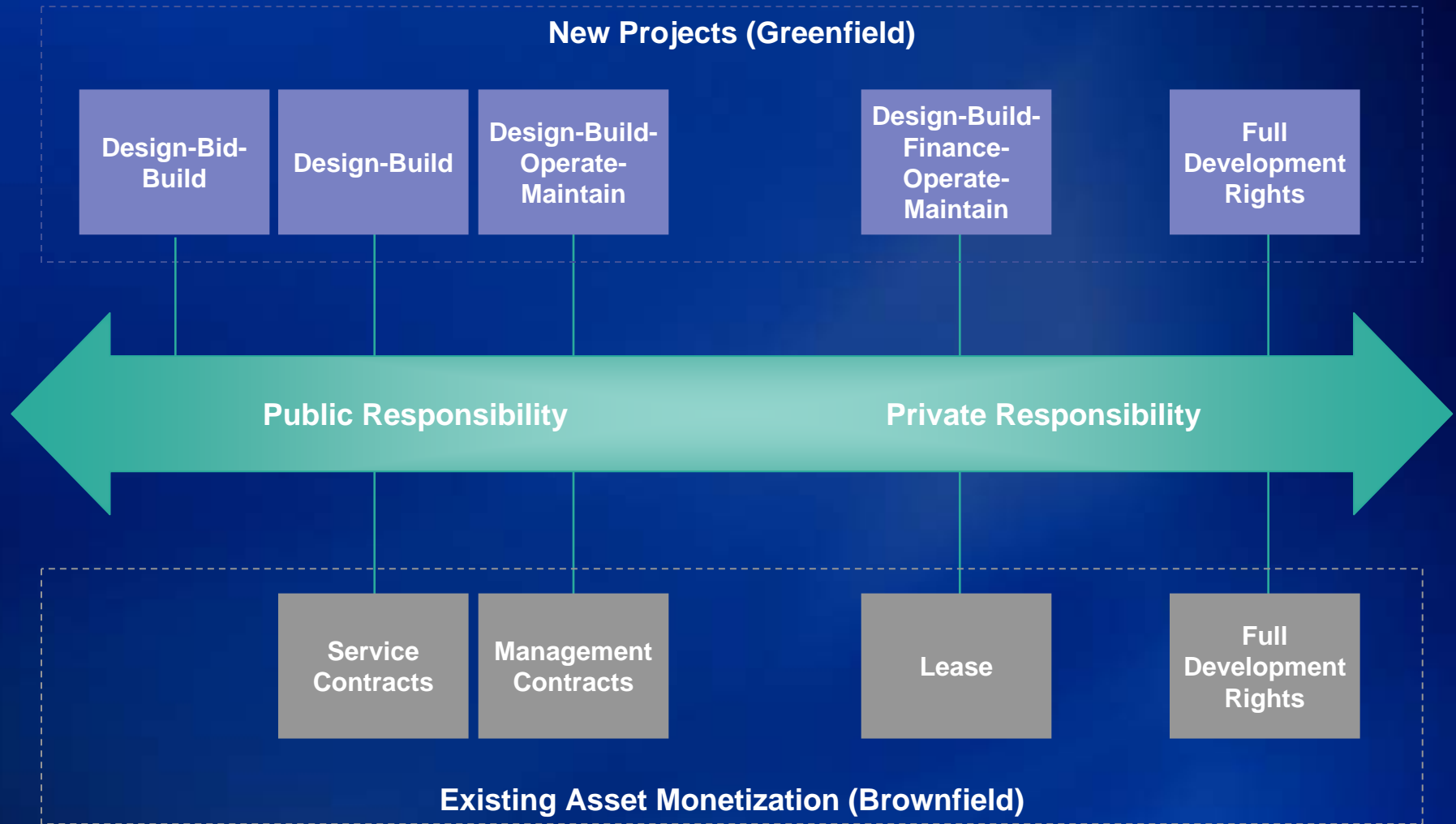
Common Categories of Infrastructure

Transport	Social Services	Utilities
Roads	Education	Water (distribution and treatment)
Airports	Health Care Facilities	Power (transmission and distribution)
Sea ports	Assisted living	Renewables
Bridges	Senior housing	
Rail	Prisons	
Public transit	Military housing	
Tunnels	Public housing	
Parking	Municipal facilities (e.g. courthouses, government offices)	

Some definitions

- ◆ **PPP (Public Private Partnership)** – “A contractual agreement between public and private sector partners, which allows for more private sector participation than is traditional (USDOT).” The assets involved are leased, **not** sold.
- ◆ **Greenfield vs. Asset Monetization (Brownfield)**
 - Greenfield: new asset is created
 - Asset monetization: Existing government asset is leased to the private sector to generate cash flow/revenues; government retains control of the asset.

Innovative financial and procurement options – Forms of PPP



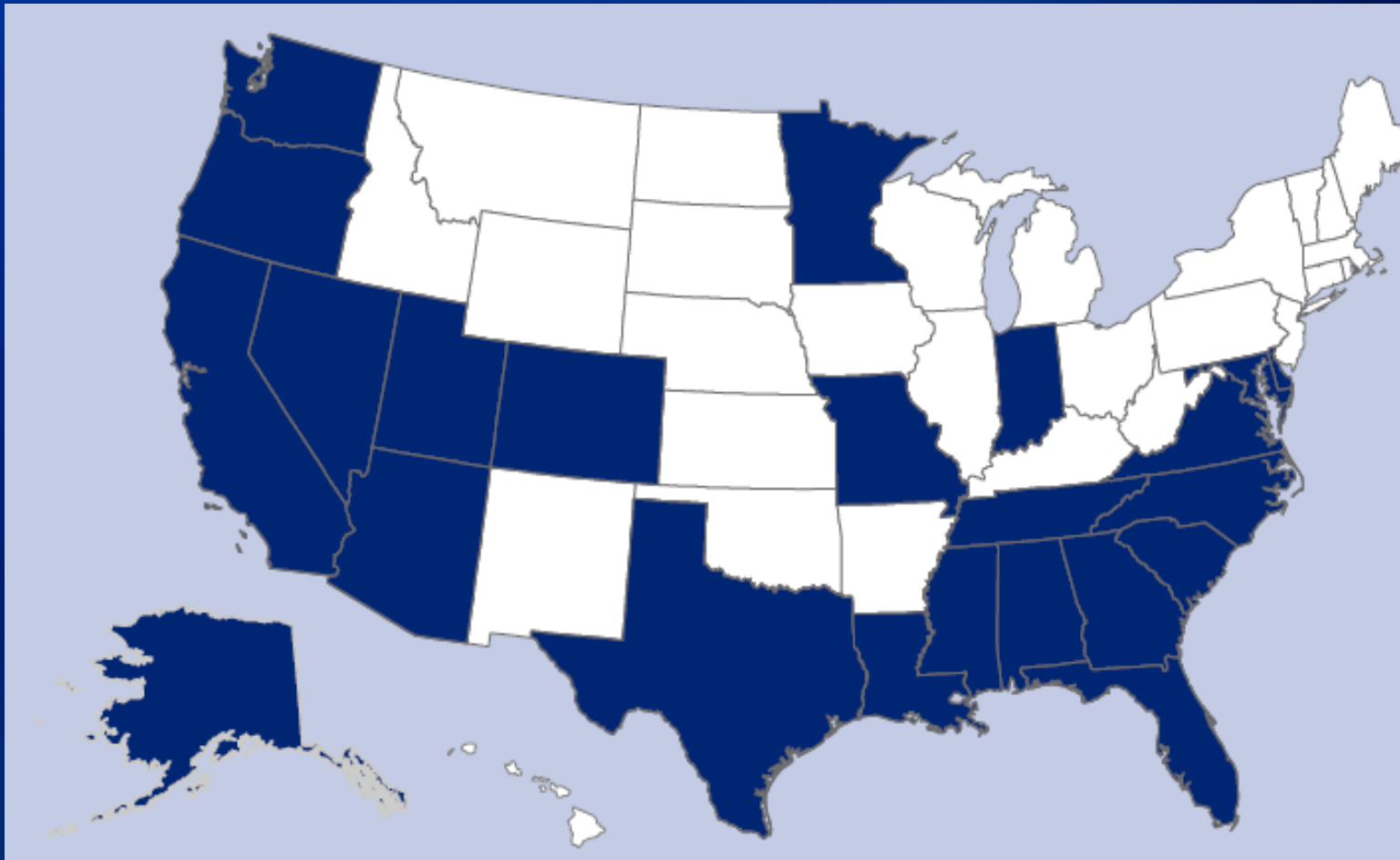
Greenfield vs. Asset Monetization – An example

	Asset monetization	Greenfield project
Technical specifications	◆ Develop O&M standards only	◆ Develop O&M AND design and construction standards
Site condition risk	◆ Assess existing asset	◆ Assess existing asset AND obtain approvals, etc.
Traffic and revenue	◆ Rely on existing traffic and revenue	◆ Forecasting traffic & revenue in a greenfield project
Acceptability of tolling	◆ Limited incremental concerns	◆ Significant effort to “sell” benefits of tolling
Nature of investor	◆ Seeking steady, stable return	◆ Risk tolerant, but requires additional return
Project financing	◆ Less risky investment	◆ Risky investment with more complex financial structure

PPPs are becoming more common in the U.S.

- ◆ Successful international P3 transactions
- ◆ Federal laws and policies have become more flexible
- ◆ Prominent US transactions
 - Chicago Skyway - \$1.8B, 99 year lease
 - Indiana Toll Road - \$3.8B, 75 year lease
 - Chicago Municipal Car Parks - \$563m, 99 year lease
 - VDOT I-495 HOT Lanes - \$1.9B, 75 year concession
- ◆ Many state governments, local governments, and authorities exploring options

States having P3 enabling legislation



Source: US DOT P3 website: <http://www.fhwa.dot.gov/ppp/legilation.htm>

Most Advanced PPP Programs

- ◆ Texas DOT
- ◆ Virginia DOT
- ◆ Florida DOT
- ◆ California (new)

Types of projects suitable for innovative financing/PPPs

- ◆ Large and complex projects
- ◆ Long term in nature requiring Government role and commitment
- ◆ Private sector management and technical skills
- ◆ Requirements stated in an output-based manner
- ◆ Need O&M / replacement during project lifecycle

Potential public sector benefits are:

- May complete projects sooner and quicker
- Focuses on outcomes and accountability
- May reduce life cycle costs
- Helps identify and allocate risks (e.g., usage, cost, schedule)
- Taps private sector financial, engineering, and operating capabilities
- Leverages value in existing assets to generate revenues for other uses
- Promotes competition

What has it delivered?

- ◆ **UK Construction Industry Council (2000)**
 - 5% - 10% median cost savings anticipated in design, construction and operation
- ◆ **UK National Audit Office (2001)**
 - 72% and 80% of public and private participants respectively perceived their relationship with each other to be very good or good
- ◆ **UK National Audit Office (2003)**
 - 76% of public buildings completed on time
 - Private sector absorbed construction cost overruns
- ◆ **Partnerships UK (2006)**
 - 79% of projects have services delivered to agreed standards always or almost always

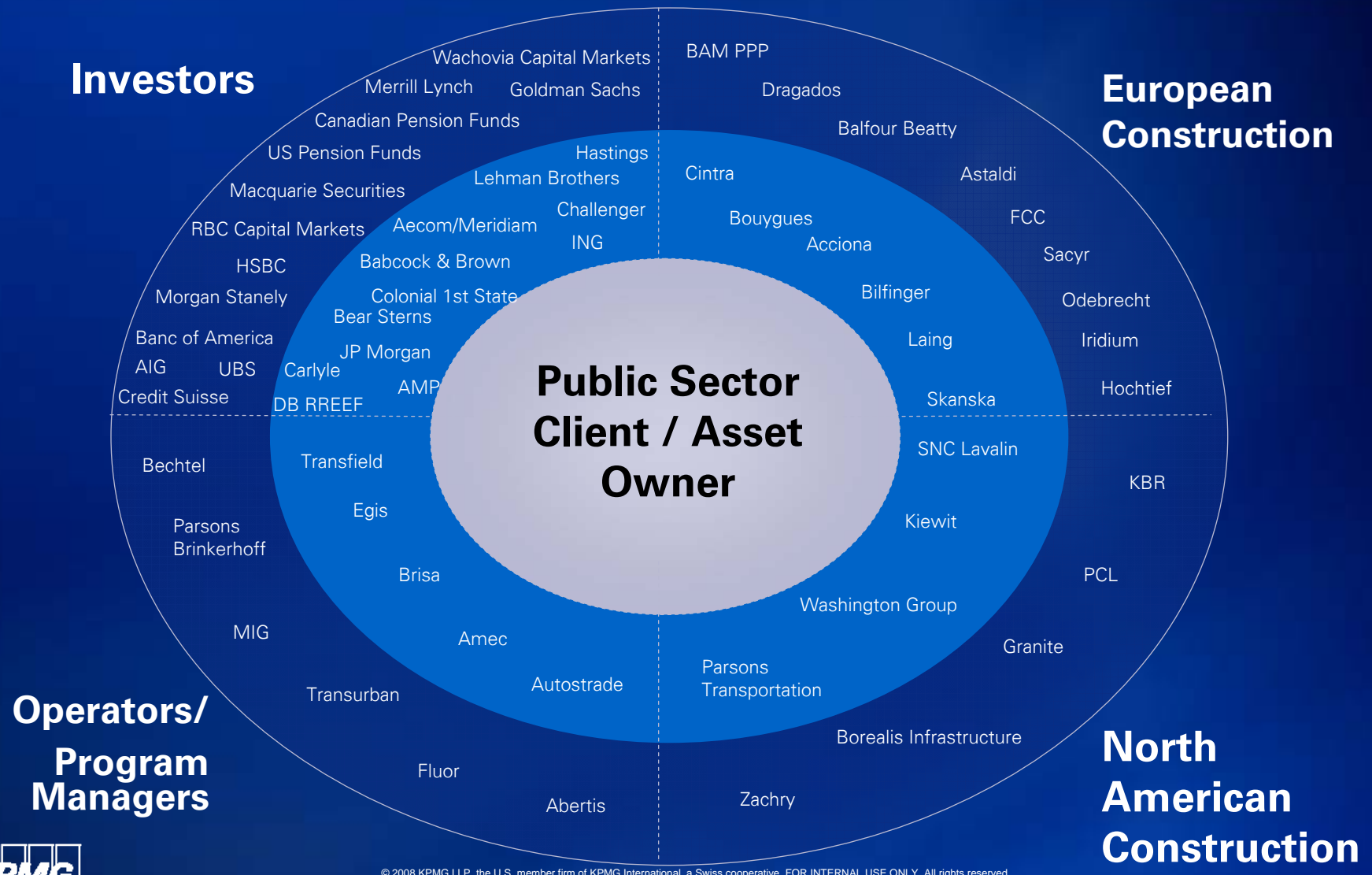
Some “realities” must be addressed

- Need to overcome “learning curve”
- Must clearly communicate and confirm agreement on rationale for approach
- Must address “political risk”
- Have to conduct complex procurement process
- Need to understand project financing
- Must live up to contract obligations
- Some loss of control of assets

Working with PPP stakeholders – A must!

- ◆ Governments and Government Officials at the Federal, State, and Local Level
- ◆ Citizens
- ◆ Organized Labor
- ◆ Employees
- ◆ Infrastructure Customers (e.g. trucking industry)
- ◆ Business Community
- ◆ Interest Groups (e.g. environmental, AAA, others)

The Global Players



Tolls are NOT the only option!

- ◆ Tolling
- ◆ “Shadow” tolling
- ◆ Availability payments
- ◆ Federal options (e.g., TIFIA, PABs)
- ◆ Other

What do we mean by risk allocation?

◆ Some typical areas of risk include:

- Development
- Design, Engineering & Construction
 - Cost Overrun
 - Time Overrun
- Operation and Maintenance
 - Performance
- Market
- Credit
- Interest Rate

Risk Transfer

Type of risk	Government	Contractor	Shared
Design		✓	
Construction		✓	
Availability/ performance		✓	
Operating costs		✓	
Macro economic factors			✓
Demand	?	?	
Obsolescence		✓	
Residual Value		✓	
Legislative change			✓

Keys to successful project development

- ◆ Understandable/Achievable project scope, goals, and outcomes
- ◆ Strong project justification and “business” plan
- ◆ Stakeholder consultation and communications
- ◆ Public sector “champion”
- ◆ Transparent, defined procurement process and schedule (“no surprises”)
- ◆ Private sector interest/competition
- ◆ Well structured risk allocation and accountability
- ◆ Build on “lessons learned” – don’t “reinvent the wheel”
- ◆ “Win-win” outcome needed

PPPs are part of the solution, NOT “the solution!”

Questions?



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