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Striking the Right Note on Public-Private Partnerships.

Despite some discord, properly managed public-private partnerships can find harmony

Public-private partnerships (PPPs or P3s) have been getting a bad rap lately, causing municipal governments to wonder whether such partnerships really serve public interest — especially as fiscal resources are rebounding following the recession. In a four-part series on PPPs, the Pittsburgh Post-Gazette recently highlighted the pitfalls of making poorly structured financing deals with the private sector to fund infrastructure projects.

Meanwhile, Chicago has been crucified by the public and press for using a P3 to manage 36,000 city parking meters. The private investor, Morgan Stanley Infrastructure Partners, generated $43.6 million in profit by raising parking rates. Morgan Stanley also billed Chicago for $61 million for reimbursement, claiming that, when the city closed streets for construction or street festivals, created bike and bus lanes to reduce traffic or allowed someone else to build a competing parking garage, Morgan Stanley lost revenue.

Despite the criticism, interest in P3s is growing. Proponents say partnerships are worth exploring because they often result in creative solutions to delivering and funding public services and infrastructure projects.

"It's safe to say governments at all levels are faced with budget constraints and there is inherent budget scrutiny," says Todd Herberghs, executive director for the National Council for Public-Private Partnerships (NCPPP). "As officials are reluctant to increase revenues through taxes, but government still has to deliver the same services, P3s are a great avenue to explore for funding."

Nationwide, more communities are implementing legislation to facilitate and expand the use of PPPs to improve service and control costs through competition and reduced overhead, says Richard Norment, an independent consultant for PPPs and NCPPP senior fellow. "The number of states that have passed new partnership transportation legislation has plateaued at 34, but what has expanded rapidly is legislation for social infrastructure — water systems, schools, libraries, parking lots. [Such legislation] has eclipsed the transportation number, with 49 states having statutes for such projects," he says.

Given the facts, "We encourage P3s as an option for local governments, but we don't encourage rushing into them to get something paid for. That can lead to bad deals," Herberghs cautions. Instead, he suggests communities take time to examine what they are trying to accomplish, do a complete value analysis and determine the true lifecycle costs. "It's not just free money," he says.

Broad communication is key to the success of a PPP, Herberghs adds. "Some projects may have felt rushed through or face public opposition because the process was not as open as the public would have hoped," he says. "It's important to be as methodical and transparent as possible."

Colorado recently took steps in this direction, by amending its legislation so that PPPs are more open to public comment.

“I would argue that the ‘soft elements’ in a partnership are at least as important as the financial aspects,” says David Swindell, associate professor of public affairs and director of the Center for Urban Innovation at Arizona State University (ASU). He notes the importance of two-way communication in the relationship. “It’s not just a cost-benefit in terms of dollar and cents. It also includes efficiencies, effectiveness, whether citizens are satisfied, whether city council politics are going to impact the project, etc.” If politics or poor communication is going to hinder a partnership, then a city council should be gun-shy about entering into these types of partnerships, he says.

Susan Mays, vice president of marketing and strategic initiatives for CH2M Hill’s Operations Management Services group, characterizes successful PPPs as partnerships that provide “collaborative service delivery,” rather than involve a community “contracting out a service.” She notes the importance of creating partnership agreements that allow for flexibility, should issues arise that aren’t specifically spelled out in the contract. She says one agreement her company has with a city says nothing about being a good corporate citizen, but her staff knows the mayor expects the company to participate and be part of the community. “When you look at signing a contract for 10, 20, 30 years, what’s in the contract isn’t going to make the project successful. It’s the skills on both sides of the table that build on a collaborative arrangement.”

“‘Contracting out’ frequently involves a community contract out service X for given price at X quantity. That’s nothing more than city paying a vendor for a service — a contractual relationship. I don’t consider that sort of privatization a partnership,” Swindell says. “A partnership is when both parties are involved — collaborative service delivery” — and both parties benefit.

To help communities determine whether their projects are ripe for partnership with the private sector, ASU has developed a tool to evaluate the chance of success. “We’ve been working on a tool to help communities decide whether they should be doing it in first place. Given the service and given the context of the community, is collaborating the right thing, or should the project remain in-house?” Swindell says.

The success of a P3 hinges on more than just the financial viability of the project and partner. Some services are more amenable to collaboration with public or private sector delivery. Is the leadership stable or is there a lot of turnover? “Would you want to have a partner that can’t keep its leadership in place and might change its mind on the value of partnership? One of the characteristics of success is leadership stability and talent of the partners — do they have a track record of being competent in these types of partnerships?” he asks.

In the ’90s and early 2000s, there was a push for PPPs, then states, cities and counties moved away from these arrangements because public entities didn’t feel like they were getting what they wanted out of the partnership, and often they weren’t really designed as a partnership, Swindell says. A successful partnership clearly spells out the goals, what each partner’s responsibilities are, and the benefits.

“The private sector needs to profit, and the public sector needs the service. How you specify the agreement and note what each party is contributing to the process and derives from the process isn’t always equal in dollars… We’re now seeing private-sector companies that better understand what the public needs to get out of this and a lot more sophisticated city managers that are savvy to what they need to specify in arrangements so the relationships all work the way parties want them to work,” he says.

John Danielson, city manager for Centennial, Colo., likens a PPP to a marriage. “If both folks want to work on the relationship, it will work to the best of circumstances,” he says. His city of approximately 100,000 residents works with the private sector to provide service delivery for all of its public works, from snow plowing to surveying. This has allowed the city to operate with only 50 employees, while benefitting from the expertise of private professionals. “I get the benefits of super, high-quality work for only the time that I need it,” he says.

However, he recognizes that his city’s P3s are successful because his staff doesn’t operate with a superior-subordinate relationship. He says his staff checks in with major partners every Monday, not to go over every aspect of the contract, but to monitor progress, whether they have the right people and equipment in place, and whether they’ve communicated everything to the public about what they will be doing to meet expectations. “It’s similar to in-house staff meetings, and difficult to tell the difference between city employees and private contractors when they’re physically together in the same room,” he says.

“The group works as a team, keeping in mind the basis of the contract is I win, you win,” Danielson adds. “There has to be a reason for us to be together and for this to work out. I get goods and services on a level that meets my and the residents’ needs. You’re on the other side of it and provide a service and generate a profit, keep people working and keep shareholders happy.”

When the public and private sector works in sync, it can yield innovative and impressive results, Mays says. “Financing is really one of the triggers [for P3s,]” she says. “However, communities also can benefit from P3s in other ways. Perhaps the private sector has technical expertise or the technology to do something more efficiently or effectively. Or, perhaps it’s better to partner with the private sector to help transfer some of the risk.”

The community of Sandy Springs, Ga., is so sold on the benefits of PPPs that Mayor Rusty Paul says he’s “double-downed” on them after outsourcing all city services except police, fire and 911.

In 2005, the city of nearly 90,000 residents signed a comprehensive PPP contract for all major city functions, including administrative services and nearly all public works functions. Today, Paul says he rebids the contracts every three years to make sure contractors are fulfilling their obligations on service delivery, and he has a backup contractor lined up in case the primary contractor fails to meet expectations.

Paul says his city’s commitment to the privatization model has improved customer satisfaction and helped contractors feel like they are part of the fabric of the community. “Private sector partners know their number one job is to focus on service to earn a paycheck,” Paul says. “We foster a teamwork environment and our private sector partners play an essential role and are partners in delivery services to the public.”

The bonus, he says, is that by contracting out services to the private sector, his city has price predictability in providing services for several years, which frees up the budget to provide additional city services. Because of PPPs, 25 percent of the city’s budget can now be used for capital projects and improvements like repairing streets and creating new parks and public art.

Another example involves Fairfax County, Va., which is building its Metro line. David Birtwistle, CEO of the Virginia Transportation Alliance, said at the end of the first phase of the Metro line expansion in Reston, Va., the county needed a parking facility to accommodate ridership. Knowing that such a project would be expensive, it sought a private partner to provide the parking structure.

When it solicited bids, Fairfax received a bid from Comstock Partners that wanted to charge double what it would be to build 2,300 parking spaces. The bid seemed strange at first, consultant Norment says, but it turns out the developer proposed the project with an additional 3,000 parking spots for no charge so that it could put a mixed-use residential/commercial facility on top of the parking spaces and pay the county for the air rights of the structure. In addition to the parking spaces, the project now includes a commuter park-and-ride facility, transit bus depot, 1.3 million square-foot, mixed-use center that will include 900 luxury apartments, a 200-plus-room hotel, restaurants and office and retail space.

"It created very positive cash flow for the county," Norment says, noting more innovative projects like these are cropping up, with more wrinkles than in years past. "The adage goes, 'if you've seen one PPP, you've seen one PPP.'"

P3s may not be the best solution for governments that are reluctant to raise taxes to fund infrastructure projects, but they are worth considering, Sandy Springs' Paul and Centennial's Danielson say.

"You don't have to roil the whole city and throw out every department to private sector [management] at once," Paul says. Yet, if you give PPPs a chance, "you may be pleasantly surprised by the enthusiasm and innovation you get out of the process."

Danielson suggests communities start with areas that are the least or most poorly served — areas in which you struggle to operate. "If things are not going well, it might be a great place to start looking at a partnership to see if there is a different service model that doesn't cost you any more money. Find someone who has a good partnership and spend a few days to find out what works and doesn't, and what things that might fit in your organization," he says.

Even if resources aren't as tight as they used to be, "when state and local governments look for ways to meet public need, P3s very much belong as part of the evaluation process," Birtwistle says. "The pitfall is that [P3s] were looked at as financing mechanisms, and as revenues increase, [there] may be less of a reliance or interest in such partnerships.

However, partnerships can bring more than just financial resources to the table. They can bring new ideas and more efficient solutions that the public sector may not otherwise have had opportunities to. It would be unfortunate if the public sector didn't continue to look at P3s as an option to a project. It's not the solution in all cases — but in many cases it can be advantageous," Birtwistle says.

By Patricia-Anne Tom | American City and County

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