

Public-Private Partnerships "P3"

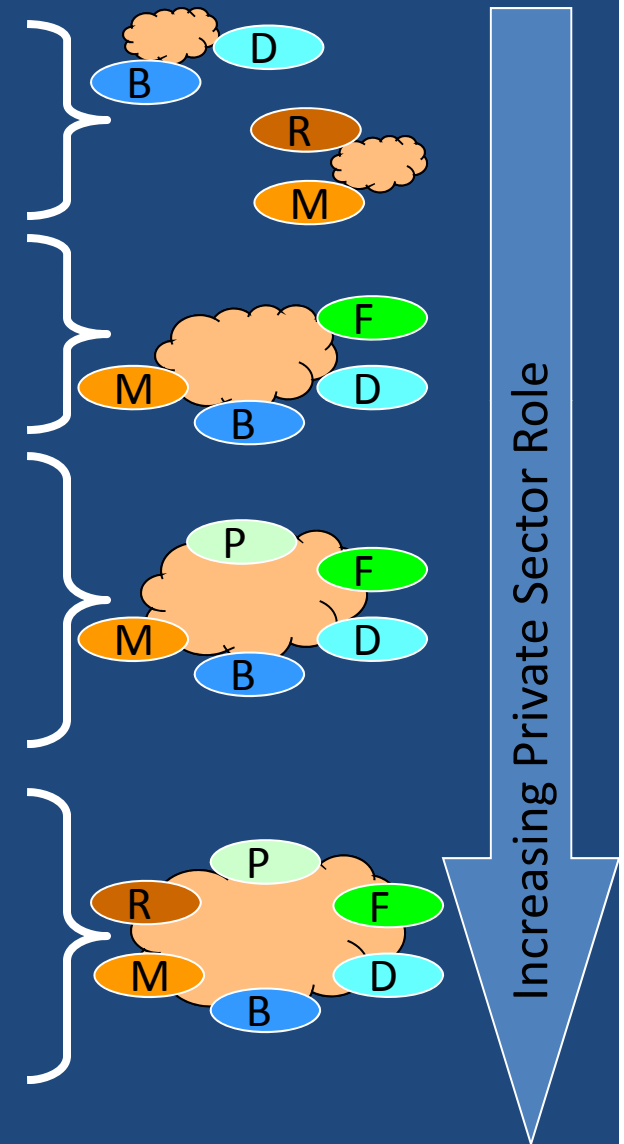
Lowell R. Clary
lclary@p3devco.com

The logo for P3 Dev Co, LLC. It features a stylized 'P3' in a dark blue serif font, followed by 'DEV CO, LLC' in a smaller, all-caps serif font. A thin horizontal line is positioned below the text.

P3 DEV CO, LLC

Types of P3s

- Design-Build (DB)
- Asset Management Contract
- Design-Build-Operate-Maintain (DBOM)
- Design-Build-Finance-Operate (DBFO)
- Build-Operate-Transfer (BOT)
- Build-Transfer-Operate (BTO)
- Joint Development Agreement (JDA)
- Concession
- Asset Lease/Sale



Characteristics of a P3

- Project Champion
- Longer-Term Agreements
- Private sector funding (equity and debt)
- Private sector operates multiple major project elements (design-build, plus operate-maintain, etc.)
- Sharing of risk between private sector and public owner

What are the Benefits of P3?

- Accelerate High Profile Projects
- Economic Stimulus/Jobs
- Private Sector Expertise
- Use Others Money
- Promote Innovation in Project Development and Delivery – Profit Motive

What is Driving P3s?

- “Needs” far outweigh available resources
- Government purchasing power is eroding
- Land/construction cost increases
- Changing financial markets/tools
- Legal authority for P3 opened up
- Ability to use user fees more acceptable
- Bottom line – P3 can advance projects

Facts vs. Fiction

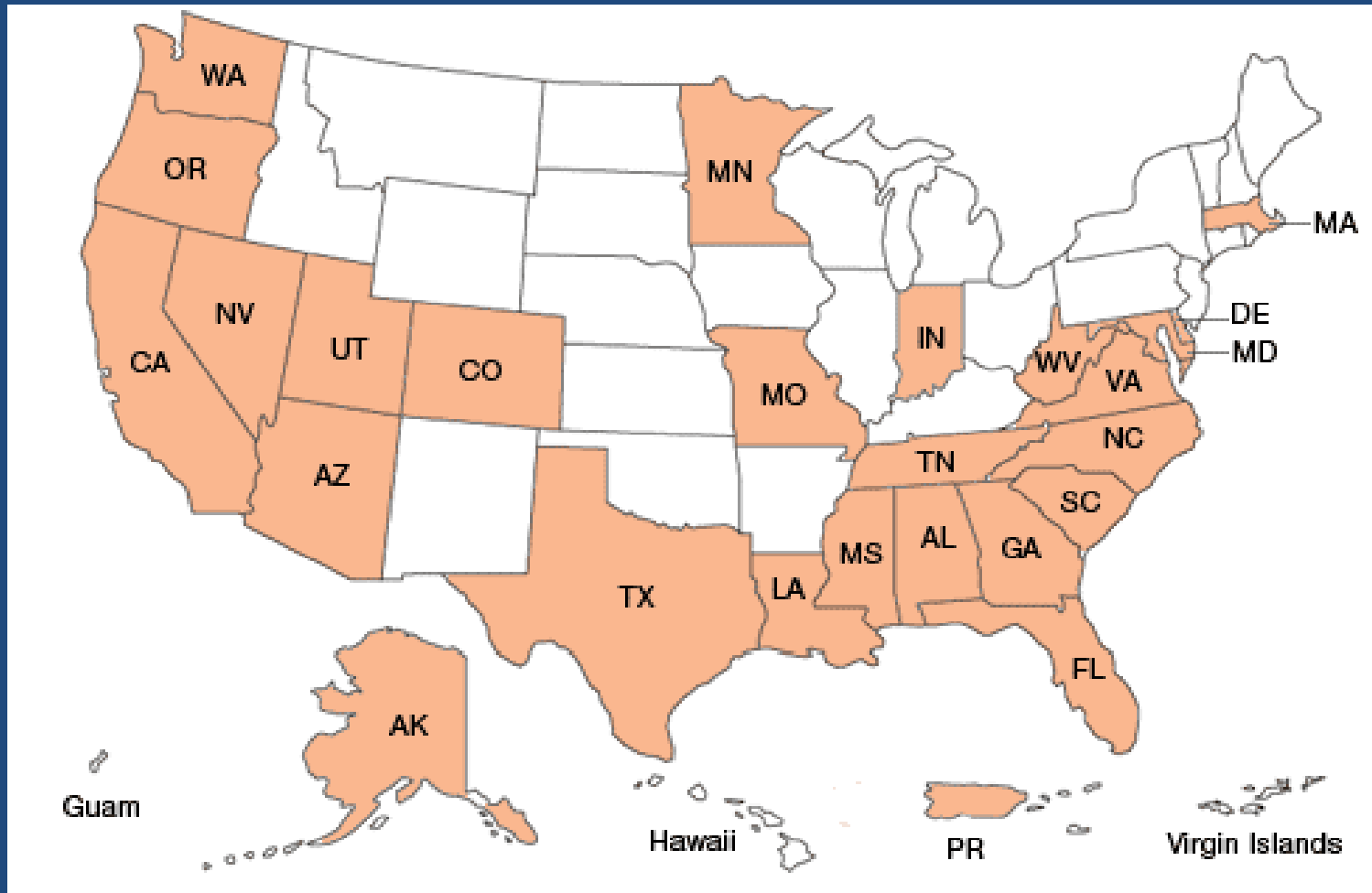
- P3s increase funding for government?
- All P3s led by foreign firms?
- P3s “take away” work from U.S. based firms?
- P3s will replace “traditional” project delivery approaches?
- You need a PHD in P3s to understand this new tool?
- Expert advisors are essential for success?

Legal Environment

- At least 25 states have a form of legal authority for P3 in transportation
www.fhwa.dot.gov/ipd/p3/state_legislation/index.htm
- Many local governments across the country adopted state P3 laws via local resolution that establishes the P3 process in their jurisdiction and/or have “Home Rule” authority
- Varies by type of P3 such as water/sewer, transportation, economic development, etc.

States with P3 Legal Authority

(source - US DOT)



Environment for Success

- Outside the Box Thinking
- Political Support
- Project Champions
- Understanding/willingness to take risk
- P3 “owner” processes
- Select the right projects

Key Roles

- Project Champion
- “Owner” – is the public entity
- Private Team – private entities leading project
- Owner’s Project Lead/Manager
- Private Team’s Lead Managers
- Owners Rep – advisors to the owner
- Others such as project funding partners, etc.

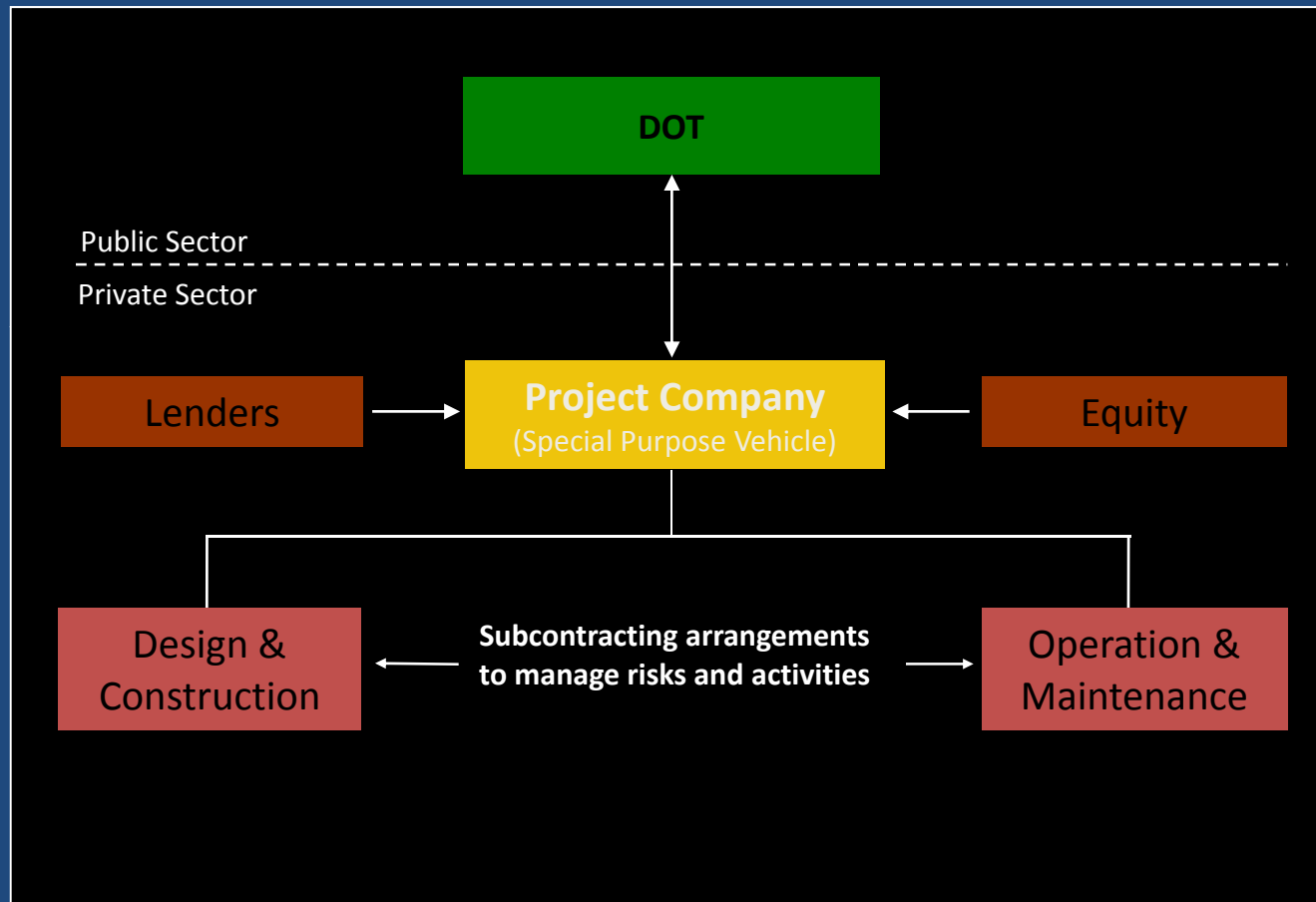
Private Team

- Special Purpose Vehicles set up for the Project
- Equity Owners/Investors (normally includes the concessionaire, major investors, can include lead contractor or others)
- Lenders
- Lead Disciplines
 - Designer
 - Contractor
 - Operator

Public Private Partnerships

How They Work

Process



Financing

- Long term loans
- Bond issuances
- 60%-90%

- Project Sponsors
- Capital Markets
- 0%-15%

- Project Sponsors
- 10%-30%

From Cintra

6/11/2010

P3 Dev Co, LLC

12

Private Sector Expertise

- Bottom Line Leads to Innovation
- Linking DB Saves Time, Sometimes Cost too
- Long-Term O&M Drives Quality DB
- Excellent Financial Modeling
- Lenders Watch Private Team Closely – same interest as owner
 - Closely examine technical/financial plans
 - Approve DB progress payments
 - Make sure asset is properly maintained

Uses Other People's Money

- Private equity partners, several types:
 - Developer, higher risk, generally first money in and first money out – lose it all or larger return
 - Equity partner, covers riskier time of project, generally early years
 - Longer-Term Equity Partner – patient investor
- Lenders, much like typical mortgage/bond financing from banks and public bond market

Why is Private Equity Critical?

- Traditional approaches for government debt have been damaged by financial crisis
 - Bond Insurance all but gone
 - Need for stronger credit structures, cutting ability for 100 percent project debt financing
- Private equity strengths
 - At risk funding – focused on success
 - Subordinated to project debt – “coverage factor”
 - Private firms delivering the project invest in effort

Toll Roads:

COMPARISON OF APPROACHES

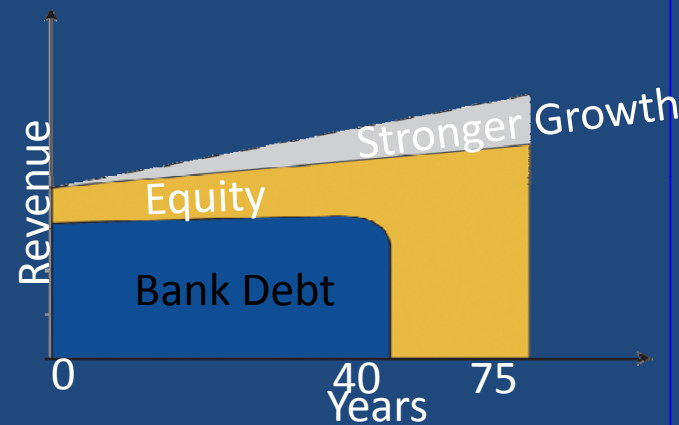
TRADITIONAL MODEL OF TAX-EXEMPT
BOND FINANCING



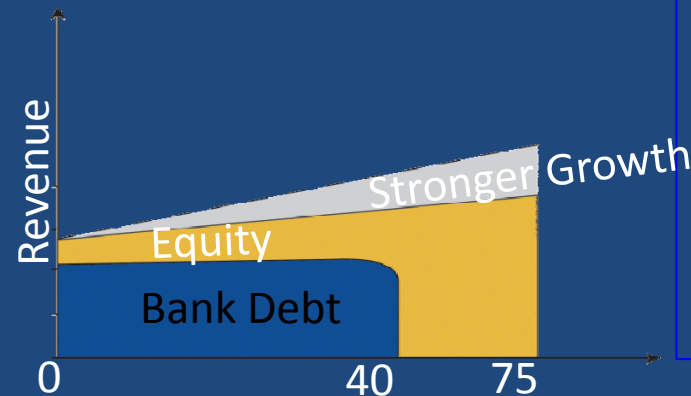
From Macquarie



CONCESSION MODEL



CONCESSION MODEL WITH LOWER
TOLLS



Economics

OR

Politics

Risk

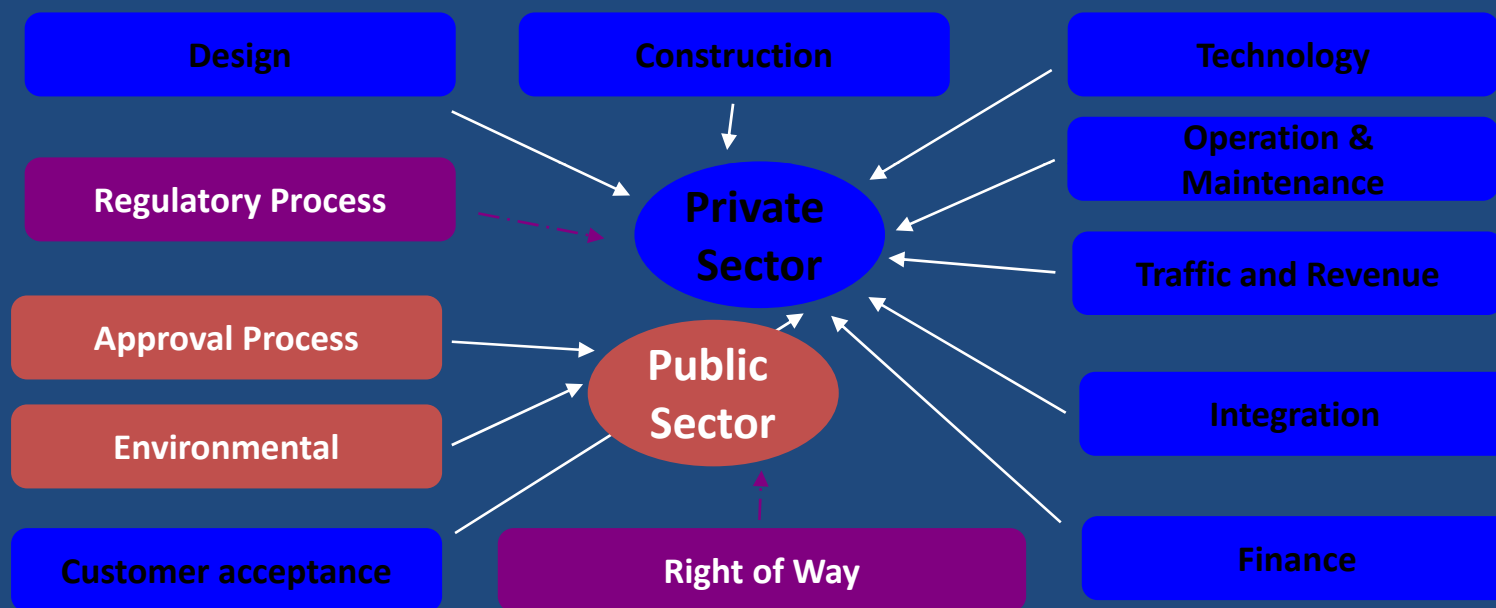
- P3s are about allocating and managing risk
- There must be key people with the ability and “stomach” to analyze risk, discuss it with the private teams and make decisions that protect the public interest while ensuring the private teams are treated fairly
- These are “big decisions” that can mean millions of dollars in future savings or higher cost depending on the outcome

Sharing of Risk

- The sharing of risk is a key benefit of P3s.
- The key is to balance the risk to the partner that can best manage/mitigate the risk.
 - Design/Construction – private
 - Environmental Clearances – public
 - Permits – generally shared, but project specific
 - Right-of-Way – generally public, but can be private
 - Operations/Maintenance – private or public, depending on the goals of the project

Public Private Partnerships Model: Efficient risk allocation

Concession model – Allocation of risks



Aligned interests between concessionaire and Public Sector
From Cintra

Shared risks

... Inside each bidding Consortium

- ✓ Main Goal: Achieving most competitive bid
- ✓ Huge Bid costs
- ✓ Design and Construction: Innovative ideas, value engineering to reduce construction costs.
- ✓ Operation and Maintenance Plan: Optimizing operation and maintenance costs and asset life cycle.
- ✓ Financial Plan: Best financial structure, ensuring robustness of the project in order to be able to respond to a range of reasonable downside scenario.

Term of Agreements

- Some early P3s were too short and there was not adequate time for the private entity to recoup their investment
- A term “financial equilibrium” developed that helps define the point where the private sector and public sector financial interest intersect
- Led to longer-term P3s, generally 20 years and longer

P3 Compared to Public

- Independent Studies on varied types of government and P3 projects in U.K. and Australia
 - P3 projects normally delivered on time and within budget
 - Traditional projects normally late and significantly over budget
 - 2008 Australia study on completed projects
 - \$4.9B in P3, overrun - 1.2%, ahead of schedule 3.4%
 - \$4.5B in Traditional, overrun – 15%, behind schedule 23.5%

Newer Project/Program Examples

- Design – Build –Finance – This method combines a design-build team with a financing component to advance a project or series of projects at one time.
- Design-Build-Finance-Operate-Maintain – Concessionaire – This method combines all elements of project delivery with the private team being responsible for the project through a life-cycle approach.

Design-Build-Finance

- Tool to advance medium to large projects when funds are spread over time
- Private Team borrows the “gap” needed to advance the project and is paid back over time
- Florida DOT has advanced eight projects between 3 to 6 years totaling over \$2.1 billion
- All projects were at or below the estimated cost and available funding.

Design-Build-Finance

- First project - I-75 Southwest Florida widening and interchange improvements over 30 miles, began in June 2007 - \$449 million
- Recent projects
 - I-4/Tampa South Crosstown Connector - began January 2010 - \$389.5 million, \$56.5 million under project estimate
 - US-19 Improvements in Tampa Bay area – began September 2009 - \$109.4 million, over \$52 million under the limiting budget amount

Design-Build-Finance

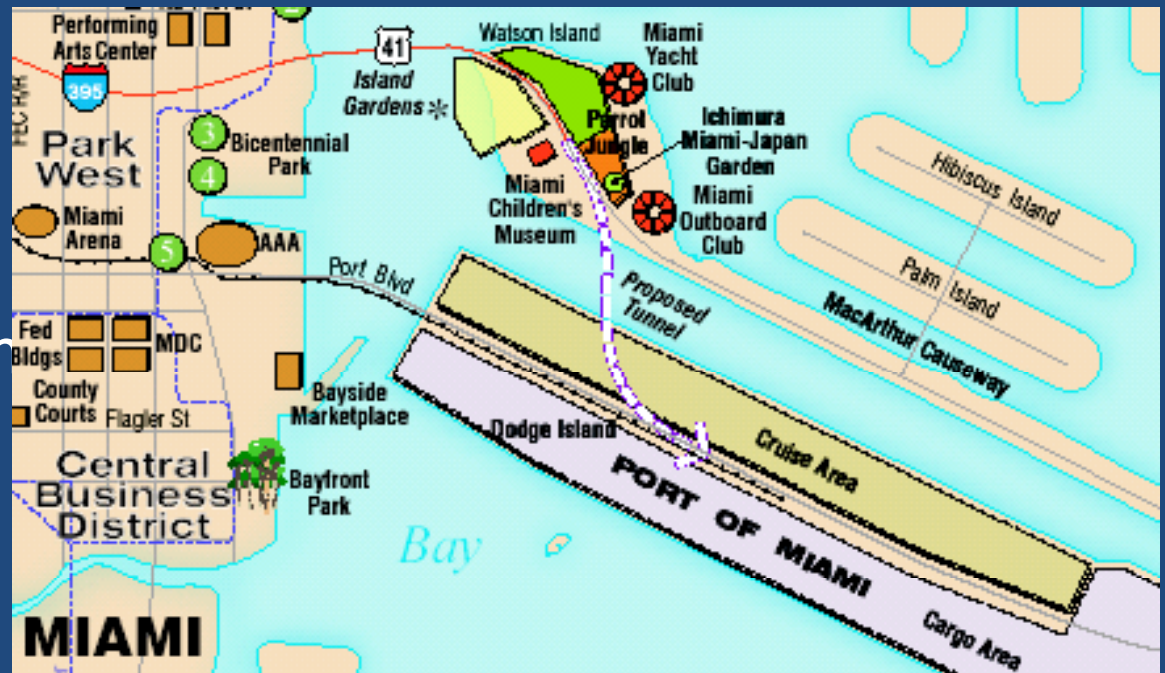
- Best use includes:
 - Large project has funds spread over time and it is difficult to break up the project
 - Series of projects in the same corridor scheduled over multiple years
 - Construction bids are coming in lower than estimated project cost
 - Financing cost are lower than previous years

DBOM/Concessionaire

- Typically used for larger scale and more complex projects
- May or may not have a revenue stream generated by the project
 - Fee based can be tolls or fare box for transport
 - Private team may take the risk of fees/revenues or the owner (government) may take this risk
 - Availability payment approach

Port of Miami Tunnel

- Tunnel under main channel of Government Cut
- Roadway work on Dodge and Watson Islands
- MacArthur Causeway Bridge widening



Building the Tunnel

- Involves specially-constructed Tunnel Boring Machine approx. 42 ft. high
- TBM consists of cutter head and trailing support gear
- Excavation will take just over one year—6 months in each direction



Why Use PPP?

- Hire expertise
- Good fit for industry
- Risk transfer
- Availability payment structure - strong financial incentives/warranty
- Cost Effective

Tunnel PPP Agreement

- 35-year agreement between FDOT & concessionaire
- FDOT begins availability payments once tunnel opens, adjusted for inflation
 - Estimated to be 2014
- Payment subject to reduction if tunnel not operational during required hours
- Tunnel will be returned to FDOT in first-class condition at end of contract

Project Capital Cost

- Top Ranked Proposal capital and related cost - **\$665 million**
- \$150 million for “risk reserve” for geology risk and related items
- \$50 million for project inspection
- Total capital cost - \$865 million (FDOT cost estimate at \$1.2 billion)

Funding the POMT

- FDOT contributing 50% of capital cost (\$432.5 million) from Strategic Intermodal System (SIS) funds
- Local partners match capital costs
- FDOT funding tunnel Operations & Maintenance from statewide maintenance funds (about \$200 million over 30 years)



Funding the POMT

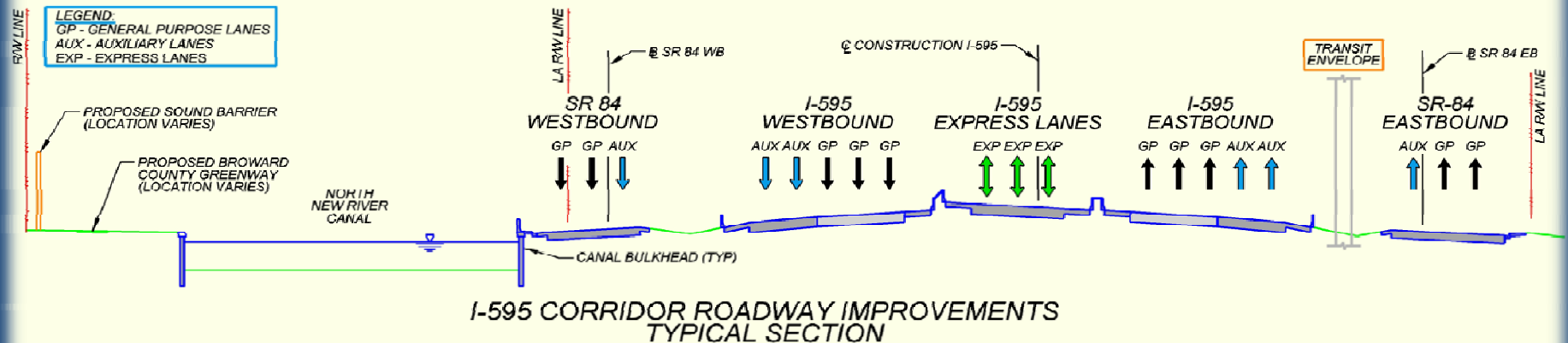
- Cash Flow:
 - \$100 million during construction
 - \$350 million upon POMT completion
 - Remaining in annual “availability payment”
 - Covers both remaining capital and annual operations and maintenance costs
 - Proposal at \$33 million in 2007 dollars (FDOT estimate at \$68 million)
 - Amount will adjust based on annual inflation

I-595 Project Limits



I-595 from I-75/Sawgrass Expressway Interchange
to East of the I-95 Interchange

Project Components



- Reversible Express Lanes
 - Direct Connect to Florida's Turnpike
 - Open Road Tolling
- SR 84 Continuous Connection
- Turnpike Interchange
- Broward County Greenway
- Ramp Improvements
 - Auxiliary Lanes
 - Ramp Braids
 - Bypass Bridges
- Noise Walls
- Transit Accommodations
- Bus Rapid Transit

P3 Benefits

- Accelerates the schedule - improvements 15 years sooner
- Finance approach to advance the project
 - No Payments until project is substantially complete
 - Availability Payment
- Options for long-term cost savings/higher levels of service
- Transfer of appropriate risk to private partner
- Encourages Industry Innovation

CONSTRUCTION YEARS

2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024

PROJECTS 1 THRU 10A
Original FDOT PLAN

Projects 1 thru 6 & 8

UNFUNDED Projects 7, 9, 10, & 10A

PROJECTS 1 THRU 10A
PUBLIC – PRIVATE
PARTNERSHIP (P3)

Projects 1 thru 10A

Innovations

- 1st DBFOM/Concession in Florida
- 1st Availability Payment approach in US
- Reversible toll lanes (six lanes - price of three)
- Congestion pricing
- Bus Rapid Transit
- State of the art emergency access/infrastructure
- 35-year Operations and Maintenance
- Oversight CEI
- Shared-use drainage

Project Terms

- 35 year term, fixed price contract
- 5 year construction schedule
- \$1.2B for Design/Build component (over \$200M under estimated cost)
- Net Present Value of \$600M for O/M
- Compensation
 - Final acceptance payments
 - Availability payments

Procurement/Project Schedule



Procurement Started	October 1, 2007
Proposals Submitted	September 5, 2008
Private Team Selected	October 24, 2008
Execute Agreement	March 3, 2009
NTP 1 (Start Design)	March 3, 2009
NTP 2 (Major Const./O&M)	July 31, 2009
Major Roadway Construction	Feb. 2010
Construction Complete	July 2014

DBOM

- Design-Build-Operate-Maintain has been growing in use in transit
 - Hudson-Bergen Light Rail Line
 - BART extension to San Francisco International Airport
- Denver Regional Transit District in procurement for a DBOM/Concessionaire for segment of the Fast Tracks system – availability payment approach

P3 Strengths

- Innovative ideas and/or projects
- Private equity
- Access to global capital markets
- Deliver “market approaches” and expertise
- Transfer of Risk
- Long Term Relationships
- Ability to Terminate
- Can provide “stability” in pricing
- Contract outlines the “deal”

P3 Weaknesses

- Perceived and Real Loss of Control
 - Day to Day Management
 - Set by the “Deal” such as setting rates on fees, performance standards, etc.
- “Cherry picking” projects
- Lack of State expertise in negotiating P3s
- Can be greater than expected equity returns
- “Real” Transfer of risk
- Long Term Relationships
- Ability to Terminate

Outside the Box Thinking

- P3s are not for the faint of heart
- Must be willing to venture outside the “comfortable” tried and true U.S. methods of project delivery
- Majority of time spent on legal and financial issues when setting up and procuring a P3
- P3s take time to set up and deliver – need a strong “gut” to make it through

Select the right projects

- Like wine, projects are only ready in due time
- Environmental work well underway or complete
- Strong Local support
- Within reason, financially feasible
- Large enough to attract P3 teams
- Many owners start too early in the process and this tends to create additional issues

Project Champions

- Any major project must have a high level project champion to move forward
- P3s raise this to a new level
- Early P3s raise numerous policy issues that need quick resolution – high level project champions get timely answers
- Project champion normally linked to elected officials and senior officials in Administration

Fad or Long-Term Trend?

- Needs are not going away
- Stresses on funding sources in government
- P3 market well developed internationally
- Further consolidation of U.S. construction industry with increasing foreign ownership
- Major capital raised for P3 market
- Success breeds further P3s

Lessons Learned

- Pick the Right Projects
- Be Patient and Start at the Right Time
- Experts with P3 Experience to Advise Owner
- Transparent and Interactive Process

Lessons Learned (cont)

- Be Flexible
- Be Clear and Consistent
- Be Persistent, It may Take Longer Than Expected
- P3 Market is Ready to “Take Off”

More Information

Major Category of US P3s

- Development of a New/Expanded Infrastructure Asset – Commonly known as “Greenfield Projects”
- Lease/Sale of an Existing Infrastructure Asset – Commonly known as “Brownfield Projects”

Major P3 Project Examples

- Early leaders in transportation:
 - Private Toll Roads – Dulles Greenway VA (www.dullesgreenway.com) , Orange Beach AL Bridge (www.foleybeachexpress.com) and SR-91 Express Lanes CA (www.91expresslanes.com)
 - Non-Profit Entities – led by private sector - Pocahontas Parkway (www.pocahontas895.com) and Southern Connector SC (www.southernconnector.com)

Major P3 Project Examples (cont)

- Leases of Existing Toll Facilities
 - Chicago Skyway (www.chicagoskyway.org) raised \$1.8 billion
 - Indiana Turnpike (www.getizoom.com) raised \$3.8 billion
 - Pocahontas Parkway (www.pocahontas895.com) to restructure a challenged financial situation
 - Midway Airport – under consideration
 - Numerous Port Facilities

Major P3 Project Examples (cont)

- More recent transportation examples:
 - Jordan Bridge – Chesapeake, VA
 - I-595 FL (www.i-595.com)
 - Port of Miami Tunnel
(www.portofmiamitunnel.com)
 - I-495 VA DC area Hotlanes
(www.vamegaprojects.com/about-megaprojects/i495-hot-lanes/)
 - SH-130 TX
(www.txdot.gov/business/partnerships/sh_130.htm)

Major P3 Project Examples (cont)

- Economic Development – numerous examples – convention centers, hotels, parking, etc.
- Public buildings – schools, university dorms, courthouses, etc.
- Water/sewer systems – many “private systems”, some public systems going P3
- Corrections – prisons
(ncppp.org/resources/papers/HDRP3whitepaper.pdf)
- Transit Oriented Development

Useful Resources

- <http://www.fhwa.dot.gov/ipd/p3/index.htm>
- www.ncppp.org
- <http://publicprivate.corank.com/>
- <http://publicprivatepartnership.blogspot.com/2009/01/public-private-partnerships-news-last.html>
- <http://ppi.worldbank.org/>
- <http://www.transportation-finance.org/>