Finance Department

Presentation to the City of Houston
Budget and Fiscal Affairs Committee

Houston Justice Complex

July 29, 2014

Presented By:
Kelly Dowe - Chief Business Officer
Scott Minnix, Director - General Services Department
Agenda

• Previous Council Presentations

• Reasons for building a Justice Complex
  • Current status of current HPD & MCD facilities: unsecure, outdated and inefficient
  • Need for a state-of-the-art crime fighting center, highly efficient and technologically advanced (1)

• Public-Private Partnerships (P3) – DBFOM

• Consulting Fee review for Design and Construction work:
  • Securing valuable asset regardless of approach

• Questions

(1) City of Houston General Service Department – Police Headquarters Program and Site Analysis – Page Southerland Page (2008), page 1-5
Project History

• 2012 Parsons Facilities Conditions Assessment showed:
  • Estimated value of current repair needs is $416,916,116 (approximately $450M in 2014)
  • Average age of buildings in the City of Houston portfolio at 36 years \(^{(2)}\)

• June 2012 Mayor’s report to City Council made by EAC Munden and Director Dowe summarizing the high levels of deferred maintenance at Police and Municipal Courts facilities

• June 20, 2012 Council action to expand scope of services with financial advisors, First Southwest, to include advisory services for a Justice Complex

• June 14, 2013 Request for Qualifications issued

• Aug. 21, 2013 memo to Council Members providing the 7 respondents to the RFQ

\(^{(2)}\) City of Houston – General Services Department : Facilities Conditions Assessment · Parsons (2012)
Project History

- Dec. 10, 2013 - Budget and Fiscal Affairs Presentation update of progress and next steps
- Jan. 15, 2014 - Council action to retain Hawkins Delafield & Wood LLP as external legal counsel
- Feb. 11, 2014 - Public Safety Committee reviewing project history and condition of existing facilities
Current Status

- An evaluation committee has completed a thorough review of the seven (7) responses to the RFQ
- Evaluation committee based on RFQs submitted, recommended three (3) respondents to submit RFPs for the Justice Complex
- An RFQ was issued to engage a technical advisor to assist the City with execution of the Justice Complex RFP and subsequent project agreement
- May 28, 2014 - City approves MOCA Systems as Technical Advisor to the Justice Complex project
- July 9, 2014 - City approved P3 Guidelines
Next Steps

- July 29, 2014  
  BFA Presentation discussing Consulting fee

- July-August 2014  
  City will request that City Council approves RCA for Consulting Fee prior to release of a Justice Complex RFP

- August 2014  
  Consulting fee appropriation

- Mid – Late August  
  Issue RFP
Why we need a Houston Justice Complex

Riesner Complex – inefficient, insufficient and inconvenient

Old Property Room (built 1923)

New Property Room (built 2008)

Riesner Parking Garage (built 1975)

1400 Lubbock (built 1974) remodeled 2008-09 & 2014

61 Riesner (built 1950)

1220 Washington (purchase approved by Council 1/22/14)

Houston Permit Center (renovated 2011)

33 Artesian (built 1930s)

61 Riesner Complex – inefficient, insufficient and inconvenient

Why we need a Houston Justice Complex

- Old Property Room (built 1923)
- New Property Room (built 2008)
- Riesner Parking Garage (built 1975)
- 1400 Lubbock (built 1974) remodeled 2008-09 & 2014
- 61 Riesner (built 1950)
- 1220 Washington (purchase approved by Council 1/22/14)
- Houston Permit Center (renovated 2011)
- 33 Artesian (built 1930s)
Why we need a Houston Justice Complex

- Population Growth
  - Projected Population Trends for Houston (Metropolitan Statistical Area) MSA, Harris County and City of Houston, 2000 – 2025 (3)

<table>
<thead>
<tr>
<th>YEAR</th>
<th>HOUSTON MSA</th>
<th>HARRIS COUNTY</th>
<th>CITY OF HOUSTON</th>
</tr>
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<tbody>
<tr>
<td>2000</td>
<td>4,117,646</td>
<td>3,400,578</td>
<td>1,953,631</td>
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<tr>
<td>2005*</td>
<td>4,715,407</td>
<td>3,693,816</td>
<td>2,071,162</td>
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<tr>
<td>2010</td>
<td>5,165,606</td>
<td>3,951,682</td>
<td>2,240,974</td>
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<tr>
<td>2015</td>
<td>5,348,890</td>
<td>4,227,234</td>
<td>2,380,950</td>
</tr>
<tr>
<td>2020</td>
<td>5,507,127</td>
<td>4,502,786</td>
<td>2,520,926</td>
</tr>
<tr>
<td>2025</td>
<td>5,732,271</td>
<td>5,053,890</td>
<td>2,659,602</td>
</tr>
</tbody>
</table>

| AVERAGE ANNUAL % CHANGE | 1.5% | 1.9% | 1.4% |

(3) Space Requirements for the Proposed New Houston Municipal Court Facility – National Center for State Courts (2014)
Why we need a Houston Justice Complex

- 2012 Parsons Facilities Conditions Assessment:
  - Estimated value of current repair needs is $416,916,116 (approximately $450M in 2014)
  - Average age of buildings in the City of Houston portfolio at 36 years
  - The following are the priority ranking of the much needed repairs:
    - Priority 1 = $13.33M (Currently Critical : Immediate)
    - Priority 2 = $13.33M (Potentially Critical : Year 1)
    - Priority 3 = $336.71M (Necessary/Not Yet Critical : Years 2-5)
    - Priority 4 = $30.48M (Recommended : Year 6 – 10)
    - Priority 5 = $22.78M (Does not meet current codes but is “Grandfathered”)

(2) City of Houston – General Services Department : Facilities Conditions Assessment - Parsons (2012)
Why we need a Houston Justice Complex

• Need to build for the future: Houston’s existing infrastructure is aging
  • There is a need for new infrastructure at all levels, in all departments
  • With an increasing population, comes increasing public demand for greater and improved service, this requires more and improved infrastructure

• The existing HPD & Municipal Courts facilities; jails, courts and office facilities are aging, inefficient and located in separate buildings

• In order to deliver a first class service to our citizens, we need a modern Justice Complex facility which satisfies the core values of our citizens:
  • Infrastructure
  • Public safety
  • Fiscal responsibility
  • Quality of life
  • Jobs and sustainable development
Condition of Existing Facilities: Municipal Courts
# Why we need a Houston Justice Complex

Current buildings – Old, out-of-date building beyond their useful lives

<table>
<thead>
<tr>
<th>BUILDING</th>
<th>Built</th>
<th>SF</th>
<th>FCI rating</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>61 Riesner - Central Patrol (old HQ)</td>
<td>1950</td>
<td>101,355</td>
<td>72.6%</td>
<td>Poor</td>
</tr>
<tr>
<td>51 Riesner - Riesner Gym (old Academy)</td>
<td>1950</td>
<td>29,855</td>
<td>73.8%</td>
<td>Poor</td>
</tr>
<tr>
<td>49 Riesner - Transmission Shop</td>
<td>1950</td>
<td>3,450</td>
<td>70.0%</td>
<td>Poor</td>
</tr>
<tr>
<td>50 Riesner - Vehicle Repair Shop</td>
<td>1950</td>
<td>7,850</td>
<td>74.3%</td>
<td>Poor</td>
</tr>
<tr>
<td>59 Riesner - Tire Shop</td>
<td>1950</td>
<td>6,290</td>
<td>66.8%</td>
<td>Poor</td>
</tr>
<tr>
<td>700 Houston Ave - Uniform Supply</td>
<td>1965</td>
<td>6,460</td>
<td>29.7%</td>
<td>Poor</td>
</tr>
<tr>
<td>62 Riesner - Communications Bldg.</td>
<td>1974</td>
<td>53,090</td>
<td>77.7%</td>
<td>Poor</td>
</tr>
<tr>
<td>52 Riesner - Fleet Administration</td>
<td>1975</td>
<td>4,105</td>
<td>53.3%</td>
<td>Poor</td>
</tr>
<tr>
<td>53 Riesner - Parking Garage</td>
<td>1975</td>
<td>230,680</td>
<td>N/A*</td>
<td>N/A*</td>
</tr>
<tr>
<td>54 Riesner - Transportation Office</td>
<td>1975</td>
<td>1,748</td>
<td>80.2%</td>
<td>Poor</td>
</tr>
<tr>
<td>33 Artesian - Technology Bldg.</td>
<td>1930s</td>
<td>68,500</td>
<td>31.5%</td>
<td>Poor</td>
</tr>
<tr>
<td>UPS Building</td>
<td>1980</td>
<td>2,400</td>
<td>10.0%</td>
<td>Good</td>
</tr>
<tr>
<td>1400 Lubbock - Municipal Courts</td>
<td>1974</td>
<td>104,000</td>
<td>5.7%</td>
<td>Fair</td>
</tr>
<tr>
<td>1200 Travis – HPD HQ</td>
<td>1963</td>
<td>559,925</td>
<td>10.4%</td>
<td>Good</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>1,179,708</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Old, outmoded, unsecure buildings with safety issues mostly built between 1950 – 1980, some as far back as the 1930s

The current buildings are 64 – 84 years old

The useful life of most buildings from this era are 30 – 35 years

Parsons 2012 Report:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Poor</th>
<th>10 of 13 buildings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair</td>
<td>1 of 13 buildings</td>
<td></td>
</tr>
<tr>
<td>Good</td>
<td>2 of 13 buildings</td>
<td></td>
</tr>
</tbody>
</table>

*Parking Garage not included in FCA report
Municipal Courts – outdated and insufficient, with safety issues

- Located at 1400 Lubbock, adjacent to the Riesner complex.
- 104,000 sf building
- Site on approximately 4.5 acres
- 11 courtrooms operate out of the Gee Courthouse
Municipal Courts – outdated and insufficient, with safety issues

Current repair costs in 2014 approximately = $1.6M not including costs for additional deterioration

The City of Houston Municipal Court is the largest municipal court in the State of Texas and is among the five busiest municipal courts in the United States. (4)

Why we need a Houston Justice Complex

Municipal Courts – outdated, overcrowded and insufficient

Confined workspaces

Overcrowded courtrooms and hallway areas
Inadequate Public and Employee Parking: MCD routinely receives negative feedback from the public regarding inadequate parking at 1400 Lubbock. The front parking facility is at capacity by 8am each morning.

Staff walking from Lot C must traverse congested intersections and construction, and jurors walking from Lot H have a long commute through traffic.
Why we need a Houston Justice Complex

Municipal Courts – outdated and increasingly costly to maintain, with safety issues

Aging Infrastructure:

Serious facility issues exist, including this recently repaired sink hole

Reoccurring plumbing issues (basement has flooded twice as a result of sewer line back-ups)

Foundation shifts, elevator failures and lack of parts domestically

Frequent heating/cooling issues, and security risks associated with multiple access points

Recently discovered sink hole and recurring plumbing issues
Foundation shift/settling near the employee rear entrance
ADA Compliance: Because of the age of the facility, 1400 Lubbock has been “grandfathered in” with regards to current ADA requirements. However, there remains a great need to increase the number of handicap spaces and provide greater accessibility to the court facility.

The front entrance to the building cannot be retrofitted with a chair lift or inclined ramp due to identified structural and safety issues, and the rear handicap ramp is both out of compliance and a good distance from public parking.
Why we need a Houston Justice Complex

Municipal Courts – outdated and increasingly costly to maintain, with safety issues

Stairs are worn and beyond useful life and need replacing

Inadequate Space for Court staff:
Currently, MCD has numerous key operations that are located off site due to the lack of available office space at 1400 Lubbock (In House Collections Division, Mail Processing Division and Juvenile Case Manager Program).

These divisions are integral to court operations and revenue generation and greater efficiencies would result if operations were consolidated to one location.
Why we need a Houston Justice Complex

Condition of Existing Facilities: Houston Police Department
HPD HQ at 1200 Travis – unsecure, outdated and insufficient

1200 Travis was built in 1963 and was formerly the Houston Natural Gas Building.

HPD relocated operations to Travis in 1996.

Approximately 1400 classified and civilian personnel currently work at Travis that include administration, investigations, forensic and support functions.

Contains 559,925 sf of office space with an adjacent 736 space parking garage, which is insufficient for staff and visitor parking.
When HPD moved in, substantial retrofitting was necessary to accommodate law enforcement functions in the building. Securing visitor and prisoner traffic separate from police functions and operations has been an ongoing challenge in the building, one that has been especially disruptive to divisions with routine prisoner and suspect interaction. (5)

Post 9/11, the related inability to adequately secure the facility from potential terrorists threats has been a major driver of the proposed new headquarters. (5)
Roofing system beyond useful life that needs replacing.  

The interior and exterior walls are cracked in multiple locations.
Why we need a Houston Justice Complex

62 Riesner – outdated, inefficient and increasingly costly to maintain with safety issues

Cracks throughout the building indicate foundation problems

Mechanical and plumbing systems have numerous leaks and failures due to their age
Why we need a Houston Justice Complex

62 Riesner – outdated, inefficient and increasingly costly to maintain with safety issues

Built in 1974 to house dispatchers and radio communication functions for the department (the old ECD building).

MDC & radio transmissions are still routed through the building.
Why we need a Houston Justice Complex

62 Riesner – unsecure, outdated, insufficient and increasingly costly to maintain

The heating generation system is beyond its expected life

Only one of two boilers are functioning
Why we need a Houston Justice Complex

HPD HQ at 1200 Travis - Current repair costs in 2014 approximately = $17M not including costs for additional deterioration
Why we need a Houston Justice Complex

- 1-year O&M costs (GSD):

<table>
<thead>
<tr>
<th>BUILDING</th>
<th>Current FCA costs</th>
<th>Annual O&amp;M cost*</th>
<th>Annual MRR costs**</th>
<th>TOTAL COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>HPD Riesner</td>
<td>$56,620,998</td>
<td>$2,296,659</td>
<td>$1,203,928</td>
<td>$60,121,585</td>
</tr>
<tr>
<td>Municipal Courts</td>
<td>1,611,894</td>
<td>2,231,847</td>
<td>430,205</td>
<td>4,273,946</td>
</tr>
<tr>
<td>1200 Travis</td>
<td>16,488,508</td>
<td>3,361,926</td>
<td>2,655,640</td>
<td>22,506,074</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$74,721,400</td>
<td>$7,890,432</td>
<td>$4,289,773</td>
<td>$86,901,606</td>
</tr>
</tbody>
</table>

- 1-year O&M costs (GSD-BOMA adjusted): $86,901,606

* BOMA adjusted costs excludes BOMA admin costs. GSD admin costs used
** MRR costs based on industry standard 2% of value of asset
### Why we need a Houston Justice Complex

- **30-year O&M costs (GSD):**

<table>
<thead>
<tr>
<th>BUILDING</th>
<th>Current FCA costs</th>
<th>Annual O&amp;M cost*</th>
<th>Annual MRR costs**</th>
<th>TOTAL COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>HPD Riesner</td>
<td>$56,620,998</td>
<td>$109,264,522</td>
<td>$57,277,369</td>
<td>$233,162,889</td>
</tr>
<tr>
<td>Municipal Courts</td>
<td>1,611,894</td>
<td>106,181,062</td>
<td>20,467,174</td>
<td>128,260,130</td>
</tr>
<tr>
<td>1200 Travis</td>
<td>16,488,508</td>
<td>159,945,016</td>
<td>126,343,198</td>
<td>302,766,721</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$74,721,400</td>
<td>$375,390,599</td>
<td>$204,087,741</td>
<td>$654,199,741</td>
</tr>
</tbody>
</table>

- **Present value of 30-year O&M costs (GSD-BOMA adjusted):** $204,303,690

- **Even if we do nothing today, we will still need to invest $204M today into facilities that do not address the growing needs of the City.** This investment would not improve the useful life of these facilities and we would still need to invest in a new facility.

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*BOMA adjusted costs excludes BOMA admin costs. GSD admin costs used

**MRR costs based on industry standard 2% of value of asset*
The P3 Process

• The P3 process can be broken down into three distinct phases:

  1. Planning (pre-procurement)
  2. Procurement
     • Request for Qualifications
     • Request for Proposals
     • Negotiations and Close
  3. Contract management (operations)
When to use a P3?

- When the Municipality identifies a critical need
- The project is complex and entails high risk
- Accelerated delivery, reduced cost and increased performance are desired
- Asset useful life is greater than 20 years
- Project has significant maintenance requirements
- P3 legislation allows it
- Mitigation of risk
- When there is Value for Money (VfM)
When to utilize the P3 procurement process

- When to utilize the P3 procurement process – when there is Value for Money
  - When the estimated costs of the P3 procurement are **LESS** than the estimated costs of the traditional public sector procurement (DBB), then there is positive Value for Money, and the P3 opportunity warrants further examination.

\(\text{(6) "Public Private Partnerships – A Tool for Cities + States," Aecom, 2013.}\)
What are the benefits a P3?

When there is Value for Money, a P3 can provide:

• **Budget certainty**
  - Structured and stable availability payments allows for limited financial and budgetary risks to City

• **On-time delivery**
  - 70% of all P3 projects are delivered early and under-budget \(^{(7)}\); penalties for late delivery

• **Increased accountability and performance**
  - Performance based payments means City pays when the facilities are delivered to its satisfaction

• **Increased innovation and efficiency**
  - Long term life-cycle savings of 20%-25% on assets \(^{(7)}\)

• **Additional financing to accelerate delivery**
  - Private financing and extended repayment periods allow public authorities to deliver more infrastructure in short term

\(^{(7)}\) 2014 Huron Consulting Group.
• Why should we have the contingency for a Consulting Fee?

  • Enhanced Competition
    – potential contractors have a choice in what opportunities to pursue. Cost is a major factor as design documents require a high level of effort and cost which reduces the pool of potential contractors. The promise of a stipend helps increase the number of firms in the pool.\(^8\)

  • Enhanced Proposal Quality
    – likelihood that proposers will submit high quality proposals is increased by payment of a significant stipend. Much of the upfront effort belongs to the design members of the team, whose incentive to spend their own money on the proposal is limited due to their relatively small share of the work under the design-build contract. The better the chance of recovery of all or part of the investment, the more a proposer will be willing to spend in preparing the proposal.\(^8\) An RFP for a P3 requires more extensive proposals than those required in other delivery methods. Traditional delivery methods typically require conceptual design, whereas the RFP for a P3 typically requires schematic design plus partial concept designs, design development and partial construction documents.

• Owner (City) Ability to Use Work Product
  – payment can be structured as consideration for delivery of a work product. By payment of a stipend, the owner (City) can thus gain clear rights of ownership, including the right to use ideas and concepts presented by unsuccessful proposers. Payment of compensation also avoids potential disputes and ill-will associated with the owner’s (City) use of an unsuccessful proposer’s ideas.\(^8\)
This Consulting Fee would be paid from capital funds only if City opts not to proceed with the project agreement process.

If the City does indeed proceed with the project agreement, then the Consulting Fee would be paid by the successful respondent to the RFP and not the City's capital funds; the fee would likely be rolled into availability payments made by the City once the Justice Complex is finished.

The recommended Consulting Fee is $750,000 per respondent, for a total of $2,250,000.
RFP & Consulting Fee

• What is the Consulting Fee
  – In the Design-Bid-Build construction process, firms will incur significant costs in developing design and construction documents at a significant costs to them, upwards of $10M in some cases

• Why a Consulting Fee?
  – The Consulting Fee does not cover the full costs of the work product submitted by the respondents. These work product includes design documents and other techniques that would, through the normal procurement process, cost the City upwards of $10M
  – Promotes competition in the RFP process especially for smaller firms as it allows for the coverage of some the costs they will incur
Costs incurred to date

Summary of Consultants

- Costs to date to progress project to complete schematic design and early stages of design development: approx. 0.9% of project cost
- Industry standard = 2.0% - 5% (9)

<table>
<thead>
<tr>
<th>PURPOSE</th>
<th>VENDOR</th>
<th>COST</th>
<th>COUNCIL ACTION DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial advisory services</td>
<td>First Southwest</td>
<td>$170,000</td>
<td>June 20, 2012</td>
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<tr>
<td>Legal Counsel</td>
<td>Hawkins Delafield</td>
<td>$300,000</td>
<td>January 15, 2014</td>
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<tr>
<td>Technical Advisory Services</td>
<td>MOCA Systems</td>
<td>$4,328,880</td>
<td>May 28, 2014</td>
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<td>Consulting Fee</td>
<td>3 shortlisted Project Teams</td>
<td>$2,250,000</td>
<td>Future RCA</td>
</tr>
<tr>
<td>Continued advisory services &amp; VfM refinement</td>
<td>First Southwest</td>
<td>$170,000</td>
<td>Future RCA</td>
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<tr>
<td>Legal Counsel</td>
<td>Hawkins Delafield</td>
<td>TBD</td>
<td>Future RCA for consulting services</td>
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<tr>
<td>Local Legal Counsel</td>
<td>Haynes &amp; Boone</td>
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<td>Future RCA</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>$7,218,880</td>
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</tbody>
</table>

(9) U.S. General Services Administration: P-120 - Project Estimating Requirements for the Public Building Services, page 14
Next Steps

- July 29, 2014  BFA Presentation discussing Consulting fee
- July-August 2014  City will request that City Council approves RCA for Consulting Fee prior to release of a Justice Complex RFP
- August 2014  Consulting fee appropriation
- Mid – Late August  Issue RFP
Appendix
Overview of Public-Private Partnerships (P3)

• What are P3s
• Overview of the P3 procurement process
• When to utilize the P3 process
What is a Public Private Partnership (P3)?

• A Public-Private Partnership or P3 or PPP, is a transaction where the public and private sector share the risks and rewards of services traditionally delivered by the public sector, enabling them to complete projects faster, within budget and at enhanced Value for Money to the public.

• Through the transfer of risk over the life cycle of the project, the private sector will bear the burden of these risks and provide savings and budget certainty to the public.

• In a P3 structure, the private sector retains risks for 30 years or more and is incentivized to employ value engineering innovations and produce maximum efficiencies in the delivery of infrastructure over the long term.
When to utilize the P3 procurement process

• Value for Money (VfM) analyzes the comparative total estimated life cycle costs of traditional versus a traditional or alternative procurement process (e.g. Design-Bid-Build)

• Life cycle costs may include:
  – design & construction,
  – maintenance and operations
  – financing and ancillary costs
  – any risks retained by the public sector for the useful life of the asset

• If the estimated costs of the alternative procurement are less than the estimated costs of the traditional public sector procurement, then there is positive Value for Money, and the P3 opportunity warrants further examination
Why a P3?

• Many public entities are utilizing public-private partnerships (P3), an innovative project delivery method pioneered outside the U.S. and proven within, to address pressing infrastructure needs with constrained budgets.
Generally speaking P3 refer to any of a number of contracting arrangement involving risk-sharing, bundled services, and an asset life-cycle focus.

Contracts are differentiated by risk allocation and scope of services:

The decision as to which delivery and finance structure should be utilized for each project should be based on an objective assessment of which structure provides the best “Value-for-Money” to the public over the life of the infrastructure asset.
In P3 procurement vs. Design Build (DB) & CMAR; the benefits of P3 are:

- Risk transferred to private sector
- Long term efficiencies & innovation

- The City will conduct a VfM analysis before finalizing the procurement vehicle
- If there is no value in undertaking the project, regardless of procurement vehicle selected
- The City will own the assets regardless of procurement vehicle utilized (P3, DBB,CMAR)
Common P3 myths

- Myth 1: P3 = Privatization (Governmental entity has no control)
  - The Governmental entity always retains ownership and control of the assets
  - Governmental entity defines projects requirements and the private partner only gets paid when the services meets those standards. Deductions are made from availability payments when the standards are not met.

- Myth 2: Higher costs (Government can borrow at cheaper rate)
  - Private sector financing is one element of the lifecycle costs of a P3 project
  - Overall cost savings are in the delivery of project through private sector competition
  - Project risks are transferred to private partner - the private partner is responsible for delivering the project on-time and on-budget regardless of the weather, construction inflation, labor availability, materials etc.
Common P3 myths

• Myth 3: Quality of service will decline under a P3 approach
  – Public partner has control over quality of services while private partner assumes more risks
  – Performance-based agreements with penalties for poor performance
  – Guaranteed maintenance over the life of the project

• Myth 4: Windfall profits to the private sector
  – Revenue sharing between the public and private sector partners based on gross revenue or maximum return to shareholders is commonly built into P3 agreements. The P3 agreement often sets out agreement on sharing in any future refinancing gains realized by the private sector party

• Myth 5: P3 does not deliver value for money
  – P3s lower costs and ensure Value for Money through efficient risk allocation. Private sector efficiency can generate economies that outweigh the higher costs of borrowing.
Availability Payments

- Is a payment mechanism of a P3 in which a private entity designs, builds, finances, and usually maintains and operates a facility. The public entity agrees to make regular payments to the private party based on the facility’s availability and level of service achieved for operations and maintenance.