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South Carolina Financial Concepts & Strategies Institute

Introduction to P3s

PiperJaffray

REALIZE THE POWER
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Rationale for a Public-Private Partnership (P3)

- **Secure lower cost project including life cycle costs:**
  - Up front construction costs are just one part of the equation. Operation and maintenance costs over the useful life of the asset are also important.
  - Flexibility in procurement methods can lead to reduced materials costs.
  - "Value for money" analysis assists in this effort. Guidance can be found at http://www.fhwa.dot.gov/ipd/p3/index.htm.
- **The transfer of risk is another important feature of P3 projects:**
  - Construction risk
  - Delivery risk
  - Operating risk
- **Accelerate the delivery of a project or projects.**

Types of P3 Arrangements

Revenue Arrangements

- Airports, toll roads, managed lanes, seaports would be examples of revenue concessions. Projects that have a revenue source which can repay loans and equity interests.

- The project or asset stands on its own without any governmental support in terms of taxes or a guarantee.

- The government typically grants a concession to a Sponsor to operate the project/asset for a set period of time and the Sponsor is responsible for rate setting, operating expenses, maintenance expenses and major maintenance expenses during the concession period. There are typically handback requirements imbedded in the concession agreement as the government will take back the asset at the end of the concession period.

- Sometimes the Sponsor makes an upfront payment to the government or has some sort of revenue sharing.

Types of P3 Arrangements

Availability Payments

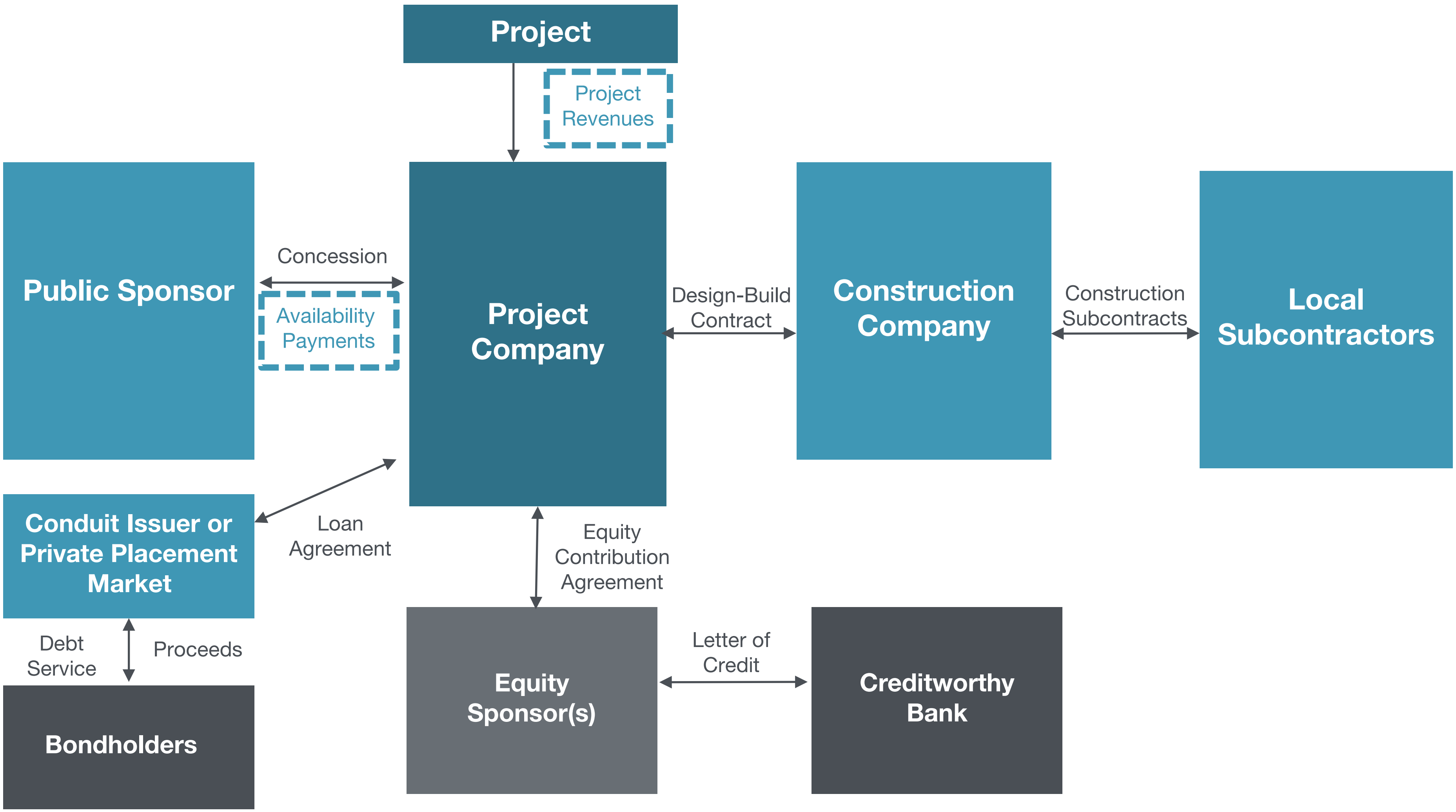
- Social infrastructure such as courthouses and schools as well as transit which are procured through a P3 arrangement do not generate enough revenues to repay the financing.
- The government agrees to make "availability payments" from other revenues including sales taxes, general fund revenues, transportation trust fund including gas taxes and other transportation fees.
- The project has to be "available" or payments will not be made. Payments are typically divided into construction milestone payments and ongoing availability payments which cover operation and maintenance costs as well as debt service.
- There are handback requirements imbedded in the concession agreement.
- Examples include the Eagle P3 in Denver, the Long Beach Courthouse, the Howard County Courthouse in Maryland, the Purple Line in Maryland.

A Suggested Template for Categorizing P3 Arrangements

Project Activity	Design – Bid - Build	Design-Build with Public Funding	Design-Build Finance	DBOM with Public Financing	DBOM Availability Payments	DBOM Revenue Risk
Delivery	Public	Private	Private	Private	Private	Private
Operation	Public	Public	Public	Private	Private	Private
Financing	Public	Public	Private	Public	Private	Private
Ownership	Public	Public	Public	Public	Private	Private
Examples:	Most state DOT projects	Tappan Zee Bridge	Kansas City Airport Terminal	Howard County, MD Courthouse	Miami Tunnel	Managed Lanes Projects

Traditional P3 Structure

Traditional P3s are structured with equity and senior lien debt, which can be tax exempt Private Activity Bonds (PABs), taxable bonds, or bank loans.



Features of the Concession Agreement

- Contains the economic and financial obligations of each party
- Specifies the completion dates of the project and the handover or handback dates
- Specifies the future capital expenditures which keep the asset in good condition
- Specifies the condition of the asset when it is returned to the governmental entity
- Sets forth the insurance requirements
- Specifies maintenance and operating standards
- Describes the contract breaches and remedies including penalties

Sources of Private Capital

- Publicly-offered private activity bonds
- Private placements often with pension funds and life insurance companies
- Bank debt
- United States Department of Transportation TIFIA loans
- Equity from Infrastructure funds and/or sponsors
- General obligation bonds or revenue bonds where the financing portion is publicly provided

Illustrative P3 Process Overview

Careful preparation will be extremely important for successful execution of a P3. The below provides an illustrative overview of the full process.

Preparation Phase

- Define the package, asset particulars & delivery model
- Engage with stakeholders early in process
- Develop financial model
- Assemble transaction team
- Establish RFQ/RFP timeline
- Prepare data room
- Engage with potential bidders
- Prepare transaction documentation

Most time consuming phase given need to define objectives and scope, get stakeholder alignment, compile data, and prepare transaction documentation (information package & legal documents)

Project Screening

Project Viability Screening
Factors:

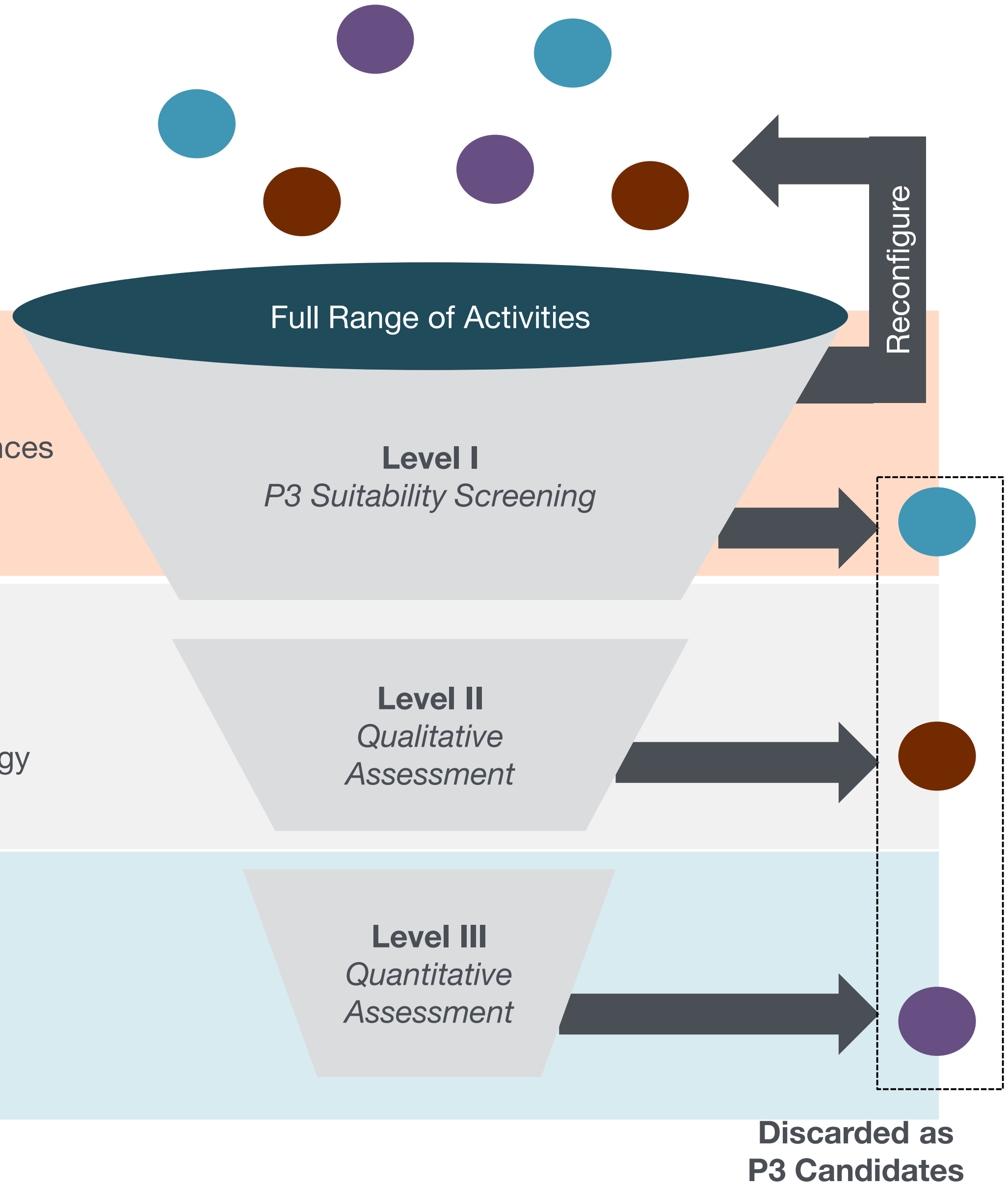
- Project Size & Complexity
- Implementation Timeline
- Revenue Potential
- Legal Challenges
- Criticality
- Environmental Clearances
- Budgetability
- Affordability

Qualitative Evaluation
Factors:

- Risk Allocation
- Bundling Efficiencies
- Network Completion
- Stakeholder Support
- Scheduling Efficiency
- Cost Savings
- Innovation & Technology
- Legal Clearances

Quantitative Evaluation
Factors:

- Funding & Finance Options
- Affordability
- Return on Federal Investment
- Value-for-Money
- Financial Viability
- Public Benefits Study



Illustrative P3 Process Overview

RFQ Phase

- Draft and distribute RFQ
- Pre-qualify bidding teams based on well defined criteria
- Execute confidentiality agreements
- Initiate due diligence information exchange

Illustrative P3 Process Overview

Indicative Bid Phase

- **Information package**
  - Information Memorandum
  - Consultant reports
  - D&C contract term sheet

- **Key Indicative bid deliverables**
  - Indicative purchase price allocated between assets
  - Full traffic assumptions and key sensitivities
  - Approach to re-gearing and future capital structure
  - Substantive issues on D&C term sheet
  - Approvals required for binding bid

Illustrative P3 Process Overview

Binding Bid Phase

- **Information package**
  - Data room, transaction docs (concession agreement, D&C contract, etc.)
- **Traffic Consultants**
  - Modeling of bidder scenarios
  - Multiple detailed workshops to discuss due diligence findings and scenario results
- **Site visits, management presentation and Q&A**
- **Binding bid deliverables**
  - Binding purchase price
  - Marked up transaction docs (including D&C contract)
  - Binding bid price adjustment mechanism for D&C

Illustrative P3 Process Overview

Preferred Bidder Selection

- Review binding bids (price and docs)
- Presentation to Government on business plan
- Negotiation

Lessons Learned

- Political support a must with buy-in from all stakeholders
- Identify the highest priorities upfront
- Transparent ground rules
- Be clear on which risks you want to transfer to the private parties
- Interests of all parties must be aligned for a successful outcome

Potential Applications

- Energy retrofits in schools
- Accelerate school construction
- Construction and including operation and maintenance
- New innovative construction such as net positive energy buildings
- Sports complexes.

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P3 – IMPLICATIONS IN SOUTH CAROLINA

P3 – Implications in South Carolina

SECTION 11-35-3005. Project delivery methods authorized.

(1) The following project delivery methods are authorized for procurements relating to infrastructure facilities:

(f) design-build-finance-operate-maintain.

(2) In addition to those methods identified in item (1), the board, by regulation, and the State Engineer, in accordance with Section 11-35-3010, may:

(a) approve as an alternate project delivery method any combination of design, construction, finance, and services for operations and maintenance of an infrastructure facility.

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P3 – Implications in South Carolina

SECTION 11-27-110. Lease purchase or financing agreement subject to constitutional debt limit.

(A) As used in this section:

(6) "financing agreement" means, with respect to any governmental entity, any contract entered into after December 31, 1995, under the terms of which a governmental entity acquires the use of an asset which provides:

(d) for any contract entered into after December 31, 2006, pursuant to which installment payments of the purchase price are to paid by a school district or other political subdivision to a nonprofit corporation, political subdivision, or any other entity in order to finance the acquisition, construction, renovation, or repair of school buildings or other school facilities.

P3 – Implications in South Carolina

(B) A governmental entity may not enter into a financing agreement if the principal balance of the financing agreement, when added to the principal amount of limited bond indebtedness outstanding on the date of execution of the financing agreement exceeds eight percent of the assessed value of taxable property in the jurisdiction of the governmental entity unless the financing agreement is approved by a majority of the electors voting on the agreement in a referendum.