



OUTLOOK 2020 US AND CANADA: SOCIAL PROJECTS EXPECTED TO DRIVE THE MARKET

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USA & Canada

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The 2019 public-private partnership (P3) North American market was a mixed bag of successes and frustrations, bolstered by the social infrastructure market and yet plagued by a sluggish transportation sector.

And after a year with optimistically high-highs, such as the launch of the St Louis Lambert P3 or the selection of a preferred proponent for the University of Iowa Utilities P3, and exasperatingly low-lows, experts are mixed about their predictions for the market in the coming year.

The 2020 P3 market in the United States could easily be impacted by local and federal elections. These contests have the potential to delay large project's procurement processes at the state level due to divisive political climates. One P3 attorney noted that the presidential election has the potential to decide the fate of the Gateway Tunnel project between New York and New Jersey.

The Trump administration is reluctant to provide federal funds to the project, and the project is unlikely to move forward without federal funding, he said. A change in administrations may be necessary to keep the project moving forward, he added.

Thomas Mulvihill, managing director at KeyBanc Capital Markets, said the reauthorization of the FAST Act in Washington, DC may be delayed as 2020 is an election year. Additionally, he believes the likelihood of a major infrastructure bill passing Congress in 2020 is unlikely.

Aside from the political challenges rattling markets, experts are still working out how to best distribute risk among different players on individual projects in both the United States and Canada, said Jennifer Aument, president of Transurban North America.

A positive trend in 2019 was the topic of risk allocation in the P3 model, which was discussed at multiple industry events.

“When you get one of the bidders who doesn’t properly price long-term risk, it can cause issues during project delivery and the O&M period,” according to Dan Dennis, VP at Virginia-based consultancy Pillar OMA.

“I think the discussion will hopefully force owners to take a better look at risk and take on more or be prepared to pay for it if pushed to the developer,” he added.

Aument agreed, adding that the increased discussion provides an opportunity for major improvements to the model.

“We are having increasingly frank dialogues among public and private leaders in the industry about ways to refine the model and avoid these challenges in the future,” Aument explained. “For too long the industry here was selling the P3 model as the ultimate panacea. That conversation is now maturing as the market matures, and we are beginning to acknowledge what works and what doesn’t.”

In the Canadian market the challenges are similar, several industry sources said.

For a long time, the market has been driven by the Infrastructure Ontario pipeline, which in 2019 was not released until September. The delay caused a slower year, and the content could extend that into the next year, according to a source.

Though the pipeline is robust, a lot of the money is going into a few “mega-projects,” the source said, such as the CAD 12bn Ontario Line P3, which has the potential to be tied up in political delays for multiple years due to its size, complexity and risk profile.

Social

A big year could be in store for social infrastructure in 2020 if certain processes reach financial close. The market had a big year in 2019 as the Miami-Dade Courthouse P3 and the University of Iowa’s energy system both reached financial close. Meantime, there is ongoing procurement for Denver’s National Western Center and the Los Angeles Civic Center.

If the Civic Center project is successful, other large US cities may use the initiative as a template for their civic center projects, Mulvihill said.

Separately, Roddy Devlin of Nixon Peabody expressed optimism as universities look to P3s in other areas besides energy and housing, citing a recent announcement from the University of Nebraska to utilize a P3 to redevelop its medical center campus.

Also, Devlin added the Prince Georges County Public Schools P3, which includes the DBFM of five or six new schools, could be an interesting model for other school systems to consider.

Transportation

Opinions are split about the transport market’s vitality during 2019, with some experts calling the lack of deals disappointing and others touting DOTs’ pre-procurement work that ensure projects are ready when they finally come to market.

Devlin hoped to see the Georgia Department of Transportation make progress on major project procurements in 2019, he said noting that political risk killed the Interstate-10 Mobile River Bridge and Bayway Widening P3 project despite being far along in procurement.

Looking to 2020, sources close to the SR 400 project in Georgia said that the DOT has taken its time during the planning process for this project. The DOT anticipates issuing the RFQ in 1Q20, and multiple sources have said it could drive the 2020 market.

Another project that has the potential to have a major impact on the market, depending on how procurement turns out, is the Maryland Beltway P3, or the I-495/I-270 Managed Lanes P3, according to Transurban’s Aument.

While the procurement model has not yet been finalized, Gov. Lawrence J. Hogan Jr. and his team are “seeking to understand recent challenges in the P3 market and local community concerns and are designing a procurement model to address them,” she said.

Aument believes the Maryland State Highway Administration could go with a project development agreement approach in order to provide the state more flexibility that would position the project for success in the long term.

On the airport front, many of the world's leading infrastructure funds and global airport operators have all coalesced around the St. Louis Lambert Airport. The process, if it reaches completion, could serve as a benchmark for other airports to consider. As it stands, the city is seeking to get a bidder and subsequent financial close in place by the end of 2020.

Canada

The Canadian market had a slower year than normal, according to multiple sources, mainly driven by political insecurities in the market and the delay of the release of the Infrastructure Ontario pipeline.

However, Aument said she remains positive about the state of the market over the next year.

“We continue to be optimistic about Canada over the long term,” Aument explained. “While the CIB has been in the political hot seat, our engagement with the bank has suggested it can indeed play an important role in helping to fuel the pipeline there.”

CIB, the Canada Infrastructure Bank, has been active in 2019 including recently committing USD 300m to the Contrecoeur Port Terminal P3 in Montreal.

“Specifically, in the Quebec market, we are seeing existing P3s like A25 doing very well, and we're encouraged to see the government there championing innovative delivery models, with the REM project being one great example,” Aument added.