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P3s and the Future of Chicagoland's Infrastructure.

Chicago's infrastructure need requires looking to new strategies and financing tools in order to implement crucial public projects that may otherwise fall by the wayside.

At a time when other countries are pouring trillions of dollars into infrastructure development, infrastructure funding in the U.S. and in the Chicago region has been a daunting challenge. Because of the mismatch between need and resources, 71 drivers cross one of the 481 deficient bridges in the Chicago metropolitan region every second. And every week, we lose enough water in northeastern Illinois to fill 1.3 Willis Towers. The need requires looking to new strategies and financing tools in order to implement crucial public projects that may otherwise fall by the wayside.

The Metropolitan Planning Council held a half-day forum on June 3, 2014, in collaboration with Lazard, to hear global investor perspectives on the opportunities and challenges to investing in Chicagoland's current and future infrastructure needs. Panelists from both the private and public sector outlined the benefits of public-private partnership (P3) as a tool to help bridge Chicagoland's current and future infrastructure gap. Mayor Karen Freeman-Wilson of the City of Gary noted the city's P3 pipeline as a means to deliver projects that improve the city's overall budgetary health while building key improvements. However, panelists also highlighted a number of obstacles in the P3 market. One crucial challenge is the communication gap between the investor community, the public sector and the general public. The discussions suggest that intermediary structures like the Chicago Infrastructure Trust may serve as one solution.

The benefits

Infrastructure investment is attractive to many types of investors, ranging from dedicated infrastructure funds to insurance companies. Jonathan Bram, founding partner from Global Infrastructure Partners, described his firm's interest in energy, airport and port investments due to their expertise in operation management and risk mitigation. Jon Anderson from John Hancock Insurance highlighted the value of real and infrastructure assets as a source of stable returns for investment firms. In the most recent recession, John Hancock's asset holdings helped the firm weather the crisis. The diversity of P3 projects and the relative stability of infrastructure investments have the ability to draw many types of investors.

Although the U.S. is known for the relatively cheaper tax-exempt market, the cost of debt via a P3 can still be competitive after factoring in delivery costs, risks and life-cycle costs. Citing London's Gatwick Airport as an example, Global Infrastructure Partners discussed the ability of private managers to reduce project costs over the long run. After investing roughly £1.5 billion pounds into the airport, Global Infrastructure Partners has increased the airport's efficiency from processing 140 people per hour to 350 people per hour. As a result of the faster airport lines, travelers now spend more money at the airport stores. This is one example of how shifting the controls and risks of operation to the private party may make P3s more financially attractive to both parties.

In addition to the source of a competitive funding source, the public sector also values P3s as a source of risk transfer. Lois Scott, the chief financial officer for the City of Chicago, described the rapid changes in demographics and technology and the need for infrastructure to respond. For example, although bike sharing is a recent introduction to Chicago's transportation system, it has changed how people move and live around the city. The future of Chicago's transportation must account for these new changes in flexible ways. The ability to transfer the future of infrastructure needs to the private sector significantly reduces the burden on government and taxpayers.

The challenges

Transparent communications: The primary stakeholders of infrastructure projects, including government, investors and the general public, have varying levels of understanding regarding P3s. The success of a P3 project is predicated on the agreement of all of these parties. There is a need to level the communication field so that investors can better understand political concerns while the general public can better comprehend P3 benefits.

Research and development: Chicago still uses the same asphalt it did 150 years ago to build roads. The dearth of research and development investment for infrastructure materials and structures ignores the opportunity to create an infrastructure system of the future. When resources are solely allocated to maintaining today's infrastructure, the future costs and risks build.

Flexible project design: Many public sector actors bring fully designed projects to market, reducing investor interest and bid competition. The result is higher costs and higher risk of project failure. Skanska estimates that private sector participation during the designing of the project can generate 20 percent in construction savings.

Political will: Strong political will is crucial to facilitating the implementation of a P3 because it signals the willingness of the public sector to work in tandem with the private sector. As a signal of the lack of investor faith in our political system, political risk insurance is available for many nations including Chile and Peru, but is not possible in the U.S.
One solution: Intermediary P3 structures

The challenges listed above create tremendous risk for both the private and public sectors. When a project requires the approval of numerous governmental agencies and the general public, the risks of failure are perhaps too high for a private investor to bid. Meanwhile, the public sector often faces political pressure and seeks a private partner who is aware of the bigger picture and is willing to compromise. Both the private and public parties consider the risks of failure when deciding on a project. A successful intermediary body would help to buffer those risks by serving as a negotiator on behalf of both the private partner and the public partner.

The Chicago Infrastructure Trust was created by Mayor Emanuel in 2012 to help the City and agencies access alternative financing and deliver projects. After reaching financial close with its first PPP project, RetrofitOne, the Trust is building a pipeline of projects ranging from pool renovations to property assessed clean energy projects. The Trust has played the role of an intermediary by interfacing with the general public, city council, the mayor's office, and other stakeholders to advocate for projects. On the other hand, the Trust negotiates with the private sector and provides oversight to capture value and efficiencies. It is a goal of the Trust to eventually become an investor in non-revenue generating projects to further facilitate infrastructure delivery.

Virginia created the Office of Transportation Public-Private Partnerships that negotiates with private investors on one side, and, on the other side, seeks approval from the array of government and community partners ranging from the Department of Transportation to the Virginia Port Authority.

Maryland created a Joint Legislative and Executive Commission on Oversight of Public-Private

Partnerships where the heads of key government agencies are all at the table to discuss P3 projects.

The Government of Canada has institutionalized P3s as an infrastructure tool and has created both federal- and regional-level organizations to facilitate delivery. PPP Canada was created in 2009 under the Minister of Finance to deliver public infrastructure by providing expertise, leveraging incentives and achieving better value through P3s at the national level. PPP Canada has been directly involved as an investor or advisor in over $3 billion worth of P3 projects. Regional bodies like Infrastructure Ontario function similarly at the provincial level. Through these intermediaries, Canada has initiated more than $63 billion of P3 projects with an estimated $9.9 billion in cost savings.

The Metropolitan Planning Council recommends the establishment of regional intermediary bodies to better facilitate, procure and implement P3s in the U.S.

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