New Mexico Finance Authority – Fourth Meeting Public Private Partnerships

October 15, 2021

What is a P3?

A Public-Private Partnership (P3) is

- A contractual agreement between a public agency and a private entity that allows for greater private sector participation in the delivery and financing of a project.
- Non-traditional way to finance and deliver infrastructure projects
- It is **NOT** privatization of public assets

Why consider a P3?

A Public-Private Partnership provides:

- Increased value for money over the useful life of the asset
- Efficiency in aligning design/construction/O&M
- Possible transfer of risk(s) to the entity in the best position to manage it
- Potential alternative source of financing (not necessarily funding)
- A tool that can be used for a variety of project types depending on local priorities – transportation, broadband, water, environmental projects and vertical projects – or can be limited to only certain projects

DELIVERY MODELS
Options for Infrastructure Delivery

P3 Models

Design Bid Build

Construction Manager-General Contractor

Design Build

Design Build Finance

Design Build Operate & Maintain

DBFOM* Availability Payment

DBFOM* Revenue Risk

Privatization

Public Sector

>>> RISK >>>

Private Sector

Degree of private sector accountability, integrated delivery, risk transfer, and extent of private financing

Potential Benefits of a P3

SCHEDULE DISCIPLINE

LONG-TERM BUDGET CERTAINTY

COST SAVINGS

GREATER INNOVATION

LIFE-CYCLE MAINTENANCE

CREDIT CAPACITY

ACCELERATED DELIVERY

PUBLIC OWNERSHIP & CONTROL

EFFECTIVE RISK TRANSFER

JOB CREATION

PAYMENT FOR PERFORMANCE/ACCOUNTABILITY

BENEFIT TO BALANCE SHEET

Funding & Financing

Funding

Public money made available to the project. This contributed capital is not intended to be repaid or carry a cost (i.e. interest or return on investment). Typical sources include:

- **General revenues/ fees**
- **Grants or Funding programs**
- **Project specific revenue**
  - Concession revenue, parking fees
  - CFCs, PFCs (customer/passenger facility charges)
- **Property Development revenues**

Financing

Money provided by private investors to pay for construction costs, concession payments and other large project costs. This capital is intended to be repaid and does carry a cost (i.e. interest and return on investment). Typical sources include:

- **Debt**
  - Municipal Bond (tax exempt or taxable)
  - Private Placement
  - Bank loans
- **Equity**
  - Shares
  - Deeply subordinated debt
- **Federal credit programs**
  - TIFIA Loans
  - Credit enhancement

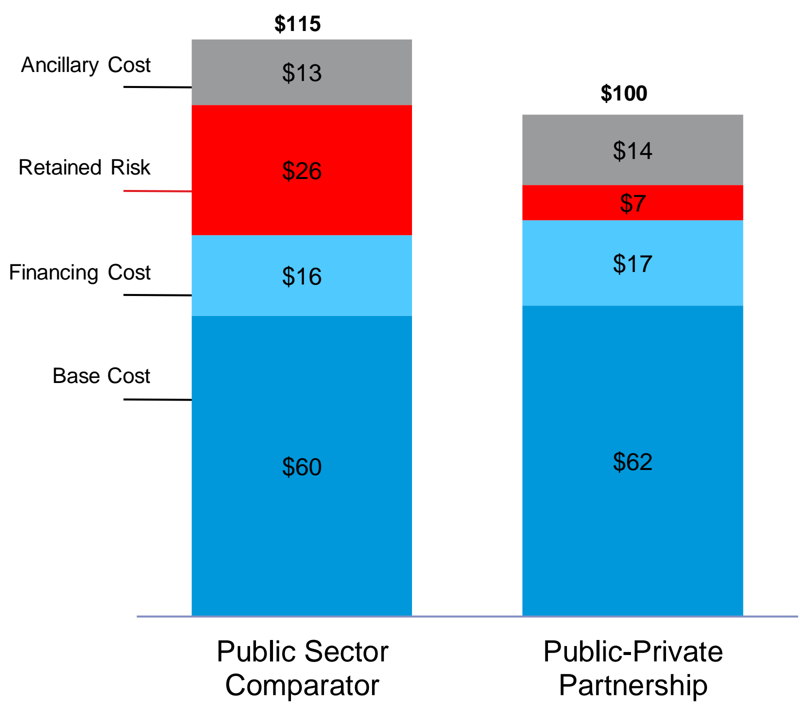
Value for Money

Value for Money (VfM) analysis is a process that can be used to compare the financial impacts for the public sector of a P3 project, compared against traditional public delivery alternatives.

The process to establish VfM includes:

- Creating a **Public Sector Comparator (PSC),** which estimates the whole-life cost to the public sector of the project through a traditional procurement approach including development and finance, operations and maintenance, and lifecycle management;
- Estimating the whole-life cost of the P3 alternative (either as proposed by a private bidder or a hypothetical "shadow bid" at the pre-procurement stage); and
- Comparing results.

Value for Money is an industry-accepted decision driver.



Top Ten Critical Factors for Project Readiness

1. **Vision** – Balance the tensions to make the vision marketable
2. **Champions** – Who is standing up for the project and the model?
3. **Communication** – Who are the stakeholders? What is the focus? What is the plan?
4. **Community** – What are the benefits and tradeoffs for the community?
5. **Commitment** – Is the owner committed? Are the bidders?
6. **Experience** – In-house and consultants in all fields (legal, technical, financial)
7. **Funding** – What are the leveraged funds and sources of funds?
8. **Staff** – An in-house team, the best possible external advisors, and support from all government
9. **Time** – What is the timeline and is it realistic?
10. **Access** – Unlock innovations through transparent evaluation and fair procurement