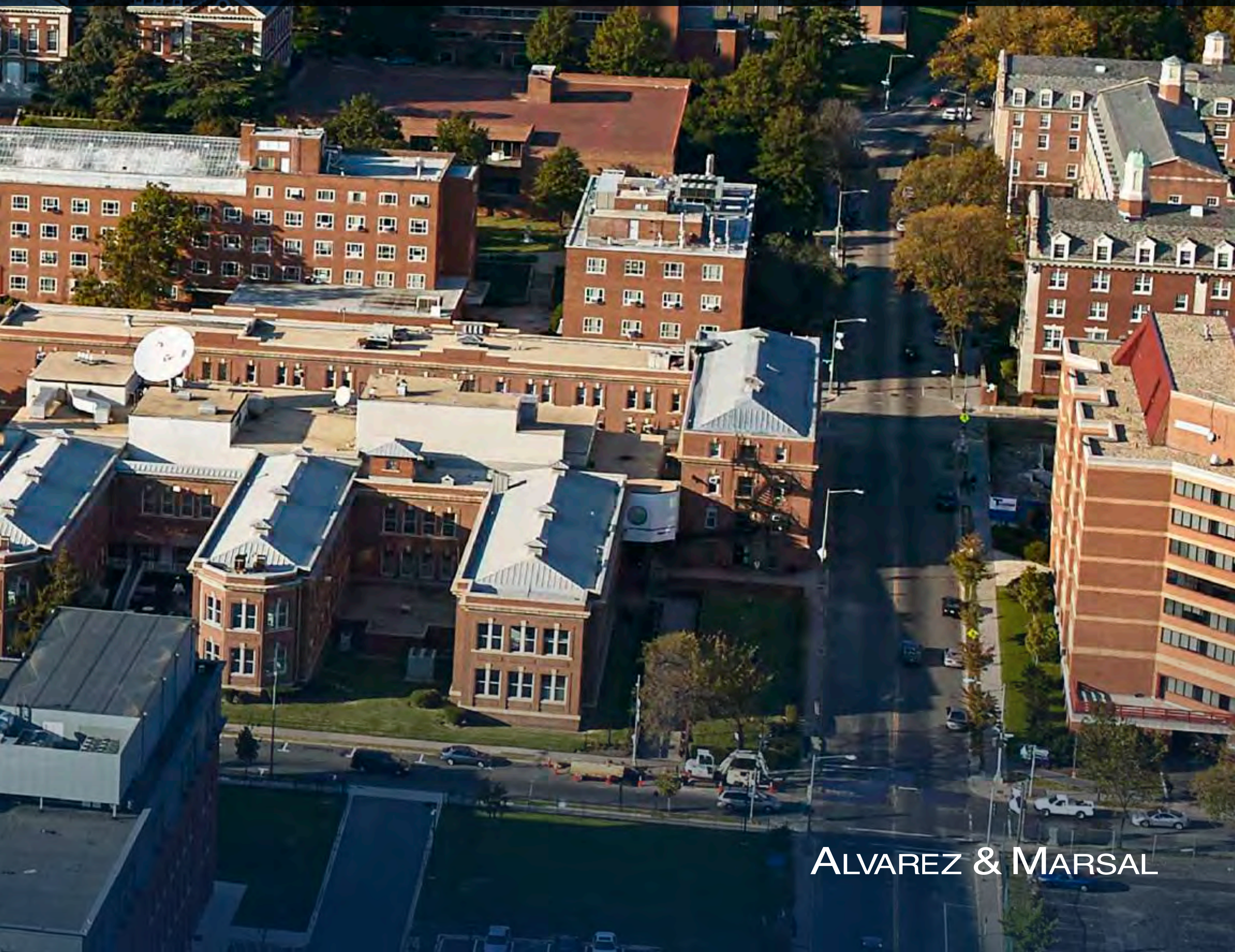
A&M

P3
INFRASTRUCTURE
REAL ESTATE ADVISORY

# WHAT'S THE RISK?

## Determining the Risk of P3 Transactions



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Every P3 project is unique and risk allocation must be negotiated between the institution and private partner. This analysis offers a notional relationship between transaction structures and risk retained by the institution.

RISK TO INSTITUTION ○ PARTNER RISK ◔ ◑ SHARED RISK ◕ ● INSTITUTION RISK

A&M's P3 professionals are here to help you DO P3 RIGHT.

| PROJECT PHASE | PRE-DEVELOPMENT | | | | FINANCING | | | | CONSTRUCTION | | OPERATING COSTS AND PERFORMANCE | | | | | MARKET CONDITIONS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| RISK TYPE | ORIGINAL SITE CONDITIONS | REGULATORY REQUIREMENTS | POLITICAL – INTERNAL SUPPORT AND APPROVALS | DESIGN – CONTRACTOR FAULT | AVAILABILITY OF FINANCING | PRE-CLOSING FINANCING TERMS | POST-CLOSING FINANCING TERMS | INFLATION | TIMING AND COST OVERRUNS | QUALITY OF WORK | COST OVERRUN ON INSTITUTION-PROVIDED SERVICES | COST OVERRUN FROM EXTERNAL FACTORS | COST OVERRUN ON CONTRACTUAL SERVICES | INTERRUPTED SERVICE OR SHORTFALL OF SERVICE QUALITY | END OF TERM ASSET CONDITION | |
| Self-Issued – 100% Bond Debt | ● | ● | ● | ◑ | ● | ● | ● | ● | ● | ● | ● | ○ | ● | ◔ | ● | ● |
| 501(c)(3) Issued – 100% Tax-Exempt Debt | ● | ◑ | ◕ | ○ | ◑ | ● | ◑ | ◑ | ○ | ◔ | ◑ | ◑ | ◑ | ◑ | ○ | ◑ |
| Concessionaire Issued – 100% Taxable Debt | ● | ◑ | ◕ | ○ | ◑ | ● | ◑ | ◑ | ○ | ◔ | ◑ | ◑ | ◑ | ◑ | ○ | ◑ |
| 100% Investor Equity | ● | ◑ | ◕ | ○ | ◔ | ○ | ○ | ◔ | ○ | ◔ | ◔ | ◕ | ◔ | ◑ | ○ | ◔ |
| Comments | Ground conditions, supporting structures, geotechnical and environmental | Land entitlements, permits | Institution support for a project | | Financing unavailable under agreed upon terms in P3 agreement | | | Expense growth outpaces revenue growth | Inefficient work practices and wasted materials; Poor coordination of contractors | Quality shortfall/ defects in construction and commissioning | | Labor Relations, Occupational Health and safety | | | Asset replacement due to poor maintenance | Fluctuations in demand, rental rates, and competitive supply |

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## RISK ALLOCATION

Institutions that design, build and operate facilities themselves are exposed to most or all risks throughout the life of the project. They must contend with design flaws, construction change orders and operational inefficiencies as the sole owner and operator of the facility.

P3s offer the potential for significant benefits by enabling an institution to transfer or share certain project risks with a private sector partner.

The types and levels of risks that can be transferred are unique to each project, though the type of transaction an institution enters into often signals the possible degree of risk transfer.

This document serves as a high-level guide to the major types of risks allocated between institutional and private partners in some of the more common P3 transaction types.

Alvarez & Marsal's dedicated P3 Infrastructure Real Estate Advisory Services practice can help your institution execute the optimal risk allocation based on your campus's project objectives.

## COMMON FINANCING AND TRANSACTION STRUCTURES

1. **Self Delivery** – Institution issues debt and delivers the project by contracting directly with design and/or construction firms. Institution operates and maintains project.

2. **501(c)(3)** issued tax exempt debt – Institution conveys the asset to a non-profit entity, which issues bonds to fund construction of the project. The project is owned, operated, and maintained by the 501(c)(3) entity.

3. **Taxable Debt** – Institution partners with a private firm who acquires taxable financing to fund construction. The project is owned, operated and maintained by the private entity.

4. **Equity** – Institution partners with a private firm who provides its own equity to fund construction of the project. The project is owned, operated and maintained by the private entity.

# Transaction Structure Facts and Figures

| PROJECT FEATURE | SELF-ISSUED | 501(C)(3) ISSUED | CONCESSIONAIRE ISSUED | INVESTOR EQUITY |
|---|---|---|---|---|
| **Financing Source** | Tax-Exempt or Taxable Bonds | Tax-Exempt Bonds | Taxable Bonds | Equity |
| **Land** | Unsubordinated Ground Lease | Unsubordinated Ground Lease | Unsubordinated Ground Lease or Concession Agreement (Potential for no Land Security) | Unsubordinated Ground Lease |
| **Typical Lease or Concession Term** | N/A | 40 years with ability to terminate after debt repayment | 40 years with ability to terminate after debt repayment | 50-75 years |
| **Potential Value to Institution** | 100% of operating profits | Up-front and/or annual ground rent, % of operating profits | Up-front and/or annual ground rent, % of operating profits | Up-front and/or annual ground rent payment |
| **Ownership of Improvements** | Institution | 501(c)(3) | Institution | Investor(s) |
| **Asset Reversion to Institution** | Yes | Yes | Yes | Yes |
| **Out-Year Capital Improvements** | Institution Responsible | Partner responsible Institution approves major expenditures | Partner responsible Institution approves major expenditures | Partner responsible Institution approves major expenditures |

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