What is a Performance Based PPP?

Objectives of the Performance Based PPP approach include:

• **Accelerated delivery** of new and rehabilitated assets
• **Better control** of infrastructure construction costs, schedule and maintenance
• **Predictable funding requirements** for school infrastructure and services
• **A whole-life solution** to school construction and maintenance
• **Transferring risk** to the private sector
• **Frees up funds** to finance improvements for other infrastructure
• **Selectivity** – PPP is only pursued if it yields greater benefits than traditional procurement
# Performance Based PPP Delivers Time & Cost Savings

<table>
<thead>
<tr>
<th>P3 Project</th>
<th>Accelerated Delivery</th>
<th>Cost Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denver FasTracks EAGLE, Colorado</td>
<td>Expected 11 months ahead of schedule</td>
<td>$300 million</td>
</tr>
<tr>
<td>I-595, Florida</td>
<td>Expected 15 years ahead of schedule</td>
<td>$394 million</td>
</tr>
<tr>
<td>Port of Miami Tunnel, Florida</td>
<td>Expected 2 years ahead of schedule</td>
<td>$398 million</td>
</tr>
<tr>
<td>Ohio River Bridges, Indiana/Kentucky</td>
<td>Expected 242 days ahead of schedule</td>
<td>Approximately $228 million</td>
</tr>
<tr>
<td>Long Beach Courthouse, California</td>
<td>Expected 30 months ahead of schedule</td>
<td>$52 million</td>
</tr>
<tr>
<td>Goethals Bridge, New York</td>
<td>Expected 6 months ahead of schedule</td>
<td>$150 million</td>
</tr>
</tbody>
</table>
What drives the development of PPPs?

Driving the need
Governments faced with several problems:
- Aging infrastructure
- Growing population in urban centers
- High level of services
- Construction costs increases
- Budgetary constraints
- Slower revenue growth
- Resistance to tax increases
- Cost overruns and delays in traditional procurements

Meeting the need with PPPs
Key themes in understanding PPPs:
- Leveraging limited public capital
- Affordability
- Value for money (cost and time savings)
- Whole-life costing approach
- One tool in the toolbox
- Output/outcome driven solution
- Risk allocation
- Innovation
- Competition
Public Agency acts as manager of all contracts and takes all risks related to delivery, financing, and operations of project.
Risk Apportionment by Project Delivery Option

Degree of Private Sector Involvement

- Design - Bid - Build
- Construction Manager at Risk, Fee
- Design - Build
- Design – Build – Operate - Maintain
- Design – Build – Finance
- Design – Build – Finance – Operate – Maintain – Availability Payments
- Design – Build – Finance – Operate – Maintain - Tolls/Fare Box
- Asset Sale/Privatization

Degree of Private Sector Risk

- Alternate Delivery – Public Financing
- Alternate Delivery – Private Financing

Traditional Model
A typical PPP is structured as a long-term agreement / concession in which the public sector assigns to a private sector company the right to design, build, finance and/or operate the infrastructure asset for a defined period of time and per a financial arrangement.
Availability Payment PPP Structure

- Public entity makes periodic, pre-established payments to private sector consortium in return for project delivery and performance.

- Payments are made in accordance with availability of facility as well as quality of service provided.

- Effective for projects lacking standalone financial feasibility, including schools or any kind of public building.

- Encourages private sector to plan and manage construction and maintenance program as efficiently as possible.
Screening Considerations

Spending need/cost savings
- Part of capital plan/demonstrable need
- Technical innovation
- Affordability
- Provides Value for Money
- Economies of scale
- Risk transfer
- Timing benefit
- Whole life costing

Private sector ability to partner
- Current market liquidity
- Private interest
- Return justifies risk
- Suitable size
- Risk tolerance
- Complex construction
- Availability of TIFIA/PABs

Regulatory, legal, and political feasibility
- Regulatory risks, issues, or flexibility
- Need for new or change in legislation
- Environmental issues
- Political risks or issues
- Accounting and tax treatment
- Land ownership issues
- Existence of a political champion
Where is Value for Money Generated?

Drivers of savings:
- Optimal allocation of risks
- Design and construction efficiencies
- Focus on whole life cycle costs
- Integrated planning and design
- Private sector management and control
Purpose of Value for Money

- VFM is specifically designed to provide a comprehensive and unbiased metric for upholding the Public Interest at all times.

- VFM Analysis enables transparent consideration of project specific issues under both P3 and Traditional Delivery scenarios.

VFM inputs and process (for each project):

- **Project Specific Inputs:**
  - Risk profile
  - Risk apportionment preferences
  - Costs (immediate and long term operations)
  - Revenues

- **Develop Risk Matrices:**
  - P3 Delivery* and Risk Apportionment Profile
  - Traditional Delivery* and Risk Profile

- **Financial Model:**
  - Value for Money Analysis

*Consensus required for Delivery Assumptions
TIFIA Financing

- Form of subordinate, non-recourse project financing
- Subsidized by the Federal government
- Competitive application process
  - In March 2011, 34 projects from 13 states applied for TIFIA loans totaling over $14B
  - Only 8 projects were invited to submit a formal application
- Favorable terms including base rate set at State and Local Government Series (SLGS) rate (35 year rate ~ 4.3% July 22, 2011)
- Debt service coverage ratio as low as 1.1x
- Can only finance a maximum of 33% of project costs
- Requires:
  - Need a “revenue streams,” although TIFIA need not be investment grade
  - Need federal environmental clearance

Flexible repayment terms provide significant value, especially for full concession model
Private Activity Bonds (PABs) for Transportation

- In 2005 transportation infrastructure became eligible for PAB financing with the passage of SAFETEA–LU; which amended Section 142(a) of the Internal Revenue Code to allow for highway and freight transfer facilities P3 projects.
  - Provides private sector with access to tax-exempt bond financing
  - Government “conduit” bond issuer required
  - The law limits the total amount of such bonds to $15 billion.
  - It is estimated that the Federal tax-exemption subsidy for PABs is approximately 15-20% of the amount borrowed.

<table>
<thead>
<tr>
<th>Project (Bonds Issued)</th>
<th>PAB Allocation ($ in thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Beltway HOT Lanes</td>
<td>$589,000</td>
</tr>
<tr>
<td>North Tarrant Expressway, TX</td>
<td>$400,000</td>
</tr>
<tr>
<td>IH 635 (LBJ Freeway), TX</td>
<td>$615,000</td>
</tr>
<tr>
<td>Denver RTD Eagle Project (East Corridor &amp; Gold Line)</td>
<td>$397,835</td>
</tr>
<tr>
<td>CenterPoint Intermodal Center, Joliet, Illinois</td>
<td>$150,000</td>
</tr>
<tr>
<td>CenterPoint Intermodal Center, Joliet, Illinois</td>
<td>$75,000</td>
</tr>
<tr>
<td>Downtown Tunnel/Midtown Tunnel, Norfolk, Virginia</td>
<td>$675,004</td>
</tr>
<tr>
<td>I-95 HOT/HOV Project</td>
<td>$252,648</td>
</tr>
<tr>
<td>East End Crossing, Ohio River Bridges</td>
<td>$676,805</td>
</tr>
<tr>
<td>North Tarrant Expressway 3A &amp; 3B</td>
<td>$274,030</td>
</tr>
<tr>
<td>Goethals Bridge</td>
<td>$404,840</td>
</tr>
</tbody>
</table>
Procurement Process

The policy, planning and procurement phases of the asset lifecycle can be broken into the following stages:

- **Policy & planning**
  - Procurement infrastructure
  - Procurement strategy
  - Procurement structure

- **RFQ**
  - Tell market what you want
  - Shortlist bidders

- **RFP**
  - Compete on your terms

- **Preferred bidder**
  - Select best VALUE

- **Close**
  - Negotiate to close
  - Finance the project

---

**Terminology**

- **RFQ** = Request for Qualifications – Sometimes referred to as Request for Expressions of Interest (RFEI)
- **RFP** = Request for Proposals
### Implementation Process

<table>
<thead>
<tr>
<th>Concept Stage</th>
<th>Feasibility Stage</th>
<th>Delivery Stage</th>
</tr>
</thead>
</table>
| - Identify internal project manager for the PPP project, along with staff to provide additional support.  
- Engage Stakeholders  
- Procure Advisors  
- Project/Program Selection  
  - Identify project requirements, identify fit with policy and expected approvals, establish requirements expressed as outputs  
- Initial feasibility study  
- Identify statutory requirements, and policy objectives | - Outline Business Case  
- Analysis of Project Options  
- Public Sector Comparator  
- Shadow Bid  
- Market Sounding  
- Definition of output specification  
- Consider value engineering  
- Issue RFI | - Issue RFQ  
- Prepare project documentation  
- Issue RFP  
- Evaluate bids  
- Secure financing and finalize costs  
- Final business case approval  
- Completion of documentation |
### How the Public Sector Can Facilitate Success

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Create institutional certainty</td>
<td></td>
</tr>
<tr>
<td>Educate the public about PPPs</td>
<td></td>
</tr>
<tr>
<td>Prioritize and screen projects</td>
<td></td>
</tr>
<tr>
<td>Appoint senior government “champions”</td>
<td></td>
</tr>
<tr>
<td>Create a clear decision making hierarchy</td>
<td></td>
</tr>
<tr>
<td>Be an effective counterparty with sufficient resources and experienced advisors</td>
<td></td>
</tr>
<tr>
<td>Adopt standardized procurement practices</td>
<td></td>
</tr>
<tr>
<td>Clear accountability and transparency of the procurement process</td>
<td></td>
</tr>
<tr>
<td>Be prepared to provide credit support to projects</td>
<td></td>
</tr>
</tbody>
</table>