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Miami-Dade Tries to Break P3 Mold

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BRADENTON, Fla. – Miami-Dade County plans to break the traditional P3 mold with what its leader calls an innovative capital program that could surpass $7.85 billion.

With 2.6 million residents, and more on the way, county Mayor Carlos Gimenez told a private industry forum last month that it is critical to find new ways to maintain and enhance the county's infrastructure.

"As part of my goal to lead a more efficient government, one that stretches its dollars to the maximum extent, we need to look for creative solutions," Gimenez said. "That is where opportunities lie for public-private partnerships."

The county's plan could entice investors to step out of their comfort zones because most P3s currently involve large stand-alone projects such as major toll roads, according to a global infrastructure financing expert.

Although Miami-Dade is still in the early planning stages of its program, Gimenez said the nation's seventh most-populous county has already compiled more than 50 potential capital projects that will be studied to determine whether they will benefit from the public-private financing structure.

The projects run the gamut of those local governments have traditionally financed with general obligation and revenue bonds, including public works, cultural facilities, water and sewer, detention facilities, transit, parks, public housing, roads, aviation, and ports.

Project cost estimates run from under a million dollars to convert a toll plaza office into a restaurant to more than $2 billion for a federal consent decree-driven water and sewer improvement program.

Whether Miami-Dade is successful developing the capital plan depends on its structure along with the expectations of county officials and market participants, said Michael Likosky, who leads the infrastructure practice at New York-based 32 Advisors.

"Miami-Dade is seeking to develop an innovative approach to the market that very few entities have tried to do on an ambitious level in the United States," said Likosky, whose credentials include working with local and state governments, the United Nations, the Organization for Economic Cooperation and Development, and the Clinton Global Initiative.

"It's a tall order," he said. "For me there is a clear path to success but it's not particularly easy."

In the U.S., the P3 market has been the most receptive to working with single, large stand-alone projects, according to Likosky.

With little experience structuring comprehensive municipal capital plans with public-private partnerships, the development of such a program must be realistic and contain prioritized projects because the finance and construction side of the P3 market is inclined to be inflexible, he said.

“There tends to be a cookie-cutter approach now that will fund certain projects of priority but will not fund the rest,” Likosky said. “The job of a public entity is to determine how to leverage the bankable stuff in order to finance the non-bankable stuff.”

Miami-Dade County is not alone in seeking alternatives to debt to finance a wide array of projects.

Rating agency analysts believe that growing unfunded infrastructure needs and budget concerns will help drive further use of P3 contracting into sectors other than transportation.

The contracts between the public and private sectors will allow state and local governments to design, build, finance, operate and maintain government-related infrastructure for a fixed period of time, Moody's Investors Service said in a September report.

P3 contracts will allow governments to bring private capital to new sectors such as housing, higher education, and water and sewer, according to Moody's senior analyst John Medina.

As an example, Moody’s cited the Next Generation Kentucky Information Highway System, a first-of-its kind P3 to bring high-speed Internet to a state where the service has lagged the rest of the country.

Kentucky issued $230.05 million of 30-year tax exempt bonds for the project in August to finance a 30-year concession agreement with a consortium whose main investors are Macquarie NG-KIH Holdings Inc., Ledcor US Ventures, and First Solutions LLC.

Standard & Poor's analyst John Sugden said P3s offer an alternative way of delivering large projects, though acceptance of the mechanism has been slow for some areas.

“We expect that the states with established P3 programs will continue to use P3 financing,” Sugden said in a special report last month.

However, the size, complexity and lack of uniformity in concession agreements have created high start-up costs for some governments and created a barrier to greater adoption of the model, he added.

Some P3 obligations are considered debt, depending on the structure, and can be factored into credit ratings, the S&P report noted.

P3 programs don’t come without risks, said Municipal Market Analytics partner Matt Fabian.

“Like swaps, P3s can be highly complex, long-term arrangements that are difficult to restructure if needed,” Fabian said Tuesday.

P3s, like swaps, can also create an accelerant to unexpected credit troubles, he added.

“To the extent issuers are using P3s to avoid the characterization of their obligation as debt, it raises serious concerns about the issuer's disclosure practices and willingness to pay,” Fabian said.

In July, he warned municipal investors to be wary of local issuers engaging in P3 transactions, particularly in states that are actively encouraging the financing technique.

The complex relationships and unique risk allocation in each P3 transaction imply a need for financial and legal sophistication and revenue raising flexibility that cannot be counted on among all local governments, he said.

A case in point, Fabian said, is the Virginia Route 460 project. The P3 was cancelled in part because the state failed to obtain final permits, leaving Virginia on the hook for about $300 million for a road that will not be built.

Fabian said Virginia is well-known for being ahead of the curve in terms of its P3 strategy and use, though at the time the Route 460 project was approved political pressure influenced the decision to move forward with the higher-risk project without adequate transparency and oversight.

As a result, Virginia enacted legislative changes to the process for approving P3s that includes the formation of an advisory committee to determine if potential projects are in the public's interest.

In Miami-Dade, county commissioners are proceeding cautiously to develop the capital program they hope will serve both the public and private sector. The entire P3 program has been in development for several years.

Last week, commissioners appointed the final two members of a 15-member task force that will make recommendations on how the county advances the use of P3s.

The task force members include those involved in P3 projects, attorneys specializing in infrastructure finance, and experts in planning, construction, engineering, architecture, and banking.

Miami-Dade is also hiring P3 legal and financial advisors, including a pool of consultants for the county's massive sewer improvement program.

Sikorsky said the county needs a clear strategy to develop the final comprehensive capital plan.

"We know in the muni context that it's pretty clear there's a strategy for doing that with a GO or revenue bond, but in a P3 that doesn't exist," he said. "There's no off-the-shelf solution."

Banks and investors will only pay for certain types of projects, such as those with a revenue stream, so the capital plan should use P3s for large, stand-alone projects and include other financing mechanisms.

"If you associate all of the projects with P3s, then all this isn't going to get done," Sikorsky said. "I think they should be after a public-private plan, and P3s are one type of [financing] deal."

While the task will not be easy or straightforward, he said Miami-Dade is attempting to create an ambitious program that could shift P3 market dynamics.

"I think the unique aspect to it is that people typically think about bringing a P3 project in stand-alone way to market," Sikorsky said. "So it's very unique in the U.S., and innovative, to think about an entire capital plan, and I have to give credit to them for doing so."