

NEW AMERICAN MODEL FOR INVESTING IN INFRASTRUCTURE



AMERICAN WATER

Our country is currently facing \$2 trillion in infrastructure needs, and a group of leading CEOs and former elected officials have worked together on a report, *Bridging the Gap Together: A New Model to Modernize U.S. Infrastructure*, calling for a major culture change in how the United States funds infrastructure projects.

The report, authored by the Bipartisan Policy Center's Executive Council on Infrastructure, lays out a vision for increasing private capital in projects including water and wastewater systems, energy grids, ports, roads and bridges, and provides a roadmap to overcoming the barriers that discourage private investment.

According to the American Society of Civil Engineers, failure to make necessary investments in infrastructure may lead to \$206 billion in increased costs for businesses and households between 2011 and 2020. And while state laws enabling public-private partnerships are an

essential building block to expanding private investment in infrastructure, few comprehensively allow a full range of partnerships. In addition, the report warns that the true extent of the nation's infrastructure needs is unknown because the majority of states do not maintain a list or inventory of needs, which ultimately skews project prioritization and decision-making.

"By partnering, public and private stakeholders can reduce the fiscal burden on public sector balance sheets, transfer risks, and enable government agencies to focus on their top priority – ensuring their community's health and safety," said Susan Story, President and CEO of American Water and Co-Chair of the Executive Council on Infrastructure. "Together the public and private sectors can establish a new model for investing in infrastructure."

State laws are an essential building block to expanding private investment in infrastructure, yet 17 states lack laws allowing partnerships with the private sector, and even fewer states allow the full range of partnerships. The Bipartisan Policy Center's Executive Council is calling on states

MAKING THE CASE Borough of Haddonfield, NJ



The Borough of Haddonfield decided to meet its needs with a full transfer of its water and wastewater system, an aging system facing significant challenges, to the private sector. Over the next five years, New Jersey American Water will spend more than \$16 million on system modernization. If the sale did not go through, the Borough of Haddonfield Board of Commissioners, which recently had raised rates by 25 percent, was expected to raise rates again to pay for the much-needed capital improvements. As part of the sale agreement, New Jersey American Water committed to leaving the water rates unchanged for a minimum of three years. And, because New Jersey American Water is regulated by the New Jersey Board of Public Utilities, any future proposed changes to rates will be subject to extensive governmental review and approval.

To advance this effort, BPC Executive Council leaders and staff commit to the following actions:

- Applying our new model for investing in infrastructure to the crisis in water and wastewater infrastructure
- Supporting state and local officials in passing P3 legislation
- Providing guidelines for developing and evaluating state and local asset inventories
- Aiding in the development of a central clearinghouse for information and technical assistance on P3s



THE SOLUTION

NEW AMERICAN MODEL FOR INVESTING IN INFRASTRUCTURE

EMPHASIZE
engagement

ESTABLISH
enabling
framework

INVENTORY
public assets

EXERCISE
full optionality

LEVERAGE
financial tools

EXPAND
revenue options

SIMPLIFY
the process

LONG-TERM OUTLOOK COMPELS NEW MODEL,
DELIVERS MORE INFRASTRUCTURE

MAKING THE CASE Phoenix, AZ



The Lake Pleasant Water Treatment Plant in Phoenix, Arizona is the largest Design-Build-Operate water project in North America, and has the capacity to serve 400,000 homes. The City of Phoenix partnered with American Water Enterprises, Inc. (subsidiary of American Water), and a design-build joint-venture of Black & Veatch and McCarthy. The public-private partnership model saved the city an estimated \$30 million. Construction lasted from 2003-2007, and American Water professionals will continue to operate and maintain the plant until 2022, with the option for a five-year extension.

to pass new and improve existing laws enabling public-private partnerships or P3s. When the private sector partners with state and local leaders to address their growing infrastructure needs, they bring capital, specialized project expertise, and cost-saving ideas and innovations. They can help to reduce the risk currently on the balance sheets of public agencies.

While public-private partnerships alone won't be able to address the entire \$2 trillion in investment needed, they can have a transformative impact on the way we develop and maintain all of our infrastructure. As leaders, it is time to step up and commit more than ideas to solve this increasingly urgent issue facing our nation. Taken together, the benefits of partnership between the public and private sectors can reduce future public liabilities and lower project costs. Operations costs are minimized, risks are removed from public balance sheets, and debt capacity is freed up for other priorities.

In addition to the report, the Executive Council on Infrastructure has called on the business community, as well as federal and local governments, to work together to break the infrastructure status quo by supporting the key principles of the New American Model for investing in infrastructure.

MAKING THE CASE Fairview Township, PA



Fairview Township sold its wastewater system to Pennsylvania American Water for \$16.8 million in late 2015. This decision helped to pay off \$21 million in existing sewer debt, avoided additional debt (approximated at \$14 million), and allowed property taxes to be cut by 50 percent. Pennsylvania American Water will invest \$13 million in capital improvements, as well as up to \$1 million in reimbursement for the relocation of a sewer line. The system serves approximately 4,000 customers in Pennsylvania.

The report is part of Infrastructure Week, a national week of events, education and advocacy efforts to elevate infrastructure as a critical issue impacting all Americans.

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Learn more about the council's recommendations at infrastructurecouncil.org.