AN EXAMINATION OF PUBLIC-PRIVATE PARTNERSHIPS:
Partnership Structure, Policy Making, and Public Value

by
Elaine A. Vrooman

Practicum Advisor: Dave Sislen

A practicum thesis submitted to Johns Hopkins University in conformity with the requirements for the degree of Master of Science in Real Estate

Washington, DC
April, 2012

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EXECUTIVE SUMMARY

Subject
The examination of Public-Private Partnerships in Urban Redevelopment and to define PPPs and research three case studies to determine how policies and the structure of a PPP can impact the success, how to define public value from a PPP and to determine if the PPP can work in Real Estate as a “true” partnership.

Summary
- Public-Private Partnership is a contractual partnership agreement between public and private partners to develop, build, manage, and/or operate an asset that provides an added value to the public and provides the private sector a reasonable return.
- Public-Private Partnerships for European infrastructure projects provide model structures that can be used in economic and real estate development.
- Public-Private Partnerships became popular in the U.S. in the 1980s and have been used for infrastructure, schools, libraries, water facilities, and urban redevelopment.
- U.S. PPP Policies exist in some states and local jurisdictions on a State-by State basis and the degree of what they cover varies. Only a few recognize real estate projects. (See exhibit)
- The structure of the PPP process must be carefully created.
- A Value for Money analysis or cost benefit analysis is used to compare the cost of a PPP project structure and the standard public process.
- The urban redevelopment PPPs in the case studies are located in Maryland and Washington D.C. and include parking garages for public use and multi-family living units.

Conclusions
- Evaluation of PPP policies and structures in the U.S. should continue to be developed to provide acceptable standards including evaluation methods to determine Value for Money over the life cycle of a project.
- The leading partner should carefully consider and chose a qualified and competent partner and set goals for each partner at the beginning of the partnership set-up.
- PPPs can provide positive benefits for all partners when the partners are educated on the PPP concept and work to create a collaborative, innovative, and cooperative partnership.
- Strong management of the PPP process may be the most important factor in conceiving and completing a successful PPP project.
- It is important for the public and private partners to consider and communicate to the stakeholders, impacted by the development, by managing expectations, roles, responsibilities, and the project mission.
- Public value can be obtained from the private partner financing the public facility, property and income tax revenues, and economic improvements such as job creation, minority participation, and urban redevelopment of blighted areas.
- The partners should be held accountable by measurable standards predetermined prior to the project commencement.
- PPPs can save time in the delivery of the project and achieve costs savings; in each of the three case studies these goals were achieved. Cost savings may only be achievable in 60-80% of the PPP projects.
Introduction

Public-Private Partnerships have become increasingly popular in the United States and throughout the world. Research and studies have been performed in the past few decades to examine what public-private partnerships are, how they are structured, and if they add value to the public sector.

The purpose of this paper is to examine Public-Private Partnerships for what they are, how they are defined, how the value to the public sector is measured, and if they provide value to the public sector and the community. The paper will review the public-private partnership definitions, policies, and three case studies to examine the following questions.

1. How do policies and the PPP structures impact the success and failure of public-private partnerships in urban development/redevelopment projects?
2. While the private entities negotiate their required returns with the public sector, how is the return to the public sector determined and valued?
3. Are public-private partnerships just an alternative financing method using the private sector or is there really a partnership?
What is a Public-Private Partnership (PPP)?

A Public-Private Partnerships (PPP) is a partnership between a publically funded entity, such as the government, and a private company that pull together their resources to build or improve services typically provided solely by a public entity. Outsourcing or privatizing public services to the private sector have been used for many government projects and services but this has received a bad rap from the rap from citizens because the perception is that the tax dollars are going towards private enterprise. The criticism is that the private sector is given too much control and making large profits with this type of contract. With a partnership, all parties including the private partner have a contractual vested interest in the project, or “skin in the game”. The definition of Public-Private Partnerships varies among leading organizations around the United States and the world.

The National Council for Public-Private Partnerships (NCPPP) definition is:

“A Public-Private Partnership (PPP) is a contractual agreement between a public agency (federal, state, or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility.” (NCPPP website, 2012)

The Organisation for Economic Co-operation and Development (OECD) defines public-private partnership as:

“A contract (institutional relationship) between public and private actors for the co-operative provision of a public good or service. The essential element is some degree of private participation in the delivery of traditionally public-domain goods or services. Private actors may include both for-profit and not-for-profit organisations.” (OECD website, 2012)

The International Monetary Fund (IMF) defines public-private partnership as:

“Public-Private Partnerships (PPPs) refer to arrangements where the private sector supplies infrastructure assets and services that traditionally have been provided by the government. In addition to private execution and financing of public investment, PPPs have two other important characteristics: there is an emphasis on service provision, as well as investment, by the private sector; and significant risk is transferred from the government to the private sector. PPPs are
involved in a wide range of social and economic infrastructure projects, but they are mainly used to build and operate hospitals, schools, prisons, roads, bridges and tunnels, light rail networks, air traffic control systems and water and sanitation plants.” (IMF, 2006)

According to the European Commission public-private partnership (“PPP”) are the centralization of economic and public agents and business agents which aim to ensure the funding, construction, renovation, management and maintenance of an infrastructure of the provision of a service. They are complex institutional settings to maintain national politics and state tradition. (DiGaetano, Storm, 2003)

The European Investment Bank defines PPPs as:

“‘Public-Private Partnership’ is a generic term for the relationships formed between the private sector and public bodies often with the aim of introducing private sector resources and/or expertise in order to help provide and deliver public sector assets and services. The term PPP is, thus, used to describe a wide variety of working arrangements from loose, informal and strategic partnerships, to design build finance and operate (DBFO) type service contracts and formal joint venture companies.” (European Investment Bank, 2012)

The United States Department of Transportation (USDOT) defines PPPs as:

“Public-private partnerships (P3s) are contractual agreements formed between a public agency and a private sector entity that allow for greater private sector participation in the delivery and financing of transportation projects.” (www.FHWA.dot.gov, 2012)

The Maryland Lieutenant Governor has recommended new State Legislation for new Public-Private Partnership policy and the following revised definition:

“A public-private partnership is a method for delivering assets using a long-term, performance-based contract between a reporting agency and a private entity where appropriate risks and benefits can be allocated cost effectively between the contractual partners. The private entity performs functions normally undertaken by the government, but the reporting agency remains ultimately accountable for the asset and its public function. The government usually retains ownership in the asset and the private party will be given additional decision rights in determining how the asset is developed, constructed, operated and/or maintained over its lifecycle.” (Brown, 2012)
The common theme of each definition is the private and public sectors working together to provide public services and goods that would not otherwise be provided. Other elements of the definitions include improvements in schedule, quality, and risk. The public sector transfers risks to the private sector through various levels of development, investment, and the operations of a property. Finally, a few of the PPP definitions promote economic development benefits such as job creation and improvement of an urban area.

History of PPPs in the United States

As early as the 18th and 19th centuries, partnerships were created in the US to privatize toll roads and railroads until the great depression when many of these services were taken over by the government due to private company bankruptcies. (Seader,2002) In the 1950’s the U.S. government took a lead role in Interstate Highway construction, improving the water required by the new Clean Water Act, and improving the air infrastructure required by the Airports and Airways Development Act. In the early 1980’s in the Reagan administration, the foundation for the PPP system was framed and set to follow the UK’s model to downsize the government role. The objectives were to control the government funding that was impacting government at all levels (local, state, federal), and charge fees for public roads and facilities, such as tolls (ULI, 2008). The Clinton and Bush Administrations placed an emphasis on PPPs with the objective of outsourcing government work to private companies that could perform the work more efficiently. In 1996, during the Clinton administration legislation for “Military Housing Privatization Initiative to “fix the Army’s housing problem” was set up under the premise that these initiatives would be partnerships with the private sector. (ULI, 2008) In 2004, the use of Public-Private Partnerships in urban areas and economic developments throughout the U.S. was significant in the range of $75 billion (Corrigan, M.B., et al. 2005). The recognition of the PPP project structure was clearly
in use and would continue to be used. Subsequent U.S. administrations have continued to promote PPPs.

Public-Private Partnerships are most known for their use on European and Canadian infrastructure projects throughout the UK, Portugal Australia, Austria, and Canada for decades and have been used less frequently in the United States but they are gaining popularity in the United States (Pates, 2010, Brown, 2012).

The figure below represents the European Investment Bank’s volume of PPP projects support annually for European Union countries. The increase over the years demonstrates the increased use of the PPP structure in Europe. According to the European Investment Bank’s paper on PPP projects, the bank generally gets involved and supports projects that provide stability and organization that can demonstrate they are,“financially robust, economically and technically viable, meet the Bank’s environmental requirements and are competitively tendered in accordance with EU procurement rules.” (2004).

Source: European Investment Bank, PPPs signed by EIB, 2004
More research is available on the European PPP infrastructure model than U.S. real estate development projects due to the level of sophistication and successes of European projects including treatment plants, schools, hospitals, airports, urban redevelopment, and other public facilities (PWC, 2010). The UK and the European countries have procured more PPPs than any other area in the world. Other countries have various degrees of experience and sophistication as seen in the PPP Market Maturity Curve from Deloitte and Touche USA LLP found below. While the chart shows the U.S. to have an above average activity rate and a medium level of sophistication, the U.S. has room to grow in both areas.


The UK and European development and public projects have a higher level of National government involvement and integration promoting the use of PPPs than in the U.S. Traditionally, the U.S.
government relies on the traditional procurement design-bid-build model. The European governments are more involved in the development of economic and public goods and services than has historically been done in the U.S. by the U.S. government. One reason there could be more PPP activity in Europe is that the government control has always controlled the public transportation and facilities and have not relied on the private sector to build and operate these facilities. The federal government’s higher level of control of the public services, than in the U.S., could be due to the socialized structure and ideal of government (Stewart, 2005). Europe is also more of a transit oriented society where public services are a significant need to the people unlike the U.S. city structures that rely on public infrastructure but are much more spread out and harder to manage by the public sector. The following chart illustrates the volume of PPP projects throughout the world. This chart provides a snapshot that the PPPs in the U.S. are only a small percentage of the world PPPs. This could be an indicator that the U.S. has relied heavily on standard contractual practices and still does. However, this chart only reflects federal projects and excludes the U.S. Federal design-build projects and any local and state PPP projects.

![Pie chart showing total PPP costs worldwide](image)

**Figure 1. Public/Private Partnerships (PPPs) Worldwide, Nominal Total Costs (in billions $USD), 1985-2011**

Note: includes funded road, rail, buildings, and water projects through October 2011 in nominal dollars converted into U.S. dollars at the time of financial close. Excludes U.S. design-build projects.

The Public-Private Partnership structure challenges developers in the U.S. to align and comply with standard policies that are not necessarily PPP friendly, incorporate and maintain cultural models and expectations within the community, and to change familiar institutional practices to a new practice.

**PPP Policies in the United States**

Federally mandated policies do not exist for Public-Private Partnerships in the U.S. as they do in Europe, but various states have created policies to allow the existence, regulation, and use of the Public-Private Partnerships. The policies in each state vary as do the organization, regulation, and oversight of their structure. In Price Waterhouse Cooper’s 2010 publication of Public-Private Partnerships: The US Perspective, the challenges of PPPs in the U.S. experience are largely due to the lack of policies, a lack of understanding of PPPs, and resistance and reluctance from the public leaders and politicians to change current policies to promote a new system(2010). The same article mentions the policies may not be created or promoted because there are many various ways to create a PPP making it difficult to copy a standard model. If each project has to create their own model a tremendous amount of work is required for the Owner of the land or the Public Partner wanting to create the partnership. However Savas is quick to point out that PPPs are narrowly defined as a complex relationship between a government unit and the private sector, although ambiguous it is “a useful phrase because it avoids the inflammatory effect of “privatization” on those ideologically opposed.”(2000). This has led researchers to question if PPPs are created as another more politically correct term for privatizations to avoid the bad press that can come along with the phrase. The general public perception of the public-private partnership is that the private sector is gaining high returns at the public sector’s expense and taking away the purpose of the public sector providing the public services.
A 2009 study performed by a consulting firm Halcrow, Inc. found that part of the difficulty in promoting and engaging in public-private partnerships was from a lack of public leaders, officials, and legislators experience and familiarity with the PPP structure. (2010).

The chart on the next page shows the states with various levels of legislation and policies enabling public-private partnerships to be created. Now this is based on data from the Federal Highway Administration and U.S. Department of Transportation, it illustrates the various levels of sophistication different states for infrastructure. This should be an indicator that each state has allowable standards that vary. Michael E. Pikiel, Jr and Lillian Plata did a survey of PPP Legislation in a number of states and a U.S. territory to identify the various ways in which the state legislation has allows certain types of PPPs as of 2008. An exhibit is included at the end of the paper including their survey results. Most often, the individual state and local governments are the regulating and overseeing body on projects in the U.S. This is different than many European models of PPPS where the federal government is the regulating agency controlling, owning, and operating the land and the public use.

There are other European countries, such as the Netherlands, where the state and local governments are in control of the PPP (Klijn, E.H. and Teisman, G.R. 2002). The governments of most European countries have a more socialized view on the public uses with more government control of property and the operation of the public uses than the United States so the Public-Private Partnerships so the European policies may not translate all that well in the U.S. (Teitelbaum, 2012).

In the article Negotiating for Public Benefits: The Bargaining Calculus of Public-Private Development, by Sagalyn discusses the nature of the changing policy environment in U.S. city governments in the 1980s when the policy began allowing public-private partnerships to achieve long term revenue streams, improved housing and public works. (1997). In PPPs, the government needs to approach public development on publicly owned land from a business perspective when engaging and negotiating
Legislation is necessary to enable PPPs because they typically require transacting a structured finance deal.

Figure 3: Key features of PPP-enabling legislation by state

<table>
<thead>
<tr>
<th>Solicited and unsolicited proposals allowed</th>
<th>Local, state, or federal funds can be combined with private-sector funds</th>
<th>Various kinds of procurements allowed for project delivery</th>
<th>Long-term leases/franchises granted by the public sector for construction, operation, and maintenance of toll facilities</th>
<th>Public sector has authority to issue toll revenue bonds or notes</th>
<th>Public sector agency can hire its own technical and legal consultants</th>
<th>Public sector outsources long-term operations and maintenance and other asset management duties to the private sector</th>
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*Examples include calls for projects, competitive requests for proposal, qualifications review followed by an evaluation of proposer concepts, use of design-build procurements based on financial terms such as return on equity rather than on price, long-term asset leases for some period of up to 60 years or longer from the time operations commence.

Source: PricewaterhouseCoopers analysis based on Federal Highway Administration and USDOT data.
directly in real estate ventures for public benefit rather than simply regulating the developments from a social perspective. The PPP allows the public sector to a “means of fiscal independence from the annual budget appropriations to empower long-term decision making over a development....for self-sufficient project financing and revenue generation from privately owned commercial uses on the site” (Sagalyn, 1997). In essence, the public sector is using publically owned land to capitalize on the property value and provides public needs and benefits at the expense of a private development. Therefore, the public benefits provided from the private development are considered part of the returns on the city investment. The public sector is challenged to translate their policy goals to a business approach without changing the rules to allow for the private sector to invest in the public good because the public perception of the private partners unfairly profiting on account of the public.

Currently policies focus on the types of projects considered as PPPs, framework to identify the PPP, management, financing, value for money, competition, value added, and transfer of risk. The struggle for clearly defined policies among states and cities is there are many variations the PPP structure can be formed and organized.

PPP in Maryland, Washington, DC, and Virginia

Since the three projects examined later in the paper are in Maryland and the District of Columbia, I will briefly discuss the policies of Maryland, the District of Columbia, and neighboring state, Virginia. Maryland has recognized PPPs for highway toll road projects since 1996. The legislation shifted in 1997, to allow non-highway transportation projects to be framed as a PPP. The Public School Facilities Act of 2004 opened up the opportunity for school PPPs (Brown, 2012). Another shift in the state legislation is currently taking place led by Lieutenant Governor Anthony Brown and a coalition of leaders to define and develop the policies for the state to include additional types of PPP including real estate projects (2012).
Maryland does not regulate or manage PPPs in a separate department than the Department of Transportation or Public Works due to extra cost for additional employees, another department, and office space. In Maryland, the State retains control of the current assets including the land, buildings, and improvements while engaging the private sector for project developments and promoting innovative private financing, development, construction, and operation efficiencies (Brown, 2012). The report estimates that a total of $3.87 billion is needed from no until 2017 just to fund the current infrastructure and educational new construction and improvements needs (Brown, 2012). Based on this figure some $300 million of public need could be privately financed annually from the private sector, $1.5 billion could be contracted in PPPs from the through 2017 allowing the state government to fund a third of the projects without utilizing public funds.

The state of Maryland examined many of the definitions of PPPs stated in the beginning of this paper to develop a definition for the state based on the private sector performing functions previously done by the public sector, the public sector to allocate costs for the risks and benefits associated with the PPP, create long term performance based contracts, and retain the land ownership by the public sector.

The new Maryland legislation emphasizes policies to promote job creation, socio-economic development, and competition. Policies also require an analysis of the financial benefit, risk assessments, and revenue studies to provide data showing how projects cannot be built or financed without the public and private partnership. The new policy proposes the State or public entity will perform the oversight of the performance and the private partner will perform development, construction, and operations for the project. Financing from the state or public entities is required for the project to qualify as a PPP. Funding is based on upfront payments, revenues from facilities, revenue sharing over the project life (avoids inaccurate estimating), and allowing unsolicited bids. Current legislation does not allow for unsolicited bids. Lease terms and revenue sharing are addressed with a
maximum lease term of 50-years but allow for special exceptions to obtain 75-year and 99-year leases. The project process is still lengthy but allowing decisions to be made by the private sector time can be saved.

I was unable to identify set policies or guidelines in Washington DC for non-transportation projects at this time but they are developing such policies. However, the PPPs have been used for a public school and other public facilities in the city. As far as I could tell they recognize these real estate projects as Joint Ventures or design-build projects or transit-oriented developments.

Virginia legislation allows for transportation projects and non-transportation projects including information technology, sewerage and water facilities, and educational and government facilities (Pikiel, M.E. and Plata, L., 2008). The state of Virginia has a designated department to manage all Public-Private Partnerships. However, the department must review the project but approval for the PPP is not required in the state of Virginia (PWC, 2011).

The policies can be difficult to maneuver, define, and develop because creating stringent policies on a structure that can have great structural variations can create limitations and red tape which is what the PPP is structure is trying to minimize and allow for flexibility, innovation, and increased efficiencies.

Types of PPP Structures

The majority of Public-Private Partnerships that have been studied in academics and by professional agencies are international projects with a focus on public infrastructure. In the past decade more PPPs have been completed and analyzed for urban development and redevelopment projects. Goals of PPP projects should include the promotion and encouragement of improving neighborhood safety, urban design, creating gathering places, reducing vehicular use, encouraging and increasing public transit use,
increasing housing opportunities, maximizing the land use and value, and increasing area employment for an urban area.

Public-Private Partnerships do not come in one shape or size; there are a number of different scenarios that are considered PPPs. According to the NCPPP website, the Government Accounting Office recognizes 18 different PPP structures which are listed below. (2012).

1. Operations & Maintenance
2. Operations, Maintenance & Management
3. Design-Build
4. Design-Build-Maintain
5. Design-Build-Operate
6. Design-Build-Operate-Maintain
7. Design-Build-Finance-Operate-Maintain
8. Design-Build-Finance-Operate-Maintain-Transfer
9. Build-Operate-Transfer
10. Build-Own-Operate
11. Buy-Build-Operate
12. Developer Finance
13. EUL: Enhanced Use Leasing
14. Lease-Develop-Operate or Build-Develop-Operate
15. Lease/Purchase
16. Sale/Leaseback
17. Tax-Exempt Lease
18. Turnkey

In the first seven structures the public entity retains ownership of the assets including the facilities and the land. Assets are owned by the private sector in the DBOMT and BOT structures but the assets are transferred to the public entity at the end of the contract term which may be at the end of construction or at the end of the operating agreement. The private partner owns the assets in the BBO structure and finances the project and sets up a lease or sale/leaseback agreement with the public partner. In most PPPs, the private developer provides some financing of the public project in exchange for the right to develop and build on the property such as residential housing. The financing structure of the PPPs can take on many different forms including private equity, public bonds, tax incentives, tax exemptions, rent
subsidies, PILOT financing (payment in lieu of taxes), debt financing, grant financing, TIF (Tax-increment financing), fee waivers, eminent domain, raise long-term capital (NCPPP website, 2012). Developers financing is generally considered short-term financing.

The operation of the property can be assigned to either the private or public partner. When the private operates the project, the public partner’s role is oversight and management of the process instead of the day-to-day operations. The LDO/BDO is a structure such that the private leases the land and property from the public partner but the private partner invests private capital for improvements to the property. The exhibit below shows the various levels on a scale of responsibility of the partners. On the left side the project is the conventional and standard contract arrangement between the public and private sectors where the public sector hires a contractor on a fee based contract to provide services with limited risks transferred to the private sector. The far right side represents the privatization of projects. The center five sections represent the levels of public and private partnerships, also stated above. In this model, the long-term lease agreement provides the most balanced PPP.

![Exhibit 6.19: Public-Private Partnership Options and Range of Responsibility](image)

Source: Federal Highway Administration, 2008

Many researchers would challenge this last statement because long-term leases with only private financing sources would be viewed as a Joint Development, instead of a PPP.
In the traditional procurement of public serving projects, the procurement stage can be long and drawn out. Traditionally the public partner owns, develops, and operates the land and facilities but solicits and contracts the building of the facilities. In this case, the government would own the land and outsource the design work, hire a contractor to build the project, and operate the facility with in-house staff. Often the facility management is outsourced in the privatized structure. In these cases, the public entity signs short-term contracts usually based on a fixed fee or lump sum value. The designers and contractors are only held accountable for the short term contractual terms and the associated risks. The conventional or traditional contracting method keeps greater risks in the hands of the public sector. Should the contractor go belly-up, the public entity would be responsible to complete the project and would lose time and money to engage another contractor. The project would be publically funded in the traditional format. The public entity manages the majority of the risk of development, decision making, planning, construction, financing, and operating and the private entity risk is limited to the terms of the short-term contract. The Public-Private Partnership model is designed to transfer a portion of the responsibility, ownership, costs, and risk to the private entity. This transfer of risk removes the risk from the public sector but also is used to hold the private partner accountable to provide top-notch quality and to complete the project on schedule.

Public-Private Partnerships can be created by the public sector or the private sector. In many cases, the government owns land that is underutilized or underdeveloped and can be redeveloped to increase the value. Another scenario includes a need of the government for improvements on existing facilities or the construction of new facilities such as schools, roads, parking garages, libraries, etc. On the other hand, a private developer may approach the public land owner with an idea to develop the property based on market analysis supply/demand projections. A developer may recognize a development opportunity and proposes to improve and increase the density of the property and increase the
revenues of the public sector, increase tax revenues, and enhance the surrounding community with a new revived development.

Within a project, the organization and set-up of the contractual and management structure is one of the public sector’s most important tasks. According to Dowall, there are 9 steps in the public-private partnership process, many of which are outlined in state legislation. The steps are:

1. Set goals and objectives
2. Establish the program
3. Access & Inventory available public properties
4. Identify appropriate development site
5. Solicit interest and proposals for development
6. Select the developer
7. Negotiate the terms of the contract
8. Monitor the project development and developer performance
9. Ongoing asset management

Source: (Dowall, 1990).

The goals and objectives of the public sector should clearly define the scope of the project, the program public leader, the type of partnership, the roles of all involved, and the expected public returns for the project. The public sector acts as the manager of the overall process and authorizes the program for the project but does not directly organize and manage the day-to-day work which is transferred to the private sector. Many researchers agree the public sector should be responsible to outline the expectations and methods and allocate the risks and responsibilities to the partner best equipped to manage each task based on experience, capabilities, knowledge, resources, and expertise. (Engel, Fischer, Galerovic, 2008, Yescombe 2007). The Three stage of PPPs development, table below outlines the steps a partnership typically follows to define and refine the PPP model and contract scope and funding in the UK based on the Value for Money, a life-cycle cost assessment of the partnership.
Table 1. Three stage of PPPs development

<table>
<thead>
<tr>
<th>Stage One</th>
<th>Stage Two</th>
<th>Stage Three</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Define policy framework</td>
<td>• Introduce legislative reform</td>
<td>• Fully defined, comprehensive “system” established</td>
</tr>
<tr>
<td>• Test legal stability</td>
<td>• Publish policy and practice guidelines</td>
<td>• Legal impediments removed</td>
</tr>
<tr>
<td>• Identify project pipeline</td>
<td>• Establish dedicated PPP units</td>
<td>• PPP models refined and reproduced</td>
</tr>
<tr>
<td>• Develop foundation concepts (PSCs etc)</td>
<td>• Refine PPP delivery models</td>
<td>• Sophisticated risk allocation</td>
</tr>
<tr>
<td>• Apply lessons from earliest deals to other sectors</td>
<td>• Continue to foster marketplace</td>
<td>• Committed deal flow</td>
</tr>
<tr>
<td>• Start to build marketplace</td>
<td>• Expand project pipeline and extend to new sectors</td>
<td>• Long-term political consensus</td>
</tr>
<tr>
<td></td>
<td>• Leverage new sources of funds</td>
<td>• Use of full-range of funding sources</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Thriving infrastructure investment market involving pension funds and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>private equity funds</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Well-trained civil service utilises PPP experiences</td>
</tr>
</tbody>
</table>


Once the project scope is defined, the public entity should examine the available assets and possible public funding sources for the project. Public funding may be in the form of grants, tax incentives, TIF financing, PILOT financing, or loans. (Corrigan, Mary Beth, et al, 2005). The program will should also establish a schedule for decision making including the creation of measurable performance standards, study the supply and demand with a market analysis, and life cycle cost analysis to determine if the PPP will provide greater public value than managing the project in the traditional format (Corrigan, Mary Beth, et al, 2005). Once the program and goals are set, the public sector should review the inventory of properties available for redevelopment whether the sites are undeveloped, underdeveloped, or in need of redevelopment.

The next step is the solicitation of potential partners through a Request for Qualifications (RFQ)/Request for Proposal (RFP) process. The RFP outlines the project development program, design intent,
partnership structure, contract terms, risk allocation, construction expectations, operational requirements, and available public funding. The RFQ/RFP process maintains the competitive nature and innovative ideas and plans to be proposed. Competition between Developers allows the public partner to select the development proposal that provides the most value and the best product to serve the public need. The public partner is challenged to create a project scope that does not limit the developer’s ideas or ability to earn a reasonable profit. It is up to the public partner to determine what rate of return is fair for the private partner. If the RFP transfers a majority of the risk to the private partner, it will likely limit to interest of multiple developers. The goal is to promote new and innovative ideas to develop and increase the value of the land while integrating the private sectors expertise and business model.

Negotiating the PPP contract can take longer than a traditional project contract because the PPP is difficult because a standard contract may not exist and are relatively new to most public leaders causing to prolong the negotiation period. PPPs are different and a standard contract may be difficult to create. Once the contract is established the developer begins the day-to-day management of the development, design, and construction. In this scenario, the public partner’s role is to monitor the process and partnership and not the day-to-day management of the activities. If the private partner is contracted to operate the property the public role will monitor the process but take a back seat the day-to-day decision making. Finally, the public will be responsible for managing the asset for the total life-cycle.

**Goals of Public-Private Partnership**

The goals of a Public-Private Partnership vary depending on the project. The main goal is to create a long-term partnership between the public and private sectors. The next three sections will outline the individual and collective goals of the partnership.
The Public Sector Goals

The public government entity goals include improving public services, save money, increase asset value, encourage competition, reduce cost, limit risk, increase social benefits, obtain greater project efficiency, improve the government performance, and increase tax base.

The public sector goals extend to provide and enhance public services and amenities, capital improvements, public space, accessibility, redevelopment of blighted areas, job creation while limiting public tax increases, higher user fees, and the public’s investment and management while maximizing the public return (Frank, 2005). The public partner hopes to improve efficiencies and limit costs by engaging experts in real estate development and construction. The public government partner is concerned with improving efficiencies, equity in the project, improving service coverage, expediting the project timeline, reducing risk, private sector receiving unfair profits, improve funding and financing sources for the project and doing what is right and best for the citizens. (Corrigan, M.B., et al, 2005). As many sources state, transparency in the process is key in making sure each of the goals can be met.

The public partner can also use the PPP as a mechanism to define responsibilities and tasks to the private partner and use it to hold the partner accountable for their piece of the project.

Socio-economic development is a goal, larger than the project itself, as the benefits to the public sector go beyond a building or project site but extend into the community increasing community and personal wealth. (Corrigan, Mary Beth, et al, 2005). The public sector must understand and be sensitive to the social and political impacts the decision making process can have on voter and citizen opinions, environmental factors, and socio-economic development of an area. Thus, maintaining good relations with the impacted community members through the development of the project can make for a smoother process than if the partnership has to constantly defend their position to community activists or protestors.
The Private Sector Goals

The private sector’s primary goal is to generate profits. The private partner also focuses on providing a high quality product, in budget, and on time. The private sector does not benefit financially from a project when the design and construction are slow or delayed. In the traditional procurement style, the private partner has a short-term contract they focus on earning their fee rather than and have limited accountability which can place more risk in the public entity and compromise the quality, cost, and schedule.

The Goals for the Public-Private Partnership

The three main PPP project goals are to increase the project asset value, transaction success, and transaction speed. There are no studies that can prove that PPPs can effectively increase all three elements although that is the ultimate goal.

Table 3: Relation between the Core Businesses, Values and Strategies of Public and Private Actors

<table>
<thead>
<tr>
<th>Core Business</th>
<th>Public actors</th>
<th>Private actors</th>
<th>Tension</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Objectives: (sectoral) public objectives</td>
<td>Objectives: realising profits</td>
<td>Different problem definitions: political risks in expectations versus market risks in annual figures</td>
</tr>
<tr>
<td></td>
<td>Continuity: political conditions</td>
<td>Continuity: financial conditions</td>
<td>Government reluctant in process versus private party reluctant with knowledge</td>
</tr>
<tr>
<td>Values</td>
<td>Loyalty:</td>
<td>Competitive</td>
<td>Government reluctant in result versus private party reluctant with their own effort</td>
</tr>
<tr>
<td></td>
<td>Devoted to a self-defined public cause</td>
<td>Devoted to consumer preferences</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Controllability of process and approach</td>
<td>Controlled by shareholders on the basis of results</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(political/social)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Emphasis on risk avoidance and preventing expectations</td>
<td>Emphasis on market opportunities and risks and innovations</td>
<td></td>
</tr>
<tr>
<td>Strategies</td>
<td>Search for ways to guarantee substantive influence (primacy of the public)</td>
<td>Search for certainties to produce and/or obtain a contract</td>
<td>Confrontation leads to a natural ‘locking-up’ of agreements and thus to tried and tested types of cooperation (contracts)</td>
</tr>
<tr>
<td></td>
<td>Minimising expectations and insecurity of implementation costs</td>
<td>Minimising political risks and organisational costs as a consequence of public ‘viscosity’</td>
<td></td>
</tr>
<tr>
<td>Consequences for PPP</td>
<td>Emphasis on a limitation of risks and on agreements that lead to agreed procedures and public dominance</td>
<td>Emphasis on certainty of market share and profit which leads to an expectant attitude and limited investments until the moment when the contract is acquired</td>
<td>The creation of added value through cross-border interaction is not realised</td>
</tr>
</tbody>
</table>

Source: Klijn & Teisman, (2002) Institutional and Strategic Barriers to Public-Private Partnership
Other important goals include creating and maintaining a long-term relationship, providing a win-win for all partners, creating value for each partner, maintaining transparency, reducing costs, and financing a project that would not be possible without the partnership. As mentioned before, maintaining that the project will be delivered on time. Unlike the traditional procurement process, there is a higher rate of on time project deliveries using the PPP structure (PWC, 2010). According to a 2008 study performed by the UK’s National Office, PPPs project completed on time was 70% of 114 PPPs (PWC, 2010). Likewise, the United Nations Commission for European Countries reported the U.S. Governments implementation of the PPP structure for improvements of substandard military housing nearly 16 years ago completed 2 years ahead of schedule and 11% under the budget had the government built the project alone (UNECE, 2008).

Who’s at Stake? - Stakeholders of PPP

Public-Private Partnership stakeholders include the public government entities (federal, state, local), local chamber of commerce, public officials, political leaders, private developers, corporate investors, banks, business groups, citizens, organized community groups, interest groups, non-profits organizations, non-government agencies (NGOs), neighbors, and end users.

The private partner is above all interested in making a profit. However, when trying to make a profit there are risks associated with the potential reward. As the public partner transfers the risk to the private partner they expect a higher return. The private partner is also concerned over the legal and regulatory structure and how these may impact or create stumbling blocks for the development and project. There are PPPs where the public sector’s primary role is to help the private sector move through the jurisdictions approval processes. In this case, the public collaborates and cooperating with the private partner. Political support and stability are also key concerns for the private
partner. Should the politicians that are advocating for a given project or partnership leaves office or loses an election, the change of political leaders can cause turmoil and alter the path of project.

Lenders and investors want to understand what it is they are investing in. Since PPPs are not as common and familiar the risks to the lenders can be higher, thus leading to a thorough review of the contract terms and financial conditions prior to the approval of funding. The lenders also want to be comfortable that the partners from each side are capable of to manage and develop and provide the technical expertise of design, construction, and operation of the property. In addition the lender needs to understand the legal, regulatory, and political requirements and restrictions associated with the partnership. The European Commission notes that the lenders will also review the market analysis, value for money analysis, or financial cost benefit analysis prior to committing funds. (2003).

A commission or government entity may also be set up to oversee the PPP process to act as a watch dog on the process. The European Commission suggests that this entity would make sure the partnership maximizes social benefits, maintains transparency, engages in a competitive bidding arrangement, is held accountable for the project schedule and costs, and promotes efficiencies throughout the process. (2003).

Risk Transfer

The list of risks can be categorized four ways: financial risk, demand risk, schedule risk, and tenant risk. (Engel, Fischer, Galerovic, 2008, Yescombe 2007). It is important that the public sector defines their expectation of which partner will be assigned to handle each specific risk at the program definition stage. This information is then shared with the partners so all are aware of the expectations and can account for the risks they will carry for the project. Each partner involved should be assigned the risks that they are experienced in addressing in the business sector. The developer will generally be more
experienced in managing the risks associated with the development, design, and construction of a property. This expertise is a component that leads to a developer to success.

A list of risks involved includes:

1. Demand/Volume Risk
2. Statutory Process Risk
3. Payment Risk
4. Maintenance Cost Risks based on changing demand
5. Financial Risk
6. Legal Risk
7. Liability Risk
8. Construction Risk
9. Design Risk
10. Inflation Risk
11. Partner Risk
12. Schedule Risk
14. Environmental Risk
15. Public Acceptance Risk
16. Sustainability Risk

Source: Guidelines for successful PPP, European commission regional policy, 2003

In the three case studies, the various risks will be discussed as it related to each individual project.

Value of Money for the Public Sector

At the onset of this research project, the question of how to evaluate the public sector’s value from a public-private partnership was an unknown. I found there was one concept discussed more than any other. This was the method of Value for money which is defined in the United Nations Economic Commission of Europe as:

Value for Money (VfM). A concept associated with the economy, effectiveness and efficiency of a service, product or process, i.e. a comparison of the input costs against the value of the outputs and a qualitative and quantitative judgment of the manner in which the resources involved have been utilized and managed.” (2008).
Ultimately, the idea behind the method is to determine if the project adds value over the life cycle of the project as a PPP or if a traditional procurement method would suffice. As mentioned, this involves more in depth research and knowledge about the project and process examined under qualitative and quantitative measurements. In the UK, this process was established under English law on January 31, 2006, requiring PPPs to be scrutinized using the VfM process (UNECE, 2008). In the U.S. PPPs have methods to evaluate the value that the public sector gains from partnering with the private sector. As many researchers state, determining the value for money of a development is difficult (Steijn, B., Klijn, EH & Edelenbos, J. 2011, and Ismail, K., Takim, R., Nawawi A.H. 2011). In a 1998 survey conducted by the Council of State Governments over 40.9% of those polled believed cost savings was the largest benefit and reason to select the PPP structure (Seader, 2002). Other factors that had a significant impact included the lack of expertise in the public sector, lack of political leadership, allowed flexibility. Factors of lesser importance were the timeliness of project completion, technological innovations, and higher quality of service provided.

Many researchers and government agencies use the term Value for Money when discussing if the value of the public investment alone is higher or lower than the value created under a Public-Private Partnership (Sarmento, 2010). The value for money is the total present value cost of the private sector providing the development less the net present value of the public cost of the service adjusted for risk. In order to determine the value the costs and the savings have to be measured throughout the lifetime of the project including development, design, construction, and operation (Sarmento, 2010).

A simple method is based on estimating the costs, benefits, and risks of the project. Estimating the value over the lifetime of the project is difficult because it is difficult to measure and estimate the future value for increased efficiencies and risk. The determination of the discount rate can become a contentious point as what discount rate is the most appropriate to use. Also the qualitative
measurements considered in the analysis are more difficult to assess because the measurement scale could be skewed favorably for the PPP structure but may be an arbitrary measurement.

The public has a high level of initial capital expenditures and low level of long term operating costs in the traditional procurement method but the PPP potentially has a long term revenue stream to the private partner and the public partner. This is certainly the case when there is a ground lease involved. Below is a diagram that shows how the Value for Money is assessed by using a Public Sector Comparator.

![Figure 1](image)

**Source:** Morallos, D. and Amekudzi, A. (2008). The state of the practice of value for money analysis in comparing public private partnerships to traditional procurements.

The diagram reflects some of the risk is retained by the public partner but a large portion of the risk that is transferable reduces significantly between the public side (PSC) and the partnership (PPP), this presumes that the risk allocation has spread the risks and reduced the overall costs of that risk by distributed it to the partners best equipped to manage the risk. Thus, the difference is the value for money presented to the public. To date Virginia uses the VfM analysis for all PPPs but Maryland uses a similar tool to analyze the toll revenue for highway projects (Morallos, D., et al. 2011). The proposed legislation in Maryland, previously mentioned, recommends a comparison analysis to be performed for all PPPs.
Sarmento discusses four approaches to evaluate the value for money including a full cost-benefit analysis, analysis using the public sector comparator, analysis using the UK style of the public sector comparator, and then finally relying on the competitive bid process (2010). A cost analysis should be developed to determine the costs and benefits for the project, as it compares to a conventional procurement process with the public entity has a more active role. In the case, that the city wants to promote a PPP, Baltimore Development Corporation states that the feasibility of the project with and without public funding must demonstrate the need for the public investment. (Frank, 2005). When the private sector finances a project the financing rate is usually higher than when the public sector is financing the project causing more money to spend in this area of the project. The public sector usually can obtain interest free money or low interest rates (UNECE, 2010).

When analyzing the value for money the discount rate needs to be defined. According to Sarmento, the discount rate can be determined using five different approaches (2010).

1. The discount rate can reflect the “social time preference rate” which is the rate society is willing to pay for a public service now versus in the future and the rate should include factors such as the risk and additional costs the taxpayers are exposed to in the process.

2. The discount rate would reflect the “social opportunity cost of capital” based on a pre-tax internal rate of return from the private sector adjusted for the non-diversifiable risk in the project.

3. The discount rate is a hybrid of the “social time preference rate” and the “social opportunity cost of capital” of 4-6%.

4. The discount rate is called the “equity premium”, based on the cost of capital for the public sector below CAPM values plus the discount rate based on pre-tax government borrowing rates.
5. The discount rate could be based on the risk-free interest rate of the country’s public debt. The senior debt cost for a PPP is typically 2-3% higher than the cost of government debt including the cost of insurance. (Sarmento, 2002).

The PPP structures do not always receive tax-free benefits just because of the structure and this should be considered when determining the value. The PPP costs can be expressed as:

$$\text{PPP cost} = \text{retained public risks} + \text{cost of service payments} - \text{corporate tax}.$$  

If this is less than the public sector comparator then the PPP would be beneficial.

Another analysis that could be performed would review the gains and losses in terms of the NPV. The gains for the public sector include the reinvestments, corporate tax revenues, and transferred risks while the losses include the payments to the private bidders and corporate tax (Sarmento, 2010).

The main goal for the public sector is to reduce the amount of investment is public. Another point is that in a PPP, the public sector will remove the capital costs for the development from their balance sheets because the private sector is picking up the tab and associated risks and responsibilities (Sarmento, 2010). From this perspective, it would seem that this would be a huge benefit to the public partner. It would be hard to believe the traditional procurement method would even compare to this method. An examination of the contract terms (i.e. transfer of property, ground lease, etc.), the public investment, the payments from the private partner, and the values carried on the public balance sheet should provide a quick snapshot of the largest values that can make or break the PPP.

Finally, the VfM should be used at the very early stages of the process to determine the total VfM and that bidders can be chosen based on their qualifications and their experience providing VfM.
What do the Critics Say?

From the examination of International PPPs, the question has been raised if Public-Private Partnerships are set up to allow the private sector to unfairly earn high profits from the public service (Hodge & Greve, 2007). The community perspective often interprets the relationship of the developer in the deal is to take over control of the project and inevitably to take advantage of the public and in turn earning large and unfair profits (Forre, Kee, Boyer, 2010). This is just one reason why transparency is an important component to the partnership. The public manager should address the concerns of the community, interest groups, media, clients, and political leaders and officials.

In Europe the EU Urban Initiative allows for the different cities to govern the PPP capacity and structure where in the UK there is a national level of urban policies to change local power by creating partnerships and controlling them at the local level. As in Europe and in many states throughout the US, centralized PPP groups promote the use of PPPs and administer the projects for the public sector. Some feel that centralizing the system is problematic and limits and restricts the partnership policy. (Stoker, 2004). From a financing standpoint, private financing can easily have a higher cost premium than public financing which can cause the cost of the partnership to exceed the cost of a standard procurement. However, many other researchers and leaders believe that the projects would not be possible without funding from both the public and private partners. It is also believed that changing the culture associated with governing the work is too difficult (Gonzalez and Healey, 2005).

The NCPPP website outlines the 7 Keys to Successful PPPs

1. Public sector champion,
2. Transparent and competitive proposal process
3. Public sector’s organized team structure
4. Detailed contract or business plan
5. Clearly defined revenue stream
6. Stakeholder support
7. Choosing a partner carefully
Each of these components has an impact on the success and failure of the PPP. Advocates of public-private partnerships are not needed but can help the process go more smoothly. When a public figure such as a community, city, state, or federal political leader advocates for the PPP development the project gains notoriety, credibility, and momentum. When a public figure is supportive of a development the city public planning, zoning, and permits offices may have a better understanding of the project and help keep the process on track. This is not to suggest that the public offices are pushing the project ahead of other projects but rather the processes may not be delayed for administrative reasons. Team structure and organization was found to be less important than the management of the PPP process (Morallos, D. and Amekudzi, A. 2008).

Obtaining stakeholder support can be difficult and can alter the path of the development. Here the stakeholders are defined as neighbors, community groups, interest groups, media, potential end users, taxpayers, and others that will be impacted by the project (Forrer, Kee & Boyer, 2010). The public and stakeholder may perceive the public sector will be taken advantage of by the private partner and will bargain for higher returns and gains than the public views as reasonable. The public may be concerned that the private developer is calling the shots on the contractual structure and earning high profits at the taxpayer’s expense. Therefore, including the community and stakeholders in meetings to provide updates on the process and progress of the project and allowing those stakeholders to provide feedback can gain their trust and support. In other cases, groups may band together and protest or petition the development by appealing the approval process which could further delay the process.

Other researchers include the need to have a formal way to hold all the partners to be held accountable for their production and performance. Forrer, Kee, and Boyer suggest that accountability must be

1. Defined and aligned with the partner’s contracted incentives
2. Perform routine performance reviews with measurable and achievable tasks
3. Build trust within the partnership network
4. Allocation of Risk
Next I will examine the structure and the benefits to the public sector of two urban partnerships in Maryland and one urban partnership in Washington, DC. (UB Fitzgerald, Bethesda Theater, Rhode Island Avenue)
The University of Baltimore solicited development proposals for the redevelopment of four parcels that were owned and operated by the University of Baltimore (UB). The University of Baltimore is fiscally controlled by the University System in the State of Maryland. The University required the 4.26 acre development to integrate a new parking facility, student housing, and office space into the new project. Since the new development would displace the current UB staff and student parking, the developer was required to maintain parking within close proximity during the development and construction of the project. The RFP was designed to allow development teams to take some liberties in their proposals which allowed the State to approve the best fit for the public good.
The agreement was a 65-year ground lease with the developer with a one time 10-year extension. The approved development proposal included a structured parking garage with 1,240 spaces, 14,000sf of retail space, and 275 residential units. The development would improve the urban area, remain at a pedestrian scale, respect the UB institutional standards, provide a parking facility for students, faculty, and residents, take advantage of the public MTA light rail and bus networks, and provide housing options for students at University of Baltimore, Maryland Institute of Art (MICA), and area professionals. The developer partnership developed and built the parking facilities and residential apartments. The development partners also operate and maintain the facilities under the University of Baltimore the ground lease agreement. The development was privately financed and the University of Baltimore required the developer to have some ‘skin in the game’. The cash flows from the property were negotiated to be provided to the developer until the preferred return was realized, after which time; a profit sharing agreement with the City of Baltimore goes into effect.

The land ownership is maintained by The University of Baltimore. The development team chosen was a joint venture development team that contributed a total of 10% equity in the project. This requirement was specified by The University of Baltimore to ensure that the development team had “skin in the game”. Other equity financing was provided by NYSTRS and former Baltimore Raven Michael McCrary. PILOT financing was also integrated into the project where the taxes were incrementally increased over the life of the project. According to the developer, the project could not have proceeded without the partnership or the innovative financing created (Interview, 2012).

Stakeholders included the public and private entities, the University staff and students, the neighboring residents and Maryland Institute of Art, Baltimore City, the cultural venues including the Lyric and Meyerhof Symphony Hall.
The risk analysis done by the developer revealed risks at each level of the development process. There were many risks that were transferred from the public owner to the private developer. The developer was required to put a deposit on the land that was non-refundable should the developer back out of the deal. The project cost was based on a guaranteed maximum price based on drawings that were not construction ready, therefore any design changes would be at the developer’s costs. The environmental risks at the site were high but the developer mitigated these risks by testing and soil borings of the site to determine the best estimate of costs to manage the cost and unknown soil risk. In addition, the developer/construction team had logistical safety risks because they had an Amtrak Easement running through the project and the light rail had to stay in operation throughout the construction. There was a low risk that parking fees to relocate students and staff could be higher than the cost they spent at the surface parking lot, but negotiations with another parking lot successfully maintained the same fees. The risk associated with the construction and operation of the garage was analyzed in the market analysis. The market analysis concluded that the new garage would be a positive investment because the surface lot was occupied during university operating hours. The parking garage would also be utilized by residents, retail shoppers, and the area cultural venues for event parking. Although the garage is privately owned, the University of Baltimore was given permission to market the private garage as a University garage.

With the finance, construction, and operation of the parking garage under the developer’s umbrella the public entities benefit from the public service of the garage being provided to the students at no cost to them, therefore these expenses and revenues do not show on the University balance sheet. The benefit to the public entity is that they did not spend any part of their budget to develop the parking garage. However by allowing the development to be built on UB’s land the University system collects rent from the ground lease and the taxes associated with the new development. It is estimated that the new construction and facilities would also increase the wages and employment of residents in the area.
was estimated that roughly $29 million of wages would be credited for employing 596 workers during the construction of the project. (Lipman Frizzell & Mitchell LLC, 2005)

The taxes can be broken down:

- Real estate taxes paid to Baltimore City and the State over the life of the project based on the annual $1 million. PV of the properties = $20 million.
- Maryland retail sales tax on construction materials = $2 million.
- State and local income taxes paid by direct labor (construction and permanent employees at the property) = $900,000 and $800,000

Source: Lipman Frizzell & Mitchell LLC, Feasibility Analysis, 2005

Based on the Maryland Department of Business and Economic Development (DBED) model based on the construction of the project using the output multiplier 1.85, income multiplier 2.21, and the employment multiplier 2.54 the impacts of the economic activity from this development would result in:

- Output (money spent suppliers, etc.) = $181 million.
- MD Income created = $38 million.
- MD Full Time employment = 1,189.

Source: Lipman Frizzell & Mitchell LLC, Feasibility Analysis, 2005

In this public-private partnership, the public entity was involved but primarily provided the oversight for the project. The developer ran the day-to-day development, design, construction, finance, and operation. The University of Baltimore had a contact that worked directly with the developer throughout the process and provided significant support for the project’s success.

The City of Baltimore also required that the developer require the contractor to reach for 35% MBE/WBE participation. The General Contractor would be required to incorporate and hire certified Minority-owned and Women-owned Business companies at a value of 35% of the total project contract value. The inclusion of MBE and WBE companies and additional tax revenues are economic benefits for the City.
The profit sharing was another benefit the City received from the development team providing a return with limited initial direct investment into the cost of the project. The public entity provided the use of the land and the private developer organized and provided the financing for the project in full. The developer collected the cash flows until their agreed upon preferred return was realized and then the City shared in the returns, receiving a percentage agreed upon by all parties. The developer developed, constructed, and managed the project. After the 65-year lease, an extension could be granted for 10 additional years and then the property will be transferred to the University of Baltimore.

The use of a Public-Private Partnership in this case allowed the development to be a win-win for all. Positive benefits were obtained by the University, the community, the developer, and the investors. The project improved the urban fabric of the area between Mount Vernon and Bolton Hill. It utilized and maximized the land use to achieve include many residential units, parking, and retail. The property has been leased with over 90% occupancy and the retail spaces were leased quickly. The developer also voluntarily incorporated electronic car charging stations in the parking garage and achieved LEED certification from the U.S. Green Building Council which shows the developer’s commitment to include innovations in the green initiatives. The project has earned many industry awards for the design, innovative financing, and development. With the strong University and City of Baltimore support the project may not have had the success it has had to date. The economic development of the area increased employment and revenues for the area.
The redevelopment of the Bethesda Theater was not initially envisioned as a public-private partnership but as the deal developed different elements of the project were structured and managed similar to a PPP. In 1991, the Owner of the Bethesda Theater, who was not in the real estate industry, was interested in selling the theater to a developer to preserve the theater and develop an office building on the property. The property was zoned for a commercial use, but in order for an office building to work the adjacent property needed to be acquired which did not happen. A residential use was an option within the CBD zone but the developer would have to apply to rezone the property as they were advised by a development consultant.

The property owner applied to rezone the property to allow for residential use prior to selling the property. The sale included the theater parcel and the parcel adjacent to the rear public parking garage. The challenge here was that the public parking garage was owned and operated by Montgomery County. The garage was directly behind the theater property making the sale and redevelopment more difficult.
Through negotiations, the County agreed to trade parcels for the redevelopment of the theater and housing to be one fluent project. The agreement included the construction of a new underground parking garage for residents and the public. The County was interested in this because they would benefit from additional parking at no cost to them. This larger garage could provide space for the anticipated growth along the Bethesda commercial/commuter corridor. The rezoning process did not begin until 1996.

The developer team was a joint venture between The Bozzuto Group, Smith & Payes, LLP, and Times Square Real Estate Investors. The development team met with citizens and the planning commission throughout the public approval process. The public voiced a number of concerns with the overall development because they were concerned the theater would not be preserved. Concerns with the development included cutting off access to the adjacent neighborhood, constructing a new apartment tower that would not blend in with the adjacent single family home communities, and bringing a rental property to the neighborhood which was perceived to lower the local home property value. The property values in this area did not decrease due to the development and it may have increased the property values. The plan for the new development addressed the community concerns by creating a transition of 3-story townhomes and landscaped buffers between the single family neighborhood and the high-rise apartment building. The rezoning process and abandonment of an existing alley continued through August 1998 when both were approved. The approvals did not go unnoticed when an appeal was brought up by an adjoining property owner but this was resolved with a permanent easement that cut through the new garage.

In fall 1998, the Art Deco Society of Washington (ADSW) filed for the theater to be considered for the National Register of Historic Places to preserve the theater. There was another year delay due to building setback requirements from the theater and additional opposition to the new development.
Other opposition groups were created in Bethesda such as SHARK (Save Historic Architecture from Redevelopment Killer).

The development design was modified to accommodate the new required setbacks for the preservation but as a result, additional approvals were needed as the developer requested to increase the height of the apartment building. In 2000, agreements were made on the garage design with the County. The County requirements for MPDU units and building heights were also approved at the same time. In 2001, the final site plan approval was received along with a variance for the building height. Final municipal approvals were received in July 2001 allowing construction to begin. All of the stakeholders including the developer, the County, the ADSW, residents, Montgomery County Department of Economic Development, and the State of Maryland business and economic development teams worked together in planning meetings and through approvals to find a solution that was a win-win for all involved.

The contractual structure for the parking garage was an agreement between the developer and the County where the developer built and financed the parking garage. The parking garage was privately owned and leased from the developer to the public for a short term lease of 5-10 years until the garage was fully amortized. The maintenance and the operation of the public garage were transferred back to
the County. At the time the loan was paid, the developer sold the 396 parking garage back to the County at the end of the lease for a previously agreed upon amount.

In order to build the development the air rights over the public garage were given to the developer. In the end, the public maintained access to Wisconsin Avenue through an accessible route in the garage. This was an agreement the Developer agreed to due to the removal of an existing alley.

The Ownership of the theater was donated by the developer in 2006 to a non-profit organization, the Bethesda Cultural Alliance, to own and operate the theater. The developer received tax benefits/credits for the creation of the Bethesda Arts & Entertainment District and the Theater Historic Registry designation. Nederlander Worldwide Entertainment was the production management team contracted to manage the shows that would be showcased at the theater. In 2007, at the beginning of the economic downturn the theater struggled to bring in productions that profited and the theater was not successful and defaulted on the mortgage. In June 2010, the Bethesda Cultural Alliance closed and has sat vacant since. The Alliance had hoped the County could buy the mortgage keeping the theater in

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public hands, but the County did not have the available funding. The theater was sold in February 2012 to Richard W. Brown (Citybiz, 2012).

As a result of this development, the County benefited from a new garage that was larger than the previous one increasing the revenue stream for the County, the existing garage was considered an eye soar to the community and was replaced with a more attractive garage. Landscaped buffers were also installed to provide a more appealing transition between the neighborhood and Wisconsin Avenue. The development has increased the density of the property and improved the urban development in the area. With the County’s cooperation to negotiate the redevelopment and the land swap, the County increased its total tax base in property taxes, income taxes, and increased the value of the homes in the community. The community benefited from the restoration of the theater but unfortunately it did not succeed but the hope is that a new organization will be able to preserve and make the theater a success. The private developer also benefited with a high occupancy for the apartments and the County benefited from the high use of the bigger garage.
The vision to redevelop the 8.5 acre surface parking lot owned by WMATA (Washington Metropolitan Area Transit Authority) at the Rhode Island Metro stop began in the early 1990’s. Up until the late 1970’s the Rhode Island Metro stop was the end of the metro line and the large surface parking lot was typical of stations at the end of each metro line. Since this metro line expanded in the late 1970s, the Rhode Island Avenue station WMATA wanted to increase the value of the property, increase the density, and promote the use of transit to minimize the public’s reliance on cars.

The area has been economically distressed according to the Low Income Investment Fund report (2010). According to the development manager of Urban –Atlantic the low income area was a primary factor contributing to the lack of interest from investors looking for opportunities in the District for so many years. (Kenney, 2012). Investors and developers also found it difficult to obtain enough land along this corridor because of a combination of the land was zoned industrial and there were many small parcels of land many different property owners. When WMATA planned to redevelop the 8.5 acres this was an opportunity for investors and developers to look at the Rhode Island Avenue corridor a bit more seriously.

WMATA performed a highest and best use analysis and an appraisal of the market value of the property and recognized this as a Transit-Oriented Development.
In early 2000 WMATA published an RFP to redevelop the site in a Public-Private Partnership. The RFP required a 60-year ground lease with WMATA with certain limitations on what the development could include or not. Condominium projects were not allowed. The developer would be committed to maintain access to the Metro Station for pedestrians and the Transit Authority. There were also requirements to replace a portion of the parking facilities within the new development with a new structured parking facility.

Urban Atlantic and A&R Development formed a 50/50 partnership to develop and build the $107 million mixed-use, urban transit oriented development. The JV Development Partnership was awarded rights to the site in 2001 through the competitive RFP solicitation by WMATA. It took about 3 years for the JV Partnership and WMATA to negotiate the Joint Development Agreement due to the complexity of this contract format. The development would consist of 274 market-rate apartments, 55 affordable housing units, 70,000sf of retail, two private parking garages to serve the residents and retail, and the 215 space public garage.

The property had been zoned to accommodate the surface parking lot and therefore had to be rezoned for the new development. The rezoning and design of site involved many of the stakeholders including the local community residents, WMATA, District of Columbia, regional smart growth organizations, and Urban Atlantic/A&R Development. Caroline Kenney emphasized that the strong public commitment made many of the typical processes easier to maneuver. The rezoning process was completed in two stages. First was the District of Columbia’s process of phased zoning followed by the zoning for the specific development of the property. The overall development did not receive any District of Columbia subsidies.

The loan for the development was scheduled to close in October 2008, but the financial world collapsed and the closing did not occur. With the changing financial environment, the redevelopment project was
able to incorporate innovative public-private financing with many funding partners and New Market Tax Credits. The project closed in March 2010. The project financing partners included the:

- Federal Housing Administration 220 Program
- U.S. Department of Housing and Urban Development
- Ginnie Mae
- Wells Fargo
- District of Columbia – PILOT financing
- US Bancorp Community Development Corporation
- Mid-City Community CDE
- Low Income Investment Fund

In the report dated March 24, 2010 provided by the Low Income Investment Fund for the Rhode Island Station development, the financing is outlined as follows:

New Market Tax Credits:

- $18.7 million of tax-credits from Low Income Investment Fund and Mid-City Community CDE
- $5.3 million equity investment from US Bancorp
- $13.4 leveraged loan from an affiliated sponsor with one-day equity bridge from US Bancorp

Other Financing:

- $82.4 million FHA Loan with GNMA Guarentee
- $7.2 million PILOT from the District of Columbia for the Parking Garage
- $1 million construction tax abatement from the District of Columbia in support of the public parking garage

Another relationship Urban Atlantic developed was with Bozzuto Construction and Bozzuto Management. The Bozzuto construction group provided Preconstruction services and the Bozzuto Management Company would manage the residential apartment units. There was a gap in financing which was closed by a loan agreement with Bozzuto that the developer would payback Bozzuto. The construction began in 2010.

The community was involved in the discussions for the parking requirements because they were concerned that if there was not enough parking made available to Metro riders at the station patrons would park in the surrounding neighborhoods and taking resident parking. With the involvement of the
community, WMATA, and the developer the garage contains 215 parking spaces. Political Champion – DC Councilmember Harry Thomas, Jr. (D-Ward 5)

The risks involved with the project were weighed by the development team at the early stages. According to the development manager, the largest risk was not impeding or disrupting the operation of the Transit Authority’s Rhode Island Avenue Red Line Metro station and the 14 bus lines that serve this station throughout construction. The market and financial risk is a bit more unpredictable but with a conservative approach on rentals rates for both the apartments and the retail spaces the developer thought they had mitigated the risks. No one could have predicted the worst financial collapse in U.S. history would occur during this project. The developer had planned on 20% affordable housing units and all others were market rate. Since the area had a lower average income at 46% of the area median income and a poverty level of 29% (Low Income Investment Fund, 2010) the market rate was lower than the market rate units in areas with higher average income levels. The development manager also attributed the lower average income of the area as a factor that led the developer to be conservative with initial estimations within the proforma (Kenney, 2012).

With the change in the economy and retail leasing environment, the developer lowered retail rents on a deal by deal basis. It was also important to the developer to install local businesses at this property so adjusting the rents is the best concession at the current market environment. Many developers throughout the area are taking the same strategy to attract tenants. As for the apartment rents, the developer stated that they were conservative with rates and as they lease up the apartments today the rates fall within the budgeted proforma.

The garage was also a hurdle as the developer did not initially realize they would not be allowed to collect revenues on the public garage and these would be collected by WMATA. Through negotiations the District of Columbia the developer entered this into the PILOT financing program. This is the
Payment in lieu of taxes where the taxes go into an escrow account to pay for the construction of the garage and the developer is not taxed the full tax-rate for an agreed upon time.

Benefits for the community and Public organizations included upfront lease payment from a capitalized ground lease. The ongoing lease payments provide an immediate cash flow to the public entity who owns the property and it does not have to be used to repay a loan on the property. There was also an agreement for WMATA to get a small percentage of the gross revenues over time. It is estimated that $5.4 million in new taxes would be generated throughout the course of construction and first 10 years of operations from this development. The taxes for the garage are not included in this estimation. (Urban Atlantic, 2012).

The developer achieved 40% CBE participation during the construction of the development. The CBE program in DC provides local qualified businesses to participate in new construction throughout the District of Columbia. This shows the commitment from the developer to include local businesses in the construction of this project and the commitment of the General Contractor to not only meet the standards in the District but far exceeded the standard goals of 25-30% participation. The Developer voluntarily required First Source hiring of DC residents and they also required the Contractors to meet a goal to hire Ward 5 residents. As of February 28, 2012 the new hires on the project was 65 of which 82% were District residents and 29% were from Ward 5 and the total work force was 866 total workers of which 21% were District residents and 5% were Ward 5 residents. This was a commitment from the Developer that helped the local businesses and residents.

The Public Commitment had a large influence on this project and there were many political champions and WMATA champions who shaped this partnership to create a win-win situation for all parties involved.
Benefits to the Private Developer include an agreed upon contractual rate of return. The developer does not have to share the profits until this rate of return is realized. The developer will have to hand over the keys to the land owner at the end of the lease terms, but with this development structure they expect consistent cash flows to repay the loans and to obtain the return from the management of the property over the long-term contract. The developer also does not have the upfront pre-development costs for the acquisition of the land which would typically exist in a private development.

The development manager stated that since the property opened Phase I in 2011, it is too early to tell if the overall project is a successful investment but all indications are that it will be successful for both the public and private partners (Kenney, 2012). For the private partner the residential units are leasing and producing revenues that are meeting or exceeding the expected rental rates. The retail is not performing as well at this time but it is believed that it is leasing better than other surrounding properties which may be able to be attributed to the proximity to the Metro Station, the proximity to the residential tenants, and the lease concessions they are offering.

**Conclusion**

Based on the research and case studies analyzed for in this paper, I realized that every public-private partnership has unique components making contract agreement standardization difficult. Nor can it be claimed that all Public-Private Partnerships provide added value, savings in cost, and time. Cost and schedule savings and added value are achievable with organized management and planning of the organization and implementation of the PPP process. Research shows the standard National PPP policies defined and utilized in Europe improve the success rate of PPPs. However, nationalized policies would be difficult to define and implement in the Unites States because of the majority of political procedures and principles are developed at the state level. Since the structure and policies of PPPs in
the U.S. are currently defined, reviewed, approved, and monitored at the State and local levels, the legislation varies or simply does not exist in all 50 states or in all territories.

State policies should address and focus on simplifying and clarifying the classification of a development that can be identified with the PPP label. In many cases, developments are identified as a PPP but professionals or public officials often disagree that the label is appropriate. One example of such contention is a joint development which may or may not incorporate PPP elements. By NCPPP’s definition, a joint development may be considered an acceptable PPP structure when the development of public property is completed by a private developer who invests equity in the project. The ground leases in the case studies examined could also be considered joint developments. In this scenario, the public entity may not provide public funding other than the value of the land and some professionals may argue that it cannot be labeled as a PPP. However, with the inclusion of the public land it is acceptable to consider the value of the land as a public asset used to help finance the project.

The University of Baltimore development project qualified as a PPP under the current Maryland policy since the policies were written to include properties and assets owner by the University State Educational System. The State legislation included these properties since the early 2000s. The other projects in my research may not have been considered PPPs at the time of procurement or under State legislation they proceeded by advocating and implementing the elements that are important in a PPP structure. In the case of the Whitney/Bethesda garage the developer worked within its parameters to rezone the property, maintain and achieve National Historic Preservation status, and provide a larger improved garage to the County. The policy for PPPs did not exist in Montgomery County but this project demonstrated the essence and utilized the components of a PPP. Components of the deal that were like the PPP elements included the land swap between the public and private entities, the private construction and financing of the public garage, the cooperation with the community organizations and
residents, and the relationship to privately finance and restore the Historic Theater owned by a Non-Profit Organization.

When assessing the value of a PPP as opposed to a standard procurement, state and local jurisdictions and public organizations should utilize a full life cycle cost analysis, such as a Value for Money (VfM), in PPPs that require the private developer to develop, design, build, and operate public land or other public assets. The value and benefit of the development should include and analyze full life-cycle costs of the project and socio-economic benefits not considered in a discounted cash flow analysis. As found in the research, the discount rate for the Value for Money analysis is difficult to define but it should be a combination of the “social time preference rate” and the “social opportunity cost of capital”. This combination represents the rate society is willing to pay for the public facility now versus in the future. The rate should include factors such as the risk, exposure to additional taxpayer costs, and the pre-tax internal rate of return from the private sector adjusted for the non-diversifiable risk in the project. The rate will provide a reflection of the development risk, the public value, and the private value of return. Essentially, the Value for Money analysis provides a glimpse at how the public may benefit from new tax revenues, increased land value, higher density, job creation, redevelopment in a blighted area, and public funding and any local subsidies.

In each of these cases the garage was used by the public and was financed and constructed by the developer at no cost to the public entity. The density of each of the properties was increased, automatically increasing the tax revenue the County, City, or State could collect. The figures in the research show that millions and billions of dollars of earnings can be created in tax revenues and in job creation. The rate of return in each case is the highest the public entity could obtain. The project returns and cost analysis of the private developer were not disclosed for my use but in each case, the
development managers stated that returns had been achieved or are expected to be achieved, therefore these cases can provide the conclusion that the benefits for the private entity are positive.

The PPP contractual structures in the Rhode Island Avenue project and the UB Fitzgerald project were ground leases. A ground lease provides a constant fee to the public entity and the developer can collect cash flows over the life of the contract without the upfront investment and cost of the land. At the end of the lease terms the land and assets are transferred to the ownership of the property. In the case of the Fitzgerald the property and buildings will be transferred to the University of Baltimore, University of Maryland System. The Fitzgerald captured the essence of a PPP by incorporating the elements of a successful partnership with the support of all partners, involvement from the University of Baltimore, cooperation from the city and the JV development partner. The shared investment in financing, coordination, and management of the project are other defining elements of a PPP. The project was delivered on time and has become an award winning project throughout the nation for multi-family and mixed use real estate developments.

I believe that PPPs save money and time in the majority of projects, especially in urban development projects where the developer provides the financing, design, construction, and operation of the new development property at no or a low cost to the public partner.

The partnership within a Public-Private Partnership should be carefully developed with goals for each party to achieve a positive end result and return. Partners should be carefully chosen and should be qualified, sophisticated, experienced, and competent in their field of expertise. Goals for the process should be designed by the lead partner, public or private. The partnership should create goals with consideration of the primary stakeholders and partners thoughts and ideas so all parties agree on the expected result. and so they can be held accountable for their tasks. The goals should include innovation, cost savings, high level of quality, time effective delivery, collaboration, cooperation, and a
common mission to produce a successful project. I believe the management of the process is the most important element of implementation impacting the success of the project.

The Bethesda Theater closed shortly after it opened and the economic collapse may have had the most significant impact on the failure but another contributing factor may have included the Off-Broadway productions that may not have been a product that would succeed anywhere in the Washington, DC suburbs. The question here that may go unanswered is if the management of the Theater had a negative impact on the theater closure. This is a similar principle described in Morallos and Amekudzi’s findings that the management of the development process and management of the asset may lead to the success of failure of a property. Management of the development process and choosing the appropriate and capable partners can be a challenge but are ultimately very important to the success of the partnership and the success of the assets.

The management of the process requires open communication with stakeholders to reduce negative and resistant feelings and actions by those who may not agree with the development. This communication also requires the partners to manage the expectations, roles, and responsibilities of the PPP.

The final point is the selection of the partners. Successful PPPs include active partners (public or private), community, and political leaders. In the Rhode Island Avenue development the partnership was a success with the support from WMATA, the District of Columbia Governor, and the Ward-5 political leader. Finding an advocate who is respected in the community and is supportive of your partnership will go a long way to give stakeholders a comfort level with the development. The development may not have 100% support but having a respected political figure on your side will help the process. The partnership should also require each partner to actively participate in the decision making process and to invest equity in the property. This equity will show the public entity, the
developers desire to have ‘skin in the game’ which will represent and suggests the property is a good investment.

In conclusion, PPPs will continue to develop and improve with the support and help of community leaders, developers, and public entities. Public-Private Partnerships can and do present value, returns, and social benefits to the various partners and stakeholders and should be considered where possible.
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