

Finding the Revenue Stream to Make P3s Work

Presented by:

David Alvarez

VP Strategic Advisory, CPM

April 28, 2017



With You Today



David Alvarez

Vice President Strategic Advisory, CPM

- 14 years of experience.
- P3 projects in Pennsylvania, Texas, Florida and Puerto Rico.
- Former Director of Puerto Rico P3 Authority.



Technical and P3 advisory and Project Management firm with offices in Florida, Panama and Puerto Rico. Visit us at: www.cpmintl.com

BACKGROUND ON P₃S & PAYMENT STREAMS

PPPs making significant progress

MOODY'S
INVESTORS SERVICE

“[p]ublic-private partnerships in the US...
remains positioned to be become one of
the world's largest” [market]...

March 2016

What is a PPP?

A P3 IS:

- DESIGN AND CONSTRUCTION, FINANCING, OPERATIONS AND MAINTENANCE PARTNERSHIP
- A RISK SHARING APPROACH
- LIFECYCLE PROCUREMENT APPROACH THAT GUARANTEES PERFORMANCE
- A TRANSPARENT RELATIONSHIP

A P3 IS NOT:

- PRIVATIZATION
- A FUNDING SOLUTION
- A LOW QUALITY DELIVERY MODEL
- THE RIGHT SOLUTION FOR EVERY PROJECT

Increased local interest for PPPs

- Florida has made significant progress with successfully delivering State level projects, and university projects, among others.
- Since the enactment of FS § 287.05712 in 2013 there has been a growing interest by local governments to use PPPs for infrastructure and development projects.
- However, local government frequently face challenges associated to the financiability of their P3 projects.

Common challenges for PPPs at local level

A 2014 World Bank report identified at re are at least four major and common challenges

Challenge	Description
1 Lack of Standardized Documents	<ul style="list-style-type: none">• Local / small-projects are associated with less analyzed sectors.• Little information or standardized practices in those sectors.
2 Cumbersome Institutional Structures	<ul style="list-style-type: none">• No separate institutional procedures for processing P3 projects and not clear project discrimination in terms of size or type of project.
3 Financing Constraints	<ul style="list-style-type: none">• Financing constraints due to government inadequate fiscal resources, credit-worthiness, lack of clear revenue streams for the projects, etc.
4 Need for Capacity Building	<ul style="list-style-type: none">• Training needed in P3 business case, procurement, contract development and communications are critical.

P3s are not “free”

- The cost of an infrastructure project and private capital must eventually be paid.

Two Main Forms of Payment



Revenue-based payment is when the demand risk resides with the concessionaire.



Availability payment: the government makes monthly payments for making the infrastructure available for use.

IMPORTANCE OF REVENUE STREAM IN P₃S

Main financial streams in a PPP

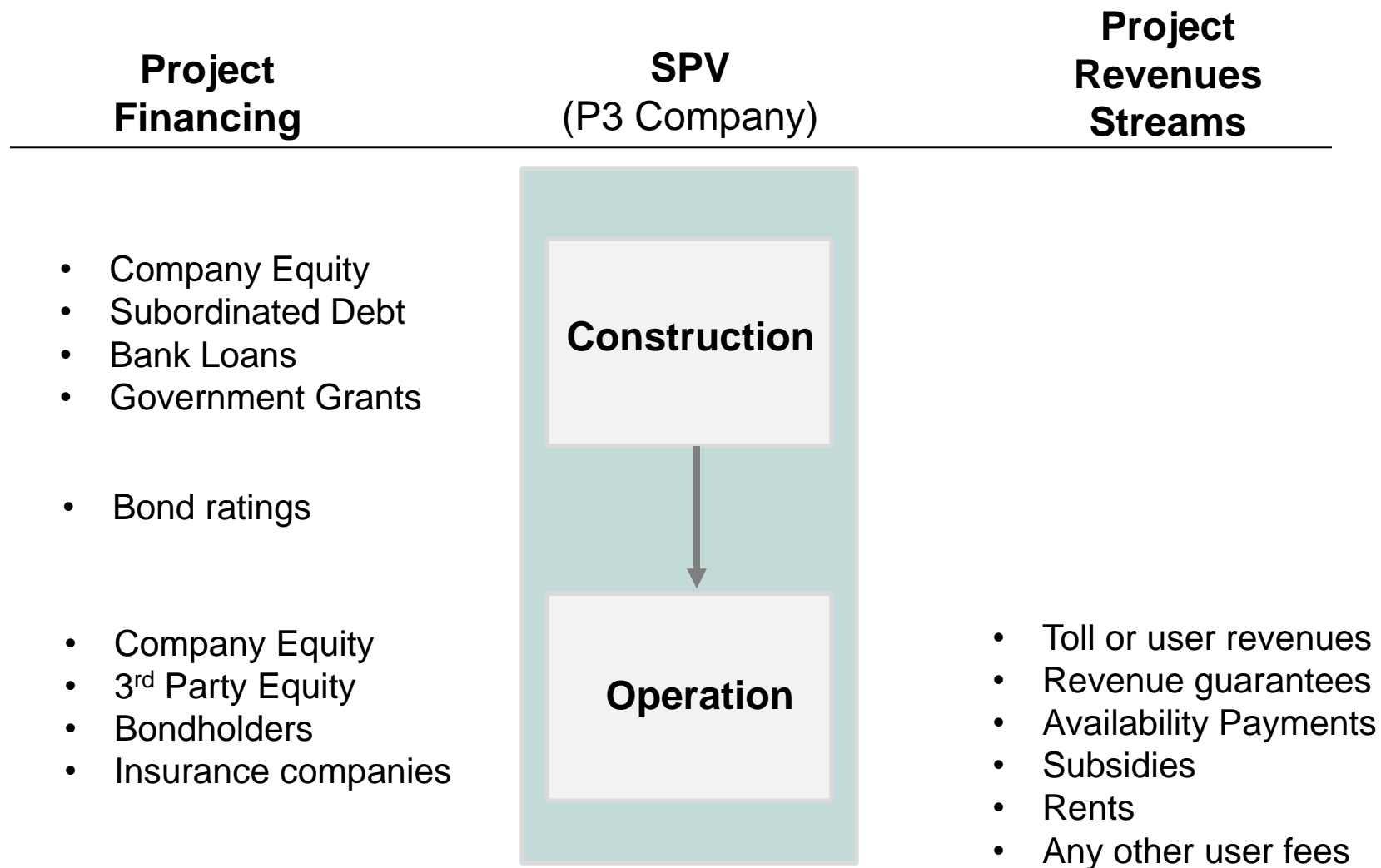
Funding

- Public money made available to the project.
- This contributed capital is not intended to be repaid or carry a cost or return.
- Typical sources include:
 - Availability Payments
 - User Fee Revenue
 - Tolls
 - Fees/charges
 - Rent

Financing

- Money provided by private investors to pay for construction costs, concession payments and other large project costs.
- This capital has to be repaid and carries a cost:
 - Debt
 - Equity

Role of revenue streams



FINDING A REVENUE STREAM

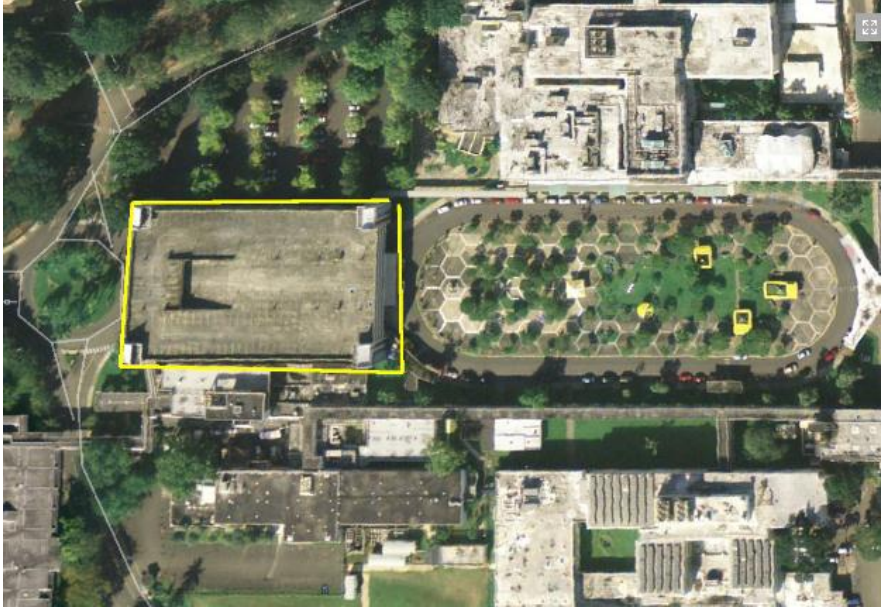
Revenue streams can be found

- Revenue or payment streams tend to be difficult to find when public sponsor has fiscal constraints and/or project subject to P3 is non-transportation related

- Main non-tax/fee strategies for finding a revenue stream:

1. Consider leveraging other assets that can be incorporated into the project.
2. Incorporate real estate elements into the project.
3. Push-out charges related to lease payments or other required payments. Back-ended features and structures.
4. Identify a related budgetary revenue stream to support the project.

Example – Social Infrastructure Project



Aerial picture of Government Owned Medical Facility

- **Owner:** Government
- **Facility:** Large medical facility
- **Project:** Substantially improve and modernize the medical facility. Invest estimate of \$150 – \$175 million in capital improvements.
- **Challenge:** Budget constraints and no clear payment source.
- **Solution:** Potential solution is incorporating a large existing parking garage.

CONCLUSION

CONCLUSION

- Interest of local Governments to deliver PPP projects keeps increasing.
- PPP projects at local levels tend to have a specific set of challenges.
- Clearly identifying payment source or revenue streams is critical to make the P3 project viable and/or financeable.
- There are strategies to find a payment or revenue stream to make P3s work but they vary depending on the conditions of each jurisdiction and project characteristics.