Santa Paula's Water Recycling Facility Purchase Caps Successful Public-Private Partnership.

The City of Santa Paula's decision to purchase its much-touted and award-winning water recycling facility highlights how this pioneering public-private partnership project has proven to be a triumphant model of risk assessment and transfer critical to the success of any P3.

The City Council voted in April to issue bonds to buy back the facility — designed, constructed and operated by PERC Water and financed by Alinda Capital Partners — seven years into a relationship that many local and state leaders view as a potential flexible model for public infrastructure procurements in California. The P3 agreement included flexibility for the City to buyback the facility at any time after commissioning, under agreed upon pricing and terms.

When completed in 2010, the facility was the largest privately funded municipal wastewater plant of its kind in California. PERC Water will continue to run the day-to-day operation of the facility under a services contract with the City.

To date, the partnership worked well for the city, PERC Water and the investors, all of which benefited from the project. More than 2,000 acre-feet (more than 650 million gallons) of recycled water per year was delivered — under budget and ahead of schedule — to a city that could not have built the project on its own using traditional delivery methods in 2008 when the public finance markets were not operating.

The P3 project broke new ground in terms of its vision, and the results speak for themselves. As a result of changing from the design-bid-build option to the P3 approach, Santa Paula was able to avoid $18 million in construction costs, $1.8 million per year of current operating costs, increase design capacity by 25 percent, reduce facility footprint by 70 percent, reduce energy consumption by 30 percent and avoid $8 million of accrued fines assessed by the state.

Thus, in the final analysis, the City successfully transferred the risk associated with the design, construction, financing, commissioning and performance of the facility to the private partner and now, with five years of operational history, has decided to buy back the facility and take the forward risk associated with the timing and funding of routine capital expenditures, estimated at $30 million over the next 25 years.

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