How to Build Back Better—Public-Private Partnerships

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Jerry Haar

"Infrastructure"—a high priority of the Biden Administration--is one of the very few areas of public policy where the prospects for bipartisanship are favorable. After all, who doesn't want to improve our highways, bridges, and broadband access?

While the president's mantra for infrastructure improvement is "build back better", we must also ensure that we also *rebuild and revitalize responsibly*. And that means engagement with the private sector, in partnership, to guarantee that infrastructure projects are carried out efficiently, effectively, transparently, and in a socially and environmentally responsible manner.

The optimal means of doing so is through a public-private partnership (PPP)—the very same vehicle that helped build Silicon Valley, launched the U.S. space program (and lunar landing), and developed and distributed COVID-19 vaccines under the Trump and Biden administrations.

In a sense, we are where we are today courtesy of public-private partnerships. While Spanish regents Ferdinand and Isabella may have financed Columbus's first voyage to the New World, Juan Niño, the Quintero brothers, and Juan de la Cosa were, respectively, the owner-operators of the Niña, Pinta and the Santa Maria. (After all, it's hard to discover a new continent without transportation.)

The fact is that public-private partnerships built much of the early infrastructure of the United States, including the Philadelphia and Lancaster Turnpike road in Pennsylvania, which was initiated in 1792 and an early steamboat line between New York and New Jersey in 1808.

PPPs are slated to experience a renaissance in light of the $1.9 trillion proposed by Biden Administration to create 2.7 million jobs over the next 10 years and add over $5.7 trillion to the economy by 2024, making up for the COVID-19 recession job losses by a factor of 10.

So, what exactly are PPPs, how do they work and what are their benefits? PPPs are contractual agreements between government agencies — federal, state or local—and private companies. Collaboratively, they provide a public service, typically infrastructure-related utilities such as

water, sewer, transportation, bridges, highways and light rail. Most public works projects in the U.S. are designed by the government and put out for bidding. The lowest responsible bidder is awarded the contract, then typically if there is an operational component, the facility will be operated by government employees. The major benefit of a public-private partnership is in getting the private entities involved to deliver a product more efficiently, more cost effectively, and with improved service. The private entity has the expertise to provide the service; it is their focus, as it is what they were created for. With PPPs the financial risk is transferred from taxpayers to investors; the undertaking is "bundled" (the private partner designs, builds, finances and operates); and PPPs offer expanded capital opportunities—financing that use a combination of equity and debt. One should note that a municipal government might be so heavily indebted that it cannot undertake a capital-intensive building project; but a private enterprise may be interested in funding its construction in exchange for operating profits once the project is complete.

The financing of PPPs is generally sourced by the government through surpluses or borrowing or by the private sector through debt and equity finance. The funding, however, is typically sourced from taxes or user charges—depending upon whether it is a government-pays or user-pays scheme.

Examples of PPPs abound. For instance, the California Fuel Cell Partnership a public-private partnership to promote hydrogen vehicles (including cars and buses) in California, is notable as one of the first initiatives for that purpose undertaken in the United States. The challenge is which comes first, hydrogen cars or filling stations.

Another public-private partnership example is Challenge Seattle, a coalition that has been exploring an ultra-high-speed rail corridor from Portland to Seattle to Vancouver, along with broadband internet access and strategic land zoning.

PPPs surely have their limitations, however. The Cross City Tunnel project in Sydney is a good example. When a concessionaire fails to fulfill their contractual obligations, the state is forced to take over project delivery; and this can entail substantial delays and cost overruns. Additionally, failure to complete a project can have other downsides. In the first instance, the intended facility is not built at all, so residents and businesses must continue to deal with the problems impacting the existing system. Second, a PPP failure that results in significant losses for bondholders could damage the prospects for future project financing.

For PPPs to succeed, a shared vision and mutual respect are paramount. Both parties must be committed to achieving the others' goals as they are to their own. Contracts alone cannot achieve this.[1] Incentives (as opposed to penalties) and the involvement of a government champion/politically influential advocate are essential. Other requisites are the presence of political will and quality of institutions and governance. At the management level, measurable objectives, proper monitoring, clear accountability and consultative decision-making are essential.

To say U.S. infrastructure is in a sorry state of disrepair is an understatement. The American Society of Civil Engineers' report card on the nation's infrastructure grades it "D+", meaning mostly below standard, while the latest Global Competitiveness Report of the World Economic Forum, finds the U.S. has declined from fifth place in 2002 to thirteenth in quality of infrastructure.

The challenge is great and immediate. Harnessing and combining government investment, financing, oversight and accountability with private sector acumen designing, planning and executing of projects will enable our infrastructure reform efforts to succeed and, thereby, meet the needs of the American people.

Jerry Haar is a business professor at Florida International University and a Global Fellow of the Woodrow Wilson Center in Washington, D.C. He is also a working group member on Work and Entrepreneurship of the Council on Competitiveness.