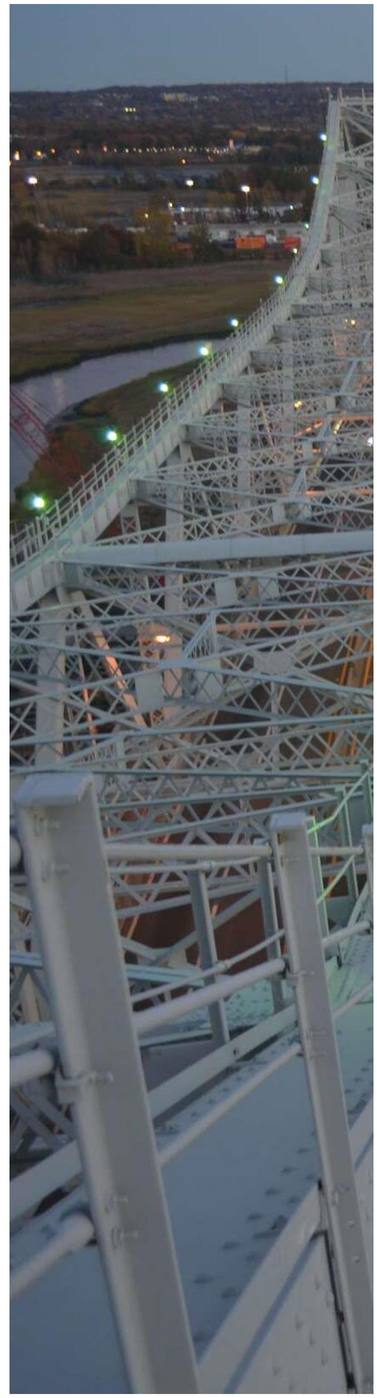
Including O&M Drives Value for Public Private Partnerships

Utilizing Public-Private Partnerships (P3) to Maintain America's Infrastructure



Government agencies and other infrastructure owners can participate in a P3 project delivery structure that involves the public infrastructure owner partnering with a private consortium to design, build, finance, operate and maintain an infrastructure project. A P3 allows an infrastructure owner to mitigate the risks, and costs associated with maintenance activities by requiring the developer to maintain the project for the long term

Objectives of this communication:

1. *Explain how including O&M drives value and certainty in P3 projects*
2. *Inform those unfamiliar with the effect of O&M in P3s that incorporating such provisions in the agreement addresses concerns such as deferred maintenance, hand-back requirements and other major infrastructure owner concerns.*

The use of P3 over traditional procurement is the better option for operating and maintaining assets. Some of the benefits include a better value for money, the increased public agency control over performance outcomes, and guaranteed service life. The following information explains how P3s benefit government agencies and ultimately the using public, by eliminating deferred maintenance.

Value for Money and Cost Savings

One misconception of P3s is that outsourced maintenance is much more expensive for government agencies than the alternative of the agency being completely responsible for maintenance of the asset. When comparing Value for Money, this is not the case. The Value for Money assesses the long-term cost associated with maintaining the assets under a P3 as opposed to traditional procurement. When risk, design, *construction, and O&M are considered in a P3 agreement, the overall cost is usually lower than traditional procurement* because of cost savings over time.

Using P3s to avoid deferred maintenance can also result in cost savings due to innovations from increased technology and resources from the private sector.

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Guaranteed Service Life and Maintenance

With a P3 approach, the private company is bound to requirements and standards to maintain public assets through contractual agreement. Because P3s are only an agreement to maintain the public's assets, not own them, the private companies are held to high levels of governmental control and oversight in asset performance. If these requirements are not met, the private company is not paid or suffers from penalty payments. The service life of an asset is guaranteed rather than deferring or not conducting proper maintenance.

Long-term Perspective

Using P3 that includes maintenance, the public sector may avoid inflation-related pricing which would increase the cost of maintenance over the years.

Conservative Budgeting

P3 projects typically include 3rd party lenders that provide debt to help finance the project. These lenders typically require reserve accounts for both ongoing O&M expenditures and major maintenance. In addition, this is done on a several-year look forward basis, to provide additional security to the lenders and subsequently the project. This allows the project to be on firmer basis and to ensure that the capital that is needed will be available to meet all maintenance expenditures and minimize any potential deferred maintenance.

In addition, the reserve accounts required by the lenders also help meet the typical provisions for remaining asset life at the end of the concession contract, i.e. hand-back provisions. The infrastructure owner, as well as the lenders, typically require a reserve account to meet any future major maintenance expenditures required to meet the hand-back provisions for the remaining life of a project at the end of the contract.

The independent lenders' technical advisor on an ongoing basis ensures there is sufficient capital, monitoring the balance of these reserve accounts.

Conclusion

Including O&M into the scope of a P3 project can ensure that the owner can have an optimized view of the whole life cycle cost of a project. It allows the private partner to develop a comprehensive O&M plan that it is (a) contractually required to meet both to the owner and its lenders and (b) balances the cost of design and construction methods to allow for the most efficient solution. The infrastructure owner as well as the lenders will monitor performance of the plan to ensure full compliance.

O&M as part of a P3 is a critical piece of the overall value of a P3 to infrastructure owners and should be included to ensure a strong alignment of interest in having a quality infrastructure project for the entire life of the project between the public owner and private partner.