Why P3s? *the uncalculated costs of Public-Private Partnerships*

There is a lot of talk about P3s, but less than adequate evidence. The charts below will answer 3 major questions about the introduction of transportation P3s in Kentucky.

1. What is a P3, compared to other government contracts, and why have it?

Kentucky currently has design-build and design-bid-build methods available. The obvious reason for these options is to **save money and keep the government small** (not turning it into a construction company among its many other jobs). http://www.lrc.ky.gov/record/14RS/HB407/bill.doc	A P3 is a "Public-Private Partnership" which means that one company is going to assume responsibility for an expansive list of steps to the project. While a convenience to the government, "**the state does give up considerable control over the management and long–term funding priorities** of a project that is constructed under a P3 approach." http://www.lao.ca.gov/reports/2012/trns/partnerships/P3_110712.aspx
Kentucky would have to add debt or make appropriations to pay for new contracts under the traditional system. "With design-build arrangements…, **<u>the private sector partner is reimbursed directly by the responsible public entity</u>** on a fee, use level or performance basis." http://www.fhwa.dot.gov/ipd/p3/faqs/default.aspx	"P3s depart most substantially from conventionally developed projects when they are financed with private commercial debt or equity that is to be **repaid from project-derived direct user charges (e.g., tolls)** - on a limited-recourse basis." Alternatives to tolls? "Payments…may also be provided by the government from either **general revenues or specific taxes**. Debt service payments can also be met through **leasing arrangements**." <u>HB 407 placed no limitation on options except for Ohio projects.</u> That means unelected people can raise taxes (tolls) or effectively sell off our assets. http://www.fhwa.dot.gov/ipd/p3/faqs/default.aspx
Traditionally the contract period lasts as long as the project does. Once the project is complete, both public and private go their separate ways happy with the trade of money for work.	"Since it can take many years for a revenue source (such as a toll on a road) to pay off the private financings, the terms of P3 contracts generally range between 25 years to 100 years." By bundling multiple phases of a project into a single contract, **P3s can make it more difficult for the government** to change how a project is managed. This means a "**greater possibility for unforeseen issues to arise**." http://www.lao.ca.gov/reports/2012/trns/partnerships/P3_110712.aspx

2. Will P3s help stimulate our economy and small business in Kentucky?

HB 407 intended to help "***Kentucky-based subcontractors, design services, architects, engineering services, employees, and financial services***" but added the caveat ***"if such contractors and service providers are available and have the necessary experience and expertise required for the completion of the project at a competitive cost."***
http://www.lrc.ky.gov/record/14RS/HB407/bill.doc

With the extensive nature a P3, "**few private developers have the financial resources and technical skills to compete for P3 projects**, especially on their own. According to experts, P3 projects typically receive between one and three bids." This is far out of the league of local business. If each category was contracted individually under the traditional model, then yes, local business could be used. But that's not a P3.
http://www.lao.ca.gov/reports/2012/trns/partnerships/P3_110712.aspx

…evaluate the agreement to determine if the agreement and the project are economically viable within the scope of available or proposed financing arrangements and expected revenues.
http://www.lrc.ky.gov/record/14RS/HB407/bill.doc

However it funnels through, public money is essentially private money taken for public use. Adding more layers just reduces its volume as the cuts are taken at each step. There is nothing magic about P3s, just a risk of losing money to save money.

3. Are P3s really cheaper and better like we're told?

"Tight credit markets have made it harder and more expensive to secure long-term private commercial debt, especially when backed by direct user tolls that carry the uncertainty of forecasted traffic volumes."
http://www.fhwa.dot.gov/ipd/p3/faqs/default.aspx

"In times of limited access to financial markets (e.g. financial crisis of 2008), the cost difference between private and public borrowing was 2 percentage to 3 percentage points. In addition, private companies will often seek to earn a profit of roughly 10 percent to 25 percent when loaning funds to a government, which can further **increase P3 financing costs**."
http://www.lao.ca.gov/reports/2012/trns/partnerships/P3_110712.aspx

"As state and local agencies face reduced budgets due to diminished tax revenues, they are considering alternative revenue sources such as sales tax measures, gas tax increases and value capture techniques to leverage additional revenue for transportation needs."

It's basically a draw. **Either we tax and build or build and tax.**
http://www.fhwa.dot.gov/ipd/p3/faqs/default.aspx

"In order for a private partner to be willing to finance these costs, the contract must specify a mechanism for repaying the partner. In many cases, this involves a **revenue source created by the project (such as a toll or user fee** on the infrastructure facility)… Alternatively, the state can commit to making **annual payments to the partner from an identified funding source, such as tax revenues**."
http://www.lao.ca.gov/reports/2012/trns/partnerships/P3_110712.aspx

Enacting P3 Legislation = Signing a blank check for new taxes. *The new mechanism creates an itch to spend. How many more lines of credit can we open before we must start paying back?*