

Current Global PPP

– Public Private Partnership Updates and the Global PPP Organizations –

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I Brief History of PPP in the world

United States of America

The PPP I describe in this paper is relatively new PPP movement after 1990's. There were many PPP projects in the US in the past such as intercontinental railroad development, canal development in Pennsylvania and others.

Intercontinental railroad development was for the US government to work with private industries to encourage railroad development to the western part of US. Against private risk investment, the US government awarded certain width of property along the railroad development. Canal development in Pennsylvania was needed to allow more convenient agricultural products to the cities. Public and private sectors worked together to realize the project. This paper however, deals with more recent PPP development in the US.

I plan to describe PPP development with few case studies with some history.

Background

The US government was experiencing severe financial difficulties in mid - 1980's. With

the Reaganomics spending, US had “twin deficits”: government fiscal deficit and trade deficit. President Reagan was blamed of these deficits but the secondary-industry-based economy was weakened by the redevelopment of western European countries and Japan, which were recovering after the destruction of the WWII. The tax base of the US government was shaken by the weakening of the secondary industry base by late 1970’s. The Reaganomics (tax cut and heavy spending in military) did not help the condition, and developed heavy financial burden to the economy. In 1985, there was legislation in Washington introduced by bipartisan support in the US Senate called “Balance Budget Act” or Gramm, Rodman and Hollings Act. The US government finance was facing 140% deficit against the government GDP as 100. In contrast, Japan in 2011 faces 200% deficit against her GDP –I do not know of any advanced nation faced this ratio in modern history. Bipartisan senators introduced this Balance Budget Act in the Congress. It was a big challenge for the US fiscal spending but it took seven years for the US government to balance its budget. President Bill Clinton had the honor of reaching this balance and during his administration; the US government cumulated good saving in the US accounting. I mention this act because it had a good impact to the legislation I describe next, which had a direct impact to the recent US PPP movement. The act was called ISTEA – Intermodal Surface Transportation Efficiency Act of 1991. The Balance Budget Act was working then and when the US government completed its federal highway building started in 1956 with 44,000 miles, there was a discussion on how to spend highway building money (gas tax). Gas tax has been used and re-appropriated every 2 years to allocate for highway building in the US. It was an initiative of Senator Patrick Moynihan, US Senator from New York, who was the Chairman of the Senate Finance Committee. ISTEA allowed the gas tax to be spent not only for highway spending but also for many other transportation modes such as air, train, transit, water and others to intermodal for efficient transportation modality, which included urban development affiliated with any mode of transportation. ISTEA allowed in basic ratio of 50% (federal) and 25% (local) matched by 25% by the state. More aggressive locals and states went for this traditionally highway money. Private sector also saw this opportunity and participated in transportation related urban projects with their investments. From the Reaganomics effect, federal giveaways reduced to less than 50% of pre-Reagan era. For local government to survive, ISTEA was a good tool to use for redevelopment of urban areas.

Many transportation/urban development projects were financed by ISTEA legislation. Let

me describe just one example, which received ISTEA funding of 1991. I was working on Maglev Project connecting Orlando Airport to EPCOT Center within Walt Disney World. The project was legislated by Florida Maglev Demonstration Project Act of 1988 (FMLDP). By July 1991, the state of Florida awarded the certification to Maglev Transit, Inc. a private sector to build world's first maglev line carrying the passengers between the airport and Disney World helping the congested corridor by tourists. The FMLDP did not allow any public funding from the state or the local government. When ISTEA legislation was introduced, Florida Senator Graham worked with Senator Moynihan to allow approx. \$100 million to the project, which was approx. 10% of the ISTEA fund allocated for high speed rail and maglev. This made the project very attractive. Florida Maglev Project was the only certified high speed rail/maglev project at that time in the US.

Let me introduce one typical of PPP development used by many to demonstrate the PPP structuring. It is called James Oyster School/Henry Adams Apartment Project. James Oyster Elementary School in Washington, D.C. after 70-plus years needed the rebuilding and the expansion in late 1990's. The DC government did not have enough funding to rebuild the school. A development consultant saw an unused property behind the school, which could be used to attract a private development. A private company was chosen to rebuild the school with \$11 million bond issues by the DC government. The private sector took the responsibility of the repayment of the bond and build 216 units high level apartment with private funding. The private company received a favorable land lease term to build both buildings. The DC government rebuilt James Oyster School without investment of their fund in 2001. The private sector received a good land deal and could build both facilities with profit. Oyster School PPP concept was transferred to the next state, Virginia. Virginia introduced PPEA – Public Private Education and Infrastructure Act in 2001 to take the advantages of Oyster School project and developed over 140 public facilities under PPEA in Virginia by 2008. Public schools and facilities need huge finance in the coming year in advance nations especially in Japan. Oyster School and PPEA must be examined before the rebuilding of Japanese schools and public facilities. Japan with \$10 trillion debt in public finance does not have the fund needed to rebuild her infrastructure and public facilities.

I would like to introduce one other remarkable project of PPP in the US. It happened for

the creation of the City of Sandy Springs in Georgia. When it was separated from the Fulton County in December, 2005, the city had close to 100,000 people living. The original city employees were four and the city was served by 135 private sector employees. What is significant is the number of the city employees. Many of cities and states suffer due to the difficulties of payments of retirement package. The City of San Diego is experiencing severe difficulty in this payment, so as the State of California. The City of Sandy Springs has to take care of just four city employee package. The benefits of PPP city management goes beyond this factor. According to the study conducted by Georgia Institute of Technology funded Reasons Foundation, PPP city was run at approx. 50% of cost of traditional cities with five city PPP and traditional city comparisons. There are many reasons for this but I would like to state that the efficiency of private sector is superior to public sector management. In Japan, Toyota management is described as squeezing water out of dry mop and public management is described as dipping mop in to the bucket and pick up. Water (tax) dips out.

These projects demonstrate many of PPP projects in the US. The PPP concept is used in urban development/economic development (school, hospital, prison, etc.), infrastructure development (water, waste-water, transportation, power system, etc.) and recently in outsourcing and privatization of public services and facilities. According to NCPPP – National Council for PPP states that PPP market is over \$100 billion in the US. However, from the Leman Crisis, PPP projects have been slowed due to the lack of funding in private sector. It may take few months and years to recover to pre-Leman period.

Europe

European nations have advanced PPP structuring over US, Japan and others due to their historical PPP development concept. I would like to describe just two nations in Europe in this paper.

United Kingdom

UK is known for inventing PFI – Private Finance Initiative program. UK under Margaret Thatcher administration emphasized “Small Government”. Gap funding and other financing method was introduced. PFI was introduced in mid - 1980’s in UK to finance public facilities with private finance. Mainly, private sector creates SPC – Special Purpose Company to put the

initial finance, construct and operate and/or transfer. Public sector pays the cost from long term debt finance and do not have to come up with the initial big construction finance. By late 1990's with the John Major administration, PFI was stagnated in the UK due to too much public control/regulations. The Tony Blair administration changed PFI and introduced PUK – Partnerships UK in 1997. PUK was owned 49% by public (mainly UK government) but 51% was owned by private sector. The change allowed what the private sector does best; more flexibility and profit motive. By 2009, the UK had been doing 900 PFI projects; the projects' capital value per capita was 20 times as much as PFI projects in Japan, which adapted the UK PFI model. My observation is that Japan's PFI is similar to the John Major administration system — too much regulation and less flexibility in the program.

I visited London in the summer of 2010 and PUK was in transition to be absorbed into IUK – Infrastructure UK, a Treasury operation. According to old PUK, “they were the victim of their own success”. PUK functioned very effectively and implemented many numbers of PFI projects in UK. The Treasury Department transferred majority of PFI responsibilities to the local governments and absorbed PUK into IUK. I was very surprised to discover the purposes of IUK establishment within the UK Treasury. IUK is established and absorbed PUK to initiate the study the demands/needs of UK's infrastructure and energy requirements for the next 50 years. The HM Treasury estimates that less than 50% more likely 30% of the needed funding may come from the public finance. The rest must come from the private sector. IUK's task was to determine the system/regulation/incentive to encourage private sector investment to meet this goal. This is almost the opposite of the gap funding concept.

France

France was known for invention of concession PPP system. From canal operation days, concession (user fee finance) paid many of infrastructure projects; highways, bridge and other public facilities. France built over 85% of highway system with the concession private finance, which included purchase of land, building operating and maintenance and can charge in average of seven euro for 100 kilometers. In comparison, I pay approx. six euro for five kilometers (even one kilometer) of highway use in Tokyo for commuting, which is built 100% by tax.

I visited south France in 2010 to study Mullou Bridge, which is a concession base

privately built bridge costing 350 million Euro. It is 65 year concession project and corporate financed by a general contractor. It was 384 meter high bridge, taller than Tokyo Tower, and beautifully designed visually and for wind calculation. According to the numbers I received, the private general contractor makes enough profit while taking a heavy risk in building and operating this highway bridge.

I also saw French Olympic Training Facility built by private sector as well as French Foreign affairs document library built and financed by private sector during my last visit. French Ministry of Economy takes charge in PPP development with a taskforce, MAPPP. The MAPPP created French PPP Association, “IGD”, which promotes PPP project development. I also observed a development company ICADE, which is owned by government development bank. It is like PUK of UK that I sense some conflict in public agency taking advantages with access and connection with public regulations and finance. But this was done in the UK and France.

Japan

As the public finance started deteriorated and the needs for development and re-development of infrastructure and public facilities are required, Japan turned third sector system in 1980's. Public sector established a third sector company with private sector and tried to develop public facilities utilizing public and private finance with public management. The lack of the market understanding, private development knowhow and efficiency in public management caused failures of the most of third sector project developments. In 1990's, Japan imported the PFI system of UK for the same purposes. As it failed in UK with too much public control and regulations, Japan's PFI system is now facing the similar problem as UK had in mid - 1990's. Market test and designated manager system, introduced in 2000's, also did not produce the result, it was originally intended.

All of these measures did not work well in Japan. This author believes the lack of private sector initiatives are missing from these formulas. The Private sector does its best under free and competitive system. The public sector, which put its own ineffective management system, could not be used to re-develop its economy and financial systems. The country of Japan and this administration announced its New Growth Strategy (NGS) for Japan in 2010. NGS includes the needs of PPP for the future development of the country.

II The Role of World PPP Promotion Organization: UN ECE PPP Centre

The United States has NCPPP and other organizations in various fields such as water, energy, transportation, urban development and so on. UK promoted PPP through PUK and now the responsibility has been transferred to local governments. In France, IGD promotes the developments of PPP. However, there has not been one single organization, which promotes the developments of PPP globally, especially in developing nations. The United Nations Economic Commission for Europe – UN ECE in Geneva has established its PPP Centre (UN PPP) for the global developments of PPP in recent years. UN ECE has been contacting other organizations of the world to consolidate the PPP development efforts with UN ECE. As a part of its efforts, UN PPP has been attempting to establish the Center of Excellence (COE) around the world. UN PPP has been discussing with countries such as Saudi Arabia, Malaysia, India, Russia, Turkey, Korea, Philippine, Greece, Germany and others to encourage the development of COF at their countries. Such fields as water/waste water, sustainability, road, energy, power/electricity, health care, ports, education and others are the subjects, which UN PPP plan to conduct researches with those participating nations.

The COE movement is to share the cost and research materials among the participating organizations and the nations. Each participating country takes lead in certain field in PPP and develops the collateral material, which can be shared with the others. One country therefore does not have to spend the money and time to research all subjects. By taking this approach, UN is attempting to organize and coordinate the global PPP activities. UN PPP is also trying to establish the Executive Board with world leading PPP professionals to advise and watch over the global PPP activities. Toyo University PPP Graduate School/PPP Research Center plans to work with UN PPP group to contribute its effort with UN PPP and the participating organizations and nations.

III Toyo University

Toyo University established the PPP Graduate School (Toyo PPP) in the spring of 2006 to study and educate the students (working professionals), who can understand the issues of PPP and attempt to improve the worsening conditions of finance, public facility redevelopment and others, at the local government level. Toyo PPP developed the local government redevelopment

support program when it received the national grants to work with the local governments, which desire to work with Toyo PPP in 2008. Toyo PPP has established the PPP Research Center with in the graduate school (jointly Toyo PPP).

In order to expand the understanding of global PPP issues, Toyo University has developed the alliance relations with several organizations in the US to share and exchange the collateral materials in PPP during the last five years. They are:

NCPPP, ULI – Urban Land Institute, Georgia Institute of Technology and Florida Atlantic University. Toyo PPP has developed its relationship with PUK/IUK of UK, IGD of France in Europe. Toyo PPP is developing a relationship with ICMA – International City Manager’s Association of USA to introduce city management programs within Toyo PPP in working with ICMA. Japan’s local governments are still managed with the traditional public management system. One of the reasons for the weakening of local governments in Japan may fall with the lack of professional managers, who can effectively manage local governments with professional training. Toyo PPP plans to bring in the US system of public management to Japan in 2011.

Toyo PPP started working with UN ECE PPP group in 2010 and has visited Geneva and London to discuss how Toyo PPP can work with UN PPP to understand the global PPP activities. This effort will continue into 2011 and will develop a relation with UN PPP so that Toyo PPP, the only graduate school in the world specified in studying PPP at the graduate level of education, can contribute its resource (5 year experience, 12 faculties and staff with 30 plus research associates) for the training and development of PPP professionals and materials for the global PPP efforts.

Toyo PPP plans to establish the APPPI – Asia PPP Institute and study/research, capacity building and assist the development of PPP concept for the development in Asia, especially in infrastructure.

According to the recent ADB – Asia Development Bank report that Asia requires \$850 billion investment in infrastructure in the region, but the World Bank, ADB and all Asian nations cannot come up with \$50 billion for this effort. \$800 billion has to be invested by private sector to develop the needed infrastructure in Asia. PPP must be understood and practiced in Asia in

order for its infrastructure to be developed.

The planned APPPI is to establish the standard understanding of PPP, train professionals, build system to implement PPP programs among the nations, which require infrastructure development needs. The APPPI will be started in Japan and in a couple other nations to educate the professionals to understand PPP and assist those involved to develop PPP base projects at their countries. The APPPI will be the ground for Japanese professionals to understand the principles of PPP and be able to practice PPP programs for their market segments. The APPPI will also be used by developing nations with infrastructure needs to learn and implement PPP programs in their own nations. Toyo PPP wishes to be a part of UN ECE PPP and concentrate its efforts in the Asia region.