

Water P3 Trends

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Public-Private Partnerships –
A Strategy To Rebuild California?

Silicon Valley Leadership Group
October 17, 2007



Water infrastructure funding gap

Communities will need an estimated \$300 billion to \$1 trillion over the next 20 years to repair, replace or upgrade aging drinking water facilities, accommodate growing population and meet new water quality standards.

U.S. Environmental Protection Agency

Most cities are investing in infrastructure

92% of cities made major capital investments in water and sewer infrastructure between 2000 and 2004

92% of cities plan to make major capital investments between 2005 and 2009

53% of cities would be willing to consider a P3 approach to if they could achieve O&M or construction cost savings

U.S. Conference of Mayors *Nation's Cities Water Survey*, 2005

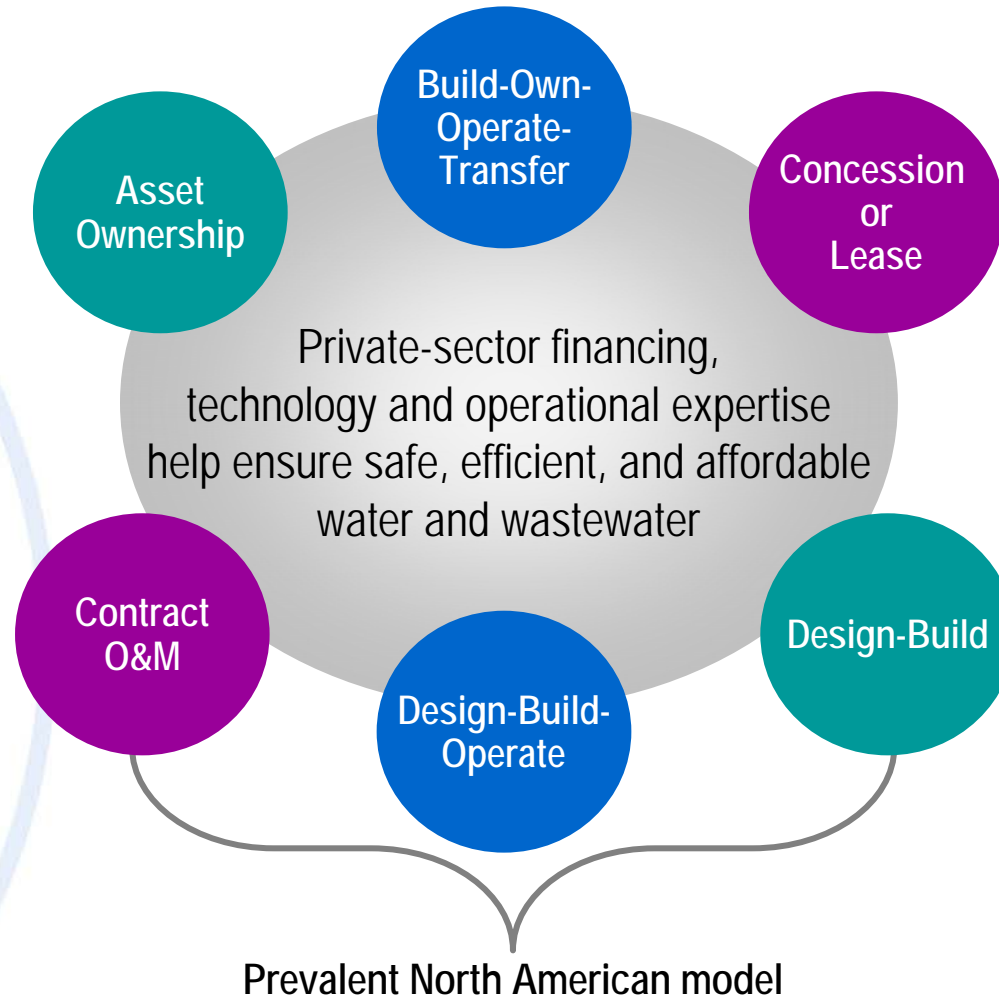
P3s are one way to address the funding gap

Local government is responsible for 90% of public-purpose water investments

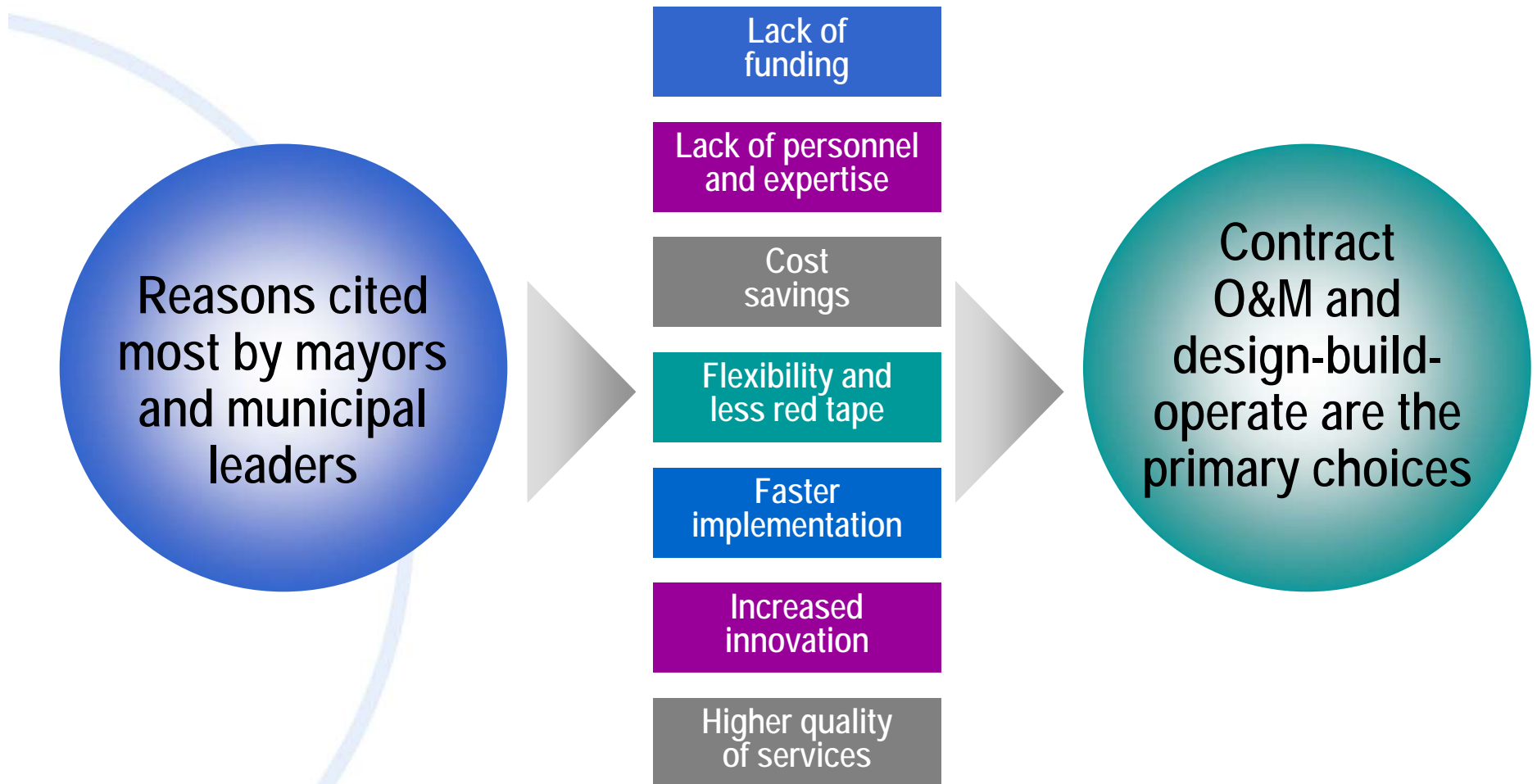
Public utilities and others lobbying for new grants and loans for water/wastewater infrastructure

Mayors and others lobbying to remove state volume caps on private activity bonds for water/wastewater systems

Partnerships come in a variety of forms



U.S. market drivers for partnerships



Market trends

More equitable risk balance between public and private partners

More employee and public involvement in procurements

Organized opposition to some larger procurements

Top-tier competitors proposing value vs. low-cost bidding

Growing interest in alternative project delivery and private-sector finance, but there's been slow growth in this area

Increased demand for water conservation

Increased interest in sustainable solutions/technologies

Typical contract arrangements

Form of Partnership	Primary Application	Average Term (years)
Contract O&M	New or existing systems	3-10
Design/build/operate (DBO) or O&M with design/build	New or existing systems	15-25
Design/build/finance/operate	New systems	20
Concession/lease	Existing systems	10-20
Build/operate/transfer (BOT)	New systems	25-30

Risk transfer can be a substantial financial benefit to the public sector

Risk Transferred

Private-Sector Responsibility

Permit compliance during operation

Assumption of liability for fines and penalties

Cost escalation and overruns

Guaranteed pricing eliminates uncertainty - no change orders

Performance standards

Public- and private-sector partners agree to performance standards

Risks and responsibilities of a typical contract O&M partnership

Risk	Responsibility		
	Private Partner	Public Partner	Shared
"As is" condition of assets	X		
Non-performance	X		
Deterioration of asset value	X		
Costs in excess of budget	X		
Non-compliance with environmental regulations	X		
Quality and quantity of influent		X	
Owner-mandated change orders		X	
Uncontrollables		X	
System repairs and replacements			X
Indemnification			X

What we've learned: Impacts of P3s are positive

50% rate overall satisfaction with the partnership as "extremely satisfied," the highest possible ranking; no respondents rate overall satisfaction as anything less than "satisfied"

92% that projected cost savings achieved those savings; the other 8% indicated it was too early in the partnership to tell

93% of respondents noted that involuntary employee turnover declined or remained the same

93% said that employees have more training and professional growth opportunities than they did prior to the partnership

What we've learned: Impacts of P3s are positive

64% reported a decrease in employee grievances under the partnership; none reported an increase

93% noted that private partners proactively participate in community activities above and beyond what's required in their contracts

74% rated regulatory compliance as better under the partnership than prior to the partnership

An Evaluation of Public-Private Partnerships for Water and Wastewater Systems
Survey of municipal officials with established P3s
Water Partnership Council, 2005



Questions?

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