

MEMORANDUM

To: New York State Legislature

From: Katherine Powers, Research and Policy Analyst

Date: May 6, 2016

RE: Public-Private Partnerships and Syracuse's Failing Infrastructure

Recommendations

Small tax revenues, large debt stress, and a focus on local projects makes Syracuse's infrastructure suitable for private investment. However, the need for improvement of network projects may deter private investment. Due to the dire state of Syracuse's aging infrastructure, the city government should take advantage of the real efficiency gains of private investment. However, in order to avoid the negative aspects of P3s, the city of Syracuse should only pursue them if outcome-based performance specifications and noncompliance penalties are a major part of P3 contracting and transparency measures are taken to build political acceptance.

Condition of Infrastructure in NYS

Infrastructure Report Card

In September 2015 the American Society of Civil Engineers (ASCE) published a report card reviewing and rating the state's infrastructure needs, capacity, and funding.¹ New York State received an overall grade of C- stating that NYS infrastructure is mediocre and in need of attention. According to TRIP, a private nonprofit organization that researches, evaluates, and distributes economic and technical data on surface transportation issues, 38% of major locally and state-maintained urban roads are in poor condition and 39% of New York's bridges show significant deterioration or do not meet modern design standards.² New York's infrastructure is a long-lived public investment and includes many significant aging assets. Maintaining and modernizing them for the future is a continual challenge.

Increased investment in transportation improvements at the local, state and federal levels could relieve traffic congestion, improve road, bridge and transit conditions, boost safety, and support long-term economic growth in New York. However, local and state governments are financially overwhelmed trying to address the myriad of infrastructure needs.

The Condition of Syracuse's Infrastructure

Syracuse is no different from the rest of the state. In 2014, Syracuse repaired a record-setting 391 water main breaks³ and in early 2015 Mayor Minor announced in her State of the City that modernizing city infrastructure was a top priority, stating

"It undermines everything else if you don't get it done," Miner said. "You can have all

¹ http://www.infrastructurereportcard.org/wp-content/uploads/2015/09/NY_ReportCard_FullReport_9.29.15_FINAL.pdf

² http://www.tripnet.org/docs/NY_Top_Transportation_Issues_TRIP_Report_Jan_2016.pdf

³ http://www.syracuse.com/news/index.ssf/2015/01/miner_if_syracuse_infrastructure_fails_it_undermines_everything_else.html

sorts of economic development, all sorts of community development and brand new neighborhoods, but if you don't have the ability to deliver clean water then what do you have?"⁴

The city's new Office of Innovation was tasked with finding ways to upgrade infrastructure systems such as water, sewer and broadband delivery. In 2016, Mayor Minor continued to place emphasis on Syracuse's infrastructure needs, specifically how the city should focus on new infrastructure technology, like devices for mapping road deficiencies and sensors to detect leaky pipes.⁵

Syracuse Infrastructure Funding

The benefits of investing in infrastructure are undeniable. However, developing the revenue streams and finding the funding for infrastructure initiatives are where the real challenges emerge. Syracuse's infrastructure improvement are being funded by the following sources:

- Dedicated capital fund consisting of new city revenues anticipated from residents of special lighting districts⁶
- \$1.35 million competitive grant from Bloomberg Philanthropies Innovation Teams used to create a Mayor's Office of Innovation
- New York State budget passed by lawmakers includes \$27 million for roads and bridges and other infrastructure in Upstate New York⁷

The most expensive project in the region that was identified by Governor Andrew Cuomo's office involves the \$74 million replacement of a 15-span bridge under the elevated section of Interstate 690 between Beech Street and Teall Avenue. The project, which is expected to begin in 2017, also includes improvements to the Teall Avenue interchange.

Public-Private Partnerships

Public-Private Partnerships (P3s) have been used widely in Europe and other parts of the world for infrastructure projects with nearly 25 states already enacting P3-enabling legislation. P3s encourage governments to turnover certain aspects of operations, maintenance, and financing to private entities.⁸ PPPs are especially successful when addressing specific types of projects, usually significant projects with critical implications, projects involving high volume traffic in urban areas, and projects that intend to add either new or additional capacity. Performance-based contracts and risk transfer to private-sector providers can lead to infrastructure efficiency gains.⁹

Is Syracuse Suitable for P3s?

My analysis is based on a paper published this year in the Public Money & Management Journal entitled: *The determinants of contractual choice for private involvement in infrastructure*. The

⁴ http://www.syracuse.com/news/index.ssf/2015/01/miner_if_syracuse_infrastructure_fails_it_undermines_everything_else.html

⁵ http://www.syracuse.com/news/index.ssf/2016/01/tk_highlights_from_mayor_minors_state_of_the_city_speech.html

⁶ http://www.syracuse.com/news/index.ssf/2015/01/miner_if_syracuse_infrastructure_fails_it_undermines_everything_else.html

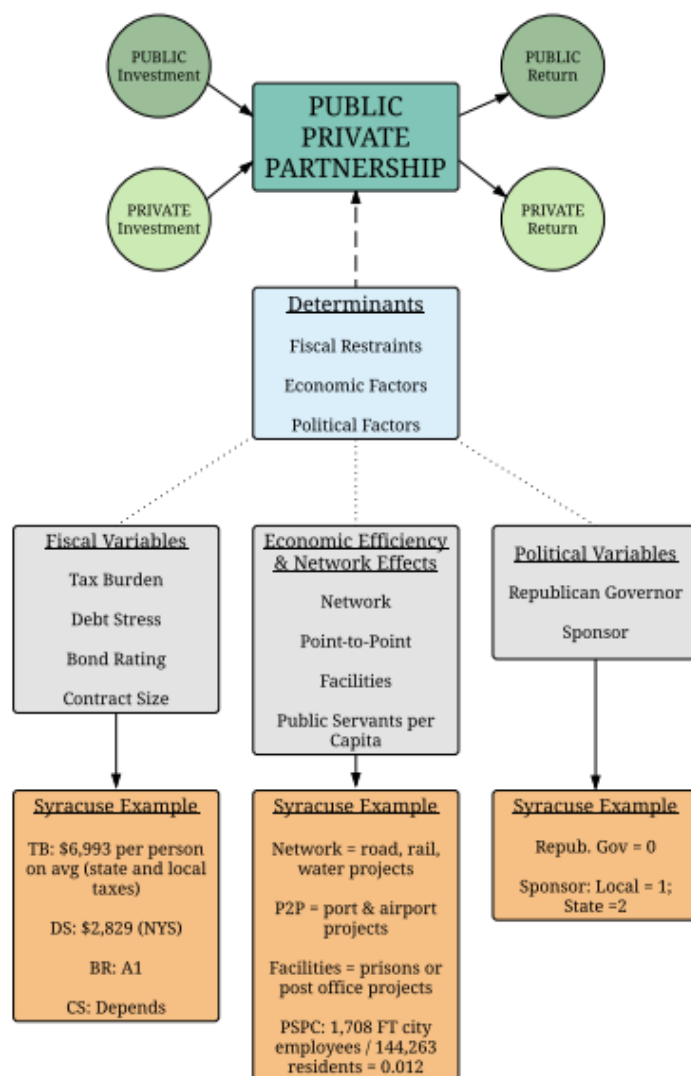
⁷ http://www.syracuse.com/state/index.ssf/2016/04/what_infrastructure_projects_in_central_new_york_are_in_the_state_budget.html

⁸ http://www.pwc.com/us/en/capital-projects-infrastructure/publications/assets/public_private_partnerships.pdf

⁹ http://www.conferenceboard.ca/press/newsrelease/10-01-28/public-private_partnerships_for_infrastructure_are_saving_time_and_money_for_governments.aspx

authors conducted a systematic empirical study of key factors driving the government's choice of the degree of private participation using a pool of projects signed in the US between 1985 and 2008 as a sample and ran a logit model to determine which variables were significant.

They developed a series of variables that are relevant in the decision for government to contract out infrastructure projects. These include fiscal restraints, economic factors, and political factors.



Statistically Significant Fiscal Variables:

- Tax burden is negatively correlated with private investment; as larger revenues are associated with less reliant on private investment
- Debt stress has a positive relationship with private participation, as debt can lead governments to turn to P3s

Statistically Significant Economic Efficiency and Network Effect Variables:

- Network projects (rail, road, and water infrastructure) are associated with sunk investments, larger transaction costs, and lower levels of competition. Smaller efficiency gains are expected. Network attributes are negatively related to the degree of private participation
- Point-to-point and facilities projects (stand alone entities) have higher expected efficiency gains and are positively related to private involvement

Statistically Significant Political Variable:

- Sponsor of project (1 = local, 2 = state) have a negative relationship with greater private participation. Higher levels of government typically receive more public resources, so more localized government is associated with greater private participation.

Based on the Alabate model, Syracuse generally has conditions suitable for P3s. The city itself has a low tax burden; Syracuse city taxes rank 61 of 74 for city taxes in the state. Debt stress for New Yorkers is relatively high, with the average debt per capita as \$2,829. In addition, many

projects Syracuse has prioritized are local, including sewage, water, and broadband infrastructure. However, these are “network” projects, meaning greater potential sunken costs and less gains in efficiency. Though this may deter private investment, I believe overall Syracuse is suitable for P3s.

Should Syracuse Pursue P3s?

There are both benefits and drawbacks to P3s. Benefits include: real efficiency gains; projects are more likely on time & within budget; use of private sector technology & innovation; and investment diversification in city infrastructure. Syracuse desperately needs to take advantage of P3s ability to inject much needed money and operating efficiency into our aging infrastructure, with projects being subject to external market forces. Private equity investors can the large up-front investments of millions of dollars needed to run public services and utility. I advise that the city not wait any longer as failing infrastructure leads to safety, standard of living, and investment issues.

Though I believe the city should pursue P3s, there are some drawbacks that need to be addressed, specifically the difficulties in performance enforcement and the general lack of political acceptability.¹⁰ In order to avoid these negative aspects of P3s, I recommend the city government do the following:

- Include outcome-based performance specifications and noncompliance penalties in contract negotiations, and continually manage contracts¹¹
- Build political acceptance through increased transparency, specifically by creating external education campaigns and having public disclosure of P3 projects

Mayor Minor has made infrastructure a main priority, but in order to improve infrastructure in the quickest and cheapest way the city needs to pursue P3s.

¹⁰ <http://www.treasury.govt.nz/publications/research-policy/ppp/2006/06-02/06.htm>

¹¹ https://www.fhwa.dot.gov/ipd/pdfs/p3/factsheet_07_monitoringandoversight.pdf