
When to Consider a Public-Private Partnership Engagement.

Whenever there is a new government project coming, there is a question about alternative funding resources or public-private partnerships (P3). It has become common for public officials to determine whether a project is suitable for a P3 engagement, especially when the project is critical and lacks sufficient funding. Usually, complex projects requiring unique expertise are suitable for a P3.

Very often the SPI Team receives inquiries from public officials about an upcoming project. Their questions are almost always about alternative funding sources or public-private partnerships (P3s). These officials usually are trying to determine whether a particular project is suitable for a P3 engagement. Since the question has become so common, it seems appropriate to discuss how P3 decisions are best made.

The most common reason to consider a public-private partnership is when government officials need to launch critical projects but lack the financial resources. However, there are numerous other reasons as well.

When projects are complex and require unique expertise, it is wise to collaborate with experienced and trusted private-sector partners. And, when shifting the risk of on-time, on-budget delivery of a major initiative is a priority, it is reasonable to consider a partnership. Because public officials continually strive to meet public needs and maintain public assets with inadequate budgets and resources, P3s have become very common. That trend will not be reversed any time soon because public funds are scarce and federal funding assistance, especially for infrastructure initiatives, is either inadequate or nonexistent.

But, because P3 procurements are not yet common delivery methods in all jurisdictional levels of government, public officials who will be responsible for successful outcomes should seek answers and best practices. And, it all starts with posing the correct questions.

To determine whether a P3 is the best method for procuring a project, public agencies typically evaluate why a collaborative effort with private-sector investment is being considered. One answer could be because the project is large and complex and shifting some of the delivery risk is prudent. Another reason might be that, because of the complexity, certain types of expertise and experience are required that the public entity lacks. It may be that there is a preference for having another party responsible for ongoing operations and maintenance of the public asset after it is completed. Financial assistance is a primary reason that critical projects often require a private-sector partner.

If those questions are answered affirmatively, the next step is to consider the project's anticipated costs. Most P3 engagements are tied to large public projects, usually in the $100 million cost range. But, there are numerous ways to make smaller projects attractive to private-sector contractors and alternative funding sources.

Public officials throughout the country have found innovative ways to consolidate small and similar projects so their contracting opportunities are of interest to experienced private-sector firms.

Successful consolidations have included merging a number of bridge repair projects, packaging urban revitalization projects, or bundling construction of multiple public school campuses into one project.

Experienced private-sector partners are drawn to partnering opportunities that require capital investments but only if a revenue model is developed for repayment of the initial capital over a period of time. Usually, the last, and perhaps the most important, question is whether or not a revenue repayment model can be created.

Myriad ways are available to structure repayment models. For instance, if a private firm constructs a courthouse, delivers a performing arts center, or builds a new terminal at an airport, repayment funds could come from a lease agreement or from revenue generated through a parking garage or retail outlets inside the new public asset. A revenue model also could include a dedicated revenue stream that results from increased tax revenues or savings because of efficiencies tied to the project. Some municipal leaders have repaid capital investments from the sale of non-revenue producing public assets. Many ways exist to structure repayment over a long period of time.

The P3 process also includes many ways to attract alternative funding. If a region has been designated as an 'Opportunity Zone', private-sector contractors will be interested in investing in public projects because of tax benefit incentives. Opportunity Zone designations are abundant throughout the country. Public agencies located within these regions should definitely promote the tax benefits available through public-private partnerships. Some smaller P3 projects have included capital investment from nonprofit organizations, regional banks, and crowdfunding programs.

One of the last considerations is whether or not there a political champion to lead the project. If so, the question to ask is whether the project can flourish over the long term, even if and when the political champion leaves office. It's important to secure internal support and it is wise to designate additional project champions.

When these basic questions are answered, it is almost always clear whether or not a P3 is the best option for project delivery. Collaborative initiatives and public-private partnerships are destined to become the norm, so addressing basic questions and considering all options are critical components of success.

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