What is a Public-Private Partnership (P3 or PPP)?

► Various
  ▶ Private partner financing and/or public/private share risks
  ▶ Non-US countries
  ▶ Broad “American Model”
    ▶ Most states authorize some form of P3 procurement for transportation
    ▶ Some (fewer) allow P3s for broader industries

► Major Forms
  ▶ Outsourcing/O&M Agreements
  ▶ Public-Private Partnerships
  ▶ Privatization
Why Do We Need P3s?

- Municipalities Need Help
  - Shrinking budgets
  - Aging Infrastructure
    - Maintenance
    - Replacement and Expansion
  - Pension shortfalls
  - Regulatory or service demands for major facility improvements
  - Risk sharing
  - Political

- P3s are ONE option, not a panacea
  - Value for Money Analysis
Traditional Procurement vs. Privatization vs. P3s

Traditional Procurement

- Public entity maintains ownership of asset
- Public entity funds (bonds, grants)
- Public entity controls entire process
- Award based on “lowest price”
- Often little to no cooperation among service providers/bidders
  - Inefficiencies
  - Short-term vs. long-term benefits
- Public entity maintains political pressure to keep fees/rates low
- Employees generally protected
Privatization

- Sale of asset to private sector
- Cash to public entity for other uses
- Public entity gives up *most* control
- Competitive process
- Award not based solely on price
- Often improved efficiency and technology, economies of scale (broader pool of expertise)
- Removes some political pressure to keep rates low
- Protracted process and contract negotiations
- Community opposition to asset sale
- Challenges to process
- Employees may or may not be protected (opportunities)
Traditional Procurement vs. Privatization vs. P3s (con’t)

- Public partner generally retains asset
- Generally funded by private partner (debt and equity)
- Shared control by private partner and public partner
- Competitive process
  - Teams of private industry submit proposals (SPVs)
  - Important to know other industry players to get on these teams
- Best “value”; award not based solely on price
- Often improved efficiency and technology, economies of scale (broader pool of expertise)
- Remove some political pressure to keep rates low
- Protracted process and contract negotiations
- Employees may or may not be protected (opportunities)
P3 Structures

- Operation and Maintenance Agreements (O&M)
- Design/Build
- Design/Build plus O&M (DBOM)
- Design/Build, Operate
- Design/Build, Transfer
- Design/Build, Finance, Operate, Maintain (DBFOM)
- Lease
- Concession Arrangement
- Franchise Arrangement
Process for P3

Request for Information/Request for Indications of Interest (RFI)

Informal
- General Information
- Test the market

Request for Proposals (RFP)
- May issue and accept comments for re-issuance
- Detailed, objective criteria
- May include draft agreement
- 30-90 days to respond
- Usually requires in-person visits of facilities
- Statutorily prescribed process – state specific
P3 Players

- Public Partner
- Private Party = Usually special purpose vehicle/joint venture
  - Equity Investor(s)
  - Lender (lender’s technical advisor)
  - Developer
  - Design-Build Contractor
  - O&M Service Provider
- Subcontractors
- Suppliers
- Professional Consultants
Potential Major Agreements

- Public-Private Agreement (public partner vs. lead private partner/SPV/developer)
- Design-Build Contract (lead private partner/SVP/developer vs. DBC)
- O&M Agreement (lead private partner/SVP/developer vs. O&M service provider)
- Interface or Coordination Agreement (among all joint venture participants)
- Teaming Agreement (DBC vs. subcontractors)
- Loan/Financing Documents
- Insurance/guarantees!
## Risk Transfer

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<td>Design-Build (DB)</td>
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<tr>
<td>Design, Build, Finance, Operate and Maintain (DBFOM)</td>
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<td>Yes, if toll or traffic-based payment</td>
<td>Yes, if performance-based payment</td>
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• Rialto, California (30-year concession; $177M up front private equity/debt)
• Bayonne, New Jersey (40-year concession; $150M private equity/taxable bonds)
• Allentown, Pennsylvania (50-year lease concession agreement; $307 million private taxable/tax exempt bonds)
• City of Phoenix, Arizona (design-build-operate; $237M public bonds)
• City of Santa Paula, California (DBO + F; $62M private equity/debt)
• Prince Georges County, Maryland (design-construction-manage; $100M public tax exempt bonds/ SRF loans)
• City of Indianapolis, Indiana (20-year management agreement; $1B in payments, including performance payments)
• City of Indianapolis, Indiana (sale; $1.9B)
• City of Westfield, Indiana (sale; $91M)
• Gary-Chicago International Airport, Gary, Indiana (combination; $100M economic development investment)
Thank you

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