

# Public-Private Partnerships (P3)

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## P3 Agenda

- What is a P3?
- How are P3's structured?
- P3 De-mystified

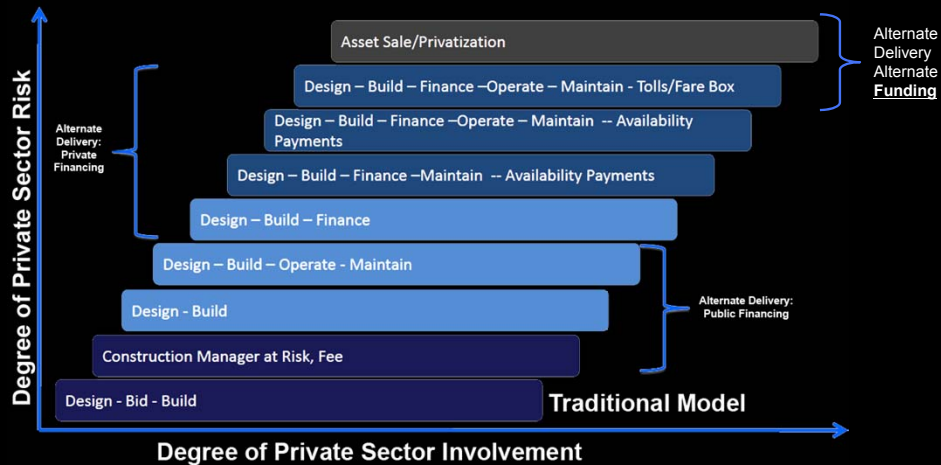


**P3**  
Defined – UK, Canada, USA

A Public-Private Partnership (PPP) is a contractual agreement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility.



**P3 MODELS**  
Project Delivery Options & Risk Transfer



### P3 How is a P3 structured?

It goes by many names in the UK, Canada and the USA, but generally:

- Often known as Performance Based Initiative, Public Private Partnerships, Private Finance Initiative, Alternative Finance Procurement
- The private sector accepting responsibility to **Design, Build, Finance, Maintain** and in some cases **Operate** infrastructure (greenfield or renovations and expansions)
- Facilities management over a **long term concession** period (25 – 35 years) with pre-defined hand back conditions
- Single entity (“Project Company”) contracts with a Sponsor entity (in Colorado: HPTE, RTD, in Canada; Partnerships BC, IO) and in turn contracts with consortium partners
- **Performance based contracting** arrangements
  - Payment from Sponsor or users only begins upon completion of construction
  - On-going payments are subject to either usage or deduction for failures in service delivery



### P3 At a high level, two models...

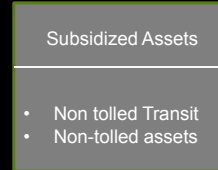
#### Toll / Revenue Model



P3 Toll or Revenue concession can:

- Raise funds for new projects
- Build new “greenfield” toll roads
- Expand capacity

#### Availability Payment Model



P3 availability structure can:

- Transfer risk,
- Reduce costs
- Increase certainty
- Accelerate funding / project completion



**P3**  
Models Contrasted

Concession Model

Partner is repaid through user fees such as traffic, fare box, etc

Can use a “shadow toll” where owner tolls users and submits payment to Concessionaire – policy issues

Availability Model

The partner is repaid through incentive-based availability of the asset

Can consist of payment guarantee by owner with user fees (tolls) billed to users – policy issues



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Performance is at Concessionaire risk as it ensures funding for Project

Usage / demand risk and benefit to Private Co

Availability Model

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Firm price through the term; indexing on OM&R

Project Performance is Guaranteed; use of performance failure deductions

Financing, not funding to enforce the guarantee

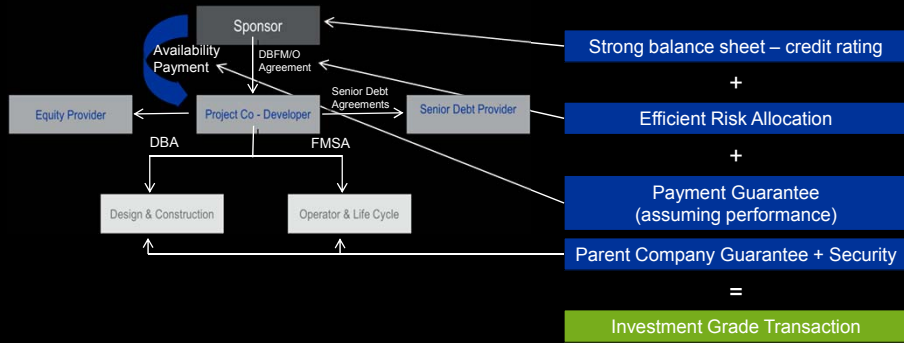


**P3**  
What is P3 NOT?

- Availability based models are **not** about the Financing:
  - Accounting rules tightened – no off-book treatment
  - Government / non-profits borrow at lower cost
- It is **not** about sale & leaseback or asset sales (“privatization”)
- It is **not** about a Real Estate transaction
  - Does not require private sector ownership of the asset
- It **is** about Performance Based Infrastructure & Facilities - RISK transfer

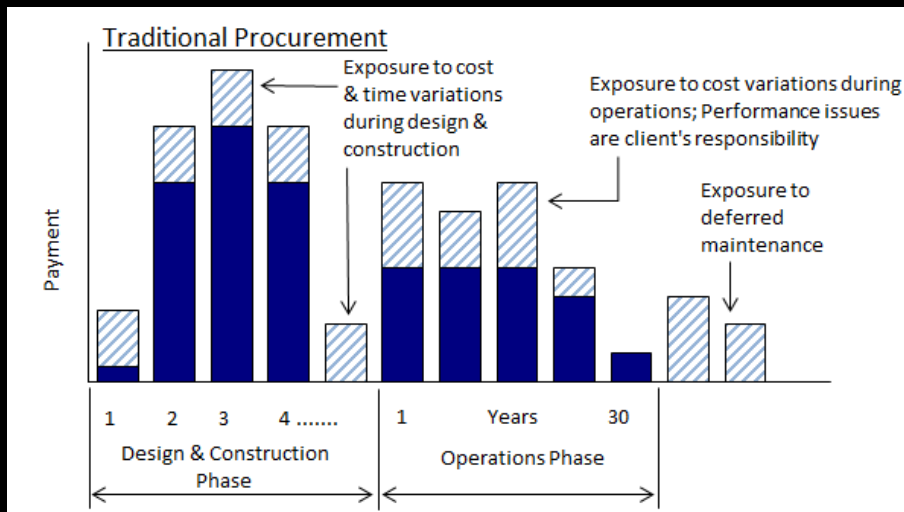


## IDEAL STRUCTURE ATRIBUTES Availability Model



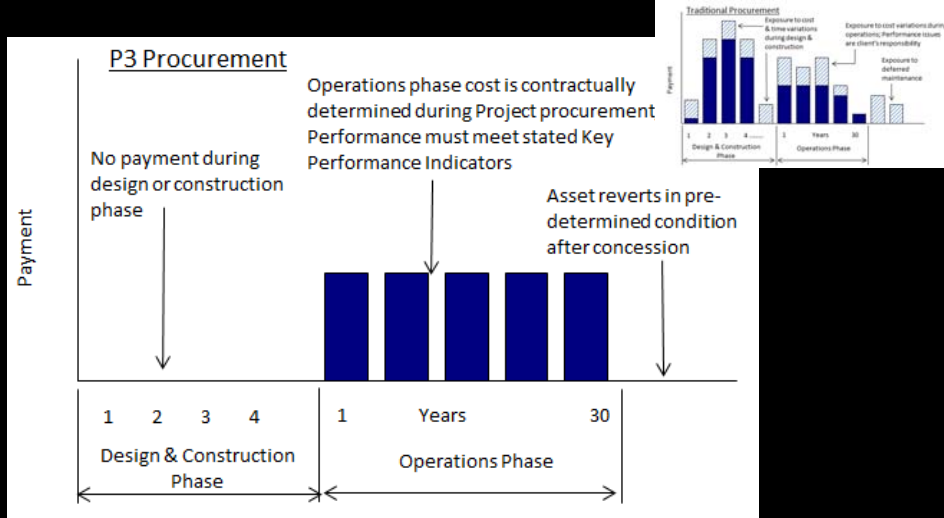
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## P3 An All Too Common Occurrence



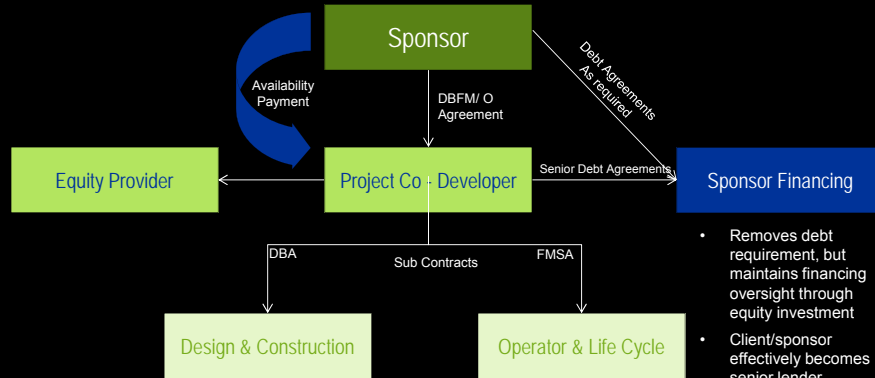
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### P3 Risk Transfer



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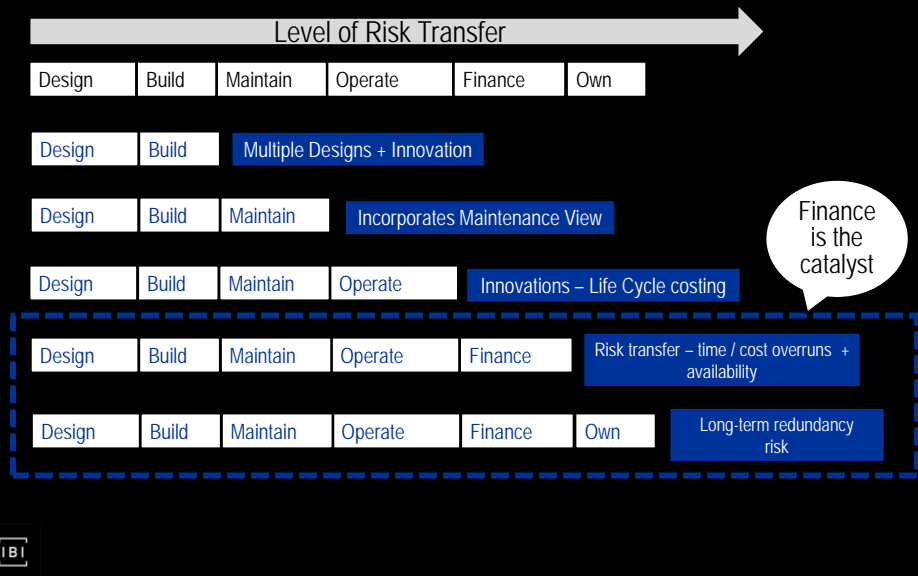
### P3 Sponsor Accessed Finance



- Removes debt requirement, but maintains financing oversight through equity investment
- Client/sponsor effectively becomes senior lender
- Allows sponsor to access lower cost capital while retaining most of the risk transfer benefits of DBFM structures

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### P3 Procurement Model Comparative Advantages



### P3 Transit Infrastructure Considerations

- Revenue based model or Availability model?
    - Policy issues
    - Business Case to demonstrate viability
  - “Debundle” Project, but retain alignment of interests
    - Availability model for infrastructure
    - Increased competitive tension; better value for money
  - Multiple phases or single large project
    - Potential downstream impacts
- IBI



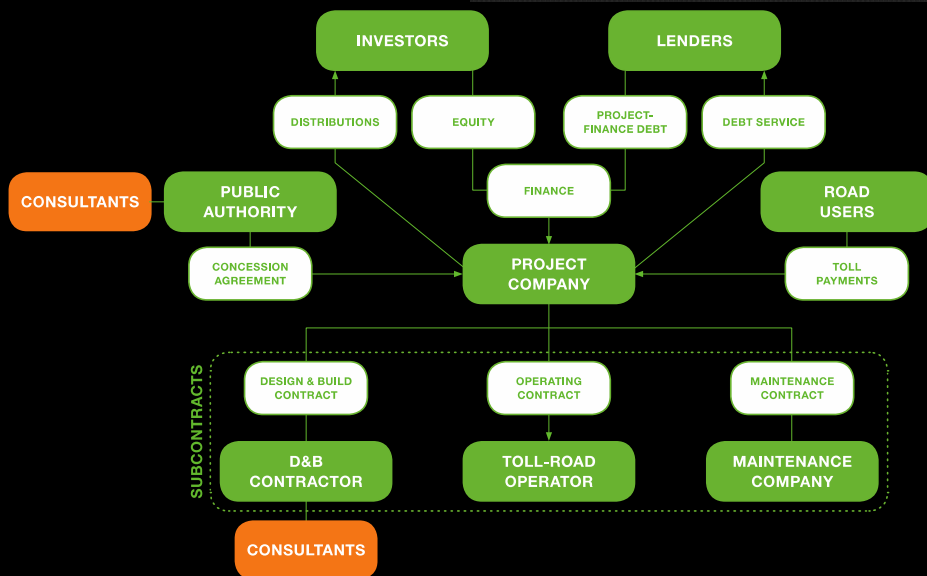
### P3 Benefits to the Sponsor

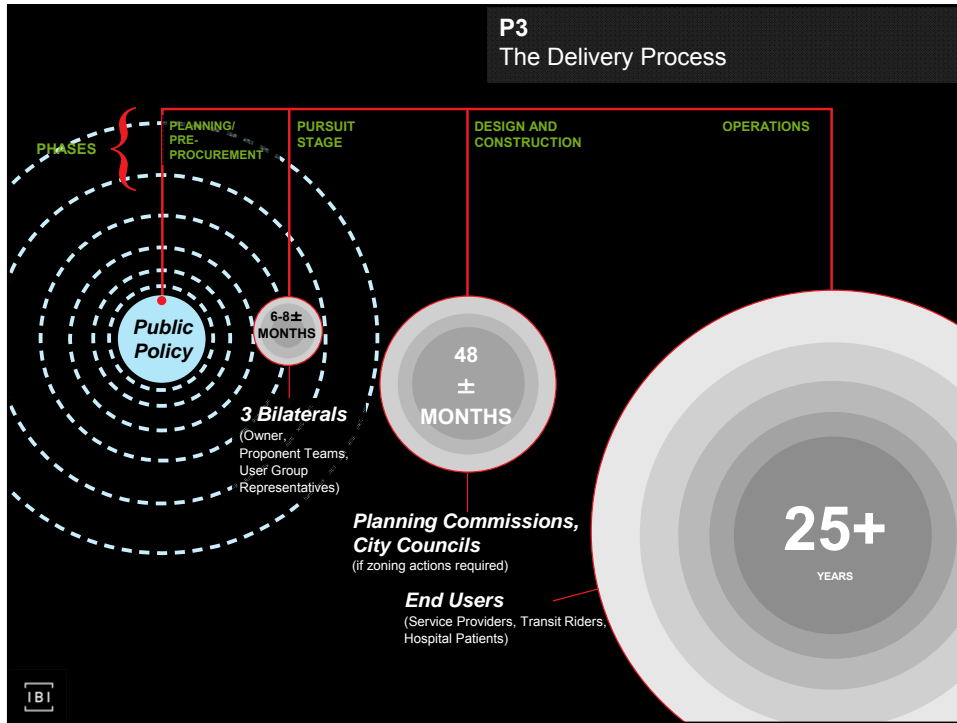
- Speed to market
- Ownership of the asset is retained by the Sponsor
- Emphasis on a clear and well-defined risk allocation
- Optimization and Certainty of “Whole-of-Life” costs
- Commitment to safe, secure asset, performing to expectations
- Private sector expertise, innovation, and discipline
- On-time and on-budget delivery
- Sponsor can focus on core services instead of procurement, contract management, construction oversight, Facility operations, etc.

Better value for money through innovation, discipline and risk transfer



### P3 Players





### P3 Consultant's Role

| Owner's Representative  | Proponent Consultant   |
|---|--|
| <ul style="list-style-type: none"> <li>• Developing Business Case</li> <li>• Defining Scope</li> <li>• Feasibility/Budgets</li> <li>• Output Specifications</li> <li>• Compliance Role</li> </ul> | <ul style="list-style-type: none"> <li>• Validating Programing &amp; Needs</li> <li>• Preparation of Design Documentation</li> <li>• Coordination of Construction Documentation</li> <li>• Site Reviews</li> </ul> |

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### 40 Year Facility Cost of Operations<sup>1</sup>

