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The State of P3 Financing

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Katie Kramer

Vice President
Council of Development Finance Agencies
Columbus, OH

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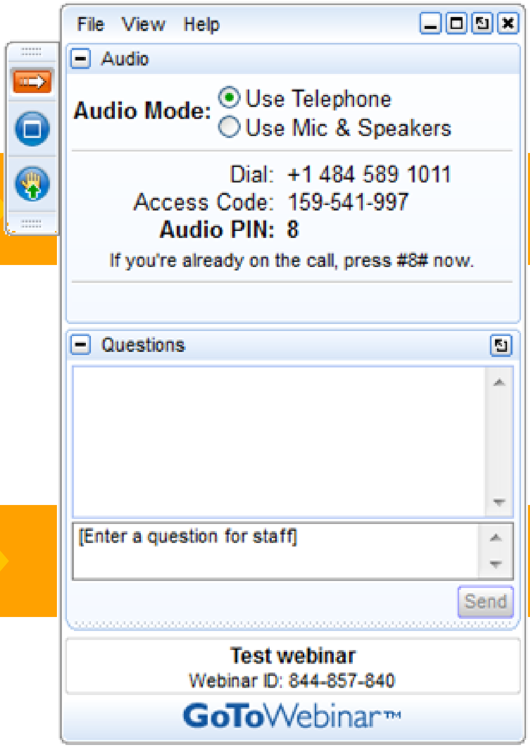

Listen through the telephone for best audio quality.

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Panelists

David Safer, *Moderator*
BNY Mellon

Todd Herberghs
National Council for Public-Private Partnerships

Anita Molino
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David Safer

Vice President
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Todd Herberghs

Executive Director
National Council for Public-Private Partnerships
Washington DC

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THE NATIONAL COUNCIL FOR PUBLIC-PRIVATE PARTNERSHIPS

Todd Herberghs, Executive Director

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P3 INSIGHTS FORUM

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DENVER 2014

P3 DIGEST

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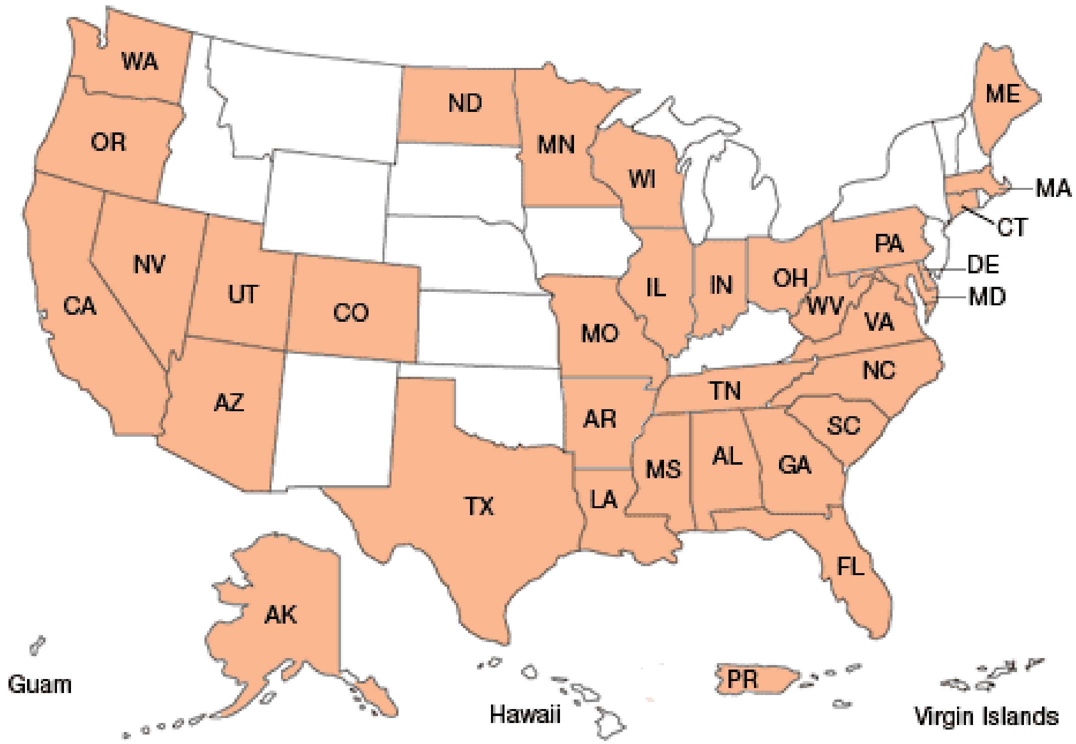
P3 Trends

National Trends

- Federal Budget Crunch = some action
- Results Unlikely

P3 Trends

State Trends



THE NATIONAL COUNCIL FOR PUBLIC-PRIVATE PARTNERSHIPS

P3 Trends

State Trends

- Most action at state level
- Focus on social infrastructure

The Cost of Financing

[Testing Tradition: Assessing the Added Value of Public-Private Partnerships]

www.ncppp.org

Anita Molino

President
Bostonia Partners LLC
Boston, MA

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Bostonia Partners

The State of P3 Financing

CDFA // BNY Mellon Development Finance Webcast Series

April 15, 2014

Anita P. Molino
Chair, National Council for Public-Private Partnerships
President, Bostonia Partners

Benefits of P3

- Investment Costs are spread over the lifetime of the asset
- Strong track record of on-time/on-budget delivery
- Certain risks are transferred to the private sector and provide incentives for long-term maintenance
- Public sector is able to focus on outcome-based public value of infrastructure project
- Lower cost of infrastructure by reduced construction costs and life-cycle costs
- Encourage strong customer service approach by private sector

Drivers for Developing the Financing Plan

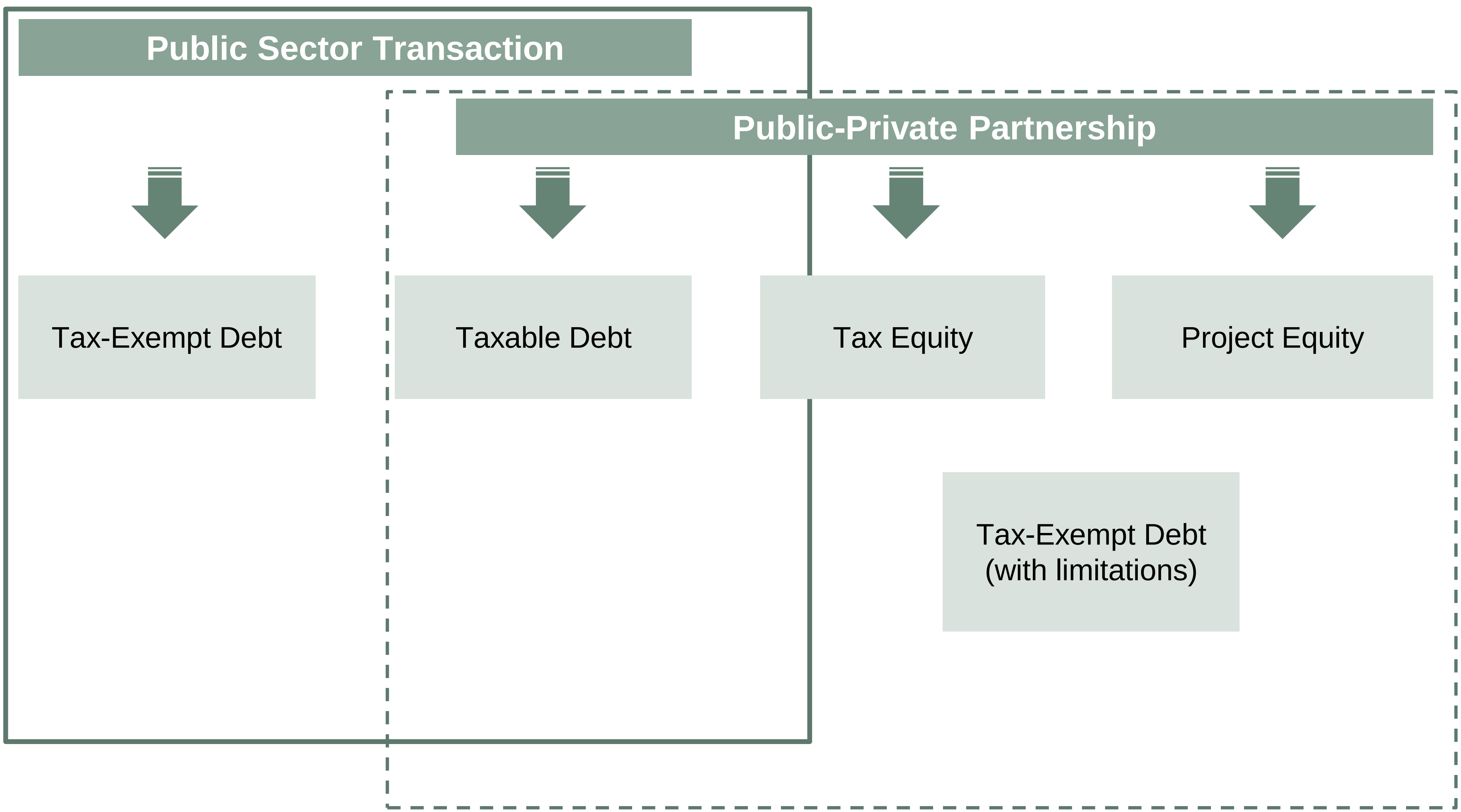
- **Project:** Types, Risks and Available Revenues

- **Public Entity's Objectives and Constraints**
  - Political
  - Legislative
  - Economic
  - Programmatic
  - Policy

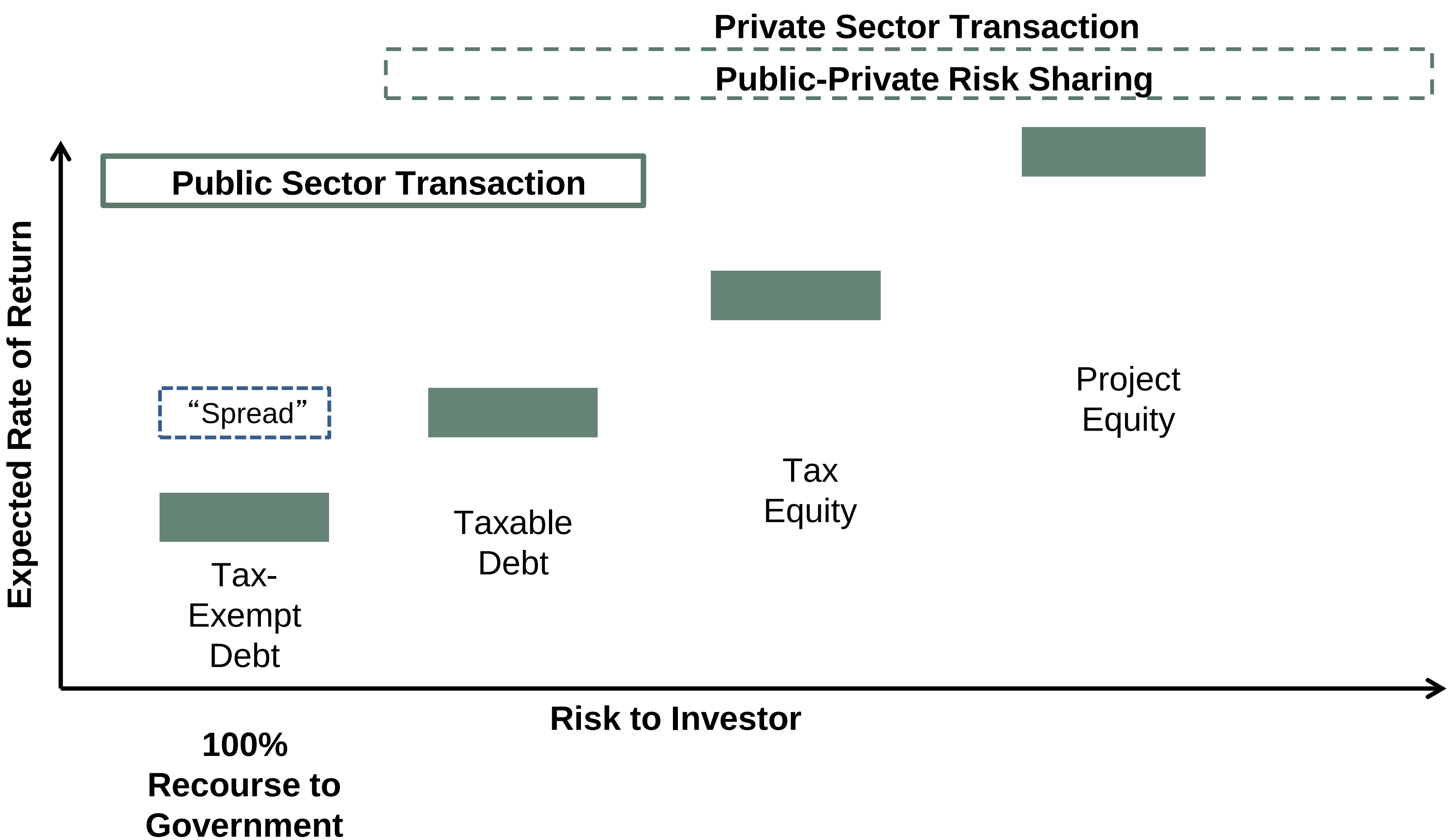
- **Private Sector's Appetite**—Not all project types have the same appeal

Don't let the Financing tools drive the process, as this approach will not optimize the business model for the public benefit

Financing Tools: The Basic Building Blocks



Cost of Funds



Evaluating 3P's

- Common misperception is that PPPs are always a **more expensive form of project delivery for Governments**
- As highlighted by the National Council for Public-Private Partnership's (NCPPP) white paper, "Testing Tradition: Assessing the Added Value of Public-Private Partnership", a thorough and proper evaluation involves several analyses:
    - Costs of deferred maintenance, repair, replacement
    - Project timing
    - Complete financial analysis using Value for Money (Vfm) assessment on Net Present Value (NPV) basis
- Establish Public Sector Comparator (PSC) as baseline to compare to PPP or privatized options
- Conduct full Life-Cycle (FLC) cost and revenue analysis for each option
- Value and assess transfer of risk more effectively

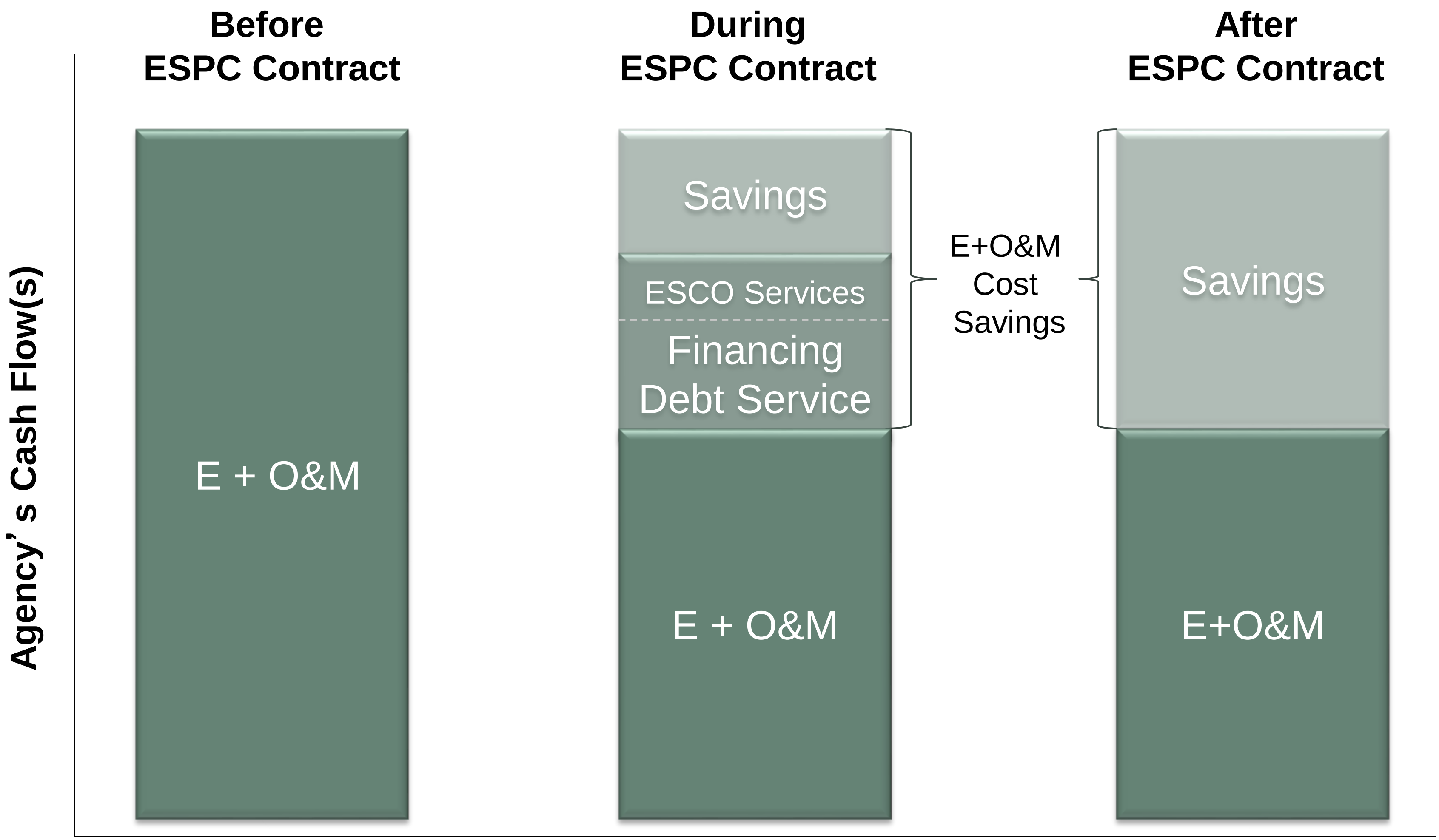
Financing costs for projects may be higher for PPPs however FLC analysis often shows savings over time due to risk allocation, design, construction, and long-term O&M.

Tax Exempt & Taxable Debt

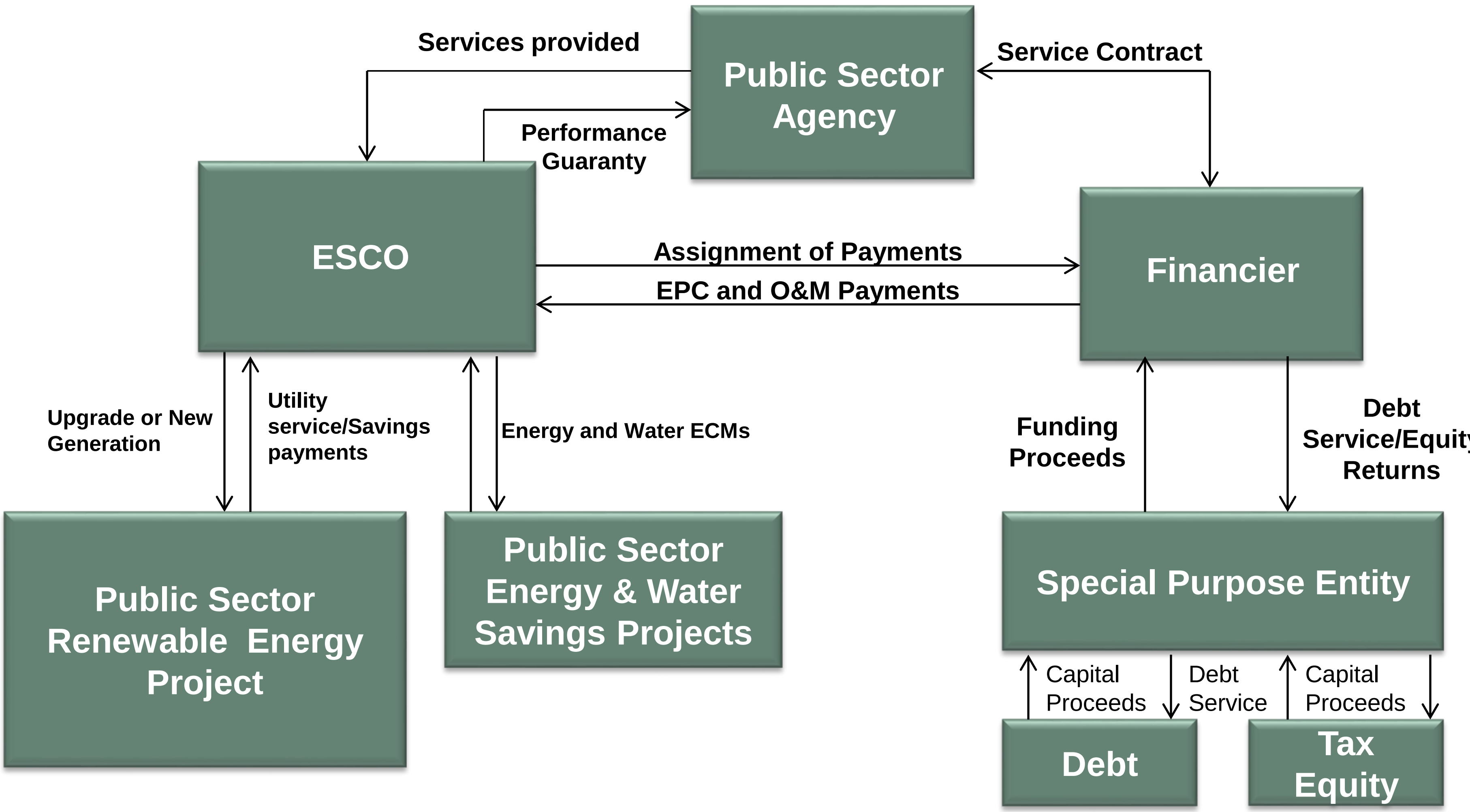
- **Tax Exempt—Public Sector Transaction**
  - Retail investor driven investment product
  - Requires traditional credit/revenue streams
  - Generally must obtain a published credit rating
  - Fundamentals allow for 100% leverage and/or public entity can contribute cash equity
  - Public ownership is preferred/necessary
  - Debt Capacity is not an issue
  - "Public Offering" costs of issuance
  - Constrained by IRS Code Section 103(c) - Potential change in law

- **Taxable Debt—Private Sector Transaction**
  - Multiple institutional investor types/classes to access
  - Accommodates more diverse credit/revenue streams
  - A published credit rating not required
  - Maximum leverage is credit/structure driven
  - Private ownership is typical
  - "Private Placement/Loan" costs of issuance
  - Municipal vs. Corporate Taxable Markets

3P Financing Structure – Energy Efficiency



3P Financing Structure – Energy Project



Energy Efficiency and Renewable Energy Markets

STATE OF THE MARKETS

- Investment Grade (IG) Sponsors with projects of size can obtain cost-effective financing
- Non-IG Sponsors with smaller projects are the challenge: residential, affordable housing, commercial & industrial, and MUSH
- Cost effective solutions for Non-IG Sponsors are in process or development:
    - MUSH Pools
    - Property Assessed Clean Energy (PACE) Programs
    - State- or utility-backed programs
    - Warehousing followed by capital markets securitization
    - Alternative funding models (e.g., REITS/MLPs)
    - Residential loan secondary market sales

Case Study – 200 Eye Street SE, Washington, D.C.

PPP Background

•In 2007, the District's office infrastructure was aging with prohibitive rental rates and construction costs across the city.

•The District was paying for a long vacant office space at 200 Eye Street, facing increasing demands for office space from government agencies, and political pressure and budget constraints were mounting.

•In 2009, the District utilized a PPP, purchased the 200 Eye Street, and worked closely with a private sector developer to devise a lease and financing structure that allowed the developer to access private capital and transform the building into a modern fully occupied office space for the District.

PPP Solution and Benefits

•Exemplary PPP – successfully utilized District's strong credit rating and private sector's investment, development, and construction expertise to 'unlock' underutilized infrastructure and provide long-term, economical solutions for the public sector.

•Created upgraded office space for three District agencies for 20 years at the same cost of previous space, and saves approximately $6.5 million per year in lease payments for unused office space.

•Helped revitalize a building and neighborhood, allowing the District to focus on economic and urban development, while allowing the private sector to focus on the redevelopment of the building

Case Study – 200 Eye Street SE, Washington, D.C.

Project Financing Overview

•$85 million of lease-backed pass-through trust certificates issued in the private placement market for construction to permanent financing of the project

•Project included the redevelopment of a 408,000 SF 1950's era Washington Star printing plant into a Class A, LEED Platinum office space

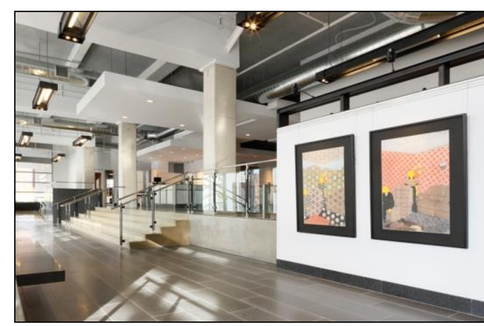
•100% retrofit/major renovation occupied by District of Columbia under a 20-year lease, ownership will revert to the District; the Lease is subject to annual appropriations

•Completed in 2012, the building houses 1,400 employees of three departments — the Child and Family Services Agency, D.C. Commission on the Arts and Humanities and the Office of the Chief Technology Officer

Public-Private Partnership Benefits

•Solved two issues for the District of Columbia:

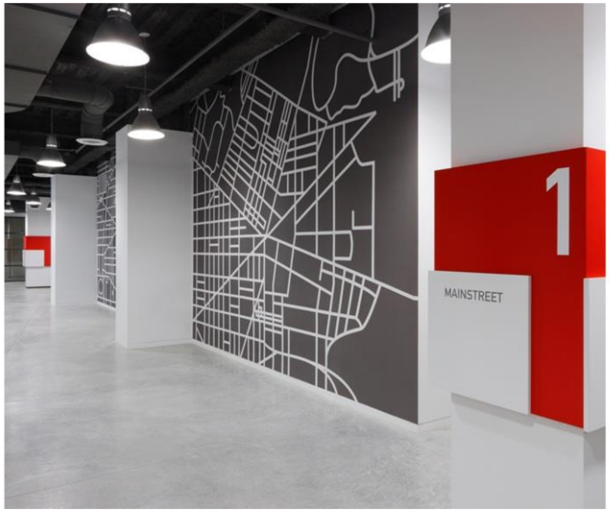
- Transformed an aging and unoccupied newspaper plant into a modern, fully occupied office space
- Will save DC tax payers more than $60 million and ownership of the building will revert back to the District at the end of the 20 year lease term



Case Study – 200 Eye Street SE, Washington, D.C.

Awards

- •Washington Business Journal - Best Rehab Award
- •Washington Business Journal - Deal of the Year Award
- •NAIOP National - Award for Sustainable Development of the Year
- •NAIOP DC/MD - Best Rehab/Reuse Award
- •NAIOP DC/MD - Best Sustainable Project Award
- •CREW Placemaking Award
- •U.S. Green Building Council - LEED Platinum Core & Shell and Commerical Interiors
- •U.S. Green Building Council National Capital Region - Awards of Excellence, LEED Core & Shell



3P Issues and Considerations

Accounting Issues

•Certain PPP structures meet “off-balance sheet” criteria

•Contract securitization structures with “non-recourse” debt

•Ownership structures that do not require accounting consolidation

•Consideration of new proposed Financing Accounting Standards Board/ International Accounting Standards Board requirements for lease accounting

Opportunity Considerations

•Non core revenues to support institutional mission activities

•Deferred maintenance costs for infrastructure projects

•Historically low interest rates

•Tax advantaged structures

•Programmatic benefits

•Risk transfer

•Leasing opportunities

•Capital budget benefits

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