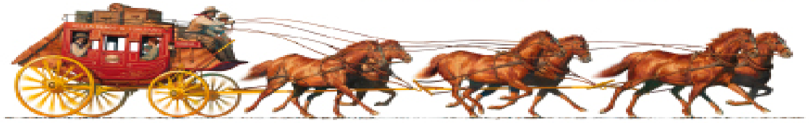
P3 Finance Overview

December 7, 2019

Together we'll go far



Spectrum of Public Infrastructure

Public Project ⟵⟶ Public-Private Partnership ⟵⟶ Private Project

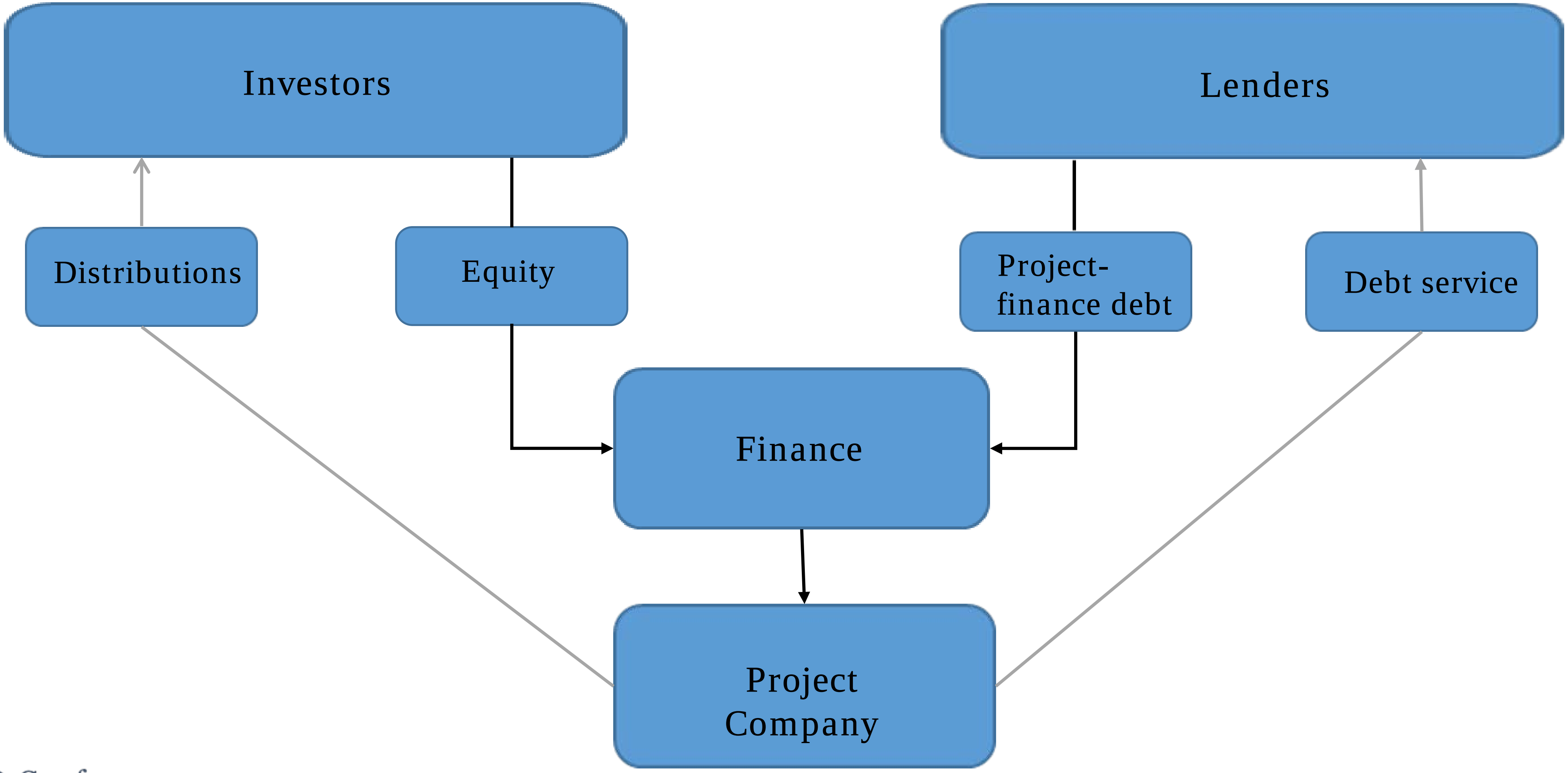
Contract Type	Public Sector Procurement	Franchise	Design-Build-Finance-Operate	Build-Transfer-Operate	Build-Operate Transfer	Build-Own-Operate
Construction	Public sector	Public sector	Private sector	Private sector	Private sector	Private sector
Operation	Public sector	Private sector	Private sector	Private sector	Private sector	Private sector
Ownership	Public sector	Public sector	Public sector	Private sector during construction, then public sector	Private sector during contract period, then public sector	Private sector
Who pays?	Public sector	User	Public sector or users	Public sector or users	Public sector or users	Private-sector off-taker, public sector, or users
Who is paid?	N/A	Private sector	Private sector	Private sector	Private sector	Private sector

Source: Figure replicated from “Public-Private Partnerships for Infrastructure” by E.R. Yescombe and Edward Farquharson. 2nd Edition. 2018. Published by Elsevier LTD.

Potential Financial Benefits of P3s

- Market forces may encourage cost savings
- Projects are generally off-budget
- Use of private funds instead of taxpayer funds
- Access to private capital may facilitate projects that may not otherwise happen

Sources of Financing



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Investors

- Operational investors
  - Investors that provide funds and will also be involved as subcontractors
    - Examples: Construction companies
- Financial investors
  - Investors that provide funds but will not be involved as subcontractors
    - Examples: Life insurance companies, pension funds, infrastructure funds

Lenders

- Loans
  - Often provided as a bridge to long-term debt or for working capital purposes. The Project company repays the Commercial Bank.
    - Examples: Commercial Banks
- Bonds
  - Often provided for large projects. The Project company repays Bondholders.
    - Examples: Investment Banks

Process and Relation to Financing

- Procurement Phase
    - The government entity solicits bids and reviews associated responses. Selections are made and then the investor and lender financing is put in place. Once final negotiations are put in place, the project is said to have reached *financial close.*
- Construction Phase
    - Funds from Investors and Lenders are used to support construction.
- Operation Phase
    - Construction is complete and the project produces cash flow, which pays equity distributions to invest0rs and debt service to lenders.

Best Practices for Policymakers

- Assess Alternatives
  - Determine whether a P3 is the best model given the priorities of your jurisdiction.
  - Compare projected costs and service quality with traditional approaches.
- Identify & Mitigate Risks
  - Ensure strong oversight over contractors so projects are completed on time and on budget.
  - Review projections to ensure usage will be significant enough to repay debt.
- Consider Economic Drivers
  - Follow trends that will impact the P3 sector, like income levels, construction workforce, and pending infrastructure legislation at the state or federal level.