

# 2013 PUBLIC-PRIVATE PARTNERSHIP TRENDS

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**PUBLIC-PRIVATE PARTNERSHIP  
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It can be a fool's errand to forecast trends. Today's trend is yesterday's routine. As a Latin American economist once explained to me when I asked him about the direction of his country, "go away for two months and return and everything is changed. Go away for two years and return and everything is the same."

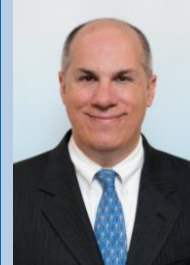
Fully cognizant of the hazards in making predictions, I waded into the forecasting pool. Here for your consideration are some of the emerging public-private partnership (P3) trends for 2013:

## Social Infrastructure

Fifteen to twenty years ago water P3s headlined the partnership market. Pick up a copy of Public Works Financing or Infrastructure Investor from the 1990s and you will likely find the plurality of articles to be focused on water deals. In the new millennium, surface transportation projects came in vogue. Water, roads, bridges (as well as energy) will continue to rule the market; however, we are beginning to see a big move into social infrastructure.

Social infrastructure assets include schools, universities, hospitals, courts, prisons, sports facilities and community housing. What town, county, state, or province does not have a public building that is in need of significant renovation or replacement? Deferred maintenance is the norm in public sector building operations.

There are important P3 social infrastructure projects now under construction or being tendered. The \$490 million Long Beach Courthouse is coming out of the ground in California. New Zealand has selected a developer to build a new prison through a P3, Uruguay is likewise soliciting for the same, and Uganda is in the planning stages for a corrections facility. Ireland, the Philippines and Puerto Rico are delivering schools through public-private partnerships. Yonkers, New York is studying the \$1.7 billion renovation of its schools through a P3 mechanism. P3 developers have submitted qualifications to redevelop New York LaGuardia Airport's central terminal.



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Mr. Buttarazzi recently served as the Chief of Staff for a Member of the U.S. Congress and has held senior executive positions in the real estate industry. He also served as Senior Vice President of the Empire State Development Corporation, New York State's economic development arm, where he simultaneously managed the Privatization, Business Development, and International divisions.

Mr. Buttarazzi received his Bachelor of Science from Washington & Lee University and his Master of Science from the Columbia University Graduate School of Architecture, Planning and Preservation and is a former David Rockefeller Fellow. He has published a number of articles and has made presentations around the world on the subject of PPPs and has instructed foreign officials on setting up a public-private partnership framework.

Grenada is moving forward with a new hospital through a public-private partnership. Kenya is pursuing the development of student housing through a partnership. India, which is accelerating P3s generally, is developing a convention center in Jaipur. The U.S. General Services Administration issued a Request for Information for the P3 development of a new FBI headquarters.

Canada and the United Kingdom have shown the way in this market, but the market is now expanding geographically. Look for more deals in the built market.

## Social Impact Bonds

This is a distant cousin to social infrastructure. Whereas social infrastructure speaks to the bricks and mortar, social impact bonds concentrate on the social service delivery outcomes to be achieved within the walls of the social infrastructure. A Social Impact Bond (SIB) is a contract between a private sector entity and the public sector in which a commitment is made to pay for improved social outcomes that result in public sector savings.

Social innovation financing allows the government to partner with innovative service providers, private philanthropic foundations or other social investors, willing to cover the upfront costs and assume performance risk, to expand promising programs, while assuring that taxpayers will not pay for the programs unless they demonstrate success in achieving the desired outcomes.<sup>1</sup> The expected public sector savings are used as a basis for raising investment for services that improve social outcomes.<sup>2</sup>

Social Impact Bonds are not for coupon clippers. While they operate over a fixed period of time, they do not offer a fixed rate of return. Repayment to investors is contingent upon specified social outcomes being achieved and therefore in terms of investment risk SIBs are more similar to that of an equity investment.<sup>3</sup>

Social Impact Bonds:

- Make more funds available for prevention and early intervention services
- Shift financial risk to the third party investor
- Incentivize investors and servicers to be as effective as possible, because the larger impact they have on the outcome, the larger the repayment they will receive
- Imbed rigorous ongoing evaluation of program impacts into program operations, accelerating the rate of learning about which approaches work and which do not
- Attract new forms of capital to the social, educational and healthcare sectors.

A challenge for SIBs is establishing measurable criteria for success and establishing a fair institutional framework for monitoring the results.

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<sup>1</sup> "Massachusetts First State in the Nation to Announce Initial Successful Bidders for 'Pay for Success' Contracts," Commonwealth of Massachusetts Executive Office for Administration and Finance News release, August 1, 2012.

<sup>2</sup> "Social Finance," [www.socialfinance.org](http://www.socialfinance.org).

<sup>3</sup> Ibid.

If the lifecycle of a trend can be equated to that of a butterfly, SIBs are in the larva stage. The UK launched what is considered to be the first SIB in 2010 to finance a prisoner rehabilitation program. In 2012 Goldman Sachs loaned nearly \$10 million to pay for a new four-year program intended to reduce the rate at which adolescent men incarcerated at Rikers Island reoffend after their release. If the program reduces recidivism by 10 percent, Goldman would be repaid the full \$9.6 million; if recidivism drops more, Goldman could make as much as \$2.1 million in profit; if recidivism does not drop by at least 10 percent, Goldman would lose as much as \$2.4 million.<sup>4</sup> In August 2012, Massachusetts became the first U.S. state to use a competitive procurement process to secure social innovation financing for social services to address chronic homelessness and juvenile recidivism. In November 2012, the Essex County Council in England commissioned a SIB similar to the one in Massachusetts.

SIBs are a trend to watch as they mature from larva into pupa.

## Parking and Lighting

As recently as ten years ago, who was thinking that something as prosaic as parking meters or street lights would be candidates for public-private partnerships?

Public parking deals will become more commonplace. Although the 2008 Chicago parking meter deal has garnered criticism, it nonetheless demonstrates the value to be captured through a public-private partnership. Those quarters sure add up. Lessons learned from Chicago (viz., shorter concession term, exit clauses, fees over the life of the concession, and rate regulation) are paving the way for more successful parking P3s. Indianapolis and Ohio State University have formed P3s for their parking assets. Cities as geographically diverse as Cincinnati, Ohio, Zagreb, Croatia, and Recife, Brazil are pursuing brownfield and greenfield P3 parking deals.

One of the newer sectors is street lighting. Whereas parking meters and garages generate revenue, street lighting is a pure expense. Street lights consume a significant amount of energy and require a considerable amount of maintenance and capital investment. France is currently the leading country in terms of street lighting P3s through availability payments. Approximately 50 street lighting P3 projects have been procured in France since 2005.<sup>5</sup> The UK is not far behind. An operational review of UK street lighting P3 projects found that they are delivering at or above expectations.<sup>6</sup> Look for that experience to be exported to other markets as local officials seek ways to skinny up their budgets.

## United States

Yes, the United States is a trend. When it comes to public-private partnerships, the U.S. has been the land of eternal promise and perpetual disappointment. Pick a year over the last couple of decades, and there has been much talk and hope that P3s would break through in the U.S. market. Unfortunately, the reality has rarely lived up to the hype. That is changing. The new fiscal normal of tighter govern-

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<sup>4</sup> "Goldman to Invest in City Jail Program, Profiting if Recidivism Falls Sharply," David W. Chen, New York Times, August 2, 2012.

<sup>5</sup> "Street Lighting Public-Private Partnerships," Claret Consulting, [www.claretconsult.com](http://www.claretconsult.com), December 2012.

<sup>6</sup> "PFI/PPP Operational Project Review 2006 – Street Lighting Sector," 4ps, 2007.

ment budgets compounded by decaying infrastructure has forced states and localities to explore innovative financing mechanisms.

In many respects, the rest of the world is ahead of the U.S. when it comes to public-private partnerships. The P3 market has matured in Canada, Europe and Australia. On the other hand, the world's largest economy still largely relies on traditional public finance to meet its infrastructure needs and will continue to do so. Nevertheless, 33 of the 50 states have enacted P3 enabling legislation and P3 bills have been introduced in important states such as New York and Maryland. Legislation is in place. What is now needed are the political will and execution to follow through on a growing U.S. P3 pipeline. Moreover, training public sector officials in P3 practices and techniques will remain critical so that they may efficiently analyze the projects proposed and negotiate effectively with more seasoned P3 private developers.

The above list is certainly not exhaustive. Prediction is very difficult; especially if it's about the future. No, that was not uttered by Yogi Berra, but Physics Nobel winner Nils Bohr.

### **About the Public-Private Partnership White Paper Series**

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