

Myth: Public-private partnerships decrease the quality of a service.

Fact: Through private sector innovation, quality has risen in many cases.

Myth: Public sector partners lose control in a public-private partnership.

Fact: Public sector partners can gain even more control through the structuring of the contract.

Myth: Public employees lose their jobs in a public-private partnership.

Fact: Most employees are hired by the private company or transferred to other positions.

CRITICAL CHOICES: The Debate Over Public-Private Partnerships and What it Means for America's Future



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Executive Summary

In 2002, the NCPPP published “For the Good of the People”, a white paper on the fundamental concepts of public-private partnerships (PPPs). Over 35,000 copies are now in circulation, but criticisms of PPPs continue. In part, the controversy stems from either a misunderstanding of how public-private partnerships work or because of an ideological position. This second white paper addresses the specific points of the controversy, in an effort to clarify the true implications of this method of providing quality, cost-effective services to satisfy the needs of the public.

In reality, PPPs are straightforward contractual relationships between the public and private sectors that bring together the strengths of both to provide services or infrastructure in a cost-effective manner. And in the current climate of budget limitations at all government levels, there should be a broad acceptance of this method of meeting the needs of the public.

But substantial controversy has been raised about public-private partnerships. In part it stems from ideological concerns about “an unwelcome intrusion of capitalism upon government, government programs and public workers.” Advocates of PPPs counter by noting that citizens simply want high-quality services provided in the most cost-effective manner. In the course of this debate, a number of myths have been propagated – this white paper addresses the most common of these misperceptions.

The use of public-private partnerships is much broader than many might believe. For one, governments at all levels are facing increasing financial challenges and are turning to the private sector as a source of funding for a wide range of products and services. This is not a new trend. In fact, the combining of public and private sector resources to meet public needs is as old as our country. Much of the United States' early infrastructure for transportation, water and electricity was developed with private sector resources. This pattern was modified significantly by the New Deal programs of President Franklin D. Roosevelt, under which government assumed these functions as a means of stimulating the Depression's economy.

The legacy of this shift in the role of local, state and federal governments is what has raised the points of controversy. The profit motive does not necessarily force a reduction in the quality of public services. The private sector can become more accountable to the public through a PPP, in part because of the level of government control over a project or service being performed by the private sector. Jobs are not necessarily lost in a partnership. And the private sector can often bring useful management skills, technology and resources to a partnership.

Examples and case studies are offered to prove these points. Projects in transportation, urban development, schools, water/wastewater and other infrastructure projects are offered to illustrate the success of PPPs.

Properly constructed public-private partnerships provide sufficient control by the public, while harnessing the management skills, technologies and financial resources of the private sector. The result is a well executed PPP, which is a contractual arrangement that can provide a better level of service on a more cost-effective basis – and an answer to meeting challenges in these times of financial limitations in the public sector's resources.

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Foreword

Strictly by definition, PPPs are contractual agreements under which the public and private sectors join together in a partnership to utilize the best skills and capabilities of each to better serve the public. Public-private partnerships are formed to meet an objective that any constituency would want – to provide the highest quality service at the most optimal cost to the public.

And yet, there is a divide in thinking over PPPs that, at times, is as wide as the nation itself.

One school of thought could be found in Hawaii, where a state legislator recently suggested that Aloha State schoolchildren could benefit from public-private cooperation.

State Representative Cynthia Thielen offered a resolution to allow private developers to renovate or rebuild Hawaii schools. The school buildings would be transferred to private ownership. Developers would absorb all design and construction costs, and then lease the schools back to the state with an option for the state to buy the schools back at the end of the lease.

Rep. Thielen told reporters why public-private partnerships are so critical to schools.¹

“We can’t catch up with what we need to do and that means that students suffer,” she said. “The maintenance backlog is appalling and it’s very inefficient and costly to try a Band-Aid approach to repair and upgrade our schools. It’s such a wonderful way to deal with old schools that will cost much more to be brought up to current-day physical standards.”

At about that same time, on the other side of the nation, a United States senator was introducing legislation that took dead aim at the ongoing efforts of President George W. Bush to utilize the resources and expertise of the private sector to strengthen the quality and cost-efficiency of government services. The opposition argued that Bush’s initiative was simply an attack on government employees and a benefit for the private sector. The amendment – to restrict the Bush Administration’s plan for competitive sourcing of many government functions – was defeated by only three votes.²

The closeness of that Senate vote, and the vast difference in approach between the Hawaii initiative and the Washington, D.C. legislation, underscores the fact that there is indeed conflict and controversy over the use of public-private partnerships.

And there is no overestimating the critical role this debate will play in determining how well the United States deals with the growing challenges of the 21st century.

“It is clear to me the states that have made the progress we are looking to make did so in part through public-private partnerships.”

**- Bill O’Connor
Managing Director
Campaign for Alabama**

¹ Sawada, Kristen, “Lawmaker: Use Partnerships to Build Schools,” *Pacific Business News*, February 17, 2003.

² Congressional Record, January 23, 2003.

The Nature of the Debate and What's at Stake

Public-private partnerships have a proven track record that illustrates their benefit as a means of providing quality services and infrastructure on a very cost-effective basis. Yet there is wide misunderstanding of this tool for meeting the public's needs, and in some cases, outright opposition.

It isn't surprising, though, in contemporary America that there would be disagreement over the question of whether private entities should be involved in traditional government functions. After all, ours is a politically divided country.

We have a United States Senate and House of Representatives that are virtually evenly divided between Democrats and Republicans. The last presidential election was the closest in our nation's history, with urban areas largely preferring a different course than rural and suburban voters. Polling consistently shows that Americans don't share a consensus on the direction that should be followed in shaping our nation's future. This divide, not surprisingly, spills over into discussions on the respective roles of corporations and businesses in our society. So, it's no wonder that public-private partnerships would be at the center of a political crossfire of ideas.

There is an ideological factor at work. One noted author has explained that some organizations perceive public-private partnerships as an unwelcome intrusion of capitalism upon government, government programs and public workers. One public interest group, for example, has launched vitriolic attacks on private companies involved in PPPs, accusing the private firms of breeding corruption, foisting poor quality services upon vulnerable citizenries, and depriving the poor and underprivileged of access to services. Sometimes, these arguments are supported by public sector labor unions, expressing concern that PPPs can lead to job losses.

The counter-argument to these attacks is more pragmatic in nature. Proponents of public-private partnerships argue that they are win-win propositions for both the companies and governments involved. Governments and taxpayers gain when private sector resources and know-how can be applied to improve public services and to provide those services on a cost-effective basis. Companies and their shareholders benefit by finding new markets for their products and services. The community benefits by an infusion of new capital or being educated to new systems and performance levels.

Advocates of partnerships take the stance that the vast majority of citizens simply want high-quality services provided on a timely basis without significant increases in the taxes and service fees they pay, and that partnerships present an opportunity to provide those services within existing budgets or even at reduced costs. Opponents argue that there is an inherent conflict between the goals of government and the profit motivation of the private sector that citizens will lose when private companies get involved in functions that are traditionally the province of government. And, in today's politically divided populace, this is a clash that is not easily resolved.

The debate rages on – in city councils, state legislatures and in the halls of Congress. It is, without question, a conflict that has serious consequences. As escalating service needs run up against the limitations of tight budgets, as communities' goals change at an ever increasing rate, governments are faced with increasingly difficult challenges. Will these governments have the option of public-private partnerships as a component in their arsenal to deal with declining infrastructures, changing mandates and costly service demands?

In short, every citizen in America has a stake in whether or not the ongoing debate leads to more or fewer public-private partnerships to address the public good.

The basic reasons that the public sector historically privatized services were to realize cost savings, utilize expertise, achieve efficiencies in construction and operation, access private capital, and improve the quality of [services].

- Environmental Protection Agency
Public-Private Partnerships
www.epa.gov

21st Century Government: The Challenge of Doing More With Less

One of the most noteworthy gubernatorial elections in 2002 came in Michigan where Democrat Jennifer Granholm took office after 12 years of Republican control of the governor's mansion. To the surprise of many, in her first State of the State address, Governor Granholm made public-private partnerships a central thrust of her approach to state governance.

An executive with the Michigan Chamber of Commerce pointed out the wisdom of Governor Granholm's direction.

"Good governors understand that not all wisdom and knowledge reside at the Capitol," he said. "It seems that the call for greater cooperation in public-private partnerships is in line with her call for cutting spending and not raising taxes."

A representative of a Michigan think tank concurred, saying "you create greater wealth when you partner, or when you bring more resources to the table. The course is inevitable that there will be more partnerships."³

The challenges faced by the Granholm administration are reflective of the difficulties seen in states and cities throughout the country. Our nation is facing enormous public service and infrastructure needs. New roads need building and existing ones – not to mention bridges, tunnels and other major structures – need repair and refurbishing. Water and wastewater systems are under greater pressure as citizenries grow in number and its infrastructure ages beyond a 100 years of service. School districts are faced with increasingly crowded classrooms and buildings in disrepair.

The governments charged with meeting these needs simply don't have the resources in their treasuries to handle this extensive list of must-do tasks.

According to the National League of Cities, municipal budgets are stretched thinner than at any time since the early 1990's. A 2002 survey of municipal finance officers found 55 percent saying their cities were less able to meet financial needs than in the previous year. National League of Cities President Karen Anderson, Mayor of Minnetonka, Minn., said, "Lower sales and tourism tax revenues and higher security spending translates into hard times for cities. It means that, in some cities, residents won't be getting the services they deserve because city budgets have been squeezed too tight."⁴

The same holds true for many state governments. With Medicaid costs rising rapidly, double-digit health insurance increases and new federal mandates to invest in homeland security and education, state budget deficits are on the rise. The overwhelming majority of the nation's states began 2003 facing deficits totaled in the billions of dollars, with many of them confronted with state constitutional questions – how to pay for the daily operations of the government while meeting mandatory balanced budget requirements. As well, cities throughout America are struggling with budgets and the financial means to meet essential public needs.

"Across the country, states and cities are in such dire straits when it comes to funding facilities that all options are very viable, and there are certainly some successful examples of public-private partnerships."

- Judy Marks
Associate Director
National Clearinghouse for
Educational Facilities

³ Hoffman, Kathy Barks, "Public-Private Partnerships Push Cautiously Welcomed," Associated Press, *South Bend Tribune*, February 9, 2003.

⁴ Pagano, Michael and Hoene, Christopher, "Cities Forecast Bleak Futures for Their Budgets," *Nation's Cities Weekly*, August 19, 2002.

The impact of these financial struggles is clear, as is the importance of the debate over the value and desirability of public-private partnerships. With budgets running in the red, governments will be increasingly hard-pressed to address growing public service demands and infrastructure needs. Federal, state and local administrators are faced with choices – raise taxes, sharply reduce or eliminate programs, or seek innovative means to serve constituencies.

In many, if not most, jurisdictions, tax increases are not a feasible option. Even when budget deficits are on the rise, citizens clearly reject higher taxes as a solution. Lack of government resources is dictating that they can no longer run with “business as usual.” Governments are awakening to the realization that operational and capital investment change is required.

Alabama presents a typical example. In early 2003, the state faced a \$500 million budget deficit, yet a Mobile Register-University of South Alabama poll found that only one in four Alabama residents would support tax increases.⁵

The case studies estimated that as much as 50 percent time reduction in project duration can be achieved compared to the traditional design-bid-build approach.

- Battelle
“Performance-Based Contracting for the Highway Construction Industry”
February 2003

The financial condition of state and local treasuries and the aversion of the populace to tax increases leads to the inescapable core question regarding the future of PPPs. Do governments elect to delay much-needed actions, or do they find alternatives; one of them being a way to bring private sector resources into play to address critical priorities?

This isn’t a theoretical question, but a very real one for many governmental leaders. In Virginia, for example, citizens in the central part of the state have long desired a new highway – called the Outer Connector – to help drivers get around the constantly congested Interstate 95.

The problem? The Outer Connector would cost at least \$158 million to build, money that the Fredericksburg, Va., local newspaper said, “cash-strapped Virginia isn’t likely to have on hand anytime soon.” In fact, because of budget shortfalls, the commonwealth has recently cut \$3 billion from its six-year road construction plan.

Virginia’s transportation commissioner told journalists that public-private partnerships are often the best way to pursue larger highway projects in tight budget times.⁶ A prime example is the state’s Pocahontas Parkway, an 8.8-mile stretch of highway that helps Richmond commuters by providing a shorter and easier route over the James River.

A public-private partnership – facilitated by Virginia’s innovative Public-Private Transportation Act of 1995 – made the project possible years before it would have been built if dependent on public funding alone. According to the Richmond Times-Dispatch, “Much of the project’s funding has been raised through the sale of private bonds, which has allowed the Parkway to be built now, instead of 15 years from now, when sufficient public funds would be available. Because only \$27 million of the project’s total \$324 million cost is coming from public funds, the risk to both the taxpayers and the localities involved has been greatly minimized. Toll revenues will help repay the costs.”⁷

⁵ “Poll: Majority For Spending Cuts Over Tax Increases,” Associated Press Newswires, March 16, 2003.

⁶ Gross, Edie, “Beltway Funding Gets Look,” *Fredericksburg Free Lance-Star*, March 12, 2003.

⁷ “Pocahontas Parkway, Route 895, is Virginia’s First PPTA Project,” *Richmond Times Dispatch*, special National Engineers Week section, 2002.

The Virginia scenario brings us back to the core question at hand. Should governments seek mutually beneficial agreements with private entities, utilizing the private sector's financial resources and technical expertise, to serve the public interest? Or, is the merging of public and private resources a bad idea that undermines the concept of public service? Or are there even some capital-intensive businesses that could be moved out of the public sector and into the private sector?

One thing is certain. Given the problematic financial climates being faced by governments at all levels throughout the country, this is a question that is neither going away anytime soon nor fading in importance?

A Relevant Historical Perspective

Because there is a high level of controversy today regarding public-private partnerships, it is easy to assume that they are a relatively new concept. That is not the case.

It is true that the growth of PPPs was fueled in the 1980s and 1990s by both a need and a realization – the need on the part of state and local governments to provide services to growing populations without raising taxes, and the realization that utilization of private sector resources could bring an infusion of innovation and quality to public services. This growth in the late 20th century was not, however, a groundbreaking new trend. Rather, it marked a return to previous methods used in America to do a great deal of the nation's business. Much of our transportation, water and other public services were originally built by the private sector, and often in partnership with either the federal, state or local governments.

The idea of government acting alone, without private sector involvement, to provide essential services took hold during the Great Depression when Franklin D. Roosevelt's administration used public works programs and a major expansion in government payrolls to fuel an economic recovery. The creation of programs like the Tennessee Valley Authority marked the launching of a period of big, activist government that continues even today, with federal programs building interstate highways, water and sewage treatment plants, airports and other major public structures and services.

Prior to this period of expansion, though, American progress and growth was powered by many joint public-private ventures. The development of the first transcontinental railroad in the mid-19th century occurred as a result of partnerships between the federal government and private railroad companies. Electricity was brought to homes by private sector initiatives, regulated by governments. In fact, many activities – education, utilities, transportation – that today are largely regarded as the government's bailiwick actually began as private enterprises or as public-private joint initiatives.⁸

Looking at the public-private partnership debate through this historical lens, one can see that PPP opponents are advocating that government's act alone to meet public needs regardless of budgetary difficulties. PPP advocates, on the other hand, stress the enormous potential value of private sector participation, an approach that has its own roots in the history of American growth and prosperity.

“Some people are philosophically opposed to that sort of plan that government is involved in. It's all about public-private partnerships - we couldn't do anything without private investment.”

**- Deb Meihoff
City Planner
Gresham, Oregon**

⁸ “The United States Experience with Outsourcing, Privatization and Public-Private Partnerships,” David L. Seader, President, David Seader Associates, December 2002.

Dissecting the Criticisms of PPPs

There is nothing subtle about the rhetorical attacks that are frequently launched against private entities that have chosen to work in partnership with governments. From various anti-PPP published documents and quotations in news stories, there are plenty of incendiary snippets from which to choose:

"...wreaked economic, social and environmental havoc..."

"...spell doom for the world's people..."

"Private companies are ripping off the government and the taxpayer."

Do charges like these have some degree of merit, or are they completely without substance and intended solely to push public opinion against public-private cooperation? As critical as the debate over the role of PPPs is to the challenges facing 21st century America, it is necessary to examine the primary arguments against public-private partnerships.

Survey of public administrators and public works officials found that 94 percent of municipalities that utilize private outsourcing of water and wastewater treatment services would recommend their contractor to other municipal governments.

**- Decision Analyst, Inc.
Public Opinion Survey
February 2003**

#1 Private Companies Will Sacrifice Quality for the Sake of Profit

There are two ways to look at this question. The first, of course, is to examine objectively the quality of products and services delivered to citizens by private companies in partnership with governments.

In structuring a partnership, the public sector can very clearly define and control the levels of quality desired, through the partnership's contract and effective oversight. In a number of areas (transportation, real estate development, delivery of social services and many more), the use of performance based contracting allows the creativity of the private sector to provide more cost-effective approaches to providing the quality levels demanded by the public.

In the area of water, quality has actually improved in numerous cases when it is delivered by the private sector as opposed to a government-managed entity. Consistently, studies have shown water quality remains the same or gets better when the private sector steps in. Often, governments that have financial or technical

difficulties meeting the requirements of the federal Safe Drinking Water Act turn to private partners to help meet those standards.

In addition to examining product quality, it is also useful to hear testimony from those governments that have turned to public-private partnerships to deliver essential services.

A 2002-2003 survey of public administrators and public works officials found that 94 percent of municipalities that utilize private outsourcing for water or wastewater treatment services would recommend their contractor to other municipal governments. Asked to rate the quality of service they received from their private contractor, more than three out of four of the officials surveyed rated official performance from "outstanding" to "very good." When asked how well the private partner communicated with city leaders, 84 percent gave similarly high ratings.

According to the public opinion research firm that conducted the poll, "The results of this survey bode well for the future of water and wastewater treatment contractors, whose demonstrated ability to satisfy municipal clients should help to increase other municipalities' interest in entering into such agreements."⁹

#2 Private Companies are not Accountable to the Public at Large

The thrust of this argument is that once a governmental body turns over operational control of a public service to a private company, public accountability is lost. This is simply not true.

Any private company entering into a public-private partnership has various levels of accountability. The private entity must answer not only to the government agency that hires it, but also to various federal and state regulators, to the Securities and Exchange Commission, to congressional oversight committees and, in very visible partnerships, to an increasingly watchdog-like news media.

Even beyond legal requirements, though, any private entity has an inherent built-in accountability. Government leaders must maintain the confidence and approval of their constituents. Nothing will erode that confidence more quickly than a deterioration in public service delivery. Thus, governments have a vested interest in ensuring the quality performance of their private partners, and those private companies have an equally strong interest in preserving the confidence of the government bodies with which they work.

PPP critics frequently make the logical leap that where there is a lack of accountability there is also a breeding ground for corruption. This is a charge without either a factual or logical basis. There is no evidence showing widespread ethical breakdowns when government and business work together to achieve goals. Further, it is within the power of any governmental body to create the checks and balances that ensure all partnerships and contracts adhere to the letter and spirit of all laws.

#3 When Public-Private Partnerships are Created, Local Control is Eroded, and Such Partnerships Are Difficult to Reverse

There is ample evidence telling us that local authorities have as much control over a public-private partnership as they wish to exercise.

In fact, a very noteworthy example occurred in Atlanta, Ga., in January of 2003. The city had been in partnership with a private firm to improve the city's water system. Although significant improvements in operations and cost savings had taken place over the four years the agreement had been in effect, there were differences between city and company officials over specific terms of the contract. Both parties agreed it was in their mutual best interest to dissolve the agreement, and the company provided assistance to ensure a smooth transition back to city operation of the system.

The simple fact is that states and municipalities can and should structure contracts to maintain a desired level of oversight and even hands-on control. In many cases, private entities as well as the federal government can provide assistance to municipal leaders on how to shape an effective public-private partnership.

At a 2003 forum on infrastructure needs, an executive with Seattle Public Utilities said that tremendous savings are possible when cities turn to public-private partnerships, but also noted that many city officials do not have experience in negotiating workable, performance-based contracts.¹⁰ This suggests that any

"Because privatization means many things, it is easy for the adversaries to threaten the public with "loss of control," presumably suggesting that vendors will not be responsive to the public. The truth is that we possess many more tools to control the quality and price of a private contractor or winning public employees than we do those employees acting in a typical government bureaucracy."

**- Mayor Stephen Goldsmith
Indianapolis, IN (1992 - 1999)**

10 U.S. Environmental Protection Agency forum on water infrastructure needs, January 31, 2003.

problems with the structure of PPP contracts are not inherent, systemic ones, but rather obstacles that can be overcome with information and education.

#4 Public-Private Partnerships Lead to Job Losses

Some public employee unions are among the harshest critics of public-private partnerships, arguing that shifting traditional government functions to private companies leads to significant numbers of public employees losing their jobs.

That's another serious charge that requires a closer look.

By any statistical measure, those massive job losses simply haven't happened. In the case of many public-private partnerships, there have been reductions in public employees. Those reductions, however, have normally happened through attrition rather than layoffs. The public employees are usually hired by the private company to take advantage of their institutional knowledge and expertise. The fact is those public employees that move into the private sector have a wider selection of job opportunity because they are no longer constrained by local geography. They can advance with their new company in other divisions, if they wish.

The Department of Labor examined this very question and, in a 2001 report, found that public workers don't lose jobs because of public-private partnerships. Examining partnerships in 34 cities and counties, the Labor Department found that virtually all affected public employees were either hired by private contractors or transferred to other government positions. In fact, the most productive partnerships, the Department found have been those in which government employee unions were actively involved in the partnership planning process.¹¹

The public sector has the power to protect the futures of employees in situations where a PPP is taking place.

Increasingly, public officials are sharing information with each other about how to structure effective partnerships, with the result being officials who work harder to ensure their employees retain equal or better compensation and benefits packages. Sophisticated requests for proposals outline a city's expectations for how employees are to be transitioned, often including a minimum period of time during which the entire staff must be retained. As a result, private firms respond with detailed proposals spelling out the specifics of their employee transition processes and employee relations programs.

#5 There is an Inherent Disconnect Between a For-Profit Enterprise and Pursuit of the Public Good

If profits for the private sector in a partnership are not derived from cutting jobs or quality, where do they come from? Time and time again, it is shown that the application of sound business practices by private partners generate both savings and tangible benefits.

Techniques used by the private sector include improvements in management efficiency, application of new technologies, automation, workplace efficiencies through job description modification, cash flow management, personnel development, and shared resources.

Examining partnerships in 34 cities and counties, virtually all affected public employees were either hired by private contractors or transferred to other government positions.

- U.S. Department of Labor 2001 Report

¹¹ "Privatization and Layoffs: The Real Story," Reason Public Policy Institute, March 13, 2001.

Take, for example, building projects that require the expertise of highly skilled engineers. These professionals earn high levels of compensation, which many public agencies simply can't afford within limited budgets. And, in fact, many municipalities – particularly smaller towns and cities – don't need a top-flight engineer on a full-time basis. Through a PPP, the skills and expertise of such a professional can be shared between a number of locations, providing significant efficiencies at each site at only a fraction of what the cost would be if the municipalities were forced to hire a full-time engineer on its own.

Bundling of purchases between multiple locations can provide another source of reduced costs.

The bottom line is that private partners within PPPs can and do generate profits while retaining workforces and maintaining (and even elevating) quality. They do so through efficiencies in operational practices that provide a return on investment.

#6 Public-Private Partnerships Could be Impacted by International Trade Agreements

A relatively recent attack on the viability of public-private partnerships has to do with international trade. Specifically, because a private company entering into a PPP may be headquartered in a different nation than the location of a partnership, PPP opponents argue that municipalities should think twice before entering into contracts that could have long-term, complex financial implications impacted by trade pacts.

This argument is flawed on its face. As a matter of routine, states and municipalities regularly purchase computers, automobiles, foodstuffs and other supplies and equipment that originate from foreign sources. Also, even though a contracting company may be headquartered in another country, it is still incorporated in the United States and must, accordingly, fall under U.S. contractual law, thus eliminating any possible complications originating from international trade agreements.

An important point is made by noted law professor Robert Paterson, an acknowledged authority on international trade law who said, in a 2003 speech, "municipalities in the legal sense are not bound by international legal agreements as such. He said municipalities are not seen as having the authority to enter international agreements and are, therefore, not bound by them."¹²

The Crux of the PPP Debate: Do They Work?

If the debate over public-private partnerships is focused solely upon ideological questions, the discussion will be never-ending. Like so many controversial issues, it is difficult to find common ground with those whose political views absolutely preclude any private sector involvement in functions that have been traditionally governmental.

The ideological paradigm shifted some 60 years ago, with the adoption of the New Deal approach to major infrastructure projects. Prior to that period, most major public services – electricity, transportation, and water to name a few – were developed by the private sector. In today's changing environment and the current

"We need a set of alternative tools in the toolbox for state and local governments, other than the rigid requirements of the competitive sealed bid process."

- Senator Walter A. Stosch
Virginia

¹² "Clarification Given to Municipalities Regarding Impact of Trade Agreements on PPP," *For the Record*, The Canadian Council for Public-Private Partnerships, 2003.

debate, a pragmatic focus makes it possible to come to a conclusion as to whether Americans are well served today by public-private partnerships.

There is evidence available, in the form of public-private partnerships in different sectors (education, transportation, water, etc.) throughout the country, to begin making a determination as to whether governments and citizenries are well served when public and private sectors collaborate.

Why do they work? There are a number of reasons. The private sector can bring funding into a project that a government budget or debt capacity simply doesn't have available. In fact, many governments face constitutional amendments affecting debt limits and, regardless of whether such a limit is in place, governments cannot issue bonds ad infinitum. As well, private entities can utilize new, emerging technologies that may not be available under public procurement requirements. Private sector competition forces companies to hire skilled experts (particularly in engineering, computer and finance areas) at higher pay and benefits than are available within public service. Here is a sampling of PPPs at work:

Denver, Colorado

The Denver International Airport is widely recognized as one of the premier air transportation facilities in the world. It is a multi-billion dollar state-of-the-art facility designed to serve a growing Colorado population. The award-winning airport – it has won design honors from both the U.S. Department of Transportation and the National Endowment for the Arts – came about as a result of a public-private partnership.

Denver municipal authorities worked with a private partner to identify a site in the mid-1980s for the new airport and to create a master development plan. The private partner firm also designed and constructed most of the airport's utility system, and provided design work for the roadway and parking system. The airport is a \$5 billion financial asset for the city and is responsible for over 30,000 jobs.¹³

Public-private partnerships continue today to strengthen the area surrounding Denver International. The DIA Partnership – a consortium of public, private and community leaders – was formed in 1996 to promote economic opportunity and quality of life in the airport district. In a 2003 awards ceremony, the U.S. Conference of Mayors recognized the city of Denver and its private partners for an airport development project that will construct over 750,000 square feet of retail space near the airport, provide 30,000 homes and 35,000 jobs.¹⁴

Chattanooga, Tennessee

The heading from "Nation's Cities Weekly", a publication by the National League of Cities says it all. "Chattanooga Reconnects to the River: Public/Private Partnerships Help City Rebound from Decades of Neglect."¹⁵



Denver International Airport
Photo courtesy of HDR, Inc.



21st Century Waterfront Plan
Photo courtesy of River City Company

13 www.hdrinc.com/information

14 "U.S. Conference of Mayors Presents Public-Private Partnerships Awards to Eight Cities," press release, U.S. Conference of Mayors, February 3, 2003.

15 Davis, Lance, "Chattanooga Reconnects to the River," *Nation's Cities Weekly*, March 31, 2003.

The Chattanooga City government, working in concert with private developers, is embarking on what it calls a 21st Century Waterfront Plan to develop property alongside the Tennessee River. The project will include new riverfront mooring facilities, a renovated public marina, a public pier and an expansive riverfront park as well as expansion of museums and the Tennessee Aquarium.

According to the city of Chattanooga, "The waterfront plan represents the largest public/private undertaking in a community known for such partnerships, with funding divided between the public and private sectors."

Said Chattanooga Mayor Bob Corker, "The public and private sectors have come together in an unprecedented way to ensure that the full development of the 21st Century Waterfront Plan will be a reality. As time goes on, there is no doubt that the plan will yield significant private investment in our city."

Since the waterfront redevelopment project began, the private sector has provided 82 percent of the \$356 million cost of the project. Corker said, "There is no impact to our taxpayers or the city's general fund."

Falls Church, Virginia

States and cities with tight budgets have had a difficult time addressing deteriorating school facilities throughout their jurisdictions. Recently, though, many municipalities throughout the country have begun considering public-private partnerships as an option for developing new schools and rehabilitating existing facilities.

The city of Falls Church, Va., is among those leading the way, thanks to a bill signed into law in April of 2002 by Virginia Governor Mark Warner (D). The legislation allows the formation of public-private partnerships to build schools and other public facilities. Governments working with developers can compensate the private firm through land swaps, bond issues or enabling the developer to own the property in question with the municipality paying a long-term lease.

Governor Warner said, "This is the kind of innovative thinking we need to leverage the talents and resources of the private sector in helping to address our public needs."

An official with the Fairfax County, Va., school system said the new legislation "could shave as much as three years off the usual timeline for building a school."¹⁶

Falls Church began negotiations in early 2003 with a private developer to construct a new middle school for the city. Fairfax County was, at the same time, considering a similar partnership to build a new high school.

San Diego County, California

Population and economic growth in southern San Diego County has necessitated new transportation development. The area contains virtually all of the county's affordable industrial land and most of the developable residential land.



Falls Church Elementary School
Artist rendering provided by BeeryRio
Architects and photo courtesy of Falls
Church City Public Schools



SR 125 South Toll Road
Photo courtesy of Porter Novelli

¹⁶ Cho, David, "Falls Church Schools Giving Builder Control Partnership a Test of New State Law," *The Washington Post*, February 12, 2003.

Construction of a 9.3-mile four-lane toll road, the SR 125 South Toll Road, will, according to the San Diego Daily Transcript, “relieve traffic congestion, reduce travel time and provide direct access to the growing businesses among our border. Because the southern section of the roadway is being privately financed, no tax dollars will be used to construct or maintain the highway.”¹⁷ The toll road will originally open as a four-lane road but is being designed so that it may be expanded to 10 lanes in the future if needed.

A loan for the project was made to the private partner, the San Diego Expressway Limited Partnership, by the U.S. Department of Transportation under an innovative financing program established by the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA).

Said Transportation Secretary Norman Mineta, “This project is a TIFIA success story, demonstrating how innovative federal financing tools can attract private investment to critical transportation projects. TIFIA provides an alternative to grants as a way of doing business, allowing private partners to share with the government the risk and rewards of infrastructure investment, thereby providing transportation, creating jobs and contributing to economic growth.”¹⁸



Tampa Bay Desalination Plant
Photo courtesy of Aerial Innovations

Tampa, Florida

Tampa regional authorities sought a safe, sustainable alternative water supply that would enable a reduction in groundwater pumping from regional wellfields. The answer has come in the form of a large-scale seawater desalination plant, which began producing potable water in May 2003, that will provide an environmentally friendly, drought-proof long-term supply of drinking water to Tampa area residents.

The desalination plant was made possible by a public-private partnership agreement between the Southwest Florida Water Management District (SWFWMD), Tampa Bay Water, and a private company. The plant is currently producing 25 million gallons per day (enough water for 50,000 families), which is equivalent to 10 percent of the wholesale water supply for the 2.2 million residents of Hillsborough, Pasco and Pinellas counties and the cities of New Port Richey, St. Petersburg and Tampa.

Thanks to the combined resources brought to the project by both public and private partners, the Tampa Bay project is producing the world's least expensive desalinated water. The 30-year projected average cost is \$1.88 for every one thousand gallons.¹⁹

The public-private project has captured the nation's attention. Cities in Texas and California are considering similar desalination projects, and the Georgia State legislature recently earmarked funds for the city of Atlanta to explore an initiative similar to Tampa's.²⁰

17 “Major Transportation Infrastructure Under Development in South County,” *The Daily Transcript*, October 2, 2002.

18 “U.S. Transportation Secretary Mineta Announces \$140 Million Loan for SR 125 South Toll Road, Salutes California Public-Private Partnership,” U.S. Department of Transportation, May 23, 2003.

19 “Tampa Bay Seawater Desalination Plant to Start Providing Drinking Water,” Yahoo Financial News, Tampa Bay Water release, March 17, 2003.

20 Brooks, Bryan, “Officials: Desalination May Be Solution to Atlanta’s Water Woes,” *Gwinnett Daily Post*, May 23, 2003.

St. Louis, Missouri

The development of the St. Louis Commerce Center took place, in large part, because of business incentive programs created by the State of Missouri.

According to *St. Louis Commerce Magazine*, private developers received \$1 million in tax credits from the Missouri Department of Economic Development to reimburse them for expenses incurred in cleaning up a site that had been devalued. This work led to a viable Commerce Center that is bringing a steady tax flow to the Missouri treasury.

The magazine said, "One of the tenants at St. Louis Commerce Center, GPX, employs 300 people. The estimated indirect economic impact of those 300 jobs supports another 250 jobs in the Missouri counties of the St. Louis region. So, one tenant at the site is directly and indirectly responsible for approximately 550 jobs in Missouri. Those tax revenues are the state's return on its tax credit investment."²¹

The article emphasized the success of public-private partnerships through business incentive programs. "It may be tempting," it said, "to some to see tax credits and other incentive programs as expenses to the government or as tax loopholes, but these programs generate economic activity that, in turn, generates increased state and local tax revenue."



St. Louis Commerce Center
Photo courtesy of Balke Brown
Associates

Sugar Land, Texas

There may be no better testing ground for the efficacy of public-private partnerships than this mid-sized city in Texas.

Few cities in the nation have experienced the kind of rapid growth as Sugar Land. By annexing adjacent properties, the city's population grew from 30,000 in 1997 to 68,000 in 2000. This created a challenge in meeting the city's water utility demands. Sugar Land wanted to keep its existing water utility operation, but was concerned about the high cost of adding necessary staff and equipment.

A creative solution developed. The city would maintain its own water utility department to serve the older portion of the city, known as the North Zone. For the newer South Zone, a private sector partner was brought on board.

This is a pure form of PPPs at work. Municipal public works employees work side by side with private sector workers to serve the city. The private partner has brought to the city well-qualified professionals who have helped maintain quality utility services.

Sugar Land's city manager has expressed great satisfaction with the arrangement. The public-private partnership, he said, has helped keep costs under control, with the private firm absorbing potentially volatile costs such as wages, insurance, technology and new regulatory requirements. In his words, "The net effect is efficient, seamless utility services for our customers."²²



Sugar Land Treatment Plant
Photo courtesy of Southwest Water
Company

21 Bezold, Bryan, "Trends: Progress in St. Louis: A Public/Private Partnership," *St. Louis Commerce Magazine*, March 1, 2003.

22 National Council for Public-Private Partnerships, 2002 NCPPP Project Award Winner, South Zone Water Utility System.

These anecdotes represent a small sampling of successful public-private partnerships taking place throughout the United States. In themselves, they don't represent a scientific study, but they do provide valuable examples demonstrating how cities and communities are finding value and needed improvements that might not otherwise take place if not for PPPs.

If public-private partnerships can bring infusions of critical funding to cash-strapped governments, utilize new technologies to help deliver high-quality services, and actually increase tax revenues through expanded economic development, then there are powerful arguments in existence for utilizing partnerships as a valuable strategy for confronting the unprecedented challenges this century brings.

The Opportunities Before Us

Reaching a workable consensus on the debate over public-private partnerships is important in enabling governments at all levels to pursue a wealth of available opportunities – opportunities that can mean expanded tax bases, better schools, more available and affordable housing and development of underutilized or depressed properties.

Throughout the United States, there are properties being underutilized. There are buildings that are dilapidated and in dire need of refurbishing and even reconstruction. There are neighborhoods that are depressed and even dangerous. And there are simply properties that could be maximized to achieve important public goals.

Governments that have made the decision to establish public-private partnerships are reaping the benefits that come from developing and revamping these underutilized properties.

In Rockwood and Gresham, Ore., for example, private partners are widening streets, adding sidewalks and lighting and rehabilitating homes and businesses, making neighborhoods brighter, safer places to live. Deb Meihoff, the city planner overseeing the project, told reporters, "It's all about public-private partnerships. We couldn't do anything without private investment."²³

In other communities, governments and developers are working hand-in-hand to build more vibrant communities and also encourage use of mass transit, thus reducing both air pollution and highway congestion. Population, for example, in the Puget Sound area has grown by 40 percent in the last 20 years and the resulting traffic congestion is said to be the third worst in the nation. Developers and local governments have worked together on what is known as Transit-Oriented Development (TOD).²⁴

In these developments, transit centers are surrounded with parking garages, housing and retail centers all within walking distances, encouraging people to live near and utilize subway and light rail lines. TOD is taking place not only in the Pacific Northwest, but also in the Dallas-Fort Worth area, the Washington-Baltimore suburbs and other areas.

The federal government, as well, is increasingly turning to the private sector to make productive use of taxpayer-owned properties. Military housing provides a

"Government serves basic and necessary functions, but it doesn't hold all the answers. This administration will look to the private sector and public-private partnerships to get the job done when government can't do it alone."

**- Governor Brad Henry
Oklahoma**

²³ Mortenson, Eric, "Civic Leaders Push Urban Renewal District," *The Oregonian*, January 9, 2003.

²⁴ Hughes, Julie, "Transit Oriented Development: New Types of Developments Respond to Region's Growing Population," *Northwest Construction*, August 1, 2002.

prime example. Today, 60 percent of the housing used for military families is in extremely poor shape. Working at a rapid pace, though, the Defense Department is negotiating public-private partnerships with developers to provide quality dwellings for service families. Normally, under these partnerships, developers are awarded a 50-year lease on a group of housing units or on land. The developer will rehabilitate existing housing or build new homes and then collect the tenants' monthly housing allowance.

This has resulted in enormous savings for federal taxpayers. At Fort Carson in Colorado, the developer absorbed \$229 million in costs to rehabilitate housing, with the government limiting its payout to \$10 million, the cost of guaranteeing a low-cost loan for the developer. And military families have gained housing that is a significant upgrade in quality from their previous quarters.²⁵

Governments own over \$5 trillion worth of real estate in this country – hundreds of millions of acres, as well as existing structures, that can be used for the public benefit and for economic development. The private sector has the financial resources and the expertise to develop these properties for the public good, and far-sighted governments are taking advantage of that fact and utilizing partnerships to great advantage.

The PPP Debate in Washington, DC

While the debate over public-private partnerships is taking place in states and cities throughout the country, there is an epicenter developing in the nation's capitol.

On one side of the equation is the Bush Administration, expressing its determination that the federal government should work more efficiently by adopting many practices successful in business. Part of the President's Management Agenda includes competitive outsourcing – a process of bringing the most efficient operations into government, either through revamping of the public sector operations or by having the private sector provide the public services.²⁶

On the other side is a determined group of lawmakers, whose views are represented in a letter – signed by approximately three dozen senators – to the White House asking for the movement toward competitive outsourcing to be slowed down.²⁷ They are joined by the American Federation of Government Employees, whose spokesperson said the Bush effort is a matter of "paying off contractor cronies with taxpayer dollars."²⁸

The last several Presidential Administrations - both democratic and republican - have held the belief that government can achieve greater efficiency in the delivery of services through competition, and also gain greater access to more effective and efficient technologies that may not be available through government procurement restrictions.

25 Bergsman, Steve, "And On The Home Front...War Gives a Life to Privatization of Military Housing," *Barron's*, April 7, 2003.

26 "Improving Government Performance," The President's Management Agenda, Office of Management and Budget, 2003.

27 Lee, Christopher, "35 Senators Oppose Outsourcing Plan," *The Washington Post*, February 5, 2003.

28 Ibid.

86.3% of agency respondents said they either increased or maintained the level of privatization activity in the past five years.

- Council of State Governments
"Private Practices: A Review of Privatization in State Governments"
1998

There are other factors to consider in this debate. One is the ongoing “brain drain” about to affect the federal government. Within the next three years, 40 percent of all federal workers and 71 percent of the government’s senior executives will be eligible for retirement. With federal pay levels lagging behind the private sector, it will be difficult for Uncle Sam to replace much of the experience and expertise that will be leaving federal service in a relatively brief timeframe.²⁹

Additionally, there is a belief that many highly technical or complex functions within the government should be turned over to the private sector. Said Paul Light, an analyst from the Brookings Institute, “There are certain places where you just can’t get expertise anywhere but from a contractor.”³⁰

The debate in Washington shows no signs of being resolved immediately. President Bush’s spoken desire to increase the use of business practices and public-private partnerships in the federal government is moving ahead, but still encounters significant “institutional inertia”. In the 2004 budget recently released by the Office of Management and Budget, while many agencies made remarkable progress over the last two years, 26 agencies were given subpar ratings for their progress in working with the private sector.³¹

“I have to be very positive about the future of PPPs. I don’t think there’s a panacea, I don’t think there’s a pot of gold. But I think there is a tremendous amount to be gained by government going through this process.”

**- Mayor George Spadoro
Edison, New Jersey**

Resolving Concerns: How to Clear the Path for Effective PPPs

While the use of public-private partnerships by governments at all levels has been on the rise, then why don’t more public officials turn to PPPs as a solution to worsening budgetary pressures?

For sure the ideologically based charges issued by various interest groups plays a role in the reluctance of some governments to engage in PPPs. On occasion, local political situations do have an impact. At the same time, though, it would be hard to believe that a significant number of governors, legislators, mayors and city council members would take seriously arguments regarding loss of local control and the propensity for corruption. Such arguments are also an indictment of the

competency and integrity of the public officials entering into public-private partnerships. In point of fact, government officials, by and large, who develop public-private partnerships take great pains to assure that the public interest is fully protected.

Countering the arguments against public-private partnerships requires the honest use of the facts, stated openly and forthrightly by public officials and political leaders. It requires leadership. In an open dialogue with all stakeholders - including the general public, public employees and their representatives - leaders need to move beyond rhetoric to the facts. While public-private partnerships may not apply to every aspect of government operations there are numerous areas where these arrangements can bring tremendous benefits to the community.

Numerous resources exist to aid in taking “the high road” on this issue. The National Council for Public-Private Partnerships’ Web site (www.ncppp.org) offers case

29 Saldarini, Katy, “Agencies Face Executive Succession Planning Problem,” *Government Executive*, May 15, 2000.

30 Superville, Darlene, “U.S. Government is Becoming Government by Contract,” Associated Press, *The Kansas City Star*, March 1, 2003.

31 The President’s Fiscal Year 2004 Budget, Office of Management and Budget

studies and contacts for many examples where this process has worked. The site also includes papers, as well as lists of organizations and consultants to turn to for help. The Council also works with public agencies to conduct workshops to provide a better understanding of the principles and best practices for partnerships.

With this information and assistance, those who are charged with protecting the public's interests can truly fulfill their obligation.

The Bottom Line

Perhaps the best way to answer the question of whether public-private partnerships is to consider alternatives.

The 21st century presents crushing challenges to government leaders. How do we continue to provide adequate transportation systems, clean water and wastewater services, quality education, public safety and other services, while also rehabilitating or replacing aging infrastructures? One alternative is higher taxes, which brings into play public opposition as well as a depressing impact on state and local economies. Another option is to cut from one program area to enhance another, an unrealistic choice in states and cities where public officials have already stretched budgets to their breaking point in order to meet constitutional budget-balancing mandates.

Within conventional tax-or-spend alternatives, the task of meeting growing public needs is virtually impossible and will be increasingly difficult with each passing year.

Public-private partnerships, however, bring new avenues for meeting those challenges – including access to new technologies and high-cost human expertise, cost and risk sharing and access to new sources of financing.

Those who oppose these partnerships on ideological grounds need to come to terms with the very real challenges facing this country. Given the choice between PPPs and a PPP-free environment, there really is no choice. In order to ensure Americans the quality services they need, it is essential to resolve this debate with a productive and forward-thinking solution.

In states and cities throughout America, public servants are opting for these creative solutions, and their citizens are reaping the benefits.

State and local governments have routinely experienced cost savings from 10 to 40 percent through privatization, and often accompanied by improvements in the way the asset is managed or a service is delivered.

**~ Mackinac Center for Public Policy
"The Privatization Revolution"
May 1997**

About the National Council for Public-Private Partnerships

The National Council for Public-Private Partnerships is a non-profit, non-partisan organization founded in 1985. The Council is a forum for the brightest ideas and innovators in the partnership arena. Its growing list of public and private sector members, with experience in a wide variety of public-private partnership arrangements, and its diverse training and public education programs represent vital core resources for partnering nationwide. The Council's members bring an unmatched dedication to providing the most productive and cost-effective public services in these areas:

1- Provision of Public Services: Operation and maintenance of services, including mass transportation, water, wastewater, solid waste management and social services.

2- New Infrastructure Development: Attracting new private capital to transportation, health care, environmental facilities and communications infrastructure.

3- Joint Public-Private Ventures: Partnerships in fields such as community development, real estate ventures, environmental remediation, child and adult care, education, military base conversions, corrections and volunteer programs.

Across the country and around the globe, governments are being challenged to operate more efficiently and cost-effectively and are turning to an accepted tool for serving public needs. In addition to the resources available to its members, the Council has access to expert consultants providing accurate, timely information to the general public. It advocates partnering, where appropriate, at the federal, state and local levels through formal and informal presentations.

Partnerships leverage the strengths of both public and private sectors. They range from capital intensive design/build/operate projects, such as airports and solid waste facilities, facility leasing, joint development and service arrangements, to the relatively low capital intensive contract bidding, such as security or recycling services, and total computer system and departmental administration. Partnerships have been activated successfully at all levels of government.

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