3. P3 Concepts

DENVER
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3. P3 Concepts

Introduction

- Types of P3s
- Key Roles in P3s / Deal Structure
- Risk Allocation
- Lifecycle Benefits
- Business Case
- Procurement

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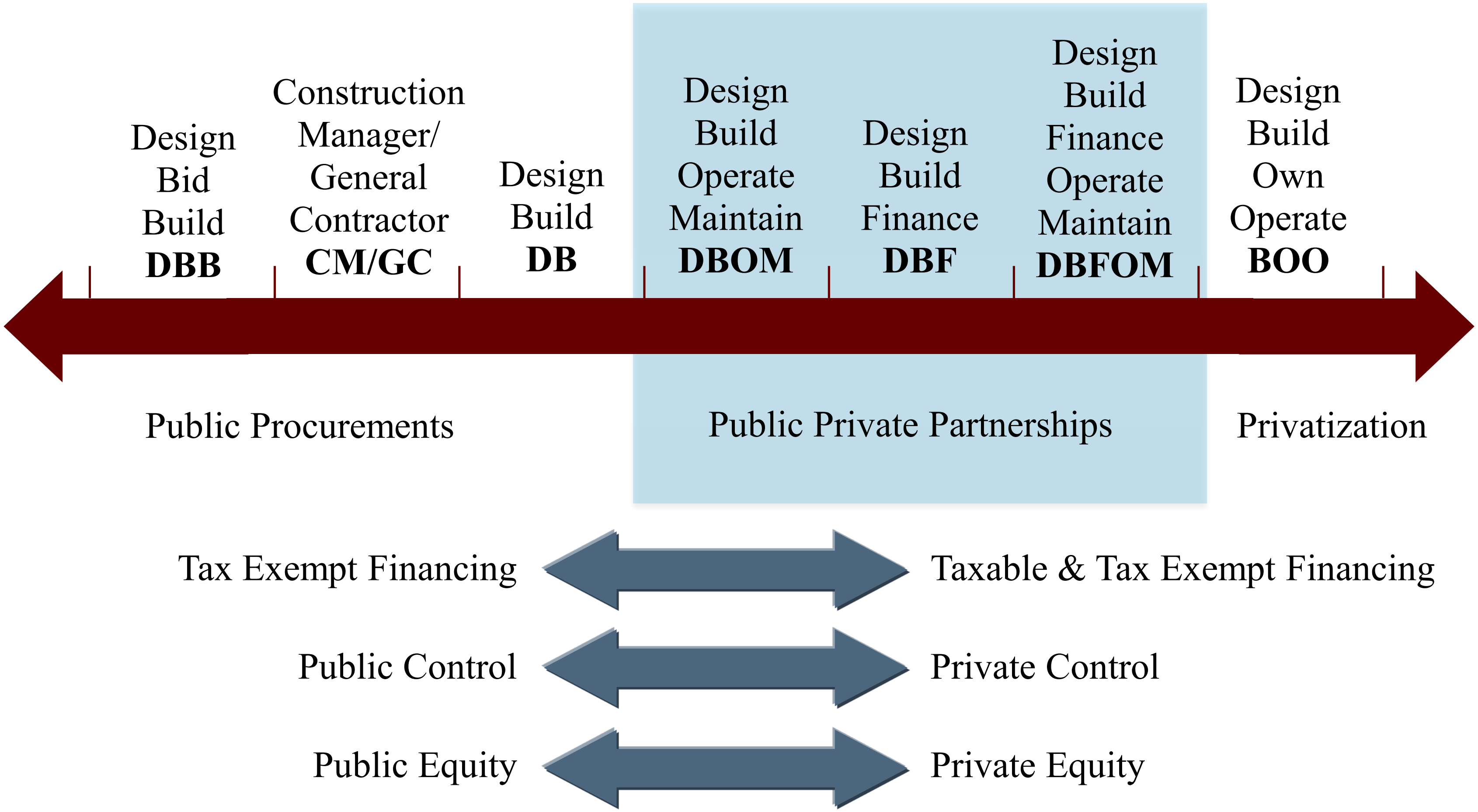
Contracting Alternatives



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P3 Parameters

Grout * (1997) defined a three parameter criteria for a project to fulfil in order to be considered a P3

1. Project should be <u>totally or partially financed by private sector</u> and the Project Agreement/Concession Agreement should <u>specify details regarding the service</u> to be provided rather than the asset itself

2. A substantial portion of the <u>project risk should be transferred</u> to the private sector partner

3. Project should <u>provide Value for Money</u> to the tax payers

(*) Grout Paul A. (1997), the Economics of the Private Finance Initiative, Oxford Review of Economic Policy, Vol. 13, No. 4, 1997, pp. 53-66

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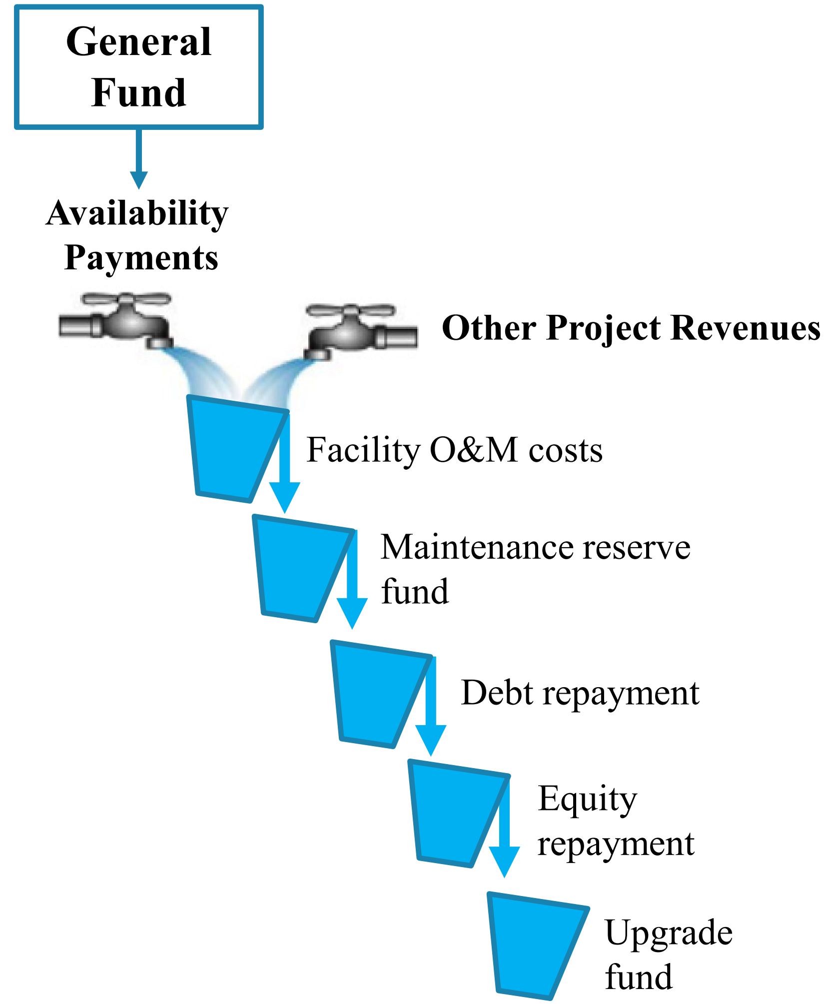
Types of P3

- **By Commercial Nature:**
  - ✓ Commercially Viable / Self Sustainable
  - ✓ Co-financed by the Government

- **By Revenue Nature:**
  - ✓ Availability Payment (Capital Payment and Service Payment – Performance Based)
  - ✓ Revenue Risk (total or partially) assumed by private party

How do Availability Payments Work?

- AP's pay back initial investment and ongoing O&M needs
  - Capped annually with inflation adjustment
  - Subject to deductions for shortfalls in performance
- Sequence of payments prioritizes ensuring the facility is available for use and kept in good repair
- **Additional sources of revenue can reduce the annual Availability Payment the City would pay**
- A revenue upside sharing method can be structured to provide a fund for future upgrades



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Primary P3 Players

Lenders	• Banks and Financial Institutions • Institutional Investors • Infrastructure Debt Funds
Private/ Concessionaire	• Developers and Sponsors (Builder and/or Concessionaire) • Operators and Service Providers • Infrastructure Private Equity Funds
Public/ Central-Local Government	• Federal Government • State Government • Cities and Counties

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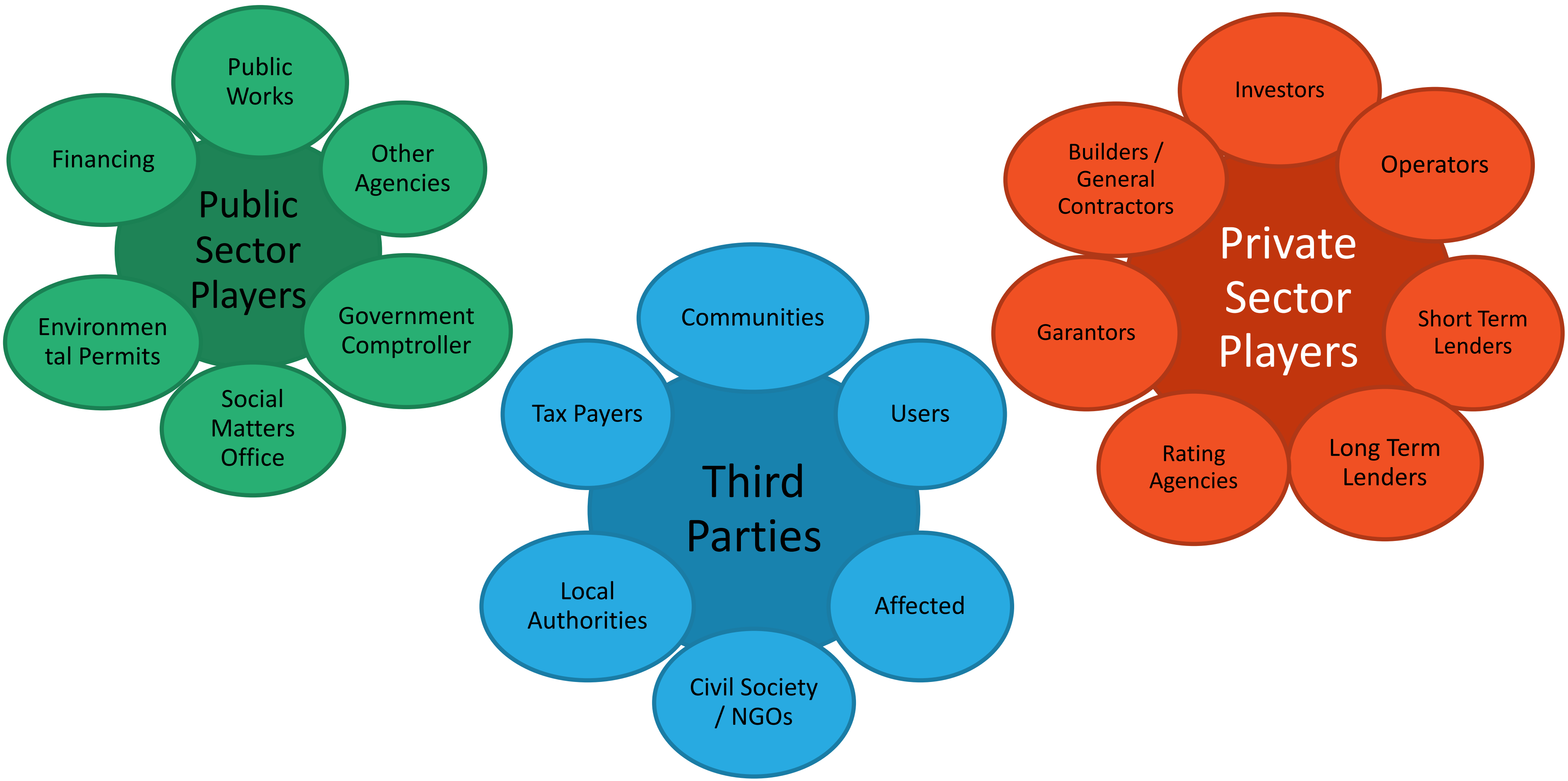
…but there are many more Secondary players



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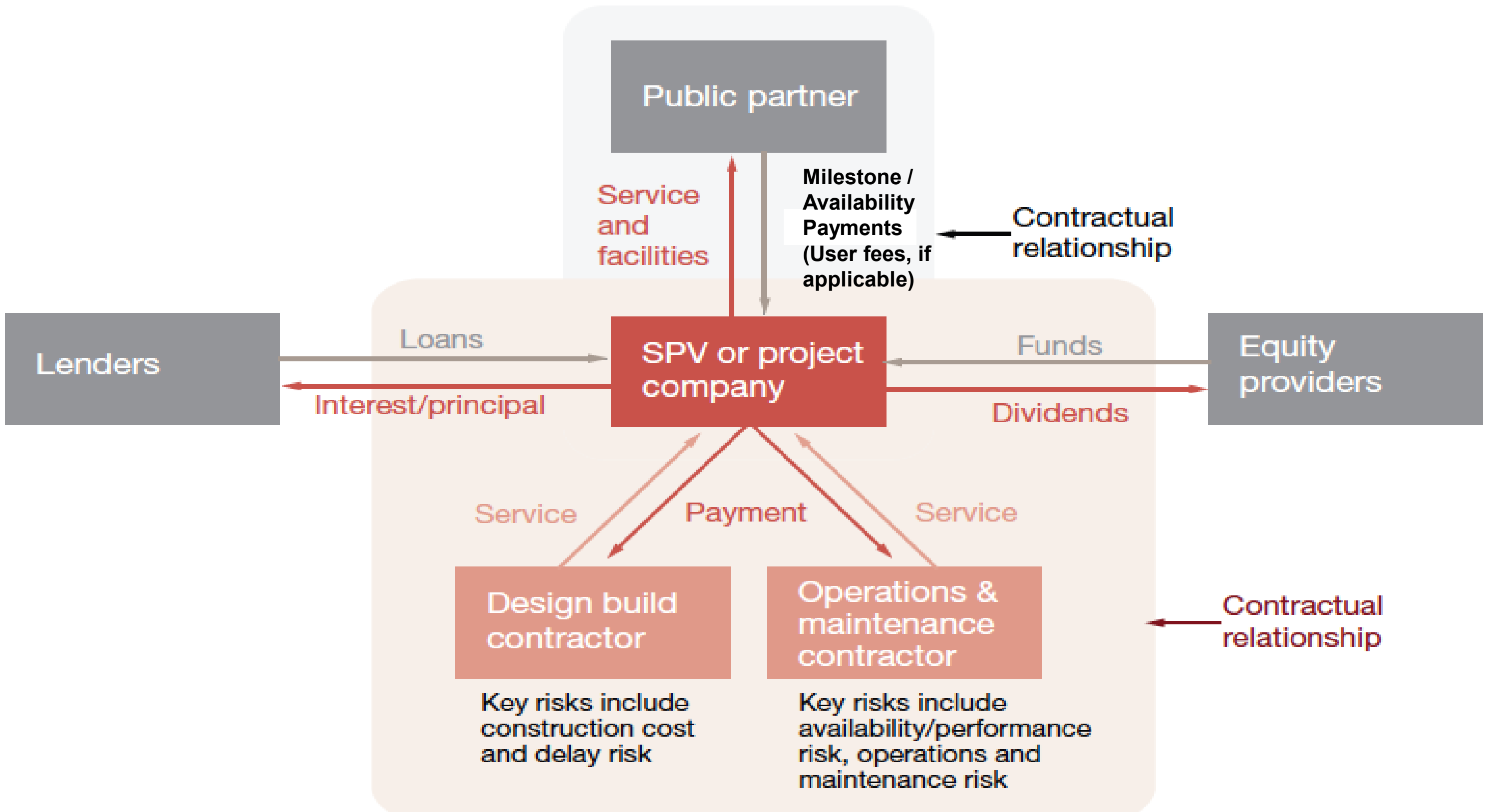
Contractual Relationships



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Benefits for each Player

Public Party:

- Leverage – Limit availability of public funding for infrastructure projects
- Indebtedness limitations and budgetary constraints
- Reduction of retained risks
- Lower public expenses in the long run due to lifecycle and maintenance program
- Project acceleration
- Access to private partner global expertise and know-how, innovation, and economies of scale
- Certainty in costs and schedule

Private Party:

- Equity return and revenue stream both during construction and operations
- Synergies with other projects (Campus)
- Image and prestige (Good Will)

Sample Risk Allocation

Risks	DBB-Public Work	DBFOM-P3
Change of Scope/Change Orders	Public	Public
Permits and Licenses	Public	Private
Right of Way	Public	Shared
Interferences / Utilities Relocation	Public	Shared
Engineering	Public	Private
Unknown Geological Conditions	Public	Private
Unknown Environmental Conditions	Public	Shared
Construction	Private	Private
QA/QC	Public	Private
Operation	Public	Private
Maintenance and Life Cycle	Public	Private
Financing	Public	Private
Force Majeure	Public	Shared

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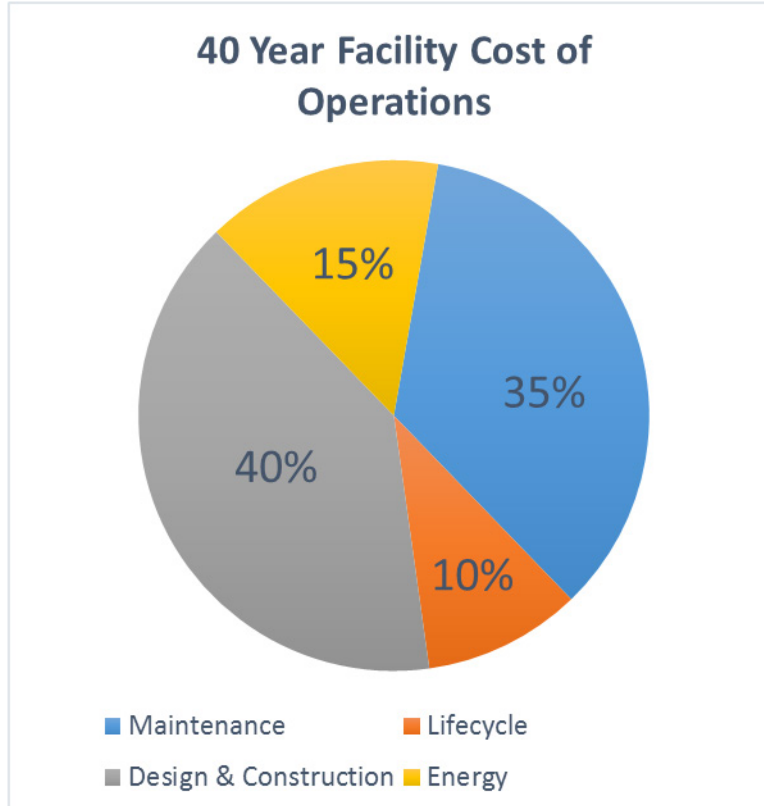
Why is a funded Lifecycle O&M program important?

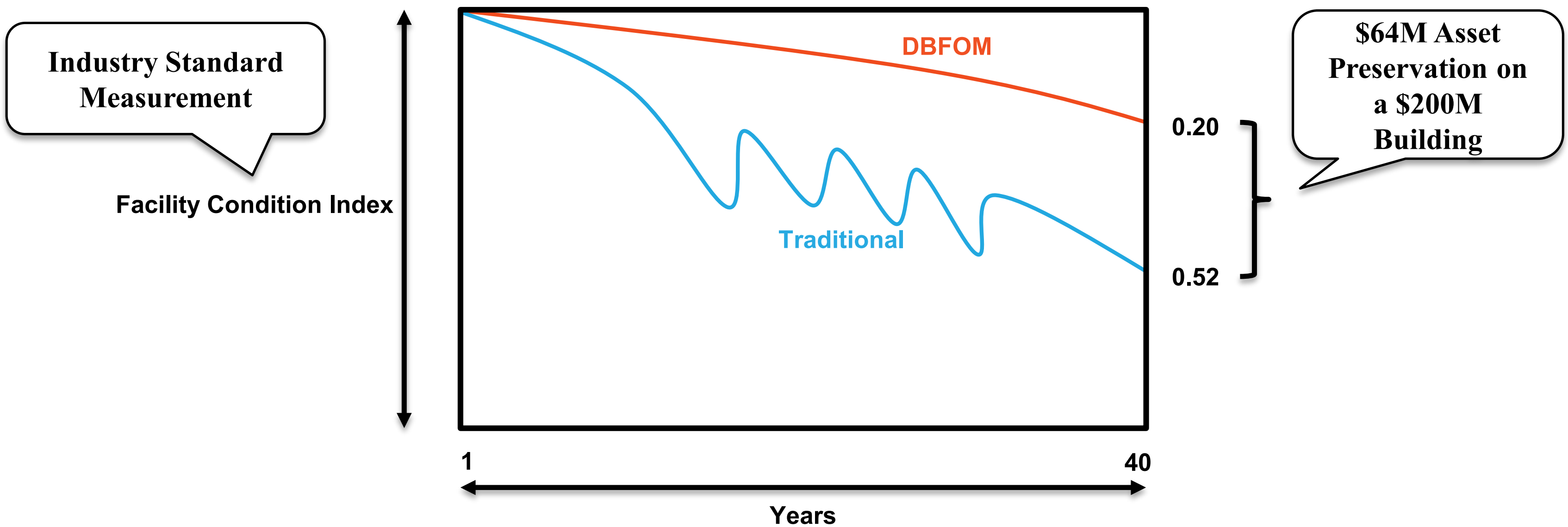
Example: 40 year Facility cost of ownership – Long Beach Civic Center

- Facility Operations represents the biggest expenditure over the life of a building – it should be a big driver in delivery selection
- Reduced total cost of occupancy
- Provides a better, more reliable building with extended asset life



Why is a funded Lifecycle O&M program important?

- Project Agreement obligation requires the asset is returned at the end of the contract term with a guarantees Hand back condition
- Long Beach Civic Center mandated a guaranteed FCI of 0.20, which equates to 80% of new condition on a 40 year term



- Hand Back ensures there is plenty of useful life remaining in the building and systems

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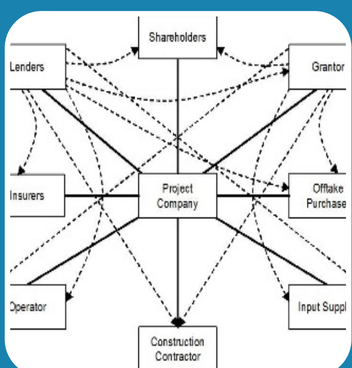
What is a Business Case (BC)?

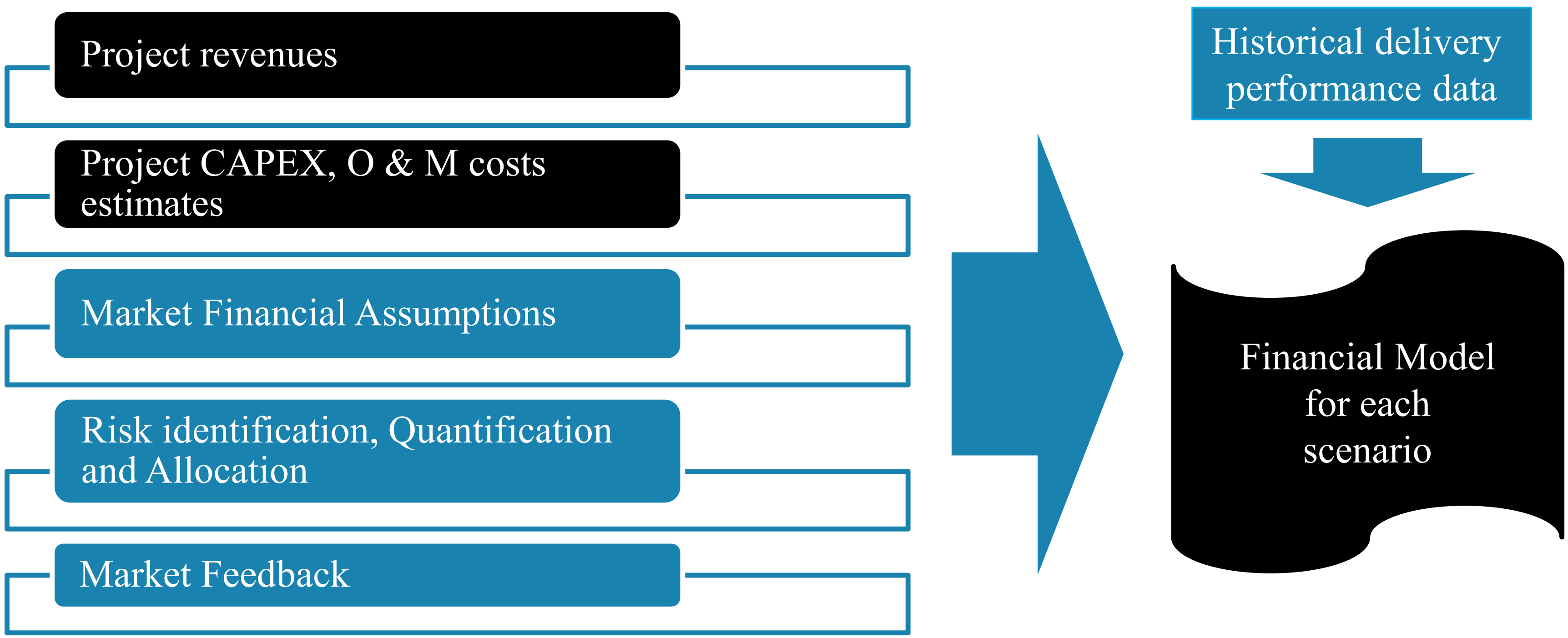
- A tool for decision-makers
- Defines sponsor’s goals
- Identifies and compares feasible delivery options
- Makes a recommendation
- Provides a strategic roadmap for procurement and delivery



- Identifies and evaluates at least two alternative procurement models
- Makes recommendation on the optimal method and a viable plan for implementation
- Value for Money

How is Business Case Developed?

The P3 Business Case is developed by a combination of Quantitative and Qualitative analyses to inform a Project procurement decision and a deal structure. This is ultimately captured in a Financial Model to come up with the Value for Money.



P3 Procurement Process

- **Step 1** – Request for Qualifications (RFQ)
- **Step 2** – Short List
- **Step 3** – Request for Proposals (RFP)
  - Potential lenders get involved; EPC pricing and Financing Terms and Conditions have a strong impact on the Final Project Pricing
  - [Bidders comment on the Project/Concession Agreement and Bidding T&C]
  - All Bidders summit their final price proposals base on the same Project/Concession Agreement and under the same bidding T&C.
- **Step 4** – Proposals assessment and Winner selection
- **Step 5** – Commercial Closing
- **Step 6** – Financial Closing
- **Step 7** – Execution (Construction Monitoring)

Key Features of a procurement process

Basis of Bid Preparation

- City defines **project program** and **performance requirements**
- RFQ defines bidder qualifications, **technical and financial capacity**
- RFP defines contract terms including **risk allocation model**
- RFP sets out clear **selection criteria**

Competitive Selection

- Multiple bidders submit **integrated financial and technical proposals**
- Bids include **committed financing** packages
- **Coordinated with environmental process** (as needed) and responds to its schedule