



Public-Private Partnerships come in a variety of forms and no two PPP projects are exactly alike.

The below definitions were extracted from "Public-Private Partnerships: Terms Related to Building and Facility Partnerships", Government Accounting Office, April 1999. The National Council for Public-Private Partnerships was a resource used in developing the GAO report.

O&M: Operations and Maintenance

A public partner (federal, state, or local government agency or authority) contracts with a private partner to provide and/or maintain a specific service. Under the private operation and maintenance option, the public partner retains ownership and overall management of the public facility or system.

OMM: Operations, Maintenance & Management

A public partner (federal, state, or local government agency or authority) contracts with a private partner to operate, maintain, and manage a facility or system providing a service. Under this contract option, the public partner retains ownership of the public facility or system, but the private party may invest its own capital in the facility or system. Any private investment is carefully calculated in relation to its contributions to operational efficiencies and savings over the term of the contract. Generally, the longer the contract term, the greater the opportunity for increased private investment because there is more time available in which to recoup any investment and earn a reasonable return. Many local governments use this contractual partnership to provide wastewater treatment services.

DB: Design-Build

A DB is when the private partner provides both design and construction of a project to the public agency. This type of partnership can reduce time, save money, provide stronger guarantees and allocate additional project risk to the private sector. It also reduces conflict by having a single entity responsible to the public owner for the design and construction. The public sector partner owns the assets and has the responsibility for the operation and maintenance.

DBM: Design-Build-Maintain

A DBM is similar to a DB except the maintenance of the facility for some period of time becomes the responsibility of the private sector partner. The benefits are similar to the DB with maintenance risk being allocated to the private sector partner and the guarantee expanded to include maintenance. The public sector partner owns and operates the assets.

DBO: Design-Build-Operate

A single contract is awarded for the design, construction, and operation of a capital improvement. Title to the facility remains with the public sector unless the project is a design/build/operate/transfer or design/build/own/operate project. The DBO method of contracting is contrary to the separated and sequential approach ordinarily used in the United States by both the public and private sectors. This method involves one contract for design with an architect or engineer, followed by a different contract with a builder for project construction, followed by the owner's taking over the project and operating it.

A simple design-build approach creates a single point of responsibility for design and construction and can speed project completion by facilitating the overlap of the design and construction phases of the project. On a public project, the operations phase is normally handled by the public sector under a separate operations and maintenance agreement. Combining all three passes into a DBO approach maintains the continuity of private sector involvement and can facilitate private-sector financing of public projects supported by user fees generated during the operations phase.

DBOM: Design-Build-Operate-Maintain

The design-build-operate-maintain (DBOM) model is an integrated partnership that combines the design and construction responsibilities of design-build procurements with operations and maintenance. These project components are procured from the private sector in a single contract with financing secured by the public sector. The public agency maintains ownership and retains a significant level of oversight of the operations through terms defined in the contract.

DBFOM: Design-Build-Finance-Operate-Maintain

With the Design-Build-Finance-Operate-Maintain (DBFOM) approach, the responsibilities for designing, building, financing, operating and maintaining are bundled together and transferred to private sector partners. There is a great deal of variety in DBFOM arrangements in the United States, and especially the degree to which financial responsibilities are actually transferred to the private sector. One commonality that cuts across all DBFOM projects is that they are either partly or wholly financed by debt leveraging revenue streams dedicated to the project. Direct user fees (tolls) are the most common revenue source. However, others ranging from lease payments to shadow tolls and vehicle registration fees. Future revenues are leveraged to issue bonds or other debt that provide funds for capital and project development costs. They are also often supplemented by public sector grants in the form of money or contributions in kind, such as right-of-way. In certain cases, private partners may be required to make equity investments as well. Value for money can be attained through life-cycle costing.

DBFOMT: Design-Build-Finance-Operate-Maintain-Transfer

The Design-Build-Finance-Operate-Maintain-Transfer (DBFOMT) partnership model is the same as a DBFOM except that the private sector owns the asset until the end of the contract when the ownership is transferred to the public sector. While common abroad, DBFOMT is not often used in the United States today.

BOT: Build-Operate-Transfer

The private partner builds a facility to the specifications agreed to by the public agency, operates the facility for a specified time period

under a contract or franchise agreement with the agency, and then transfers the facility to the agency at the end of the specified period of time. In most cases, the private partner will also provide some, or all, of the financing for the facility, so the length of the contract or franchise must be sufficient to enable the private partner to realize a reasonable return on its investment through user charges. At the end of the franchise period, the public partner can assume operating responsibility for the facility, contract the operations to the original franchise holder, or award a new contract or franchise to a new private partner. The BTO model is similar to the BOT model except that the transfer to the public owner takes place at the time that construction is completed, rather than at the end of the franchise period.

BOO: Build-Own-Operate

The contractor constructs and operates a facility without transferring ownership to the public sector. Legal title to the facility remains in the private sector, and there is no obligation for the public sector to purchase the facility or take title. A BOO transaction may qualify for tax-exempt status as a service contract if all Internal Revenue Code requirements are satisfied.

BBO: Buy-Build-Operate

A BBO is a form of asset sale that includes a rehabilitation or expansion of an existing facility. The government sells the asset to the private sector entity, which then makes the improvements necessary to operate the facility in a profitable manner.

Developer Finance

The private party finances the construction or expansion of a public facility in exchange for the right to build residential housing, commercial stores, and/or industrial facilities at the site. The private developer contributes capital and may operate the facility under the oversight of the government. The developer gains the right to use the facility and may receive future income from user fees. While developers may in rare cases build a facility, more typically they are charged a fee or required to purchase capacity in an existing facility. This payment is used to expand or upgrade the facility. Developer financing arrangements are often called capacity credits, impact fees, or extractions. Developer financing may be voluntary or involuntary depending on the specific local circumstances.

EUL: Enhanced Use Leasing or Underutilized Asset

An EUL is an asset management program in the Department of Veterans Affairs (VA) that can include a variety of different leasing arrangements (e.g. lease/develop/operate, build/develop/operate). EULs enable the VA to long-term lease VA-controlled property to the private sector or other public entities for non-VA uses in return for receiving fair consideration (monetary or in-kind) that enhances VA's mission or programs.

LDO or BDO: Lease-Develop-Operate or Build-Develop-Operate

Under these partnerships arrangements, the private party leases or buys an existing facility from a public agency; invests its own capital to renovate, modernize, and/or expand the facility; and then operates it under a contract with the public agency. A number of different types of municipal transit facilities have been leased and developed under LDO and BDO arrangements.

Lease/Purchase

A lease/purchase is an installment-purchase contract. Under this model, the private sector finances and builds a new facility, which it then leases to a public agency. The public agency makes scheduled lease payments to the private party. The public agency accrues equity in the facility with each payment. At the end of the lease term, the public agency owns the facility or purchases it at the cost of any remaining unpaid balance in the lease.

Under this arrangement, the facility may be operated by either the public agency or the private developer during the term of the lease. Lease/purchase arrangements have been used by the General Services Administration for building federal office buildings and by a number of states to build prisons and other correctional facilities.

Sale/Leaseback

This is a financial arrangement in which the owner of a facility sells it to another entity, and subsequently leases it back from the new owner. Both public and private entities may enter into sale/leaseback arrangements for a variety of reasons. An innovative application of the sale/leaseback technique is the sale of a public facility to a public or private holding company for the purposes of limiting governmental liability under certain statutes. Under this arrangement, the government that sold the facility leases it back and continues to operate it.

Tax-Exempt Lease

A public partner finances capital assets or facilities by borrowing funds from a private investor or financial institution. The private partner generally acquires title to the asset, but then transfers it to the public partner either at the beginning or end of the lease term. The portion of the lease payment used to pay interest on the capital investment is tax exempt under state and federal laws. Tax-exempt leases have been used to finance a wide variety of capital assets, ranging from computers to telecommunication systems and municipal vehicle fleets.

Turnkey

A public agency contracts with a private investor/vendor to design and build a complete facility in accordance with specified performance standards and criteria agreed to between the agency and the vendor. The private developer commits to build the facility for a fixed price and absorbs the construction risk of meeting that price commitment. Generally, in a turnkey transaction, the private partners use fast-track construction techniques (such as design-build) and are not bound by traditional public sector procurement regulations. This combination often enables the private partner to complete the facility in significantly less time and for less cost than could be accomplished under traditional construction techniques.

In a turnkey transaction, financing and ownership of the facility can rest with either the public or private partner. For example, the public agency might provide the financing, with the attendant costs and risks. Alternatively, the private party might provide the financing capital, generally in exchange for a long-term contract to operate the facility.