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Fundamentals and Issues of Public-Private Partnerships (PPPs)

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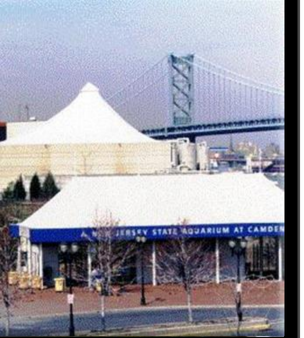
NCPPP Executive Director



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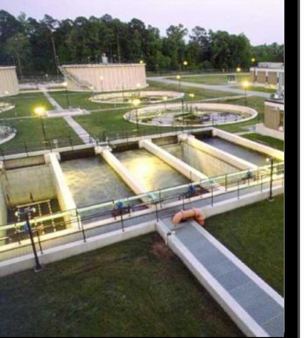
What is NCPPP?

- Membership
  - Public and Private
- Partnerships range from:
  - Outsourcing
  - Public-Private Partnerships
  - Privatization
- OUR FOCUS = Public-Private Partnerships
  - “Joint Ventures”
  - “Collaborative Enterprise”
- **NOT “Privatization”**
  - Difference = **The level of public control & oversight**



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OBJECTIVE

To provide a framework for today's discussions

To illustrate that Public-Private Partnerships (PPPs) are:

- **Not revolutionary**
  - Used in a number of infrastructor sectors
  - Over 200 years of experience in the US
    - First ones for transportation
  - More widely used in other countries
    - Europe, Asia, Latin America, etc.
- **Don't answer all challenges**
- **Does provide a valuable tool**

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Challenges & Opportunities

TRUST IN EACH OTHER

- The need for transparency
- Understanding the other's position

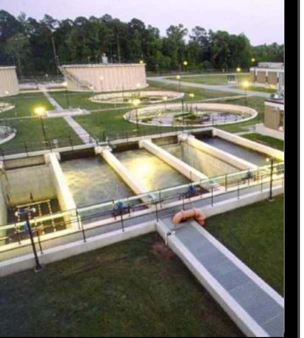
PUBLIC SECTOR

- Aging Infrastructure
  - Maintenance
  - Replace & Expand
- Shrinking Budgets
- Constituent Demands
- Exercising Authority

PRIVATE SECTOR

- Economic Development
- Accelerated delivery
- Capitalize on public sector resources
  - Underutilized Assets

PPPs = An Answer, not the answer



WHAT IS A PPP?

A Public-Private Partnership is a **contractual agreement** between a **public agency** (federal, state or local) and a **private sector entity**. Through this agreement, the **skills and assets** of each sector (public and private) **are shared** in delivering a service or facility for the use of the general public. In addition to the sharing of resources, **each party shares in the risks and rewards** potential in the delivery of the service and/or facility.

source: www.ncppp.org

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Sectors Where PPPs Have Been Used

THE EXPERIENCE IS TRANSFERABLE

“Lessons learned from one . . .”

- Transportation
- Water/Wastewater
- Urban Development
- Utilities
- Financial Management
- Schools

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Challenges of Bringing the Public and Private Sectors Together

“Failure to Communicate”

- “We Don’t Speak the Same Language”
  - “Business Speak”
    - Customer Satisfaction
    - Return on Investment
    - Risk/Reward Evaluation
  - “Public Speak”
    - Responsibility
    - Accountability
    - Risk Avoidance

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But Are These Really Different?

BUSINESS	GOVERNMENT
Customer Satisfaction	Responsibility
Return on Investment	Accountability
Risk/Reward Evaluation	Risk Avoidance

Private Sector Strengths

The Result of Market Competition

- Management Efficiency
- Newer Technologies
- Workplace Efficiencies
- Cash Flow Management
- Personnel Development
- Shared Resources (Money?)

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Public Sector Strengths

The Result of Serving the Public Trust

- Legal Authority
- Protection of Procurement Policies
- Broad prospective/balance the competing goals to meet public needs
- Personnel – dedicated but constrained
- Capital resources

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Successful Partnerships

The Secret is to Balance the Strengths of Both Sectors

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Advantages of PPPs

- Maximizes the use of each sector’s strength
- Reduces development risk
- Reduces public capital investment
- Mobilizes excess or underutilized assets
- Improves efficiencies/quicker completion
- Better environmental compliance
- Improves service to the community
- Improves cost effectiveness
- Shares resources
- Shares / allocates risks
- Mutual rewards

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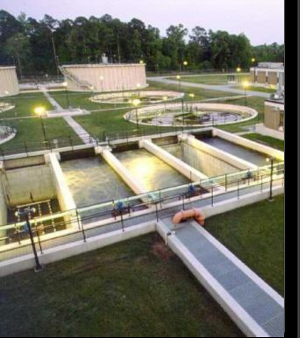
Case Studies at www.ncppp.org

- Transportation
- Water / Wastewater
- Financial Management
- Real Estate / Economic Development
- Public Safety
- Social Programs
- Education



CASE STUDIES

WATER SYSTEMS

- **TAMPA BAY DESALINATION**

PUBLIC FACILITIES

- **SCHOOLS, LIBRARIES, ETC**
  - **The Virginia PPEA example**
- **HOSPITALS**

CASE STUDY TRANSPORTATION

WASHINGTON DC METRO STATION

- An “in fill” station in an economically depressed area
- Public and private initiatives
- Cost: $90 million
- Local Developer provided 30% through a dedicated tax district and the land for the station
- Economic Impact: 600% increase in property values in 3 years

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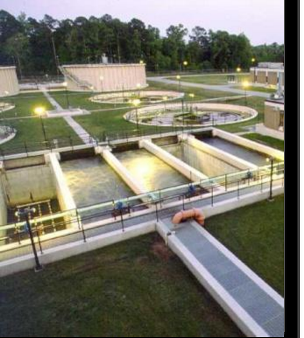
THE PROCESS
(How do you attract the interest of the private sector?)

The Problem of "No Response"

- The need to make a return on the investment
- Up-front costs at risk

Public sector steps before the RFP

- General concept design, but not design specific
- Evaluation of the value of publicly held lands
- Evaluation of market potential, including tax revenues to be generated
- RFQ to select a design and construction team
- RFP to the select group developed by the RFQ
- Private pre-RFP costs can be significant, but projects have a higher probability of success (because of the pre-RFP process)



Six Keys to Successful PPPs

- Statutory and Political Environment
- Organized Structure
- Detailed Business Plan
- Guaranteed Revenue Stream
- Stakeholder Support
- Pick Your Partner Carefully

Managing for Success – Six Keys

Component One:
The Environment

- Statutory authority and regulations
- Political leadership must be in place
  - Leading Political Figure
  - Top Administrative Officials
  - “The Will to Change the System”
  - A Strong Policy Statement

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Managing for Success – Six Keys

Component Two:
Organizational Structure

- Dedicated group (tied to the purpose of the partnership)
- Dedicated and TRAINED personnel to monitor implementation
- Examples: TXDOT, VDOT, PPP Centrum, Partnerships UK, Irish Government’s Central PPP Unit
- Best Value vs. Lowest Price
  - Difficult to Administer but…
- Need for Good Governance
  - To assure an open and fair procurement process
  - Consolidate staff = easier to monitor
  - Independent authority (domestic/internal or international)

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Managing for Success – Six Keys

Component Three:
Detailed Business Plan
a.k.a. Enforceable Contract

- Performance goal oriented - Allow for innovative plans
- Best Value vs. Lowest Price
- Plan/Contract should include:
  - Specific milestones and goals
  - Reporting of metrics and frequency
- Risk Allocation
  - Shift to the private sector can raise costs
  - Identify best prices to retain, which to shift
- Dispute Resolution Methodology
- Workforce Development?
  - Develop in-country resources/small businesses

Managing for Success – Six Keys

Component Four:

Guaranteed Revenue Stream

- Funds to Cover the Long-Term Financing
  - Tolls/Fees (real or shadow)
    - Intelligent transportation systems
  - TIF or other form of a Tax District
  - Long-Term Maintenance Contracts
  - Availability Payments
  - Underutilized Assets
  - Concession Model (limited application)
  - Creative Approaches

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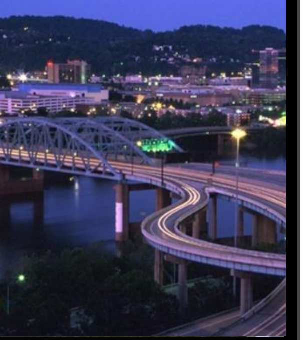

Managing for Success – Six Keys

Component Five:

Stakeholder Support

- Public Sector Employees
- Private Sector
- Labor Unions
- End Users
- Competing Interests
- Requires:
  - Open and frank discussion between sectors
  - Knowing the FACTS (not myths)
  - Translating each other's language

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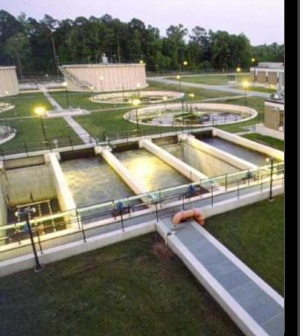

Managing for Success – Six Keys

Component Six:

Pick Your Partner Carefully

- This is a long-term relationship
  - Verify experience (technical capability)
  - Verify financial capability
  - Best Value vs. Lowest Price
- Remember each sector's motivation
  - Genuine need (market value to the project)
  - Political / statutory environment
  - Reasonable return on investment and manageable risks
  - Timely and effective execution vs. development costs

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Managing for Success

The Most Critical is
Component One:

Strong LEADERSHIP makes
all the other factors
come together

Need Help?

www.ncppp.org

Case Studies, Fundamentals of Partnerships, Issue Papers, Publications, Resources

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