



Examples of New Jersey's potential savings through best-practice P3

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New Jersey has the potential to realize significant savings through the application of best-practice P3s. During a presentation to the New Jersey Privatization Task Force, we explained how best-practice P3 should be about saving taxpayer money through efficiency gains, and not about accounting tricks or “asset monetization.” The focus of this note is on generating taxpayer value for New Jersey citizens through more efficient delivery of public services in road maintenance, and school facilities construction and management.

1 Performance-based roads maintenance contracts could save \$66 million per year

New Jersey could save money by introducing performance-based contracts for road maintenance. As we discussed in our presentation, performance-based contracts in New Zealand are five or ten-year contracts under which the contractor is responsible for maintaining all state highways in a specified area to a defined standard. In New Zealand these contracts have saved the Government between 10 and 30 percent on road maintenance, with savings on the order of 15 percent being typical.¹ At the same time, highway asset condition has improved under this contracting approach.

The US Department of Transportation reports that New Jersey spent \$440 million on highway maintenance in 2007, the most recent year for which data are available.² Efficiency gains of the magnitude experienced in New Zealand would save \$66 million for New Jersey's budget. Performance based contracting also offers the opportunity to lift the quality of the State's roads, which currently are rated among the worst in the country by the Federal Highway Administration.

Clearly, further analysis is needed to test these initial calculations. Issues to consider include the poor initial condition of the roads, and the high traffic volumes in New Jersey, which may make performance based maintenance contracts more difficult to implement than in some other jurisdictions. Nevertheless, the potential savings, and gains in infrastructure quality, suggest that this is an area worth exploring.

¹ http://www.waikato.transit.govt.nz/content_files/conference/J-Haines.pdf

² <http://www.fhwa.dot.gov/policyinformation/statistics/2007/sf2.cfm>

2 P3 school buildings could save over \$38 million per year

New Jersey has a robust school construction program overseen by the Schools Development Authority (NJSDA). The state budget for 2011 indicates that the state has set aside \$547 million³ for school construction and renovation.⁴

International best practice shows that school P3s can save governments 7 to 30 percent of the traditional costs of building and maintaining schools. In the state of New South Wales in Australia, a school P3 project has saved the government at least 7 percent according to a report by the state's Auditor General.⁵ In Glasgow, Scotland, a 30-year concession to renovate and manage the city's secondary schools saved the city 30 percent compared to the traditional cost.⁶ And in the United States, an innovative P3 school in Pembroke Pines, Florida enabled the city to achieve cost savings of 22 to 34 percent compared to the average statewide cost.⁷ (Note that in these models, teaching and administration continue to be a public responsibility. The private contractor is only responsible for providing and maintaining the school buildings and facilities.)

Evidence from New Jersey indicates that there is room for improvement in school construction and facilities management in the state. A 2005 report by New Jersey's Inspector General notes \$22.9 million in cost overruns attributable to architectural design errors or omissions over the five years reviewed, to cite just one example.⁸ These costs could be reduced under a P3 approach, in which the risk of architectural errors or cost overruns is transferred to the private-sector rather than residing with the state or local government, as it currently does in New Jersey.

2.1 Effect of construction cost savings in New Jersey

Saving 7 percent on New Jersey's annual school construction budget—comparable to the savings achieved in New South Wales—would translate into \$38 million per year of savings. Savings could be higher if New Jersey were to achieve efficiency gains closer to those of Glasgow and Florida, or lower if not all construction and renovation were suitable for P3⁹.

In addition to savings on construction costs, schools P3s save money in the long run by alleviating the problem of deferred maintenance—maintenance standards and costs are set out in the original contract, and so less subject to short-term budget constraints. Another key benefit of P3 is reduced teacher time spent on facilities management (and, correspondingly, more teacher time available for teaching), as facilities management functions are clearly defined and allocated to the private operator.

³ This does not include debt service on borrowing for school construction

⁴ New Jersey Fiscal 2011 Budget in Brief: <http://www.nj.gov/treasury/omb/publications/11bib/BIB.pdf>

⁵ http://www.nzcid.org.nz/downloads/Schools_P3_march2006.pdf

⁶ http://www.calvertinstitute.org/main/pub_detail.php?pub_id=18

⁷ *ibid*

⁸ http://www.state.nj.us/oig/pdf/njscc_preliminary_report.pdf

⁹ For example, small renovation projects would not typically be suitable for P3