Committee on Transportation and Infrastructure
U.S. House of Representatives
Washington, DC 20515

Bill Shuster
Chairman

Christopher P. Bertram, Staff Director

Nick J. Rahall, II
Ranking Member

James H. Zoia, Democrat Staff Director

April 4, 2014

SUMMARY OF SUBJECT MATTER

TO: Members, Panel on Public-Private Partnerships
FROM: Staff, Panel on Public-Private Partnerships
RE: Panel Hearing on "The International Experience with Public-Private Partnerships"

PURPOSE

The Panel on Public-Private Partnerships is scheduled to meet on Tuesday, April 8, 2014, at 10:00 a.m., in 2167 Rayburn House Office Building to review the international experience with public-private partnerships. The Panel will hear testimony from the Honorable John K. Delaney (MD-06); Dr. Larry Blain, Chairman of the Board of Directors, Partnerships British Columbia; Mr. David Morley, Vice President, Business and Government Strategy, Infrastructure Ontario; Mr. Cherian George, Managing Director, Global Infrastructure and Project Finance, Fitch Ratings; and Dr. Matti Siemiatycki, Associate Professor, Geography and Program in Planning, University of Toronto.

BACKGROUND

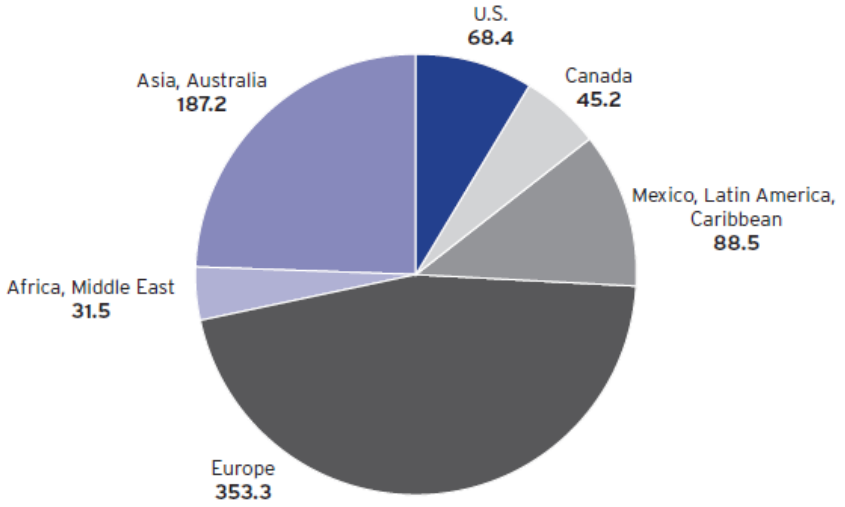
Overview

Across the world there have been thousands of public-private partnerships (P3s) in public infrastructure. There are many models that can be classified as P3s. The simplest form includes contracting with the private sector to complete a single aspect of an infrastructure project; on the other end of the continuum, the private sector designs, builds, finances, operates, and maintains the infrastructure project.

P3s have been a tool used by governments to deliver needed public infrastructure for centuries. Canals, ferries, rail, water systems, and roads have been built privately in exchange for tariff or toll-raising authority or government paid capacity-based revenue streams to private entities.

Between 2008 and 2013, governments around the world signed approximately 158 P3 agreements, with a total project value of $160 billion. Most of these agreements represent the

Figure 1. Public/Private Partnerships (PPPs) Worldwide, Nominal Total Costs (in billions $USD), 1985-2011



Note: Includes funded road, rail, buildings, and water projects through October 2011 in nominal dollars converted into U.S. dollars at the time of financial close. Excludes U.S. design-build projects.

Source: PWF, 2011

design, build, finance, and operate model, which has been limited in the United States compared to other countries. Only 15 of the 158 P3s were in the United States. According to the Brookings Institution, between 1985 and 2011, only nine percent of the total nominal costs of P3s were funded in the United States.[1]

A recent report from Fitch Ratings, titled *Global PPP Lessons Learned*, concludes that P3s can provide public value but need to be carefully crafted to address all stakeholder concerns.[2] Fitch's report identifies many of the challenges in designing a concessions agreement. Some of the key issues include: transferring risk associated with the financing, construction, operation, and lifecycle maintenance of an asset or service while maintaining flexibility;

[1] Emilia Istrate & Robert Puentes, Moving Forward on Public Private Partnerships: U.S. and International Experience with PPP Units, Brookings Institution, December 2011, http://www.brookings.edu/~/media/research/files/papers/2011/12/08%20transportation%20istrate%20puentes/1208_transportation_istrate_puentes.pdf

[2] Cherian George, Nicolas Painvin, & Thomas McCormick, Global PPP Lessons Learned, Fitch Ratings, October 7, 2013, http://ibtta.org/sites/default/files/documents/IBTTA%20Publications/Fitch%20Ratings%20Global%20PPP%20Lessons%20Learned%202013.pdf

forecasting demand; and anticipating possible concession renegotiation. One critical issue is ensuring that risks are allocated properly between the public and private sectors, with one possible guiding principle being that risks should be allocated to the entity that can best manage them. Non-effective risk transfer can lead to renegotiated deals, partners walking away from a deal, a public asset falling into disrepair, and the public sector absorbing cost overruns and delays. Experts in the field have commented that Canada has a strong risk-transfer model and has been able to avoid extensive squabbles with private partners.

Because P3s are complicated transactions that involve extensive negotiations and detailed contracts, many foreign countries have set up national or sub-national P3 entities to act as the leader in negotiating, closing, and implementing P3 arrangements. Examples include Partnerships British Columbia (Partnerships BC), Infrastructure Ontario, Infrastructure United Kingdom, and Infrastructure Australia. These entities play a key role in consolidating the process of P3 actions.

Despite the fact that these transactions can be complex, evaluations by other governments around the world have shown that P3s can achieve construction efficiencies compared to traditional procurement. The National Audit Office of the United Kingdom found that 65 percent of P3 projects were completed on-budget, compared to 54 percent of public construction projects delivered to the contracted price. Canada's provincial procurement agencies estimate approximately $9.9 billion in savings realized from 121 P3 projects that reached financial close between 2003 and 2012.[3] These cost savings were estimated based on value for money (VFM) economic analyses of each of these projects, or studies conducted by the public sector to demonstrate whether a P3 can deliver a project at a lower life-cycle cost.

The Canadian province of Ontario systematically releases its VFM analyses to the public as part of an effort to ensure transparency in the P3 process. A recent study of VFM analyses (by Dr. Matti Siemiatycki) for 28 of Ontario's P3 deals found that the transfer of risk to the private sector is a key factor in how P3 deals are able to demonstrate cost savings. For these 28 projects, the base cost of delivering projects was, on average, 16 percent lower if done through a traditional procurement than through a P3. Only after a risk premium was attached to delivering the project by the public sector did the VFM calculation favor the P3 delivery method. Risk premiums represent the possible cost overruns and construction delays that large infrastructure projects have historically incurred in the traditional procurement method. The average risk premium was 49 percent – meaning that 49 percent of the project cost was added to the traditional procurement option to develop the comparative public sector project delivery cost.[4]

[3] InterVISTAS Consulting Inc., 10-Year Economic Impact of Public-Private Partnerships in Canada (2003-2012), December 24, 2013, http://www.p3canada.ca/~/media/english/resources%20library/files/10-year%20economic%20impact%20assessment%20of%20public-private%20partnerships%20in%20canada.pdf

[4] Siemiatycki and Farooqi, "Value for Money and Risk in Public-Private Partnerships"; Journal of the American Planning Association, Vol. 78 No. 3, summer 2012.

Canadian Models

Over the last several decades, Canada has increasingly utilized the deployment of public-private partnerships to advance infrastructure projects. The Canadian P3 market is seen as a stable investment for pension funds and asset management companies. Canada has been successful in maintaining a consistent and predictable procurement process, which is highly desirable for the private sector. In particular, the provinces of British Columbia and Ontario have set up formal organizations to guide the development, procurement, and execution of public-private partnerships for transportation, housing, energy, and other projects.

Partnerships BC.

Created in 2002 by the Province of British Columbia, the mission of Partnerships BC is to 1) develop partnership proposals for projects that can achieve value for money; 2) implement such partnerships via best practices in procurement and market development; and 3) become a self-sufficient organization that provides support across different infrastructure sectors. It provides these services via a negotiated consulting contract based on a fee-for-service structure. Partnerships BC is wholly-owned by the Provincial Government, and its sole shareholder is the British Columbia Ministry of Finance. Its clients include public sector agencies at all levels of government.

Since its creation, Partnerships BC has participated in more than 35 projects with a total investment value of $12.5 billion, which includes $5 billion in private sector contributions. These projects have produced 242 miles of new highway lanes, 19 miles of new transit lines, and six new bridges.

Infrastructure Ontario

Established in 2004, Infrastructure Ontario is a corporation wholly owned by the Province of Ontario, and is charged with managing and delivering projects beyond the traditional design-bid-build method of infrastructure project delivery. Ontario's Ministry of Infrastructure assesses the province's overall infrastructure renewal program and budget and determines which projects will be assigned to Infrastructure Ontario for public-private partnerships (referred to as Alternative Financing and Procurement, or AFP).

After a contract is approved, Infrastructure Ontario manages the project, in coordination with the client ministry, and is responsible for negotiating and signing project agreements. A key step in the process is the requirement to conduct a value for money analysis, which compares the costs using traditional delivery methods and the public-private partnership orAFP model. Projects will proceed only if a third-party accounting firm verifies that the value of the alternative delivery method outweighs the traditional method.

Eighty-three projects have been assigned to Infrastructure Ontario, representing a total construction value of $5.5 billion. These projects include billion-dollar highway expansions, the construction of a large light rail system, and various courthouse and hospital projects.

WITNESS LIST

The Honorable John Delaney
United States Representative
Maryland

Dr. Larry Blain
Chairman of the Board of Directors
Partnerships British Columbia

Mr. David Morley
Vice President, Business and Government Strategy
Infrastructure Ontario

Mr. Cherian George
Managing Director – Americas
Global Infrastructure & Project Finance
Fitch Ratings

Dr. Matti Siemiatycki
Associate Professor, Geography and Program in Planning
University of Toronto