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Why is the U.S. an 'emerging nation' in the infrastructure sector at such a crucial time for economic development and job creation?

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By

In 1774 George Washington saw that if parts of the Chesapeake could be dredged and a canal dug from the Potomac to Georgetown (now Washington, D.C.) and then beyond to the Great Lakes and the Ohio River, commerce could flow more readily throughout the region -- a vision for one of America's first infrastructure projects.

The plan was rejected by several stakeholders, including Maryland, and only after winning the Revolutionary War and becoming President was Washington able to muster the necessary political support to have the plan approved. After the founding of the Patowmack Co., the work began but was not completed until after his death. The canal only operated for twenty-six years until various difficulties led to bankruptcy.

Then, as today, the lack of experience necessary to bring together the public and private sector and reconcile the collision of various special interest groups hampers infrastructure development. Almost two hundred and fifty years later, America still struggles with the design, financing and implementation of infrastructure projects, whether for roads, ports, airports, transmission lines or social infrastructure.

Although some early progress was made with the Chicago Skyway, the Indiana Toll Road, I-595 in Florida, Capital Beltway, SH 130 in Texas, or more recently Chicago metered parking, many projects have failed, while many more remain stuck on the drawing board with cities, states and developers. Investors, politicians, municipalities, states, and various related agencies are deeply and understandably frustrated. With good reason, knowledgeable global investors consider the American infrastructure sector an emerging market -- less advanced than Central and Eastern Europe or Latin America.

Recent unrealized public-private partnerships (P3s) in the infrastructure sector abound: In Texas: SH 45, US 183A, SH 121, and Harris County toll roads; in Pennsylvania: the Pennsylvania Turnpike and Southport Marine Terminal; in Florida: the original north-south high speed rail and recently, Alligator Alley; in Illinois: Midway Airport; in Oregon: the Port of Portland; and in Missouri, the Bridge Replacement and Rehabilitation Program.

Projects on the verge of make-it-or-break-it are: Port of Miami Tunnel (twice resurrected), Jackson Motorway in Mississippi, Oakland Airport Connector (second try), Seagirt Marine Terminal in Baltimore, The Cotton Belt Rail Line in Dallas, Denver FasTracks, and the Long Beach Courthouse. Other projects such as the ports in Charleston, Savannah, Wilmington, NC, and Wilmington, DE are in planning stages, as is a decision on CenterPoint's \$8.6 billion unsolicited bid to lease Port of Norfolk terminals. Parking privatizations are being considered in several cities, including Los Angeles, Detroit and Pittsburgh, while there has been considerable public backlash to Morgan

Stanley's all equity (more than \$1.15 billion) acquisition of Chicago's metered parking operations.

Given the recognized need in the United States for billions of dollars of infrastructure spending and the availability of those billions in various infrastructure funds, why aren't more projects moving steadily along? Why is the United States, one of the world's most advanced countries, an "emerging nation" in the infrastructure sector at such a crucial time for economic development and job creation, which are readily supplied by infrastructure work? Why can major infrastructure projects such as the M1/M5 motorway in Hungary, the Yellow Line expressway in Brazil, Aguas Argentina in Buenos Aires, the multiple projects built under the Private Finance Initiative in England, roads and hospitals in Canada, roads, rail and hospitals in Spain, the Three Gorges Dam project in China or the many other BOT, BOO, PPP projects be completed around the world while America, a stronghold of entrepreneurial spirit and finance, falters?

While it's easy to blame the economic crisis for the absence of debt capital and failures to close, it is not the core of the problem as evidenced by the referenced projects that have closed. Behind the failures knowledgeable people on both sides of the table have made misjudgments and mistakes in trying to adapt a classic P3 model to a market truly in its infancy and fractured by regional cultural biases and politics.

These deals typically involve a long-term lease or sale for some time of a public asset, which often prompts public policy debate and strongly divergent views. The political considerations and multiple parties involved in these transactions require bringing together several primary disciplines and mindsets to close these deals: governmental, technical and financial expertise as well as advisory and negotiation skills. The parties involved of course view the same project differently because of their self sustaining responsibilities and business or political interests. Negotiations are often complex and touchy since many involved parties do not understand (or want to, or have the background to understand) the rest of the project players and their interests.

And in every project there are multiple stakeholders, whether operators, surrounding land owners, developers, contractors, regulators, politicians, financiers or other advisers. The individual factions can join or lead the chorus of public opposition, such as the anti-Castro lobby in the Port of Miami Tunnel, the elements in transportation departments or other government agencies who stand to lose jobs or power in various states, or the politicians skeptical of foreign ownership in Texas.

In one situation, a pipeline was 70% completed but mired down in a dispute among the project sponsors, the landowners and the state. My ten-year-old sagely observed, "Dad, it's like the Vikings! They are out of the boat throwing their oars at each other. You need to get them back in the boat all rowing the same way. The only problem is that there are so many different guys, you may need two boats!"

While there are many interested parties and potentially competing agendas, the projects themselves are not that complex. To have a successful project that balances successfully the public and private interests only requires, aside from technical matters such as proper enabling legislation: (1) good project economics, (2) fair protection of the public interest while providing a reasonable return to the private sector, (3) delivery of "good value" to each side, and (4) knowledgeable participants engaged to skillfully execute without excessive political interference. Items three and four present a particular challenge!

If the United States wishes to succeed with major P3 infrastructure projects, excessive political and financial self interest must be eliminated. Political leadership and vision will be essential along with the ability to listen to stakeholders and build a consensus consistent with the vision. Choosing projects with commercial merit that can generate sufficient cash flow to enable debt is crucial. Knowledgeable advisers with deep experience closing these deals and without a tainted allegiance

to either U.S. municipal bond finance or European PFI models are key. Also essential is the willingness from all to develop stakeholder and public support through vision, the media and public relations.

In chatting with the ever wise 10-year-old about a project for a large wind farm in Wyoming in high grass at the foothills of the Rockies, his simple advice and considered judgment after hearing the elements and players in the deal was: "Beware of snakes." If America is to succeed in the most worthy and needed endeavor of rebuilding its infrastructure, first and foremost the backbiting nature of narrow political and commercial interests will have to be put in a corner by knowledgeable political, commercial, legal and financial leadership.

America is not ready to adopt P3 in full earnest -- yet. To see the future, though, one has only to read in Thomas Jefferson's private memoirs of the trials and tribulations of creating our Declaration of Independence, Constitution, Bill of Rights, and organizational framework --a leading public/private road map enacted through a quagmire of special interests, which balanced the needs of the public, enterprise and government. It has worked better than anyone ever dared imagine. Now, as then, U.S. infrastructure development will happen. Stay tuned for "The Realm of Possibility and Realization."

Editor's note: *A representative of the Central Texas Regional Mobility Authority sent us the following communication regarding the 183A toll road. "The article inaccurately states that 183A is a failed P3. The 183A toll road was not a P3 project and has never been considered one. It is a traditional government toll road. In addition, the project has been hugely successful, exceeding all expectations for traffic and revenue performance."*

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