



P3 OVERVIEW

May 2018



CONTENTS

1. P3 Overview
2. Structuring a P3



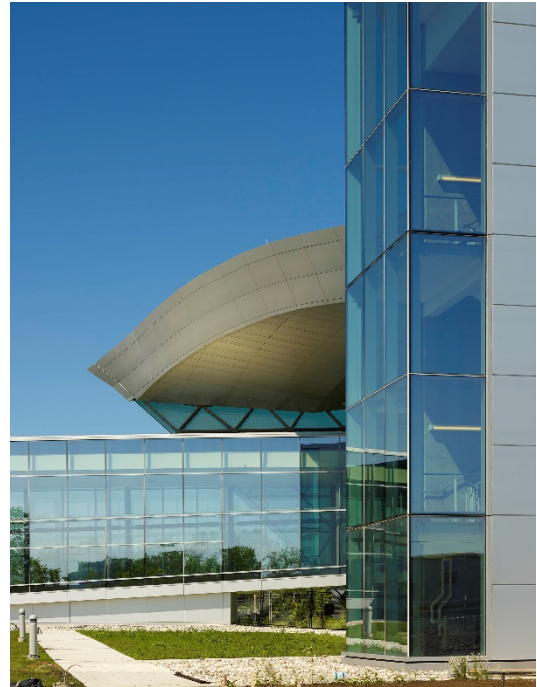
PUBLIC PRIVATE PARTNERSHIPS

- It goes by many names: P3, PPP, DBFM/DBFOM, PBI, PFI, PGF
- Essentially, all P3s are partnerships between the government and the private sector to build infrastructure like roads, hospitals or schools, as well as deliver services
- P3s can be structured in different ways, allocating varying degrees of responsibility for design, construction, financing, maintenance or operation to the private sector, while always maintaining public ownership and control
- Experience shows us that P3 models are delivered on-time, on-budget, at less cost and are better maintained than the conventional approach
- Typically used with public sector clients

P3 ARE IN USE GLOBALLY

P3 has been in use for decades by governments around the globe

- The international P3 model was developed in the UK as a means of delivering public infrastructure more efficiently and getting the transactions “off-book” (pre-Enron)
- It is now used in every developed nation in the world as the preferred vehicle for delivering large complex public infrastructure projects
- The US has lagged because of the access to tax-exempt debt, and the perception that the model is about financing, rather than performance based infrastructure



BENEFITS FOR SPONSORS

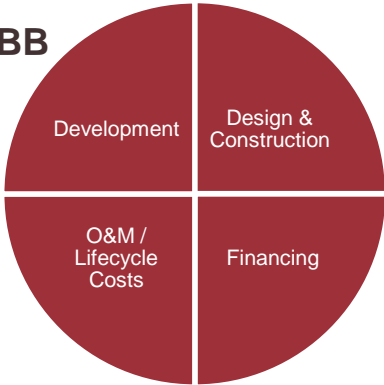
Macro benefits to governments:

- Superior on-time and on-budget performance compared to traditional delivery approaches
- More innovation, driven through competition
- Additional delivery capacity is created by leveraging private sector expertise and resources
- Projects are delivered faster
- Economic benefits are realized sooner
- Future budget certainty is provided
- No concerns about deferred maintenance on assets delivered under the model

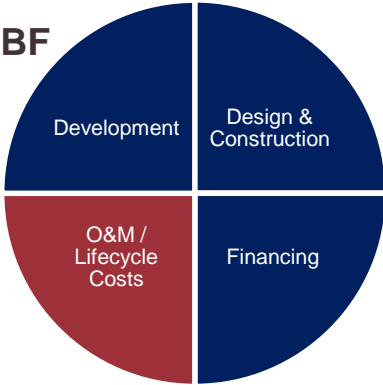


ALL ABOUT RISK TRANSFER

DBB

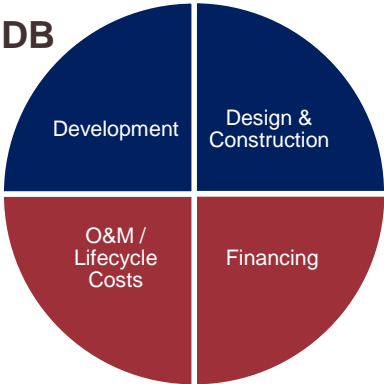


DBF

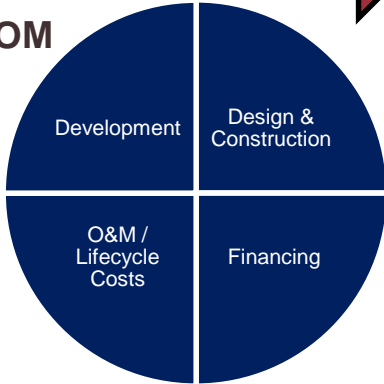




Level of Risk Transfer

DB



DBFOM



-  Public Sector
-  Private Partner

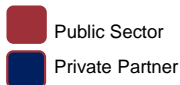
DESIGN-BID-BUILD



- Public sector contracts separately with a designer and a contractor (most traditional delivery method in U.S. construction industry).
- Designers required to deliver 100% of complete design documents.
- Public sector solicits fixed price bids from general contractors to then perform construction work.

Level of Risk Transfer

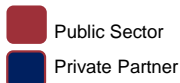
- Designers and general contractors bear no contractual obligation to either party.
- Public sector bears all risk associated with the completeness of the design documents.



DESIGN-BUILD

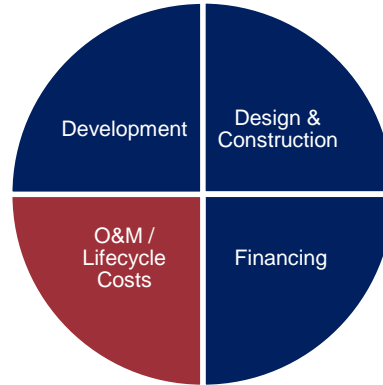
- Public sector hires a single entity, Design-Builder, to perform design and construction under a single contract.
- All (or portions) of design and construction may be performed by the entity or subcontracted to other companies.
- High levels of collaboration between the design and construction groups with single legal entity bearing project risk.
- Typically, general contractor is responsible contractually for Design-Build delivery method.

Level of Risk Transfer



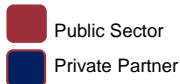
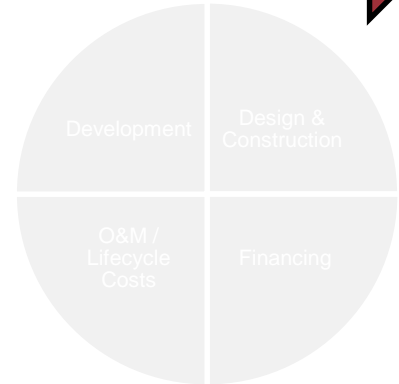
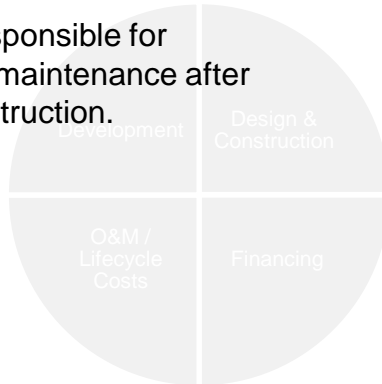
DESIGN-BUILD-FINANCE

- Private sector is generally responsible for the design, construction and short-term financing.
- The capital cost of the project is paid for by the public sector by lump sum payment at completion of construction.



Level of Risk Transfer

- Public sector is responsible for providing ongoing maintenance after completion of construction.



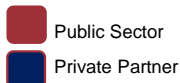
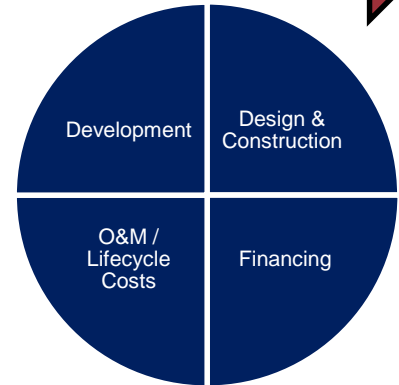
DESIGN-BUILD-FINANCE-OPERATE-MAINTAIN

- Private sector is generally responsible for design, construction, maintenance, lifecycle replacement and financing (both short-term and long-term).
- The capital cost of the project is paid for by the public sector, in part, by lump sum payment at completion of construction and through blended capital and service payment installations over the fixed maintenance period.
- **Capital and service payments** usually over 25-30 years.

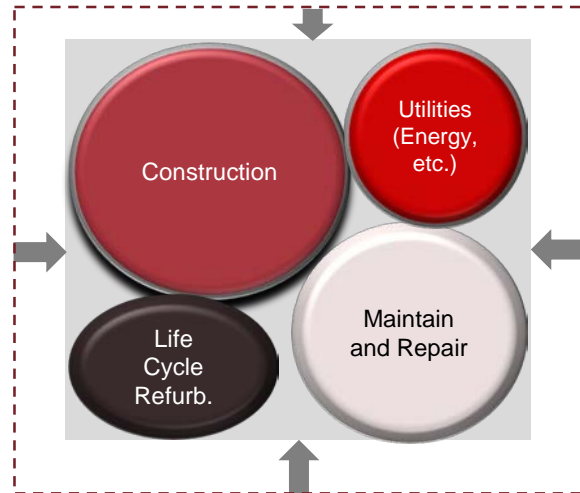
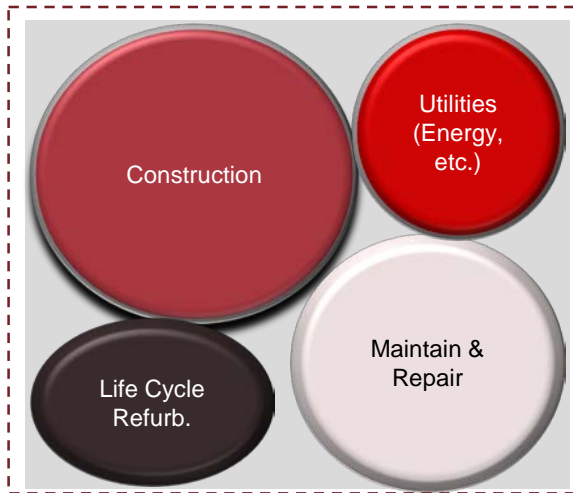
Level of Risk Transfer



- Availability-based vs revenue-risk projects.



VALUE PROPOSITION FOR A DBFOM

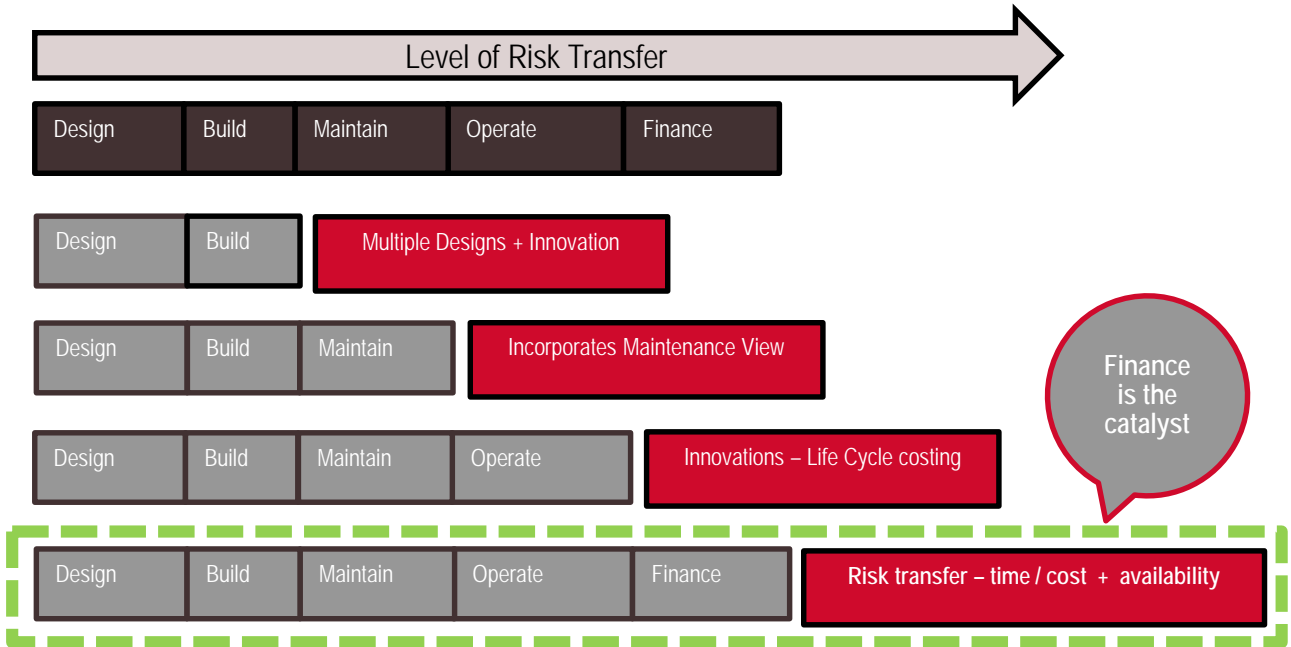


- All aspects of Facility costs should be considered
- Decisions in one cost category may impact the others
- Driving down construction costs can have an adverse impact on long-term costs

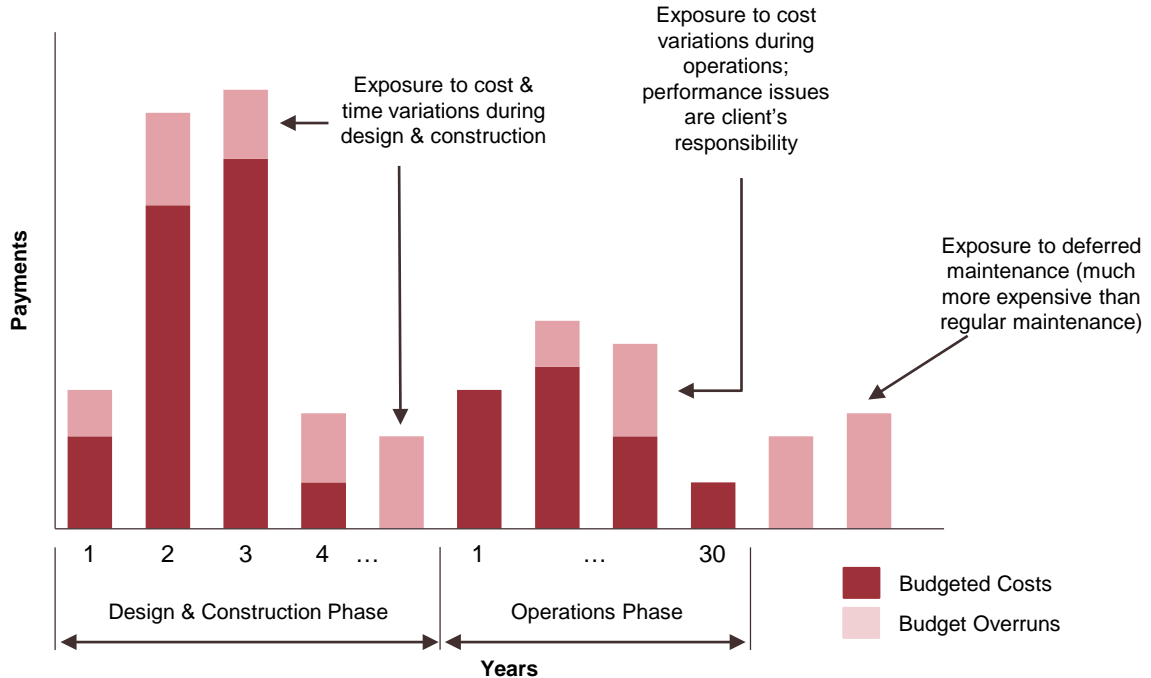
Value to Public Sector is a LOWER Net Present Value

- Long-term “Whole-of-Life” costs instead of first cost construction
- Good decisions during design process consider Value for Money and best investment approach
- Results in lower whole-of-life facility cost (the “box” is smaller)
- Provides outcomes that are guaranteed
- The returns on private financing are the vehicle for the Public Sector to enforce the guarantees

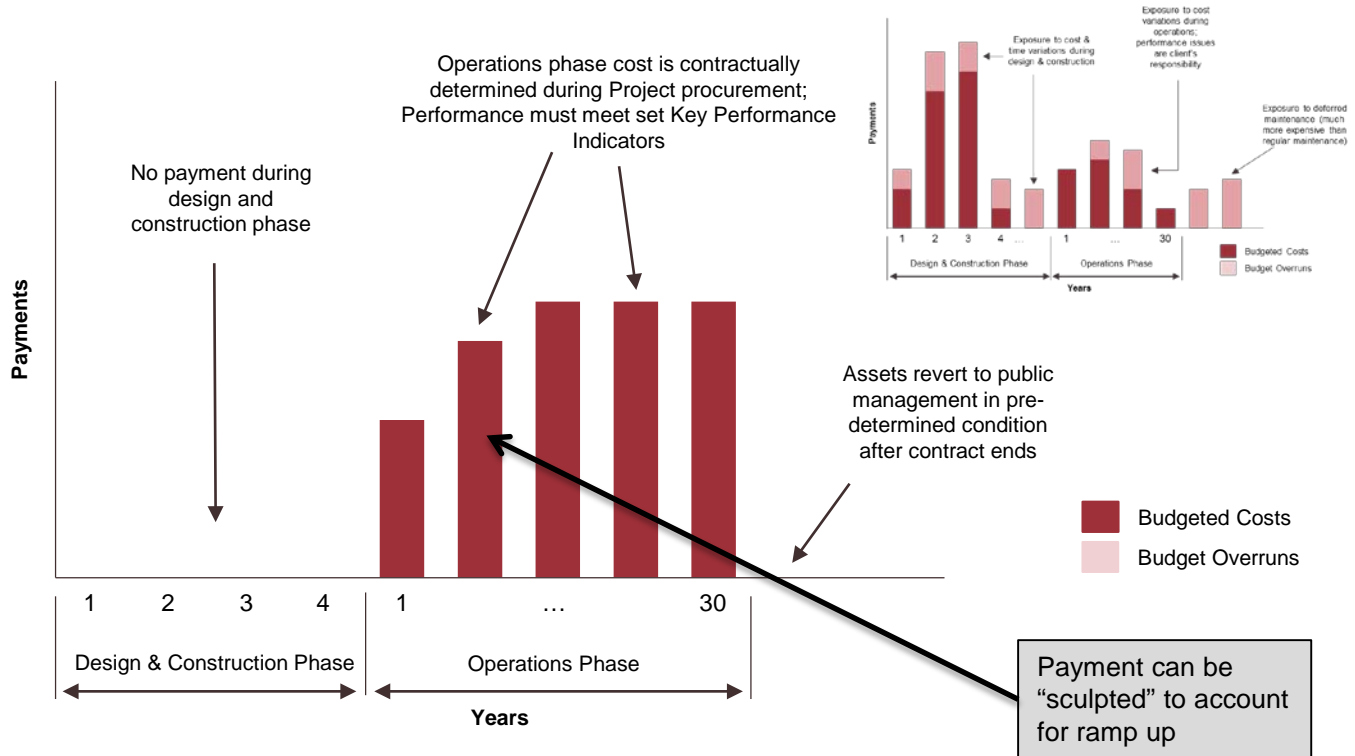
P3 COMPARATIVE ADVANTAGES



COMMON FACILITY-RELATED RISK EXPOSURE



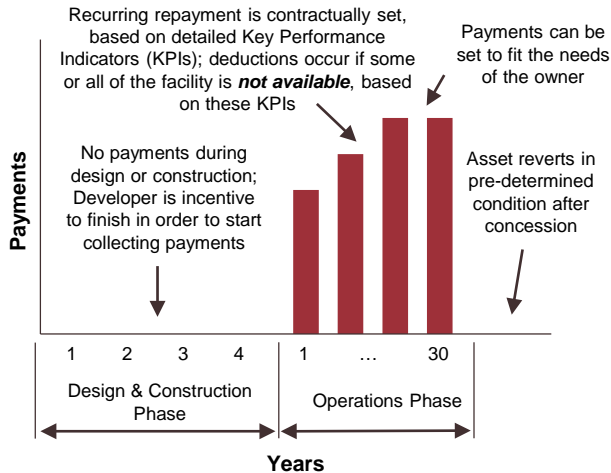
SIGNIFICANT RISK TRANSFER – P3 MODEL



P3 REPAYMENT STRUCTURES

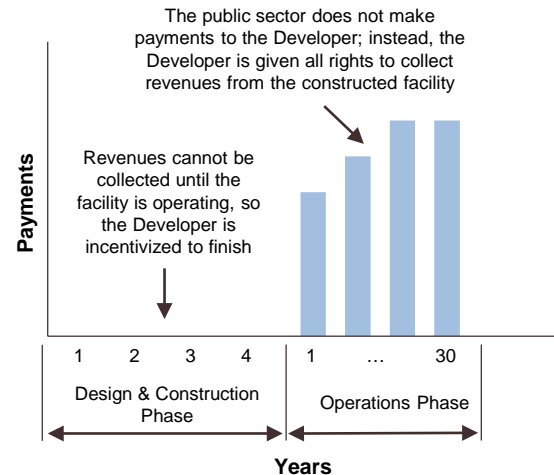
There are two different ways to structure repayment under a P3 contract: Availability Payment (AP) or Revenue/Demand Risk

Availability Payment



- This structure is best when the owner wants to retain project revenues, control over price or volume setting, and/or revenues do not cover the full project cost
- The owner must ensure that it has a source of funding to pay the recurring scheduled payments (whether from project revenues, general funds, or some combination)

Revenue/Demand Risk



- This structure is good when there are significant project revenues (e.g. toll roads) and the owner wants to offload the risk of this usage (demand)
- Financing can be more expensive than AP deals, because repayment relies solely on whether sufficient revenues will be generated by the project
- The owner may lose the ability to set prices and must ensure receiving appropriate value for revenues (private side is not getting too rich a return)

SIGNIFICANT RISK TRANSFER – P3 MODEL

P3 provide performance guarantees:

- Private financial capital at risk to guarantee on-time and on-budget delivery
- Optimization and certainty of “Whole-of-Life” costs
- Ownership of the asset is retained by public owner
- Facility condition guaranteed for the full term of agreement, including end of term handback conditions
- Alignment of interests between public owner and private partner
- A fully integrated solution that drives design development, construction, equipment and operations innovations and efficiency
- Offers flexibility to facilitate inevitable change



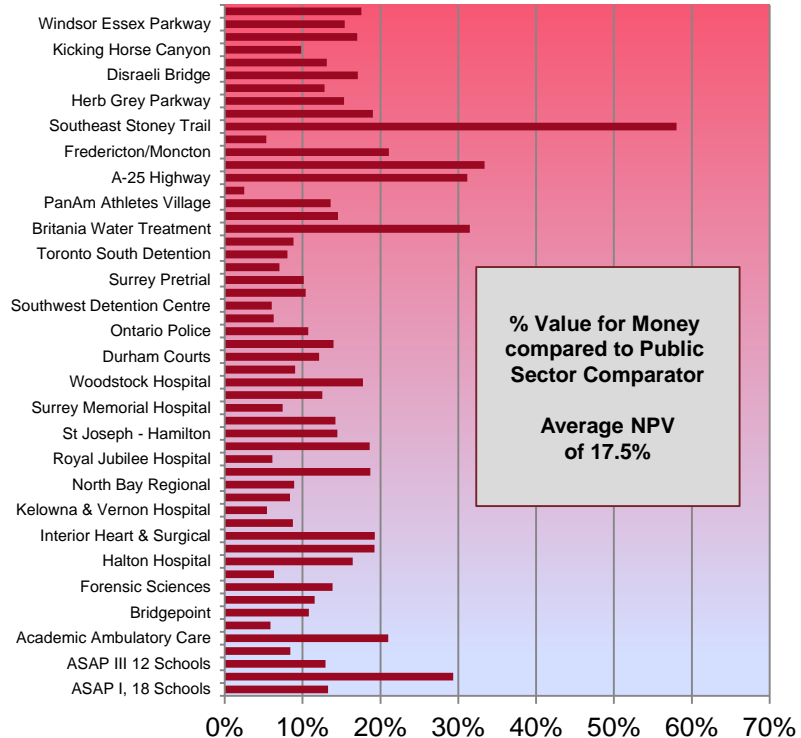
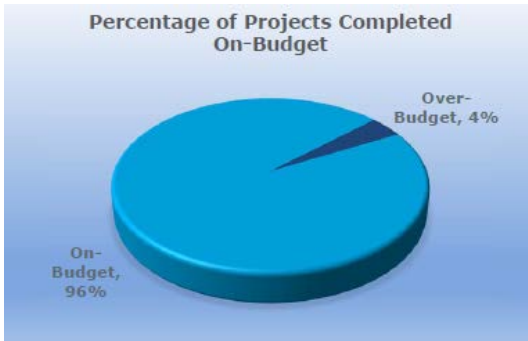
A ‘Whole-of-Life’ solution means nothing for a Client unless they have a long-term partner to deliver what’s promised



Guaranteed handback condition is effectively a long-term warranty

DBFOM TRACK RECORD

- Long-term project savings
- On-time availability of asset
- On-budget for costs
- Real risk transfer



*Source: "Infrastructure Ontario: Alternative Financing and Procurement Track Record 2016. Turner & Townsend. December 22, 2016.



P3 STRUCTURING

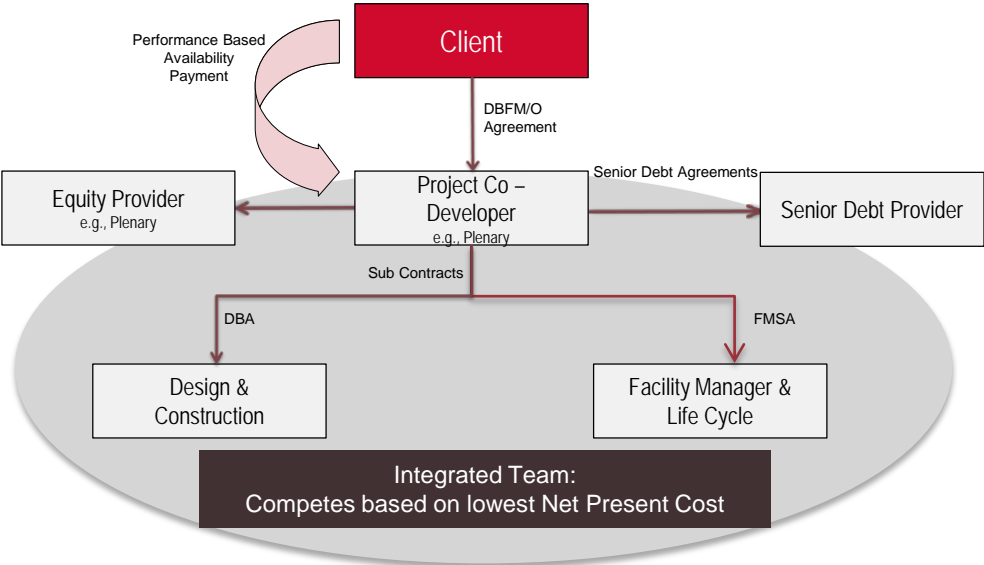
PUBLIC PRIVATE PARTNERSHIPS

P3s are a long-term partnership where:

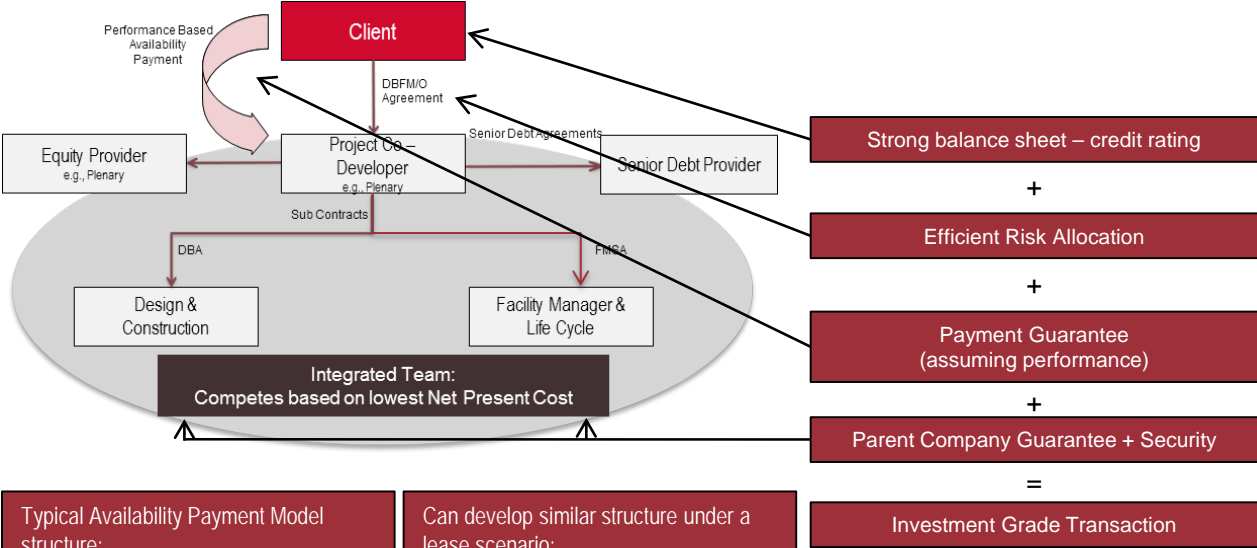
- A single entity (“Project Company”) accepts responsibility to Design, Build, Finance, Maintain and in some cases Operations of the infrastructure (greenfield, or renovations and expansions)
- A Sponsor entity contracts with a single entity (“Project Company”) who in turn contracts with consortium partners
- Facilities management/OM&R over a long-term contracting period (typically 30+ years), with pre-defined hand back conditions at contract expiry
- Performance based contracting arrangements
 - Payment from Owner only begins upon completion of construction
 - On-going payments are subject to deduction for failures in service delivery
 - Essentially, a payment for performance of a service
- Firm price for term of the contract, determined during procurement

Typically used with public sector clients; model provides even better alignment with large private sector clients

AVAILABILITY PAYMENT PARTNERSHIP STRUCTURE



IDEAL STRUCTURE ATTRIBUTES



- Typical Availability Payment Model structure:
- Non-recourse project finance
 - License structure – no charge on title
 - Significant risk transfer
 - Strong value proposition

- Can develop similar structure under a lease scenario:
- Land transfer / sale to Project Co
 - Structure to FAS13
 - Similar risk transfer
 - Strong value proposition

DBFM-P3 RISK COMPARISON TO OTHER P3 MODELS

RISK ELEMENT	TRADITIONAL	LEASE	63-20 CORP	P3
Procurement				
Program				
Design & Construction				
Finance			Tax Exempt	
Land/Building Ownership			At End of Term	
Operating Term				
Rights Retention				
Operating costs above Plan*				
Cost of Operations				
Availability/Abatement				
Life Cycle Replacement				
Condition at end of Term				
Operating Performance				

*Plan set during procurement, prior to commitment to proceed



FACTS ABOUT PRIVATE FINANCING FOR P3s

- Any financing premium is usually more than offset by:
 - ✓ Optimization of “whole-of-life costs”
 - ✓ Significant risk transfer
 - ✓ Payments are performance/availability based
- To mitigate the financing cost premium:
 - ✓ Inject owner debt or cash into the deal (typically as milestones during construction)
 - ✓ Leave enough equity to hold private partner accountable for performance
- The financing in the P3 model is the catalyst for effective risk transfer and optimization of “Whole-of-Life” costs:
 - ✓ It shifts the focus to what the monthly costs to the public owner are going to be over the long-term, instead of a focus on first-in capital costs, which often leads to poor long-term outcomes



COMPARATIVE PROCUREMENT MODELS

Procurement Attribute	DBB	CM	DB / GMP	P3
• Speed to market		✓	✓	✓
• "Dream Team"		✓	✓	✓
• Procurement Cost			✓	✓
• Design Alternatives		✓	✓	✓
• Value for Money				✓
• Collaborative, aligned Process		✓	✓	✓
• On time Completion				✓
• On Budget Completion			✓	✓
• Guaranteed Cost of Operations				✓
• No deferred maintenance				✓
• Committed Operational KPI's				✓

DBB - Design Bid Build; stipulated price
 CM - Construction Management
 DB / GMP - Design Build with Guaranteed Maximum Price
 PGF - Performance Guaranteed Facilities

CONCLUSION



- **AVAILABILITY P3S ARE NOT ABOUT ALTERNATIVE FINANCING, OR FUNDING**
- **FINANCING IS THE CATALYST TO:**
 - ✓ Optimize “Whole-of-Life costs”
 - ✓ Enable significant risk transfer
 - ✓ Ensure alignment between facility operations and client’s program
- **PAYMENTS ARE PERFORMANCE/AVAILABILITY BASED THROUGHOUT TERM, INCLUDING HAND-BACK**



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