

Public/Private Partnerships

Increasingly in rural America, there is recognition that grocery stores are a piece of the critical infrastructure necessary to sustain rural communities. Infrastructure, of course, most often refers to the networks and institutions necessary for the functioning of a modern city. Traditional infrastructure includes roads, water supply, sewer, electrical grids, and telecommunications. It has, however, also come to include hospitals, schools, and emergency services. More and more, rural elected officials are arguing food security is the fundamental public good and is necessary for their communities to function and survive.

Defining Characteristics

There are several defining characteristics of this form of rural grocery operation. First, public/private partnerships depend on the perspective from elected officials that availability and access to groceries is a public good. Public institutions should, therefore, invest in this form of commerce. The public good is not only food access, but is also critical in terms of property values and local sales tax receipts. Grocery stores are also good for other local businesses and ultimately important for the sustainability of the community itself. This model is also highly collaborative.

Challenges

- **Terms can be complex.** The goals, objectives, incentives, and motivations of a wide range of stakeholders can be logistically challenging for contract negotiations.
- **Strategic plans are necessary.** A clear legal and regulatory framework is crucial to achieving a sustainable solution.
- **There is cost attached to debt.** Project costs are usually taken on by either customers or public entities via subsidies until the project produces a return on investment.
- **There is no unlimited risk bearing.** The more entities involved in a partnership, the more risk/costs associated. It will be necessary to determine who will take on what costs as well as who controls what.
- **Long-term and complex partnerships produce unanticipated contingencies.** Regardless of the terms determined in contract negotiations, unforeseen circumstances arise and it should be expected that some of these issues will have to be handled during the course of the project.

Benefits

- **Access to finance.** When either sector is cash poor, the latter sector can provide access to capital in order to move projects forward.
- **Access to technology, people, and skills.** Synergies also create increased opportunity for innovation.
- **Transfer of risk.** Balancing cost and risk for the public sector and risk and reward for the private sector is the motivation for PPPs.
- **Investment opportunities.** Without PPPs, few private entities would have the chance to work on major capital infrastructure projects, helping them to develop knowledge, experience and skills, all of which can be constructively reapplied back into the private sector.
- **Business development.** When partnering with the public sector, businesses can also work with courts, prisons, schools, or waste management services.

Case Study: Onaga, Kansas

The Challenge

Onaga, Kansas is a rural community of 700 people located 100 miles west of Kansas City. Its only grocery store burned down on December 2, 2010. As one eye witness to the tragedy lamented, “It’s a cryin’ shame because, you know, now if your car breaks down or something, how will you get groceries? Now what is Onaga going to do?” The biggest hardship of not having a grocery store would fall on those who’ve lived in Onaga the longest. Onaga resident Lois Loucks says, “There are a number of elderly here that do not drive. You’re looking at a thirty-mile commute one-way to get groceries. It’s gonna be a real problem.”

Key Partnerships

The key to addressing the loss of the local grocery store in Onaga was developing key partnerships.

Local Café: A local café, Wanda’s Country Cooking, expanded its inventory and services to try to make sure everyone had food. According to the café’s co-owner, Karla Rice, the loss of the town’s only grocery store came at the worst possible time. “The holidays and the rest of the winter was going to be pretty tough for everyone in this town,” she said. “We decided that we have a lot of elderly people in Onaga and it was in the middle of winter. So, we decided to make sure that everyone had the bare necessities of meat, milk and bread.” Their service and grocery inventory grew from there. Rice said, “We go to town three times a week and folks would call down here and just ask us to get whatever they needed and we would just pick up whatever they needed for them.” Wanda’s will keep carrying the necessities until a new store comes in, and they hope it will at least keep people shopping in town. Kocher says, “I feel like it will just go downhill if we don’t get something going here.”

Rice says having the makeshift store has been good for business, but they’ll be happy to pass that business to a new store and not have to drive 45 minutes away, three times a week. Rice says, “You don’t know what you have until you lost it.”

Pottawatomie County Board of Commissioners: Shortly after the fire, the Pottawatomie County Board of Commissioners provided the City of Onaga with a county-owned minibus and the city set up a shuttle service that ran two days a week to allow people to get to other grocery stores in the county. These grocery stores were in communities 30-40 miles away.

City of Onaga: The city looked into establishing a temporary grocery store but could not locate an appropriate building. They explored a building used for their annual county fair, but that building didn’t have any heat, so they abandoned that idea. In early summer 2011, the City of Onaga did enter into a partnership with a private entrepreneur to build and operate a community grocery store. The partnership calls for the private operator to own the land and make equity investments in the store equipment, all inventory, and start-up costs. A local, private bank is financing the grocery building and also helping finance equipment and start-up costs. The City of Onaga is providing 100% of the cost of the new grocery facility. The city is providing five annual payments to the private storeowner who will then use those payments to repay the local bank. At the end of five years the bank and city relinquishes the mortgage and any ownership interest in the building to the private owner, so long as the business owner operates the grocery store over a twenty year period the city’s investment is forgiven. The City of Onaga “recovers” its money through local sales tax revenue generated at the grocery store over the twenty-year period the store is in operation. The city believes this is a worthwhile investment because without a grocery store, people are looking to move

elsewhere, they have lost sales tax from the burned out store, and other businesses are reporting they are seeing fewer customers resulting in less sales tax for the city. As the Onaga mayor pointed out, “Without a store, your town disappears, and the valuation of property goes down. Residents have scattered like geese to area towns to buy groceries and other goods. Sales tax leaves the town and county.”

The Result

In response, citizen leaders, businesses, and local governments all collaborated to figure out short- and long-term strategies to provide groceries to the citizens of Onaga. With their help, Pam Budenbender opened the Onaga Country Market in December 2011. The store has five full-time employees and 10 part-time employees and provides groceries to Onaga citizens and rural residents. As the Onaga mayor said reopening the grocery store “has been like Christmas.”

References

Capital Insights. (n.d.). The five key advantages of public-private partnerships. Retrieved from <http://www.capitalinsights.ey.com/features/features-edition-12/ey-capital-insights-12-public-private-partnerships.aspx>

Personal Communications with Dr. David Procter.

Slivka, J. (2013). Perspectives: The risks of public-private partnerships. *Business Insurance*. Retrieved from <http://www.businessinsurance.com/article/20131117/ISSUE0401/131119899>

World Bank. (2015). Benefits and risks of public private partnerships. Retrieved from <http://ppp.worldbank.org/public-private-partnership/overview/ppp-objectives>