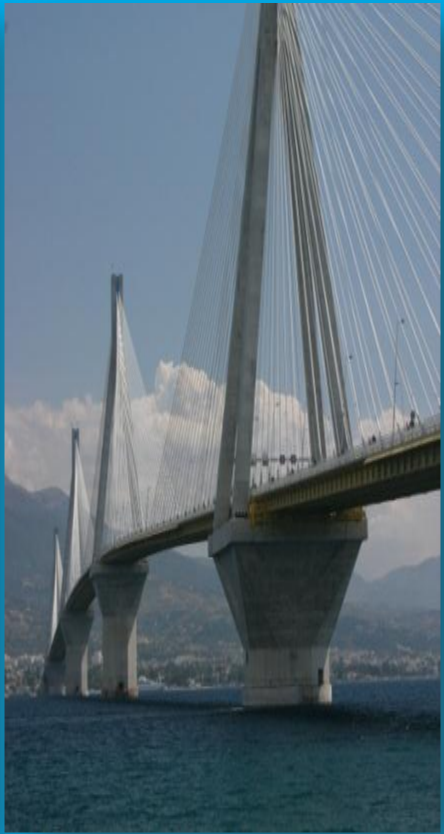
NGA Colorado State Retreat on PPPs
April 28, 2014

PPP 101



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

P3 Project	Accelerated Delivery	Cost Savings
Denver FasTracks EAGLE, Colorado	Expected 11 months ahead of schedule	$300 million
I-595, Florida	Expected 15 years ahead of schedule	$394 million
Port of Miami Tunnel, Florida	Expected 2 years ahead of schedule	$398 million
Ohio River Bridges, Indiana/Kentucky	Expected 242 days ahead of schedule	Approximately $228 million
Long Beach Courthouse, California	Expected 30 months ahead of schedule	$52 million
Goethals Bridge, New York	Expected 6 months ahead of schedule	$150 million

What drives the development of PPPs?

Driving the need

Governments faced with several problems:

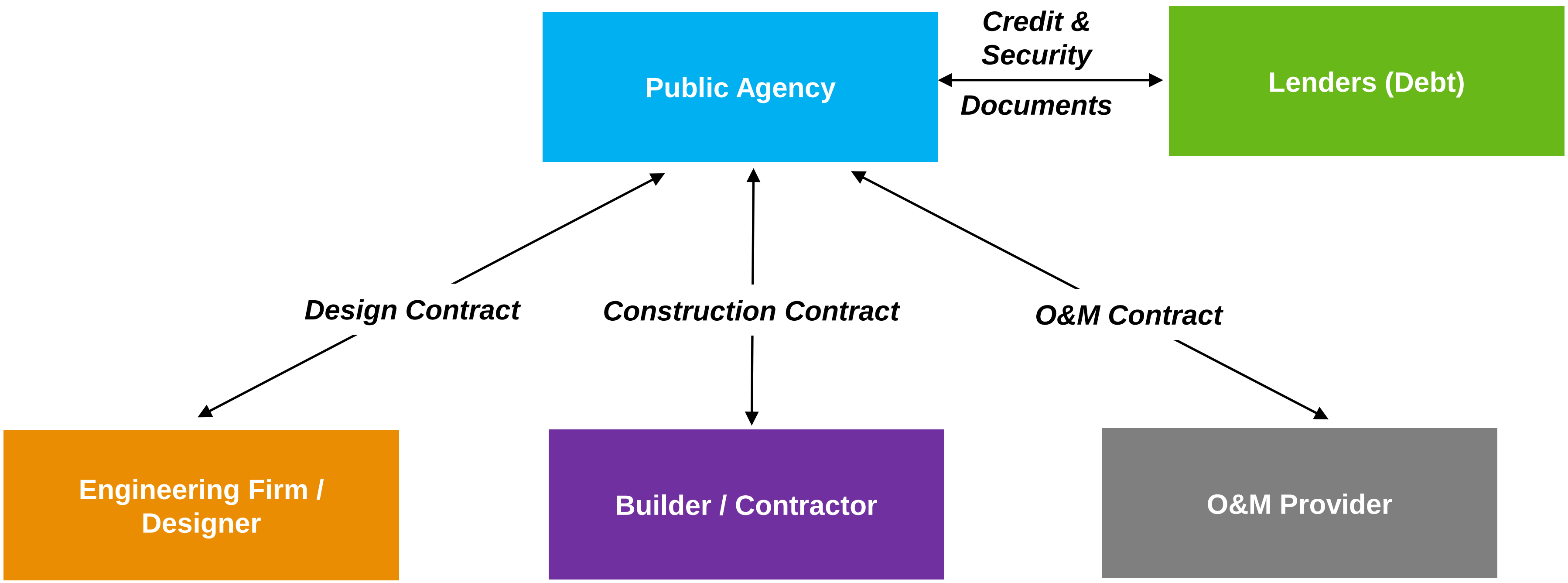
- Aging infrastructure
- Growing population in urban centers
- High level of services
- Construction costs increases
- Budgetary constraints
- Slower revenue growth
- Resistance to tax increases
- Cost overruns and delays in traditional procurements

Meeting the need with PPPs

Key themes in understanding PPPs:

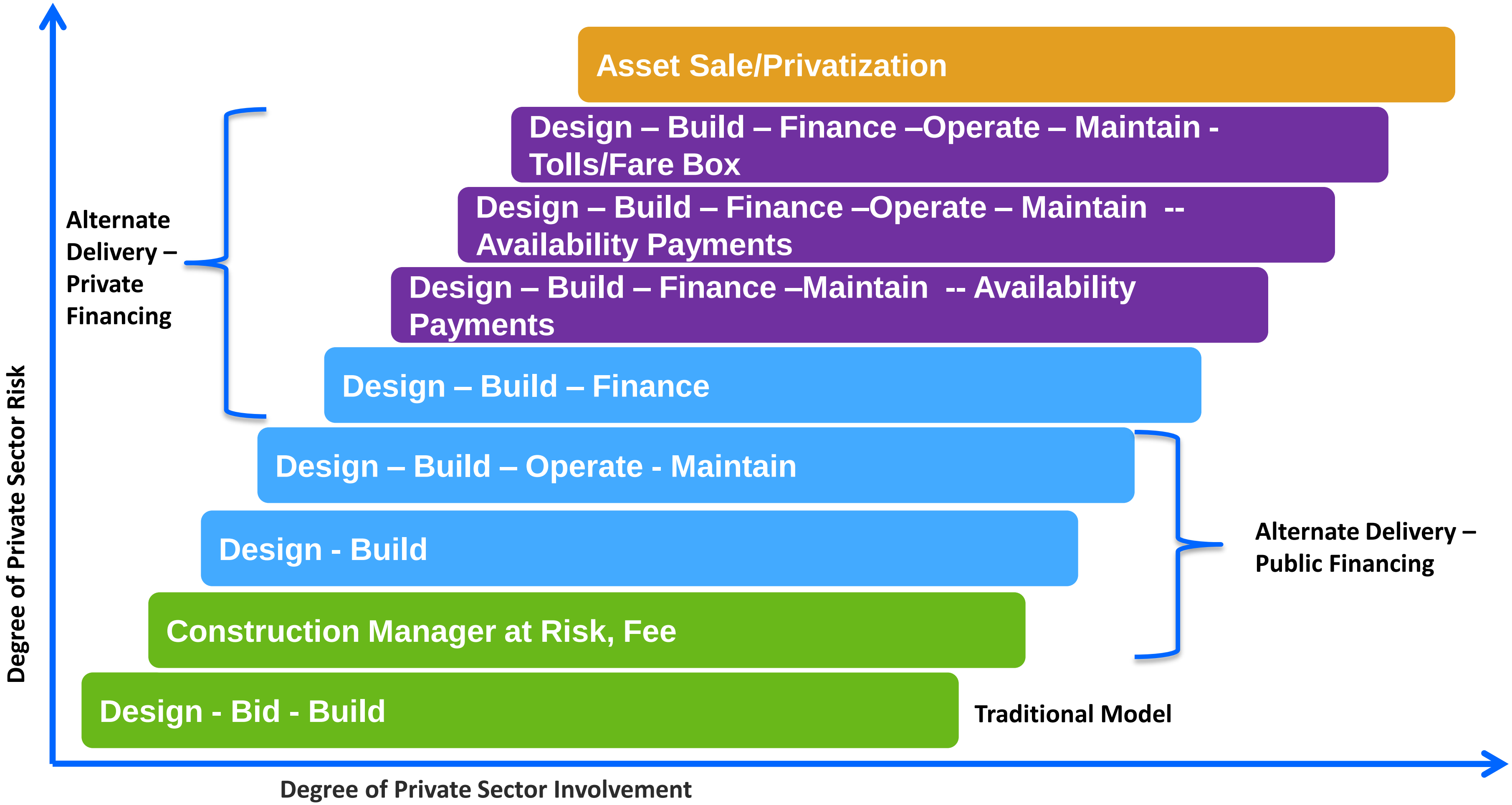
- Leveraging limited public capital
- Affordability
- Value for money (cost and time savings)
- Whole-life costing approach
- One tool in the toolbox
- Output/outcome driven solution
- Risk allocation
- Innovation
- Competition

Traditional Delivery Approach
Conventional Design-Bid-Build Model Structure



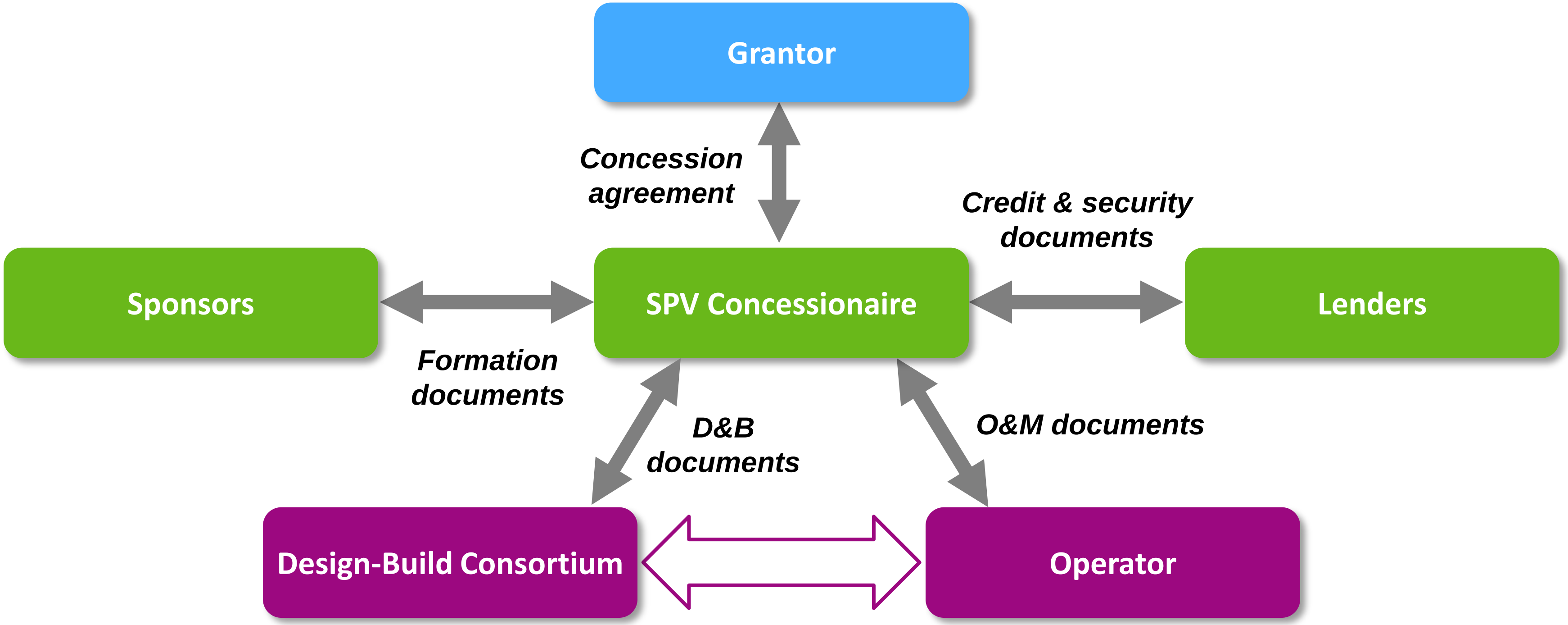
Public Agency acts as manager of all contracts and takes all risks related to delivery, financing, and operations of project.

Risk Apportionment by Project Delivery Option



Basic P3 Model Structure

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.



Single point of responsibility for construction

Need for limited coordination with Operator during design and commissioning

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

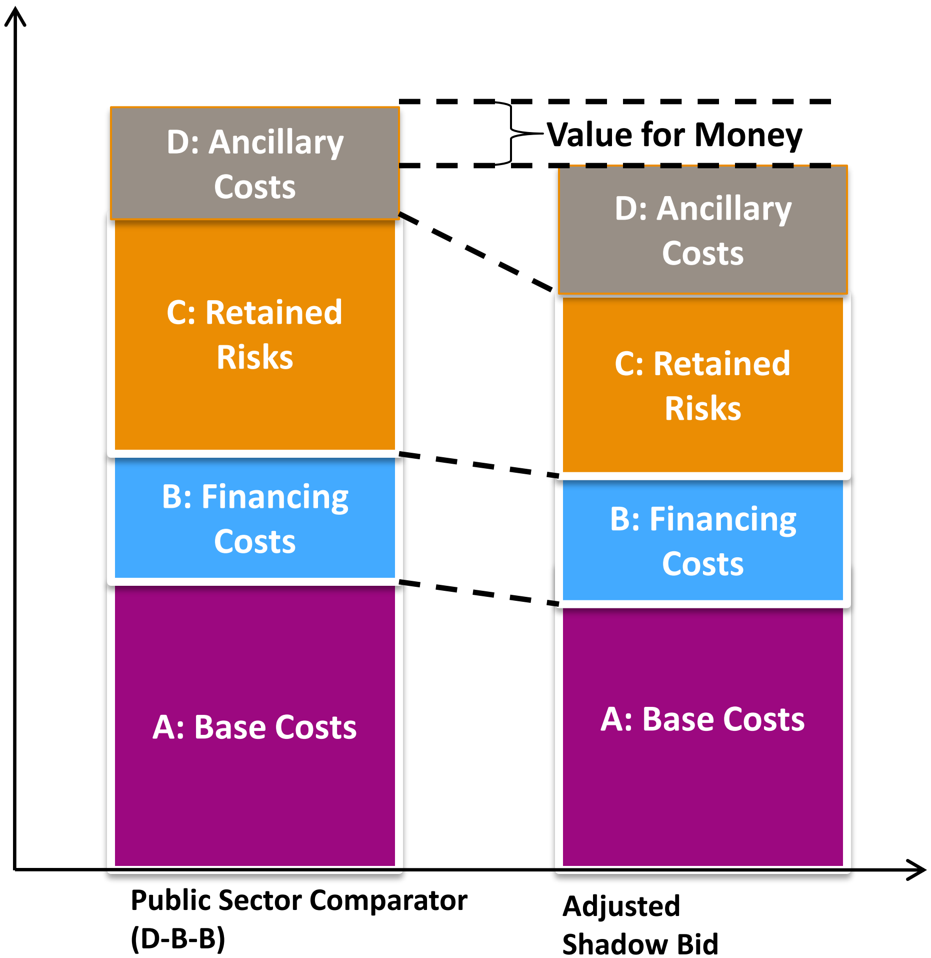
Private sector ability to partner

- 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

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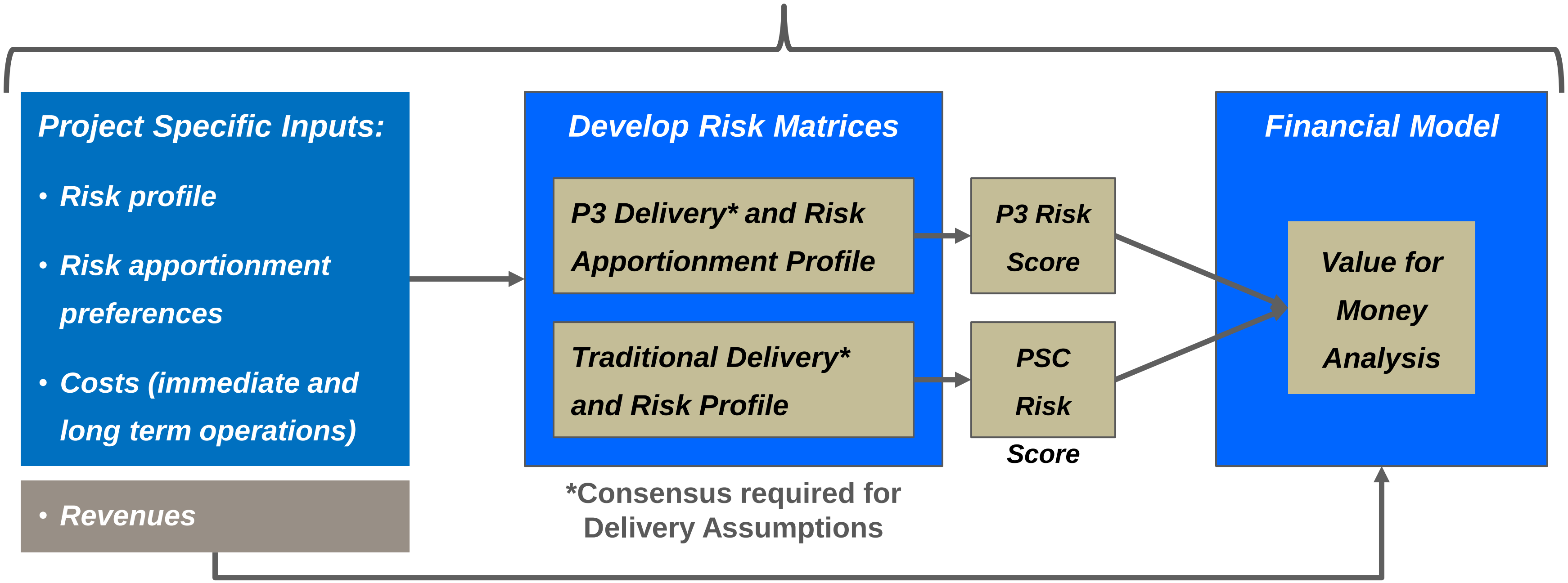
Purpose of Value for Money

- **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):



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.

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

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Procurement Process

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

18-24 months

Policy & planning	RFQ	RFP	Preferred bidder	Close
■ Procurement infrastructure ■ Procurement strategy ■ Procurement structure	■ Tell market what you want ■ Shortlist bidders	■ Compete on your terms	■ Select best VALUE	■ 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

Concept Stage

- 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

Feasibility Stage

- Outline Business Case
- Analysis of Project Options
- Public Sector Comparator
- Shadow Bid
- Market Sounding
- Definition of output specification
- Consider value engineering
- Issue RFI

Delivery Stage

- 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

- Create institutional certainty
- Educate the public about PPPs
- Prioritize and screen projects
- Appoint senior government “champions”
- Create a clear decision making hierarchy
- Be an effective counterparty with sufficient resources and experienced advisors
- Adopt standardized procurement practices
- Clear accountability and transparency of the procurement process
- Be prepared to provide credit support to projects