Public-Private Partnerships in Transportation

By: Thornton J. Williams
Williams Wilson & Sexton, P.A.

PART TWO OF A THREE PART SERIES ON P3s

In our first article on Public-Private Partnerships or P3s we provided an introduction and overview of P3s as a successful model to meet Florida's highway transportation needs. In part two of our three part series, we will delve deeper into the issues and concerns of the private sector in the formation and operation of P3s. Finally, next month we will conclude our three part series with a look at the issues and concerns of the public sector in the P3 process.

P3s are rapidly changing how the Florida Department of Transportation (FDOT) executes transportation projects. While P3's are not a new concept—they have been in use in the United States for over 200 years—they are finally taking root as a viable avenue to accomplish transportation projects. P3s are utilized in several other governmental sectors including education, corrections, healthcare, social services, water and wastewater, urban development, building construction power, parks and recreation, and technology. In fact, according to the National Council for Public-Private Partnership (http://ncppp.org/), "today, the average American city works with private partners to perform 23 out of 65 basic municipal services. The use of partnerships is increasing because it provides an effective tool in meeting public needs, improving the quality of services, and more cost effective."

Private sector partners in P3s are typically professional service companies, contractors, engineering and construction companies and specialized financial and legal entities providing services to public agencies for a fee. While public and private partnerships share some of the same goals and objectives, such as improved transportation services, enhanced technology and increased innovation, the private sector also has independent goals and objectives for entering into P3s. Private sector partners require tangible incentives and benefits or they will not participate in P3s. Also, private sector companies are in business to get a reasonable rate of return on their investment and make a profit. Thus, they enter into P3s to improve their profitability and expand their markets.

In fact, in the 2005 final report from the Partnerships in Transportation Workshops that was sponsored by the Federal Highway Administration (FHWA) and the Office of the Secretary of Transportation, several criteria were identified by the private sector as key areas that would increase private sector participation in transportation projects and result in successful P3s. (See http://www.fhwa.dot.gov/ppp/). Some of the private sector criteria for a successful P3s included a reasonable rate of return on investment, manageable and shared risks, minimizing bureaucratic procedures, stakeholder support, enabling legislation, a detailed business plan, timely project execution, strong leadership, a public sector management and organizational structure committed to P3s, and clear lines of communication. One of the emerging areas for consideration for the private sector is brand integration. Even though brand integration is not available on every P3, the ability to effectively control branding on a transportation project is an area worthy of exploration on all P3s.

Undoubtedly, private sector partners want as much certainty as possible going into a P3s, and will avoid engagements in which unmitigated risks (i.e., potential political, real estate, environmental, permitting, and timing risks) might derail the project. Additionally, private partners will avoid projects that are controversial or have strong opposition from the general public. The final report also identified stakeholder support from all interested parties including political, public, and agency support as a key factor for private sector participation in public-private partnerships. Further, governing statutes, enabling legislation and regulatory policies must be current and flexible to reflect market conditions and provide a framework for the private sector to accomplish the tasks assigned and not encumber their innovation.

However, as we identify the characteristics that define successful public-private partnerships, we also need to recognize the impediments that hinder private sector participation and P3 success. Some of the impediments identified by the private sector in the above report included legal prohibitions, regulatory restrictions, or procedural restrictions; an overly bureaucratic approach by transportation agencies and/or lack of consistency in how transportation agencies interpret statutes and regulations regarding P3s; lack of familiarity with the P3 process and allocation of roles, responsibilities, risk, and returns; opposition and fearing change to traditional project delivery approaches or harboring distrust for the opposite sector; and lack of dedicated revenues or innovative financing mechanisms to support projects.

In conclusion, private sector entities bring many assets to the table in public-private partnerships, including capital and financial resources, innovation and emerging technology, management, risk allocation, project cost savings, and expedited completion of transportation project delivery methods. By identifying the incentives that drive the private sector to participate in P3s as well as recognizing the issues that encumber their participation, we can transform the transportation industry to successfully meet the demands and infrastructure needs for the future of Florida's transportation growth.

For additional information, please contact:

Thornton J. Williams
Managing Partner
Williams Wilson & Sexton, P.A.
215 South Monroe Street, Suite 600
Tallahassee, Florida 32301
Telephone (850) 224-3999
Facsimile (850) 224-0099
E-Mail: twilliams@twalaw.com
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