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Proper planning for potential public-private partnerships

This article is the first in a series on public-private partnerships aimed at providing the development community with an introduction to the PPP model and pointing out key considerations and strategies for success. Subsequent articles will discuss case studies in Denver that utilize PPPs and provide insight and practical advice from local developers.

■ **What are public-private partnerships?** In a PPP, the government (a federal, state or local agency) and the private sector (typically one to four private entities) form a contractual relationship whereby they utilize the strengths, assets and resources of each sector to develop a facility or deliver a service for use by the general public. The parties share in the investment risk, profit potential, management and oversight of the project. When correctly implemented, the market competition, technological development, and refined efficiency of the private sector combine with the public sector's procurement policies and underutilized assets to create a win-win situation for both parties, while also benefiting the public.

In recent years, PPPs have received increasing attention as a result of the economic downturn. During periods of economic strain, governments tighten their budgets, leaving many assets underutilized or partially developed. Private entities are in a better position to provide the funding necessary to continue with development, while allowing the government to provide public services despite budget cuts and tax restraints.

■ **Key strategies for successful PPPs.** A successful PPP will be one that is well-thought-out,



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public, is crucial.

Any entity (private or public) considering a PPP would be wise to evaluate a series of important factors before committing to a PPP relationship. Implicit throughout each factor is the importance of communication, transparency and accountability. There must be open and honest communication between the private and public sectors, and each participant must be willing to translate its business practices into a comprehensible language, easily understandable to the other interested parties.

■ **Statutory authority and political environment.** Requirement No. 1 is that a statutory, legislative and/or regulatory framework be in place allowing for a PPP in a particular field. While it is not technically required that there be a statute authorizing the particular PPP, the governmental entity must nevertheless have the authority to enter into the partnership pursuant to general law or its enabling act. Successful PPPs typically have top authority figures in leadership roles who are able to clearly articulate its pur-

thoroughly negotiated and clearly defined. PPPs are business relationships that must withstand the entire length of the project, and hard work on the front end anticipating and addressing concerns of each sector, as well as the general

pose and willing to fight for and defend the project.

■ **Mutual due diligence.** All sides must understand the long-term relationship created by PPPs, and, like any long-term investment, carefully conducting one's due diligence proves imperative. Subfactors important to this particular analysis include whether the other party's technical skills and experience are sufficiently tailored to the project in question, the long-term financial capacity necessary to sustain the project, and the party's motivation for participating in the PPP. In evaluating a potential partnership, each sector, whether public or private, also should weigh cost against value. Rather than simply accepting the lowest bid, a governmental entity would be wise to consider the expertise, experience, risks, management and even personalities associated with each bid. It is important to remember that the least expensive bidder is not always the one best-suited to implement the project.

■ **Detailed business plan with clearly defined roles.** As with many successful business ventures, a detailed, well-thought-out business plan must be in place and agreed upon prior to embarking on the project. Adherence to a strong policy statement is also important in developing a successful PPP. The business plan itself should not only be design-oriented, but also define each party's performance roles, including the way in which those roles are expected to change during the course of the project. The business plan should include goals and deadlines to better gauge productivity and detail risk allocations, dispute resolution methods, project management and employee

development.

■ **Organized structure.** The public entity must be dedicated to the project's subject matter and already trained and sufficiently experienced to handle implementation of the project. Essential here is the need for good governance and an open and fair procurement process.

■ **Guaranteed revenue.** PPPs are business ventures and, accordingly, the costs of the project must be recouped through guaranteed revenue during the span of the project. Examples of revenue streams from successful partnerships include: tolls, user fees and tax districts, but this list is certainly not exhaustive. PPPs encourage the implementation of creative approaches to guaranteeing sustained revenue.

■ **Personnel support.** Government employees, private-sector participants, shareholders, directors, voters, government officials, end users, labor unions, reporters and all other interested parties must understand the project's goal as well as the plan for achieving that goal. Again, there is a strong emphasis on the importance of communication, transparency and accountability.

■ **Conclusion.** Public-private partnerships can be a useful tool in times of economic strain, as they allow public entities to provide public services despite constrained budgets and also give the private sector the ability to capitalize on underutilized public assets. PPPs are expanding into different industries and both the private and public sectors are learning the benefits of partnerships focused on maximizing each party's goals and sustainably allocating risk to provide a greater public service.▲