AGENDA

I. Purpose

II. Agency’s Authorities

III. Agency Objectives

IV. What is P3?

V. Traditional vs. Alternative Project Delivery Models

VI. Comparative Advantages and Disadvantages of Models

VII. P3 Success Factors

VIII. Agency Objectives/Capabilities Relative to Delivery Model Pros & Cons

IX. Next Steps
PURPOSE

• Understand Agency’s options for delivering infrastructure
• Create shared vocabulary
• Recognize opportunities and risks
• Equip decision-makers with framework for guiding Agency decisions
Agency’s Authorities

- Traditional design-bid-build? Yes
- Own? Yes
- Lease? Yes
- Contract for services? Yes
- Finance? Yes

- These are the common building blocks of P3s
- Look to Agency’s authorities rather than to labels
Agency’s Objectives

• Implement a wastewater treatment system to serve your communities
• Support current and future growth
• Promote economic development
• Ensure the long-term viability of the asset
• Maintain the public’s trust
• Safeguard public resources and ensure value for investment
What is P3?
P3: DISTINGUISHING ELEMENTS

- Private sector delivery of a public good
- Risk sharing between public and private entity
- Performance based
- Life-cycle delivery system
- Private capital/leveraged financing
- Public ownership, private operation/maintenance
- Long-term: 30+ years
P3: Why is this “a thing”?  

• Limited budgets and overwhelming infrastructure needs
• Challenges with long-term asset maintenance
• Slow traditional project delivery impedes opportunities and growth
• Desire to harness private sector know-how – focus public sector on core mission and capabilities
• *P3 approach is only going to grow*
WHERE P3S ARE MAKING INROADS

• Established use: transportation (toll roads, bridges, etc.)

• New applications:
  • Courtrooms
  • Libraries
  • University campuses
  • Research facilities
  • Solar and wind farms
  • Mixed-use facilities
  • Hospitals
  • Water and wastewater systems
DISTINGUISHING P3 PROCUREMENT AND DELIVERY

• P3 as a procurement approach
  • Comprehensive team selection
• P3 as project delivery
  • Risk sharing and collaborative implementation
Compensation Models
Three Basic Categories for P3

User Payments
Revenues derived from fees, tolls or tariffs

“Availability Payments” (Public Budgeted Amounts)
Revenues provided through public funding
Focus on credit rating guarantees and performance-based payments

Hybrid Payments
Revenues derived from both user payments and public funding such as minimum revenue guarantees
CLASSIC MODEL: DBFOM
(DESIGN - BUILD – FINANCE - OPERATE – MAINTAIN)

• Private team designs and constructs a facility or improvements to a facility, coupled with a management contract for O&M

• Financing provided by private entity, can be combined with public funding sources (e.g. TIGER or TIFIA funds for transportation projects)

• Most often solicited through a request for proposal process with proposals judged on a multi-factor “best value” basis
TRADITIONAL PROCUREMENT MODEL vs. P3

**Traditional: Sequential Process**
- Select designer (qualifications based)
  - Design process to [50-90% completion]
- Bid the work & select GC
  - Lowest cost responsive bid
- Bid out O&M services, if public entity doesn’t take it on
- More familiar, simpler process

**P3: Bundled Services**
- RFI/RFP process
- Selecting entire team at once, for entire lifecycle of the asset
- Selecting for best value, expertise/ qualifications, best teaming partner
- Greater complexity because all delivery factors considered at once
TRADITIONAL DELIVERY vs. P3

**Traditional:**
- Series of hand-offs
- Less coordination across lifecycle
- Longer process
- Public owner at risk for changes

**P3: Bundled Services**
- Burden of coordination shifts to private sector team, reduced risk of disjointed hand-offs
- End-to-end lifecycle considerations for entire team
- Accelerated process
TRADITIONAL APPROACH PROS AND CONS

**PRO:**
- More public sector control
- Familiar, less complex
- May be financed more cheaply
- Greater design certainty
- May be the best or only option for projects that offer little incentive for private sector investment

**CON:**
- Extremely lengthy delivery – separate procurements alone add months and years to the process
- Increased litigation potential
- Public sector retains risk, private sector incentivized to shift blame amongst themselves or to public
- Harder to control costs and enforce accountability
- Financing risks
- Budgeting uncertainties and risks
TRADITIONAL APPROACH PROS AND CONS

CON:
• Staffing for each step in the procurement and delivery process
• Long-term maintenance and capital repair/replacement risk
• Labor issues
• In-house expertise often a challenge
• Significant investments before public sees a tangible product/benefit
• Political risks

…but wait, there’s more…
P3 APPROACH PROS AND CONS

PRO:
• Speed to delivery – project can produce revenues faster, reduces construction cost inflation risk
• Risk transfer to private sector for entire lifecycle, not just initial construction
• Long-term asset maintenance baked into deal structure
• Greater budgeting certainty
• Private sector innovation and expertise
• Limited burden to supply long-term staffing

CON:
• Requires more sophistication and an experienced advisory team
• Not necessarily cheaper, and certainly not free – need to be clear about value
• Less day-to-day control
• It has to “pencil” to elicit private sector interest
• Financing risks
• Careful analysis of risk allocation required
• Political risks
P3 APPROACH PROS AND CONS

PROS:
• Additional financial resources
• Contractual tools to maintain/ enforce performance standards
• Less day-to-day management required

…but wait, there’s more…
P3 SUCCESS FACTORS

- Enabling legislation
- Financially feasible
- Manageable and shared risks
- Aligned political considerations and values
- Engagement
- Solid partnership philosophy
- Knowledgeable and experienced advisors
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<th>Factor</th>
<th>Traditional</th>
<th>P3</th>
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<td>Control over day-to-day</td>
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<td>In-house expertise</td>
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<td>Core strength/purpose</td>
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<td>In-house staffing/resources</td>
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<td>Appetite for risk over 30-50 years</td>
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<td>Resources for lead investment – duration</td>
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<td>Budgeting certainty for O&amp;M/CapEx</td>
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<td>Delivery and performance certainty</td>
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<td>Political risks – which ones?</td>
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NEXT STEPS

• Assess Agency’s alignment of core capabilities/objectives with delivery model
• Identify resource requirements
• Develop timeline
• Enact enabling policies and approaches