

Public Private Partnerships: Opportunity Knocking

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When most people think of P3s—public private partnerships—they think of large-scale infrastructure projects such as the replacement of the Goethals or Tappan Zee Bridges. These are high cost projects led by large well-capitalized firms, so it is no wonder they command our attention. Not long ago, one assumed that projects of such magnitude had to be carried out by government entities, but this is no longer the case. In fact, P3s have proven effective for a wide range of project types and sizes.

P3 Projects: A Diverse and Growing Source of New Opportunity

In New York City, for example, the need for new schools and the demand for residential property has led to innovative approaches to school financing and construction. In some cases, residential building developers have agreed to incorporate schools into their buildings, thus incurring much of the cost of building the school itself. This approach creates a new perspective on the value of an existing school building which encouraged the New York City Department of Education to establish the Educational Construction Fund to act as a vehicle for financing and developing educational projects.

Why Diversity and Scale Matter

This diversity in project type and size is important because it demonstrates that participation in P3 projects is not limited to mega projects and the largest firms. Increasingly, firms in the development, design and construction industries should recognize the growing amount of work being performed by P3s. What this business model means for a firm evaluating an opportunity to participate in a P3 is that P3s can provide funding for worthwhile projects that might not get built otherwise. Many smaller firms are in a position to effectively compete for this work, if not as the team leader, then as a subcontractor.

In addition to benefiting from project scale diversity, smaller firms can be well-equipped for P3s due to the public partner's requirements. Minority, Women and/or Disadvantaged Business Enterprises (MBEs, WBEs and DBEs) in particular allow public authorities to act on their commitments to value and promote diversity. For example, some public authorities will reduce the required bonding capacity for qualified firms to open the door for their involvement. Many large contractors are interested in expanding the pool of qualified subcontractors they work with and offer orientation programs to subcontractors who are interested in future work. Participating in these sessions demonstrates interest in future work and can provide an important orientation concerning what to expect. MBE,

WBE and DBE design firms may not have the same opportunities of formal orientation, but they can take steps to establish relationships with larger firms that may need their services on future P3 projects.

What it Takes

Experience on design/build projects enables firms to evaluate the potential risks and rewards of a P3 project more effectively. Most P3s involve integrated design and construction teams, so designers and contractors who are accustomed to working closely together as the design is being developed have a significant advantage. The design/build process requires designers to accept contractor input at an early stage in the design process. This can shorten the road to developing an efficient, constructible design, but it can be challenging for designers who are accustomed to having time to work out creative solutions independently. Contractors also need to be flexible to adapt to the mode of collaboration on a P3. While some contractors find this a welcome change, others feel they will be treading on the design team's role. Successful experience in the design/build environment makes it more likely that a firm will be able to successfully participate on a P3 team.

The Right Time to Pursue a P3 Opportunity

Because P3 projects often entail more risks than many other jobs, they are not the best vehicle for developing a new relationship. If a business is going to accept challenging contract terms, it is essential to know that it is working with experienced, well-managed firms that are likely to successfully manage the project team. One of the best ways to confirm this is to have worked with the lead firm before. Prior experience is critical for another reason: this is how parties learn that they can trust each other, and trust is essential to an effective collaboration.

Opportunity Knocking

For firms that do their homework, P3s offer a range of new opportunities. The firms that will be best positioned to take advantage of those opportunities are the ones that not only excel at their work, but that learn the important skill of evaluating and managing the risks that P3 projects present. As the growing number of successful P3 projects demonstrates, this may be a challenge, but it is a challenge many companies can overcome.

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