

# First E3 Summit of the Americas 2011

## Panel 2: Redefining Public-Private Partnerships

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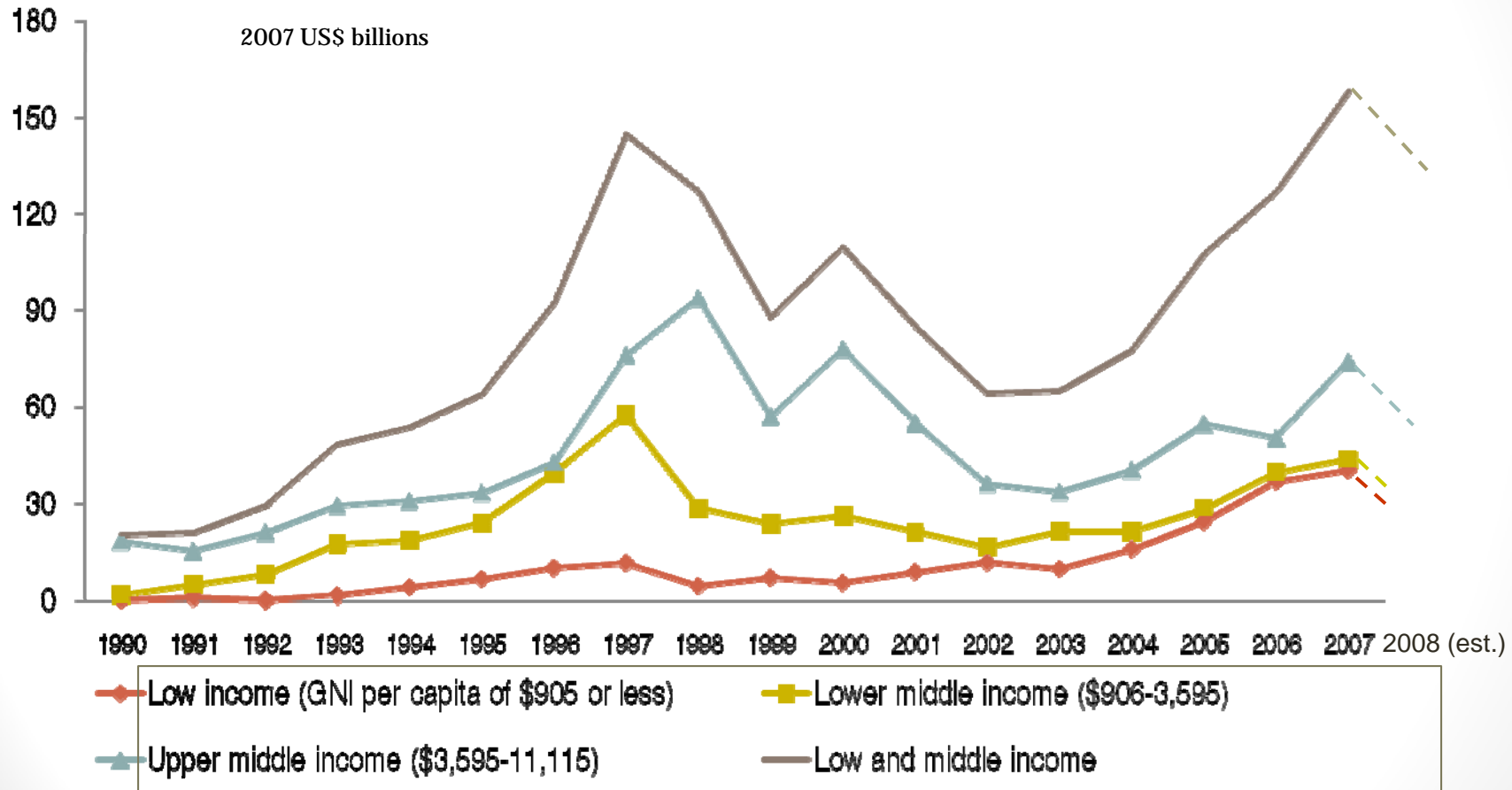
April 7, 2011

# The Development of Modern PPP Models

- In most countries, the required investment in infrastructure construction, operation, and maintenance far exceeds available public sector financial resources.
- Beginning in the 1980s, and increasing in the 1990s and 2000s, there was broad recognition that closing this financing gap, and increasing the quality, cost-effectiveness, and accessibility of infrastructure, could not be achieved by public sector alone.
- This recognition led governments to explore how private sector resources could be applied to public infrastructure and service needs.

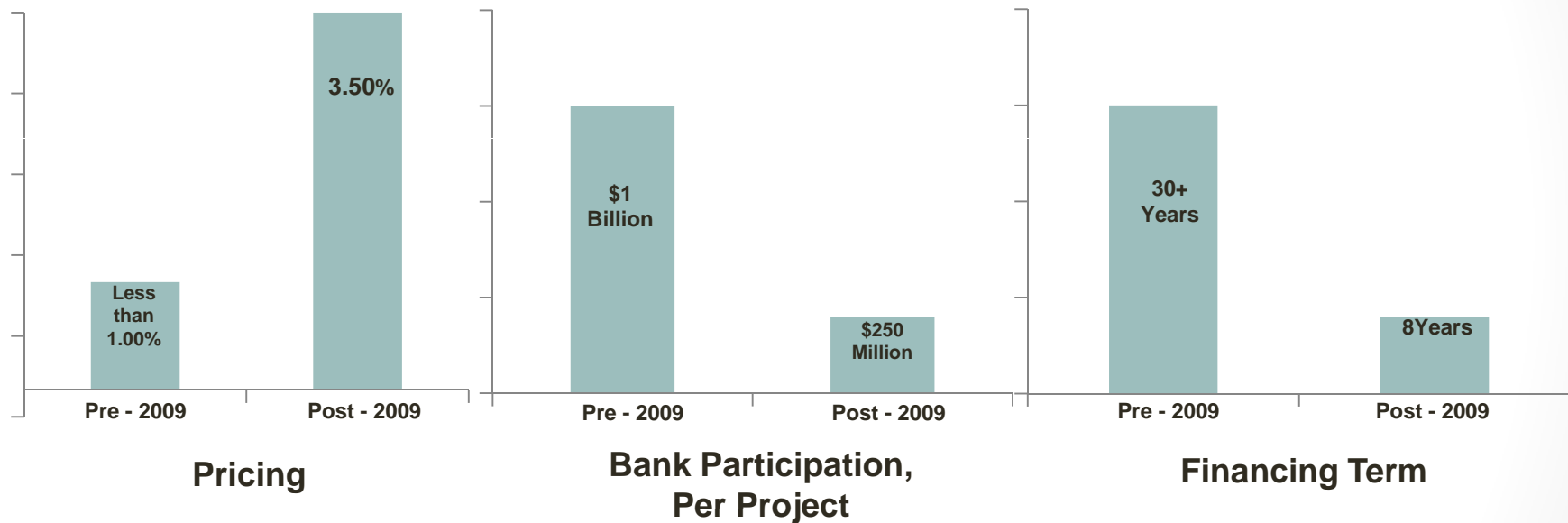
# Growth in Private Sector Participation in Infrastructure, 1990 - 2008

The peak in investment in 2007 is higher than the peak in 1997



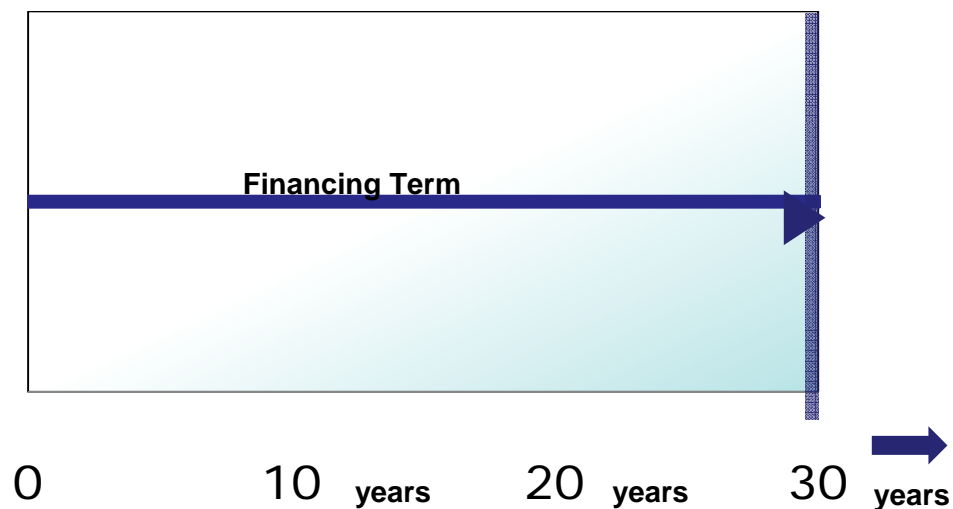
Note: Country income groups are based on the World Bank classification released in July 2007.  
 Source: World Bank and PPIAF, PPI Project Database.

# Impact of Financial Crisis



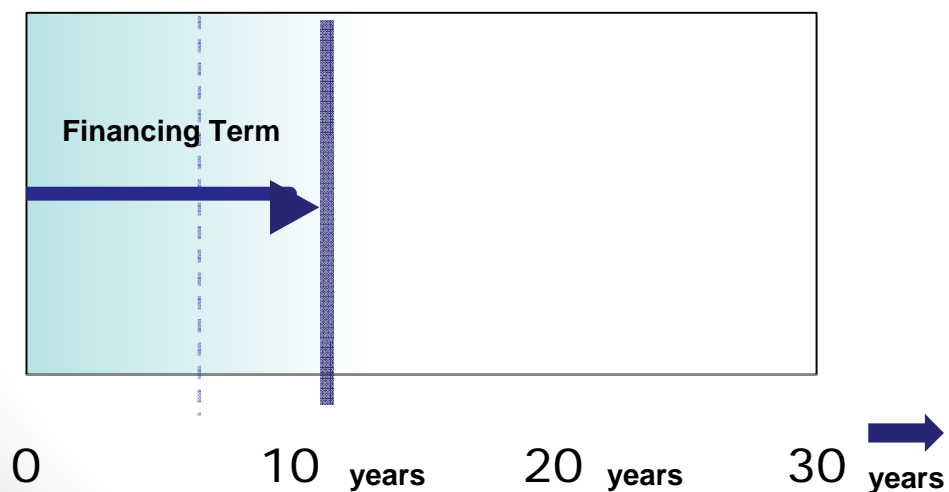
# Refinancing and Risk

## Pre - 2009



**Private Sector  
Assumes Refinancing Risk**

## Post - 2009



**Who Assumes the Risk of  
Potential Multiple Refinancings?**

## A Secondary Effect of the Financial Crisis: Weakening Project Revenues

- The South Bay Expressway is a 10-mile toll road in San Diego County, California, which opened for traffic in November 2007, with toll collection commencing in January 2008.
- The project was designed, built, and operated by the South Bay Expressway Ltd. Partnership, an SPV which would manage the project for 25 years before turnover to the state.
- The project opened 13 months late and deeply in debt.



## A Secondary Effect of the Financial Crisis: Weakening Project Revenues

- The recession and a reduction in Mexico-U.S. trucking due to NAFTA issues, impacted project revenues.
- Since the project's inception, traffic volume and revenue have been significantly below projections.
- Third quarter 2009 traffic was down 13.6 percent from third quarter 2008 (22.5k/day vs. 26.1).
- The project filed Chapter 11 bankruptcy in March 2010.
- The South Bay Expressway L.P. plan for emerging from bankruptcy was approved by the U.S. Bankruptcy Court in San Diego, March 2011.
- Secured creditors are voting on approval or rejection of this plan, with an April 4, 2011 deadline.

# Another Emerging Challenge: Massive Public Debt

- Responses to the financial crisis included, in many nations, debt-based public spending packages intended to stimulate economy activity. As a result, these countries are less able, and less willing, to incur further long-term debt.
- On 28 March 2011, the Partnerships Bulletin ran as its headline story:

PFI Investment to halve in 2012

Investment in signed schemes to halve and the value of schemes reaching preferred bidder status to drop 94% in 2012-13, compared to this year.



# Redefining Public-Private Partnerships

- The current environment suggests that we are entering a period in which PPPs will become an even more critical tool for delivering public infrastructure and services.
- At the same time, a broader menu of options will need to be pursued.
- Just as in the 1980s and 1990s, public and private sector roles in policy and regulation, pricing, operations, financing, and asset ownership need to be re-assessed to determine the best methods of meeting today's infrastructure challenge.

Economist Intelligence Unit

The  
Economist

# Evaluating the environment for public-private partnerships in Latin America and the Caribbean The 2010 Infrascope

A guide to the index and methodology



Commissioned by



October 2010

# Potential Outcomes

- Less reliance on PFI transactions; more user-fee and alternative financing projects.
- Affordability will be a key criterion.
- Projects based on alternative financing will become more important, e.g.:
  - James F. Oyster School (land utilization)
  - New York Avenue Metro( special tax district)
  - Mongolia roads and King Coal Highway (natural resources)
- Tourism-based PPPs will increase in the region