

POTENTIAL P3 EVALUATION PROGRAM PROCESS MANUAL

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INTRODUCTION AND PROCESS OVERVIEW

WHAT IS A P3?

A “**public-private partnership**”, or “P3”, is an industry term for a significant agreement between a public sector entity and a private sector entity to achieve a specified project outcome. It differs from a “vendor” relationship in that the public sector entity is not the “buyer” of services. Rather, P3 relationships are typically formed through a sharing of some combination of skills, resources, assets, risk, and project outcomes between public and private sector participants. Typically, P3s are used in the development of buildings or infrastructure, but are not limited to large capital projects. Moreover, there are numerous potential P3 business structure permutations — there is no single “P3 model.”

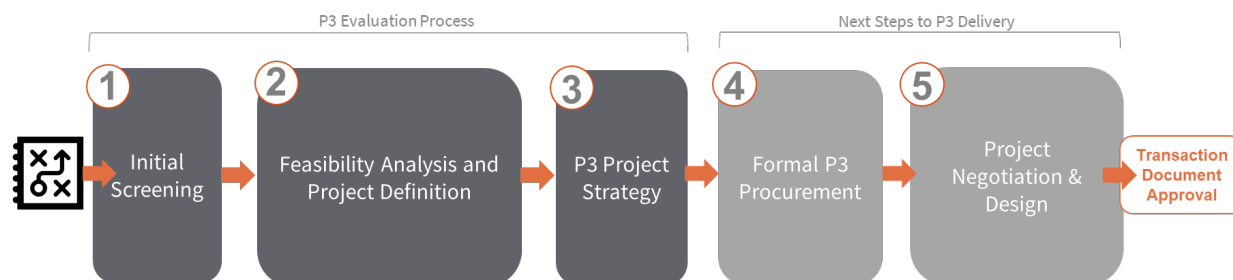
P3s are often used by universities as an alternative to traditional capital programs to transfer certain risks and/or responsibilities in the design, building, financing, operation, and/or maintenance of projects.

PURPOSE OF THE PROCESS AND MANUAL

The purpose of the **P3 Evaluation Process** is to create a process, governance structure, and supporting materials to screen¹, evaluate, and advance potential P3 projects. The program is to support the university in determining a projects’ feasibility as well as the optimal development and financing structure that will deliver the best value for money. The intent is to use a rigorous, repeatable, and adaptable process, incorporating industry best practices to analyze a project’s feasibility and determine the best risk-adjusted structure to use in its implementation.

The purpose of this **Process Manual** is to aid university stakeholders in the advancement of potential P3 projects by outlining the evaluation process and providing resources to facilitate a project’s development and decision-making.

OVERVIEW OF THE PROJECT PRE-DEVELOPMENT STAGES



Project Pre-Development Stages. Before a P3 transaction (and subsequent delivery) occurs, there are five “pre-development” stages that a potential project goes through. This manual focuses on the first three of these as a matter of evaluation. The two stages that follow relate to the formal engagement of a private partner after the project has been evaluated and approved. The table below summarizes the stages, which are outlined in further detail in the section [Process Stages and Corresponding Toolkit](#).

¹ Unsolicited proposals from outside entities for P3 projects will be subject to an initial screening process that occurs outside of this OSU P3 Evaluation Process.

P3 Decision-Making Roadmap: 5 Stages of Pre-Development

Stage	Name	Description	Review & Approval to Proceed	
P3 Evaluation Process	1	Initial Screening	Definition of the need & overall project objectives. Evaluation of resources and next steps for due diligence around project feasibility.	P3 Leadership Committee
	2	Feasibility Analysis and Project Definition	Comprehensive due diligence around program, costs, risks, stakeholder engagement, timing, and alternative financing & delivery structures	P3 Leadership Committee
	3	P3 Project Strategy	Based on project program and intended structure establish procurement strategy, distribution plan, pre-marketing, project governance structure, and market sounding	P3 Leadership Committee
Next Steps to P3 Delivery	4	Formal P3 Procurement	Request for Qualifications, Request for Proposals to a qualified shortlist. Structured concept development sessions, followed by tentative partner selection.	Vice President for Finance & Administration, within delegated authority.
	5	Project Negotiation & Design	Negotiation of project agreements during development of design drawings, leading to commercial close.	Vice President for Finance & Administration, within delegated authority.

The P3 Evaluation Process is designed to allow a potential project to be evaluated and progressively advanced as applicable as university expense and exposure increase during pre-development. Each stage is meant to provide the necessary documentation and analysis in order to duly evaluate the project’s viability and preparedness to proceed. Below are the P3 Evaluation stages with their respective tasks.

- 1 Initial Screening**

 - **Define the need.** What is the problem to be solved?
 - Develop a **clear program** of requirements rooted in the overall **project objectives**
 - Evaluate **financing needs** and resources; policy and legislative constraints
 - Determine staff and consulting **resources** required
- 2 Feasibility Analysis and Project Definition**

 - Comprehensive **due diligence** to assess project feasibility, including cost estimates
 - Evaluate **alternative approaches** to meeting the objectives
 - Compare the P3 contemplated against **traditional OSU delivery** and financing methodology
 - Identify the **key risks** and determine how they should be allocated
 - Determine the **project timing** / critical path for delivery
 - Identify the **key stakeholders** and approval process
 - Based on the above analysis, determine the **development and financing structure** that will best deliver the project to meet its goals at **best value**
- 3 P3 Project Strategy**

 - Defined **Project Scope and P3 structure**
 - Develop **procurement strategy**, timeline and next steps
 - Establish the appropriate project **governance structure**
 - Finalize **program and performance specifications** as relevant
 - Develop **shadow bid**
 - **Market sounding** to pre-market opportunity & test concept

ROLES AND RESPONSIBILITIES

P3 PROJECT SPONSOR

Any potential project for consideration requires an executive sponsor. The role of the executive sponsor, either personally or through a delegated person (in either case referred to here as the “**Project Sponsor**”), is to drive the potential project forward by organizing and sourcing necessary information and analysis to progress the P3 Evaluation Process. It is the Project Sponsor’s responsibility to ensure that necessary meetings are organized, pre-development and any consulting costs are met, and necessary materials are developed over the course of the P3 Evaluation Process. The Project Sponsor can, and should, coordinate with the P3 Leadership Committee and any necessary consultants in order to ensure project needs are met.

OSU P3 LEADERSHIP COMMITTEE

Several members of university leadership will form the P3 Leadership Committee, whose responsibility is to help the Project Sponsor navigate the P3 Evaluation Process and determine project readiness to proceed. The committee will ensure the information is thoughtfully prepared and analyzed throughout the evaluation process, in preparation for eventual presentation to university leadership. The committee members listed below will be the involved in all potential projects. Additionally, depending on the type of project (education/classrooms, residential, athletics, transportation, etc.), additional member(s) may be added based on the determination of the standing committee.

P3 Leadership Committee

Title	Name
Senior Associate Vice President for Administration*	Paul Odenthal
Director of Treasury	Heather Hesano
Assistant General Counsel	Jessica Brubaker
Construction Contracts Administration Manager	Hanna Emerson
<i>Project-specific member(s) (as deemed appropriate)</i>	<i>TBD</i>

*Committee Chair

CONSULTING PROFESSIONALS

At the discretion of the P3 Leadership Committee, consultants may be designated to aid in the technical development and execution of the various tasks within the P3 Evaluation Process. Technical work commonly delegated to consulting professionals during this phase may include, for example:

- P3 Financial Analysis
- Architectural Feasibility, Program and/or Conceptual Master Planning
- Conceptual Cost Estimation
- Environmental Analysis (utilities, soils, etc.)
- Legal Writing & Review
- Market Analysis
- Market Sounding and P3 Solicitation Development

The P3 Leadership Committee will work with the Project Sponsor to identify specific areas that may require consulting resources. The Leadership Committee will advise the Project Sponsor regarding the procurement of any consultants. Note that the Project Sponsor should retain intellectual and spiritual ownership of the potential project (versus a “consultant-led project”).

P3 EVALUATION PROCESS TOOLKIT

The toolkit is organized into the three stages of the P3 Evaluation Process:

Stage 1: Initial Screening

Stage 2: Feasibility Analysis and Project Definition

Stage 3: P3 Project Strategy

Each stage is outlined below in terms of objectives, tools, and process to guide you through the steps.

The P3 Evaluation Process starts with Stage 1: Initial Screening identifying and investigating key project drivers and integrates university leadership input into the conversation in Stage 1. Following this initial step, the due diligence in Stage 2 takes a deeper look into key project fundamentals – both qualitative and quantitative. This is accomplished by working collaboratively with university Facilities, Infrastructure and Operations (“UFIO”) to conduct comprehensive due diligence with a variety of tools and ultimately determine the development and financing structure to deliver the project’s objectives at best value. If the project is approved to move forward from Stage 2, Stage 3: P3 Project Strategy will finalize the project scope, financial structure, and procurement strategy. This stage leads the project into formal solicitation Stages 4 and 5.

Stage 1: Initial Screening

The “Needs Case Memorandum” is the central tool for conducting the initial screening of a potential project concept. The purpose of the Needs Case Memorandum is to understand the vision and the opportunity presented by the potential project, how it contributes to student success, and how the university’s goals and mission are supported by it. Using university information and data, the author of the document should illustrate all these clearly using detailed information.

TOOL: NEEDS CASE MEMORANDUM FOR POTENTIAL PROJECTS

The tool is focused around a “Statement of Need”, with additional space to begin work on “Risk identification” and “Project Funding.” The completed memorandum should be a maximum of two pages in length and focus on how the project concept addresses the university’s mission. The memorandum is intended to form the basis of an initial review and meeting with the P3 Leadership Committee.

1. The intent of the statement of need is to provide information around the project drivers, project vision and goals, and how the project would advance the university’s stated goals and mission. This section should be detailed, utilizing data and hard information, and draw from the OSU Strategic Plan and/or other similar documents.
2. The intent of the risk identification section is to begin the conversation around the potential project risk factors that could arise. This information will be the base for the Risk Register Tool in Stage 2, where risk identification and mitigation is further developed.
3. The project funding section, similar to the risk identification section, is to begin the conversation on how the potential project might be funded. Deeper analysis on this subject will be conducted in Stage 2; however, an understanding of potential funding streams at the project outset will advance this work.

At the top of the Needs Case Memorandum, an Executive Sponsor should be clearly identified as the Project Sponsor. The author of the document may be an OSU employee who has been delegated the role from the Executive Sponsor or may be the Executive Sponsor themselves.

After detailed review of the Needs Case Memorandum, the Project Sponsor will be either

1) requested to return with a revised needs assessment, or

2) advanced to Stage 2: Feasibility Analysis and Project Definition

Stage 2: Feasibility Analysis and Project Definition/ Due Diligence - Framework

Stage 2 is the potential project’s due diligence phase, which requires significant effort and may necessitate financial investment from the Project Sponsor. This stage requires financial analyses, strategic and risk assessments, and program and conceptual cost development. As it is not necessarily anticipated that the Project Sponsor will be able to accomplish these tasks solely with in-house resources, the Project Sponsor is directed to work with the P3 Leadership Team to identify and procure resources needed to accomplish the analyses required to accomplish this phase.

The due diligence phase will further develop the potential project by defining its:

- Key **stakeholders**
- Identification and mitigation plans for **risk** that could otherwise hinder the project
- Preferred **financial structure**, inclusive of P3 alternatives, based on pro forma modeling
- Conceptual **building/project program** (i.e., breakdown of building spaces by size and type)
- Realistic potential **timelines**, depending on procurement strategies

To aid in this process, the university has created a number of tools that will advance the project development as well as ensure a standard process. The Risk Matrix and the Stakeholder Map each come with a “clean” version to be developed by the Project Sponsor (in conjunction with professional resources as necessary), as well as a “sample” version to help the Project Sponsor’s team envision how the tool may look once developed.

Every potential project is unique in its program, stakeholders, risks, and financial outcomes. However, these tools are designed to allow flexibility to address those unique characteristics while simultaneously advancing the potential project.

TOOL: RISK MATRIX

Understanding risk is a critical component to evaluating the utility of using a P3 structure versus a traditional one. Because P3s are ultimately a vehicle for transferring risk, detailing potential project risks at the outset informs:

- 1) Overall project framework and direction
- 2) P3 structure evaluation
- 3) Partnership solicitation documents
- 4) Transaction documentation negotiation after selection

In Column B, potential project risks and concerns should be identified. Where appropriate, these risks should be described generally, regardless of which party ultimately holds the risk (i.e., university or private partner). However, as necessary, university-specific risks related to the potential project should be listed as well. Columns C, D, and E are used to quantify the overall risk using probability and magnitude with a score of 1 for low, 2 for moderate, and 3 for high. The probability score is the likelihood of a risk occurring. The magnitude score is the severity of the impact if a risk becomes realized. The overall “Risk Score” is automatically calculated by multiplying the probability and magnitude scores. For visualization purposes, risks that score between 4 and 6 are marked in light orange and require mitigation; risks that score between 7 and 9 are marked in dark orange and require significant mitigation attention. Risks that score between 1 and 3 remain white and should be addressed at focused points in the project process (e.g., in contract and transaction documents).

In Column F, the potential consequence or impact of the risk should be described (note: this may be easiest to fill out concurrent with Column B), and the potential mitigation or plan of action should be identified in Column G. As appropriate, the mitigation measures identified form action steps for necessary parties; additionally, where risk is best transferred to the potential private partner, those items should form guidance on the potential project's eventual transaction structure.

TOOL: STAKEHOLDER MAPPING

The stakeholder mapping exercise is designed for the project team to identify individuals and groups that may be directly and indirectly impacted by the potential project and its procurement, how they may be impacted, and strategies in which they might be engaged. This document is designed as a 'live' document to promote discussion and is not a formal assessment or statement from the university. However, it should elevate stakeholders and their inclusion in the project conceptualization. It is also useful for identification of stakeholder roles of interest, input, influence, or decision-making in the project's formation.

A sample version of the stakeholder map is provided on the "Stakeholder Map (Sample)" tab, which is partially complete for illustration. The language to populate the "Stakeholder Map (Clean)" tab depends on the project; however, some guidance is provided below:

- **Stakeholder** – Who does this project affect directly? Who historically voices their opinion on projects such as these? How might they be indirectly affected, especially due to economic implications or fears resulting from the project? Who will be required to make decisions or approve components of this project?
- **Role** – Does this stakeholder hold influence over this project? Do they make decisions related to this project? In terms of input, is this stakeholder valuable in formulating a successful project? Is this stakeholder peripherally interested in the project, but is not necessarily any of the above roles?
- **Key Issues** – What are the topics of concern or consideration that this stakeholder is likely to focus on?
- **Anticipated Impact from Project** – How does this potential project affect this stakeholder? What are potential positive and/or negative impacts to them?
- **Support / Perspective of Project** – Given the above, how is this stakeholder likely to view the potential project at its outset? Are they likely to be generally supportive, or will their view of the project be contingent on certain considerations being incorporated?
- **Risk Factors** – What risk (or, conversely, opportunity) to the potential project exists pertaining to the engagement of this stakeholder? Is their input critical to formulating a successful project? Is their support helpful or critical to the project's approval? What is likely to result from their inclusion or lack of inclusion in the project process?
- **Communication and Engagement Strategy** – Given the above information, and the character of this stakeholder, what is an appropriate strategy to communicate or engage with this stakeholder as it relates to this project? What are existing avenues for engagement (such as campus groups, relationships, etc.) or communication that can be leveraged? Who would be most effective in leading the engagement?

Ultimately, the "Communication and Engagement Strategy" column should be analyzed in order to identify actions that can be easily combined or connected (e.g., do student affairs and students overlap in terms of engagement strategy?). Though the Stakeholder Map is useful in deriving a stakeholder engagement plan, the

plan of engagement is the ultimate product which should be elevated in the approval process when decisioning advancing the potential project to Stage 3: P3 Project Strategy.

TOOL: PRO FORMA AND FINANCIAL ALTERNATIVES COMPARISON

The pro forma tool is designed to test the financial feasibility of a project, balancing its capital and operating expenses against associated revenue. A sample 30-year pro forma for a two-phase student housing development is provided; however, this file is designed to be adapted to fit a variety of project types and analyses. The tabs of the Excel-based pro forma model and their purposes are as follows:

- **Dashboard** – Key project inputs and summary charts of pro forma results. Links (Column M) direct the user to additional assumption input tabs. *Note that for dashboard demonstration purposes, the sample project shows an early project subsidy and gains profitability after the first few years.*
- **Program Worksheet** – Detailed breakdown of residential, non-residential, and other space by phase, type, and square footage.
- **Occupancy Rates** – Annual detail for two occupancy scenarios. This can be used to ‘stress test’ as necessary.
- **Staffing** – Salary and benefit detail for salaried and hourly employees associated with the potential project.
- **Internal Funding Worksheet** – Standalone worksheet for allocating project funding sources.
- **Debt Financing** – Loan assumptions, debt schedules, and construction fund draws for each project phase. *Note that this is the key feature that will be modified under various financing structures.*
- **Revenue and Expense Detail** – Detailed annual operating revenue, operating expense, and reserve/reinvestment calculations for the 30-year test period.
- **Cash Flow Pro Forma** – Complete annual 30-year project proforma incorporating capital expenses, operating expenses, and debt service and proceeds. This also presents debt service coverage, fund balances and university subsidy required (if necessary), culminating in the total cash flow to the university.

Governance Structure Comparison

PLACEHOLDER FOR GOVERNANCE TABLE

Financial Alternatives Comparison

This baseline pro forma should be used to assess performance of the potential project as a traditionally financed project. From this baseline analysis, additional versions of this pro forma should be developed utilizing alternative financial structures as appropriate to the potential project. This may include equity financing, concession models, 501(c)(3) (a.k.a. “three party ground lease”) structures, or others as deemed relevant. To compare the financial viability of the alternative structures, evaluation of one structure to one another as represented in the sample comparison table of potential project financing structures shown below:

Financing Structure	Description	Pros	Cons	Target Financial Performance Minimum
Traditional OSU Financing	100% Bond Financed through OSU (public debt)	Lowest Cost of Capital Highest level of direct control of asset	Potential additional delivery costs; Impact on debt capacity	1.10x Debt Service Coverage Ratio
501(c)(3) Model	Third-party non-profit owns vertical assets on a long-term ground lease. Project is 'arm's length' as 'project-based financing' though debt is backed by OSU.	Ability to shape debt; Possibly some positive impact on balance sheet/credit	Fees to Third-Party Lessee	1.20x Debt Service Coverage Ratio in all years
100% Equity Model	Private equity finances and owns project construction on a long-term ground lease in exchange for preferred returns.	Least impact on balance sheet and credit; Outside capital sourcing; Potentially improved timeline and project delivery cost	Highest overall cost of capital; Reduced direct control of asset	8-11% IRR
50/50 Debt-Equity Model	Private equity and private debt finances and owns project construction on a long-term ground lease, preferred returns paid to equity partner after debt service.	Less impact on balance sheet and credit; Outside capital sourcing; Potentially improved timeline and project delivery cost	Higher overall cost of capital; Reduced direct control of asset	9-12% IRR

Note on reviewing financial alternatives: As described in the introduction, P3s are most often used due to the opportunity to transfer risk and the positive ramifications that result from that (e.g., cost efficiency, limitation on spending, preservation of debt capacity, etc.). On a single project basis, P3s may or may not project themselves be the most lucrative compared to self-operation. That said, the ideal financial structure for a potential project should be carefully discussed considering its financial outputs *and* risk transfer at the same time.

Stage 3: P3 Project Strategy

Once a preferred financial structure has been identified, as well as careful mapping of stakeholders, risks, and detailed project components, OSU Procurement will craft a procurement strategy and corresponding documentation to procure a potential partner. OSU Procurement will accomplish this in collaboration with the Project Sponsor and consulting resources as appropriate.

TOOL: SOLICITATION FRAMEWORK

Key elements addressed in the design of a project procurement strategy are:

- What are the **technical capabilities** required to deliver this project?
- Is there anticipated to be a ‘developer’ role for this project, and what **risks and responsibilities** are expected to be transferred, particularly related to financing?
- What type of **financial structure(s) are anticipated** as appropriate for this project? Which specific **firms have experience** with these structures?
- What are the anticipated **characteristics of a firm** that would be interested in this potential project, given its **size, returns, anticipated governance, and upfront investment requirement**? How do these firms make their money, and how does that relate to the project as proposed?
- Would OSU Procurement want to inform firms believed to meet the above elements regarding the potential project (e.g., ‘Pre-Marketing’)?

Answers to the above questions will aid the university in successfully attracting a strong set of potential private partners through direct and indirect outreach. Moreover, the answers to these questions will aid in the development of solicitation materials compatible with the **investment objectives** of potential partners.

Stage 4: Formal P3 Procurement

The execution of the P3 Project Strategy outlined in Stage 3 includes the RFQ and RFP stages, resulting in a tentative selected partner. Release of the RFQ, which kicks off Stage 4, is a sign to the market of potential investors and partners that the university is committed to delivering the project. Clear, strong procurement documentation, communication, and decision-making can benefit the university and Project Sponsor significantly in terms of time and money.

Stage 5: Project Negotiation and Design

The final pre-development stage is negotiating detailed documents with the selected partner. Usually, this stage is governed by a ‘Pre-Development Agreement (PDA) or Exclusive Negotiating Agreement (ENA), wherein the university shares in risks related to the expenditures related to the project after selection borne by the private entity before the full transaction. These usually include design costs, legal costs, administrative time, and stakeholder engagement. The selected governance structure and OSU procurement process will guide the steps to complete the transaction.

The below outlines a P3 procurement process, including objective, materials, and duration.

Three-Phase Procurement: Baseline P3 Project Procurement

Pre-Marketing

- *Objective: Advance Outreach to Industry of upcoming procurement*
- *Materials: Typical marketing collateral would include outreach. Examples are an electronic brochure including imagery, project vision and location, anticipated structure and need, any university commitments, key dates and partnerships.*
- *Duration: 30 to 60 days (often while RFQ and RFP docs are developed and finalized)*

Request for Qualifications (RFQ)

- *Objective: Identify a small number of firms most qualified to deliver the potential project*
- *Material: RFQ document that details project background and goals, anticipated technical needs, project timeline, and summary of project information*
 - *Requested qualifications typically include relevant project experience, key personnel, and demonstrated ability to close on similar transactions (both on the part of the prime as well as the financial entity)*
- *Down-select to 3-5 teams for immediate release of RFP*
- *Duration: 45 to 90 days (often while RFP is finalized)*

Request for Proposals (RFP)

- *Objective: Identify preferred partner for delivery of long-term transaction based on university criteria*
- *Materials: A detailed RFP document including:*
 - *Information on project goals and objectives*
 - *Anticipated financial structure and risk allocation*
 - *Design criteria and technical requirements*
 - *Baseline or sample transaction documents such as Term Sheets, Pre-Development Agreements, Ground Leases, etc.*
 - *Any other key information from work conducted during Stage 1: Initial Screening and Stage 2: Due Diligence and Feasibility Analysis*
 - *Procurement related info, such as scoring criteria, stipend (if applicable), selection and approval processes*

- *1 to 3 structured, private “charettes” work sessions or proprietary client meetings, during proposal development to enhance proposers understanding of project complexities, university objectives, and encourage innovation*
- *Final proposal submissions should include clear information on proposed project economics, governance structures, timeline and delivery strategies, strategies to engage stakeholders, and approaches to overcome known project issues. Submissions should include detailed project proformas, risk transfer information, and conceptual designs.*
- *Interviews (optional)*
- *Duration: 3-5 months*