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Smarter and Faster Building Construction Using the P3 Market

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Now is the time to advance federal legislation to move the U.S. buildings public-private partnership (P3) market forward.

Over the past two decades there has been a significant rise of U.S. transportation P3s, including Florida's I-595 project, which saved the state $394 million and accelerated delivery by at least 15 years. Since 2005, $13.897 billion has been invested in P3 transportation projects, creating some 380,000 jobs. A large reason for this increase can be attributed to Private Activity Bonds (PABs) and the Transportation Infrastructure Finance and Innovation Act (TIFIA) loans that reside in a prior federal Transportation Reauthorization Bill.

With the U.S. transportation P3 track record so strong, many thought this model would soon find its way to the vertical buildings sector as it has in Canada and the United Kingdom. The Long Beach Courthouse is proving to be a model P3 project but, surprisingly, it has not prompted P3 building construction to the expected degree.

Unlike the transportation sector, the buildings sector does not have any equivalent form of TIFIA loans, and the existing PABs market is severely constrained. Consequently, the public sector's inability to combine tax exempt financing with private financing is a major impediment to a U.S. P3 buildings market for schools, public universities and community colleges, courthouses, and other critical public facilities. Despite the demonstrated value for money benefits of alternative delivery, this "cost of capital" argument has often deterred the public sector from utilizing P3s for buildings projects.

The challenge, however, of continuing with the traditional form of delivery is that our public buildings are severely in need of modernization. In 2009, the American Society of Civil Engineers found that the average public school is over 40 years old. In 2011, a White House report noted that nationwide school districts have an estimated $271 billion of deferred building maintenance, or more than $5,000 per student. There is no question that significant funding is sorely needed to pay for the upgrades and replacements of our aging facilities.

The Long Beach Court Building in California is the first civic building in the U.S. to be delivered through a public-private partnership.

While a P3 will not bring "new money" to fund a project, it will stretch the money cities and states have so that they can deliver more projects much faster and with significantly greater performance over the long-term. For instance, a study of the United Kingdom's school P3 building program by KPMG, a global firm providing tax, audit and advisory services, reports that the rate of improvement in educational attainment was 44% faster in schools rebuilt using a P3 than those rebuilt using conventional delivery. One might wonder how this statistic is possible given that in a P3 structure the private sector is responsible for just the hard infrastructure—all soft services are retained by the school district, including education. Innovation in school design is a hallmark of the P3 process, which can be structured to include extensive community and faculty input. Schools that are brighter, more open, and that include room for wellness centers and spaces for conversation encourage motivation and greater performance.

The renovation and replacement of our nation's dilapidated public buildings will not wait much longer. Nor is there room for cost overruns or construction delays. The good news is that the buildings sector could soon see movement in the P3 sector. Projects like the Puerto Rico Youth Detention Facility, Travis County Courthouse, and the Yonkers School program are on the horizon. But in order to ensure that these and many other building projects have a future, action must be taken. Leaders from the public sector and the design and construction industry are uniting to create a coalition to advocate for federal legislation that will unlock the market for P3 buildings. While a P3 approach is not a panacea, it can be a strategic tool in the toolbox for cities and states that require schedule and budget certainty, along with a creative approach for long-term performance. ■

If you are interested in joining the Performance Based Buildings Coalition please contact Samara Barend at: samara.barend@aecom.com

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