A GUIDE TO

K–12 Public-Private Partnerships
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K–12 districts across the country are facing big challenges and limited resources with which to address them—a reality we are all aware of. Some schools are overcrowded, some districts are unevenly distributed, and most districts are struggling with deferred maintenance. While bond measures continue to pass for new, comprehensive construction and renovation programs, many districts are increasingly looking for creative ways to make projects happen.

For sectors like higher education or infrastructure (such as roads and bridges), public-private partnerships (P3s) have long been an answer. Not always the right answer, but an answer to be explored just like any other possible answer. Now, with one large-scale P3 underway in K–12 in Prince George’s County, Maryland, the sector is asking more or less collectively, “What’s the story? Why did they go the P3 route, how does the deal work, and is this something we should consider?”

The answer to the final question—whether any given district might consider a P3 for any given project—is really up to that district given its needs and context. But since it’s being asked so much right now, and with such intensity, we wanted to offer this guide to help inform the sector as a whole.

Before we address anything else, we want to address a core question: What is a P3 and what does one look like?

This is a surprisingly tricky question. At the moment, there is no common definition of a P3 in the US, there is no centralized governing body overseeing P3s, and there is an extremely limited breadth of experience in our K–12 sector. So in the simplest terms, a K–12 P3 is a development/deal structure in which a school system takes on a private sector partner (or partners) to share in the resources, risks, and incentives that come with the development and operations/maintenance of school facilities. The National Council of Public-Private Partnerships identifies 18 different legal and financial P3 structures, and each P3 agreement is unique to the partnership, or deal. In K–12, we expect the range of employed structures to be much smaller. Still, each partnership will be unique.

P3s are not a silver bullet. They are not straightforward, short-term engagements, nor are they without their challenges; indeed many in the P3 world think of them as marriages. They are simply one type of alternative delivery method for school districts to finance projects that might otherwise go unfinanced, to speed up the delivery time of a new school, to leverage assets like land, to transfer risk, and to ensure operational success for years to come.
It is worth stating directly (and repeatedly) that, as deal structures, **P3s are incredibly complex**. Because each one is different, and because there are so many moving parts and parties, P3s are almost unwieldy. Meanwhile the stakes are high because P3s are true partnerships—as a school district, you’re not picking a one-time collaborator for a quick job, you’re picking a partner who you’ll work with for potentially the next several decades... a partner who your successors will need to successfully work with, and who will work hard to improve your students’ experience for years and years to come.

So again, not a silver bullet.

Still, P3s have gained quite a foothold in the US, from infrastructure to government buildings, from higher education projects to urban renewal efforts. Whether K-12 is the next big area is yet to be determined, but it’s possible. And many in this sector are now asking the same questions, hence why this guide exists.

K-12 districts might look to P3s for many reasons, but generally will find themselves curious because funding is a challenge and because delivery can (resultantly) take so many years. Beyond offering a vehicle for financing, P3s can also allow for development and operational risk transfer. Specifically, P3s can be structured to leverage expertise, avoid potential procurement challenges, improve operational efficiencies, speed up delivery, and more. In short, if a district is at Point A and wants to get to Point B, P3s are one way to bridge the distance.

Despite the term “public-private partnerships” suggesting that the school half of the partnership is always a public school district, K-12 P3s can also happen at private schools. And since there’s really only been one large-scale K-12 P3 so far (as detailed throughout this guide), there are no useful metrics to share here about the “typical” school district profile. Typical has yet to be established, though in **Part 5 of this guide** we do outline some possible expected profiles.

P3s get a lot of press these days, with some people praising them and others demonizing them. Indeed, each claim can feel justified depending on how you look at P3s as a concept and which case studies you consider. But **P3s are not black and white.** They are potentially a world of opportunity, resources, creativity, and collaboration... and at the same time, potentially a world of misrepresentation, control issues, and difficult relationships. Which world you end up in is up to you and your specific project. This is not about chance or luck, because our history advising on P3s in this and other sectors lets us confidently say that P3s can be designed to ensure success. It just takes a whole lot of education, thoughtful planning, and vision.
A Brief History

The concept of the public sector partnering with the private sector goes a long way back. Few K–12 projects, even, ever occur without a private entity being hired for its expertise—engineers, architects, contractors, advisors. Generally, though, public entities (including school districts) have procured design and construction/building services separately. This is fundamentally a different delivery model than a P3, in which the public entity enters into a long-term contract—for example 30 years in length—with a “development team” of contractors and subcontractors to not just design and build a facility, but also to finance it and even operate and maintain it. What would have been series of relationships and contracts in a traditional delivery method, in a P3 becomes a single, long-term contract that involves financing and the public entity making payments for the duration of that contract.

True, out-and-out P3s date back to the 90s, where they were developed in the United Kingdom for transportation projects. Pretty quickly, P3s were employed in other sectors and in other countries, and the UK, Canada, and Australia all began delivering some K–12 schools through P3s. Wherever and whenever P3s have been adopted, it has been with the assumption that the public sector can benefit from working with the private sector and its market-based philosophies and incentives.

It is important to note that anywhere P3s have been adopted, opponents have been vocal. This isn’t a bad thing. P3s are complex, their value is untested in many sectors and in many ways, and by their nature they are long-term contracts that entrench a public sector entity in the private sector’s world. Opponents have long raised questions about the quality of work delivered, the fuzziness of some math used to show P3 projects’ cost savings, and the long procurements that might exclude local firms, among other things.

It is also important to note that history has not been particularly kind to P3s in K–12. Unlike the higher ed sector in the US, for example, which has seen a few failed P3 efforts but has seen many, many more successes, P3s in K–12 got off to a rocky start. For example, the government in Nova Scotia attempted an ambitious program in 1997, stating that all future schools would be delivered via P3. After building more than 30 schools just two years later, the program was canceled for poor management that resulted in high costs. And overall, it felt like a decade or so after deciding to employ P3s more actively, the public sectors of various countries found themselves saying, “Wait a second, I thought the P3 was supposed to save us money. It doesn’t seem like it is...”
But the need for expertise, risk transference, and indeed financing remains overwhelming in the public sector, and the private sector’s appetite to address that need has not diminished. With lessons learned from the earliest years of K–12 P3s, new generations of projects have launched. Indeed, Canadian provinces have launched K–12 P3 projects since high-profile failures like the Nova Scotia program, including Alberta, New Brunswick, and Saskatchewan, among others—though Saskatchewan ultimately decided against employing P3s.

Meanwhile, in the US, the higher ed P3 market heated up—but not the K–12 market just yet. It wasn’t until the early 2000s that the US saw its first land trades (wherein the school district traded land to a developer in exchange for a new/updated facility), it wasn’t until 2012 that a large-scale K–12 P3 was explored (Yonkers, New York), and it wasn’t until 2021 that a large-scale K–12 P3 reached financial close (Prince George’s County, Maryland).

Looking ahead, we expect the K–12 P3 market to quickly mature, as happened in sectors like higher education. One key way this happens is private sector partners hire employees who have previously run school districts and school systems, filling in the private sector’s lack of knowledge and culture. As this happens, private sector partners will offer smarter, more appealing deals, services, and strategies.

Until then, we’ll see a period of K–12 and private partners getting to know each other, each feeling out partnerships, and each navigating this relatively new space.
There is no one easy, simple pro/con list for P3s. Why? Each district has its own perspective, and some perspectives differ slightly while others differ greatly. Consider that for one district, X is ideal, while for another district ideal might be not X. That means “X” is not necessarily a pro or a con.

Based on our work in the higher education and municipal sectors, though, we recognize that there are general trends. As you look over the lists below, consider that they’re not hard and fast rules, but generalities.

### Possible Motivations To Do A P3

- Can usually accelerate the schedule
- Developer takes risk of upfront costs, budget, operations, and schedule
- Commercial construction standards lower development costs
- Leverages developer’s experience as expert in construction
- Sometimes can preserve the debt capacity of districts with limited borrowing ability
- The private sector partner will be contractually obligated to meet certain performance metrics throughout the agreement
- Could be credit positive
- Price certainty offers certain freedoms
- District can focus on its core mission: educating students

### Possible Hesitations About Doing A P3

- Longer procurement process, and getting to financial close may itself take a long time
- District may be required to provide guarantee to developer
- District may already have in-house development and/or management expertise
- District can obtain lower cost of capital than private sector
- Additional costs such as legal, development, and financing fees
- District ultimately compensates private sector for taking on risk
- Possible negative impact to district’s balance sheet and debt profile
- District locked into a long-term agreement even as its circumstances may change
- Political sensitivities may provide a big challenge

For districts that decide against a P3, ultimately the “hesitations” list speaks louder—or there were deal-breakers that could not be resolved. For districts that decide to embark on a P3, the “motivations” list wins out. Which is to say, P3s aren’t all good and they aren’t all bad. They have benefits and they have drawbacks, just like any other delivery structure.
A Brief Word on Deal Structures

P3 deals are not solely building and construction deals, but also financial and operational risk transfer agreements. How much risk is transferred, and how much control a school district retains, varies greatly depending on the type of development structure.

First, it is important to note that we actually cannot define all the deal structures that exist; no list will be exhaustive, as each P3 deal is different and can be customized to what the involved parties want. And ultimately it’s good that so much variety exists; what works for one school district or private partner does not work for another. Being able to choose among existing structures (including not choosing a P3 at all)—or to blend them—allows each development to best serve the parties involved.

To understand this range, think of a spectrum of risk transfer. This is typically how we talk about P3s, regardless of sector. On one end of the spectrum, the public entity takes on all the risk (traditional method); on the other end, the public entity transfers all the risk away from itself and to the private sector partner. The entity that owns, operates, and finances a project changes as you move from a traditional structure (non-P3) to a privatized one.

This full range of P3s is simply not available to K–12 school districts. This is because K–12 has essentially no revenue-generating component to a project; contrast that to the way a student housing facility in higher ed generates revenue through leases and perhaps ground-floor retail in the building. We therefore expect most large-scale projects in K–12 will resemble availability payment agreements / concessionaire agreements, in which the development team designs, builds, finances, operates, and maintains a building that “makes available” to the school district in exchange for availability payments (paid annually, throughout the life of the agreement). In such an agreement, (1) availability payments are subject to the agreed-upon construction and performance metrics, and (2) the school district of course remains responsible for academic and social programming.

Other P3s that might tempt school districts are simple O&M agreements, in which the school district partners with the private sector solely to deliver building operations and maintenance. You can read more about O&M agreements in the following two sections.

We expect most large-scale projects in K-12 will resemble availability payment agreements / concessionaire agreements.

If after reading this guide you believe a P3 could be an option for your project, rest assured that it is all navigable and that many institutions—albeit not yet many K–12 institutions—have gone through this process before you.
What Makes a School/Project a Good Candidate?

P3s aren’t employed for fun. They’re complex. They cost money. And they involve ample community engagement—often from a resistant community. If they’re employed, it means there’s a problem that needs solving and it’s best solved with a P3.

Some foreign governments have issued guidelines or even regulations on criteria that must be met for a P3 to be explored, generally a dollar figure (e.g., A project must be valued at $30M or more). US governments have yet to put such guidelines or regulations in place. And what we’re talking about here with “a problem that needs solving” is more abstract than a financial threshold. It’s about the situation a school district is in, and the best way to deliver projects from that situation.

Before we detail a few situations that make K–12 schools/projects possible candidates for a P3, we want to briefly draw attention to two caveats of sorts. After reading these caveats, take a look at our possible expected profiles on the following pages.

Enabling legislation must be in place. If a school district wants to engage in a P3, that can only happen if local laws allow it. Because social infrastructure P3s (like school buildings) are newer in the US, this legislation does not always exist. In the case of Prince George’s County, Maryland, for example, such laws were not in place; a state law had to be created and enacted (Maryland Code, Education § 4-126). Read a full case study in Part 9.

In order for large-scale projects to pencil out, we expect Operations & Maintenance to be a component of most any deal. There are numerous ways the development team makes money in the initial project and then throughout the contract period, but O&M is one of the biggest. We’ve also seen several issued RFPs fail to attract attention from the development community because the O&M component wasn’t there to make the project financially viable.
Situation that make K–12 schools/projects possible candidates for a P3

1. A large school district faces financially crippling deferred maintenance

   Oakland, California. Washington, DC. New York City. Chicago. Los Angeles. These are large districts. Some might serve 100,000 students or more. These districts often have amazing facilities staff, but the staff alone can’t do it all: There is just too much deferred maintenance to handle.

   Good news for these projects: Bigger districts tend to have bigger budgets. That can attract developers and other private partners for a large-scale P3. While a smaller project isn’t doomed, it’s less likely.

2. A large school district faces growing enrollment

   Enrollment is growing in pockets throughout the school district, sometimes catalyzed by a demographic shift. When this growth does not align with the capital improvement plan, bundling projects together in a P3 can be a solution.

3. A school district (small or large) has land it can give up, while having needs it cannot meet on its own

   The sector has already seen a number of these revenue models. School districts often have unused or underutilized land, including in highly desirable areas. There are many possible uses for any given tract of land, but sometimes that land’s highest and best use involves turning it over to a developer who will, in exchange, deliver important projects for the district.

   This type of revenue model is an “easier” P3 than the large-scale P3s referenced throughout the majority of this guide. It takes less to make the financials work when revenue is possible. It’s still not “easy,” though. Among other reasons, a school district will need to be able to convince the public that the land isn’t best used in other ways. This requires knowing the land’s value and how to best capture it. Read examples of revenue models in Part 7.
A visionary leader steps up and says, “Enough is enough”

P3s are complicated. This is true of even the easiest, more straight-forward partnerships, like land deals. To take on that complexity takes a champion—someone who is willing to take some risks and do the work. We’ve seen these champions say, “Enough is enough. Everything is over budget. Let’s leave the bricks and mortar to other people, who are the best in the world at bricks and mortar. And let’s focus on our core mission, which is educating students—the thing we’re the best in the world at.”

Beyond just having the vision, this leader must be very successful at leading. The project will need a champion to navigate project approvals, manage stakeholder engagement, think strategically about the right approach and timing of that approach, and more.

A school district wants to finance and build a project on its own, but doesn’t want to operate and maintain it

This is not a large-scale P3, but it is certainly a partnership. Bringing in a private sector partner for custodial work and longer-term maintenance (e.g., an HVAC system breaks) is a long-term deal that transfers risk. Operations & Maintenance (O&M) agreements can be particularly compelling for K–12 districts; if the developer owns this piece of the project, they take on all the related risk. For example if utilities become more expensive, the developer takes on those costs. When that HVAC system breaks or the roof needs fixing, the developer takes on those costs. O&M agreements are still not all fun and games, though; they can get sidelined in many ways, including public perception and stigma (O&M agreements can be seen as outsourcing) and pushback from unions.

The State supports it and/or the timing is good with election cycles

P3s are not free money. With a large-scale program like the one currently underway in Maryland, the school district will make availability payments to the developer throughout the life of the project—for example, for 30 years. Typically, these payments are funded with operating dollars, not capital dollars. If a school district faces constrained funds, where does the money come from? Most likely: the state or county.

School districts with constrained funds are therefore more likely to find success in a P3 if they’ll have the state’s support, the governor’s support, etc. This of course suggests that K–12 P3s have a political component, so it’s important to think about where the project falls within election cycles, and how a new administration might impact the ability to go through with the deal.
Attributes of a Good Engagement

P3s are neither guaranteed to succeed nor doomed to fail. The following attributes make a successful relationship much more likely.

**Clear definition of expected outcomes**
While this is seemingly obvious, we have seen that it is nonetheless common for there to be some disconnect about what the parties expect to achieve through the P3. Ensuring that parties on both sides are on the same page is crucial.

**Sufficient development time**
P3s are complicated transactions so school districts must allow sufficient time for negotiating the structure and required legal agreements of the project.

**A true partnership, not a master/servant relationship**
P3s work well when both parties have mutual respect and consideration for each other, and are invested in each other’s success.

**Honesty**
Nothing implodes a P3 faster than a lack of trust among the parties.

**A fair and equitable contract/management agreement**
Related to an earlier point (“clear definition of expected outcomes”), it is crucial that expectations are clearly spelled out in an operating agreement that allows both parties to know exactly what is expected and how success will be measured.

**A close working relationship**
For the relationship to work, the private sector partner must have support from and access to district leaders.

**Intentional design and construction**
The property must be of a quality defined by the school district.

**Flexibility**
The school district should carefully define its needs. In answering those needs, the private sector partner should have latitude to shop for the most cost-effective solutions available.
Common Questions

Here are some questions we come across frequently—and their answers.

Our New World

1. Will every K–12 project soon be a P3?

No, we don’t expect this. School districts should, and hopefully will engage in P3s only when they are in the district’s best interest... the best interest of the students, the staff, and the taxpayers. And simply put, that will just not be the case for every project. It will not even be the case for most.

With that said, we do expect to see more P3s with time—both land trade agreements and large-scale projects. But this is really a statement more about the current rarity of these projects, creating a lot of room for growth. Large-scale P3s are quite new. They are being tested at the moment, and the current program’s success will certainly help determine how popular these deals become in the US K–12 sector. Even land trade agreements, which have already cropped up here or there around the US K–12 market, are still relatively unknown. So we expect to see both markets grow at least a bit.

Additionally, we can already state a few things based on our experience in the higher ed and municipal sectors. One, P3s may be the right answers for some K–12 projects, but in other cases they’re best avoided. While we expect to see increasing interest in P3s, they will never fully replace traditional models, nor should they. P3s are not always more cost-effective, not always faster, and not always better. They are simply one of many ways to bring a project to fruition, and the more options a district has, the better.

We work with a lot of K–12 school districts—small and large ones, older and newer ones, from coast to coast—and some are indeed expressing an interest in P3s. In some cases, we indeed recommend and would recommend a P3 development structure. In other cases, we would steer them away. Even if P3s go on to become very popular, they are not a silver bullet, and they do have downsides.
**Are P3s just privatization?**

No. At least not the deal structures that the K–12 sector has employed and would/will employ. A P3 at its most extreme could be more like privatization, but that's just not a deal structure that the K–12 sector would pursue—or even could pursue.

The large-scale P3 deal structures that are viable in the K–12 sector and potentially appealing to school districts are actually just one or two steps removed from how work is currently done. One way to understand this is to mentally separate out the financing behind a project and the delivery of that project. Which is to say, non-P3s still generally involve partnering with the private sector to deliver a project (design-build). So the part that would really feel and be different for schools is the longer-term, financial part.

With that said, there is no avoiding the reality that welcoming private sector partners into a project also welcomes their interests and limitations.

There are also some forms of partnership available to the K–12 sector that look more like outsourcing. For example, a school district can partner with a private sector entity on just Operations & Maintenance. Numerous school districts around the country do exactly this. There can be a stigma around it, though.

**Are P3s only for new construction?**

While the large-scale P3 work we've seen and expect to see more of soon is new development, modernization and maintenance work are certainly possible.

And in land deals, modernizations and maintenance work could certainly be at play, as we've seen.
As described in the History of P3s section (Part 2), K–12 P3s got off to a rocky start in other countries. There are definite lessons learned that can help prevent those same situations from occurring here and now. Still, the general public isn’t wrong to feel hesitant about K–12 P3s. It can be hard to trust important pieces of the public sector—schools, libraries, rec centers—to the private sector, knowing that the two often have different goals. And it can be hard to tell what’s true about K–12 P3s and what’s marketing speak—especially when so little information is currently available.

Here is an example of how it’s hard to know what is true. When you look at conversations about P3s and social infrastructure, it is not uncommon to hear that P3s are a great option—that by partnering with a single development team to do multiple things (e.g., design, build, finance, operate, and maintain), that team will be encouraged to make good choices—choices that will result in high-quality spaces that perform and age well. Yet it is also not uncommon to hear that P3s are a bad option—that the development team is focused not on the community, but on the return it gets on its investment, resulting in cheaply built and maintained facilities. Which is true? Can you run the process in a way that makes the rosier outlook more likely?

One of the things we’ll continue to suggest here is that while P3s always have risks, while P3s cost money, while you can’t solve every challenge P3s bring up... a really strong, careful, intentional upfront project definition process makes a difference. A school district doesn’t have to be doomed to shoddy construction and sky-high utility bills. The right criteria-setting up front—for example determining the right outcomes-focused, performance-based specs—can ward off disaster down the line and help a P3 live up to what the public entity expects of it.

A last note here: There are only so many multi-decade relationships we engage with in our lives outside of personal relationships. Perhaps only our mortgages last this long. So one reputational concern with P3s has been what happens after the “honeymoon” period? What will the commitment look like 28 years down the line? Will the private sector partner be patching my walls with toothpaste, if at all? Like so much else mentioned in this guide, this concern can be addressed with the right language written into the contract.
Sustainability is increasingly a consideration and even a feature in school building design and operation. How do P3s factor sustainability in?

There is nothing inherently connected between P3s and sustainability, but there is plenty of opportunity for sustainable design and operation. There is also plenty of potential challenge. Opportunities would be related to what is decided in the project definition process (vis-à-vis criteria that developers’ plans must meet). Challenges would be related to whether the project pencils out with sustainability goals in mind, and how a project’s operations can (or struggle to) adapt over time as the world around it evolves.

What types of projects are possible when a school district / city has land it can offer developers? What are examples of this revenue model?

As referred to in Part 5, there are revenue models available to school districts and cities that have unused or underutilized land, including in highly desirable areas. There are many possible uses for any given tract of land, but sometimes that land’s highest and best use involves turning it over to a developer who will, in exchange, deliver important projects for the district.

Two examples are as follows.

Falls Church City Public Schools (Virginia) had 33 acres of land occupied by their existing middle and high school campuses, and through initial feasibility studies identified that they could reorganize the campus layout, allowing for private development of approximately 1/3 of the property, to help finance the construction of a new high school.

After a large-scale P3 was unsuccessfully explored, they looked at building a new school and also privately developing a portion of the property, a new approach that worked. The community approved a bond package, allowing the school district to procure and enter into an agreement with a design-build team for the construction of a new high school. Concurrently, the city procured and entered into a long-term land lease agreement with a developer partner team for the remaining ~10 acres of private development.

The new high school is financed up front by the traditional bond, however the bond is being substantially paid down in a creative way, such that the availability payments and tax revenue generated by the development of the 10 acre parcel (including an initial payment, subsequent payments, and any tax revenue from the retail, office space, residential space, and a hotel on the land) significantly offsets the long-term impact to the taxpayers.

This is not a traditional P3—not that such a thing even exists—but it shows how partnerships can work... their scope, their impact, their risks, and their benefits.
Another example is the James F. Oyster Bilingual Elementary School (Washington, DC). This 350-student public charter school had excess land; it traded the tract to a developer who was able to make improvements to it via market-rate housing (unrelated to the school) and who in turn built a new school building to replace the previous one, which dated back to 1926. In exchange for giving up some land, the district got a higher-capacity, modernized school building. Construction costs were financed by a 35-year, $11M tax-exempt bond package issued by DC; the entirety of the bond will be repaid by revenue generated from the market-rate housing.

Another way this revenue model might work is if land that is currently being used could be deployed better. For example, an urban school district might have an elementary school and facilities department already located downtown. The elementary school probably does need to be in that space, but does the facilities department? Cities like Chicago have explored this concept, moving non-core facilities off of highly valuable land, such that the land can generate more value.

### Financial Considerations

#### Does the private partner fund the project?

The private sector doesn’t fund the project, but finances it—a minor difference in language, but a huge difference in reality. The private sector partner can source funds from a variety of areas, including but not limited to traditional debt financing, private equity, and economic development incentives.

#### Are P3s free money?

P3s are absolutely not free money. In fact, it often costs more money to do a P3 project than to use a traditional delivery method. Among other reasons, private financing tends to be more expensive than public borrowing due to less favorable credit ratings. While the private sector’s efficiency, innovation, and competitive marketplace hypothetically close this gap, the private sector must deliver on that concept. If that gap is not closed in full, any remaining difference is additional cost passed along to the public.

No two P3s are identical, so what has happened in the past—especially in other countries—is not necessarily a good predictor for what will happen here in the US, today. With that said, we would be remiss to not point out that the cost of P3s extends beyond the cost of capital and into areas like transaction costs and like fees for various services (e.g., legal, advisory).

The cost of P3s extends beyond the cost of capital and into areas like transaction costs.
In a traditional model, a school district accesses capital for a project, and partners with design, building, and sometimes O&M firms, compensating each directly. In a P3, the school district partners with a development team that accesses capital and that is itself comprised of contractors who will take on design, building, and sometimes O&M work; the district compensates the development team.

During the contract period of any P3, the private sector partner gets paid. How it gets paid can take on multiple forms, and often a single contract includes multiple forms of payment or revenue generation. How the private sector partner gets paid tends to be through:

1. **Demand-based payments**, in which the private sector charges users of the facility or service (usually a service, such as drivers using a toll road)

1. **Availability-based payments**, in which the public sector partner makes regular payments to the private sector partner for making the facility available (whether the demand is there or not)

1. **A combination of availability and demand payments**, in which the public sector partner makes a payment to the private sector partner and the private sector partner charges users fees, as well

In availability payment agreements, the development team designs, builds, finances, operates, and maintains a building that it “makes available” to the school district in exchange for availability payments (paid annually, throughout the life of the agreement). In such an agreement, (1) availability payments are subject to the agreed-upon construction and performance metrics, and (2) the school district of course remains responsible for academic and social programming.

In large-scale K–12 P3s, availability payment agreements are what make sense. School districts generally do not have a way to directly generate revenue. Unlike a student housing project in higher ed, for example, students are not paying leases, nor are tenants possibly paying leases for ground-floor retail. So revenue models will be hard if not impossible to arrange in K–12. Availability models are therefore what is available, but they also have some appealing features, including the ceiling they put on the school district’s financial obligation (and the corollary ceiling put on the private sector partner’s ability to generate revenue off the project), budget certainty, and a development team incentivized to meet pre-determined metrics.

*See Part 9 for a case study* on the large-scale P3 taking place at Prince George’s County Public Schools, which employs availability payments.
Are P3s off-book?

Sorry, but no. There was a period in history when various sectors did perceive P3s as being off-book. If a P3 was treated as an operating lease, the public entity recorded payments only as they were incurred, avoiding the appearance of long-term liability. Quickly, though, accountants caught on. We now see P3s for what they are: contracts with long-term liability and impacts to budgets. Because if the project falls apart or simply if the contract period ends, the contract stipulates ways for the private sector entity to transfer ownership to the public sector entity.

Non-Financial Considerations

If large-scale P3s can cost more than traditional delivery, why would school districts use them?

While private financing can be a huge draw, there are many other reasons districts might look to large-scale P3s. They include: risk transfer, faster project delivery, access to expertise that doesn’t exist in-house, minimization of costs throughout the asset’s lifecycle, etc. Remember that a P3 is so much more than just building or renovating an asset; usually it’s a multi-decade relationship.

Another big reason is related to the cost of deferred maintenance, and this idea that P3s can simultaneously cost and save money. Consider, for example, a school district facing deferred maintenance... without enough funds to solve the problem. Without money to take on these important but expensive projects, deferred maintenance issues compound. Deferred maintenance can get to a point where a district can’t operate a school. In a case like this, using a P3 to address issues sooner in a facility’s lifecycle can be the difference between a healthy, operating school and a condemned one. In that case, the long-term expense of a P3 is countered in an important way: usability and health in the immediate term.

Whether or not a school district faces a mountain of deferred maintenance, it must oversee Operations & Maintenance on its facilities. One reason school districts might turn to large-scale P3s is the inclusion of O&M. As mentioned elsewhere, we expect O&M to be a part of most any project just in terms of making it financially viable for the private sector partner. This implies correctly that the private sector will make a good profit off of the O&M work. But that doesn’t necessarily mean it’s a bad deal for the public sector entity. Having O&M taken care of at one or more schools might free up human capital for other schools in the district, or other projects. And sometimes the work that is included in the O&M part of a large-scale P3 is not work that a school district would otherwise get out of third-party O&M—for example, painting before each new school year.
Finally, regarding financing, often the value the public sector entity receives is not cost of capital—as stated elsewhere, it’s cheaper for the public entity to obtain money. Instead, value as related to financing is about spreading out the cost over time. Some districts may be able to finance comprehensive, ambitious projects up front; many, though, will not. And some that may be able to, may still choose to use their funds in other ways, on other projects. So the benefit isn’t free money (P3s aren’t free money), it’s time and/or flexibility. Read the Prince George’s County Public Schools case study in Part 9 for an example of a project motivated beyond financing concerns.

What kinds of risk can be transferred in a P3? How should a school district think about risk?

The list of transferable risk is sector-specific, long, and non-inclusive, and it evolves over time. Perhaps the easiest way to think of it is via the DBFOM structure. For example:

- **Design & Build**: program & quality risk, project budget risk, project schedule risk, predevelopment cost risk
- **Financial**: project financing risk, credit rating risk, balance sheet risk, debt capacity risk
- **Operation & Maintenance**: facility operations risk, physical asset management risk

There are also risks related to external events, like macroeconomic risk, force majeure, and the political and regulatory environment.

There is also a risk that is more abstract in nature, but affects so much of the P3 landscape: **rigidity in the face of uncertainty**. Because these contracts are so long (typically around 30 years), and because all those involved want to protect themselves now and in the future, both public and private sector partners find themselves trying to predict and address all future challenges. Some flexibility can be built in, for example prescribing the literal flexible use of spaces. But there is a long and formidable list of things that can change over time and of the challenges that can crop up, and the future is unpredictable, so this is a risk that can be mitigated to a certain extent, but not eliminated.

And it is a big risk. If a school district engages in a P3 because, among other reasons, it faces a daunting growth in enrollment, what happens if 5, 10, 20 years down the line, that demand for seats disappears? In an availability payment model, the public entity would still be responsible for making financial payments throughout the contract period, regardless of how many students are enrolled. Or what happens if the partnership goes sour, for whatever reason, and despite everyone’s best intentions. It is possible to get out of a P3 agreement, but it’s neither easy nor inexpensive.
Is it in the school district’s best interest to offload as much risk as possible onto the developer?

Offloading risk is certainly tempting. Consider, for example, an entity who knows it will be responsible for a building’s Operations & Maintenance (and related risk) while it designs and builds that facility. You can imagine that entity might be extra careful and rigorous with excellent design and construction. Because if the building doesn’t perform as expected (and as agreed to in performance requirements), that entity will be on the hook for expenses, such as increased utility costs.

In that scenario, the benefit to the school district of offloading so much risk is not only avoiding the crush of expensive utilities, but perhaps having a better design and even better building in the first place.

Of course, offloading risk costs money. The more risk the private sector takes on, generally, the more compensation it will require. Offloading risk also costs the public entity some direct control over the project. So the question here is really about what it costs to offload risk, and if that price (both financial and more abstract) is worth it to the school district.

Another way to think about risk transfer is that the goal in a P3 is not to just transfer as much risk as possible from the public to private sector, but for each involved entity to take on the risk that it—above any other entity in the partnership—is best suited to take on (in terms of capabilities and costs).

Finally, consider that risk can never be completely transferred. It is the school district that will ultimately be held accountable for delivering the facilities and operations that the public expects.

What does a loss of direct control look like for a school district? Can this loss of control be mitigated?

With a large-scale K–12 P3, the school district hands the private sector partner criteria. How the private sector partner meets those criteria is up to it, not the school district.

This is mitigatable to a certain extent. For example, a school district can work to do a really good job of establishing criteria, can engage the community, and can manage the expectations of what will be delivered. This work can address the sensation or actual loss of control, but realistically speaking, some control will always be given up—so it’s about (a) choosing the places control must be retained and (b) minimizing the potential impact of places control can be released.

One more note here: It’s far better to address the control issue head on, during project definition. If the school district attempts to change its criteria down the line, it will see severe costs—both to the schedule and budget.
Does the level of quality of the building suffer in a P3? Is there any way out of this?

Unless the right steps are taken up front during project definition, yes, the level of quality can (and perhaps even will) suffer. Unfortunately for the development community, the word “development” often has a negative connotation in the K–12 community, with an image of developers caring only about the bottom line. And we say this without casting judgment or blame: This is true to a certain extent. But this is not specific to developers, nor is it specific to P3s. School districts have long found that if they give a builder, developer, or other professional leeway to choose less expensive options, they will.

Fortunately, this can be addressed. School districts engaging in large-scale P3s can ensure they get the needed program and quality. It just takes some work.

First off, it takes time. It takes a lot of time to plan and develop proper ed specs. This is always true, but the specs need to be air-tight in a P3. In the one large-scale P3 example this country has, it took a year and half to get the RFP out. This was time well-invested, as it will save years down the line, but it’s important to expect something similar going into a P3.

Second, it is important that the school district define the absolute minimum acceptable level of everything in its program specifications—finishes, systems, etc.

Third, it is important to define programs that are specialized in nature. A school cannot just request “STEM space.” That could be a graphics design studio or a hydroponics lab, among many other options, and some spaces are much more expensive and complicated to build than others. So school districts will need to get specific on what they want, and what they’re willing to accept. In both the second and third cases, school districts are accustomed to building in flexibility. This is not inherently a good or bad thing, but in a P3 it creates complications during design.

Finally, school districts will have to spell out what they want, not trusting anything to be obvious. For example, it seems obvious that there should not be columns in the middle of classrooms. But columns are cheaper than beams, so a developer might put in columns unless the technical requirements specify otherwise. (In this specific example, sample language might be columns may not be placed in a way that would hinder the intended use or function of the room.)

In sum, the way out of the quality concern in large-scale P3s is for school districts to have detailed, well-defined educational, technical, and program specifications, including an absolute minimum basis of design and, as included, for O&M.
Can charter schools do P3s?

Yes, there is absolutely nothing stopping charter schools from engaging in large-scale P3s, O&M agreements, land-swap deals (per the examples in Part 5 of this guide), or other partnerships. If anything, private charters can have an easier time navigating partnerships than public schools, as they might own property outright and be able to make long-term commitments more easily.

What do private sector partners get out of these arrangements?

In large-scale P3s, private sector partners can take on a significant amount of risk. Unsurprisingly, what make these deals not only possible but palatable is money.

Private sector partners make money on the design and construction of the facility. And if they set themselves up right, private partners stand to enjoy a continuous stream of revenue—from selling a bond to receiving annual availability payments, to fees on mutual funds. This is not meant as a judgment or knock; again, the private sector is simply being compensated for its efforts, and for all the risk it takes on.

Beyond money, some private sector partners are genuinely committed to education and students. Something we saw happen in the higher ed sector, for example—that very well could happen in the K–12 sector—is the emergence of private-sector organizations whose missions align with the mission of schools. It is not hard to understand why these organizations would quickly rise to the top; schools want to partner with private organizations who “get” them and have the same goals. And the more the alignment of goals, the more likely a project is to succeed.
Personnel and The Community

18 If my district does a P3, will my job be cut?

Nothing is a guarantee, of course, but our experience has not shown job loss to be the case—not in K–12, not in higher ed, and not in municipals. Often a P3 is even a means for empowerment and professional advancement, as the district/university/municipality will need educated employees to oversee the developer’s design, construction, financing, operation, and/or maintenance of the facility.

19 What would community engagement look like?

For the K–12 sector, the importance of community engagement in P3 projects cannot be overstated. While some other sectors don’t need to worry much, if at all, about community engagement, K–12 will have to pay a lot of attention here and make strategic, comprehensive efforts.

Info sessions, stakeholder meetings, websites, FAQs—the list goes on. It helps to start with an info session that includes not just the school district and board, but the community. Ultimately, taxpayers are going to fund this partnership. They are going to want and need to understand the what during the project definition phase—What is a P3? What does it mean for me, the taxpayer? What does it mean for our educators and our children? Another one we’ve encountered: What does this mean for my children’s children? Are they going to be paying for these schools?

In some cases the community will have the right idea already, in other cases community engagement will involve a lot of myth debunking or addressing misconceptions. The question about our children’s children paying for these schools, for example, perhaps overlooks that even in a traditional model, the school will not be paid for in a year. Or two years. Or three…

The community should also be engaged in concept design. A successful large-scale K–12 P3 will invite the community’s input, and then really listen to it. It is essential that the community be engaged this way before the project goes to a developer, otherwise when the community demands changes down the line—and they will—you’ll be stuck in a land of expensive change orders.

Lastly, be prepared for scrutiny. As aforementioned, P3s can cost more money than traditional delivery methods; taxpayers will scrutinize and question how tax dollars are being spent. This will be especially true after learning about some notable K–12 P3 failures from other countries, for example the large bundled project in the 90s in Nova Scotia.
Ultimately, a community should have a sense of the options for building/renovating/modernizing the needed school(s), including approaches that don’t employ a P3. If a P3 is decided as the best course of action, it should be with the community’s understanding and agreement that it is the best course of action.

**How should I think about the failed P3 projects in other countries?**

It’s important to pay very close to attention to the full history of large-scale K–12 P3s—and to P3s more broadly—focusing on what has worked and what hasn’t. One benefit of exploring a K–12 P3 now versus 30 years ago is that other projects have already determined through experience a long list of what to do and what not to do.

It is also important to take it all with a grain of salt. The famous large-scale K–12 P3 failures were in the 90s and in other countries. The world was a different place in the 90s, and both governance and cultures are different across borders. There were also different expectations of K–12 P3s in earlier years, generally related to fuzzy math and messaging around P3s costing less, which, as we’ve covered, is generally not the case—or is at least not the right way to think about P3s and value.

**How to Get Started**

**I think my district should do a P3. What’s the first step?**

First, you want to make sure a P3 is really the right answer—and this is pretty multifaceted. What are the financial implications? What are the control implications? How will this work as we engage the community? Is this even possible in my region, in terms of regulations and political sensitivities? An advisor can help answer all of these questions and help pinpoint the best approach—whether P3 or otherwise.

If the above questions are satisfied and the answer is a P3, the first step is going to be a pretty exhaustive project definition phase. This phase details the program of requirements—the academic program, the functional spatial requirements, etc. For a K–12 P3, we suggest going even further and going into concept design as part of project definition. This way the site’s spatial needs become apparent, as well as design standards. This “basis of design” needs to be very tightly defined for K–12.
How can I be sure the private sector will be interested in my project?

The K–12 sector has a lot going for it that can attract investors (e.g., the project’s purpose, stability, being a required service). It also has a lot going against it (e.g., political shifts, emotions running high, slow-moving approvals). So very early on, it will be essential to ensure the private sector will be interested in proposing on this exact project. A development team might spend $1M – $3M on design costs trying to win a project. That’s a lot of money to invest in a largely untested sector; consider that in a higher ed P3, design costs might be one-tenth that and the path has been paved many times over. Teams will therefore respond only if they trust the project is real and is set up to succeed. This reinforces the importance of project definition, and introduces why market sounding will be key.

The K–12 sector is often newer to navigating market sounding, and to running a procurement process the way private sector partners expect and trust. For example, the public sector sometimes doesn’t tell anyone about an RFP until it’s out. In the P3 landscape, though, this could mean missing out on some great firms—and the important competitive energy they would introduce to the process.

The K–12 sector is also going to be less familiar with the specificity that private developers look for. In a P3 project, for example, noting that there should be a new tech room is nowhere near enough information. What are the hookups for plumbing and gas? What ventilation is needed? You said resilient flooring, define exactly what you mean by that.

Lastly, the school district will need to make sure the project’s scope, purpose, personnel, and timing are right. Developers are looking for something that excites them and makes for a good investment of their money, not something that scares them. A large, bundled project that has the potential to deliver a solid ROI to the private sector while improving the situation for students and their families? That’s exciting. A district with the right people (and processes) in place to make a project happen? That’s exciting. A county- or state-level election happening in the middle of procurement? That’s scary; they could spend a significant amount of money on design only to have it all go out the window.
Navigating the complex P3 assessment and engagement processes from start to finish takes expertise and experience. School districts are unlikely to have that expertise in-house. Bringing in an advisor can therefore ensure a school district is evaluating, planning, negotiating, and implementing a partnership in a manner most likely to result in success.

There are things you can expect of most any advisor. They will:

- Help the school district navigate the various P3 deal structures
- Drive the process of the transaction (through ribbon cutting, if wanted!). Even though each P3 is different, an advisor knows what comes next in the process—what to look for, what to do, and what to avoid
- Serve as the “team captain” or “orchestra conductor,” ensuring everyone shows up at the right place at the right time, and works together
- Work alongside the district as it receives legal advice
- Oversee the program, budget, and timeline to ensure a project is delivered on time

Additionally, some advisors offer a higher level of service and all-important impartiality. These advisors can:

- Help define the project and ensure market viability
- Act 100% in the school district’s best interest; these advisors are agnostic as to whether a building gets built or how it’s funded
- Ensure an honest and fair RFP/RFQ process (e.g., selection of private sector partner) due to impartiality
- Have relationships with professionals in every aspect of the deal—architects, developers, contractors, etc.—that can be leveraged as best serves the district
- Specialize in K-12, giving them the expertise to enrich the project and fully integrate themselves within the context

Finally, for the K-12 sector, large-scale P3s are so new that few school districts are willing to risk being the guinea pig. An advisor offers a safety net.
Case Study: Prince George’s County Public Schools

PGCPS utilizes an Alternative Construction Finance method to save $174M and halve time to delivery

The Prince George’s County Public School district in Maryland is among the country’s 20 largest districts, serving more than 136,000 students—and it’s growing rapidly. Between significant increases projected to student enrollment in the coming years, a current 2,000+ middle school seat deficit, and 200+ rapidly aging school buildings, the district recently took quick, decisive action. It has become the first district in the US to accelerate the delivery of a group of modernized public K–12 school buildings through a design-build-finance-maintain (DBFM) Alternative Financing Model. The 6 new schools PGCPS will get could not come soon enough; more than half of PGCPS’s 200+ schools are more than 50 years old, and the 6 being replaced through this program are 47–82 years old. Fortunately for PGCPS, the new schools will open in a relative blink of an eye for school construction; the deal reached financial close in December 2020, and the schools will open in time for the 2023–2024 school year, adding 8,000 new seats across five new middle schools and one K–8 school. PGCPS will retain ownership of the schools throughout the 30-year agreement; at the end of it, PGCPS will also operate and maintain the facilities.

PGCPS will get more than just new facilities; the approach is expected to save over $174M in deferred maintenance and construction costs, and will build new schools faster—cutting the delivery time in half.

Doing the country’s first such deal is risky. But the value was too great for PGCPS to pass up. Building the six schools under a traditional DBB (Design-Bid-Build) delivery method would ultimately have cost more than under the Alternative Construction Finance (ACF) method. In both cases, the design and construction costs would be $485.8M if the projects were undertaken today. In the traditional DBB method, however, it would take 16 years to build the schools (vs. 3 years with the ACF method), during which time a 5% yearly cost escalation would add $389M, bringing the total cost to $868.8M.

Additionally, a traditional DBB delivery method would have required a nominal capital cost of $235.9M to be spent just on deferred maintenance for the Phase 1 schools while awaiting the start of construction.

Note that while PGCPS decided an Alternative Construction Finance method was in its best interest for these six schools, and while the district is preparing for a second round of the program, it is simultaneously pursuing other school construction projects through the traditional delivery method. This mix-and-match approach is serving the district best, and PGCPS intends to explore all delivery methods for each future project, to not be tied to a specific approach and to ensure maximum value for PGCPS.
Key Details

Financial Structure

- **$29.5M** Initial Availability Payment
- **30 Years** Service Period Term
- **$1.24B** Total Program Cost

Economic Stimulus

- 30% of total eligible contract costs will go to MBEs (minority-owned businesses) and CBBs (community-based businesses)
- 20% of MBE contracts will go to firms based in Prince George's County
- 3,000+ new jobs created
- Expected 2% local GDP increase
- Work completed under Prevailing Wage Salaries
- The full-system refresh (prior to handback, between years 23–28) will create a second stimulus
- Targeted for LEED Silver equivalency

Project Timeline

- **May 2019** RFP issued
- **Nov. 2019** RFP kickoff, site visits
- **Sept. 2020** RFP responses due
- **Apr. 2021** Contractor bidding begins
- **Dec. 2021** Contractor bidding ends
- **Jan. 2022** Design
- **Jul. 2021** Construction phase begins
- **Jul. 2023** Schools delivery phase ends
- **Dec. 2020** Contract ratification, financial close
- **Subcontractor prequalification portal launches**
- **ACF Program community town hall meetings**
- **Permits/approval**

Financial Structure

- **Jun. 2023** Operations end

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Financial Structure

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How it works

PGCPS engaged in a competitive, two-step process to ensure the selected private sector partner would provide the best value to the district. The RFP selection process consisted of subcommittee/analyst reviews and recommendations (4 subcommittees: MBE, design & construction, facility maintenance, financial advisory committee) and a 9-member selection committee representing PGCPS, the County Council, and the County Executive. The procurement process took into account the many pieces of availability payment components (capital charges, service charges, deductions, and extraordinary items), and the additional aspects of capital investment obligations (progress payment, milestone payments, availability payments, and extraordinary construction payment events).

The selected development team, Prince George’s County Education & Community Partners PGCECP (comprised of: Fengate Asset Management, Gilbane Development Company, Gilbane Building Company, Stantec, and Honeywell), will receive availability payments beginning after building occupancy (over 30 years) to design and build six schools to Prince George’s County Public Schools’ specifications, as well as assume maintenance of the buildings throughout the contract period. The team developed a prototypical facility design that is being applied to four of the six schools in the project. Using a prototypical design helped the project pencil out. Note: This prototypical approach will not work for all large-scale projects, as individual schools within a district may have different programming needs, and individual project sites may be too different to support the same physical structure even if the schools’ programming needs are similar enough.

The project is utilizing private financing obtained by PGCECP. The Availability Payment obligations will be paid out of PGCPS’s capital budget with an additional annual contribution by the County. The obligations will not negatively impact the district’s $2B operational budget.

There are many safeguards for PGCPS built into the arrangement. For example, if the schools are delivered late, the value of the contract goes down. More broadly, during the Services Period, PGCPS will conduct rigorous monitoring, participate in joint technical reviews, and will assess deductions to ensure PGCECP compliance. The team has put into place 48 O&M KPIs—Key Performance Indicators further measuring the buildings’ performance.

Meanwhile, PGCPS building services staff will keep their jobs; PGCPS has certain itemized retained responsibilities, like general building and grounds maintenance, during the Services Period that will be maintained by current PGCPS employees. Prior to the end of the partnership and hand-back to PGCPS, each school will undergo a complete system refresh (i.e., building envelope, HVAC, interior finishes and millwork, plumbing system, building management system, etc.), verified by handback inspections. Therefore, at hand-back, PGCPS will receive 6 schools buildings in good condition with at least 30 more years of useful life, with major project components having 5–15 years of minimum remaining useful life (each as specified in the agreement). In this sense, PGCPS is not getting 6 schools out of the deal; it’s getting 12.

After reaching commercial and financial close, the PGCPS-PGCECP team also announced a new $1M endowment fund as part of the Blueprint Schools Program. This fund will support scholarships, internships, mentorship, and apprenticeships valued over $4.7M.
**Control & oversight**

PGCPS retains sole decision-making authority over the operation and use of the six schools.

PGCPS retains ownership of the six schools and actively monitors PGCECP with support from a triparty governance body comprised of the County Executive, the County Council, and PGCPS.

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**COST & TIME COMPARISON ACF vs Traditional**

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—Dr. Monica Goldson, CEO, Prince George’s County Public Schools
About Brailsford & Dunlavey

Founded in 1993, Brailsford & Dunlavey is a program management and development advisory firm with comprehensive in-house planning capabilities, dedicated to serving educational institutions, public agencies, and non-profit clients. Acting as advisors, we shepherd an idea, make it a viable project, and oversee it through ribbon cutting and into operation. We are nationally recognized as a leader in the educational P3 market and were a finalist for P3 Bulletin’s 2017, 2018, and 2019 Technical Advisor of the Year awards. If you would like more information, please contact Doug Kotlove at d kotlove@bdconnect.com.

About the P3 Resource Center

In 2017, B&D launched the P3 Resource Center (www.p3resourcecenter.com) as an educational space for the sector—school leaders, developers, and other stakeholders. Serving as a central, go-to place for answers—or even the right questions to ask—the resource center offers articles from industry experts, reports, guides, videos, infographics, presentations, and more. Originally launched as the Higher Ed P3 Resource Center, the site is expanding to serve the K–12 sector, as well, as this sector’s eyes turn toward P3s. We believe strongly that it is in everyone’s best interest for accurate, educational materials to be widely available; we hope you’ll find them on the P3 Resource Center.