

## Ridgewood Infrastructure

# Advantages of a P3 strategy for infrastructure investments

**Chase McWhorter**, Institutional Real Estate, Inc.'s managing director, Americas, recently spoke with **Michael Albrecht**, a managing partner of Ridgewood Infrastructure, about implementing public-private partnership (P3) strategies for infrastructure projects. Following is an excerpt of that conversation.

*How does Ridgewood differentiate itself from other firms active in the P3 space?*

Ridgewood Infrastructure invests in essential infrastructure in the U.S. lower middle market, with primary sectors of focus including water, utilities, transportation and energy transition. Ridgewood has both a depth and breadth of expertise in these areas, which allows us to originate and execute compelling investments with focus on (i) generating compelling absolute and risk-adjusted returns for our LPs, and (ii) providing our project and business partners with solutions to the multifaceted challenges they face. For example, we have invested into two of the three largest water public-private partnerships in United States history – The Vista Ridge Water Transmission Project in San Antonio, Texas, and the Prospect Lake Clean Water Center project in Fort Lauderdale, Florida.

*What are the advantages that a city or municipality enjoys through the build-out of critical infrastructure in a P3?*

There are three key benefits to municipal stakeholders related to: risk transfer, duration of construction, and the underlying financing of these projects. Cities that utilize a P3 approach benefit materially from transferring risk to the private sector. For example, during the construction phase, the private sector is taking on the risk of project delivery, including any cost inflation, which insulates the public from those risks and provides certainty.



**Vista Ridge Water Transmission Project, San Antonio**

The timing of the construction execution is another advantage that accrues to the public sector. Under most P3 arrangements, delays in achieving commercial operations result in steep penalties for the private sector partner. This dynamic, again, shifts risk to the private sector participants to insulate the public.

Finally, in a P3, the private sector typically takes on the risks related to financing. The equity investment is typically made prior to any debt or public financing, providing material protection to insulate risk for the community.

“ *The public sector stands to benefit from P3s by minimizing risk and achieving certainty of timing and quality of projects.* ”

In short, the public sector stands to benefit from P3s by minimizing risk and achieving certainty of timing and quality of projects.

*Can you tell us a bit about the Prospect Lake Clean Water Center project in Fort Lauderdale?*

The City of Fort Lauderdale was seeking to quickly build a resilient water-treatment facility at a cost that would not materially affect rate payers and utilities. We were able to collaborate with the key stakeholders in the city government to provide a solution that addressed each of the city's key challenges.

The state-of-the-art Prospect Lake water-treatment plant is designed to withstand a category-five hurricane. Our construction and commissioning will be complete in approximately half the time it would have taken as a public project (at an equivalent or lower cost), creating a major win for the community. In addition, by having Ridgewood lead these activities with our partners, the city transferred construction and operational risk, further enhancing the value proposition for Fort Lauderdale.

*How was Ridgewood able to engage in the P3 arrangement used for the Prospect Lake Clean Water Center project, and why has it been particularly successful?*

Ridgewood Infrastructure tracks various cities' infrastructure needs. In the case of Fort Lauderdale, we observed the city had aging infrastructure of more than 70 years old that was

creating challenges for the community. We worked with our various partners to approach the mayor, the city commissioners and other stakeholders with our proposal to provide upgraded infrastructure and a turnkey solution. The key to this process is to listen and understand community stakeholders' primary goals and objectives, reflect on what they want to achieve, and only then provide a full solution that addresses their goals and concerns. We eventually submitted an unsolicited proposal to the city for consideration, which was found highly attractive. Other parties were then also able to submit proposals. At the end of the process, we were selected unanimously to provide our solution for the benefit of the community of Fort Lauderdale.

The unconventional part was the Prospect Lake Clean Water Center project utilized a novel and accretive approach to the debt financing for the benefit of the city of Fort Lauderdale. Traditionally, in a P3, the private sector is responsible for providing both the equity and the debt. In our approach, however, the public sector used its ability to secure lower-cost, tax-exempt financing for the benefit of rate payers.

One of Ridgewood's primary goals when creating P3 investment opportunities is to minimize the cost impact to rate payers. Our approach in terms of the financing resonated with the stakeholders of this project, and it also demonstrated Ridgewood's commitment to the community and focus on driving lower costs to those rate payers and providing them those benefits.

*How have the P3 transactions executed by Ridgewood had a positive impact on local communities, economies and the environment?*

The Vista Ridge water transmission pipeline, which is the largest water P3 in U.S. history, is emblematic of the P3 transactions we have led. Vista Ridge utilizes a 142-mile, 60-inch diameter water pipeline to provide potable water to approximately 20 percent of the community of San Antonio, which is the seventh-largest city – and among the fastest-growing – in the United States. The project has had an incalculable impact on the region, given that a city without water cannot serve its existing residents or businesses, and Vista Ridge provides that essential water. San Antonio requires enough water to ensure job growth and economic prosperity for its community, which we want to help deliver. Further, the San Antonio region typically suffers from drought conditions, and Vista Ridge limits both the severity and duration of those droughts.

The project also provides, in a positive way, environmental benefits, as the local aquifers suffer from material drawdowns or reductions during periods of drought or material usage, which negatively affect various species that live in the region. This project is not only having a positive impact on the community residents receiving potable water, but is also having a positive impact on those local aquifers and providing a more sustainable environment for endangered species. The project truly is representative of how the public and private sectors working together can provide financial, as well as nonfinancial, benefits for a community, the ecosystem and the state.

*How are Ridgewood's projects setting a precedent for future water infrastructure project development?*

Ridgewood's P3 projects demonstrate leadership in providing creative solutions for cities. It is important to focus on all the various stakeholders in a community who are involved in these projects. For example, in Fort Lauderdale, our proposal was the only one to receive labor support. Environmental stewardship is also an essential element – how can we improve and protect a community's environment and help it flourish for generations to come?

Another precedent can be seen in how Ridgewood has used novel approaches to financing in order to reduce the cost to rate payers. Our leadership has created a template that Ridgewood and other firms can utilize for the benefit of communities across the country, because many communities do require assistance in thinking through these challenges.

*How does Ridgewood assess the risk factors associated with P3 investments? And what strategies does the firm employ to mitigate these risks?*

Each of these types of P3s has various risk elements; some of the more common are commercial risks, financing risks and legal risks. We bring the experience to not only understand these risks, but also understand how to mitigate them. We also work with various outside partners including industry leaders for project delivery. Harmonizing the core competencies of a P3 along with that specific industry expertise is important in delivering a positive outcome for all the stakeholders involved.



#### CONTRIBUTOR

**Michael Albrecht**  
Managing Partner  
Ridgewood Infrastructure

As managing partner of Ridgewood Infrastructure, Michael Albrecht brings significant investment experience in infrastructure and real assets. Prior to Ridgewood, Albrecht served as acting global

head of infrastructure and real assets for Allstate Investments, where he was also direct investments head and the sole representative of the Private Asset Group on Allstate Investments' risk management credit committee. Prior to Allstate Investments, he was a senior acquisitions officer at JPMorgan Investment Management.

#### CORPORATE OVERVIEW

**Ridgewood Infrastructure** invests in essential infrastructure in the U.S. lower-middle market. We originate investments that provide essential services to customers and employ responsible and operationally focused initiatives to enhance value. Through this strategy, Ridgewood focuses on creating beneficial outcomes for stakeholders with investments that generate long-term, high-quality, noncorrelated cash flows.

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