PUBLIC–PRIVATE PARTNERSHIPS
OPPORTUNITIES AND CHALLENGES

AUTHORS: THOMAS NELSON, JR., AND DARREN TIMOTHY, FEDERAL HIGHWAY ADMINISTRATION, OFFICE OF INNOVATIVE PROGRAM DELIVERY

A POLICY RESEARCH EFFORT CO-SPONSORED BY THE FEDERAL HIGHWAY ADMINISTRATION'S OFFICE OF INNOVATIVE PROGRAM DELIVERY AND OFFICE OF POLICY AND GOVERNMENT AFFAIRS

FHWA EXAMINED THE OPPORTUNITIES AND CHALLENGES ASSOCIATED WITH P3 CONCESSIONS IN FIVE IMPORTANT AREAS:

1. ORGANIZATIONAL CAPACITY NEEDS
2. STATUTORY FRAMEWORK
3. REVENUE, FUNDING, AND FINANCE
4. DECISIONMAKING
5. PERFORMANCE MANAGEMENT

IMPLEMENTING P3s REQUIRES CAPACITY BUILDING FOR BOTH PUBLIC AND PRIVATE SECTORS

PUBLIC SECTOR

FROM ENGINEERS TO FINANCE EXPERTS AND PERFORMANCE MONITORS.

PRIVATE SECTOR

FROM FOLLOWING SPECIFICATIONS TO MEETING PERFORMANCE TARGETS.

FROM COMPETING ON PRICE TO PRICING THE RISKS

DOWNSIDE RISKS (HAZARD)

HIGHER FINANCING COSTS	LOWER FINANCING COSTS
DESIGN-RELATED COST INCREASE	DESIGN INNOVATIONS
CONSTRUCTION COST OVERRUNS	CONSTRUCTION COST SAVINGS
ENVIRONMENTAL COSTS	NONE
CATASTROPHIC FAILURE	NONE
O&M COST INCREASE	O&M EFFICIENCIES
PERFORMANCE LAPSE (FINES)	HIGHER SERVICE LEVEL
REVENUE SHORTFALL	EXCESS REVENUES

UPSIDE RISKS (REWARD)

CULTURE DIFFERENCES: PUBLIC PRIVATE PERSPECTIVES

PUBLIC	PRIVATE
PROJECT	DEAL
STAKEHOLDERS	STOCKHOLDERS
PROCESS	OUTCOME
POLICY GOAL	PROFIT MOTIVE

IN ORDER TO SUCCESSFULLY IMPLEMENT P3s, THE PUBLIC SECTOR MUST DESIGN AGREEMENTS THAT BALANCE THE OPPORTUNITIES AND CHALLENGES, ALLOCATING PROJECT RISKS TO THE PARTY BEST ABLE TO MANAGE THEM.

OPPORTUNITIES	CHALLENGES
P3s Can Attract Private Investment	Agreements Must Ensure Public Sector Gets Value for Money
Private Equity Contribution Adds to Financing Capacity	Equity Risks Demand Higher Compensation
P3 Financing Substitutes for Unavailable Public Funding	May Involve Commitment of Future Public Funds
P3s Provide Flexibility for Innovation	P3 Agreements Must Ensure Accountability for Performance

U.S. Department of Transportation
Federal Highway Administration

MORE INFORMATION IS AVAILABLE ON IPD'S WEB SITE, WWW.FHWA.DOT.GOV/IPD. FHWA WELCOMES ONGOING COMMENTS AND CONTRIBUTIONS TO THIS IMPORTANT POLICY RESEARCH EFFORT.

ABOUT IPD: THE FEDERAL HIGHWAY ADMINISTRATION'S OFFICE OF INNOVATIVE PROGRAM DELIVERY PROVIDES A ONE-STOP SOURCE FOR EXPERTISE, GUIDANCE, RESEARCH, DECISION TOOLS, AND PUBLICATIONS ON PROGRAM DELIVERY INNOVATIONS. OUR WEB PAGE, WORKSHOPS, AND OTHER RESOURCES HELP BUILD THE CAPACITY OF TRANSPORTATION PROFESSIONALS TO DELIVER INNOVATION.