



Association for the Improvement  
of American Infrastructure

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## Development Fees in Public-Private Partnerships: P3 Insights for Public Agencies

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Preparing a competitive P3 proposal requires the private sector to undertake significant at-risk development costs and activities well before financial close. These development costs and activities are a normal and necessary part of every P3 procurement. To account for such at-risk development work, developer's will receive at financial close, through the developer's financing, a development fee. Certain pre-development agreement approaches also allow for costs incurred under a pre-development agreement to be reimbursed at financial close as part of the developer's development fee. Development fees ensure that the essential pre-award financial close work is compensated within the overall financial structure of the project and treated consistently across bidders.

### Development Fee

#### Purpose:

A development fee is part of the flow-of-funds to be paid to the developer at or shortly after financial close to recognize the substantial resources and risk borne during project development, procurement, and financing phases.

A developer's activities prior to financial close may include, but are not limited to: feasibility analysis, preliminary design development, due diligence and site investigations, risk assessment, financial modeling, permitting and regulatory work, stakeholder and third-party coordination, and implementation planning. Because these activities are inherent to any major project, bidders incorporate them directly into their financial proposals as part of their overall project pricing.

Once the project achieves substantial completion and an availability payment is paid, the public agency's payments will fund the development fee as part of the availability payment or if revenue risk, then third parties will fund the development fee. This ensures that necessary development work is properly accounted for, provides predictable treatment across bidders, and supports broad market participation.

#### Best Practices:

- Ensure Transparency: Document rationale, scope, and fee calculation; benchmark to industry norms.
- Align with Value-for-Money: Include in total project cost and assessment of overall affordability.
- Maintain Fairness: All proposers should include expected development as part of financial proposal to ensure competitive equity.