MILKEN INSTITUTE

The Power of Ideas

2017 | Insights for Building Meaningful Lives

Douglas L. Peterson

President & CEO, S&P Global

Public-Private Partnerships: The Essential Actors

> "There are numerous benefits of partnering with the private sector, including sharing risks and lowering taxpayer costs."

This year's Milken Institute Global Conference theme—Building Meaningful Lives—has never been more relevant, and more possible. In today's environment of increasing technological disruption, policymakers and business leaders have a unique opportunity to come together and address the country's issues that were so clearly highlighted during this past election.

As every American aims to realize a meaningful life, policymakers might agree on two principles: develop policy prescriptions that are sustainable by practicing long-term thinking focused on adaptability; and increase the quality of everyday life through innovation.

Collectively, these two principles make up the major components of the formula to deliver an inclusive, growing economy. And central to that conversation is investment in America's infrastructure.

How then can we put these principles into practice in revitalizing and developing America's infrastructure?

Partnering with the private sector brings an effective approach on both counts. There are numerous benefits of partnering with the private sector, including sharing risks and lowering taxpayer costs.

Long-term public-private partnerships (P3s) help ensure that incentives are aligned with better design and materials, and lower life-cycle costs. Through these partnerships, assets are maintained and the taxpayer no longer carries mounting long-term liabilities of unfunded maintenance or the full risk of repairs. The results are more sustainable, higher quality, and less expensive infrastructure—Long Beach Court House, the Detroit Metro Region Freeway Lighting project and the Port Miami Tunnel—all financed in part through private capital and all projected to achieve greater value at a lesser cost to the taxpayer than the traditional approach.

Engaging the private sector also allows for sharing the risks that can come when technological disruption changes community needs

Douglas L. Peterson

or the way infrastructure is used—for instance, around autonomous vehicles, digitally enabled transportation, or even drone delivery.

The private sector is experienced in adopting new technology and applying it in ways to improve our everyday lives and meet consumer demands. These partnerships will be the essential actor to truly ensure our infrastructure will keep pace as technology continues to modernize our lives at an accelerated pace.

It is therefore critical that government continues to involve and incentivize private partners to tap new technologies for infrastructure like E-Z Pass, variable rate tolling, advanced materials and manufacturing, smart energy grids and water metering, or still others on the horizon.

Importantly, private-sector innovation goes beyond the latest technology to make significant contributions in project design. This can mean identifying new sources of revenue as we have seen with airports cum shopping malls, neighboring property development, advertising placement, and other methods of capturing an asset's full economic value. Or, it can mean extending current revenue further by way of reducing costs as we have seen with various achievements in energy and water efficient designs.

S&P Global has outlined an exciting innovation to infrastructure delivery in a recent report on the "bundling" of smaller infrastructure projects. Bundling is not a new concept. However, a lot of new benefits are being realized with bundling in P3s across several asset classes.

The Pennsylvania Rapid Bridge Replacement Project is a great example—a P3 that will replace 558 structurally deficient bridges across the state for 20 percent less and in three years instead of 12. The efficiencies of scale and of the private sector are accomplishing more at less cost, while addressing a significant safety concern, and limiting the disruption to people's lives.

Significantly, the bundling of these bridge projects allowed for the practical needs of a diverse group of stakeholders in large and small communities across Pennsylvania. Drivers, businesses, taxpayers, state and local government officials, and construction workers are able to partner with contractors, equipment and materials suppliers, and the institutional (equity and debt) investors that are increasingly interested in these types of investments. Periodic payments conditioned on the private sector meeting its responsibility to maintain these assets over 25 years ensures incentives remain aligned, and that this partnership is built for the long term.

Whether through focusing attention on the costs and benefits of thinking long-term, or through injecting innovations into technology and the approach, partnering with the private sector can lead to more sustainable and modern infrastructure and a meaningful impact on all of our communities.