Metropolitan Mayors Caucus & Metropolitan Planning Council Workshop on Innovative Financing Tools

Public-Private Partnerships are a method of achieving efficient allocation of risk and reward between the public and private sectors to deliver and finance a service or facility for the benefit of citizens.

- Public agency procures a private partner to design, construct, finance, operate and maintain new or existing infrastructure
- PPPs can be structured to meet public agency objectives:
- Public agency retains asset ownership and control, through specification of minimum performance requirements and standards
- Agreement will provide for termination at significant financial loss to the private partner if these standards are not met

Examples of Infrastructure delivered as PPPs:

- Municipal Facilities
- Schools
- Prisons
- Transit
- Railroads
- Water, wastewater, power
- Highways/Bridges/Tunnels
- Universities and university accommodation
- Public housing
- Healthcare
- Sports facilities

What drives the development of PPPs?

Driving the need

Governments faced with several problems:

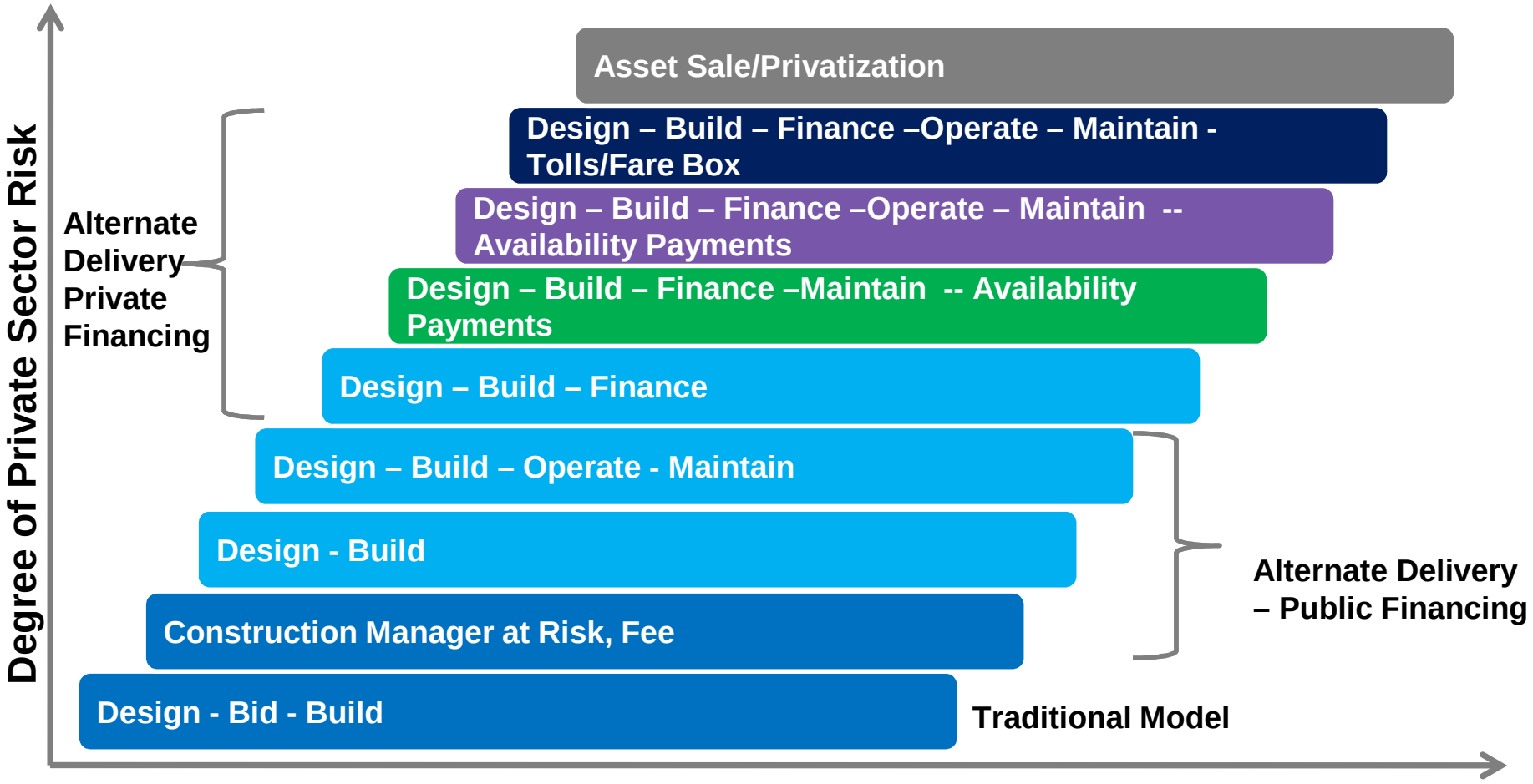
- Aging infrastructure
- Growing population in urban centers
- High level of services
- Construction costs increases
- Budgetary constraints
- Slower revenue growth
- Resistance to tax increases
- Cost overruns and delays in traditional procurements

Meeting the need with PPPs

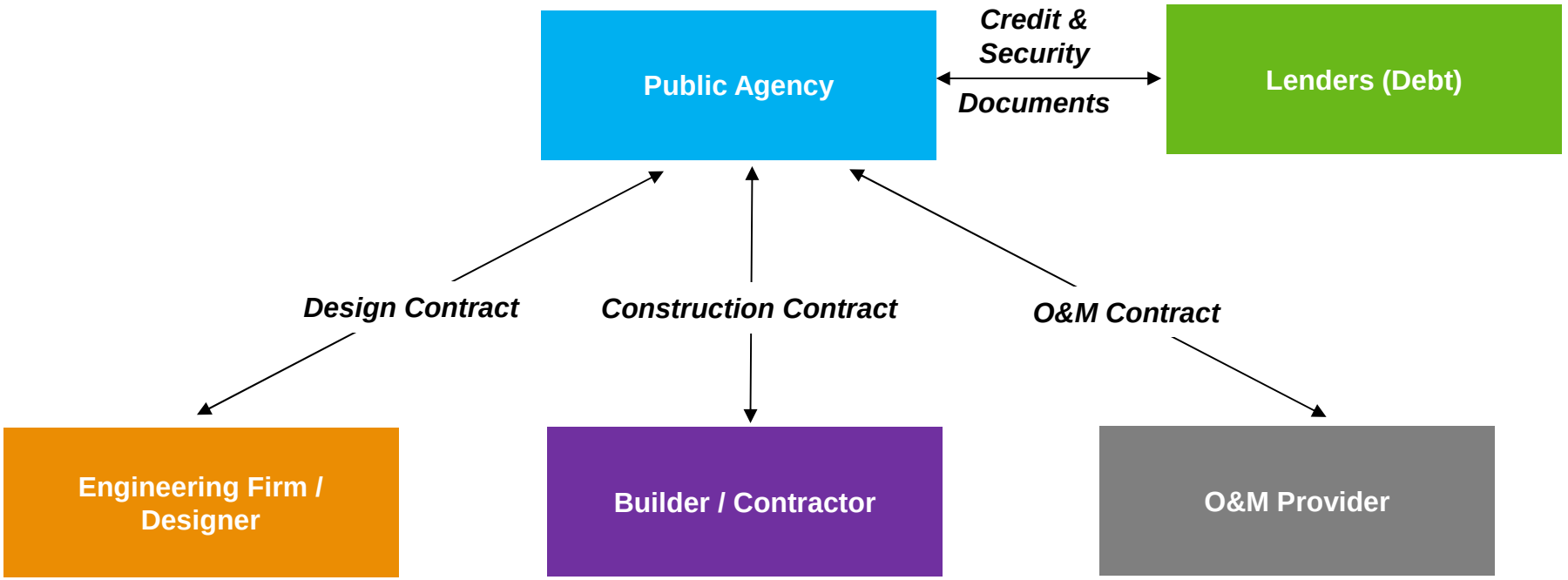
Key themes in understanding PPPs:

- 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

Project Delivery Options



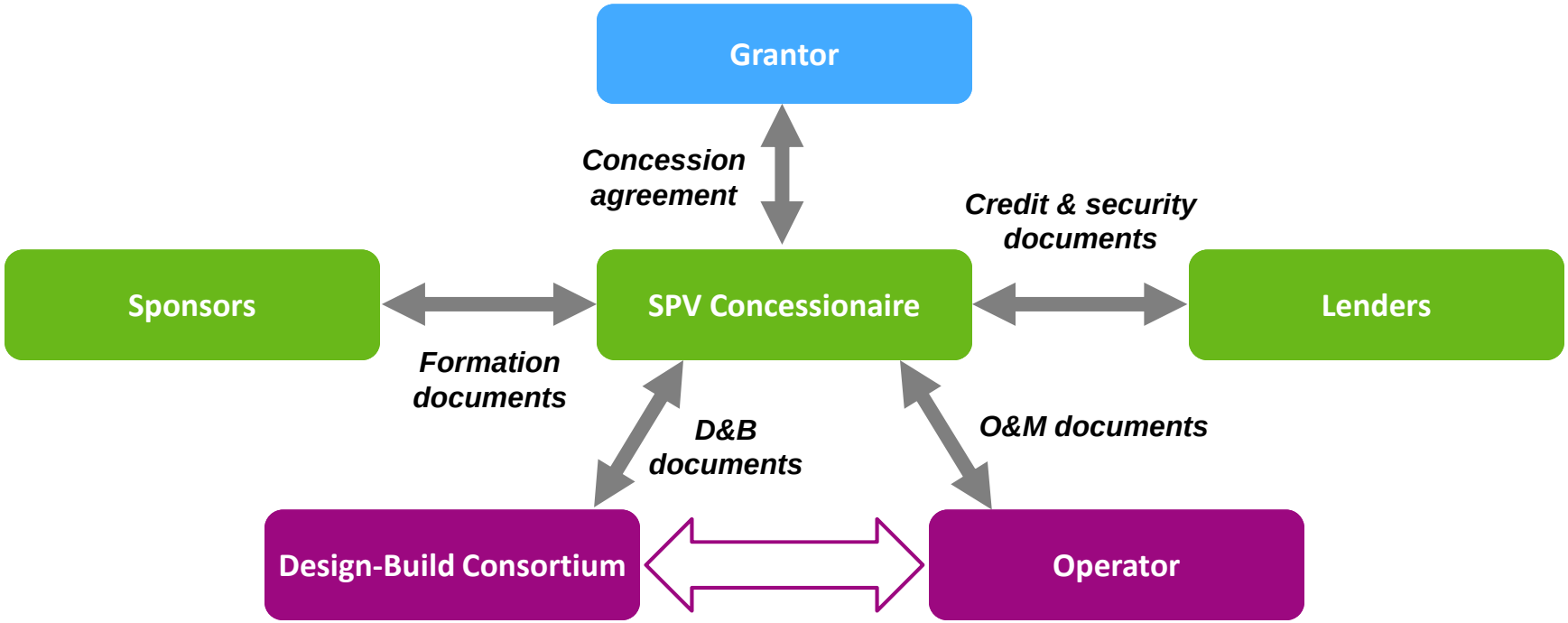
Traditional Comparator (for reference)
Conventional Design-Bid-Build Model Structure



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

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

Public Private Partnerships in Context

TRADITIONAL

Each phase procured separately through a succession of separate contracts. Facility design is completed before tendering of the construction phase, which is often accomplished through multiple contracts.

Input-based contracts, in which the public sector owner specifies the exact inputs required for the project.

Monthly payments to contractors based on the percentage of the contract work completed**.**

Private financing limited to relatively modest levels of working capital.

Project stewardship by the public sector or a contract management firm. Overall control of project execution rests with the public sector owner (or a contract management firm acting on behalf of the public sector owner).

PUBLIC-PRIVATE PARTNERSHIPS

Integration of two or more phases of a project from design and build through to a concession period, which can include providing the facilities maintenance services.

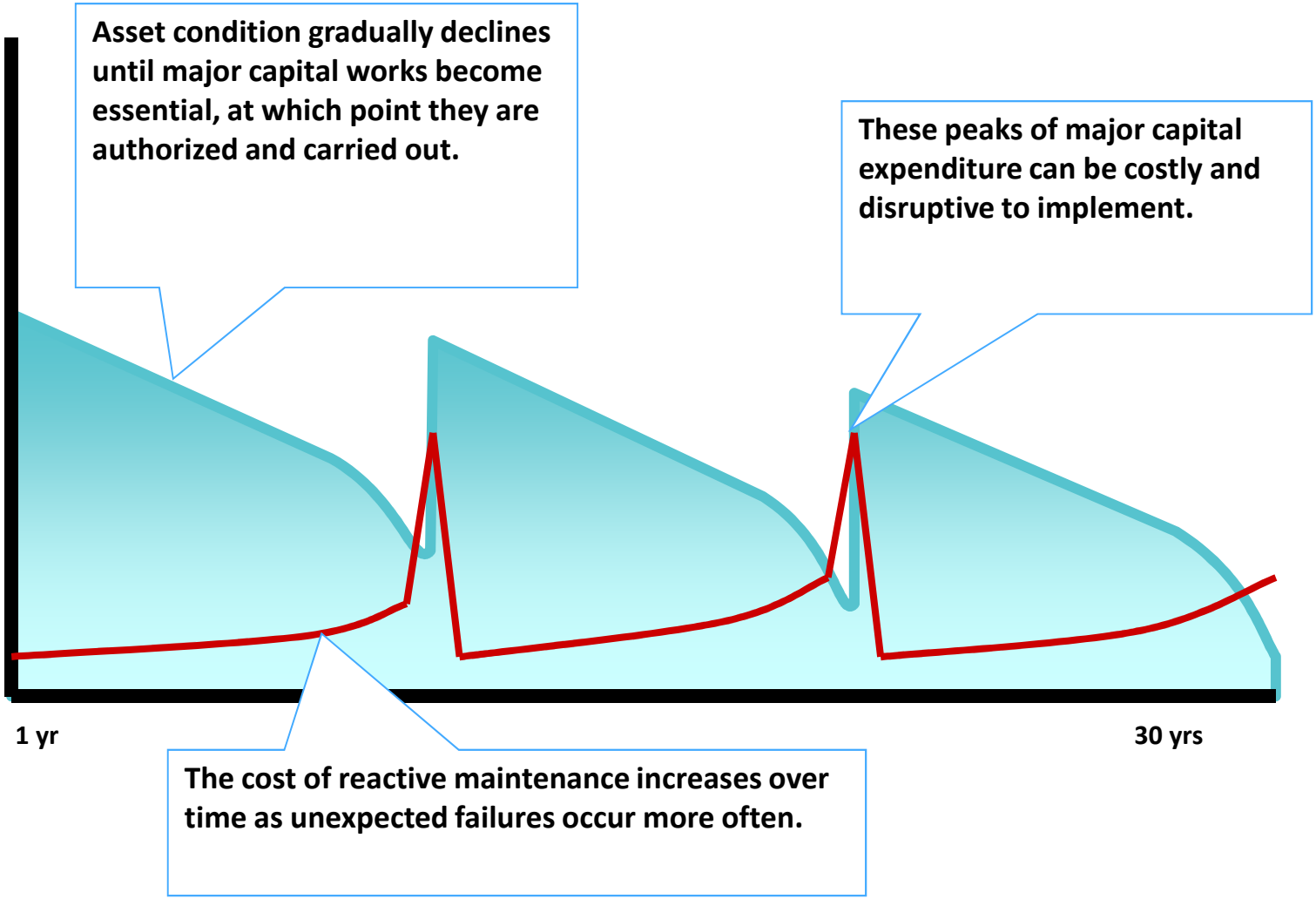
Output-based contracts, in which the deliverables are specified in terms of the outputs required, leaving the private sector partner to put forward the best solution for meeting the output specifications.

Payment upon delivery, whereby the private firm is paid only for defined assets or services once construction has been completed.

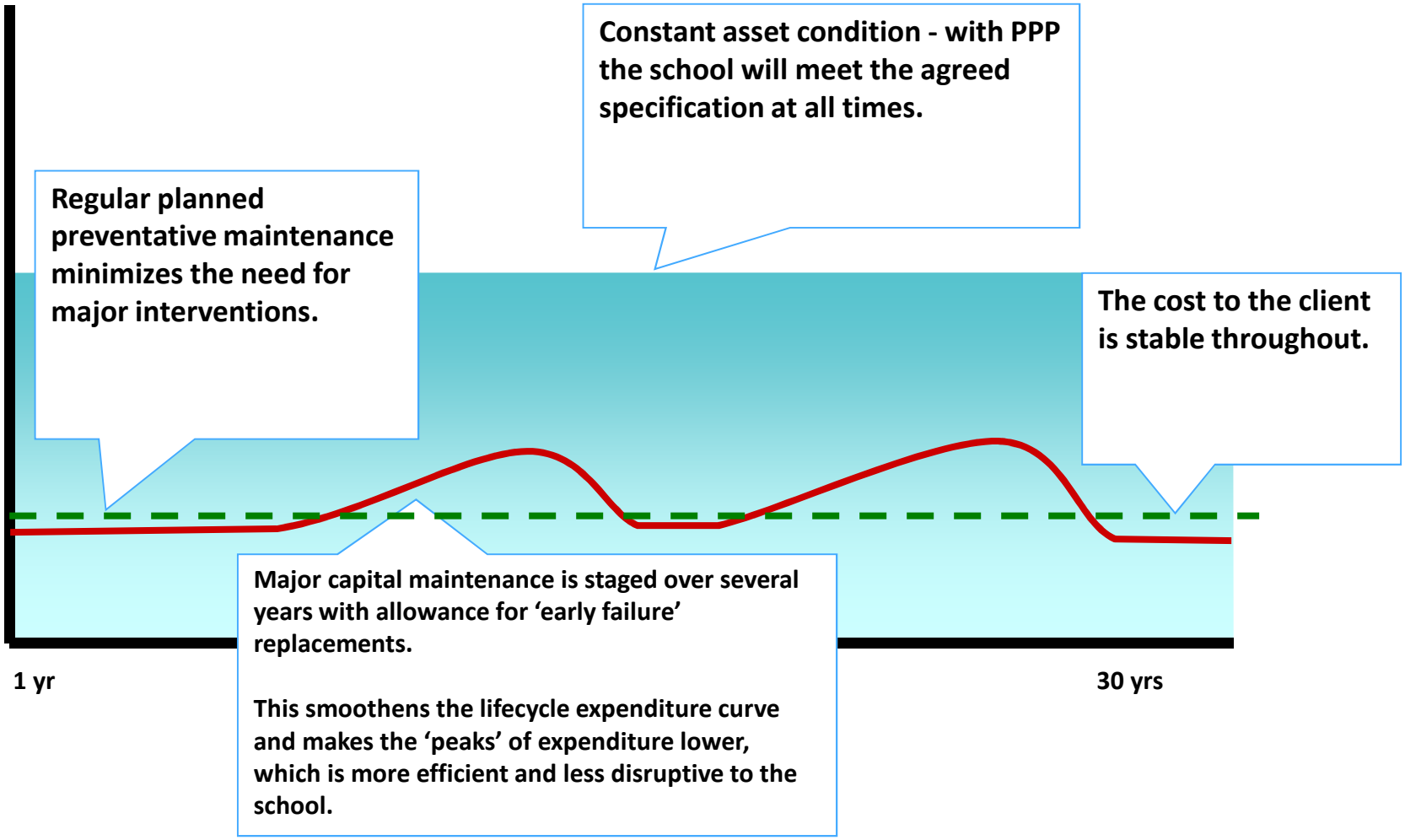
Private financing, in which a substantial share of the project is financed through project-specific equity and debt.

Private sector project stewardship, whereby overall control of project execution is transferred to the private sector partner.

A Conventional Lifecycle Profile



A PPP Lifecycle Profile



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.

How to determine if a PPP is the right choice?

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

Regulatory, legal, and political feasibility

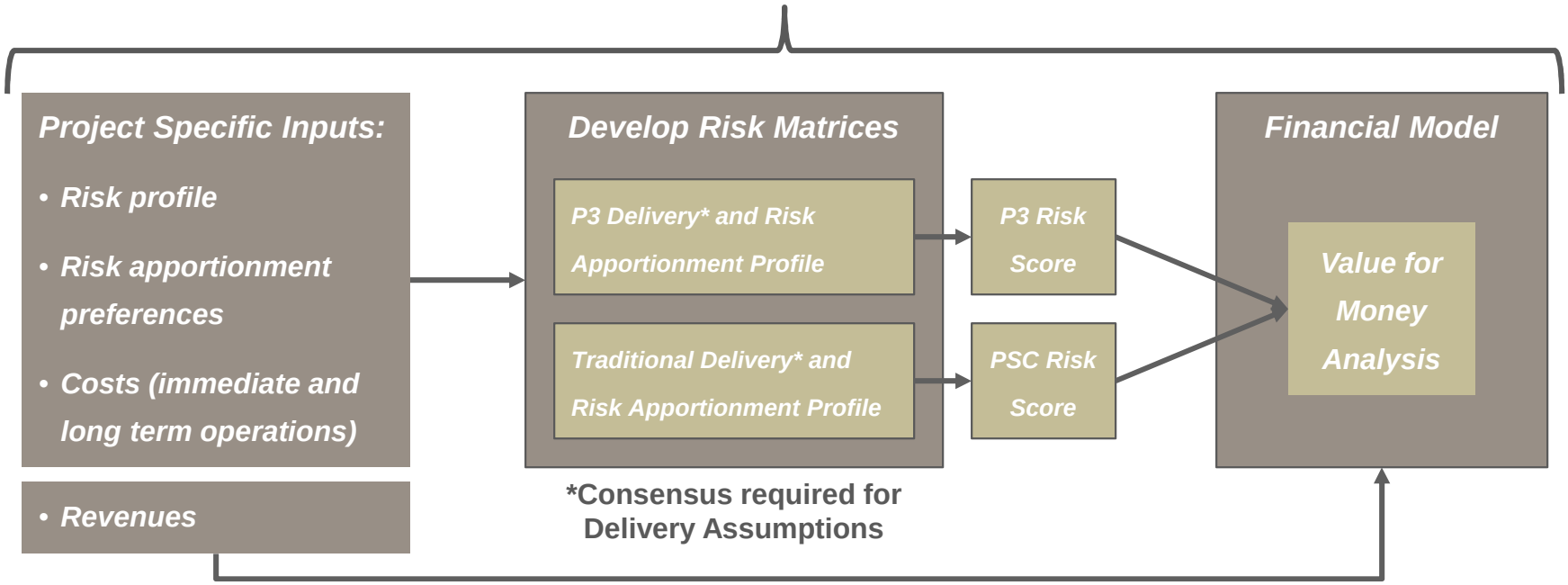
- Regulatory risks, issues, or flexibility
- Need for new or change in legislation
- Environmental issues
- Political risks or issues
- Accounting and tax treatment
- Existence of a political champion
- Land ownership issues

Purpose of Value for Money

- **<u>VFM is specifically designed to provide a comprehensive and unbiased metric for upholding the Public Interest at all times</u>**

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

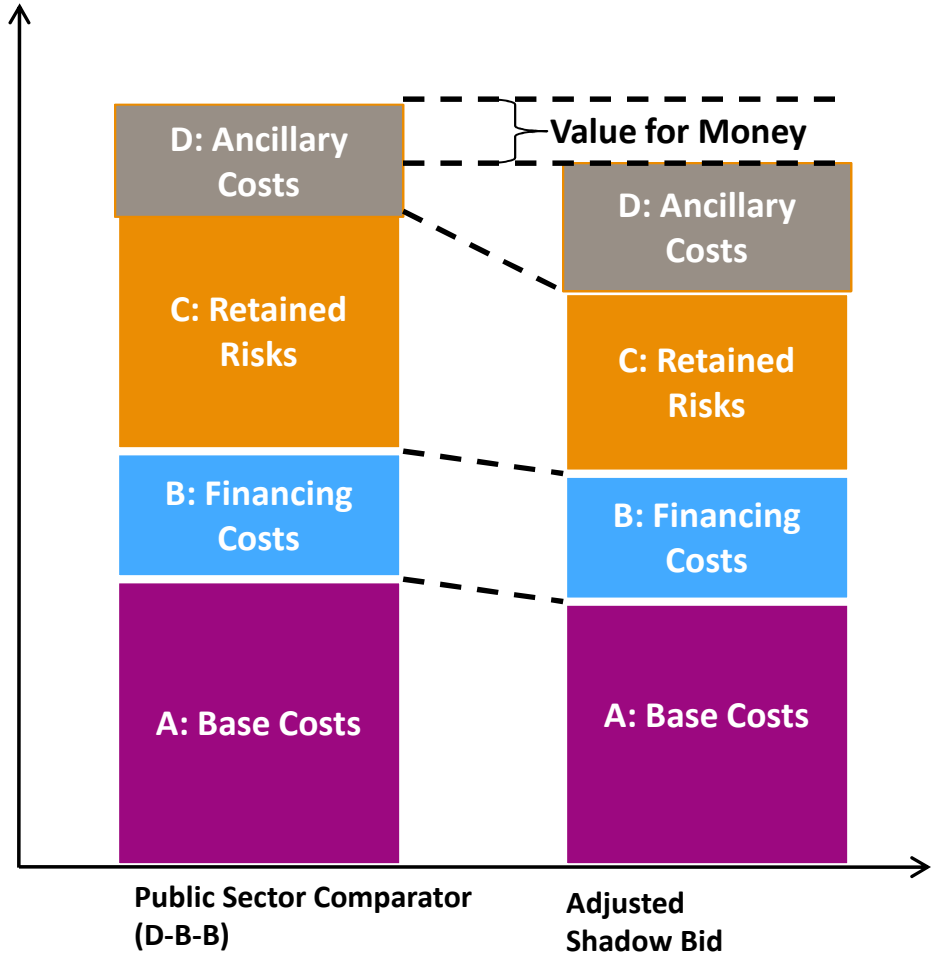
VFM inputs and process (for each project):



Common VFM Drivers

- **Optimal Risk Allocation** – Risks should be transferred to the party best able to manage or mitigate that risk
- **Focus on Whole Life Costing** – Ensuring whole life costing, not just up-front costs, ensures consideration of operating and refurbishment costs
- **Integrated Planning & Design** – Early consideration of operational aspects of the design ensures cost savings in the provision of facilities services
- **Use of Output Specifications** – Describing required output, without prescribing a solution, allows bidders to innovate and reduce costs
- **Sufficient Flexibility** – Ensuring sufficient flexibility in long-term contracting structures will allow changes to be effected at reasonable costs
- **Proper Incentives** – Both rewards and deductions for performance should serve to properly incentivize the parties
- **Long-term Partnerships** – Contracts should occur over a period which can be reasonably predicted, while maximizing gains from risk transfer
- **Managing Scale and Complexity in Procurement**– Procurement costs should not be disproportionate to the underlying project

Where is Value for Money Generated?

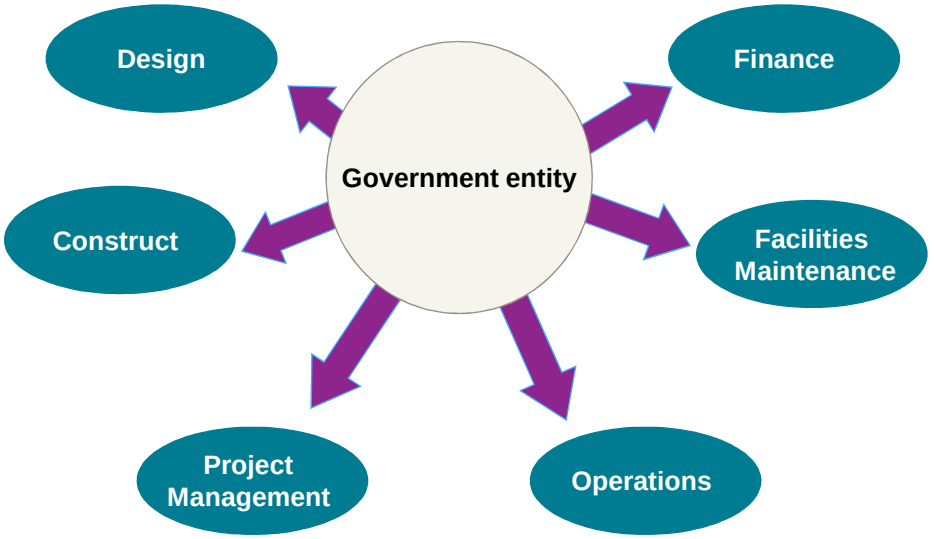


Drivers of savings:

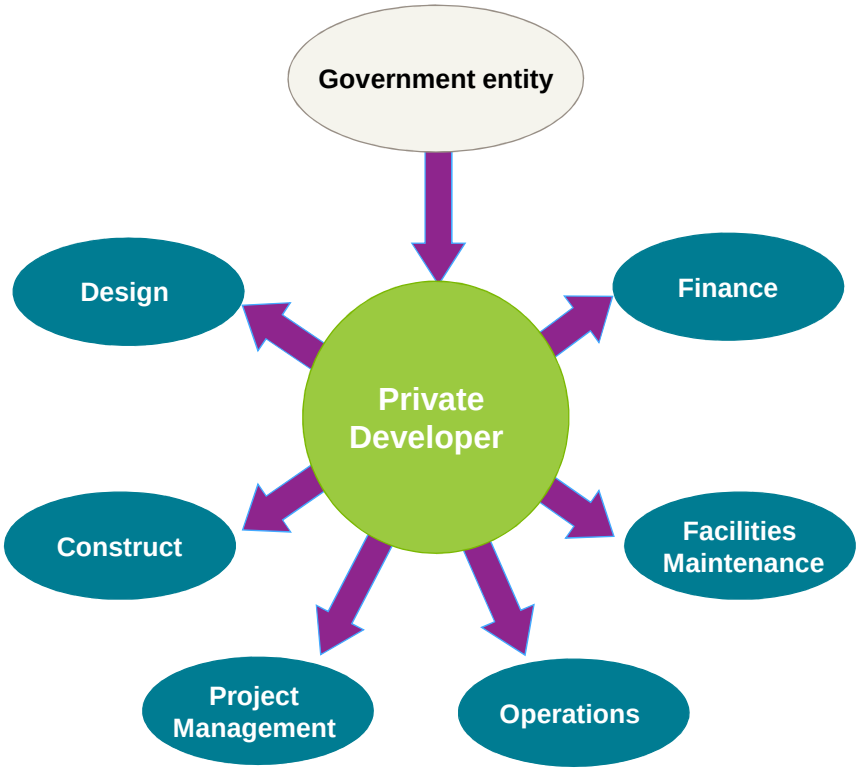
- Optimal allocation of risks
- Design and construction efficiencies
- Focus on whole life cycle costs
- Integrated planning and design
- Private sector management and control

Importance of Risk Analysis to Value for Money

Traditional Procurement Structure



PPP Structure



Basic Risk Allocation Structure in a PPP

This diagram denotes a simple concession contractual structure. The SPV is not highly capitalized and therefore it has to pass many of the key risks to other parties that are better able to manage them