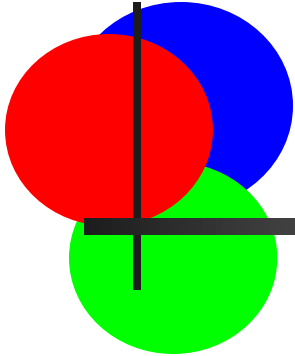


# Public Private Partnerships

## *Michigan's Approach*

Joe Pavona, Director



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by

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# Michigan's Approach

## Background

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- ▶ Governor Granholm's Administration recognized early need to engage private sector as part of economic enhancement in Michigan.
- ▶ Strong commitment from Governor Granholm's office to explore PPP.



# Michigan's Approach

## Starting Points

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- ▶ Feasibility Study

- ▶ A "scoping" project was undertaken to determine if suitable opportunities existed to justify and allow a more broad-based, detailed approach

- ▶ Strong policy statement

- ▶ A state-wide office dedicated to public private partnerships (PPP Office) was established in the State Treasury Department

- ▶ Legislative support

- ▶ FY2009 Budget
- ▶ Enabling legislation



# Michigan's Approach

## Guiding Principles

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- ▶ Understand legislative and political environment
- ▶ Detailed business plan and strong project justification
- ▶ Stakeholder support and involvement (e.g., unions, private sector, public agencies)
- ▶ Pick partners carefully – Credibility and Experience is crucial
- ▶ Building on lessons learned - don't reinvent the wheel



# Michigan's Approach

## Role of Office for PPPs

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- ▶ Coordinates, facilitates and provides financial standardization and accountability
- ▶ Retained strategic and financial advisor to assist the State in identifying new ways to partner with private sector firms and perform business analyses as needed
- ▶ Promotes successful project development (i.e. keys to success)
- ▶ Looks for early “win-win” outcomes
- ▶ PPPs are part of the solution, NOT “the solution”!



# Michigan's Approach

## Initial Lessons Learned

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- ▶ Executive leadership and sponsorship is essential.
- ▶ Transparency is critical.
- ▶ Present full range of options to all interested parties.
- ▶ PPP education is important and on-going.
- ▶ Effective business case is required.



# ARRA

## Michigan Overview

### Preliminary Stimulus Allocation - Michigan

*(All amounts in US\$ thousands)*

| <b>Program</b>       | <b>Funding</b>   | <b>% of Total</b> |
|----------------------|------------------|-------------------|
| Education            | 2,572,648        | 36%               |
| Health               | 2,266,784        | 32%               |
| Transit & Water      | 1,219,435        | 17%               |
| Energy & Agriculture | 383,213          | 5%                |
| Labor                | 230,772          | 3%                |
| Housing              | 206,636          | 3%                |
| Human Services       | 120,964          | 2%                |
| Justice              | 77,438           | 1%                |
| <b>Total</b>         | <b>7,077,889</b> |                   |

SOURCE: 2009 FFIS FEDERAL FUNDS INFORMATION FOR STATES



# ARRA

## A starting point...

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- ▶ Michigan's needs are significant and the \$7.1 billion helps.
- ▶ Goal is to leverage ARRA as much as possible for long-term investment to help meet Michigan's needs (PPP is one approach).
- ▶ Michigan's Transportation Funding Task Force issued a report in November 2008 highlighting the following investment scenarios:
  - ▶ "Status Quo (Do nothing)" investment: \$1.9B annually
  - ▶ "Good" investment (allows Federal highway match): \$6.1B annually
  - ▶ "Better" investment: \$12.7B annually
- ▶ Similar scenarios exist across all infrastructure sectors, be it technology, energy, buildings, etc.



# ARRA

## Tax Incentives Provide Opportunities

| Key tax-exempt bonds related tax provisions     |   |
|---|---|
| Provision                                       | Summary   |
| <b>Taxable Bond Options</b>                     | States and Localities could issue new taxable government bonds in 2009 and 2010 to finance capital expenditure – The issuer could receive cash subsidy from the Government or the bondholders could receive 38% tax credit. |
| <b>Tribal Economic Development Bonds</b>        | Tribal governments could issue up to \$2 billion for projects without restriction.  |
| <b>Small-Issue Industrial Development Bonds</b> | Small-issue IDBs could be used to finance facilities that are used in the production of tangible and intangible products.   |
| <b>Recovery Zone Bonds</b>                      | New category of taxable tax-credit bonds and PABs would be available for investment in economic recovery zones.   |
| <b>Qualified School Construction Bonds</b>      | New category of tax-credit bonds (up to \$25 billion in 2009, 2010) would be available to finance the construction or rehabilitation of public school facilities.   |
| <b>Qualified Zone Academy Bonds</b>             | An additional \$1.4 billion of QZABs would be provided to State and local governments in 2009 and 2010  |
| <b>Clean Renewable Energy Bonds</b>             | An additional \$2.6 billion of CREBs would be provided – in equal amounts – to state, local government, tribal governments, public power providers and electric cooperatives.   |
| <b>High-speed Rail Bonds</b>                    | High-speed rail projects would qualify for exempt facilities PABs bonds if the train can reach a top speed of 150 miles per hour.   |



# State of Michigan

## Future PPP Opportunities

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Michigan has a broad mandate of determining how PPPs may be applied to a variety of sectors:

- ▶ Energy
- ▶ Transportation/Transit
- ▶ Educational Facilities
- ▶ Water/Wastewater Facilities
- ▶ Real Estate/Urban Development
- ▶ Public Parks and Facilities
- ▶ Public Safety
- ▶ Correctional facilities
- ▶ Information Technology



# State of Michigan

## Future PPP Opportunities

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### ▶ Range of PPP delivery opportunities:

- ▶ Full concession
- ▶ Shadow user fees
- ▶ Availability based payment
- ▶ Design, build, operate, maintain
- ▶ Design, build, finance
- ▶ Design and build



# Thank You

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## ▶ **Joe Pavona**

- ▶ Director, Michigan Office for Public Private Partnerships
- ▶ E-mail: [pavonaj1@michigan.gov](mailto:pavonaj1@michigan.gov)
- ▶ Phone: (517) 323-3223