Module 1: Public-Private Partnerships (P3s) Overview

P3 Workshop for Planners

July 2018
What is a P3?
Public-private partnerships (P3s)

**Definition:** Contractual agreements between a public agency and private entity facilitating increased private sector participation/responsibility for public infrastructure delivery (FHWA)

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**Risk/Responsibility Transfer**

Degree of ownership, development integration, risk transfer and extent of private financing
How are P3s different?

<table>
<thead>
<tr>
<th>Design-Bid-Build</th>
<th>P3</th>
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</thead>
<tbody>
<tr>
<td>Public sector retains most risks (except construction)</td>
<td>Risks shared between public and private sectors</td>
</tr>
<tr>
<td>Public financing</td>
<td>Private financing (mostly)</td>
</tr>
<tr>
<td>Lowest bidder</td>
<td>Best value for least net present cost</td>
</tr>
<tr>
<td>Operations and Maintenance (O&amp;M) and ongoing rehabilitation (if any) carried out by public agency (or under fee for prescribed services) once constructed</td>
<td>O&amp;M carried out by private sector; ongoing rehabilitation by private sector; public sector stewardship of P3</td>
</tr>
</tbody>
</table>
### How are P3s different?

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<th>Design-Bid-Build</th>
<th>Privatization</th>
<th>P3</th>
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<tbody>
<tr>
<td><strong>Asset Ownership</strong></td>
<td>Public ownership</td>
<td>Transfer of asset ownership</td>
<td>Usually no irrevocable transfer of assets</td>
</tr>
<tr>
<td><strong>Public Sector Responsibility</strong></td>
<td>Public sector remains responsible for provision of asset and services</td>
<td>Regulation</td>
<td>Set policy, service levels, and rates</td>
</tr>
<tr>
<td><strong>Levels of Service</strong></td>
<td>Public responsibility</td>
<td>Authorities do not make service decisions</td>
<td>Mechanism for shared service decisions</td>
</tr>
<tr>
<td><strong>Risk/Reward</strong></td>
<td>No transfer</td>
<td>All transferred</td>
<td>Shared</td>
</tr>
<tr>
<td><strong>Contract Type</strong></td>
<td>Service contract</td>
<td>Sale</td>
<td>Concession</td>
</tr>
</tbody>
</table>
Payment Mechanisms

- Toll Concession (Revenue Risk)
- Availability Payment
- Shadow Toll
Delivery Models

- **SEGMENTED PROCUREMENT PACKAGE**
  - Increased Public Responsibility

- **INTEGRATED PROCUREMENT PACKAGE**
  - Increased Private Responsibility

- **PRIVATE FINANCE**
  - DBFOM User Fees
  - DBFOM Availability

- **PUBLIC FINANCE**
  - DBB
  - O&M Performance
  - DB
  - DBOM
Typical Toll Concession P3 Structure

- **Agency**
- **Bank/lenders**
  - Bonds, Loans
  - Debt Service
  - Toll revenue
- **Facility**
- **Special Purpose Vehicle (SPV)**
  - Shared Revenue
  - Subsidy
  - Equity Investments
  - Dividends
- **Project Sponsors/Equity Providers**
  - Funds to build, maintain and operate

**Investments**: Bonds, Loans, Debt Service

**Shared Revenue**: Toll revenue

**Subsidy**: Equity Investments

**Dividends**: Funds to build, maintain and operate
Typical Availability P3 Structure

- **Agency**
  - Bank/Lenders
  - Milestone and Availability Payment
  - Bonds/Loans
  - Debt Service

- **Special Purpose Vehicle (SPV)**
  - Equity Investments
  - Funds to build, maintain, and operate

- **Facility**
  - Toll and Other Revenue

- **Project Sponsors/Equity Providers**
  - Dividends
Why consider a P3?
P3 Challenges

- Legislative authority
- Resources
- Organizational Capacity
- Market interest
- Perception
Potential Concerns and Challenges

- How can we ensure that future toll rates/fares will be reasonable?
- How can we ensure that the private sector will not sacrifice quality for profit?
- How can we ensure that the ability of public sponsors to develop future needed transportation improvement is not limited?
- Will private sector participation result in a loss of control?
Key Considerations

- **Benefits**
  - Cost certainty and savings due to:
    - Lifecycle cost optimization
    - Optimal allocation of risk
    - Innovation
  - Schedule certainty and speed
  - Asset/Service quality

- **Drawbacks**
  - Complexity of P3 transactions
  - Higher financing cost
  - Administrative cost and time
  - May not be suitable for many projects with limited risks that can be delivered efficiently by traditional means
Alternative Approaches
to Private Sector Involvement