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Module 1: Public-Private Partnerships (P3s) Overview

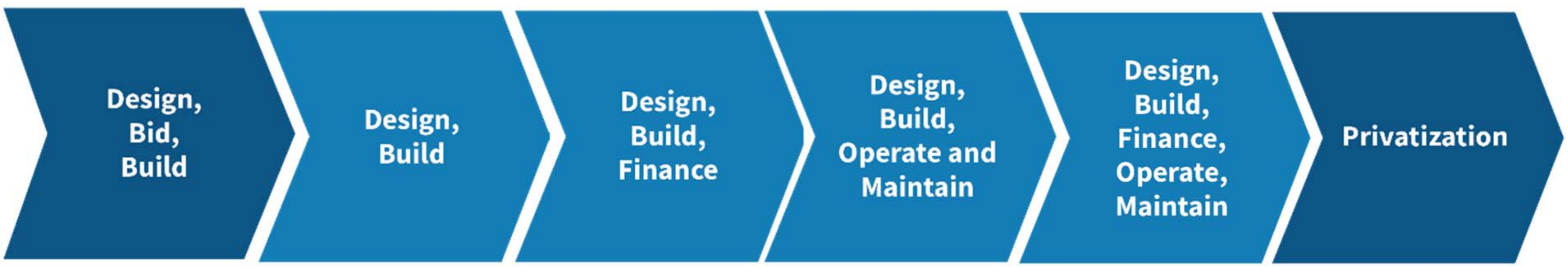
P3 WORKSHOP FOR PLANNERS

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)



PUBLIC SECTOR PRIVATE SECTOR

Risk/Responsibility Transfer

Degree of ownership, development integration, risk transfer and extent of private financing

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How are P3s different?

Design-Bid-Build	P3
Public sector retains most risks (except construction)	Risks shared between public and private sectors
Public financing	Private financing (mostly)
Lowest bidder	Best value for least net present cost
Operations and Maintenance (O&M) and ongoing rehabilitation (if any) carried out by public agency (or under fee for prescribed services) once constructed	O&M carried out by private sector; ongoing rehabilitation by private sector; public sector stewardship of P3

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How are P3s different?

	Design-Bid-Build	Privatization	P3
ASSET OWNERSHIP	Public ownership	Transfer of asset ownership	Usually no irrevocable transfer of assets
PUBLIC SECTOR RESPONSIBILITY	Public sector remains responsible for provision of asset and services	Regulation	Set policy, service levels, and rates
LEVELS OF SERVICE	Public responsibility	Authorities do not make service decisions	Mechanism for shared service decisions
RISK/REWARD	No transfer	All transferred	Shared
CONTRACT TYPE	Service contract	Sale	Concession

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Payment Mechanisms

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

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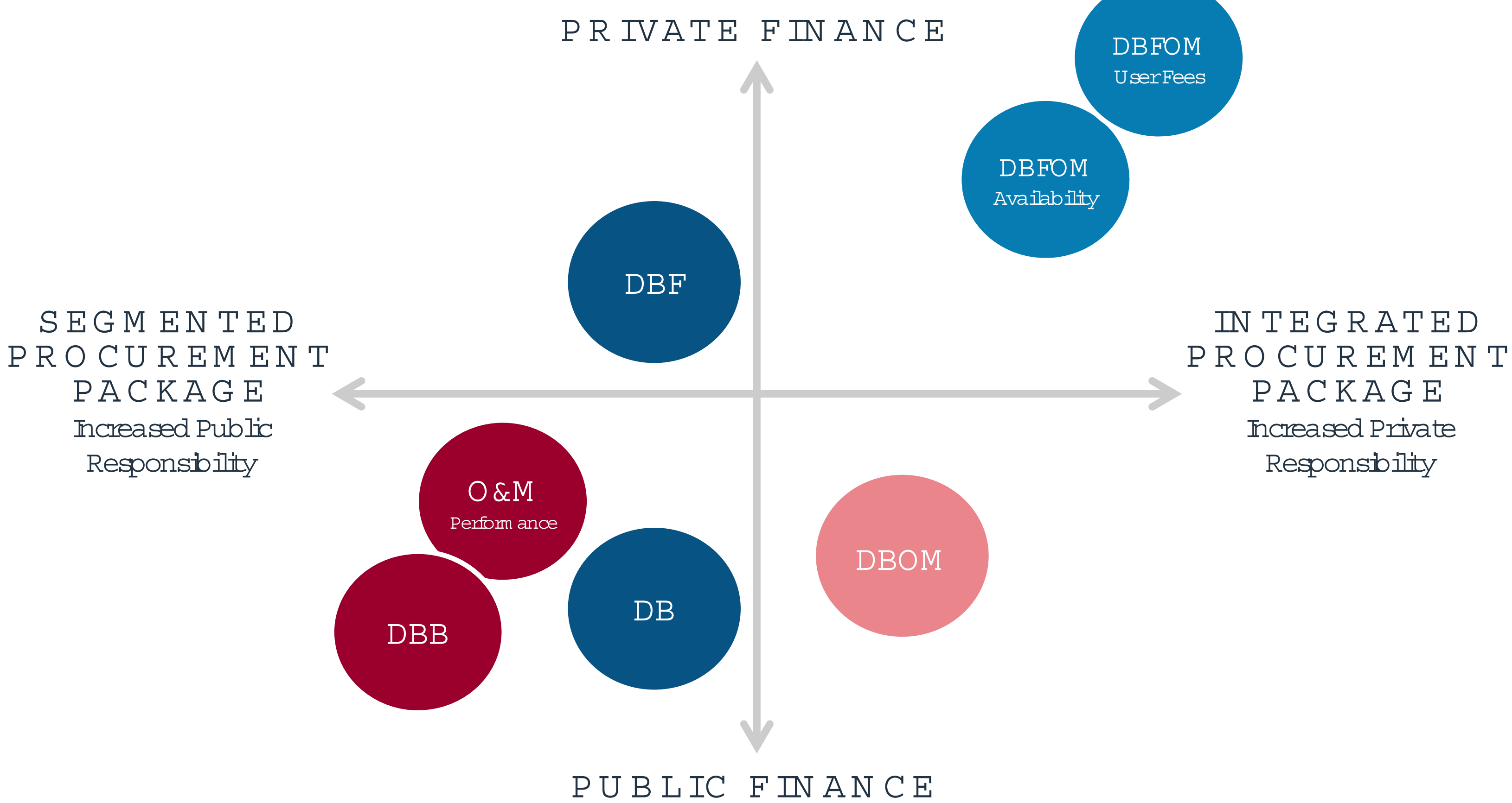
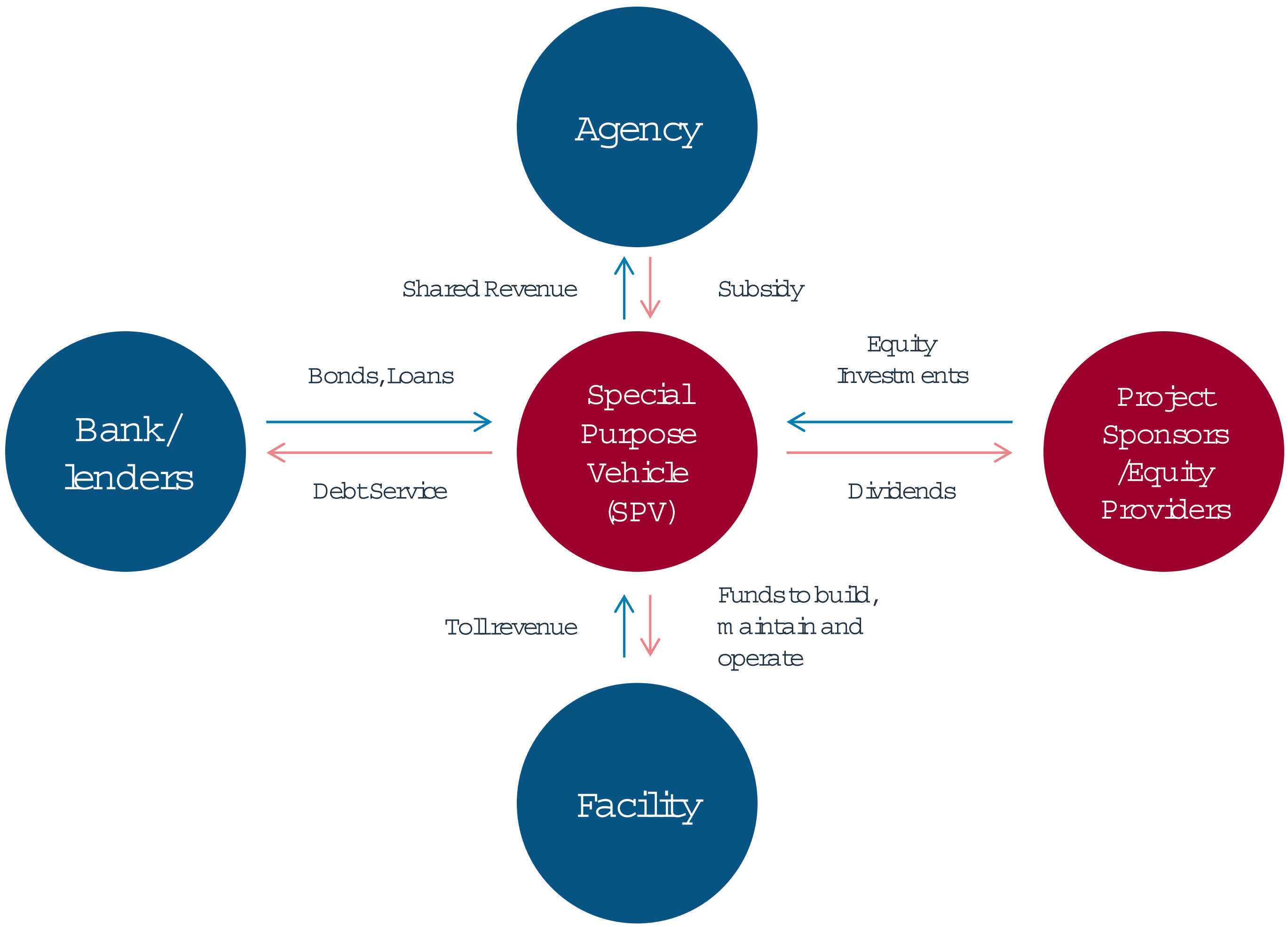
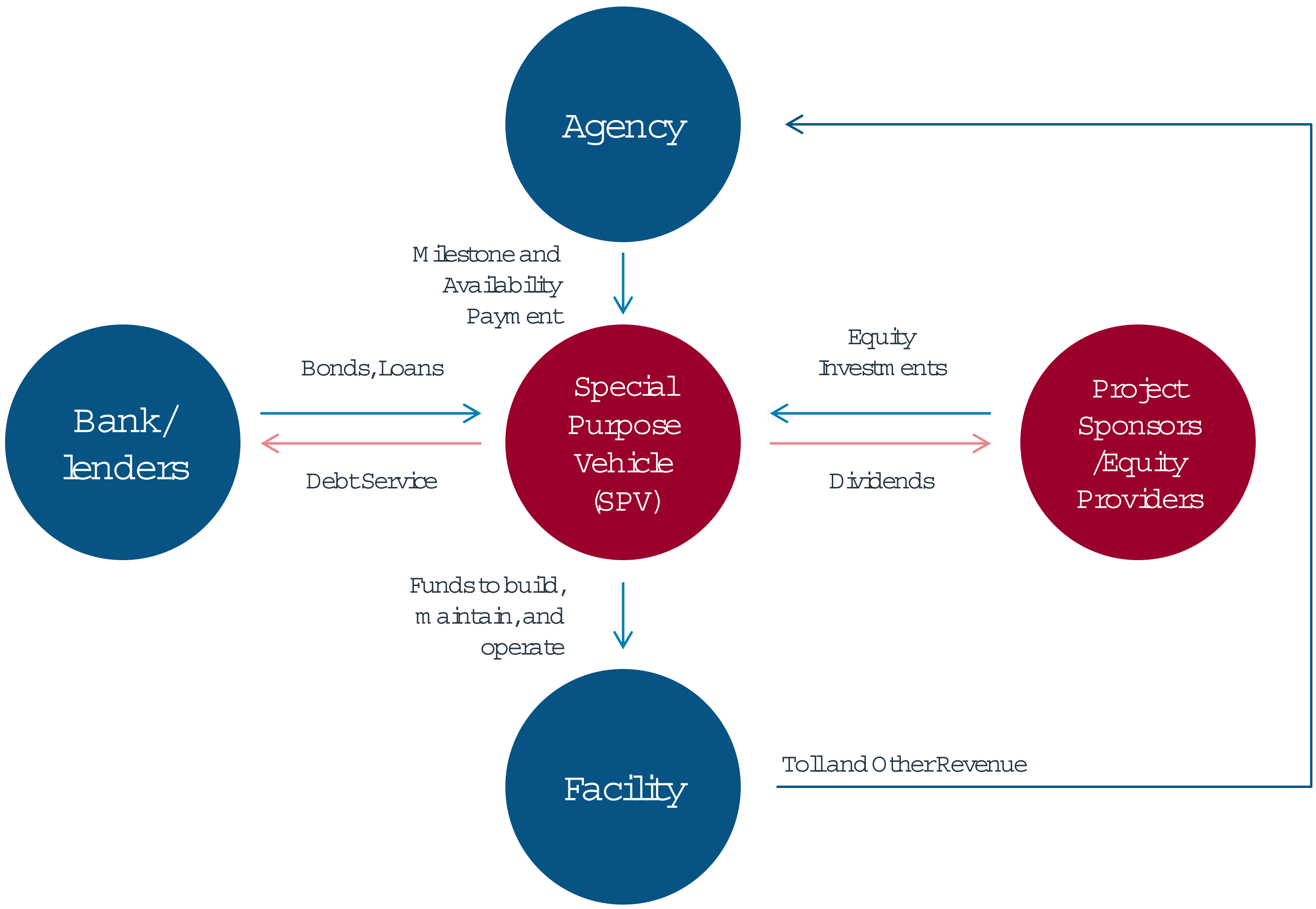
Delivery Models



Typical Toll Concession P3 Structure



Typical Availability P3 Structure



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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?

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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