

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

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▶ **Cindi Stetson, CIA, CRMA, CGAP**

▶ Project Manager – Performance Audit of Colorado's
US-36 P3 Project

PRESENTER

- ▶ **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?**

P3 101

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

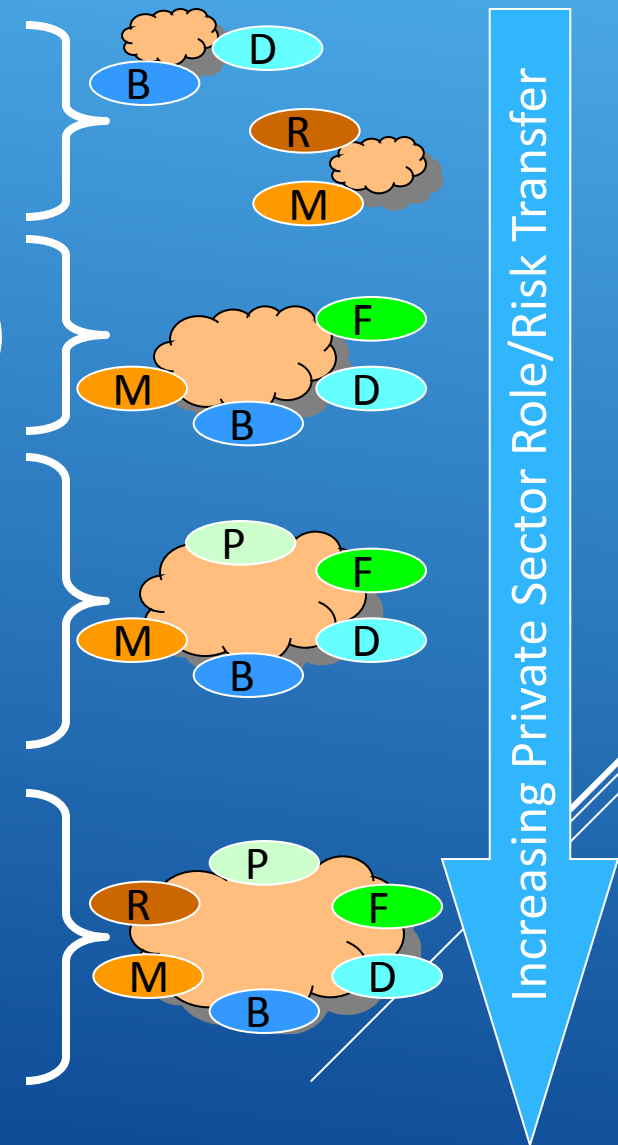
What is a P3?

- ▶ 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

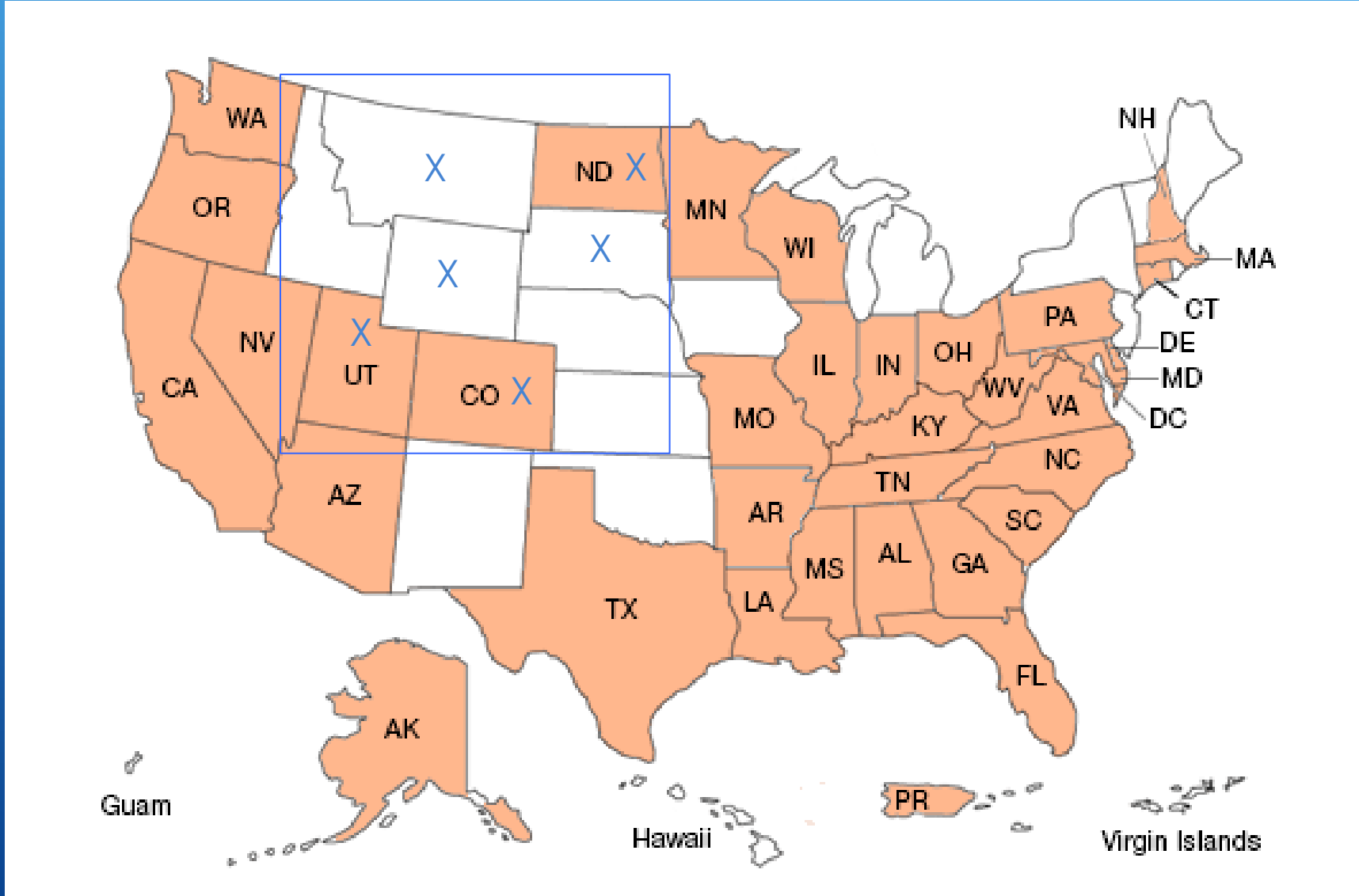
What Should Be in Place for a P3 to Move Forward?

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

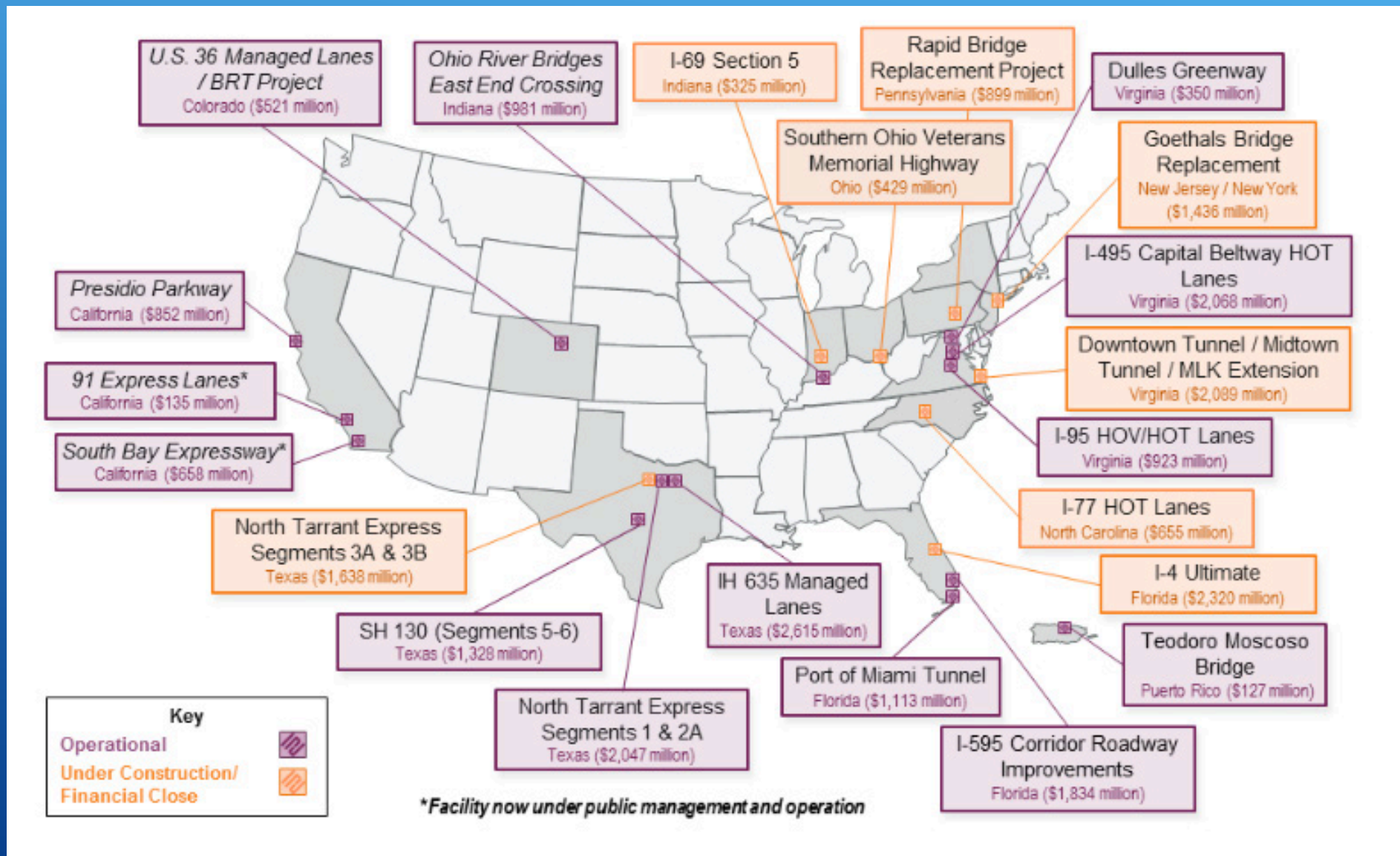
Framework for Key Stages

- ▶ 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)



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

MAKING A POSITIVE IMPACT

Governing - Why Isn't the U.S. Better at Public-Private Partnerships?

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?

▶ cindi.stetson@gmail.com

QUESTIONS?