Public-Private Partnerships – A New Tool for Public Infrastructure in MN

Traditionally, the terms “P3” and “PPP” are used to refer to public-private project delivery models that allocate risks associated with the development of public projects to the public or private party best suited to handle them.

Whatever form a public-private partnership takes, the partnership must be carefully structured to:

» Allocate risks
» Create value for each party
» Maximize the impact of public investment
» Drive economic growth farther and faster

A broad law authorizing P3 structures for public infrastructure and buildings can:

» **Accelerate public projects deemed impractical under traditional funding models**
» **Transcend jurisdictional boundaries**
» **Undertake projects not feasible without private investment or cooperation**
» **Develop creative and flexible financing arrangements**
» **Capture billions of dollars in private capital**

Risk and Leverage

Whatever form a public-private partnership takes, the partnership must be carefully structured to **allocate risks** associated with the development of public projects (or the delivery of public services) to the public or private party best suited to handle them. Proper allocation of risk creates value for each partner.

An effective partnership will also **leverage** the strengths of the private sector to create value.

Private Sector Strengths:

» Management efficiency
» New technologies
» Workplace efficiencies
» Cash flow management
» Personnel development
» Capital resources
» Risk management

The Traditional Approach

Step	Pros/Cons
Public sector designs project	Over-design
Public sector bids project	Every phase of project procured separately through succession of separate contracts
Private sector builds project with: » Exact inputs required by the “input-based” contract » Government oversight and control	 » Tried and true materials/processes only » Slower proccesses and procedures
Public sector finances project	Lower financing costs
Public sector employees operate and maintain project	Inefficiencies

The P3 Approach

Step	Pros/Cons
Integration of two or more phases of a project (design/build)	Efficient
Public sector specifies outputs required (e.g., functional requirements of facility or required amount of operating revenues) with an “output-based” contract and private sector comes up with best solution for meeting public output need.	Innovative and efficient
Private sector finances project	Higher financing costs
Overall control of project is turned over to private sector	Efficient

The Difference

Even in cases with increased borrowing costs, the savings often outweigh any additional costs.

The overall **reduction to project costs** represent a significant economic and social benefit to the public sector. Savings are found throughout the project lifecycle:

» Efficient and innovative design, building, operating and/or maintaining
» Accelerated completion of a public project

In addition to the savings, **fringe benefits** include the fact that after a long-term operating lease, for example, the public sector takes control of a project with the benefit of private sector systems, processes and efficiencies. A P3 can also be an off-balance sheet method of financing the delivery of public sector assets.

The P3 Continuum