# Public Private Partnerships: A Practical Option

**LANSING, Mich. -** State and local governments have cut employees and tapped their reserve funds, yet remain in a budget crisis while demands remain high for government infrastructure and services. In most areas, it appears that raising taxes or approving the issuance of bonds is not an option. Public Private Partnerships (P3s) can provide private capital and innovation to help governments meet the increasing demand for infrastructure improvements.

## What is a P3?

The definition is simple. A public private partnership is an agreement between a governmental entity and a private entity to deliver a service or a project. It is a collaboration of the best attributes of a government and a private firm. The government can provide tax incentives, oversight, an institutionalized process, and has inherent power. The private sector brings private capital, innovation, efficiencies, and an incentive to deliver in exchange for the opportunity of a return on its investment. For example, an unusable city-owned building requiring rehabilitation that is conveyed to a private developer can receive the benefit of cost reduction through tax credits, tax abatements, tax deductions, depreciation, and other incentives. Only the private sector can take advantage of the various incentives that makes the project affordable for a tenant and bankable. After a period of years, the building is re-conveyed to the city.

In practice, P3s take a variety of forms, including: (1) design-build, (2) build-operate-transfer, (3) design-build-operate-transfer, (4) design-build-finance-operate-transfer, and (5) program management fee service contracts. P3s have been successfully used across the country for projects including roads, rail, transit, economic development, water and waste water, parking garages, street lighting, and college dormitories.

## What are some of the benefits of P3s?

P3s unleash the creativity of the private sector in the areas of finance, design, construction, and long-term maintenance, all of which are competitively priced. On the contrary, the traditional government model is tied to one design, one financial model, and no life cycle cost influence - - where only the construction cost is competitively bid.

P3s shake things up, change attitudes, and most importantly… improve outcomes.

- P3s are a collaboration model demanding cooperation that does not place either party in a win-lose situation.
- Projects are examined as financially feasible by those that have money at risk (*i.e.*, the banking community, the developer, the contractor, and the operation and maintenance company), which reduces the risk of failure.
- The risk of the project is mostly shifted to the private sector, which reduces the political risk of government officials.
- In the event of a default, citizens do not lose – the private sector loses.

- Governments can obtain the project and capital in record time.
- On balance, there tends to be more efficiency, innovation, and cost sensitivity with P3 projects, which provides greater value for money than with traditional procurement methods.
- The private sector has a great deal of experience in the type of project that is to be delivered and the public sector has the power to demand results and to enforce contracts; which permits the private sector an opportunity for a return on investment and the public sector to obtain a project.

**What does the future hold for P3s?**

The trend toward the increasing use of public private partnership can be measured by the number of states with P3 legislation. An unscientific number has a count at 34. It is significant that states are increasingly sanctioning institutional legitimacy to P3. Perhaps, even more significant is the belief that all states have undertaken P3 projects even without P3 legislation. Increasing use will continue as governments receive increased social and political acceptance (*i.e*., from labor unions and both political parties). Not only are P3s the avant garde approach, they are becoming a key driver of infrastructure growth.

With 20 years of seasoned success, very little failure, and almost no negative repercussions on citizens, the comfort level with P3s is expected to grow. As P3 use grows among governmental entities, it also grows among the banking community that usually supplies much of the capital for the projects. Governments also realize that private capital is available and private concessionaires have the ability to undertake all the facets of a project (financing, design, construction, and long-term operation and maintenance).

The P3 methodology is successful because it is based upon the premise of a partnership, and when the partnership wins each party wins; it is a methodology of collaboration for a common goal.

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