

A Contractor's Point of View

Public-Private Partnerships: A Guide for Infrastructure Designers and Contractors

by Matt Girard and Christie DeLuca, Flatiron Construction Corp.



Project delivery methods have been in a state of flux for many years in the United States. Legislation for public-private partnerships (P3s), and for other alternative delivery systems, varies greatly from state to state. However, the demand for P3s is growing.

P3s—A Natural Progression

The recent push for more P3s, and for alternative delivery models in general, is due to the nation's dire need to repair and upgrade existing infrastructure, and to do so quickly, with limited public resources. The public sector has also begun to notice potential benefits of P3s, namely, the ability to transfer cost escalation risks, as well as those associated with operations and maintenance, to the private sector.

The Canadian Council for Public Private Partnerships states that, "... under the P3 approach, the public sector contracts with a single entity . . . Under the traditional procurement approach, the public sector must contract separately with each discipline. The efficiencies created through the P3 approach can yield significant savings for the public sector, both through a

simplified management structure and by mitigating the risk of interface between disciplines."

The private sector demand for P3s is also growing. Infrastructure provides diversification benefits for investors and is a solid investment over the long haul—transportation is a service that the public will always use.

P3s are not necessarily a new model, but rather the next level of risk transfer to the private sector. Departments of transportation used to construct their own facilities. They soon figured out that private contractors did a better job at managing risk for things like equipment, labor productivity, unions, or even weather.

About 25 years ago, a trend to shift design to the private sector began. At that point, the private sector was handling design and construction under separate contracts. A few years later, the notion of combining design and construction emerged as design-build, further reducing the public sector's risk of managing separate designers and constructors. Then, over the last

10 years in places like the United Kingdom, Australia, and Canada, came the P3 contract, under which design, construction, and financing—and in most cases operations and maintenance as well—are handled by the private sector.

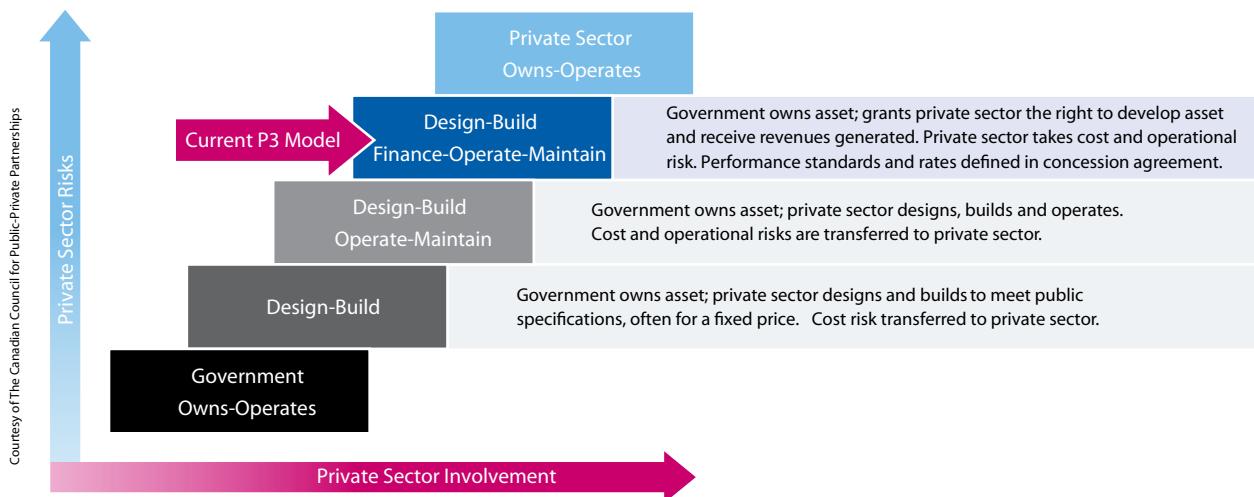
P3s Provide Risk Transfer Benefits to the Public Sector

One of the main benefits of P3s for the public sector, in addition to reduced construction, operations, and maintenance costs, is the ability to transfer the risks that come with managing multiple contracts to the private sector. P3s also enable owners to transfer the risks associated with long-term, life-cycle performance, operations, and maintenance.

Tips for Designers and Contractors

According to a recent P3 report by FMI, the industry's largest consulting, investment banking, and research firm, contractors should be very strategic about selecting projects, build expertise through strategic ventures, understand that concessionaires on these projects

Degree of private sector risk & involvement.





As part of a larger P3 consortium, Flatiron led the design-build team on the Northeast Anthony Henday project, a new 13-mile (21-km) portion of a ring road around Edmonton, Alberta, Canada. The owner, Alberta Transportation was able to complete this more than \$1 billion project significantly faster and arguably less expensively by letting it as a single P3 project, rather than multiple low-bid contracts.

usually require large financial backing, and start building relationships very early on.

Because P3s are large and complex projects, designers and contractors need to be very careful to select the right projects. Flatiron bases decisions about which P3 projects to pursue on a few key factors. First, owners should shortlist three or fewer teams. Second, owners should offer a stipend, typically around 0.5 to 1% of the capital costs for the project, and the contract terms must be reasonable.

Flatiron also wants to make sure the project will actually get built. We don't want to pursue projects that get cancelled during procurement, or worse, after the procurement is over and before award. Needless to say, Flatiron is extremely selective.

Flatiron also prefers to work with owners who have a past history with P3s (or who have good advisors if they

have no history). We also prefer to work with owners who have already resolved third-party issues, like right-of-way, permitting, and agreements with other stakeholders like municipalities or utility companies.

When forming partnerships, Flatiron asks questions like: Who is an expert in this type of work? Who has worked with this owner before? Who is in the area? Who has the resources available? Partners with the lowest price are not necessarily the best choice for a P3.

What a Good Design-Build Team Brings to a P3

With so many factors and players involved in a P3, one of our jobs as the design-build contractor during a P3 pursuit is to help the financial and technical advisors feel confident about lending and investing money in the project.

Lenders feel most comfortable with people who have designed and built

P3 projects before and who understand the risks. As a contractor, we help communicate how this is a solid financial opportunity for them. If they feel confident we have covered all our bases, in terms of risks, and have priced the project accordingly, the lenders' technical advisors can write a good report.

This report affects the credit rating that financial advisors place on the project. A better credit rating means lower interest rates on borrowed money, which in turn means lower repayment costs—and the lowest payment typically wins the job. It's like a mortgage. If a homebuyer has a better credit rating, the bank's mortgage rate will be lower and the payments from the home buyer, in this case the public sector, will be lower.

The need for reliable infrastructure will continue well into the future. P3s, with inherent advantages and risks, can at the very least provide a viable alternative for public owners to finance, build, and maintain infrastructure projects. It is our job to help educate owners in the United States and bring our P3 experience from places like Canada in hopes that together we can meet the growing demand for safe and reliable infrastructure.

For additional information on P3s, visit [The Canadian Council for Public-Private Partnerships website](http://www.pppcouncil.ca) at www.pppcouncil.ca.

Flatiron constructed approximately 3 miles of four-lane highway through Kicking Horse Canyon on the border between British Columbia and Alberta, Canada. It included a 1328-ft-long bridge nearly 300 ft above the river.

