Nearly universal recognition of America’s infrastructure crisis:

- US infrastructure needs estimated at over $7 Trillion by 2030 ($4.7T by 2025) to keep pace with GDP (OECD/WEF)
- At D-, water resources register the lowest rating of all infrastructure sectors.
- Federal, state and local governments have limited financial resources to devote to capital and operational expenditures
- Majority of infrastructure projects are being delivered in the costliest and least efficient manner possible
- Lack of life-cycle asset consideration has led to growing backlog of deferred maintenance and service level degradation on existing assets.

### ASCE Infrastructure Report Card

<table>
<thead>
<tr>
<th>Category</th>
<th>Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aviation</td>
<td>D</td>
</tr>
<tr>
<td>Bridges</td>
<td>C+</td>
</tr>
<tr>
<td>Dams</td>
<td>D</td>
</tr>
<tr>
<td>Energy</td>
<td>D+</td>
</tr>
<tr>
<td>Hazardous Waste</td>
<td>D+</td>
</tr>
<tr>
<td>Drinking Water</td>
<td>D</td>
</tr>
<tr>
<td>Levees</td>
<td>D</td>
</tr>
<tr>
<td>Ports</td>
<td>C+</td>
</tr>
<tr>
<td>Inland Waterways</td>
<td>D</td>
</tr>
<tr>
<td>Rail</td>
<td>B</td>
</tr>
<tr>
<td>Roads</td>
<td>D</td>
</tr>
<tr>
<td>Parks</td>
<td>D+</td>
</tr>
<tr>
<td>Transit</td>
<td>D-</td>
</tr>
<tr>
<td>Wastewater</td>
<td>D+</td>
</tr>
<tr>
<td>Schools</td>
<td>D+</td>
</tr>
</tbody>
</table>
Alternative Finance & Delivery Drivers

- Federal, state and local governments have limited financial resources to devote to capital and operational expenditures
- Addressing growing backlog of deferred maintenance is diverting resources from modernization and expansion projects
- In post-earmark Washington, intense competition for scarce federal funding
- Protracted appropriations delay delivery and exponentially increase costs
- Public authorities seek to extract value from existing assets

Key Alternative Finance & Delivery Drivers

- Access to new sources of financing / Accelerated Delivery of Infrastructure
- Monetization opportunities
- Life-cycle cost reduction / Operational efficiencies
- Risk allocation and incentivized performance

Public authorities are increasingly turning to alternative finance and delivery to meet infrastructure needs

Infrastructure Delivery Spectrum of Options

<table>
<thead>
<tr>
<th>Traditional Delivery</th>
<th>Public-Private-Partnerships</th>
<th>Privatization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Works/Service Contracts (OSB, EIR, etc.)</td>
<td>Performance-Based Operating Contracts</td>
<td>Concessions (DBOM, BOT, etc.)</td>
</tr>
<tr>
<td>Lease-like Agreements (LID, P3, etc.)</td>
<td></td>
<td>Full or Partial Divestiture</td>
</tr>
</tbody>
</table>

Extent of Ownership and Risk Transfer to the Private Sector

- Low
- Medium
- High

© Jones Lang LaSalle 2017
Prospects for P3

Reality Check

• P3 not an end in and of itself, but a means of delivering infrastructure in a timelier and more cost-effective manner
• Federal government has somewhat limited authority to impose P3 on state and local authorities
• Need for dual-pronged approach to enable P3 for both federal and non-federal infrastructure:
  • Enabling P3 for federal infrastructure:
    • Need to address obstacles and biases against P3 for federal infrastructure
    • Federal institutions need to begin moving on expectation of broad-based P3 enabling framework (USBR and Smithsonian are good examples)
  • Enabling P3 for state and local infrastructure:
    • Federal tax credits
    • Lower thresholds for federal credit programs (TIFIA, WIFIA)
    • Discussion of funding conditionality
Water Resource Challenges & Opportunities

• While alternative finance and delivery tools hold the promise of accelerating infrastructure and service delivery, they are extremely complex policy tools.

• P3 and alternative financing are not free money and investments will need to be repaid, either by users or taxpayers. The challenge is identifying and structuring the repayment streams.

• Key constraints for **federally** sponsored water resource projects have been identified and need to be addressed:
  - **Inability to ring-fence revenues** and dedicate them to project specific purposes;
  - **Lack of contract authority to** enter into agreements that encumber future revenues;
  - **Legislative and practical impediments to user fees**;
  - Need for legislative authorization to enter into long-term contracts;
  - Practical inability to leverage budget-based P3/P4 arrangements due to OMB **scorekeeping guidelines**.
What might we expect…

- Application of P3 likely to be expanded and normalized during this Administration, although cannot be forced down public sponsors’ throats.
- P3 is not free money and funding sources remain the key question mark.
- Tax credits and other incentives will be critical in reducing financing differential, but do not create new funding sources.
- True value proposition is in the timelier and more cost-effective delivery of infrastructure through P3 (a better deal for Americans).
- Pivot toward P3 must be met responsibly by the P3 industry, who must validate value proposition and demonstrate public benefit of P3 approach.
- Worrisome lack of discussion about life-cycle maintenance of assets.
- There is cause for cautious optimism, but we will likely need to wait 1-2 years before any visible signs of momentum.
Thank you

Jill Jamieson

jill.jamieson@am.jll.com
(202) 719-5588