

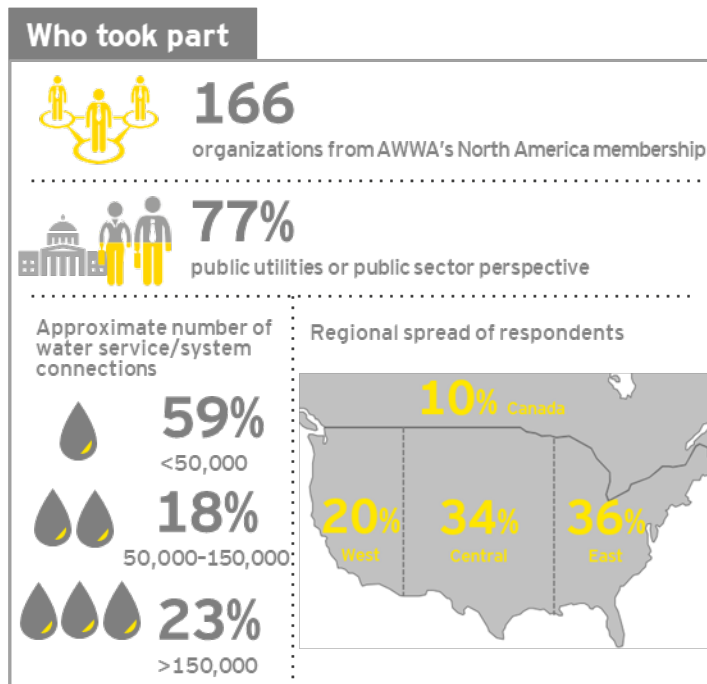
# To P3 or not to P3

A water industry view on the relevance of public-private partnership delivery models

April 2019

# The EY / AWWA Survey

We conducted an online survey of AWWA's North America membership during 2018. The focus of the study was primarily on municipal water and wastewater systems.



## Key Questions:

1. What are the main drivers of interest in P3 as a delivery model?
2. What are the key barriers to successfully pursuing P3 in water and how can these be overcome?
3. Where is P3 likely to be most appropriately deployed in the US water sector going forward?

# Defining P3

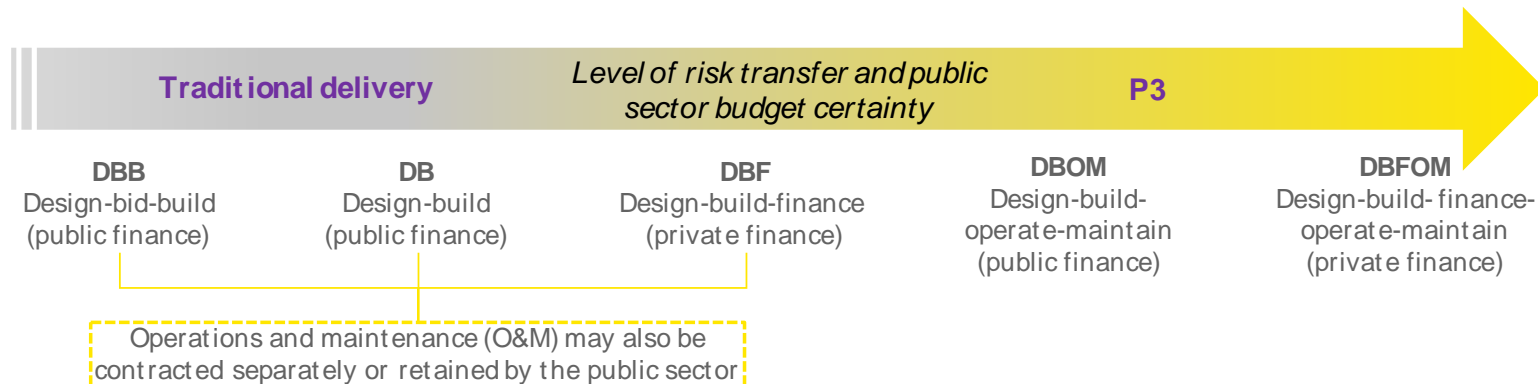
There is a spectrum of options that may be used to deliver water infrastructure projects, and these sit on a continuum whereby responsibility and risk for delivery and operation are progressively passed from the public sector to the private sector.

## Traditional delivery

Often referred to as “design-bid-build,” it typically involves the **sequential and discrete procurement** of services to develop and construct an asset, with the majority of risks associated with the delivery and operation of the asset retained by the public sector.

## Public-private partnership (P3)

As a form of alternative delivery, P3s are “**performance-based**” contracts that allocate risks to the party best suited to manage them and link public-sector payments to contractual performance obligations of the private-sector partner.

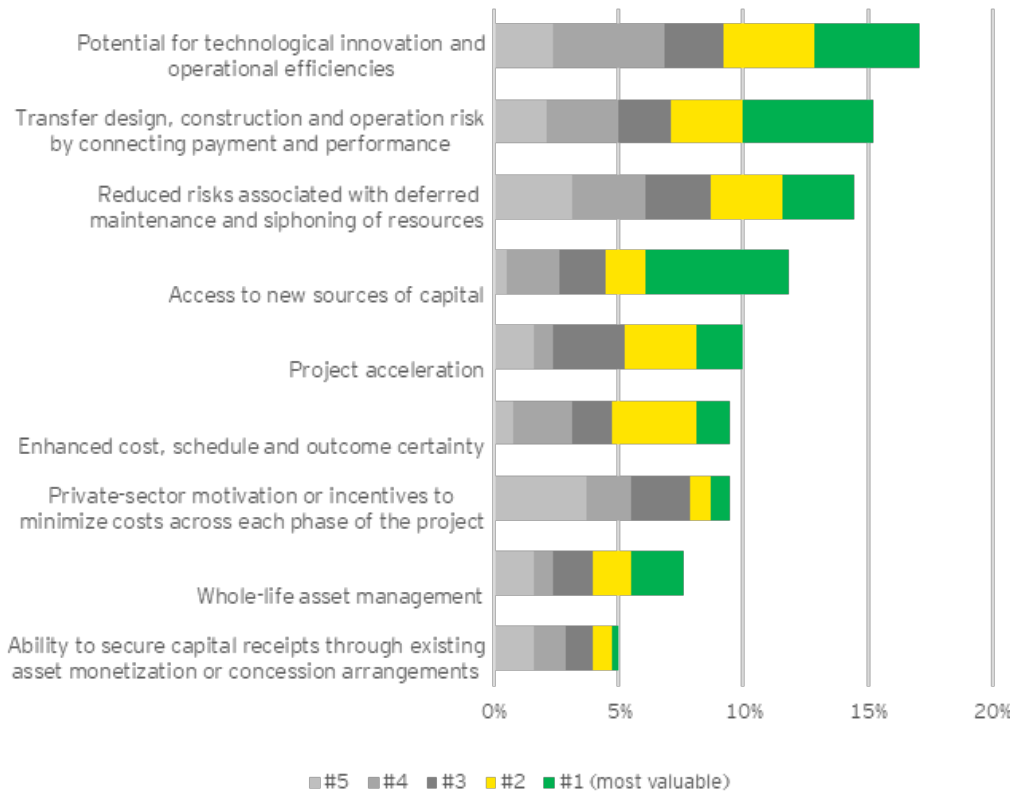


# Survey results



## What are the main drivers of interest in P3 delivery models?

Figure 1: Typically cited P3 benefits deemed most relevant or appealing



Risk transfer, innovation and a way of reducing deferred maintenance are the most valued P3 benefits.

Access to new sources of capital as a means of accelerating project delivery and enforcing performance risk transfer also emerge as key drivers for P3.

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It makes a lot of sense to pursue P3 delivery of projects as we are completely lacking in the technical skills and leadership capabilities needed to manage a utility effectively.”

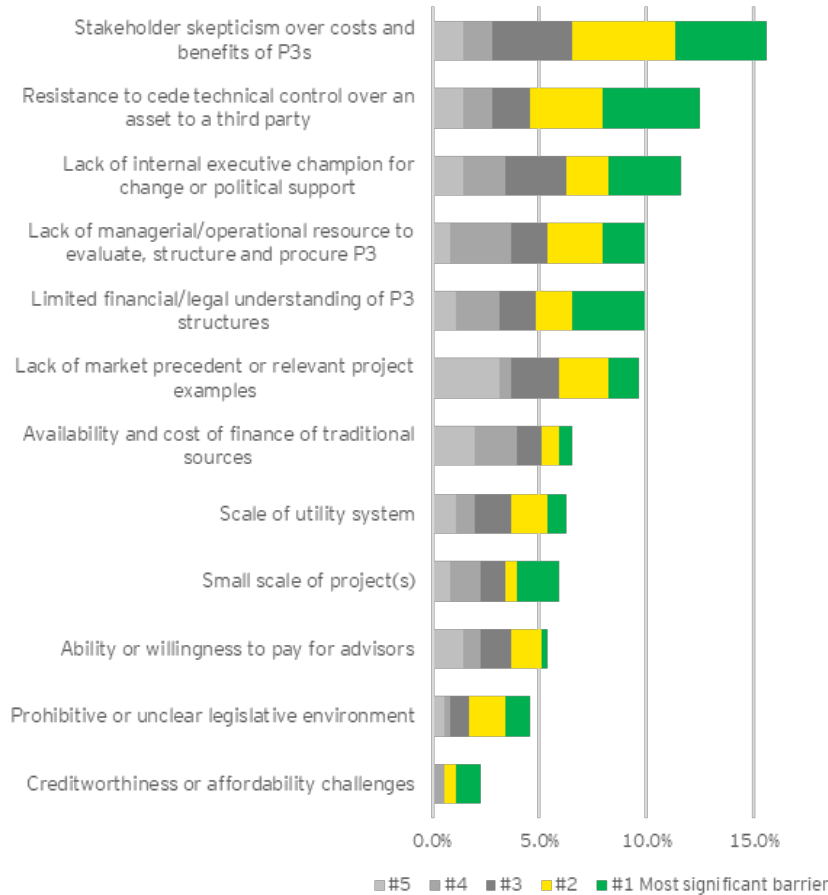
Survey respondent

# Survey results

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## What are the key barriers to pursuing P3s in water and how can these be overcome?

Figure 5: Main barriers respondents do or might face in advancing P3s



Stakeholder skepticism over the costs and benefits of P3s, and lack of internal executive-level champions are key barriers. A limited understanding of financial, legal and procurement issues is likely to compound this.

While the technical aspects of P3s are generally understood, concern over ceding asset control is a key barrier to the use of P3.

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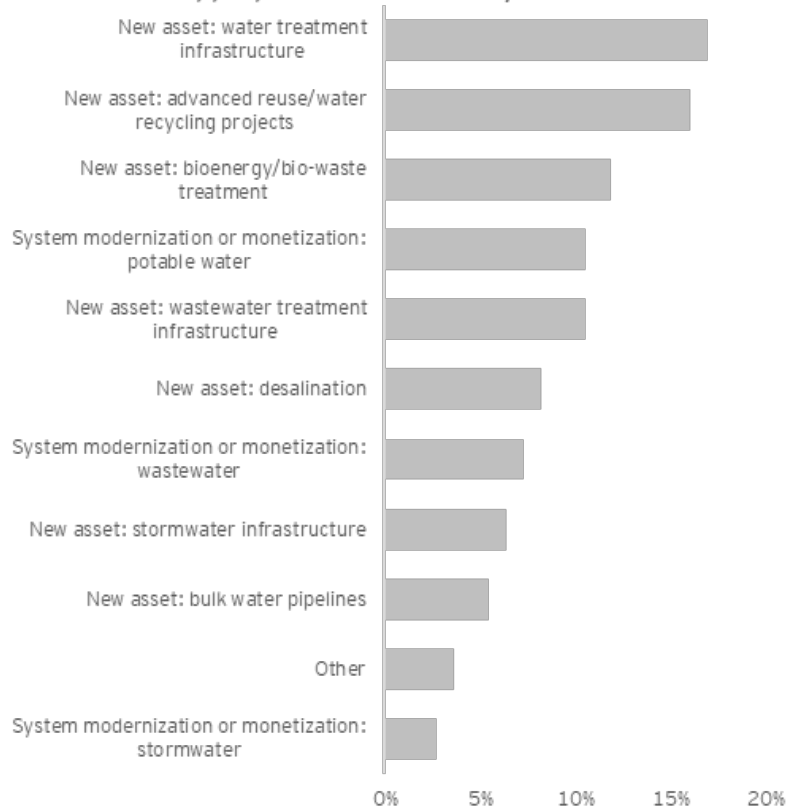
P3s can lead to the municipality or other owner becoming ‘ignorant’ to the actual process of producing water/cleaning wastewater, and becoming nothing more than an administration identifying who they are paying for the production of the items being sold — potentially and eventually leading to the privatization of all utilities, which may lead to big problems when truly considered..

Survey respondent

# Survey results

## 3 Where are P3s likely to be most appropriately deployed in the US water sector going forward?

Figure 10: Asset classes believed most likely to be appropriate for P3 delivery



Approximately 60% of respondents expressed an active interest in pursuing P3 for a discrete subset of their infrastructure projects in their capital plans.

New-build water, wastewater, energy recovery and reuse infrastructure is believed by respondents to be most suitable for P3 delivery.



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P3s need to offer unique benefits that traditional project delivery cannot achieve. Projects need to have adequate scale, opportunities for technology or other risk transfer, offer cost certainty, and focus on operational areas that are not the core competency of the utility for consideration.

Survey respondent

# What we learned from the study

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1. The survey results suggest that **P3s are considered more favorably the better they are understood.**
2. Respondents reported that they understand the risk-transfer value proposition of P3, but need to test this through the lens of specific projects within their capital program. Stakeholders are skeptical over the general applicability of a P3 delivery model, and are of the view that **only a subset of projects will have the scale, technical or operational complexity and risk profile to make the risk-transfer value case for P3.**
3. The survey results suggest that **P3s that complement rather than replace existing municipal service provision** are most likely to be favored.
4. Respondents lack practical guidance and visibility as to what other municipal entities are considering. **Many respondents may not have the consistent political or senior leadership support, or the financial, legal or procurement experience** to take their thinking to the next level to robustly develop and successfully procure P3 contracts. This is naturally discouraging to the use of P3.

# Moving water P3 forwards

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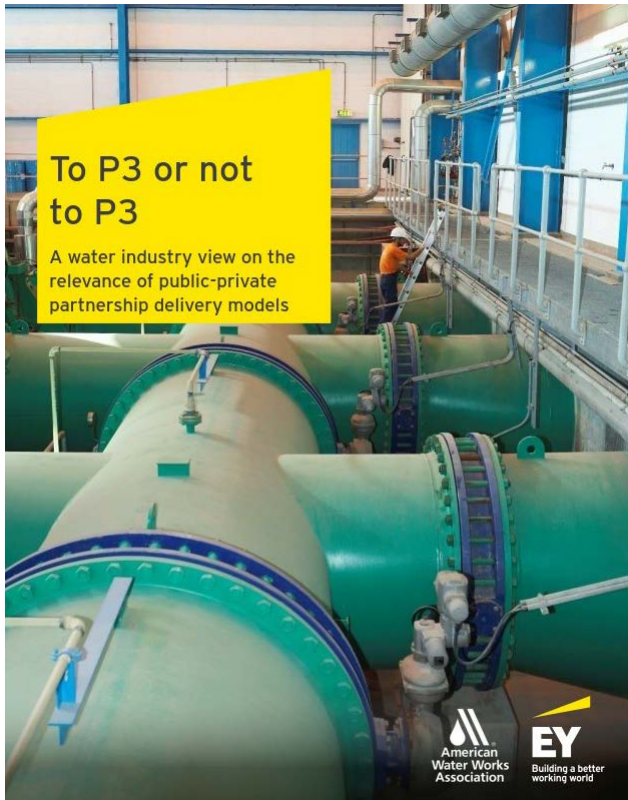
## Key takeaways

- 1. Empower municipal stakeholders** to use P3 as a delivery model where it is genuinely beneficial to do so
- 2. Focus on project success** through appropriate deal structuring, effective procurement and contract development, so that the anticipated benefits of P3 are realized through contracts that are recognized as successful.
- 3. Create a positive feedback loop** whereby success by municipal authorities creates positive examples and role models for others to follow

- 1. Robust project feasibility analysis**
- 2. Clear regulatory authority**
- 3. Executive and political champions**
- 4. Empowered and knowledgeable team**
- 5. Engage with key stakeholders**
- 6. Transparent procurement process**

# To find out more

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## Access the report

[https://www.ey.com/en\\_gl/transactions/three-questions-on-public-private-partnerships-for-us-city-water-projects](https://www.ey.com/en_gl/transactions/three-questions-on-public-private-partnerships-for-us-city-water-projects)

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