Welcome to the REAL World

Implementing and Managing Public Private Partnerships

Louise Panneton
Managing Director, P3 Advisors Inc.
Meet Our Speaker

Louise Panneton
P3 Advisors Inc.

Louise is the founder and President of P3 Advisors. She has 25 years of hands-on experience in the infrastructure and facilities management sector. Due to her various roles, which include lead advisor on complex procurements, fairness assignments, Public Private Partnerships (P3s) and real estate outsourcing, she has a very deep understanding of the industry delivery and governance models, as well as, their implications, challenges and benefits.

In the infrastructure sector, Louise drafted several procurement / long-term agreements (from a business perspective) and participated/contributed in over a significant number of mandates (values ranging from $200 MM to $5B). Louise has a long history with partnering arrangements and is recognized as the industry leader as an advisor on outsourced infrastructure services in the Canadian market. Since 1994, she has not only ran complex P3 and outsourcing procurements but has also been involved in operationalizing them.

Louise is a member of the Board of Directors of the International Facilities Management Association.
Session Agenda

- What is a Public-Private Partnership (P3s)?
- How to get Started...
- Managing the Procurement
- Finalizing the Agreement
- Implementing the Agreement
- Handing back the Facility
What is a Public-Private Partnership (P3)?
## Traditional vs. P3 Project

<table>
<thead>
<tr>
<th>Assets</th>
<th>Assets and services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Input terms</strong></td>
<td><strong>Output terms</strong></td>
</tr>
<tr>
<td>Components of delivery are <em>separated</em></td>
<td>Components of delivery are <em>bundled</em></td>
</tr>
<tr>
<td><em>Paid for at completion</em></td>
<td><em>Paid for over life of asset</em> - linked with operational performance.</td>
</tr>
<tr>
<td><em>Risks are retained</em></td>
<td><em>Appropriate Risks are transferred</em></td>
</tr>
</tbody>
</table>
The most robust forms of P3 are those where the private sector bears financial risk throughout the project life cycle: DBFM and DBFOM models.
Challenges

Response

Private sector financing costs will be higher than public sector but offset by risk transfer

Significant upfront planning ultimately benefits the project

Benefits can be leveraged in the future
Public Sector Stewardship

P3 model seeks to allocate risks where the private sector is best able to manage / mitigate risk:

- Absorb any design deficiencies
- Maintenance of project schedules / budgets
- Perform routine/periodic maintenance
- Hand back assets in appropriate condition

- Do not pass unquantifiable risk to the private sector – it will affect the price, lenders and equity
Project Co Team Structure

- **O&M Contractor**
- **O&M Parent Company**
- **Design Build Contracting Company**
- **Development Company and/or 3rd Party Equity**
- **Government / Authority**
  - DBFOM Concession
  - Completion payment and Concession Payments
- **Lenders**
  - Provision of equity contribution to form a Concession Company
  - Construction Loan and long-term debt
- **Recourse for Limited Amounts**
  - DB Contract
    - Construction security
  - Operating Agreement
  - DB Parent Company
  - Parent Company Guarantee
How to get started...
What You Need To Do To Get Started?

- Set up your **team** and **engage expertise** required
- Understanding the **legislatives or regulatory** framework
- Recognizing the **political** influences
- Define clearly what’s in **scope**
- Preliminary analysis/decision on **delivery model** (is your project a good P3 candidate?)
- Engage with market through **market sounding/vendor consultation** or RFI
- Establish **preliminary project plan** and **budget**
- Assess value for money and sources of funds
- Understand risks and their impact
- Set a schedule including **approval** milestones
- Proceeding to the procurement
Internal / External Resourcing

- Decision Makers: Final approval of all decision making
- Steering Committee: Provides strategic direction to the project team
- Project Manager: Oversees the entire process and manages day to day work tasks and teams
- Fairness Advisor

- External Consultants
- Finance/Financing Team
- Legal/Risk Team
- Procurement Team
- Technical Team - D&C Operations
- Communications

Internal Staff or External Consultants
Provides expertise in each respective area
Assess Value for Money

- VFM compares the cost of Traditional Procurement vs. the cost of P3 Procurement.
- The comparison includes the following elements:
  - Base Costs of design, construction, O&M
  - Risk Premium charged by private sector partner
  - Ancillary Costs related to procurement
  - Financing Costs
  - Risks Retained by the Public Sector
Assessing Financing Options and Project Funding

Private Equity
- Project sponsors, developers
- Other equity investors, pension funds
- Domestic & international sources

Debt
- Lenders (Bank debt)
- Bonds (Capital markets)
- Other – pension funds, etc.

Other Sources
- Specialized infrastructure funds
- Other public funds such as land, guarantee revenue, grant (e.g. P3 Canada Fund, FMC)
Payments Options

Milestone Payment
Lump sum payments to partner during construction period, based on achievement of construction milestones

Substantial Completion Payment
Periodic payments to partner during operations/maintenance term, covering ongoing costs of O&M and capital repayment

Service Payments
Lump sum payment to partner following completion of the asset
Adequate Risk Allocation

- Risk is allocated to the party best able to manage and/or mitigate the risk

Examples of risks transferred to the private sector: Obligation to build to design, maintain schedule, perform periodic maintenance, absorb any deficiency in design defects and hand back

Examples of risks retained by the public sector: Sponsor initiated scope changes, Building permits, Municipal permits

Examples of risks shared: Supervening Events (Relief Events etc), Compensation on Termination (Project Co / SPV default, convenience etc), Geotechnical, Environmental conditions of the site

- The Risk Matrix consists of both commercial risks and technical risks
- All risk allocation between the Private Sector and Public Sector must be specified & captured in the Project Agreement and Schedules
Managing the Procurement
Typical Schedule for Procurement

- **Planning Phase**
- **RFQ Released**: Min. 6-12 months
- **RFP Released**: 3 to 5 months
- **Evaluation of Proposals**: 6 to 8 months
- **Selection of Preferred Proponent**: 3-4 months
- **Financial Close and Construction Start**: ~ 1 month
- **Substantial Completion / Operational Phase**: 13 to 18 months
- **Expiry of Operator Period**
Embedding Fairness in the Process

**Process**
- Timing
- Political impact
- Private sector challenges related to understanding the public sector context
- Accountability and transparency
- Demonstrating diligence

**Structure**
- Viability of the project
- Deliverability of the project
- Ability to achieve desired outcomes
- Sustainable service provider
- Strength of private sector partnerships

**What is a Fairness Advisor?**
- Hired by the Public Sector for the Clients as well as the Proponents
- Objective third party who provides *advice and reports* on the aspects of Fairness; *confirms* that the process has been followed; *monitors* the process and reviews all documentations; addresses any potential, perceived or actual *conflicts of interest* and ensure that *confidentiality* is respected
Building the Documentation

- Value for Money / business case
- Communications plans and documentation
- Request for Qualification, including evaluation framework
- Request for Proposal, including evaluation framework
- Agreement and schedules
  - Output Specifications (Design/construction & Operations)
  - Lenders T&Cs
  - Insurance T&Cs
  - Payment mechanism
  - Human resources matters
  - Project documentation, including technical reports
- Internal process documents
Developing the Output Specifications

- Provide more scope for innovation and flexibility in service provision
- Specify the “what” (output) and provide Project Co with more freedom on the “how” (prescriptive)
- States the requirements clearly, concisely, logically and unambiguously
- Provides all the information bidders need to decide and cost the services that they will offer
- Permits solutions to be evaluated against defined criteria
- It is important to state clearly and accurately what the core requirements are – what they really want
- Excluding unnecessary information is as important for clarity as is including relevant information. The question to ask is: will the information increase bidders’ interest and help them to understand the need better?
- The specifications evolve through the design review process. You will discover and explore potential solutions and refine the specification. Those refinements should be provided to all bidders. It is, however, improper to use Commercially Confidential information.
Managing the Procurement
Preparing the Request for Qualification

- **Objective:**
  - *Soft gate to determine WHO can do the work*

- **Considerations**
  - Timing (how many projects at the bid stage?)
  - How to attract the right bidders

- **Evaluation Criteria:**
  - Experience with concessions
  - Innovation and cost savings
  - Long or short term equity investors
  - Size and Balance Sheet strength
  - Technical and construction expertise and experience
  - Operational expertise and experience
  - Local content and disadvantaged participation
Preparing the Request for Proposal

- **Objective:**
  
  *Select the BEST solution within the budget, through a competitive process*

- **Considerations**
  
  - Prepare all documentation in advance (long lead time)
  - Determine whether there is an affordability cap
  - Ensure that the project is viable, biddable and bankable
  - Embed in the ability to interact with bidders (CCMs) and recognize the process is iterative
  - Include (or not) design/bid honorarium
  - Clearly articulate the selection process (best and final offer, negotiations process, back-up bidder, etc.)

- **Evaluation Criteria:**
  
  - Limit Mandatory requirements
  - Compliance related items (pass/fail) versus weighted criteria
  - Weight of cost versus quality / design/construction vs operations
Finalizing the Agreement
Evaluation & Selection Process

- **Objective:**
  
  *Selecting the Winner*

- **Considerations**
  - Committee and sub-committee
  - Review the technical submissions
  - Review the financial submissions
  - Use of subject matter experts
  - Prepare a list of minor deficiencies
  - Evaluation process
  - Develop the recommendation
  - Obtain approvals
Preparing the Commercial/Financial Close

Objective:

*Closing the deal*

Considerations

- Putting the structure in place / equity support
- Doing the financing documents
- Doing the construction contract with the construction contractor (and it is doing the same with subs) / construction support
- Doing the service contract (and it is doing the same with subs) / service support
- Dealing with insurers/sureties
- Maintaining confidentiality
Commercial Close

• What is it?
  ▫ Finalize the documents
  ▫ Project Co deals with their partners and lenders
  ▫ Public entity gets final approvals – it is preferable that the approvals are obtained earlier otherwise bidders are VERY nervous

• When does it occur?

• Problems if you split CC and FC

Financial Close

• What is it?
  ▫ Finalize the financing arrangements
  ▫ Project Co secures the financing – they interact with lenders, underwriters and swap banks and execute the hard or soft boney bid

• When does it occur?

• What are the requirements related to insurance, etc.?
Implementing the Agreement
Construction Period

- Objective:
  
  *Efficient Process to get the infrastructure built*

- Considerations
  - Availability of the team
  - Role of Lenders as “disciplinarians”
  - Design consultation process
  - Level of involvement and type of monitoring (Independent Certifier)
  - Claims management and advocacy
  - Addressing changes and variations
  - Supervening Events
Substantial Completion

- Objective:
  
  *Accept a fully operational infrastructures*

- Considerations
  
  - Transition Activities: commissioning, operational start-up and mobilization/move-in
  - Criteria that triggers Substantial Completion payments, repayment of short term debt
  - Addressing deficiencies
  - Moving from Substantial to Final Completion
Operating Period

- **Objective:**
  
  An infrastructure and services that meet the requirements

- **Considerations**

  - Setting the relationship and services up to succeed
    - Dedicated, experienced and trained resources
    - Established communications plan for all stakeholders
    - Proper transition, including close monitoring and appropriate testing where new equipment is involved
    - Appropriate checks and balances to confirm compliance (including holdbacks or remedies for non-performance)
    - Focused training (service delivery teams; occupants; specialized equipment users)
    - Pre-established tools to demonstrate compliance
    - Managing the implementation like a “project”
    - Set-up pre-established escalation processes
Operating Period

- **The Right People**
  - Appropriate skill sets ("*Having the right approach and organizational culture*")
  - Various Committees ("*Ongoing and open communication*"")
  - Management Committee
  - Sub-committees based on the services line

- **Continuous Improvement**
  - Regular training on the agreement
  - Ongoing opportunities to interact
  - Open communications of both issues and successes
  - Regular recalibration based on changes in priorities or objectives
  - Clear change management protocols
Operating Period

- **The Right Tools**
  - Clear understanding of the service and service expectations ("Common understanding of what services will be rendered")
  - Agreed upon clear manual, policies and procedures ("Common understanding of how the services will be rendered")
  - Clear accountability for all participants ("Removes ambiguity on areas of responsibility")
  - Ongoing reporting & trending ("Identify issues early")
  - Performance Indicators ("Use it for recognizing value not only remedies")
  - Established, simple change management procedure ("Avoid issues by have a system that is as objective as possible")
  - Audits ("Compliance")
  - Satisfaction Surveys ("Performance threshold")
When is doesn’t work...

- Financial Deductions, which are based on severity
  - Service/Quality/Availability Failures
  - Remedies
- Failure Points
- Performance Action Plans
- Performance Bond or letter of credit
- Dispute Resolution
- Termination
Handing back the Facility
Ending the Agreement & Handback

- **Objective:**
  
  *An infrastructure that achieves the Expiry requirements*

- **Considerations**
  
  - Factors that trigger the end (expiry versus termination)
  - Compensation on termination (if it is prior to the Expiry)
  - Performance security requirements related to hand-back
  - Useful life commitments
  - Independent assessment of the condition
  - Process to address deficiencies
  - Tail back and other tools
  - Transition out activities
Closing Remarks
Will my project make a good P3?

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Could the private sector have flexibility in the design and construction of the asset(s) in order to meet output specs?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lifecycle</td>
<td>Will the asset require significant O&amp;M, refurbishments during its lifecycle? Are there any factors that would limit the possibility of the private sector operating and/or maintaining the asset(s)?</td>
</tr>
<tr>
<td>Market Capacity/Interest</td>
<td>Is there sufficient market capacity/interest to deliver the project as a P3?</td>
</tr>
<tr>
<td>Design and Service Output Specifications</td>
<td>Will design or service requirements change over time? Are they any factors that could limit the public sector’s ability to assess service quality?</td>
</tr>
</tbody>
</table>
## Will my project make a good P3?

<table>
<thead>
<tr>
<th><strong>Market Precedents</strong></th>
<th>• Have projects with similar requirements and of similar size and scale been delivered through the P3 model?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legislative and Regulatory Hurdles</strong></td>
<td>• Are there any legislative/regulatory constraints that could impede private sector involvement</td>
</tr>
<tr>
<td><strong>Value for Money</strong></td>
<td>• Can the project be reasonably expected to create value for money?</td>
</tr>
</tbody>
</table>
Checklist: What do you need to be successful...

- Internal champions that are committed to lead the project
- Proper planning from the onset, including realistic delivery timeframe
- Process provides for effective involvement of the stakeholders
- Involvement of a dedicated project team to create momentum and ensure progress
- Recognition that the project is different and may require modified procurement, contracting and approval processes
- Engagement of support services legal, risk, procurement and finance early in the process
- Viability of the transaction for both parties
- Third party interest in the project
- Market capacity
- Alignment of client and service provider objectives
- Flexibility of both partners and complementary corporate cultures
- Requested services are an important part of the service provider’s long term strategy
- Identification of potential expansion areas, so that they are addressed upfront
- Organization structure that is adapted to the delivery model
- Appropriate management tools, including good in-house contract and performance management skills
- Good communications strategy
Abbreviations & Glossary

- **DB**  Design-Build
- **DBFO**  Design-Build-Finance-Operate
- **DBO**  Design-Build-Operate
- **PSC**  Public Sector Comparator
- **RFI**  Request for Information
- **REI/ROEI**  Request of Expression of Interest
- **RFQ**  Request for Qualification
- **RFP**  Request for Proposal
- **VFM**  Value for Money
Questions?
We are all interested in the future. How and where will we work and live? What will future cities look like? What professional skill sets and technologies will we use? The ‘RICS Futures’ program explores the implications of key drivers for change to 2030, from mass urbanization and the emergence of real estate as an asset class, to the rise of the worldwide middle class and the revolutionary promise of big data.
<table>
<thead>
<tr>
<th>Month</th>
<th>Topic</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>Shared Economy - Impact on Real Estate and Workplace</td>
</tr>
<tr>
<td>April</td>
<td>Smart Contracts, Blockchain, and Real Estate</td>
</tr>
<tr>
<td>May</td>
<td>Crafting C-Suite Alliances for Real Estate Leverage</td>
</tr>
<tr>
<td>June</td>
<td>Driving Real Estate Decisions and Conversations using Data</td>
</tr>
<tr>
<td>July</td>
<td>Stories of Urban Transformation: The Rise of 18-Hour Work/Live Communities</td>
</tr>
<tr>
<td>August</td>
<td>Optimizing Your Real Estate Portfolio – Case Studies</td>
</tr>
<tr>
<td>September</td>
<td>REAL Annual Update and WWP Events</td>
</tr>
</tbody>
</table>
Facility Fusion

REAL Tracks at both events!

Las Vegas sessions:
- Data Management Requirements for FASB and IFRS
- Crafting Alliances: Rethinking Our Approach to Enabling Better CEO Decisions in Place and Technology
- What the Heck is a Chartered Surveyor, and Why Should You Care?
- A Great Marriage: Process Improvement and Technology for Superior Results on Construction Projects

Toronto sessions:
- Real Estate: What’s Hot and What’s Not – Current & Future Perspectives from North America and Across the Globe
- Crafting Alliances: Rethinking Our Approach to Enabling Better CEO Decisions in Place and Technology
- Real Estate 2030: A Workshop in Transformative Future Thinking for the Profession
- The Real Estate Paradox: Options and Investments
Speaker Contact Information

Louise Panneton
P3 Advisors Inc.
86 Centrepointe Drive
Ottawa ON K2G 6B1

📞 613-292-6262 (cell.)
💌 613-723-9720
✉️ louise.panneton@p3advisors.com