

# **Introduction to Alternative Procurement Delivery**

**for**

**Florida Transportation Commission**

January 24, 2013



# TABLE OF CONTENTS

---

---

**Alternative Project Delivery (APD) US Market Overview**

---

**APD Funding and Financing Examples**

---

**Aon Infrastructure Solutions' Role and Impact in APD**

---

# Alternative Project Delivery (APD) US Market Overview

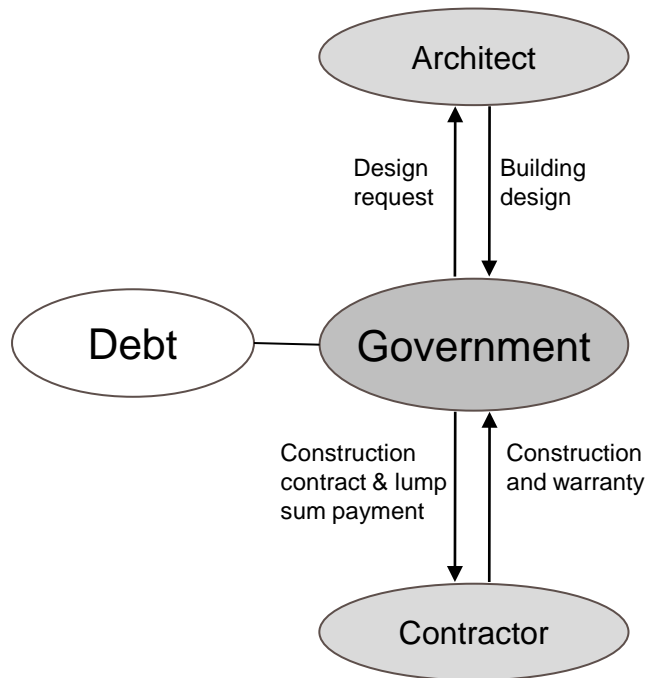
# DEFINING ALTERNATIVE PROCUREMENT DELIVERY

☐ Considered 'APD'

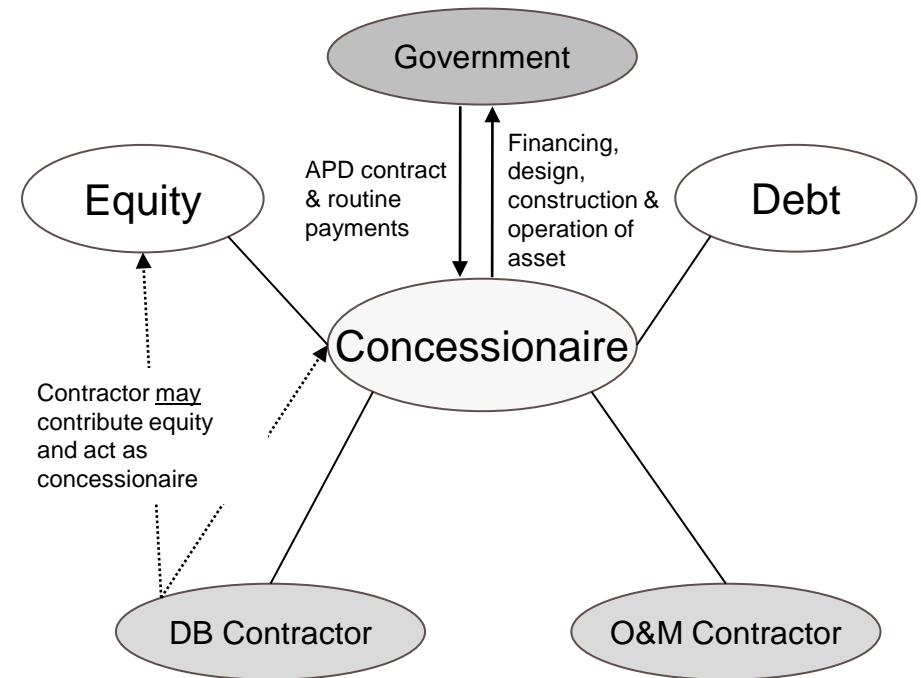
		~% of APD projects	Trend
<b>Design/Build/Finance/Operate/Maintain</b>	In addition to DBF, the private sector operates the project for a specific time period before turn over to public operation / ownership	65%	▲
<b>Design/Build/Finance</b>	Shared financial responsibility using private debt/equity to completely execute a project, which is run by public sector once operational	25%	▼
<b>Build/Operate/Transfer</b>	Private firm builds and operates a project for a period of time, based on government providing up-front capital and a clear operational fee structure	10%	▼
<b>Design/Build</b>	Single private firm designs & builds for a government project		
<b>Outsource</b>	Non-core service outsourcing (e.g. janitorial services)		
<b>Design/Bid/Build</b>	Traditional government acquisition model		

# ALTERNATIVE PROJECT DELIVERY (APD) MODEL

## Traditional Design-Bid-Build Procurement



## Alternative Project Delivery



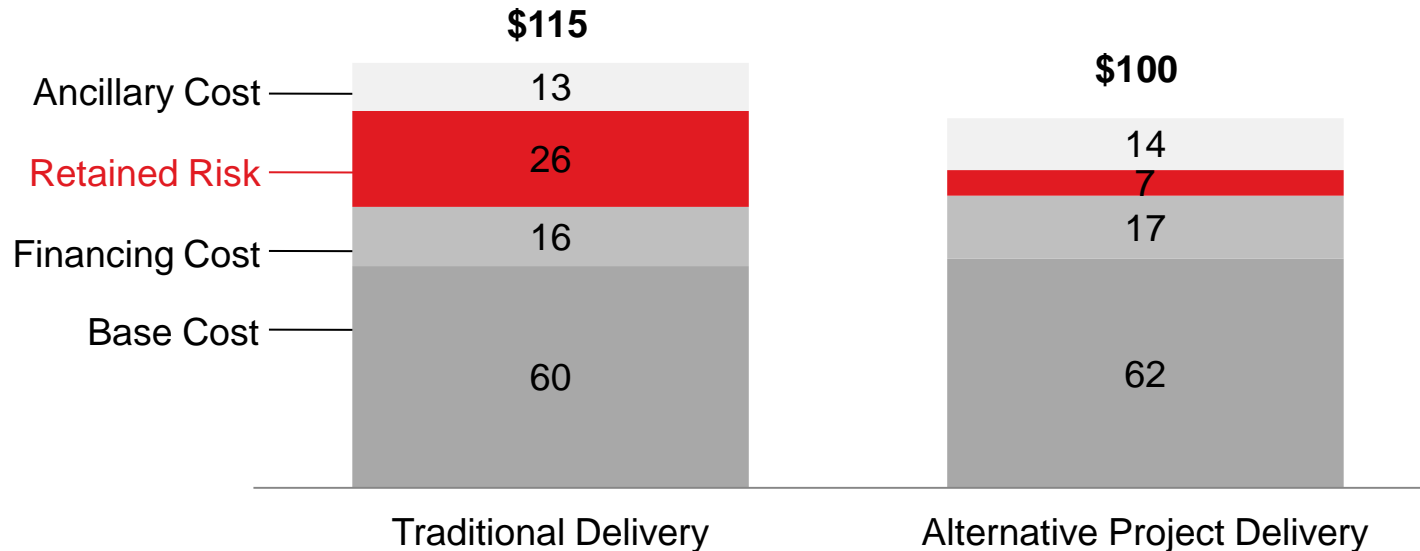
### Key characteristics of APD

*(the model above represents one of many variations of the APD delivery model)*

- Public sector holds ultimate ownership of asset
- Concessionaire procures all debt and equity financing
- Concessionaire paid according to performance based criteria through availability payments or user fees
- Term comprises construction and operations

# GOVERNMENT EVALUATION OF APD PROJECTS

## Value for Money Example<sup>1</sup>



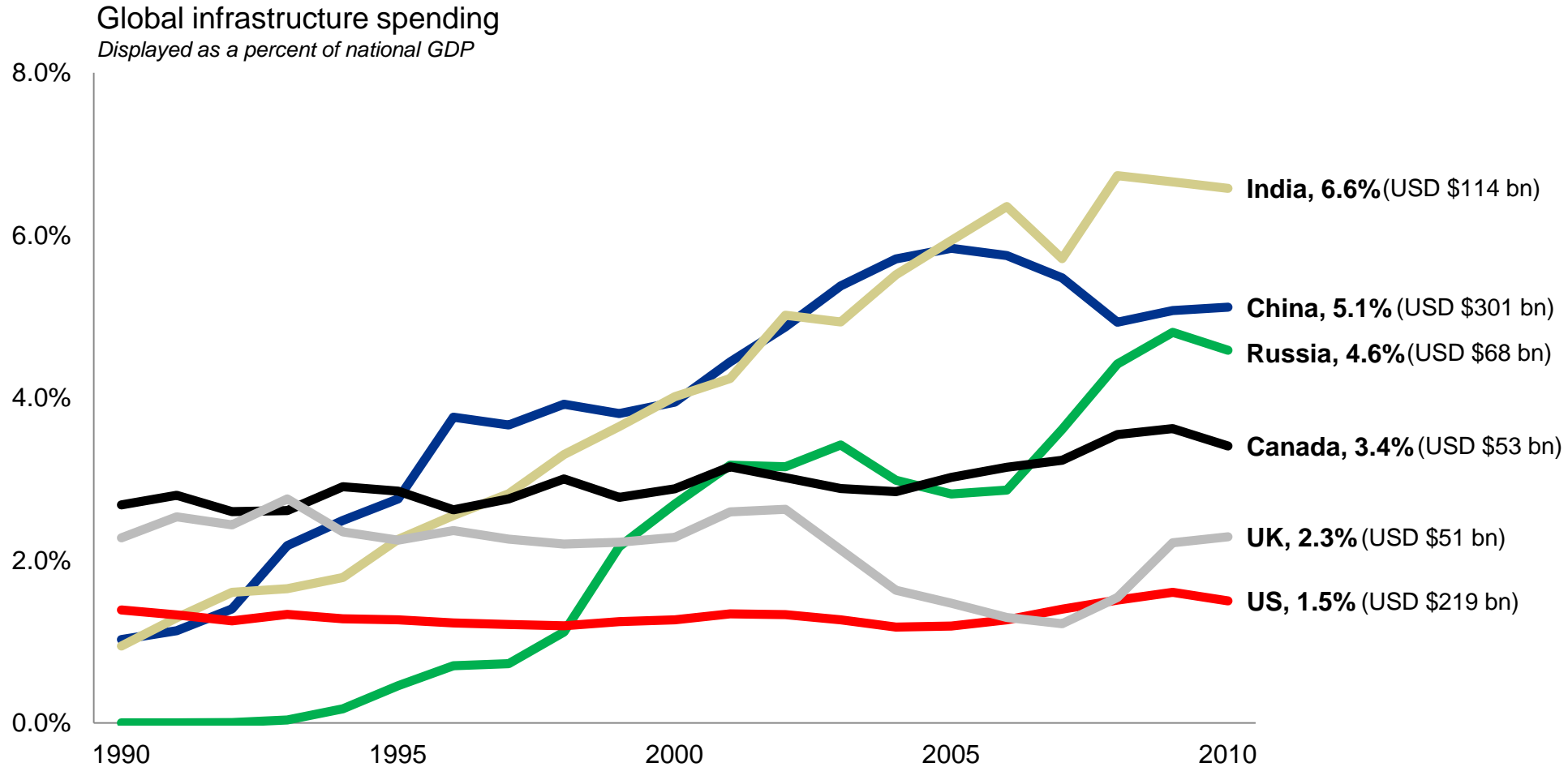
**Example  
VfM = \$15**

- Value for Money is estimated by comparing four primary factors:
  - **Base cost:** construction cost, lifecycle cost, hard and soft facilities management costs, profit (under APD)
  - **Financing cost:** liquidity and opportunity cost, borrowing cost
  - **Retained risk:** planning and strategic, financial and accountability, design coordination, maintenance, lifecycle
  - **Ancillary cost:** internal and external project management expense, transactional expenses
- A study analyzing 28 publicly available Value for Money evaluations completed before October 2010 by Infrastructure Ontario, found that an aggregate of 11% in VfM savings had been achieved on those projects.<sup>2</sup>

# CRITICAL SUCCESS FACTORS FOR APD PURSUIT

Competitive Differentiation	Attributes	Key Considerations
<div style="background-color: #000080; color: white; padding: 20px; text-align: center;"> <h2>Construction Team</h2> </div>	<div style="border-bottom: 1px solid black; padding-bottom: 5px;">Design</div> <div style="border-bottom: 1px solid black; padding-bottom: 5px;">Construction</div> <div style="padding-bottom: 5px;">Operations &amp; Maintenance</div>	<ul style="list-style-type: none"> <li>Influence the master conceptual design prior to final RFP</li> <li>Drive construction price down by thoughtfully teaming design, engineering, and construction</li> <li>Balance lowest operation costs with realistic projections</li> <li>Minimize the impact of major maintenance expenditures</li> </ul>
<div style="background-color: #808080; color: black; padding: 20px; text-align: center;"> <h2>Right Price</h2> </div>	<div style="border-bottom: 1px solid black; padding-bottom: 5px;">Payment Structure</div> <div style="border-bottom: 1px solid black; padding-bottom: 5px;">Construction Price</div> <div style="padding-bottom: 5px;">Financing Structure</div>	<ul style="list-style-type: none"> <li>Prioritize low construction price to win project</li> <li>Fully understand availability payment structure and negotiate appropriately</li> <li>Explore all potential financing options</li> <li>Manage inter-creditor issues (bank/bond, TIFIA/bank &amp; bond, hedge providers, etc)</li> </ul>
<div style="background-color: white; color: black; padding: 20px; text-align: center;"> <h2>Political Connectivity</h2> </div>	<div style="border-bottom: 1px solid black; padding-bottom: 5px;">Project Support</div> <div style="padding-bottom: 5px;">Consortium Support</div>	<ul style="list-style-type: none"> <li>Assess political risks early and often</li> <li>Develop awareness and political support long before RFQ</li> <li>Use political support during the draft RFP stage to shape final RFP</li> </ul>
<div style="background-color: #FF0000; color: white; padding: 20px; text-align: center;"> <h2>Innovation</h2> </div>	<div style="border-bottom: 1px solid black; padding-bottom: 5px;">Design Innovation</div> <div style="border-bottom: 1px solid black; padding-bottom: 5px;">Financing Innovation</div> <div style="padding-bottom: 5px;">Risk Transfer Innovation</div>	<ul style="list-style-type: none"> <li>Minimize overall project risk to control price</li> <li>Maximize value design &amp; engineering</li> <li>Leverage financial engineering</li> <li>Manage risks as effectively as possible and communicate impact to debt</li> </ul>

# US INFRASTRUCTURE SPENDING LAGS GLOBAL COMPETITORS

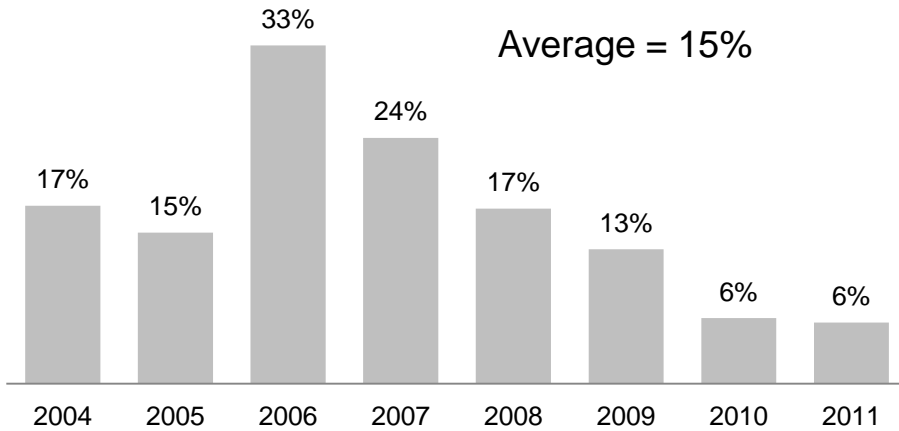




# APD PROCUREMENT IN MATURE MARKETS

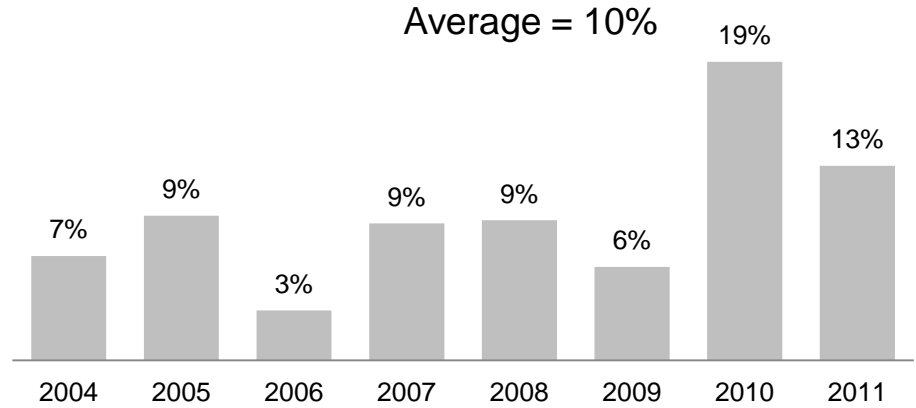
## APD in the UK<sup>1</sup>

APD as a percentage of non-residential infrastructure



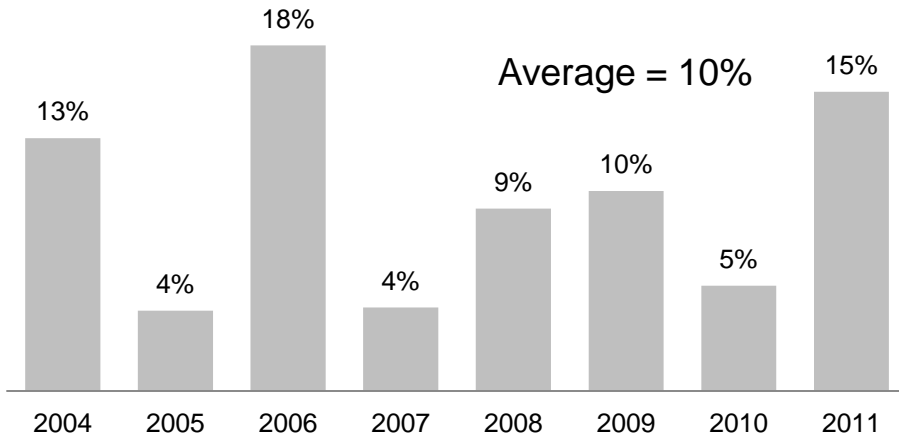
## APD in Canada<sup>2</sup>

APD as a percentage of non-residential infrastructure



## APD in Australia<sup>2</sup>

APD as a percentage of non-residential infrastructure



**APD is currently 3% of infrastructure spend in the US**

Source:

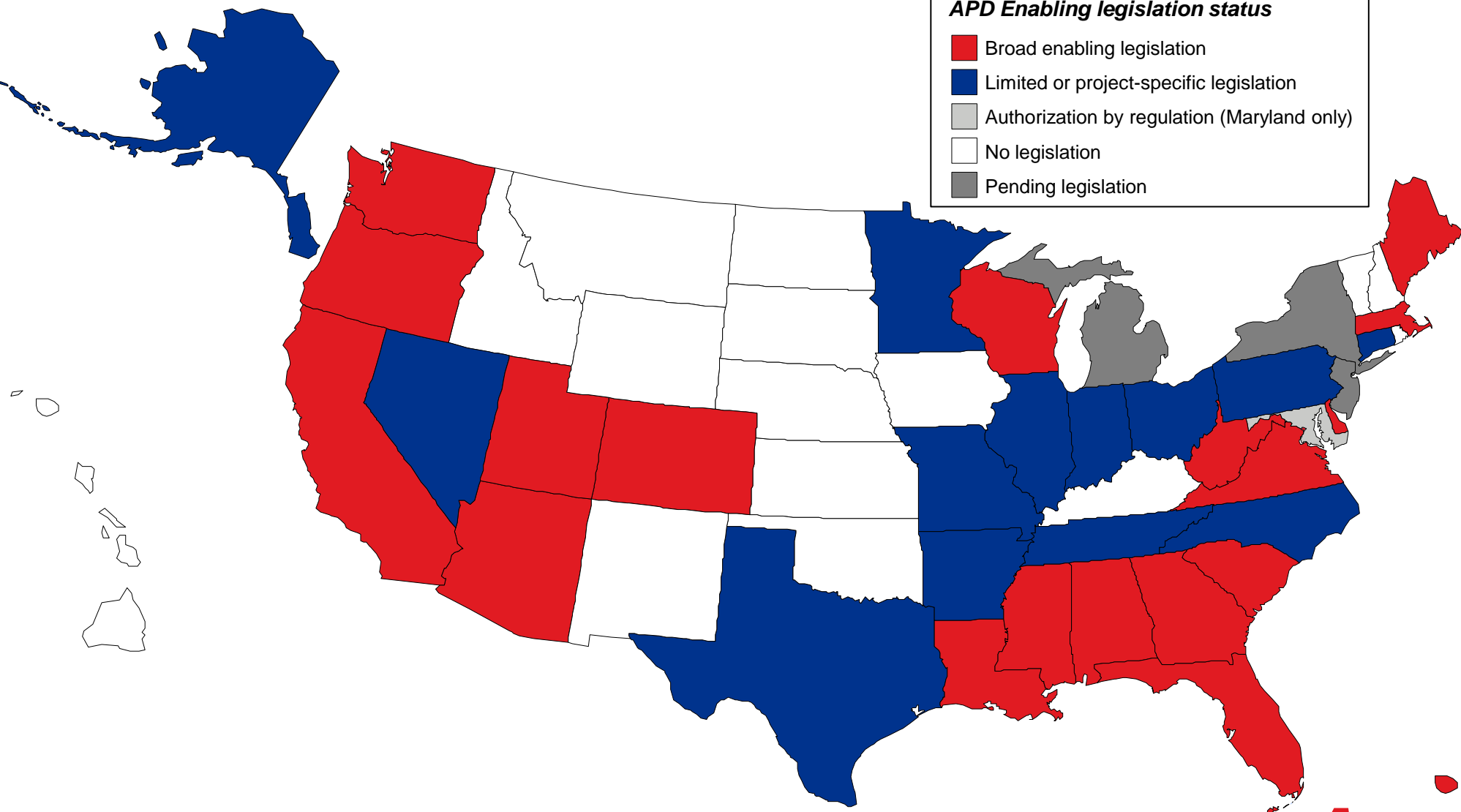
1) IHS Global Insights and UK Treasury

2) IHS Global Insights and InfraAmericas

# US APD LEGISLATION

## APD Enabling legislation status

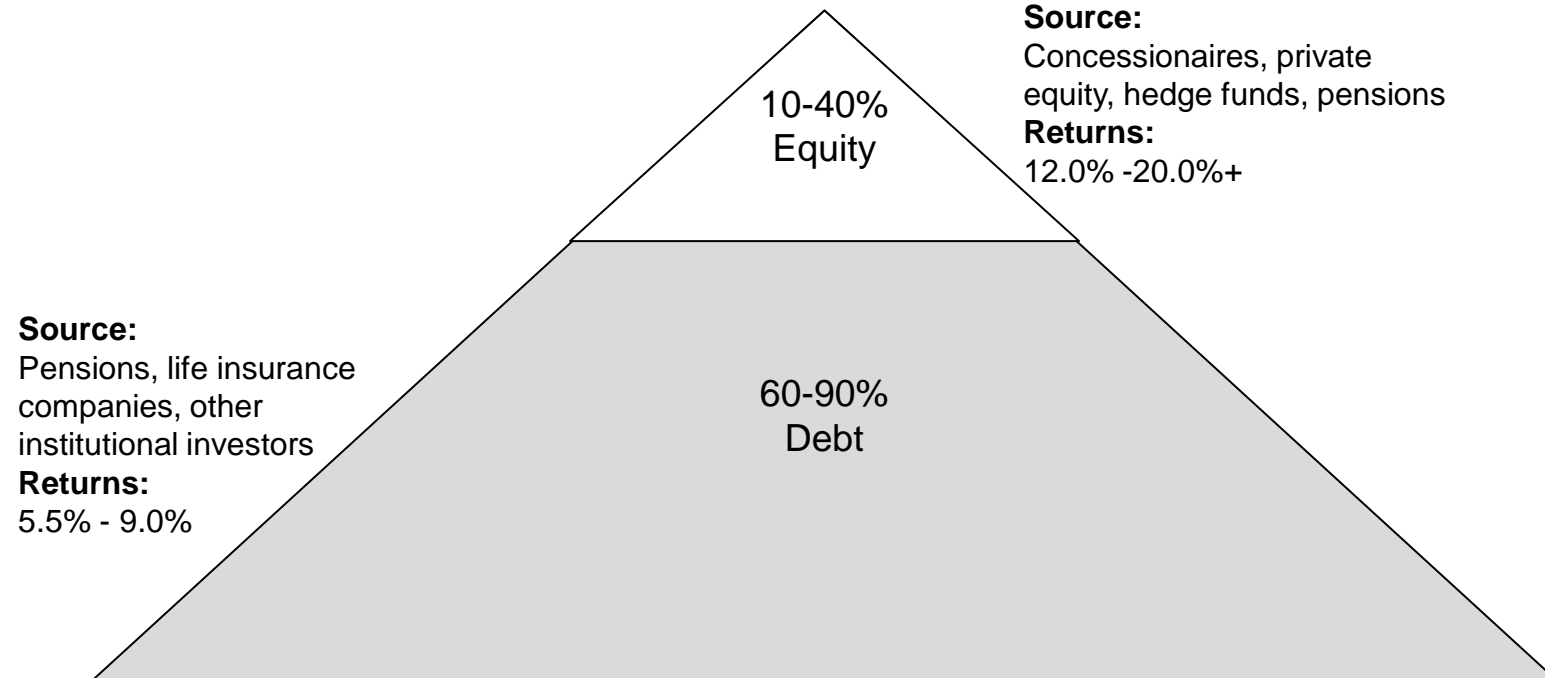
- Broad enabling legislation
- Limited or project-specific legislation
- Authorization by regulation (Maryland only)
- No legislation
- Pending legislation



# APD Funding and Financing Examples

# APD SOURCES OF FUNDS

---

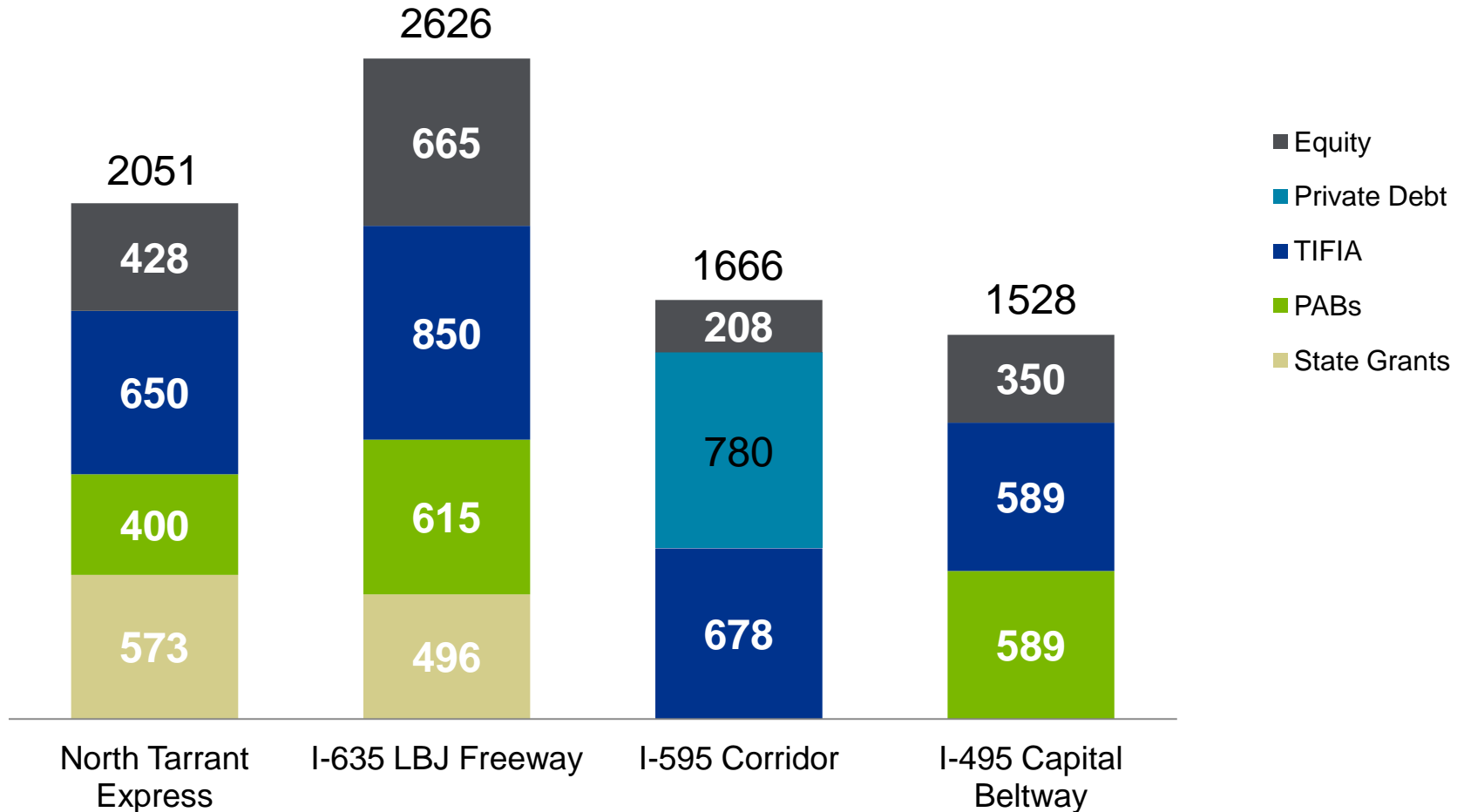


**Debt financing is the key to winning APD projects**

# P3 FINANCING COMPARISON

## Project Financing Breakdown

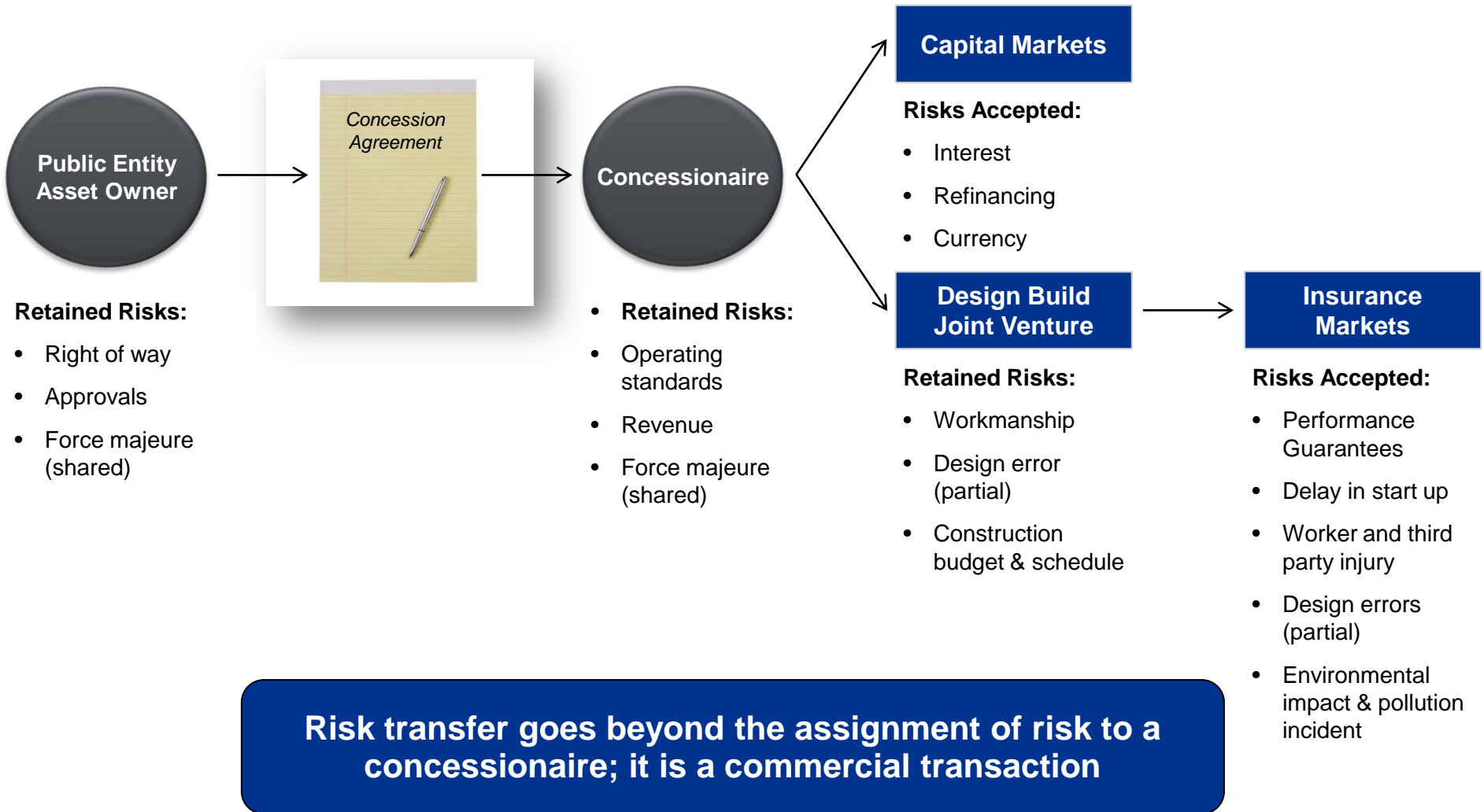
In USD millions



# Aon Infrastructure Solutions' Role in APD



# RISK TRANSFER IN APD AFFECTS ALL PROJECT STAKEHOLDERS



## AON INFRASTRUCTURE SOLUTIONS (AIS)

- Market-leading experience in construction and infrastructure risk **solutions**
- Unmatched Alternative Project Delivery (APD) **insight** and analysis
- Global network of infrastructure and APD **experts**

- Placed more than \$1,600 million of construction and infrastructure premium in 2011
- More than 600 construction-infrastructure-sector dedicated professionals globally
- Advised on over 475 APD projects over the last 20 years
- Aggregated a comprehensive database of infrastructure and APD projects that provides unmatched analytical capabilities.
- Centralized the knowledge of Aon's global network of risk, performance security, construction, and infrastructure professionals.

**AIS brings insight, expertise, and solutions to all phases of an APD project lifecycle to ensure clients are well-positioned for (1) favorable debt terms, (2) competitive bids, and (3) successful project completion and asset management**



# AIS TOOLS AND RESOURCES OPTIMIZE CLIENTS' SUCCESS

---

## Market Intelligence

*APD Project Database*

- AIS has compiled a comprehensive North American project database dating back to 2004
- This database includes project bidder, financing, performance security, and insurance details
- AIS also tracks on-going transactions and opportunities

## Risk Allocation

*Concession Agreement Review Tool (CART)*

- CART is a global database of concession agreements, with particular focus on critical risk transfer clauses and requirements
- CART provides market intelligence on current commercial terms and industry practices.

## Risk Transfer

*Performance Security Innovation*

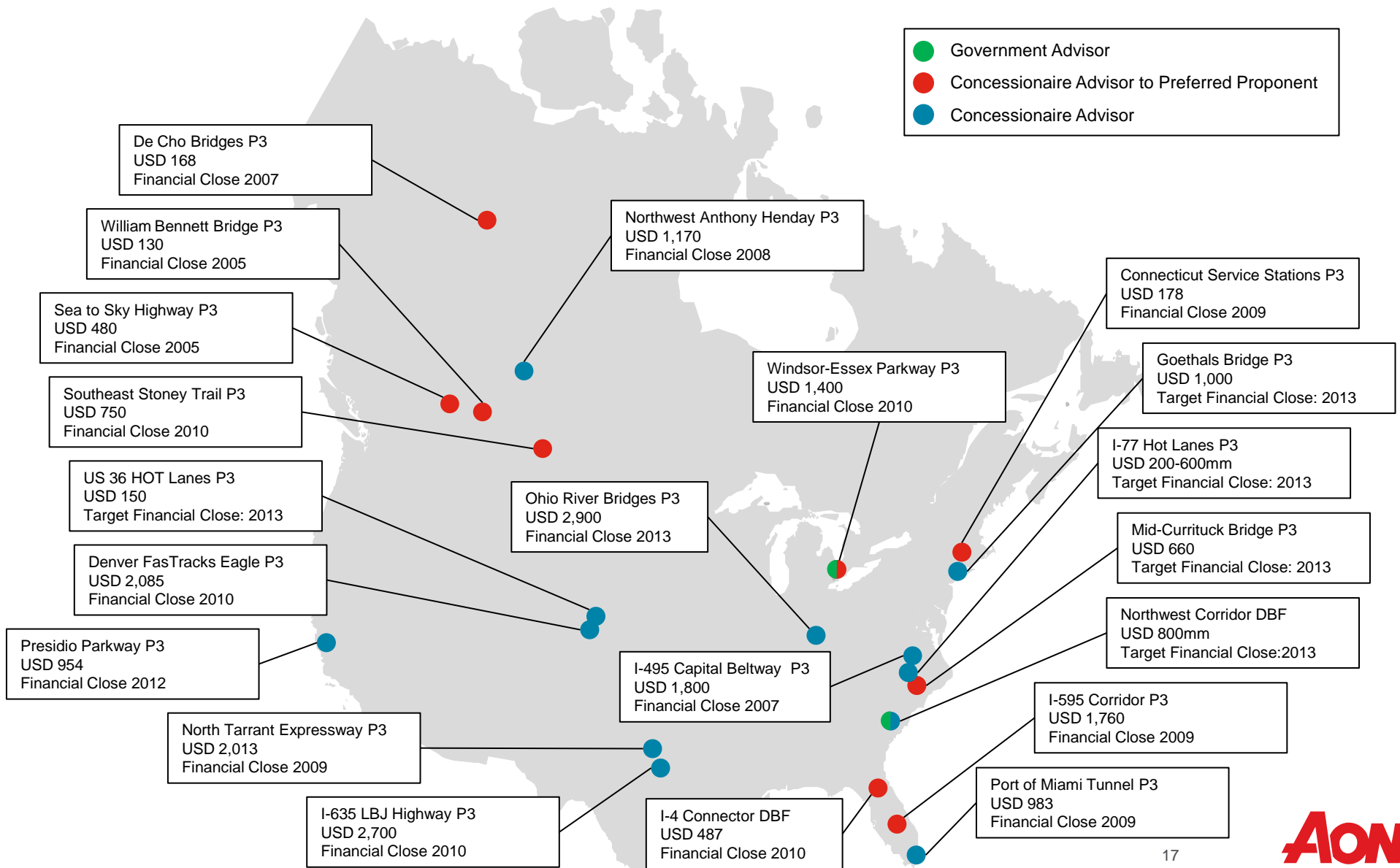
- AIS is developing innovative performance security products to meet the needs of multiple stakeholders in APD projects, including contractors, lenders, and owners
- New performance security products offer increased liquidity with reduce collateral requirements and efficient pricing

## Risk Education

*APD, Risk and Risk Solution Workshops*

- AIS facilitates workshops to better educate clients on APD related topics, including:
  - APD model, variations, and market
  - APD & “megaproject” risks
  - Risk solutions (performance security, surety, insurance)

# SAMPLE OF AON'S NORTH AMERICAN APD EXPERIENCE – 2009 TO CURRENT



# PROJECT RISK AND CREDIT SPREAD

Credit Factor  
*Appx. margin contribution for  
 BBB project & 30 year bonds*

Risk free rate  
 ~3.5% yield

Toll or Availability Payment  
 50 to 150 bps

Availability Payer Rating  
 25 to 50 bps

Project Risk Profile  
 ~75 bps

Contractor Risk Profile  
 ~75 bps

Contractor Supports  
 ~75 bps

**300 to 425 bps over risk free rate**

Credit Factor	Debt Considerations	Aon Alignment
Project Risk Profile	Concession agreement risk allocation	Concession Review Tool
	Complexity of construction	Construction knowledge
	Project schedule	APD deal knowledge
	Construction budget	Construction knowledge
	Site conditions	APD deal knowledge
Contractor Risk Profile	Creditworthiness	Cost of Credit Database & advisory experience
	Size, reputation and track record	Industry knowledge
	Subcontractor strategy	Operational expertise
Contractor Supports	Joint venture strategy	Industry knowledge
	Contractor replacement wording	Concession Review Tool
	Parental guarantee	Contractor knowledge
	Letter of credit	APD deal volume & alternative products
	Surety	Risk transfer tools, market expertise, construction knowledge, and deal influence
	Subcontractor default insurance	
	Insurance	

Credit Spread

