What is a P3?

In many Public-Private Partnerships (also known as PPPs or P3s), a private investor or consortium of companies pay the governmental entity to build or operate an asset in exchange for the right to collect user fees and other revenue streams associated with the asset. P3's can be used to shift control of an existing asset like a government building, parking lots or roads. They are also used to generate investment capital to build new infrastructure needed when public agencies are unable to raise sufficient public debt. Sales of existing assets allow a governmental entity to raise a large amount of funds for today's needs. Because of this quick cash infusion, some cities and state are considering selling valuable assets to help fill in budget gaps.   In both cases there are several serious risks if the deal fails to include public interest and taxpayer protections. *P3 variations are discussed below in the Public-Private Partnership Models section.*

What are the Risks?

Selling Cheap: In many P3 deals, cities and states sell cheap because they are desperate to fill budget holes. While the one-time cash infusion may help fill a budget hole for a year or two, the government has lost steady revenue from the asset for decades afterwards. In the case of the privatization of the Chicago parking meters, an **Inspector General report** found that "the City was paid, conservatively, $974 million less for this 75-year lease than the City would have received from 75 years of parking-meter revenue..."

Handing over Control: When governmental entities hand over control of an asset to a private company, the public loses control over how it is operated. When an asset is in public control, we can demand that the operations of the asset are transparent, accountable to the people, and adhere to important public interest standards. Public-Private Partnerships typically involve giving up control in the following ways:

- **Long Contract Lengths:** These agreements typically last anywhere from 30 to 99 years, so the ramifications of these contracts last for generations. Private companies, governmental entities, and the public's needs change through time, and what makes sense at the beginning of the contract may not be in the people's best interest 50 years from now. P3s effectively allow a private contractor(s) to have a monopoly over a valuable asset for a long period of time.

- **Unfavorable Contract Clauses:** P3 contracts usually contain unfavorable contract clauses, such as compensation and non-compete clauses, which can significantly harm the public interest. A compensation clause ensures that the governmental entity compensates the private operator when the government takes an action affecting how much revenue is generated by the asset. For example, in September 2008, Indiana was required to reimburse the private Indiana Toll Road operator $447,000 for tolls that were waived for people being evacuated during a severe flood. Non-complete clauses are just as dangerous - In Virginia, the state decided to promote carpooling on their highways to cut down on pollution, slow highway deterioration and lessen congestion. As a result of initiative, Virginia must reimburse the private contractor for lost revenues from carpoolers. Since more people are carpooling and sharing cars, the private company must be reimbursed for this lost revenue. These clauses result in an unfortunate loss of public policy and planning abilities.

- **Loss of Public Interest Protections:** These arrangements hand over control of important public interest decisions to private companies. For example, private operators may only adhere to minimum safety standards on a busy roadway, or they many have exclusive control over wages and benefits of employees who work on public works projects. The public loses important control and accountability measures in P3 contracts.

- **Increase in User Fees:** Handing over control of valuable public assets usually means that private operators have the ability to raise user fees without input from the public. In almost all P3 deals, user fees are increased under private operation. This can be very burdensome for people who have to regularly use these assets, such as taking bridges and roads to get to work each day.

Public-Private Partnership Models

Public-Private Partnership (or P3) contracts can take many different forms. Below are a few of the most common models.

Long-Term Lease Agreement
This is an agreement where a private company (or consortium of companies) receives the right to collect revenues associated with an existing asset in exchange for an upfront fee to the governmental entity. Examples of this model include the long-term leases of the Chicago parking meters.

Sale/Leaseback
A sale-leaseback is a transaction in which the owner, in this case the government, sells public property and then leases it back from the private buyer. Examples of this model include the recently proposed and rejected sale/leaseback of numerous California state office buildings.

Design-Build-Finance-Operate-Maintain
There are many variations of this model, such as Design-Build, Design-Build-Operate, etc., depending on the private entity's role. In this model, a private entity is involved in varying aspects of the financing, design, building, operation and maintenance of the asset, and is compensated for its investment by receiving the right to collect future revenues associated with asset, such as user fees.

Availability Payment
In this model, the governmental entity provides regular payments, based on criteria such as project milestones or performance standards, to private investors, developers, and operators that design, build, finance, operate, and maintain the asset (or perform a subset of these activities). This project is similar to the design, build, finance, operate, and maintain-type contract described above, but uses an availability payment scheme to compensate the private companies.