

# Lessons Learned From Across the Ponds: A P3 Primer



Penny Pittman Cobey  
*Of Counsel, McKenna Long & Aldridge*  
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# “When the student is ready, the teacher will appear.” --the Buddha

- P3s have a long and successful history overseas; Europe is the most mature and active of all P3 markets, with much to teach the US



# “When the student is ready, the teacher will appear.” --the Buddha

- In this presentation: lessons learned from the UK and Canada—and how they might work for the US
- But first: some data showing the importance of further P3 education for the US public sector



## McGraw-Hill Construction's P3 Survey, 2009

- Purpose: to gain insight into P3 activity and trends from state, regional and local government officials with responsibility for transportation-related infrastructure
- 38% had P3 experience in this area
- 62% had no P3 experience but had jurisdiction over transportation projects



## Most Important Finding: The Need for Education Is Critical

- General opinion of transportation P3's:

### Experienced with P3:

54% favorable,  
46% indifferent

### Not experienced:

15% favorable,  
76% indifferent



# Further Survey Findings

- Officials with P3 experience: 65% have “strong interest” in a P3 over the next 3 years
- Officials without P3 experience: 6% have “strong interest”
- Among US regions, highest interest is in the South, lowest interest in the Northeast.

# What Is Most Likely to Lead to More P3 Projects?

- “The inability of the state to fund large projects”—77% of ALL participants
- “Ability to shift construction risk”—39% of experienced participants; 6% of inexperienced

*Illustrates need to educate public sector re a significant P3 advantage*

## What Is Most Likely to Discourage The Growth of P3?

- “Unacceptable profits by private entities at the expense of users” was listed by **over 50% of ALL participants** as the biggest negative factor for P3 growth.
- However, only 19% of experienced participants, as compared to 47% of others, noted concern that the private entity would skimp on maintenance and repairs to boost profits. *Illustrates another opportunity for education.*



# The UK Experience

- Partnerships UK, the national center for excellence in P3 project delivery, has a proven track record for bringing both the public and the private sectors together to deliver successful P3's.



## The UK Experience (*cont.*)

- Partnerships UK is itself a P3:
  - Owned 51% by private sector stakeholders
  - Owned 49% by HM Treasury and the Scottish Executive
  - Over 60 professional, long-term staff
  - Charges for its services, has a balance sheet, is capitalized and makes investments
- Public agencies have no obligation to use Partnerships UK—they do so because it has demonstrated added value

## The UK Experience (*cont.*)

- How does Partnerships UK help?
  - works with policy makers to develop and structure projects
  - develops and maintains standard form contracts and other legal documents
  - develops and publicizes best practices standards
  - operates a P3 “helpdesk”
  - invests in substantial P3 projects
  - “lends” senior staff to public agencies to help manage projects
  - commissions and publishes research

# “Value for Money Assessment Guidance”

- Partnership UK’s analytic tool
- Lays out some generic factors driving value for money:
  1. Optimum allocation of risks among the various parties—  
with a rigorously executed and documented risk transfer  
ensuring that this allocation can be enforced

## “Value for Money Assessment Guidance” (*cont.*)

2. Carefully considering all factors in establishing the term of the contract:
  - potential changes in end-use requirements
  - policy changes
  - design life of the asset
  - number of major asset upgrades or refurbishments during the period of the contract
  - potential changes in the way services could be delivered (e.g., technical advancements)
  - arrangements for the asset at the expiration of the contract



## “Value for Money Assessment Guidance” (*cont’d*)

3. Managing the scale and complexity of the procurement to ensure that procurement costs are not disproportionate to the underlying project.
4. Focusing on the whole-life costs of the asset (rather than the upfront costs)



## The UK Experience (*cont.*)

- Since the launch of Partnerships UK in 2001, over 400 P3 projects, worth almost \$80 billion, have been procured in the UK—including transportation projects, hospitals, schools, and the privatization of all water and wastewater services for the UK Ministry of Defence (the “Aquatrine” project)

## The UK Experience--Aquatrine

- 1998 strategic defense review: Ministry Of Defense should divest itself of “non-core” businesses and operations
- Aquatrine is one of the world’s largest P3 deals—likely to provide over \$2 billion of services over its 25-year term
- Partnerships UK sat on the project board and provided a full-time project leader as well as legal, contract and insurance advice

## A Case Study from Canada: The Northumberland Strait (Confederation) Bridge

- 8-mile toll bridge connecting Prince Edward Island with New Brunswick
- Replaces ferry service operated by federal gov't that began in 19<sup>th</sup> century
- Problems to solve:
  - bad weather, interrupted service
  - ice over 10 feet down
  - rising transport costs



## A Case Study from Canada (cont.)

- Before the RFP stage, Canada prepared a detailed analysis of past, and future, capital and operating expenses and revenues, using life-cycle costs
- Based on this analysis, Canada included detailed design requirements for technical performance, useful life, size and capacity of the crossing (to be either a bridge or a tunnel)
- Canada stipulated a design-build-operate-maintain project with a 35-year term



## A Case Study from Canada (*cont'd*)

- With confidence in its data, Canada was able to make two notable commitments in the RFP:
  1. Canada would pay \$41.9 million annually (1992 Canadian dollars) for each year of the 35-year term, substantially less than the anticipated cost of funding the existing ferry services
  2. Canada committed to begin these payments to the successful bidder in 1997, whether or not the bridge was open—IF the bidder agreed to take over and operate the ferry service if the bridge did not open on schedule in 1997

## A Case Study from Canada (*cont'd*)

- Result: Canada wiped out concerns about cash flow from private sector lenders
- The winning team obtained private financing at a borrowing rate lower than the government's
- Minimizing financing costs meant minimizing the fare structure over the 35-year concession term
- NOTE—by requiring the winning team to operate the ferry service if bridge construction was delayed, Canada ensured that design and construction risks would be transferred to the P3 team—as is appropriate on a P3 project

## A Case Study from Canada (cont)

- Contractual incentives to employ innovative design and technology led to the following:
  - most maintenance to be performed from inside the bridge spans, protected from weather
  - DuPont developed special adhesives for use in subzero environments
  - ice shields were designed that force the ice to break upwards
  - new techniques were developed for installing high-strength underwater grout to secure the piers to the sea bed
  - one of the most important structural elements of the bridge is hidden: a construction technique called post-tensioning was used to tie the pier bases, shafts, and girder together into one solid, continuous structure that is designed to last 100 years.

## A Case Study from Canada (cont.)

- Bridge opened ahead of schedule in 1997
- Canada's estimate of its savings in life cycle costs: 30%, or \$750 million Canadian over the 35-year project term
- After 35 years, the bridge must be transferred to Canada's ownership and control for a transfer fee of \$1.
- Canada will then have the option of operating the bridge itself, or re-competing operations and maintenance services.

## A Case Study from Canada (cont.)

- At 12.9 kilometres (8 miles), the Confederation Bridge today is the world's longest bridge over ice-covered water. It has won dozens of international engineering awards since its construction, and is considered one of the foremost achievements of Canadian engineering.







## A Case Study from Canada (cont.)

- Compare these results to the “monetization” projects in which the public sector, desperate for cash, leases a public asset such as a toll road to the highest bidder
- In those projects, bidders compete by offering the highest upfront payment (to be recovered through tolls) rather than competing to provide specified services (repairs, maintenance, operations)
- Achieving transparency and truly competitive pricing is much more difficult

## A Case Study from Canada (*cont'd*)

- Like the UK, Canada has also benefited by establishing a national center of P3 excellence—the Canadian Council for Public-Private Partnerships.
- Three Canadian provinces—British Columbia, Ontario, and Quebec—have provincial centers of P3 excellence.

## *Conclusions*

- The need for a resource center through which public sector officials can be educated as to the advantages of P3, by a non-profit body with no “skin in the game,” is clear
- This need is best addressed by establishing a US center of excellence similar to those already in place in the UK and Canada (and in other countries such as Australia)
- The model is in front of us

## *The Model is in Front of Us.*



“If we are facing in the right direction, all we have to do is keep on walking.”



# Questions?

Penny Pittman Cobey  
*Of Counsel*

McKenna Long & Aldridge LLP

Los Angeles, CA

213-243-6185

[pcobey@mckennalong.com](mailto:pcobey@mckennalong.com)

## Resources

- McGraw-Hill Construction, “Public-Private Partnership: Accelerating Transportation Infrastructure Investment,” May 2009, [www.analysticsstore.construction.com](http://www.analysticsstore.construction.com)
- Partnerships UK: [www.partnershipsuk.org.uk](http://www.partnershipsuk.org.uk)
- The Canadian Council for Public-Private Partnerships: [www.pppcouncil.ca/](http://www.pppcouncil.ca/)
- Dr. John B. Miller, “Life Cycle Delivery of Public Infrastructure: Precedents and Opportunities for the Commonwealth,” Pioneer Institute White Paper, No. 44, December 2008.