Innovative Water Transfers
Western Governor’s Association/Western States Water Council

Role of Public/Private Partnerships
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Overview of Presentation

- Infrastructure Dimension of Water Transfers
- Challenges for project development
- The Potential Scope of Private Sector Participation
- A New Model of Private Participation in Water Project
Infrastructure Dimension

- Transfers often require investment to implement the project:
  - Improved water use efficiency
  - Transportation
  - Storage
  - Water treatment

- Common that projects involving even moderate amounts of water (less than 50,000 acre feet per year) have investment requirements in the hundreds of millions
Project Scope and Institutional Complexity

- Project scope sufficiently localized that transfers organized between few parties:
  - Imperial Irrigation District/Metropolitan Water District
  - Imperial Irrigation District/San Diego County Water Authority
- Project scope beyond the capacity of a few parties:
  - Bay Delta Plan
  - Mexico/US Bi-National Projects
Elements of Project Development

- Project development capital
- Forward looking
- Patience
- Ambiguity
- Uncertainty/delay
Alternative Models of Private Participation

- Full Private Ownership
  - plan, develop, own, operate, finance

- Hybrid Private Participation
  - public ownership with respective public and private roles specified concerning planning, development, operation and finance

- The future is the hybrid model
Private Capital Sources

- Infrastructure financing
  - Billions of dollars looking for projects in water
  - Long-term investment horizons
  - Seeking secure, inflation-protected returns
  - Cost-effective funding sources
- Project Development Financing
  - High risk tolerance provided that returns in line with risk
Public Policy Foundation of Private Investment

- Sound public policy need not conflict with a role for private capital
  - Rule of Capture in groundwater
  - Anti-speculation doctrine
- The greater the degree of certainty about the “rules of the road” (whatever they are), the greater the interest of the private sector
- The time horizon of expectations is critical especially for private financing of long-lived capital assets
Hybrid Model of Private Participation

- Public/private capital partner cooperation in the planning and developing of agreements underlying project
  - Assures that project matches requirements of cost-effective financing
  - Private capital partner can provide benchmark bids for financing based on current market conditions during the planning process
  - Expands scope of financial tools available for project risk management
Cooperating with private capital partner during project development need not “lock in” the public entity to using the financing provided by the private capital partner.

“Stalking Horse Agreements” in bankruptcy provide a model where a party steps up early and assures a bid, but this does not foreclose a bankruptcy auction where the Stalking Horse can be outbid.

- Stalking Horse agreement provides for payment of negotiated break up fees in case where party to the agreement did not win the auction.
What Will Make Public/Private Partnerships Successful

- Transparency
  - What is being put up, what is being done, and what is being earned
- Private partner provides expertise as well as capital
- Navigating the Capital Commitment Paradox
  - The need to condition commitments upon successful completion of project development, versus
  - Ability of private capital partner to perform on capital commitments that do not materialize for many years