Innovative Tools for Financing Public-Private Partnership Deals

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Plenary Concessions

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Is economic development the common language to align government’s expectations and commercial expectations?

What will it take to recast the perspective and role of the public sector in terms of risk transfer?

Are there reasons to view P3 differently from the perspectives of real estate versus infrastructure constituents? If so, what are the implications?

How translatable are offshore approaches to P3?

What are the differences of P3 and privatization?

How can value capture be utilized in existing dense urban locations?
Opportunity or Challenge?

Michael Parker
ULI Spring Meeting
Mike Parker
Senior Managing Director
Ernst & Young Infrastructure Advisors, LLC
What are the Goals?

• Rebuild and modernize existing infrastructure
• Invest wisely in new infrastructure to address new and changing needs, enable growth and achieve a higher quality of life for communities
• Bring innovation, foresight and sound economic stewardship to their major projects, programs and investments
• Identify and attract the funding and financing required to invest in infrastructure
Our Practice

• Ernst & Young Infrastructure Advisors, LLC is a registered municipal advisor and an affiliate of Ernst & Young LLP, focusing on:
  – Finance, business planning and procurement advisory services for large-scale infrastructure projects and public-private partnerships (PPPs)
  – Advising on infrastructure-related strategies, programs and initiatives
• More than US$18 billion of recent and active domestic infrastructure projects under advisement
• Over 400 professionals globally involved in Infrastructure Advisory within Ernst & Young network
  – Experience spans transportation, social infrastructure, accommodations and housing, water, waste, renewables and other essential public services
  – Work includes more than 700 PPP projects worldwide since 1996, more than 250 of which are now closed – but also numerous project that are not PPPs, as well as programmatic and policy support
• Work closely w/ real estate, advisory, modeling, tax and restructuring practices
PPP Opportunities and Challenges from both Real Estate and Infrastructure Lenses

• Infrastructure can enable real estate development but faces funding constraints today
• Realizing projects can require:
  − Creating new revenue streams to fund
  − Finding financing means to bring what can be uncertain value from future to present
  − Assuring that infrastructure will be delivered and maintained within the funding available
• Transformational projects can encompass both infrastructure and real estate assets
  − Different investor bases
  − Chicken –and-egg issues with respect to planning, management, funding and investment commitments
  − Timing mismatch between infrastructure funding / construction and realization of future real estate development and commercial opportunities
  − Procurement / bundling questions
PPP Opportunities and Challenges from both Real Estate and Infrastructure Lenses (Cont.)

• Tax-exempt financing is a unique feature of US market
  − Cannot ignore when bringing models from other jurisdictions
  − Privately financed projects that involve intermodal, transportation or rail components may qualify for federal loans and/or private activity bonds

• There are not one-size fits all solutions
Performance Guaranteed Facilities, Optimization of Lifecycle Costs and Risk Transfer

Mike Marasco
Partnership Structure

- Non-recourse project finance
- License structure – no charge on title
- Significant risk transfer
- Strong value proposition

Strong balance sheet – credit rating
Efficient Risk Allocation
Payment Guarantee (assuming performance)
Parent Company Guarantee + Security
Investment Grade Transaction
PGF/PPP Comparative Advantages

Level of Risk Transfer

<table>
<thead>
<tr>
<th>Design</th>
<th>Build</th>
<th>Maintain</th>
<th>Operate</th>
<th>Finance</th>
<th>Own</th>
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</thead>
<tbody>
<tr>
<td>Design</td>
<td>Build</td>
<td>Multiple Designs + Innovation</td>
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<tr>
<td>Design</td>
<td>Build</td>
<td>Maintain</td>
<td>Incorporates Maintenance View</td>
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<tr>
<td>Design</td>
<td>Build</td>
<td>Maintain</td>
<td>Operate</td>
<td>Innovations – Life Cycle costing</td>
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</tbody>
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Finance is the catalyst

Risk transfer – time / cost overruns + availability

Long-term redundancy risk

Finance is the catalyst
Value Proposition – “Value for Money”

- Long term “Whole of Life” costs instead of first cost construction
- Good decisions during design process consider Value for Money and best investment approach
- Results in lower whole-of-life facility cost (the “box” is smaller)
- Provides outcomes that are guaranteed
- Financing returns are vehicle for Sponsor to enforce the guarantees
Total Cost of Facilities – Health Care Example

40 Year Facility Cost of Operations

- **O&M**: 29.0%
- **Refurbishment**: 8.7%
- **Planning**: 0.9%
- **Design**: 3.1%
- **Construction**: 58.0%
- **Transition**: 0.1%

Note 1: From July 2010 Healthcare BIM Consortium, an organization consisting of Department of Defense Military Health System (DoD MHS), Department of Veterans Affairs (DVA), Kaiser Permanente (KP), and Sutter Health, representing $26B of Healthcare construction.
## Risk Comparison

<table>
<thead>
<tr>
<th>Risk Element</th>
<th>Traditional</th>
<th>DB / Lease</th>
<th>63-20 Corp</th>
<th>PGF</th>
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<tbody>
<tr>
<td><strong>Procurement</strong></td>
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<td>Program</td>
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<td>Design &amp; Construction</td>
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<td>Finance</td>
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<tr>
<td>Land/Building Ownership</td>
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<td><strong>Operating Term</strong></td>
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<tr>
<td>Rights Retention</td>
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<tr>
<td>Operating costs above Plan*</td>
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<tr>
<td>Cost of Operations</td>
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<tr>
<td>Availability/Abatement</td>
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<tr>
<td>Life Cycle Replacement</td>
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<tr>
<td>Condition at end of Term</td>
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<tr>
<td>Operating Performance</td>
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</table>

*Plan set during procurement, prior to commitment to proceed

![Risk Comparison Table](image)
Conclusion

- Performance Guaranteed Facilities / Infrastructure (PGF) is NOT about alternative financing
- Financing is the catalyst to:
  - Optimize “whole of life costs”
  - Enable significant risk transfer
  - Payments are performance / availability based
Value Capture to Leverage Private Participation & Financing

Mark Briggs
ULI San Diego Spring Meeting

Innovative Tools For Financing Public-Private Partnership Deals

By Mark Briggs
Parsons Brinckerhoff
All About Private Sector

Revenue generated by NEW development to fund public infrastructure improvements & operating costs

Pre-TIF Property Tax

Improved infrastructure/
Increased accessibility/
Lower travel times

Value Capture helps fill the funding gap for new infrastructure projects

Higher Land Values

Infrastructure/ Transportation Improvement

All About Private Sector
Value Capture Supporting Transit Corridor
Capital Markets Want Certainty

Joint Powers Authority

- Tax Increment Revenues
- Assessment District Revenues
- State Contribution
- Transit Revenues
Support for Bonds or Availability Payments

Joint Powers Authority

Revenue Bonds
Availability Payments

Tax Increment Revenues
Assessment District Revenues
State Contribution
Transit Revenues

Support for Bonds or Availability Payments
Reinventing Public Streets for Value Capture

Scott Polikov
Trinity Lakes TOD
(Ft. Worth)
Form-Based Plan and Code (driving $750 Million in TOD)
Infrastructure Investment –
Which design for Trinity Boulevard? When?
4-lane Avenue versus planned 6-lane Major Divided Arterial

www.ite.org
www.cnu.org
Extending Walkshed for Value Capture
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Melbourne Convention Center – Case Study