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Public Infrastructure Delivery Through Public Private Partnerships

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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*

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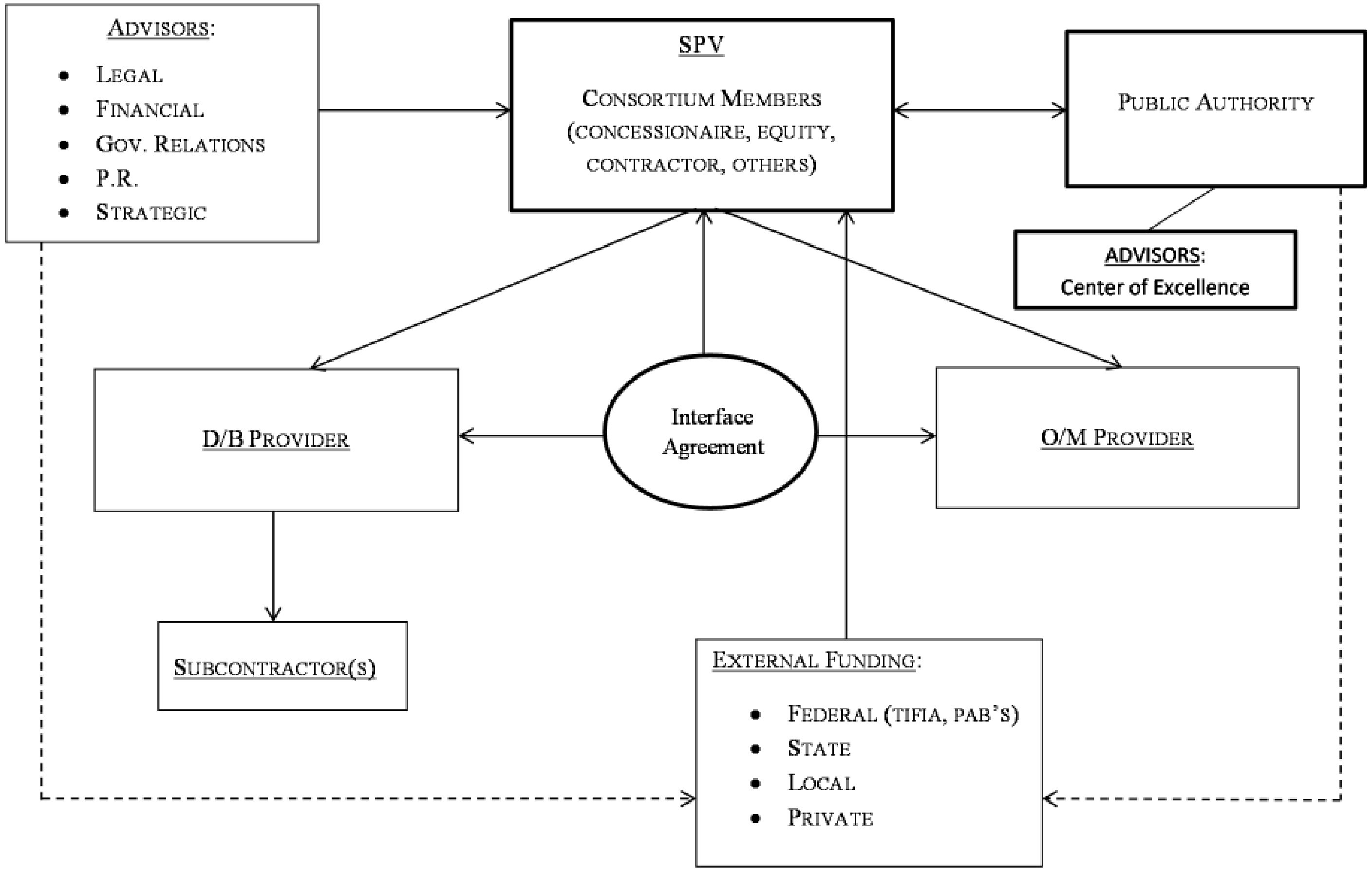
WHERE P3S ARE MAKING INROADS

- 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

P3 Entity Structure



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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

...but wait, there's more...

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

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

<u>PROS:</u>

- 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

DELIVERY MODELS RELATIVE TO AGENCY CAPABILITIES/ OBJECTIVES

Factor	Traditional	P3
Control over day-to-day		
In-house expertise		
Core strength/purpose		
In-house staffing/resources		
Appetite for risk over 30-50 years		
Resources for lead investment – duration		
Budgeting certainty for O&M/CapEx		
Delivery and performance certainty		
Political risks – which ones?		

NEXT STEPS

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

Q&A