

**Q&A with Richard Little**  
**Public-Private Partnerships Webinar**  
**August 27, 2009**

**Q: In the interest of transparency, how will the public be made aware of upcoming PPP's?**

A: This will vary by jurisdiction but in those communities where PPPs have been supported by the public (as opposed to merely being implemented) there has been a good deal of outreach prior to execution of the contract. Although there is often proprietary information of the proposers that cannot be released during negotiations, the objectives of the procurement, the results of a Value for Money (VfM) analysis, impacts on the users of a facility or service, and the reasons for choosing the successful bidder should be shared throughout the process. Once the concept of PPPs takes root in the U.S., every major procurement should be considered a potential PPP subject to the factors just stated.

**Q: How long did I-595 in Florida take from inception to fruition?**

A: The timeline for the project is shown below. Given that there was a good deal of up-front work that needed to be done prior to the issuance of the RFQ, the deal probably took 2-2½ years. If we want to make greater use of PPP, we'll need to find a way to compress the process without sacrificing the level of planning, analysis, or outreach.

- October 1, 2007 – Issued Request for Qualifications (RFQ) to interested proposers
- December 3, 2007 – Shortlist of concessionaire teams (4 teams total)
- December 11, 2007 – Issued Draft Request for Proposals (RFP) to shortlisted teams
- April 18, 2008 – Issued Final RFP
- September 5, 2008 – Received technical and financial proposals from shortlisted teams
- October 24, 2008 – Issued Notice of Intent to Award contract to ACS Infrastructure Development (ACSID)
- March 3, 2009 – Contract Execution

**Q: How do we grade PPP's for risk quality?**

A: Part of the PPP analysis is the development of a risk register to first identify the risks and then to develop a plan to manage them. Each risk identified is assigned a likelihood of occurrence, its probable impact on the project, and who is best able to manage it. In this way, a risk management plan is developed and an overall assessment of the risk of a successful procurement can be made. Ultimately, the public and private partners will need to agree on who will be

responsible for managing a particular risk and if it is the private sector's responsibility, how much they will be compensated for assuming it.

**Q: In the example of a toll road that the private sector made possible, when the tolls achieve the total cost of the project does the toll go away?**

A: If there was a transfer clause at the end of the concession period, the public entity could theoretically eliminate the toll. However, there would still need to be a revenue source for operations, maintenance, and repair. In light of the poor state of most transportation budgets, it's unlikely that this funding would be available from general transportation revenues. So, I don't believe that tolls, once imposed, will ever go away. I also believe that in light of the general opposition to traditional transportation funding sources such as the gas tax that tolls are a much more equitable way of funding the system.

**Q: Are we past the Atlanta/Milwaukee PPP issues or is that hurdle one that will need to be addressed in order to move forward with the public sector?**

A: If this question refers to the privatizations of the water systems in these cities, I believe that most people who have looked at this agree that they were not well conceived at the outset and that there was a lack of clarity on objectives, risk, and cost impacts on the users. At the same time, the community was not brought in early to participate in the development of a solution to a problem that it perceived and agreed with. The answers to questions 1 and 3 above certainly apply here.

**Q: Do you think ARRA funding should support efforts that create greater opportunities for public private partnerships?**

A: Infrastructure funding included in the American Recovery and Reinvestment Act was intended to get funds flowing quickly and as we've seen in the U.S., PPP are not a quick solution. Having said that, I certainly think that ARRA funding should not preclude or hinder the use of PPPs on projects where they make sense. In the same vein, if ARRA funds could be used to leverage private funding through a PPP, then it should certainly be explored.

**Q: What are some of the lowest returns on investment that private companies find acceptable for large investments (several million dollars)?**

A: In the Project Finance model, there are returns both to the equity investors and the commercial lenders. Commercial interest rates are subject to numerous factors and the current liquidity climate has pushed these rates over 10% and shortened the lending period. As financial markets continue to stabilize, interest rates will probably decrease somewhat but the potential for inflation-driven interest rate increases certainly exists. For equity investors, returns in the low teens have been considered acceptable but this will vary given the nature of the

project and the level of risk involved. For example, the I-595 project is reasonably straightforward and while certainly not risk-free, has risks that are readily identified and managed. A new tunnel project on the other hand brings up all sorts of unknowns with geology, construction, and usage. Both the equity investors and commercial lenders will factor these risks into their expectations for returns.

**Q: What is the additional cost to users when Project Finance is used for PPPs?**

A: Some proponents of PPP will tell you there need not be any difference in user cost (and costs could be less (although they never seem to be)) due to the advantage held by the private sector in innovation and productivity. I find this view overly optimistic. That being said, the DB contracts used in project finance arrangements tend to be less forgiving to the contractor so delay for its own sake occurs less frequently and DB projects tend to save more time than money over DBB but time is money. Obviously, a project financing using commercial credit should have higher carry costs than tax-free debt which also suggests higher fees. Contract vs. public labor can be a major issue particularly where the public sector has high life cycle costs due to defined benefit public pensions and other long-term commitments which the private sector typically won't. At the end of the day, this is where an honest and objective Value for Money analysis is critical because you need to look at all the factors simultaneously to see what are the assumptions and how realistic they are.

**Q: I noticed that in the stakeholder slide, the public is portrayed as just "wanting good reliable service and a fair price." What happened to the human need among US citizens to participate in government?**

That slide had less to do with how people view governance and government than their expectations for when they turn the tap, flip a switch, or pull onto the highway. Without shortchanging the issues in this question regarding citizenship and all that entails, I truly don't believe that people really care all that much how their school buildings were procured, or by whom or how the trash is picked up or their water collected, treated, and delivered to their homes. I do think they care very deeply whether the school buildings will stand for 40 or 50 years, that the trash is picked up and disposed of properly, and that they do, in fact, have safe reliable water and all these items are delivered at what they consider a reasonable price. There are many issues at play in local governance but from the standpoint of how services are delivered, I believe that on the whole, people have rather straightforward and uncomplicated expectations. Problems arise when elected officials take actions that don't stand up to a simple "Why did you do this rather than that?" test.