

P3: Highway Alternative Delivery Models

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What is a P3

Public private partnership or P3 is a business relationship where the public and private sectors share:

- Risks
 - Rewards
 - Responsibility for success or failure
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What a P3 is not

- **Not a “one size fits all” solution**
 - **Not a transfer of ownership (“privatization”) of public assets to the private sector developer or operator**
 - **Not a replacement for all public infrastructure development, financing and delivery**
 - **Not a loss of public sector control of programs or assets**
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Why do a P3?

- **Improves cost effectiveness**
- **Reduces/shares/allocates risk**
- **May accelerate project delivery**
- **Maximizes use of each sector's strength**
- **Greater predictability for capital planning**
- **Shares resources (staff and capital)**
- **Promotes competition**
- **Private sector innovation**

How are P3s structured?

P3 contracts are generally defined by the allocation of risk

	Design	Construction	Finance	Maintenance	Operation
Design Bid Build (traditional)	○	○	○	○	○
Design Build	●	●	○	○	○
Design Build Finance	●	●	●	○	○
Design Build Finance Maintain (Availability Payment)	●	●	●	●	○
Design Build Finance Operate Maintain (Real User Fee)	●	●	●	●	●

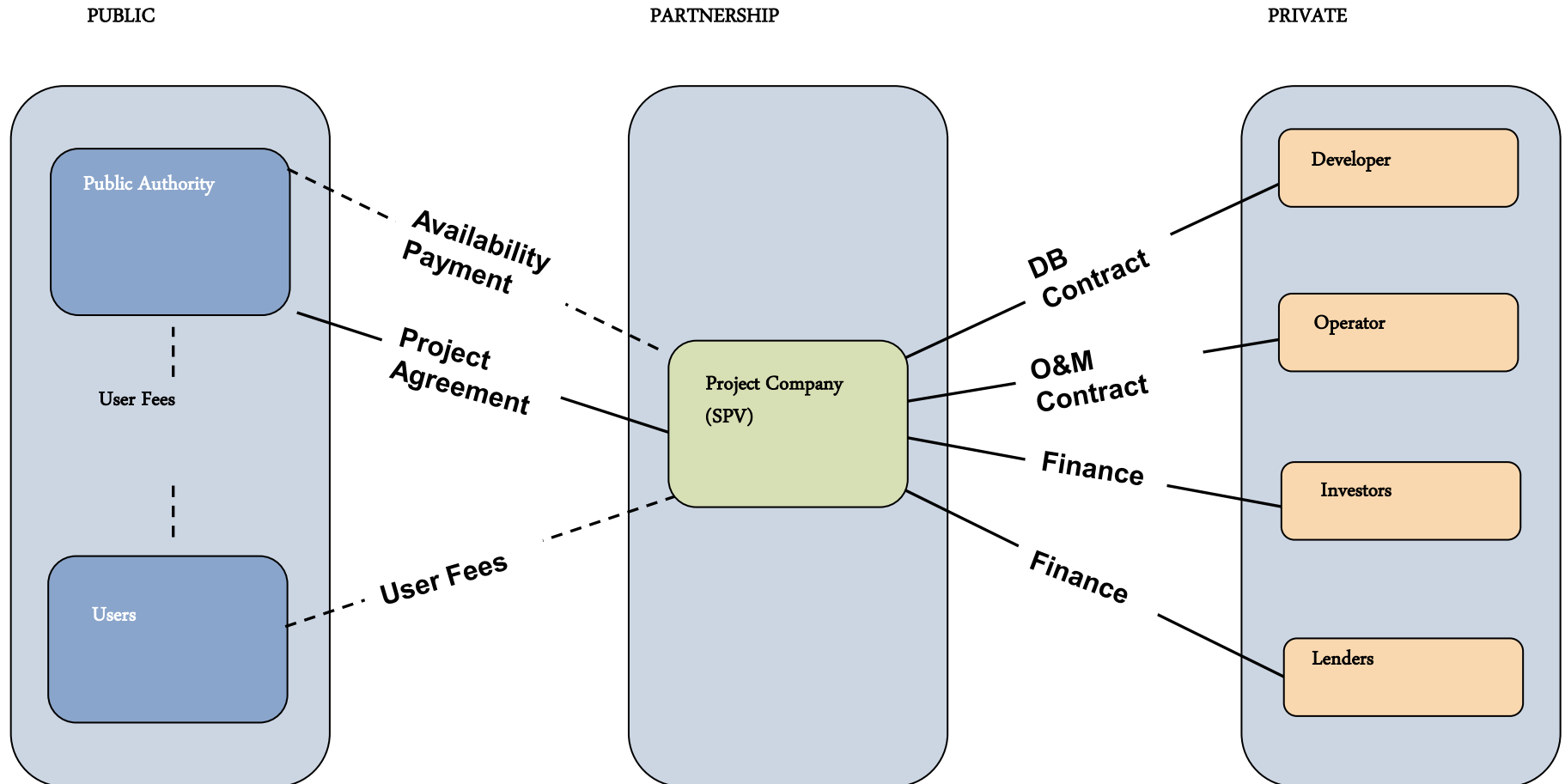
○ - Responsibility of the Public Sector

● - Responsibility of the Private Sector

How are P3s structured?

Risks are allocated by the SPV to those parties best able to manage those risks.

Providers of finance bring \$\$\$ with additional oversight and due diligence on project performance.



Factors determining a potential highway P3 structure

- **Legal authority to contract**
 - **Approach to tolling**
 - **Environmental processes**
 - **Affordability**
 - **Contract term length**
 - **Appetite for risk transfer**
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Example structures: DBF

- Design-Build-Finance
- P3 developer enters into DB contract with deferred payments
- Structured to meet the budget constraints of the Department
- Extended warranty or “skin in the game” post completion
- Typical duration of payments 5-10 years post-substantial completion

Project examples:

I-75 completed 2010 (Florida)

I-95 express lanes completed 2010 (Florida)

US-1 completed 2011 (Florida)

I-95 widening ongoing (Florida)

M-21 completed 2009 (Michigan)

I-69 completed 2009 (Michigan)

Example structures: DBFM

- Design-Build-Finance-Maintain
- Also referred to as Availability Payment:
 - Private Partner required to have facility “available”
 - Annual payment is a function of facilities “availability”
- Poor availability / performance results in reduced payments to the P3 developer

Project examples:

Port of Miami Tunnel (Florida)

I-595 (Florida)

Presidio Parkway (California)

Example structures: tolled concession

- Greatest degree of risk transfer to the private sector - Design, Build, Finance, Operate, Maintain and toll collection
- Public retains control through P3 contract terms(eg. Performance standards) as well as ownership
- Project may require upfront subsidy or yield a concession fee
- Revenue sharing between the parties over contract term may be implemented

Project examples:

I-635 (Texas)

North Tarrant Express (Texas)

SH-130 (Texas)

I-495 (Virginia)

Midtown tunnel (Virginia)