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The Hunt for Facility Funding: Public-Private Partnerships

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Public-private partnerships (P3s) have long been in use throughout Europe, Australia and Canada. These partnerships come in several forms, with the most common model being the Design, Build, Finance, Operate and Maintain model (DBFOM). The private entity, typically a financing group and a development firm, designs, builds, finances and maintains the facility.[3] The public sector then leases the facility
for a fixed number of years. The asset typically returns to the public sector at the end of the lease term.

Pros and Cons of the DBFOM model
There are several advantages to the DBFOM methodology, along with some cautions to consider:

Advantages to the DBFOM model:

- No Tax Dollars — Projects are typically funded through private sources, using fewer or no tax dollars than traditional bond-funded projects.
- Private Sector Expertise – Many private sector firms have access to technologies, materials, and management techniques that exceed the capabilities of governmental agencies. P3s bring the experience and expertise of the private sector into the procurement process.[1]

- Faster Opening — It can take years to get a bond referendum on a ballot, and in the end it may not pass. P3 projects tend to move very quickly because the private entity's return on investment doesn't begin until the project is completed, and thus they have strong incentive to complete the project in a timely manner.
- Value for Money — The private entity has a vested interest in driving down lifecycle costs. Since they assume responsibility for the upkeep for the facility, investing in more durable materials and efficient technologies makes sense. Decreased energy usage, lowered maintenance costs, and enhanced resiliency all add to the entity's long-term bottom line.
- No Deferred Maintenance — Most DBFOM agreements include long-term maintenance and upkeep obligations for the private entity. Since the maintenance standards are locked in for a period of decades, the deferred maintenance associated with economic downturns is avoided. However, the higher the maintenance, the higher the lease payment.[1]

Challenges to the DBFOM model:

- Compressed Schedule — Public agencies are not always able to make decisions as fast as the private sector. In Canada, a P3 hospital was completed so fast that operating funds had not been allocated yet. Since such delays affect the ROI of the project, the P3 may have penalty clauses or worse: the project may not attract private firms if the public side is unable to make timely decisions.[2]
- Relinquishing Some Control — Procurement for P3 projects is generally more focused on performance goals rather than design specifications and overall best value. For example, a new lab could have a different type of countertop, or fume hoods and casework from different vendors than your standard.
- Cost — The transaction costs for DBFOM projects are typically higher than traditional construction contracts; the average is about 10 percent of the total project value. In addition, the private sector has higher borrowing costs than a public entity's tax-exempt bonds.[1]
- Complexity — Public-Private Partnerships are technically, economically, politically, and contractually difficult arrangements. A successful project

requires the diligent efforts of public officials to make sure the precious public resources of a community are used wisely.[1]

What to Remember about the DBFOM model

The real opportunities in P3 agreements are in the innovation, risk sharing, and value that is brought to the taxpayer. While P3s are certainly not a panacea for all financing needs, they are a viable alternative for many communities in need of forensic facilities.

References

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