

# PPPs – American Style

**Richard Norment**, of the US National Council for Public Private Partnerships (NCP3P), describes how the PPP process works in the United States, where it is used most prevalently, and looks at how arguments against private involvement in public services are moderated.

**T**here is widespread recognition that PPPs are being used throughout the entire world in a wide variety of forms. In Europe, Latin America, Asia and major portions of the developing world, private sector resources are utilized to meet public needs under a variety of names such as PFI, privatisation, outsourcing or other variations.

But what is often misunderstood is the character of how these tools are utilized in the United States. Because of the unique political structure, tax codes and social attitudes in the US, the structure of PPPs can vary widely there from what is practised in other parts of the world.

## Historical Context

A brief look at American history helps explain the difference. The political structure and public attitudes of today are very much the product of over 300 years of the American experience.

The colonization by Europe of what is now the United States was done largely through a series of Royal Charters by the Kings of England. Each colony was granted an enormous level of self-autonomy under its charter – local regulations and local taxes were all developed by a largely independent legislature in each colony. The American Revolution began as a result of the effort of the English crown to replace some of the freedom of these legislations (largely by issuing new taxes), following an expensive French and Indian War in the

1750s. Resistance to these new taxes – and more central control from England – sparked great resistance and ultimately the Revolutionary War.

Throughout this war and the years that followed, the gradual development of a federation government came from a need to deal with collective problems of defence, currency and interstate commerce, to name a few issues. But throughout this evolution of a central government, there was always careful attention to not intrude on the rights of each of the individual states.

How this relates to public private partnerships today in the US is that each state within the US retains a great level of autonomy, particularly in government procurement and contractual practices. The result is a wide range of approaches to PPPs, with little or no guidance from the federal government. Accordingly, there is no equivalent of a Minister of Private Finance Initiatives at the US federal level.

## Public Attitudes to PPP

Equally challenging to partnerships is the degree of public hesitation about private sector management of critical public services. The most obvious (but not unique to the US) is with military and police functions, but this resistance can extend to almost any type of governmental function. There can be the perception that corporate profits will be achieved by diminishing the quality of service or drastic

reductions in the number of employees. There is often a great deal of misperception about the role and value of partnerships, which can surface at the local levels of government where the decisions about the use of partnerships are made.

## Tax

American tax policy also generally favours the public sector for the financing of services and facilities. Local governments and states can issue bonds that are exempt from both federal and state taxes, and therefore can be offered at lower interest rates than generally available to the private sector.

Even with all of these countering forces, PPPs have a growing place in meeting the needs of the general public. Several factors account for this continued, if sometimes halting growth.

## US PPP History

Various forms of PPPs have been used throughout the entire history of the USA. The Transcontinental Railroad, built in the 1860s, is a classic example. Federal government owned lands served as part of the assets upon which private company stocks were issued for the funding of the railroad. As tracks were completed, the government deeded adjacent five square mile parcels of land to the private developers. These parcels were in turn developed by the private owned railroads as farmland and towns, to provide the customer base for the railroad. An

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underutilized federal asset (the land) became the key to the private sector's ability to finance a major public works project.

And this is only one example. Over the centuries, but particularly during the last two decades, combinations of public and private resources have been utilized to build water/wastewater systems, education services and facilities, transportation terminals, public safety systems, and many more projects. And efficient business practices of the private sector are increasingly used in operation of a variety of public services.

### Budgets

The current situation with governmental budgets is another major driving force. While far from unique to the United States, there is now an acute public sensitivity about the limitations of government financial resources. Massive surpluses of a few years ago at the state and federal level have disappeared, while there is a growing awareness that many of the long-term needs for infrastructure maintenance and development have been ignored for too long. As public demands for services and facilities continue to grow, and the treasuries at all levels of government are sorely tested, partnerships are often the most viable answer.

### Compliance

Another motivator for PPPs can be compliance with federal regulations, particularly in the environmental areas of safe drinking water and clean water. The costs of infrastructure developments to meet tougher new federal regulations can easily exceed a municipality's capabilities, leading to a partnership with the private sector to gain compliance with federal mandated standards.

### Procurement

Many governments have constraints on their procurement methods that have the unintended result of limiting access to new technologies. 'Lowest price' on bids is often required, even when 'best value' would be a more

effective approach. 'Proven technology' requirements also seriously limit a government's ability to try newer technologies that can improve system efficiencies. The private sector often is not constrained by these regulations.

### National Council for Public Private Partnerships

Opponents to PPPs are effectively organized, either through public employee unions or interest groups antithetical to corporate involvement in public services or projects. To counter these voices, the National Council for Public Private Partnerships (NCPPP) conducts a number of public outreach activities. The NCPPP has published *For the Good of the People*, a white paper on PPPs (over 10,000 copies are now in circulation). The Council's members and staff are frequently speakers at conventions of public officials, and provide information to legislative and regulatory bodies as they craft new laws and regulations that affect PPPs. And [www.ncppp.org](http://www.ncppp.org) has become a credible source of information for both the public officials and the general public. In part, the credibility on the Council is based on its membership, which is composed of both public agencies and private companies, all with the common objective of promoting public private partnerships as a viable option in serving the needs of the public. It is easy to understand that with these challenges facing PPPs, the focus of activities of the NCPPP is almost exclusively within the United States, even though many of its members are active in the international markets.

### Dominant PPPs

The result is an increasing number of PPPs in the United States. The most dominant area, both in number of projects and total dollar volume of business, is in water and wastewater facilities. In some locations, the private sector provides just the operations and maintenance of publicly owned facilities. Where new technologies and/or major capital requirements are involved, private companies provide the full range

of design-build-operation options.

Urban and real estate development is another active area. Convention and municipal centres, housing projects and public schools are just some areas where a combination of public and private sector resources have made projects possible that previously could not be developed by either sector on their own.

Transportation projects are an increasing area of focus now in the US. Airport and rail terminals, privately operated (and sometimes built) tolls roads or tunnels are increasingly common.

PPPs are being used for public safety systems, such as traffic control (automated cameras for enforcement of speed limits or traffic light violations) and parking meters. Privately operated services for handling of paperwork of a wide range of routine caseloads free trained police officers for duty on the streets. And a number of correction facilities are now operated by private companies.

Not all of the activity is limited to the state and local level. The federal government has entered into an aggressive programme to upgrade housing for military personnel, using partnerships to develop thousands of housing units per year. Under the current President's Administration, federal agencies are being pushed to outsourcing more federal functions that are deemed 'commercial.' While this has been a slow development (sometimes meeting resistance from civil servants and their unions), an increasing number of functions are being contracted out to the private sector ■

*The NCPPP is a tax-exempt, non-profit institute based in Washington, DC. Information about the Council, its membership and activities can be found at [www.ncppp.org](http://www.ncppp.org)*



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