PUBLIC-PRIVATE PARTNERSHIPS (P3s) — MANAGING RISK AND MAKING AN IMPACT

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P3 101 – Types and Characteristics of P3 Projects
Advantages and Disadvantages of P3 Approach
Key Elements of Successful P3s
Managing P3 Risk from an Audit Perspective

AGENDA
What is a P3?

How is a P3 different from traditional delivery?
What is a P3?

- A long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance.

--World Bank
What is a P3?

- A long-term, performance-based approach to procuring public infrastructure where the private sector assumes a major share of the risks in terms of financing and construction and ensuring effective performance

--PPP Canada
TYPES OF P3s

- Design-Build (DB)
- Asset Management Contract
- Design-Build-Operate-Maintain (DBOM)
- Design-Build-Finance-Operate (DBFO)
- Build-Operate-Transfer (BOT)
- Build-Transfer-Operate (BTO)
- Joint Development Agreement (JDA)
- Concession
- Asset Lease/Sale
Key Characteristics of P3s

- Project Champion
- Longer-Term Agreements
- Private Sector Funding (equity and debt)
- Private Sector Operates Multiple Major Project Elements (design-build, plus operate-maintain, etc.)
- Sharing of Risk between Private Sector and Public Owner
ADVANTAGES of a P3 approach

- Advance Projects More Quickly
- Purchase Expertise and Innovation
- Transfer Risk
  - Financial - fixed costs, revenue risk, financing, performance guarantees
  - Technical – permits, design/build, long-term warranty
  - Operating performance
- Cost–Beneficial
- Stimulate the Economy
DISADVANTAGES of a P3 approach

- Loss of Control
- Potentially Higher Costs
- Potentially Limited Competition
- Lack of Expertise to Evaluate Reasonableness of Costs
- Requires Public and Political Acceptance
What Should Be in Place for a P3 to Move Forward?

- Legal authority
- Expert Advisors (Legal, Financial, Technical)
- Framework for Managing Key Stages of P3 projects
Framework for Key Stages

- Screening for P3 or Traditional Approach
- Feasibility Analysis and Project Development
- Communications Plan
- Procurement
- Contract Management and Monitoring
35 States (plus DC) Have Legislative Authority for P3s
States with Transportation “Concession” P3s (as of February 2017)

Key
Operational
Under Construction/
Financial Close

*Facility now under public management and operation

Source – Federal Highway Administration
MANAGING RISK - Key Steps to be Completed before Moving a P3 Forward

- Comprehensive Communications Plan
  - Communicate Early and Often
- Initial “Value for Money” Analysis
  - Project scope definition – e.g., Design-Build-Finance-Operate-Maintain
  - Cost Estimates – Capital and Operating
  - Risk Assessment – Value of Risk Transfer
  - Project Funding Sources
  - Comprehensive Life-Cycle Financial Model
MANAGING RISK - Key Elements of Successful P3 Projects

- Outside-the-Box Thinking
- Political Support
- Project Champions
- Understanding and Willingness to Take Risk
- Solid “Owner” P3 Management Framework and Processes
- Select the Right Projects
- P3s are typically high profile and large projects
- P3s involve new innovations and approaches
- Legislators engaged, some may be pro, some may be con, but most “interested”
- Many challenges can and will be encountered
- High level of media attention

MANAGING RISK
Performance Audit of Colorado US-36 P3 Project

- Team of Colorado State Auditor and External Experts (Legal, Financial, Technical)
- Post audit after “Financial Close” of P3 Project
- Audit requested by Legislators
- Primary Scope – Was P3 Project “Best Value” for the State?

MAKING A POSITIVE IMPACT
Performance Audit of Colorado US-36 P3 Project

- Overall Project was Best Value for State
- Auditee’s practices were consistent with industry best practices in many areas
- Key challenges encountered during the development and procurement of the P3, reported as needs improvement with recommendations
- Auditee receptive to input, accepted findings and moved quickly to implement improvements on next project (just beginning during the audit) and P3 program/process

MAKING A POSITIVE IMPACT
Performance Audit of Colorado US-36 P3 Project

- Involved auditee in development of the RFP and selection of the contract audit firm
- Maintained transparency and ongoing communication with the auditee throughout project
- Held information discussions on audit results early to establish credibility and obtain auditee buy-in – also helped auditee implement improvements quickly

MAKING A POSITIVE IMPACT
Opportunity for State Auditor

- Agencies - good people working hard on P3s – P3s can be like “drinking from a fire hose,” especially the first P3
- Independent review at the right time can be extremely valuable to the auditee, key officials, legislators, and other interested parties
- Audit results can directly impact the success of future projects
Kennedy School Review
A Harvard Kennedy School Student Publication
US Infrastructure Public-Private Partnerships: Ready for Takeoff?

NCPPP - Future of N.C. Toll Road Project in Doubt

Moody’s: US is poised to become largest public-private partnership (P3) market in the world

Denver CBS - Audit Is Critical Of CDOT’s Handling Of The U.S. 36 Project

NCPPP - State Audit Endorses Colorado Agency’s First P3
Needs are not going away
Stresses on funding sources in government
P3 market well developed internationally and growing in U.S.
Further consolidation of U.S. construction industry with increasing foreign ownership
Major capital raised for P3 market
Success breeds further P3s

FAD OR LONG-TERM TREND?
QUESTIONS?

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