DELIVERING S4: SAFE, SECURE, SUSTAINABLE SCHOOLS

Understanding and Applying P3 to K-12 Projects

P3Direct

Agenda

1. Introduction
2. What is a P3?
3. Critical Issues in K-12
4. Why Consider a P3?
5. How a P3 is Structured
6. Private Financing vs Municipal Bonds

1. Introduction

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2. What is a P3?

A P3, or Public-Private Partnership is a delivery method that offers best value to the taxpayer through risk transfer.

A contractual agreement between a public agency and a private entity that allows for greater private sector participation in the life cycle performance of the asset.

Generally, we consider a P3 to include long-term capital and financing as part of a Design-Build-Finance-Operate-Maintain (DBFOM) contract structure (greenfield) or a Monetization transaction (brownfield).

Identifying a P3

A P3 is:

- **A DESIGN AND CONTRUCTION, FINANCING, OPERATIONS AND MAINTENANCE PARTNERSHIP –** the public sector enters into a long-term contract with the private sector to deliver assets and services for the benefit of the general public

- **A 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 RISK SHARING APPROACH –** the private sector assumes key financial, technical and operational risks, while the public sector sets policy and retains ownership

- **A TRANSPARENT RELATIONSHIP –** the owner creates the control parameters during procurement and retains ownership of the project.

Identifying a P3

A P3 is NOT:

PRIVATIZATION - the public sector **retains ownership and ultimate control** of the public asset

A FUNDING SOLUTION - the government agency gains access to private financing options which may not be available in regular public procurement, but the project must still be creditworthy

A SHORT-TERM CONTRACT - the 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 should be performed by experienced legal, technical and financial advisors to determine if a P3 approach is right for the project.

Infrastructure can be defined as any large capital-intensive asset that provides essential services over a long service lifetime, and in doing so underpins broader economic and community activity. The P3 model can be applied to most infrastructure sectors, such as transportation, energy, water, and community-based infrastructure.

- MASS TRANSIT
- ROADS & BRIDGES
- ATTAINABLE HOUSING
- AIRPORTS & PORTS
- WATER & SEWAGE TREATMENT PLANTS
- EDUCATIONAL FACILITIES
- HOSPITALS
- COURTHOUSES & JUSTICE CENTERS
- OTHER MUNICIPAL OR COMMUNITY-USE FACILITIES
- RENEWABLE ENERGY

3. Critical Issues in K-12

- Overcrowding
- Sustainability goals
- Decreased enrollment
- Aging Infrastructure
- Deferred Maintenance
- Updating technology
- Difficulty passing bonds to cover extent of needs
- Recruiting/retaining skilled building operators and technicians
- Maintaining occupant comfort, health, and safety

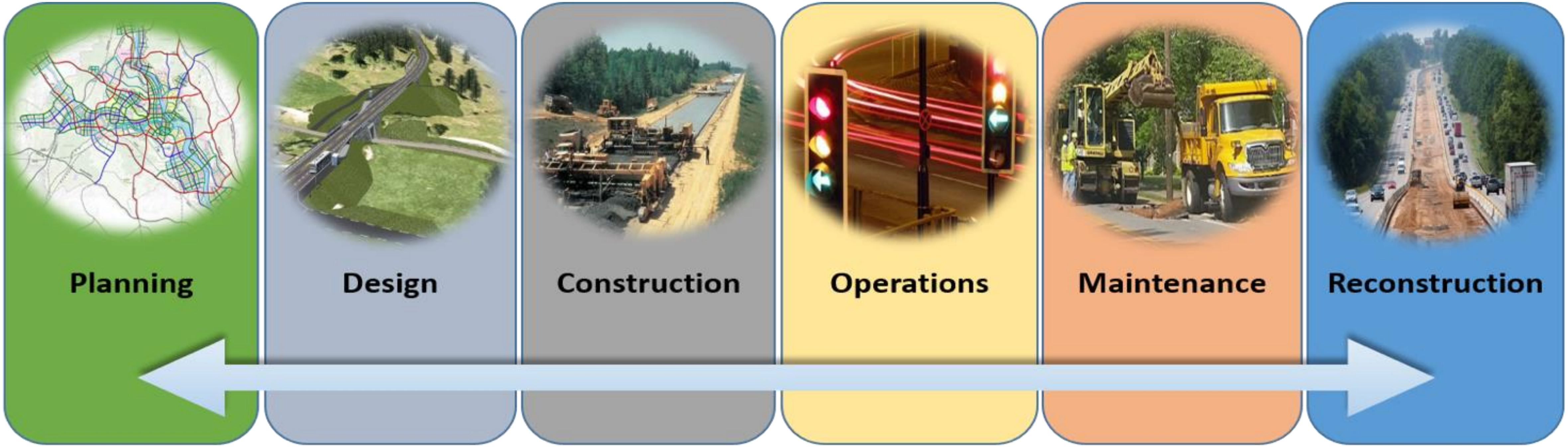
4. Why Consider a P3?

Benefits of a P3

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

Life Cycle

The whole life of an asset, including planning, design, construction, operations, maintenance, and reconstruction. Life cycle costs include any and all things through the asset life cycle.



Payment for Performance

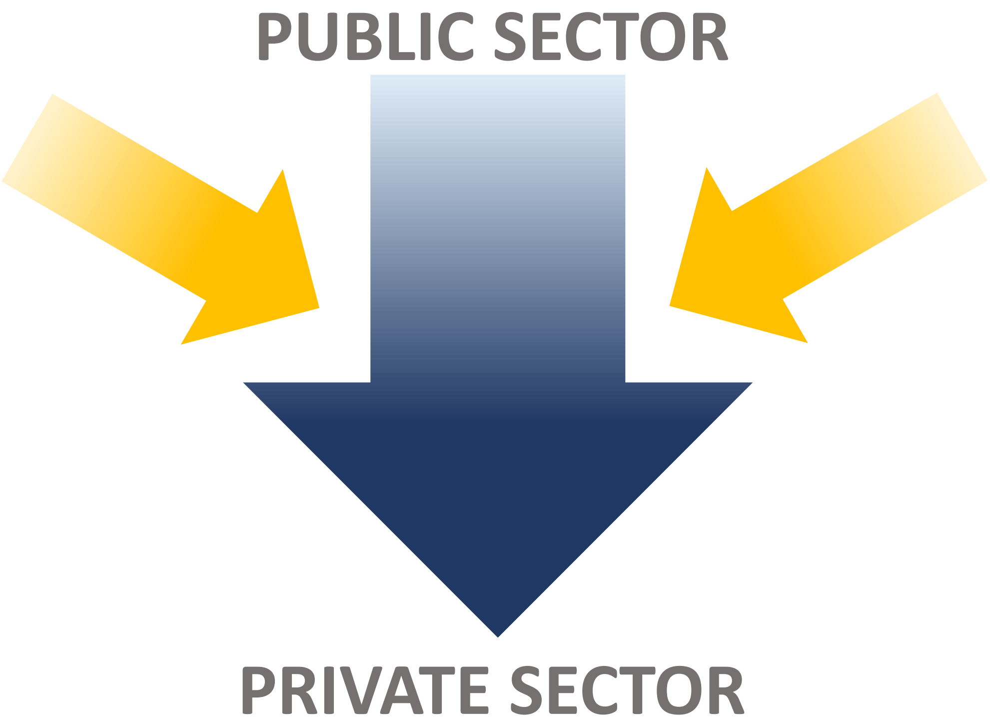
UNAVAILABILITY DEDUCTIONS

Loss of part or all of service

Importance of area or service

Time of day unavailability occurs

“Unavailable” but still useable



NON-COMPLIANCE DEDUCTIONS

Smaller performance failures

Incident response and clean up on time

Persistent failure to perform leads to remedial plans and potentially termination

PRINCE GEORGE'S COUNTY PUBLIC SCHOOLS

LONG TERM MAINTENANCE

Private development team required to maintain the physical condition of the six schools for 30 years.

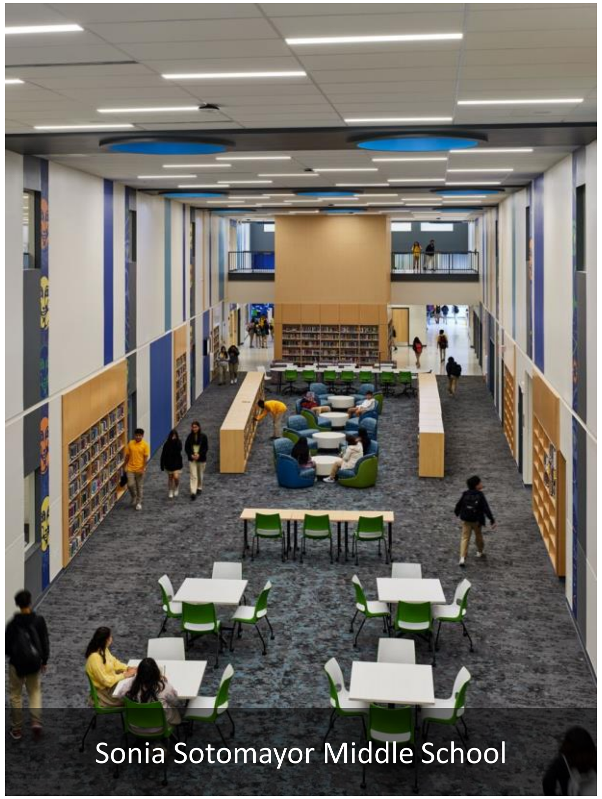
COST SAVINGS

Lower costs for construction due to cap on future cost escalation.

THREE YEAR DELIVERY

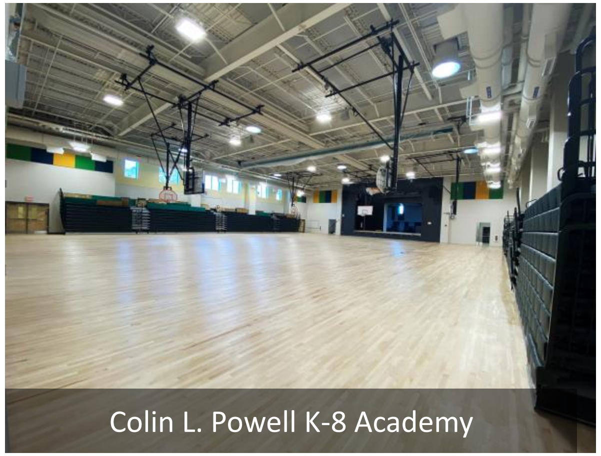
Traditional public school construction methods take significantly longer to deliver.


Hyattsville Middle School


Sonia Sotomayor Middle School


Drew-Freeman Middle School


Walker Mill Middle School


Colin L. Powell K-8 Academy


Kenmoor Middle School

5. How a P3 is Structured

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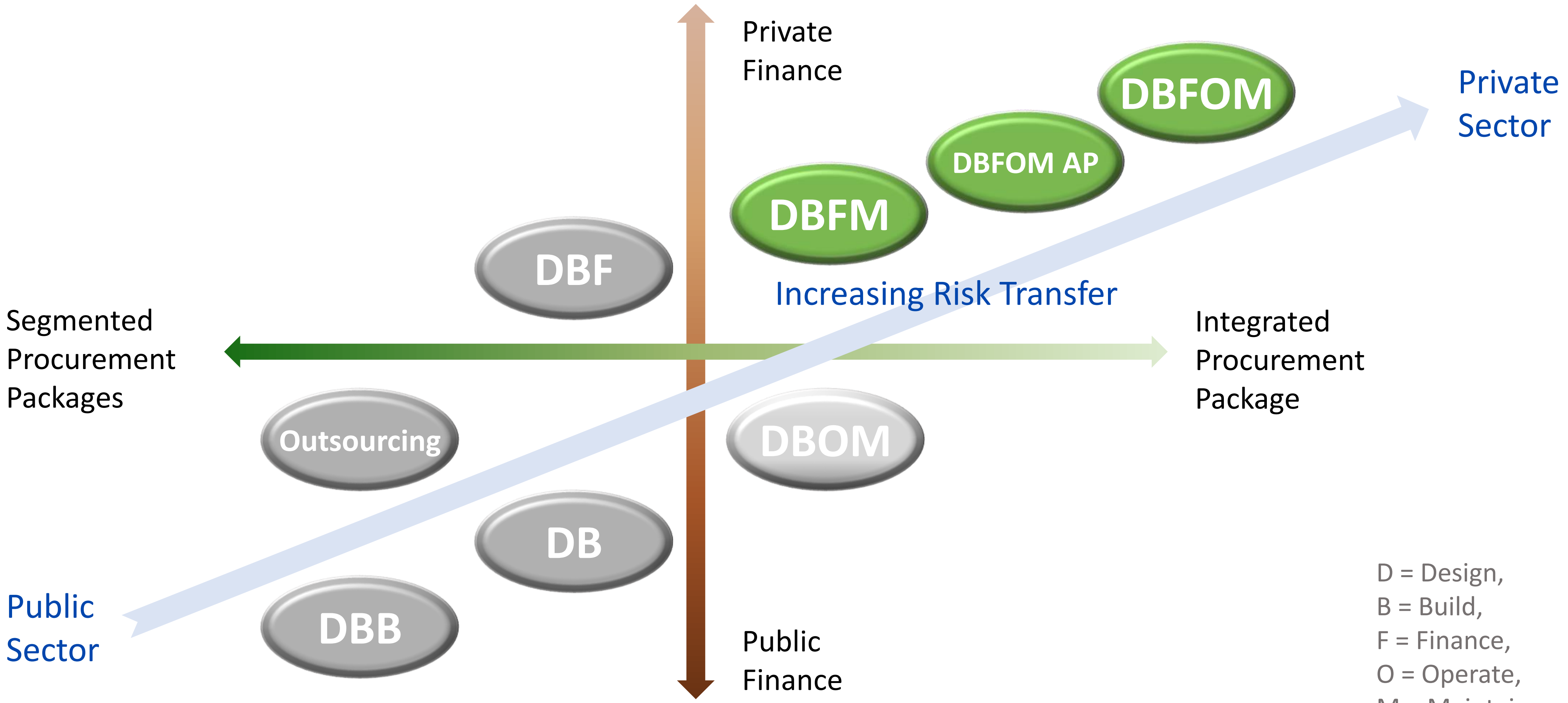
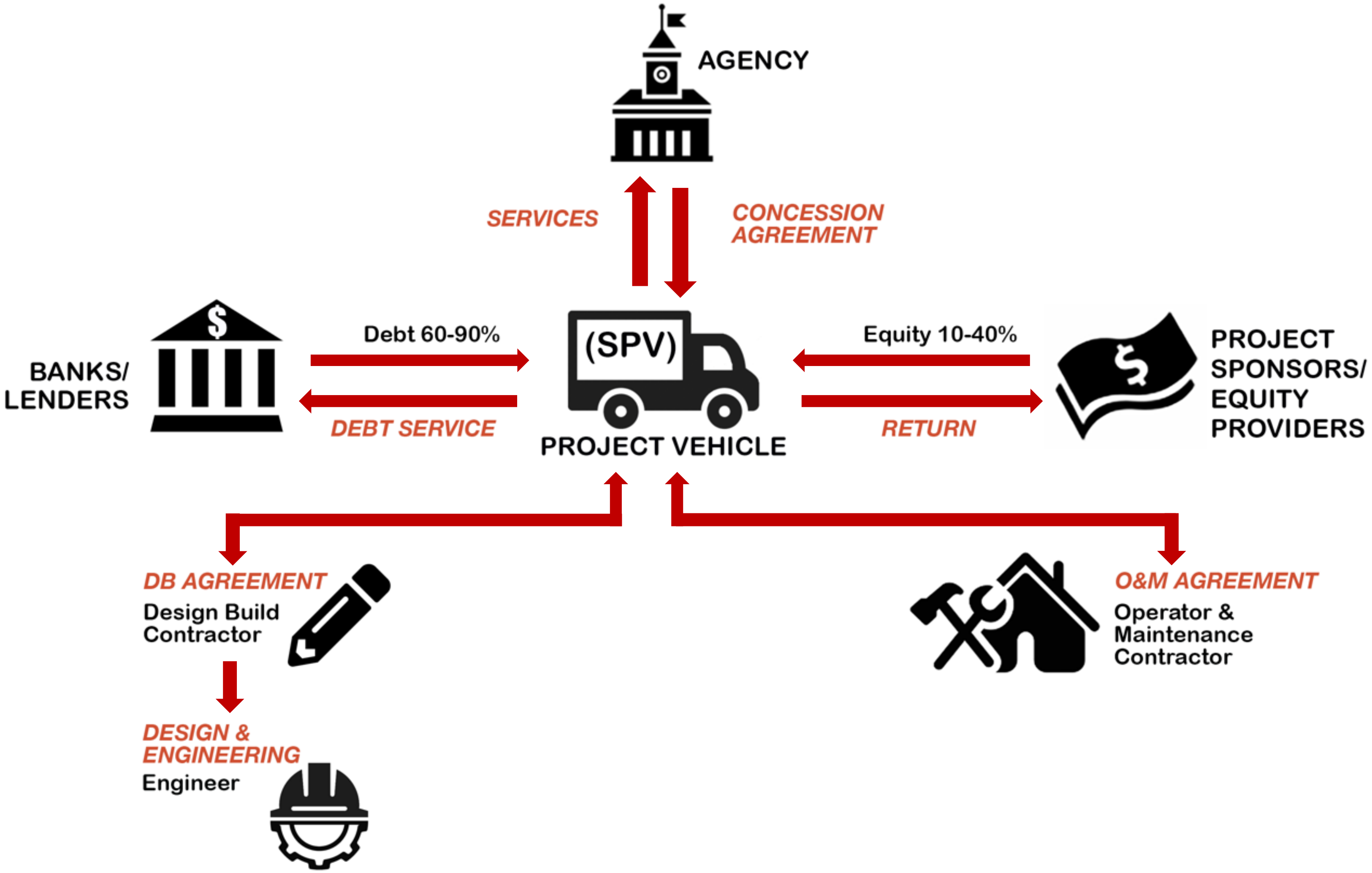
Delivery Methods



D = Design,
B = Build,
F = Finance,
O = Operate,
M = Maintain
AP = Availability Payment
DBB = Design, Bid, Build

Typical P3 Structure



P3 Payment Mechanism

There are two primary forms of payment mechanism: **availability** and **revenue-based.**

AVAILABILITY

An **availability payment mechanism** –
the government entity will make monthly availability payments to a concessionaire.

In order to receive payment, the concessionaire must ensure that the asset meets certain performance standards.

The concessionaire recoups its development, financing, construction and maintenance costs from the government entity through the 'availability payments' over the term of the concession.

REVENUE-BASED

A **revenue-based payment mechanism** –
when the revenue risk (i.e., toll risk) resides with the concessionaire.

By collecting revenues directly from those that use the facility, the concessionaire uses those revenues to repay lenders, operate and maintain the asset and deliver a profit to its investors.

P3s are not “free money”

A P3 is a **project delivery method** - not a funding approach

Private financing and equity must be repaid

A funding/revenue stream must be in place and be creditworthy to ensure a viable P3.

Funding v Financing

FUNDING

Public money made available to the project. This contributed capital is not intended to be repaid or carry a cost (i.e., interest or return on investment).

Typical sources include:

TAXES
General fund
Project or specific use allocation

GRANTS or FUNDING PROGRAMS
Appropriations and bond-funded proceeds

PROJECT REVENUES
Tolls
Value capture

PROPERTY DEVELOPMENT REVENUES

FINANCING

Money provided by private investors to pay for construction costs, concession payments and other large project costs. This capital is intended to be repaid and does carry a cost (i.e., interest and return on investment).

Typical sources include:

DEBT
Municipal bond (tax exempt or taxable)
Private placement
Bank loans

EQUITY
Shares
Deeply subordinated debt

FEDERAL CREDIT PROGRAMS
Shares
Deeply subordinated debt

Funding v Financing

FUNDING

Pros

No need to repay

No "cost" to access

Can share burden of project cost

Cons

May not be available when needed in terms of timing and/or quantum

Can significantly delay project

Can add to project requirements/federalization burden

Sometimes high level of public scrutiny

Limited risk transfer/performance incentive

FINANCING

Pros

Capital liquidity can accelerate projects

Increased oversight and management of costs and performance due to "skin in the game"

Additional risk transfer

Greater ability to match and sculpt cash flows

Cons

Typically finance cost is higher due to higher risk

Some loss of control

Additional scrutiny from third parties such as lenders or credit rating agencies

Criteria for Viable P3 Projects

LEGISLATION	The owner has the appropriate legislative authority in place to undertake a P3 arrangement.
PROJECT SIZE	In general, projects require a significant amount of CapEx to be good candidates for P3 arrangements with financing.
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 increases with the potential duration of the P3 arrangement.
PERFORMANCE CHARACTERISTICS	P3 arrangements include performance-based requirements. It is important for owners to evaluate whether it is feasible to clearly define meaningful performance standards for the project.
STRONG PUBLIC SUPPORT	Since P3 projects can require longer consideration and greater scrutiny, the public sector generally prefers projects that have already achieved wide support. Broad public support gives the private sector confidence that the project will receive necessary political approvals.
RELIABLE REVENUE SOURCES	Projects that have already secured revenue commitments provide some measure of assurance to the private sector that the project can be viable as a P3 and has the capacity to generate returns on their investment.

Clear Project Objectives and Outcome

Public owners must be able to articulate to potential project proposers, and the public at large, not only the desired outcomes from the owner's perspective, but the ultimate benefit to the general public. An owner who communicates in a timely and transparent manner can greatly reduce suspicion and mistrust on the part of the general public.

RECOMMENDATIONS

- Owners should establish clear, transparent messaging to help the team articulate project specific objectives
- What is the project and scope?
- What is the value/need for the community?
- Why a P3?
- Has a dedicated funding source/plan been identified?
- Is project life cycle cost as critical as the initial capital cost and cost of money?
- Who is the political champion and what is their engagement horizon?
- Has the owner retained the required advisors, i.e., legal, financial and technical to help them through the procurement and delivery process?

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
Select Qualified Bidders	Shortlisted teams chosen based on qualification criteria
Issue RFP	RFP documents released including project agreement and technical requirements
Select Preferred Bidder	Preferred bidder chosen based on evaluation criteria included in RFP
Financial Close	Preferred bidder executes project documents (commercial close) and closes project financing

General Procurement / Project Timeline

	Market Outreach	Request for Qualifications	Request for Proposals	Award/ Commercial Close	Financial Close	Total
Typical duration	1-2 months	2-3 months	6-12 months	1-2 months	2-4 months following Commercial Close (longer for revenue risk concessions)	12 – 24 months

Getting started

Managing Consultants

Remain in control of the process. Take into consideration the advisors' advice but retain the role of decision-maker and providing the voice for the agency.

Owners should be comfortable with seeking additional input if their advisors make recommendations that are new or foreign to the usual processes.

Aligning Public and Private Incentives

Goals and incentives for all parties must be aligned for a successful project. This can be achieved through honest negotiations and communication between all parties.

The private partner should be motivated to deliver and manage a quality project.

Early Private Sector Engagement

Market sounding should begin before ideas are fully set, but after some initial planning.

Early discussion on risk can test if assumptions match-up with the industry perceptions.

Political Support

A political champion is required to help guide the project through key points.

the owner should ensure that a key political advocate(s) is deeply engaged in the project and can help guide these sensitive issues to assist with ensuring buy-in from local business leaders.

AIAI
Association for the Improvement of American Infrastructure

P3Direct

Ensuring competition

How do you become attractive to the private sector? How do you share your story and attract competition?

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

P3Direct

Run by public sector P3 experts, P3Direct is a program implemented by AIAI for the public sector as a means to create a connection between experienced P3 professionals and those looking to gain more information on the P3 procurement model across agencies at every level.

P3Direct provides an opportunity for public officials to both engage with P3 experts and share their experiences.

The program encourages an understanding of the model, and collaboration of agencies to promote best practices and share lessons learned and success stories around P3s.

516.277.2950 | ReadyToWork@AIAI-Infra.org | www.aiai-infra.org

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Together, we move P3s forward.