Public Private Partnerships

Presented To

Joint House Committee on Transportation
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by

Michigan Office for Public Private Partnerships
Department of Treasury

Welcome and Introduction

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Agenda

- Historical perspective
- Public Private Partnerships (PPPs)
- Michigan's approach
- KPMG – strategic and financial advisor
- Some clarity on PPPs
- PPPs across the world - case studies

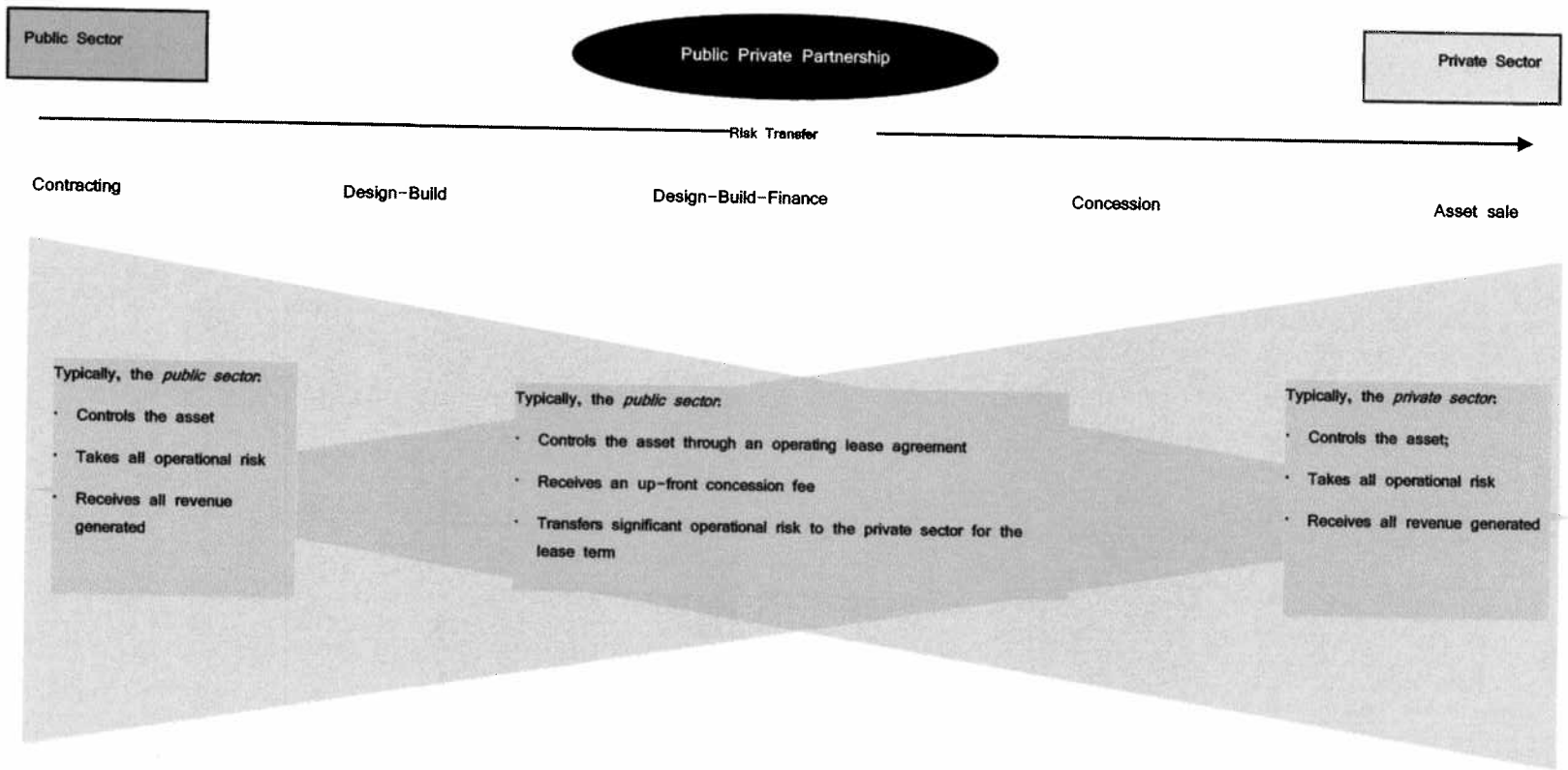
Historical Perspective

- Well established concept
  - Water Works Company of Boston – 1652
  - First transcontinental railroad in U.S. – 1869
- Concept revitalized in the 1980s and 1990s due to "need" and "realization"

Definition of a PPP

- Contractual agreement between a public agency (federal, state or local) and a private sector entity structured to:
  - Optimize the skills and assets of each sector (public and private) in delivering a service or facility for the use of the general public
  - Allocate the risks in the delivery of the service and/or facility to the parties best able to manage them

Key Aspects of PPPs



Sectors using PPPs

- Transportation/Transit
- Educational Facilities
- Water/Wastewater Facilities
- Real Estate/Urban Development
- Public Parks and Facilities
- Public Safety
- Correctional facilities
- Energy
- Information Technology

Advantages of PPPs

- Improves cost effectiveness
- Reduces public capital investment
- Reduces, shares, and allocates risk
- Improves efficiencies/earlier project delivery
- Maximizes use of each sector's strength
- Mutual rewards
- Shares resources
- Mobilizes excess or underutilized assets
- Better environmental compliance
- Promotes competition

Keys to Successful PPPs

- Legislative and political environment
- Detailed business plan and strong project justification
- Guaranteed revenue stream
- Stakeholder support
- Pick your partner carefully
- Build on lessons learned - don't reinvent the wheel

Michigan's Approach to PPPs

- Feasibility Study
  - A "scoping" project was undertaken to determine if suitable opportunities existed to justify and allow a more broad-based, detailed approach
- Strong policy statement
  - A state-wide office dedicated to public private partnerships (PPP Office) was established in the State Treasury Department
- Legislative support
  - FY2009 Budget
  - Enabling legislation

Michigan's PPP Office

- Coordinates, facilitates and provides financial standardization and accountability
- Retained KPMG as strategic and financial advisor to assist the State in identifying new ways to partner with private sector firms and perform business analyses as needed
- Ensures successful project development (i.e. keys to success)
- Looks for early "win-win" outcomes
- PPPs are part of the solution, NOT "the solution"!

KPMG

Strategic and Financial Advisor

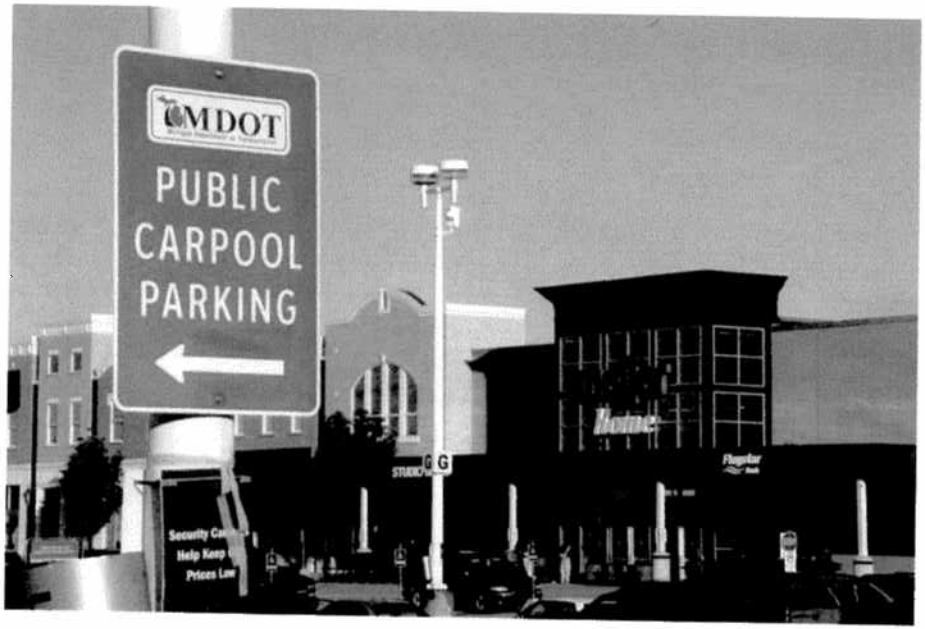
- Global experience in public private partnerships
- Identifying, screening and assessing opportunities across all departments
- Providing strategic advice on project structure
- Development of preliminary business cases for projects
- Providing recommendations for procurement and project delivery
- Providing support for implementation of projects as PPPs
- Providing knowledge sharing and post-implementation services

Transportation Opportunities

- Range of PPP delivery opportunities:
  - Full concession
  - Shadow tolling
  - Availability based payment
  - Design, build, operate, maintain
  - Design, build, finance
  - Design and build

PPP Success to date

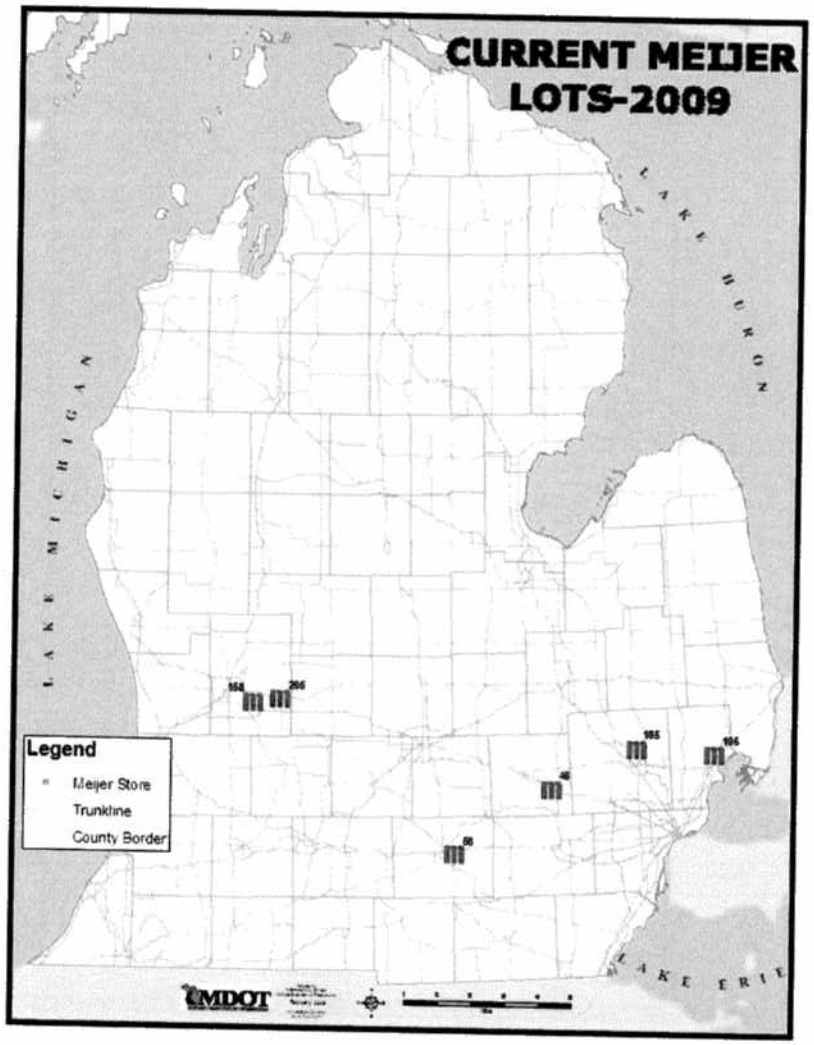
Meijer Carpool Parking



- Need additional carpool parking
- Pilot project to use designated spaces in Meijer parking lots
- 50 spaces in six lots:
  - Cascade, Lowell, Brighton, Jackson, Chesterfield Township, Auburn Hills
- Saving MDOT over $1 million
- Proposed expansion to 66 lots; expected cost $1 million with projected savings of $15 million

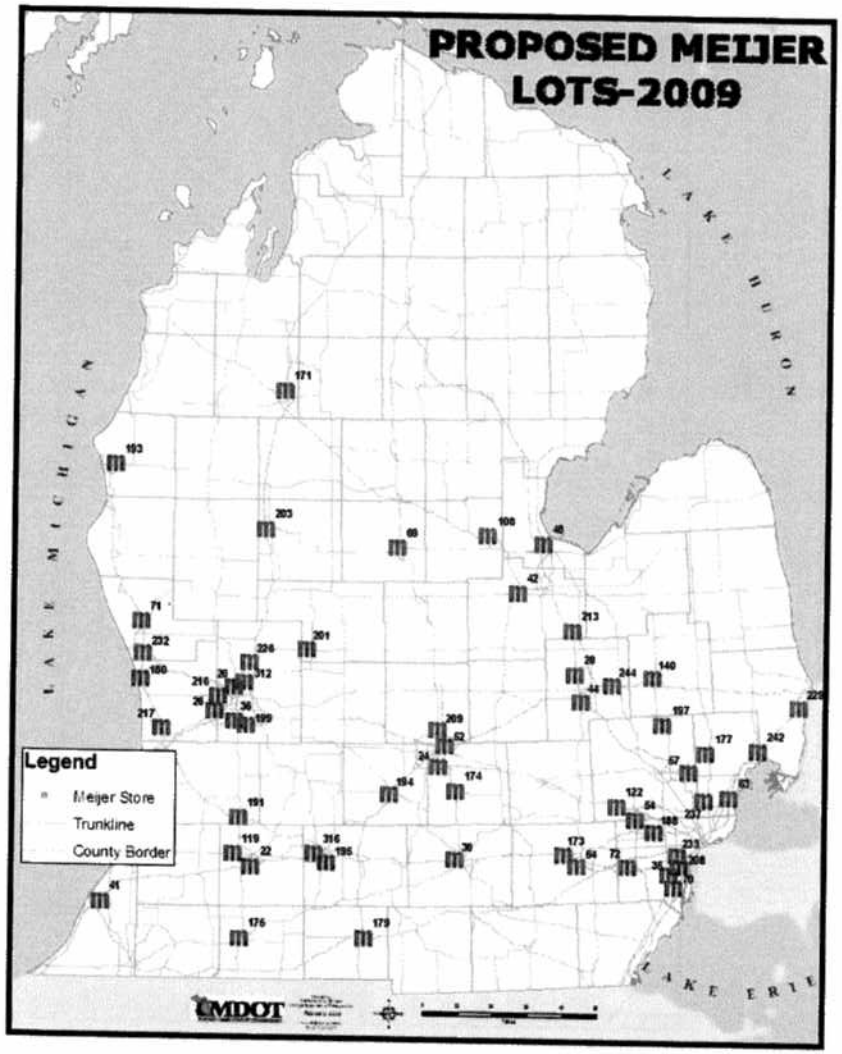
PPP Success to date

Meijer – Pilot lots



PPP Success to date

Meijer – Proposed expansion to 66 lots



PPP Success to date

Design Build Finance Pilot Projects

- I-69 in Lapeer & St. Clair Counties
  - Lapeer/St.Clair county line to Miller road
  - Highway reconstruction originally scheduled for 2012
  - Estimated cost of construction: $44 million
- M-21 over I-75 in Genesee County
  - M-21 / I-75 interchange
  - Bridge replacement & building demolition originally scheduled for 2011
  - Estimated cost of construction: $7 million
- Enabling legislation required to move to broader concession-type P3s in Michigan

Some Clarity on PPPs

The Concern:

- **Will the quality of service decline under the Public Private Partnership method?**

The Facts:

- Performance Based Contract – Public partner has more control over quality of services and Private partner takes significantly more risk
- The Private partner gets paid for the delivery of services – financial "penalties" if services don't meet specified performance standards
- The Public partner can enforce provisions of the contract dealing with quality control through its contractual role as project monitor

- *Historically, Public Sector is often required to defer expenditures to avoid budget deficits or issue new debt. In contrast, a PPP provides a consistent and high standard of asset maintenance which must be priced and therefore budgeted from day one of the contract.*

Some Clarity on PPPs

The Concern:

- **Will the Public Private Partnership method cost more than a traditional method (i.e. public entities can borrow money cheaper)?**

The Facts:

- PPPs account for Whole Life Cost, reducing lifecycle costs
- Growing evidence demonstrates the total cost of PPPs is less than the total cost of traditional projects (on time and on budget)
- Private partner assumes the risk of cost overruns (during the construction and operating phase) – not the taxpayer

- *The private sector can often leverage other revenue sources and development opportunities in maximizing the overall value of the project. Also, the private partner is often able to access similar sources of tax efficient financing available to the public sector.*

Some Clarity on PPPs

The Concern:

- **Will the public partner lose control over services in a Public Private Partnership method?**

The Facts:

- The Public partner chooses what services will be provided by the Private partner
- The Public partner has greater control over services and service levels through PPPs compared to the traditional approach
- Public authorities retain policy and legislative power to regulate the provision of services – requires change in approach: Compliance, Monitoring, Oversight

- *PPP contracts enable the public sector to concentrate on its core services – Such as Education, allowing the private sector to efficiently deliver the non-core services such as building maintenance, cleaning services, and catering/food service.*

Some Clarity on PPPs

The Concern:

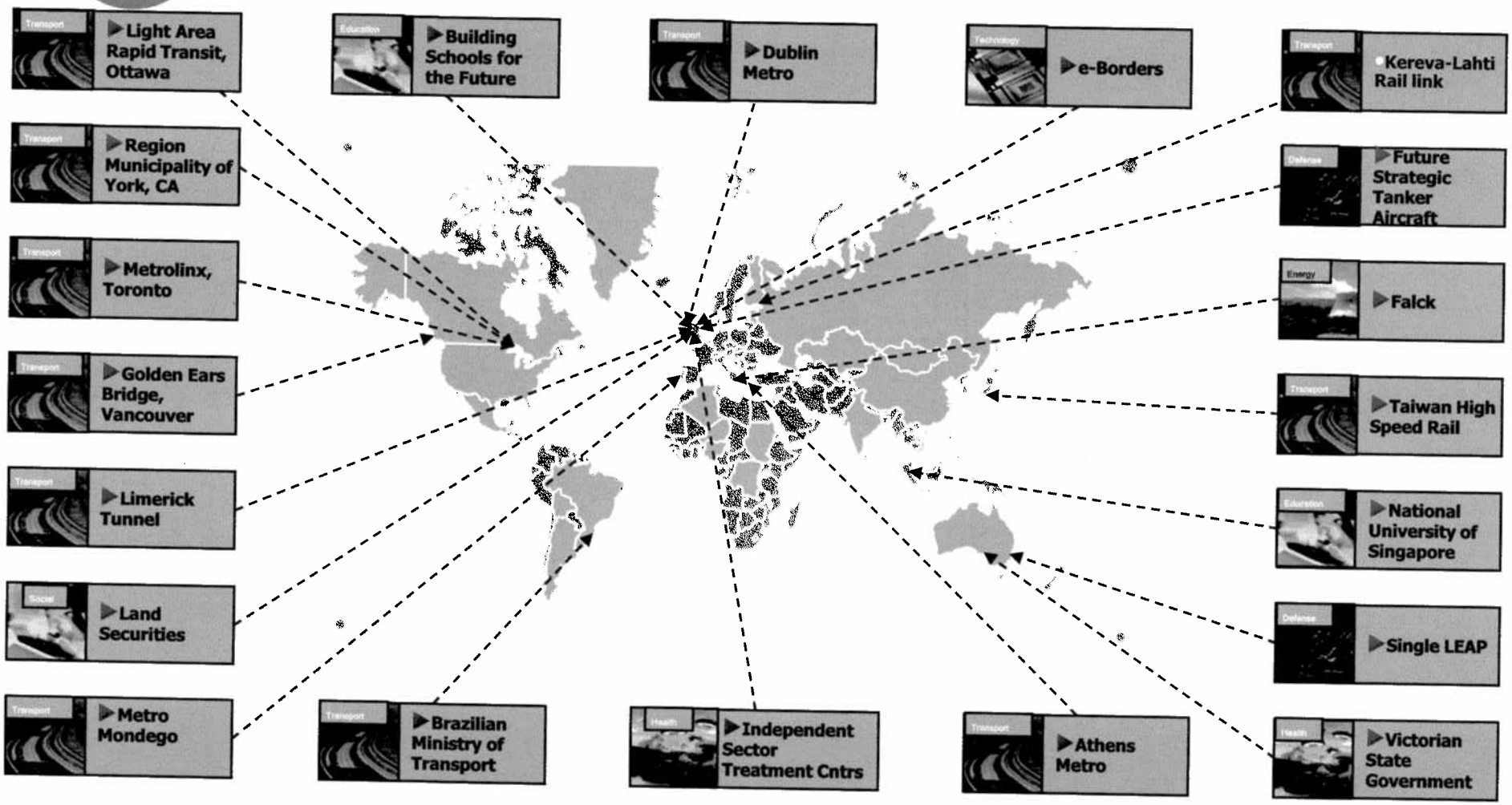
- **Will the Public Private Partnership protect the value of public sector assets?**

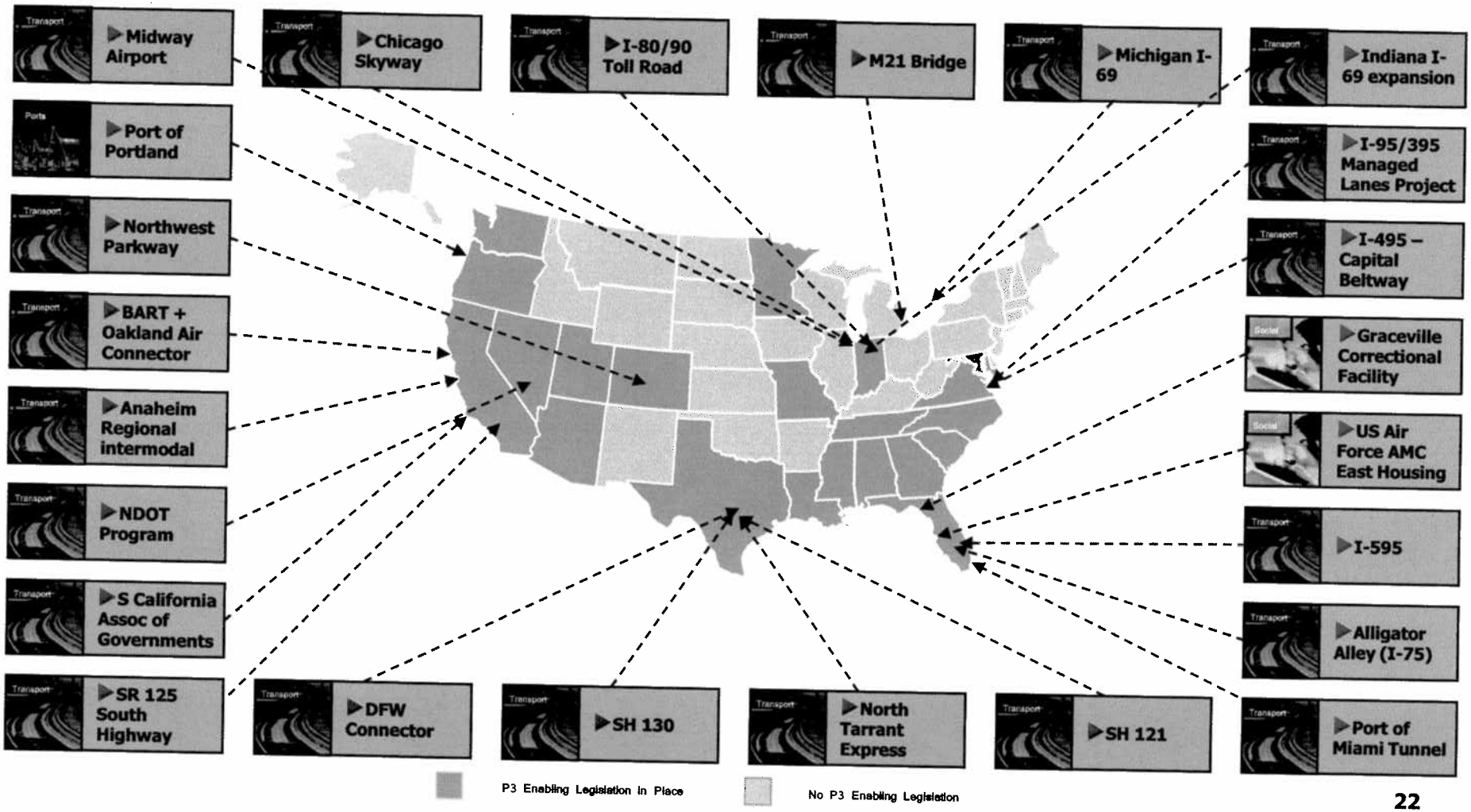
The Facts:

- Revenue sharing between the Public and Private sector partners based on gross revenue or maximum return to shareholders is commonly built into PPP agreements
- The PPP agreement often sets out agreement on sharing in any future refinancing gains realized by the private sector party
- Private sector can more efficiently manage many risks associated with the development of social infrastructure

- *The PPP agreement can build in stringent conditions to ensure the asset is in mint condition at the end of the term when it is handed back to the Public Sector*

PPP across the World



PPP across the US

Examples of deals both closed and currently in procurement across the United States.