

Public-Private Partnerships Equity Considerations for Transit

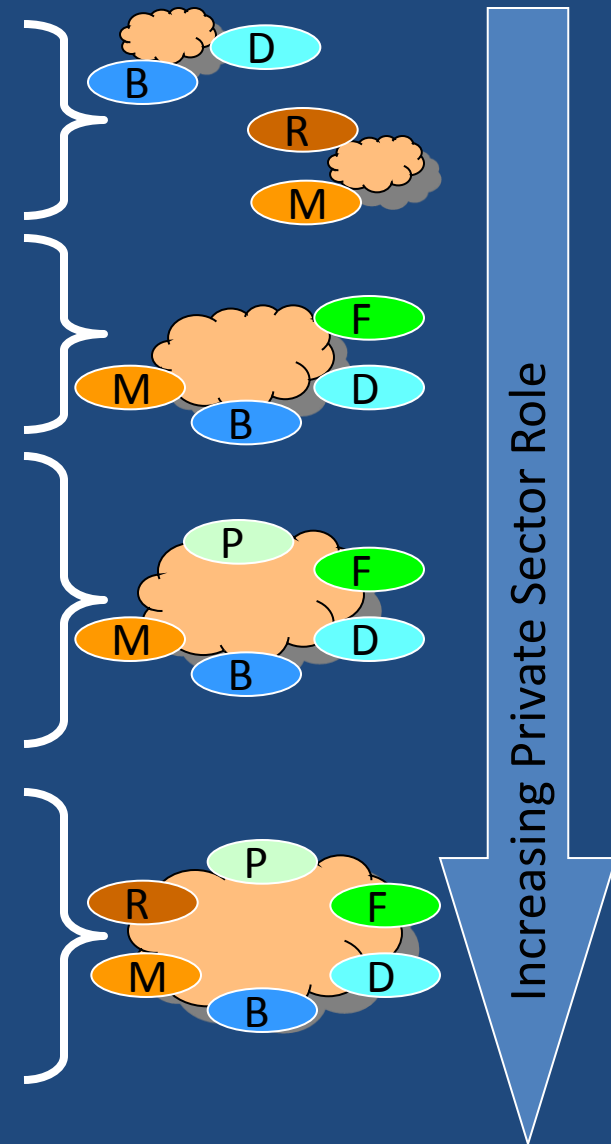


What is a P3?

- An agreement between public and private sector partners which allows more private sector participation than is traditional:
 - Private sector may design, construct, finance, operate, maintain, renovate and / or manage a facility or system
 - Public sector usually “owns” the asset and leases it to the private section
 - Sharing of roles, responsibilities, risks and rewards
 - **Possibility of Private Sector equity**

Types of P3s

- Design-Build (DB)
- Asset Management Contract
- 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



Past 20 plus Years “P3s” in U.S.

- Outsourcing Partnerships in Government
 - Construction
 - Engineering (varies greatly by govt. entity)
 - Operations and Maintenance (varies)
 - **Major transit projects – DB or DBOM**
- Periodic private sector “equity”
 - Land donations very common
 - Partial or Full Cash investment – expressway interchanges or transit stations

Characteristics of a P3

- Project Champion
- Longer-Term Agreements
- **Private sector funding (equity and debt)**
- Private sector operates multiple major project elements (design-build, plus operate-maintain, etc.)
- **Sharing of risk between private sector and public owner**

What are the Benefits of P3?

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

Facts vs. Fiction

- P3s increase funding for government?
- All P3s led by foreign firms?
- P3s “take away” work from U.S. based firms?
- P3s will replace “traditional” project delivery approaches?
- You need a PHD in P3s to understand this new tool?
- Expert advisors are essential for success?

Environment for Success

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

Uses Other People's Money

- **Private equity partners, several types:**
 - Developer, higher risk, generally first money in and first money out – lose it all or larger return
 - Equity partner, covers riskier time of project, generally early years
 - Longer-Term Equity Partner – patient investor
- Lenders, much like typical mortgage/bond financing from banks and public bond market

Private Sector Funding

- “Skin in the Game” – meaning the private sector puts funding into the project - **Equity funding that is at risk**, not just debt
- Many areas of “at risk” - examples:
 - Cost/schedule guarantees where the private firm must cover all or selected overruns and/or delays;
 - shortfalls in estimated user fees;
 - Asset availability, with payment reductions if the facility is not open to use

Why is Private Equity Critical?

- Traditional approaches for government debt have been damaged by financial crisis
 - Bond Insurance limited availability
 - Need for stronger credit structures, cutting ability for 100 percent project debt financing
- **Private equity strengths**
 - At risk funding – focused on success
 - Subordinated to project debt – “coverage factor”
 - Private firms delivering the project invest in effort

Sharing of Risk

- The sharing of risk is a key benefit of P3s.
- The key is to balance the risk to the partner that can best manage/mitigate the risk.
 - Design/Construction – private
 - Environmental Clearances – public
 - Permits – generally shared, but project specific
 - Right-of-Way – generally public, but can be private
 - Operations/Maintenance – private or public, depending on the goals of the project

Term of Agreements

- Some early P3s were too short and there was not adequate time for the private entity to recoup their investment
- A term **“financial equilibrium”** developed that helps define the point where the private sector and public sector financial interest intersect
- Led to longer-term P3s, generally 20 years and longer

“Types” of P3s in Transportation

- Lease of Existing Asset
 - Asset “Owner” leases the facility such as toll road for extended term for payment from private entity
- Availability Payment
 - Private entity provides DBFOM receives periodic payment from “Owner” for availability of facility
- Revenue Risk
 - Private entity provides DBFOM and assumes risk of revenue stream (usually tolls) for payment
- Developer – CDD/TOD Type Approach

Major P3 Project Examples

- **Leases of Existing Assets (Toll Facilities)**

Examples:

- Chicago Skyway raised \$1.8 billion
(www.chicagoskyway.org)
- Indiana Turnpike raised \$3.8 billion
(www.getizoom.com)
- Pocahontas Parkway to restructure a challenged financial situation (www.pocahontas895.com)
- PR-22 and PR-5 – Puerto Rico raised \$1.4 billion
(www.p3.gov.pr/?page_id=119?page_id=925&lang=en)

Major P3 Project Examples (cont)

- **Availability Payment Project examples:**
 - Port of Miami Tunnel (www.portofmiamitunnel.com)
 - I-595 FL (www.i-595.com)
 - Eagle P3 – Denver Commuter Rail (www.rtd-fastracks.com/main_126)
 - Presidio Parkway CA
(presidioparkway.org/contractors/publicprivate_partnership_overview.aspx)
 - Windsor-Essex Parkway ON
(www.infrastructureontario.ca/What-We-Do/Projects/Project-Profiles/The-Windsor-Essex-Parkway)

Major P3 Project Examples (cont)

- **Revenue Risk Project Examples**
 - I-495 VA DC area Hotlines (www.vamegaprojects.com/about-megaprojects/i495-hot-lanes/)
 - North Tarrant Express TX
(www.txdot.gov/project_information/projects/fort_worth/north_tarrant_express/default.htm)
 - LBJ Managed Lanes TX
(www.newlbj.com/default.asp?p=1)
 - South Bay Expressway CA
(www.southbayexpressway.com/)

Partnering with Growth

- Development Driven
 - Over 200 “development districts” in Florida
 - Numerous community redevelopment areas
 - Tax Increment financing common
 - Impact Fees and Related Fees
 - Developer contributions and partnerships
- Total amount generated not easy to discern – likely billions for infrastructure improvements

Transit Oriented Development

- TOD's are a great opportunity for P3s in the transit sector
- Foster environment for private sector investment
- Solid process to accept/vet/select proposals
- **Transit components are critical, but private development must pencil out**
- Harness “value” where appropriate to the benefit of the transit system

Design-Build-Finance

- Tool to advance medium to large projects when available funds are spread over time such as five to ten years
- Private Team borrows the “gap” needed to advance the project and is paid back over time
- Florida DOT has advanced twelve projects between 3 to 6 years totaling over \$2.4 billion
- All projects at or below the estimated cost and available funding.

Private Sector Expertise

- Bottom Line Leads to Innovation
- Linking DB Saves Time, Sometimes Cost too
- Long-Term O&M Drives Quality DB
- Excellent Financial Modeling
- Lenders Watch Private Team Closely – same interest as owner
 - Closely examine technical/financial plans
 - Approve DB progress payments
 - Make sure asset is properly maintained

Is Equity Really Available?

- “It Depends!” – For example:
 - Availability Payment – YES for entities with solid credit ratings
 - Lease of Assets – YES where asset have marketable value like priced parking
 - Revenue Risk – MAYBE – this is tough, but within very limited situations equity may take some revenue risk
 - Developments like TOD – YES, where the project pencils out

Fad or Long-Term Trend?

- Needs are not going away
- Stresses on funding sources in government
- P3 market well developed internationally
- Further consolidation of U.S. construction industry with increasing foreign ownership
- Major capital raised for P3 market
- Success breeds further P3s

Questions

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