Public Private Partnerships (P3) Fundamentals Webinar

Today, November 18
1:30 p.m. to 3 p.m. PST

Michael Burns, PE, PgMP, DBIA
Vanir Executive Director of Infrastructure & Public Private Partnerships
PUBLIC PRIVATE PARTNERSHIPS (P3)

- P3s fit in our project delivery continuum
- How can a P3 expand capital resources?
- Establishing teams to address complex infrastructure challenges
PUBLIC PRIVATE PARTNERSHIPS (P3)

VANIR

TOP RATED
ENR PMCM
FIRM FOR OVER
30 YEARS
OUR PROMISE

While the needs of our clients continually evolve, Vanir’s promise remains the same —we provide the best people and the best resources to deliver your project.

With a commitment to transparency and collaboration, we provide services through all project phases as a partner focused on representing your interests. Our Vanir teams are highly qualified and ready to get started.

“Vanir is a family-focused company committed to improving the lives of its people, clients, and communities. I founded The Dominguez Dream, a public nonprofit organization, in honor of my late father H. Frank Dominguez in 2004. The Dominguez Dream empowers children in underserved communities to achieve their full academic potential — a child’s success requires more than a free meal or new laptop. Revitalizing our communities requires a similar mentality — especially as we recover from the impacts of COVID-19. We need better, more resilient infrastructure (water, sewer, roads and transit), but it’s when we marry these elements with diverse housing, businesses, schools, and community facilities that we see real, sustainable change. Transit-oriented development is a critical piece of this puzzle.”

DORENE DOMINGUEZ
PUBLIC PRIVATE PARTNERSHIPS (P3)

City of Lemoore Water Treatment Plant
- Location: Lemoore, California
- Delivery Method: Design-Build
- Service: Owner’s Representation
- Construction Cost: $33 million

Los Angeles Police Administration Building
- Location: Los Angeles, California
- Delivery Method: Design-Bid-Build
- Service: Project Management
- Construction Cost: $246 million

Michelle Obama Neighborhood Library
- Location: Long Beach, California
- Delivery Method: Design-Bid-Build
- Service: Construction Management
- Construction Cost: $12 million
PUBLIC PRIVATE PARTNERSHIPS (P3)

**Office of the Chief Medical Examiner Facility**
- **Location:** San Francisco, California
- **Delivery Method:** CMAR
- **Service:** Construction Management
- **Construction Cost:** $52 million

**City of Corcoran Police Department Headquarters**
- **Location:** Corcoran, California
- **Delivery Method:** Design-Build
- **Service:** Owner’s Representation
- **Construction Cost:** $6 million

**Los Angeles World Airports**
- **Location:** Los Angeles, California
- **Delivery Method:** Design-Bid-Build
- **Service:** Project Management
PUBLIC PRIVATE PARTNERSHIPS (P3)

City of Selma Police Department

Location: Selma, California
Delivery Method: Design-Bid-Build
Service: Construction Management
Construction Cost: $8 million

San Diego International Airport

Location: San Diego, California
Delivery Method: Design-Bid-Build
Service: Constructability Review

LA Metro Headquarters Building

Location: Los Angeles, California
Delivery Method: Design-Bid-Build
Service: Program Management
Construction Cost: $42 million
PUBLIC PRIVATE PARTNERSHIPS (P3)

• Continuous learning
• Learning is the result of our struggles
PUBLIC PRIVATE PARTNERSHIPS (P3)
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PUBLIC PRIVATE PARTNERSHIPS (P3)

**Policy**
- Economics
- Politics
- Government

**Project Development**
- Stakeholders
- Master Plans
- Funding

**Project Delivery**
- Design
- Build
- Finance
- Operate & Maintain
PUBLIC PRIVATE PARTNERSHIPS (P3)

Developer Equity
Seeks Efficiency

Debt Structuring
Informs Risk Mitigation

Advisors
Informs Legal, Financial and Technical Requirements

Adaptive Regulations
Drives Sequential Decisions
PUBLIC PRIVATE PARTNERSHIPS (P3)

- Reduce federal bureaucracy, empower local implementation
- Accelerate use of alternative project delivery capabilities
- Significantly increase access to capital; PPP, property disposition, value capture financing, fee retention
Create a pool of pre-approved, private-sector advisors (InfraLABs) – legal, financial and technical — contracted to, and managed by, USDOT’s Build America Bureau. These advisors would help State and local governments perform project screenings and value-for-money analyses of projects, and determine the appropriate alternative delivery model for those projects.
PUBLIC PRIVATE PARTNERSHIPS (P3)

- Contracts shape risk allocation
- Integrators drive value creation
Project Finance Advisory Ltd.

Introduction to Alternative Delivery and Innovative Financing

November 2020
Contents

1. Introduction – PFAL

2. P3 Overview
Introduction - PFAL
PFAL Services and Overview

PFAL is an independent and trusted financial, commercial and strategic advisor to public-sector owners of infrastructure projects.

We specialize in identifying successful delivery and innovative financing strategies for a wide range of asset classes:

- Renewable Energy
- Roads, Bridges, and Tunnels
- Airports
- Heavy Rail
- Passenger Rail
- Government Buildings
- Parking
- Ports
- Higher Education
- Economic Development
- Sports Facilities
- Water
Project Finance Advisory, Ltd.

PFAL by the Numbers

$150B+
Infrastructure transactions completed

200
Transactions completed

17
Average years of experience

100+
Project specific financial models

Innovative Finance
Experience working on major infrastructure financings

DOZENS
Of award-winning projects in operation

DECADES
Of US and international project delivery
PFAL is proud to have acted as financial advisor to this year’s award-winning projects:

- **Howard County Courthouse**
  - Social Infrastructure Deal of the Year
- **Howard County Courthouse**
  - Financial Structure of the Year
- **MBTA Automated Fare Collection System**
  - Transit Project of the Year

P3 Bulletin, 2019 P3 Awards
P3 Overview
Importance of Cost & Schedule Risk Transfer

- Caltrans study: historically, worst overruns on projects over $300M
- Indicative of projects nationally – larger, more complex projects typically make more sense for P3 delivery
- Does not include the impacts of deferred maintenance and lifecycle investments
P3 Definition

What it is not:

- **Free money**: P3s are not a funding source for the project, and the project must be able to support the payment stream
- **Privatization**: P3 concession-based structures will leave ownership and operational control with the public sector
- **Universally Applicable**: P3 is not a delivery method that should be applied to all projects

What it is:

- **Accountability**: P3s use financing and incentive alignment to hold each party accountable for their contractual responsibilities
- **Risk Allocation**: Fairly allocates risks for the benefit of the public
- **Lifecycle Value**: Reduces total project costs and eliminates deferred maintenance through lifecycle costing and performance based monitoring
- **Affordability Mechanism**: Fixed contractual payments, typically starting after construction
Options Analysis – Potential Delivery methods

Responsibility/Risk Transfer Spectrum

- **DBB**
  - Design-Bid-Build
- **DB**
  - Design-Build
- **DBF**
  - Design-Build-Finance
- **DBFOM**
  - Design-Build-Finance-Operate-Maintain

**Design & Development**

**Construction**

**O&M / Lifecycle costs**

**Financing**

Public Responsibility

Private Responsibility

Public sector

Private sector
<table>
<thead>
<tr>
<th>Procurement Method / Objective</th>
<th>DBB</th>
<th>DB</th>
<th>DBF</th>
<th>DBFM</th>
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<tbody>
<tr>
<td>Earliest Completion / Occupation</td>
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<td>Cost Certainty</td>
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<td>Parking Solutions</td>
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<td>Design Competition</td>
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<td>Long-term Operating Efficiency</td>
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*Indicative, subject to Project financial and commercial analysis

Option is least likely to meet the objective

Option moderately meets the objective

Option meets the objective
Value for money – Quantitative Comparison

VfM analysis seeks to compare likely (comparable) cash flows over a project lifecycle for different methods of procuring and contracting project of identical scope.

The VfM itself is the difference between project cash flows for two different procurement/contracting alternatives:

- **Design-Bid-Build** – the “conventional” approach which uses public funding. E.g. Fully designing and then tendering for a builder for the construction of an asset, then procuring annual operating and maintenance contracts for the on-going maintenance.

- **Public-Private Partnership Option (“P3”)** – the public sector procures a design, build, finance, and maintain (“DBFM”) contract with a private sector party for the construction and whole-life maintenance of an asset.
### Why consider using a P3?

<table>
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<tr>
<td><strong>Accelerate delivery schedule</strong></td>
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<td><strong>Only pay for project after it has been completed</strong></td>
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<td><strong>Transfer key risks: delivery (cost &amp; schedule) and operations &amp; maintenance (O&amp;M)</strong></td>
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<td><strong>Establish a single point of contact and accountability for the entire project for the life of the project</strong></td>
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<td><strong>Leverage private sector resources and expertise</strong></td>
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<td><strong>Avoid impacting public owner debt capacity limits (potential for off-balance sheet financing)</strong></td>
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<td><strong>Fix long-term costs (reduce, and guarantee, capital and O&amp;M costs) (cost certainty)</strong></td>
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<td><strong>Create life-cycle focus and avoid deferred maintenance</strong></td>
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<td><strong>Increase collaboration among the designer, builder and operator</strong></td>
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<td><strong>Promote innovation</strong></td>
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<td><strong>Assure a high likelihood of success, due to the reputational risk to the design-builder and operating services firm, as well as the extra diligence of the equity investor and debt holder</strong></td>
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Thank you.

Victoria Taylor
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DLR Group  

By the Numbers

- 1000+ employee-owners
- 26 locations worldwide
- 80% repeat clients
- 4 California offices: San Francisco, Los Angeles, Sacramento, Riverside
Architecture/Engineering design sectors

- Culture + performing arts
- Higher Education
- Healthcare
- Justice+Civic
- K-12 Education
- Hospitality
- Sports
- Workplace
- Mixed-Use
- Energy

- Building Design + Construction Rankings
- K-12 #1
- Cultural Sector #3
- State Government #3
P3 – Two Models: User Fee/Revenue (i.e, toll roads) & Availability Payment/Performance Model (mostly Social Infrastructure)

- Higher Education
- K-12 Education
- Healthcare
- Government Office Buildings
- Performing Arts
- Stadiums
- Justice (Courthouses/Correctional)
- Mixed-Use/Civic Center Development
- Maintenance Facilities

*Projects can be “bundled”*
Pre-Development Agreement (PDA) – a type of P3 delivery that has similarities to a Progressive Design-Build

- PDA option when project not yet completely defined
- Owner seeking innovation when defining and accelerating a project with financing options
- Team selection based on “best value” and qualifications to include financial plan capabilities, design-build and facility maintenance expertise
- As project is not yet defined, project cost evaluation not included in selection process
Two Phases:

- Pre-Development
- Project Implementation
• **Pre-Development**
  
  o Project scope defined with collaboration amongst owner, concessionaire, architect/engineering team, general contractor, facility maintenance and often times building materials firms all to provide innovative ideas
  
  o Development team participates in project planning and design with targeted budget, often to schematic design level
  
  o Master financial plan, design-build, O & M included in preliminary costing
  
  o If project feasible, team contract extended to continue development and design with owner
  
  o Owner retains right to procure separately if unable to reach agreement with team – having intellectual rights to team development plans for separate procurement, a.k.a. – “exit ramp
- **Project Implementation**
  - Team continues to develop design and total project cost – similar to Progressive Design-Build Guaranteed Maximum Price (GMP)
  - Benefit to owner is life cycle cost analysis, energy savings, O & M all woven into design, producing higher quality design and materials to fit within the project budget
  - Single project team and entity has worked with owner for duration of project – no loss of information or ideas
PUBLIC-PRIVATE PARTNERSHIP

CASE STUDIES
PROJECTS ORGANIZED BY STRUCTURE

1. Availability Payment DBFOM
   Governor George Deukmejian Courthouse (Long Beach Courthouse)

2. All-Debt DBFOM
   UCSF Sandler Neurosciences Center

3. Hybrid
   Long Beach Civic Center
LONG BEACH COURTHOUSE
AVAILABILITY PAYMENT DBFOM

Project Overview

• First social infrastructure P3 project in the U.S. procured under the international principles of Performance-Based Infrastructure (PBI) contracting (using the availability-payment structure)
• $490M
• 545,000 SF
• Financial Close: December 2010
• Delivered: August 2013
• In its 7th year of operations
MOTIVATING FACTORS

- Replace outdated and poorly maintained courthouse
- Fix long-term costs and ensure a properly maintained courthouse
- Provide room for growth
TEAM

Developer

Design-Builder

Architect

Operator
STRUCTURE & FINANCING

- California Administrative Office of the Courts (AOC) owns the building and the Superior Court of Los Angeles County occupies the space.
- The AOC will pay Long Beach Judicial Partners (LBJP) an annual, performance-based availability-payment for 35 years.
- Equity + taxable bank financing was used for the construction financing.
- Bank debt refinanced/taken out with long-term institutional investor debt post-construction.
PROCUREMENT

• 2-step procurement (RFQ + RFP)
• 11 consortiums submitted qualifications
• 5 teams shortlisted for interview; 3 selected for final RFP
• 6 month competition with multiple proprietary meetings
• Selection in June 2010
• Financial Close December 20, 2010
UCSF Sandler Neurosciences Center
ALL DEBT DBFOM

Project Overview

- $200M
- 237,000 SF
- DBFOM (all debt, lease-leaseback)
- Delivered April 2012
- In 8th year of operations
MOTIVATING FACTORS

• Traditional DBB Procurement – 25% over-budget and project cancelled
• Revisited as a P3
  • Lowered cost
  • Guaranteed price and schedule upfront
  • Developer would assume all delivery risks
  • Sr. Vice Chancellor was champion
• Neurosciences program dispersed across multiple facilities, leading to inefficiencies – wanted consolidated facility
• Wanted long-term, 3rd party property manager
• Short-term financing requirement – Edgemoor arranged bank loan so that design could proceed while contract documents negotiated
TEAM

Developer

Designer-Builder

Architect

Operator
STRUCTURE & FINANCING

• Lease-leaseback agreement
• Edgemoor arranged pre-development financing with commercial bank to cover the costs of architecture and engineering → enabled project to proceed through design development prior to having final State approval for the permanent financing
• Bank loan was paid off at financial close with placement of permanent project financing
• This approach accelerated project by one year, and protected the client from potential cost escalation by having design proceed while the contract documents were being finalized with UCSF
• To further protect UCSF from escalation and cost over-runs, Clark guaranteed the project’s price and schedule based on the original design concept sketches and UCSF’s program requirements
STRUCTURE & FINANCING

UCSF
University of California
San Francisco

Master Ground Lease

CFIA (Non Profit)

Conduit Issuer

Trustee

Bond Holders

Development Agreement

Disbursement Agreement

Sub Ground Lease

Edgemoor
REAL ESTATE SERVICES

Edgemoor / McCarthy Cook Partners LLC

CLARK
DESIGN BUILD

Foundation

Private Donations

Space Lease

McCarthy • Cook

University of California
San Francisco
Project Overview

• P3 master development of 15 acres/6 city blocks
• New City Hall, Main Library, revitalized Lincoln Park, 3 new parking garages & related infrastructure (Availability-payment DBFOM)
• New headquarters for Port Authority (DBF)
• Commercial mixed-use block (developer-risk)
• $513M
• Delivered June 2019
PROJECT COMPONENTS

- Port Headquarters
- City Hall
- Private Development (Master plan)
- Library
- Lincoln Park
- Civic Plaza Corridor
- Chestnut & Cedar Street Extensions
MOTIVATING FACTORS

• Existing Civic Center:
  • Seismically unsafe, major life-safety risks
  • High operating costs and deferred maintenance
  • Inefficient use of downtown land
  • Some City departments dispersed in other locations

• 2013 study: cost to retrofit > cost to replace
• Limited relocation options in commercial office
• DBB represented unwanted risk and voters rejected bond issuance
• Fastest path to seismic safety required, significant concerns with phasing and continuity of operation
MOTIVATING FACTORS

• Cost to General Fund < ongoing annual operating cost of $12.6M (2013$) of existing facility (challenged private sector with delivering and operating a new facility for same cost)
• Witnessed the Long Beach Courthouse P3 success next door
• Bring the Port Headquarters downtown
• Revitalize Lincoln Park to a destination park
• Attract new residents and provide neighborhood-serving retail
TEAM

Developer

Design-Builder

Architect

Operator
STRUCTURE & FINANCING

• DBFOM portion (construction + 40 years of operations):
  • 43 Year Private Placement with Allianz - $239 Million
  • Equity Investment - $21 Million
  • Cash & Land Contribution by City of Long Beach - $40 Million
• DBF portion (for Port Authority HQ)
  • 3 Year Construction Loan with SMBC - $213 Million
• Total Financing - $513 Million
CONTACT INFORMATION

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