Oregon Water Resources Commission
November 20, 2014

WCX
West Coast Infrastructure Exchange

US Infrastructure Context

- **We face a $1 trillion infrastructure bill on the west coast in the next 30 years need to re-think how we deliver and finance it**
- **Financial reality = *fewer* federal grants + *declining* revenues + *falling* general obligation debt capacity**
- **Strong demand for large infrastructure projects from institutional investors- also potential for aggregation of smaller, rural projects into investment opportunities**
- **Need for better management of full life-cycle costs, including climate risk and resilience, and avoiding deferred maintenance crises**
- **Successful models have been proven in other countries, we don't need to reinvent the wheel**

What is the West Coast Infrastructure Exchange (WCX)?

- A 1st of its kind regional platform to accelerate innovative infrastructure market development, best practices, and improve the project pipeline.
- Collaboration among CA, BC, OR and WA
- Leverage expertise of Partnerships BC
- Translation point between public sector projects and private capital
- Provide support and technical assistance to procurement agencies
- Funding from member states plus grants from Rockefeller and MacArthur foundations

partnerships
British Columbia

- Established in 2002 as center of expertise for innovative procurement and finance. Operates as independent corporation, sole shareholder is Ministry of Finance
- Serves governments and public sector agencies through the planning, delivery and oversight of major infrastructure projects
- **40+ projects to date: $17.5B+ in value with $7B+ private capital at risk**
- **Projects have generated significant benefits for taxpayers:**
  - **Greater value for money**
  - **Reduced risk for taxpayers**
  - **Certainty of project cost and schedule**
- Sectors include transportation, public buildings, energy, education, waste water

Develop skills and capacity in state and local government to:

- Deliver innovative infrastructure projects consistently
- Incorporate climate resilience into project planning
- Connect projects with private capital
- Tap expertise of Advisory Council of external experts

- **Implement pilot projects using Design Build Finance Maintain (DBFM) to:**
  - Provider greater value for money
  - Harness private sector innovation
  - Reduce life cycle costs through long term performance based procurement

Design Build Finance Maintain (DBFM)

- Public owner transfers risk to private team that provides design, construction, some amount of financing, and long term maintenance through a single integrated contract for payments that are capped and scheduled for entire term of contract.

- Payment deductions apply if performance requirements not met.

- Encourages high quality, allows for highest teamwork and innovation in design and construction.

- Overall Canadian Results from DBFM method*
  - Overall 13% higher value for money
  - 83% on time and 95% within 6 months of scheduled delivery

* Conference Board of Canada Report

Improving Outcomes

Implement performance-based, life-cycle procurement (Design Build Finance Maintain- DBFM) based on successful Partnerships BC model

- For larger and more complex projects, this approach has multiple benefits
- Invite private sector competition to achieve innovation and performance outcomes
- Transfer risk for on-time, on-budget delivery and quality to the private providers
- Assure performance by placing private capital at risk with penalties for non-performance
- Stretch public dollars by leveraging private capital
- Align public and private sector interests so projects are designed to reduce long-term costs, not just to achieve least cost of construction
- Public sector owns infrastructure and enforces performance metrics

Public Contracting Values Preserved

- **Projects are publicly owned**. High-road contracting provisions such as prevailing wage apply because projects are public works.

- **Taxpayer risk is reduced through long-term performance contracts**.
  - Aligns interests of private partner with public owner to minimize life cycle costs
  - Long term contract ensures that proper maintenance will be performed
- **Higher value for money** means we close the gap to achieve the infrastructure we need for a sound and resilient economy.

Procurement Models and Range of Risk Transfer to Private Sector

P3 Structure	Design Risk	Const. Risk	Financial Risk	O&M Risk	Traffic Risk	Revenue Collection Risk
Traditional Design-Bid-Build		X				
Design-Build (DB)	X	X				
Design-Build-Operate-Maintain (DBOM)	X	X		X		
Design-Build-Finance (DBF)	X	X	X			
Design, Build, Finance, Operate and Maintain (DBFOM) with toll or shadow toll-based payment	X	X	X	X	X	X
Design, Build, Finance, Operate and Maintain (DBFOM) with availability-based payment	X	X	X	X		

Source: US DOT-FHA

Potential role of P3s in Water Supply

- Tool to reduce taxpayer risk in development and execution of complex projects
- Model is well established in the energy sector – utilities transfer development risk to IPPs and pick the best projects
- State could focus on developing policies and priorities and aggregating demand
- Tap private sector expertise and risk capital to develop solutions and compete for contracts on the basis of lowest life cycle costs
- Avoids potential pitfalls of developing projects via consultants/contractors whose interests are not aligned with the government's/users' interests
- Local water users likely lack capacity to develop larger projects – both in terms of project management skills and risk capital to develop viable projects
- Larger P3s could achieve economies of scale in financing, construction and operations costs.

Potential role of P3s in Water Supply- cont'd

- Potential for better levels of service, greater efficiency and accountability
- Bidders/developers would compete to develop most cost effective supply solutions. State would be able to select from multiple competing proposals that private sector generates.
- Some degree of risk/cost sharing would likely be necessary to address regulatory and political risk but state investment would be leveraged with private risk capital.
- Investor interest (both institutional equity and project developers/contractors) in water projects exceeds supply of projects

Recent San Antonio- Abengoa contract - Example of this model

- 30 year contract for 50,000 ac-ft/year of new water
- 20% increase in San Antonio's water supply to support growth
- 142 mile, 53" pipeline ($762M cap ex) to connect new groundwater source east of Austin to San Antonio
- Private sector to acquire all groundwater rights plus ROW for pipeline; and build, operate and maintain pipeline long term
- Up to $82M of private equity for development
- Private activity bonds (PABs) to fund construction (expected to be 5.5% interest)