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Association for the Improvement of American Infrastructure

Together, we move P3s forward.

Hawaii P3 Workshop

June 6, 2017

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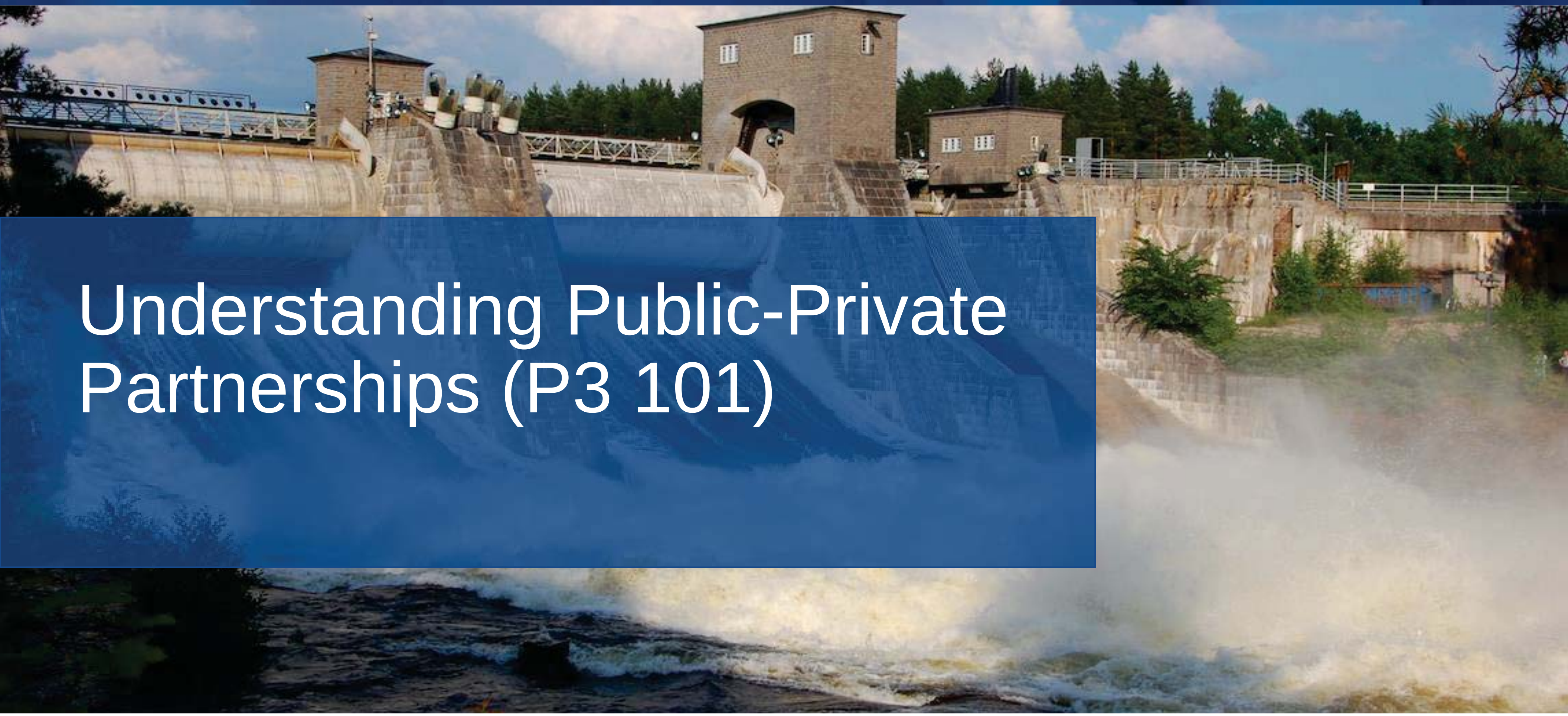

Understanding Public-Private Partnerships (P3 101)

What is a P3?

P3 Defined

- *A Public-Private Partnership (P3) is a contractual agreement between a public agency and a private entity that allows for greater private sector participation in the delivery and financing of a project.*

…but, why?

- Role for the private sector in solving public challenge
- Variety of contract structures + financing
- Performance-based outcome-focused

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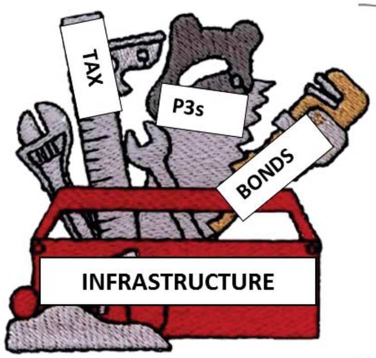
Why Consider a P3?



P3s are an additional tool in the toolbox to deliver and maintain infrastructure efficiently

Government Perspective…

1. Accelerate project delivery
2. Efficient transfer of risks
3. Life-cycle cost savings and price certainty
4. Retain ownership of public asset
5. Engage with the local community
6. Vehicle to get needed projects delivered

…Private Sector Perspective

1. Provides and investment opportunity
2. Complete management of project risks
3. Fosters innovation with performance based requirements
4. Competitive process and transparency
5. Secondary market opportunities
6. Vehicle to get needed projects delivered

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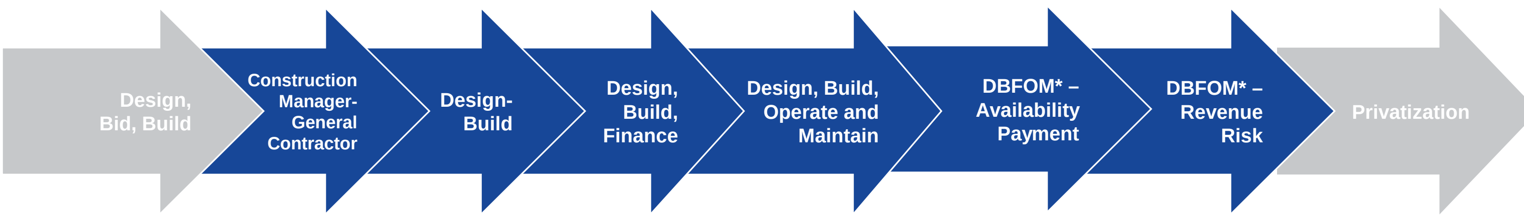
P3 v Traditional Procurement v Privatization

TRADITIONAL DESIGN-BID-BUILD (DBB)	• Public agency retains ownership • All phases of work occur sequentially and under separate contracts • Public agency retains all project risks • Public agency responsible for financing • Focuses on price to achieve a defined scope
P3	• Public agency retains ownership and substantial control, but transfers responsibility for D/B/F/O/M to private partner under a single contract • Contracts may be long-term (often 20-99 years for DBFOM) • Phases of work, such as design and construction, may overlap • Public agency shares or transfers some project risks to private partner • Focuses on “best value” and “performance”
PRIVATIZATION	• Ownership and control of facility is transferred to private sector

Delivery Models

Delivery Options for Infrastructure Delivery



Risk

Public Sector → Private Sector

Degree of private sector accountability, integrated delivery, risk transfer, and extent of private financing

Port of Miami Tunnel

- Twin, 42-ft diameter bored tunnels will allow direct access from Port of Miami to NHS
- 2nd US availability payment-based PPP to reach financial close (during 2009 fin. crisis) at less than half FDOT's engineering estimates
- $900m Project was federalized after award
- Opening in 2014 proved the value of the P3

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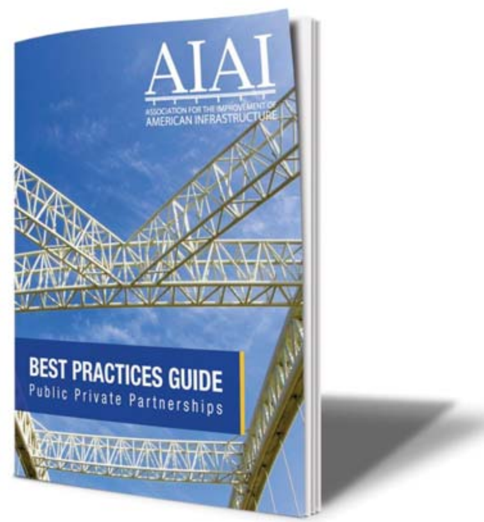
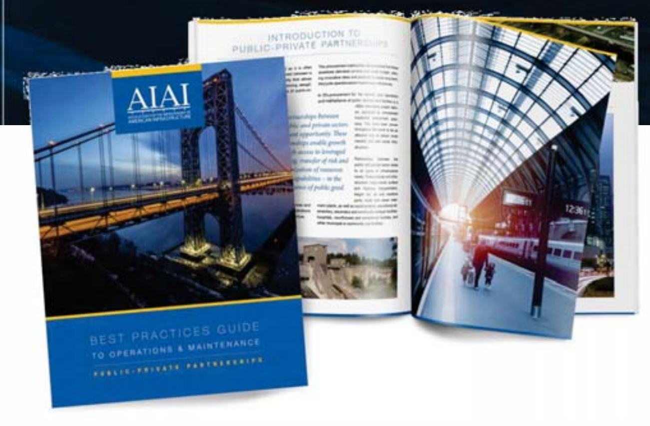
Identifying a P3

A P3 IS:

- **DESIGN AND CONTRUCTION, FINANCING, OPERATIONS AND MAINTENANCE PARTNERSHIP**
  Public Sector enters into a long-term contract with private sector to deliver assets and services for the benefit of the general public
- **A RISK SHARING APPROACH**
  Private sector assumes financial, technical and operational risk, public sector sets policy and retains ownership
- **LIFECYCLE PROCUREMENT APPROACH THAT GUARANTEES PERFORMANCE**
  By integrating design, construction, and financing, with operations and maintenance, the asset performance is optimized for the long term
- **A TRANSPARENT RELATIONSHIP**
  Public stakeholders have full control and can expect to be regularly updated and informed throughout the project



Qualifying a P3



A P3 IS NOT:

- **PRIVATIZATION**
  Public sector retains ownership and ultimate control of public asset
- **A FUNDING SOLUTION**
  Government agency gains access to private debt and equity financing which may not be available in regular public procurement, but project must still be creditworthy for debt and equity investors
- **A LOW QUALITY DELIVERY MODEL**
  Private entity enters into a performance-based contract with financial penalties imposed by the public agency if availability and quality standards are not met
- **THE RIGHT SOLUTION FOR EVERY PROJECT**
  A Value-for-Money analysis is performed by experienced legal, technical and financial advisors to determine if a P3 is right for your project

Criteria for Viable P3 Projects

Not every project is suitable for P3!

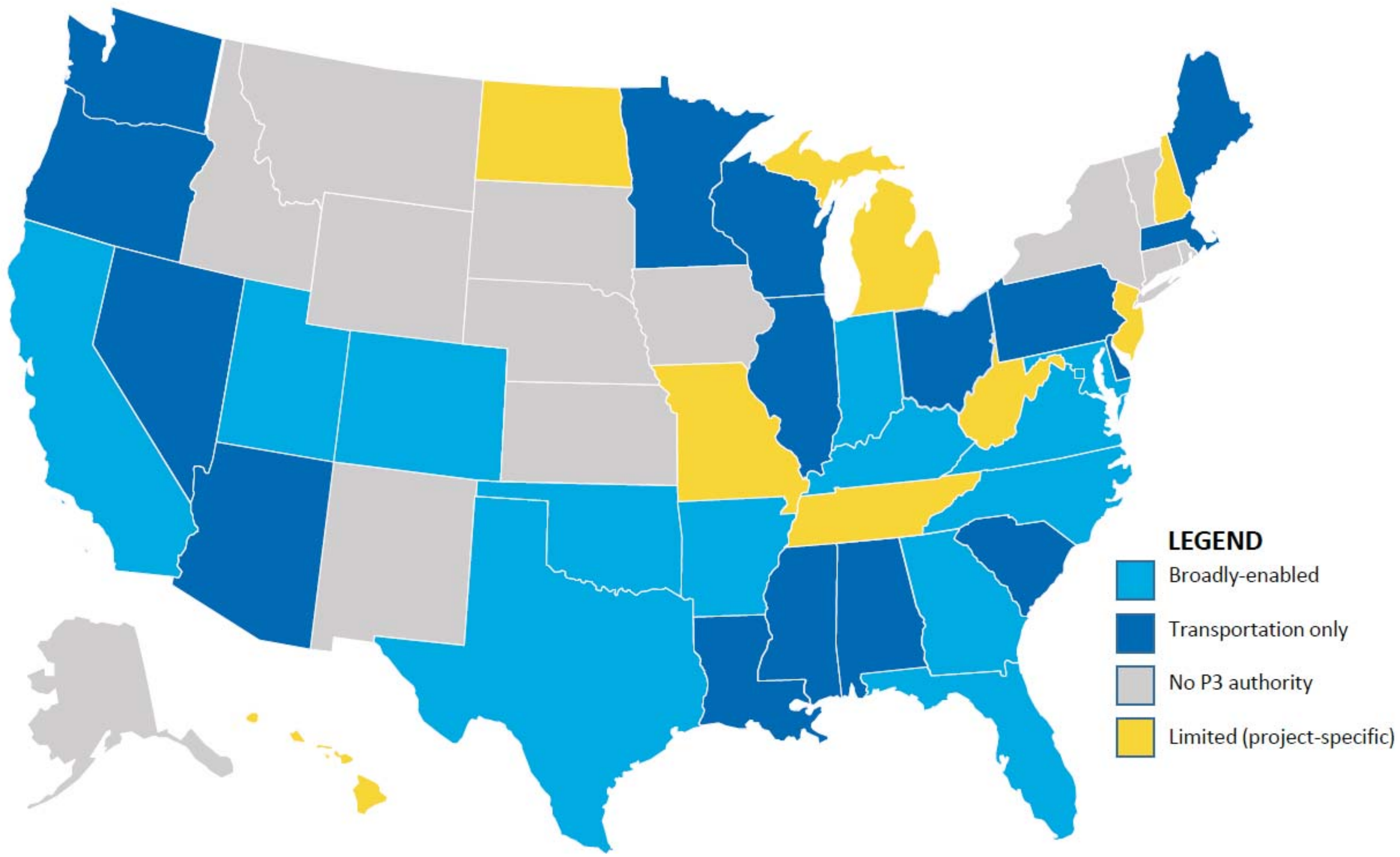
Legislation	• The owner has the appropriate legislative authority in place to undertake a P3 arrangement
Project Size	• In general, projects with construction costs less than $50 million are not the best candidates for P3 arrangements with financing; however the use of bundling and other methods there are innovative ways to deliver projects
Project Complexity	• In general, projects with higher technical complexity offer relatively higher opportunity for private sector innovation and integration of design, construction, financing, operations and maintenance
Project Duration/Asset's Life	• Generally speaking the value added through a P3 arrangement can increase with a longer duration of the P3 arrangement.
Performance Characteristics	• P3 arrangements are structured primarily around performance based contracts. It is important for owners to evaluate whether it is feasible to clearly define objective performance standards for the project.

Important Considerations

- P3s do not imply loss of control by owner
- Key is correct alignment of public and private interests and risks
- Not every project is suitable for a P3
- P3s are not “free” - private funding must be repaid
- Will not turn poorly conceived projects into a success
- P3 procurements are not inexpensive to administer, nor are they inexpensive to pursue

Status of P3-Enabled States | As of May 2017

- 36 states have P3 legislation plus DC & PR
- 13 states have vertical authority plus DC & PR
- 12 states have water authority plus DC & PR



P3 Structure – DBFOM

Project must have revenue stream!

- Typically partially / wholly **financed** by debt leveraging project revenues
  - Revenue streams: Availability Payments and/or some form of direct user fee (toll)
  - Revenues supplemented by money, right-of-way, or other contributions

Sources of Funds

- Private partner *will* make an **equity** investment; in long-term lease structure, likely will make upfront payment
- Public partner *may* need to make upfront payment (e.g., milestone payments) to reduce capital cost financing
- Private partner *may* be required to assume partial or full **revenue risk**
  - Revenue generators (or hybrid)
- May be structured as an **availability payment**
  - Non-revenue generators (or revenue doesn't cover)

Drivers

- Revenue Stream
- Risk Appetite
- Scale
- Market
- Lenders

P3 Structure – DBFOM

- Provides a **single point of responsibility** for design, construction, operations, and maintenance
- Provides **opportunities for innovations and efficiencies** in design and construction
- Encourages the incorporation of **lifecycle** considerations in the project's design and construction
- "Value-for-Money"
- Often results in the use of preventative maintenance techniques
- **Defers payment without deferring the benefit** of the project – each dollar of deferred maintenance will cost the public ten dollars in the future!

Best Practices

P3 Legislation should be broadly enabling, allowing government to fully consider the quantitative and qualitative factors for the particular project that create the most value for the taxpayer over the life of the asset.

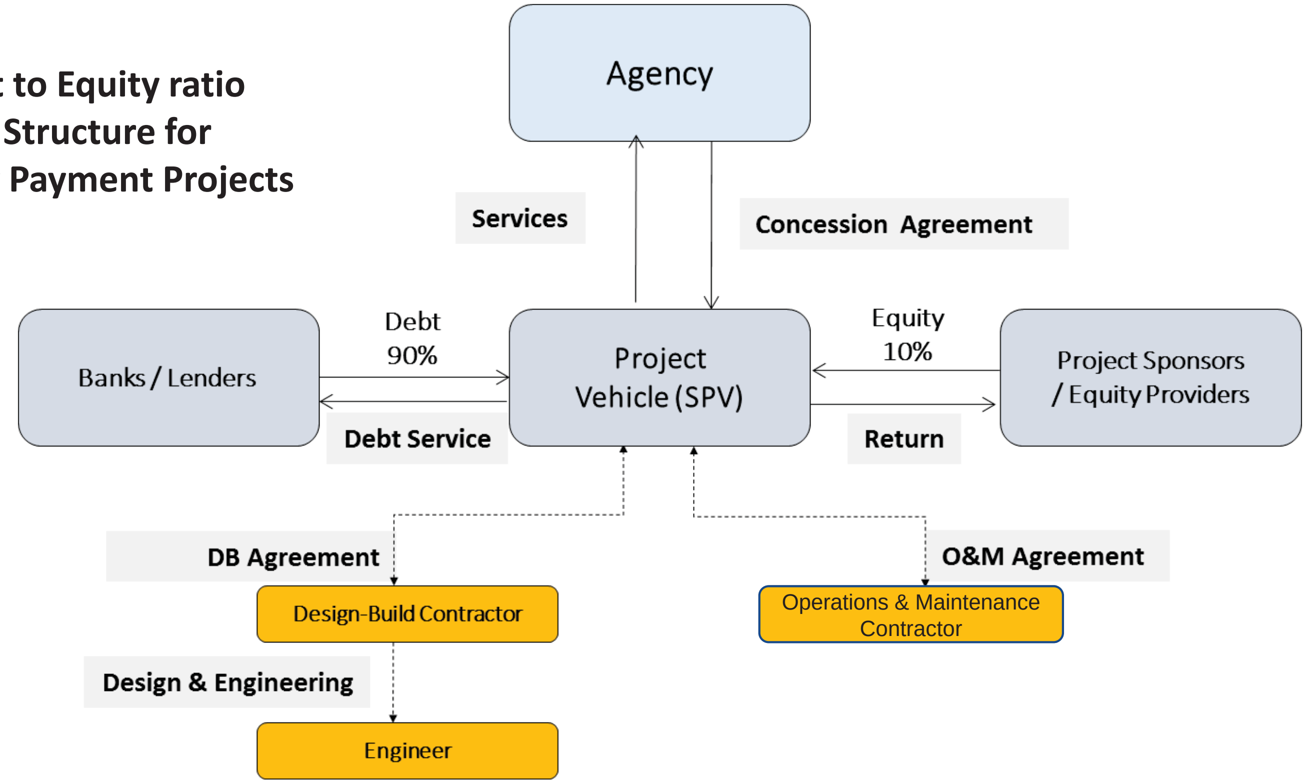
The hallmark of best practice legislation is creation of a center of excellence that provides resources and guidance to properly screen the projects and design the procurement process so that the bidders with the best ideas and best cost of capital are attracted to the project and government is confident that the selection.

P3s for the right project can and should:

- Encourage innovation and creative solutions
- Incentivize local and regional economic impact
- Create opportunity for qualified, locally-based businesses
- Address local job growth and long-term economic stimulation

Typical Structure – Availability Payment Model

90/10 Debt to Equity ratio is a Typical Structure for Availability Payment Projects



P3 Payment Mechanism – Availability Payment

- Under an availability payment mechanism, the government entity will make periodic availability payments to a concessionaire in consideration for the availability of the asset.
- In order to receive payment, the concessionaire must ensure that the asset is completed on time, meets certain performance standards and is available for use by the public.
- The concessionaire recoups its development, financing, construction and maintenance costs from availability payments over the term of the concession, subject to reduction for performance deductions.

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P3 Payment Mechanism – Revenue Based

- In a revenue-based payment mechanism, the demand risk resides with the concessionaire.
- Project revenues are captured in a waterfall and applied to operation and maintenance, debt service, reserves, concession payments and investor return on equity.
- Project revenue based payments require a stable base of users who are expected to be willing to pay for use of the asset over the life of the concession.

P3 Financing Packages

- **Traditional Governmental Finance Approach**
  - Governmental Purpose Bonds
  - Risk retention by the government
  - State revolving funds – EPA
  - Federal: WIFIA, USDA, CDBG, BOR, ACE and others
- **Public Private Partnership Approach**
  - Equity 10-30%
  - Debt 70-90%
- **Forms of P3 Debt**
  - Federal Sources Outlined Above plus
  - Private placement market
  - Tax-exempt Private Activity Bonds (PABs) – state cap allocation challenge (for surface transportation only)
  - Club Arrangements of Banks
- **P3 Equity Providers ($300B available in USA)**
  - Private Equity
  - Life Insurance Companies
  - Pension Funds

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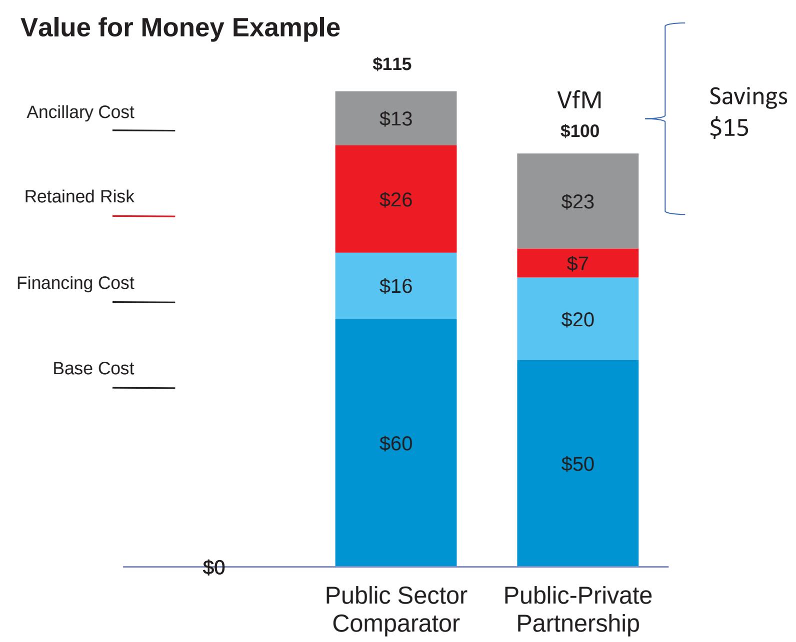
Value for Money

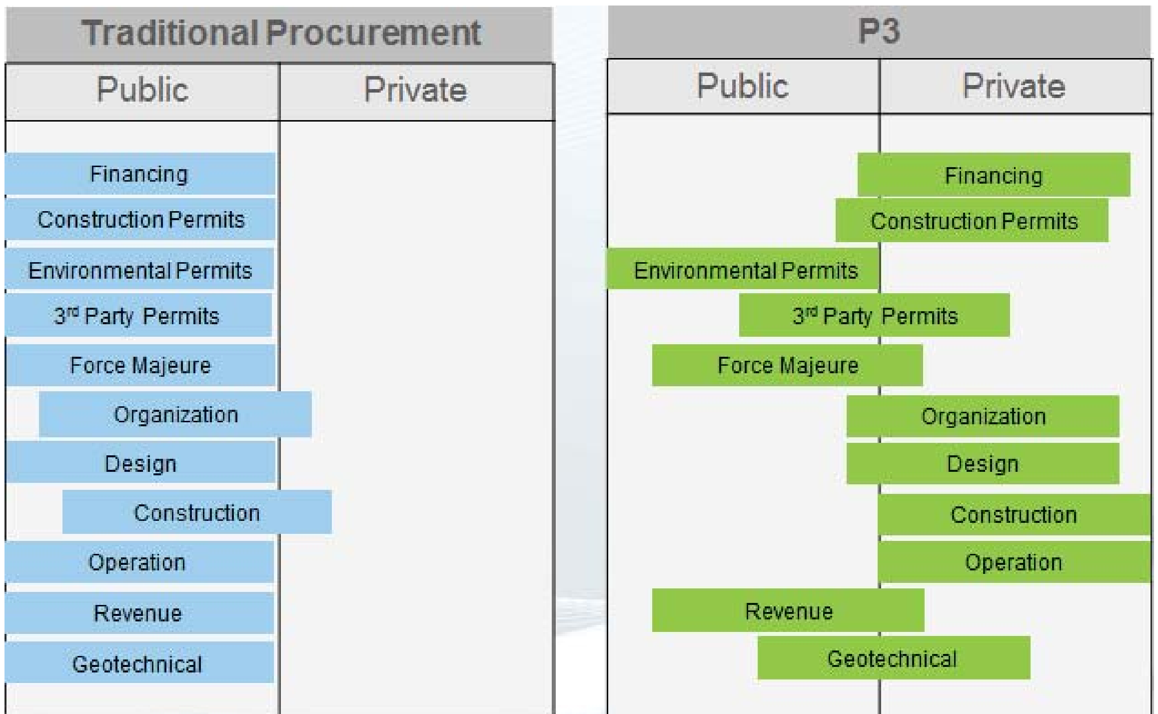
- Value for Money (VfM) analysis is a process used to compare the financial impacts of a P3 project against traditional public delivery alternatives. The process to establish VfM includes:
  - Creating a Public Sector Comparator (PSC), which estimates the whole-life cost of carrying out the project through a traditional approach;
  - Estimating the whole-life cost of the P3 alternative (either as proposed by a private bidder or a hypothetical "shadow bid" at the pre-procurement stage); and
  - Comparing results.
- Value for Money is an industry-accepted decision driver.



Potential Benefits of P3

- SCHEDULE DISCIPLINE
- GREATER BUDGET CERTAINTY
- COST SAVINGS
- GREATER INNOVATION
- LIFE-CYCLE MAINTENANCE
- ACCELERATED DELIVERY
- PUBLIC OWNERSHIP & CONTROL
- EFFECTIVE RISK TRANSFER
- JOB CREATION
- PAYMENT FOR PERFORMANCE / ACCOUNTABILITY

Optimized Allocation of Risk



Each Risk has a “Value”. The optimized allocation of specific risks occurs when risk is assigned to the party which can mitigate or manage the risk more efficiently.

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Procurement Process

One of the key drivers for the successful development of a P3 project is a defined, properly structured procurement process that encourages private sector companies to bring forward their best people and ideas. The key stages of the P3 process include:

Issue RFQ	• RFQ document issued inviting teams to submit qualification credentials
Shortlist or Prequalify Proposers	• Shortlist or prequalify teams chosen based on qualification criteria
Issue RFP	• RFP documents released including project agreement and technical requirements
Proposal Period	• Proposers develop comprehensive technical and financial proposals.
Select Preferred Proposer	• Preferred proposer chosen based on evaluation criteria included in RFP
Negotiations	• Negotiate final terms and conditions with preferred Proposer
Commercial & Financial Close	• Preferred proposer executes project documents (commercial close) and closes project financing

Typical Durations for a Procurement

These timelines will vary by project and State legal requirements.

Every project is different!

Step	Duration
Issue RFQ	30-60 days
Shortlist or Prequalify Proposers	30-45 days
Issue RFP	60-90 days after RFP issued
Proposal period	3 to 6 months
Select Preferred Proposer	30-60 days
Negotiations	30-60 days
Commercial/Financial Close	60-90 days

Advisory Services

Advisory services include:

- Policy and program guidance and development
- Project screening, feasibility, and assessment
- Procurement services
- Contract/agreement administration
- Investor due diligence, life-cycle advisory and asset management

Technical, Legal, Financial

- Key to successful programmatic support
- Lean heavily on experienced advisors

Principles of Successful P3 Delivery

- Owner-defined scope
- Industry outreach
- Stakeholders outreach and involvement
- Performance-based specifications, open to innovation
- Head-to-head competition
- Transparency
- Fair treatment of bidders
- Inclusivity and Goal Setting
- Timely third-party approvals
- Timely decision making and speed in execution
- Effective and efficient risk transfer

Essentials for Successful P3 Program

- Committed Political Champion(s)
- Legislation authority and strong regulatory framework
- Critical need for a public facility to be delivered on an accelerated basis
- Agency acceptance of Value for Money/Risk Transfer methodologies
- Credible Analysis of Delivery Options
- Organized, Fair and Transparent Procurement Processes
- Key Stakeholder support and alignment

Lessons Learned on P3 Projects

Successful PPP

Highly Motivated Government Sponsor

- Committed to project and process
- Politically supported
- Project champion
- Center of Expertise

Appropriate Project Agreement

- Government defined service requirements
- Private sector design solution
- Appropriate risk allocation

Clearly Defined, High Priority Project

- Well defined objectives
- Large capital investment
- Appropriate advisors

Project Predictability

- Pipeline of projects
- Driven by Policy screen
- Certainty of completion once in the market

Economically Viable

- Predictable source of cash flow
- User fee or availability payment

Clearly Defined, Fair Process

- Advance preparation
- Realistic timetables
- Respect for process costs
- Transparent scoring and selection of winning team

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