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

Role of Public/Private Partnerships

by

Rodney T. Smith
Stratecon Inc

Caesars Palace Hotel
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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

Public Entity Can Maintain Autonomy While Working with Private Capital Partner

- 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