
Fitch: Long-Term Cost Assessments Difficult to Gauge in Availability-Payment P3s.

Availability-payment-based P3 projects, which tend to be conducted over decades and have little financial flexibility, are more likely to generate higher than expected operating costs over time than other types of P3s, according to a new report from Fitch Ratings, “Analyzing Costs in PPP Projects”. These types of projects, which are common in Europe and Canada and are being negotiated more routinely of late in the United States, typically involve established, reliable types of civil and social construction. But the risk of cost-overruns during the life of these projects can vary based on their size and complexity, reported Fitch Senior Director Scott Zuchorski.

“Projects with a more predictable cost profile, like most social and civil assets with small footprints or limited exposure to volatile commodities, are more predictable,” said Zuchorski. But those that have uncertain operating and life cycle costs or are subject to unexpected changes in design, construction, maintenance, materials, scheduling, regulations and other factors will “need greater financial margins to achieve similar credit quality.”

Fitch considers several factors in assessing a project’s potential for long-term cost overruns that could affect its credit quality: the extent to which the scope of a project could change unexpectedly, whether project costs can be predicted accurately and the presence or lack of contract provisions that protect the private partner from bearing the entire burden of unpredictable and unavoidable cost increases. Of these factors, changes in a project’s scope is the most common reason for its operations and maintenance or life cycle costs to increase unexpectedly, said Zuchorski.

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