Bernhard Capital Partners

Public-private partnerships offer innovative solutions to local infrastructure challenges

Municipal and state leaders throughout the United States recognize the failing state of their infrastructure. In 2021, the American Society of Civil Engineers gave aging U.S. infrastructure a "C-minus" grade, with 11 of the 17 infrastructure categories evaluated graded in the "D" range. The U.S. Department of Transportation estimated $800 billion is needed to improve roads and bridges throughout the nation. Meanwhile, in the 2020 Menino Survey on Mayors, U.S. mayors cited infrastructure as the issue they would most like to see addressed in the recent presidential election — outpacing the next-highest rated response by 30 percentage points. The same mayors pointed to water and wastewater projects as ranking near the top of their infrastructure priorities.

The significant financial burden of investing in local infrastructure still falls on municipal and state leaders — no matter what happens in Washington, D.C.

The federal government increasingly recognizes this need, but the reality is that the significant financial burden of investing in local infrastructure still falls on municipal and state leaders — no matter what happens in Washington, D.C. Even the recently announced American Jobs Plan, while marking a significant federal commitment to invest in the country's infrastructure, speaks to the importance of the proposal in mobilizing private investment and the role of partnerships "across government, unions, and industry" to deliver this historic investment.

Columbia, S.C., Mayor Steve Benjamin echoes those sentiments, having experienced first hand the demands of finding funding to address local infrastructure priorities, and stresses the importance of thinking innovatively to address them.

"Cities not only have an obligation right now, but a real opportunity, to look at alternative methods of funding critical infrastructure and ways to unlock the value of their public assets," said Mayor Benjamin. "That is why public-private partnerships, and the opportunities they bring to local communities, are so appealing to local officials right now. As the saying goes, necessity is the mother of invention."

Local leaders have limited means to address their deteriorating infrastructure. This is particularly true as economies struggle to rebound in the wake of the COVID-19 pandemic, where tax or rate increases to fund infrastructure solutions are not viable options and with many government entities limited in their bonding capacity. While discussions and recent proposals to invest in a large-scale federal infrastructure package are promising, it is still unclear the extent to which local and state governments can rely on federal funding to address urgent infrastructure needs, as well as whether any such spending will adequately address the extensive needs of communities across the country. Further, local and state governments are staring at an impending exodus of long-time employees — in some cases as much as 25 percent or 35 percent of their workforce in the next five years — as retirements take effect and the pipeline to replace this knowledge base is limited.

More and more communities are turning to public-private partnerships as not only attractive, but also necessary solutions to address local infrastructure needs. Many are moving beyond traditional P3 approaches like tollways, recognizing the array of structures and scenarios in which the private sector may seek to partner with a government agency. In Hanover County, N.C., local leaders recently voted to divest of the county's regional medical center and related facilities, entrusting their ownership and management to a private-sector partner. The partnership resulted in approximately $2 billion for the county to fund other local priorities and comes after extensive analysis in the face of a rapidly changing landscape for healthcare services and costs.

For years, local leaders, like those in Hanover County, have struggled to determine how best to unlock the full value of public assets under their management in ways that can have a multiplier impact on the residents and communities they serve. Municipalities with strained budgets and a diminishing workforce are grappling with how best to fund critical upgrades and manage complex systems like regulated utilities, while customers pay the same or more in fees for diminished services. Private-sector partners that are both investors and operators bring unique solutions to these communities, with readily available capital not bound by traditional bureaucratic red tape and experienced leaders who bring decades of public- and private-sector expertise in maximizing the performance of these systems.

In Ascension Parish, La., local leaders have been working for years to create a consolidated regional sewer system that can keep pace with the tremendous growth the community has experienced in recent years and address growing environmental concerns caused by the parish's many small private systems. The parish is also in the unenviable position of having to use limited tax dollars to subsidize the parish sewer system, which only serves a small portion of parish residents. After multiple iterations of stalled or failed plans, the parish recently struck a deal to sell its sewer assets to a private sewer operator in exchange for nearly $10 million and annual franchise fees that will escalate over time as the system's users increase, while eliminating and redirecting the government's sewer subsidy toward other critical infrastructure needs. The private operator will then invest more than $200 million in the build out of a new consolidated regional sewer system for parish residents and manage it for 30 years.

While some communities, such as Ascension Parish, are divesting of assets and infrastructure to free up badly needed capital for short-term needs, others are entering into concession agreements that allow government agencies to retain full local control and ownership of their assets but lean on private partners to unlock their full value, while supporting operations and maintenance. In these scenarios, private partners will often make upfront and recurring payments that allow local leaders to recycle this capital into other infrastructure projects, relieve short-term debt, or fund other critical programs and services. This injection of capital into local communities is unique in that it can often be used at the discretion of local leaders, based on the community's most pressing needs. It also has positive community and economic impact well beyond addressing these needs. Investor operators come into these partnerships with a mandate and desire to invest in the systems or operations they are now managing, as well as the communities in which they now reside. This leads to job creation, career opportunities for existing staff in the form of skills training and upward mobility, local support for community organizations and nonprofits, and more.

Ascension Parish is not unique in the challenges local leaders face in investing in their local regulated utilities, particularly water and wastewater systems. Much of this infrastructure is underfunded, with assets that are operating well beyond the end of their useful lives, representing real risks to service reliability and environmental compliance. The federal government is increasingly focused on the environmental aspects of water and wastewater utilities, as well as how they impact and serve the surrounding community. New U.S. Environmental Protection Agency Administrator Michael Regan recently addressed the Environmental Council of the States and reiterated this priority, noting his team's focus on working closely with state environmental leaders to "identify activities like improving water infrastructure, cleaning-up Brownfield sites, training low-income and minority people in green jobs, and other opportunities that are best suited to your communities."

Investor operators bring real experience to local communities that can help address environmental challenges, improve operations, manage the execution of capital programs, and agressively position for federal grants or other support, such as the $2.7 billion the U.S. EPA announced in March 2021 to improve local water infrastructure. They also bring cutting-edge knowledge and resources to local utilities amid a rapidly changing industry — particularly in power generation — that is experiencing an infusion of renewables and a transition away from coal and fossil fuels. The expertise and resources of investor operators can have a direct impact on residents, with programs and opportunities to weatherize homes and other at-risk community infrastructure, or even through realizing operational efficiencies that deliver more reliable services without significant rate increases.

While most communities are facing infrastructure challenges and uncertain budgetary environments, the reality is that each community is different — and thus requires different solutions to meet its needs. What is most crucial is that local leaders are increasingly welcoming of alternative or nontraditional financing approaches that help meet their needs, recognizing that the private sector stands ready and willing to invest in their communities and be their partner in sustainability and growth.

CONTRIBUTOR

Jeff Jenkins
Co-Founder and Partner
Bernhard Capital Partners

Jeff Jenkins co-founded Bernhard Capital Partners after serving as a senior executive for The Shaw Group, one of the nation's leading builders and operators of power, industrial and commercial infrastructure. The private equity firm is an investor operator that specializes in creating sustainable, long-term value in the companies and infrastructure assets in which it invests.

CORPORATE OVERVIEW

Bernhard Capital Partners is a leading service- and infrastructure-focused private equity management firm established in 2013 by Jim Bernhard, Jeff Jenkins and a team of experienced private-equity professionals. The firm seeks to create sustainable value by leveraging its experience in acquiring, operating and growing services and infrastructure businesses. As of Dec. 31, 2020, the firm had $2.2 billion in net assets under management.

CORPORATE CONTACT

Dori McAuliffe, Investor Relations
dori@bernhardcapital.com
+1 (225) 228-2500

BERNHARD CAPITAL PARTNERS

This article presents the author's present opinions reflecting current market conditions. It has been written for informational and educational purposes only and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product.