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Public-Private Partnerships in a Post-Pandemic World.

While COVID-19 has forced many people and businesses to take a timeout from their everyday activities, the critical infrastructure upon which their existence depends did not get a leave of absence. Water and wastewater utilities, for instance, must be operated, repaired, replaced and upgraded, and that costs money. Even before the pandemic, many cities, counties and water districts were struggling to finance needed utility capital improvements.

Now, with many residents and businesses unable to pay their bills on time (or pay them at all), with governmental revenue sources under extreme pressure, including reduced income taxes, sales taxes and property taxes, and with the prospect of substantial federal or state financial help uncertain, it may be time to reconsider the use of public-private partnerships (P3s).

In this series of articles, we explore P3s and the other water/wastewater infrastructure financing options available to communities. This article provides a bird's eye view. Subsequent pieces will present more detailed analyses.

Usually, the most financially attractive financing is a government-issued grant or low-interest loan. However, because the competition for them is so fierce and government resources are limited—particularly now and for the foreseeable future—they are frequently unavailable or insufficient to cover the entire cost of a project.

Municipal bonds are the primary source of funding for water and wastewater infrastructure undertaken by local governments, but these are complicated transactions and require the public entity to have the legal authority to issue them and the underlying financial strength to induce people to buy them.

Many larger cities may be able to utilize tax increment financing (TIF) or special assessments as a financial vehicle, which can be a viable alternative under the right circumstances, but these come with their own set of limitations and financial and political risks.

P3s also come with limitations and risks, and they are not the best financing option for all projects or all communities. But frequently, they are.

What Is a P3?

In a nutshell, a P3 is a contract that allows the private and public sectors to combine their resources to help manage and/or finance a community's infrastructure challenges. Because these partnerships are so flexible, they can be individually tailored to a community. In fact, public-private partnerships are at work in many North American communities where they address different needs in a variety of ways.

The Advantages of P3s

- P3s may be used to:
  - Design, construct and upgrade water, wastewater and stormwater facilities; and

- Operate water and wastewater facilities.
- The financing can take many different forms, including upfront financing (wholly or in part) from the private partner or payments over the project's lifetime from the persons benefitting from the project, including utility user fees or rates.
- The duration of the partnership is also very flexible.
  - Short-term (1- to 5-year) service contracts
  - Medium-term (5- to 20-year) operation and maintenance contracts
  - Long-term (more than 20-year) design-build-finance-operate-maintain arrangements
- Involvement of the private sector (which has substantial capital and technical expertise and fewer political and bureaucratic constraints) often results in a faster construction period and lower life cycle costs.
- Much of the risk is taken on by private entities, insulating government entities.

Of course, each project and each community is different, and all options should be evaluated. It may be that traditional mechanisms work well; or it may be that a hybrid solution is optimal. Future articles will examine specific projects and the applications of P3s to them. But before concluding this article, it is important to dispel several misconceptions about P3s.

Common Myths About P3s

Myth: A private company will own your infrastructure.

Fact: In a public-private partnership, the public maintains ownership of all assets—and the public authority sets rates. The contract ensures public control (including the setting of rates) and ownership.

Myth: A private company will set your rates and control fees. A public-private partnership is not privatization.

Myth: A private company only cares about profit and will drive user fees up in order to make a lot of money.

Fact: Venture capitalists and Wall Street investors who want to make huge returns on their investments do not invest in P3s. Public-private partnerships are for companies who desire a long-term relationship with a community and a low-risk/lower-return on their investment. Many such companies have devoted their life's work to providing solutions to the world's infrastructure, governmental and environmental problems. In a properly structured P3 contract, private-sector profit does not come at the public's expense. Lower costs and service improvements result from the new arrangement regardless of whether a private-sector company generates a profit. Savings for municipalities frequently range from 10 to 30 percent.

Myth: The municipality will be left with a run-down asset.

Fact: Service contracts should be written to require that assets are properly maintained and serviced, with financial penalties if they are not. The community will conduct inspections to ensure proper functioning of assets and should participate in maintenance-spending decisions.

The Bottom Line

Although P3s are hardly a magic elixir, they do deserve a place in the community toolbox. By blending public-sector experience and oversight with private-sector resources and technical expertise, a P3 can offer immediate results for constructing and/or managing infrastructure assets.

Frost Brown Todd LLC – Stephen P. Samuels and David A. Rogers

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