Public-Private Partnerships Boot Camp

Trainer(s):

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Case Study: Los Angeles County Administration Building, LA, CA

- **Capital Value:** USD $107 million
- **Financing Mechanism:** Tax-Exempt Bonds Issued by LA CRA but payment backed by 30 year capital lease payments from LA County
- **Delivery Model:** DBFOM. Developer Fee paid in milestone payments.
- **Project:** Ground up, build-to-suit 220,000 SF Class A office building; 900 space parking structure, childcare center & retail space.
- **Completion date:** 2007 (on schedule and below budget)
- **Status:** Successfully functions as County’s first social service “one stop center. Developer continues to operate and maintain.
- **Innovations:**
  - Private developer assembled/acquired land, relocated existing tenants (21 households/1 business), secured all entitlements/approvals (CEQA), negotiated lease and took all design/build risk.
  - County shared in D/B Contract Savings
  - Accelerated delivery – 24 months: design & construction
Case Study Overview: New Long Beach Courthouse

- 545,000 Square Foot Building; $495 Million Budget
- Completed below budget & ahead of schedule in 32 months in August 2013
- Administrative Office of the Courts in California, Judicial Council of California led the multi-phased procurement for L.A. Superior Court
- L.A. Superior Court occupies 415,000 SF including 31 civil and criminal courtrooms, detention center and holding cells, sally-port, and office space.
- LA County under a separate office lease agreement occupies 100,000 SF: 5 Depts.
- Retail and commercial space: approx. 5,500 SF
- Facility accommodates 800 workers and 3,500-4,500 visitors daily
- 1,000 space parking structure renovation
- Project agreement spans a 35 year operating period
- Replaces outdated and overcrowded existing facility built in 1959
• First true performance–based, availability-payment social infrastructure P3 to reach financial close in U.S.
• First with all U.S. enterprises: Meridiam NA; AECOM; Clark and JCI
• Effective partnership during procurement: aligned interests between Governors Office, State Legislature, AOC, County of LA, City of Long Beach and Long Beach RDA
• Change from AOC’s traditional Design-Bid-Build Procurement Method to Private Sector DBFOM to meet facility replacement needs
• Project was closely monitored by other states & government entities looking for new ways to meet social infrastructure needs in tight economic times.
• 12 different National & Global Awards
• Provides State with significant leverage over Private Sector by transferring Full Integration Risk to the P3 developer: Finance, Design, Build, Operate & Maintain.

• State is insured of an “on schedule”, “fast-track” delivery high quality project delivery utilizing best practices at an equal or lower cost than if traditional “design-bid-build” process with customary institutional O&M program had been implemented.

• Switch from Lowest Upfront Construction Costs to Lowest Lifecycle Costs: lowest NPV of all costs which are amortized over 35 years.

• Because Developer has significant equity investment and is dependent on the State for payments, State has unusual leverage over maintenance of quality performance standards throughout project life.

• No impact on State’s credit limit and no additional State Debt created.

• Creates a Culture of Long Term Asset Management and Maintenance. Penalty regime as enforcement mechanism.

• Sustainability is a key goal: LEED Silver and Energy Model.
Case Study: Rapid Bridge Replacement Project in Pennsylvania

- **Capital Value:** USD $900 million
- **Payment Mechanism:** Availability-Based
- **Delivery Model:** DBFOM
- **Project:** Reconstruct 558 geographically dispersed, structurally deficient bridges across Pennsylvania with operations over 28 years
- **Target completion:** August 30, 2018
- **Status:** Financial Close reached in 2015
- **Innovations:**
  - Achieved an economy of scale and cost reduction
  - Transferred risk of delay, resulting in the DBJV pursuing accelerated federal environment clearance permits
  - Accelerated delivery – 3 years, instead of 4
Case Study: Consolidated Justice Facility Project in Indiana

- **Capital Value:** USD $408 million
- **Payment Mechanism:** Availability-Based
- **Concession Term:** 35 years
- **Delivery Model:** DBFOM
- **Project:** development of a 20-court courthouse, a 3,500 person jail facility and office space in one complex, consolidating the county's existing criminal justice facilities.
- **Target completion:** August 30, 2018
- **Status:** Cancelled
- **Challenges:**
  - “Value for Money” analysis challenged
  - Lame duck mayor and upcoming mayoral election
Cost/Benefit Analysis Exercise

• Read the hypothetical case study
• Break into three groups
  • Private Sector (The Developer)
  • Public Sector (The City of Civitas)
  • Citizens of Civitas
• Devise a list of costs and benefits to using a P3 for the municipal
• After reviewing the information on the project, what does your group see as the costs of the project? What are the benefits? Should the City proceed with a P3?
• Make a case to your peers that demonstrates your group’s position
Cost/Benefit Analysis: Questions to Consider

• What payment structure would work best for this project?
• What risks should the City transfer to the Developer?
• What kinds of authority or responsibilities should the City retain?
• What are the ways that the City could communicate the costs/benefits of such a project to its citizens?
• What kinds of innovation could the Developer present that would drive more value for taxpayers?
• Should the City seek a design-build-finance-operate-maintain project that utilizes private financing? Are there other models that the City should explore before making a decision?
Public-Private Partnerships Boot Camp: Seminar Exercise

Trainer(s):

Todd Herberghs
National Council for Public-Private Partnerships
http://www.ncppp.org/
Hypothetical Situation

The City of Civitas has a bustling population of 750,000 residents. Located in the State of Heartland, Civitas has an aging industrial workforce and a booming tourism industry. A number of knowledge industry and technology firms have relocated to Civitas, which has spurred continued population growth over the past 10 years. The City has a “strong mayor” system of governance. Civitas' current mayor has been in office for eight years and she will seek a third term in one year.

Since the current Mayor of Civitas has been in office, Civitas has embarked on a number of projects to improve the quality of life of its residents. Civitas has built a new library, arena, stadium, and a museum honoring the City’s industrial history in the past eight years. Given the current fiscal climate and concerns from mobilized citizens, the Mayor is under scrutiny for her fiscal discipline. The Mayor has promised not to raise taxes for the rest of her term and this promise will be a key part of her platform when she runs for the position again.

Additionally, Civitas has experienced a number of safety and emergency problems. Now that the City is larger, there are not enough fire and police stations to accommodate residents living at the edges of the city. Emergency response times have increased and many citizens are concerned that the police and fire department locations are inadequate for this growing city. The fire and police forces are also based in aging buildings that are not modernized to meet the new technological changes in safety management.

Recently, the City received an unsolicited proposal from a Developer that is interested in rebuilding all twenty-six police and fire stations as well as constructing 8 new fire and police facilities. The Developer anticipates that it will operate the facilities over a 50 year term. The Developer proposes to use private finance for the project and estimates that the project will cost $900 million. As a result, the Mayor is considering a public-private partnership for the project.

Currently, the city spends $150 million dollars a year in maintaining police and fire facilities. The City has an AAA credit rating and estimates that it can re-construct ten facilities and build six new facilities for $750 million dollars over ten years. News of the unsolicited bid was leaked to the local press. Citizens are now calling the Mayor’s office with concerns that a new development project will increase their property taxes. Should the City of Civitas proceed with a P3 for the project?

Instructions

- Read the hypothetical case study
- Break into three groups
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Public-Private Partnerships Boot Camp

Trainer(s):

Rebecca Brooks
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http://www.hwlochner.com/
The Framework for P3s

• What is a P3?
• P3 Applications
• P3 Structures
• P3 Considerations
• Considering a P3?
What is a P3?

P3 Defined

• A Public-Private Partnership (P3) is a contractual agreement between a public agency and a private entity that allows for greater private sector participation in the delivery and financing of a project.
# P3 Applications

**Transportation Sector**
- Roads
- Bridges
- Parking
- Transit
- Airports
- Ports

**Social Sectors**
- Health
- Education
- Housing
- Corrections & Justice
- Civic & Utilities
  - Water / Wastewater
  - Solar / Power
  - CNG
  - Lighting
P3 Structures

Public Responsibility
- Private Contract Fee Services
- Design-Build (DB)
- Design-Build-Operate-Maintain (DBOM)
- Design-Build-Finance (DBF)
- Design-Build-Finance-Operate-Maintain Concession (DBFOM)

Existing Facility
- Operations & Maintenance (O&M) Concession

Private Responsibility
- Long-Term Lease Concession

Source: www.fhwa.dot.gov
P3 Structures

• Private Contract Fee Services
  – Transfers program management responsibilities to private sector
  – Typically includes financial management, engineering, and construction
  – Suited for large complex projects and capital programs
P3 Structures

• O&M Concession
  – Transfers asset operations and management responsibility to private sector
  – Provides opportunities for efficiencies in operations and maintenance (incorporation of lifecycle considerations into asset management practices)
P3 Structures

• DB
  – Transfers architectural / engineering and construction responsibility to private sector
  – Public owner retains responsibility for financing, operations, and maintenance
  – Provides opportunities for innovations and efficiencies in design and construction

Source: [www.fhwa.dot.gov](http://www.fhwa.dot.gov)
P3 Structures

• DBOM
  – Transfers architectural / engineering and construction responsibility to private sector
  – Public owner retains responsibility for financing
  – Provides opportunities for innovations and efficiencies in design, construction, operations, and maintenance

Source: www.fhwa.dot.gov
P3 Structures

• DBF
  – Transfers architectural / engineering, construction, and full or partial short-term financing responsibility to private sector
  – Public owner retains responsibility for operations and maintenance
  – Provides opportunities for innovations and efficiencies in design and construction
  – Expedites project delivery

Source: www.fhwa.dot.gov
P3 Structures

• DBFOM Concession
  – Transfers architectural / engineering, construction, financing, operations, and maintenance responsibility to private sector
  – Can be structured as revenue risk concession, availability payment concession, or lease – leaseback
  – Provides opportunities for innovations and efficiencies in design, construction, operations, and maintenance
  – Expedites project delivery

Source: www.fhwa.dot.gov
P3 Structures

• Long-Term Lease Concession
  – Long-term lease of an existing revenue-generating facility to private sector
  – Concessionaire:
    • Must pay an up-front fee
    • Collects revenues
    • Must operate and maintain the facility and may be required to make improvements

Source: www.fhwa.dot.gov
P3 Considerations

• P3s can:
  – Provide access to specialized expertise and resources
  – Incorporate innovations
  – Create efficiencies by combining design, construction, operations, and maintenance activities under one contract
  – Deliver projects years, or even decades, sooner than can otherwise be achieved using traditional delivery methods
P3 Considerations

• P3s cannot:
  – Rescue a poorly planned project
  – Transfer all risks to the private sector
  – Mobilize additional funding resources
Considering a P3?

• P3s are not a one-size-fits-all solution
• Perform proper due diligence
  – Evaluate and select projects carefully
  – Retain P3 experts to assist you
  – Develop detailed contract documents (a P3 can only do what is specified in the contract)
  – Pick your private partner carefully
• Identify a public sector champion
• Secure stakeholder / public support
Questions?

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#NLC15 to follow along and comment on social media
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Trainer(s):

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National Council for Public-Private Partnerships
http://www.ncppp.org/
• Established in 1985
• Non-profit membership organization dedicated to educating on public-private partnerships (P3s)
• More than 200 member organizations
• Covers all types of P3s, with a focus on innovative and emerging P3s
Importance of P3s

• By 2020, U.S. infrastructure upgrades will require an investment of $3.6 trillion with a projected funding shortfall of $1.6 trillion.

• Current investment path would lead to loss of: $3.1 trillion in GDP, $1.1 trillion in U.S. trade value, 3.5 million jobs, $2.4 trillion in consumer spending, and 3,100 in annual personal disposable income.
7 Keys to Successful P3s

1. Public Sector Champion
2. Statutory Environment
3. Public Sector’s Organized Structure
4. Detailed Contract (Business Plan)
5. Clearly Defined Revenue Stream
6. Stakeholder Support
7. Pick Your Partner Carefully
## Potential PPP Opportunities

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<th>Category</th>
<th>Examples</th>
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| **Health**             | • Medical Facilities  
                         • Ancillary infrastructure (offices / training facilities) |
| **Education**          | • Schools, Colleges, Universities  
                         • Tertiary Facilities  
                         • Student Housing     |
| **Housing**            | • Military Housing  
                         • Low Income Housing  |
| **Civic and Utilities**| • Community and Sports Facilities  
                         • Local Government Facilities / Commercial Office Buildings  
                         • Waste and Wastewater Facilities |
| **Transportation**     | • Roads and Highways  
                         • Bridges and Infrastructure  
                         • Ports and Airports        |
| **Corrections and Justice** | • Prisons  
                          • Courthouses |
| **Energy**             | • Energy Efficiency / Renewable Energy  
                         • Combined Heat and Power (Cogeneration) Plants, Power Plants  
                         • Smart Grid / Microgrid |
37 States Enable P3s
As of October 2015

Enabling vertical and horizontal P3s to some degree (23 states and DC)

Enabling only vertical P3s to some degree (3 states)

Enabling only horizontal P3s to some degree (11 states and PR)

Note: 36 states and DC authorize P3s by statute/regulations or limited partnerships. In these states, P3s may be authorized on a specific project(s) or project type.
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