CITIZENS BUDGET COMMISSION

1 Penn Plaza * Suite 640 * New York, NY 10119

Testimony before the Commission on State Asset Maximization
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Good afternoon. I am Carol Kellermann, President of the Citizens Budget Commission. The CBC was founded in 1932 as a nonpartisan, nonprofit civic organization devoted to influencing constructive change in the finances and services of New York City and State governments.

Thank you for the opportunity to testify today. With the infrastructure needs and financial pressures facing New York, there is growing interest in the use of public-private partnerships (PPPs), which have been employed in Europe and other parts of the world for many years but to a far lesser extent in the United States. The CBC has been studying PPPs for the past year and will be releasing a research report analyzing the international experience with PPPs and exploring the value that PPPs might have in addressing New York's infrastructure needs. The report will be released next week, and we are submitting a summary of that report as our formal testimony to the Commission.

The CBC has restricted its definition of PPPs to those relationships for physical assets in which private partners are responsible at least for designing, building, and maintaining, and preferably for partly financing, the projects. Defining PPPs in this way is important because it focuses attention on the life-cycle management of assets that can add incentives for efficiency and can reduce long-term costs. These incentives are absent in simpler "design-build" or management contracts.

New York already has some limited but important experience with these types of PPPs. Many of these are small PPPs in waste-energy systems, but three are among the largest projects in the United States: (1) the $1.8 billion contract to build the Airtrain from Kennedy Airport to the Jamaica Station of the Long Island Rail Road; (2) a 20-year partnership to rebuild and operate JFK Airport Terminal Four; and (3) New York City's 20-year partnership with Cemusa, Inc. for the design, construction and maintenance of street furniture.

CBC's research of these partnerships and others, particularly in the United Kingdom, has confirmed that PPPs can be a useful tool in the delivery and management of infrastructure; they have demonstrated the ability to improve design and reduce construction time and costs. Furthermore, the private sector's ability to procure specialized expertise and harness innovation and technology offers the potential to enhance operations and improve maintenance standards over the life of an asset. In these respects, PPPs offer the potential to overcome important deficiencies in public-sector performance and are an important option for infrastructure management that should be made available in New York.

The report offers three guidelines for the application of PPPs:

- PPPs should be focused on achieving efficiencies in the life-cycle costs of facilities and ensuring their long-term maintenance at standards higher than typically achieved by direct public-sector operation.

- PPPs are well-suited to revenue-generating facilities, but user fees are not essential for a PPP. Effective PPPs can be structured for assets without user fees through availability payment or shadow toll models, in which the public partner pays the private partner directly for the availability of usage of the asset.
- PPPs need not be limited to large facilities; smaller assets can work as well when several similar assets are grouped together for a partnership with a single private partner.

We have several suggestions on where PPPs might be applied in New York. In considering PPPs, New York's leaders should focus on assets that are in poor condition and have a history of poor maintenance. For New York City and New York State, initial application of these criteria suggests that highway bridges across the state, parks and school buildings in New York City, and facilities in the SUNY and CUNY systems may be good candidates.

I should also offer a few words of caution in how PPPs should be designed and approached. First, PPPs should not be looked upon as "new" money for infrastructure because the same revenues streams support projects developed as PPPs as those undertaken directly by government. Second, user-fee revenue streams should not be tapped inappropriately as part of a PPP arrangement. In particular, large up-front payments should be avoided, as the temptations to use the proceeds for political expedient purposes or short-term budgetary balance, rather than for infrastructure investment, are too great.

Third, the public sector does not abdicate its responsibilities with a PPP; rather, these partnerships demand enhanced its management capacity – particularly with respect to contract negation, design of performance outcomes and monitoring – in order to be successful. Fourth, the desire to innovate should not lead to the design of PPPs in ways in which integral responsibilities are divided; as the experience with London Underground, detailed in the report, demonstrates, these partnerships are prone to failure. Finally, any labor concerns can be addressed in PPP contracts, by offering protections to workers for prevailing wages, similar terms of employment or guaranteeing employment in other city agencies.

Thank you. I would be pleased to answer any questions.