

# The Emerging PPP Paradigm: Overview and Outlook



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# Public-Private Partnerships (PPPs) Defined

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- PPPs—a.k.a. privatization, contracting out, outsourcing, competitive sourcing, competitive tendering—is simply a contract between governments and private sector (for-profit and nonprofit) firms in the delivery of public services.
- Ranges from simple contracting to large-scale asset sales and joint ventures; taps private capital in most powerful versions.
  - Involves some combination of operations, maintenance, design, construction and/or financing in delivery of assets or services.
- PPPs are simply policy tools—they can be effective when used well and ineffective when used incorrectly.
- PPPs introduce competition into an otherwise monopolistic system of public service delivery.
- Competition promotes innovation, cost savings, efficiency and greater effectiveness in serving the shifting demands of customers.

# Competition is Key to 21<sup>st</sup> Century Government

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- Government's role is evolving from service provider to provider & broker of services
- Government has come to rely far more on networks of public, private and non-profit organizations
- PPPs now seen as a proven policy management tool to deliver better services at a lower cost
- “[T]he fastest way to save money and increase value is to force public institutions to compete.”—David Osborne and Peter Hutchinson, *The Price of Government*

# Competition is Key to 21<sup>st</sup> Century Government (cont'd)

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- *"It is better for the public to procure at the market whatever the market can supply; because there it is by competition kept up in its quality, and reduced to its minimum price."*—Thomas Jefferson, 1808
- *"It is not a government's obligation to provide services, but to see that they are provided."*—former New York Governor Mario Cuomo
- *"Privatize everything you can."*—Chicago Mayor Richard Daley's advice to incoming DC mayor



# Surging Interest in PPPs

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- Fiscal conditions driving increasing interest in PPPs, from small-scale outsourcing to infrastructure PPPs that leverage private \$\$.
- Transportation is leading edge of U.S. infrastructure PPP market:
  - 31 states have transportation PPP enabling legislation.
  - New 2011 PPP legislation in Ohio, Illinois, Connecticut.
  - Over \$7B in Texas highway PPP projects under construction; over \$2B underway in Florida and Virginia each.
- PPP wave is starting to broaden to include social infrastructure:
  - VA's Public-Private Education Facilities & Infrastructure Act (2002)
  - Puerto Rico's PPP program (2009)
  - TX Senate Bill 1048 (2011): PPPs for schools, water & wastewater projects, transit, ports and other public use facilities.



# Common Goals of PPPs

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- **Cost Savings**
  - Rule of thumb—10-25% on average (+/-)
- **Service/Quality Improvements**
  - Competitive bidding; performance guarantees
- **Innovation**
  - Static processes, red tape obstacles to public sector innovation
- **Enhanced Risk Management**
  - Key risks (cost, delivery, liabilities) can be transferred from public to private sector
- **Accelerated Delivery**
  - Competitive contracting, performance incentives
- **In the case of infrastructure PPPs, deploying private capital to develop/rebuild public assets**
  - Toll roads, higher education facilities, parking assets, courthouses, etc.

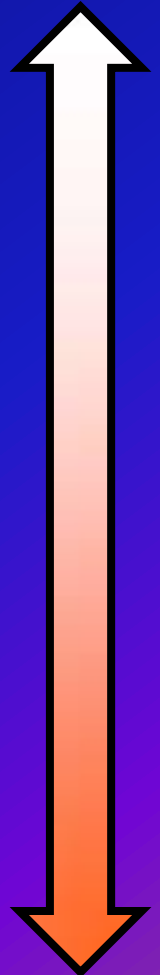


# Where Can Governments Apply PPPs?



- Vehicle fleet operations, maintenance & ownership
- Core IT infrastructure & network, web & data processing
- Administrative support services (e.g., HR, payroll, accounting, mail, printing, etc.)
- Risk management (claims admin, loss prevention, etc.)
- Park operations & maintenance
- Road, building, facility maintenance
- Facilities financing, operations & maintenance
- Higher education facility construction (including financing), maintenance & non-instructional services
- Corrections and mental health (facility construction and management; health care & food services; programming)
- Revenue-generating assets (toll roads, liquor stores, parking assets, etc.)
- Core infrastructure (roads/transit, water, airports, schools, etc.)

***Outsourcing***



***PPPs***

# State Policymakers are Thinking Bigger on PPPs

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- Examples:
  - *Puerto Rico*: created PPP Authority in 2009; since 2010, entered into PPP to rebuild 100 K-12 schools; signed \$1.4 billion toll road lease; initiated San Juan airport modernization PPP procurement.
  - *Ohio*: in 2011, enacted transportation PPP law; converted economic development agency to a PPP; soliciting advisors for Ohio Turnpike & state lottery leases.
  - *Illinois*: 10-year lottery management PPP underway to generate \$1 billion in new revenues to state; new transportation PPP law in 2011.
  - *Georgia*: Large-scale, secure-site facility maintenance PPP for 48 facilities across Dept. of Corrections, Juvenile Justice, GFBF; new law authorizing water reservoir PPPs.
  - *Virginia*: has used PPP authority to develop highways, rebuild psychiatric and correctional facilities, modernize state IT architecture, revamp Interstate maintenance and more.



# Local Policymakers Continue to Embrace PPPs



## Examples:

- *Chicago*: >\$3B in parking asset and toll road leases under former Mayor Daley. Mayor Rahm Emanuel announced PPP for recycling services in 2011.
- *Indianapolis*: entered into 50-year, \$620 million concession with ACS to operate parking meter system; various other outsourcing projects.
- *Los Angeles*: LA MTA pursuing several PPP highway projects; current PPP initiatives for L.A. Zoo, animal shelter; pursued PPP for nine city parking garages in 2010.
- *Charlotte*: 16+ year successful managed competition program; dozens of city services competed (public vs. private).
- *GA Contract Cities*: Sandy Springs incorporates as “contract city” in 2005; contractors provide nearly 100% of non-safety operational and admin services; 2 other cities incorporated & use similar model; now ~150,000 Metro Atlanta citizens served by largely privatized city gov’t.

# Keys to Success: Some Global Best Practices in PPPs

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- Establish PPP center of excellence to guide process, implementation
  - Central management, consolidated expertise
  - Enterprise-wide approach brings consistency
  - "Best value" selection
  - Conduct business case/Value for Money analysis for projects
  - Examples: Puerto Rico PPP Authority, Partnerships BC
- Establish clear, predictable legal framework for PPPs
  - No legislative approval of PPP contracts (political risk)
  - Allow blending of public and private funds to finance projects
- In infrastructure, attract market interest with a project pipeline
  - Don't pursue PPP projects, build a PPP program
  - Broaden scope beyond transportation to social infrastructure

# Keys to Success: Some Global Best Practices in PPPs

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- Develop performance metrics and goals, and build these goals and benchmarks into the contract.
  - Tie vendor payment to performance.
- Utilize “best value” contracting.
  - “Low bid” isn’t necessarily the “best” bid—governments should choose the best mix of quality, cost and other factors.
- Develop strong oversight and monitoring and protocols before entering into a contract to ensure compliance.
  - Government’s role does not end with contract signing; rather, role shifts to rigorous monitoring and contract management.
- Communicate early and often with stakeholders, public, media



# Ongoing Challenges for PPPs

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- *Education gap*: lack of public, policymaker understanding.
- *Skills gap*: states and local governments have limited PPP procurement expertise.
- *Management gap*: PPPs are paradigm shift in public management.
- *Policy gap*: weak legal & policy framework.
- *Opposition*: public sector labor, environmental orgs, ideologues.
- *Fear*: loss of public control; sale vs. lease; profit.
- *Inertia*: public systems can be slow to embrace change, innovation.
- *Complexity*: many steps from concept to implementation.
- Risks of the status quo are poorly understood.

# Questions?



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