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in a Global Economy

Improve Service Delivery: The Role of Private Sector

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What is the reason for PPPs?

"The main reason is to <u>improve service delivery</u> – that is, to create <u>value for money</u> compared to the case where a government delivers the service (*i.e.* the case for traditional public procurement)".

OECD*
2008

Source: OECD. 2008. *Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money.*
* OECD = Organization for Economic Co-operation and Development.

Advantages and Disadvantages

Government Financing

Municipal bonds

Revenue bonds

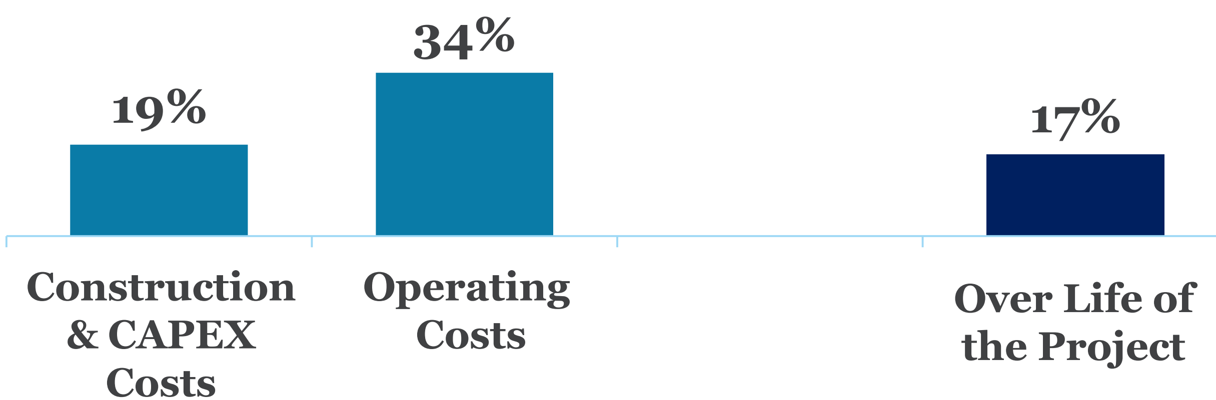
Advantages	Disadvantages
• Implicit Government guarantee: – lowers the cost of borrowing – taxpayers assume the risks of the project	• High existing leverage • "Lower capital costs" argument ignores the "pricing of project risks" • Additional refinancing consumes credit, thus increasing borrowing cost. – Government's ability to borrow at "low rates" is not unlimited.

PPPs come ahead when normalized for project risks

Assume a typical Government project of $100 million:

- 5% construction overrun and 6-month delay:
  - then, 0.8% - 1.0% will have to be added to cost of capital.
- 5% operating costs overrun*:
  - then, a minimum of 0.6% will have to be added to cost of capital.

Cost Savings in a PPP Compared to Govt. Project



Source: Macquarie Capital.
* It is assumed that the hypothetical project requires $10 million in operating and maintenance costs.

Government financed but what about service delivery?

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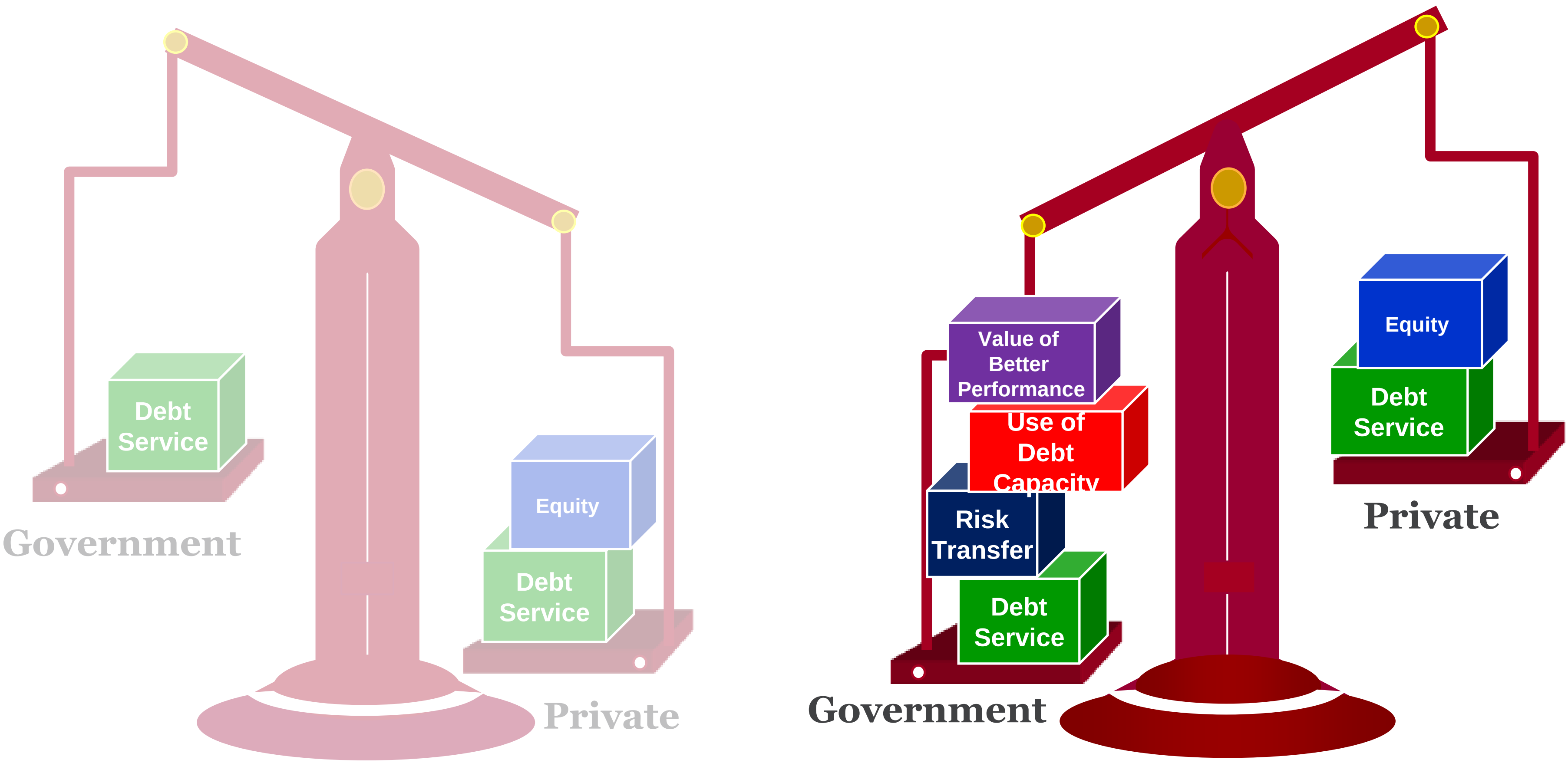
Costa Sur PREPA Plants

- Financed with PREPA bonds (tax-exempt)
- Only 2 of the 6 units operate (66% out of service).
- Efficiency much lower than EcoElectrica (privately managed).
- Not friendly to the environment.

Terminal A – SJU Airport

- Financed with PFCs funds and followed a public procurement process.
- Took more than 7 years to put into operations.
- Costs overruns and significant time delays in construction.

Cost of financing is not the only cost in a Project



Examples of City PPPs and Private Sector Participation

Denver Fast Tracks P3 (Eagle P3 Project)

- Design-build-finance-operation-maintenance (DBFOM).
- The project consists of electrified commuter rail over 36 miles with a total of 15 stations.
- Contract term: 34 years.
- Total capital cost of $2.1 billion.
- Scheduled for opening in 2016.

Source: http://denvertransitpartners.com/

Examples of City PPPs and Private Sector Participation

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New Data Centre, Ministry of Government Services , Ontario, Canada

- Design-build-finance-maintenance (DBFM).
- A new data centre of 230,000 Sq. Ft. to support the information systems of the Government of Ontario.
- Contract term: 32 years.
- Total capital cost of $352 million.
- Completed in 2 years. Opened in 2011.
- Private consortium: Plenary Group.

Source: www.plenarygroup.com

Concluding Remarks

- The main reason is to improve service delivery – that is, to create value for money.
- Narrow view of PPPs as financing mechanism can lead to misconceptions that can severely limit development and infrastructure investment.
- Infrastructure costs have never been limited to borrowing costs.
- PPP projects are possible for cities and can make big time difference if they are well structured.

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THANK YOU!