

INFRASTRUCTURE P3s:

CORE PRINCIPLES FOR SUCCESS



SUMMARY

The review of selected infrastructure case studies by the Bipartisan Policy Center Executive Council on Infrastructure yields seven core principles to keep in mind when developing a public-private partnership (P3). While following these guidelines is not a guarantee of success, they should help future leaders build upon successful practices and avoid common mistakes.



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THE CORE PRINCIPLES ARE:

1. *Develop a clear understanding of the public purpose and benefits of the project, including clear measures for success.*
2. *Include key stakeholders early in the project's development.*
3. *Proactively look for opportunities to monetize assets.*
4. *Analyze life-cycle costs and risk-transfer benefits in addition to the upfront cost of capital.*
5. *Structure P3 agreements to encourage efficient management and protect the public interest.*
6. *Look for opportunities to bundle together multiple sources of funding and financing.*
7. *Use transparent, competitive bidding that allows room for innovation.*

EACH PRINCIPLE IS DISCUSSED IN DETAIL BELOW.

1. Develop a clear understanding of the public purpose and benefits of the project, including clear measures for success.

A decision to enter into a P3 arrangement should be based on a concrete understanding of how the project will achieve public goals, and what benefits the public will receive from the project. This is good practice for all public decision-making, but it is particularly important in the P3 context, where the public is often skeptical about whether or not they are getting a good deal. P3 projects are not free money—involving the private sector in the delivery and financing of a project brings both benefits and costs. It will be important for the public to understand not just the costs of the P3 project but also how it will improve lives or save money in the future. Conversely, public officials need to be willing to forgo a P3 approach when the public benefits do not outweigh the costs.

Media coverage of P3s (and indeed, of most infrastructure projects, even when they follow traditional procurement methods) tends to focus on costs, with little attention to long-term benefits. Projects that have run into significant opposition often have not sufficiently explained the benefits of the project. For example, the [Oakland Airport Connector](#) project was initially criticized by local stakeholder groups who did not think the benefits of the project outweighed the costs. Before entering into a P3, public sponsors must clearly articulate how the public will benefit from the project and how those benefits stack up against the costs of the P3 approach.

In addition, project sponsors should, at the outset, identify the specific metrics by which the project's successes and failures will be measured. These could be factors such as whether the project is delivered on time, whether its usage meets projections, whether the infrastructure is maintained in good condition, and whether costs over time remain consistent with projections. Establishing a clear set of metrics by which a project will be judged can help a project sponsor objectively frame the narrative that will be told about the project's successes and failures.

2. Include key stakeholders early and often in project development.

P3 projects can be complex, both technically and politically. Just as it is not always possible to anticipate every wrinkle that could arise during construction, it is also difficult to predict exactly how different stakeholder groups will respond. [The U.S. 36 Expressway](#) in Denver faced significant resistance by not including public officials early enough in the discussion. Early opposition to [San Juan's airport](#) privatization by employee groups was mitigated by the prompt inclusion of job protections for existing employees. While major infrastructure projects always attract some opposition, public officials would do well to minimize unexpected attacks by engaging relevant stakeholders early in the process and often throughout development to identify issues and address concerns.

3. Proactively look for opportunities to monetize assets.

State and local governments typically own a great deal of infrastructure, including roadways, airports, pipelines, sewers, schools, and other facilities, both above and below the ground. Many of these assets could become sources of revenue for the public owner. In some cases, the outright sale

of unneeded property is the simplest way to convert an unused asset into cash, but there are many options short of sales that can also generate revenue. Some possibilities include leasing, advertising, joint development, and shared use, such as allowing telecommunications lines to make use of existing tunnels. [San Juan](#) turned its struggling airport into a revenue generator for the city by leasing the airport to a private consortium in exchange for an upfront payment and a share of revenue each year. The [Chicago Skyway](#), an existing toll road, became a revenue generator for the city when it was leased to a private consortium in exchange for a cash payment of \$1.83 billion. Opportunities to turn public assets into cash while ensuring an ongoing public benefit are found in cities across the country, and successfully engaging in a partnership with the private sector to deliver those benefits can provide a needed infusion into public budgets.

4. Analyze life-cycle costs and risk-transfer benefits in addition to the upfront cost of capital.

Public financing (for agencies that have not reached their borrowing limit) is virtually always cheaper than private financing, because public entities have the ability to tap into the large and liquid tax-exempt debt market. However, P3s can bring quantifiable benefits when costs are looked at over the long term. In the case of the [Pennsylvania Rapid Bridge Replacement Project](#), the overall cost of replacing 550 bridges and maintaining them for 25 years through a P3 is less than if the state decided to replace them one by one.

Another benefit that public sponsors should analyze when considering a P3 is the benefit of transferring certain risks to the private sector. In the [Dulles Greenway](#) and [Indiana Toll Road](#) projects, for example, the private partner took on virtually all usage risk—that is, the risk that usage of the road would be lower than expected. The public partner in those projects did not need to carry a contingency on its own books to cover that risk, which freed up funds to use elsewhere. While private partners today are generally less willing to take on the full usage risk (having learned from the Dulles and Indiana experiences), there are still risks that the private sector is willing to take from the public sector. In some cases, it can be cheaper to pay a private partner to take on those risks than to retain them in the public budget. The full costs and benefits of P3 projects—including life-cycle costs and risk-transfer benefits in addition to the cost of capital—should be carefully analyzed at the outset of a project to determine whether a P3 approach is justified.

5. Structure P3 agreements to encourage efficient management and protection of the public interest.

Many public agencies own infrastructure, but few have the experience and capacity to take on a large infrastructure construction project on their own. When projects are particularly complex, or the public agency lacks the staff to manage a large-scale project, it can be worthwhile to pay a private partner with proven experience to take it on. The Florida Department of Transportation entered into a P3 arrangement for the [Port Miami Tunnel](#), a complicated tunneling project in a congested urban area. The private consortium brought significant experience in managing large-scale construction projects, and it negotiated a series of milestone and availability payments from the Florida Department of Transportation to pay for the project. Because these payments were only made if the project was proceeding as scheduled, the public was insulated from the cost of delays.

6. Look for opportunities to bundle together multiple sources of funding and financing.

There are multiple public and private sources of funding and financing for infrastructure projects, and project sponsors should consider all available options. Even in a P3, private financing is often paired with public funding or financing. In some cases, securing a federal TIFIA direct loan or guarantee can help to bring down the cost of capital; the [Oakland Airport Connector](#) project bundled TIFIA with multiple other federal, state, regional, and local funding sources to create a blended funding package. Early P3s like the [Dulles Greenway](#), which struggled with financing costs, might have benefited from a program like TIFIA had it existed when that project was developed. Using revenue from future real-estate development to repay financing costs should also be considered when market conditions support future growth. [Portland's MAX Red Line](#) light-rail connection to

the airport was financed in part using projected future tax revenue from adjacent land. Private activity bonds may also be available for P3 projects in some cases. P3s are not an all-or-nothing approach when it comes to financing.

7. Use transparent, competitive bidding that allows room for innovation.

As with any public infrastructure project, a P3 project should use a transparent, competitive bidding process to ensure a fair and level playing field for all potential bidders. At the same time, the process should be structured to incentivize innovation in project development and delivery. A procurement process that allows proposers to suggest an alternate design can potentially save a significant amount of money for the public. Procurement processes should also be flexible enough to handle unsolicited proposals. The [light-rail line to the Portland airport](#) was the result of an unsolicited proposal brought forward by a private consortium with a new idea. The private sector can bring more than project financing and management expertise; by bringing external perspective and wide-ranging technical skills to the table, private partners can suggest time- and cost-saving innovations that otherwise might not have been considered.

These case studies demonstrate that P3s can be a valuable tool for delivering and financing infrastructure projects, particularly those that are more complex, costly, or time-consuming than public agencies are able to take on alone. Following the principles above will help public officials assess when a P3 is appropriate, communicate effectively with key stakeholders, and maximize opportunities for success.



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