L01: Building Public Private Partnerships

Trainer:

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BUILDING PUBLIC-PRIVATE PARTNERSHIPS

Presentation to National League of Cities Annual Conference
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Public-Private Partnerships
Our Objectives for Today

• Become familiar with public private partnership (PPP) concepts
• Engage analytical frameworks to improve PPP success
• Think more critically about complexity and risk in PPPs
• Enhance understanding of PPP development & execution
• ASK the questions:
  - What are the implications for my City, Town, Village, County, State?
  - What can my community learn from this example and what can I do to lead a successful effort?
  - How can/should my community implement this new information from cases into our own development and management of PPPs that require private sector involvement and investment?
What is a Public-Private Partnership

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
What is a PPP?
Public-Private Partnerships

- Although the term privatization is used interchangeably with P3, there are key differences between them.

- These differences occur in three primary areas: ownership, structure, and risk.

  - **Ownership** refers to the party that has and controls the rights or interests of an asset or service enterprise.

  - **Structure** refers to the resulting contractual arrangements that are used to facilitate P3's.

  - **Risk** refers to the financial and or legal responsibilities that are undertaken by the designated party – public, private or both depending on the terms and conditions of the contract.
PPPs in the US Context: Scale of Investment

Exhibit 2.11 Use of PPPs for Major Highway and Transit Projects since 1991*
(project costs shown in millions of dollars)

- Major Highway PPP Projects Since 1991 (44 Projects)
  - DB, 31 (54%)
  - DBM, 1 (6%)
  - DBFO, 2 (2%)
  - BOT, 1 (35%)
  - Concession, 6 (3%)

- Major Transit PPP Projects Since 1991 (12 projects)
  - DB, 8 (43%)
  - DBOM, 3 (DBFO, 1 (5%)

- Major Highway PPP Project Costs Since 1991 (Total: $22,431 Million)
  - DB (54%)
  - BOT (9%)
  - DBM (6%)
  - DBFO (2%)
  - Concession (35%)

- Major Transit PPP Costs Since 1991 (Total: $7,384 Million)
  - DB (43%)
  - DBOM (43%)
  - BOT (9%)

* Figures are for capital projects at lease $53 million in size and with a notice to proceed issued on or after FY 1991.

Types of Partnerships

• **Build-Own-Operate (BOO):** The private sector finances, builds, owns and operates a facility or service in perpetuity. The public constraints are stated in the original agreement and through on-going regulatory authority.

• **Build-Own-Operate-Transfer (BOOT):** A private entity receives a franchise to finance, design, build and operate a facility (and to charge user fees) for a specified period, after which ownership is transferred back to the public sector.

• **Build-Operate-Transfer (BOT):** The private sector designs, finances and constructs a new facility under a long-term Concession contract, and either transfers the facility to the government after completion or operates it during the term of the Concession. In fact, such a form covers BOOT and BLOT with the sole difference being the ownership of the facility.

• **Buy-Build-Operate (BBO):** Transfer of a public asset to a private or quasi-public entity usually under contract that the assets are to be upgraded and operated for a specified period of time. Public control is exercised through the contract at the time of transfer.
Types of Partnerships

• **Design-Build (DB):** The private sector designs and builds infrastructure to meet public sector performance specifications, often for a fixed price, turnkey basis, so the risk of cost overruns is transferred to the private sector.

• **Design-Build-Finance-Operate (DBFO):** The private sector designs, finances and constructs a new facility under a long-term lease, and operates the facility during the term of the lease. The private partner transfers the new facility to the public sector at the end of the lease term. Applies to DBFM as well as BOO and BOOT.

• **Build-Lease-Operate-Transfer (BLOT):** A private entity receives a franchise to finance, design, build and operate a leased facility (and to charge user fees) for the lease period, against payment of a rent.

• **Finance Only:** A private entity, usually a financial services company, funds a project directly or uses various mechanisms such as a long-term lease or bond issue.
Types of Partnerships

• **Concession**: contractual arrangements in which the public sector transfers right to a private actor to operate and maintain a facility. The private sector firm may obtain exclusive rights for fixed period of time, e.g., 30 years or more, to operate business or be the sole provider in a designated geographic area (i.e., franchise)

• **Operation & Maintenance Contract (O & M)**: A private operator, under contract, operates a publicly owned asset for a specified term. Ownership of the asset remains with the public entity. (Many do not consider O&M's to be within the spectrum of PPPs and consider such contracts as service contracts.)

• **Operation License**: A private operator receives a license or rights to operate a public service, usually for a specified term. This is often used in IT projects.

• **Divestiture**: The government transfers an asset, in part or in full, to the private sector. Certain conditions typically accompany the sale to make sure improvements take place and citizens continue to be served.

• **Lease**: The government grants a private entity a leasehold interest in an asset. The private partner operates and maintains the asset according to the lease terms.
Typically, a private sector consortium forms a special company called a "special purpose vehicle" (SPV) to develop, build, maintain and operate the asset for a contracted period.

- In cases where the government has invested in the project, it is typically (but not always) allotted an equity share in the SPV.
- The consortium is usually made up of a building contractor, a maintenance company and bank lender(s).
- It is the SPV that signs the contract with the government and with subcontractors to build the facility and then maintain it.
- In the infrastructure sector, complex arrangements and contracts that guarantee and secure the cash flows and make PPP projects prime candidates for project financing.

An important characteristic of an SPV as a company is that it cannot undertake any business that is not part of the project.

An SPV as a separate legal entity protects the interests of both the lenders and the investors.
Hybrid PPP Models

- **Bundling** — reduce transaction costs by using same private partner to deliver several small scale PPP projects.

- **Competitive Partnership** — different private partners deliver different aspects of the project. Provides government with benchmarking data and right to reallocate work.

- **Incremental Partnership** — power with public sector to enter and exit contract relationships depending on productivity.

- **Integrator** — private partner to manage the project. Important that integrator not also be a producer.

- **Joint Venture** — UK uses a variant of this model, local improvement finance trust (LIFT) for its hospital PPPs.

- **Alliancing** — public and private sector agree to jointly design, develop, and finance the project. They may also work together to build, maintain, and operate the facility.
Continuum of Partnership Type

Public Responsibility

- Design-Build
- Service Contracts

New Projects

- Design-Build-Maintain
- Design-Build-Operate
- Management Contracts
- Design-Build-Operate-Maintain
- Lease
- Concession

Private Responsibility

- Build-Own-Operate
- Design-Build-Operate-Maintain
- Concession
- Divestiture

Existing Services and Facilities

- Build-Own
- Build-Own-Operate
- Design-Build
- Build-Own-Operate
- Design-Build-Maintain
- Build-Own-Operate

National Council for Public-Private Partnerships
Public-Private Partnerships

• Some commonly accepted attributes

1. Joint working relationship between public and private sector
2. Public sector is seeking access to private sector expertise and management to drive value for money
3. The project is often financed in part or in whole through private finance
4. Risks are negotiated between the parties on the basis of which party is best placed to manage and bear the risk
5. The PPP is generally a long term (25-30 years) arrangement between the parties – U.S. has tended toward very long arrangements (75-99 years IL, IN)
6. Payment varies – private sector and public sector financing and public sector incentives for private sector to make investments and bear risks
Concerns about Public-Private Partnerships

• Requires government leadership
• Unrealistic expectations about risk
• Complexity of project
• Optimism bias – expectations about demand
• Financing schemes
• Need for effective legal and regulatory frameworks
• Vision needed for supporting infrastructure
• Demands political and administrative stability
Partnership Considerations

- What is the optimal balance of public and private investment and participation in the project to maximize public value?
- Determine what the public authority is allowed to do
- Define project needs and objectives and who should own them
- How quickly does the asset or its improvement need to be provided?
- How can the asset be delivered and maintained as efficiently and cost-effectively as possible?

- Will changes in technology, policy or demand affect how the needs of tomorrow are met?
- What is the opportunity for involving the private sector and how best to leverage innovation?
- What capabilities do you have to deliver and manage the project and what do you need?
- How is the project to be paid for?
- How much risk should be transferred and to whom?
Institutional Sophistication and PPP activity

http://individual.utoronto.ca/siemiatycki/PPP%20Sophistication.html
GOVERNANCE AND KEYS TO SUCCESS
Seven Keys to Successful PPPs: A Summary

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

Based on: www.ncppp.org
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
  - Political stability, reduce interference from politicians, costs must be fairly and equitably assessed
  - Require independent, third-party reviews (i.e., valuation)
  - Institutional, legal, and regulatory frameworks
  - Involvement of the public
  - Seek competition in market
  - Stay focused on goals and accountability to the public
Legislative Considerations

- Better, fewer, and simpler laws
- Improved arbitration processes
- Strengthen & streamline regulations
- Fair and consistent enforcement
- Training of lawyers/judges
- Empower citizens to use legal processes
- Transparency and property rights

Features of a Legislative Framework Conducive to PPPs

- Give public entities considerable flexibility in the types of agreements they may enter into and in the specific procurement process
- Allow contracts to be awarded according to best value, not just low price
- Allow mix of public and private dollars
- Allow “mixed concessions” (such as the reconstruction or expansion and long-term operation of existing facilities)
- Allow long-term leases of existing government assets
- Authorize procedures to receive and consider unsolicited proposals
- Avoid provisions that would require further legislation to authorize or finance a project, execute a franchise agreement or change toll rates.

Source: Nossaman, Gunther, Knox, & Elliot
PPPs in the US Context: Legislation for PPP

Exhibit 2.9 States with Legislative Authority for Transportation PPPs and/or Design-Build Project Delivery

- States with only PPP legislation*
- States with only DB authority **
- States with both PPP legislation and DB authority


** Also includes Alaska, Hawaii, and Puerto Rico; California – Transit agencies and certain cities and counties; Illinois – Regional Transportation Authorities; Texas – Comprehensive Development Agreements; Massachusetts – authority for one project. Source: FHWA and Nossaman Guthner Knox & Elliott. Data valid through 2007
Component Two: Organized Structure

• Dedicated group (tied to the purpose of the partnership)

• Dedicated and TRAINED personnel to monitor implementation (governance 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)
Component Two: Organized Structure
An Infrastructure Project Life-Cycle

Policy and Planning Process
- 1. Establish Objectives
- 2. Evaluate Alternative Financing Structures
- 3. Communicate the Benefits
- 4. Build Market Interest

Transaction Phase
- 1. Establish a Realistic Time Frame
- 2. Secure the Best Value for Money
- 3. Establish Performance Standards
- 4. Develop a Draft Project Agreement

Construction and Concession Phase
- 1. Monitor Construction
- 2. Monitor the Concession
- 3. Prepare Staff
- 4. Establish Concession Governance Model
A Structure for Project Governance

Figure 6.1 Project Preparation Process

- Project management
- Assessment of project factors
- Affordability
- Risk allocation
- Market assessment
- Project documents
- Stakeholder mgmt
- Value for money
- Tender phase preparation
- Project marketing
- Readiness for market

Assemble project team and governance arrangements, develop project management risk register
Assess scope, legal, technical, environmental, social project issues
Identify project costs in more detail, identify sources of project revenue
Identify project risks in more detail, proposed risk allocation, and mitigation
Assess potential interest from funders and contractors and adjust project scope if necessary
Develop project documents, concession terms
Align project with stakeholder objectives
Assess value for money
Prepare procurement phase management, bid documents, and bidder information
Develop market awareness
Assess outline business case for readiness for market

Their issues may affect other required adjustment

Quality assurance review
Approval for launch of procurement

Figure 6.2 Outline of a Structure of Project Governance

- Program board
- Project board
- Project owner
- Key stakeholders

External legal, financial, technical, environmental advisers

Functional heads in project team: technical, financial, commercial, legal

### PPP Agency Functions

#### Exhibit 6: Agency Services and Functions

<table>
<thead>
<tr>
<th>Review Bodies</th>
<th>Full Service Agencies</th>
<th>MAPPP (France)</th>
<th>Partnerships South Australia</th>
<th>S. African PPP Unit</th>
<th>Infra. Ontario</th>
<th>Partnerships BC</th>
<th>Partnerships UK</th>
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<tr>
<td><strong>Business Planning</strong></td>
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<td>Assess Project Feasibility</td>
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<td>Develop / Review Business Plans</td>
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<td>Approve PPP Projects</td>
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<td>Provide Recommendations to Approval Bodies</td>
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<td>Assist in Finding a Project Advisor</td>
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<td><strong>Procurement Process</strong></td>
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<td>Develop Standard Documents (RFP, Contracts, etc.)</td>
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<td>Procurement Support</td>
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<td>Bid Evaluation</td>
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<td>Contractual Support</td>
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<td><strong>Project Implementation</strong></td>
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<td>Financing</td>
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<td>Technical Support</td>
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<td><strong>Market Development</strong></td>
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<tr>
<td>Determine and Share Best Practices</td>
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<td>Public Relations</td>
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<tr>
<td>Develop PPP Policy</td>
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<td>D</td>
<td>I/O</td>
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<tr>
<td>Development of PPP Market (increasing # of bidders, etc.)</td>
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<td>D</td>
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</table>

**Legend:**
- **I**: Indirect Oversight – review documents/decisions, but not involved in day-to-day work.
- **D**: Direct Involvement – involved in the day-to-day work alongside the advisor or service agency.

**Note:**
1. Infrastructure Ontario provides loans for infrastructure projects through OSIFA. (Loans are not exclusively for PPP projects).
2. PUK sometimes co-sponsors procurements through a joint venture agreement with a public sector body.
3. PUK has working capital for project preparation and invests in project commercialization, but does not finance PPP delivery.

Component Three: Detailed Business Plan (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 Negotiation & 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
- Exit options for public & private partners

source: www.ncppp.org
VfM is the “optimum combination of whole-of-life costs and quality of the good or service to meet the user’s requirement”.

- **Quantitative Assessment**
  - In respect to use of Public Sector Comparator (PSC)

- **Qualitative Assessment**
  - Contract conditions

- **Elements of VfM**
  - Viability (discount rate, measurability, capital investment, risk management, project flexibility – overall nature of the deal)
  - Desirability (do benefits outweigh the risks?)
  - Achievability (capacity in government and private sector)
Component Four: Guaranteed Revenue Stream

• Funds to Cover the Long-Term Financing
  ▪ Tolls/Fees (real or shadow)
  ▪ Tax Increment Financing or other form of a Tax District
  ▪ Long-Term Maintenance Contracts
  ▪ Availability Payments
  ▪ Underutilized Assets
  ▪ Concession Model (limited application)
  ▪ Federal, State, & Local subsidies

source: www.ncppp.org
Component Five: Stakeholder Support and Relationship Management

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

source: www.ncppp.org
Governance Challenge: The Importance of Stakeholder Engagement

- Define the public interest – inherently governmental
- Value for money
- Oversight and monitoring – government and third-party
- Citizen safeguards – safety, access, quality, affordability
- Public participation – consultative role (voice, choice)
- Keep public informed – power in information
- Public accountability
- Expectation management
Importance of Stakeholder Engagement

Who’s missing from this map?

What’s wrong with this map?

Government Partnership

Governing Body

Political Parties

Citizens

Financial Community

Future Generations

Interest Groups

Suppliers

Other Governments

Competitors

Media

Employees

Unions

Service Recipients

Taxpayers
Spectrum of Public Participation

Adapted from the International Association for Public Participation (IAP2)

Increasing Level of Public Authority over Decision

Inform
- Fact Sheets
- Web Sites
- Open Houses

Consult
- Public Comment
- Focus Groups
- Surveys
- Public Meetings

Involve
- Workshops
- Deliberative Polling

Collaborate
- Citizen Advisory Committees
- Consensus-Building
- Participatory Decision Making

Empower
- Delegated Decision Making
- Deliberative Democracy

Engagement Processes

Participation Processes

Democratic Processes

One-Way Communication

Two-Way Communication

Deliberative Communication
Planning for Participation

**Decision Analysis**
- Clarify the issue being addressed or the decision being made.
- Decide whether and why public participation is needed.
- Specify the planning or decision making steps and schedule.

**Process Planning**
- Specify what needs to be accomplished with the public at each step of the decision making process.
- Identify the internal and external stakeholders.
- Identify techniques to use at each stage of the process.
- Link the techniques in an integrated plan.

**Implementation Planning**
- Plan the implementation of individual public participation activities.

**Evaluation Planning**
- Plan the evaluation of multiple aspects of the all public participation activities.
## Relationship Dimensions: Definitions

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Description</th>
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<tbody>
<tr>
<td>Open Communication</td>
<td>- Collaborative decision-making and risk-sharing</td>
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<tr>
<td>Stakeholder Engagement</td>
<td>- Level of personal and professional commitment between individual employees of a P3 and institutions overseeing the design and implementation of the P3</td>
</tr>
<tr>
<td>Relationship Roles</td>
<td>- Different perceptions of private sector and public sector strengths and weaknesses must be accounted for in the design and implementation of a P3</td>
</tr>
<tr>
<td>Relationship Rules</td>
<td>- Public and private actors are motivated by different incentives and goals which inform they way they make decisions in the context of their relationships with one another</td>
</tr>
</tbody>
</table>
• **Case example: APA Nova Water Treatment Project – Bucharest, Romania**

• **Public Participants**: Municipal Government, City of Bucharest

• **Private Participants**: Vivendi Universal (owner of APA Nova)
  - **Key Issues**:
    - **High Levels of Coordination Between Partners**: The co-ordination and decision making between the two parties – Apa Nova and Bucharest city government – were regulated by a board on which both parties were represented. A Director General was responsible for the day-to-day management of the operations.
    - **Contract Mutually Beneficial**: Bucharest is receiving reliable financing for upgrading and improving the quality of its water system. It is able to access the required expertise and technology and can potentially share a profitable dividend. The private operator is expecting economic profits by improving operational efficiency and ensuring that revenues from the water tariff are effectively collected.

• **Implications**: PPPs should consider implementing a governance structure and contract design that formalizes shared responsibility and joint-decision making thereby ensuring a potentially higher degree of interdependence.
• **Case example: Results from Survey of Employees of British National Hospital Service PFI**

• **Public Participants**: National Health Service Hospital

• **Private Participants**: Private Sector Healthcare Provider

  ▪ **Key Issues:**
  ▪ **Commitment Focus Shifts Among Employees Working for New Private Sector Provider**: Employees’ ties with their employing organization, the hospital, were weakened as employees began seeing themselves primarily as the private partner’s staff. They felt a loss of organizational affiliation after the transfer. This feeling is reinforced in that other hospital staff still employed by the public sector see the outsourced employees as no longer a part of the hospital and more as part of the contracted workforce.

• **Implication**: The design and execution of a public-private partnership can have significant effects on organizational citizenship; it can shift both the level of employee commitment to the public organization and influence the institutional culture of the partnership.
Relationship Examples: Role Attitudes

- **Case example: Results from Survey of Public and Private Stakeholders on Perceptions of Partners in P3s**

- **Public Participants**: Public sector principles (project managers)

- **Private Participants**: Private sector agents (project managers)
  - **Key Issues**:
  - **Stakeholder Priorities Define Attitudes**: The survey revealed the relative importance that public and private sector managers place on public and private sector practices.
  - **Public Sector Priorities**: Public sector employees attached high weights to clear and open communication between partners; readiness to accept risk; willingness to commit to earlier negotiated terms; ability to tie equity into the project for a long period of time
  - **Private Sector Priorities**: Private sector employees attached high weights to early involvement and commitment of stakeholders and consortium’s previous experience with P3 arrangements

- **Implication**: Attitudes define the expectations and aspirations of partners in a public-private partnership. They ultimately have significant effects on the execution of a P3.
### Critical Success Factors: Public and Private Perspectives

<table>
<thead>
<tr>
<th>Factor</th>
<th>Public Officials</th>
<th>Private Officials</th>
</tr>
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<tbody>
<tr>
<td>Competitive procurement process</td>
<td>1</td>
<td>16</td>
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<tr>
<td>Good governance</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Political support</td>
<td>3</td>
<td>11</td>
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<tr>
<td>Well-organized public agency</td>
<td>4</td>
<td>8</td>
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<tr>
<td>Strong private consortium</td>
<td>5</td>
<td>1</td>
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<tr>
<td>Thorough &amp; realistic cost/benefit assessment</td>
<td>6</td>
<td>5</td>
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<tr>
<td>Available financial market</td>
<td>7</td>
<td>4</td>
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<tr>
<td>Appropriate risk allocation &amp; risk sharing</td>
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<td>Transparency in the procurement process</td>
<td>9</td>
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<td>Commitment/responsibility of public/private sectors</td>
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<td>3</td>
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<td>Project technical feasibility</td>
<td>11</td>
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<td>Favorable legal Framework</td>
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• **Case example: Amsterdam South Axis Project (redevelopment of area surrounding Amsterdam South / WTC railway station)**

• **Public Participants**: Amsterdam city managers

• **Private Participants**: Private sector consortium

• **Key Issue: The Failed Promise of a Coalition:**
  - Established in December of 1994. A master plan for economic development was approved by the City Council in January, 1998. However, no concrete results were obtained for financing of an underground transport infrastructure proposed in the plan.
  - The enthusiastic cooperation between city managers and private actors began to stagnate. Public actors felt that they needed to invest a great deal of time and effort to keep the process going while failing to obtain clear commitments on the financial involvement of private actors.

• **Implication**: Broad agreements in principle may mask conflicting priorities and time-lines of public and private partners. These priorities, in turn, are defined by behavior rules that are driven by different incentive structures.

• Coordination can be expensive!

• Priorities – What, Why, For Whom?
Component Six: Risk Management
Types of Risk: Definitions

- **Planning Risk**: Risk that poor planning between public and private partners does not translate into action efficiently.

- **Operational Risk**: Risk of environmental hazards and liabilities, operating costs and overruns, delays in service.

- **Capacity Risk**: Risk of a lack of sufficient technical and / or organizational expertise and / or technical capital to facilitate a P3 goal.

- **Execution Risk**: Risk of partnership failing to incorporate key knowledge / data acquired during planning stage, thus leading to flawed execution of partnership.

- **Financial Risk**: Risk that transaction costs are ignored or underestimated.
**Risk Example: Planning Risk**

- **Case example: Utrecht Centre Project Development**
- **Public Participants:** Dutch national railways, Utrecht municipal government
- **Private Participants:** Hoog Catharijne Shopping Center, Jaarbeurs Complex
- **Key Issue:**
  - **1993:** Master plan adopted by four stakeholders to improve public space (Utrecht Centre) stalled after landholders opposed the municipality’s use of a development corporation that drew upon the expertise of project developers that lacked interests in the local area.
  - **2000:** Cooperation between municipality and private parties fails again after new master plan, “Definitive City Plan Design,” leads to vague mutual agreements on investment in “Public Space.” Private parties withdrew because they felt the investments they had to make in the public space were too high.
- **Implication:** A mutually agreed-upon P3 plan does not necessarily signify commitment to execution of that plan from stakeholders
- **You’re NOT from here – Coordination challenges & transaction costs of partnerships**
Risk Example: Operational Risk

• **Case example**: The Failure of Latrobe Regional Hospital (Victoria, Australia)

• **Public Participants**: Victorian Government

• **Private Participants**: Private consortium of health care providers

• **Key Issue**:
  - **Failure**: Hospital fails two years after operations begin, September 1998
  - **Cost Overruns**: The private consortium had unreasonable assumptions about government subsidies and costs. It misunderstood the case-mix funding model and its impact on future funding levels. The operator was unable to make a profit from the delivery of services at the performance level desired.

• **Implication**: Cost overruns can stem from poor communication or misunderstanding in the planning stage of a project. What role does government play, if any, when private partner financially underperforms?

• **What is Government’s Responsibility?**
Case example: Lebanese Telecom Industry

Public Participants: Lebanese Government

Private Participants: Cellis, Libancell (French telecommunications companies)

Key Issue:

- **Partnership:** In the late 1990s, Cellis and Libancell partnered with the Lebanese government to form Lebanon’s first telecommunications network.

- **Early Challenges:** A dispute emerged between the government and cellular operators over a subscription cap of 125,000 mandated by the government. The government issued a $1bn fine against to the operators. The telecommunications companies denied the legal validity of this cap.

- **Lack of Public Sector Technical Knowledge:** The Ministry of Telecommunications lacked the technical or organizational expertise to adequately oversee the mobile concessions.

Implications: PPPs in which one partner (typically the private sector) has greater technical and organizational capacity and sophistication than the other partner can lead to poor governance.
Risk Example: Execution Risk

- **Case example:** Rotterdam Mainport, Economic & Environmental Development
- **Public Participants:** Dutch government
- **Private Participants:** Consortium of businesses and residents near Rotterdam Harbor
- **Key Issues:**
  - **Poorly Defined Objectives:** The objective of the harbor’s development plan shifted three times over the course of the project’s life
  - **No Innovation in Decision-Making:** The shifting objectives of the Rotterdam development project combined with the Dutch government’s traditional policy-making procedures caused even the evaluation stage of this project to fall short of true partnership with the private sector. Although PPP schemes were investigated intensively, in the end none were implemented.
- **Implications:** Shifting objectives throughout the planning stage of a P3 can imperil the success of the partnership.
- **Scope and requirements creep/drift is** EXPENSIVE $$$$$$$
 Risk Example: Financial Risk

- **Case example: Ireland’s Public Schools**
- **Public Participants**: Irish Government
- **Private Participants**: Jarvis (Industrial Developer)
- **Key Issues**:
  - **School Construction**: In 1999 the capital constrained Irish government attempted to use a PPP model to construct new public schools. A private sector consortium led by Jarvis Projects Ltd. was contracted for a DBOF for 5 public schools.
  - **Poor Bid Evaluation**: The original bid by Jarvis did not include transaction costs (VAT).
  - **No Evaluation of DBOF Model**: Financial differential between an original DBO plan and DBOF plan was not explored.
  - **Underestimation of Costs**: The decision to expand the number of schools to be purchased from 3-5 led to a significant underestimation of costs (24%).
- **Implications**: Inadequate financial planning of transaction costs and failure to consider tradeoffs among PPP forms can lead to significant cost overruns that diminish the value-for-money promised by a PPP.
Component Seven: 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

source: www.ncppp.org
Managing for Success

The Most Critical is Component One:

Strong LEADERSHIP makes all the other factors come together

source: www.ncppp.org
LESSONS FROM PUBLIC-PRIVATE PARTNERSHIPS IN THE US
Case 1: Downtown Silver Spring Redevelopment Project

**Montgomery County**
Turn the underused historic commercial district into a highly desirable destination

- Providing project, and other support to add business feasibility to the project plan
- Transform the district into a development product with various uses

**Developers**
Provide housing, offices and tenant spaces that meets the market demands

**Partnership Goal:** Turn the underused historic commercial district of Silver Springs into a highly desirable destination.

**Partnership Activity:** Establishing a redevelopment project, supporting project through Enterprise Zone and Green Tape Zone designation and other measures and implement the redevelopment.

Case 2: I-495 Capital Beltway HOT Lanes

**Virginia DOT**

Develop and operate HOT lanes to keep prioritized vehicles free of congestion.

- Provide the right to develop, finance, design, build and operate High Occupancy Toll (HOT) lanes. Provide state grants and loan to support part of the finance.
- Provide private finance, asset development and run HOT lane operation business.

**Private Partner**

(Construction firms, highway operator)

Conduct highway project management and operation business.

**Partnership Goal**: To operate HOT lanes restricted to vehicles with 3 or more people, buses and other toll-paying cars and keep them free of congestion — even during rush hour.

**Partnership Activity**: To design, build, finance, and operate two (HOT) lanes in both directions of the beltway.

**Funding Sources**

- State of Virginia grant - $409 million
- Private Equity - $349 millions
- TIFIA Loan - $585 million
- Private Activity Bonds - $586 million

Source: Virginia HOT Lanes [http://virginiahotlanes.com/]
Case 3: Ford Island Master Development Agreement

- Master Development Agreement to develop Ford Island, a National Landmark within Pearl Harbor. USN conveyed and leased $84 million in property for in-kind construction from FIP.

DoD, U.S. Navy (USN)

- DBOFM – Develop 1600 acres on five parcels of land throughout Oahu including 1988 family housing units. Construction of new homes. Provide $84 million in infrastructure improvements.

Ford Island Properties (FIP) LLC

(Joint Venture between Hunt Companies, Inc. and Fluor Federal Services, LLC)

**Partnership Goal:** Bring unrealized uneconomic value to this area while honoring its historic legacy.

**Partnership Challenge:** Special legislation for USN to transfer land no longer deemed vital to mission and to lease underutilized assets.

Source: [http://www.ncppp.org/cases/FordIsland.shtml](http://www.ncppp.org/cases/FordIsland.shtml)
Case 4: Berkshire Combined-Sewer Overflow (CSO) Abatement Facility

**Berkshire Combined-Sewer Overflow (CSO) Abatement Facility**

• Construct new abatement facility, improve collection system and existing wastewater treatment plant, comply with EPA administrative consent order and performance standards

• DBO – 20 years. UW assumes risk for major maintenance, repair & replacement, energy & regulatory compliance, and fixed price for all capital improvement work.

**United Water (UW)**

**Partnership Goal:**
Reduce overflow into community’s river during heavy rainfall.

Source: [http://www.ncppp.org/cases/HolyokeMA.shtml](http://www.ncppp.org/cases/HolyokeMA.shtml)
Case 5: Chicago Parking Meters LLC

City of Chicago
75-year lease agreement to manage 36,000 parking meters for $1.157 billion

Residents: Highest parking meter costs in the country; no public involvement, & little external scrutiny
Inspector General’s Report – deal worth $2.13 billion
$40 million outlay by CPM LLC – no easy for City to exit
Mayor used $$$ to plug budget hole; small rainy day fund
City on the hook to pay for disabled; ?’s of equity, access
Company concerned about government policy externalities

Increase revenue for City
Costs City did not anticipate; Public outcry

Private Partners:
Consortium (Morgan Stanley, Abu Dhabi Investment Authority and Allianz Capital Partners) paid $1.15 billion

The Lucrative Business of Parking
Thanks to higher rates, the private company that took over control of Chicago’s parking meters in February is bringing in twice as much money as the city did before it leased the 36,000 spaces. The company expects to make even more next year.

PARKING REVENUES, IN MILLIONS
City of Chicago
2008 $23.79
Company projections
2009 $46.92
Company projections
2010 $79.54
Sources: City budget documents, Chicago Parking Meters LLC documents.
Final Thoughts

• PPPs — **NOT A ONE-SIZE FITS ALL APPROACH**
  - Variation by sector, region, size, project, financing, & Government support and frameworks
• Policy – Alignment among objectives, projects, communication
• Capacity Building – skills, institutions, training
• Legal – Rules, Courts, Processes – Fewer, better, simpler
• Risk Sharing – cooperative sharing, mutual support
• PPP Procurement – transparent, neutral, competitive, fair
• People – participation, accountability, support
• Environment – green, sustainable, government role
• Accountability – institutional mechanisms are necessary?
• CRITICAL IMPORTANCE of POLITICAL LEADERSHIP
Potential Questions

- Will the use of PPPs clearly save money?
- Will the product/service provided be of high quality?
- Would the program be more effective if done in-house?
- Will the use of partnerships be responsive to citizen needs?
- Will the use of partnerships yield greater flexibility?
- Can the government ministry articulate the goals and performance expectations of the partnership in a way that is specific, measurable, and observable?
- Will you be able to hold the partner(s) accountable?
- What will government/your community do if the private partner defaults on the work?
- Is your organization or community prepared to invest in the expertise to develop, manage, and monitor PPPs?
Questions
THANK YOU!

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