

Basic Concepts in Alternative Procurement, Operations and Financing for Public Infrastructure

*Five Central Concepts for the
Learning Module Content Framework*

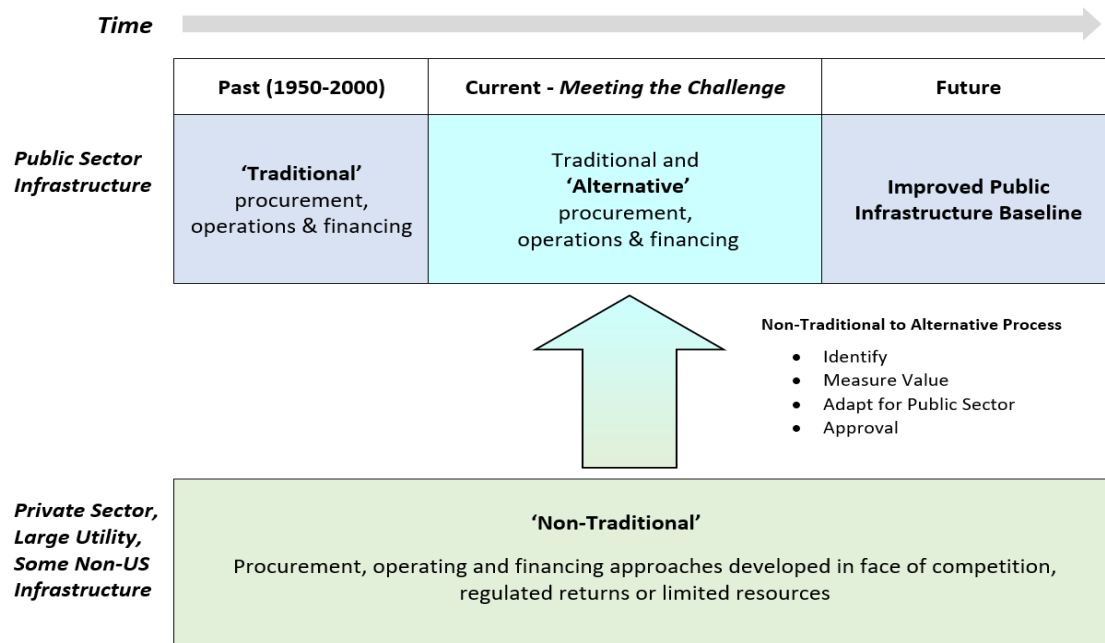
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Central Concept 1: Creating Alternatives is a Process

- US public infrastructure renewal requires unprecedented levels of investment. To meet this challenge, public-sector agencies are seeking ways to improve infrastructure procurement and operational efficiency, financial flexibility and risk mitigation.
- Well-established Non-Traditional techniques for these purposes exist outside the public sector -- but a process is required to make them practical public-sector 'Alternatives' to Traditional approaches
- **Recommendation:** Recognizing the importance of this process is key to accelerating Alternative use and faster transition to an improved baseline for US public infrastructure



Central Concept 2: Different Alternatives Require Different Processes

- The potential value of an Alternative technique is always related to its specific function in the infrastructure project
- But project functional categories are fundamentally different. A different process is required to create Alternatives in each category.
- **Recommendation:** The process of Alternative creation should always be described in terms of clearly separated tracks for each functional category

		Processes to Create Alternatives			
<i>Functional Category</i>	<i>Non-Traditional Approach</i>	<i>Identify</i>	<i>Measure</i>	<i>Adapt</i>	<i>Approve</i>
Design & Construction	Design-Build	Cost and Time Savings	Short-term Model	Legal? Control?	Mainly Technical
Operations & Maintenance	Long-term outsourcing	Long-term Efficiency	Long-Term Model	Labor? Service Quality?	Interest Groups
Debt Financing	Private Placements	Fiscal Flexibility	Debt Affordability Analysis	Bonds? Transparency?	Mainly Technical
Ownership & Equity	Joint-ownership or Partnership	Risk Sharing	Equity Valuation Analysis	Legal? Control? Fairness?	General Public

Central Concept 3: A 'P3' is Simply a Combination of Individual Alternatives

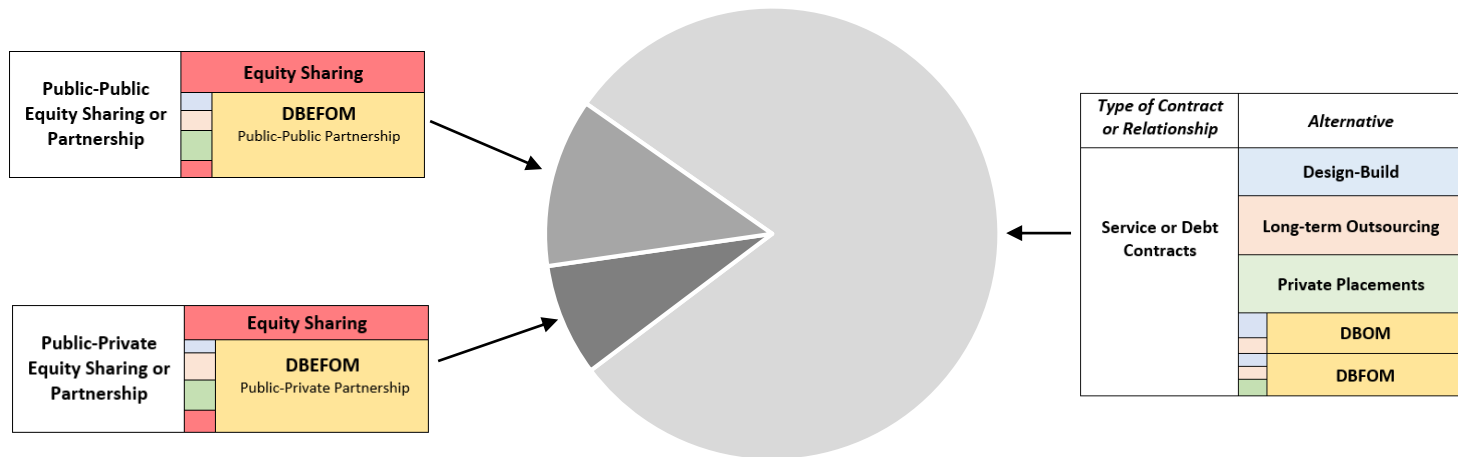
- Combining Alternatives for different functional categories in the same project can provide significant additional value through synergies and scale economies
- A single term, 'Public-Private Partnership' or 'P3', has evolved to refer to all such combinations, regardless of fundamental differences. This is the source of considerable confusion.
- Recommendation:** While the P3 name will remain widespread, Alternative combinations should always be described in terms of specific functional categories. Current industry acronyms are generally effective for this, but a new one is necessary: '**DBEFOM**' to refer to combinations that include significant change or sharing of '**E**', project equity ownership.

	<i>Functional Combinations</i>	<i>Industry Names ('P3s')</i>
	Design & Construction + Operations & Maintenance	DBOM (Design-build + outsourced O&M)
	Design & Construction + Operations & Maintenance + Debt Financing	DBFOM, Sale/Leaseback, Availability Payment P3 (DBOM + Private Placements)
	Design & Construction + Operations & Maintenance + Debt Financing + Equity Ownership	DBEFOM, Concession, Privatization (DBFOM + significant ownership sharing)

Central Concept 4: Ownership & Equity Alternatives Should Not Be the Focus

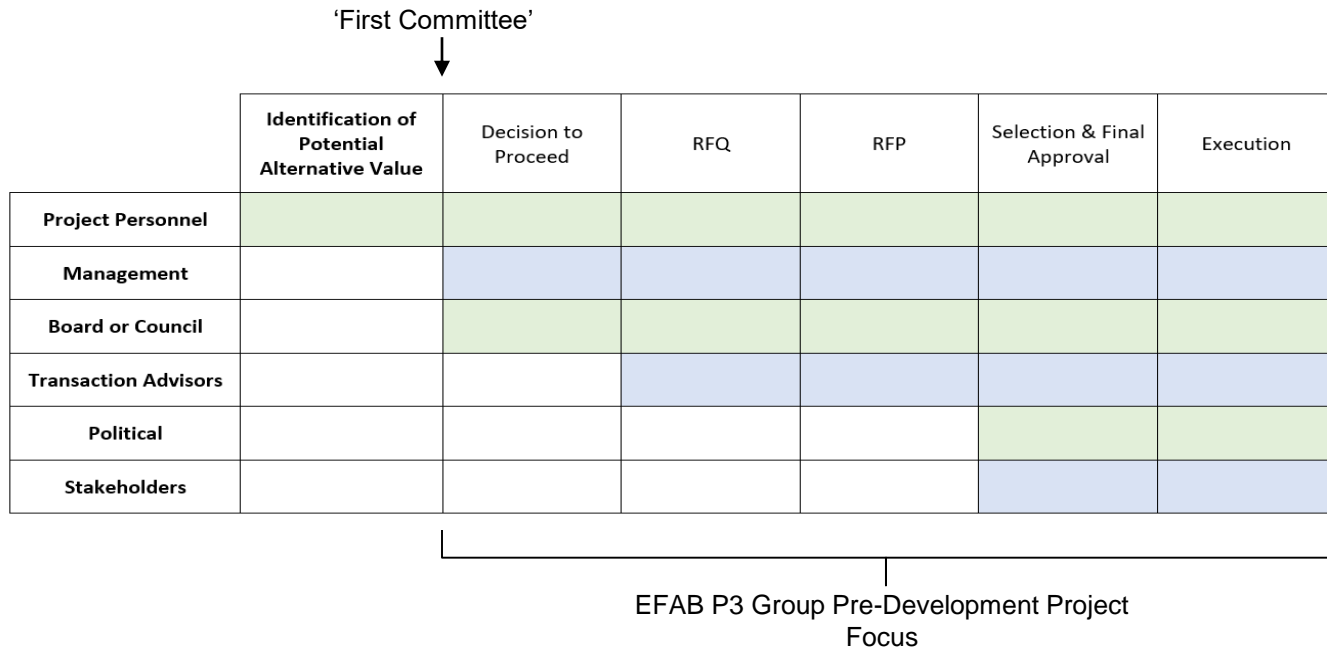
- The public sector has considerable expertise and experience in infrastructure service contracts (construction, operations) and debt financing. This greatly facilitates Alternative creation in these areas.
- The public sector generally has little or no experience in selling or sharing ownership and equity of infrastructure, especially basic essential assets. This is a difficult area for Alternative creation.
- **Recommendation:** The vast majority of necessary improvement is related to deferred maintenance and delayed investment in basic essential assets where ownership and equity Alternatives have limited application. The primary focus in Alternative creation should be on service contract and debt Alternatives.

Relevance of Alternatives to Public Infrastructure



Central Concept 5: Learning Module Should Focus on Early Stages of Process

- There are many steps between the identification of a useful Non-Traditional technique and the execution of an Alternative approach. The full process involves an increasing number of parties.
- The process will benefit from establishing a solid foundation of clear concepts and value demonstration among project personnel who are closest to the technical issues and are involved throughout the process.
- **Recommendation:** WIRFC Learning Module should focus on helping project personnel establish a foundation for the Alternative process, with specific objective as first presentation to outside parties.



How Central Concepts Attach to Proposed Learning Module Page Plan

Concept 1
Explicit focus on Alternative creation process steps

Page Map Section 3: Basic Concepts for Alternative Creation

3.0 Menu	Finding Non-Traditional Value				Creating an Alternative		
	Step 1: Develop Traditional Baseline	Step 2: Identify Relevant Non-Traditional	Step 3: Consider Non-Traditional Combinations	Step 4: Measure Comparative Value	Step 5: Identify Legal Requirements	Step 6: Identify Stakeholder Concerns	Step 7: Summarize Modifications & Adjusted Value
Design & Construction	3.DC.1	3.DC.2	3.DC.3	3.DC.4	3.DC.5	3.DC.6	3.DC.7
Operations & Maintenance	3.OM.1	3.OM.2	3.OM.3	3.OM.4	3.OM.5	3.OM.6	3.OM.7
Debt Financing	3.DF.1	3.DF.2	3.DF.3	3.DF.4	3.DF.5	3.DF.6	3.DF.7
Ownership & Equity	3.OE.1	3.OE.2	3.OE.3	3.OE.4	3.OE.5	3.OE.6	3.OE.7
3.0 P3 Menu	DBOM	3.DBOM.3	3.DBOM.4	3.DBOM.5	3.DBOM.6	3.DBOM.7	
	DBFOM	3.DBFOM.3	3.DBFOM.4	3.DBFOM.5	3.DBFOM.6	3.DBFOM.7	
	Public-Public	3.DBEFOMPub.3	3.DBEFOMPub.4	3.DBEFOMPub.5	3.DBEFOMPub.6	3.DBEFOMPub.7	
	Public-Private	3.DBEFOMPri.3	3.DBEFOMPri.4	3.DBEFOMPri.5	3.DBEFOMPri.6	3.DBEFOMPri.7	

Concept 2
Separate, color-coded functional tracks

Concept 5
Objective is 'first committee' presentation

Concept 3
P3s are separate sub-tracks based on functional combinations with DBFOM and DBEFOM distinction

Concept 4
Equity P3s divided into Public and Private, reduced focus