An Option for Financing Ports: Public-Private Partnerships

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Challenges Facing Ports

- Current difficulties with intermodal connections (rails and trucks)
- Rapidly expanding international trade
  - Opening of the Panama Canal’s third channel = major impact on all Atlantic Ports
- Growing need for capital to meet these demands
What is NCPPP?

- **Membership**
  - Public and Private

- **Partnerships range from:**
  - Outsourcing
  - Public-Private Partnerships
  - Privatization

- **OUR FOCUS = Public-Private Partnerships**
  - “Joint Ventures”
  - “Collaborative Enterprise”

- **NOT “Privatization”**
  - Difference = *The level of public control & oversight*
OBJECTIVE

To illustrate that Public-Private Partnerships (PPPs) are:

– **Possibly an answer to these challenges**
– **Not revolutionary**
  • Used in a number of infrastructure sectors
  • Over 200 years of experience in the US
    – First ones for transportation
  • More widely used in other countries
    – Europe, Asia, Latin America, etc.
– **Don’t answer all challenges**
– **Does provide a valuable tool**
Challenges & Opportunities

TRUST IN EACH OTHER
- The need for transparency
- Understanding the other’s position

PUBLIC SECTOR
- Aging Infrastructure
  - Maintenance
  - Replace & Expand
- Shrinking Budgets
- Constituent Demands
- Exercising Authority

PRIVATE SECTOR
- Economic Development
- Accelerated delivery
- Innovative financing
- Capitalize on public sector resources
  - Underutilized Assets

PPPs = An Answer, not the answer
WHAT IS A PPP?

A Public-Private Partnership is a contractual agreement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility.

source: www.ncppp.org
A LITTLE HISTORY OF PPPs
All Projects were “Public”

The Change – The emergence of Capitalism

1776 – Adam Smith’s Wealth of Nations

1756 – Philadelphia Fire Insurance Company

1796 – Lancaster Turnpike
The Change – The emergence of Capitalism

1825 – Erie Canal

1869 - Transcontinental Railroad
Sectors Where PPPs Have Been Used

THE EXPERIENCE IS TRANSFERABLE
“Lessons learned from one . . .”

- Transportation
- Water/Wastewater
- Urban Development
- Utilities
- Financial Management
- Schools
Advantages of PPPs

- Maximizes the use of each sector’s strength
- Reduces development risk
- **Reduces public capital investment**
- Mobilizes excess or underutilized assets
- Improves efficiencies/quicker completion
- Better environmental compliance
- Improves service to the community
- Improves cost effectiveness
- Shares resources
- Shares / allocates risks
- Mutual rewards
Private Sector Strengths

The Result of Market Competition

- Management Efficiency
- Newer Technologies
- Workplace Efficiencies
- Cash Flow Management
- Personnel Development
- Shared Resources (Money?)
Public Sector Strengths

The Result of Serving the Public Trust

- Legal Authority
- Protection of Procurement Policies
- Broad prospective/balance the competing goals to meet public needs
- Personnel – dedicated but constrained
- Capital resources
Successful Partnerships

The Secret is to Balance the Strengths of Both Sectors
Case Studies at www.ncppp.org

- Transportation
- Water / Wastewater
- Financial Management
- Real Estate / Economic Development
- Public Safety
- Social Programs
- Education
CASE STUDY: Washington DC Metro Station

- An “in fill” station in an economically depressed area
- Public and private initiatives
- Cost: $90 million
- Local Developer provided 30% through a dedicated tax district and the land for the station
- Economic Impact: 600% increase in property values in 3 years
CASE STUDY: Colombo Port, Sri Lanka

- Inefficiencies and delays reduced the competitiveness of the port
- Queen Elizabeth Quay (QEQ) expanded through a 30 year BOT concession
- Financed $227 million, based on debt/equity ratio of 60:40, private sector financing
- Throughput for QEQ increased 350% from 2000 to 2004
- Construction of 3 container berths and 1 passenger berth completed in stages—port remained operational throughout
CASE STUDY: Martin Garcia Channel

- Countries: Argentina and Uruguay
- Waterway of the Rio de la Plata, Paraná River, and Uruguay River vital for trade
- 10-year DBOT granted—revenue from tolls collected for passage and payments from the governments
- Able to accommodate larger vessels using in shipping-245 m long and 32 m wide
- Financial problem: countries unable to make all payments after the financial crises of 2002 and 2003
CASE STUDY: Port of Miami Access Tunnel

- Trucks currently travel through 6 to 7 traffic signals to get to the port
- Tunnel will provide direct access between port, I-395 and I-95 and take port traffic off the downtown streets
- Estimated costs: over $1 billion
- Miami Access Tunnel Team was awarded the 35-year contract in 2007
- FDOT will make availability payments over the lifetime of the project, starting after the tunnel is completed
THE PROCESS
(How do you attract the interest of the private sector?)

The Problem of “No Response”
- The need to make a return on the investment
- Up-front costs at risk

Public sector steps before the RFP
- General concept design, but not design specific
- Evaluation of the value of publicly held lands
- Evaluation of market potential, including tax revenues to be generated
- RFQ to select a design and construction team
- RFP to the select group developed by the RFQ
- Private pre-RFP costs can be significant, but projects have a higher probability of success (because of the pre-RFP process)
Attracting Investors

Investors seek environments where their proposals will receive fair evaluation, and where they can reasonably expect a fair return on investment. Good Governance is critical, e.g.:

• Statutory/Regulatory enabling environment
• Transparent procurements
• Sanctity of contracts
• Objective, consistent judicial system
• Fair risk allocation
Challenges of Bringing the Public and Private Sectors Together

“Failure to Communicate”

- “We Don’t Speak the Same Language”
  - “Business Speak”
    - Customer Satisfaction
    - Return on Investment
    - Risk/Reward Evaluation
  - “Public Speak”
    - Responsibility
    - Accountability
    - Risk Avoidance
But Are These Really Different?

**BUSINESS**

Customer Satisfaction

Return on Investment

Risk/Reward Evaluation

**GOVERNMENT**

Responsibility

Accountability

Risk Avoidance
Six Keys to Successful PPPs

- Statutory and Political Environment
- Organized Structure
- Detailed Business Plan
- Guaranteed Revenue Stream
- Stakeholder Support
- Pick Your Partner Carefully
Managing for Success – Six Keys

Component One: The Environment

- Statutory authority and regulations
- Political leadership must be in place
  - Leading Political Figure
  - Top Administrative Officials
  - “The Will to Change the System”
  - A Strong Policy Statement
Managing for Success – Six Keys

Component Two: Organizational Structure

- Dedicated group (tied to the purpose of the partnership)
- Dedicated and TRAINED personnel to monitor implementation
- Examples: TXDOT, VDOT, PPP Centrum, Partnerships UK, Irish Government’s Central PPP Unit
- Best Value vs. Lowest Price
  - Difficult to Administer but…
- Need for Good Governance
  - To assure an open and fair procurement process
  - Consolidate staff = easier to monitor
  - Independent authority (domestic/internal or international)
Managing for Success – Six Keys

Component Three:
Detailed Business Plan
a.k.a. Enforceable Contract

- Performance goal oriented - Allow for innovative plans
- Best Value vs. Lowest Price
- Plan/Contract should include:
  - Specific milestones and goals
  - Reporting of metrics and frequency
- Risk Allocation
  - Shift to the private sector can raise costs
  - Identify best prices to retain, which to shift
- Dispute Resolution Methodology
- Workforce Development?
  - Develop in-country resources/small businesses
Managing for Success – Six Keys

Component Four: Guaranteed Revenue Stream

- Funds to Cover the Long-Term Financing
  - Tolls/Fees (real or shadow)
    - Intelligent transportation systems
  - TIF or other form of a Tax District
  - Long-Term Maintenance Contracts
  - Availability Payments
  - Underutilized Assets
  - Concession Model (limited application)
  - Creative Approaches
Managing for Success – Six Keys

Component Five: Stakeholder Support

- Public Sector Employees
- Private Sector
- Labor Unions
- End Users
- Competing Interests

Requires:
- Open and frank discussion between sectors
- Knowing the FACTS (not myths)
- Translating each other’s language
Managing for Success – Six Keys

Component Six:
Pick Your Partner Carefully

- This is a long-term relationship
  - Verify experience (technical capability)
  - Verify financial capability
  - Best Value vs. Lowest Price

- Remember each sector’s motivation
  - Genuine need (market value to the project)
  - Political / statutory environment
  - Reasonable return on investment and manageable risks
  - Timely and effective execution vs. development costs
Managing for Success

The Most Critical is Component One:

Strong **LEADERSHIP** makes all the other factors come together
Need Help?

www.ncppp.org
Case Studies, Fundamentals of Partnerships, Issue Papers, Publications, Resources

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