

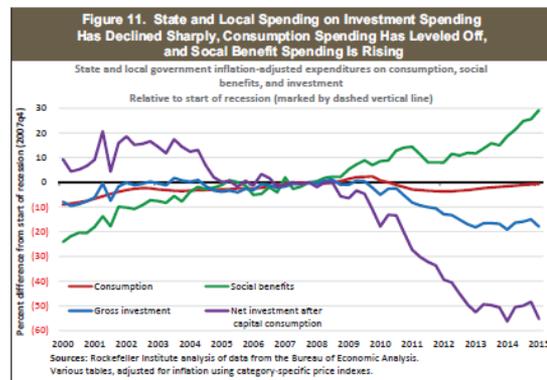
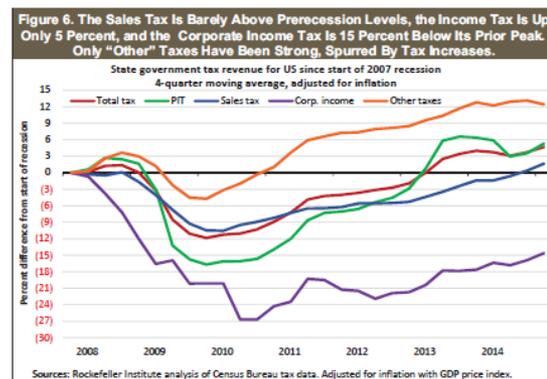
Value for Funding

2016 Research Areas

P3 FLIPS Steering Committee Meeting
Stanford Global Project Center
November 16, 2015

Value for Funding Overview

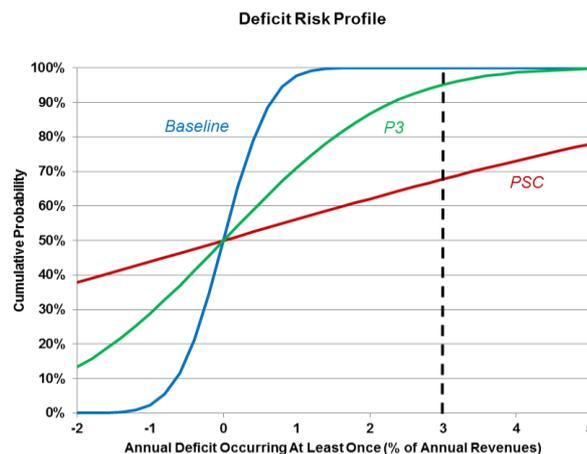
- Measurement of P3 value is more critical than ever, for both public sector procurement decisions and P3 product development
- Value for Money (VfM) analysis is the necessary foundation of P3 project-level comparative evaluation
- But when the public sector faces fiscal and funding constraints, *additional* measures of P3 value will be useful
- A separate analytical framework – working title ‘Value for Funding’ (VfF) – will explicitly focus on potential P3 impact on public sector funding risk and sourcing
- VfF development is a P3 FLIPS research initiative for 2016



Source: Rockefeller Institute Blinken Report June 2015

Value for Funding – Quick Example

- In a VfM analysis, the Public Sector Comparator (PSC) and P3 might have about the same risk-adjusted NPV cost – not a compelling case
- But when a VfF evaluation includes a fiscal aspect that concerns many policymakers – the risk of an annual budget deficit exceeding ‘rainy-day’ reserve – a different picture may emerge
- *Baseline*: Before project, little risk of budget deficit exceeding 3% reserve
- *PSC*: Public sector retains all project risk and rewards – now 30% chance of blowing through reserve
- *P3*: Even though *expected* (P50) VfM is same as PSC, funding risk transfer reduces deficit risk to an acceptable level



Value for Funding 2016 Research Areas

1. *Theory*: Analytical Framework Development
2. *Innovation*: Fiscal Index Availability Payment P3 Structure
3. *Communication*: Accessible Stochastic Modeling
4. *Policy*: VfF and Federal Infrastructure Loan Programs

1. Analytical Framework Development

- Although the VfF framework is intended to be a *practical* tool for public sector decision-makers, more *theoretical* groundwork is required – this will be a primary focus in 2016
- VfF can consider aspects of a thorny issue – public sector’s true cost of capital
- VfF can provide a different perspective on value of brownfield concessions
- VfF empirical research can be designed with counter-factual cases with data covering periods around ‘stress-test’ of the 2008 financial crash

Current projects:

- *VfF concepts for brownfield concessions: Journal of Structured Finance (Spring 2016)*
- *VfF as BCA: Presentation to Society of Benefit-Cost Analysis (March 2016)*
- *Indiana Toll Road VfF counter-factual research: Journal of Structured Finance (Summer 2016)*

2. Fiscal Index Availability Payment P3 Structure

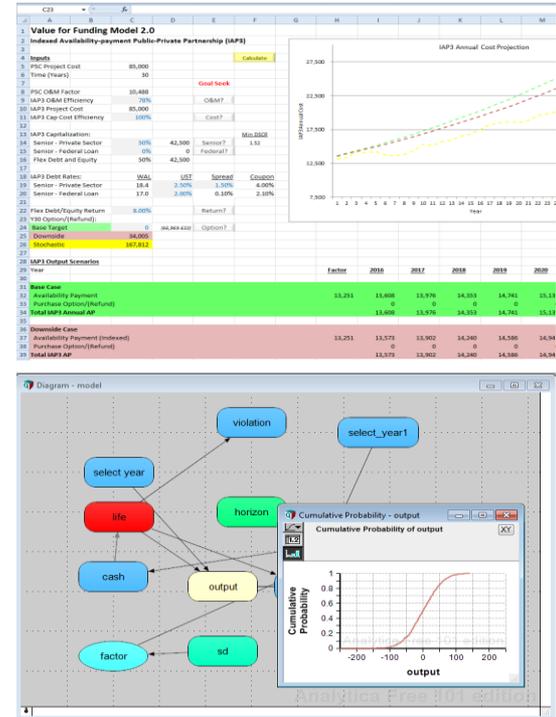
- An important use of VfF framework is to help guide P3 product innovation, especially in long-term capitalization
- “Less is more”: Focus on *incremental* modifications of proven P3 structures where VfF analysis could show value to the public sector
- “Mix and match”: New combinations of ‘off-the-shelf’ components
- The Fiscal Index Availability Payment (FI-AP) structure would index AP payments to observable fiscal metrics (e.g. annual budget) and adjust concession length to achieve investor target return
- FI-AP precedents: AP P3, inflation indexing, variable-term concessions, RE project finance P50/P99 lending

Current project:

- *FI-AP concept presentation and draft term sheet (December 2015)*

3. Accessible Stochastic Modeling

- VfF models can utilize extensive public sector data which current software can crunch for sophisticated statistical and probabilistic output
- But making VfF stochastic model UI and output accessible to non-technical policymakers and stakeholders is also necessary – and challenging
- MS Excel is the standard tool for models, but specialized software for stochastic BCA and decision-making (e.g. Lumina’s Analytica) can play a role



Current project:

- P3 FLIPS research internship with Lumina (Q1 2016)*

4. VfF and Federal Infrastructure Loan Programs

- Federal loan programs (e.g. TIFIA) are very important for P3 development and cost-effectiveness
- Well-designed loan programs can be based on real comparative advantages of a national government, improving economic efficiency at low cost/risk to national taxpayers
- The VfF framework can help elucidate and demonstrate potential federal loan program comparative advantages in context of P3 value
- Despite current low-prioritization (e.g. recent highway bill) and general Washington dysfunction, loan programs are a powerful federal policy tool in constrained fiscal environment – 2017 will likely see a resurgence of initiatives

Current project:

- *VfF loan program presentation for policy-oriented P3 advisor (December 2015)*