

The Three Trillion Dollar Reason to Work Together: Public-Private Partnerships Are Here to Stay

Mary Scott Nabers



All across the land trouble is brewing,

as tax revenues continue to shrink and The Great Recession slogs on. Almost every state has reduced educational funds and numerous school districts are being forced to lay off teachers, reduce bus services and eliminate curriculum. Colleges and universities, public hospitals, law enforcement organizations and public transportation agencies are struggling to find additional revenues. Roads and bridges can no longer be maintained with public funds.

Relief won't come quickly or easily, but one thing is crystal clear: government must reach out to private sector partners for innovative solutions.

The outreach has already begun. Hardly a day goes by that a government entity somewhere isn't privatizing a public obligation or entering into a public-private partnership, now being so common they are called P3s. This trend will only increase. Trillions of dollars will be in play over the next few years. Government officials who have exhausted all other options are increasingly reaching out to private sector consortiums for capital, expertise, and professional services.

It is no secret that the federal government has been spending more money than it collects. And the fact that Social Security and Medicare are crises-in-waiting has been a central issue in the national debate for decades. Less apparent until the current recession, however, was the scope and significance of financial problems at the state and local levels of government.

The states alone are estimated to be short by trillions in what is needed just to pay future benefits to retired public employees. Local governmental entities have the same problem. Cities throughout America are struggling to find ways to avoid being pushed into bankruptcy. In early 2012, the city of Philadelphia was contemplating a sale of its municipally owned gas utility, the largest in the nation; North Carolina was seeking a private partner to take over the state's three public aquariums and a zoo; and in California, legislators have considered selling major state assets.

Critical infrastructure needs and upgrades to essential public facilities carry extremely high price tags, and ignoring maintenance requirements will be more costly over the long term. It is a discomfiting picture with no easy solutions. Kicking the can down the road is no longer an option.

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Public-Private Partnerships

To deal with the shortfall, cities, counties, school districts and state agencies are entering into public-private partnerships to operate toll roads, repair aging infrastructure and manage technology services. For major capital projects like the \$1 billion replacement for the Goethals Bridge between Staten Island and New Jersey, the future clearly belongs to public-private partnerships. However, it is becoming increasingly common to engage in P3s for much smaller initiatives as well.

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Fortunately, there is a world of experience to draw on when government considers a P3 method of procurement. Australia, Canada, and the UK, among many other nations, have been using the P3 engagement structure for decades. In the United States, P3s are relatively new, but the idea of collaboration and partnering is well established. Many states have statutes that

allow and encourage P3s, and others are currently in the process of writing enabling legislation. Each state's approach may differ slightly but most P3 engagements are similar in nature.

A number of cities have selected private sector partners to manage public transportation systems. Universities are partnering with developers to build hotels, student housing, and sports facilities as well as retail nearby to offset costs and provide ongoing revenue streams. Private companies are lining up to design, build, and operate sports complexes, convention centers, and municipal water treatment plants. Chicago leased its parking meters to a private operating company in exchange for a large upfront payment, effectively moving public employees onto private payrolls. These types of collaborations range from the mundane to the inventive, but public sector partnering is a trend that is here to stay. Businesses of every type and size should be analyzing this huge new marketplace.

We've Been Here Before

In many ways, collaborations and partnerships between the public and private sectors being initiated today reflect a return to our roots, completing a full circle. For example, many of the toll roads that cities have recently sold or leased were built by private companies during the Revolutionary War and taken over by government in the last century.

As government increasingly looks to private enterprise to help solve problems and deliver public services, it's worth recalling that the United States was settled and built by entrepreneurs. All of America's struggles since have, in one way or another, centered on the shifting balance between private profit and social obligation.

Government contracting practices have historically ebbed and flowed in response to emergencies like war, economic disaster, or a critical mission such as exploring space. These cycles are said by historians to have begun in Boston in the 1700s when private investors built America's first public water systems. In the two-plus centuries since, private companies built our canals, railroads, electric grids, urban transit systems, roadways, and ports.

Outsourcing the Revolutionary War

At the beginning of the Revolutionary War, America's navy consisted of a handful of ships commissioned by the colonies and manned by volunteers. To bulk up, the Continental Congress issued licenses to entrepreneurs willing to operate armed ships and attack British merchant vessels in exchange for a lion's share of the money and goods they recovered. The fleet of privateers was so successful at intercepting British vessels and capturing their cargoes that historians consider the campaign a deciding factor in the war's outcome and a crucial source of investment capital for the new nation.

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Our modern system of super highways began in the 1790s with the privately financed building of the Philadelphia and Lancaster Turnpike, predecessor of today's Pennsylvania Turnpike. One of the most important public-private collaborations in American history was launched in 1843 when Congress voted to underwrite the \$30,000 cost of Samuel Morse's first experimental telegraph

line from Baltimore to Washington. The telegraph was as revolutionary in its day as the Internet was 150 years later, and an equally powerful engine of economic growth.

Until the 1930s, city transit systems and electricity grids were operated primarily by private companies under exclusive government franchises. The Great Depression drove many of these privately owned, essential public service companies into bankruptcy and they were taken over by government agencies.

At the same time, President Franklin Roosevelt's New Deal programs created thousands of jobs with mega-projects like the Tennessee Valley Authority and the National Electrical Grid, considered one of the most successful public-private partnerships in United States history.

World War II sealed government's role as lead provider of public services, a role that manifested itself in every corner of the country beginning in the 1950s with the build-out of the toll-free interstate highway system. Postwar government at every level expanded in size, influence, and control. Now, governments and municipalities are looking for creative solutions, and they are changing their requirements and systems to accommodate public-private partnerships. It's a good time for business and government to join hands and do what has already been done successfully—form successful P3s and get the work done.

Challenges

The simple fact that P3s have been entered into before, however, is not all that comforting. At this critical juncture, the economic prosperity of the American nation literally hangs in the balance. We must get it right. The opportunities are huge, but as with almost any opportunity worth pursuing, there are challenges.

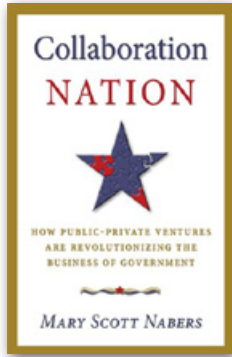
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The greatest challenge is tied to the fact that public sector culture and the American business culture are so diametrically different. Both sectors will be required to stretch their tolerance levels, be more patient, communicate better, and make undying commitments to successful project delivery. If that happens, this nation will be off and running toward a positive future. The economy will be stimulated, jobs will be created, and taxpayers will get the public services they expect. Additional bonuses will come as small and minority businesses are recruited to join prime contractors on local projects. Public-private partnerships offer huge economic boosts for companies of every size and public officials will benefit from the innovation and efficiency that can result from good collaboration.

A Virtuous Circle

The best outcome of all this activity would be a virtuous circle: government would become more innovative and efficient and deliver better public services; a fresh source of capital would flow into P3 initiatives, stimulating economic vigor and hiring; and the resulting increased tax revenues would underwrite the cost of reinventing government for the benefit of all citizens and taxpayers. 📌

Info



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