

Myths About Public-Private Partnerships

May 05, 2019

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Publications

Background

Government agencies and political officials from all spectrums have endorsed the idea of combining the resources of the public and private sectors to manage, and in some cases finance, their community's infrastructure using public-private partnerships. These partnerships are enabling local officials to access private capital and solve some of their most pressing challenges. In fact, public-private partnerships are at work in many North American communities.

Of course, every decision to do a P3 should be carefully considered. It may be that traditional solutions work well; or that a hybrid solution will provide benefits comparable to a true P3 transaction where a private company takes over operation, and maybe even financing, in a classic DBFOM (Design Build Finance Operate and Maintain) scenario, for a long period of time, i.e. 20 to 70 years. An example of a "hybrid" deal is a "public-public" (P2) partnership where a municipality's infrastructure asset, system or building is leased for a long-term to another public entity or 501(c)(3) special purpose entity, allowing for the use of tax-exempt financing to finance constructions or improvements.

Myth: A private company will own your infrastructure asset.

Fact: In a public-private partnership, the public maintains ownership of all assets – and the public authority sets rates. The contractual arrangements ensure public control and ownership.

Myth: A private company will set your rates and control fees.

Fact: Rate-setting authority should remain the responsibility of the municipal government (city, town, regional authority, etc.) A P3 is

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not a regulated utility, where a private-sector company owns assets and seeks rate increases. Under a properly structured P3 contract the public partner:

- Owns the assets
- Controls the ultimate management of the assets
- Establishes user rates.

In short, a public-private partnership is not privatization.

Myth: A private company will only drive costs up – in order to make a profit.

Fact: Private companies interested in P3 contracts may in fact have dozens, hundreds or even thousands of workers that would take issue with this statement. Many have devoted their life's work to providing solutions to the world's infrastructure, governmental and environmental problems. Because of the use of modern operational techniques and better revenue and data gathering, many communities served by public-private partnerships have reported cost reductions of 10 to 30 percent.

Myth: Legal and regulatory compliance will erode.

Fact: The P3 contract can provide monetary penalties for failures of this type; and private-sector companies are often hired specifically to address a municipality's past compliance issues.

Myth: Private companies pad the bottom line by cutting costs and laying off employees.

Fact: Municipalities typically determine staffing level requirements in the P3 contract. And companies want to take advantage of employees' local knowledge. For that reason, many employees of privates companies in P3 deals are former public-sector employees who are local to their individual communities.

Myth: Private companies only care about profit, so the public should always manage public

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resources.

Fact: In a properly structured and documented P3 contract, private-sector profit does not come at the public's expense. Lower costs and service improvements result from the new arrangement regardless of whether a private-sector company generates a profit. Savings for municipalities frequently range from 10 to 30 percent. Further, P3's still enable local control and flexibility to meet the community's needs.

Myth: The municipality will be left with a run-down asset.

Fact: Contracts should always be written so that assets are properly maintained and serviced. The municipal customer will conduct "check-ups" to ensure proper functioning of assets. Finally, the public-sector customer should participate in maintenance spending decisions to help preserve the life of assets.

Myth: A new company just won't understand your system.

Fact: Many companies working in this sector find it necessary as part of their business model to drive innovation in the use of technology and operations. Municipal employees are usually encouraged to either join the private-sector company, or work with it, so that their local, public experience is blended with private-sector expertise.

Takeaways

After examining all the data, is a P3 or another project finance solution right for any particular community? Only a thorough examination of alternatives can tell. By blending public-sector experience with private-sector experience and technical expertise, a public-private partnership can offer immediate results for managing infrastructure assets, ensuring quality services are provided to the public, and also potentially financing new or improved facilities through a DBFOM or hybrid P2 arrangement.

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For a more customized analysis, contact our Public-Private Partnership team.

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