

P3 for Procurement Practitioners

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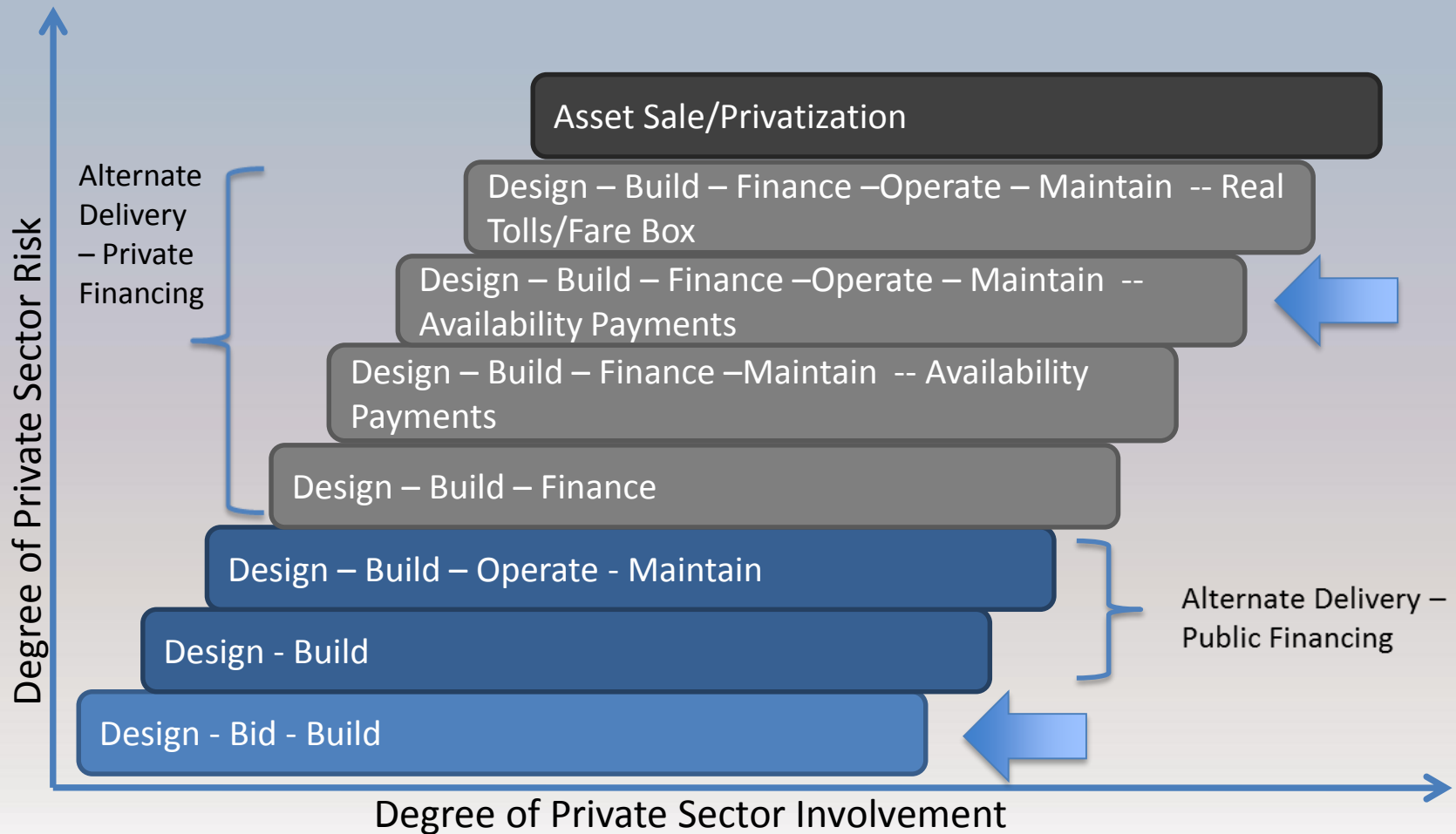
PROCUREMENT & MATERIALS
MANAGEMENT LEARNING ZONE



The Motivation

- Demystify P3 procurement
- Draw from experiences of transit P3s in North America
- Compare *DBB* and *DBFOM - Availability Payments* P3 model:
 - A more complex contractual arrangement
 - Moves some project financing and operational phase responsibility to the private contractor

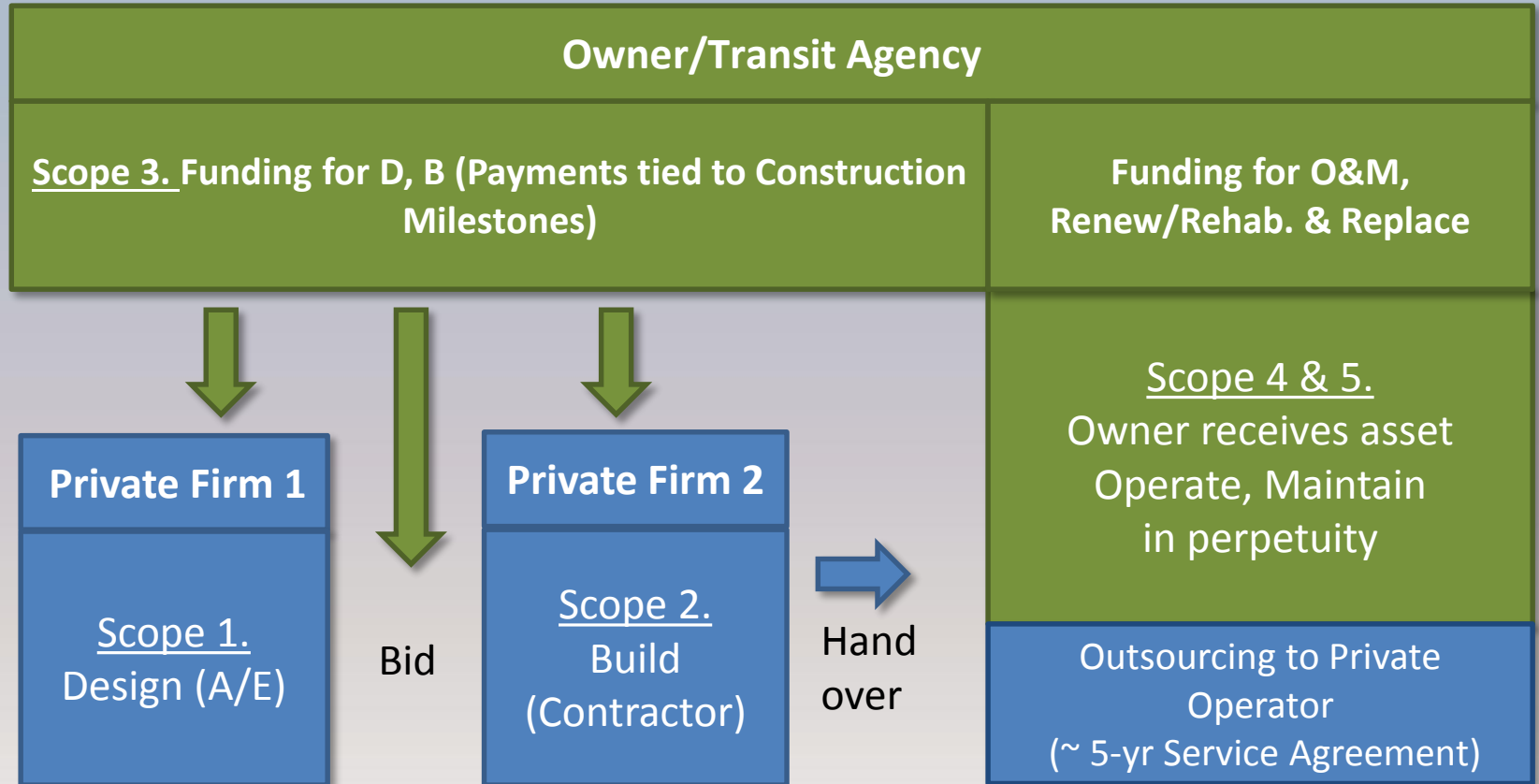
Project Delivery Options



P3 Transit Project Examples in North America

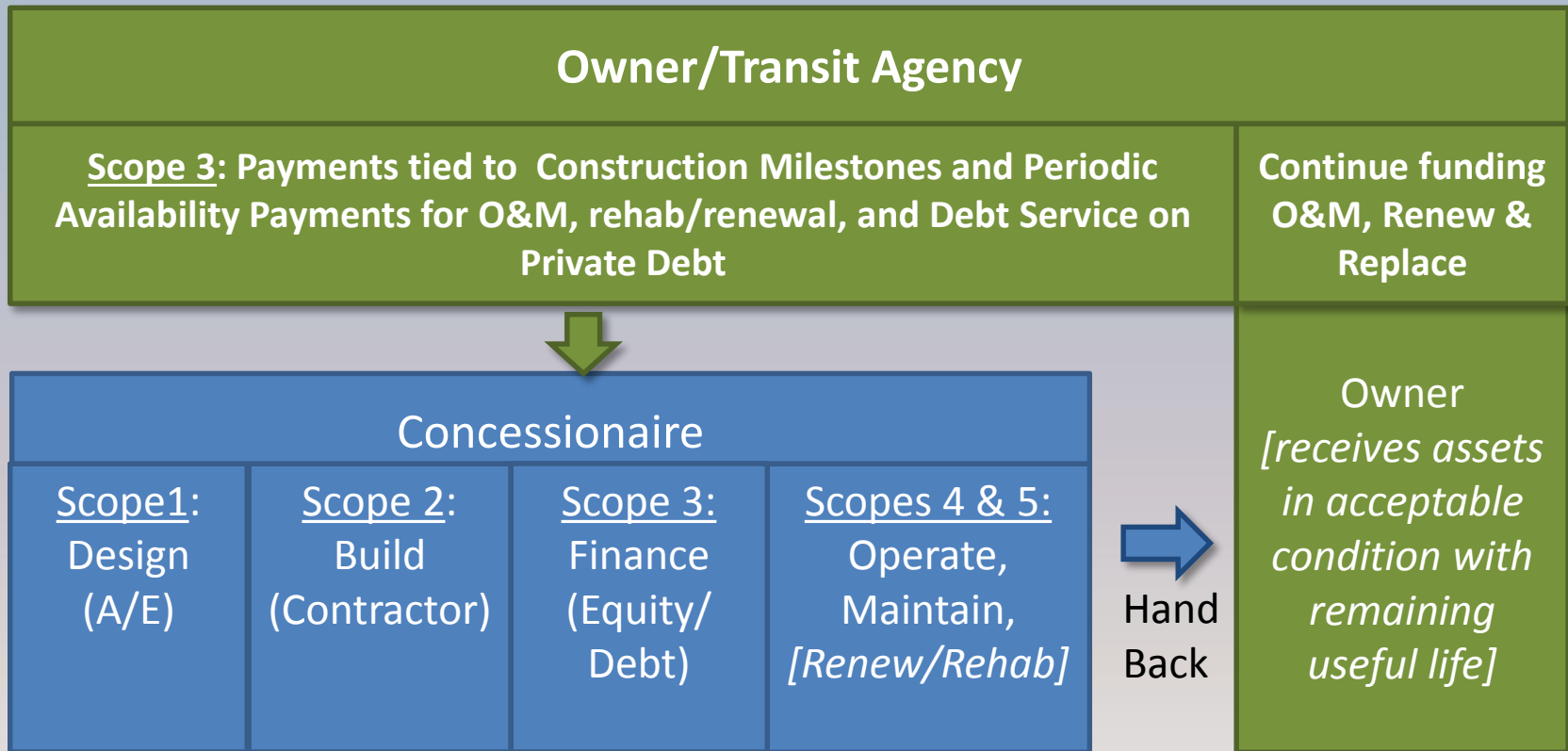
- **Denver Eagle Rail** (~35-yr **DBFOM**, ~\$2B), construction
- **Maryland Purple Line LRT** (~35-yr **DBFOM**, ~\$2.4B), RFP
- **DC Streetcar** (~30-yr **DBOM**, ~\$400 to 800M), RFQ
- **Canada Line Rail, Vancouver, BC** (~35-yr **DBFOM**, ~C\$2B), operational
- **Confederation Line LRT, Ottawa** (~35-yr **DBFM**, ~C\$2B), construction
- **Edmonton Valley Line LRT, Alberta** (~35-yr **DBFOM**, ~C\$2B), RFP
- **Eglinton Crosstown LRT, Toronto, Ontario** (~35-yr **DBFM**, ~\$C5B), RFP
- **Waterloo LRT/BRT project, Ontario** (~33-yr **DBFOM**, ~C\$818M), financial close 2014

DBB Contracting



When Contractor is gone, Owner is left with the long-term system performance risk!

DBFOM- Availability Payments



A single contract for the entire life cycle costs of the project, optimizes risk allocation and investment decisions over the life of the infrastructure asset. Owner responsible for contract monitoring, payments and public share of the project funding/financing. Owner retains responsibility for Fare Policy.

DBFOM- Availability Payments

- Long-term agreement with a consortium of private firms (“Concessionaire”) with performance-based payments tied to:
 - Construction progress milestones and “service availability” where level of service and quality pre-defined contractually
 - Reduction in availability payments for non compliance
- Procurement takes a project lifecycle perspective (~30+ yrs)
 - Project is procured as a whole (including rehab. & renewal costs)
- Procurement focused on specifying the desired/required transit system performance in terms of level of services and standards over a long term

DBFOM- Availability Payments (cont'd)

- Allows transferring risks (and thus responsibility) related to construction and operational phase to Concessionaire:
 - Cost overruns, timely completion, financing, system performance
- Incentivizes Concessionaire to:
 - Create efficient design for specified capacity
 - Build and operate efficiently, on time and budget, and manage risks accordingly
 - Hand back infrastructure to Owner in a state of good repair
- Procurement is focused on optimizing project risks allocation between Owner and Concessionaire for success of the project:
 - Industry and stakeholder consultations inform RFP terms and conditions

DBFOM- Availability Payments (cont'd)

- Concessionaire is asked to bring equity and borrow i.e. assume financing risk for a portion of construction costs with repayment contingent on successful operation (i.e. tied to Availability Payments):
 - **Eagle P3, total cost ~\$2.0B:**
 - ~ \$55M equity & ~\$400M in Private Activity Bonds, ~1/4 of total costs
 - TIFIA loan was arranged and secured by RTD (not by Concessionaire) with a pledge of 0.4% sales tax for repayment.
 - **Purple Line, total cost ~ \$2.4B:**
 - ~ \$70M equity and financing (3% of total costs)
 - Under the RFP terms Concessionaire would assume a TIFIA loan of ~\$730 putting Concessionaire at risk for ~1/3 of total project cost
- Lenders & credit rating agencies will monitor Concessionaire performance

DBFOM- Availability Payments (cont'd)

- Universally a two-step procurement (prequalification and proposals)
- Selection based on price and quality (Edmonton Valley Line price only):
 - Price-based (includes operating phase payments)
 - Technical solution (bidders may provide Alternative Technical Solutions)
 - Shortlisted firms generally get a stipend to prepare proposals
- Complex teaming arrangements on both Owner & Concessionaire side
 - Potential for conflict of interest
- NEPA process may run parallel but independent of P3 procurement:
 - Need to have NEPA Record of Decision (ROD) before contract award
 - Uncertainty as far as the final ROD creates a risk for Concessionaire
- Compliance with NEPA is a condition for federal funding

Is P3 a New Procurement Method?

- P3 is a new project delivery method not a new procurement method
 - Same procurement methods (as defined in C4220.1F)
 - Generally, two-step RFP
 - Same contract type (as defined in C4220.1F)
 - Generally fixed price

Procurement Officer v Advisor

- Public agency is funder, owner, and solicits offers
- Radically new and different packaging of scope requires advice
 - Understanding of risk analysis and optimal risk allocation
- Need O&M advice on the technical side
- Procurement standards require agency consistency
 - Procurement period communication
 - Conflicts of interest
 - Award sequence

THANK YOU

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