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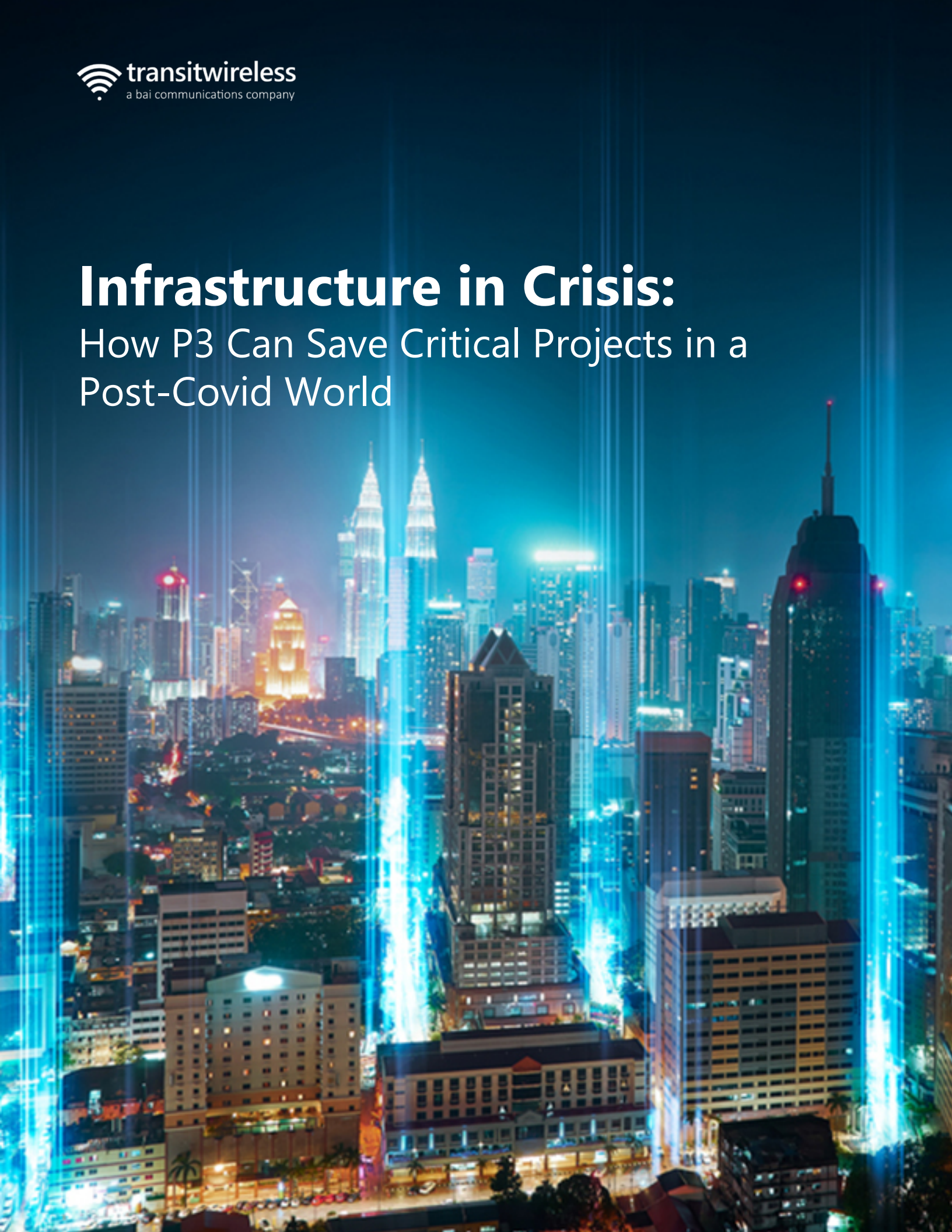
Infrastructure in Crisis:

How P3 Can Save Critical Projects in a Post-Covid World



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Transit Wireless

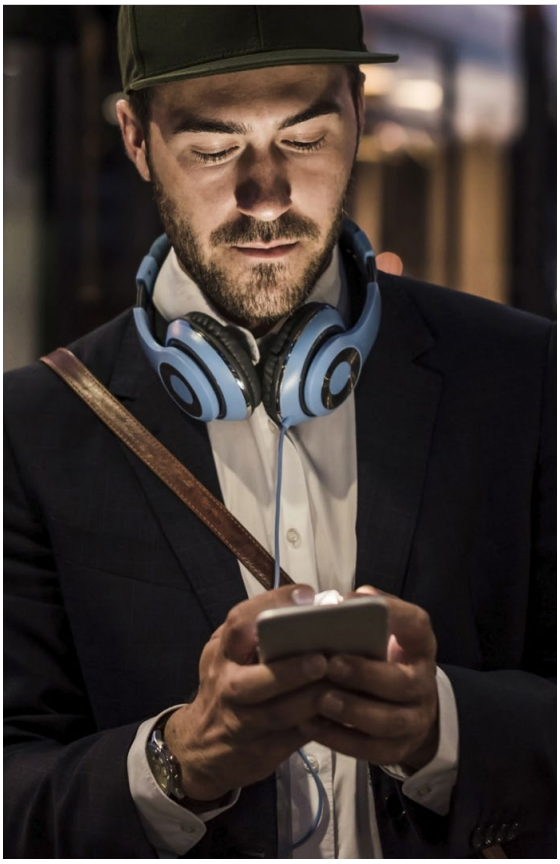
How P3 Can Save Critical Projects in a Post-Covid World

Municipal infrastructure development is in crisis. At a time when society is counting on infrastructure essential to the functioning of communities and commerce to get us through the pandemic and its recovery, COVID-19 has left many much-needed projects at risk in its wake.

For the 3-year period 2020-2022, the National League of Cities has estimated a **$360 billion budget shortfall** for cities and towns nationwide. This budget climate is cancelling or delaying infrastructure improvements and innovations that are becoming increasingly greater priorities for workers, businesses, and families. These range from better Wi-Fi connectivity for a dispersed workforce to smart data solutions that optimize safety.

Many also predict a long-term change in people's expectations and behaviors even after the immediate threat of COVID-19 is over, similar to **what has been seen in Asia** now long after the 2003 SARS outbreak. This includes not only wearing masks in public but also wanting more socially distanced public spaces and up-to-the-minute details about train and station crowding – information that requires an investment in the latest data network infrastructure.

Limited revenue options drive search for new financing model



An urgent challenge is thus how to fund and deliver the infrastructure projects needed now and the years ahead. The revenue shortfalls require some creative thinking about how to fund essential projects, and public-private partnerships, or P3s, are becoming more attractive as both a financial and strategic model. P3s are turning upside down the traditional ways of doing municipal projects, many of which are now financial non-starters and limit or halt opportunities for smart growth.

Public-private partnerships are providing solutions

In recent years, P3s have emerged as a model for infrastructure funding and development. P3s fill budget holes where cities have limited options to raise revenue. Outside of property taxes, many local governments can levy a sales tax, but twelve states do not permit this, and only 16 states allow city income taxes. A 2020 report from the NLC warned that "less flexibility to collect a mix of sales, income, and property taxes will be especially challenging in the months ahead, as state revenues and aid to cities begin to take a hit as states manage their own budget pressures."

At the same time, the opportunity cost of not investing in infrastructure is massive: Every $1 invested in public transit, for example, generates $5 in long-term economic returns, according to the American Public Transportation Association. Moreover, transit has remained a vital need for essential workers since the onset of COVID-19. Preserving their ability to commute to their jobs has allowed the rest of society to function and will continue to do so as the long path to fighting the pandemic continues.

P3s can be the engine of investment and a way to work around the limits in revenue options, and address today's multiple layers of complexity. Governmental partnerships with the private sector have been around for a long time – some more

viable than others. But P3s that are working most successfully today embrace certain foundational elements that allow a win for all parties – the government entities, the private partners, and the citizens being served – at a cost and risk model that is sustainable even during the worst fiscal times.

Before we discuss the essential elements of a successful P3, let's explore the knock-on effects across the value chain that a P3 can bring to multiple stakeholders.

Advantages of a strong P3 model – cost, scale, and risk benefits

Reduction/elimination of taxpayer costs

In most public-private partnerships, much of the financing burden shifts to the private partner. At Transit Wireless, for example, our capitalization strategy enables us to deploy our P3 model in working with transit agencies and municipalities to fund the development of wireless connectivity – including 5G – at zero cost to taxpayers. We provide the upfront capital for the project as we build out the neutral-host wireless network. As a neutral host provider, Transit Wireless serves all major Mobile Network Operators (MNOs).

The P3 vehicle also provides revenue opportunities to municipalities – such as advertising on the free public Wi-Fi. With limited revenue options, as discussed above, these incremental revenue opportunities become a critical part of a city's future planning.

The on-time and on-budget record of P3 projects has also outperformed traditional vendor contract project delivery. Research comparing P3 projects with traditional design-bid-build projects has shown a greater likelihood of meeting schedule and cost requirements. As McKinsey and researchers from Syracuse University stated:

> "In the P3 model, private entities are responsible for the performance throughout the infrastructure's lifecycle so there's greater incentive to deliver better quality projects and employ more innovation in design and construction. P3 contracts also transfer a reasonable amount of risk to the private entity, which creates greater certainty with regards to potential design flaws, financial failures, and technology obsolescence."

Economies of scale

P3s also accrue benefits from economies of scale. The private partner works with the

government entity in its broader vision – across the ecosystem of all the agencies and departments involved.

If a city is working to develop an internet service master plan, for example, it wouldn't have to approach the project in terms of silos – e.g., one Wi-Fi plan for the subway, one plan putting small cells on the city streets, etc. The P3 partner is a convener and by collaborating with various stakeholders, the entire project can be planned in the context of a broader vision in which all decision-makers are involved – the mayor, the transit agency, the city planners, the housing authority, etc. There is one smart vision and ecosystem that integrates and optimizes interagency resources and enables the private partner to scale within this ecosystem. The partner helps enact the strategy and coordinate among other private entities to have a cohesive execution that can scale up or down as needed.

Risk mitigation

Given the extraordinary events that have occurred since the onset of the pandemic, both public and private sector entities are having to take a hard look at their risk management and how they can better prepare their institutions for the known and unknown risks ahead. In planning for infrastructure development, one important advantage of a strong P3 is risk mitigation, across several areas.

Critically, the financial burden is shifted to the (stronger financially) private partner, enabling the partnership to think more broadly and constructively about what the community needs and will need down the road. The project does not have to be unduly limited by scarce resources that would not deliver as well as or for as long as what is needed.

Also, having partners in place for the long term enables flexibility to adapt to major crisis events or paradigm shifts that require urgent responses or new thinking – whether its' a natural disaster, pandemic, or national security action. With the partners already working together on an ongoing basis, this saves time – you don't have to bring another vendor up to speed, and it allows both partners to adapt and evolve together.

Future-proofing

Related to the above, P3s allow cities to achieve aspirations over the longer term. By thinking expansively, the partners can work together in helping map out a city's long-term capital plan.

In a P3, the consultation that a private partner can provide upfront doesn't exist with more traditional relationships – this is the success. The private partner deeply connects with the goals of the public partner over the long term and finds ways to drive efficiency and effectiveness and can lend this to planning in an invaluable way.

What drives P3 success – the mindset and behaviors required

What does it take to drive these outcomes? There are certain essential elements that define the success of a P3 and how well the partnership evolves over time.

The most fundamental difference between a P3 and a traditional government/vendor contract is the **partner relationship.** In a P3, both parties have a vested interest in the success of the project – a very different agenda from a contractor's collecting their check at the end of a project and being "done."

When entering a successful P3, the public entity and the private entity view each other not as parties on opposite sides of the negotiating table, but as partners who can work out issues together. If speed bumps or even major issues cause disruption, the **partners problem-solve and pivot** to a solution that works for everyone rather than look for ways to just get to the end of the contract.

What does this mean for the private partner? When approaching a P3, it is essential that the **company truly understand and deeply connect with the needs of the agency** and their operations. It's an education on the side of the private company in terms of truly putting themselves in the seat of their partner and understanding the impact up and down the value chain. It's not thinking first: "This is financially how we drive a profitable business," but instead: "This is how we help our partners achieve their goals."

It's a holistic investment, and a mindset that includes the full end-to-end view. It is about collaboration to ensure the outcome meets the overall investment needs.

Because of this greater involvement from the beginning, transit agencies benefit from the private company's knowledge and skillset, leveraging their expertise on an ongoing basis as a **thought partner**. For the private company (or companies, in a more complex deal), the benefits from an ongoing learning and feedback loop are enormous as they grow with the transit agency customer/partner. The company can develop products or services to meet future needs of the agency or bring in partners who can work well with existing parties to fulfill these requirements.

For transit and municipal partners, the significant financial, knowledge, and risk mitigation benefits from a P3 requires an **openness to a type of financing** they may not be familiar with. The education piece on their end is important as they look beyond traditional vendor contracts and recognize how P3 can unlock opportunities that may have been slammed shut in 2021 or far earlier due to COVID-19 or a host of other negative economic issues.

Entering into a P3 drives a different set of behaviors and outcomes than a purely

financial injection. This vehicle may ultimately be a vital path for cities to keep their populations safe and moving forward.

What is the state of P3s today?

No two P3 deals are structured in the same way, and P3s will need to be creative to allow government entities to meet their needs. Private partners may need to allow time for municipalities and agencies to move from being transactional to aspirational in making things happen.

Ultimately, these long-term relationships can have a transformational effect on cities and can, in the case of our space, play a huge role in bringing citizens and businesses the kind of infrastructure services that are integral to their lives and work.

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Just as collaboration has been essential to driving the remarkable development of life-saving vaccines, we must approach development of our communities' essential needs with similar innovative partnerships.

A year into the crisis, we are seeing an interest in exploring alternative vehicles to fund important new projects, including vital data and connectivity solutions. To date, P3s in these areas have largely been focused on cellular and Wi-Fi solutions, but the partnerships will likely be broader and deeper – more complex – as more companies are layered into projects that address multifaceted infrastructure needs.

These relationships can jump-start the economic futures of our cities and set us more quickly on a path toward recovery and growth.