



P3s for Smart Cities: Partnerships to Fund the Future

Presented by
Lindsay Miller

April 9, 2019

Get Smart about Smart City P3s

A Series of 30-Minute Webinars

Today – The First in a Series of Webinars

- ❖ **P3s for Smart City Projects: An Overview** (April 9, 2019)
- ❖ **Current Smart City P3 Projects: A Deeper Dive** (April 10, 2019)
- ❖ **Financing for Smart City Projects: The P3 Approach** (April 16, 2019)
- ❖ **Navigating Data Ownership, Protection and Use Issues** in P3s for Smart City Projects (April 25, 2019)
- ❖ **Public Policy Considerations** for Smart Cities and P3s (May 8, 2019)

Sign up at icemiller.com/smartpartnerships

The Future of Public Assets & Infrastructure



What is a Smart City?

Do I need it?

**Will a public-private partnership (P3)
help me achieve it?**

The Big Picture

Critical infrastructure is aging.



In urban areas, as density grows, municipal assets are further stressed.

In rural areas, as population declines, municipal assets are in states of disrepair.

Public budgets are strapped.



#250338

Rigid/ traditional procurement systems can be barriers to innovation.

The Basics

A **smart city** is a city [or other publicly owned community/setting] that **incorporates information and communication technologies (ICT)** to **enhance the quality and performance of urban services** such as energy, transportation and utilities in order to reduce resource consumption, wastage and overall costs. **The overarching aim of a smart city is to enhance the quality of living for its citizens through smart technology.**

As defined by Techopedia. (emphasis added)

In other words, a Smart City...

- ➔ Has adopted a **strategic approach** for the use of data and digital technologies to improve City service delivery.
- ➔ Employs electronic **data collection** efforts to supply information for **efficient management** of assets and resources.
- ➔ **Integrates information and communication technology** – and various physical devices – to optimize city operations and to **connect to citizens** and enhance their experiences.

Smart City projects are not just for the big cities...

Improving efficiency, saving money, and enhancing service delivery are goals shared by municipalities of all sizes and all geographies.

Some examples of "everyday" Smart City projects include:

- Digital metering of water usage
- Digital sensors in stormwater systems
- LED lights with real-time management
- Public Wi-Fi offerings
- Tracking of asthma hotspots/ other health issues of concern
- Online permitting and planning processes

This all sounds great, but . . .

How will I fund it?



And who will be my partners?



Public-Private Partnerships (P3s) for Smart Cities

- ➔ Uncertain federal incentives/ unclear state incentives create **demand for innovative funding solutions** for smart connections and economic growth.
- ➔ A P3 represents significant private sector participation in a city's growth and innovation – **such private sector participation is a community asset.**
- ➔ A P3 may allow a municipality to **access cutting-edge technologies** that may not otherwise be available to the municipality due to budget constraints.
- ➔ A P3 allows a municipality to **leverage the private sector's expertise and resources while freeing up some finances and potentially improving performance** through advanced technologies and smart connections.

Public-Private Partnerships for Smart Cities

- ➔ P3s are often used in combination with other funding sources:
 - ➔ Government bonds and financing
 - ➔ Special taxing districts and tax increments
 - ➔ Grants, financing and loans
 - ➔ Economic incentives

Smart City sectors utilizing P3 arrangements

- Transportation Infrastructure
- Utilities
- Urban Mobility
- Connectivity

Specific examples will be provided in our webinar “Current Smart City P3 Projects: A Deeper Dive**” on Wednesday, April 10, 2019 @ 2:00PM EST*

Traditional P3 Models

- ➔ Design, Build, Financing, Operations and/or Maintenance (DBFOM) Model: Public sector enters into a long-term contract with private sector to deliver assets and services for the benefit of the general public.
- ➔ Risk-Sharing Model: Private sector assumes financial, technical and operational risk, public sector sets policy and retains ownership.
- ➔ Lifecycle Procurement Approach that Guarantees Performance Model: By integrating design, construction, and financing, with operations and maintenance, the asset performance is optimized for the long-term.
- ➔ Transparent Relationship Model: Public stakeholders have full control and can expect to be regularly updated and informed throughout the project.*

*Association for the Improvement of American Infrastructure, <https://aiai-infra.info/resource-center/>

Common Characteristics of P3s*

- **Long-term contractual arrangement** with some regulatory component
- Not a full legal asset sale (i.e., **maintain public ownership**)
- Designed to **secure value or control costs** for the public sector
- **Private sector contractor accepts risks and responsibility for (some or all of) design, construction, financing, maintenance and operations**
- **Public sector retains strategic control over service delivery, may retain certain risks that it is able to handle more efficiently than the private sector**, and either cedes revenue generated from asset or makes payments for performance
- Payment to the private sector either comes **directly from the project** (revenue risk), **or is a performance-based payment** from the government (availability payment)

*Deloitte, *Public-Private Partnerships: Evolution & Maturity*, 2016 Engineering & Construction Conference June 15–17, 2016, Austin, TX

A Public-Private Partnership is NOT necessarily...

- ➔ Privatization of municipal assets
- ➔ A low-cost funding solution
- ➔ A low-quality delivery model
- ➔ **The right solution for every project**
A value-for-money analysis should be performed by experienced legal, technical and financial advisors to determine if a P3 is right for your project.*

*Association for the Improvement of American Infrastructure, <https://aiai-infra.info/resource-center/>

What it all comes down to . . .

CONTROL



RISK

Optimal Risk-Reward Allocation*

The Heart of Any P3 Arrangement

- **Conventional delivery model** = most long-term risks borne by public agency.
- **P3 model** = public agency transfers some of the risks to private entity, relieving it of bearing cost of risks it cannot manage (e.g., cost overruns during construction, construction delays, long-term maintenance of asset).
- **Public agency** → efficient risk allocation creates "good deal" for society.
- **Private party** → efficient risk allocation is key to ensuring that project is financeable and has attractive risk-return ratio.
- **HOWEVER**, allocating risks efficiently is **extremely challenging!**
(e.g., valuation difficulty; challenge projecting risks 30-40 years into future)

* *International Institute for Sustainable Development, <https://iisd.org>*

Planning for a Smart City P3

First...

- ➔ Define ultimate goal (immediate need + future planning)
 - Overhaul aging infrastructure?
 - Opportunity for innovation?
 - Specific problem to solve?
- ➔ Inventory your city or town's assets
- ➔ Assess your city / town / state P3 environment

Planning for a Smart City P3

Then...

- Engage stakeholders early (i.e., your citizens!)
- Identify players in the market and potential partners
- Develop a business plan
- Seek trusted advisors
- Engage partners

Get Smart about Smart City P3s A Series of 30-Minute Webinars

Upcoming Webinars from Ice Miller

- ❖ **Current Smart City P3 Projects: A Deeper Dive** (April 10, 2019)
- ❖ **Financing for Smart City Projects: The P3 Approach** (April 16, 2019)
- ❖ **Navigating Data Ownership, Protection and Use Issues** in P3s for Smart City Projects (April 25, 2019)
- ❖ **Public Policy Considerations** for Smart Cities and P3s (May 8, 2019)

Sign up at icemiller.com/smartpartnerships



Questions?

Presented by
Lindsay Miller
Ice Miller LLP
Icemiller.com

Lindsay Miller
Columbus, OH
Lindsay.Miller@icemiller.com
(614) 462-1136