

Think small to think big

New York City is the largest city in the US, and faces a challenge similar to other cities nationwide – overcoming staggering maintenance backlogs while also funding new projects deemed vital to economic growth. New York City and other municipal governments are experimenting with innovative financial arrangements that leverage private investment to overcome the shortfalls of the public purse. While the record on these arrangements has been mixed nationwide, there are three large-scale key PPPs operating successfully in New York City. The challenge – and opportunity – will be to harness best practices to apply PPPs to assets of a smaller scale, notably schools, parks and bridges.

New York City relies on a vast system of infrastructure to operate, including 5,800 miles of streets and highways, 790 bridges, over 1,000 public school buildings, 24 subway lines that stop at 468 stations, and two airports. While city government operates much of this directly, public benefit corporations also own and operate important infrastructure, including the subways, ports and airports. These public benefit corporations can issue their own tax-exempt bonds, and have proven to be important vehicles for infrastructure finance because they have allowed states and cities to undertake capital investments while bypassing municipal debt limits. As a result, PPPs in the US have been motivated primarily by improving operational and maintenance outcomes and increasing revenues earned from assets, not getting debt off the books.

The city and its public benefit corporations have experimented with PPPs to tackle large new projects and upgrade problematic old assets. There are two projects worth noting. The first is a \$1.4bn deal negotiated by the Port Authority of New York and New Jersey for Terminal Four (T4) at John F. Kennedy International Airport. The contract called for the private partner, a consortium featuring Amsterdam airport operator Schipol as the majority partner, to design, build, operate and maintain a new international arrivals terminal while simultaneously

keeping the old terminal in full operation. The partnership showed remarkable flexibility in adapting to face the threats presented to the airline industry after the September 11th attacks, and the agreement was recently renegotiated to expand T4 to accommodate air traffic from a terminal that will be demolished.

The second is New York City's 20 year partnership with Cemusa for the design, construction and maintenance of street furniture, which was notoriously poorly maintained. Cemusa is charged with replacing all of New York City's 3,200 bus shelters and 300 news stands, while adding new bike parking structures and public toilets. Cemusa sells advertising space on these street fixtures, and in return provides \$20m a year in payments for the life of the agreement.

These deals have worked out well, but have not ushered in widespread policy changes toward more public-private arrangements. Mayor Michael Bloomberg and his administration have stressed the importance of infrastructure upgrades, efficiently using the city's resources and working with the private sector. The city continues to face significant needs in repairing small land bridges, upgrading old school buildings and constructing new ones, and improving park space. These are not typically projects considered as candidates for PPPs in the US because they lack natural revenue streams and are small; but New York City can be a pioneer in following London's success with strategic partnerships. The city should move toward negotiating agreements that bundle together several schools or small parks.



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