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OFFICE OF THE
MAYOR

MURIEL BOWSER
MAYOR

MAR - 3 2017

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
1350 Pennsylvania Avenue N.W., Suite 504
Washington, D.C. 20004

Dear Chairman Mendelson:

Pursuant to Section 114(e) of the Public-Private Partnerships Act of 2014, effective March 11, 2015 (D.C. Law 20-228; D.C. Official Code § 2-273.09(e)), I am pleased to submit the Fiscal Year 2016 Annual Report of the Office of Public-Private Partnerships (OP3).

OP3 has accomplished much in its first year of existence; from developing a best in class procurement process to establishing a pipeline of a dozen projects and educating government officials and residents on the P3 concept in the process. We look forward to sharing even more news on their accomplishments in the weeks, months, and years to come.

Please feel free to contact Seth Miller Gabriel, Director of OP3, at (202) 724-2128, to discuss any questions you may have regarding this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Muriel Bowser".

Muriel Bowser

DC BUILDS!

THE STATE OF INFRASTRUCTURE

The Fiscal Year 2016 Annual Report

District of Columbia Office of Public-Private Partnerships



Note from the Director: “This is the Year!”



For the past decade that I have worked in this industry, the common refrain I have heard from more knowledgeable and experienced professionals than myself has been “this is the year P3s finally arrive in the United States.” And for the past decade, this forecast has yet to come true. Unlike Canada, the United Kingdom, Australia and dozens of other countries around the world, we still have not deployed this innovative tool in any significant way beyond the odd project here and there. This is a shame. I firmly believe P3s are the single greatest opportunity to not only build and maintain the sorely needed infrastructure that residents rely on every day, but it can also help create jobs and more equitable growth across the District. If P3s had been utilized in the United States sooner, or in a less ad hoc manner, we might not have decaying roads, bridges, pipes, and schools, or at least to the same extent as we do today.

The District of Columbia deserves credit for doing it the right way. Mayor Muriel Bowser started by introducing comprehensive P3 legislation that is streamlined and flexible to attract industry partners, while also being transparent and inclusive to ensure stakeholder support and protection of the public interest. The DC Council unanimously approved this bill and funding to implement it. Then the District established a small, but dedicated office of P3 experts to advise owner agencies and serve as a liaison to the private sector. That office, which I have the honor of leading, has not rushed to get a single project out the door, but instead has chosen a deliberate and methodical path by rolling out a pipeline of projects and a predictable process with which to procure them that will ensure long-term success and exponential benefits to the District as a whole. It is exactly this kind of standardization and consistency that gives me hope that this truly is the year that the United States “gets” P3s. At the very least, the District will.

I thank everyone who supported the efforts of DC OP3 in its first year. The District’s foresight and willingness to try a new approach will bear dividends, and I look forward to reporting back in the near future of the accomplishments we have achieved with your continued help.

Sincerely,

A handwritten signature in black ink, appearing to read "Seth Miller Gabriel". The signature is fluid and cursive, with a large initial "S" and "M".

Seth Miller Gabriel, Director, OP3

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1. Finding Solutions to Close the Infrastructure Gap

The District Office of Public-Private Partnerships (“OP3”) was established by the Public-Private Partnerships Act of 2014 (“P3 Act”), which was introduced by then Councilmember Muriel Bowser in December 2013 and unanimously approved by the Council in December 2014.¹ The P3 Act was motivated by a desire to develop innovative solutions that would help close our infrastructure gap. This will be particularly important to maintain the growth that has returned the District’s population to its highest level in forty years.

1.1 Where We Are and How We Got Here

Project	Total Needs	District’s 6-Year Capital Plan
DC Public Schools	\$3.5 billion	\$1.78 billion
New Corrections Center	\$500 million	\$0
Streetcar	\$1.5 billion	\$424 million
Daly Building Rehabilitation	\$300 million	\$0
Department of Parks and Recreation Facilities	\$237.5 million	\$141 million
DPW Consolidated Campus	\$300 million	\$130 million
TOTAL:	\$6.35 billion	\$2.5 billion

FIGURE 1: DISTRICT INFRASTRUCTURE NEEDS

As demonstrated in a recent report from the Office of the Chief Financial Officer (OCFO), even with a \$6.3 billion capital improvement plan through the year 2022, the District still has \$4.2 billion in unmet needs across the education, human services, public safety, economic development, and operations clusters. To close this gap, an additional \$325 million in capital spending would be required each year. This does not even include the approximately \$2.2 billion that are required for the long-term state of good repair for Metro.² These projects are not just a wish list. They represent the types of investments that we must make to ensure sustained, smart growth and equitable prosperity in all 8 wards of the District. (See Fig. 1, above.)

¹ The Public-Private Partnership Act of 2014, approved March 11, 2015 (D.C. Law 20-228, D.C. Official Code § 2-271.01 et seq.), available at <http://lirms.dccouncil.us/Legislation/B20-0595>.

² Office of the Chief Financial Officer, District of Columbia Long-Range Capital Financial Plan Report at ii (Oct. 2016), available at <http://cfo.dc.gov/page/office-chief-financial-officer-long-range-capital-financial-plan-report>.

We face this infrastructure challenge for many of the same reasons cities and states all over the country and world do. First, we have a self-imposed debt ceiling of 12% that we are estimated to hit in 2022, meaning we won't be able to issue new public bonds at that point. Were the District to increase its borrowing capacity or exceed its debt ceiling, we would run the risk of lowering our currently strong 'AA' bond ratings and increase the costs of borrowing by as much as 15%.³ As a result, we will not have the ability to increase borrowing significantly once we hit the debt ceiling without greatly increasing revenue, paying down existing debt, or exploring private financing sources.

Second, federal funding for transportation and other programs is increasingly scarce and unreliable. You need look no further than recent government shutdowns, the use of continuing resolutions, and temporary budget extensions that make it very hard to plan multi-year projects that depend on federal funds.⁴

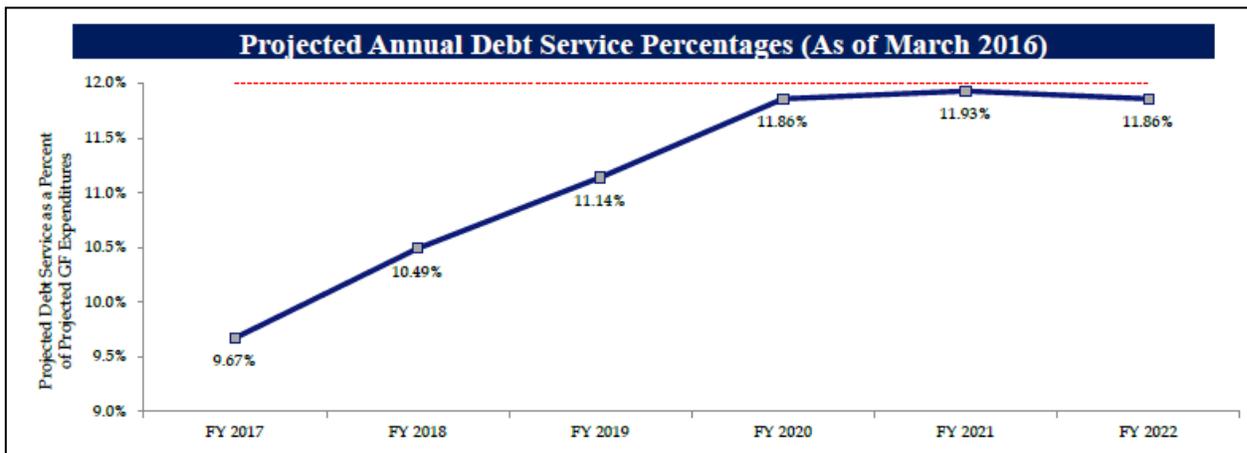


FIGURE 2: DISTRICT DEBT CAPACITY

1.2 Where We are Headed with P3s

Increased infrastructure demands combined with less reliable federal funding and diminished ability to issue public debt has forced the District to be creative. For that reason, we're following in the footsteps of 39 other states and 33 countries who have turned to P3s to help solve this infrastructure challenge.⁵

³ Office of the Chief Financial Officer, *District of Columbia Long-Range Capital Financial Plan Report* at 6 (Oct. 2016), available at <http://cfo.dc.gov/page/office-chief-financial-officer-long-range-capital-financial-plan-report>.

⁴ Clinton T. Brass, *Shutdown of the Federal Government: Causes, Processes, and Effects*, Congressional Research Service (Sept. 8, 2014), <https://fas.org/sgp/crs/misc/RL34680.pdf>.

⁵ World Bank, *Public Private Partnership Reference Guide* (January 2014); National Council of State Legislatures, *Building-Up: How States Utilize Public-Private Partnerships for Social and Vertical Infrastructure* (May 2016)



There’s a good reason why jurisdictions like the District are looking to P3s as a solution, but it’s critical to first understand what they are and are **NOT**. First, P3s are not “free” money, but they are a financing tool that can make infrastructure projects possible as long as there is a funding source that the government and residents are ultimately using to pay back the financing. P3s are not privatizations because no District assets will be sold and no government jobs will be outsourced to contractors. Finally, P3s are not philanthropy. While District agencies with the assistance of the Office of Partnerships and Grants collected more than \$26 million in grants and donations in Fiscal Year 2016 to help achieve their missions to serve residents while reducing the reliance on scarce public dollars, such philanthropic contributions are not sufficiently reliable to finance a long-term contract to design, build, operate and maintain infrastructure. OP3 requires a revenue source or savings to underwrite every project we do.

What P3s are NOT

- P3s are **not** free money
- P3s are **not** privatization
- P3s are **not** philanthropy

P3 Fact: Canada procured 36% of its infrastructure with the P3 model in 2015, while the U.S. was just 1%

With the knowledge of what P3s are not, we can turn to what P3s are in the District context. As the P3 Act defines them, P3s are:

“Long-term, performance-based agreements between a public entity and a private entity or entities where appropriate risks and benefits can be allocated in a cost-effective manner between the public and private entities... [and] a private entity performs functions normally undertaken by the government, but the public entity remains ultimately accountable for the project and its function.”

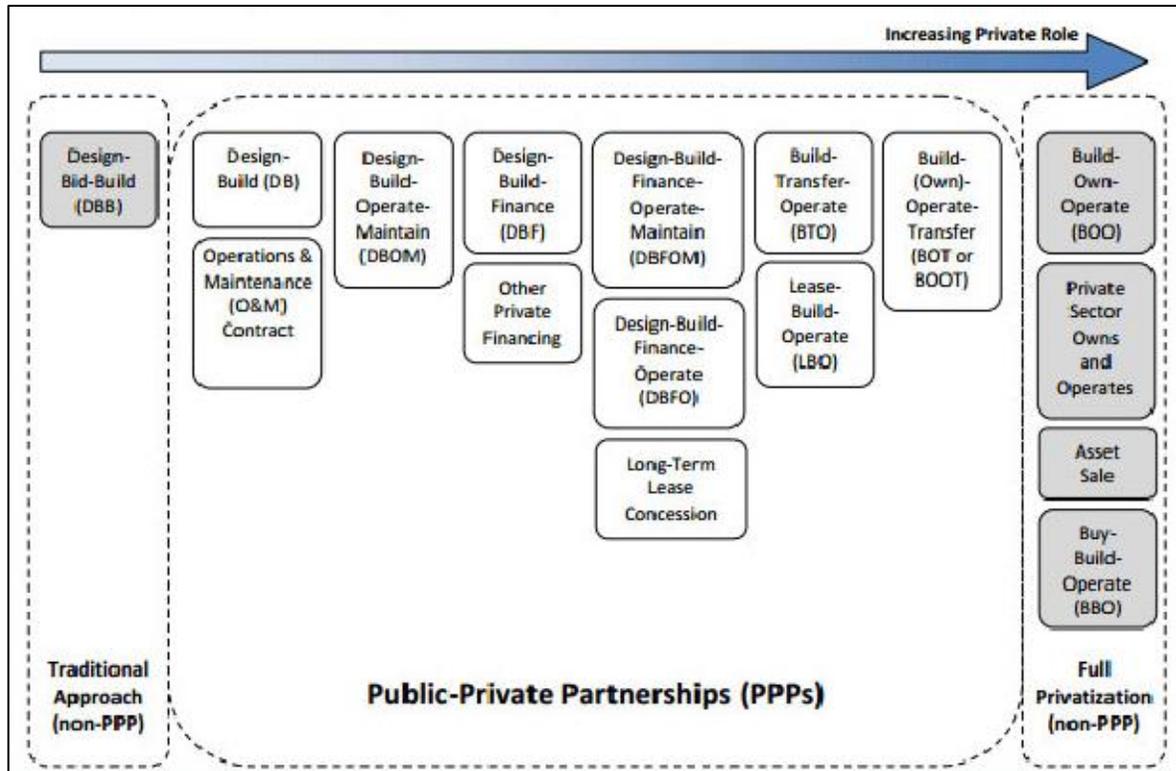


FIGURE 3: P3 STRUCTURING OPTIONS

This may sound like a broad definition, but P3s are flexible for good reason, and they exist on a continuum from those that are most like traditional procurements for public assets versus those that shift a much greater amount of the risk to the private sector. (See Fig. 3, above.)

Why P3?

Now that we know what P3s are and are not, the next question is what are the benefits of P3s. The benefits of this procurement model are several, including:

- **Incentivizes Innovation:** By specifying the outcomes that the public entity desires through very clear key performance metrics rather than prescribing the methods of achieving these outcomes, P3s spur the private sector to be innovative and compete on developing the most effective and cost-efficient solutions.
- **Incorporates a “Cost of Ownership” Financial Plan:** Because P3 agreements typically cover the entire lifetime of an asset.

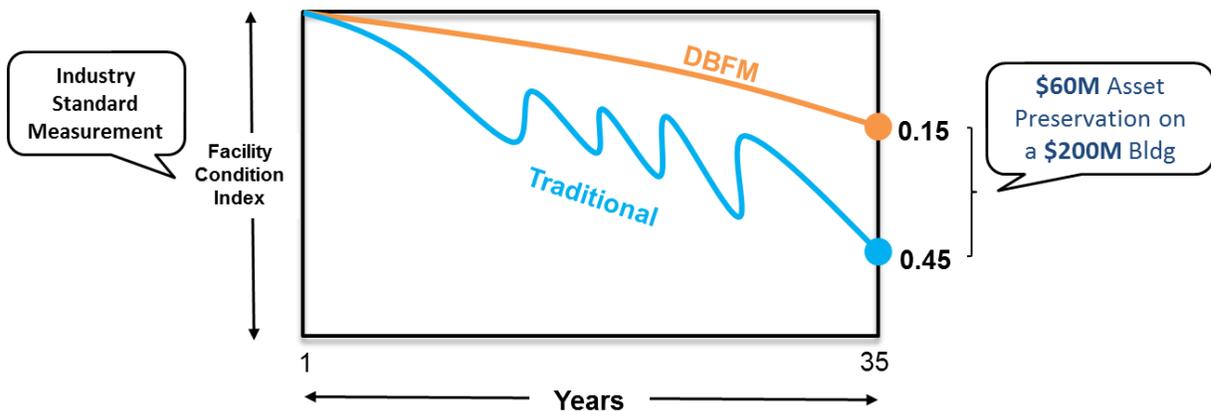


FIGURE 4: BENEFITS OF BETTER LIFE CYCLE MANAGEMENT

P3s force public entities to conduct a comprehensive and accurate financial analysis for the design, build, financing, operation and, most importantly, maintenance of a facility. This also includes a comparison of the traditional public sector procurement versus a P3 option. With that information, the District can make smarter decisions about life-cycle investments in our assets so that they last longer, are in better condition, and we save money in the process. Figure 4 (above) demonstrates those benefits.

- **Manages Risk:** P3s transfers risk, including cost overruns and schedule delays, to the entity best able to value and mitigate that risk. Risk has a cost associated with it, and the public sector frequently doesn't value risk accurately, let alone take the proper steps to minimize or mitigate risk.
- **Holds The Private Sector Accountable:** P3s incentivize long-term life-cycle efficiencies, including more efficient operation and maintenance of facilities, which can account for 60% of the 40-year cost of a facility. (See Fig. 5, below.) This occurs because you are asking a single private sector entity, or consortium of entities under one contract, to take on those responsibilities. If the consortium doesn't meet the requirements of the P3 agreement, it will be responsible for any additional costs or reduced payments or penalties for not meeting key performance outcomes. As a result, the consortium will likely make smarter decisions on the front end that may cost them more in the short term, but will be to their and our benefit in the long run.
- **Debt Capacity:** Finally, because the private sector takes on more risk and manages the life-cycle of assets in P3s, they have the ability to reduce the use of public debt by using private financing, including equity and debt. This not only frees up public debt for other projects that aren't suited to private financing, but such private investors can be our greatest allies to ensure that a project

is built and maintain on time and to the level of quality the public demands. Otherwise, the value of their investment goes down.

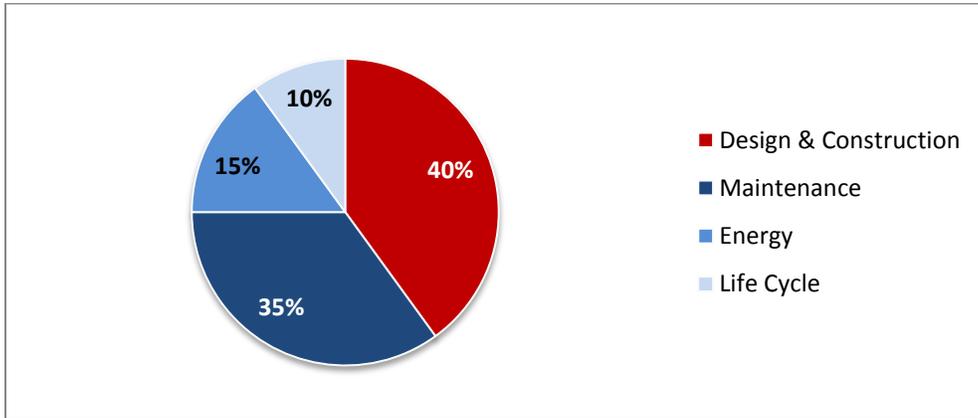


FIGURE 5: 40 YEAR FACILITY COST OF OPERATIONS

How Do P3s Work?

Traditional Procurement		P3	
District	Contractor	District	Contractor
Financing			Financing
Permits		Permits	
Program		Program	
Force Majeure		Force Majeure	
Organization			Organization
Design			Design
	Construction		Construction
O & M			O & M
Availability			Availability

FIGURE 6: RISK ASSUMPTION COMPARISON

The above chart in Figure 6 shows how public and private entities take on different risk types in traditional and P3 procurements. It's important to note that our goal is not to

P3 Fact: \$1 billion invested in infrastructure creates 21,671 jobs

transfer all the risk to the private sector, because the more risk transferred, the more expensive a project becomes for the public sector. You want to ensure that the entity incurring the risk is the one who is best positioned to mitigate that risk.

As shown in Figure 7 below, P3s typically have very complex structures to ensure the necessary team members and private investors can participate and guarantee the previously discussed benefits. The important thing to remember is that the public entity, in this case, the District government, actually only deals with one entity on the private sector, which we call the concessionaire. That concessionaire is usually a special purpose entity (SPE) that is a partnership among several different companies that includes a developer who leads the project along with design, engineering, construction, and operations firms, as well as debt and equity investors that finance the project.

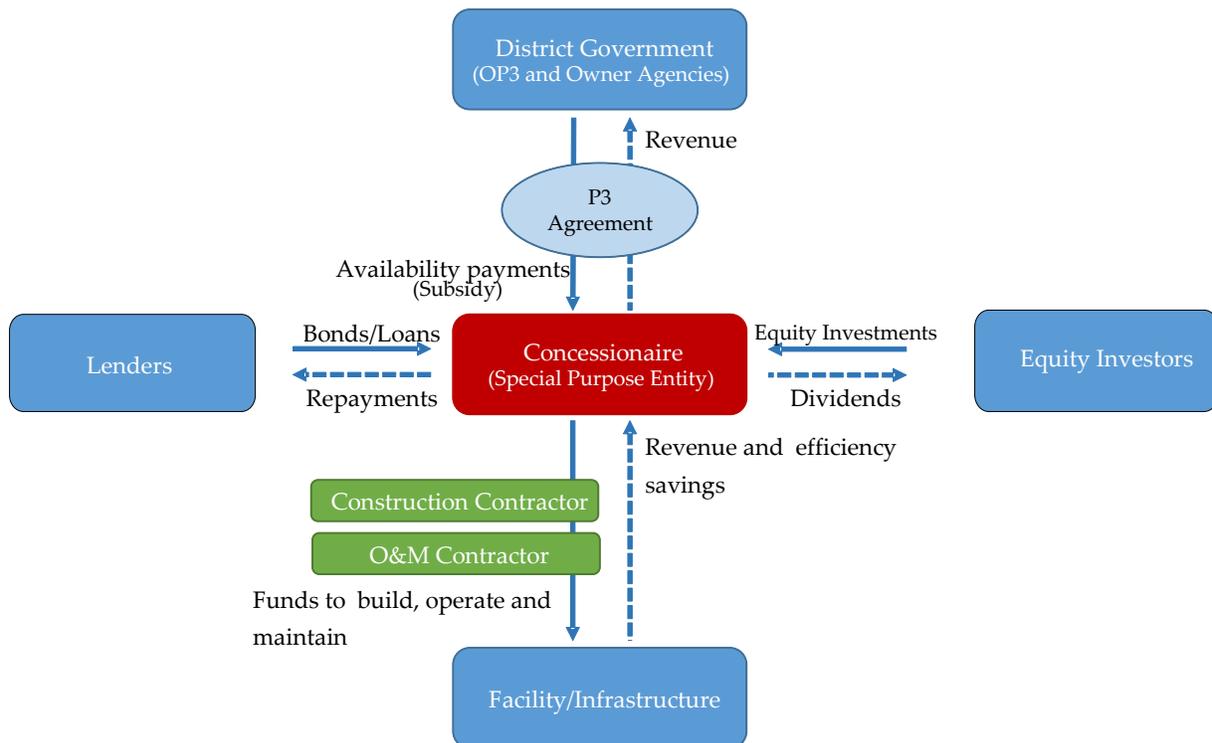


FIGURE 7: TYPICAL P3 STRUCTURE

There are major national and international firms that are extremely experienced in P3s. They work very smart in addition to having the financial backing to ensure projects are successful over their full life cycle. There will also be many opportunities for small and local businesses to get involved, perhaps even more so than in traditional procurements. Because the long-term contracts guarantee work for ten or more years, P3s can help fledgling firms get financing and justify apprenticeship programs to ensure they have the necessary staff and resources, creating more jobs in the District.

Note that the SPE generally includes an operations and maintenance firm as part of the team at the very beginning of a project. This causes them to think about the long-term

effects of important design and construction decisions and invest more on the front end if it saves them (and the public sector) in the long run.

The SPE also includes equity investors, who provide financing, take on risk, and therefore have the same interest as we, the District, do in ensuring that the concessionaire performs. Otherwise, the value of their investment goes down. These equity investors can be large banks and investment funds, but they can also be major institutional investors including government and labor employee pension funds and university endowments. The nice thing about having these smart investors is twofold. First, their choice to invest in one of our projects is a clear vote of confidence that they believe the project will get done on time and on budget and that the District is a safe place to invest. Second, the minute it looks like the concessionaire will not meet performance goals, the investors will be the ones calling them to find out why not, and how it can be fixed. To put it another way, they help us enforce our contracts.

P3 Fact: Every dollar spent on infrastructure, generates \$3.54 in GDP growth

And finally, with both private equity and debt investors, we can reduce our reliance on public debt. Although public debt has traditionally had a lower cost of capital than private financing, as P3s are increasingly used and investors become more comfortable with the full life-cycle costing model, the price difference between

[P3 Case Study: Detroit Streetlights \(Michigan\)](#)



- Installed and maintained 15,000 energy-efficient LED lights on highways
- 15-year , \$145M
- Increased performance from 70% to 95% and saved \$13M

public and private capital is becoming less. Further, these long-term, stable investments in infrastructure often closely align with investors’ interest, causing them to accept a lower rate of return.

What Projects Make Good P3s?

Even with all of these benefits, it’s important to keep in mind that not every project is viable as a P3. First, to account for the entire life-cycle of an asset and transfer risk to a private entity, you need a plan for many different contingencies and be very specific about your performance goals over the lifetime of the asset, which can be multiple decades. This leads to a very complex procurement and P3 agreement. That’s why OP3 is there to advise our “owner agencies” and we hire financial and legal advisors to assist us in the process. This also means that the procurement process could take longer than a traditional model. For these reasons, P3s usually make sense for bigger projects of \$50 million or more given the extra procurement costs. It is usually only those projects that are large enough to have sufficient risk and opportunity innovation such that the benefits of P3 can be fully realized.

P3 Case Study: KentuckyWired

- Construction and maintenance of 3,000-mile broadband network for state agencies and last-mile providers
- 30-year, \$324M
- Privately financed and will generate revenue to offset public cost

While private financing of P3s has potentially higher cost of capital, this can be overcome by efficiencies from private sector innovation and life-cycle savings. Healthy competition via a streamlined and predictable procurement process also helps reduce costs.

P3 Fact: P3’s are on average 17% less expensive and 3 times as likely to be delivered ahead of schedule

Complex P3 agreements also require a more hands-on oversight and enforcement role than what public agencies may be used to. The District can’t realize the value of shifting risk if we are not properly monitoring the performance of the concessionaire. That’s why OP3 is educating owner agencies and building the technical capacity of their staff before a P3 procurement starts, so when a project agreement is signed, the owner agency is ready to implement the project and ensure it serves the public interest.

Another role that OP3 has taken on is to educate the public and key stakeholders on what P3s are and the fact that they do not amount to privatization. We will not be selling District assets. You will not have to pay a fee to use a public asset that you didn't pay a fee to use before. From our perspective, the average user should never notice the difference between a traditional procurement and a P3. If anything, what they should notice is a newer and better maintained piece of infrastructure that serves them well. But, we want to ensure that stakeholders understand the fundamentals of every project and the choices that we as a government are making.

And here are just a few examples of P3s both in the District and elsewhere in the U.S. that are instructive. Canada, the United Kingdom, and Australia are far more advanced. Other states have primarily done toll roads and transit projects, while those other countries have built social infrastructure like schools, hospitals, and office buildings. But, you'll see that P3s can run the gamut of different infrastructure types across all sectors, from bridges to courthouses to broadband networks.

P3 Case Study: Okanagan Correctional Centre (British Columbia)



- Design, build, finance, operate and maintain 300,000 sq.ft. facility for 750 inmates
- 30-year , \$2000M
- Created 250 construction and 240 permanent jobs and saved \$39M compared to traditional model

2. Laying the Proper Foundation

In order to achieve the most streamlined, competitive and transparent procurement process, OP3 conducted extensive research and outreach to identify the best practices suit the District. This included workshops with P3 experts and one-on-one meetings with stakeholders that resulted in more than 160 helpful suggestions, all of which are available on our website at op3.dc.gov/laws-regs. OP3 also became

P3 Fact: 39 states (including DC) and 33 countries have laws in place to procure P3s

the first District agency to use the innovative open source platform, drafts.dc.gov, to seek public comment on our rules in an interactive manner. The resulting procurement rules, which were much improved through this process, were approved by the DC Council on

October 11, 2016 via Resolution 21-603, the "Office of Public-Private Partnerships Rules Approval Resolution of 2016". With that action, the Procurement Rules, and thus the Guidelines and Procedures of the Office entered enforcement.

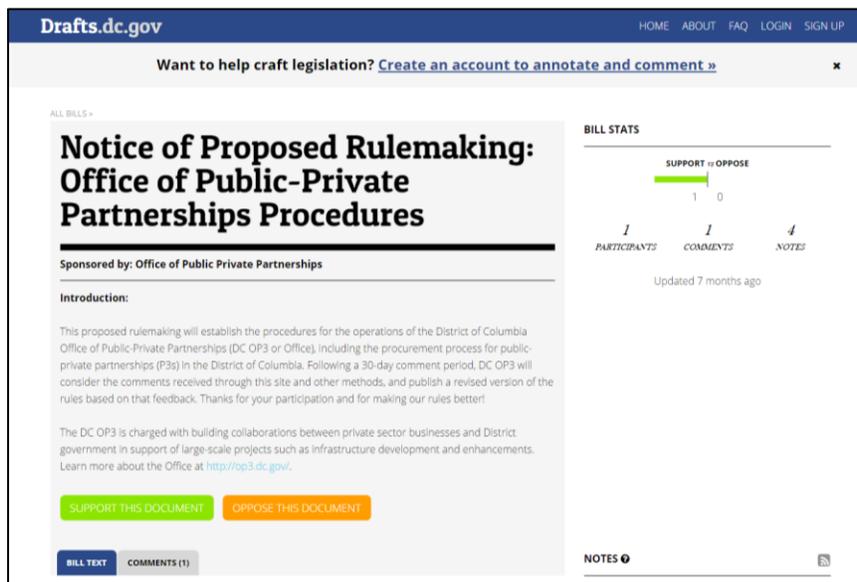


FIGURE 8: OP3 COMMENT PROCESS AT DRAFTS.DC.GOV

Under the procurement procedures of the Office, projects will be delivered under one-of-two methods - either solicited (a process started by the District) or unsolicited (a process initiated by the private sector). Figure 9 below provides a step-by-step visualization of this process in detail.

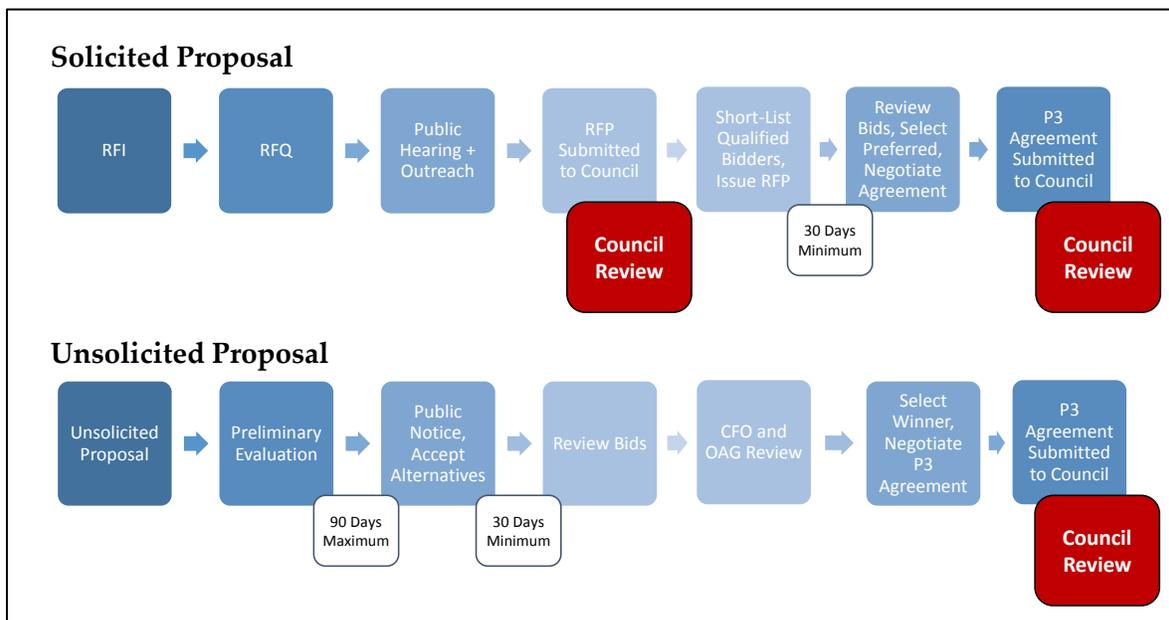


FIGURE 9: OP3 PROCUREMENT PROCESS

To assist the District in achieving the goal of better infrastructure, OP3 undertook a procurement for professional advisory services. This procurement will yield a full slate of specialized consultants who will be on call to help the District develop procurements, conduct in-depth financial analysis, and address

key legal issues to protect the District. There was considerable interest in this procurement from the consulting community, with over 75 proposals submitted by firms, including many small and local businesses. This shows just how much excitement and confidence there is to deliver P3s in the District.



FIGURE10: PRE-SOLICITATION MEETING FOR ADVISORY SERVICES PROCUREMENT

3. Working with Key Stakeholders

Delivering critical infrastructure can only be possible with significant support from key stakeholders both inside and outside the District government. That is why OP3 has conducted extensive outreach to educate others on the P3 model and to get feedback on what projects we should work and how they should be delivered to achieve maximum benefit to District residents. Our agency's ultimate goal is to be a trusted partner to public and private sector stakeholders alike.

3.1 Infrastructure Starts at Home

Since launching, OP3 has met with every Deputy Mayor, attended their agency cluster meetings, as well as one-on-one meetings with every agency that has significant capital needs. In addition to explaining more detail about the P3 concept and our procurement process, we have had in-depth, collaborative discussions with these officials about which of their needs might be delivered as P3s. Most agencies are excited about the opportunity to pursue such innovative projects. This engagement has been critical to the development of our pipeline of projects discussed in more detail below.

3.2 Achieving True Partnerships

OP3 sees a key part of its mission to build trust in the private sector to do business with the District, particularly for those individuals or firms who have not done business with us in the past. This starts with understanding the industry's motivations to better determine how they can best align with the District's needs while serving residents and protecting the public interest. For that reason, the Office has met with hundreds of companies wishing to build P3s in the District. OP3 has become a member of leading industry associations, including the National Conference for Public-Private Partnerships (NCP3P), the Association for the Improvement of American Infrastructure (AIAI), and the Performance-Based Building Coalition (PBBC). We have

also spoken at and participated in dozens of conferences in the District and other cities to market the District and opportunities to partner with us. Finally, in October 2016, OP3 hosted the first annual DC Builds! event, which was a half-day forum that brought together public officials, potential partners, policy experts, and residents to discuss the state of our infrastructure. The standing room only crowd at Georgetown University's School of Continuing Studies heard from Mayor Bowser and others on how the District is using innovative tools to more effectively build and maintain key facilities. In addition to fostering better public understanding for P3s, this outreach has provided valuable feedback on how we can improve our process and what projects we should focus on. We believe the end result will be more competitive procurements that attract the most capable firms, and ultimately maximize the quality and cost-effectiveness of each and every project we do.

[P3 Case Study: Long Beach Courthouse \(California\)](#)



- 530,000 sq. ft. state-of-the art facility
- 35 years, \$492M
- Delivered faster and cheaper than comparable facility delivered via traditional design-build



FIGURE 11: RECENT OP3 OUTREACH EVENTS

3.3 People Projects

We call our entire pipeline “people projects” because that is who they are meant to serve. And to do so successfully requires public input and support from the start. That is why OP3 has conducted all of its activities in the most transparent way possible. Hundreds of residents attended the DC Builds! event mentioned above. The Office is also active on social media platforms like twitter (<https://twitter.com/thedcop3>) and it sends periodic updates to hundreds of subscribers with its newsletter. More recently, OP3 has launched a neighborhood tour to speak to residents where they live. This series of community meetings has afforded us the opportunity to introduce the Office, explain a little about the P3 model, describe the projects we are working on, and get residents feedback on how we can better serve them. Importantly, this is not a one-time effort, but part of a re-occurring process of constant feedback and conversation to keep residents engaged in the critical infrastructure upon which they rely each and every day.

4. Building Capacity

As previously mentioned, OP3 has been working this year to build the capacity of the District government in the P3 model. We started by meeting with all of the Deputy Mayor’s Offices, the CFO, OAG and virtually every agency with capital needs. A large part of this capacity building program has included teaming with external experts and non-profit organizations to assist in the training of District employees. OP3 applied for and was selected for two technical capacity grants from nationally recognized organizations, the Eno Center for Transportation and the Living Cities Foundation. With the resources provided by these grants, we were able to bring together District agency officials and nationally recognized experts in P3s to participate in interactive training sessions and idea sharing exercises with other jurisdictions facing similar infrastructure challenges. We’ve learned a lot through



these exercises and built strong inter-agency teams to work on future projects. These experiences have confirmed that we are moving in the right direction on many of these innovative infrastructure solutions. It has also demonstrated that the District is actually pretty far along compared to other jurisdictions.



FIGURE 12: TECHNICAL CAPACITY TRAINING WITH THE ENO CENTER FOR TRANSPORTATION

Of special note, the Living Cities, City Accelerator program has provided the District an opportunity for learning from other cities as well as a platform to showcase the District’s leadership in innovative project development. Over an 18-month period, the District government, represented by the OP3, DDOT, OCFO and the Mayor’s Office of Budget and Finance, has been meeting with leaders from San Francisco, Pittsburgh, and St. Paul to find new ways for modern U.S. cities to deliver better services to residents. Meetings of this cohort have taken place in Denver and New Orleans, with participation from officials from the four cities and guest speakers who are experts in infrastructure finance. The Living Cities Grant will also allow us to work with a research partner to develop a range of structuring options to suit particular types of projects based on their unique characteristics. This will be useful not only for the District, but other jurisdictions nationwide. The next meeting will be hosted here in the District, and we will make sure that visiting officials see our very best.



FIGURE 13: CONVENING OF THE CITY ACCELERATOR THIRD COHORT ON INFRASTRUCTURE FINANCE

5. Developing a Pipeline for Success

All of the work done in the first fiscal year of OP3 has been with the intention to build the roadmap for how to deliver actual infrastructure projects that service the District and our residents. We have developed this pipeline of projects in a thoughtful and deliberative way to ensure maximum competition, a steady flow of procurements, and most of all, high-quality results. Based on internal meetings with agencies, conversations with industry, and community engagement, we have developed that pipeline of projects. There is a lot of excitement for P3s in the District both internal and external to the government. In addition to the projects currently in our pipeline, we have dozens more that could be viable P3s and are always looking for more. That is why we encourage anyone with project ideas, to email us at op3@dc.gov.

It is important to keep in mind what makes a good P3. Because of the more complex procurement process and higher cost of private financing, they need to be a certain scale, generally over \$50 million, have a funding source (either efficiency savings or new revenue), and provide an opportunity for private sector innovation. There are a handful of projects that are most ripe for development, which we've already begun developing procurements for.



FIGURE 14: OP3 PROJECT PIPELINE

There are a dozen projects that have risen to the top in terms of size, complexity, and feasibility as P3s that have garnered interest from potential private sector partners. Descriptions of these projects can be found on the Office’s website at op3.dc.gov/pipeline. This website not only captures a snapshot of each project we are working on, but includes basic info about the agencies involved, the current status, the timeline for next steps, and background documents that are available to the public. It both primes the market for future procurements and builds trust from residents through our open and transparent process.

Of the dozen projects in our pipeline, three have furthest along in development and the Office is excited to share more detail.

P3 Case Study: Beltway Express Lanes (Virginia)



- 14 miles of demand-based pricing toll lanes
- 75 years, \$1.9B
- Private entity assumes revenue risk so Virginia doesn’t pay more if usage lower than expected

5.1 Street Light Modernization

The first project is a modernization of our more than 71,000 streetlights. Working with DDOT, we intend to partner with a private sector entity that will convert the bulbs to more energy efficient and environmentally sustainable LED technology. That same partner will also likely be responsible for the maintenance of the poles so that we can get a much higher level of performance.

We're also working closely with OCTO to explore smart city technology solutions that will leverage the light poles so that agencies can better serve residents and potentially generate new revenue. This could include anything from free WiFi and enhanced cell phone service to sensors that more effectively measure traffic, air quality, or, for example, when DPW needs to empty public trash cans. OCTO has organized a Smart City tiger team of agencies to create uses for this technology as well as policies to ensure open access and people's privacy is protected.

An initial analysis by a financial advisor has determined that this project is an attractive P3 and we're now conducting an in-depth value-for-money analysis that will help determine what the potential savings is for such a project compared to a traditional procurement. We intend to launch procurement for this project in Winter of 2017.

5.2 Corrections Center

The second project is one that most will already be familiar with, and that's a replacement of the DC Jail with a state-of-the-art, rehabilitative Corrections Center. We currently have two existing facilities in the Hill East community that serve approximately 1,800 individuals who are incarcerated in the District for relatively low-level crimes or are awaiting trial. Our partners at the Department of Corrections (DOC) and the Department of General Services (DGS) have achieved amazing results in these aging facilities, which unfortunately are the victims of underinvestment and poor maintenance over several decades. They are simultaneously too large, and therefore expensive to operate, and too small, because they lack proper programmatic space for critical functions like job training, education and substance abuse treatment.

That's why we believe a new modern facility will significantly improve the outcomes for incarcerated residents and put them on pathways to success. A new facility will result in a more efficient facility and make it a better neighbor to the surrounding community. A new facility also has the potential to allow us to bring more of our federal prisoners, particularly youth, home to the District sooner than they

otherwise might, to bring them closer to their support network of friends and family, and in the process, ease their transition back into society. As Deputy Mayor for Public Safety and Justice, Kevin Donahue, has said, the District simply doesn't have the approximately \$500 million it needs to build a new facility. So this will almost certainly have to be a privately financed P3.

DOC and DGS have hired a technical advisor to conduct a needs assessment to determine the characteristics of a new facility that will be required to serve the District well into the next 50 to 100 years. We expect to have the results of that assessment very soon, which will then inform a P3 procurement that will begin in the winter of 2017.

5.3 Daly Building

The third and final project is our police headquarters located at the Henry J. Daly Building. As the Mayor conducts her search for a new police chief, it's even more critical that we have a modern, state-of-the-art facility for the Metropolitan Police Department (MPD) to operate in. The 80-year old, 500,000 square foot facility located at Judiciary Square is in extremely poor condition, with much of the space unusable.

The goal of this project would be to team with a private sector partner to design, build, finance, operate and maintain a newly renovated Daly Building to serve MPD and other government agencies, in addition to finding temporary swing space to house MPD during the renovation process. This has the potential to consolidate several government agencies into a single modern building, reducing the need for the District to rely on leased spaces and/or put existing District land towards more productive uses. This project will also help preserve one of the District's most precious historic buildings that include Depression-era murals, among other works of art.

5.4 More to Come!

These are OP3's top three projects, and we look forward to engaging the public, the Council, and other key stakeholders as we proceed with procurements. But, there are many other projects we look forward to making exciting announcements about in the near future, including school, library, and recreation center projects, as well as renewable energy opportunities and others. So please stay tuned!

6. Encouraging Innovation

In addition to the solicited procurement method, OP3 also encourages potential partners to submit innovative ideas that deliver value to the District through the unsolicited proposal process. Under the P3 Act, the unsolicited process still allows for fair competition, input from the public, and Council oversight. This process also offers predictability that should encourage the private sector to invest in the District.

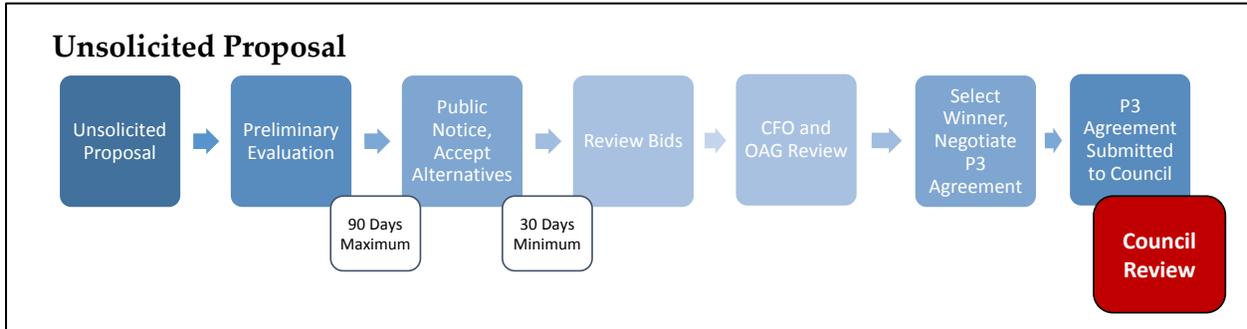


FIGURE 15: OP3 UNSOLICITED PROCUREMENT PROCESS

The Office will be open to receive such proposals at least two times per year as determined by the Office; generally once in Spring and again in Fall. OP3 held our inaugural window to consider unsolicited proposals from November 28, 2016 - January 26, 2017, just one month after our procurement rules and guidelines were finalized. We look forward to seeing what creative solutions to District infrastructure needs are proposed.

7. The Real Work Starts Now

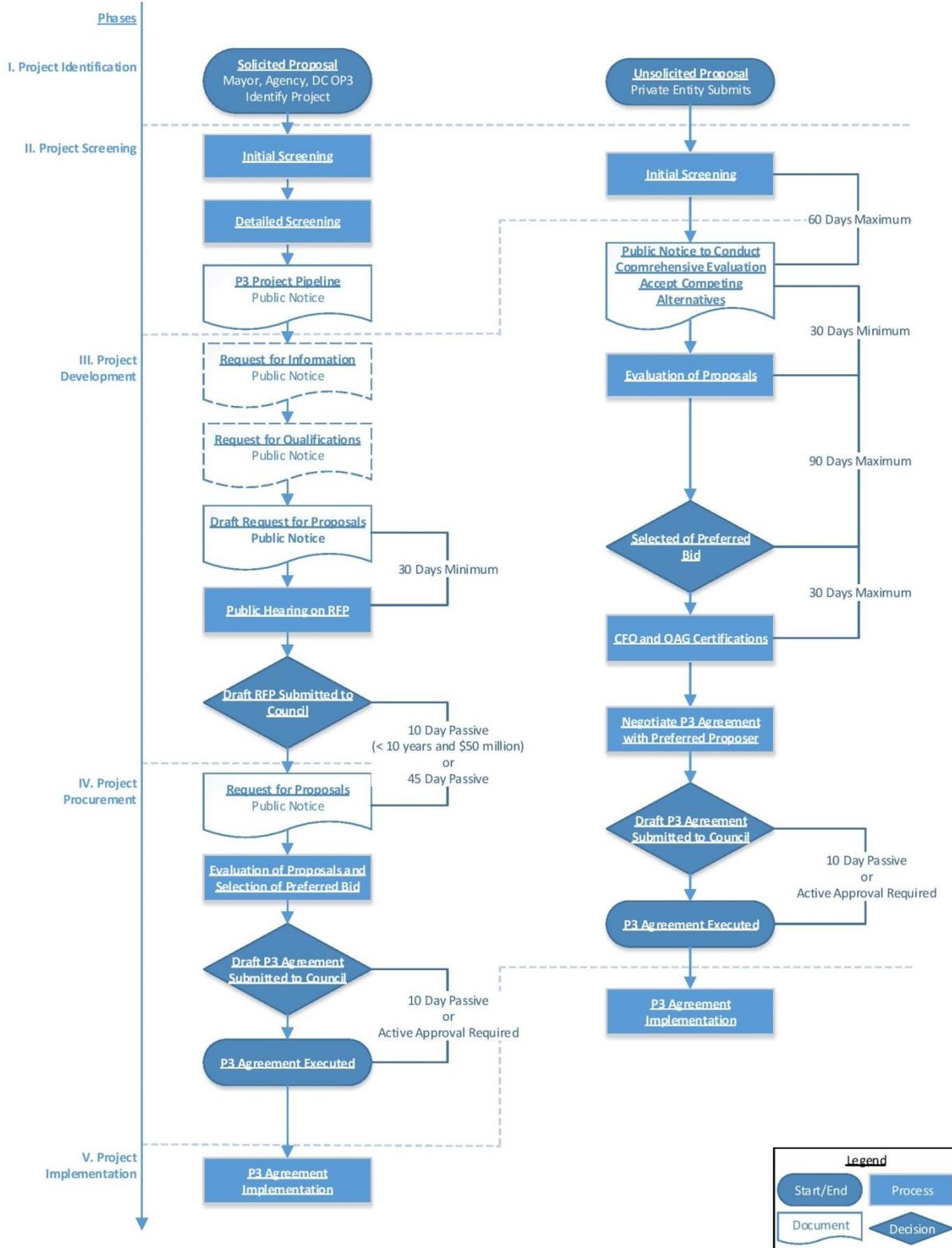
The District of Columbia’s Office of Public-Private Partnerships has achieved many important milestones in our first year. OP3 adopted some of the most comprehensive public-private partnerships procurement rules in the United States through an open and collaborative process. We announced the roll-out of the largest social infrastructure project pipeline in the country and are taking steps to make those projects a reality. OP3 has worked tirelessly to place the District of Columbia at the forefront of innovative project delivery of infrastructure, leading the way for the rest of the nation in this space.

We have come a long way in laying the groundwork for a successful office to deliver infrastructure projects to the residents of the District at the best value for money. But, there is much more work to be done. We forward to working closely with our agency partners, the DC Council, residents, and other key stakeholders to make these projects a reality.



8. Appendices

8.1 OP3 Procurement Process



8.2 OP3 Frequently Asked Questions (FAQ)

- **What is the Office of Public-Private Partnerships (OP3)?**
 - OP3 is a District of Columbia agency established in 2015 to help agencies more effectively build and maintain infrastructure that residents rely on every day through the public-private partnership (P3) model.
 - OP3 is charged with building collaborations between the private sector and District government to complete major infrastructure projects and other programs through long-term, performance-based procurements commonly referred to as public-private partnerships, or P3s.

- **What is a Public-Private Partnership (P3)?**
 - A P3 is a long-term, performance-based agreement between public and private entities.
 - It is not-for-profit, non-partisan, and nondiscriminatory in its selection of projects and companies to work with.
 - Appropriate risks and benefits can be allocated in a cost-effective manner between the public and private entities.
 - The agreement is usually for the design, building, financing, operation and maintenance (DBFOM) of major infrastructure like schools, hospitals, roads, bridges, and transit.
 - The District retains ownership and ultimate control over the asset.

- **What are the benefits of P3's?**
 - Incentivizes Innovation - Spurs innovative, outcome-based solutions to address infrastructure challenges
 - Incorporates a "Cost of Ownership" Financial Plan - Forces a comprehensive and accurate financial analysis for the design, build, financing, operation and maintenance of a facility and a comparison of the traditional public sector procurement versus a P3 option
 - Manages Risk - Transfers risk, including cost overruns and schedule delays, to entity best able to value and mitigate it and aligns public and private interests
 - Greater Accountability - Incentivizes long-term life-cycle efficiencies, including more efficient operation and maintenance of facilities; agreement holds both the private and public partners accountable
 - Debt Capacity - Facilitates new sources of private financing, potentially reducing need for public debt
 - The World Bank found that P3s are on average 17% cheaper than traditional procurement methods and 3 times as likely to be delivered ahead of schedule.⁶
 - Every dollar spent on infrastructure, generates an additional \$3.54 in economic impact and each \$1 billion invested in infrastructure creates 21,671 jobs.⁷
 - In 2015, Canada procured 36% of its infrastructure with the P3 model, while the U.S. procured 1% of its infrastructure using this method.⁸

⁶ World Bank, *Public Private Partnership Reference Guide* (2012), <https://wbi.worldbank.org/wbi/Data/wbi/wbicms/files/drupal-acquia/wbi/WBIPPIAFPPReferenceGuidev11.0.pdf>.

⁷ Duke Center on Globalization, Governance & Competitiveness, *Infrastructure Investment Creates American Jobs* at 2 (Oct. 2014), https://s.bsd.net/aamweb/main/page/file/9d937012edb12326c4_7vm62z7l5.pdf.

⁸ Aon Risk Solutions, *The Public-Private Partnerships Pursuit and Opportunity in Infrastructure Tool* at 2 (First Quarter 2016), http://www.aon.com/forms/2016/aon_infrastructure_solutions_report_2016.jsp.

- **What projects is OP3 currently working on?**
 - OP3 has a pipeline of a dozen projects that address a wide range of District needs. More information can be found at <http://op3.dc.gov/pipeline>. The three leading projects are:
 - **Streetlight Modernization** – This project would convert the District’s 71,000 streetlights to LED technology that would save energy, reduce greenhouse gas emissions, and provide more consistent light to enhance public-safety. A remote monitoring system will also be installed to allow for quicker repairs and adjustments to suit each neighborhood’s lighting needs. Finally, the modernized streetlights will enable Smart City technology such as free broadband WiFi and sensors to monitor traffic and air quality. The procurement will start in winter 2017 with a goal of converting the first lights in spring/summer 2018.
 - **Police Headquarters** – This project will renovate the District’s historic police headquarters to deliver a state-of-the-art facility that enables MPD to do its job more effectively. The procurement will start in winter 2017 with a goal of starting construction in summer 2018.
 - **Corrections Center** – This project will build a modern corrections facility on the same site as the old DC Jail that will deliver improved outcomes for inmates with better space for education, job training and treatment. It will also be a better neighbor to surrounding residents and allow for further development of Hill East by having a smaller, more cost-effective footprint. The procurement will start in winter 2017 with a goal of starting construction in summer 2018.

- **Aren’t P3s just privatization that are bad for government workers?**
 - No. District assets will not be sold and government jobs will not be outsourced.
 - We will still ensure good labor practices by following the 1st Source, Fair Wage, Small and Local Business, Clean Hands and Davis Bacon requirements.
 - In most cases, we will just be consolidating existing contracts to design, build, and maintain a facility into a long-term, performance-based agreement that holds a single contractor more accountable.

- **Won’t P3s result in more tolls and other fees?**
 - Although P3s have typically been used to build toll roads, the District has no intention of imposing tolls or other new fees for the use of any public facilities it builds or renovates.
 - Projects will be paid for by achieving efficiency savings, capturing the value of underutilized assets, and appropriating funds where necessary.

- **How does OP3 work with other District agencies?**
 - OP3 is the lead procurement agency for any P3 agreement, and will advise the “owner” agencies that ultimately have responsibility for the relevant project facility.

- **How does OP3 ensure proper transparency and public involvement?**
 - P3 procurements will be as open and inclusive as possible at every step of the process through community meetings, public outreach, and Council oversight.
 - Every project will have at least one public meeting before a procurement even begins to get community feedback on what they want to see from a project. This will be followed-up by additional community meetings as the project is developed to make adjustments as needed.
 - All information about OP3’s procurement process and specific projects will be provided on our website, the DC Register, the OP3 newsletter, a range of press publications, and social media outlets such as Twitter.

- **How does OP3 protect the District from getting a bad deal?**
 - OP3, with the help of independent expert advisors, will conduct in-depth financial analysis to determine that the benefits of each project outweigh its costs and are better than traditional procurement options.
 - Both a Request for Proposals (RFP) and the final contract will be submitted for Council review with extensive background information and analysis.
 - All of this information will be made available to the public for review and input.

- **Are P3's too risky and unproven?**
 - No. 39 states (including the District) and 33 countries have P3 laws.
 - There are numerous examples of successful P3's (see below).
 - The Federal City Council, Greater Washington Board of Trade, labor unions, U.S. Department of Transportation and other federal agencies, as well as think tanks like the Brookings Institute and Eno Center for Transportation all support.
 - The key to success is having a strong law like the P3 Act that standardizes and streamlines the process, gives the District expert staff, and ensure transparency to protect public resources and involve community stakeholders.

- **What makes a good P3 project?**
 - To be a good P3 project, it generally needs to be large enough (\$50 million or more) to provide an opportunity for private sector innovation and efficiency to justify the potentially higher transaction costs.
 - P3s also need to have a funding source, whether that is efficiency savings, the value of underutilized District assets, or budget appropriations.
 - Finally, the project needs healthy private sector and investor interest to ensure competition.

- **What are some examples of P3's?**
 - Beltway I-495 HOT Lanes (Virginia): 14 miles of demand-based pricing toll lanes, 75 years, \$1.9B. Private entity assumes revenue risk so Virginia doesn't pay more if usage lower than expected.
 - KentuckyWired: 30-year, \$324M; Construction and maintenance of 3,000-mile broadband network for state agencies and last-mile providers; Privately financed and will generate revenue to offset public cost.
 - Long Beach Courthouse (California): 530,000 sq. ft., 35 years, \$492M; delivered faster, cheaper and higher quality than comparable court houses delivered through traditional design-build model.
 - Rapid Bridge Replacement (Pennsylvania): Replaced 558 bridges in 3 years with 20% savings versus traditional contract. State only pays availability payments if contractor maintains bridges at certain level for 25 years. Funded through gas tax increase, but uses \$1.2B in tax-exempt private activity bonds.
 - Detroit Streetlights (Michigan): 15-year, \$145M; install and maintain 15,000 energy-efficient LED lights on highways. Private financing, increase performance from 70% to 95% and save \$13M.
 - Okanagan Correctional Centre (British Columbia): 30-year, \$200M; design, build, finance, operate and maintain new 300,000 sq. ft. facility to serve 750 inmates; created 250 construction and 240 permanent jobs; saved \$39M (14%) compared to traditional design-build contract.

- **Why do we need a dedicated office and procurement process for P3s?**
 - The size and complexity of these projects requires an in-house team of P3 experts who can make sure the District is protected as well as a streamlined and predictable procurement process enhances competition and the final results of projects.
 - By having an independent office, it also creates opportunity to coordinate projects that involve multiple agencies.

- **Where else can I learn about P3s?**
 - <https://op3.dc.gov/>
 - [World Bank, Public Private Partnership Reference Guide \(January 2014\)](#)
 - [Bipartisan Policy Center, Bridging the Gap Together: A New Model to Modernize U.S. Infrastructure \(May 2016\)](#)
 - [National Council of State Legislatures, Building-Up: How States Utilize Public-Private Partnerships for Social and Vertical Infrastructure \(May 2016\)](#)



8.3 Fiscal Year 2016 Financial Statement

Description	Approved Budget (US \$)	Expended Budget (US \$)	Percentage Expended
Personnel Costs	\$221,366	\$221,366	100%
Total	\$221,366	\$221,366	100%

Note: Non-personnel and administrative expenses incurred by OP3 are accounted for the budget of the Office of the City Administrator, which can be found at <http://cfo.dc.gov/node/289642>.



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