

Cautious optimism for US P3 deal flow

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The US could seem a natural bedfellow for the successful completion of PPPs. There is a healthy pipeline in some States, but volatility is always possible - and the country is yet to fully mature as a market, although many now have grounds for optimism.

Joseph Aiello, Director of Business Development North America for Meridiam, told inspiratia, “We were concerned about deal flow earlier in the year when a number fell apart, but then it rebounded. All in all, we now feel much better about it.”

One aspect that certainly encourages major players to participate more in projects is the support of the federal government - and there have been welcome noises to that effect very recently.

Anthony Foxx, US Secretary of Transportation, wrote in September on his department’s official blog of the “tremendous need to build new transportation infrastructure and to upgrade the infrastructure that was built by previous generations.”

Foxx added that the Government’s work to improve the environment for PPPs will be crucial in this respect. In the same month, the launch of the Build America Transportation Investment Center (BATIC) by the US Department of Transportation is a tangible sign of the Obama administration’s political will to open up infrastructure to private investment [\[News Story\]](#).

The creation of the new body, which advises cities, states and project sponsors, aims to speed up the time taken for transport PPPs to reach financial close.

BATIC has already started consulting on the [Port Newark Container Terminal](#) expansion project, in New Jersey. The project will double its cargo handling capacity over 15 years, through a \$500m (£329.2m €445.5m) investment.

Infrastructure gap

The US infrastructure deficit has been a hotly debated policy issue for quite a while, and public-private partnerships have often been advocated as a possible solution.

In the last century, the country has experienced two waves of infrastructure spending. The first was a reaction to the Great Depression, while the second took place in the two decades after the Second World War.

But in recent years the resources allocated have been declining, and stakeholders often argued that there is a critical need for new investment, currently not met at federal and state level.

Not surprisingly, tapping private capital for infrastructure upgrades is increasingly seen as a very reasonable choice.

Public-private partnerships (P3s) are nothing new in the US. However, despite the huge potential, they have been lagging behind, especially in comparison with Europe and neighbouring Canada.

P3s in the US

During the last decade, the very nature of P3s in the US changed radically, leading to a shift from brownfield to greenfield projects.

According to a study published in June 2015 by Harvard University’s Kennedy School of Government, out of 48 transactions announced between 2005 and 2014, 40 reached financial close, amounting to \$39 billion (£25bn €34bn).

Texas and Florida have led the charge, having had the most success with P3s in recent years. dataLive has tracked the financial close of six P3 projects since 2008 for both states, with a respective deal

volume of \$6.8 billion (£4.4bn €6bn) and \$4.5 billion (£2.9bn €4bn).

Before the financial crisis of 2007 and 2008, public-private partnerships in the US mainly involved long-term leases of existing assets.

The recession represented a watershed and, in its aftermath, the development of new infrastructure prevailed and the use of availability payments increased.

At the same time, each four-year presidential electoral cycle heralds a set time of stability and can result in peaks and troughs in deal flow.

When the uncertainty of political direction is introduced into the mix, it can prove problematic in getting longer-term projects off the ground. Successful public-private partnerships in the US have mainly been concentrated in the highways sector. In the infrastructure P3 projects that dataLive has tracked since 2008, nearly 50% of them were road projects, and well over that if other types of roadworks are included, such as bridges and tunnels.

While military housing is one the longest standing sector in the US for PPPs [News Story], there are signs that public-private partnerships are also growing in social infrastructure, water and airports.

Outlook

“The US has the potential to become the largest P3 market in the world, given the sheer size of its infrastructure,” stated in September 2014 a report published by Moody’s Investors Service.

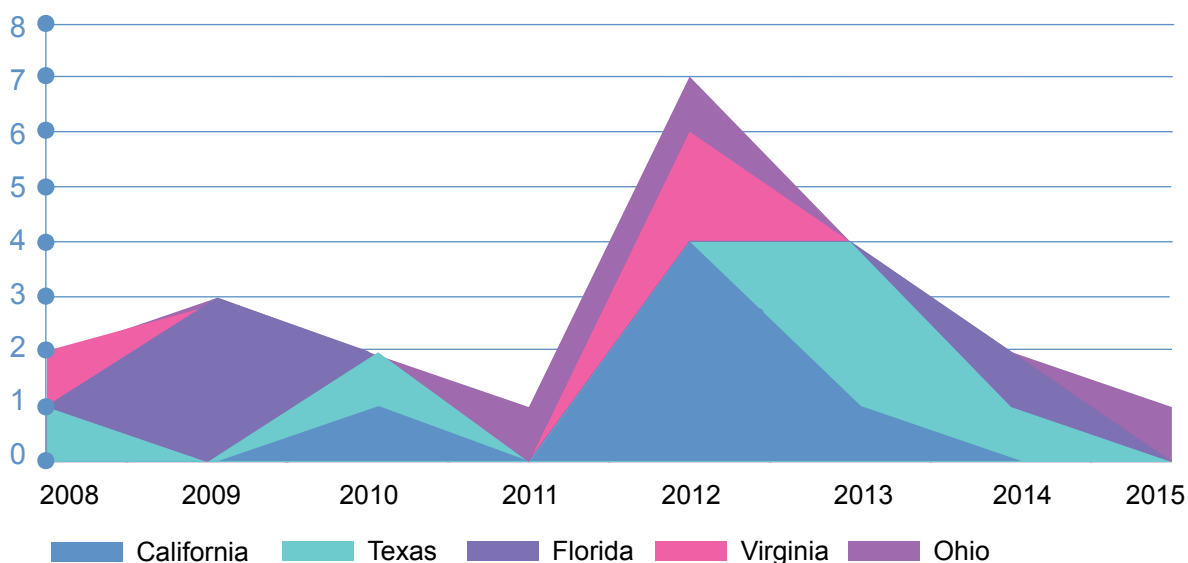
One year on, despite the expectations that public-private partnerships will be promoted to address the US infrastructure gap, this potential is still largely untapped.

“In the long-term, there is a bright future for the PPP approach, both because of fiscal limitations to spending programs and benefits of the delivery model”, said Jonathan Gifford, Professor and Director of the Center for Transportation Public-Private Partnership Policy at George Mason University.

However, there are still barriers to entry, since the US market is rather fragmented – most assets are owned by states and localities, and decisions are taken at state level, he added. There are states that are very dynamic, like Texas, Florida, California and Virginia, and moderately active ones, such as Colorado and Maryland.

The biggest pipelines are indeed coming out of the most mature markets. Florida, as evident from

Figure 1: Greenfield P3 financial closes in top 5 US states, 2008 – 2015



Source: Inspiratia | dataLive

Figure 2 below, has over twenty projects in early stages of procurement and an additional four deals gaining momentum. In particular, Miami-Dade County in Florida has taken several steps forward in recent months.

The county held a P3 industry conference at the end of September after identifying 51 potential P3 projects in an August memo across the transport sector as well as waste treatment.

In the same month, Miami-Dade County approved a memorandum of understanding for the development of a [new cruise terminal](#), with a \$100 million (£65m €89m) DBFOM scheme [\[News Story\]](#).

In Texas, the Department of Transportation and Flatiron/Dragados just signed an agreement for the replacement of the [Harbor Bridge](#), a \$800 million (£527m €713m) DBFM scheme [\[News Story\]](#).

But there are also encouraging signs from Colorado, where the Department of Transportation recently started the RFP process for the DBFOM of the \$1.8 billion (£1.17bn, €1.61bn) [I-70 East project](#) [\[News Story\]](#), and Georgia, where bidders submitted final proposals for the [I-285/SR 400 improvements](#) [\[News Story\]](#).

Overall, despite considerable activity and some major projects in the last few years, the market is still relatively small and PPPs involve only a fraction of the total asset delivery in the US, said Professor Gifford.

However, he says, there is an increasing interest in the US PPP market, especially from asset owners and infrastructure developers.

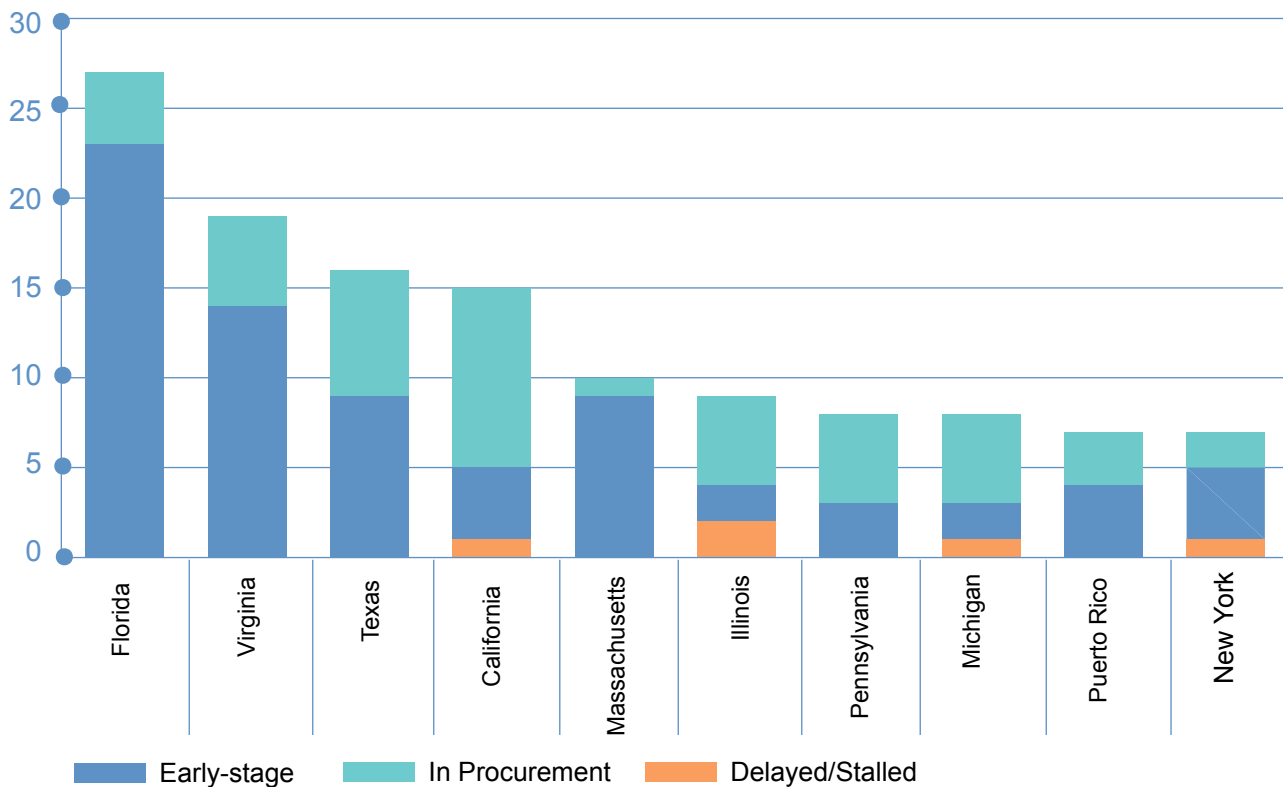
In brief, while it is undeniable that the PPP market is not yet in full swing in the US, inspiratia expects the market to grow.

Federal funds are not sufficient to bridge the country's infrastructure gap, and the US government is likely to support the role of private investment.

In particular, PPP activity is set to increase in the most dynamic states and localities. It will not be limited to transportation, but will increasingly include new sectors, such as social infrastructure, and water treatment projects.

However, in the short-term - as the 2016 general elections are approaching - inspiratia does not expect any major transformation of the PPP landscape at the federal level.

Figure 2: Pipeline P3 Projects



Source: Inspiratia | [dataLive](#)

Relevant schemes in procurement

Project Name	Stage	State	Sector	Value (USD \$ m)	Next Stage
I-70 East	RFP	Colorado	Roads	1,800	PB – Nov 2016
Long Beach Civic Centre	Shortlist	California	Justice	358	FC – Dec 2016
Purple Line	RFP	Maryland	Metro	868	Bid Submission – Nov 2015
Highway 288	PB	Texas	Roads	800	FC – Nov 2015
I-66 Improvement	RFQ	Virginia	Roads	2,100	Shortlist – Dec 2015
I-285/SR 400 Upgrade	BAFO	Georgia	Roads	1,000	PB – Dec 2015

Potential opportunities

Project Name	Stage	State	Sector	Value (USD \$ m)
Miami-Dade Justice Complex	Advisers Sought	Florida	Justice	1,800
Dallas-Houston HSR	Studies	Texas	Rail	10,000
South Miami Heights Water Treatment	Studies	Florida	Water	150
San Antonio Water Pipeline	Approved	Texas	Water	3,400
PortMiami Expansion	Announced	Florida	Port	100