PUBLIC-PRIVATE PARTNERSHIPS (PPP OR P3)

INDIANA UNIVERSITY
PUBLIC POLICY INSTITUTE

What is a
Public-Private Partnership (P3)?

A public-private partnership (P3) is a contractual arrangement between a public agency (federal, state or local) and a private sector entity.

Skills and assets of each sector are shared, each party shares in the risks and rewards potential in the delivery of the service and/or facility.

Source: The National Council for Public-Private Partnerships (ncppp.org)

What are P3s?

P3s:

- have been around for decades
- are used to describe a variety of arrangements

P3 Arrangements

- *Municipal Bonds (private investment to support public efforts)*
- *Contracting for services, RFP/RFQ, professional services*
- *Use of TIF (Tax Increment Finance) Districts to attract and support private firms*

P3 Arrangements (cont.)

- *Concession Agreements*
- *Build-Operate-Transfer (BOT) or Build-Own-Operate-Transfer (BOOT) Agreements*
- *Co-business ventures*

These newer types are more collaborative agreements between sectors which are more creative and efficient ways to use limited public resources

P3 Arrangements (cont.)

- **Municipal Bonds:** Debt securities issued by governmental entities to fund day-to-day obligations and to finance capital projects.
- **Contracting for services, RFP/RFQ, professional services:** Hopeful result in finding the best products or services available for the lowest possible costs. Example: City park mowing, office supplies, or waste collection services
- **Use of TIF Districts:** Encourages private development in areas that have yet to achieve their full economic potential. TIFs buys a public asset that potentially benefits the private sector.

P3 Arrangements (cont.)

- **Concession Agreements**: Public sector establishes agreement with a private sector partner to operate and manage the publicly-owned asset. Examples: the 50-year lease of the Indianapolis parking meter agreement, the 75-year lease of the Indiana Toll Road.
- **Build-Operate-Transfer (BOT) or Build-Own-Operate-Transfer (BOOT) Agreements:** The private sector builds the asset, operates while charging the governmental entity for use, then transfers ownership to the public entity after time. Example: The proposed Indianapolis Justice Center
- **Co-business ventures:** The public sectors enters into a limited-time agreement with two or more private sector parties. Example: Indianapolis Super Bowl Legacy Project use of New Markets Tax Credit (NMTC) and Housing Tax Incremental Financing District (HoTIF)

Newer P3 Agreements

The Fels Institute of Government, University of Pennsylvania (2015)

- *Address the complex funding issues in the public sector, post-recession*
- *Transformation of traditional agreements into collaborative partnerships*
- *Because of shared goals, it results in cooperation which furthers both public and private agendas*
- *Government has access to unique resources, whereas the private sector has certain expertise to better use these resources*
- *Partnerships span multiple years, so these agreements demand a deeper level of communication and integration between the sectors*

Newer P3s – Eight Common Characteristics

1. **Long-term** (in terms of time to launch and overall life of the initiative)
2. **Complex** (in terms of the coordination of steps that are necessary for success)
3. **Unfamiliar** (in terms of an effort that the parties have not done before)
4. **Strategic programs**
5. **High dollar investments**
6. **Enterprise-wide** (in terms of multiple government agencies involved)
7. **Multiple Partners** (in terms of different companies from various industries to offer a complete solution)
8. **Complementary strengths** (in terms of each side offering something the other cannot)

Source: Fels Institute of Government, University of Pennsylvania (2015)

Benefits of Using a P3

- Efficiency – There is a widely-held belief that the private sector can provide certain services cheaper and more effectively than government
- Better financing terms - The private sector has access to more innovative private financing
- Immediate financial benefits – Public sector is normally paid up-front with a lump sun payment, in consideration for the concession agreement

Benefits of Using a P3 (cont.)

- Fee Increase – Allows for an increase of maintenance fees that normally are not increased by the public sector due to politics
- Savings – Public sector can realize yearly savings because of fewer annual costs associated with maintenance and operation of the asset

Challenges of Using a P3

Biggest challenge is finding political consensus, thus starting a P3 project or initiative can be derailed by partisanship and political cycles

- *Partisanship: Especially when a jurisdiction is divided on partisan line, the need for real consensus at the outset can be an obstacle to success.*
- *Political cycles: Due to the time it takes to approve a major agreement in the public sector, partisan election calendars can both slow down or stop the approval process until after an election date.*

Challenges of Using a P3 (cont.)

- Agreement terms – Long agreement terms can "tie the hands" of future decision-makers and populace of later generations.
- Differing cultures - The business/work culture of a private sector partner could be dissimilar to that of the public sector, so each sector needs to acknowledge, be aware, and be sensitive to this issue.
- Complexity – Public sector officials need to consult with outside experts who are specialized and have technical knowledge about these agreements

Best Practices before proceeding with a P3

1. Public Sector Champion
2. Statutory Environment
3. Public Sector’s Organized Structure
4. Detailed Contract (Business Plan)
5. Clearly Defined Revenue Stream
6. Stakeholder Support
7. Pick Your Partner Carefully

Source: *The National Council for Public-Private Partnerships (ncppp.org)*

Best Practices from the NCPPP

1. **Public Sector Champion:**
   Recognized public spokespersons should advocate for the project and the use of a P3. Well-informed champions can play a critical role in minimizing misperceptions about the value to the public of an effectively developed P3.

Best Practices from the NCPPP

2. **Statutory Environment:**
   There should be a statutory foundation for the implementation of each partnership. Transparency and a competitive proposal process should be delineated in this statute.

Best Practices from the NCPPP

3. **Public Sector's Organized Structure:**
   The public sector should have a dedicated team for P3 projects or programs. This team should:
   - *be involved from conceptualization to negotiation, through final monitoring of the execution of the partnership.*
   - *should develop Requests For Proposals (RFPs) that include performance goals, not design specifications.*

- Consideration of proposals should be based on best value, not lowest prices.

Best Practices from the NCPPP

4. **Detailed Contract (Business Plan):**
   A P3 is a contractual relationship between the public and private sectors for the execution of a project or service. Contracts should include:

   – *A detailed description of the responsibilities, risks and benefits of both the public and private partners*

   – *a clearly defined method of dispute resolution*

Best Practices from the NCPPP

5. **Clearly defined revenue stream:**
   While the private partner may provide a portion or all of the funding for capital improvements, there must be an identifiable revenue stream sufficient to retire this investment and provide an acceptable rate of return over the term of the partnership. The income stream can be generated by a variety and combination of sources (fees, tolls, availability payments, tax increment financing or a wide range of additional options), but must be reasonably assured for the length of the partnership's investment period.

Best Practices from the NCPPP

6. **Stakeholder support:**
   More people will be impacted by a partnership. Like affected employees, the portions of the public receiving the service, the press, appropriate labor unions and relevant interest groups will all have opinions, and may have misconceptions about a partnership and its value to the public. It is important to communicate openly with these stakeholders to minimize potential resistance to a partnership.

Best Practices from the NCPPP

7. **Pick your partner carefully:**
   The "best value" (not always lowest price) in a partnership is critical in maintaining the long-term, successful relationship. A potential partner's experience in the specific area being considered is an important factor in identifying the right partner. Equally, the financial capacity of the private partner should be considered in the final selection process.

Thank you for your attention.

INDIANA UNIVERSITY
PUBLIC POLICY INSTITUTE