

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

WIRFC Learning Module Page Map and Content

Working Draft Version 1.5

June 15, 2018

## Page Map – Home, Section 1 and Section 2

Home Page: Section Menu & First-Use Recommendation

1.1 Section 1: The Big Picture

1.2 Words Matter!

1.3 Focus on Function

1.4 Traditional Approaches

1.5 Non-Traditional Approaches

1.6 Creating Practical Alternatives is a Process

1.7 Clearing Up Confusion About P3s

2.1 Section 2: How This Learning Module is Organized

2.2 A Two-Part Process

2.3 Steps 1-4:  
Finding Non-Traditional Value

2.4 Steps 5-7:  
Creating an Alternative

2.5 Four Function-Related Tracks

2.6 Four P3 Tracks

### Page Map Section 3: Basic Concepts for Alternative Creation

	<i>Finding Non-Traditional Value</i>				<i>Creating an Alternative</i>			
<i>3.0 Menu</i>	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	
		<i>'P3' Tracks</i>  <i>3.0 P3 Menu</i>		3.DBOM.3	3.DBOM.4	3.DBOM.5	3.DBOM.6	3.DBOM.7
				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

Home			Navigation Code: Home	
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# Basic Concepts in Infrastructure Alternative Procurement, Operations and Financing

## Section 1: The Big Picture

[link to 1.1]

## Section 2: How This Learning Module is Organized

[link to 2.1]

## Section 3: Basic Concepts in Alternative Creation

[link to 3.menu]

- **First-time user recommendation: Go through Sections 1 and 2 at least once before proceeding to Section 3**
- [Additional EPA/WIRFC information as needed]

### Navigation Buttons

Next:

Back:

Option:

Option:

Option:

Section 1			Navigation Code: 1.1	<p>Key Definitions</p> <hr/> <p>LM Topic Expansion Sub-Pages</p> <hr/> <p>EPA Internal Topic Expansion Links</p> <hr/> <p>External Topic Expansion &amp; Case Studies Links</p> <hr/> <p>External Organization Links</p>
<p><b>Section 1: The Big Picture</b></p> <p><b>A Big Challenge</b></p> <p>Like many areas of US basic infrastructure, the water sector faces a critical need for immense capital expenditure to address decades of deferred maintenance and delayed investment. The challenge must be met in a difficult environment – slow recovery from 2008 financial crisis, major demographic shifts, increasing income inequality and a changing climate.</p> <p><b>An Equally Big Opportunity to Provide Solutions</b></p> <p>A more positive development is that the infrastructure investment challenge has been embraced as an opportunity by the private sector and a critical policy area by government. Both express strong support for new and innovative solutions that reduce cost, increase efficiency, improve service and incorporate the latest technology.</p> <p><b>The Need for a Clearer Framework to Identify, Measure and Adapt New Solutions</b></p> <p>However, progress is still slower than expected. The widespread enthusiasm for ‘P3s’ was instrumental in raising awareness of the potential value of new approaches. But there’s a growing consensus among public infrastructure stakeholders, service providers and policymakers that a reset of the dialogue is needed to enable real progress. This reset emphasizes the ‘nuts and bolts’ of implementing successful solutions – realistic goals, clear description of specific purpose and value, stakeholder protection and complete transparency.</p> <p>What’s needed is a clearer framework to identify, measure and adapt improved approaches to the procurement, operations, financing and ownership of basic public infrastructure assets. Consistent with this objective, the Alternative Project Delivery Learning Module (LM) is based on a ‘New Alternative Framework’ that utilizes several new approaches to describing, categorizing and evaluating non-traditional solutions for infrastructure projects. The LM is intended to assist water-sector decisionmakers and stakeholders to understand and evaluate Alternative approaches for major capital investment from a practical and results-oriented perspective.</p>				
Navigation Buttons				
Next: 1.2	Back: Home	Option:	Option:	
			Option:	



Section 1			Navigation Code: 1.2		Key Definitions														
<p><b>Words Matter!</b></p> <p><b>A Clear Framework Requires Clear Definitions From the Start</b></p> <ul style="list-style-type: none"> <li>➤ One of infrastructure sector’s biggest issues is lack of clear language</li> <li>➤ More precise definitions of existing terms will be an important part of this LM</li> <li>➤ New terms for necessary new concepts: For example, ‘Non-Traditional’ is well-established approach outside the public sector but it only becomes a practical ‘Alternative’ after an approval process</li> <li>➤ Key definitions will be highlighted in grey boxes throughout the LM [and linked to a glossary section]. To get started, the most frequently used terms are briefly defined below:</li> </ul> <table border="1" data-bbox="327 735 1026 1224" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th colspan="2" style="text-align: center;"><i>Key Definitions</i></th> </tr> </thead> <tbody> <tr> <td><b>Project</b></td> <td>Infrastructure asset or system capex</td> </tr> <tr> <td><b>Agency</b></td> <td>Decision-making authority responsible for public water infrastructure</td> </tr> <tr> <td><b>Traditional Approach</b></td> <td>Generally used by US Agencies for Project procurement, operations and financing</td> </tr> <tr> <td><b>Non-Traditional Approach</b></td> <td>Generally used by private-sector and some utilities for assets similar to Project</td> </tr> <tr> <td><b>Alternative Approach</b></td> <td>When Agency modifies and adopts a Non-Traditional approach for a Project</td> </tr> <tr> <td><b>Public-Private Partnership or P3</b></td> <td>A synergistic combination of Non-Traditional approaches adopted by an Agency as an Alternative</td> </tr> </tbody> </table>					<i>Key Definitions</i>		<b>Project</b>	Infrastructure asset or system capex	<b>Agency</b>	Decision-making authority responsible for public water infrastructure	<b>Traditional Approach</b>	Generally used by US Agencies for Project procurement, operations and financing	<b>Non-Traditional Approach</b>	Generally used by private-sector and some utilities for assets similar to Project	<b>Alternative Approach</b>	When Agency modifies and adopts a Non-Traditional approach for a Project	<b>Public-Private Partnership or P3</b>	A synergistic combination of Non-Traditional approaches adopted by an Agency as an Alternative	LM Topic Expansion Sub-Pages
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Navigation Buttons					EPA Internal Topic Expansion Links														
Next: 1.3	Back: 1.1	Option: Home	Option:	Option:	External Topic Expansion & Case Studies Links														
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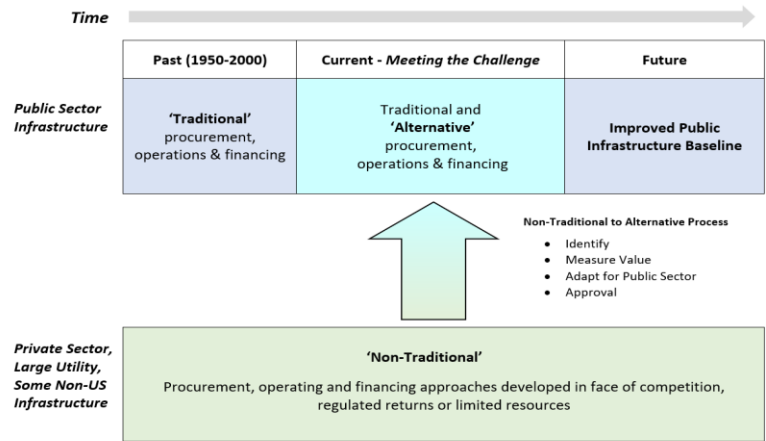
Section 1			Navigation Code: 1.3		Key Definitions																																		
<h3>Focus on Function</h3> <ul style="list-style-type: none"> <li>➤ The potential value of an Alternative technique is <b>always</b> related to its specific function in the infrastructure project – there’s no magic involved!</li> <li>➤ But project functional categories are fundamentally different. A different process is required to identify, measure and adapt a new approach in each functional category – otherwise, you’ll be mixing apples and oranges!</li> <li>➤ <b>In this LM, all the aspects of considering new solutions are always described in terms of four clearly separated main tracks for each functional category (1) design &amp; construction, (2) Operations &amp; Maintenance, (3) Debt Financing and (4) Ownership &amp; Equity</b></li> <li>➤ The tracks are consistently color-coded throughout all the sections:</li> </ul> <table border="1" data-bbox="268 743 1087 1182"> <thead> <tr> <th rowspan="2">Functional Category</th> <th rowspan="2">Non-Traditional Approach</th> <th colspan="4">Processes to Create Alternatives</th> </tr> <tr> <th>Identify</th> <th>Measure</th> <th>Adapt</th> <th>Approve</th> </tr> </thead> <tbody> <tr> <td><b>Design &amp; Construction</b></td> <td>Design-Build</td> <td>Cost and Time Savings</td> <td>Short-term Model</td> <td>Legal? Control?</td> <td>Mainly Technical</td> </tr> <tr> <td><b>Operations &amp; Maintenance</b></td> <td>Long-term outsourcing</td> <td>Long-term Efficiency</td> <td>Long-Term Model</td> <td>Labor? Service Quality?</td> <td>Interest Groups</td> </tr> <tr> <td><b>Debt Financing</b></td> <td>Private Placements</td> <td>Fiscal Flexibility</td> <td>Debt Affordability Analysis</td> <td>Bonds? Transparency?</td> <td>Mainly Technical</td> </tr> <tr> <td><b>Ownership &amp; Equity</b></td> <td>Joint-ownership or Partnership</td> <td>Risk Sharing</td> <td>Equity Valuation Analysis</td> <td>Legal? Control? Fairness?</td> <td>General Public</td> </tr> </tbody> </table>					Functional Category	Non-Traditional Approach	Processes to Create Alternatives				Identify	Measure	Adapt	Approve	<b>Design &amp; Construction</b>	Design-Build	Cost and Time Savings	Short-term Model	Legal? Control?	Mainly Technical	<b>Operations &amp; Maintenance</b>	Long-term outsourcing	Long-term Efficiency	Long-Term Model	Labor? Service Quality?	Interest Groups	<b>Debt Financing</b>	Private Placements	Fiscal Flexibility	Debt Affordability Analysis	Bonds? Transparency?	Mainly Technical	<b>Ownership &amp; Equity</b>	Joint-ownership or Partnership	Risk Sharing	Equity Valuation Analysis	Legal? Control? Fairness?	General Public	LM Topic Expansion Sub-Pages
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Next: 1.4	Back: 1.2	Option: Home	Option:	Option:																																			

Section 1			Navigation Code: 1.4	Key Definitions															
<h2>Traditional Approaches</h2> <ul style="list-style-type: none"> <li>➤ Traditional approaches of US public-sector Agencies to water infrastructure procurement and operations evolved over a period of steady economic and demographic growth. They were effective in those conditions.</li> <li>➤ Traditional approaches are a ‘legacy’ of benign period (roughly 1950-2000) – not a reflection of intrinsic public-sector limitations!</li> <li>➤ Traditional approaches often prioritized an Agency’s direct and sole responsibility for infrastructure as a simple and effective way to fulfill obligations to the community.</li> </ul> <table border="1" data-bbox="138 776 1220 1211"> <thead> <tr> <th>Functional Category</th> <th>Traditional Approach</th> <th>Why Traditional Approach Worked 1950-2000</th> </tr> </thead> <tbody> <tr> <td>Design &amp; Construction</td> <td>Design-Bid-Build</td> <td> <ul style="list-style-type: none"> <li>• Multiple low-bid steps created a simple and transparent process</li> <li>• Technological complexity and environmental standards were lower</li> <li>• Long-term cost-effectiveness less important in a growth environment where assets needed replacement or expansion before end of useful life</li> </ul> </td> </tr> <tr> <td>Operations &amp; Maintenance</td> <td>In-house capability</td> <td> <ul style="list-style-type: none"> <li>• In-house capability ensured direct control and responsibility to community</li> <li>• Steady or growing revenues meant steady or growing O&amp;M budget</li> <li>• Simpler technology and lower environmental standards meant less need for outsourcing scale economies or expertise</li> <li>• Disciplined whole-life approach less important in growth environment where assets needed replacement or expansion before end of useful life</li> </ul> </td> </tr> <tr> <td>Debt Financing</td> <td>Tax-exempt municipal bonds</td> <td> <ul style="list-style-type: none"> <li>• Relative inflexibility of bond debt was less important in stable conditions</li> <li>• Subsidized, dedicated muni market offered unbeatable interest rates and demand</li> <li>• Fewer binding fiscal constraints (e.g. statutory debt limits)</li> </ul> </td> </tr> <tr> <td>Equity Ownership</td> <td>Sole municipal ownership</td> <td> <ul style="list-style-type: none"> <li>• Less need (and little community interest in) ownership risk transfer or sharing</li> <li>• Even smaller systems were considered viable in a growth environment</li> <li>• Local control more important during community development phase</li> </ul> </td> </tr> </tbody> </table>				Functional Category	Traditional Approach	Why Traditional Approach Worked 1950-2000	Design & Construction	Design-Bid-Build	<ul style="list-style-type: none"> <li>• Multiple low-bid steps created a simple and transparent process</li> <li>• Technological complexity and environmental standards were lower</li> <li>• Long-term cost-effectiveness less important in a growth environment where assets needed replacement or expansion before end of useful life</li> </ul>	Operations & Maintenance	In-house capability	<ul style="list-style-type: none"> <li>• In-house capability ensured direct control and responsibility to community</li> <li>• Steady or growing revenues meant steady or growing O&amp;M budget</li> <li>• Simpler technology and lower environmental standards meant less need for outsourcing scale economies or expertise</li> <li>• Disciplined whole-life approach less important in growth environment where assets needed replacement or expansion before end of useful life</li> </ul>	Debt Financing	Tax-exempt municipal bonds	<ul style="list-style-type: none"> <li>• Relative inflexibility of bond debt was less important in stable conditions</li> <li>• Subsidized, dedicated muni market offered unbeatable interest rates and demand</li> <li>• Fewer binding fiscal constraints (e.g. statutory debt limits)</li> </ul>	Equity Ownership	Sole municipal ownership	<ul style="list-style-type: none"> <li>• Less need (and little community interest in) ownership risk transfer or sharing</li> <li>• Even smaller systems were considered viable in a growth environment</li> <li>• Local control more important during community development phase</li> </ul>	LM Topic Expansion Sub-Pages
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Navigation Buttons																			
Next: 1.5	Back: 1.3	Option: Home	Option:	Option:															

Section 1			Navigation Code: 1.5	Key Definitions															
<h2>Non-Traditional Approaches</h2> <ul style="list-style-type: none"> <li>➤ Private-sector companies, and some utilities and non-US agencies developed different, Non-Traditional approaches for similar assets in response to competition, regulated returns or more limited resources.</li> <li>➤ During 1950-2000 period, private-sector companies, some utilities (mainly energy) and certain non-US public sector agencies (mainly in UK, Canada, Australia) developed approaches for similar physical infrastructure assets under different, often less benign, conditions.</li> <li>➤ The approaches are in fact well-established – they are called ‘Non-Traditional’ here only in the sense that they are not Traditional for US Agencies.</li> </ul> <table border="1" data-bbox="121 760 1239 1209"> <thead> <tr> <th data-bbox="121 760 321 802">Functional Category</th> <th data-bbox="321 760 556 802">Non-Traditional Approach</th> <th data-bbox="556 760 1239 802">Purpose of Non-Traditional Approach</th> </tr> </thead> <tbody> <tr> <td data-bbox="121 802 321 943">Design &amp; Construction</td> <td data-bbox="321 802 556 943">Design-Build and variations</td> <td data-bbox="556 802 1239 943"> <ul style="list-style-type: none"> <li>• Cost efficiency and certainty of delivery date are central factors in competitive, non-monopoly environment</li> <li>• Specific performance more important than specific control</li> <li>• Latest technology needed to be included</li> <li>• Asset economics analyzed in entire useful life time frame</li> </ul> </td> </tr> <tr> <td data-bbox="121 943 321 1029">Operations &amp; Maintenance</td> <td data-bbox="321 943 556 1029">Long-term outsourcing</td> <td data-bbox="556 943 1239 1029"> <ul style="list-style-type: none"> <li>• Private-sector focus on core-competency; outsourcing non-core is standard</li> <li>• Cost efficiency through scale economies; specific control less important</li> <li>• Performance-based contracting is natural part of profit-maximization</li> </ul> </td> </tr> <tr> <td data-bbox="121 1029 321 1122">Debt Financing</td> <td data-bbox="321 1029 556 1122">Private placement, Project finance</td> <td data-bbox="556 1029 1239 1122"> <ul style="list-style-type: none"> <li>• Even for highly-rated companies with access to bond market, major physical assets often financed with private placements (bank, insurance debt) for flexibility, renegotiation</li> <li>• Project finance SPV framework for off-balance sheet accounting, contract attachment</li> </ul> </td> </tr> <tr> <td data-bbox="121 1122 321 1209">Equity Ownership</td> <td data-bbox="321 1122 556 1209">Joint-ownership or partnership arrangements</td> <td data-bbox="556 1122 1239 1209"> <ul style="list-style-type: none"> <li>• Natural co-alignment of profit-maximization among otherwise different partners means cost-effective sharing of risk, expertise</li> <li>• Higher cost-of-capital than public sector, equity is scarce resource</li> </ul> </td> </tr> </tbody> </table>				Functional Category	Non-Traditional Approach	Purpose of Non-Traditional Approach	Design & Construction	Design-Build and variations	<ul style="list-style-type: none"> <li>• Cost efficiency and certainty of delivery date are central factors in competitive, non-monopoly environment</li> <li>• Specific performance more important than specific control</li> <li>• Latest technology needed to be included</li> <li>• Asset economics analyzed in entire useful life time frame</li> </ul>	Operations & Maintenance	Long-term outsourcing	<ul style="list-style-type: none"> <li>• Private-sector focus on core-competency; outsourcing non-core is standard</li> <li>• Cost efficiency through scale economies; specific control less important</li> <li>• Performance-based contracting is natural part of profit-maximization</li> </ul>	Debt Financing	Private placement, Project finance	<ul style="list-style-type: none"> <li>• Even for highly-rated companies with access to bond market, major physical assets often financed with private placements (bank, insurance debt) for flexibility, renegotiation</li> <li>• Project finance SPV framework for off-balance sheet accounting, contract attachment</li> </ul>	Equity Ownership	Joint-ownership or partnership arrangements	<ul style="list-style-type: none"> <li>• Natural co-alignment of profit-maximization among otherwise different partners means cost-effective sharing of risk, expertise</li> <li>• Higher cost-of-capital than public sector, equity is scarce resource</li> </ul>	LM Topic Expansion Sub-Pages
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Navigation Buttons				External Organization Links															
Next: 1.4	Back: 1.6	Option: Home	Option:	Option:															

## Creating Practical 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 they rarely can be immediately adopted because public-sector objectives and obligations are often very different than those in the private-sector. A *process* is required to make them practical public-sector 'Alternatives' to Traditional approaches
- Throughout the LM, we focus on **improving and accelerating the process of creating Alternatives**. That's part of the path towards faster transition to an improved baseline for US public infrastructure



Key Definitions

LM Topic Expansion Sub-Pages

EPA Internal Topic Expansion Links

External Topic Expansion & Case Studies Links

External Organization Links

Navigation Buttons

Next: 1.5	Back: 1.7	Option:	Option:	Option:
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Section 1			Navigation Code: 1.7	Key Definitions DBOM DBFOM DBEFOM												
<h2>Clearing Up Confusion About P3s</h2> <ul style="list-style-type: none"> <li>➤ 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!</li> <li>➤ In this LM, we aim to avoid this confusion. While the P3 name will be used in places, Alternative combinations will also always be described in terms of specific functional categories.</li> <li>➤ Current industry acronyms are generally effective for this, but a new one is necessary: <b>'DBEFOM'</b> to refer to combinations that include significant change or sharing of 'E', project equity ownership.</li> <li>➤ P3 combinations have their own color-coding: yellow background with insert of the main functional categories in the combination:</li> </ul> <table border="1" data-bbox="153 886 1203 1250"> <thead> <tr> <th>Functional Combinations</th> <th>Industry Names ('P3s')</th> <th>Synergies and Applications of Non-Traditional Combinations</th> </tr> </thead> <tbody> <tr> <td>Design &amp; Construction + Operations &amp; Maintenance</td> <td><b>DBOM</b> (Design-build + outsourced O&amp;M)</td> <td> <ul style="list-style-type: none"> <li>Integrating DB and whole-life O&amp;M has significant synergies</li> </ul> </td> </tr> <tr> <td>Design &amp; Construction + Operations &amp; Maintenance + Debt Financing</td> <td><b>DBFOM, Sale/Leaseback, Availability Payment P3</b> (DBOM + Debt Project finance)</td> <td> <ul style="list-style-type: none"> <li>Significant transactional economies of scale in doing service contracts in conjunction with customized private-placement debt</li> <li>Additional standard contract options (e.g. lease)</li> <li>Project finance lenders with debt at risk can add additional layer of asset oversight and value preservation (e.g. through covenants) that is relatively naturally co-aligned with Agency</li> </ul> </td> </tr> <tr> <td>Design &amp; Construction + Operations &amp; Maintenance + Debt Financing + Equity Ownership</td> <td><b>DBEFOM, Concession, Privatization</b> (DBFOM + significant ownership sharing)</td> <td> <ul style="list-style-type: none"> <li>Private partner with equity at risk will be highly incentivized to optimize asset performance – this can be contractually co-aligned with Agency objectives</li> <li>Significant but highly defined risk transfer through overall service and debt contractual structure</li> </ul> </td> </tr> </tbody> </table>				Functional Combinations	Industry Names ('P3s')	Synergies and Applications of Non-Traditional Combinations	Design & Construction + Operations & Maintenance	<b>DBOM</b> (Design-build + outsourced O&M)	<ul style="list-style-type: none"> <li>Integrating DB and whole-life O&amp;M has significant synergies</li> </ul>	Design & Construction + Operations & Maintenance + Debt Financing	<b>DBFOM, Sale/Leaseback, Availability Payment P3</b> (DBOM + Debt Project finance)	<ul style="list-style-type: none"> <li>Significant transactional economies of scale in doing service contracts in conjunction with customized private-placement debt</li> <li>Additional standard contract options (e.g. lease)</li> <li>Project finance lenders with debt at risk can add additional layer of asset oversight and value preservation (e.g. through covenants) that is relatively naturally co-aligned with Agency</li> </ul>	Design & Construction + Operations & Maintenance + Debt Financing + Equity Ownership	<b>DBEFOM, Concession, Privatization</b> (DBFOM + significant ownership sharing)	<ul style="list-style-type: none"> <li>Private partner with equity at risk will be highly incentivized to optimize asset performance – this can be contractually co-aligned with Agency objectives</li> <li>Significant but highly defined risk transfer through overall service and debt contractual structure</li> </ul>	LM Topic Expansion Sub-Pages
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Navigation Buttons				External Organization Links												
Next: 1.8	Back: 1.6	Option: Home	Option:	Option:												

## The Need to Accelerate Alternative Creation in ‘New Normal’ World

The process of adaptation, approval and acceptance will occur naturally over time in response to ‘new normal’ fiscal and demographic conditions, and Alternatives will become the ‘new Traditional’. But due to the high accruing and compounding cost of deferred maintenance and delayed investment, this process must be accelerated.

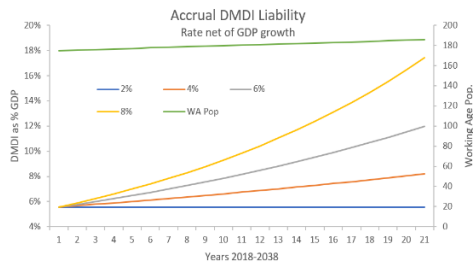
### Multiple Cost Factors at Work

- Current period losses may be most obvious but least damaging
- Compounding costs are often not visible and may be allowed to persist – but have worst outcomes

<i>Cost Factor</i>	<i>Nature</i>
Current amount deferred or delayed	Accretive
Inflation	Compounding
Accelerated degradation - asset	Compounding
Accelerated degradation - system	Compounding
Catastrophic failure risk	Compounding
Inefficient ‘quick fixes’	Current period loss
Quality of service degradation	Current period loss
Opportunity cost of using new tech	Current period loss

### Headed to a ‘Tipping Point’?

- Balance of deferred maintenance and delayed investment likely growing faster than working-age population.
- If much faster, the liability can hit ‘tipping points’ leading into difficult-to-manage crises



Key Definitions

LM Topic Expansion Sub-Pages

EPA Internal Topic Expansion Links

External Topic Expansion & Case Studies Links

External Organization Links

### Navigation Buttons





Key Definitions

## Section 2: How This Learning Module is Organized

### Who Is This Learning Module For?

- 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.
- This Learning Module is intended to assist project personnel establish a foundation for the Alternative process, primarily focused on the first stage of process and with specific objective as first presentation to outside parties.

LM Topic Expansion Sub-Pages

EPA Internal Topic Expansion Links

External Topic Expansion & Case Studies Links

External Organization Links

*LM focus on first stage here*

	Identification of Potential Alternative Value	Decision to Proceed	RFQ	RFP	Selection & Final Approval	Execution
Project Personnel						
Management						
Board or Council						
Transaction Advisors						
Political						
Stakeholders						

Navigation Buttons

Next: 2.2	Back: Home	Option:	Option:	Option:
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Section 2			Navigation Code: 2.2	<p>Key Definitions</p> <hr/> <p>LM Topic Expansion Sub-Pages</p> <hr/> <p>EPA Internal Topic Expansion Links</p> <hr/> <p>External Topic Expansion &amp; Case Studies Links</p> <hr/> <p>External Organization Links</p>
<h2>A Two-Part Process</h2> <p>The first stage in the creation of a valuable (and practical) Alternative from a non-Traditional approach really has two distinct parts.</p> <ul style="list-style-type: none"> <li>➤ The first part is to identify what Non-Traditional approaches might be most relevant for your specific project (and overall fiscal situation, in many cases). This involves understanding your own ‘baseline’ of potential areas of improvement, looking for Non-Traditional approaches (and their potential combinations) and getting a rough sense of the potential value (if any!).</li> <li>➤ The second part is an early-stage ‘reality check’ about how practical it might be to create an Alternative from a Non-Traditional approach that looks relevant and potentially useful. This involves considering legal and public perception issues at a high level – looking for possible ‘show stoppers’ in particular. These issues won’t be fully addressed until later in the process, but it’s critical to identify them as early as possible. The final step of the second part is to summarize the ‘case’ for a specific Alternative creation.</li> <li>➤ In this LM, we divide the process into seven ‘steps’. Obviously, each situation is different, and our approach is by no means prescriptive! Instead, the goal is to cover basic concepts and typical scenarios in an organized way that can be consistently applied to the whole range of possible Alternatives.</li> <li>➤ As described in the next two pages, Steps 1 through 4 cover the first part of the process (‘Finding Non-Traditional Value’), and Steps 5 through 7 the second part (‘Starting to Create an Alternative’).</li> </ul>				
Navigation Buttons				
Next: 2.3	Back: 2.1	Option: Home	Option:	
Option:				

Section 2			Navigation Code: 2.3		Key Definitions							
<p><b>Steps 1-4: Finding Non-Traditional Value</b></p> <p>➤ There are a lot of potential approaches to each functional aspect of something as complicated as an infrastructure project! How to start looking in the right area? Steps 1 through 4 are intended as a rough guide to identify Non-Traditional approaches that might be relevant and valuable enough to be worth adapting as Alternatives.</p> <table border="1" data-bbox="243 802 1115 979"> <tr> <th colspan="4" data-bbox="243 802 1115 841"><i>Finding Non-Traditional Value</i></th> </tr> <tr> <td data-bbox="243 841 459 979">Step 1: Develop Traditional Baseline</td> <td data-bbox="459 841 676 979">Step 2: Identify Relevant Non-Traditional</td> <td data-bbox="676 841 900 979">Step 3: Consider Non-Traditional Combinations</td> <td data-bbox="900 841 1115 979">Step 4: Measure Comparative Value</td> </tr> </table>				<i>Finding Non-Traditional Value</i>				Step 1: Develop Traditional Baseline	Step 2: Identify Relevant Non-Traditional	Step 3: Consider Non-Traditional Combinations	Step 4: Measure Comparative Value	LM Topic Expansion Sub-Pages
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Navigation Buttons				EPA Internal Topic Expansion Links								
Next: 2.2	Back: 2.4	Option: Home	Option:	Option:	External Topic Expansion & Case Studies Links							
						External Organization Links						

Section 2			Navigation Code: 2.4		Key Definitions						
<p><b>Steps 5-7: Starting to Create an Alternative</b></p> <ul style="list-style-type: none"> <li>➤ Even if a Non-Traditional approach looks relevant and valuable for your project, it still might not be a practical Alternative for your situation. This is because the process of adaption and approval might have some real-world ‘show-stoppers’ for a particular Alternative. It’s better to find this out sooner than later! Steps 5 and 6 are intended as a rough guide to identify high-level legal issues and stakeholder concerns that might arise in the process of creating a particular Alternative.</li> <li>➤ Step 7 is where you summarize the ‘case’ to take the next step in proceeding to create an Alternative. You ‘know the ground’ better than we do, of course – this step just serves as a basic checklist of some things you’ll want to cover.</li> </ul> <div data-bbox="357 901 1001 1078" style="text-align: center; border: 1px solid black; margin: 20px auto; width: fit-content;"> <table border="1"> <tr> <th colspan="3" data-bbox="363 906 995 943"><i>Creating an Alternative</i></th> </tr> <tr> <td data-bbox="363 943 573 1073">Step 5: Identify Legal Requirements</td> <td data-bbox="573 943 783 1073">Step 6: Identify Stakeholder Concerns</td> <td data-bbox="783 943 995 1073">Step 7: Summarize Modifications &amp; Adjusted Value</td> </tr> </table> </div>					<i>Creating an Alternative</i>			Step 5: Identify Legal Requirements	Step 6: Identify Stakeholder Concerns	Step 7: Summarize Modifications & Adjusted Value	LM Topic Expansion Sub-Pages
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Next: 2.5	Back: 2.3	Option: Home	Option:	Option:	External Topic Expansion & Case Studies Links						
					External Organization Links						

Section 2			Navigation Code: 2.5		Key Definitions					
<h3>Four Function-Related Main Tracks</h3> <ul style="list-style-type: none"> <li>➤ As described earlier, this LM is based on a framework that always categorizes Non-Traditional and Alternative approaches in terms of their function in the project.</li> <li>➤ Consistent with this functional focus, each of the four main functional areas has a separate 'track' for the seven steps. From the Section 3 menu, you can choose which track to start on. You can also navigate between tracks for each individual step. Color-coding is consistent throughout.</li> </ul> <div data-bbox="205 701 1077 1206" style="border: 1px solid black; padding: 10px; margin: 10px auto; width: fit-content;"> <table border="1" style="width: 100%; text-align: center;"> <tr> <td style="background-color: #f9f9f9;"><i>Section 3 Main Menu</i></td> </tr> <tr> <td style="background-color: #e1eef6;">Main Track 1: Design &amp; Construction</td> </tr> <tr> <td style="background-color: #ffe0b2;">Main Track 2: Operations &amp; Maintenance</td> </tr> <tr> <td style="background-color: #e2efda;">Main Track 3: Debt Financing</td> </tr> <tr> <td style="background-color: #ffe0e0;">Main Track 4: Ownership &amp; Equity</td> </tr> </table> </div>					<i>Section 3 Main Menu</i>	Main Track 1: Design & Construction	Main Track 2: Operations & Maintenance	Main Track 3: Debt Financing	Main Track 4: Ownership & Equity	LM Topic Expansion Sub-Pages
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Main Track 4: Ownership & Equity										
Navigation Buttons					EPA Internal Topic Expansion Links					
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					External Organization Links					

Section 2			Navigation Code: 2.6	<p>Key Definitions</p> <hr/> <p>LM Topic Expansion Sub-Pages</p> <hr/> <p>EPA Internal Topic Expansion Links</p> <hr/> <p>External Topic Expansion &amp; Case Studies Links</p> <hr/> <p>External Organization Links</p>								
<h3>Four Combination-Related P3 Tracks</h3> <ul style="list-style-type: none"> <li>➤ As described earlier, this LM is based on a framework that always categorizes varieties of ‘P3s’ in terms of the underlying individual Alternative approaches that are combined in a single ‘P3’ transaction</li> <li>➤ Consistent with this way of looking at P3s, the LM has four ‘sub-tracks’ that consider the most typical P3 combinations and are illustrative of almost any combination. The menu for this sub-track is accessible from Step 3 of any of the Main Track. Once you’re in the sub-track group, you can also navigate between tracks for each individual step. All P3 combinations are color-coded in yellow background and include a color-coded box to show which of the four functional areas are being combined.</li> </ul> <div data-bbox="218 711 1094 1292" style="border: 1px solid black; padding: 10px; margin: 10px 0;"> <p style="text-align: center;"><i>Section 3 Sub-Menu (Accessible in Step 3 of a Main Track)</i></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 10%; background-color: #ADD8E6;"></td> <td style="background-color: #FFFF00; text-align: center;">P3 Track: DBOM</td> </tr> <tr> <td style="background-color: #FFDAB9;"></td> <td style="background-color: #FFFF00; text-align: center;">P3 Track: DBFOM</td> </tr> <tr> <td style="background-color: #ADD8E6;"></td> <td style="background-color: #FFFF00; text-align: center;">P3 Track: DBEFOMPub (with Public-Public Ownership)</td> </tr> <tr> <td style="background-color: #FFDAB9;"></td> <td style="background-color: #FFFF00; text-align: center;">P3 Track: DBEFOMPri (with Public-Private Ownership)</td> </tr> </table> </div>						P3 Track: DBOM		P3 Track: DBFOM		P3 Track: DBEFOMPub (with Public-Public Ownership)		P3 Track: DBEFOMPri (with Public-Private Ownership)
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<p>Navigation Buttons</p>												
Next: Home	Back: 2.5	Option:	Option:	Option:								





### Section 3: Basic Concepts for Alternative Creation

#### Main Functional Tracks – [large buttons]

Design & Construction  
[link to 3.DC.1]

Operations & Maintenance  
[link to 3.OM.1]

Debt Financing  
[link to 3.DF.1]

Ownership & Equity  
[link to 3.OE.1]

#### Navigation Buttons

Next: 3.DC.1

Back: Home

Option:

Option:

Option:

Section 3	Main Track: Design & Construction	Step 1	Navigation Code: 3.DC.1		Key Definitions
<p><b>Step 1: Developing a Baseline Case for Traditional Design &amp; Construction of Your Project</b></p> <p>The design and construction of any significant infrastructure project will naturally involve detailed plans, estimates of cost and delivery schedules. Under a Traditional approach, these will generally be developed in the context of a design-bid-build process.</p> <p>To explore Non-Traditional approaches for design and construction of the project, the first step is to add some factors to this Traditional picture and develop a 'Baseline Case'. The Baseline Case is still based on the facts and estimates of the Traditional approach, but it's meant to highlight possible areas where Non-Traditional approaches might add value. In effect, it's a way to clarify and quantify your objectives at the earliest stage of creating an Alternative. The Baseline Case also provides an 'apples-to-apples' comparison later on for Non-Traditional approaches.</p> <p>Some of the additional factors to consider in a design and construction Baseline Case:</p> <ul style="list-style-type: none"> <li>➤ Define the project, not just as a specific construction plan, but in broadly in terms of 'inputs' and 'outputs' or similar results-specific concepts.</li> <li>➤ Identify the aspects of the design &amp; construction process where your full control is really necessary in order to fulfill your obligation and aspects where that's less important.</li> <li>➤ Estimate the non-project opportunity cost of delay in completing the project. This goes beyond the cost factors at the project level and looks at the social or economic costs to the community of not having the project available. It also should estimate the cost of delaying the start of a renovation project in terms of further deterioration (i.e. 'the cost of doing nothing').</li> <li>➤ Estimate the non-project impact of cost overruns – there may be a 'knock-on' effect to other aspects of your fiscal or system financial picture.</li> </ul>					Baseline Case
					LM Topic Expansion Sub-Pages
					Design-bid-build – how prevalent, why it worked Deferred maintenance and delayed investment – a costly liability
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
Navigation Buttons					External Organization Links
Next: 3.DC.2	Back: 3.0 Menu	Option: 3.OM.1	Option:	Option:	

Section 3	Main Track: Design & Construction	Step 2	Navigation Code: 3.DC.2		Key Definitions
<p><b>Step 2: Identifying Relevant Non-Traditional Approaches for Your Project Design and Construction</b></p> <p>The problem of finding Non-Traditional approaches for the design and construction of most basic public infrastructure project is not that it's too hard – the problem is that it's too easy! There are many well-established techniques, generally centered around a design-bid process and its variations (<i>see Expansion Pages</i>), that are offered by experienced and substantial construction firms. The number of choices can be overwhelming – how to start?</p> <p>This is where the Traditional Baseline Case developed in Step 1 gets its first use – early-stage guidance as to which Non-Traditional approaches might be most relevant, if any.</p> <p>This can be illustrated with the additional factors suggested in the prior LM page:</p> <ul style="list-style-type: none"> <li>➤ The more completely that that a project can be described in terms of inputs and outputs (vs. a specific asset plan), the more useful a design-build approach might be. This is because design-build allows more flexible integration of the designing and building stages to achieve specific results and can surface different and innovative methods that save money or speed delivery. This is especially relevant when the project might benefit from new technology .</li> <li>➤ But this flexibility requires ceding some control over your project to the third-party firm. What's really necessary? Often it's less than the Traditional approach seems to require, especially when the project can be described in terms of inputs and outputs.</li> <li>➤ Design-build flexibility combined with some third-party control means a more certain completion date – both by the nature of the process and the nature of a third-party obligation. If the opportunity cost of project delay is high for your community, completion date certainty may be a quantifiable value of an Alternative approach.</li> <li>➤ The same is true of the impact of cost-overruns. Non-Traditional design-build approaches can reduce the chance of significant cost surprises, again both through the integrated nature of process and the more holistic thrid-party contractual obligations.</li> </ul>					LM Topic Expansion Sub-Pages
					Design-build in general CMAR – construction manager at-risk Progressive design-build
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					<ul style="list-style-type: none"> <li>➤ <a href="#">Southern Nevada Water Authority Capital Improvements Program (NV)</a></li> <li>➤ <a href="#">Sullivan Island Barrier Project (SC)</a></li> </ul>
Navigation Buttons					External Organization Links
Next: 3.DC.3	Back: 3.DC.1	Option: 3.OM.2	Option: 3.0 Menu	Option:	



Section 3	Main Track: Design & Construction	Step 3	Navigation Code: 3.DC.3		Key Definitions												
<p><b>Step 3: Considering Non-Traditional Approach Combinations for Your Project Design and Construction</b></p> <p>Most infrastructure assets are very long-lived, so the process of design and construction is especially relevant in connection with P3-type combinations of Non-Traditional approaches involving all the other aspects of the project -- O&amp;M, financing and ownership (see box below and Expansion Pages).</p> <p>Even at this early stage, it's likely worth gaining some familiarity with the various combinations that will include (often necessarily) a design-build approach. But before deciding to focus on creating a P3-type combination Alternative, you should consider some factors that suggest that a design and construction Alternative might be best developed as a standalone option first (with other Non-Traditional approaches added later);</p> <ul style="list-style-type: none"> <li>➤ For new, large and complex projects, a design-build approach is especially valuable – this can be the ‘value anchor’ that (once approved in your community on a standalone basis) serves as a foundation for other Alternatives options, including P3-type combinations.</li> <li>➤ Even for relatively small and simple projects, design-build value on its own can often be clearly described and demonstrable – a good place to start if your community is new to Alternative creation.</li> </ul> <table border="1" data-bbox="163 943 1192 1305"> <thead> <tr> <th data-bbox="163 943 415 971">Functional Combinations</th> <th data-bbox="415 943 632 971">Industry Names ('P3s')</th> <th data-bbox="632 943 1192 971">Synergies and Applications of Non-Traditional Combinations</th> </tr> </thead> <tbody> <tr> <td data-bbox="163 984 415 1062">Design &amp; Construction + Operations &amp; Maintenance</td> <td data-bbox="415 984 632 1062"><b>DBOM</b> (Design-build + outsourced O&amp;M)</td> <td data-bbox="632 984 1192 1062"> <ul style="list-style-type: none"> <li>• Integrating DB and whole-life O&amp;M has significant synergies</li> </ul> </td> </tr> <tr> <td data-bbox="163 1062 415 1203">Design &amp; Construction + Operations &amp; Maintenance + Debt Financing</td> <td data-bbox="415 1062 632 1203"><b>DBFOM, Sale/Leaseback, Availability Payment P3</b> (DBOM + Debt Project finance)</td> <td data-bbox="632 1062 1192 1203"> <ul style="list-style-type: none"> <li>• Significant transactional economies of scale in doing service contracts in conjunction with customized private-placement debt</li> <li>• Additional standard contract options (e.g. lease)</li> <li>• Project finance lenders with debt at risk can add additional layer of asset oversight and value preservation (e.g. through covenants) that is relatively naturally co-aligned with Agency</li> </ul> </td> </tr> <tr> <td data-bbox="163 1203 415 1305">Design &amp; Construction + Operations &amp; Maintenance + Debt Financing + Equity Ownership</td> <td data-bbox="415 1203 632 1305"><b>DBEFOM, Concession, Privatization</b> (DBFOM + significant ownership sharing)</td> <td data-bbox="632 1203 1192 1305"> <ul style="list-style-type: none"> <li>• Private partner with equity at risk will be highly incentivized to optimize asset performance – this can be contractually co-aligned with Agency objectives</li> <li>• Significant but highly defined risk transfer through overall service and debt contractual structure</li> </ul> </td> </tr> </tbody> </table>					Functional Combinations	Industry Names ('P3s')	Synergies and Applications of Non-Traditional Combinations	Design & Construction + Operations & Maintenance	<b>DBOM</b> (Design-build + outsourced O&M)	<ul style="list-style-type: none"> <li>• Integrating DB and whole-life O&amp;M has significant synergies</li> </ul>	Design & Construction + Operations & Maintenance + Debt Financing	<b>DBFOM, Sale/Leaseback, Availability Payment P3</b> (DBOM + Debt Project finance)	<ul style="list-style-type: none"> <li>• Significant transactional economies of scale in doing service contracts in conjunction with customized private-placement debt</li> <li>• Additional standard contract options (e.g. lease)</li> <li>• Project finance lenders with debt at risk can add additional layer of asset oversight and value preservation (e.g. through covenants) that is relatively naturally co-aligned with Agency</li> </ul>	Design & Construction + Operations & Maintenance + Debt Financing + Equity Ownership	<b>DBEFOM, Concession, Privatization</b> (DBFOM + significant ownership sharing)	<ul style="list-style-type: none"> <li>• Private partner with equity at risk will be highly incentivized to optimize asset performance – this can be contractually co-aligned with Agency objectives</li> <li>• Significant but highly defined risk transfer through overall service and debt contractual structure</li> </ul>	LM Topic Expansion Sub-Pages  DBOM P3 DBFOM P3 DBEFOM P3
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Navigation Buttons																	
Next: 3.DC.4	Back: 3.DC.2	Option: 3.OM.3	Option: 3.0 Menu	Option: 3.0 P3 Menu													



Section 3	Main Track: Design & Construction	Step 4	Navigation Code: 3.DC.4		Key Definitions
<p><b>Step 4: Measuring the Value of a Non-Traditional Approach Against Your Project Design &amp; Construction Baseline</b></p> <p><i>Once you've identified the most relevant Non-Traditional approach for the design and construction of your project, the next step is to roughly measure the value of that approach against the Baseline Case developed in Step 1. Generally this will involve the comparison of the Baseline case to a Non-Traditional case using comparable assumptions except for the specific approaches themselves. Standard project and BCA modelling techniques (see Expansion Pages) are in almost all cases adequate for the comparison at this stage. Some aspects of this may be very straightforward and easily quantified in the context of the project – total guaranteed cost for example.</i></p> <p>Other aspects – often the most important ones for Alternative creation -- will involve the non-project factors discussed in Step 1. A sooner completion date for example might not significantly change project cost but could have a big impact on reducing the social and economic opportunity cost of further delays in project availability to the community.</p> <p>An important part of the comparison process will be to run downside scenarios in addition to the expected cases. Assessing the impact of possible completion cost overruns and delays will involve some estimate of the probabilities of a downside scenario occurring. Caution is recommended here – while probabilistic models can appear very sophisticated, real world complexity and data limitations will curtail their potential accuracy in most situations. These 'best guess' models should be augmented with some skepticism and experience-based judgement calls (see Expansion Page)</p> <p>Another area where caution is warranted is the use of discount rates to present-value the cash flow differences between the Baseline and Non-Traditional cases. Since most construction phases last only a few years, this is less important for design and construction Alternatives than others – but watch out when different discount rates seem to change results significantly (see Expansion Page).</p> <ul style="list-style-type: none"> <li>➤ Most importantly, measurement of value of this stage is 'impressionistic' – it'd best to run many different cases and scenarios and get a rough 'feel' for where potential value comes from and how significant it might be. And if the source and scale of potential value can't be boiled down and described clearly in words and a few numbers, that's a strong indicator that there's not a compelling case for Alternative creation!</li> </ul>					<p>LM Topic Expansion Sub-Pages</p> <p>Benefit Cost Analysis (BCA) Techniques Modelling probabilistic scenarios Dangers of discount rates</p>
					EPA Internal Topic Expansion Links
					<p>External Topic Expansion &amp; Case Studies Links</p> <ul style="list-style-type: none"> <li>➤ <a href="#">Texas Water Development Board Alt Project Delivery Report</a></li> <li>➤ <a href="#">Cost Benefit Analysis for African Water/Power Infrastructure</a></li> </ul>
					External Organization Links
Navigation Buttons					
Next: 3.DC.5	Back: 3.DC.3	Option: 3.OM.4	Option: 3.0 Menu	Option:	





Section 3	Main Track: Design & Construction	Step 5	Navigation Code: 3.DC.5		Key Definitions
<p><b>Step 5: Identifying Legal and Regulatory Limitations on Non-Traditional Design and Construction</b></p> <p><i>If a Non-Traditional design-build approach to your project appears to be relevant and realistically able to provide significant value compared to your Traditional approach there may be a compelling case for the creation of an Alternative. Recall that as we define it in this Learning Module, a Non-Traditional approach (no matter how well-established in the private sector or compelling in terms of value) will almost always require a process of adaptation and adoption to become a practical Alternative for public-sector use.</i></p> <p>This process effectively starts in this Step 5 – identifying any obvious legal or regulatory limitations on the use of a Non-Traditional approach.</p> <p>This step is especially important for Non-Traditional approaches because many jurisdictions require the additional low-bid step of the Traditional design-bid-build process (<i>see Expansion Pages</i>).</p> <ul style="list-style-type: none"> <li>➤ Note that the objective at this stage is <i>not</i> to make a definitive or final decision on whether a design and construction Alternative can be created for your project. That decision is primarily a legal or even political matter that will be addressed in later stages of Alternative creation that are beyond the scope of this Learning Module.</li> <li>➤ Instead, the objective here is to surface the potential ‘hard’ legal or regulatory limitations that might apply to your specific project and the specific Non-Traditional approach that you are considering. Details often matter a great deal in such limitations. The sooner in the process that they are identified, the more efficient and effective later stages can be.</li> </ul>					LM Topic Expansion Sub-Pages
					Legally mandated use of design-bid-build Recent examples of change-in-law to permit design-build
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					<ul style="list-style-type: none"> <li>➤ <a href="#">New York City Design Build Legislation</a></li> <li>➤ <a href="#">California Design Build Legislation</a></li> </ul>
Navigation Buttons					External Organization Links
Next: 3.DC.6	Back: 3.DC.4	Option: 3.OM.5	Option: 3.0 Menu	Option:	

Section 3	Main Track: Design & Construction	Step 6	Navigation Code: 3.DC.6		Key Definitions
<p><b>Step 6: Identifying Community Stakeholder Concerns on Non-Traditional Design and Construction</b></p> <p><i>After identifying the ‘hard’ legal and regulatory limitations that might apply to your project, the next step is to look for ‘soft’ (albeit very real) stakeholder concerns that might arise from the use of Non-Traditional approach.</i></p> <p>Infrastructure project design and construction approaches per se are rarely a matter of widespread concern to the community – as long as whatever approach is chosen will demonstrably deliver good value for the citizens and taxpayers.</p> <p>However, the loss of some control in the design-bid process may be of concern to specific stakeholders (e.g. within system or political administration) that are responsible in some way for areas affected by an Alternative approach.</p> <ul style="list-style-type: none"> <li>➤ As with legal and regulatory limitations, the objective at this stage is <i>not</i> to make a definitive or final decision on whether stakeholder concerns can be effectively addressed. Instead, the objective is to surface those concerns and be able to describe them in as much detail as possible.</li> </ul>					LM Topic Expansion Sub-Pages
					Design-bid control issues
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					➤ <a href="#">Stakeholder Input in Design-Build</a>
Navigation Buttons					External Organization Links
Next: 3.DC.7	Back: 3.DC.5	Option: 3.OM.6	Option: 3.0 Menu	Option:	

Section 3	Main Track: Design & Construction	Step 7	Navigation Code: 3.DC.7		Key Definitions				
<p><b>Step 7: Summarizing the Case for Creating a Design and Construction Alternative for Your Project</b></p> <p><i>Step 7 is where the case for creating a Design and Construction Alternative for your project is pulled together and summarized for presentation to the 'First Committee'. Every case is of course different, but here are some topics you may want to include as a minimum:</i></p> <ul style="list-style-type: none"> <li>➤ <b>Words Matter!</b> Confusing words are a major issue with Alternatives – present clear definitions of key terms ('Traditional', 'Alternative' etc.) at outset</li> <li>➤ <b>Baseline Case</b> Highlight the social &amp; economic opportunity cost of delay (and/or doing nothing) – this is often overlooked but is key to Alternative value in design &amp; construction</li> <li>➤ <b>Mention Optional Combinations</b> Even if the case is based on a standalone design-build Alternative, it may be worth mentioning optional combinations – if only to clarify that a standalone design-build Alternative is not really a 'P3'</li> <li>➤ <b>Alternative Value Proposition</b> This is the core of the case – numbers are the central part, but clear &amp; simple descriptions are also key for a non-technical audience (who will need to repeat the case in further stages to a widening audience)</li> <li>➤ <b>Possible legal and regulatory limitations</b> A list of the applicable limitations</li> <li>➤ <b>Possible Stakeholder Concerns</b> A descriptive list of possible stakeholder concerns</li> <li>➤ <b>Overall – Compelling or not?</b> Finally – based on work done to this stage and especially your overall impressionistic judgment – is the case compelling or not?</li> </ul>					LM Topic Expansion Sub-Pages				
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					External Topic Expansion & Case Studies Links				
					➤ <a href="#">Progressive Design Build Presentation</a>				
					External Organization Links				
					Navigation Buttons				
					Next: 3.0 Menu	Back: 3.DC.6	Option: 3.OM.7	Option: 3.0 Menu	Option:



Section 3	Main Track: Operations & Maintenance	Step 1	Navigation Code: 3.OM.1		Key Definitions
<p><b>Step 1: Developing a Baseline Case for Traditional Operations &amp; Maintenance of Your Project</b></p> <p>The design and construction of a new project or major renovation gets a lot of attention – but operations and maintenance (O&amp;M) is actually the biggest (and often most variable) expense factor for a long-lived infrastructure asset.</p> <p>The Traditional approach to O&amp;M generally has two main characteristics: (1) mostly performed with in-house capability and (2) a planning horizon that is shorter than the useful life of the asset and often subject to annual budgeting.</p> <p>The Traditional Baseline Case for O&amp;M assumes the continuation of in-house performance (that’s the ‘Traditional’ part) but extends the timeframe to match the useful life of the asset. That timeframe is likely where most of the potential value of an Alternative O&amp;M approach will come. It’s a way to clarify and quantify your objectives at the earliest stage of creating an O&amp;M Alternative. The Baseline Case also provides an ‘apples-to-apples’ comparison later on for Non-Traditional approaches.</p> <p>In the extended timeframe of the Traditional Baseline Case for O&amp;M, here are some factors to consider:</p> <ul style="list-style-type: none"> <li>➤ Based on historic experience, what’s the realistic impact of a fluctuating O&amp;M budget? What seem to be the driving factors of the fluctuation (e.g. local economic conditions, other spending, resource issues, etc.)? Are these factors somewhat predictable over a long time period?</li> <li>➤ Again, based on historic experience, what’s the cost of deferring maintenance in terms of higher future cost, loss of service, inefficiency of short-term fixes etc.?</li> <li>➤ What aspects of O&amp;M require your direct control? This might center on those aspects involving the interface of the infrastructure asset performance with end-users, both in terms of service quality and your core obligations to the community. Are there other ‘behind the scenes’ technical aspects that involve asset efficiency and performance but are distant from the end-user interface?</li> </ul>					LM Topic Expansion Sub-Pages
					EPA Internal Topic Expansion Links
					<p>External Topic Expansion &amp; Case Studies Links</p> <ul style="list-style-type: none"> <li>➤ <a href="#">DOE O&amp;M Best Practices Release</a></li> <li>➤ <a href="#">U.S. General Accounting Office Water Infrastructure Report</a></li> </ul>
Navigation Buttons					External Organization Links
Next: 3.OM.2	Back: 3.0 Menu	Option: 3.DF.1	Option: 3.DC.1	Option:	

Section 3	Main Track: Operations & Maintenance	Step 2	Navigation Code: 3.OM.2	Key Definitions
<p><b>Step 2: Identifying Relevant Non-Traditional Approaches for Your Project Operations &amp; Maintenance</b></p> <p>Short-term and task-specific outsourcing with private-sector firms is of course completely ‘traditional’ in the public sector – no need for Alternative creation for those applications!</p> <p>What’s not Traditional about Non-Traditional O&amp;M approaches are long-term outsourcing contracts with a holistic scope, covering many integrated aspects of project O&amp;M for a significant portion of the asset’s useful life. These approaches were developed by private sector companies that viewed a long-lived asset in ‘bottom line’ economic and efficiency terms over it’s ‘whole life’. These firms also recognized the value of outsourcing to other specialty firms as a way to access economies of scale and expertise, and also stay focused on their ‘core’ mission. Performance can be specified within the contract and incentivized with higher payments for better outcomes.</p> <p>As in Non-Traditional Design and Construction, there are many well-established forms of long-term outsourcing offered by experienced and substantial firms. This step is about first identifying what’s most relevant and practical for your project and general situation.</p> <p>As always, the process starts with the factors identified in your Traditional O&amp;M Baseline Case:</p> <ul style="list-style-type: none"> <li>➤ A large part of the potential value in a ‘whole life’ outsourcing approach to asset O&amp;M arises simply from the budgetary discipline imposed by the obligations of a third-party contract – in effect, shielding the asset from budget fluctuations that often lead to inefficient deferred maintenance. There’s no magic in this – just a practical approach to a real-world problem.</li> <li>➤ The other main source of value in long-term outsourcing comes (as it does for private-sector firms) from the economies of scale and expertise that specialized firms can bring to bear to your asset. As you’d expect, this potential value is especially important for smaller systems.</li> <li>➤ Both types of potential value are mostly or wholly related to the operations and maintenance of the infrastructure assets itself. While long-term outsourcing of operations that involve extensive end-user interaction are of course available, these should be seen as a separate category of Non-Traditional options.</li> </ul>				LM Topic Expansion Sub-Pages
				EPA Internal Topic Expansion Links
				<p>External Topic Expansion &amp; Case Studies Links</p> <ul style="list-style-type: none"> <li>➤ <a href="#">Operation and Maintenance Guide</a></li> <li>➤ <a href="#">WEF Efficient O&amp;M of Infrastructure Report</a></li> </ul>
Navigation Buttons				External Organization Links

Next: 3.OM.3	Back: 3.OM.1	Option: 3.DF.2	Option: 3.DC.2	Option: 3.0 Menu	
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Section 3	Main Track: Operations & Maintenance	Step 3	Navigation Code: 3.OM.3	Key Definitions												
<p><b>Step 3: Considering Non-Traditional Approach Combinations for Your Project’s Operations &amp; Maintenance</b></p> <p>For a new project, a ‘whole life’ approach to O&amp;M would ideally start at the design and construction phases so that everything required for the asset to deliver a service can be optimally integrated. That’s why design-build and long-term O&amp;M outsourcing as a DBOM (often involving the same firms or group of firms) are the most frequently occurring ‘P3’ Alternative combination (<i>see box below and Expansion Pages</i>).</p> <p>But the operations and maintenance of an infrastructure can have a big impact on certain types of non-recourse financing and shared equity ownership – outsourced O&amp;M for some major aspects of project performance (especially revenue generation, if that’s applicable) may be a required part of ‘packaged’ P3 solution.</p> <p>➤ Even as part of a ‘packaged’ P3 solution, it is always useful to consider where the value of a proposed O&amp;M solution is coming from in comparison to your Baseline Case – and to see how that value flows through in terms of the total economics of the P3.</p>				LM Topic Expansion Sub-Pages												
<table border="1"> <thead> <tr> <th>Functional Combinations</th> <th>Industry Names (‘P3s’)</th> <th>Synergies and Applications of Non-Traditional Combinations</th> </tr> </thead> <tbody> <tr> <td>Design &amp; Construction + Operations &amp; Maintenance</td> <td><b>DBOM</b> (Design-build + outsourced O&amp;M)</td> <td> <ul style="list-style-type: none"> <li>Integrating DB and whole-life O&amp;M has significant synergies</li> </ul> </td> </tr> <tr> <td>Design &amp; Construction + Operations &amp; Maintenance + Debt Financing</td> <td><b>DBFOM, Sale/Leaseback, Availability Payment P3</b> (DBOM + Debt Project finance)</td> <td> <ul style="list-style-type: none"> <li>Significant transactional economies of scale in doing service contracts in conjunction with customized private-placement debt</li> <li>Additional standard contract options (e.g. lease)</li> <li>Project finance lenders with debt at risk can add additional layer of asset oversight and value preservation (e.g. through covenants) that is relatively naturally co-aligned with Agency</li> </ul> </td> </tr> <tr> <td>Design &amp; Construction + Operations &amp; Maintenance + Debt Financing + Equity Ownership</td> <td><b>DBEFOM, Concession, Privatization</b> (DBFOM + significant ownership sharing)</td> <td> <ul style="list-style-type: none"> <li>Private partner with equity at risk will be highly incentivized to optimize asset performance – this can be contractually co-aligned with Agency objectives</li> <li>Significant but highly defined risk transfer through overall service and debt contractual structure</li> </ul> </td> </tr> </tbody> </table>				Functional Combinations	Industry Names (‘P3s’)	Synergies and Applications of Non-Traditional Combinations	Design & Construction + Operations & Maintenance	<b>DBOM</b> (Design-build + outsourced O&M)	<ul style="list-style-type: none"> <li>Integrating DB and whole-life O&amp;M has significant synergies</li> </ul>	Design & Construction + Operations & Maintenance + Debt Financing	<b>DBFOM, Sale/Leaseback, Availability Payment P3</b> (DBOM + Debt Project finance)	<ul style="list-style-type: none"> <li>Significant transactional economies of scale in doing service contracts in conjunction with customized private-placement debt</li> <li>Additional standard contract options (e.g. lease)</li> <li>Project finance lenders with debt at risk can add additional layer of asset oversight and value preservation (e.g. through covenants) that is relatively naturally co-aligned with Agency</li> </ul>	Design & Construction + Operations & Maintenance + Debt Financing + Equity Ownership	<b>DBEFOM, Concession, Privatization</b> (DBFOM + significant ownership sharing)	<ul style="list-style-type: none"> <li>Private partner with equity at risk will be highly incentivized to optimize asset performance – this can be contractually co-aligned with Agency objectives</li> <li>Significant but highly defined risk transfer through overall service and debt contractual structure</li> </ul>	EPA Internal Topic Expansion Links
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Navigation Buttons				External Topic Expansion & Case Studies Links												
				External Organization Links												

Next: 3.OM.4

Back: 3.OM.2

Option: 3.DF.3

Option: 3.DC.3

Option: 3.0 P3 Menu



Section 3	Main Track: Operations & Maintenance	Step 4	Navigation Code: 3.OM.4	Key Definitions
<p><b>Step 4: Measuring the Value of a Non-Traditional Approach Against Project Operations &amp; Maintenance Baseline</b></p> <p><i>Once you've identified the most relevant Non-Traditional approach for the operations &amp; maintenance of your project, the next step is to roughly measure the value of that approach against the Baseline Case developed in Step 1. Generally this will involve the comparison of the Baseline case to a Non-Traditional case using comparable assumptions except for the specific approaches themselves. Standard project and BCA modelling techniques (see Expansion Pages) are in almost all cases adequate for the comparison at this stage.</i></p> <ul style="list-style-type: none"> <li>➤ One aspect of the comparison may be straightforward and easily quantified: due to the scale economies noted before, the annual cost of O&amp;M under a long-term outsourced contract may be lower than with your Traditional approach. That's more likely when your system is relatively small.</li> <li>➤ Another important aspect – the effect of budget discipline imposed by a of third-party contract – is more difficult to estimate. Assessing the frequency and impact of deferred maintenance will involve some estimate of the probabilities of a budget fluctuations the cost of deferral long into the future.</li> <li>➤ Caution is recommended here – while probabilistic models can appear very sophisticated, real world complexity and inherent data limitations will curtail their potential accuracy in most situations. These 'best guess' models should be augmented with some skepticism and experience-based judgement calls (see <i>Expansion Page</i>). One approach here is to model a break-even between the two cases where the variable is the frequency of deferred maintenance episodes – and judge heuristically from past experience how likely that frequency is to occur.</li> <li>➤ Another area where caution is warranted is the use of discount rates to present-value the cash flow differences between the Baseline and Non-Traditional cases. As you'd expect, this factor can be relatively important for comparison of long-term O&amp;M cases. It's a good idea to use a range (there's never a single 'right' value) and see how the comparison changes. Also, remember that the public sector operates in a 'low discount rate world' relative to the private sector (see <i>Expansion Page</i>). You should be able to use relatively low discount rates to make a compelling case for long-term O&amp;M outsourcing.</li> </ul>				LM Topic Expansion Sub-Pages
				EPA Internal Topic Expansion Links
				External Topic Expansion & Case Studies Links
				External Organization Links
Navigation Buttons				
Next: 3.OM.5	Back: 3.OM.3	Option: 3.DF.4	Option: 3.DC.4	Option: 3.0 Menu

Section 3	Main Track: Operations & Maintenance	Step 5	Navigation Code: 3.OM.5		Key Definitions
<p><b>Step 5: Identifying Legal and Regulatory Limitations on Non-Traditional Operations &amp; Maintenance</b></p> <p><i>If a Non-Traditional long-term O&amp;M outsourcing for your project appears to be relevant and realistically able to provide significant value compared to your Traditional approach there may be a compelling case for the creation of an Alternative. Recall that as we define it in this Learning Module, a Non-Traditional approach (no matter how well-established in the private sector or compelling in terms of value) will almost always require a process of adaptation and adoption to become a practical Alternative for public-sector use.</i></p> <ul style="list-style-type: none"> <li>➤ Since short-term and task-specific outsourcing contracts are often used for public-sector infrastructure, there are probably few legal or regulatory roadblocks to creating an O&amp;M Alternative approach based on long-term contracts.</li> <li>➤ There can be tax implications from long-term O&amp;M contracts which include significant performance-based incentive payments because (if taken to extremes) this can resemble an ownership interest in the asset by a private-sector firm. This in turn has implications for any tax-exempt debt issued to finance the asset. However, the IRS has recently issued ‘safe harbor’ regulations (Rev. Proc. 2016-44) that provide significant latitude in these contractual arrangements, especially for more basic infrastructure assets.</li> </ul>					LM Topic Expansion Sub-Pages
					IRS Rev. Proc. 2016-44
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					➤ <a href="#">IRS Revenue Proc. 2016-44 on Safe Harbors</a>
Navigation Buttons					External Organization Links
Next: 3.OM.6	Back: 3.OM.4	Option: 3.DF.5	Option: 3.DC.5	Option: 3.0 Menu	

Section 3	Main Track: Operations & Maintenance	Step 6	Navigation Code: 3.OM.6	Key Definitions
<p><b>Step 6: Identifying Community Stakeholder Concerns about Non-Traditional Operations &amp; Maintenance</b></p> <p><i>After identifying the ‘hard’ legal and regulatory limitations that might apply to your project, the next step is to look for ‘soft’ (albeit very real) stakeholder concerns that might arise from the use of Non-Traditional approach.</i></p> <p>Stakeholder concerns arising from an Alternative approach based on long-term O&amp;M outsourcing contracts may arise in several areas.</p> <ul style="list-style-type: none"> <li>➤ As with an Alternative design-build approach for project design and construction, stakeholders within your system or political administration who are involved with O&amp;M provided under a Traditional approach may express concerns. It is clearly better to surface these concerns as early as possible, especially since these ‘insider’ perspectives can significantly improve the substance of the final Alternative approach.</li> <li>➤ Many aspects of operations and maintenance involve direct interaction with end-users – your customers, in effect. If the outsourcing approach that you are considering includes extensive interaction with end-users, community and stakeholder concerns are an extremely important consideration. Even if all the other technical and economic metrics of an Alternative approach for O&amp;M look compelling, it must also pass the test of public perception if it involves extensive interaction with end-users. In some situations this may prove very challenging. End-user perception will often become the deciding factor in this type of Alternative creation.</li> </ul>				LM Topic Expansion Sub-Pages
Navigation Buttons				EPA Internal Topic Expansion Links
				External Topic Expansion & Case Studies Links
				External Organization Links

➤ [Long-term Contracting for Water Services](#) (Copy & Paste)

Next: 3.OM.7	Back: 3.OM.5	Option: 3.DF.6	Option: 3.DC.6	Option: 3.0 Menu	
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Section 3	Main Track: Operations & Maintenance	Step 7	Navigation Code: 3.OM.7		Key Definitions
<p><b>Step 7: Summarizing the Case for Creating an Operations &amp; Maintenance Alternative for Your Project</b></p> <p><i>Step 7 is where the case for creating a Design and Construction Alternative for your project is pulled together and summarized for presentation to the 'First Committee'. Every case is of course different, but here are some topics you may want to include as a minimum:</i></p> <ul style="list-style-type: none"> <li>➤ <b>Words Matter!</b> Confusing words are a major issue with Alternatives – present clear definitions of key terms ('Traditional', 'Alternative', 'Outsourcing' etc.) at outset. This is especially important for O&amp;M Alternatives that involve extensive end-user interaction!</li> <li>➤ <b>Baseline Case</b> Highlight the realistic risk and cost of deferred maintenance – especially if it has proven costly in the past. Note the lack of scale economies if your system is small – not as a criticism but simply a fact.</li> <li>➤ <b>Mention Optional Combinations</b> Even if the case is based on a standalone O&amp;M outsourcing Alternative, it may be worth mentioning optional combinations – if only to clarify that a standalone O&amp;M Alternative is not a 'P3'</li> <li>➤ <b>Alternative Value Proposition</b> This may be straightforward, but if a significant part of the value of an O&amp;M Alternative comes from probabilities of future occurrences over the long term, it's important to base your case on real-world experience, not just analytical results.</li> <li>➤ <b>Possible legal and regulatory limitations</b> A brief description of tax implications of long-term incentive-based O&amp;M contracts should be included – along with IRS 'safe harbors'</li> <li>➤ <b>Possible Stakeholder Concerns</b> A descriptive list of possible stakeholder concerns with a special focus on possible public perception issues if the O&amp;M Alternative involves extensive interaction with end-users</li> <li>➤ <b>Overall – Compelling or not?</b> Finally – based on work done to this stage and especially your overall impressionistic judgment – is the case compelling or not?</li> </ul>					LM Topic Expansion Sub-Pages
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					<ul style="list-style-type: none"> <li>➤ <a href="#">NCPMP Public-Private Partnership Framework</a></li> </ul>
					External Organization Links
Navigation Buttons					
Next: 3.0 Menu	Back: 3.OM.6	Option: 3.DF.7	Option: 3.DC.7	Option:	






Section 3	Main Track: Debt Financing	Step 1	Navigation Code: 3.DF.1		Key Definitions
<p><b>Step 1: Developing a Baseline Case for Traditional Debt Financing of Your Project</b></p> <p>Major infrastructure projects are almost invariably financed with long-term debt. This is because the near-term construction cost of a major project is usually far larger than the near-term funding available. Financing simply allows near-term project costs to be paid from long-term funding sources. It's always worth being very clear about the distinction between financing and funding – financing is a <i>temporary</i> transfer of resources (from a lender) and funding is a <i>permanent</i> transfer of resources (from a rate or taxpayer).</p> <p>The Traditional form of debt financing for public infrastructure in the US is of course long-term tax-exempt bonds. Your assumptions about the cost and term of a bond issue for your project is naturally the basis of the Traditional Baseline Case. But to identify potentially valuable Non-Traditional options, other factors (often related to your overall fiscal situation) should be included in the Baseline Case:</p> <ul style="list-style-type: none"> <li>➤ <b>Impact on your overall debt capacity</b>      Traditional muni debt will generally use up capacity in terms of market appetite, statutory debt limits and credit rating implications. The Baseline Case should put this factor in the context of your overall long-term situation.</li> <li>➤ <b>Ability to negotiate future amendments</b>      Traditional muni debt, as bonds, is generally not amended or renegotiated with lenders once issued (though defeasance is standard). The Baseline Case should assess the possible need for this.</li> <li>➤ <b>Nature of the debt service schedule</b>      Traditional muni debt generally has a fixed interest rate and debt service schedule for its term. The Baseline Case should consider how this may impact your overall situation in overall downside scenarios.</li> <li>➤ <b>Customized terms related to project</b>      Traditional muni bonds are highly standardized (that helps deliver a low rate). The Baseline Case should consider whether terms customized to your specific project could be useful (e.g. extra-long tenor for some assets)</li> <li>➤ <b>Policy-oriented lenders</b>      Traditional muni debt bond buyers (lenders) are almost exclusively private-sector investors seeking market terms and returns [DC EIB minor exception – other SGE?]</li> </ul>					LM Topic Expansion Sub-Pages
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links <ul style="list-style-type: none"> <li>➤ <a href="#">Paradise Irrigation District Debt Management Policy</a></li> <li>➤ <a href="#">Norfolk Flood Barriers Case Study</a></li> </ul>
					External Organization Links
Navigation Buttons					
Next: 3.DF.2	Back: 3.0 Menu	Option: 3.OE.1	Option: 3.OM.1	Option:	

Section 3	Main Track: Debt Financing	Step 2	Navigation Code: 3.DF.2	Key Definitions
<p><b>Step 2: Identifying Relevant Non-Traditional Approaches for Your Project’s Debt Financing</b></p> <p>Global debt capital markets offer many Non-Traditional options outside the US muni market. But your search can be narrowed by two observations. The first is that the muni market is basically unbeatable with respect to interest rates on bonds due to tax-exemption and a dedicated investor base. So the potential value of Non-Traditional debt will most likely arise from non-price factors like the ones suggested in Step 1.</p> <p>This prompts the second observation: the type of debt where the terms affecting those factors are most different than muni bonds is generally the taxable private placement market (<i>see Expansion pages</i>). This is where banks, insurance companies and other institutional lenders make direct long-term loans to borrowers on a negotiated and often very customized basis. Here’s how that might look with regard to the factors identified in your Baseline Case:</p> <ul style="list-style-type: none"> <li>➤ <b>Impact on your overall debt capacity</b> Private placement debt may be treated somewhat differently than Traditional debt with regard to limits. But ‘debt is debt’ – there’s no free lunch here.</li> <li>➤ <b>Ability to negotiate future amendments</b> In a private placement, you generally know your lenders (often on a relationship basis) and renegotiating terms after issue is possible. It’s also relatively standard in long-term, asset-oriented financings.</li> <li>➤ <b>Nature of the debt service schedule</b> Private placements can work with a huge variety of interest rate and debt service schedule options. But again, remember there’s no free lunch – complex, ‘too good to be true’ products should be approached with caution</li> <li>➤ <b>Customized terms related to project</b> A big potential benefit of Non-Traditional debt financing is the ability to seek more customized terms that can mitigate the impact of your project’s debt financing on your overall situation</li> <li>➤ <b>Policy-oriented lenders</b> There are extensive US federal and state infrastructure lending programs – SRFs, WIFIA, USDA, etc. that offer long-term private placement debt on non-market terms in order to further policy objectives. If your project qualifies, this Non-Traditional source of debt financing can provide significant value.</li> </ul>				LM Topic Expansion Sub-Pages
				EPA Internal Topic Expansion Links <a href="#">DC Water’s Environmental Impact Bond</a>
				External Topic Expansion & Case Studies Links <ul style="list-style-type: none"> <li>➤ <a href="#">City of Los Angeles Case Study</a></li> <li>➤ <a href="#">DC Water Case Study</a></li> </ul>
				External Organization Links
Navigation Buttons				



Next: 3.DF.3	Back: 3.DF.1	Option: 3.OE.2	Option: 3.OM.2	Option: 3.0 Menu	
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Section 3	Main Track: Debt Financing	Step 3	Navigation Code: 3.DF.3		Key Definitions						
<p><b>Step 3: Considering Non-Traditional Approach Combinations for Your Project’s Debt Financing</b></p> <p>Non-Traditional debt financing is often combined with design-build and O&amp;M outsourcing Alternatives to create a ‘DBFOM’, a widely-used type of P3 (see box below and Expansion Pages).</p> <p>A key feature of most Alternative combinations involving debt financing is that the debt and other service contracts are ‘packaged’ in a lease-type or project finance framework. This framework creates a new formal issuer for the debt (usually some form of ‘Special Purpose Vehicle’ or SPV) that is also the attachment point for the service contracts.</p> <p>An SPV framework can have in itself significant value in addition to the value provided by the debt and service contract Alternatives themselves. This is because the framework moves the infrastructure asset and its debt financing outside of the formal public-sector institutional context. This will expand service contract options and may provide some relief from formal debt constraints. At the same time, the nature of the contracts can still provide a very large range of public-sector control and support of the infrastructure asset and debt financing (e.g. a long-term lease agreement). The flexibility and easing of formal constraints of an SPV framework can unlock the full synergies of DBFOM combination. If Non-Traditional debt financing appears to have significant potential value for your project, a combination involving an SPV framework is likely worth considering.</p> <table border="1" data-bbox="212 995 1142 1308"> <thead> <tr> <th data-bbox="212 995 590 1040">Functional Combinations</th> <th data-bbox="590 995 1142 1040">Industry Names (‘P3s’)</th> </tr> </thead> <tbody> <tr> <td data-bbox="212 1040 590 1162">            Design &amp; Construction + Operations &amp; Maintenance + Debt Financing         </td> <td data-bbox="590 1040 1142 1162"> <b>DBFOM, Sale/Leaseback, Availability Payment P3</b> (DBOM + Private Placements)         </td> </tr> <tr> <td data-bbox="212 1162 590 1308">           Design &amp; Construction + Operations &amp; Maintenance + Debt Financing + Equity Ownership         </td> <td data-bbox="590 1162 1142 1308"> <b>DBEFOM, Concession, Privatization</b> (DBFOM + significant ownership sharing)         </td> </tr> </tbody> </table>					Functional Combinations	Industry Names (‘P3s’)	 Design & Construction + Operations & Maintenance + Debt Financing	<b>DBFOM, Sale/Leaseback, Availability Payment P3</b> (DBOM + Private Placements)	Design & Construction + Operations & Maintenance + Debt Financing + Equity Ownership	<b>DBEFOM, Concession, Privatization</b> (DBFOM + significant ownership sharing)	LM Topic Expansion Sub-Pages
Functional Combinations	Industry Names (‘P3s’)										
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Design & Construction + Operations & Maintenance + Debt Financing + Equity Ownership	<b>DBEFOM, Concession, Privatization</b> (DBFOM + significant ownership sharing)										
Navigation Buttons					EPA Internal Topic Expansion Links						
Next: 3.DF.4	Back: 3.DF.3	Option: 3.OE.3	Option: 3.OM.3	Option: 3.0 P3 Menu	External Topic Expansion & Case Studies Links						
					External Organization Links						



Section 3	Main Track: Debt Financing	Step 4	Navigation Code: 3.DF.4		Key Definitions
<p><b>Step 4: Measuring the Value of Non-Traditional Debt Financing Against Traditional Debt Baseline</b></p> <p><i>Once you've identified the most relevant Non-Traditional options for the debt financing of your project, the next step is to roughly measure the value of that approach against the Baseline Case developed in Step 1. Generally this will involve the comparison of the Baseline case to a Non-Traditional case using comparable assumptions except for the specific approaches themselves. Standard project and BCA modelling techniques (see Expansion Pages) are in almost all cases adequate for the comparison at this stage.</i></p> <ul style="list-style-type: none"> <li>➤ On a simple level, the comparison of the Traditional Baseline Case to a Non-Traditional debt financing option is very straightforward. For both cases, the debt service schedule can be matched over the long-term and the difference discounted to a present value. As noted in Step 2, the Traditional muni market option will almost always be cheaper in this comparison.</li> <li>➤ However, the important comparison relates to the difference in <i>non-price terms</i> between Traditional and Non-Traditional debt financings and how the differences can cause different outcomes in various what-if scenarios, especially those involving your overall fiscal situation.</li> <li>➤ This comparison will require some long-term models of your overall fiscal situation to assess the impact of the different debt options. That's rarely easy. However, even a very approximate model including only the major factors (e.g. statutory debt limits, impact of debt service on other spending during a downturn, etc.) can provide a sense of whether there's really compelling value in a Non-Traditional debt financing.</li> <li>➤ The discount rate to use in a comparison of two different types of debt financing is (as always!) a matter for some theoretical debate. But the most conservative rule of thumb is simply to use the interest rate in your Traditional Baseline Case. That approach 'sets the bar' which the value of the non-price factors of a Non-Traditional option must overcome for a compelling case for Alternative creation.</li> </ul>					LM Topic Expansion Sub-Pages
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					External Organization Links
Navigation Buttons					
Next: 3.DF.5	Back: 3.DF.3	Option: 3.OE.4	Option: 3.OM.4	Option: 3.0 Menu	



Section 3	Main Track: Debt Financing	Step 5	Navigation Code: 3.DF.5		Key Definitions
<p><b>Step 5: Identifying Legal and Regulatory Limitations on Non-Traditional Debt Financing</b></p> <p><i>If a Non-Traditional debt financing for your project appears to be relevant and realistically able to provide significant value compared to your Traditional approach there may be a compelling case for the creation of an Alternative. Recall that as we define it in this Learning Module, a Non-Traditional approach (no matter how well-established in the private sector or compelling in terms of value) will almost always require a process of adaptation and adoption to become a practical Alternative for public-sector use.</i></p> <ul style="list-style-type: none"> <li>➤ Traditional muni bond debt is invariably issued in the context of many well-established legal and institutional rules. A Non-Traditional private placement debt financing may actually be subject to fewer requirements, primarily to due its direct placement with sophisticated institutional lenders.</li> <li>➤ However, specific features of privately-placed debt may add – or even further reduce – legal and regulatory limitations that should be considered before deciding on the creation of a debt financing Alternative. For example, complex interest-rate indexing may be prohibited by budgetary rules. On the other hand, private placement terms that result in some subordination to your other debt or limit recourse to non-project revenues may reduce the impact of the financing on your debt limits.</li> </ul>					LM Topic Expansion Sub-Pages
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					<p>External Topic Expansion &amp; Case Studies Links</p> <ul style="list-style-type: none"> <li>➤ <a href="#">P3's and the US Private Placement Market</a></li> <li>➤ <a href="#">California's Mandatory Disclosure Rule</a></li> </ul>
					External Organization Links
Navigation Buttons					
Next: 3.DF.6	Back: 3.DF.4	Option: 3.OE.1	Option: 3.OM.1	Option: 3.0 Menu	



Section 3	Main Track: Debt Financing	Step 6	Navigation Code: 3.DF.6		Key Definitions
<p><b>Step 6: Identifying Community Stakeholder Concerns about Non-Traditional Debt Financing</b></p> <p><i>After identifying the ‘hard’ legal and regulatory limitations that might apply to your project, the next step is to look for ‘soft’ (albeit very real) stakeholder concerns that might arise from the use of Non-Traditional approach.</i></p> <ul style="list-style-type: none"> <li>➤ Like project design and construction approaches, Non-Traditional debt financing options are rarely a matter of widespread concern to the community – as long as whatever approach is chosen will demonstrably deliver good value for the citizens and taxpayers.</li> <li>➤ Still, two things are worth noting. First, the muni bond ‘industry’ is in many ways a stakeholder in your community, and your relationship with this industry is obviously very important. It’s helpful to put how the choice of a Non-Traditional (i.e. non-muni bond) debt financing will impact this stakeholder in the context of not only the immediate project but in the larger, longer-term picture as well. For example, in the absence of an Alternative debt financing, the project might not proceed at all due to fiscal constraints on a Traditional bond issue. Or addressing a deferred maintenance issue as quickly as possible (regardless of debt financing option) could result in improved issuing ratings and capacity in the long run, with an overall volume benefit to the muni industry.</li> <li>➤ Second, private placement debt in the public sector is often subject to less disclosure than formal muni debt for a variety of reasons. This can be a hot button to stakeholder groups concerned with fiscal matters. Regardless of the minimum disclosure requirements, it’s a good to idea to provide as much dislocure and transparency as possible within the confidentiality limits set by a private lender.</li> </ul>					LM Topic Expansion Sub-Pages
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					External Organization Links
Navigation Buttons					
Next: 3.DF.7	Back: 3.DF.5	Option: 3.OE.6	Option: 3.OM.6	Option: 3.0 Menu	





Section 3	Main Track: Debt Financing	Step 7	Navigation Code: 3.DF.7		Key Definitions
<p><b>Step 7: Summarizing the Case for Creating a Debt Financing Alternative for Your Project</b></p> <p><i>Step 7 is where the case for creating a Debt Financing Alternative for your project is pulled together and summarized for presentation to the 'First Committee'. Every case is of course different, but here are some topics you may want to include as a minimum:</i></p> <ul style="list-style-type: none"> <li>➤ <b>Words Matter!</b> Confusing words are a major issue with Alternatives – present clear definitions of key terms ('Traditional', 'Alternative', 'private placement' etc.) at outset.</li> <li>➤ <b>Baseline Case</b> Highlight and explain important factors (especially those concerning your overall fiscal situation) beyond interest rates – those are likely the reason that Non-Traditional debt options are being considered in the first place.</li> <li>➤ <b>Mention Optional Combinations</b> Describe the SPV Framework as a typical option for Non-Traditional debt financings using widely-understood examples (e.g. municipal leases)</li> <li>➤ <b>Alternative Value Proposition</b> The primary value of a Non-Traditional debt option will likely arise from non-price terms. The basic numbers matter, but clear &amp; simple descriptions are also key for a non-technical audience who will need to explain why the lowest-price option (i.e. Traditional muni bond) might not be the best one in this case.</li> <li>➤ <b>Possible legal and regulatory limitations</b> A brief list of how a Non-Traditional debt option would 'check the boxes' of Traditional requirements would likely be adequate at this stage</li> <li>➤ <b>Possible Stakeholder Concerns</b> Anticipate concerns from from the muni industry and how to address them. Introduce possible types of additional disclosure on Non-Traditional debt options beyond minimum requirements</li> <li>➤ <b>Overall – Compelling or not?</b> Finally – based on work done to this stage and especially your overall impressionistic judgment – is the case compelling or not?</li> </ul>					LM Topic Expansion Sub-Pages
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					External Organization Links
Navigation Buttons					
Next: 3.0 Menu	Back: 3.DF.6	Option: 3.OE.7	Option: 3.OM.7	Option:	

Section 3	Main Track: Ownership & Equity	Step 1	Navigation Code: 3.OE.1		Key Definitions
<p><b>Step 1: Developing a Baseline Case for Traditional Ownership of Your Project</b></p> <p>Major infrastructure assets that provide essential services are almost always owned solely by the public-sector, either directly by a governmental entity or through an agency. There are many fundamentally good reasons for this, quite apart from historical or traditional aspects of sole public ownership. But the whole picture (as interesting as it might be!) is not really relevant for developing a Baseline Case for your project in order to identify potentially valuable Non-Traditional approaches that share ownership. Instead, as a practical matter, the Baseline Case should focus on a few factors that present upside opportunities or help mitigate challenges through an <i>incremental or partial</i> change in sole ownership.</p> <p>The factors to consider generally fall into three groups:</p> <ul style="list-style-type: none"> <li>➤ <b>Gaining Big Rewards</b>    Some infrastructure assets offer services that could be so significantly improved by dedicated, specialized and highly-incentivized management that sharing ownership is the clearest path to unlocking significant rewards. This usually involves retail-like businesses (where revenues can be dramatically improved) or innovative technological approaches (where costs might be dramatically lowered). Note that these situations are relatively rare for basic infrastructure assets that provide essential or monopoly services.</li> <li>➤ <b>Avoiding Big Risks</b>    More typical are situations involving projects where rewards are inherently limited but the downside risks can be very significant in the context of your overall fiscal situation. As a sole owner, all those risks belong to you! Shared ownership can be a form of ‘insurance’ where risks are pooled with another public-sector entity or transferred to a private-sector specialist investor. Unlike a risk-reducing service contract, co-owners will assume a broader range of risk but will require some control to manage it, as well as a significant return on their capital at risk.</li> <li>➤ <b>Cheaper Cost of Equity Capital</b>    Through its unique ability to impose taxes and user-fees on essential monopoly services, the public sector generally has a lower ‘implicit cost of equity’ (i.e. the return required to raise investment funding) than any private-sector investor. In some situations, this may not be the case, and the sale of an ownership interest in an asset (a ‘monetization’) will result in a lower cost of asset capitalization. This usually involves real long-term fiscal distress (not just a temporary budget crisis!). Fortunately, this situation is actually very rare among US state &amp; local governments.</li> </ul>					LM Topic Expansion Sub-Pages
					Public-sector cost of capital
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
Navigation Buttons					External Organization Links
Next: 3.OE.2	Back: 3.0 Menu	Option: 3.DF.1	Option:	Option:	

Section 3	Main Track: Ownership & Equity	Step 2	Navigation Code: 3.OE.2		Key Definitions
<p><b>Step 2: Identifying Relevant Non-Traditional Approaches for Your Project's Ownership &amp; Equity</b></p> <p>Once you've clarified important ownership factors for your project in the Traditional Baseline Case, the search for potentially useful Non-Traditional approaches to ownership &amp; equity will be considerably narrowed. In most situations, only one of the factors described in the previous page will be relevant for your particular project and overall fiscal situation.</p> <ul style="list-style-type: none"> <li>➤ <b>Gaining Big Rewards</b> For realizing upside on retail-type or hi-tech infrastructure assets, potentially valuable shared ownership is invariably with a private-sector operating company (which has the specialized management expertise) often in collaboration with a private-sector equity investor (which provides the specialized risk capital in return for high potential rewards). This is generally what's meant by 'public-private' co-ownership. As you'd expect, their services and products are well-advertised! (<i>see Expansion Pages and Case Studies</i>)</li> <li>➤ <b>Avoiding Big Risks</b> For reducing your ownership risks on basic infrastructure projects providing essential or monopoly services, two fundamentally different paths might be available, depending on your specific situation. The first is to share ownership with another public-sector entity, most typically with an adjacent system or jurisdiction that can also share the project's output. Other public-sector co-owners include [higher levels of governments that have a policy objective in expanding infrastructure investment]. 'Public-public' co-ownership, either in the form of joint-venture or explicit equity investment, has the benefit of being fundamentally co-aligned with public sector objectives.  The second path is to seek a private-sector company that will invest risk capital in the project. Since (by our definition) significant upside from project revenue or operations is limited, the purpose of this risk capital is to absorb the risks that might be costly for you and can't be otherwise transferred under service contracts. It's very important that you clarify what these risks might be at the outset – risk transfer is never free, and you don't want to buy something you don't need!</li> <li>➤ <b>Cheaper Cost of Equity Capital</b> If the long-term cost of equity capital appears to be a factor for your project (again, not just a temporary budget constraint), Non-Traditional ownership is likely to be an important option to get your project done. But if this is the case equity grant programs at higher levels of government or philanthropic foundations may also be an option. These programs in effect provide low-cost or 'no-cost' equity capital for infrastructure projects. If your project or overall fiscal situation qualifies, this 'Non-Traditional' option can be a very compelling 'Alternative'.]</li> </ul>					LM Topic Expansion Sub-Pages
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					External Organization Links
Navigation Buttons					
Next: 3.OE.2	Back: 3.OE.1	Option: 3.DF.2	Option: 3.0 Menu	Option:	



Section 3	Main Track: Ownership & Equity	Step 3	Navigation Code: 3.OE.3		Key Definitions						
<p><b>Step 3: Considering Non-Traditional Approach Combinations for Your Project’s Ownership &amp; Equity</b></p> <p>Non-Traditional ownership &amp; equity approaches are almost always combined with design-build, O&amp;M outsourcing and Debt Financing Alternatives to create a ‘DBEFOM’, which (though actually much less common than DBOMs or DBFOMs) are what most people think of as a ‘public-private partnership’ (<i>see box below and Expansion Pages</i>).</p> <p>A key feature of almost all Alternative combinations involving equity is that the debt and other service contracts are ‘packaged’ in a joint-venture or project company framework. This framework creates a new and possibly substantive issuer for the debt and the attachment point for the service contracts. The degree of control you have over the project in this framework can vary widely – from something close to a lease-type contract to almost full privatization of project risks and rewards for several decades. This arrangement is highly customized, to say the least!</p> <p>As described in the pervious page, an important distinction in ownership &amp; equity Alternative is whether the co-owner is another public-sector entity or a private-sector company. This distinction flows through to the combinations considered in the P3 Tracks.</p> <table border="1" data-bbox="254 906 1102 1214"> <thead> <tr> <th data-bbox="254 906 590 951">Functional Combinations</th> <th data-bbox="590 906 1102 951">Industry Names (‘P3s’)</th> </tr> </thead> <tbody> <tr> <td data-bbox="254 951 590 1073">           Design &amp; Construction +            Operations &amp; Maintenance +            Debt Financing +            Shared Public-Sector Ownership         </td> <td data-bbox="590 951 1102 1073"> <b>DBEFOM - Public, Public-Public Partnership, JV</b>            (DBFOM + public-sector equity)         </td> </tr> <tr> <td data-bbox="254 1073 590 1214">           Design &amp; Construction +            Operations &amp; Maintenance +            Debt Financing +            Private-Sector Equity Ownership         </td> <td data-bbox="590 1073 1102 1214"> <b>DBEFOM - Private, Concession, Privatization</b>            (DBFOM + private-sector equity ownership)         </td> </tr> </tbody> </table>					Functional Combinations	Industry Names (‘P3s’)	Design & Construction + Operations & Maintenance + Debt Financing + Shared Public-Sector Ownership	<b>DBEFOM - Public, Public-Public Partnership, JV</b> (DBFOM + public-sector equity)	Design & Construction + Operations & Maintenance + Debt Financing + Private-Sector Equity Ownership	<b>DBEFOM - Private, Concession, Privatization</b> (DBFOM + private-sector equity ownership)	LM Topic Expansion Sub-Pages
Functional Combinations	Industry Names (‘P3s’)										
Design & Construction + Operations & Maintenance + Debt Financing + Shared Public-Sector Ownership	<b>DBEFOM - Public, Public-Public Partnership, JV</b> (DBFOM + public-sector equity)										
Design & Construction + Operations & Maintenance + Debt Financing + Private-Sector Equity Ownership	<b>DBEFOM - Private, Concession, Privatization</b> (DBFOM + private-sector equity ownership)										
					EPA Internal Topic Expansion Links						
					External Topic Expansion & Case Studies Links						
Navigation Buttons					External Organization Links						
Next: 3.OE.4	Back: 3.OE.2	Option: 3.DF.3	Option: 3.0 P3 Menu	Option:							

Section 3	Main Track: Ownership & Equity	Step 4	Navigation Code: 3.OE.4		Key Definitions
<p><b>Step 4: Measuring the Value of Non-Traditional Ownership &amp; Equity Against Traditional Baseline</b></p> <p><i>Once you've identified the most relevant Non-Traditional approach for the ownership of your project, the next step is to roughly measure the value of that approach against the Baseline Case developed in Step 1. Generally this will involve the comparison of the Baseline case to a Non-Traditional case using comparable assumptions except for the specific approaches themselves. Standard project and BCA modelling techniques (see Expansion Pages) can provide some general perspective for ownership &amp; equity comparison at this stage but you should note that equity valuation is a very complex area of financial analysis. Results are likely to rely heavily on probabilistic scenarios and may be difficult to draw clear conclusions from.</i></p> <ul style="list-style-type: none"> <li>➤ [On one level, measuring the value of a Non-Traditional ownership approach is often easy – it clearly looks more expensive than Traditional sole ownership! The real measurement challenge is in determining whether continued sole ownership has (depending on asset type) significant opportunity cost in terms of lost upside or risks that are significant in the context of your overall fiscal situation. Both obviously require specialized probabilistic modelling.]</li> <li>➤ [You should be very careful about the role of discount rates in any analysis involving equity ownership. Both your own cost of equity and that of the potential co-owner (whether public or private) are likely to be non-transparent. A conservative rule of thumb is to err on the low side.]</li> <li>➤ [additional factors – this may need extensive Expansion Pages]</li> </ul>					LM Topic Expansion Sub-Pages
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					External Organization Links
Navigation Buttons					
Next: 3.OE.5	Back: 3.OE.3	Option: 3.DF.4	Option: 3.0 Menu	Option:	

Section 3	Main Track: Ownership & Equity	Step 5	Navigation Code: 3.OE.5		Key Definitions
<p><b>Step 5: Identifying Legal and Regulatory Limitations on Ownership &amp; Equity Alternatives</b></p> <p><i>If Non-Traditional ownership or outside equity investment for your project appears to be relevant and realistically able to provide significant value compared to your Traditional approach there may be a compelling case for the creation of an Alternative. Recall that as we define it in this Learning Module, a Non-Traditional approach (no matter how well-established in the private sector or compelling in terms of value) will almost always require a process of adaptation and adoption to become a practical Alternative for public-sector use. This is especially true for ownership &amp; equity Alternatives for basic and essential infrastructure assets!</i></p> <p>Selling or sharing a significant ownership interest in a public-sector infrastructure project is likely to be subject to many legal and regulatory limitations, especially when the asset provides an essential service on a monopolistic basis.</p> <p>The full extent of the limitations (and possible solutions) will be addressed only in later stages of the process of creating an ownership Alternative. However, even in this first stage, it can be useful to narrow the scope of possible limitations by carefully clarifying what Alternative co-ownership <i>does not</i> include in your particular case.</p> <p>Some examples of this ‘exclusionary’ list:</p> <ul style="list-style-type: none"> <li>➤ Assets co-owned for significant revenue improvement (e.g. optional retail service) or technological upside (e.g. a merchant desalination plant) are usually <i>not</i> essential monopoly assets</li> <li>➤ Asset co-ownership with another public-sector entity <i>does not necessarily</i> have an essential difference in alignment about the public interest</li> <li>➤ Assets co-owned by the private-sector purely for risk management purposes <i>usually do not</i> entail a significant loss of control by the public-sector over managerial decisions pertaining to rate schedules, service quality and other obligations to the public</li> </ul>					LM Topic Expansion Sub-Pages
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					External Organization Links
Navigation Buttons					
Next: 3.OE.6	Back: 3.OE.4	Option: 3.DF.5	Option: 3.0 Menu	Option:	






Section 3	Main Track: Ownership & Equity	Step 6	Navigation Code: 3.OE.6		Key Definitions
<p><b>Step 6: Identifying Community Stakeholder Concerns About Ownership &amp; Equity Alternatives</b></p> <p><i>After identifying the ‘hard’ legal and regulatory limitations that might apply to your project, the next step is to look for ‘soft’ (albeit very real) stakeholder concerns that might arise from the use of Non-Traditional ownership approach.</i></p> <p>Any proposed deviation from Traditional sole ownership by the public sector of infrastructure assets will almost invariably cause widespread stakeholder concerns about everything from ‘selling the family silver’, ‘profits being taken out of the community’, to basic questions about service responsibility. This area is easily the most difficult part of creating an ownership Alternative, almost regardless of the substantive merits of the proposal.</p> <p>As with legal and regulatory limitations, the full extent of stakeholder concerns will not be fully identified or addressed until later stages in the process. However, in this first stage, it can be useful to identify categories of stakeholders and how the specific details of the proposed Alternative may affect them.</p> <p>Some examples of early-stage stakeholder category identification:</p> <ul style="list-style-type: none"> <li>➤ Direct internal stakeholders: Those affected directly (e.g. job change) at the project-level or within your system by co-ownership of the project</li> <li>➤ Direct external stakeholders: Those outside your system or administration affected directly (e.g. loss of business) by co-ownership of the project</li> <li>➤ Public-interest stakeholders: Well-informed public-interest ‘watchdog’ groups that are professionally skeptical but can also evaluate the proposed co-ownership on its merits</li> <li>➤ Stakeholders in public perception: Consider how the proposed Alternative ownership of the project ‘plays as a soundbite’ and who might have an interest in the likely public perception of that.</li> </ul>					LM Topic Expansion Sub-Pages
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					External Topic Expansion & Case Studies Links
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
Section 3	Main Track: Ownership & Equity	Step 7	Navigation Code: 3.OE.7	Key Definitions
<p><b>Step 7: Summarizing the Case for Creating an Ownership &amp; Equity Alternative for Your Project</b></p> <p><i>Step 7 is where the case for creating a Debt Financownership &amp; equity Alternative for your project is pulled together and sumamrized for presentation to the ‘First Committee’. Every case is of course different, but here are some topics you may want to include as a minimum:</i></p> <ul style="list-style-type: none"> <li>➤ <b>Words Matter!</b> Confusing words are a major issue with Alternatives – present clear definitions of key terms (‘Traditional’, ‘Alternative’, ‘upside potential’, ‘risk transfer’, etc.). This is especially important for ownership Alternatives where lengthy debates involving these terms will inevitably occur.</li> <li>➤ <b>Baseline Case</b> Clearly show how the Baseline Case clarifies the opportunity or need that makes Alternative ownership worth considering in the first place. This essence of this should be very straightforward if there’s really a compelling case.</li> <li>➤ <b>Mention Optional Combinations</b> Ownership Alternatives almost always can include P3-type combinations of other Alternatives. These should be highlighted, but there’s still value in presenting a stand-alone case for clarity.</li> <li>➤ <b>Alternative Value Proposition</b> It’s useful to describe the potential value directly <i>and specifically</i> in terms of the opportunity or need identified in the Baseline Case. This is not a fine-tuned situation. Complex numbers and probabilistic analyses are really the back-up to a fundamentally compelling story.</li> <li>➤ <b>Possible legal and regulatory limitations</b> An exclusionary list of areas not likely to apply is probaby the most useful approach at this first stage.</li> <li>➤ <b>Possible Stakeholder Concerns</b> Identifying categories of stakeholders that are likely to have concerns is useful to start the process.</li> <li>➤ <b>Overall – Compelling or not?</b> Finally – based on work done to this stage and especially your overall impressionistic judgment – is the case compelling or not?</li> </ul>				LM Topic Expansion Sub-Pages
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Section 3			Navigation Code: 3.0 P3 Menu										
<p><b>P3 Track Menu [large buttons]</b></p> <table border="1" data-bbox="220 589 1117 1164"> <tr> <td data-bbox="220 589 260 657">[blue]</td> <td data-bbox="260 589 1117 727" style="text-align: center;">           Design-Build, Outsource O&amp;M (DBOM)            [link to 3.DBOM.3]         </td> </tr> <tr> <td data-bbox="220 727 260 779">[blue]</td> <td data-bbox="260 727 1117 876" style="text-align: center;">           Design-Build, Outsource O&amp;M            Private Placement, PF (DBFOM)            [link to 3.DBFOM.3]         </td> </tr> <tr> <td data-bbox="220 876 260 928">[blue]</td> <td data-bbox="260 876 1117 1026" style="text-align: center;">           Public-Public Ownership DBFOM (DBEFOMPub)            [link to 3.DBEFOMPub.3]         </td> </tr> <tr> <td data-bbox="220 1026 260 1078">[blue]</td> <td data-bbox="260 1026 1117 1164" style="text-align: center;">           Public-Private Ownership DBFOM (DBEFOMPri)            [link to 3.DBEFOMPri.3]         </td> </tr> </table>						[blue]	Design-Build, Outsource O&M (DBOM) [link to 3.DBOM.3]	[blue]	Design-Build, Outsource O&M Private Placement, PF (DBFOM) [link to 3.DBFOM.3]	[blue]	Public-Public Ownership DBFOM (DBEFOMPub) [link to 3.DBEFOMPub.3]	[blue]	Public-Private Ownership DBFOM (DBEFOMPri) [link to 3.DBEFOMPri.3]
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[blue]	Design-Build, Outsource O&M Private Placement, PF (DBFOM) [link to 3.DBFOM.3]												
[blue]	Public-Public Ownership DBFOM (DBEFOMPub) [link to 3.DBEFOMPub.3]												
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
Section 3	P3 Track: DBOM		Navigation Code: 3.DBOM.3		Key Definitions
<div data-bbox="109 440 478 500">  <b>Step [3]: DBOM P3 Combination</b> </div> <p data-bbox="109 532 1247 678">As defined in this Learning Module, a 'P3' is simply a combination of two or more of the Alternative approaches described in the Main Tracks. A P3 combination can often deliver more value than simply the sum of its parts through integration and synergies of the Alternative approaches or even just by transactional scale economies. But it's important to remember that <b>nothing 'magical' happens in a P3</b> – if combination delivers additional value, you should be able to understand, measure and (most importantly) describe it clearly.</p> <ul data-bbox="157 711 1228 857" style="list-style-type: none"> <li>➤ A DBOM combination is the simplest type of P3. The value of the combination arises primarily at the project level by integration of the design and construction of the asset with its long-term O&amp;M, usually through a consortium of construction and operating firms. That way, the asset can be optimized for cost-efficiency and performance through its whole life – with outcomes and budgeting discipline that are contractually enforced.</li> </ul> <div data-bbox="279 922 1066 1235"> <pre> graph TD     PSA[Public Sector Authority] --- Full Ownership  Project[Project]     Project --- DB[Design-Build Contract]     Project --- LTO[Long-Term O&amp;M Contract]     DB -.-&gt; Integration for whole-life optimization  LTO     </pre> </div>					LM Topic Expansion Sub-Pages
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
Section 3	P3 Track: DBOM		Navigation Code: 3.DBOM.4		Key Definitions															
<div data-bbox="109 440 873 500">  <b>Step [4]: DBOM P3 Combination: Modified Value for Money Comparison</b> </div> <p data-bbox="109 532 1251 704">The classic methodology to measure P3 value, known as ‘Value for Money’, involves a comparison of the overall combination of Alternative approaches to the equivalent combination of Traditional approaches (called the ‘Public Sector Comparator’). In this Learning Module, we outline a modified methodology that (1) compares individual Alternative and Traditional approaches within functional categories (permitting closer ‘apples-to-apples’ analysis than cross-functional analysis) and (2) makes a major distinction between expected case outcomes and the range of outcomes from what-if scenario testing.</p> <ul data-bbox="157 737 1251 922" style="list-style-type: none"> <li>➤ DBOM combination value should be easy to see at the project level by comparison of proposed contractual terms with the (realistic) traditional equivalent.</li> <li>➤ Due to basic economies of scale and expertise, it is possible that the expected case analysis is compelling in itself. If so, additional value from what-if downside scenarios is in effect a type of insurance, which may be important in the context of your overall fiscal situation (e.g. the need to avoid cost overruns and O&amp;M surprises)</li> </ul> <table border="1" data-bbox="109 954 1251 1273"> <thead> <tr> <th></th> <th colspan="2">Value Compared to Traditional Equivalent (Comparator)</th> </tr> <tr> <th></th> <th>Deterministic Analysis (Expected Case)</th> <th>Probabilistic Analysis (What-If Scenarios)</th> </tr> </thead> <tbody> <tr> <td>Design-Build</td> <td>Possible lower cost, faster delivery</td> <td>Insurance against cost overruns, delayed delivery</td> </tr> <tr> <td>Long-Term O&amp;M</td> <td>Possible lower cost, better performance</td> <td>Insurance against ‘surprises’ and contractual discipline against deferred maintenance</td> </tr> <tr> <td><b>P3 ‘Value for Money’</b></td> <td>May be significantly better than Traditional</td> <td>Consider in context of long-term fiscal stress</td> </tr> </tbody> </table>						Value Compared to Traditional Equivalent (Comparator)			Deterministic Analysis (Expected Case)	Probabilistic Analysis (What-If Scenarios)	Design-Build	Possible lower cost, faster delivery	Insurance against cost overruns, delayed delivery	Long-Term O&M	Possible lower cost, better performance	Insurance against ‘surprises’ and contractual discipline against deferred maintenance	<b>P3 ‘Value for Money’</b>	May be significantly better than Traditional	Consider in context of long-term fiscal stress	LM Topic Expansion Sub-Pages
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						Deterministic Analysis (Expected Case)	Probabilistic Analysis (What-If Scenarios)													
					Design-Build	Possible lower cost, faster delivery	Insurance against cost overruns, delayed delivery													
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<b>P3 ‘Value for Money’</b>	May be significantly better than Traditional	Consider in context of long-term fiscal stress																		
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


Section 3	P3 Track: DBOM		Navigation Code: 3.DBOM.5	Key Definitions
<div data-bbox="109 440 930 488" data-label="Section-Header">  <b>Step [5]: DBOM P3 Combination: Identifying Legal and Regulatory Limitations</b> </div> <p data-bbox="109 558 1245 708"><i>If a Non-Traditional DBOM for your project appears to be relevant and realistically able to provide significant value compared to your Traditional approach there may be a compelling case for the creation of an Alternative. Recall that as we define it in this Learning Module, a Non-Traditional approach (no matter how well-established in the private sector or compelling in terms of value) will almost always require a process of adaptation and adoption to become a practical Alternative for public-sector use.</i></p> <ul data-bbox="155 737 1245 792" style="list-style-type: none"> <li>➤ Despite the possible application of the 'P3' name, a DBOM combination will probably not be subject to any further limitations than the individual DB and OM components are subject to.</li> </ul>				LM Topic Expansion Sub-Pages
				EPA Internal Topic Expansion Links
				External Topic Expansion & Case Studies Links
				External Organization Links
Navigation Buttons				
Next: 3.DBOM.6	Back:3.DBOM.4	Option:	Option:	Option:



Section 3	P3 Track: DBOM		Navigation Code: 3.DBOM.6	Key Definitions
 <b>Step [6]: DBOM P3 Combination: Identifying Stakeholder Concerns</b>  <i>After identifying the ‘hard’ legal and regulatory limitations that might apply to your project, the next step is to look for ‘soft’ (albeit very real) stakeholder concerns that might arise from the use of a ‘P3’ Non-Traditional combination approach.</i> <ul style="list-style-type: none"> <li>➤ It should be recognized that the ‘P3’ name in itself can often be the source of concern because the term ‘P3’ covers many situations, some of which are inherently controversial (e.g. privatizations). It’s important to clarify for a DBOM exactly what is being proposed in functional terms and the additive value of the combination before (or ideally, instead of) the proposed transaction being widely known as a ‘P3’.</li> <li>➤ For a DBOM, clarifying the functional value combination should be straightforward. The stakeholder concerns arising from the DB and OM Alternatives individually (as described in the Main Tracks in this Learning Module) will of course need to be addressed.</li> </ul>				LM Topic Expansion Sub-Pages
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				External Topic Expansion & Case Studies Links
				External Organization Links
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Next: 3.DBOM.7	Back:3.DBOM.5	Option:	Option:	Option:



Section 3	P3 Track: DBOM		Navigation Code: 3.DBOM.7	Key Definitions
 <b>Step [7]: DBOM P3 Combination: Summarizing the Case</b>				LM Topic Expansion Sub-Pages
<p><i>Step 7 is where the case for creating a 'P3' DBOM Alternative Combination for your project is pulled together and summarized for presentation to the 'First Committee'. Every case is of course different, but here are some topics you may want to include as a minimum:</i></p> <ul style="list-style-type: none"> <li>➤ <b>Words Matter!</b>                      Confusing words are a very major issue for P3 Alternative Combinations! Present clear definitions of key terms ('Traditional', 'Alternative', 'P3', 'DBOM', etc.) at the outset.</li> <li>➤ <b>Traditional Comparator</b>              Traditional design-bid-build, in-house O&amp;M</li> <li>➤ <b>Modified Value for Money</b>              Same as DB and OM components and additional value from whole-life integration and optimization</li> <li>➤ <b>Possible legal and regulatory limitations</b>              [probably same as DB, OM components]</li> <li>➤ <b>Possible Stakeholder Concerns</b>              Stakeholder concerns are often a major issue for 'P3'. Should be possible to clarify these do not apply to DBOM</li> <li>➤ <b>Overall – Compelling or not?</b>              Finally – based on work done to this stage and especially your overall impressionistic judgment – is the case compelling or not?</li> </ul>				EPA Internal Topic Expansion Links
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				External Organization Links
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Next: P3 menu	Back: 3.DBOM.6	Option:	Option:	Option:

Section 3	P3 Track: DBFOM		Navigation Code: 3.DBFOM.3	Key Definitions
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				External Topic Expansion & Case Studies Links
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**Step [4]: DBFOM P3 Combination: Modified Value for Money Comparison**

The classic methodology to measure P3 value, known as ‘Value for Money’, involves a comparison of the overall combination of Alternative approaches to the equivalent combination of Traditional approaches (called the ‘Public Sector Comparator’). In this Learning Module, we outline a modified methodology that (1) compares individual Alternative and Traditional approaches within functional categories (permitting closer ‘apples-to-apples’ analysis than cross-functional analysis) and (2) makes a major distinction between expected case outcomes and the range of outcomes from what-if scenario testing

- In a DBFOM, the full potential value of the DB and O&M Alternatives should be about the same as in a straight DBOM combination (their synergies are with each other at the project level).
- The Debt Alternative is likely to look more expensive than Traditional muni-bond financing in the expected case. The real value of the Debt Alternative is usually found in probabilistic scenarios involving your fiscal situation – the need for flexibility, avoiding arbitrary debt constraints and (especially) access to policy-oriented lending.
- Overall, the expected case for a DBFOM may look marginal. The what-if scenario analyses are likely to be the most important part of your decision.

	Value Compared to Traditional Equivalent (Comparator)	
	Deterministic Analysis (Expected Case)	Probabilistic Analysis (What-If Scenarios)
Design-Build	Possible lower cost, faster delivery	Insurance against cost overruns, delayed delivery
Long-Term O&M	Possible lower cost, better performance	Insurance against ‘surprises’ and contractual discipline against deferred maintenance
Debt Alternative	Likely more expensive than tax-exempt Traditional (if not policy-oriented)	May be valuable in context of fiscal constraints and inflexibility of Traditional debt.
<b>P3 ‘Value for Money’</b>	Marginal (positive value of DB and OM balanced against negative value of Debt Alternative)	Potentially high insurance value against both project and fiscal long-term stress

LM Topic Expansion Sub-Pages

EPA Internal Topic Expansion Links

External Topic Expansion & Case Studies Links


External Organization Links




Navigation Buttons					
Next: 3.DBFOM.5	Back:3.DBFOM.3	Option:	Option:	Option:	

Section 3	P3 Track: DBFOM		Navigation Code: 3.DBFOM.5	)Key Definitions
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				EPA Internal Topic Expansion Links
				External Topic Expansion & Case Studies Links
				External Organization Links
				Navigation Buttons
Next: 3.DBFOM.6	Back:3.DBFOM.4	Option:	Option:	Option:



Section 3	P3 Track: DBFOM		Navigation Code: 3.DBFOM.6	Key Definitions
 <b>Step [6]: DBFOM P3 Combination: Identifying Stakeholder Concerns</b> <p>After identifying the ‘hard’ legal and regulatory limitations that might apply to your project, the next step is to look for ‘soft’ (albeit very real) stakeholder concerns that might arise from the use of a ‘P3’ Non-Traditional combination approach.</p> <ul style="list-style-type: none"> <li>➤ It should be recognized that the ‘P3’ name in itself can often be the source of concern because the term ‘P3’ covers many situations, some of which are inherently controversial (e.g. privatizations). It’s important to clarify for a DBFOM exactly what is being proposed in functional terms and the additive value of the combination before (or ideally, instead of) the proposed transaction being widely known as a ‘P3’.</li> <li>➤ For a DBFOM, clarifying the functional value combination of the DB and OM components should be straightforward. However, the SPV Framework that is usually involved with adding a Debt Alternative to the P3 combination can sometimes be perceived as a substantive change of ownership (which it isn’t). To guide a better – and readily accessible – understanding of the purpose of this structure, you can consider making a close analogy to simple municipal leasing. For most municipal leases of equipment and buildings, public-sector control of the important elements of the service remains complete – ownership form and residual elements are not controversial. This is generally true of DBFOM combination structures even when the basic is not actually called a ‘lease’ (e.g. an ‘availability payment’ contract).</li> </ul>				LM Topic Expansion Sub-Pages
				EPA Internal Topic Expansion Links
				External Topic Expansion & Case Studies Links
				External Organization Links
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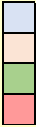
Section 3	P3 Track: DBFOM		Navigation Code: 3.DBFOM.7	Key Definitions
 <b>Step [7]: DBFOM P3 Combination: Summarizing the Case</b>				LM Topic Expansion Sub-Pages
<p><i>Step 7 is where the case for creating a 'P3' DBFOM Alternative Combination for your project is pulled together and summarized for presentation to the 'First Committee'. Every case is of course different, but here are some topics you may want to include as a minimum:</i></p> <ul style="list-style-type: none"> <li>➤ <b>Words Matter!</b> Confusing words are a very major issue for P3 Alternative Combinations! Present clear definitions of key terms ('Traditional', 'Alternative', 'P3', 'DBOM', etc.) at the outset.</li> <li>➤ <b>Traditional Comparators</b> Traditional design-bid-build, in-house O&amp;M and muni debt</li> <li>➤ <b>Modified Value for Money</b> In addition to DBOM, Debt Alternative value in what-if scenarios, and additional value due to flexibility and fiscal constraint relief from SPV ownership framework.</li> <li>➤ <b>Possible legal and regulatory limitations</b> [probably same as DB, OM and F components plus any special issues for SPV framework (may be same a municipal lease)]</li> <li>➤ <b>Possible Stakeholder Concerns</b> Stakeholder concerns are often a major issue for 'P3'. It is important to clearly separate perceptual and substantive issues</li> <li>➤ <b>Overall – Compelling or not?</b> Finally – based on work done to this stage and especially your overall impressionistic judgment – is the case compelling or not?</li> </ul>				EPA Internal Topic Expansion Links
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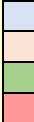
Section 3	P3 Track: DBEFOMPub		Navigation Code: 3.DBEFOMPub.3		Key Definitions
<div data-bbox="109 298 144 423"> </div> <p data-bbox="155 350 537 375"><b>Step [3]: DBEFOMPub P3 Combination</b></p> <p data-bbox="109 456 1247 597">As defined in this Learning Module, a 'P3' is simply a combination of two or more of the Alternative approaches described in the Main Tracks. A P3 combination can often deliver more value than simply the sum of its parts through integration and synergies of the Alternative approaches or even just by transactional scale economies. But it's important to remember that <b>nothing 'magical' happens in a P3</b> – if combination delivers additional value, you should be able to understand, measure and (most importantly) describe it clearly.</p> <ul data-bbox="155 630 1247 800" style="list-style-type: none"> <li>➤ A DBEFOM with public-sector equity ownership is in effect a joint-venture arrangement with another project owner whose interests should be roughly co-aligned with your own. The value of the DB, OM and F components will likely be about the same but by pooling equity resources with the joint owner your downside risk can be lessened. This is especially relevant in cases where the project is large (in context of your system size) and downside outcomes (e.g. cost overruns, delays, O&amp;M surprises, etc.) could significantly increase your overall level of fiscal stress.</li> </ul> <div data-bbox="302 899 1052 1312"> <pre> graph TD     PSA[Public Sector Authority] -.-&gt; Monitoring, Joint Control  Project[Project]     PSA --- Joint-Venture Agreement  JVC[Joint-Venture Company]     Project --- Ownership  JVC     JVC --- DB[Design-Build Contract]     JVC --- LTO[Long-Term O&amp;M Contract]     JVC --- DFA[Debt Financing Alternative]     JVC --- PSCO[Public-Sector Co-Owners]   </pre> </div>					LM Topic Expansion Sub-Pages
					EPA Internal Topic Expansion Links
					External Topic Expansion & Case Studies Links
					External Organization Links
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Next: 3. DBEFOMPub.4	Back:3.P3 Menu	Option:	Option:	Option:	

Section 3	P3 Track: DBEFOMPub		Navigation Code: 3.DBEFOMPub.4	Key Definitions																				
<div data-bbox="109 269 144 394"> </div> <p data-bbox="155 321 934 345"><b>Step [4]: DBEFOMPub P3 Combination: Modified Value for Money Comparison</b></p> <p data-bbox="109 427 1251 597"><i>The classic methodology to measure P3 value, known as ‘Value for Money’, involves a comparison of the overall combination of Alternative approaches to the equivalent combination of Traditional approaches (called the ‘Public Sector Comparator’). In this Learning Module, we outline a modified methodology that (1) compares individual Alternative and Traditional approaches within functional categories (permitting closer ‘apples-to-apples’ analysis than cross-functional analysis) and (2) makes a major distinction between expected case outcomes and the range of outcomes from what-if scenario testing.</i></p> <ul data-bbox="155 630 1209 711" style="list-style-type: none"> <li>➤ Since the DB, OM and F components of a DBEFOM P3 with public-sector equity are roughly the same as with a DBFOM, the analysis can focus on the value of pooling equity resources (generally, long-term funding capacity from user fees and taxes) to mitigate the impact of downside risks.</li> </ul> <table border="1" data-bbox="109 773 1251 1317"> <thead> <tr> <th rowspan="2"></th> <th colspan="2">Value Compared to Traditional Equivalent (Comparator)</th> </tr> <tr> <th>Deterministic Analysis (Expected Case)</th> <th>Probabilistic Analysis (What-If Scenarios)</th> </tr> </thead> <tbody> <tr> <td>Design-Build</td> <td>Possible lower cost, faster delivery</td> <td>Insurance against cost overruns, delayed delivery</td> </tr> <tr> <td>Long-Term O&amp;M</td> <td>Possible lower cost, better performance</td> <td>Insurance against ‘surprises’ and contractual discipline against deferred maintenance</td> </tr> <tr> <td>Debt Alternative</td> <td>Likely more expensive than tax-exempt Traditional (if not policy-oriented)</td> <td>May be valuable in context of fiscal constraints and inflexibility of Traditional debt.</td> </tr> <tr> <td>Public Co-Ownership</td> <td>Likely roughly similar to your own cost of equity capital</td> <td>Possibly very valuable to share equity risks on a co-aligned basis</td> </tr> <tr> <td><b>P3 ‘Value for Money’</b></td> <td>Likely break-even or slightly negative due to frictional and transaction costs</td> <td>Potentially high value for large infrastructure assets to reduce long-term project and fiscal stress</td> </tr> </tbody> </table>					Value Compared to Traditional Equivalent (Comparator)		Deterministic Analysis (Expected Case)	Probabilistic Analysis (What-If Scenarios)	Design-Build	Possible lower cost, faster delivery	Insurance against cost overruns, delayed delivery	Long-Term O&M	Possible lower cost, better performance	Insurance against ‘surprises’ and contractual discipline against deferred maintenance	Debt Alternative	Likely more expensive than tax-exempt Traditional (if not policy-oriented)	May be valuable in context of fiscal constraints and inflexibility of Traditional debt.	Public Co-Ownership	Likely roughly similar to your own cost of equity capital	Possibly very valuable to share equity risks on a co-aligned basis	<b>P3 ‘Value for Money’</b>	Likely break-even or slightly negative due to frictional and transaction costs	Potentially high value for large infrastructure assets to reduce long-term project and fiscal stress	LM Topic Expansion Sub-Pages
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Next: 3.DBEFOMPub.5	Back: 3.DBEFOMPub.3	Option:	Option:	Option:	
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Section 3	P3 Track: DBEFOMPub		Navigation Code: 3.DBEFOMPub.5		<p>Key Definitions</p> <hr/> <p>LM Topic Expansion Sub-Pages</p> <hr/> <p>EPA Internal Topic Expansion Links</p> <hr/> <p>External Topic Expansion &amp; Case Studies Links</p> <hr/> <p>External Organization Links</p>				
<div data-bbox="109 269 144 394" style="display: inline-block; vertical-align: middle;">  </div> <p data-bbox="155 321 989 347"><b>Step [5]: DBEFOMPub P3 Combination: Identifying Legal and Regulatory Limitations</b></p> <p data-bbox="109 428 1241 578"><i>If a Non-Traditional DBEFOM for your project appears to be relevant and realistically able to provide significant value compared to your Traditional approach there may be a compelling case for the creation of an Alternative. Recall that as we define it in this Learning Module, a Non-Traditional approach (no matter how well-established in the private sector or compelling in terms of value) will almost always require a process of adaptation and adoption to become a practical Alternative for public-sector use.</i></p> <ul data-bbox="155 605 1045 631" style="list-style-type: none"> <li>➤ [potentially significant and complex issues – joint authorities issues, consolidation etc.]</li> </ul>									
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				Next: 3. DBEFOMPub.6		Back: 3.DBEFOMPub.4	Option:	Option:	Option:

Section 3	P3 Track: DBEFOMPub		Navigation Code: 3.DBEFOMPub.6		Key Definitions				
<div data-bbox="109 440 142 561" style="display: inline-block; vertical-align: top; margin-right: 10px;">  </div> <p data-bbox="155 488 884 513"><b>Step [6]: DBEFOMPub P3 Combination: Identifying Stakeholder Concerns</b></p> <p data-bbox="109 594 1224 675"><i>After identifying the ‘hard’ legal and regulatory limitations that might apply to your project, the next step is to look for ‘soft’ (albeit very real) stakeholder concerns that might arise from the use of a ‘P3’ Non-Traditional combination approach.</i></p> <ul data-bbox="155 711 1247 1000" style="list-style-type: none"> <li data-bbox="155 711 1230 792">➤ It should be recognized that the ‘P3’ name in itself can often be the source of concern because the term ‘P3’ covers many situations, some of which are inherently controversial (e.g. privatizations). It’s important to clarify for a DBEFOM exactly what is being proposed in functional terms.</li> <li data-bbox="155 824 1247 1000">➤ A DBEFOM with public-sector equity will involve a significant change or dilution of infrastructure asset ownership – that’s the point. Stakeholders of course deserve a very clear and full explanation of why this is being proposed in terms of potential benefits (risk pooling with a co-aligned owner) but also the costs (some loss of control, unintended consequences). But it should be made clear at the outset that co-ownership with another public-sector entity is categorically different in terms of natural co-alignment than a partnership with a private-sector investor. By definition, it is not in any way a ‘privatization’.</li> </ul>						LM Topic Expansion Sub-Pages			
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Next: 3. DBEFOMPub.7	Back: 3.DBEFOMPub.5	Option:	Option:	Option:					


Section 3	P3 Track: DBEFOMPub		Navigation Code: 3.DBEFOMPub.7	Key Definitions
<div data-bbox="109 496 144 621"> </div> <p data-bbox="155 548 772 573"><b>Step [7]: DBEFOMPub P3 Combination: Summarizing the Case</b></p> <p data-bbox="109 654 1234 735"><i>Step 7 is where the case for creating a ‘P3’ DBEFOM Alternative Combination for your project is pulled together and summarized for presentation to the ‘First Committee’. Every case is of course different, but here are some topics you may want to include as a minimum:</i></p> <ul data-bbox="121 800 1207 1320" style="list-style-type: none"> <li>➤ <b>Words Matter!</b> Confusing words are a very major issue for P3 Alternative Combinations! Present clear definitions of key terms (‘Traditional’, ‘Alternative’, ‘P3’, ‘DBEFOM’, etc.) at the outset.</li> <li>➤ <b>Traditional Comparator</b> [design-bid-build, in-house O&amp;M, muni debt, sole ownership]</li> <li>➤ <b>Modified Value for Money</b> [in addition to DBFOM, risk sharing with co-aligned public-sector owner highlighted]</li> <li>➤ <b>Possible legal and regulatory limitations</b> [complex – identify to extent possible, decided at a later stage]</li> <li>➤ <b>Possible Stakeholder Concerns</b> Stakeholder concerns are often a major issue for ‘P3’. It is important to clearly clarify DBEFOM with public-sector equity is not privatization</li> <li>➤ <b>Overall – Compelling or not?</b> Finally – based on work done to this stage and especially your overall impressionistic judgment – is the case compelling or not?</li> </ul>				LM Topic Expansion Sub-Pages
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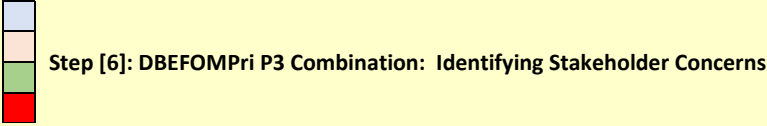
Section 3	P3 Track: DBEFOMPri		Navigation Code: 3.DBEFOMPri.3		Key Definitions
<div data-bbox="107 269 147 394" style="display: inline-block; vertical-align: middle;"> </div> <div data-bbox="151 321 527 347" style="display: inline-block; vertical-align: middle;"> <b>Step [3]: DBEFOMPri P3 Combination</b> </div> <p data-bbox="107 427 1247 570">As defined in this Learning Module, a 'P3' is simply a combination of two or more of the Alternative approaches described in the Main Tracks. A P3 combination can often deliver more value than simply the sum of its parts through integration and synergies of the Alternative approaches or even just by transactional scale economies. But it's important to remember that <b>nothing 'magical' happens in a P3</b> – if combination delivers additional value, you should be able to understand, measure and (most importantly) describe it clearly.</p> <ul data-bbox="155 602 1247 800" style="list-style-type: none"> <li>➤ A DBEFOM with private-sector equity ownership is in effect a small company in which you are a partner. If the infrastructure asset is the type that can generate non-monopoly revenues and there's scope to improve that revenue with better service or innovative technology (e.g. retail operations and some hi-tech assets), there may be significant upside in this approach. But it will naturally come at a cost in terms of loss of control, the need to share revenue upside, a relatively high baseline cost if revenues don't improve and (like any complex transaction) unintended consequences. This is a powerful Alternative but generally has limited application for basic essential-service monopoly infrastructure assets.</li> </ul> <div data-bbox="323 846 1026 1235" style="text-align: center;"> <p><i>Alternative Agreements</i></p> <pre> graph TD     PSA[Public Sector Authority] -.-&gt; Monitoring, Limited Control  Project[Project]     PSA --- Partnership Agreement  PC[Project Company]     Project --- Ownership  PC     PC --- DB[Design-Build Contract]     PC --- LTO[Long-Term O&amp;M Contract]     PC --- DFA[Debt Financing Alternative]     PC --- PSI[Private-Sector Investors] </pre> </div>					LM Topic Expansion Sub-Pages
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Navigation Buttons					
Next: 3. DBEFOMPri.4	Back: 3.P3 Menu	Option:	Option:	Option:	

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<div data-bbox="107 240 142 363" style="display: inline-block; vertical-align: top;"> </div> <div data-bbox="155 289 924 318" style="display: inline-block; vertical-align: top;"> <b>Step [4]: DBEFOMPri P3 Combination: Modified Value for Money Comparison</b> </div> <p data-bbox="107 396 1251 565"> <i>The classic methodology to measure P3 value, known as ‘Value for Money’, involves a comparison of the overall combination of Alternative approaches to the equivalent combination of Traditional approaches (called the ‘Public Sector Comparator’). In this Learning Module, we outline a modified methodology that (1) compares individual Alternative and Traditional approaches within functional categories (permitting closer ‘apples-to-apples’ analysis than cross-functional analysis) and (2) makes a major distinction between expected case outcomes and the range of outcomes from what-if scenario testing.</i> </p> <ul data-bbox="155 597 1213 753" style="list-style-type: none"> <li>➤ Note that the DB, OM and F components of real public-private partnership may provide additional value through increased risk transfer (e.g. non-recourse debt), specialized expert management and highly incentivized performance. But the basic concepts behind their individual value should remain the same.</li> <li>➤ The private-equity ownership component will require a very sophisticated probabilistic analysis (as with any equity valuation) – you may want to consider hiring outside technical experts to assist</li> </ul> <table border="1" data-bbox="107 786 1251 1365"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;"><i>Value Compared to Traditional Equivalent (Comparator)</i></th> </tr> <tr> <th></th> <th style="text-align: center;">Deterministic Analysis (Expected Case)</th> <th style="text-align: center;">Probabilistic Analysis (What-If Scenarios)</th> </tr> </thead> <tbody> <tr> <td style="background-color: #d9e1f2;">Design-Build</td> <td>Possible lower cost, faster delivery</td> <td>Insurance against cost overruns, delayed delivery</td> </tr> <tr> <td style="background-color: #fce4d6;">Long-Term O&amp;M</td> <td>Possible lower cost, better performance</td> <td>Insurance against ‘surprises’ and contractual discipline against deferred maintenance</td> </tr> <tr> <td style="background-color: #d9ead3;">Debt Alternative</td> <td>Likely more expensive than tax-exempt Traditional (if not policy-oriented)</td> <td>May be valuable in context of fiscal constraints and inflexibility of Traditional debt.</td> </tr> <tr> <td style="background-color: #f2dede;">Private Equity</td> <td>Very likely much higher than your cost of equity capital, may require sharing of funding upside</td> <td>Significant potential value in operational, technological and funding risk transfer and revenue improvement</td> </tr> <tr> <td style="background-color: #fff2cc;"><b><i>P3 ‘Value for Money’</i></b></td> <td>Expected case likely negative without revenue improvement</td> <td>Potentially high value for complex, non-monopoly infrastructure assets with scope for revenue improvement</td> </tr> </tbody> </table>					<i>Value Compared to Traditional Equivalent (Comparator)</i>			Deterministic Analysis (Expected Case)	Probabilistic Analysis (What-If Scenarios)	Design-Build	Possible lower cost, faster delivery	Insurance against cost overruns, delayed delivery	Long-Term O&M	Possible lower cost, better performance	Insurance against ‘surprises’ and contractual discipline against deferred maintenance	Debt Alternative	Likely more expensive than tax-exempt Traditional (if not policy-oriented)	May be valuable in context of fiscal constraints and inflexibility of Traditional debt.	Private Equity	Very likely much higher than your cost of equity capital, may require sharing of funding upside	Significant potential value in operational, technological and funding risk transfer and revenue improvement	<b><i>P3 ‘Value for Money’</i></b>	Expected case likely negative without revenue improvement	Potentially high value for complex, non-monopoly infrastructure assets with scope for revenue improvement	LM Topic Expansion Sub-Pages
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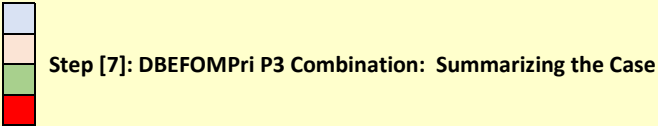
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Section 3	P3 Track: DBEFOMPri		Navigation Code: 3.DBEFOMPri.5	Key Definitions
 <p><b>Step [5]: DBEFOMPri P3 Combination: Identifying Legal and Regulatory Limitations</b></p> <p><i>If a Non-Traditional DBEFOM for your project appears to be relevant and realistically able to provide significant value compared to your Traditional approach there may be a compelling case for the creation of an Alternative. Recall that as we define it in this Learning Module, a Non-Traditional approach (no matter how well-established in the private sector or compelling in terms of value) will almost always require a process of adaptation and adoption to become a practical Alternative for public-sector use.</i></p> <ul style="list-style-type: none"> <li>➤ [potentially significant and complex issues – privatization of public interest]</li> </ul>				LM Topic Expansion Sub-Pages
				EPA Internal Topic Expansion Links
				External Topic Expansion & Case Studies Links
				External Organization Links
Navigation Buttons				
Next: 3. DBEFOMPri.6	Back: 3.DBEFOMPri.4	Option:	Option:	Option:



Section 3	P3 Track: DBEFOMPri		Navigation Code: 3.DBEFOMPri.6	Key Definitions
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				EPA Internal Topic Expansion Links
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Next: 3. DBEFOMPri.7	Back: 3.DBEFOMPri.5	Option:	Option:	Option:



Section 3	P3 Track: DBEFOMPri		Navigation Code: 3.DBEFOMPri.7	Key Definitions
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				External Organization Links
Navigation Buttons				
Next: 3. P3 Menu	Back: 3.DBEFOMPri.6	Option:	Option:	Option:

# LM Topic Expansion Sub-Pages