

# Public-Private Partnerships

## Pacific Islands Environmental Conference

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# What is a Public-Private Partnership (PPP)?

- A contractual agreement between a public agency and a for-profit corporation
- Skills and assets of each sector are shared
- Risks and potential rewards shared

# Keys to Successful PPPs

## 5 Critical Components Involved to Varying Degrees

- Political Leadership
- Public Sector Involvement
- Well Thought-out Plan
- Communications with Stakeholders
- Selecting the Right Partner

# Political Leadership

- Commitment from the top
- Most senior public leader must champion the idea
- Statutory foundation

# Public Sector Involvement

- Specific authority must be established
- Remain actively involved
- Aggressive monitoring of partnership performance

# Well Thought-out Plan

- Know what you want and what you expect
- Outside expert to assist in developing plan
- Form of the plan results in detailed contract clearly defining responsibilities
- Clearly defined dispute resolution

# Communication with Stakeholders

- Who are the Stakeholders?
  - Public officials
  - Private sector partner
  - THE PUBLIC RECEIVING THE SERVICE
- Clearly and consistently communicate the reasons and benefits for the PPP

# Selecting the Right Partner

- “Lowest bid” not always the best choice
- “Best value” is the most critical aspect of choosing a partner
- Partners experience in the specific area of the partnership is very, very, very important



# Types of PPPs

Excerpt from "Public-Private Partnerships:  
Terms Related to Building and Facility  
Partnerships" printed by the Government  
Accounting Office, April 1999

# Build/Operate/Transfer (BOT) or Build/Transfer/Operate (BTO)

- Private partner builds to specifications provided by the public partner
- Private partner operates facility under contract (contract term designed to be long enough to allow recovery of any private provided funding)
- Ownership transferred to public partner
- In BTO ownership transfer occurs at end of construction

# Build/Own/Operate (BOO)

- Private sector constructs and operates facility
- Private partner owns facility
- May be contractual arrangement to allow public to use facility

# Buy/Build/Operate (BBO)

- Private purchases existing asset
- Private provides rehabilitation or expansion
- Private operates facility

# Contract Services

- Operation and maintenance (O&M)
  - Public partner contracts for service provision
  - Public retains ownership and overall management
- Operation, maintenance, & management
  - Public partner retains ownership
  - Management portion allows private partner to invest capital to increase system efficiency
  - Longer term contract – more attractive to private partner

# Design-Build (DB)

- Private partner provides design and construction
- Can reduce time, save money, provide stronger guarantees and allocate additional project risk to private
- Reduces conflict – single party responsible to the public owner
- Public sector maintains ownership, operations, and maintenance

# Design/Build/Maintain (DBM)

- Similar to DB
- Difference – maintenance of facility remains responsibility of private sector for a specified term
- Additional maintenance risk allocated to private

# Design/Build/Operate

- Not ordinarily used in the US
- Can facilitate private sector financing



# Developer Finance

- Private finances public facility for the right to build housing, commercial or industrial facilities
- Sometimes called capacity credits
- May be voluntary or involuntary depending on local circumstances

# Enhanced Use Lease (EUL)

- Not typically used
- Mostly of property
- Direct lease to private in return for funds to operate

# Lease/Develop/Operate (LDO)

- Private party leases (or buys) existing public facility
- Private invests capital to renovate and/or expand
- Private operates under a contract with the public agency

# Lease/Purchase

- Basically installment purchase
- Private sector finances and builds new facility
- Public agency leases facility, accrues equity during lease term
- At end of lease, public sector either owns or purchases facility for cost remaining

# Sale/Leaseback

- Public sector sells it to private entity
- Public sector leases back facility
- Typically to limit public liability

# Turnkey

- Public agency contracts private entity to design/build complete facility to specific standards
- Private agrees to build facility for a fixed price and absorbs construction risks
- Financing and ownership is flexible depending on circumstances

# Most Likely PPPs in the Western Pacific

- Direct O&M Contracts
- Buy/Build/Operate (BBO)

# Which Types of PPPs Have Promise in the Region

- Design/Build/Maintain
- Design/Build/Operate
- Build/Operate/Transfer



# Regional Limitations on PPPs

- Lack of confidence in the public sector
- Small pool of private partners with desired experience or sufficient resources for major public works projects
- Lack of public confidence in pursuing PPPs

# Final Thoughts

- For PPP to work know what you want to achieve
- Cultivate senior public official commitment to the process
- Research Research Research
- Make sure whatever agreement you enter into is understood by the agency in charge and clearly specifies all actions