KEYNOTE INTERVIEW

The future of public-private partnerships



A new generation of North American public-private partnerships will focus not just on financing, but on bridging a critical capacity gap in the delivery of new infrastructure, says Meridiam's Omri Gainsburg

From transportation systems and energy to water and waste, public bodies in North America are struggling to provide essential services to communities on their own. Against this backdrop, many are turning to the private sector.

Crucially, however, they are not just looking for capital, but rather to forge partnerships extending from design and delivery through to lifecycle management and the long-term stewardship of these assets, argues Omri Gainsburg, partner and chief operating officer for the Americas at Meridiam.

Q What are some of the biggest challenges facing US infrastructure today?

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Our infrastructure needs are rising faster than the traditional means and financing capacity required to meet those needs.

Historically, the provision of infrastructure was largely the remit of public sector agencies. In today's context, that means modernising transportation networks, enabling energy and digital growth, and improving basic public services such as water and waste, all while governments are facing conflicting challenges including defence and healthcare spending, demographic changes and the need to ensure climate adaptation.

Put another way, the challenge is less about access to capital and more about meeting a capacity gap so infrastructure can be delivered efficiently.

Q Is the emphasis on developing new greenfield projects or on upgrading ageing infrastructure?

It's both. A lot of US infrastructure is no longer fit for purpose. It's at the end of its useful life and no longer meets the needs of the communities it's there to serve. A lot of these systems were designed for different economies and

demographics, and that needs to be addressed, whether through new infrastructure or through the upgrading or replacement of legacy infrastructure. This is crucial for communities to adapt, grow and become more resilient to political, economic and environmental volatility.

For example, we need much more efficient and connected transportation systems. That could mean building new roads or replacing old ones; it could also mean urban transit systems or better airports. All of these things can provide congestion relief while enabling the growth of cities. In turn, it also helps expand economic activity while communities adapt to changing environments, including extreme weather events.

Q What are the advantages of public-private delivery models and how are PPPs evolving in the US?

Private capital can certainly help governments address fiscal constraints, but we see the real advantage of public-private models as helping governments address their other constraints, namely development and delivery capacity, as well as innovative design to meet resiliency needs.

Governments also have limited resources when it comes to long-term maintenance of public assets. This is why we apply a very disciplined approach to designing and delivering new infrastructure assets using whole-life costing. That means that in addition to delivering the asset, we also maintain it over the long term. This ensures the sustainability of our investments and means that we're delivering value to our investors on a long-term basis.

PPPs were initially thought of as a financing tool. Today, however, we're seeing governments asking much more relevant questions about how public sector and private sector partners can combine their respective strengths to deliver better long-term outcomes. We're helping these public agencies manage increased complexity, construction risk, lifecycle performance and long-term asset stewardship as they manage the delivery of large projects. It's not just about providing capital.



Q What do you see as the single biggest defining trend that will influence North American infrastructure opportunities over the coming decade?

I come back to the shortfall in traditional fiscal delivery capacity required to meet our growing infrastructure needs. Historically, we've relied on governments to deliver the infrastructure and services that everyone has come to expect. What we're seeing now is a widening gap between mobility, water and electricity needs, for example, and what governments are actually able to fund and deliver on their own.

As those needs continue to grow, therefore, I think the trend will be for governments and public agencies to look to partner with the private sector, not just for financing, but to address this capacity gap and to solve the challenges that they're facing.

These long-term partnerships will increasingly centre around bringing development expertise, lifecycle management, design innovation and investment discipline, in addition to providing capital. We've seen this firsthand across our projects, which help to close the capacity gap while delivering infrastructure solutions that have a direct, positive impact on the communities they serve.

Q Where do you think the most interesting PPP opportunities will come from in the years ahead?

Transportation will continue to be a significant opportunity, simply because the space is so vast in terms of both volume and cost. Major metropolitan regions will continue to face congestion, population growth and ageing systems, requiring not just the replacement of old systems, but also innovative, long-term thinking. This isn't just about repairing potholes!

We're also seeing a lot of attention being paid to new electricity networks, as well as grid modernisation and resilience. This isn't simply a power generation story.

Another major focus for public policy, meanwhile, is water infrastructure. That's partly about meeting new supply needs, which is a major challenge in the western half of the North American continent. But it's also about replacing and upgrading older

systems that have experienced decades of underinvestment. All of these sectors are emblematic of the increasing gap that exists between the needs of communities and what the public sector is able to deliver on.

Q Given the emphasis on public partnerships, how much political risk do these investments carry and how can that be managed?

This is where ensuring that PPPs are structured to be successful over the long-term becomes so important. Our most successful PPPs, including the Port of Miami Tunnel and the Long Beach Courthouse, were structured and now deliver based on shared performance objectives over the long term, not just milestones such as hitting financial close or construction completion.

It's vital that alignment of interest between public authorities and private partners is established from the earliest days of an asset being procured. That alignment then needs to stay strong throughout the asset's life. In this way, we can be confident that we'll generate our target financial returns, so long as we're meeting the expectations of the public service that we're providing.

For our investors, that means long-term cash yields, rather than a focus on seeking early exits that are not aligned with the underlying asset. That is a defining characteristic of a successful, long-term PPP.

"Resilience is becoming an increasingly important theme in the energy infrastructure world given the increased frequency and severity of weather events and other sources of potential disruption"

Q Energy demand is increasing for the first time in decades. How is that impacting the energy PPP space and what opportunities is it creating?

It's true that a lot of the attention goes to meeting load growth – particularly that being driven by data centres. We believe the bigger challenge, and therefore the more interesting opportunity for us, is how all this infrastructure is going to be connected.

We see significant needs in transmission and distribution networks, and grid modernisation in general. Resilience is becoming an increasingly important theme in the energy infrastructure world given the increased frequency and severity of weather events and other sources of potential disruption.

For example, airport directors around the country consistently place power reliability in their top three priorities. A sustained loss of power would be massively disruptive in that sector, which is why we believe that energy infrastructure investment is far broader than just generation.

Q Data centres are clearly driving demand for energy, but are they an interesting investment proposition in themselves?

Data centres are obviously very important to the US economy and do represent a large opportunity for investment, but we don't believe they exhibit the same underlying characteristics as our traditional infrastructure assets. Highways, water utilities, urban transport systems and airport terminals, for example, all serve a basic societal need that's expected to remain unchanged and relevant, not just over years, but generations.

By contrast, data centres are exposed to technology cycles, evolving consumer demands, financial market dynamics and corporate profit cycles. For us, that means they represent a different risk profile and investment proposition to the way that we define infrastructure.

The underlying purpose of an asset is critical to the long-term success of a PPP. Assets that provide a service that a community is going to rely on every single day for decades to come are paramount. That lies at the heart of an asset's resilience and sustainability, but also at the heart of the investment's resilience and sustainability. Essentiality is key.

Q Are there any emerging sectors that do meet this essentiality factor?

I would point to storage solutions. Public bodies in the power sector are increasingly turning to storage solutions to help them bridge transmission or distribution gaps, given how difficult it is to build new transmission and distribution capacity. They may not be using PPP terminology, but the format is very similar in terms of a long-term contract with a public partner, and this is an area where we're seeing increasing interest.

Q With growing opposition to AI infrastructure, how do you think about community engagement?

It's an essential ingredient in what we do. In the world of PPPs, transparency and public engagement are fundamental because our projects are conceived, developed and operated to serve communities. Our experience has taught us that trust must be built from the beginning through transparency, early engagement and a sustainable, long-term value proposition for the community. ■