Why do a P3?

Simply stated – a P3 aims to resolve the root causes that lead to over-budget and over-schedule issues, and benefit shortfalls inherent in traditional delivery. These root causes are often caused by:

1. **Planning/optimism bias.** Project budgets, schedules, risks, and benefits are often performed in an internal, competitive environment in which agency managers compete for the same set of resources. Managers competing for resources are incentivized to produce overly optimistic budgets, schedules, risks, and benefits to prevail in this competitive environment, rather than producing realistic, independently-verified estimates that stand up to scrutiny. In other words, agencies are often structured internally to promote a culture where winning approval for scarce resources takes priority over efficient project delivery.

2. **Fragmented responsibilities.** Traditional delivery relies on individual contracts for design, construction, operations, and maintenance. This fragments responsibility and accountability for design flaws, construction delays and deficiencies; labor and resource cost and availability; and operational issues. Project delivery errors may be difficult to identify and correcting them may be costlier due to the disparate contracts, contracting parties, and accountabilities in play. Each contractor's approach is to complete its specific responsibility instead of putting the project's welfare first.

3. **Prescriptive framework.** Traditional procurement typically relies on rigid design and input specifications to define the work, limiting the potential for innovative and cost-saving solutions. This rigidity leads to time and cost-consuming change orders to correct flaws in design.

A P3 delivery model is designed to resolve these root causes.

1. Efficient project planning and delivery are prioritized, since private sector partners have a direct stake in the success of the project proposal from its inception, including timelines and budgets. Because P3s require capital from external sources, it's in the best interest of both private sector partners and agencies to uncover overly aggressive schedules, unrealistic assumptions and benefits, undisclosed risks, or manipulated budgets. Contractors and lenders will only invest in a project where technical and commercial characteristics of the project are considered viable.

2. A bundled contract for the life of the asset connects ongoing operations and/or maintenance payments to the quality of the original construction. This deal structure aligns incentives amongst contractors to view the project as an investment, whereby long-term returns are realized by excelling at meeting performance specifications and benefits.

3. Performance or output-based metrics define desired outcomes and benefits rather than mandate a specific design or technology. Because of this, P3 delivery encourages design and technical innovations that are harder to realize in a more rigid, traditional delivery model.

Critics of P3 delivery may note the higher upfront planning costs and borrowing rate of financing agency projects compared to traditional delivery models. However, a well-defined P3 arrangement makes up for the upfront cost in several ways over the long term:

- **fixed payments set out over the life of the contract make it easier for agencies to budget in their fiscal plans, ensuring cost-saving investments are made over the life of the P3 contract;**
- **innovative private sector solutions allow agencies to more effectively meet the performance requirements;**
- **performance criteria are linked to payment deductions, thus encouraging the private sector to meet the performance requirements;**
- **a bundled deal structure that connects the design, materials, and equipment decisions limits operation and maintenance costs in future years.**

With questions, please contact:
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