



# Understanding Public Private Partnerships (P3 or PPP)

National Infrastructure Summit  
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ADVISORY

# Agenda

- The Traditional Approach
- Understanding what a P3 is
  - What is a P3
  - The P3 spectrum
  - Choosing an appropriate P3 model
- Examining the components of a P3 model
  - DBFM project structure
  - Key contractual terms
- P3 Considerations

# KPMG P3 Experience

- KPMG has acted as Financial Advisor and/or service provider to both public and private clients in North America; Examples include:
  - VDOT
  - Macquarie
  - TxDOT
  - Cintra
  - IO, Alberta
  - Goldman Sachs
- Experience and insights on both tax-exempt public finance and Public-Private Partnerships
- Experience in procurement/financing of infrastructure, including:
  - Transportation (surface, airports and seaports)
  - Social Infrastructure (schools, healthcare, housing, parks, courts, etc.)
  - Water and Utilities
- 50 people dedicated to North America Infrastructure Advisory practice
- 500 people servicing infrastructure globally (including operating and other non-financial advisors)

*Dealogic's league tables rank KPMG as the leading financial advisor on global PFI/P3 deals for 2008 Year-to-Date*

## Global Infrastructure Advisory

- Infrastructure and project finance
- Mergers, acquisitions and divestitures
- Valuations and fairness opinions
- Debt advisory services
- Private equity solutions
- IPO sponsorship and advice
- Special situations
- Pre-deal evaluation
- Transaction evaluation (due diligence)
- Strategic and commercial intelligence
- Vendor assistance
- Contract assistance
- Post-deal implementation
- Structuring advice

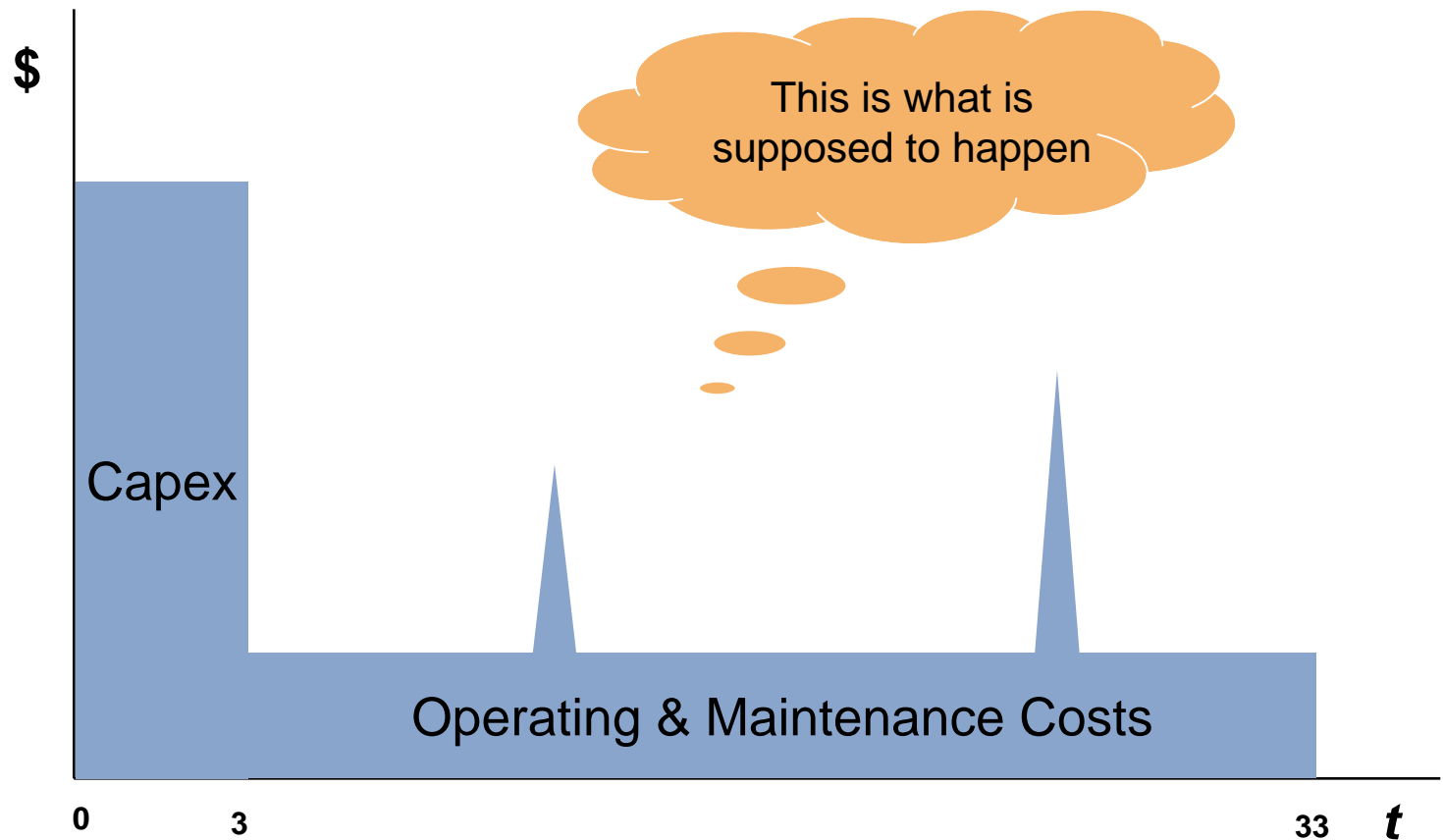


# The traditional approach

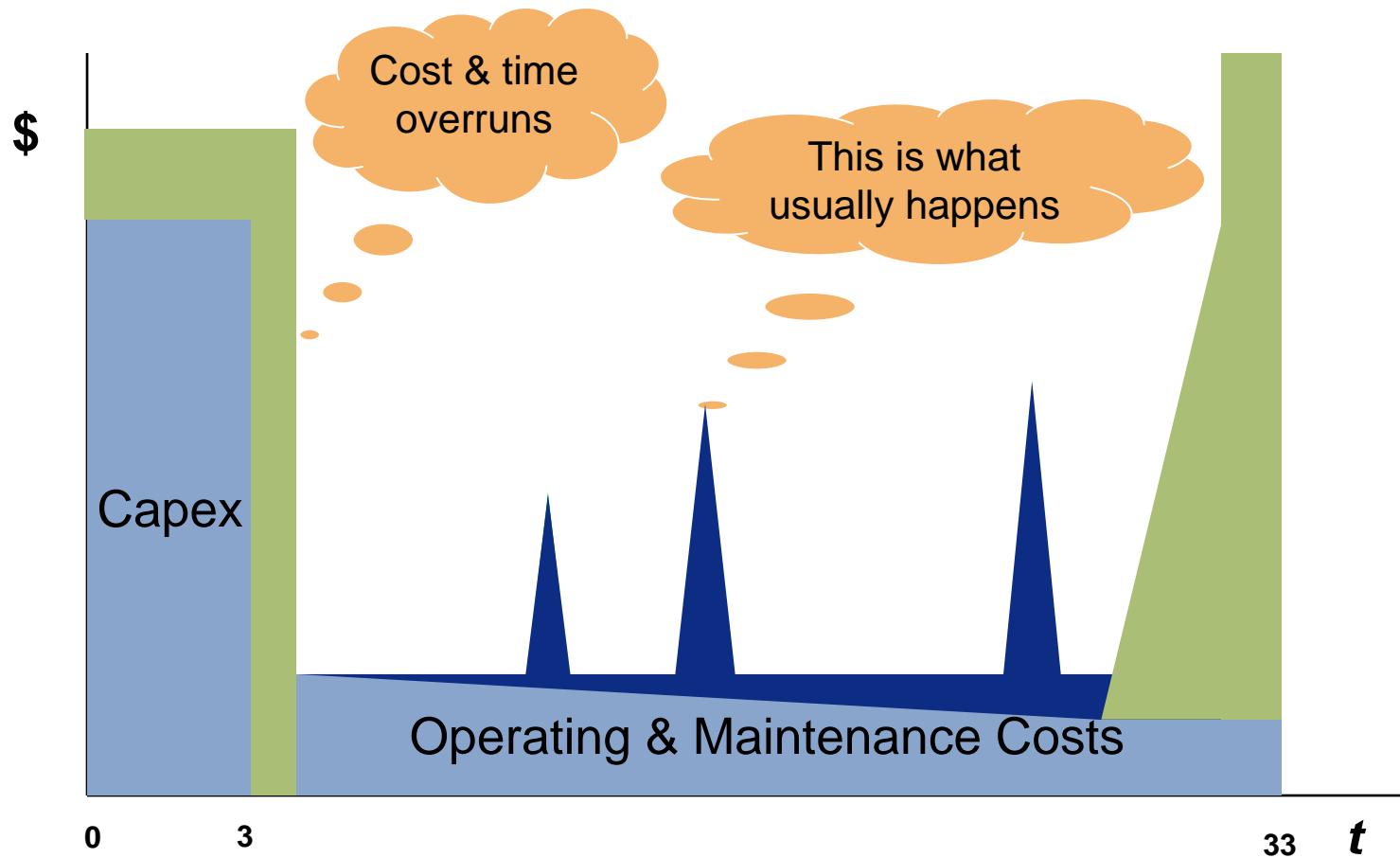
# Traditional Procurement – Design Bid Build

- **Determine project scope**
  - Example: Sponsor, a university, requires a new student residence
- **Issue a tender for a design team**
- **Design team commissioned**
  - A design team produces the blueprints for the student residence according to prescriptive requirements as provided by Sponsor
- **Issue a tender for a construction team**
- **Construction team commissioned**
  - A construction team builds the student residence with the design that has already been created
- **Sponsor begins use of new student residence**
- **Sponsor operates and maintains the student residence over its life**

# Traditional Procurement Costs



# Traditional Procurement Costs



# Which leads us to

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- **Erosion of value for money using traditional delivery methods**
- **Consideration of P3's**
  - One tool to effectively deliver major infrastructure projects on time and on budget

# Understanding what a P3 is

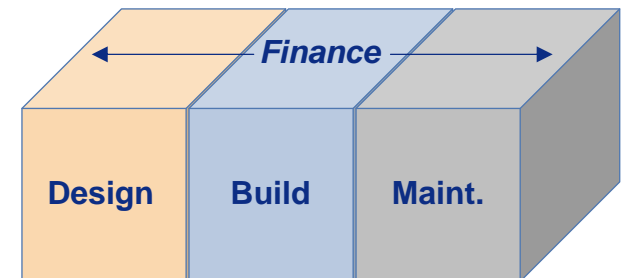
# What is a Public-Private Partnership?

- **“A cooperative venture between the public and private sectors, built on the expertise of each partner, that best meets clearly defined public needs through the appropriate allocation of resources, risks and rewards.” - PPP Council of Canada**
- **The main idea is:**
  - How to utilize private sector expertise and resources to address public needs or to meet political goals
- **The main goal of a P3 project is:**
  - To find solutions to problems where the advantages of the public sector may be combined with the advantages of the private sector
  - Not privatization of essential public services

# More on P3's

- P3 is an umbrella term for many forms of private sector involvement in the provision of traditional public sector services
- There are many P3 structures but the typical one has the following characteristics:
  - long-term contractual arrangement
  - public sector retains strategic control over service delivery
  - private sector contractor takes full responsibility for design, delivery and maintenance
  - private sector contractor accepts the responsibilities and risks of delivering the project
  - payments are made by the public sector partner for performance and availability and in some cases usage
  - whole life costs are minimised
  - designed to encourage the most efficient use of public sector resources – *performance based output specifications rather than prescriptive input specifications*

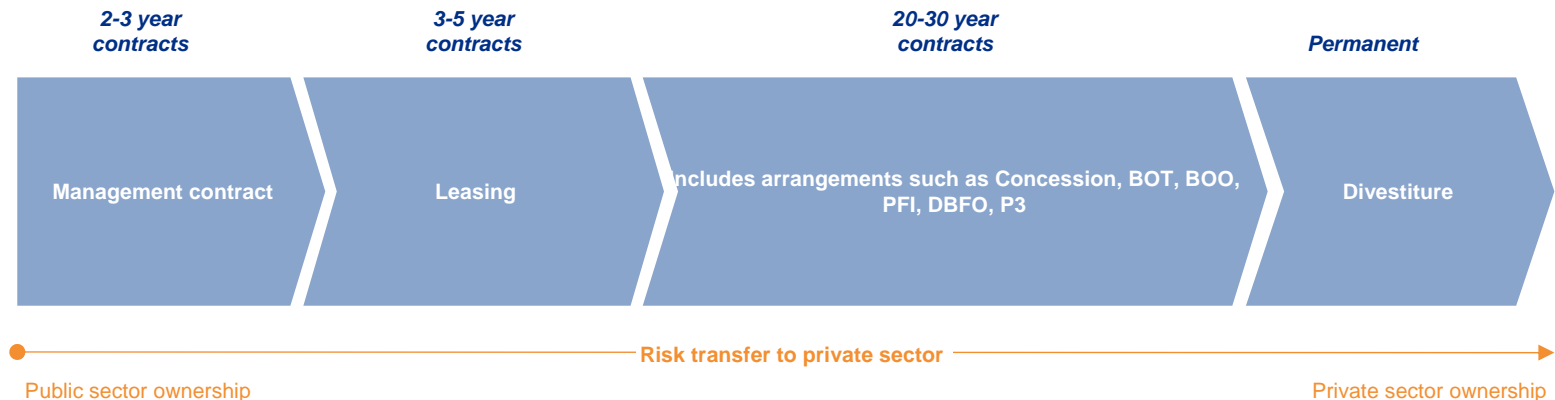
## P3: A bundled approach



# The P3 Spectrum

- P3's span a wide variety of contract types and terms

## The P3 spectrum



**The way in which a P3 project is defined and awarded are important factors in the achievement of a successful project. The contract is only awarded after a rigorous and fair competition**

# Illustrative PPP Risk Allocation

■ P3's provide an alternative, flexible way to allocate project risks

	Design	Construction	Operations	Maintenance	Financing	Ridership	Collection
Design Bid Build	○	○	○	○	○	○	○
Design Build/Maintain	●	●	○	●	○	○	○
Design Build Finance Maintain (Availability Payment)	●	●	○	●	●	○	○
Design Build Finance Maintain Operate (Availability Payment)	●	●	●	●	●	○	○
Design Build Finance Operate (Real User Fee)	●	●	●	●	●	●	●

○ - Responsibility of the Public Sector  
 ● - Responsibility of the Private Sector

# Choosing from among P3 Procurement Models

*The degree of sharing should determine the type of P3 used*

Simple  
Operating  
Contract

Accessing  
Private  
Sector  
Financing

Running the Service  
as a Stand Alone  
“Business”

Less Risk  
Transfer to  
the Private  
Sector

More Risk  
Transfer to  
the Private  
Sector

- **The model chosen will have a major impact and should reflect careful consideration of the project objectives and the level of risk transfer appropriate:**

- Design Build (“DB”)
- Design Build Operate (“DBO”)
- Design Build Finance Maintain (“DBFM”)
- Design Build Operate Maintain (“DBOM”)
- Design Build Finance Operate and Maintain (“DBFOM”)
- Full Concession

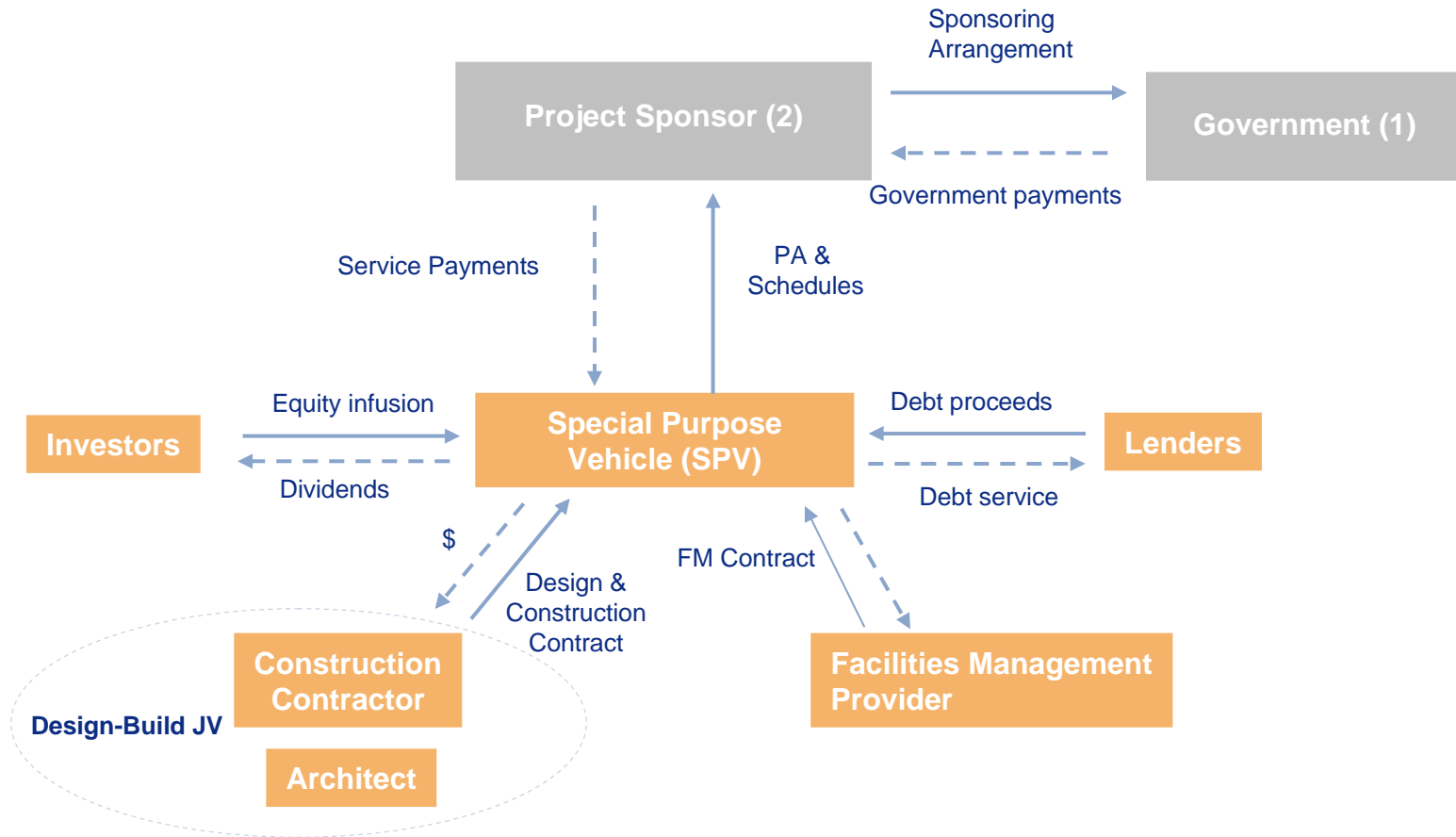


# Examining the components of a typical P3 Model – DBFM project structure, key terms, conditions and risks

# Typical DBFM Project Structure

- A public sector entity, i.e. Sponsor, invites interested parties to competitively bid for a project as a Design-Build-Finance-Maintain (DBFM) in a competitive process.
- A consortium generally involving a developer, contractors, financiers and/or facility operators establishes a Project Co. specifically to meet the project requirements.
- Project Co. is typically structured as a Special Purpose Vehicle, or SPV.
- Typically, Project Co. borrows the bulk (75% to 90%) of the funds required to build the facility.
- Some or all consortium members directly invest the balance in the form of an equity interest.
- Project Co. meets all its obligations solely from the payments made by Sponsor during the post-construction operating period.

# Typical DBFM Availability Project Structure



- (1) Government : Sponsoring Ministry if applicable
- (2) Project Sponsor: Relevant Public Sector Authority, e.g. Infrastructure Ontario



# P3 Considerations

# Considerations

- **P3s are not inherently “good” or “bad,” they are a policy tool that fits some circumstances and does not fit others.**
- **Depending on circumstances, some of the potential benefits from the perspective of the public sector:**
  - Risk sharing
  - Maintaining or improving service levels
  - Reducing costs / improving revenue
  - Accessing new sources of capital
  - Accessing new or better skills
  - Realizing the value of under-utilized assets
  - Realizing economic development opportunities
  - Improving accountability for performance

# Considerations, contd...

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- **P3 procurement can be lengthy and costly**
- **Inefficient risk and reward allocation**
- **Can be inflexible over the long-term if not structured properly**

# The Public Sector's Interest in P3s

- **Improve efficiency in the delivery of an existing good or service:**
  - Garbage collection in York
  - Transit operating contracts
- **Deliver a new good or service:**
  - Alberta Schools
  - Hospital redevelopment in Ontario
  - Sea to Sky Highway
- **Leverage existing assets for up-front value:**
  - Parking Authority Monetization's, e.g. Chicago
  - Airport concessions

# Getting it Right: Some Industry Findings

- It's "cheaper.....
  - Data show that, even after taking account of extra cost of private finance, P3 is around 10% cheaper over the long term
- ...and quicker and....
  - Delivers infrastructure services faster
  - No payment until services delivered to the required standard
  - Around 85% on time or early with no cost overruns for the public sector
- ... delivers more consistent quality of services”
  - A combination of the payment mechanism / contract and funders' due diligence reinforce desired behaviour



***Thank you. My contact information is:***

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