



- 1. P3 Overview
- 2. Benefits & Advantages
- 3. 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



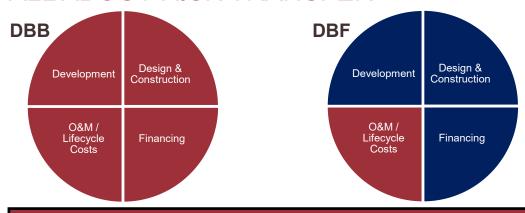
BENEFITS FOR SPONSORS

Macro benefits to governments:

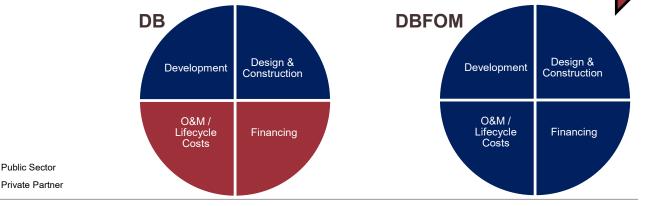
- Superior on-time and on-budget performance compared to traditional delivery approaches
- More innovation, driven through competition
- Additional delivery capacity is created by leveraging private sector expertise and resources
- Projects are delivered faster
- Economic benefits are realized sooner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



ALL ABOUT RISK TRANSFER



Level of Risk Transfer

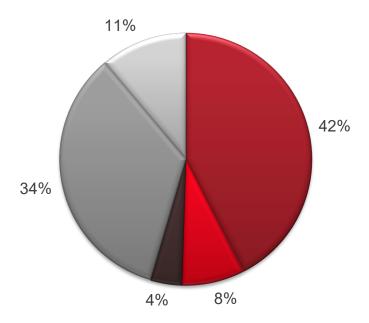




Public Sector

WHOLE OF LIFE COSTS: CIVIC CENTER

40 Year Facility Cost of Operations

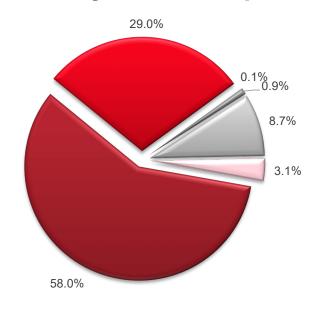


■FM ■Lifecycle ■Planning & Management ■Design & Construction ■Energy



BEYOND "FIRST IN" COSTS: HOSPITAL

40 Year Facility Cost of Operations¹

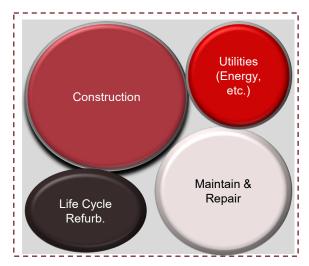


■ O&M ■ Refurbishment ■ Planning ■ Design ■ Construction ■ Transition

Note 1: From July 2010 Healthcare BIM Consortium ,An Organization consisting of Department of Defense Military Health System (DoD MHS), Department of Veterans Affairs (DVA), Kaiser Permanente (KP), and Sutter Health, representing \$26B of Healthcare construction

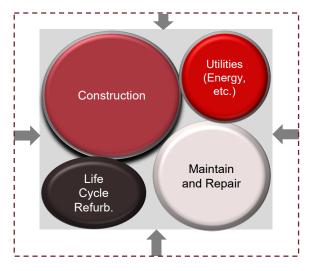


VALUE PROPOSITION FOR A DBFOM



- 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

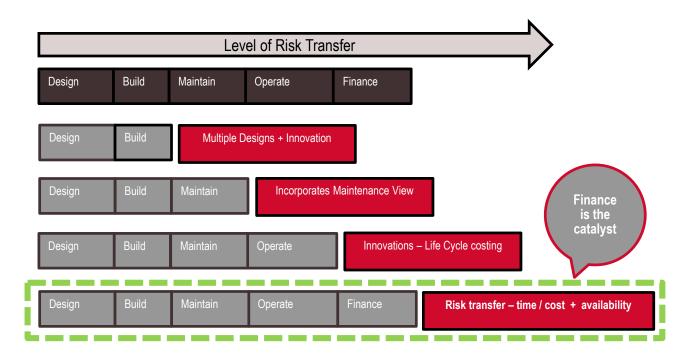
Value to Public Sector is a **LOWER Net Present**Value



- Long-term "Whole-of-Life" costs instead of first cost construction
- Good decisions <u>during design process</u> 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







ABBOTSFORD P3 HOSPITAL



Size	650,000 ft ²		
Services Available	300 bed acute care hospital and ambulatory care facility Regional cancer center \$450 million		
Project Value			
Client	Fraser Health / BC Cance Agency		
Consortium	ABN Amro, PCL, Johnson Controls		
Completion	May 2008		
Structure	Design, Build, Finance, Operate, Maintain		
Status	Operations		



ABBOTSFORD P3 HOSPITAL



Key project successes:

- \$0 change orders first for Canadian public healthcare capital projects
- On time May 7, 2008

- No preconceived design; performance-based specifications
- · Partnership attitude
- Strong political commitment
- Health Co P3 knowledge & strong project management
- Learned from others



VANCOUVER CONVENTION CENTRE



PROJECT DESCRIPTION

- Large scale project undertaken by public sector with external project managers and construction management contract
- Started as P3, but changed approach to construction management with a robust governance model using P3 principles

Results

- Increase in price to over C\$880m – up from original C\$565m
- Late by 6 months
- Focus on "first costs" at the expense of lifecycle optimization
- Even if completed onbudget, all risk with facility performance is still with VCC



COMPARISON - ARHCC / VCC





Abbotsford Hospital & Cancer Centre

Architect: MCM
Constructor: PCL
Construction Start: 2004

Procurement: DBFM – P3

Result: On / Under Budget

Operations Start: On Time

Vancouver Convention Centre

Architect: MCM
Constructor: PCL
Construction Start: 2004

Procurement: Const. Management
Result: Over budget (55% over)

Operations Start: 6 Months late



WHY THE DIFFERENCE?

Hospital - P3

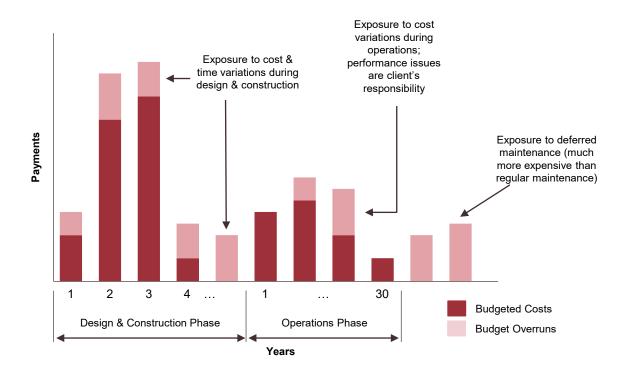
- Alignment of interests
- Very timely decision-making
- Cost over-runs hit the developer it is their money and therefore, it has a direct impact on the employees managing the project
- Facility performance guaranteed
- Abatements for performance issues

Convention Center – Traditional CM

- Despite having an independent Board and project Company, they were encumbered by bureaucracy and government approvals
- Slow decision making
- Misaligned incentives compensation was not outcomes based
- Not spending their own money

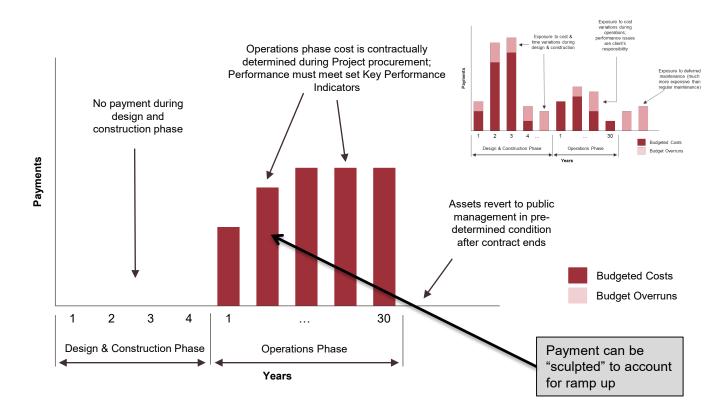


COMMON FACILITY-RELATED RISK EXPOSURE





SIGNIFICANT RISK TRANSFER - P3 MODEL

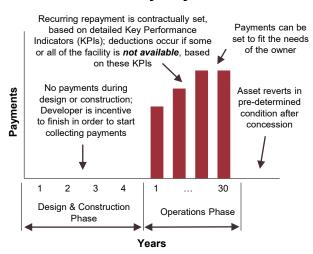




P3 REPAYMENT STRUCTURES

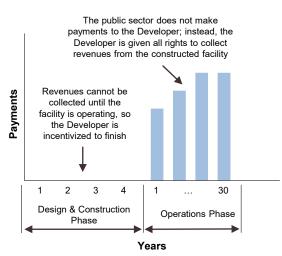
There are two different ways to structure repayment under a P3 contract: Availability Payment (AP) or Revenue/Demand Risk

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 onbudget 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

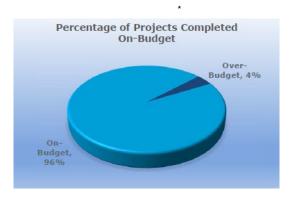


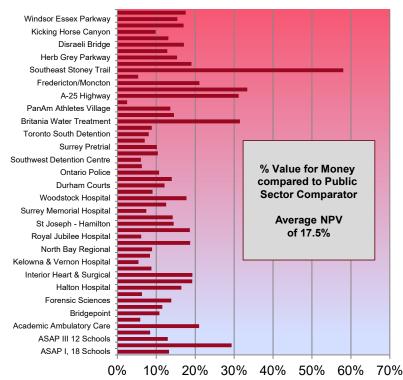
Guaranteed handback condition is effectively a long-term warranty



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.





PUBLIC PRIVATE PARTNERSHIPS

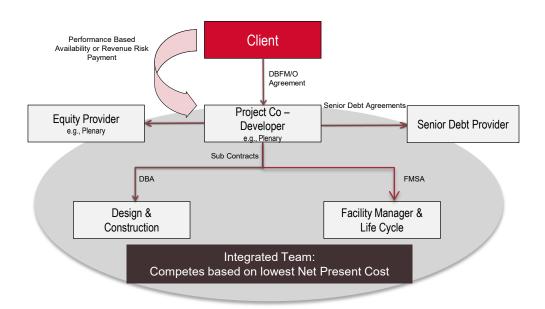
P3s are a long-term partnership where:

- 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

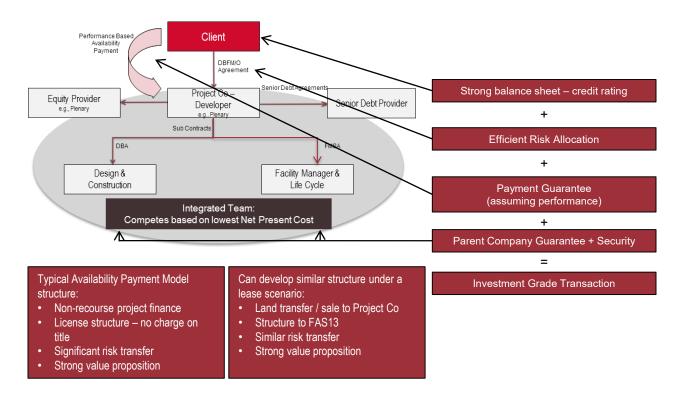


TYPICAL P3 STRUCTURE





IDEAL STRUCTURE ATTRIBUTES





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

Sponsor Shared Private Partner



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	СМ	DB / GMP	Р3
Speed to market		✓	✓	✓
"Dream Team"		1	✓	✓
Procurement Cost			✓	✓
Design Alternatives		✓	✓	✓
Value for Money				✓
Collaborative, aligned Process		1	✓	✓
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





- 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







Sia Kusha, PE, FACEC

Senior Vice President,

Group Head Project Development & Partnering

D: (813) 387-3877

M: (813) 557-4669

Sia.kusha@plenarygroup.com

