[Bond Case Briefs]

Municipal Finance Law Since 1971

[Moody's Predicts Long-Term Increase in Cross-Sector U.S., International P3s.]

An increasing number of U.S. state and local governments are likely to use public-private partnerships, to build both transportation infrastructure projects and courthouse, education, water, waste water and other social infrastructure projects, a major credit rating agency predicted, while noting that this list is not likely to include hospitals.

Unlike the United Kingdom and Canada, whose governments are heavily involved in providing national health care, "[t]he U.S. has a diverse mix of public, private and not-for-profit hospitals that each derive revenue from numerous sources, including a mix of private and public insurance. As such, hospitals will likely remain a small component of the U.S. P3 market," Moody's Investment Services said in a FAQ on P3s it issued Sept. 21.

Some states are using P3s to develop other types of social infrastructure projects, ranging from Kentucky's state-wide broadband installation project and university and college student housing projects across the country to a senior housing development in Joplin, Mo.

P3s are being conducted to an increasing extent throughout the world but how they are financed and structured and the political and economic conditions that shape them vary widely from one country to the next, Moody's pointed out.

The United States has long relied on P3s to help finance transportation projects. However, Canada also differs from its North American cousin in that it provides substantial funding for the many types of P3s during the construction phase.

In France and the UK, Europe's largest P3 markets, the number of partnerships increased significantly in 2014; many were not new projects, however, but consisted of legacy or refinancing deals. This lack of growth in new P3 reflects each of these countries' budget constraints, the public's value-for-money concerns and "Eurostat's developing interpretation of accounting rules that will make it more difficult to treat the associated debt as 'off balance sheet,'" Moody's wrote.

In Latin America, Columbia and Peru are on the forefront of countries that are pursuing these partnerships. Brazil and Mexico, on the other hand, have various projects in the pipeline but many are slow to reach financial close or are delayed or canceled. This trend may reflect lack of expertise in negotiating these agreements or changes in political policies or government priorities, Moody's suggested. These countries are likely to continue to pursue these partnerships to address a lack of public infrastructure funding, however.

Australia is expected to increase the number of P3s it conducts to meet infrastructure gaps and the needs of its growing population, even though availability-based P3s remain on governments' balance sheets and incur more debt than publicly funded projects, the credit rating agency reported.

China, a relative newcomer to this procurement approach, hopes to replace regional and local governments' infrastructure financing vehicles with P3s and by issuing bonds. Partnerships would be used to build many different types of projects, “including transportation, municipal utilities and social infrastructure,” Moody’s wrote.

The central government hopes this procurement model will improve project and local government management practices, spur local public finance reform and reduce local government debt. China’s finance ministry has announced 30 P3s and the government has set up a database containing 1,043 projects that would require investment of almost 2 trillion renminbi ($300 billion).

Moody’s believes that the United States could become the largest P3 market in the world, Governing magazine reported.

NCPPP

By Editor

September 24, 2015