

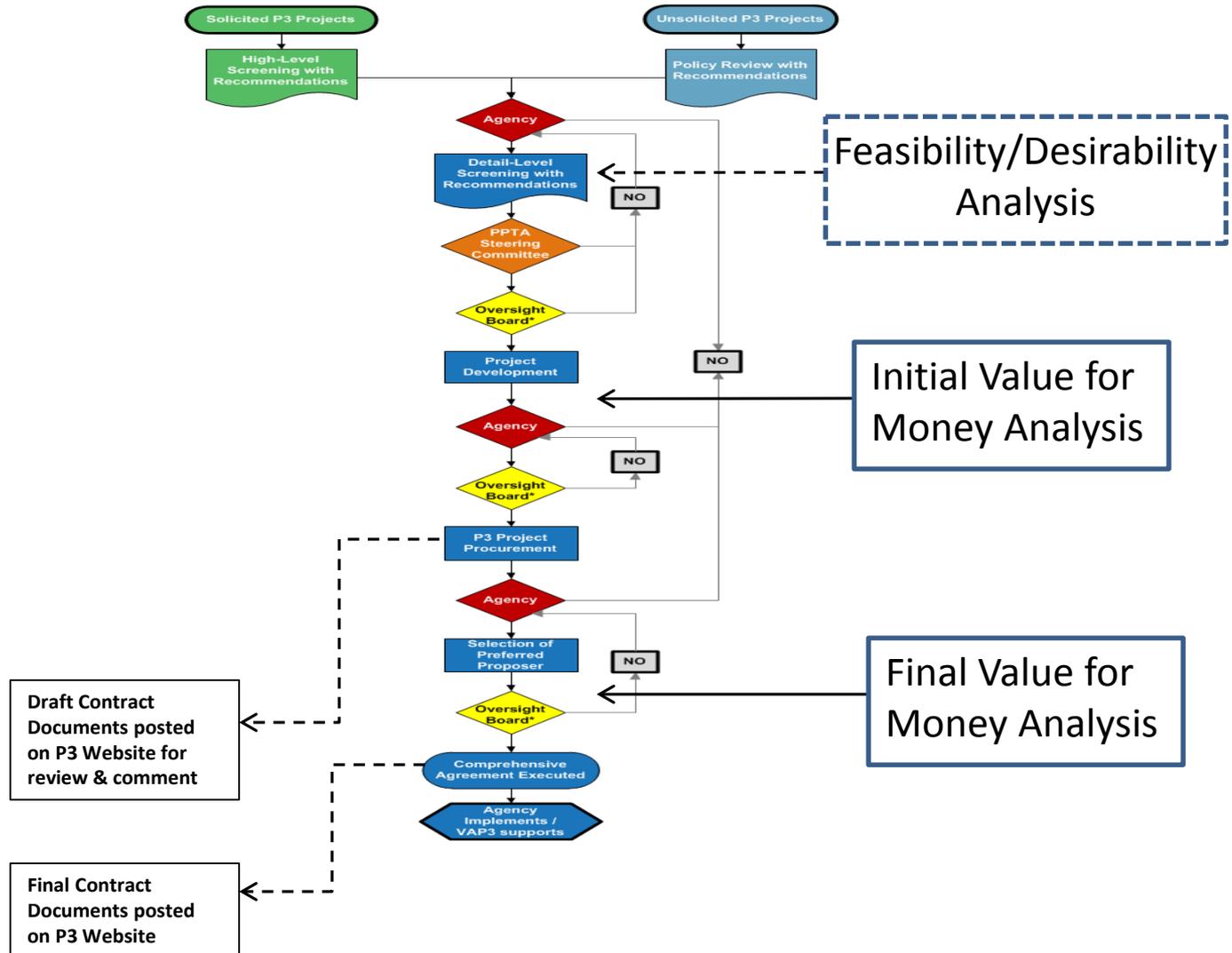


FHWA - MDOT P3 TRAINING COURSE VIRGINIA'S VFM ANALYSIS

Dusty Holcombe, Deputy Director
October 21, 2014

Public-Private Transportation Act of 1995

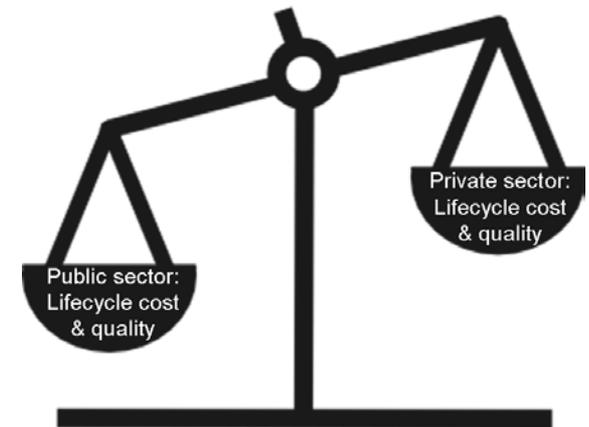
- Intent is to encourage investment by private entities
- Authorizes private entities to develop and operate qualifying transportation facilities
- Allows for solicited and unsolicited proposals
- Requires the development of guidelines that detail the proposal acceptance and review process
- Allows for the imposition of user fees
- Includes opportunities for comment on proposals by the public and affected jurisdictions
- Procuring agency not required to accept lowest price offer



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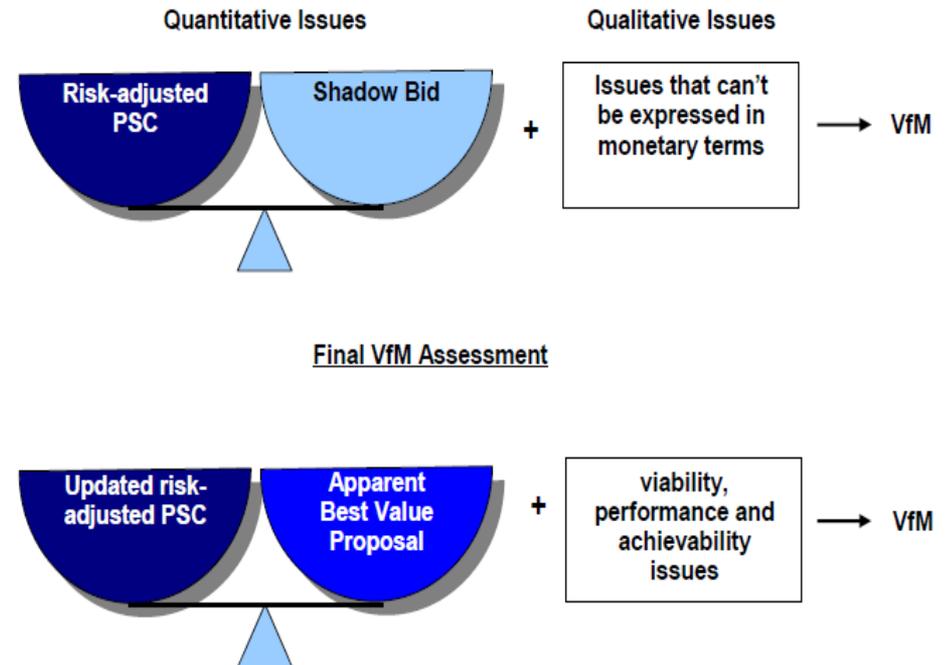
Value for Money – What does that mean???

- The Project is said to have positive VfM when relative to other delivery methods:
 - The Project is forecast to deliver and/or is demonstrated to have delivered the optimum combination of life cycle costs and service quality, and
 - Meets the objectives of the project
- **For Example:** A Project structured as an Availability Payment transaction would demonstrate positive VfM if the NPV of the lifecycle costs associated with the shadow-bid are less than the NPV of the lifecycle cost associated with the Risk-Adjusted PSC.



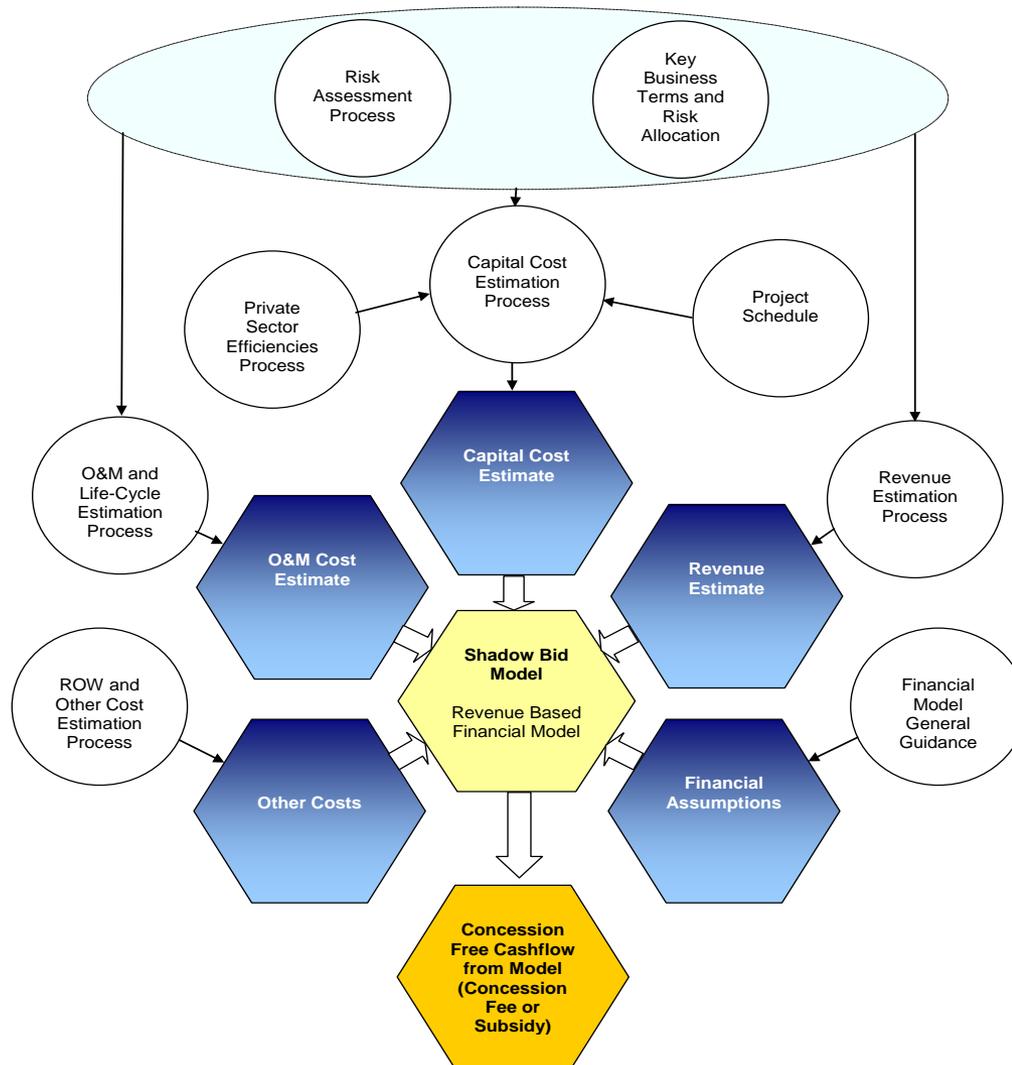
Initial Information for VfM

- Project Scope
- Delivery Options
- Summary of Principal Risks, Opportunities and Benefits for each Delivery Option
- Quantitative Inputs
- Qualitative Inputs



- Quantitative Inputs:
 - Capital Costs
 - O&M Costs
 - Financial Costs
 - Revenue Estimates (if applicable)
 - Efficiencies and Innovations
 - Deferral & Vulnerability Costs

- Qualitative Inputs:
 - Fits with Goals and Objectives
 - Market Interest
 - Achievable Risk Transfer
 - Resources to manage a P3
 - Clear Scope and Performance Requirements
 - Legal or Regulatory Restrictions

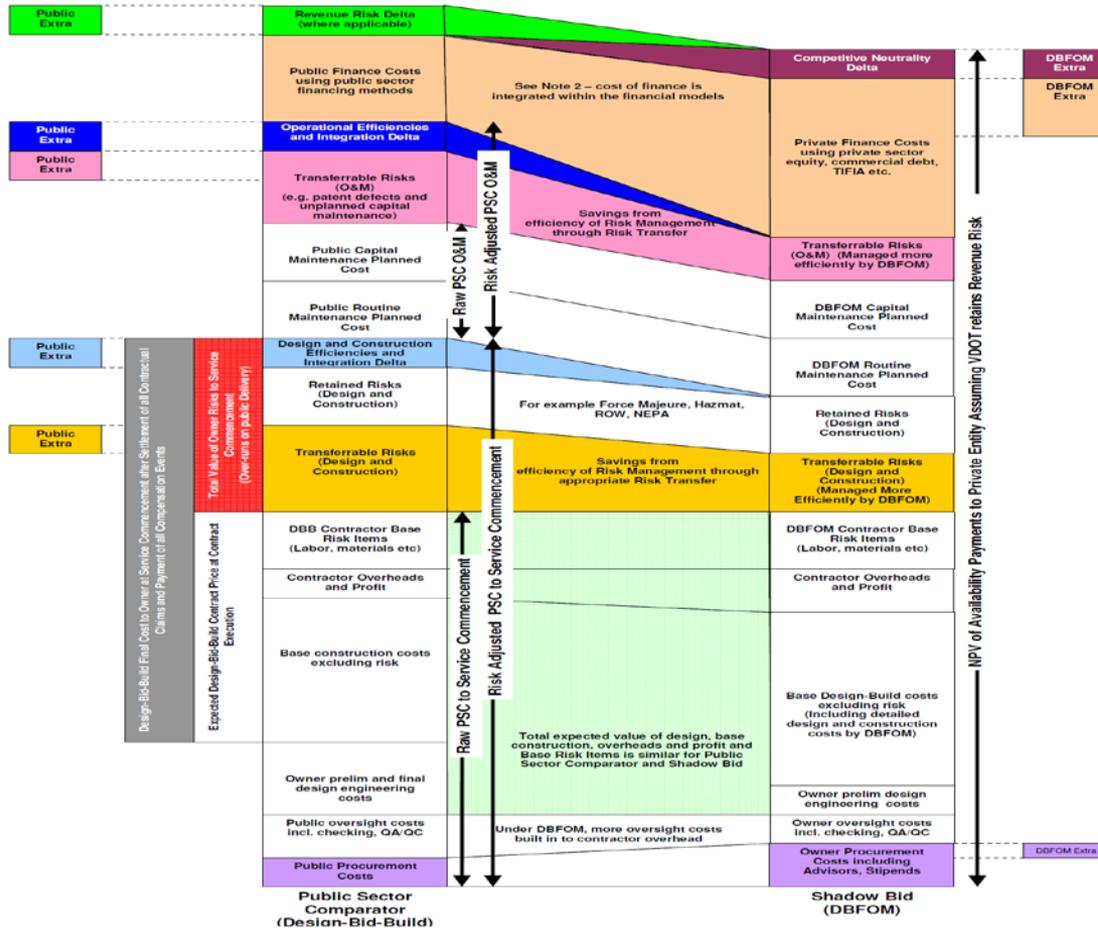
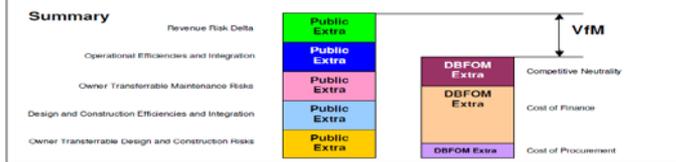


What are the EXTRAS?

Notes:

1. Components are indicative only, and need to be calculated for each project. Components shown as "Public Extra" may, on calculation, be "DBFOM Extra" and vice versa.

2. Bars represent NPV of Cost components. Certain cost component (e.g. Finance Costs) are not directly calculable but are implicit within the assumptions contained in the financial models.



- Compare practical alternatives based on real-life constraints
- Timing of assessment is important
 - Too early = not much data available, lots of uncertainty,
 - Too late = pressure to deliver the (right) result
- VfM is done at different stages for different purposes with different level of assumptions and accuracy
- Aim is to compare, not to calculate an absolute value to several decimal places (beware of false accuracies)
- Qualitative analysis is very important in the development of costs, risk adjustments, schedules, revenues and financial assumptions

- VFM decision should not be made on quantitative or qualitative basis alone, but on a combination of both
- Analyze a range of cost, revenue and discount rate inputs (sensitivity)
- Keep good records of major assumptions, try to get consensus
- The Financial Analyst (FA) and Technical Analyst (TA) need to work in partnership (with the client of course)
- VFM can be difficult to communicate to stakeholders
 - “..you can’t spend Present Value dollars..”



VIRGINIA'S VALUE FOR MONEY ANALYSIS

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