

# Next stop: innovative project delivery.

## PUBLIC-PRIVATE PARTNERSHIPS

### Fact Sheet



**Metro**<sup>®</sup>

### The P3 Perspective

With the passage of Measure M, Metro is embarking on one of the largest and most ambitious transportation investment programs in the nation. Taking cues from the best and most innovative agencies around the country and the world, Metro is looking for new ways to deliver these projects and ensure their long-term performance.

### Getting Creative

One of the strategies Metro is incorporating into our project delivery toolbox is a concept called Public-Private Partnerships, or P3. Metro's P3 strategy involves a public agency partnering with the private sector on some or all of the planning, design, construction, finance, operation and maintenance of a project. Each partner contributes its strongest skills and assets, and the project's potential risks and rewards are shared.

P3s have been common for years internationally, bringing private-sector expertise, ingenuity, and rigor to building and managing public infrastructure around the world. In various cases, this has helped lead to project innovation, cost savings, improved performance and schedule acceleration. Metro is seeking these same benefits for LA County by looking across our planned projects to determine if a P3 is the right tool for the job.

### The Benefits of P3s

P3s take on many forms, and can offer a wide range of benefits, including:

- > **Greater Creativity and Access to New Technologies or Approaches:** Private firms can often introduce innovative approaches and technologies and take the risk on their performance.
- > **Improved Project Design and Performance:** Private sector innovations can reduce construction and life-cycle operations and maintenance costs.
- > **Performance Incentives:** Improved project performance through accountability for meeting schedule, performance standards, service quality, state of good repair and other requirements, with penalties for failing to perform.
- > **Project Acceleration:** Potential project acceleration through innovative financing.
- > **Reduced Risk to the Public Sector:** Transferring certain risks, such as schedule, budget and performance to the private sector, which can manage them in a more efficient and cost-effective manner.

### What is a Public-Private Partnership?

Public-Private Partnerships (P3) are collaborations between a public agency and a private partner to deliver a public service or facility where the skills and assets of each sector are shared, as are potential pitfalls and rewards.

- > A P3 can take many forms, and may involve private participation in the planning, design, construction, finance, operation and maintenance of a project, or a combination of some or all the components.
- > P3 models can offer taxpayers more value through such risk sharing and performance-based contracting.
- > P3s are typically long-term contractual arrangements (lasting 30 to 50 years) involving payments between a public agency and a private partner.
- > P3s can allow a public agency to maximize value by focusing on the areas it is best at managing, and partnering with the private sector in areas that present challenges.

### How would a P3 benefit Metro?

Agencies like Metro use P3s to deliver projects for a wide variety of reasons. Across the U.S. and around the world, P3s have brought private-sector expertise, ingenuity, and rigor to building and managing public infrastructure. This has helped lead to innovation, cost savings, improved performance and project acceleration.

### Why doesn't Metro use P3s for all of its major projects?

Not every project is a good P3 candidate. The best P3 candidates are large, complicated, multi-year projects with significant design, engineering, construction and operational challenges. These types of projects can most benefit from risk-sharing and the use of outcomes or performance-based contracting approaches often used in P3s.

### What is the process for selecting a P3?

Metro has developed a two-phase screening process for evaluating P3 project candidates. Many of these projects are suggested to Metro through our Unsolicited Proposal Policy, which allows private firms to take the initiative in defining potential P3s. Metro works with financial, legal and technical advisors to develop a detailed, comprehensive proposal evaluation for each potential P3.

### **Are P3s sole-source contracts?**

No. For a P3 project, Metro will conduct a solicitation through a Request for Proposals (RFP) with defined requirements related to areas such as design, construction, operations and maintenance. That RFP is then released through a competitive bid process. Private companies submit proposals that include, among a number of other factors, the lowest possible expenditure for Metro that still makes the project viable for the private partner. Because responding to P3 RFPs is time and resource intensive for both Metro and bidders, many projects may also include an initial Request for Qualifications (RFQ) meant to narrow the pool of eligible bidders to only those that are actually qualified to deliver the project.

### **Will a P3 cost Metro more money in the long run?**

The purpose of using a P3 contract is to deliver the greatest possible value to Metro, our customers, and LA County taxpayers and residents. While some elements of a P3 contract may cost more than a fully public counterpart (e.g. finance costs), overall, Metro expects to receive more value for taxpayer money. Metro will not know the actual cost of any individual P3 until proposals are received from competing private firms, and Metro has the option to reject all proposals if the proposals do not provide the expected value for their price tag.

### **How will a Public-Private Partnership affect small and disadvantaged businesses?**

Metro will continue to assign Disadvantaged Business Enterprise (DBE) goals for federally funded projects and Small Business Enterprise (SBE) goals for locally funded projects, regardless of the construction delivery method. Metro will continue to aggressively pursue DBE-/SBE-certified firms in various skill sets on all projects and will continue to monitor compliance in all procurements. Private firms that bid on Metro projects will be expected to conduct outreach and networking functions in order to reach out to the local small and disadvantaged business community.

### **What are the challenges of P3s?**

The P3 contracting process can be more complicated than a traditional contract, and requires a detailed project definition and clear outline of project roles, structure and performance standards to maximize opportunities and minimize costs to Metro. This adds complexity to the project procurement and implementation processes. However, it is this up-front work that is the biggest factor in the success of the P3. Keep in mind that Metro already has extensive experience entering into contracts with private partners.

### **If Public-Private Partnerships are utilized, won't that take away jobs that Metro promised Measure M would provide?**

No. Regardless of how Metro delivers its projects, there will be local job opportunities. P3s require public agency staff resources for oversight and management of project delivery. As with all public projects, any P3 must meet state and county workforce standards and be governed by all applicable labor agreements.

### **Can a private company back out of a contract?**

Like any other contract, there is potential for a P3 partner to back out. However, Metro would protect its interest through bonding and insurance requirements that would provide Metro with the resources to complete the project. If the contractor backs out during the operations period, Metro could solicit bids for a new private operator to run the service.

### **Will Metro lose control of its system or fares?**

No. Metro will retain ownership and oversight of all its assets and investments. Metro also retains oversight of policy items, including design, fare structure and operational standards, and can embed these items into the agreement with the private partner.





For more information about Public-Private Partnerships, visit [metro.net/ppp](http://metro.net/ppp).

## How P3s fit into Measure M

Metro is considering Public-Private Partnerships for several projects, and has retained the services of technical, legal and financial advisors to evaluate projects for P3 delivery benefits. For any project found to have likely P3 benefits, Metro will undertake an open, competitive process to select a private partner or partners that will best support Metro's goals.

- > Metro can voluntarily elect to stop the P3 process any time prior to contract award if proposals are not in Metro's best interest.
- > Metro maintains control and oversight of construction and operations, including setting design and operations standards, fares, schedules and overseeing the look and feel of the project.
- > Metro retains ownership of all assets, with no sale or privatization of existing assets.
- > Metro retains the right to reduce payments and ultimately cancel an agreement if the private operator does not perform.
- > Metro, with the guidance of our P3 advisors, will create a financial model and develop the requirements for a P3 agreement.
- > Metro's own management team will oversee the performance of the contractor. Specific performance standards will need to be met; financial penalties may be applied when they are not.
- > P3s will be transparent to taxpayers, patrons using the facility, transit patrons and highway drivers, as well as stakeholders in our partner communities.



## CONTACT US

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