

InfrastructureUSA

Guest on THE INFRA BLOG

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Conversation with Steve Anderson, Managing Director, InfrastructureUSA

Communication is Key to Private Infra Investment

Private investors want return on their money: 5%, 7%, 6%, 10%, whatever it is. They're usually investing somebody else's money, and that person has given it to them only because they promised to provide a return. When private investors invest in public projects they have terms that they invest on. They want a period of time, they want guarantees or they want everything to be contracted in advance. It's a financial transaction, typically. Government just doesn't do complex financial transactions very well. Whether it's infrastructure or anything else, it's not what government is most experienced in doing. When somebody shows up and says, "I have \$10 billion to invest in American infrastructure how do I do it?" they've got to find somebody on the government side that is willing to engage with them on terms that they can understand and accept around deals. You can't just show up and say, "I want to buy or invest in a bridge" and then it gets done. It just doesn't work that way. Governments, with all the goodwill in the world, can try to get it done, but complicated big transactions take a long time to negotiate and governments change over, politics change, people lose interest. The private sector and the public sector, government, don't speak the same language. Just like anybody else trying to do business when they don't speak the same language, you need more interpreters, you need better interpreters in a place to meet the middle. It happens but it's just hard to do.

Major P3 Projects: Successes and Failures

I got to know a lot of the folks at the MTA. They are terrific professionals; they're as good as you would see anywhere in any company, but if you don't invest the capital in something that runs 24 hours a day, 7 days a week it's going to fall apart. Do we need to re-educate people? I think we're in the process, unfortunately, of re-educating people about the subway system. I don't think we need to re-educate people about roads or bridges necessarily because I don't think people think about that much, about who owns or runs them. Water, which is an area of infrastructure that desperately needs to be invested in, is just a terrible health crisis emerging, I think. The water and sewer systems of this country are a disaster. It's been tried a million times. Everybody has said the private sector should be taking over these things. We can invest. People are willing to pay something to get good, fresh, clean water so there's a revenue stream. It's the hardest public asset to do a P3 because people just deeply believe that water needs to be publicly managed. The opposite has proven to be the case, but it is what it is. There's some education that has to be done there, or else we just have to get to, unfortunately, a worse place where the public money can't do it anymore and you have to bring it private. It depends on the asset: some things people feel like should be publicly managed and some they don't seem to care very much. I'll give you another example which is an interesting one to me: New York City and New York State regulated affordable housing, except for the public housing, was all built as a result of public-private partnerships. Decades ago the government just decided that it didn't make any sense to publicly build all of the housing that low-income people should live in. They

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invented all these financial tools to bring private money in and now there's a developer community all over the place that builds housing for people who don't make a lot of money. It's helped out by the government, the government's involved, but it's a public-private partnership. It works great. People just don't think about it that way but that's been, in my mind, the most successful public-private partnership that we know of.

How Meridiam Works: Organizing Teams and Assuming Risk

Meridiam is a fund. We raise outside money just like any other fund does, from pension funds and insurance companies all over the world. I run the North American fund. We have a European fund. We have an Africa fund. We have an energy fund. We either start a discussion with a local government or a state government or wait till they have decided to go out and start the public discussion about an infrastructure project. State government decides, in the case of LaGuardia, for example, that there needs to be a large overhaul or a new road built or a new bridge built. What they do when they need to do public procurement, they basically go out to the public and say, "Bring us ideas." We are active participants in those kinds of processes, so if there's a request for information or request for a qualification, whatever the RFP, Meridiam will put together a team that consists of us, a big engineering firm, a big construction firm, all the various parties that you need to do a big infrastructure project. We will put together that team, put together a proposal and submit it. Then after a long period of negotiation and coming up with our own more detailed plans, we offer a final bid and the government will select a winner from among however many three, four, five whatever different plans. If we're selected, we then are responsible for negotiating the final agreements. We are the folks who talk to the government the most, so we're the face of the project for the government. We arrange the financing and we also invest some of our own money. We're responsible for making sure that the construction starts and finishes in a manner that we said it would. Then we oversee whoever it is that we hire to operate and maintain what we've built for a long period of time, 25 years typically. Then at the end of that lease, we will typically turn it back over to the government that we built it for. The question is always asked: how do you make money if you're not buying and then selling something? We get paid along the way every year, a negotiated amount that is calculated to allow us to cover the costs of operating the thing as if we owned it, as well as give ourselves a fair return on our money. The really critical piece of all of this is that if there's an infrastructure project, an asset, a road or bridge or tunnel that belongs to the public, the government can take the risk that it runs well or we can take the risk that it runs well. In the deals that we do, we're the ones that take all the risk. We have contractually committed up front that we will invest appropriately according to a plan over 25 years to make sure that the thing runs well, whatever it is, and is in good condition all through that time. If we owned the subway we would be losing a ton of money right now because we would have contracted that the subways would run on time and on schedule and they're not doing it, therefore we suffer. We're not looking to steal or monetize the public's assets. We're really looking to do public-private transactions. A real public-private transaction is a partnership between the private sector and the public sector and that's what we do. I'm a fervent believer in this.

Meridiam Case Study: Port of Miami Tunnel

We have 15 projects in this market, so the U.S. and Canada. In Miami, we built the tunnel from the port to downtown Miami. It's about a mile-long tunnel; if you went through it you'd see it's a very clean, well-lit, big, nice-looking tunnel. Digging the tunnel way beneath Miami was a big engineering challenge, and we took on the risk and the cost of doing that. We built it with some really interesting features that control for the fact that Miami is built basically at sea level. It has these enormous steel doors that go up and down when it looks like there's going to be a flood. The tunnel has been dry the whole time, which is a really big deal because we're the only way to get to the port. We built that feature because we knew that if we didn't, the moment it flooded we would be in a lot of trouble. We've committed to the public that it would be operable as soon as the flood waters in Miami receded, and that's been the case. It's been a great project for us and a great project for Miami. We delivered it on time and on budget and we run it.

Where Civic Engagement Fits In

Big infrastructure projects, typically, are one of those places where the government really does have a big role and the private sector has a big role and it's sort of not a place for citizen volunteerism at the larger scale. I think there's a real role for local civic and local planning. New York City is very actively planned down to the local level and community board level. I ran the storm recovery activity for the state for two years after Hurricane Sandy. We got a \$5 billion block grant from the federal government which I was in charge of. We spent about \$600 million of that on a community program that ticked a hundred communities that were most damaged by Hurricane Sandy, Hurricane Irene, and Lee, gave them a bunch of technical assistance and had them plan their own mini-infrastructure projects in their communities that would protect from future floods. It was fantastic. It got people involved. These are small-scale things, but it got communities at the very local level involved in understanding what climate change means, what it means to protect against natural disasters, and also drew on them for their local knowledge. While a community may not be capable of figuring out whether the Tappan Zee Bridge needs to be replaced, they do know that this particular road floods every time it rains and that's something that the government people often don't know. We tapped that knowledge and ended up with a list of hundreds and hundreds of very local projects that are now being built out.

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