FTA/NCPPP

PPPs and Use of Availability Payments

Chicago, IL

May 20, 2009

Contents

Public Private Partnerships

What is a PPP?

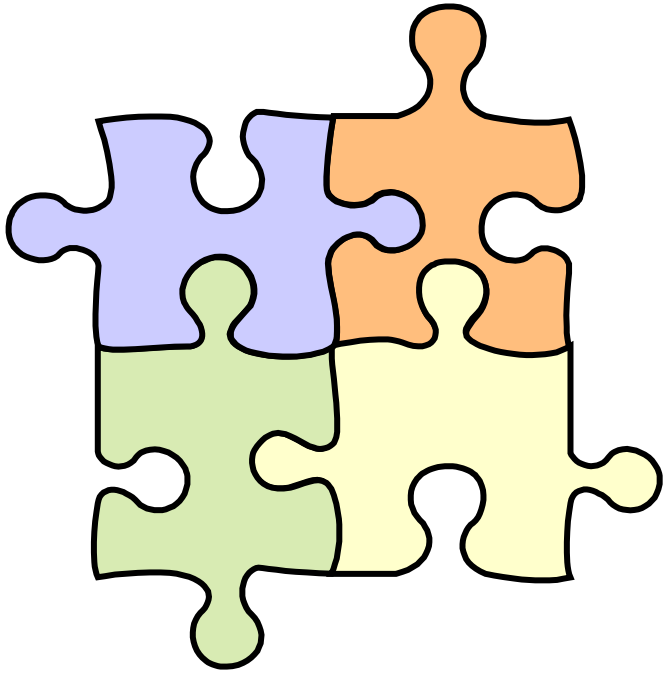
- A collaborative contractual arrangement between public sector and private sector entities to design, plan, finance, construct and or operate projects
- Allows for project risks to be transferred to the party best equipped to handle them

Why PPP?

- Allows for access to private capital
- Better allocation of risks to the party best suited to handle
- Leverage private sector innovation in planning, design, and delivery phases

Who Uses PPP?

- Much of the world (started in the UK)
- Industries include: transportation, water, power, health care, housing, and defense



Spectrum of Models (DBB to DBFOM)

There are many delivery options and PPP models with different risk profiles.

Legend

DBB = Design Bid Build
DBOM = Design Build Operate Maintain
DBFO = Design Build Finance Operate
DBFOM = Design Build Finance Operate Maintain

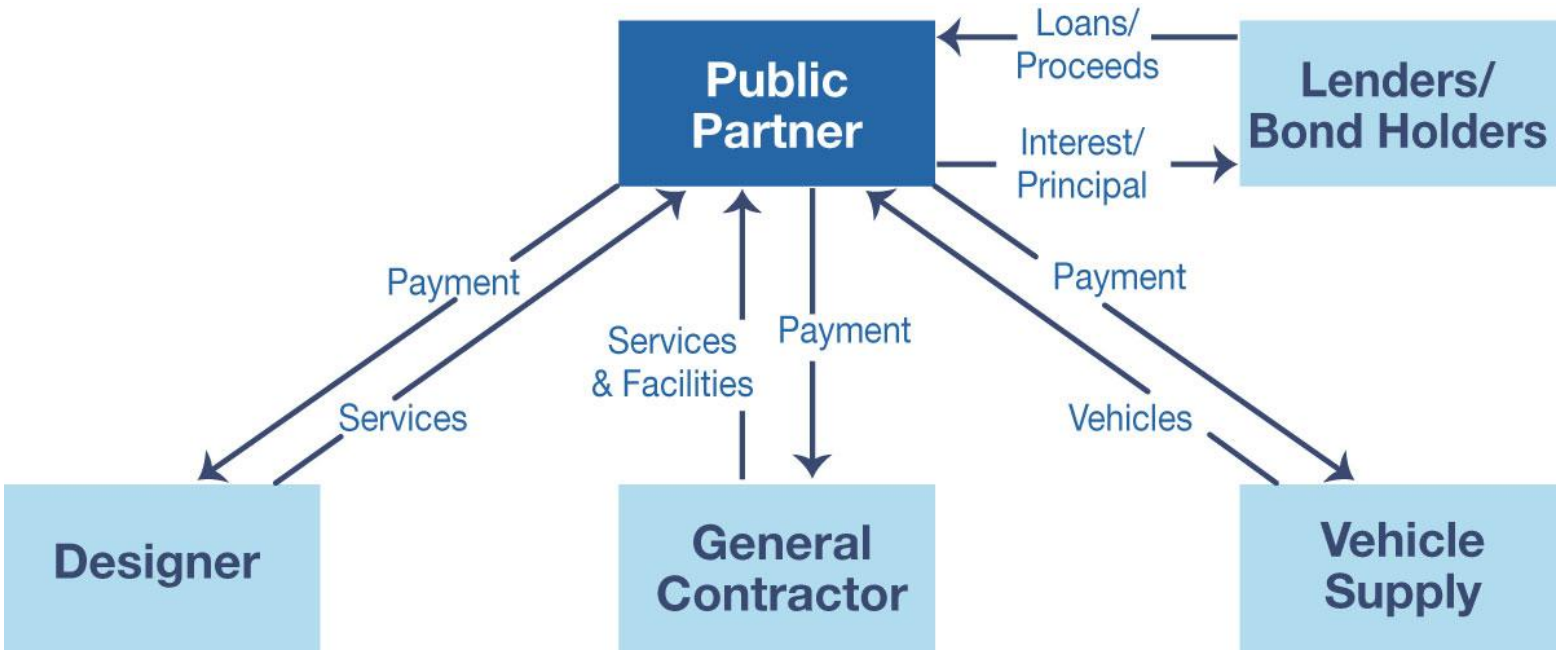
How does a traditional DBB differ from a typical PPP structure?

Key Differences between PPPs and Traditional Procurement

- Key risks are allocated to the party best suited to manage that risk
- Private sector equity investments required
- Single long-term Concession Agreement versus multiple contracts
- Private sector returns and payments linked to satisfactory delivery of the asset and performance over the life of the contract
- Timing of payments
  - Lower up front capital costs to public sector
  - Steady, predictable stream of payments throughout the life of the concession

Typical Design-Bid-Build Structure/Arrangements

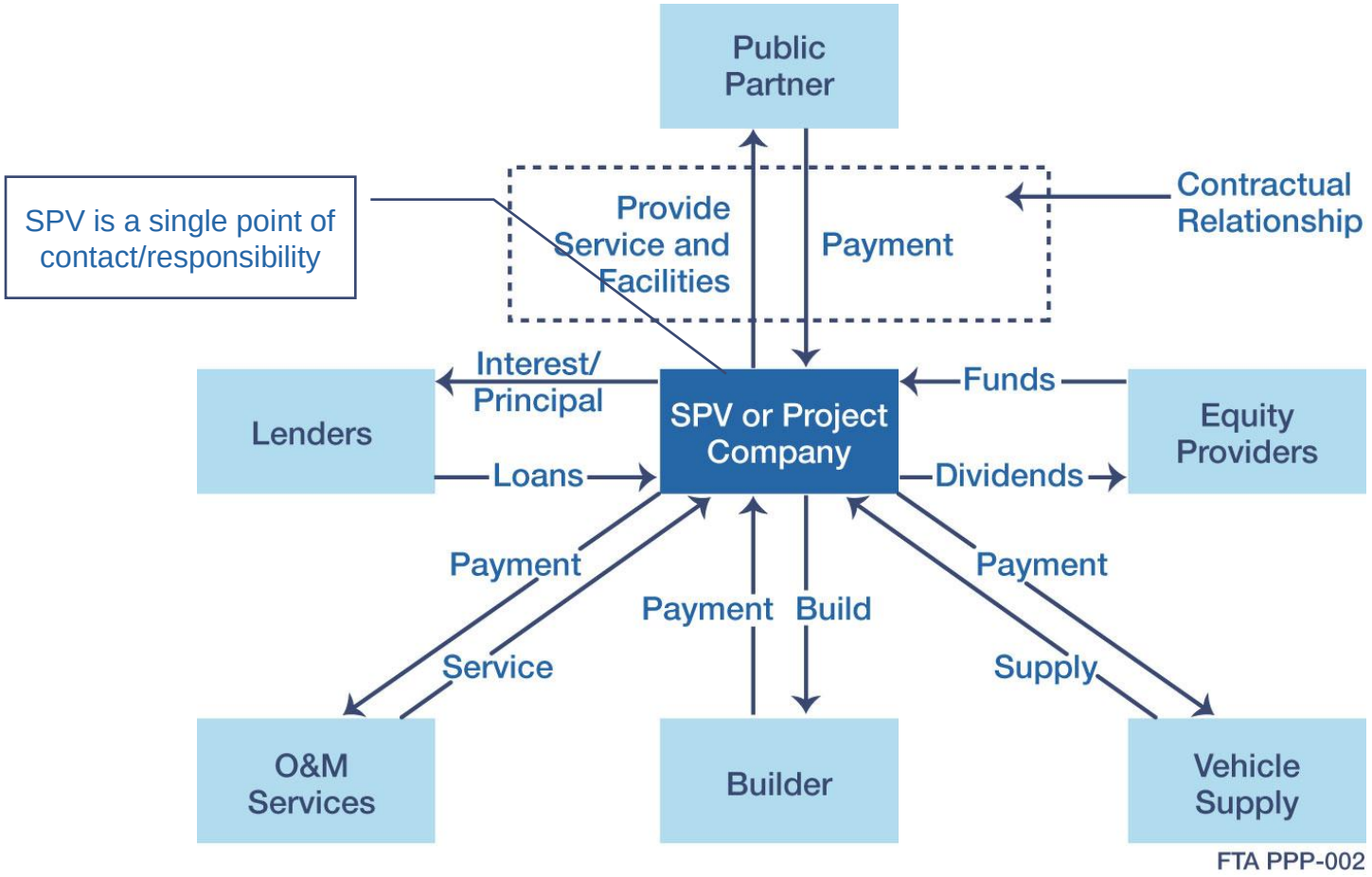
The typical Design-Bid-Build (DBB) structure has separate agreements between multiple parties and the public sector, where the public sector holds most of the risk.



Simplified DBB Transaction Structure

Typical PPP Structure/Arrangement

In a typical PPP, the structure transfers risks and rewards to the private partner by providing commercial and financial incentives. It allows the public authority to have a single point of responsibility and accountability.



Typical PPP Structure/Arrangements (cont'd)

Key Elements of a PPP Structure/Arrangement

Contracts

- Transit authority enters into one agreement with a private partner, represented by a Special Purpose Vehicle (SPV) or Project Company (Project Co)
- The SPV lets contracts to designers, builders and service providers for the construction and the provision of services

Finance

- The SPV raises equity and debt to finance the project
- Some capital contribution may come from the public sector (e.g., from a FFGA)

Vehicle Supply

- Can be integrated into the PPP agreements or procured under a separate agreement by the public partner

Risk Allocation in Typical Design-Bid-Build Models

In a typical transit DBB scheme, the public partner retains significant risks.

High-Level Risk Allocation Matrix (RAM) for a DBB Structure

Key Risks	Allocation under a typical transit DBB	
	Public Sector	Private Sector
Development		
Performance	X	
Interface	X	
Design		
Scope	X	
Errors and Omissions	X	
Interference/Coordination	X	
Lifecycle	X	
Construction		
Performance		X
Schedule	X	
Cost Overruns	X	
Changes in Scope	X	
Force majeure	**Shared**	
Financing		
Additional financing costs due to schedule slippage	X	
Interest Rate risk	X	
Vehicle Supply		
Supply/Performance Risk		X
Financing Risks	X	
Defects		X
Maintenance and lifecycle		
Maintenance level	X	
Defective components		X
Residual Value	X	
Operations		
Revenue	X	
Service Level and Quality	X	

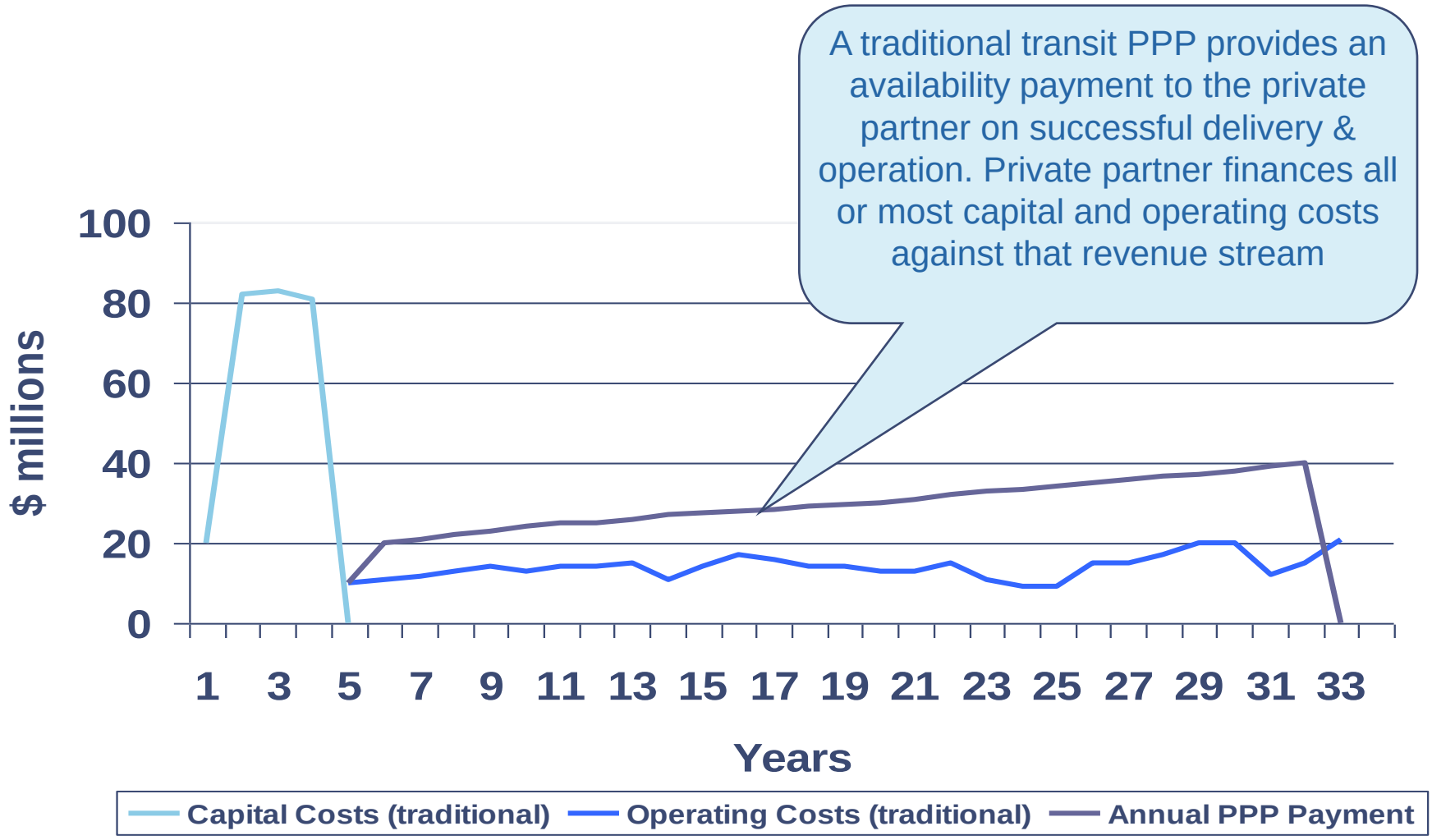
Risk Allocation in Typical PPP Models

Many of the risks that would normally be borne by public partner in a traditional procurement are allocated to the private sector under the PPP model. The table below illustrates how key risks are shared in a model transit PPP.

High-Level Risk Allocation Matrix (RAM) for a PPP Structure

Key Risks	Allocation under a typical transit PPP	
	Public Sector	Private Sector
Development		
Performance		X
Interface		X
Design		
Scope		X
Errors and Omissions		X
Interference/Coordination		X
Lifecycle		X
Construction		
Performance		X
Schedule		X
Cost Overruns		X
Changes in Scope	X	
Force majeure	**Shared**	
Financing		
Additional financing costs due to schedule slippage		X
Interest Rate risk		X
Vehicle Supply		
Supply/Performance Risk		X
Financing Risks		X
Defects		X
Maintenance and lifecycle		
Maintenance level		X
Defective components		X
Residual Value	**Shared**	
Operations		
Revenue	**Availability Model**	**Revenue Model**
Service Level and Quality	**Shared**	

Traditional PPP Financing versus Traditional DBB



Typical Annual PPP Payment: Availability Payments

What are Availability Payments?

Regular payments made by the public sector to the concessionaire (private sector) contingent on specific contracted services being available

Attributes of Availability Payments

- **Payment amount is bid by the concessionaire to cover**
  - Return of and on capital (debt and equity)
  - Operating costs
  - Life cycle costs
  - Taxes
- **Penalties for nonperformance of contracted services**
  - Reduction in payment to the concessionaire
- **Availability measures can take the form of time intervals and volume**
  - Number of trains per hour for a train station
  - Daily lanes ready-to-use for a tollway
- **Payments are on a periodic basis such as monthly or quarterly**
- **Generally fixed with escalation for inflation**

Availability Payments: Rewards & Risks

Rewards

- Used as an incentive to encourage outstanding performance by the concessionaire
- Considered a stable payment stream guaranteed by the public sector to be used, in part, as debt repayment (from the lender's perspective)

Risks

- Penalties for nonperformance can sometimes be too low creating an incentive for under-performance
- Penalties too high may place undue strain on private operator and results in more risk
- Critics argue that availability payments do not go far enough to incentivize a private operator to manage demand risks

Example: Canada Line

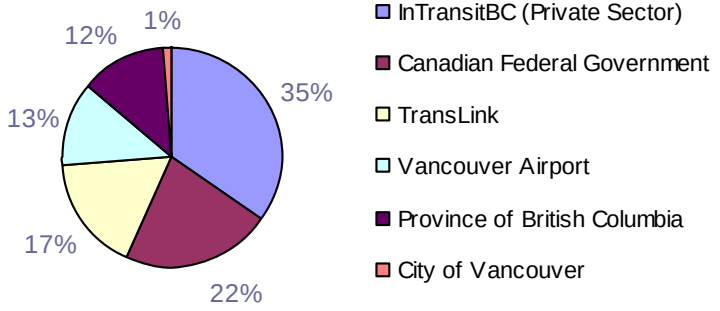
Project Summary – A Complex Rail Deal

Project Attributes

- Driverless Automated Light Rail System
- 19 km (12mi) / 16 stations
- 3 water crossings, 2 bridges, 9 km tunneling
- Estimated 100,000 riders daily by 2010
- Public/private partnership (P3)
- Design-Build-Finance-Operate (DBFO)
- 35-year concession agreement
- November 2009 expected completion

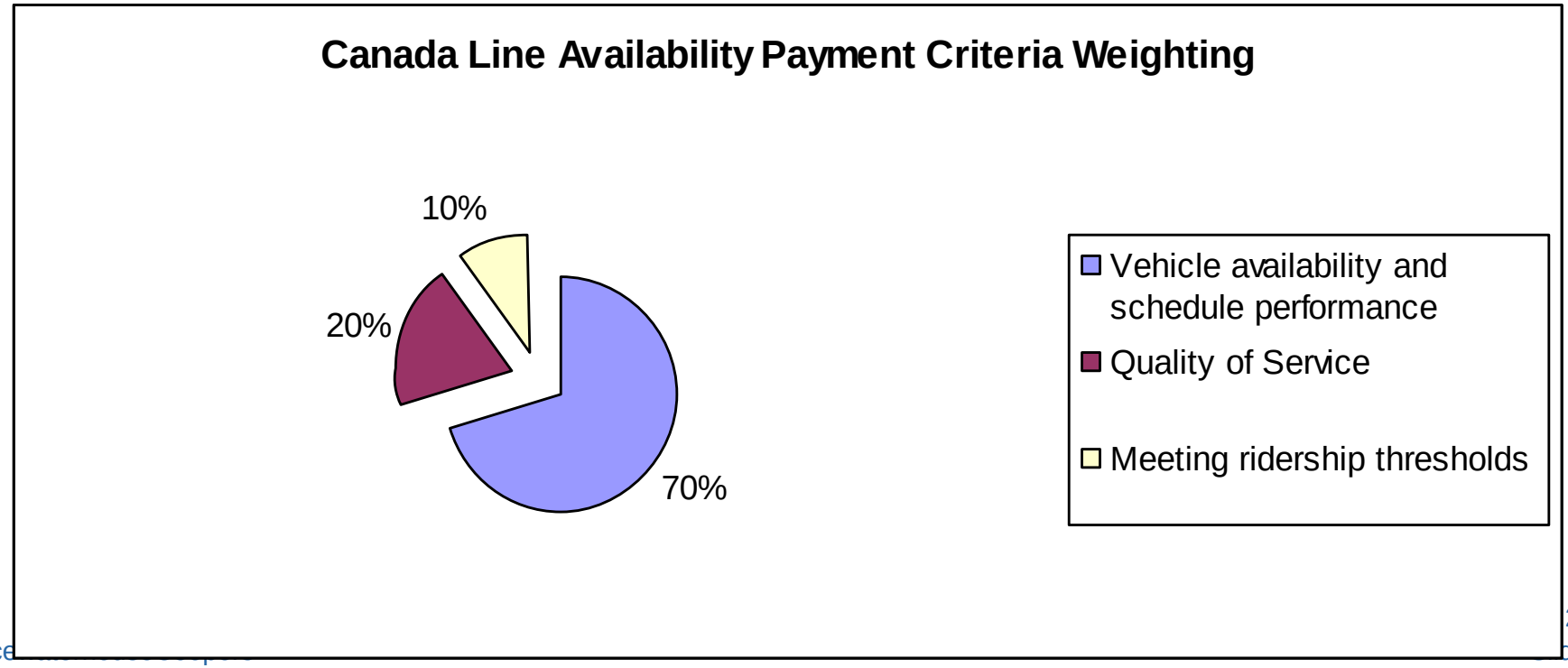
Project Financing

US$1.47B Total Project Cost (2003$) [%Total]



Availability Payments for Canada Line Deal

- Monthly availability payments are made from public sector entity to private sector entity, InTransitBC, based on the following performance measures:
  - Vehicle availability and schedule performance
  - Quality of service (passenger accessibility, comfort and convenience, and maintenance and upkeep of vehicles and stations)
  - Meeting ridership thresholds



Risks/Impact on Private Sector (InTransitBC)

Performance Measures	Risks/Impact on InTransitBC (SPV)
Vehicle Availability and Schedule Performance	• Required to operate an average of approximately 40 trains per hour • If operated 35 trains per hour, would receive 87.5% (35/40) of its maximum availability and quality payments • Performance at this level on a sustained basis could reduce InTransitBC's profit by more than 50%
Quality of Service of Available Trains	• Payments will be reduced if quality of service does not meet the standards set out in Agreement
Ridership Forecasts	• Established for every 5 years of operations as well as at the commencement of first year and end of second year of operations • Ridership estimates may be adjusted once per year in response to events that could have a material effect on ridership

Questions