

Presentation on Potential Public Private Financial Opportunities for Ports and Harbors

## 2010 Alaska Regional Ports Conference

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## Four Choices for Funding Infrastructure

Who Pays?	Our Money	Other's Money
When?		
Now	Direct appropriation from GF (Example state or local capital budget)	Appropriation from Another Government (Example: Earmarks)
Future (Borrowing)	Our Children (Example: GO Bonds)	Other Children (Example: Stimulus) <u>Future Users</u> <u>(Example: PPP)</u>
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## Public – Private Partnerships



- Increasingly common means to achieve public goods infrastructure
- General characteristics:
  - Contract between public-sector and private party for a public service or good
  - Substantial private sector role; typically design, finance, build and operations involved
  - Costs of endeavor borne by users (not taxpayers); some exceptions too
  - Requires robust economics to cover risk, ensure profit
  - Private entity often a <u>new</u> special purpose company
  - Ownership duration and terms variable; transfer of asset to government is common after time period

## Why the Trend to PPP's?

- Someone else's money involved
- Off books of government spending or debt
- Brings private sector expertise and management skills
- Possible tax advantages to private investors
- Aligns risk and reward to single entity
- What's old is new again
  - Early American toll roads, continental railroad were PPPs too
  - More recent examples too

### Some Concerns Too

Who is getting better end of deal? Generally rates of return far higher than just using tax exempt bonding Weaker B-C ratio projects likely need government subsidy or inputs Failures have been too common No free lunch: project must be economic and user fees must achieve repayment of costs Unions, environmental groups may object Loss of jobs, less likely to respond to green concerns

## Alaska's Economics An Issue

- PPP's generally require a robust business case
  - Strong demand
  - Reliable future revenue stream
  - Manageable and known costs
- Alaska setting:
  - Sparse population; long distances
  - High costs, difficult environment
  - Boom-bust commodity price also an issue

## PPP's-How Widely Used?

- Very common in Europe, Asia, Canada, Australia and New Zealand.
  - 1,400 projects in Europe in 2 decades
  - Spain: 40% of transportation infrastructure in private hands (ports, airports, highways, rail)
  - Many different kinds of "public goods"
    Hospitals, highways, power supplies, medicines and vaccines
  - Many recent examples in United States
    Tacoma Narrows Bridge

## **PPP Concept Expanding**

#### Early PPP's were big scale projects

- Concept now adapted to other opportunities
  - CA, WA & OR all have <u>PPP coordinators</u> in their state DOT agencies
  - Much state DOT effort focused on much smaller business partnerships
    - Solar in highway ROW, alternative fueling stations at rest stops, food businesses at rest stops
    - Oregon modified the statutory authority for their DOT

## Fitting PPP's to Alaska

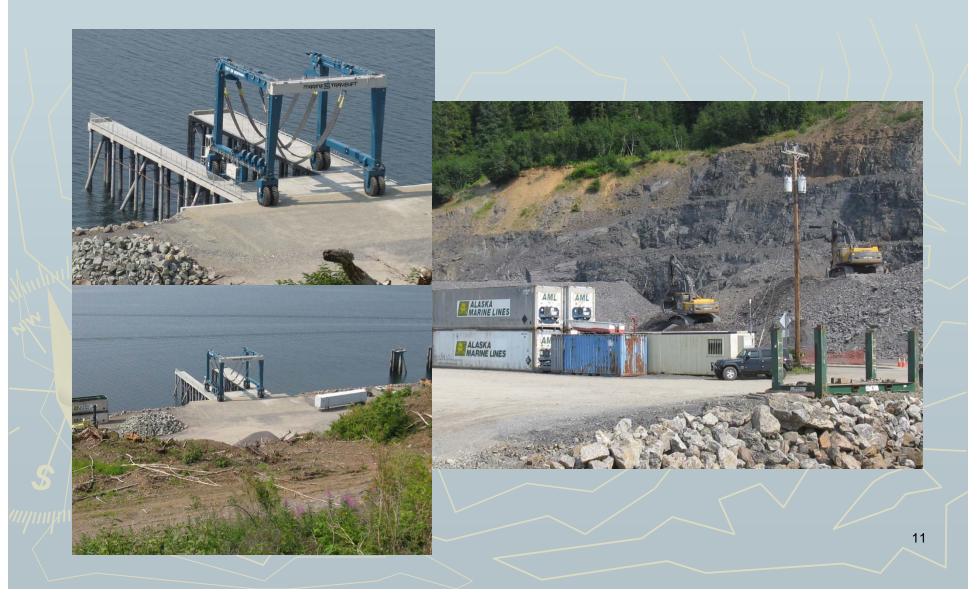
Most Alaska projects require government help

- Thin economics due to low user base
- High costs due to environment, geography
- Other ways to tap into private expertise
- AIDEA has long been in business to assist beneficial quasi-public projects
  - Skagway ore terminal
    - Major P-P expansion in progress today
  - Red Dog road and terminal
  - Ketchikan Shipyard and Drydock

## Some Alaska Examples to Consider

- Highways: Skagway-Klondike Highway Industrial Use Highway (1988)
  - Private \$\$ upgraded pavement to handle bigger loads
- Airports: control access and adjacent land
  - Users pay in multiple ways (landing fees, fuel taxes, boarding fees, gate leases, lot leases)
  - Aviation is Alaska's <u>least</u> underfunded transport mode
- Hoonah Maritime Repair Center
  - Establishing 5 lease lots near new 220-ton travel lift
  - Hope to entice several marine businesses

## Hoonah Marine Industrial Park



# Task Force Proposal on Port/Harbor PPPs

US COE and Alaska DOT have committed to participating in a new "Port and Harbor Exploratory Task Force on Public-Private Finance"

#### Potential participants:

- Corps of Engineers
- AIDEA?
- AML?

Denali Commission, USDA, DNR, Others?

## Take Aways

PPP approach not really new, but deserves renewed consideration

- Important to consider PPP's useful at multiple scales:
  - Red Dog vs. Hoonah

Role of government – could it be enhanced with <u>new tools</u>?

Today's push for minerals and fuels could expand opportunities