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‘DBF_M’ Social P3s – What About the Missing ‘O’?

‘DBFMO’ Models Demonstrate The Full Potential of Social Infrastructure P3s

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A 'DBF_M' Social P3s – What about the missing 'O' ?

'DBFM-O' Models Demonstrate the Full Potential of Social Infrastructure P3s

Peter Gilpatric and Suhrita Sen

Typically, the functional model for an adaptive reuse of a social infrastructure buildings have two major components:

- Preservation, restoration, renovation and maintenance of the physical facilities over the presumed useful life (30-40years) of the asset for its intended use;
- Performance of the space to assure that the intended use or operations is efficiently and effectively maintained over the presumed life of the contract. This is separate and apart from the risk of demand of the operations of public services; rather it is a question of the facilities being 'fit for purpose' or its highest and best use, especially as the operations of the facilities can be expected to evolve over the long term.

Aligning and providing efficient and cost-effective solutions for the two components within a single contractual model provide the public sector with optimum results and a favorable value for money over the short and long run for any social infrastructure real asset.

When a DBFM P3 contractual model is used for a social infrastructure asset, it aligns the public and private interests, and for the most part, synthesizes identifiable and quantifiable risks and value propositions:

- The **design-build** component will be matching the public sectors scope to an acceptable set of plans that are then bid to achieve value. The process can and should achieve the best integration of technologies and innovations available in the marketplace. The critical element of the design/build component is assuring the public-sector that the resulting asset completely meets their specifications for today and tomorrow.
- There are many workable **financial structures** that combine public funding with private financing to achieve an acceptable project cost over the term of the deal or useful life of the asset: there are structures that use no public funding and structures that simply use the low cost of public financing.
- **Maintenance** which includes repairs, general maintenance and replacements over the term of the deal is an equally important component of the DBFM. Assuring high quality asset monitoring standards are as important as is assuring that the asset embraces beneficial changes in technology.



By not including the operational function in the DBFM structure contractually, the assumption is that the underlying asset is intended to be operated with long term commitment and certainty.

However, the exponential change in the process of governance through our digital states, cities and counties is changing the entire dynamic of operations and the associated need for facilities and infrastructure. This is applicable for all categories of social infrastructure assets - a) Education, b) Health, c) Administration & Finance as well as d) Law Enforcement & Correctional services.

Given the advances in cyber security, open government, connectivity and big Data, e-government, business process automation and virtualization, as well as voice recognition, robotics, drones and virtual Reality; it seems highly unlikely that a government department will operate over a 30-40-year period as it does today. There will be exponential changes leading to new strategic alliances and innovative ways of serving this important public need.

Furthermore, unlike infrastructure, any real estate or building can be put to a multitude of uses. The highest and best use of a facility is the ultimate Value for Money. Performance of the physical space and its highest and best use is a less defined but unique component of a social infrastructure P3 and the component that can most easily disrupt the DBFM value proposition when an asset fails to perform in an ever-evolving operating environment.

As a result, it is possible that the space requirements for a social P3 may change in the future, and the DBFM contract will not be able to optimize the highest and best use potential of the underlying real asset. Thus the performance of the space or asset becomes a critical risk for the public sector to mitigate. This also is the principal opportunity over the long term.

Solution - The introduction of 'O' (operations) to The DBFM model can generate the DBFMO model for social infrastructure P3s – a potential solution to the evolutionary aspects of a buildings use and technological changes. The Operations component in these real estate models are structures that go beyond DBFM components to enhance the public-sector position. There are three such O components identified below as working examples of how the P3 envelope can be expanded using conventions common place in the private sector. Highlighted are 'L' for Lease, 'JV' for Joint Venture and 'C' for Collaboration.

- **DBFML model – the Lease:** This model takes all the benefits of the DBFM model and adds flexibility in the form of a lease between the public sector and private entity. The lease structure would allow the public tenant to vacate all or a part of the space at set intervals should the performance of the space no longer serve the purpose. By including the lease concept, the performance risk is mitigated and shifted to

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the private sector. The public could retain the asset in the long run by leasing the “as is” asset to the private sector and in turn leasing the rehabilitated space as a subtenant.

- **DBFMJV model – the Joint Venture:** This model establishes a joint venture between the public and private sectors for creating a modern social infrastructure that could have alternative uses if the building no longer served the performance needs of agency. In this model, the public sector will have mitigated the performance risk and will have participation in the profits achieved through re-purposing of the asset once the public sector vacates. The private real estate industry takes the risk on changes in use over time.
- **DBFMC model - Collaboration:** This model adds collaboration while keeping control with the public sector. It facilitates collaborations to better manage the performance risk of the asset over the long term. A collaborative-model can bring dynamic partnerships into the space to enhance and assure performance over the long run. Collaborations could include technology-based solutions and other innovations associated with the core public service associated with the owner agency like IT, cyber security, advanced engineering or other innovative initiatives that may benefit from co-location and generate new revenues from technology commercialization. Such collaborations could be accommodated in the future with a provision to lease space to for-profit or not-for-profit private uses that may build a deeper value chain and facilitate the use of a scalable infrastructure through shared core facilities for complementary uses.

Each of these operating models can be considered contextually, e.g . as legal parameters may permit, and all are viable. Their differences are the extent to which the public sector has the authority and deems it to be in the public’s interest to mitigate its risks and in most cases either reduce overall costs, increase flexibility and maintain state-of-the art service for 30- 40 years.

Thus, the ‘DBFM-O’ Models Demonstrate the Full Potential of rehabilitating public buildings using P3s.

As the P3 models expand, the opportunities to access private financing structures also expands. The private sector invents financing vehicles that match almost any legal risk/reward profile. The current P3 models are based on time tested and trusted private structuring models that are backed with appropriate documentation to protect the parties. The large leap for the public sector is to embrace private structuring solutions to solve public operational and financing challenges. There are endless operational examples of private-private ventures and collaborations that produce win/win propositions. The P3 process on the public side is the window of opportunity to access additional capability at lower costs while safely managing the associated risks.

Authors

Peter Gilptaric is a Senior Advisor at Infrastructure Advisors LLC. Peter has implemented major public-private as well as private developments and financing of assets. Peter analyzes these key elements of a transaction and specializes in rolling them into a comprehensive proforma.

Suhrita Sen is the Founder and Principal of Infrastructure Advisors LLC, where she is engaged in advising global clients in all stages of infrastructure project development, finance and management. With 25 years in management consulting, she specializes in solutions at the intersection of financial, technical and commercial matters.

