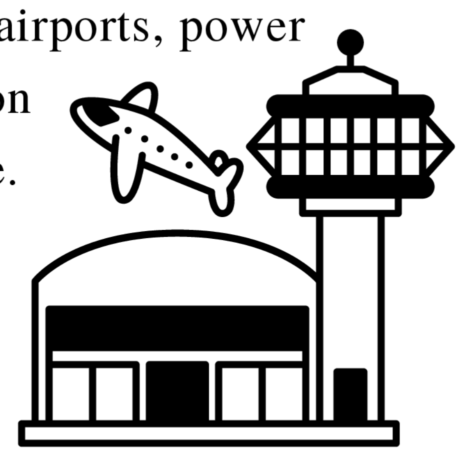
Public-Private Partnerships

What Is It?

A Public-Private Partnership, P3 or PPP, is a collaboration between government and private sector companies to deliver complex infrastructure projects by combining capital, resources, and expertise. P3s can be used for construction and developments of all kinds of infrastructure; roads, bridges, airports, power generation and more.



What Is The Impact?

Private financing can help build important infrastructure projects that would otherwise not get the funding allowing the public sector to spend the funds on other crucial initiatives.

What Does It Cost?

PPP projects can have similar costs to traditional construction projects, but in some cases, they may be more cost-effective. Private companies have access to cheaper financing and can build more efficiently. Additionally, public funds are freed up for other important initiatives.

What's An Example?

New York City's LaGuardia airport underwent a $5.1 Billion renovation between 2016 and 2022, the largest airport PPP in US history. The Airport has won multiple awards for its world-class design and accommodations.

Point		Counterpoint
• PPPs can lead to more efficient project delivery.	⟷	○ Public entities relinquish complete control and share decision making with private sector partners.
• PPPs can attract private sector investment, reducing the burden on public finances.	⟷	○ Public partners still have financial obligation however the cost is spread over the lifetime of the asset rather than duration of construction.
• The private sector can often access lower capital costs, helping reduce the overall cost of the project.	⟷	○ Private capital often requires higher returns than public borrowing, making total project costs higher despite potentially lower upfront rates.
• PPP can provide stability to developing projects since they are less subject to political winds.	⟷	○ PPP face political headwinds of their own. Like all construction projects they still rely on government approvals, policies, funding for its success.
• Government agencies virtually always retain ownership of the assets.	⟷	○ Revenue generated from tolls or concessions are shared between the private and public partners.

How Does It Work?

1. PPPs are contractual agreements between a government agency, such as a state Department of Transportation, and a private team comprising financiers, engineers, architects, and contractors to build essential infrastructure. Successful PPPs rely on well-crafted contracts and active collaboration to safeguard public interests while achieving project goals.

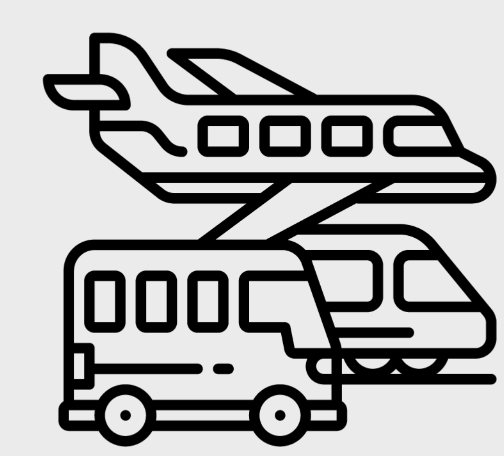
2. The private company provides up-front funding, technical expertise, and leads construction efforts, often managing the facility once completed. This approach leverages specialized skills and private-sector efficiency.

3. The government agency sets maintenance standards and pays for the project in installments over time, sharing risks with the private sector to ensure accountability. In cases where the asset generates concession revenue, the direct cost to the taxpayer is even smaller.

4. PPPs enable governments to undertake large-scale projects without requiring substantial upfront investments, making these partnerships financially viable.

5. Following completion of the projects some projects, such as toll roads and airports, generate revenue. This income is often shared between public and private entities to promote high-quality service and ensure financial sustainability.

6. Regardless of the partnership, ownership of the asset almost always remains with the public entity, ensuring public accountability and long-term stability and control.



Did You Know?

The Transcontinental Railroad was one of America's earliest P3s. The U.S. government provided land grants and funds, while private companies designed, built, and operated the railroad connecting the East and West Coasts in 1869. The P3 structure has evolved considerably since.

What's Next?

The U.S. currently has the world’s largest infrastructure investment gap, estimated at $3.8 trillion. Harnessing private sector financing and construction expertise is expected to be central to rebuilding and expanding America’s infrastructure to close the gap.