7 Keys to Success

ncppp.org/ppp-basics/7-keys/

Public-Private Partnerships Defined

A public-private partnership (P3) is a contractual arrangement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility.

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7 Keys to Successful P3s

The following are to be considered "best practices" in the development of public-private partnerships (P3s). It is recognized that the methodology for implementation of P3s can vary, depending on the nature of a given project and local concerns. Given this, it is the position of the NCPPP that these are "best practices":

1) PUBLIC SECTOR CHAMPION:

Recognized public figures should serve as the spokespersons and advocates for the project and the use of a P3. Well-informed champions can play a critical role in minimizing misperceptions about the value to the public of an effectively developed P3.

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2) STATUTORY ENVIRONMENT:

There should be a statutory foundation for the implementation of each partnership. Transparency and a competitive proposal process should be delineated in this statute. However, unsolicited proposals can be a positive catalyst for initiating creative, innovative approaches to addressing specific public sector needs.

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3) PUBLIC SECTOR'S ORGANIZED STRUCTURE:

The public sector should have a dedicated team for P3 projects or programs. This unit should be involved from conceptualization to negotiation, through final monitoring of the execution of the partnership. This unit should develop Requests For Proposals (RFPs) that include performance goals, not design specifications. Consideration of proposals should be based on best value, not lowest prices. Thorough, inclusive value for money (VFM) calculations provide a powerful tool for evaluating overall economic value.

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4) DETAILED CONTRACT (BUSINESS PLAN):

A P3 is a contractual relationship between the public and private sectors for the execution of a project or service. This contract should include a detailed description of the responsibilities, risks and benefits of both the public and private partners. Such an agreement will increase the probability of success of the partnership. Realizing that all contingencies cannot be foreseen, a good contract will include a clearly defined method of dispute resolution.

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5) CLEARLY DEFINED REVENUE STREAM:

While the private partner may provide a portion or all of the funding for capital improvements, there must be an identifiable revenue stream sufficient to retire this investment and provide an acceptable rate of return over the term of the partnership. The income stream can be generated by a variety and combination of sources (fees, tolls, availability payments, shadow tolls, tax increment financing, commercial use of underutilized assets or a wide range of additional options), but must be reasonably assured for the length of the partnership's investment period.

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6) STAKEHOLDER SUPPORT:

More people will be affected by a partnership than just the public officials and the private sector partner. Affected employees, the portions of the public receiving the service, the press, appropriate labor unions and relevant interest groups will all have opinions, and may have misconceptions about a partnership and its value to all the public. It is important to communicate openly and candidly with these stakeholders to minimize potential resistance to establishing a partnership.

7) PICK YOUR PARTNER CAREFULLY:

The "best value" (not always lowest price) in a partnership is critical in maintaining the long-term relationship that is central to a successful partnership. A candidate's experience in the specific area of partnerships being considered is an important factor in identifying the right partner. Equally, the financial capacity of the private partner should be considered in the final selection process.

Overview & Mission

ncppp.org /about/overview-mission/

About NCPPP

The National Council for Public-Private Partnerships is a non-profit, non-partisan organization founded in 1985. The Council is a forum for the brightest ideas and innovators in the partnership arena. Its growing list of public and private sector members, with experience in a wide variety of public-private partnership arrangements, and its diverse training and public education programs represent vital core resources for partnering nationwide. The Council's members bring an unmatched dedication to providing the most productive and cost-effective public services.

Every activity of the Council is geared to enhancing the partnership process from networking events, such as conferences and issue forums, to sharply focused opportunities, such as Committees, Institutes, the Speakers' Bureau and the website. The benefits of Council membership are bounded only by the vast energy of its members.

Across the country, governments are being challenged to operate more efficiently and cost-effectively and are turning to an accepted tool for serving public needs. In addition to the resources available to its members, the Council has access to expert consultants providing accurate, timely information to the general public. It advocates partnering, where appropriate, at the federal, state and local levels through formal and informal presentations.

Mission

The mission of The National Council for Public-Private Partnerships is to advocate and facilitate the formation of public-private partnerships at the federal, state and local levels, where appropriate, and to raise the awareness of governments and businesses of the means by which their cooperation can cost effectively provide the public with quality goods, services and facilities.

Objectives

1. To serve as an advocate of public-private partnerships.
2. To provide complete, objective, timely and useful information on the utilization of public-private partnerships to provide services and facilities to the general public.
3. To facilitate communications between public- and private-sector members with respect to issues related to the implementation of public-private partnerships.
4. To conduct educational, training and other activities on public-private partnerships.
5. To provide input to the public dialogue in support of the use of public-private partnerships and removal of impediments to their implementation.
6. To facilitate an international dialogue on public-private partnerships in support of the foregoing objectives.

Key Values

1. Full and open participation by public and private members and encouragement of frank communication between the public and private sectors.
2. Assistance to both the public and private sectors in public-private partnership analysis and implementation.
3. Promotion of member teamwork in fulfilling the Council's mission and achieving its objectives as a non-profit, non-partisan organization

BIPARTISAN POLICY CENTER

Priority Actions for State Governments

BPC's Executive Council on Infrastructure released recommendations to achieve a *New American Model for Investing in Infrastructure*. This new model aims to increase the flow of private capital into U.S. infrastructure projects by:

- addressing the pervasive underappreciation of future infrastructure liabilities in America;
- encouraging partnerships with the private sector to share risks and maximize the value the public receives from infrastructure assets; and
- ensuring communities across the country have tools to make necessary investments.

To achieve these aims, state governments must commit to implementing the Executive Council's recommendations and create the necessary conditions for private investments and partnerships. The following priority actions are the first steps toward achieving the new model.

Pass Enabling Legislation

All states should adopt broad enabling legislation to allow for the full range of partnerships between the public and private sectors for all types of infrastructure. Seventeen states do not allow public-private partnerships (P3) for infrastructure at all, and, even among those that do have P3 laws, existing statutes are most often limited to use of P3s for specific types of infrastructure—particularly transportation—or include provisions that it make alternative procurements difficult in practice—such as prior legislative approval.

Build In-House Expertise

Nationwide, actual experience with negotiating and delivering P3s is limited. States should establish expert offices to provide technical assistance and serve as one-stop shops for private investment in infrastructure for the state. This will help combat the inertia among public agencies that leads them to using familiar, conventional methods of procurement without exploring alternatives that could reduce costs or result in better infrastructure over the long term.

Public Assets

All public infrastructure owners should develop a complete list of infrastructure assets owned, the condition of the assets, cost of maintaining over remaining useful life, cost of replacement, and the potential impact of a failure. Lack of information about the full scope of future costs and risks skews decision-making toward short-term priorities, not long-term needs.

Expedite Permitting

Where possible, states should help ensure early identification of all necessary permits, clearly delineate decision-making authority, utilize simultaneous – not sequential – permitting processes, and prioritize consensus-building and transparency.

Prioritize Long-Term Value

Public agencies should prioritize infrastructure needs and match projects with the most cost-effective delivery and financing options. States can make strategic choices in project delivery to maximize long-term value and save public dollars while incentivizing localities to follow suit.

Use Innovative Funding

Public funding will continue to be essential for modernizing infrastructure. But project sponsors should also maximize the use of emerging funding sources that directly engage the private sector: value capture, naming rights, crowdfunding, and private development capital. Failure to embrace these options leaves dollars on the table.

For more information, view the report:
bipartisanpolicy.org/library/modernize-infrastucture

10 things you need to know about:
Private Investment in Infrastructure

BIPARTISAN POLICY CENTER

The Executive Council on Infrastructure has released *Bridging the Gap Together: A New Model to Modernize U.S. Infrastructure*, making a series of recommendations for increasing private investment in infrastructure. Here are the key takeaways.

1 **Despite the $1 trillion funding gap for U.S. infrastructure, billions of dollars of private capital are left on the table each year** that could be used to fix crumbling roads, bridges, water and wastewater systems, ports, airports and civic buildings.

2 **State laws are an essential building block to expanding private investment in infrastructure,** yet 17 states lack laws allowing partnerships with the private sector. Even fewer states allow the full range of partnerships. BPC's Executive Council calls on states to pass new and improve existing laws enabling public-private partnerships or P3s.

3 **The true extent of our nation's infrastructure needs is unknown.** BPC's Executive Council calls on public agencies to inventory assets in an effort to create a publicly available project pipeline. Such inventories empower communities to make informed decisions and tackle their infrastructure needs through strategic investments and partnerships with the private sector.

4 **Public agencies face deteriorating infrastructure assets, but a lack of data and information on the state of those existing assets skews their decision-making about what to do.** More often than not, risks are revealed only after infrastructure fails, a danger to the health, safety, and security of communities.

5 **Degraded infrastructure in the need of repair and new investment, coupled with other necessary competing pressures on public budgets creates a perfect storm.** With limited resources, public officials have often focused on immediate maintenance needs. However, in discounting the life cycle costs inherent in any project and the mounting risks of unsafe infrastructure, new investments fail to be made.

6 **Infrastructure projects are long-term investments.** Partnerships between the public and private sectors can incentivize long-term thinking about design, construction, finance, operations, and maintenance. But too few projects are put forward today that incorporate long-term thinking, are attractive to private investors, and are tied to a clear public benefit.

7 **A clear understanding of the public value of an investment is a founding principle in public-private partnerships**, since the private sector is only paid when it provides the level of service expected by the public.

8 **A transparent process for public outreach and engagement, with ongoing opportunities for stakeholder feedback, is essential to the success of public-private collaboration.** In fact, it is essential to overcoming risks associated with competing stakeholder interests and NIMBY-type opposition.

9 **To increase private investment in our nation's infrastructure, we must simplify project development and permitting.** Too often, lengthy, uncoordinated permitting and review make projects costly and unattractive to private capital.

10 **By partnering, public and private sector stakeholders can reduce the fiscal burden** on public sector balance sheets, transfer risks, and enable government agencies to exercise their most important responsibility—ensuring community health and safety.

CELEBRATING TEN YEARS OF PRODUCTIVE PARTISANSHIP.

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ing the Gap Together: A New Model to Moder Infrastructure

We have an extraordinary opportunity in America—to confront the pressure being placed on our nation's roads, water systems, ports, airports, and energy grid with available private capital. This report establishes the framework to unite projects that need funding with private capital ready to invest in a transparent system that allocates risks and resources to the public's benefits.

America is a nation of innovators—we are inspiring new industries through interconnected devices, commercializing suborbital space flight, and advancing cures to life-threatening diseases. Yet if we hope to foster the next generation of entrepreneurs that can push our economy forward and maintain our quality of life, we must invest in our infrastructure. Wise infrastructure investments would create millions of jobs, maintain the health, safety, and security of our communities, and set our nation on track for decades of greater prosperity.

This is a choice between action and paralysis. Not making decisions today has serious consequences for tomorrow. We are already confronting prior mistakes as our infrastructure today is failing us. We are living at risk: driving every day on eroding roadways, questioning whether our water is really safe to drink, and sending our children off to schools built for our parents' generation. The problem is growing worse. It shouldn't be this way in a country that for so long has led and inspired the world.

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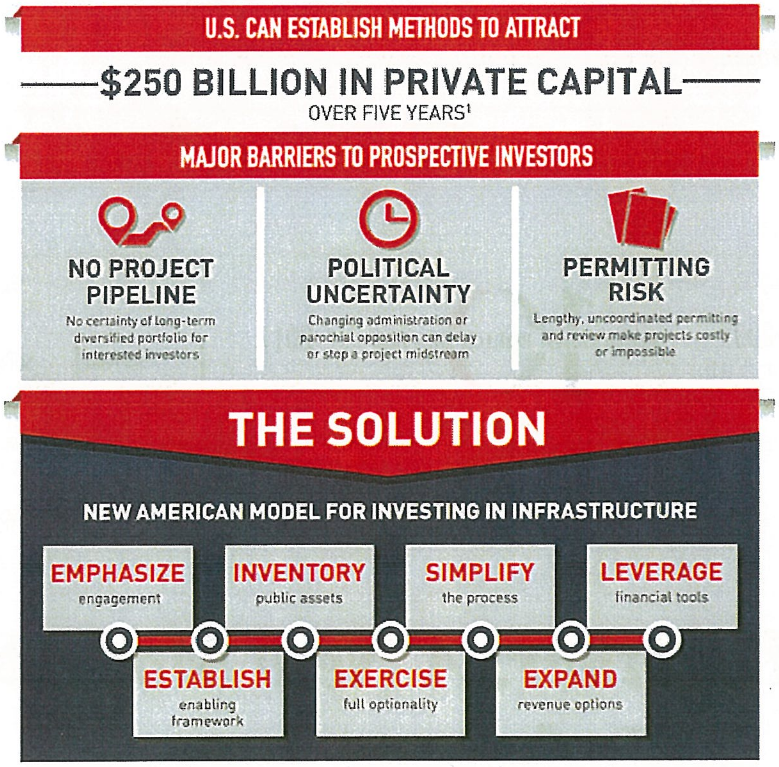

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DOWNLOAD EXECUTIVE SUMMARY

The Challenge We Face: Short-Term Focus Fuels Mounting Liabilities

The investments made 50 to 100 years ago are nearing the end of their useful life. We have no coordinated vision or plan for their replacement. And public agencies have struggled to maintain existing assets or plan for their replacement, let alone to make the investments necessary to support future population growth and economic needs.

The price tag to adequately prepare America for the future is hefty—likely requiring trillions of dollars to upgrade, modernize, and expand our infrastructure. Long-term needs—operations and maintenance, repair, expansion and modernization of infrastructure systems—are too often ignored in favor of a focus on short-term costs.

There are many competing demands for public resources—healthcare, public pensions, and existing debt—that are expected to overwhelm public budgets. If we are to meet our nation's future needs and preserve our American quality of life, the public sector cannot continue to cover the cost and absorb the risk of our degrading infrastructure alone. We have to act before lasting damage is done to our economy and the next infrastructure-related failure consumes another American community.

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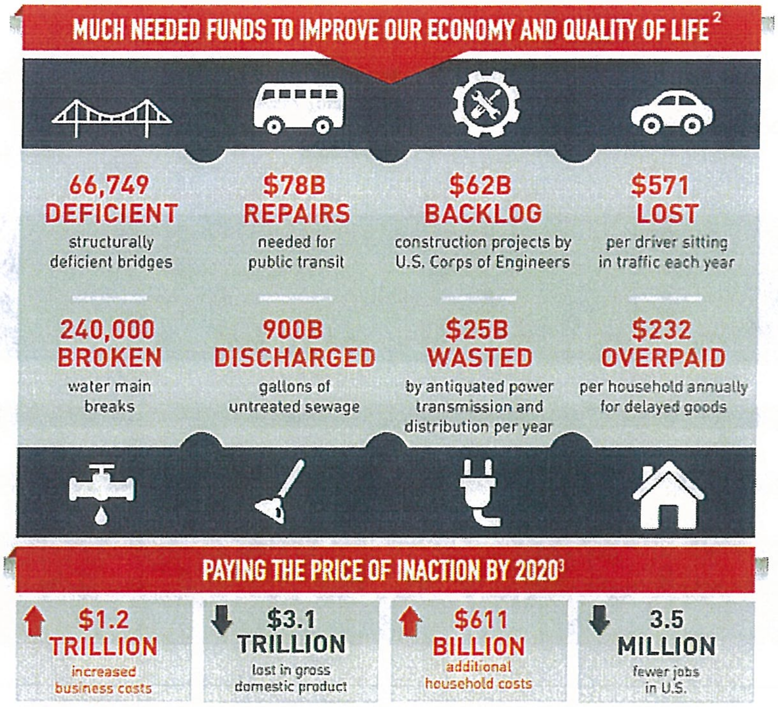

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ANSWER BPC'S CALL TO ACTION

The Solution Is Clear: Long-Term Outlook Compels New Model, Delivers More Infrastructure

There is another way. The private sector stands ready to partner and assist—bringing an appetite for risk, necessary capital, and valuable expertise. Investors with hundreds of billions of dollars to deploy are actively seeking infrastructure projects to support.

Unfortunately, there are a number of barriers preventing the investment of private capital into U.S. infrastructure projects. As a result, America is leaving dollars on the table as capital flows to more receptive shores.

Together the public and private sectors can establish a new model for infrastructure investment that confronts risk and captures value over a project's full life-cycle—propelling America's infrastructure into a modern, technologically advanced, and integrated network that enables prosperity long into the future. Our council aims to increase the flow of private capital into U.S. infrastructure projects by:

- addressing the pervasive underappreciation of future infrastructure liabilities in America;
- encouraging partnerships with the private sector to share risks and maximize the value the public receives from infrastructure assets;
- ensuring communities across the country have tools to make necessary investments.

The challenge before us is enormous, but we have the resources to address it—if we can overcome the barriers that are pushing those resources away.

Learn more about the Executive Council on Infrastructure: **infrastructurecouncil.org**

VIEW EVENT HIGHLIGHTS

KEYWORDS: **INFOGRAPHICS, EXECUTIVE COUNCIL ON INFRASTRUCTURE**

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PUBLIC-PRIVATE PARTNERSHIPS

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The American Model™ for Public-Private Partnerships

NDC's American Model™ of P3 works on behalf of a government or non-profit entity to deliver privately designed, built, financed, operated and maintained facilities. Our process ensures the best possible building for the least cost and burden to the governmental or non-profit entity. Our emphasis is always on the "public" in Public Private Partnerships. We are dedicated to reducing costs through better management and low-cost financing while maintaining the highest standards of design and construction.

OVER $2.5 BILLION IN TOTAL DEVELOPMENT

NDC P3™ projects include municipal office space, city halls, justice centers, parking garages, laboratory space, student housing, libraries, biomedical facilities, and hospitals. We have completed over 3.7 million square feet of usable development space.

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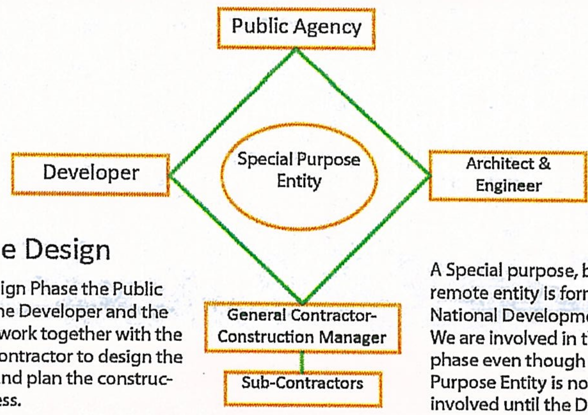
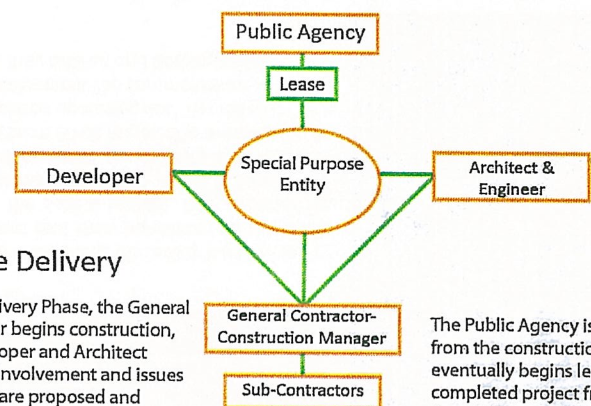
The American Model™: Design and Delivery



The Design

In the Design Phase the Public Agency, the Developer and the Architect work together with the General Contractor to design the building and plan the construction process.

A Special purpose, bankruptcy remote entity is formed by National Development Council. We are involved in the Design phase even though the Special Purpose Entity is not directly involved until the Delivery Phase.



The Delivery

In the Delivery Phase, the General Contractor begins construction, the Developer and Architect maintain involvement and issues that arise are proposed and discussed by the entire team, including the Public Agency.

The Public Agency is insulated from the construction risk and eventually begins leasing the completed project from the Special Purpose Entity.

NDConline.org

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The American Model ™: Our Approach to Public-Private Partnerships

The definition of Public-Private-Partnership runs the gamut from privatization of public assets to public assistance (i.e. Subsidies) of private development. There is potential for a symbiotic relationship between the public and private sectors, a partnership based on fair allocation of risks and rewards coupled with a balanced assignment of tasks to those best equipped to accomplish them. In our experience, the proper balance and alignment of these activities differs in every project. With few exceptions, there are two general rules that should be considered in structuring a fair public-private partnership:

1 - Public debt structures are less costly than private debt structures

Tax-exempt debt is less costly than taxable debt. Tax-exempt debt operates on a longer term, has a fixed rate and a low cost. Frequently, it provides 100% of the financing needs of a project and alleviates the need for costly equity.

Taxable debt usually requires that a portion of the project be funded with equity. Equity is much more costly than either tax-exempt or taxable debt and can dramatically increase a project's total cost. Public facilities do not have market rate tenants to pay the higher returns that financing with equity demands. Thus, public debt structures are nearly always better suited for public facilities.

2 - Private development is more efficient than the public development process

Unlike roads or sidewalks, city halls or municipal office building projects are undertaken once every few decades. When it comes time for a public entity to embark on a construction project, it is generally as concerned with consensus, procedure, and public perception as it is with outcome. In the private sector such concerns, while not totally absent, are clearly secondary to the primary goal of a cost efficient project delivery. In order to accomplish this goal, the private sector focuses on an achievable task and must efficiently accomplish that task.

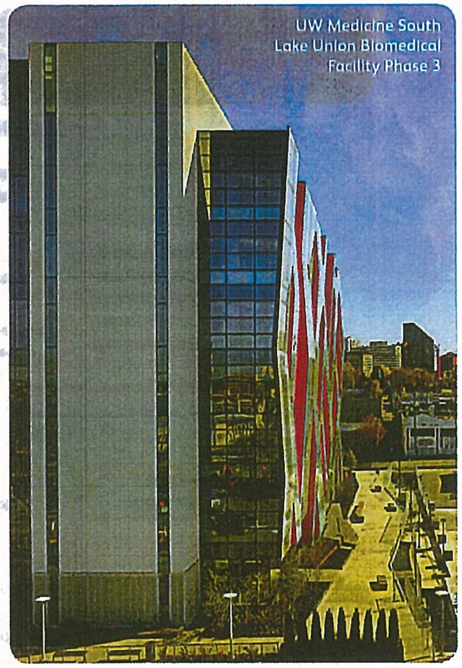
American Model ™

- Over $2.5 Billion in Total Development
- 37 Projects Across the Country
- Every Project Completed on Time and On Budget
- 26 Years of Experience
- 3.4 million Square Feet of Usable Development Space

How can we use the advantages of The American Model™?

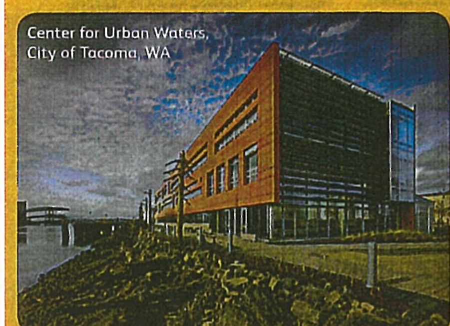
NDC's approach to public-private partnerships blends tax-exempt debt with private development expertise. To do so we set up a not-for-profit owner/issuer of tax-exempt bonds, hire a private developer, architect and general contractor and charge them with developing the facility. This development team is under contract to take construction and delivery risk. They are given the tools to do so, including incentives to build efficiently and to strict quality standards.

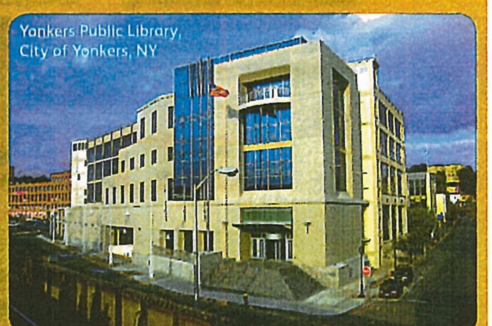
After construction is complete, the facility is leased to the governmental client and then transferred to the client at no cost when the debt is retired. Rent, dictated by the lease, is set at the debt service plus operating costs. There is no operating profit nor disposition profit since the development team is not required to bring equity to the structure or take on operating risk. The development team earns a development fee commensurate with the development risk they take on and nothing more.


UW Medicine South Lake Union Biomedical Facility Phase 3

Our Projects

Our portfolio of almost 40 buildings meets a broad range of needs and includes government office buildings, biomedical research facilities, student housing, medical facilities, laboratory space, parking facilities, city halls, data centers, and infrastructure projects.


Center for Urban Waters, City of Tacoma, WA


Yonkers Public Library, City of Yonkers, NY

Five Steps

Step 1: Selection of the not-for-profit
It is critical to select a not-for-profit with the skills and experience necessary to oversee a complex real estate project and to issue debt and be responsible for tax-exempt bond compliance. The not-for-profit should not be paid directly by the governmental client. Their duties are to finance and own the facility and they should receive a small fee of the bond proceeds. Even though the not-for-profit is selected by the governmental client, they issue and own the bonds and so their fee is a project cost not a consultant cost.

How the not-for-profit is selected should be governed by local requirements. It is most often done by RFQ, but this may not be necessary since there is no contractual relationship with the local government until the facility is designed and the government signs a lease.

Step 2: Selection of the Development Team
The development team consists of a Developer, General Contractor and an Architect. The selection process involves an RFQ, followed by an RFP. The RFQ process asks for team members, their qualifications, and their experience. It does not ask for design concepts or costs. Its goal is to select the 2 or 3 (never more) most qualified teams to do the job.

The RFP process should be more refined, however, it is still designed to elicit information on just 5 basic issues.

1. **Who will work on the project and what is their experience?**
2. **Why the proposed team is the best choice and what ideas do they have to create value?**
3. **The RFP provides the not-for-profit's Development Agreement that obligates the team to deliver the project on budget and on schedule and asks if they will accept it.**
4. **Asks the team to provide an estimated hard cost per square foot budget and to bid all fees and soft costs.**
5. **It asks for financial information.**

The RFP process does not ask for design! Too often, selection committees are distracted by concept drawings that will have little relationship to the final design and neglect the more important selection criteria. Design comes in the Pre-development step.

Step 3: Pre-Development
The governmental agency contracts for pre-development services through the not-for-profit or directly with the development team. If contracted through the not-for-profit, this is the first contract between the not-for-profit and the governmental agency. This contract covers out of pocket costs. It does not include profit. Its goal is to fund the design and entitlement work to the point of establishing a Guaranteed Maximum Price. It should not include full costs because it is important that the team design to the governmental agency's wants and to its cost parameters.

Step 4: Contracts
During the later stages of Pre-Development, the financing team, which includes the not-for-profit, the underwriter, underwriter's council, bond counsel, trustee, and governmental entity (tenant), drafts the financing documents, the lease and other real estate documents.

Step 5: Bond Sale, Construction Occupancy and Management
Once built, the facility is owned by the not-for-profit and leased to the government at cost. Whenever the debt is retired, the facility is transferred to the governmental tenant at no cost.

NATIONAL CONFERENCE of STATE LEGISLATURE!

P3 Infrastructure Delivery: Principles for State Legislatures

9/8/2017

Executive Summary

Since 2010, the public debate over P3s has expanded from the transportation other types of government-delivered infrastructure. An increasing number of st Virginia, Texas, Florida, Indiana and Pennsylvania—began entering into P3 ag help alleviate shortfalls in critical resources for building, maintaining and opera infrastructure projects.

As a response to growing state legislative interest and market activity, NCSL o sought to discuss P3 best practices and challenges.

The 2016 NCSL Foundation Partnership on Multi-Sector Public-Private Partne established a strategic working group comprised of state legislators, legislative private-sector stakeholders. Building from the groundwork of its 2010 predeces initiative was designed to explore the use of P3s for non-transportation specific The initiative's goal is to provide lawmakers and public stakeholders with the expertise and assistance nee and implement sound P3 policy.

This policy brief is designed as a supplement to existing National Conference of State Legislatures resourc private partnerships (P3s). Informed heavily by the NCSL Foundation Partnership on Multi-Sector Public-F Partnerships, this report attempts to connect concepts from the NCSL P3 Toolkit with real-world examples developments in P3 enabling statutes.

Download the Full Report

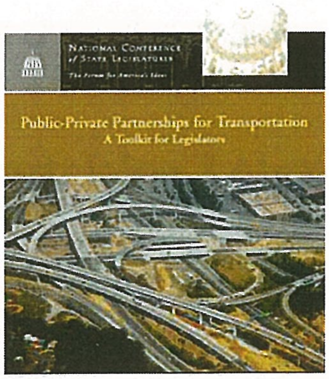
- P3 Infrastructure Delivery: Principles for State Legislatures
- See the press release from Aug. 7, 2017, announcing the report.

Portions of the content within were originally published in the NCSL report, *Public-Private Part Transportation: A Toolkit for Legislators* (2010) and NCSL's online document, *Building Up: Hov Public-Private Partnerships for Social & Vertical Infrastructure (2016).*

In 2010, NCSL released the P3 Toolkit for Legislators. This report was the final product of the NCSL Founc Partners Project, a multi-year initiative partnering state lawmakers with private sector stakeholders to exar the policy options available to states, with .

The P3 Partners Project was in response to increased awareness in Congress to the use of P3s and the d protection of the public interest in such agreements.

To contribute a balanced, informed perspective that also would help protect states' ability to use P3s as ap NCSL formed a working group of state legislators, legislative staff and representatives of private sector en



assemble reliable information and identify effective tools for considering P3s in overall transportation funding decisions.

The key focus of NCSL's P3 Toolkit is the formulation of nine principles to help legislators as they consider and perhaps adopt a procurement and financing a involving P3s. Roles and responsibilities of various policy actors—legislative b executive branch, private sector—also are described. The Toolkit's emphasis i transportation projects.

Acknowledgments

NCSL would like to thank the many people who assisted in the development and production of this report. the NCSL Foundation Partnership for Multi-Sector Public-Private Partnerships (also known as the NCSL F Committee), this document was informed by the meetings and discussions of the NCSL P3 Steering Comr

NCSL greatly appreciates the support from the legislators who contributed to this project, the private-sect the NCSL Foundation for State Legislatures. This effort would not have been possible without your suppor participation.

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- **Jean Cantrell,** Philips
- **Leonard Gilroy,** The Reason Foundation
- **Christian Deschauer and Isabelle Beegle-Levin,** Transurban
- **Deborah Brown,** WSP

NCSL would also like to acknowledge Jaime Rall, James B. Reed and Nicholas J. Farber, the original auth NCSL "Public-Private Partnerships for Transportation: A Toolkit for Legislatures."

NCSL P3 Resources

- P3 Toolkit for Legislators: The 2010 P3 Toolkit for Legislators is the most highly regarded P3 resour legislators. The toolkit addresses topics and concerns directly related to the legislative perspective a guiding principles for lawmakers to consider when looking at P3 policy.
- P3s for Transportation: Categorization and Analysis of State Statutes: This January 2016 report exa enabling legislation in the 34 states, D.C. and Puerto Rico that have such laws across nearly 40 var (This report does not include 2016 state legislation as it was passed after the report was released.)
- Building Up: How States Utilize P3s for Social and Vertical Infrastructure: This web document exami the state statutes enabling their use for more than just transportation infrastructure.

CENTER *for* ALTERNATIVE FINANCE *and* PROCUREMENT
BUILDING TEXAS TOGETHER

About

CAP's Mission

The mission of the Center for Alternative Finance and Procurement is to consult with governmental entities regarding best practices for procurement and the financing of qualifying projects and to assist governmental entities in the receipt of proposals, negotiation of interim and comprehensive agreements, and management of qualifying projects under Chapters 2267 and 2268 of the Texas Government Code.

What is a P3?

P3s are defined by the contractual relationship between a public-sector agency and private sector consortium to provide services required to: plan for and design, build and deliver, finance, operate, and/or maintain infrastructure assets needed to deliver a public facility or service.

A P3 is a contractual arrangement between a project sponsor and a private sector entity in which the skills, assets, and risks are allocated among the parties in order to achieve the highest value for money over the lifecycle of the asset. Furthermore, remuneration for delivery of the asset and/or service is typically tied to performance, so both the project sponsor and the private entity are incentivized to uphold the terms of the P3 contract.

Benefits of P3s

P3s allow governments to introduce private sector capital into a project and also harness private sector innovation, management and technical expertise. When the private sector more cost-effectively manage risks, taxpayers benefit from lower long-term project costs, higher quality services, and reduced time to delivery of and operational asset. These incentives arise because the P3 contract holds the private partner responsible for completing planned project phases for a fixed cost and fixed schedule, agreed upon during procurement, and it can provide the private partner with decision-making power and control of the asset in completing those phases. In other words, a P3 relies on appropriate transfer of risks from the public to the private sector in order to ultimately realize efficiency gains.

Partnerships between public entities and private entities for the development of infrastructure can help meet the needs of the people of Texas by improving the schedule for delivery, lowering the cost, and providing other benefits to the public.

P3s can facilitate access to the expertise, innovation, and capital of the private sector.

This type of project delivery can enable governments to provide solutions on a faster timeline than otherwise possible.

They encourage innovation and accountability due to procurement processes encompassing the entire life cycle of a project.

Using the P3 model to increase the throughput of infrastructure development helps stimulate the economy.

P3s can protect taxpayers by shifting risks to the private sector, avoiding unnecessary debt, preserving bond capacity, and protecting public credit ratings.

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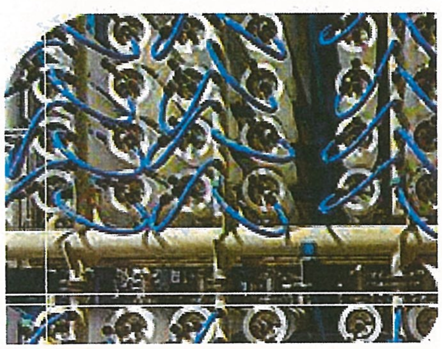
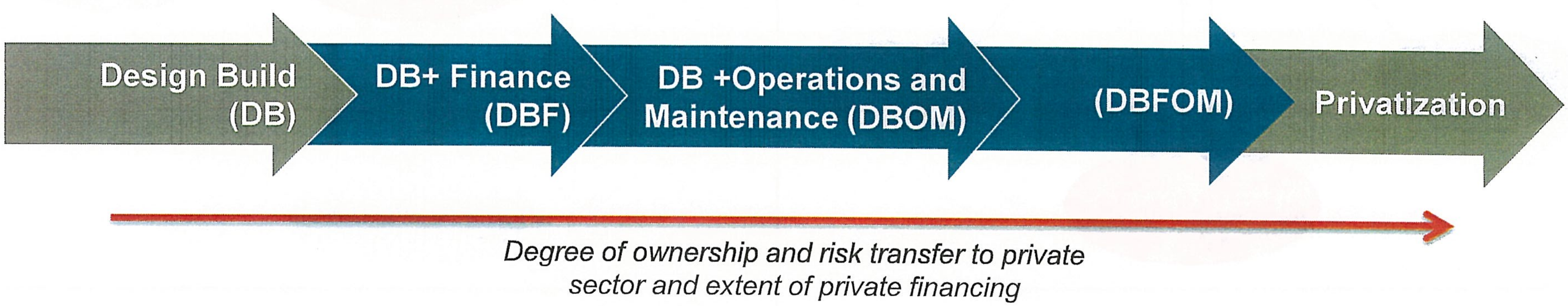


P3s have emerged as a tool that the government uses to procure infrastructure projects faster

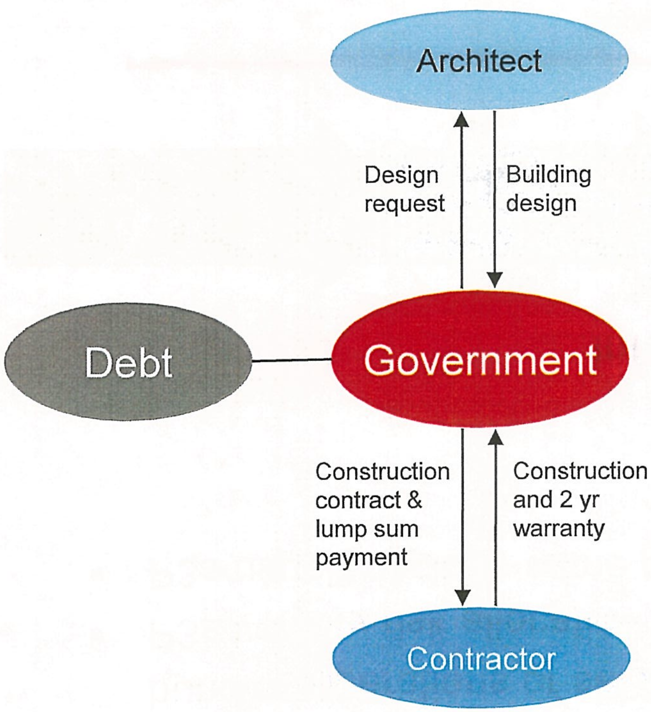
- P3s refer to several different contracting arrangements involving risk sharing and bundled operations or services that are asset life-cycle focused
- P3s vary by risk allocation and scope of services
- P3s usually include some private financing

Infrastructure Delivery Options

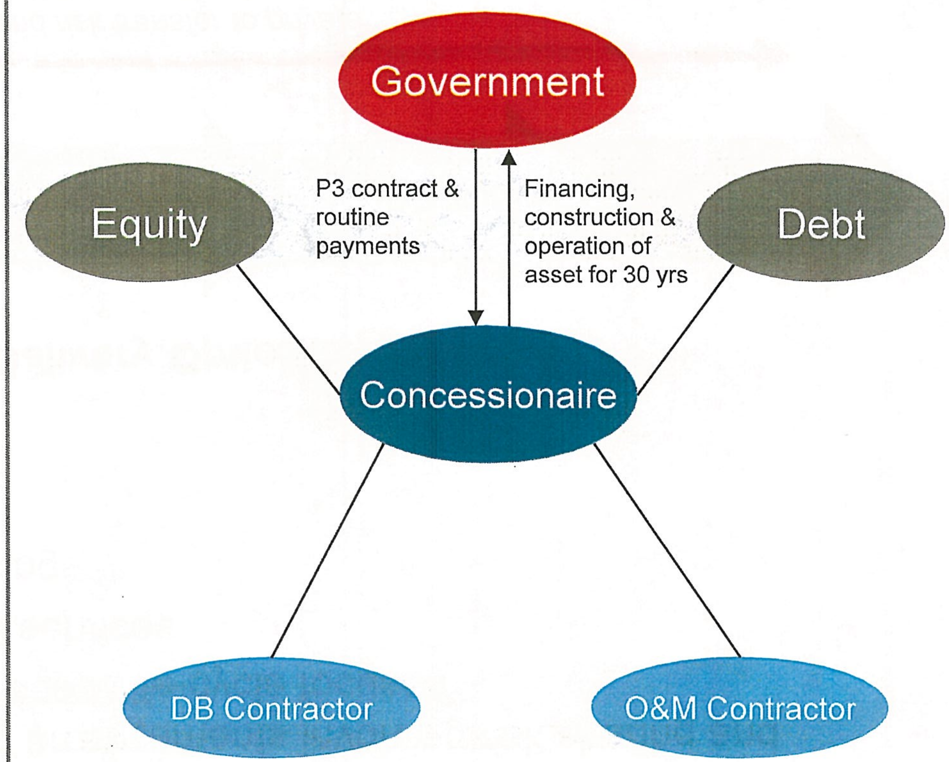


P3s are significantly different from traditional infrastructure procurement

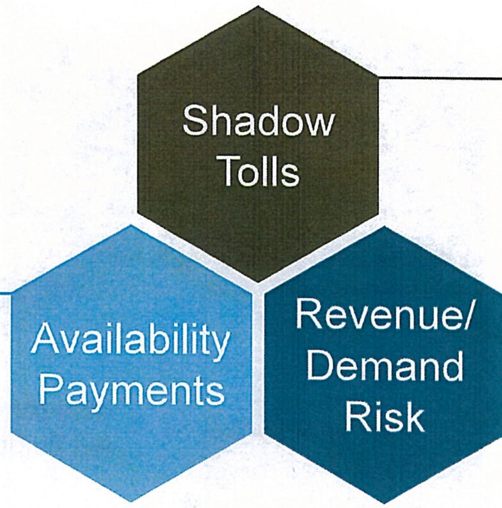
Traditional Design-Bid-Build Procurement



Public-Private Partnership



The private partner can be compensated in a number of ways



Availability Payments

- Concessionaire receives periodic payments from the government based on the "availability" of the asset
- If the asset is tolled, the government retains the revenue risk
- Concessionaire must maintain pre-determined levels of service to receive full payments
- Failure to maintain the asset to certain standards can result in "noncompliance" points that reduce payments to the private partner
- Private partner has "skin in the game" to ensure that the asset it well maintained

Shadow Tolls

- Concessionaire is compensated for each vehicle or person to use the asset
- Concessionaire still bears traffic risk for the public's use of the facility
- Does not require the imposition of tolls

Revenue/Demand Risk

- Concessionaire is compensated by user fees, like tolls
- Extent to which concessionaire controls modifications of user fees are detailed in the project agreement
- Recently, investors have been more wary of accepting this risk

While these projects can be transformative, they can also be controversial for multiple audiences

Sticker Shock

The private partner takes on the lifecycle cost of the asset and assumes greater risk than traditional infrastructure procurement

Can lead governments and the public to suffer sticker shock as these projects seek "best value" rather than "lowest bid"

Private Profit at Public Expense

Taxpayers may feel that public infrastructure assets should not enrich the private sector

Can be reluctance to paying user fees that go to paying private debt and private equity returns

Misunderstanding the value of risk transfer

Loss of Control

Often the public and government officials are fearful of a loss of control over their assets

Contract terms can be written to protect the public interest, like when and how the private partner can adjust user fees

Benefits

Benefits of P3s are often more opaque than are the perceived costs

Clearly Defined O&M

P3s have clearly defined O&M standards that affect whether the partner gets its payments

Governments cannot defer maintenance of the assets

Value for Money

Projects are justified by VfM analyses that can be misunderstood outside the infra community

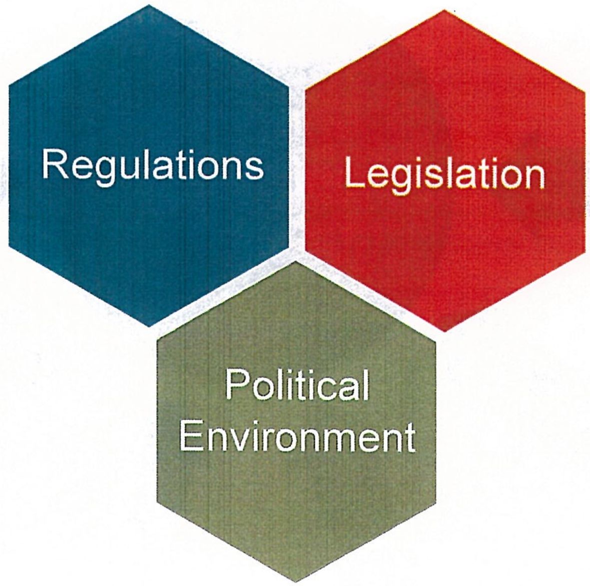
Concepts estimated in VfMs include value of risk transfer, expediting of project

Aon's P3-Pro index applies rigorous analysis to assess P3 political risk in U.S. states and Canadian provinces

Industry leaders surveyed

Aon sent a survey to more than 1,000 private industry leaders in the P3 marketplace:

- More than 70% of respondents were senior-level decision-makers from major contracting firms
- Used survey responses to accurately measure factors influencing procurement success
- Collected additional data on how P3 pursuits are influenced by political risk



Political climate rated

The results of P3-Pro point to states and provinces in which P3 procurement are more certain:

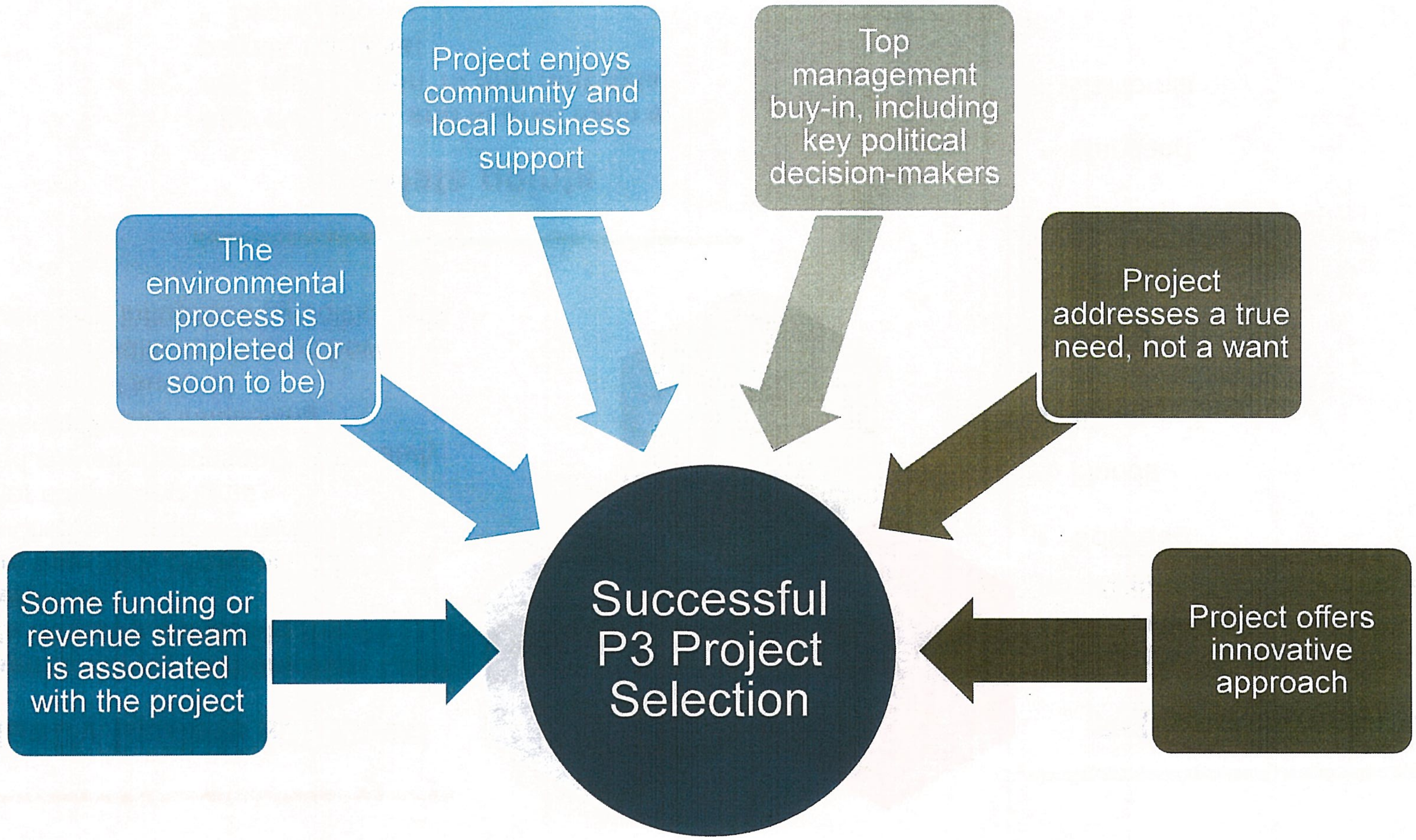
- Colorado
- Florida
- Pennsylvania
- Georgia
- Kentucky
- Indiana
- Maryland
- California

16 data points

Aon evaluated and scored each state and province on 16 different data points, such as:

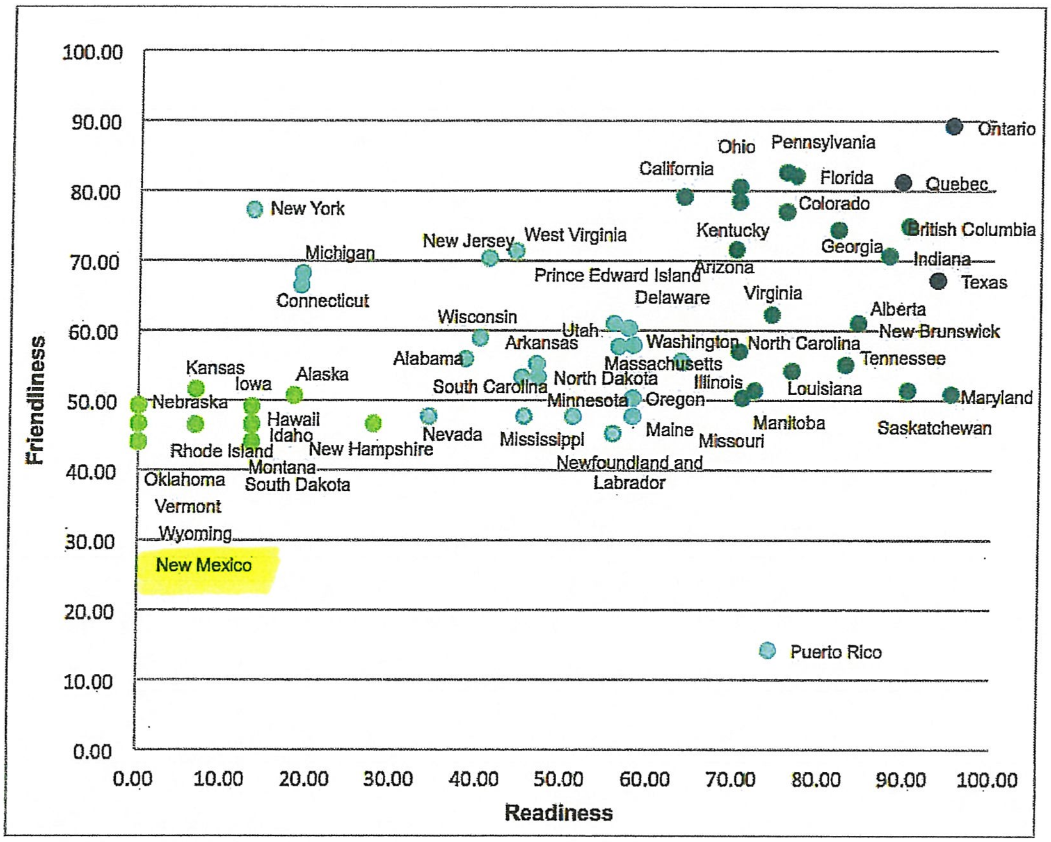
- Legislation
- Regulatory provisions
- Political champion
- Pipeline and performance
- Election year

Developing a successful P3 program requires selecting appropriate projects



P3-Pro™: 2017 Scores for the United States and Canada as of February 2017

Color indicates aggregate score for "Readiness" and "Friendliness"



More Certain		80-100
Certain		60-80
Less Certain		40-60
Not Certain		20-40
Not Certain		0-20