



PPP's

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1. PPPs involve the "sale" of roads to private interests
2. Private toll road operators can charge unlimited tolls in PPP deals
3. Government loses control of public assets in PPP deals
4. The timing is bad for infrastructure investment, given the sluggish post-recession economic conditions
5. PPP deals include "non-compete clauses" that prevent state and local officials from building nearby, competing roads
6. PPPs involve selling our roads to foreign companies
7. Governments give private companies the authority to take private property through eminent domain in transportation PPP deals.
8. Government ends up holding the bag if a PPP project goes bankrupt and fails
9. PPPs should be avoided because they commit future generations when policymakers today cannot predict what the needs will be
10. A backlash after the Indiana Toll Road lease prompted Indiana policymakers to reject more PPPs

Fine list, but missing the two basic and important misconceptions:

- a. Rationale for private involvement
- b. The business model of a concession



what is the rationale for the
private sector involvement in the
provision of public infrastructure
services?

“governments are increasingly turning to the private sector as an alternative additional source of funding to meet the funding gap”

World Bank

<http://pppirc.worldbank.org/public-private-partnership/overview/ppp-objectives>

►► EFFICIENCY: PPP delivers sooner, better, cheaper infrastructure

►► Why? INCENTIVES

- To win a contract and yet be profitable private sector needs to bring all the efficiencies:
 - ▶ innovation.
 - ▶ “life-cycle” costing.
 - ▶ synergies derived from the integration of activities: design, construction, finance, operation, toll revenue.

►► PPPs bring discipline and rationality to the political decision process

- Usually, only PPP projects solving real problems are feasible.

►► Not the way Governments usually present PPPs...

- An alternative source of financing infrastructure.
- A supplementary role: A necessary evil.

different types of private sector
involvement



Delivery Model	Private Sector Driver	Public Sector Risk
Design, Bid, Build		
Design & Build		
Availability Payment: Design, Build, Finance, Operate		
Revenue Risk Transfer: Design, Build, Finance, Operate, Toll		

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Integration efficiency

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Public Sector Risk

Private value creation potential

P3s encourage a healthier alignment of interests resulting in a more efficient delivery of infrastructure.

1. Integrating all activities through the life of an asset under a single point of responsibility.
 - holistic approach to design, construction, finance, and operation and maintenance, to achieve their most effective combination
 - benefit of a combined expertise on each one of them which is seldom found when firms have a more narrow expertise or outlook.
2. Developing projects with a lifespan perspective
 - taking into consideration at an early stage life-cycle and asset management cost optimization concerns;
3. Transferring risks that can be better handled by the private sector
 - The economic value of the risks the Public Sector retains is a key element of any comparison between delivery options
4. Better aligning private sector interests with those of the Public Owner by making private developer returns dependent on the successful achievement of the project ultimate purpose.



30 km

Greater Toronto Area

40 km

60 km

407 ETR SPANS 108 KM ACROSS THE TOP OF THE GTA

1999

- » 21 workstations
- » 21 telephone lines
- » Long wait time
- » 1,400 sq. ft. call centre
- » Legacy computer system
- » Telephone only service channel
- » 237,000 avg. workday trips
- » 300,000 transponders issued
- » Inherited roadside/back office equipment
- » No front counter monitoring or metrics
- » No Escalations or Business Units

2010

- » 174 workstations
- » 640 telephone lines
- » <30 sec. wait since 2003
- » 13,800 sq. ft. call centre
- » \$50M new billing system
- » Online, IVR, email, epost, etc.
- » 382,000 avg. workday trips
- » Over 1,000,000 transponders issued
- » \$60M in new projects to upgrade and improve customer service
- » Detailed front counter/CSR monitoring
- » Customer Advocacy Group, Business Accounts Unit, Ombudsman

Call Center Performance Measures by Industry Segment Q3 2014

Inbound call center service level statistics on an average day	Average Speed of Answer (secs)	Average Handle Time (mins)	Average after call time (mins)	Average abandoned (%)	First Call Resolution (%)	Cost per call based on I/B & IVR	Customer Satisfaction (%)	# Call Centers per Industry
407 ETR	19.33 ↑	6.58 ↑	1.31 ↑	0.90% ↑	85.00% ↓	\$4.40 ↓	84.00% ↑	-
407 ETR Ranking (Compared to all Industries)	1	5	6	1	4	1	1	-
Transportation Public Transportation, Rail, Toll Road, Trucking	33.93	5.85	1.71	4.30%	90.64% ⁽¹⁾	\$5.22	43.14%	164
Banking & Finance Banking, Mortgage, Brokerage, Credit Card	34.75	5.02	1.09	4.98%	86.34%	\$5.62	68.68%	942
Information Technology Computer Software, Computer Hardware	54.28	8.50	1.67	6.80%	82.07%	\$12.81	66.20%	521
Healthcare / Pharmaceutical Healthcare Provider, Pharmaceuticals	30.96	7.43	2.70	5.32%	73.54%	\$9.84	71.10%	634
Insurance Health, Life, Property, Casualty	30.95	6.80	1.27	3.30%	88.02%	\$5.54	67.43%	719
Telecom Cable, Broadband, Satellite, Voice Internet Service, Wireless	30.53	6.67	0.88	5.23%	78.63%	\$5.06	65.16%	454
Utilities Gas, Electric, Fuel Oil	59.58	5.11	1.10	6.03%	81.66%	\$5.88	57.11%	189
Toll Road Operators	25.54	4.64 ⁽¹⁾	0.6 ⁽¹⁾	4.00%	74.31%	\$4.52	66.57%	98
Average for All Industries	35.58	6.38	1.61	5.01%	82.04%	\$7.50	61.40%	427

3,443 North American call centres participated in the study. Data spans a 24 month rolling period from 2010 to 2012. 407 ETR's data is for current period.

A specialized segment has been developed that allows us to benchmark 407 ETR against 'Toll Road Operators'. This group is also included in the Transportation segment.

↓ Down from last quarter

↑ Up from last quarter

↔ No Change from last quarter

Would this performance be achieved with prescriptive requirements?
Would it be achieved with performance based requirements?

July 8th 2013 Floods in Toronto



Image: Highway 427

Traffic on 407ETR that same day?

6% higher than same day previous year

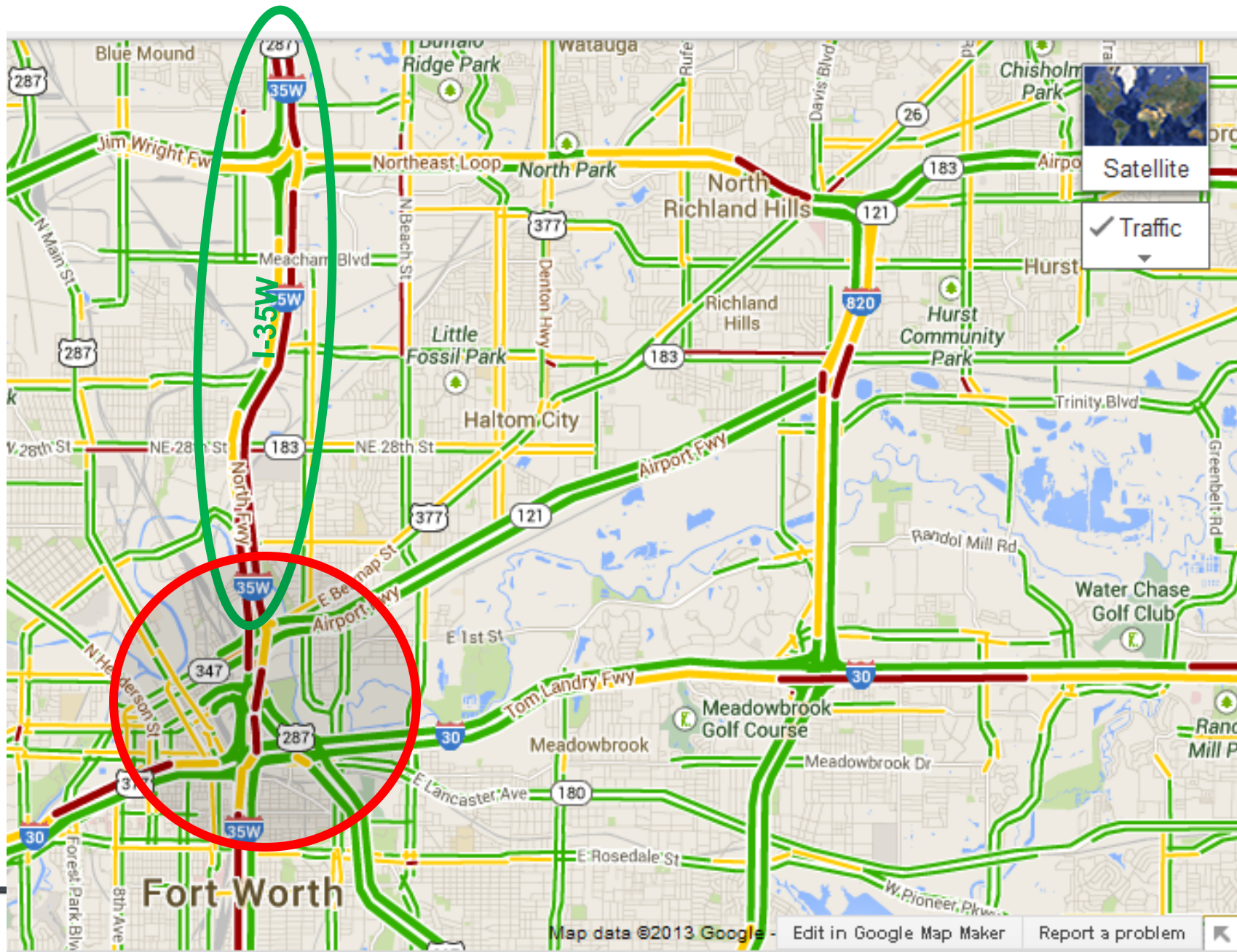
“Battles are won by slaughter and maneuver.

The greater the general, the more he contributes in maneuver, the less he demands in slaughter“

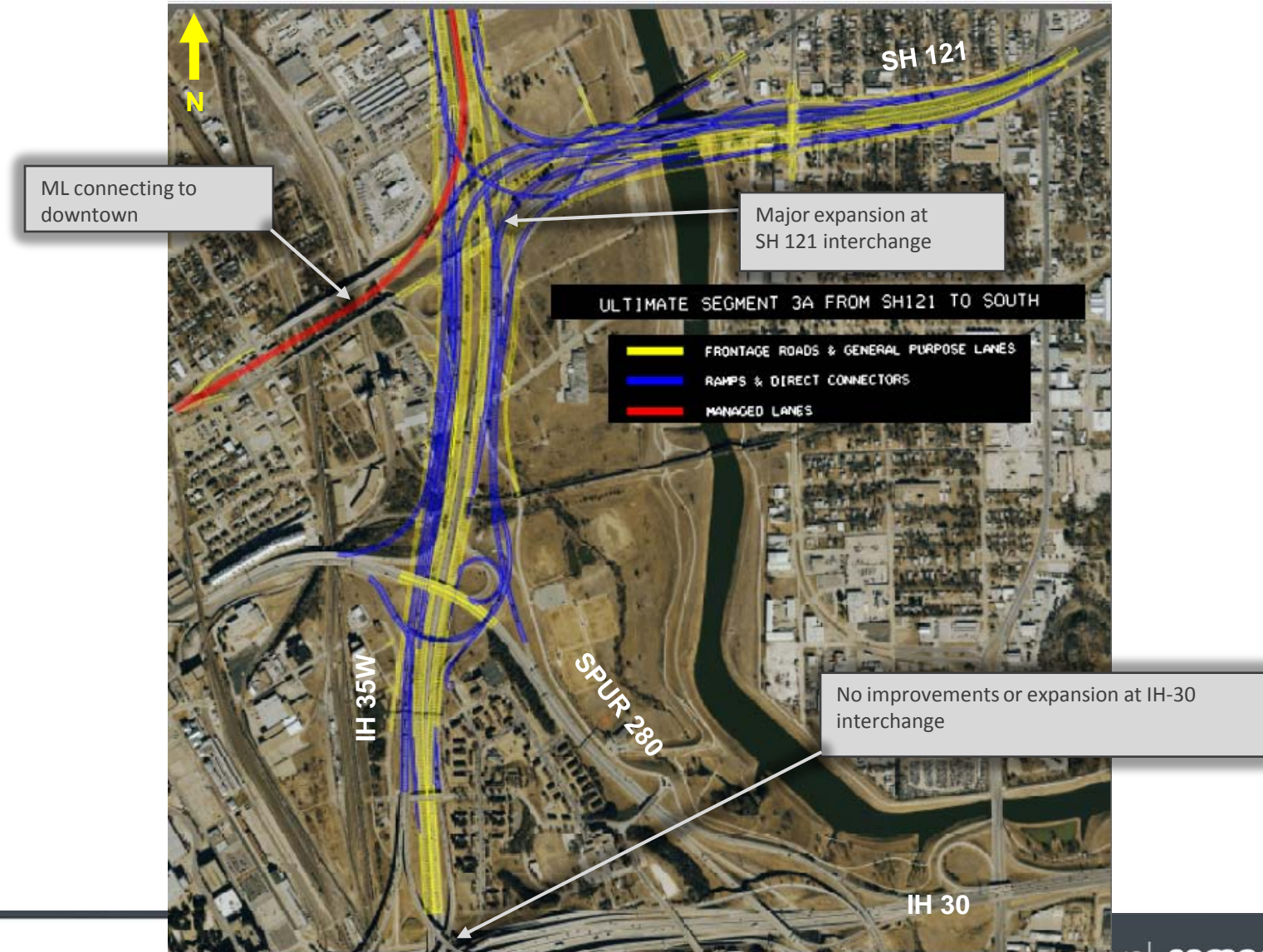
Winston Churchill



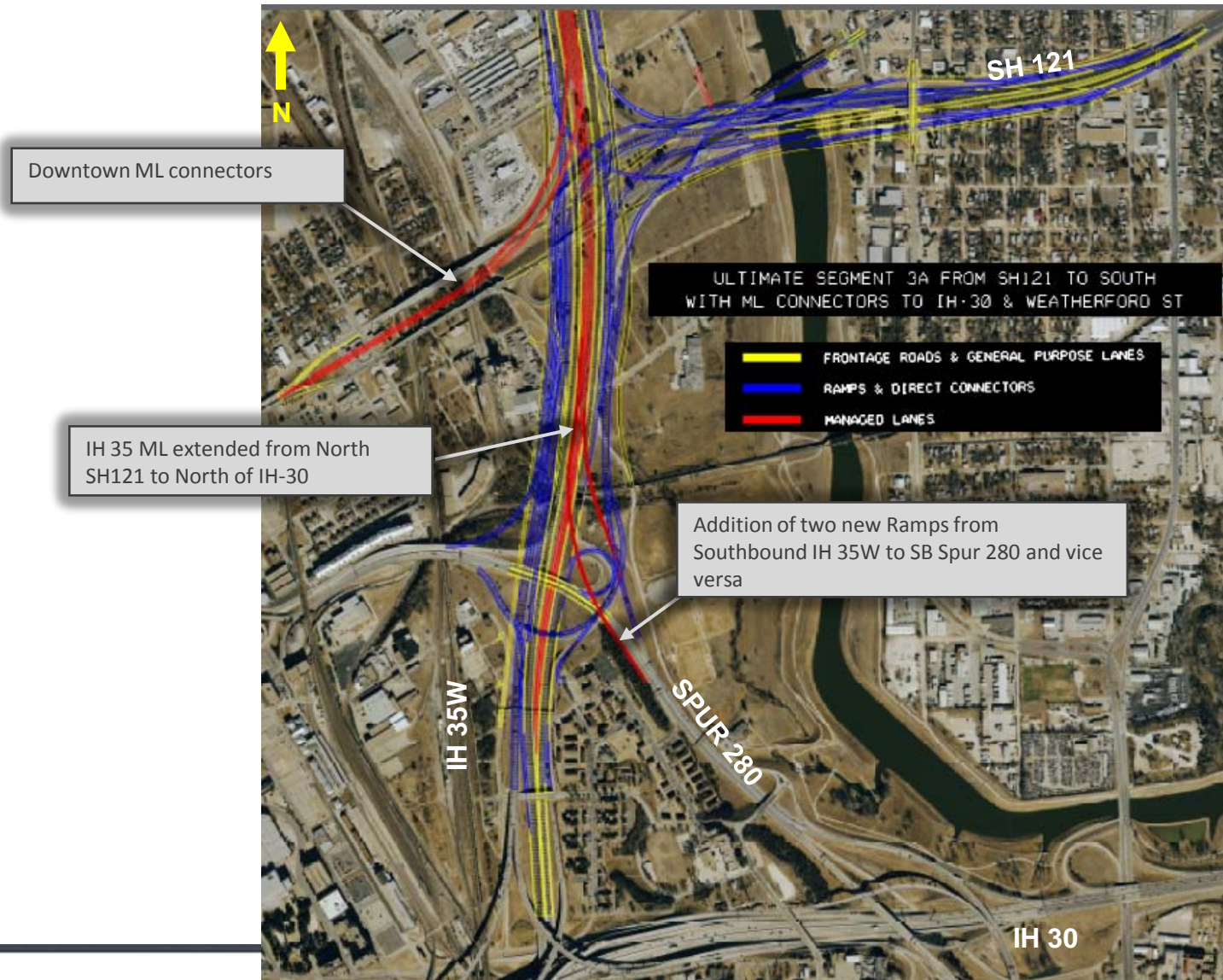




Segment 3A – Current Schematics

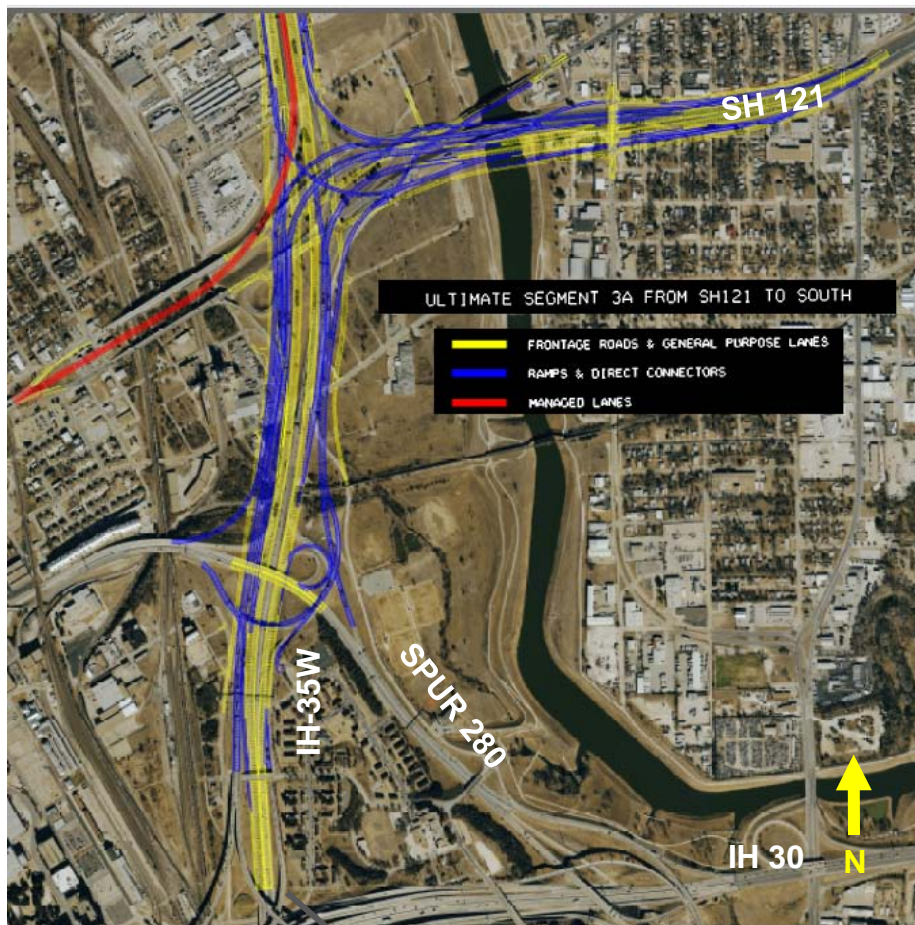


Segment 3A – Improvements (southern end)



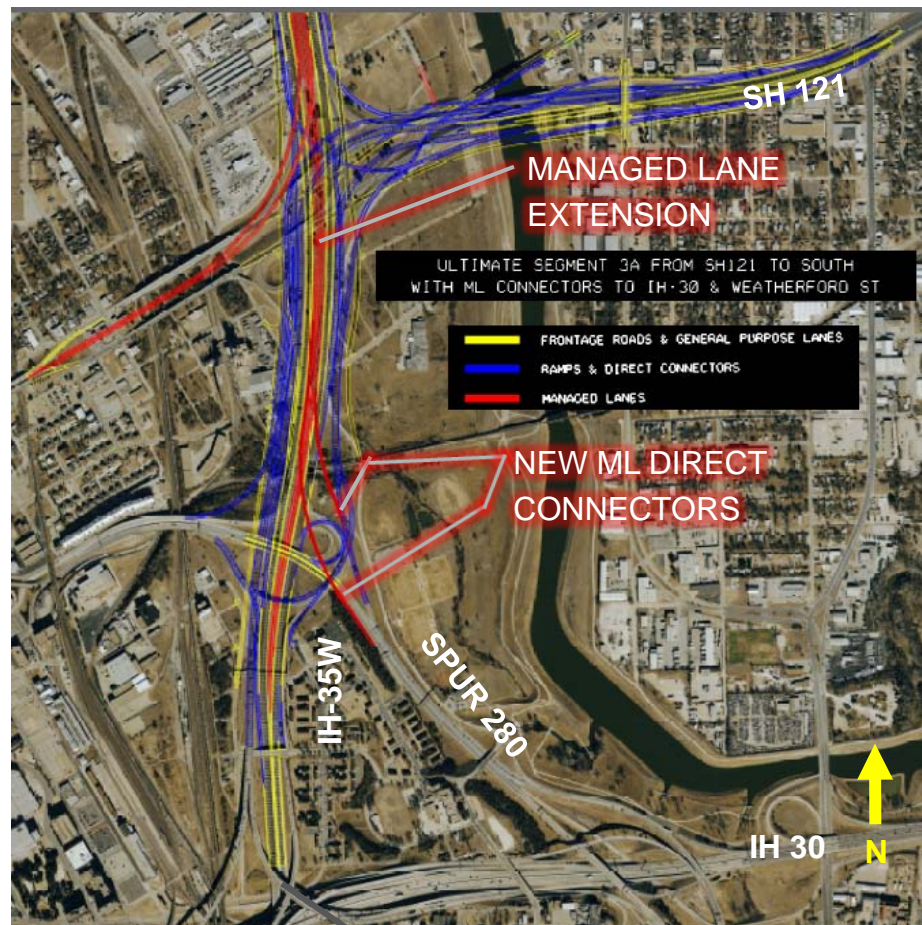
Segment 3A – Current vs. Proposed

Present Concept



Project Termini

Proposed Improvement



Project Termini

I-35W Connectivity Improvements

	Subsidy	Opening Year
Current Schematics	+ \$100 millions	2018
Connectivity Improvements	- \$50 millions	2017

This initiative increased construction investment by ca. \$100 m
and toll revenue NPV by ca. \$250 m

- ❑ Necessity is the mother of Invention
 - Without this improvement, the project would not have proceed
- ❑ Would this improvement have been achieved under another delivery method?



Which is the business model of a
concession?

- ▶ Financially, a concession can be represented as a string of cash flows that reflect annual monetary values of contractual rights (net of obligations).
- ▶ At the initial moment of the life of the concession, the Internal Rate of Return (IRR) of these expected cash flows is a measure of the expected reward of the sponsors.
 - ▶ If the concession is tendered under perfect competition, this expected IRR is also the cost of capital of the project.
 - ▶ The premium (over the Risk-Free Rate, RFR) of this IRR reflects the risks of the project undertaken by the sponsor.

Common understanding:

Developers make money by getting right in expectations:

- » revenue,
- » operating expenses (opex),
- » capital expenditure (capex)

1. The “Gun marriage” Investor - *Contractors*

- » Looking for the in-law’s money: collateral business
- » Investing is the price to pay to get to the party

2. The “Opportunistic” Investor – *Investment Funds with finance focus*

- » Required complement to the “Gun marriage” investor
- » I have money, you have a need, I see business
- » Limited horizon

3. The “Boring long term” Investor – *Pension Funds*

- » Looking for long term, predictable cash-flows with recurrent yields

4. The “Value Creation” Investor – *Infrastructure Developers*

- » Investing to create value in the investment



Thanks

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