Cover Photos Include:

James F. Oyster Bilingual Elementary School on page 9

JFK Airport Terminal on page 11

Burlingame, CA Wastewater Treatment Facility on page 11
(Courtesy of USFilter Operating Services, Inc.)

Union Station on page 7
(Courtesy of Jones Lang LaSalle)

Grants NM Memorial Park on page 14

Lackland Air Force Base on page 16
(Courtesy of U.S. Air Force)

Telecommunications on page 16
Executive Summary

Public-Private Partnerships (PPPs) are used in meeting a wide variety of public needs, to the great satisfaction of the vast majority of the users of this approach. However, PPPs are often misunderstood. Issues such as the structure of partnerships, the origin of private-sector profits, the role of the public-sector in these agreements and the value (to both the general public and public agencies) are all complex aspects where limited knowledge can lead to misinformation and misperceptions. This paper provides a more complete picture of how and where public-private partnerships work.

In the context of this paper, “public-private partnerships” covers a full range of projects and services involving private-sector resources in the delivery of services or facilities for public use. This includes everything from outsourcing of services to full privatization of government activities, but the principle focus of this report is to review the blending of resources and assets from both sectors in a way that is advantageous to all parties. Advantages include cost-reducing solutions that maintain the same or better levels of quality, and successfully leveraging of the increasing limited resources of government agencies to complete high-cost, high need projects. In many cases, a partnership can save as much as 40% of the original cost of the program, while maintaining or even improving the quality when compared to pre-partnership performance benchmarks.

Partnerships have been used in a wide variety of programs and projects. This paper provides examples in providing educational facilities (p. 9), transportation (p. 10), water/wastewater services (p. 11), real property development (p. 13), public safety (p. 14), public parks and facilities (p. 14), Defense Department needs (p. 15), and telecommunications (p. 16). Social services and financial management programs are other areas where use of the management and personnel development skills of the private-sector can make a remarkable difference in program execution, when combined with public assets and employee dedication.

Much of the opposition to public-private partnerships is based on ideology, arguing the profit motives can not operate for public good. This paper illustrates that the application of sound business practices can provide substantial increases in productivity and efficiency that benefit both sectors in a public-private partnership. Equally important, public interests are usually assured through an on-going oversight process, coupled with the private companies’ need to provide quality service to assure customer satisfaction and long-term business opportunities. Finally, there has been misinformation about the impact on public employees — in fact most current PPPs provide for substantial public-sector employee guarantees.

Today, governments face enormous challenges. Without the use of public-private partnerships, many elected officials will be faced with choosing between harmful reductions in services and significant tax increases. By being innovative and forging new ways of providing vital services, governments are proving that public-private partnerships are a practical and viable alternative that, in many cases, maintain quality services without significant tax increases.
For the Good of the People: Using Public-Private Partnerships To Meet America’s Essential Needs

“The public must and will be served.”

■ William Penn, 1663

“A lot can be accomplished with current resources if we don’t stand around wringing our hands because of lack of funding or complex requirements.”

■ City Manager in Salina, Kansas, 1988

“The District of Columbia Council cited the Oyster School project as a model public/private partnership when it authorized the project several years ago. This project has presented many challenges, all of which have been met to date by the partners, including LCOR. As a result of these combined efforts, the District will have its first new public school in more than 20 years.”

■ City Council Member in Washington, DC, 2000
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Foreword: Some Definitions

The following paper deals with the topic of public-private partnerships (PPPs), a term that is widely used but often not clearly understood. In the context of this paper, PPPs cover the gambit from "outsourcing", to traditional public-private partnerships, to privatization. In each case, this is a means to apply the resources of the private-sector in meeting the needs of the public.

Outsourcing is the contracting by a public agency for the completion of government functions by a private-sector organization. The government agency provides payment for services and/or facilities through government funds for the execution of a function that may have previously been done by the agency itself.

Privatization is the sale of a government owned asset to the private-sector, for private operation of a function that might have previously been done by the public-sector. In that the United States has a limited history of “nationalization” of industries (unlike the experience in much of the rest of the world), privatization in the United States has a limited scope. Equally important, the private-sector is often not able to assume all the costs and risks in major infrastructure projects or services.

Public-private partnerships are a means of utilizing private-sector resources in a way that is a blend of outsourcing and privatization. PPPs can involve the design, construction, financing, operation and maintenance of public infrastructure or facilities, or the operation of services, to meet public needs. PPPs are often “financially free standing”, i.e. privately financed and operated on the basis of revenues received for the delivery of the facility and/or services. One key to this is the ability of the private-sector to provide more favorable long-term financing options than may be available to a government entity and to secure that financing in a much quicker time frame. Public-sector assets (including human resources and infrastructure) are often included. The agreement under which the PPP operates is closely governed by a contractual relationship between the public- and private-sectors, with the objective of utilizing the best skills and capabilities of each sector. The objective of a PPP is to provide a more efficient and cost effective means of providing the same or better level of service, at a saving to the public (both general and governmental).

Within this broad range of possibilities under the term “public-private partnership”, there is a common objective — using private-sector resources to meet America’s essential needs.
Overview: Partnerships for the Public Good

Who would have ever thought they would see Federal Express drop-off boxes positioned right outside the doors of federal post offices? To many, that would be akin to selling Burger King whoppers in McDonald’s drive-through lanes.

There is a compelling reason, though, why two entities perceived to be intense rivals – one private company, one public institution – would join forces in what some would see as an extreme strange bedfellows-style arrangement.

Because the American people want timely and efficient service.

As former Postmaster General William Henderson explained it, the U.S. Postal Service’s agreement with Federal Express to gain the Memphis-based company’s assistance in sorting first-class, priority and express mail was “an innovative solution for a Postal Service struggling to remain competitive under market conditions that have changed strikingly over the past decade.”

The Postal Service-Federal Express arrangement is being mirrored in other areas critical to public life. From education to national defense to public infrastructure, there is an increased realization that sometimes the best way – in many cases, the only way – to effectively serve the public is to merge the resources of private enterprise and public institutions.

To praise the growth of public-private partnerships to meet public needs is not to criticize government – federal, state or local – as being unable to meet those needs. Rather, applause is due to innovative public officials who are seeking creative means to meet public demands and expectations.

The confluence of rising infrastructure needs and social demands, combined with tight governmental budgets and public resistance to additional tax increases, has made it essential for public authorities to turn to the innovative qualities and access to operating capital possessed by the private-sector in order to fulfill responsibilities.

At all levels of government, even before the current economy and the ramifications of the September 11 terrorist attacks transformed budget surplus into deficits, there was a recognition that those surpluses would not be sufficient to meet the nation’s social demands and infrastructure needs.

As the U.S. General Accounting Office (GAO) pointed out in its Presidential transition papers in early 2001, the fact that there were federal surpluses “as far as the eye can see” masked the fact that an increased share of federal spending was being devoted to Social Security and health programs. In fact, even with the projection at that time that surpluses were projected to rise, the share of spending for federal missions and activities “from defense and law enforcement to education and natural resources” would continue to decline.
The same GAO report stated, “Current forecasts do not recognize the full impact of looming fiscal pressures. Significant costs arising from environmental clean-up of past federal operations, future claims on federal insurance programs, and demands to modernize the physical infrastructure of the nation are only beginning to be understood and recognized.”

The impact of fiscal difficulties had already been well understood at the state and local levels. During the stagnant economic period of the early 1990’s, according to one state comptroller who wrote at that time, “an increasing number of local governments find themselves fiscally stressed as they struggle through a severe and extended recession. Increasingly, local governments are raising taxes and user fees, making painful spending cuts, and using accounting gimmicks in a desperate attempt to keep their budgets balanced. With slow economic growth, the prospects are that local government revenues will not keep pace with spending demands. Thus, local governments will face continuing fiscal pressures.”

In this current year alone, major cities in America were predicting a four percent decline in revenues – a cumulative loss of over $11 billion – while spending on public safety and other pressing needs was increasing significantly.

With thousands of public-private partnerships in place throughout the country, providing a myriad of services to citizenries, there is an ample body of hard evidence with which to evaluate the value and effectiveness of these partnerships, and to assess the wisdom of governments in establishing them.

Government leaders face a “perfect storm” of economic and social dilemmas and demands. The nation’s infrastructure is aging and needs replacement and revitalization. A growing and aging population is placing greater pressure on federal, state and local services of all kinds. The public has made it clear at the ballot box that it is reluctant to increase taxes as a potential answer to these problems.

To the credit of government leaders and managers in thousands of jurisdictions, they have found ways to utilize the resources of the private-sector to assist in meeting the surging demands of their constituencies. By establishing public-private partnerships, government authorities have achieved goals that would otherwise go unmet because of budget limitations.

This trend toward public-private partnerships is not without its share of controversy and criticism. One line of argument holds that private enterprise, motivated by the need to generate profits for shareholders, has objectives that are antithetical to government’s goal to protect the public’s well-being. Individuals and organizations hostile to public-private partnerships say that, in order to generate profits, companies will seek to achieve cost savings at the expense of quality public service.

There are arguments, as well, that the involvement of private companies in public services will result in the loss of jobs in the public-sector, increasing unemployment and creating a counterproductive relationship with public employee unions.

Yet, there are numerous public policy experts who argue that public-private partnerships are beneficial not only in a fiscal sense, but also in terms of improving quality of service and the quality of jobs. Said one expert:

“Counties, states, provinces and communities have hit the ‘tax wall,’ meaning they have no more room to raise taxes. Doing so would either violate some constitutional or statutory limit, or send people and businesses packing for friendlier climes. In other cases, government simply has not kept pace with technology and productivity advances and must rely upon private enterprise to put its unique expertise to work.

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

In arguing the merits of public-private partnerships, one point is abundantly clear. It is not necessary to argue these points on theoretical grounds.

With thousands of public-private partnerships in place throughout the country, providing a myriad of services to citizenries, there is an ample body of hard evidence with which to evaluate the value and effectiveness of these partnerships, and to assess the wisdom of governments in establishing them.

**Structuring Public-Private Partnerships to Serve Public Needs**

Washington, D.C.’s Union Station is a monument to the value of public-private partnerships. It is a breathtakingly beautiful building and a major hub for the city’s commercial and transportation interests.

Before a public-private partnership revitalized it, though, it was an urban eyesore.

At the start of the 20th century, Union Station was the primary entry point for visitors coming to the Nation’s Capitol. With the advent of air travel, though, the station fell into disuse and an increasingly alarming state of disrepair. While Congress debated what to do with the facility, it became an embarrassment. Rain damage caused parts of the roof to collapse and toadstools began to grow inside the Grand foyer. In 1981, Congress sealed the building because it was unsafe.

That same year, Congress enacted the Union Station Redevelopment Act, authorizing an ambitious public-private partnership to restore the building to its original state and create a viable mixed-use transportation center. Construction began in 1985 and was finished in 1988 at a total cost of $160 million. Not a cent of the construction costs came from tax dollars.

The building is currently owned by the U.S. Department of Transportation, but is managed by a private development firm that acts as the leaseholder for Union Station’s retail shops and restaurants.

Today, Union Station is a bustling commercial success with more than 100 retailers and annual sales exceeding $70 million. Retail rents pay for the operation of the facility and debt maintenance, enabling Washington, DC to have a beautiful, successful urban gem at no cost to its taxpayers.

This is just one example of how public entities and private companies structure pacts to effectively meet specific public needs. There are other effective structures to achieve essential goals.

In his book, Privatization and Public-Private Partnerships, author E.S. Savas outlines ways in which government delegates certain functions to private companies in order to better achieve its objectives.

The most common of these is delegation by contract. This usually occurs when local governments contract with private companies for direct services, such as solid waste collection, street repair or snow removal. In fact, at all levels of government, benefits have been found in contracting for a variety of professional and support services.
There is tremendous growth in this activity. Today, the average American city contracts out 23 of its 65 basic municipal services to the private-sector, and states contract out approximately 14 percent of their activities. In a 1997 survey by the International City/County Management Association, reviewing the practices of 1,400 cities and counties, more than 90 percent of the governments surveyed said they were contracting out services that had been done in-house just five years earlier. This experience of “outsourcing” services to the private-sector has provided a base for broader utilization of this resource.

Along with the growth of contracting has come an equally significant rise in a more complex, but often more rewarding, arrangement between the public- and private-sectors – public-private partnerships (PPPs). These are often contractual arrangements of longer terms in which both public- and private-sectors share risks, assets and rewards. In these joint ventures, the strengths of each sector are combined to provide the best value and best benefits for the public.

Public-private partnerships in major cities have been well documented, but even small municipalities are seeing the wisdom in developing public-private partnerships to meet the needs of their citizens. According to a city administrator in Monmouth, Illinois – a small city of approximately 10,000 residents that chose to contract all of its public works functions to a single private-sector provider – local governments are facing daunting challenges in the form of unfounded intergovernmental mandates, property tax restrictions, decaying infrastructures and citizen opposition to tax increases.9

In Monmouth, the public-private partnership led to a significant saving of taxpayer dollars and improved quality of services to residents. Changes in billing practices improved cash flow to the city and, when winter hit, Monmouth residents found that their streets were cleared significantly more quickly than nearby communities. The public-private partnership to meet municipal public works needs gained the support of the local city employees union.

That is a critical point worth reviewing. Why were employees supportive? After a full explanation of the benefits to them – maintaining their health and retirement benefits and increased opportunities for

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Types of PPPs Defined by the General Accounting Office

**Build-Own-Operate (BOO):** A contractor constructs and operates a facility for performing public services without transferring ownership of the facility to the public sector. Legal title to the facility remains with the private sector entity.

**Build-Operate-Transfer (BOT):** Under this option, the private partner builds a facility to the specifications agreed to by the public agency, operates the facility for a specified time period under a contract or franchise agreement with the agency, and then transfers the facility to the public agency at the end of the specified period of time. Usually, the private partner provides all or part of the financing, so the contract is structured to be of sufficient length to enable the private partner to realize a reasonable return on investment.

**Buy-Build-Operate (BBO):** This transaction is a form of asset sale that includes the rehabilitation or expansion of an existing facility. The government sells the asset to the private sector entity, which then makes the improvements necessary to operate the facility in a more cost-effective manner.

**Design-Build-Operate (DBO):** In a DBO project, a single contract is awarded for the design, construction and operation of a public facility, with title to the facility remaining with the public sector.

**Build-Develop-Operate (BDO):** Under these partnership arrangements, the private party leases or buys an existing facility from a public agency, invests its own capital to renovate, modernize or expand the facility and then operates it under a contract with the government. A number of municipal transit facilities are operated under this type of arrangement.

training and job growth – city employees were persuaded of the value of the partnership, not only to the city but also to themselves.

There are a number of other public-private partnerships in which the private entity plays a significant role in creating and/or managing facilities for the public good. See table on page 8, Types of PPPs Defined by the General Accounting Office.¹⁰

In each of these arrangements, a public-private partnership is possible because each partner’s needs are met. The private corporation makes a profit for its shareholders through its contract with the public partner or through various user fees. These profits are the result of management practices refined in the competitive market place, use of new technologies made possible by more flexible procurement policies, and creative financial instruments. The public entity avoids heavy initial budget outlays to construct and operate facilities and provides cost-efficient services to its constituency.

Gathering Evidence on the Value of Public-Private Partnerships

Any debate over the value of public-private partnerships can best be conducted by studying the value of ongoing partnerships and asking two critical questions: 1) Has the partnership enabled government to act more efficiently and better utilize its limited resources to meet critical societal needs, and 2) has the public been well served by the public-private partnership?

There are several ways in which these partnerships affect our daily lives, our security and our futures. It would be instructive to take a look at some examples and inspect the ways in which public-private partnerships have provided essential and enhanced service to the public.

Educational Facilities

There is no argument in society that educating our youth must be one of America’s foremost priorities. However, our facilities are increasingly inadequate, obsolete and badly deteriorated.

In its annual report card on America’s infrastructure, the American Society of Civil Engineers gave the nation’s schools a D-minus for the state of their facilities.¹¹ The society noted that 75 percent of the country’s school buildings are inadequate to meet the needs of students, and that the average cost of needed capital investment is $3,800 per student – more than half of the annual cost of educating that student.

The problem will worsen with time. According to the National Clearinghouse for Educational Facilities, in addition to current construction and maintenance needs, 2,400 new schools will need to be built by 2003 to accommodate student population increases.¹²

Fortunately, innovative ideas are beginning to make a difference. In 1995, the James F. Oyster Bilingual Elementary School Building in Washington, DC was overcrowded, deteriorated and poorly supported the school’s important English/Spanish dual-language immersion program. Even though the school was not in compliance with Americans for Disability Act requirements, there were no capital funds to make improvements and no possibility of assistance from the fiscally-challenged city government.
In a groundbreaking innovative partnership, the school system entered into an agreement with a national real estate development company. Under the partnership, a state-of-the-art school and a new apartment building would be constructed on existing school property. The District of Columbia issued a tax-empty bond package to be repaid entirely with revenue generated by the apartment building. The bottom line was a sparkling new school building constructed at no cost to taxpayers.

Thanks to the forward thinking of city and school officials and private-sector resources, the Oyster School became the first new school building in the District of Columbia in over 20 years. The school opened in June of 2001 and features a new computer lab, library, gym and classrooms designed to accommodate the school’s bilingual education program.

Said the D.C. superintendent of schools, Dr. Paul Vance, “The bottom line is that we in the D.C. Public Schools see (public-private partnerships) as an opportunity and valuable tool in the arsenal of school facility improvements and accommodation of educational program needs.”

Public-private partnerships may serve as an answer to the nation’s mounting educational infrastructure needs. In June 2001, President Bush signed legislation that would encourage private-sector involvement in school construction. The new law allows the issuance of tax-free bonds to finance construction of schools that would be owned by a private entity and leased to a public school district.

This new revolution in school construction is just beginning. In 2001, Corning, NY voters approved a plan that would enable the city’s largest employer to pay $60 million toward the construction of a new high school and renovation of district elementary schools. Corning citizens would get new and improved schools without an increase in taxes.

In Niagara Falls, a public high school was built with private funds and leased back to the school district. The property is owned privately but will revert to the school district after 30 years.

Schools in Kansas, Maryland, Missouri and other states have formed partnerships with private entities to begin developing school construction projects.

**Transportation**

Public-private partnerships are by no means a new phenomenon when it comes to meeting the transportation needs of a growing nation. Throughout our history, governments and private companies have worked together to undertake major projects to enhance travel and facilitate commerce.

The first transcontinental railroad in the United States, for example, came about through the use of a federal government asset instead of federal funds. Congress chartered the creation of private companies, which issued stock to raise the capital for construction of the railways. As tracks were completed, federal lands adjacent to the tracks were granted to the railroads for private development, assisting in the financial base that provided a return to the investors in the stock. It was a classic public-private partnership in which both partners achieved meaningful objectives.

Drivers in the Richmond, VA area understand the benefits of public-private partnerships. When plans were announced to launch highway construction to complete a western loop around Richmond, the
Virginia Department of Transportation (VDOT) projected the project would take 36 months and $283 million to complete. VDOT was able to do this under a creative state law called Public-Private Transportation Act (PPTA). By partnering with a private firm in Danville, VA to develop the new highway, Virginians will save $47 million and the road will be open to traffic seven months earlier than expected.\textsuperscript{15}

Said the Virginia transportation commissioner, “It is another fine example of government and business working together to provide a major public works project in a way that saves taxpayer dollars and takes much less time to complete than we’ve come to normally expect.”

Private and public entities are working together, as well, to ensure that roadways are in shape to handle increasing amounts of vehicular use. In states like California, Virginia and Washington, private-sector companies are constructing toll roads with the tolls being utilized to finance construction and upkeep, thereby eliminating the need for tax increases on the general population.

There are other creative mechanisms at work, as well. In Massachusetts, for example, a nonprofit corporation has been created by the state to issue bonds for a $200 million widening of Route 3, a major highway leading to the New Hampshire border. A private-sector team will finance and then build the project on a streamlined design-build basis to facilitate rapid progress.

Similarly in New Mexico, a major highway is being expanded from two to four lanes with a private firm designing and building the project, supported by a state bond issuance. In the New Mexico case, the private firm is also entering into a 20-year contract to maintain the road – rather than using the state highway department. The private company will choose the materials and construction methods necessary to maintain the high quality of the road surface and meet its warranty to the state.\textsuperscript{16}

In air travel, a prime example of partnerships in action is found in New York where the Port Authority of New York and New Jersey worked with a private development consortium in one of the largest public-private partnerships ever undertaken in this country – a $1.1 billion construction of a new International Arrivals Building at New York’s Kennedy Airport.\textsuperscript{17}

This addressed major problems for the airport, which experienced heavy congestion in late afternoons when many international flights arrived and passengers couldn’t easily negotiate their way from customs to baggage carousels. The new building provided more gates, shorter walks to immigration and customs and a new, improved baggage system.

\textbf{Water and Wastewater Services}

For over 200 years, private enterprise has been instrumental in providing safe, dependable water supply services to communities. Even before the U.S. Constitution was signed, a majority of the nation’s water supply systems were private enterprises. In fact, the Water Works Company of Boston was established in 1652 and became the country’s first private water company.

The need for partnerships in providing safe, dependable water to American communities is increasing. Congressional enactment of the Safe Water Drinking and Clean Water Acts has created an intensified need for public authorities to turn to the private-sector for assistance in maintaining and operating
public water facilities. With tight budgets, many municipals system have not been able to keep up with the demands of their aging water infrastructure.

While the Clean Water Act initially provided grants to meet the mandates, this funding has all but disappeared. Similarly, the Safe Drinking Water Act did not provide grants for construction of treatment works mandated by the legislation. As a result, local governments with already-tight budgets face large capital improvement requirements. Meeting those requirements without outside partnerships would necessitate either tax increases or budget shortfalls in other areas.

In fact, the Environmental Protection Agency has estimated that the nation's infrastructure needs for water and wastewater systems stands at over $300 billion. A coaliton of municipal groups, the Water Infrastructure Network, places the figure much higher – at $1 trillion.18

A 1999 survey by the Hudson Institute found several benefits gained by citizens when private companies are involved in water and wastewater operations. These include:

- **Increased efficiency.** Private companies are able to utilize new technologies and performance-enhancing operational techniques that cash-strapped governments cannot afford.
- **Capital improvements.** Private partners have more flexibility to use innovative financial, engineering, procurement and construction practices that can have a favorable influence on reducing capital improvement costs.
- **Cost reductions.** Because most private contractors have experience conducting similar operations in other jurisdictions, taxpayers benefit from the efficiencies they’ve developed through experience and through the economics of scale utilized by companies in purchasing goods and services.
- **Public health benefits.** Many government facilities have problems complying with the stringent health standards of the Safe Drinking Water Act because necessary capital improvements and maintenance exceed their budget capabilities. Public agencies also have more difficulty than private contractors in recruiting and paying skilled facility managers and engineers. Resourceful governments have overcome these obstacles and maintain high levels of public safety by utilizing private partners.

Public-private partnerships in water and wastewater are taking place in every region of the country. In hundreds of instances, citizens are reaping the benefits of higher quality water and steady, if not reduced, water rates.

The U.S. Environmental Protection Agency, an objective source, closely monitors the impact of public-private partnerships in water and wastewater operations, both in terms of cost-effectiveness and service to the public. A recent report by that agency shows the benefits of these partnerships in a number of
major cities. A couple of examples:

- **Indianapolis, Indiana:** When the city sought to improve the operation, maintenance and management of its two wastewater treatment facilities, it turned to a private partner to make it happen. The results were dramatic and immediate. Through efficient management, the facilities’ operations and maintenance budget was reduced by nearly 50 percent, from $30 million to $17 million, in just one year. The city was able to hold its rates constant, while putting savings into a Sewer Sanitary Fund to improve the system. Additional savings also enable Indianapolis to extend service to new areas.

The public-private partnership has been good for the people of Indianapolis. There has been substantial misinformation about recent developments, leading some to the impression that the city has turned against PPPs. In fact, when the city’s water system came up for sale because its owner was faced with a regulatory demand related to ownership of multiple utilities, Indianapolis stepped forward and purchased the water system through a competitive bidding process. Because of the success the city has had with public-private partnerships, it selected a private partner to operate and manage its newly acquired water system. This move by the city marked the largest public-private partnership for water services in the United States and set new standards in the industry by directly linking performance with compensation.

- **Edison, New Jersey:** When George Spadaro was elected mayor of the city of Edison, he was immediately besieged by complaints from citizens about the city’s poor water quality and pressure. His investigation found that because of financial constraints the city had not been able to practice effective maintenance of the water systems for decades. Realizing that the city had neither the budget nor the expertise to bring the system up to desirable standards, a private firm was selected in a process that involved citizens and the city’s employees. The partnership resulted in the necessary capital resources to fix the problems with the system, bringing better water to the people of Edison, but also the engineering and operational expertise to keep the system running at a high quality. Also, the city’s private partner, through efficient management, has kept the water rates frozen for seven years.

Public-private partnerships in water and wastewater are taking place in every region of the country. In hundreds of instances, citizens are reaping the benefits of higher quality water and steady, if not reduced, water rates.

**Real Estate**

A solution for governments facing financial strains can be found in the real estate they own. Governments own over $5 trillion in real estate in the United States – hundreds of thousands of acres of which are underutilized. Public-private partnerships provide an answer that can produce needed revenues for governments and better services for citizenries.

According to nationally-recognized developer John Stainback, in his book Public/Private Finance and Development, “one of the great qualities of using the public/private development partnership approach is the enormous flexibility and creativity available to both the public and private partners to structure an agreement that meets the objectives of both parties.”

Mutual objectives are being met, for example, in Transit Oriented
Development (TOD) taking place throughout the country. In locations like Renton, Washington; Sunnyside, Oregon; Bethesda, Maryland; and Dallas, Texas, governments are working with private developers to develop attractive, inviting commercial sites centered around mass transit locations. The result of the private-sector investment has been, among other benefits, the revitalization of deteriorated communities and better air quality and less traffic congestions as commuters are enticed to use mass transit.

**Public Safety**

The primary objective of law enforcement is to keep crime off the streets and citizenries safe. Private-sector companies are helping towns and cities use the time and energies of their trained officers more effectively by taking over many of the paperwork and clerical tasks that all too frequently keep police officers off of their beats.

This public-private partnership has reduced the cost of taking police reports from as high as $123 per report to as little as $8. A prime example is found in the operations of a private firm assisting law enforcement departments throughout the country, taking and processing crime reports over the phone instead of having officers sit at desks filling out report forms. The Los Angeles Police Department’s use of a private partner, according to Justice Department research, has enhanced the law enforcement workforce by 20 percent, simply by taking clerical chores away from trained law enforcement officers. Furthermore, this public-private partnership has reduced the cost of taking police reports from as high as $123 per report to as little as $8.21

Public-private partnerships have also assisted municipalities in the revenue-collection responsibilities of law-enforcement departments.

In Washington, DC, for instance, the state of that city’s parking meters had fallen into such disrepair that revenues from the meters had fallen from a gross average of more than $1 million per month to less than $200,000 per month – less than the cost of personnel and maintenance on the meters. Washington chose to become the first city in the country to work with a private-sector partner to improve its parking enforcement efforts.

The city’s partner replaced all meters with state-of-the-art vandal resistant machines, which also include integrated chips to record the amount of parking fees collected. The city’s employees were hired by the private firm and retrained to maintain and handle the new system. As a result, not only are 99 percent of the District’s meters operating, but also now all of the parking fees deposited are being collected. Under terms of the contract, the city is guaranteed an income of $1 million per month while all capital, maintenance and personnel costs are carried by the private company. By entering into a partnership, the District of Columbia has substantially enhanced its revenues, improved enforcement, and nearly eliminated all of the operating costs.22

**Public Parks and Facilities**

In the city of Grants, New Mexico, city parks and properties had fallen into drastic disrepair. The city determined that the best way to address this problem was through a partnership with a private firm to improve and maintain city-owned grounds. In a relatively short time, this public-private partnership paid dramatic dividends:23

- The fields on the baseball and softball complexes were completely resurfaced.
Deteriorated concession stands were repaired and refurbished.

At the city cemetery, the contractor found that many grave markers were positioned wrong or no longer existed. New markers were installed and sites verified. Headstones were lifted to proper elevations.

At one of the oldest city parks, the irrigation system was improved, the turf reseeded, old and unsafe bleachers replaced, and a new perimeter fence installed.

Private involvement, according to experts, in decision-making regarding public parklands has helped accelerate improvements in park operations.

"Public-private partnerships combine, one, the capacity of private organizations to act flexibly and quickly, for example, to buy land, compared to a government agency bound by rules on bidding processes and public participation, and, two, government’s access to public funding and regulatory enforcement tools,” said Lee Breckenridge, Professor of Law at Northeastern University.24

More benefits of public-private partnerships are enjoyed by visitors to Georgia’s Stone Mountain Park. In 1997, a governor’s commission determined that revenues might not be sufficient to maintain the park for visitors. The state entered into a public-private partnership with a firm that took on all management responsibilities for the facility.

The state’s private partner has devoted more than $11 million to the park, upgrading hotels, adding tram services and building new playgrounds. The private firm gains revenues from park visitors and pays $10 million annually in rent to the Stone Mountain Memorial Association, which uses the money to improve and beautify public areas of the park.

In addition to having a nicer facility, the park is more accessible for families. Before the partnership, a family of three spend nearly $90 for a pass to visit the park’s attractions. Under the new public-private partnership, that same family gets unlimited access to all attractions for $34.25

**National Defense Housing**

Since even before our nation’s independence was officially declared, there has been a strong public-private partnership at work keeping America safe. This is increasingly important as private industries develop the kinds of management techniques that can be utilized for a wide range of Department of Defense purposes.

A Rand Foundation study on the value of public-private partnerships for the U.S. Army found that the military gained several benefits from such alliances, including:26

- The ability to leverage assets, reduce capital investments, reduce costs or decrease outlays to achieve infrastructure, intellectual property or financial goals.
- Increasing the value of property and other assets.
- Creating new capabilities or assets to help the Army accomplish its military mission.

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“The Army has significant opportunities to more effectively achieve its research and development goals through collaboration with the private sector.”
“The Army has significant opportunities to more effectively achieve its research and development goals through collaboration with the private sector,” said the Rand document.

One particularly good example is the U.S. military’s use of public-private partnerships to provide adequate housing for enlisted servicemen and servicewomen. According to Raymond F. Dubois, Jr., Deputy Undersecretary of Defense for Installations and Environment:27

“The Department (of Defense) recognizes that we need to find additional ways to leverage our real property assets to improve morale, boost readiness, transform defense capabilities and upgrade aging facilities that do not rely solely on direct appropriations. We must restore the readiness of inadequate facilities, modernize facilities to meet future challenges, and dispose of obsolete facilities. We feel that public-private partnerships in the form of utilities and housing privatization, enhanced-use leasing ...will result in great benefits to the Department of Defense and the taxpayer.”

A prime example of this new direction can be found at Lackland Air Force Base in Texas, where housing for enlisted personnel has been built on Defense Department-owned land, but at private-sector expense. The benefits are considerable. Enlisted personnel live in homes with excellent amenities for no more than the standard base housing allowance provided by the military. The housing projects were provided to the government years faster and much less expensively than traditional Defense Department construction. In fact, over the life of the project, taxpayers will have saved $12 million on the Lackland housing.28

Telecommunications

For many parts of rural Minnesota, having the kind of fiber-optic communication capabilities that would deliver state-of-the-art service to businesses, schools and public agencies would be nothing more than a dream under most circumstances, because most entities would not invest the resources to build a communications infrastructure to serve so few homes and facilities.

A public-private partnership, however, made Minnesota a full participating partner in 21st century telecommunications. In a landmark agreement between the state’s Department of Transportation and a private developer, the developer was given one-time access to Minnesota’s interstate highway system in order to build and maintain a $125 million fiber-optic backbone along 2,000 miles of Minnesota roadway. In exchange, state agencies are given free use of the network.

In a landmark agreement between the state’s Department of Transportation and a private developer, the developer was given one-time access to Minnesota’s interstate highway system in order to build and maintain a $125 million fiber-optic backbone along 2,000 miles of Minnesota roadway.

In this way the state was able to leverage its highly desirable transportation routes in exchange for the development of fiber-optic networks on less desirable, rural routes. As a result of this partnership, 80 percent of Minnesota citizens have better telecommunications services at lower costs.29
Creating an Environment for Optimal Public-Private Partnerships

It would be foolhardy to say that every public-private partnership works perfectly in reducing the outflow of tax dollars and providing high-quality service to citizens. Naturally, there are going to be anecdotes in which a contractor provides less-than-stellar service or bring shoddy professionalism to a job. Likewise, there will be cases in which governments do not practice due diligence in their selection of private partners and end up choosing a partner who is not ideally compatible for the project in question.

The challenge for public entities is to create a process and an environment by which quality results can be guaranteed or, in the absence of such quality, quickly rectified. Governments that have taken great care and diligence in creating public-private partnerships have fared well in gaining the results they desire. A number of public officials have utilized performance-based contracting that works well for both partners – creating a strong financial motivation for the private contractor to give the public agency its needed results.

For example, the U.S. Department of Education contracts with 17 collection agencies to bring in money from delinquent school loans. The private contractors get a flat fee of 27 percent of every loan they recover. This creates a compelling incentive for the contractor to provide quality service, while the public institution has to pay nothing up front and still gets back a large percentage of a loan that would otherwise eventually be written off.30

Similarly, an agency within the U.S. Department of Agriculture is negotiating a contract with a private vendor to perform its payroll services. Under the agreement, the private company will donate the payroll software to the government in exchange for the opportunity to collect a fee for every person paid with it. The contract will pay the contractor between $30 and $45 million, but the government saves taxpayer dollars because it would have had to spend $45 million up front for software for 500,000 employees.31

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**Public-Private Partnership Structure As a Real Property Management Tool**

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<thead>
<tr>
<th>Contributions</th>
<th>Property Cash Flows</th>
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<tr>
<td><strong>Federal Property (Master Ground Lease)</strong></td>
<td><strong>Operating income</strong></td>
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<td><strong>Private Sector Investment (Cash and financing ability)</strong></td>
<td><strong>- Operating expenses</strong></td>
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<td><strong>Partnership</strong></td>
<td><strong>Net operating income</strong></td>
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<tr>
<td><strong>Private sector share</strong></td>
<td><strong>Government share</strong></td>
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In order to ensure that public-private contracts result in better services and higher dollar savings, it is essential that care be taken to select the right contractor and that provisions be written into the contract to require the monitoring of specific services. Monitoring can include anything from periodic inspections to customer surveys.

In a complex area like water management, innovative public officials have demonstrated that they can structure contracts to ensure quality performance and make public-private partnerships workable and desirable for virtually any municipality.

Anne Spray Kinney, executive director of the Milwaukee Metropolitan Sewerage District (MMS), explained publicly how she created a strong working agreement with a private contractor in the area of utility maintenance and capital replacement:

“MMS tried to minimize future problems in three ways: First, we negotiated detailed contract language distinguishing maintenance from capital repair or replacement and clearly identifying the responsibilities of each party. Second, we agreed that all maintenance would be done by (the contractor) as part of its operating fee and that the contractor would pay the first $5,000 for each capital repair or replacement item as an incentive to do adequate maintenance.

“Third, and most importantly, we attached to the contract a schedule of 46 examples of maintenance and capital repair/replacement items. More than any other contract provision, we believe this schedule has helped us avoid most of the standard disagreements over maintenance and capital. Our experience may simply reflect the reality that governments have learned to write better contracts and to better monitor performance.”

That bodes well for the future of public-private partnerships as both governments and private contractors gain new knowledge on how to negotiate better contracts so that each side benefits and the greatest gains are reaped by citizens and taxpayers. With the use of clearly spelled-out performance guarantees, the public sector is assured a level of quality, and the private sector is assured of appropriate measures that will be used to evaluate performance.

Issues for Public-Private Partnerships

Much of the opposition to public-private partnerships is ideological and philosophical. It stems from the belief that the profit motive that drives corporations is consistently and diametrically opposed to the public good which governments strive to achieve.

As E.S. Savas wrote, some critics see private-sector involvement as “a plot to establish a completely free market with overtones of dog-eat-dog survival of the fittest, and culling of the weakest. Others interpret [it] as an attack on government, government programs, and direct beneficiaries of government programs, including employees; therefore, they defend these interests by attacking [private-sector involvement]. Still others are provoked by the term because they see it as an attack on the ideals they cherish. Public, to them, denotes brotherhood, sharing, caring and community, and they interpret private to mean abandoning these vital values.”

Yet, there is ample evidence that belies these fears. The most compelling prima facie evidence is that
governments and those who work closely with governments are the most fervent supporters of public-private partnerships and fully understand their value:

- The U.S. Conference of Mayors has an Urban Water Council in which the mayors work with private-sector providers to discuss partnerships and legislation that may be needed to make partnerships even more effective.
- The U.S. Environmental Protection Agency has actively supported the use of public-private partnerships to help municipalities provide better water and wastewater services to citizens, and has provided a grant to the National Council for Public-Private Partnerships to disseminate information on new accounting requirements affecting partnerships.
- The International City and County Managers Association has devoted considerable energy and resources providing information to its members on public-private partnerships.
- The American Road and Transportation Builders Association has a Public-Private Ventures Section that brings together both public and private representatives to discuss the use of partnerships in transportation projects.

Careful analysis has shown that the profit motive inherent in investor-owned corporations does not lead to an undermining of the public good. In fact, just the opposite tends to be true. The need to produce results in order to maintain a contractual relationship and achieve future contracts is a compelling reason to provide quality performance.

Comparing investor-owned water systems with government-run systems, there is no empirical evidence showing a difference in water quality between the larger investor-owned water companies and government-owned water companies. In fact, they say, regulatory bodies tend to enforce regulations tightly with private contractors, but less aggressively with government agencies. They realize that ordering a government entity to comply with a regulatory requirement can mean increased budget challenges and higher taxes.34

Innovative governments have found that they can often provide high-quality water services more efficiently and at less cost by developing partnerships with private firms.

Others point out that publicly-owned companies involved in public-private partnerships are subject to more stringent overview and controls than their government partners. Companies must answer to the government agencies that hire them, to regulators, to the Securities and Exchange Commission, to congressional oversight committees, as well as to the public and the media. When it comes to ensuring quality performance of a contract, there are ample layers of oversight.

Steve Logan is president and CEO of Cornell Corrections, Inc., a publicly-owned company that builds and operates prisons and mental-health facilities for federal, state, county and local governments. He argues that public-private partnerships have increased, not decreased, accountability to the public.

“The nay-sayers say if government loses control, they’ll lose accountability because who knows what the privates are doing. But we’re an agent of the government. We’re a mere vendor and we have to do a good job or we lose the contract,” he said. “But while we’re an agent of the government, they’re ultimately responsible. Yes, we’re saving taxpayer money, but we’re also increasing accountability.”35
Logan’s firm, he says, operates prison and mental health facilities for about 15 percent less than the government does, which “frees up more money for other things, like Social Security or Medicare,” he said.

Another leading argument made by opponents of public-private partnerships is that private-sector involvement in what are normally perceived as government activities will result in loss of jobs for public workers as companies try to cut costs by saving on personnel expenses.

In fact, in recent partnership agreements, the prevailing trend is to protect government employees wherever possible and to incorporate unions into the partnership planning process.

In fact, in recent partnership agreements, the prevailing trend is to protect government employees wherever possible and to incorporate unions into the partnership planning process. Recent long term contracts that instituted public-private partnerships in Atlanta, Buffalo, Milwaukee and Indianapolis included provisions that all existing public employees would be hired by the private firm at comparable wages and with comparable benefits.

In different cities, where the employees’ unions have been given a place at the table to discuss public-private partnerships and to help select the contractor, they have frequently been supportive of this new service delivery mechanism. In Indianapolis, for example, which, under Mayor Steve Goldsmith, underwent perhaps the nation’s most thorough transition to public-private partnerships to deliver city services, the local members of the American Federation of State County and Municipal Employees (AFSCME) embraced the change. “We had to readjust our way of thinking and our way of living,” said Lettie Oliver, AFSCME staff representative in Indianapolis.

The Future of Public-Private Partnerships

Educating opinion leaders on the value and necessity of public-private partnerships remains an unfinished task. A recent Wall Street Journal article implies that the momentum toward using partnerships to deliver essential public services has been stalled – perhaps for good – by the tragic events of September 11, 2001.

“Saving money and improving worker productivity aren’t as high on the public priority list as they were,” said the Journal article. “If productivity grows more slowly, so too will living standards, as conventionally measured by wages, material possessions and other economic data. That may be offset, though, by the benefits of living with less fear of terrorism, an issue obviously important to ordinary citizens but hard to factor into economic cost-benefit analyses that drive governments to privatize.”
Yet, even as that story appeared in print, the federal government was rapidly increasing its investment in public-private partnerships to enhance the service and safety it provides to the American people.

Specifically, President George W. Bush’s Management Agenda calls for an increasing use of outsourcing to meet expanding public needs in tight budget times. Ultimately, the President ordered, 50 percent of “commercial activities” conducted by federal agencies are to be reviewed for possible outsourcing. This is not just rhetoric. The President and OMB are aggressively rating each agency to assess their progress toward this goal.

A look at the current economic and homeland security environment indicates that the need for public-private cooperation to provide vital services will increase, not decrease.

According to a report by the National Emergency Management Association, an organization representing the emergency management directors of all 50 states, governors are actively working with the private-sector “to find ways to quickly and effectively enhance states’ ability to respond to terrorism.”

And, according to the same report, September 11 intensified the budget pressures already being felt by governors and legislatures. “State budget shortfalls compounded by a downturn in the economy already had agencies cutting budgets and staff positions prior to September 11. Since then, state and local governments have incurred thousands and, in many cases, millions of dollars of unbudgeted expenses related to response to the terrorist events,” the report said.40

Given these tight budgets – which doesn’t take into consideration rising Medicaid and unemployment insurance costs as employers lay off workers – it is highly unlikely that states and municipalities will reject out of hand the cost savings to be found through public-private partnerships.

Public-private partnerships will continue, as well, to be a vital part of the national debate over the role of government in the 21st century. President George W. Bush has recognized the increased need for partnerships as a tool in his own management plan for the federal government to promote either improved government efficiency or rely on private-sector resources.41

“Nearly half of all federal employees perform tasks that are readily available in the commercial marketplace – tasks like data collection, administrative support and payroll services. Historically, the government has realized cost savings in a range of 20 to 50 percent when federal and private sector service providers compete to perform these functions. Unfortunately, competition between public and private sources remains an unfulfilled government promise.
By rarely subjecting commercial tasks performed by the government to competition, agencies have insulated themselves from the pressures that produce quality service at reasonable cost.

The primary reason that public-private partnerships will continue to enrich American life in the 21st century is because the discussion over such partnerships has transcended the theoretical and moved into the realm of practical analysis. At the federal, state and local levels, governments and their private partners are proving that they can save the taxpayers money and, at the same time, deliver services faster, more efficiently and with a higher quality than has previously been done. The examples cited earlier in this paper are not isolated cases. They are repeated over and over in jurisdictions that have found innovative ways to provide better service to citizens at less taxpayer cost.

As General George S. Patton once said, “Never tell people how to do things. Tell them what you want to achieve, and they will surprise you with their ingenuity.” That is the way of the 21st century – to achieve great things not through regulatory command-and-control, but rather through innovative government setting goals and objectives for quality public service and then working in cooperation with the private-sector to develop ingenious ways to achieve those goals.
Endnotes


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41 The President’s Management Agenda, Fiscal Year 2002, Office of Management and Budget.
### NCPPP Executive Committee

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<td>Robert Hebert</td>
<td>ECO Resources, Inc</td>
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<tr>
<td>President Elect</td>
<td>Don Levine</td>
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<td>Art Smith</td>
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<td>John Stainback</td>
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