Overview of Collaborative Public-Private Partnerships (CP3)

With the recent fiscal turmoil in national, state and local budgeting, there has been a dramatic shift in the public sector's willingness to collaborate with the private sector in funding, subsidizing and implementing projects. Many agencies and institutions are investigating new program mangement paradigms and actively seeking alternative funding sources to deliver projects in this post-2008 era. Public officials understand they can no longer rely solely upon traditional capital improvement budgets or the bond markets for these projects.

In a traditional Public-Private Partnership, typically a public entity or institution transfers land to the private sector developer/investor or commits to specific subsidies at the on set of a project before the costs, community benefits, project schedule and design opportunities have been fully vetted.

Historically, a public entity also makes every effort to transfer as much of the project's risk--whether this is political, financial, schedule, entitlements or market timing risk--to the private development and investment team. This frequently has the unintended consequence of fostering an adversarial relationship between the entities, as the goals of the two parties are not fully aligned. Indeed, as the timeframe for the development agreement stretches over what may be up to twenty years or more, the parties' interests almost certainly continue to diverge.

To the public's detriment, the transfer of risk to the Developer also means the transfer of most if not all of the project's direct financial benefit solely to the Developer. The public agency also relinquishes the opportunity to participate in the design and development of the project(s) in a collaborative and meaningful way. Once the "deal is cut" in a traditional PPP, the public relegates itself (via governmental staff and approval authorities) to regulatory watchdog status only.

These traditional PPP roles hinder the ultimate success of the project for both the development team and the public agency. If acting solely in a regulatory role, agencies rightly see their responsibility as assuring the developer/investor lives up to the letter of their obligations. This role leads to inevitable obstacles for the private entity, rather than fostering fertile ground for creative solutions to issues that may otherwise hinder the success of the project for the collaborative participants.

Alternatively, an equitable multi-party **Collaborative Public Private Partnership (CP3)** reduces the risk to the capital partner and project sponsor. With this reduction in risk in mind, the CP3 seeks to establish fair risk-adjusted returns to the project's capital partner(s). A CP3 encourages the public entity (including key stakeholders—e.g. Dept. of Economic Development, City Council, State Wildlife, etc.) to maintain a collaborative stance over the entire timeframe of the project.

This approach assures that the public agencies achieve their strategic objectives by participating in the planning, design, and project quality to the degree it wishes. With the CP3 approach, the public entity participates in the timing for the development and as noted above, participates in the potential financial upside of the project upon the private capital source(s) achieving their critical hurdles—whether calculated on the operating profit or upon disposition, or a combination of both.

On the surface, this approach might appear to only benefit the public sector. However, the private sector also largely benefits from this collaboration. This is because the private sector sponsor and the public sector sponsor fully align their interests (including financial rewards, where applicable). Therefore, it is to the benefit of the public to facilitate the project through all appropriate means, for example, by accelerating project approvals, rather than potentially hindering the schedule with red tape and unnecessary reviews.

This collaboration aligns public and private interests because state and local authorities understand the project is best served if public agencies resist imposing unnecessary and costly requirements on the project. This restraint is fuhrther reinforced because the CP3 is managed with full transparency and on a "open book" basis. This "open book" approach informs the public agencies of the cost impacts that added requirements impose on a project and the resulting diminution of the returns to all project participants.

What is a Collaborative Public Private Partnership (CP3)

In brief, the CP3:

- is an alternative to the adversarial relationship unavoidably created with a traditional P3;
- is a simple, fair and flexible alternative to fill the void created by the public's reduced financial capabilities;
- is a mutual commitment by participants to meet each others goals;
- substantially reduces development and construction risks, thereby reducing the cost of funds from private capital markets;
- engages both the public and private sectors in a collaboration over the multi-year timeframe necessary to achieve success for large scale development projects;
- searches for common interests and establishes overlapping links of the collaborating parties and builds upon these, rather than acting defensively to take strategic advantage of the "adversaries" weaknesses;
- is a collaborative effort that requires the public sector, developer and investor to share policy objectives, program goals, and financial expectations openly;
- utilizes a fully transparent "open book" approach to the financial arrangements—on the part of the public and the private sponsors. The process must constantly reinforce and foster a "win-win" alliance to be successful;
- incorporates the interests of the public throughout the entire process of planning, entitling and designing of the project, coupled with the understanding by the public that yield expectations for the investor must be consistently met;
- requires that both the public and private sponsors will mutually participate in strategic decisions including areas of mutual interest, such as project timing, costs, quality and overall operations of public infrastructure (analogous to a private developer reviewing strategic decisions with its investor prior to committing to an obligation);
- provides the opportunity, if desired by both parties, for the public sector to take over operations of facilities constructed by the private sponsor for use by the public;
- overall, leads to reduced project risks to the private sector sponsor, though may also reduce returns to the investor. However, on a risk adjusted basis, returns are increased to the private sector investor.
- reduces the overall cost of capital for the project, thereby reducing the overall cost for the project envisioned.

Brookwood Group is at the forefront in advancing this intense collaborative effort to revitalize communities—both in an advisory role to public and private sectors clients and as a development participant in the CP3 form of public-private partnership.

RISK MITIGATION AND LONG-TERM BENEFITS FOR CP3 PARTICIPANTS

The project-specific agreement necessary for each development project will be collaboratively developed between the parties. The diagrams below suggest why the CP3 process benefits both the public and private sectors.

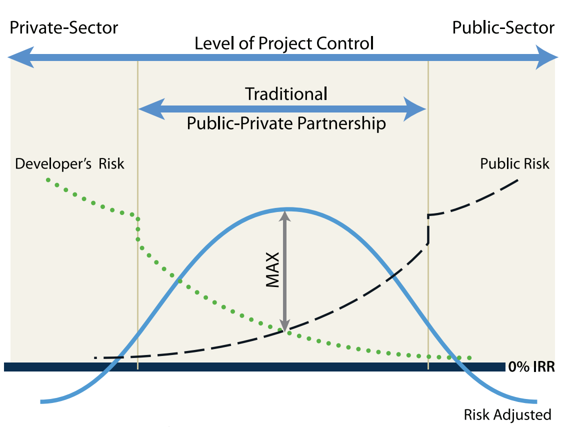
Projects that are all private or all public have the greatest risk profiles. The developer's risk profile increases significantly due to the uncertainty of the approvals process, and unanticipated costs and schedule delays typical of the public approvals process (as represented on the left side of the lower left diagram).

The public agency's risk profile is increased sharply when it takes on sole responsibility of a project (as noted on the right side of the lower left diagram) due to the arcane nature of the procurement methodology that may be required under public contract law, possibly ineffective decision making due to the lack of a core competency in real estate development, and journalistic interference resulting in an inefficient process due to freedom of information requirements.

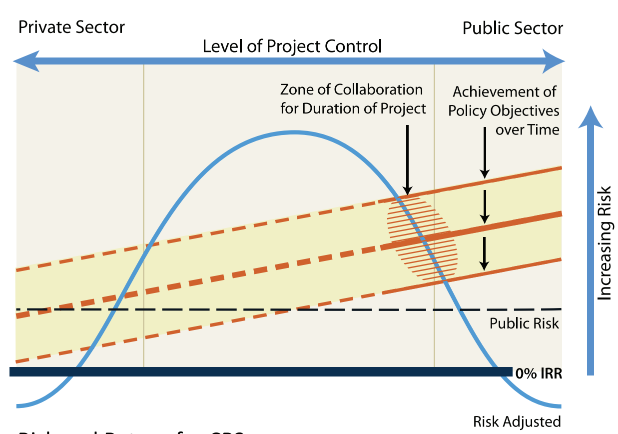
In Traditional PPP's, the direct financial benefits accrue to the private participant, with the indirect benefits accruing to the public participant(s); With each party shedding risk to the other party to the greatest extent possible.

In a CP3, both the public and private sectors participate in the direct financial upside, both parties work towards maximizing the indirect project benefits, and the project risks are mutually mitigated to the greatest extent possible—primarily using the tools that the public sector possesses, thereby maximizing the risk-adjusted financial return to both parties.

These returns are further modified (per the diagram on the lower right) by the public policy objectives of the participating public entities to the agreement; thereby achieving the greatest public benefit and highest risk adjusted returns for their participants.



Risk and Return for Traditional PPP



Risk and Return for CP3

Diagrams illustrating the risk mitigation objectives of a CP3 Development Program