



# INTRODUCTORY WORKSHOP **THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS**

[LANSING, MICHIGAN | MARCH 22, 2024](#)

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# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## AGENDA

9:00 a.m. Welcome and Introductions

9:30 a.m. The Possibilities of P3

- What is a P3?
- Commonly Used Terms
- Determining Your Delivery Method

10:30 a.m. P3 Readiness

- Building the Business Case (and selling it to the community)
- Executing a Successful Procurement Process
- Deal Structuring and Contract Management
- Picking the Right Advisors and Partners

12:00 p.m. P3 Case Studies and Market Sounding (lunch will be served)

Opportunity for participants to share project ideas and receive feedback from our experts.

1:00 p.m. Adjourn



# INTRODUCTORY WORKSHOP **THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS**

The Possibilities of P3

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# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

What is a Public-Private Partnership, or P3?

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

It's 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, a P3 is considered to include long-term capital and financing as part of a Design-Build-Finance-Operate-Maintain (DBFOM) contract structure or a monetization transaction.



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Why should you consider a P3?

Cities are the cornerstone of the nation's economy. Society is evolving, and city leaders willing to embrace change can capitalize on the innovation and opportunities offered with alternative delivery, stimulating economic development.

Alternative delivery models allow governments to consider a range of options that offer resilient, long-term solutions to their infrastructure challenges. Adopting the P3 model allows city leaders to provide safe, secure, modern communities, creating a legacy of equity, innovation and value.



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## THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

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:



**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**



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Commonly used terms

- Availability Payment (AP)
- Business Case
- Design-Build-Finance
- DBFOM
- Enabling Legislation
- Financial Advisor
- Financing
- Funding
- Legal Advisor
- Progressive P3 or PDA
- Risk Sharing or Risk Transfer
- Community Based/Social Infrastructure
- Special Purpose Vehicle (SPV)
- Technical Advisor
- Value for Money
- Equity
- Life Cycle
- User Fee/Demand-Risk Model



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

Advantages of a P3 from both perspectives of the partnership

## PUBLIC SECTOR PERSPECTIVE

- Retain ownership of public asset
- Accelerate project delivery
- Transfer risks of delivering projects
- Long-term life cycle
- Cost savings
- Project performance guarantees

## PRIVATE SECTOR PERSPECTIVE

- Investment opportunity
- Fosters innovation
- Competitive process and transparency





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Comparison between the Design-Bid-Build model and DBFOM (P3)

## DESIGN-BID-BUILD

- Public sector takes on most risks (except construction)
- Public financing (generally)
- Awarded to lowest bidder
- Public agency is responsible for O&M of the asset once construction is completed.

## DESIGN-BUILD-FINANCE-OPERATE-MAINTAIN

- Risks are shared between public and private sectors (and assigned to the party most suited to mitigate the risk)
- Private financing (generally)
- Best value for least net present value
- Ongoing O&M is the responsibility of the private sector for the lifecycle of the project.



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## 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



# INTRODUCTORY WORKSHOP

## THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

A P3 is:



A DESIGN AND CONSTRUCTION, 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.



# INTRODUCTORY WORKSHOP

## THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

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.



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

The top ten critical factors to address when procuring a P3

1. VISION
2. CHAMPION
3. COMMITMENT
4. COMMUNITY
5. COMMUNICATION
6. FUNDING
7. EXPERIENCE
8. STAFF/TIME
9. VALUE
10. INNOVATION



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- What basic public need does the project address?
- How do you reach consensus on core objectives and public policy goals?
- How will you measure success?



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- Who is standing up for the project and the model?
- Will P3s be there after the next election?
- What happens next?



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• Do we have the support for our agency to do things differently than using our traditional procurement methods?





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- What are the benefits and tradeoffs of P3 delivery?
- How do we incentivize good behavior from the private partner?
- What are the employment impacts, both immediate and long term?



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- Did an analysis take place?
- Is this project delivery type supported?
- Are you communicating the results?



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- Is there any money for P3 projects?
- Federal funding?
- What are leveraged funds?



# INTRODUCTORY WORKSHOP

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- Do we have the right or relevant experience to adjust to planning for, implementing and then managing P3 procurements?



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- Do we have the staff to handle projects procured through P3s?
- The right people?
- The right skills?
- What advisors are needed? For what roles?



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- Does the P3 structure provide value to the owner/community?
- Has there been a Value for Money study?



# INTRODUCTORY WORKSHOP

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- Will we have access to innovations? Novel designs? Creative construction techniques?
- Are we incorporating new technologies to embrace a sustainable and resilient lifecycle approach?



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P3 Readiness

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# INTRODUCTORY WORKSHOP

## THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

### Know what you want

- Establish clear goals and criteria for success
- Develop a strong program with clear output specifications
- What do you want the partner to do?
- What risk will you assume?
- Benchmark costs and establish targets
- Evaluate financing strategies



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Get the right advisors

- Real estate and development advisory
- Capital formation strategies and analysis
- Legal and legislative
- Public procurement process expertise
- Expertise in complex evaluation and contract negotiations
- Design and construction oversight
- Communication and public outreach



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Have a clearly defined process

- Transaction structure including financing considerations
- Attainable schedule and milestones identified
- Clear goals, expectations & evaluation criteria
- A clearly defined design process
- Clearly defined performance specifications
- Construction oversight
- Ensure transparency and accountability in the process
- Communication plan for internal and external stakeholders



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Principles of successful delivery

- Owner-defined scope
- Industry outreach
- Stakeholder outreach and involvement
- Performance-based specifications, open to innovation
- Head-to-head competition
- Transparency
- Fair treatment of bidders
- Inclusivity and goal-setting
- Timely third-party approvals
- Timely decision-making and speed in execution
- Effective and efficient risk transfer

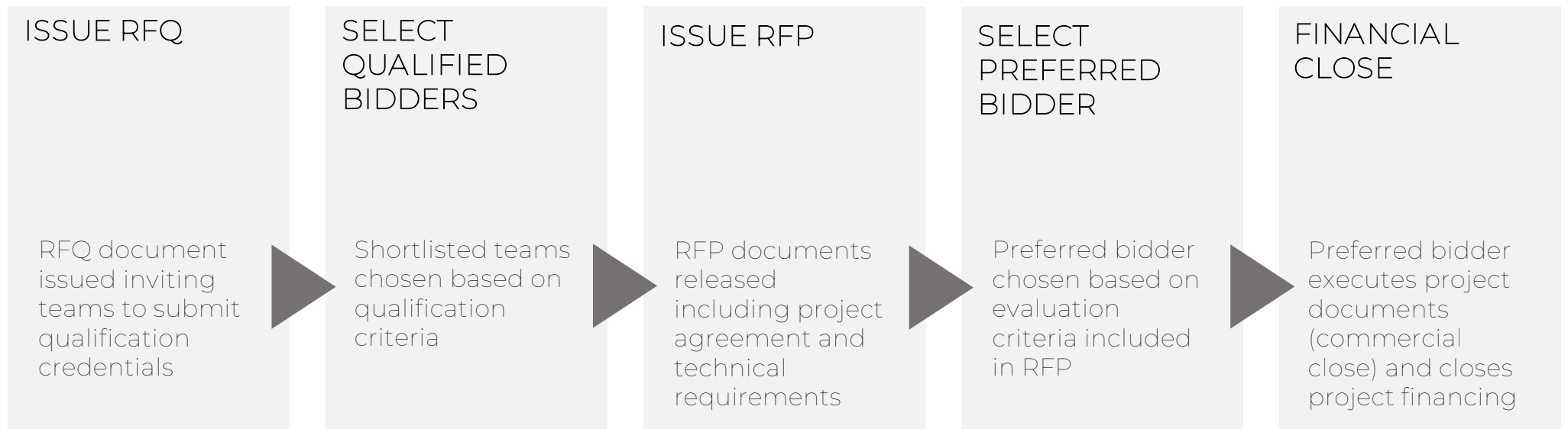


# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## The 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:





# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## General procurement 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



# INTRODUCTORY WORKSHOP **THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS**

Determining your Delivery Model

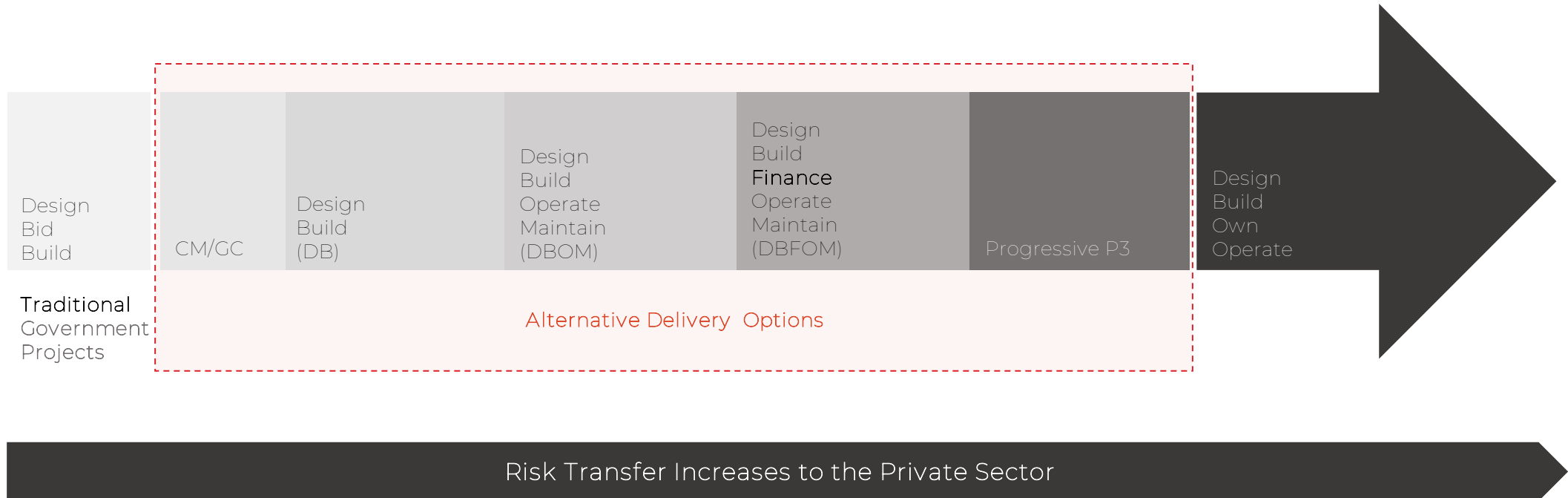
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# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Alternative delivery continuum

Delivery options are defined by risk transfer and private sector involvement.







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CM/GC



UTA First/Last Mile Connections

- Design team works for owner.
- Contractor comes on board early – continuous interactions/integration throughout the design process.
- Construction contract based on a negotiated price and risks are better reduced during design development.
- Design costs can be higher due to constructability and stakeholder interactions.
- Potential for reduced claims and risk for post award cost and schedule changes.



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## Design-Build



Harry Nice Bridge

- Concept design developed by owner to approximately 30%.
- Final design obligations and construction integrated into one contract with contractor.
- Risk is transferred to contractor for design and construction integration.
- Other risks assigned to party best able to manage the risk.
- Owner CM performs oversight, QA, assesses performance, and validates progress.



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Progressive Design-Build



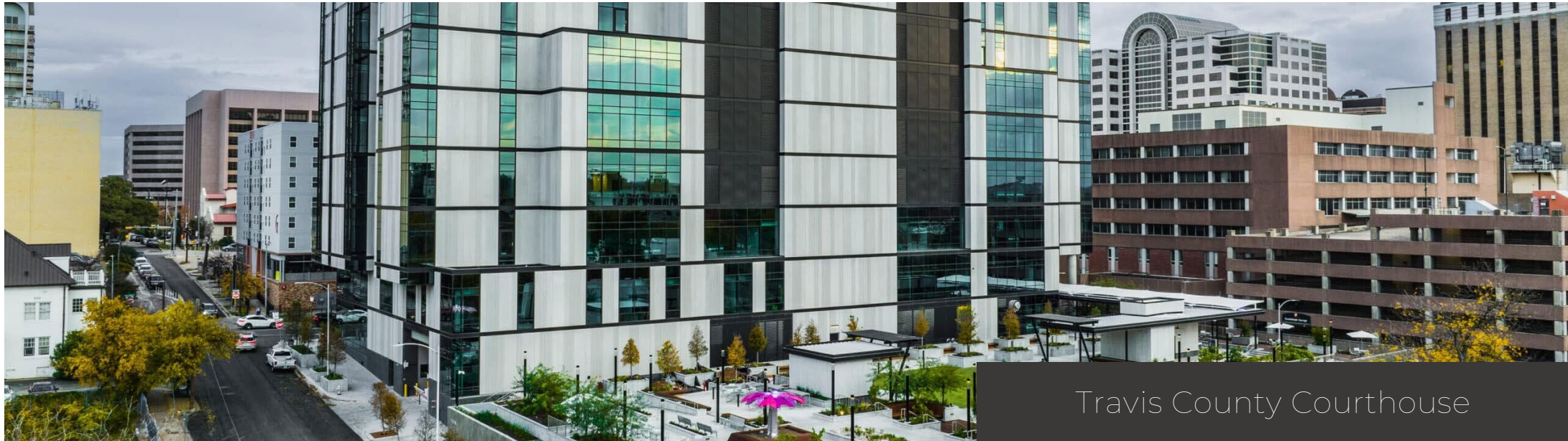
Annapolis City Dock

- Qualified Design-Builder is chosen based on design criteria developed by owner.
- Concept designs, site investigations, design development and design and construct integration occur during the development phase.
- Open book pricing occurs to define the DB phase cost.
- Provides flexibility by defining and de-risking the project in development phase prior to hard bid for DB work.
- Can reduce overall delivery schedule and potential claims.



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Design-Build-Finance



Travis County Courthouse

- Preceded by typical Design-Build procurement.
- Design-Build price includes short-term financing costs.
- Contractor may self-finance or use traditional bank financing.
- Helps to bridge owner short-term funding gaps. Can be used to finance all or part of a project - but costs of financing add to overall project costs.



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Design-Build-Operate-Maintain



Hudson Bergen Light Rail

- Contractor is responsible for design, construction and operations and maintenance for a set term.
- Incentivizes lifecycle considerations in design.
- Long term financing is not included and O&M can be repriced periodically.
- Facility returned to the project sponsor at the end of the term.
- Contracts include risk-sharing provisions to encourage cooperation between parties and long-term partnership.



## INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

### Public-Private Partnership (P3) or Design-Build-Finance-Operate-Maintain



LAX Automated People Mover

- Design, build, finance, operations & maintenance obligations are all shifted to the private sector, which is also responsible for integration risks and lifecycle concerns.
- Risk is allocated to the parties best able to mitigate and manage risk. Risk elements are defined and addressed in the contract.
- The procurement process is interactive and ends with a fixed bid for all project elements - design, build, finance, operations & maintenance.
- Allows for private sector innovation which can result in reduced project costs and construction timeline.
- Guarantees performance of lifecycle costs such as O&M and replacement and handback costs.
- Provides long-term fixed payment terms and schedule.
- Provides a supplemental source of financing.



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Progressive P3



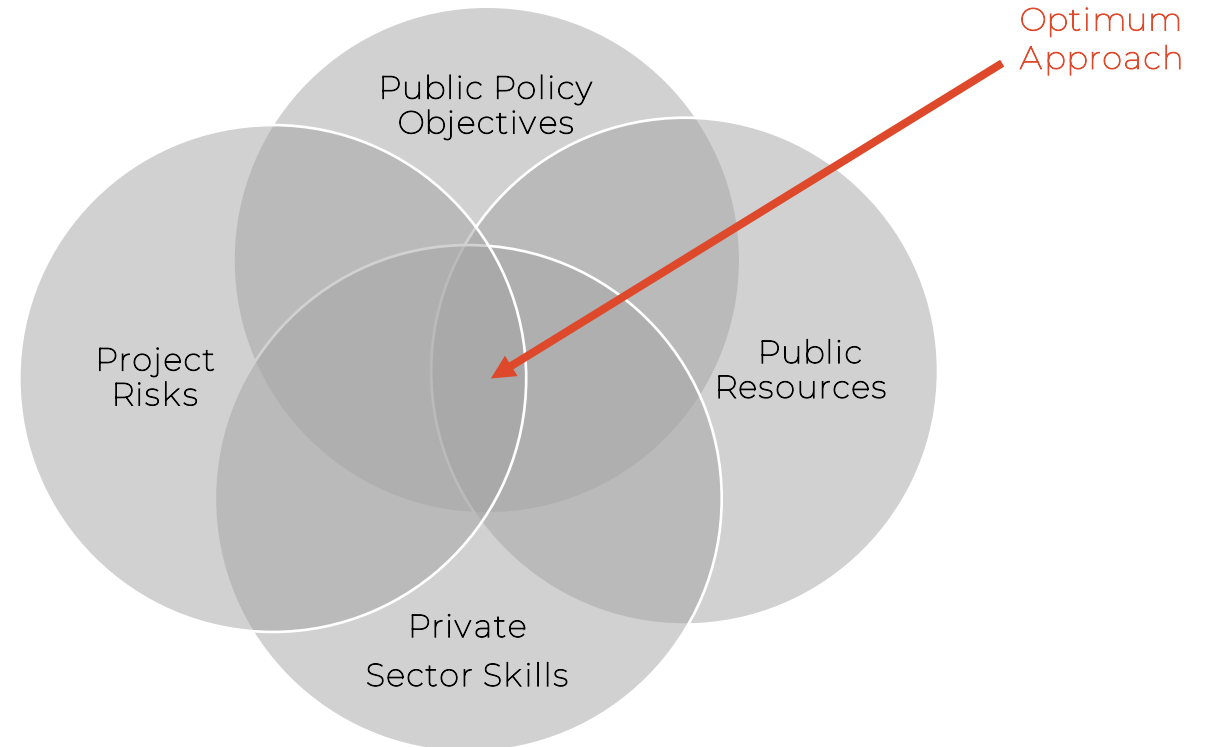
Downtown East, City of Pflugerville, TX

- Advances timeline for partnering between owner and developer during the Project Development Agreement (PDA).
- Procurement is based on qualifications.
- Open book pricing occurs when the project is well-defined.
- Allows for incremental project development.
- Provides a supplemental source of financing.
- Advances the schedule by collapsing the procurement process.
- Allows owner to advance the project on limited budgets.
- Development costs and risks are shared between developer and owner.
- Brings innovation and efficiencies earlier in the design development.
- Identifies and mitigates construction risks prior to financial close.
- Brings performance and lifecycle considerations to the forefront.



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

How does an owner decide?  
Optimizing goals and resources

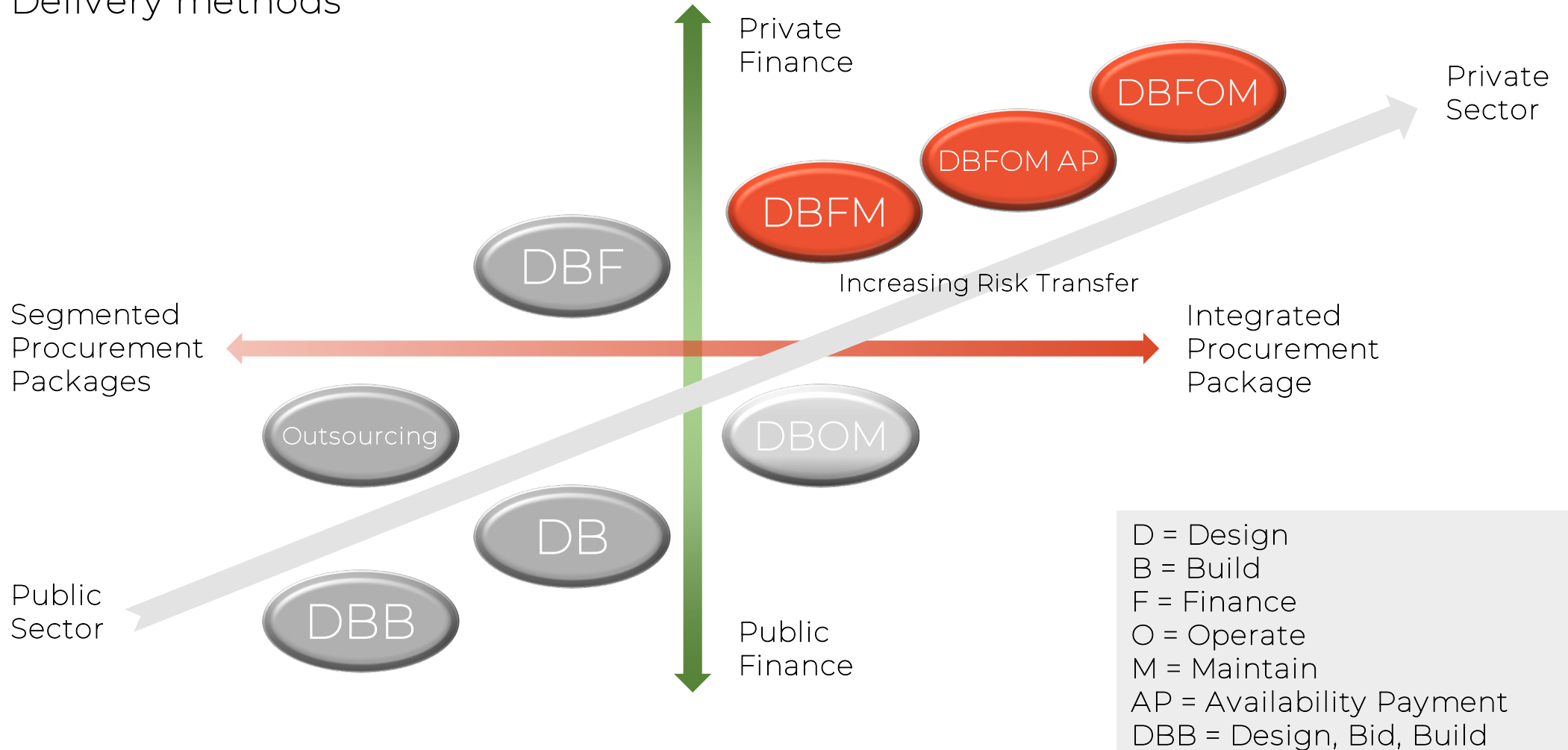






# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

Delivery methods







# INTRODUCTORY WORKSHOP **THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS**

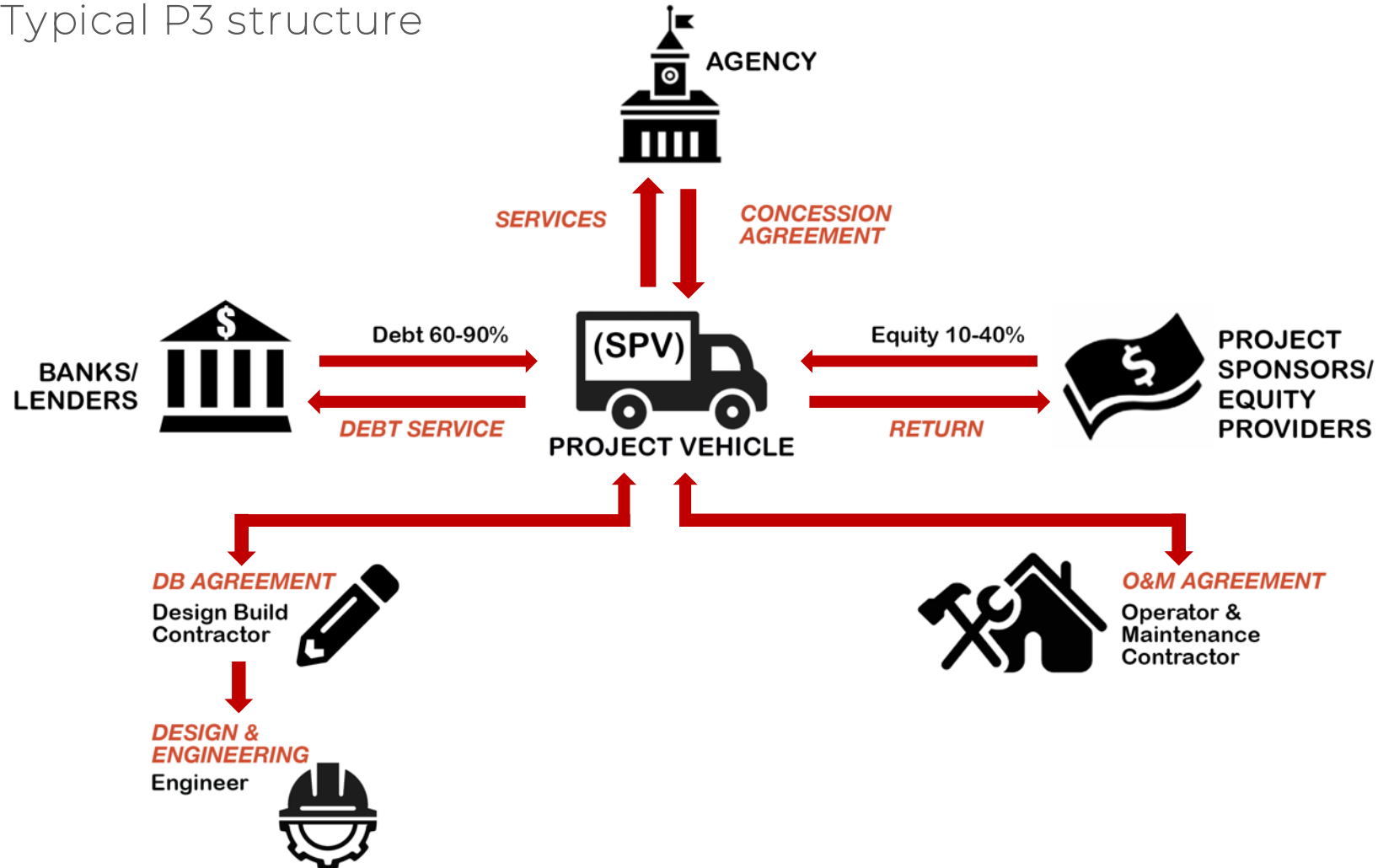
Building the Business Case, Deal Structuring and Contract Management

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# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

Typical P3 structure





# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Trade-offs

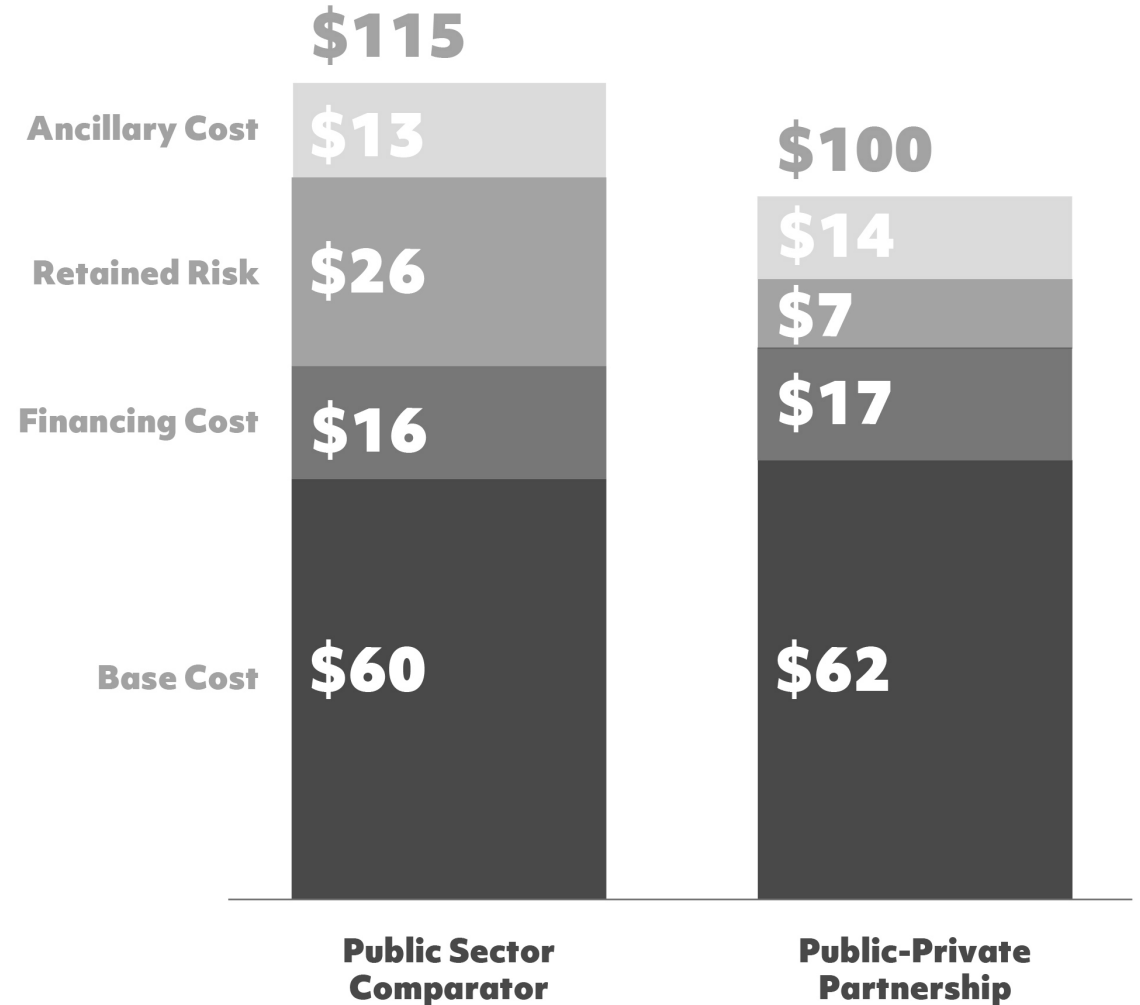
- Schedule vs funding
- Owner control vs performance
- Lifecycle vs upfront costs
- Owner risk vs risk transfer
- O&M performed by owner vs contractor



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Value for Money

- Value for Money (VfM) analysis compares the financial and schedule impacts of an alternative delivery project against traditional public delivery alternatives.
- Value for Money is an industry-accepted decision driver.





# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Contractual structures: lease vs concession

	Lease Structure			Concession Structure	
	Tax-Exempt	Taxable	All Equity	Availability Payment	Revenue Risk
Land Ownership	Public	Public	Public	Public	Public
Improvements Ownership	Private	Private	Private	Public	Public
Project Sponsor	501(c)3 Non-Profit	Developer SPV	Developer SPV	Developer SPV	Developer SPV
Financing (typical)	100% Tax-Exempt Debt	90% Taxable Debt, 10% Equity	100% Equity	90% Taxable Debt, 10% Equity	70% Taxable Debt, 30% Equity
Cost of Capital	Low	Medium	High	Medium	High
Net Cash Flow	Public	Public (or shared)	Private	Public	Private (or shared)
Repayment Mechanism	Facility lease	Facility lease	Facility lease	Availability payment	User fees
Term (typical)	30-40 years	20-30 years (up to 99)	65 years (up to 99)	30-40 years	40-60 years
Management Standards	Managed by Public or a 3 <sup>rd</sup> Party on a fee-for-service basis	Driven by demand (optimized by equity)	Driven by demand (optimized by equity)	Contractually defined and secured	Driven by demand (optimized by equity)

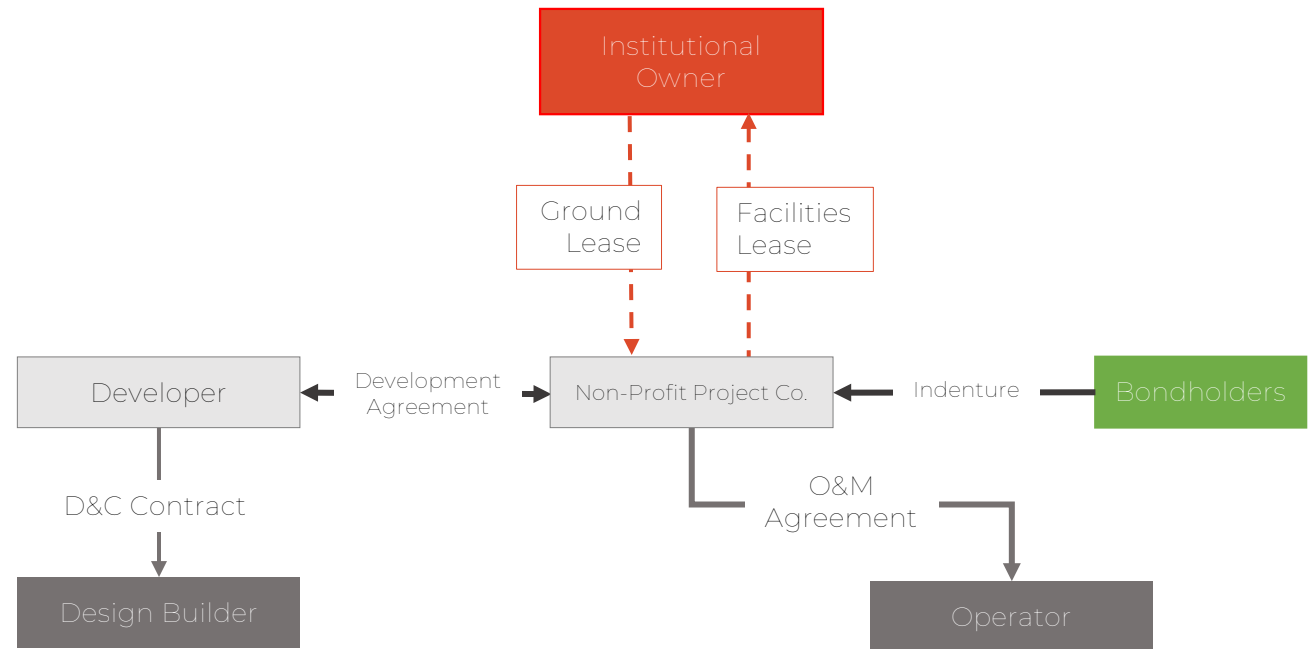


# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Basic lease/leaseback structure

A typical lease/leaseback is structured as a ground lease for a nominal fee by a non-profit entity, with the institutional owner then leasing back some, or all, of the space in the completed facilities.

To deliver the facilities, the non-profit will sell bonds directly or through a conduit issuer, contract with a developer to design and build the facility, and then enter into an agreement with an operator to maintain and/or operate the infrastructure asset for a defined period.



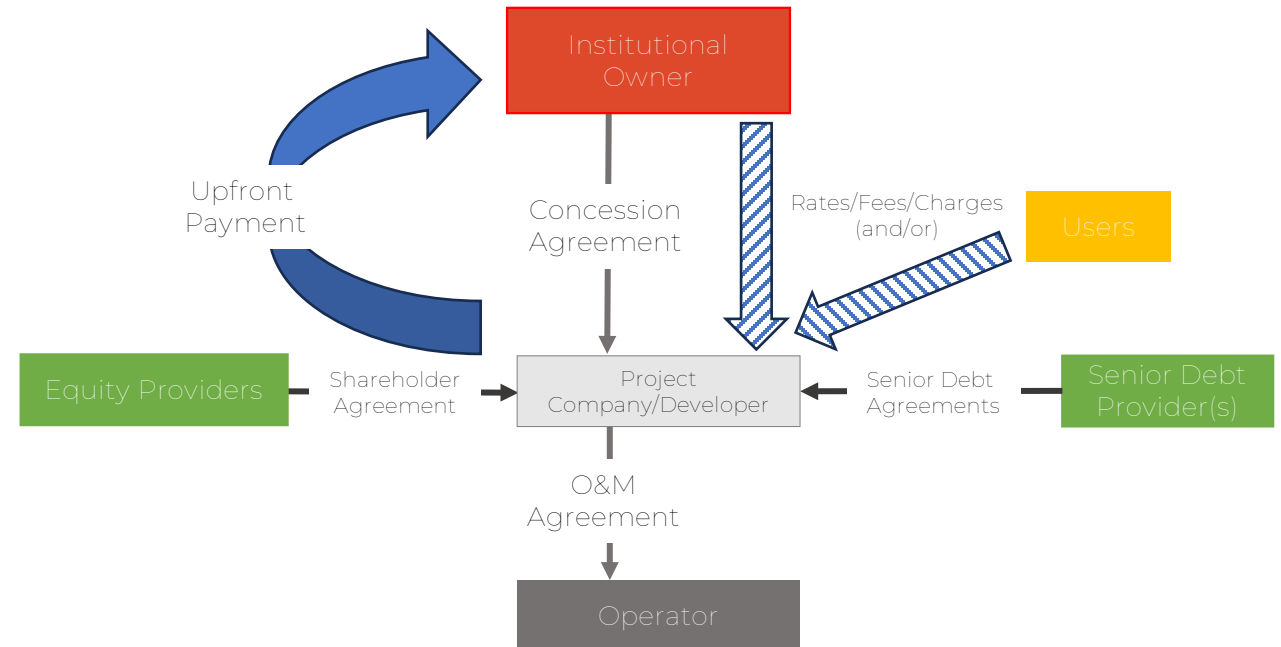




# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Basic monetization structure

A typical monetization structure will see a private entity offer an upfront payment to an institutional owner in exchange for the operational responsibilities and related revenue stream for an existing asset. The private entity will finance the upfront payment and will also have upkeep and replacement responsibilities during the contract term.





# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## Risk allocation

The financial elements and long-term obligations provide risk opportunities that differ from other alternative contracting approaches.

Risk allocation is at the core of P3s:  
Risk transfer = Innovation Incentive

Transferring too little risk diminishes potential VfM.

Transferring too much risk (a risk that is unmanageable) results in contingency additives diminishing the VfM.



# INTRODUCTORY WORKSHOP **THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS**

Picking the Right Advisors and Partners

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# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

## 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 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.

RFIs Industry Conferences Stakeholder Meetings  
Community Meetings One-On-Ones  
Project Champion Continuous Communication  
Community Days



# INTRODUCTORY WORKSHOP

## THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

### Key responsibilities of P3 advisory services

Financial	Technical	Legal
<ul style="list-style-type: none"><li>Assessing the potential value of a P3 delivery model</li><li>Developing the P3 business case (e.g., market soundings, value-for-money analysis, risk analysis, building a financial model, project funding and affordability analysis, procurement strategy)</li><li>Structuring the financial aspects of the procurement documents (i.e., RFQ and RFP) and P3 contract</li><li>Evaluating and negotiating the financing aspects of P3 bids</li><li>Overseeing the financial close.</li></ul>	<ul style="list-style-type: none"><li>Preparing bridging documents</li><li>Developing Project-Specification Output Specification (PSOS)</li><li>Supporting the financial advisor with risk analysis</li><li>Structuring the technical aspects of the procurement documents and P3 contract</li><li>Evaluating and negotiating the technical aspects of P3 bids</li><li>Supporting design reviews</li><li>Providing construction supervision.</li></ul>	<ul style="list-style-type: none"><li>Providing intelligence on the general legislative background</li><li>Supporting procurement documents and drafting the P3 contract</li><li>Communicating and negotiating with bidders</li><li>Managing the formal legal procedures and documentation</li><li>Conducting due diligence during the financial close.</li><li>Supporting the adaptation of P3 contract / contract administration.</li></ul>



# INTRODUCTORY WORKSHOP

## THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

### Establishing the P3 advisory team

There are certain elements that should be considered when selecting advisors:

- **Character:** what are the advisory firm's principles and values?
- **Cultural fit:** how well will this advisory firm mesh with current team members?
- **Risk:** will this advisory firm fit into the broader picture of what we're building?
- **Trust:** will this advisory firm be dependable and transparent?



# INTRODUCTORY WORKSHOP THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

Best practices when hiring P3 advisors

Seek local expertise  
wherever available

Agencies decide;  
advisors advise

Demonstrate  
preparedness

Specify the capabilities  
you're hiring for



# INTRODUCTORY WORKSHOP

## THE FUNDAMENTALS OF PUBLIC-PRIVATE PARTNERSHIPS

### The key ingredients of a successful P3 program

