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Improve Service Delivery: The Role of Private Sector

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The Role of CITIES
in a Global Economy

What is the reason for PPPs?



"The main reason is to improve service delivery – that is, to create value for money compared to the case where a government delivers the service (i.e. the case for traditional public procurement)".

OECD*

Advantages and Disadvantages



Government Financing

Municipal bonds

Revenue bonds

Advantages

- Implicit Government guarantee:
 - lowers the cost of borrowing
 - taxpayers assume the risks of the project

Disadvantages

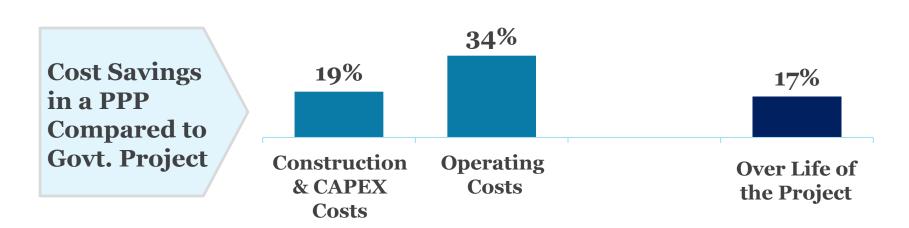
- High existing leverage
- "Lower capital costs" argument ignores the "pricing of project risks"
- Additional refinancing consumes credit, thus increasing borrowing cost.
 - Government's ability to borrow at "low rates" is not unlimited.

PPPs come ahead when normalized for project risks



Assume a typical Government project of \$100 million:

- 5% construction overrun and 6-month delay:
 - then, 0.8% 1.0% will have to be added to cost of capital.
- 5% operating costs overrun*:
 - then, a minimum of 0.6% will have to be added to cost of capital.



Source: Macquarie Capital.

^{*} It is assumed that the hypothetical project requires \$10 million in operating and maintenance costs.

Government financed but what about service delivery?





Costa Sur PREPA Plants

- Financed with PREPA bonds (tax-exempt)
- Only 2 of the 6 units operate (66% out of service).
- Efficiency much lower than EcoElectrica (privately managed).
- Not friendly to the environment.

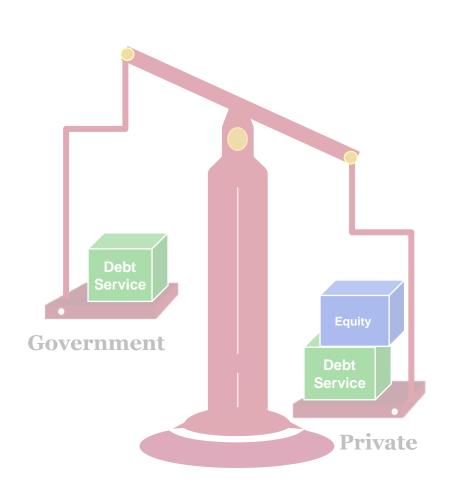


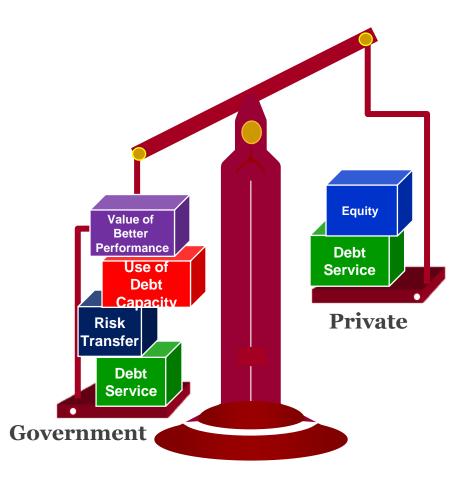
Terminal A - SJU Airport

- Financed with PFCs funds and followed a public procurement process.
- Took more than 7 years to put into operations.
- Costs overruns and significant time delays in construction.

Cost of financing is not the only cost in a Project



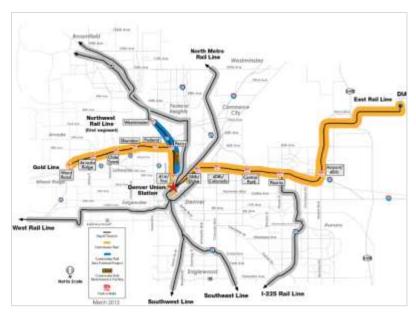




Examples of City PPPs and Private Sector Participation







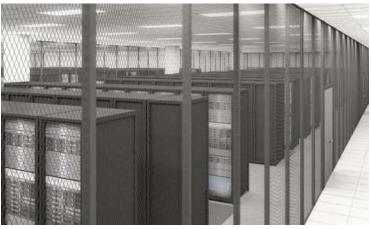
Denver Fast Tracks P3 (Eagle P3 Project)

- Design-build-finance-operation-maintenance (DBFOM).
- The project consists of electrified commuter rail over 36 miles with a total of 15 stations.
- Contract term: 34 years.
- Total capital cost of \$2.1 billion.
- Scheduled for opening in 2016.

Examples of City PPPs and Private Sector Participation







New Data Centre, Ministry of Government Services, Ontario, Canada

- Design-build-finance-maintenance (DBFM).
- A new data centre of 230,000 Sq. Ft. to support the information systems of the Government of Ontario.
- Contract term: 32 years.
- Total capital cost of \$352 million.
- Completed in 2 years. Opened in 2011.
- Private consortium: Plenary Group.

Concluding Remarks



- The main reason is to improve service delivery that is, to create value for money.
- Narrow view of PPPs as financing mechanism can lead to misconceptions that can severely limit development and infrastructure investment.
- Infrastructure costs have never been limited to borrowing costs.
- PPP projects are possible for cities and can make big time difference if they are well structured.



THANK YOU! LHANK AON!