

Design-Build-Finance Transportation Projects

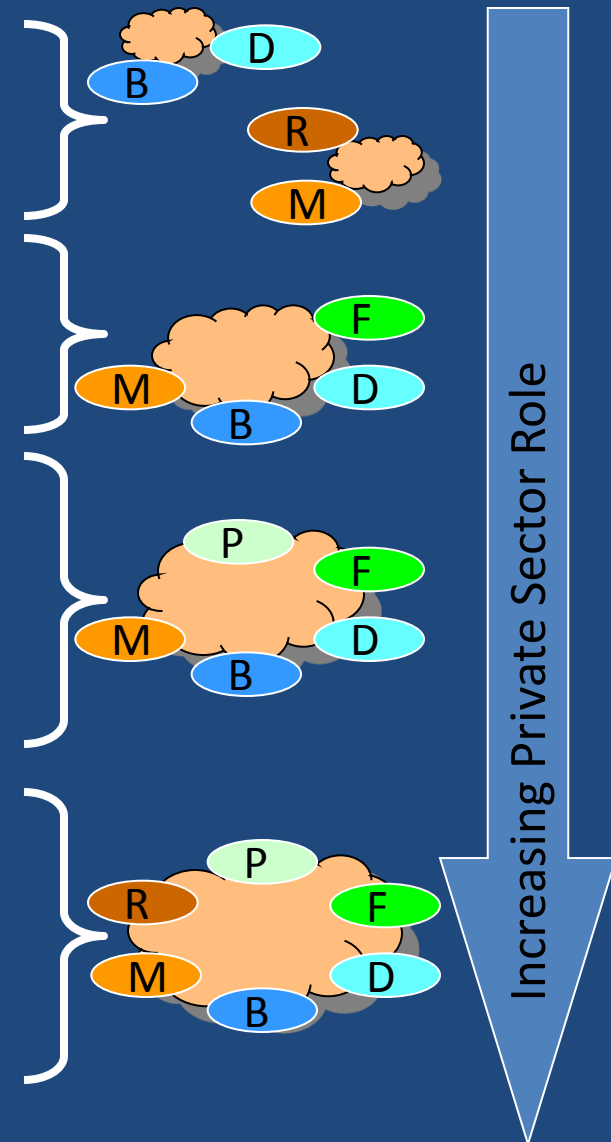


What is Design-Build-Finance?

- Design-Build, can be Design-Bid-Build
- Public Owner
 - Funds “programmed” in the future, subject to annual appropriation
 - Procurement process for DBF/BF
- Private Team
 - builds the project now
 - borrows the “gap” needed to advance project
 - paid when funds available from public owner

Types of P3s

- Design-Build (DB)
- Asset Management Contract
- **Design-Build-Finance (DBF)**
- Design-Build-Operate-Maintain (DBOM)
- Design-Build-Finance-Operate (DBFO)
- Build-Operate-Transfer (BOT)
- Build-Transfer-Operate (BTO)
- Joint Development Agreement (JDA)
- Concession
- Asset Lease/Sale



Example Cash Flows

Two Projects Combined	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
Public Owner Funds	\$39,411,794	\$26,845,048	\$12,523,824	\$0	\$11,942,894	\$17,204,448	\$12,611,028	\$120,539,036
Contractor Draws	\$2,308,860	\$27,706,314	\$58,875,917	\$24,243,025	\$2,308,860	\$0	\$0	\$115,442,975
Net Cash Flow	\$37,102,935	\$35,741,669	-\$10,860,425	-\$24,243,024	\$9,634,034	\$17,204,448	\$12,611,028	\$5,096,061
Financing	-\$500,000	-\$250,000	\$10,860,425	\$24,243,024	-\$9,634,034	-\$17,204,448	-\$11,900,000	-\$4,385,033
Cash Flow	\$36,602,935	\$35,491,669	\$0	\$0	\$0	\$0	\$711,028	\$711,028

Advance Project	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Total
Public Owner Funds	\$0	\$0	\$0	\$12,300,000	\$40,000,000	\$40,000,000	\$12,326,300	\$104,626,300
Contractor Draws	\$9,518,804	\$38,075,216	\$38,075,216	\$9,518,804	\$0	\$0	\$0	\$95,188,041
Gap Cash Flow	-\$9,518,804	-\$47,594,021	-\$85,669,237	-\$82,888,041	-\$42,888,041	-\$2,888,041	\$9,438,259	\$9,438,259
Financing	\$91,300,000	-\$2,375,000	-\$2,375,000	-\$2,375,000	-\$40,600,000	-\$40,600,000	-\$11,700,000	-\$8,725,000
Cash Flow	\$81,781,196	\$41,330,980	\$880,763	\$1,286,959	\$686,959	\$86,959	\$713,259	\$713,259

What are the Benefits of DBF?

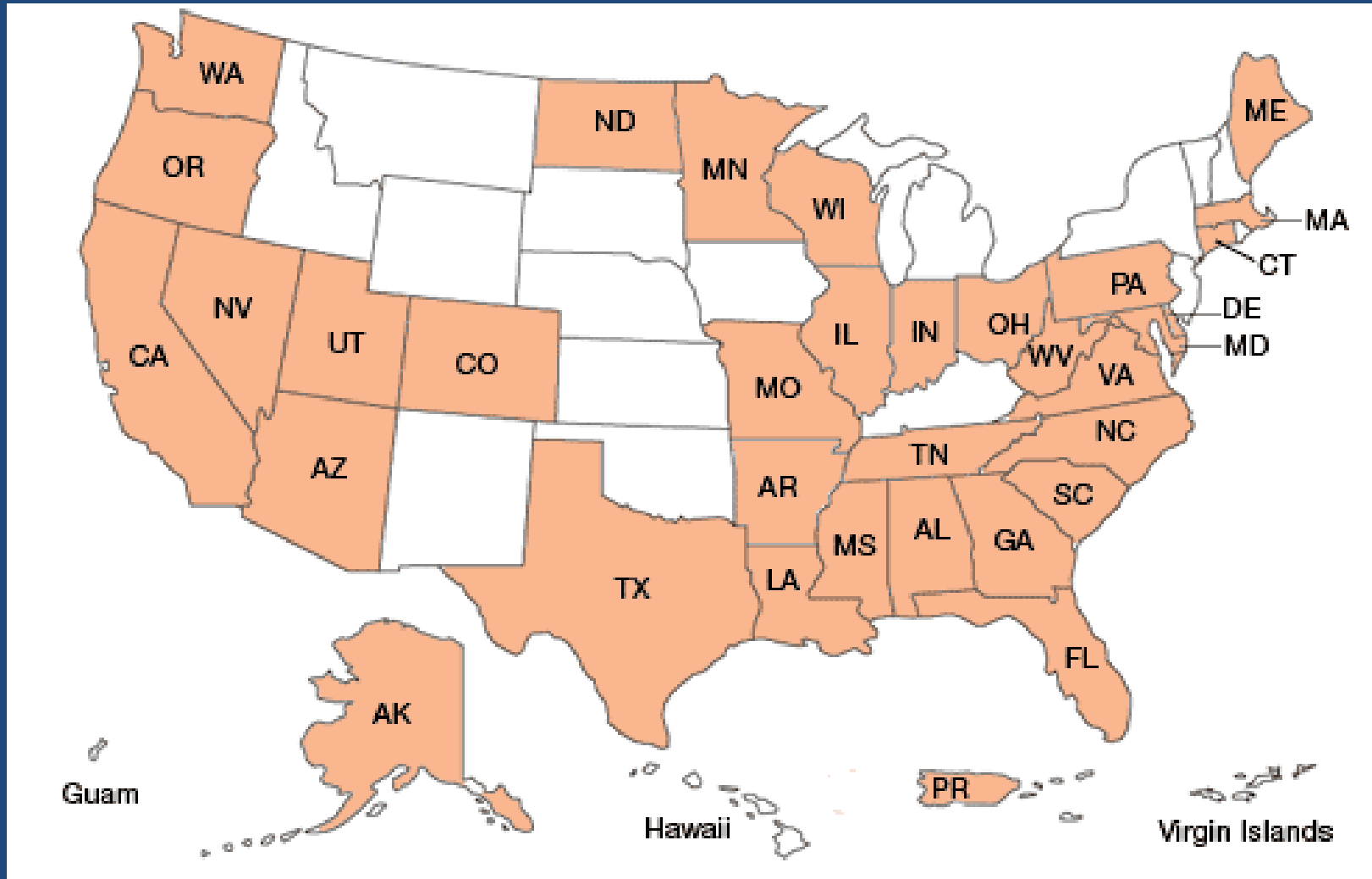
- Accelerate High Profile Projects
- Economic Stimulus/Jobs
- Private Sector Expertise
- Use “Others” Money to Advance Project
- Promote Innovation in Project Development and Delivery – Profit Motive

What is Driving DBFs?

- Putting people to work!
- Strong industry competition – good prices
- Funding challenges for medium to larger projects
- Changing financial markets/tools
- Legal authority for P3 opened up
- Bottom line – DBF can advance projects

States with P3 Legal Authority

(source - US DOT)



Environment for Success

- Outside the Box Thinking
- Political Support
- Project Champions
- Understanding/willingness to take risk
- P3 “owner” processes
- Select the right projects

Florida DOT Case Study

- FDOT started first DBF in 2004 and has now advanced twelve DBF/BF projects between 3 to 6 years totaling over \$2.4 billion
- All projects were at or below the programmed future estimated cost and available funding
- FDOT requires 100% Performance Bond on DBF Projects
- Gap Funding Consider “Below the Line” by FDOT, meaning responsibility of D-B Team

Florida DOT Case Study

- Traditional Design-Build – adds gap financing by the D-B team
- Generally used for “medium size to large” projects - \$50M to \$500M or larger
- Bank Loans – loans are debts of the contractor
- New Bond Approach – tax-exempt bonds issued by “conduit issuer” (not DOT) non-recourse to contractor – funded two recent FDOT DBF projects

DBF Challenges

- New approach for DOT, industry, Surety
- Banks “qualify” contractors, can eliminate some prequalified contractors
- Bank loans not available to Surety company
- Conflicts over “cure/step-in” rights in the case of default between Surety and Bank
- Timing of funds for added work/valid claims
- Directing payment from public owner
- “Offset” provisions

Market Forces Solve Challenges

- DOT made changes to make the “gap financing” more “bankable”
- Alternative finance option developed – conduit tax-exempt bond method
- Surety companies partnering with industry on DBF/BF projects
- Industry getting “smarter” on DBF/BF

Florida DOT Sample Results

- 2012 Project Examples:
 - I-95 Brevard/Volusia DBF Project
 - Capped Amount - \$120,539,036
 - Proposed Amount - \$118,370,00 (includes cost of financing, plus added 16 miles of widening)
 - Jacksonville 9-B DBF Project
 - Capped Amount - \$104,626,299
 - Proposed Amount - \$ 94,901,300 (includes cost of financing, plus all “bid options”)

Lessons Learned

- Public Owners don't reinvent the wheel:
 - Use laws in place like P3/D-B legal authority
 - D-B standards/process, procurement approach
 - Performance guarantee standards/process
- Public Owners keep “gap financing” simple:
 - Be clear on when future funds are available
 - Be clear on timing of funds for added work
 - Be clear on “requirements” and flexible to adjust as lessons learned
 - Recognize there is a financing - i.e., waive offset

Conclusion

- DBF/BF is a new tool to added to the tool box
- Don't reinvent the wheel
- Pick the "right" projects
- Have industry "sounding sessions"
- Solid procurement process
- Public owner be flexible where possible
- Market responds to DBF/BF approach

Questions

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