



# ALASKA'S DEVELOPMENT FINANCE AUTHORITY

Public-Private Partnerships

ANVCA Annual Conference

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# Outline

**Introduction**

**What is a P3**

**Elements  
of a P3**

**Best  
Practices**

**P3  
Examples**

**How to  
Get  
Involved**

# Mission and Overview



***To advance economic growth and diversification in Alaska by providing various means of financing and investment***

- AIDEA
  - Semi-independent public corporation
  - 7 member board
  - Self funded
  - Provides an annual dividend back to the State of Alaska - \$397 million since 1997
- Revolving Fund  $\approx$  \$1.3 billion in assets.
- S&P AA+ credit rating | independent of the State of Alaska

# What Does AIDEA Do?

An equal partner in projects with banks, credit unions, private sector developers and their financial partners

Secures and deploys capital for economic growth and jobs, without the use of grants or incentives



## Debt

- Loan Participations
- Energy Loans
- Project Finance Loans
- Conduit Revenue Bonds



## Equity

- 100% Ownership
- Partner in LLC or Subsidiary Corporation
- Secured and Collateralized
- Preferred Equity Investments



## Enhancements

- Loan Guarantees
- Bond Guarantees

# AIDEA Assists in Financing



Urban and Rural Projects

Large and Small

All major industries / sectors:

- Natural Resource Extraction & Processing
- Federal Facilities & Installations
- Transportation & Logistics
- Commercial Finance
- Infrastructure
- Healthcare
- Retail
- Tourism
- Energy

# Public-Private Partnerships (P3)





**"This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before."**

A Public-Private Partnership is a **contractual agreement** between a public agency and a private sector entity.

Through this agreement, the **skills and assets of each sector are shared** in delivering a service or facility **for the use of the general public.**

In addition to the sharing of resources, **each party shares in the risks and rewards** potential in the delivery of the service and/or facility.



Public – Private Partnerships are a long-term **performance-based** approach to **procuring public infrastructure**

where the **private sector assumes a major share of the risks** in terms of financing and construction

and ensuring effective performance of the infrastructure, **from design and planning, to long-term maintenance.**

# So, What is a P3 Transaction?

P3s are a long-term performance-based approach to procuring public infrastructure.

In most cases, the private sector assumes the lion's share of risks including the financing and construction of the project as well as ensuring effective performance of the infrastructure – from design and planning, to long-term maintenance.



# Service Delivery Spectrum\*

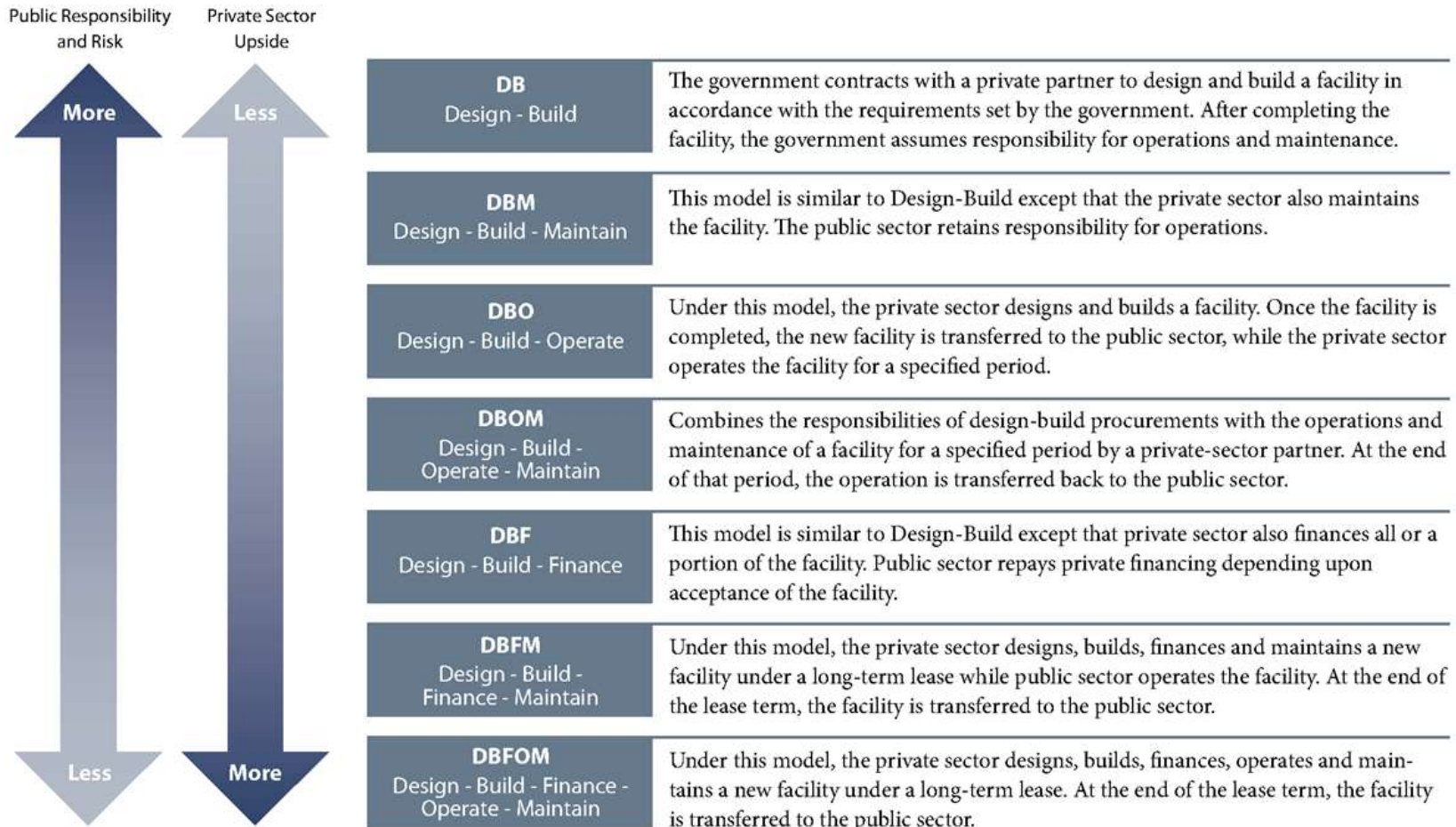


\* "Tapping Private Financing and Delivery to Modernize America's Federal Water Resources", Harvard Kennedy School, January 2017

# P3 Continuum



*Each Approach has a Different Mix of Risk and Reward to Both Parties*



# A P3 is Not:

- Free
- A silver bullet
- An asset sale
- The privatization of a public asset



# How Does this Work?



1. No two P3s are identical
2. P3s are tailored to meet the public agency's financial, policy and operational goals
3. The public agency maintains ownership of the asset and sets operational, maintenance and safety standards
4. Assets are not paid for until they are completed
5. Most of the costs are paid over the life of the asset if it is maintained properly and functions according to pre-agreed designations
6. The costs are known upfront and span the life-cycle of the project, meaning that taxpayers (in theory) are not on the financial hook for cost overruns, problems or any performance issues over the life of the asset

# Objectives of a P3



- Maximize the ability of public sponsors to leverage existing revenue sources.
- More effective use of existing public funds.
- Accelerate projects into construction compared to traditional delivery methods.
- Transfer Risk to Private Sector
- Capture Private Sector Innovation
- Create Competitive Tension to Drive Value
- *Promote Life Cycle Efficiencies/Performance*

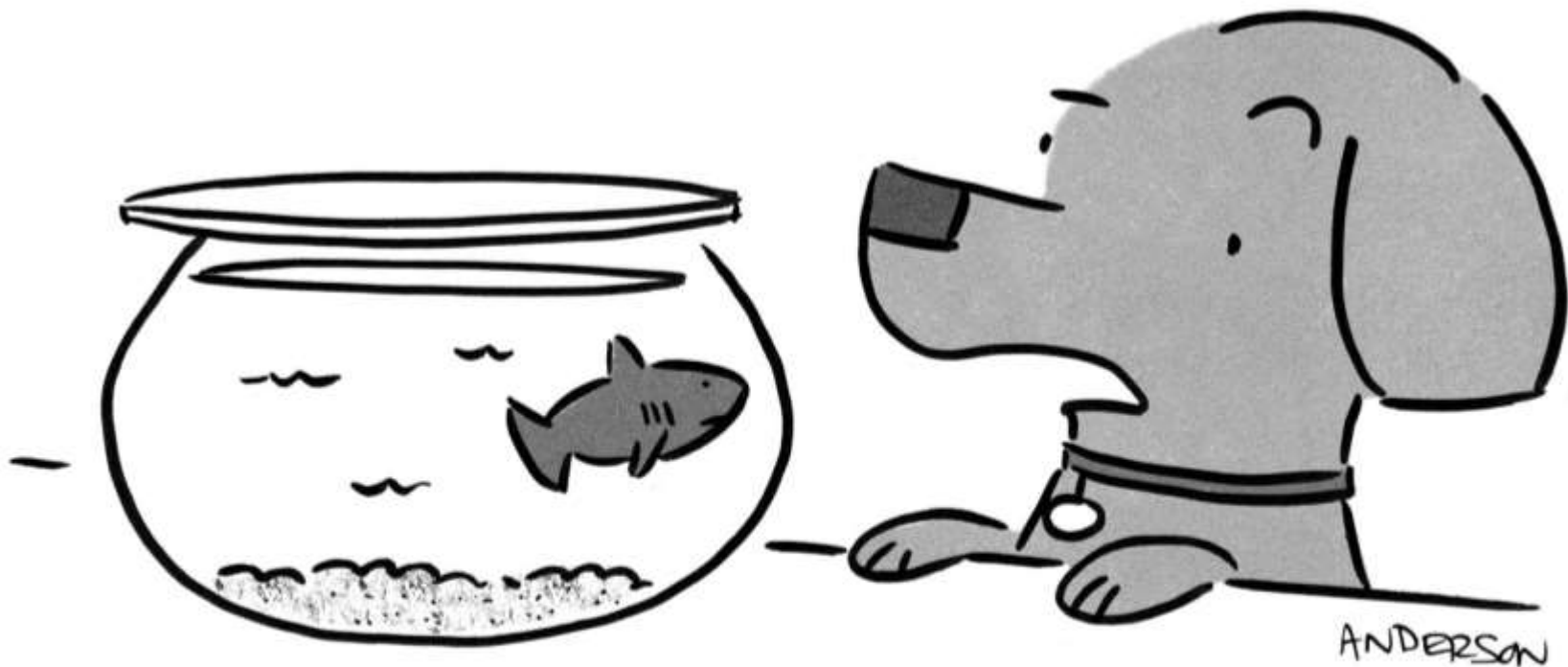
## Horizontal Infrastructure

- Bridges
- Roads
- Tunnels
- Airports
- Pipelines
- Water Processing
- Sewage Treatment
- Energy Installations

## Vertical Infrastructure

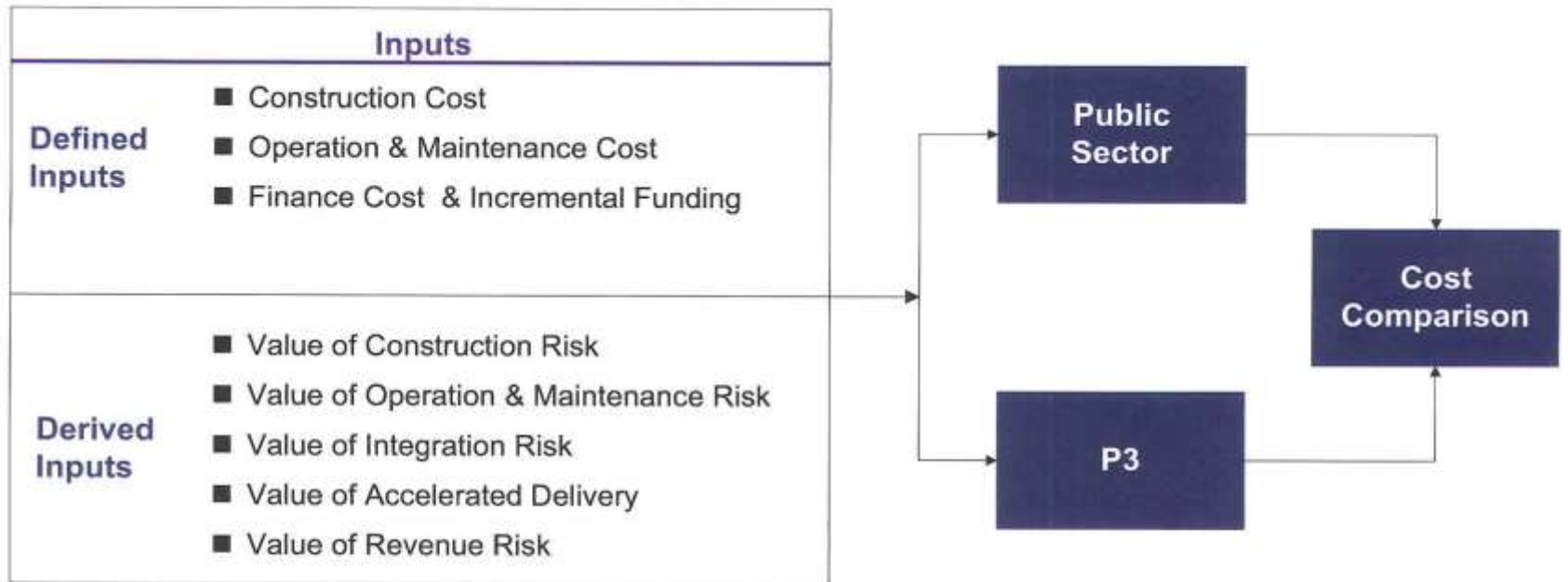
- Schools
- Hospitals
- Municipal Buildings
- Prisons
- Parks/Open Space
- Student Housing
- Community-Use Facilities
- Military Housing





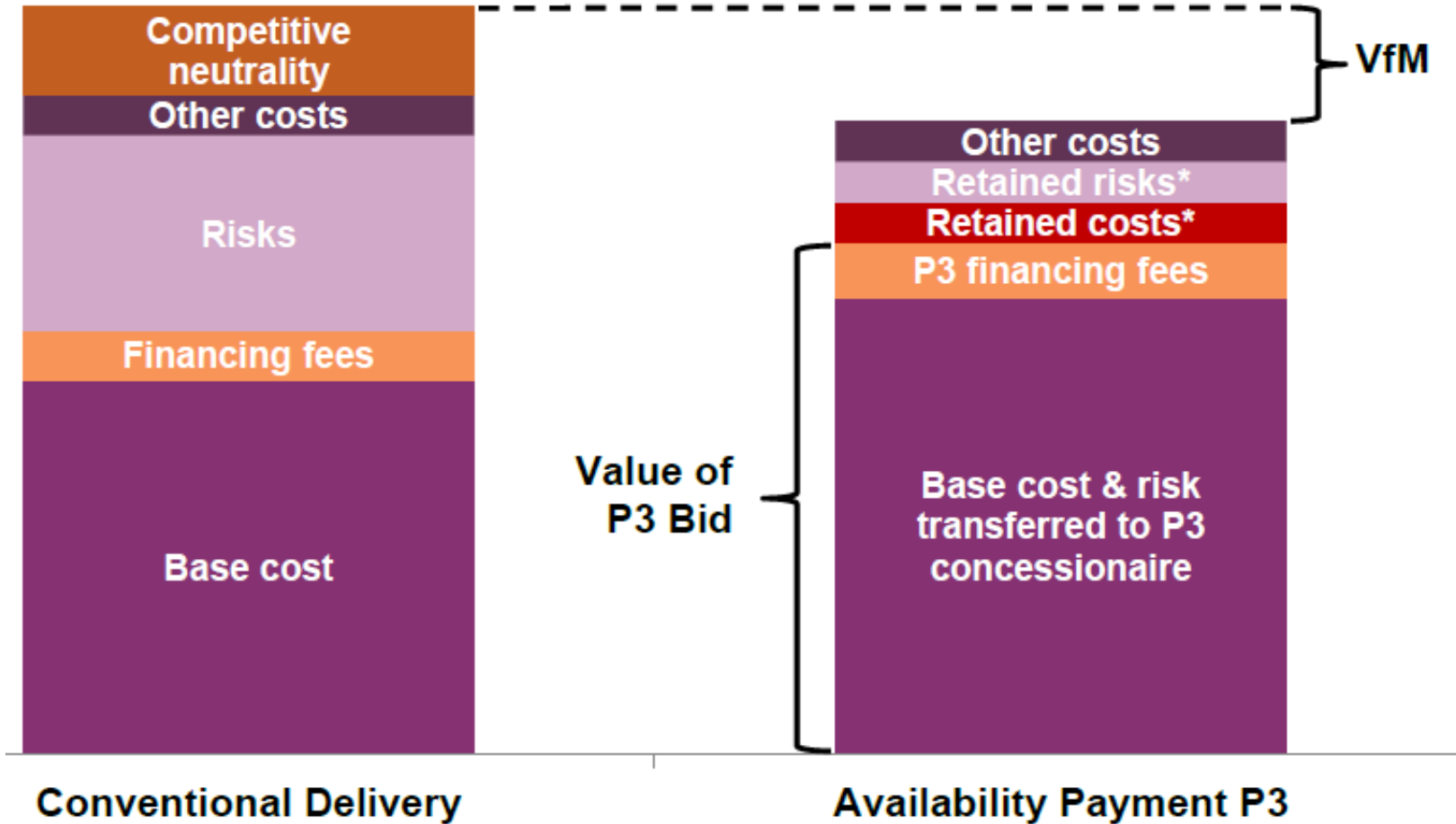
"You make a good point; we both hate the cat. I'm just not sure what it is you'd bring to a partnership."

# Value for Money Analysis



- Value for money has been demonstrated when the P3 approach results in a lower overall cost than the public sector alternative
- When the P3 approach does not demonstrate value for money, agency has a number of options:
  - Proceed with public sector approach
  - Assess P3 costs and modify agreement to mitigate main drivers of higher cost through risk sharing & scope reduction

# Public Sector Comparator vs P3



\* Retained by Agency

# Parties in a P3 Transaction



## Public Sponsor (Local, County or State)

- Advisors

## Private Partners

Depending on the nature of the P3 project, prospective private partners can be sole companies or a consortium of firms that each represents a specific expertise.

## Project Advisors

- Financial Advisors
- Legal Advisors
- Insurance Advisors
- Real Estate Advisors
- Underwriters

## Developer

- Project Architect
- Engineering
- Construction

## Financiers

- Equity Members
- Project Lenders

## Operator

- Sub-contractors

# FDOT I-595 Corridor Improvements (\$1.8 billion)



## Project Participants

- I-595 Express, LLC (ACS Infrastructure Development and TIAA CREF - Concessionaire)
- Dragados USA Inc. - Design-build contractor
- AECOM Technical Services, Inc. - Lead engineering firm
- HNTB Corp - Construction engineering and inspection
- Roy Jorgensen Associates, Inc. - Operations & Maintenance

## Project Advisors

- To Sponsor (FDOT):
  - Dewey & LeBoeuf LLP – legal
  - Macquarie Capital (USA) Inc. - financial
  - Scott Wilson, Plc. - technical
  - To Lender:
    - Simpson Thacher & Bartlett LLP - legal
- To Authority:
  - Nossaman LLP - legal
  - Jeffrey A. Parker & Associates, Inc. - financial
  - Reynolds, Smith and Hills, Inc. - technical
  - The Corradino Group - construction oversight
- To USDOT TIFIA JPO:
  - TIFIA Legal Advisor: Hawkins Delafield & Wood LLP
  - TIFIA Financial Advisor: Taylor-DeJongh

# Elements of a P3 Project

- Risk Allocation
- Performance Requirements
- Payment Mechanisms
- Financial Terms
- Termination Options
- Handback Requirements

- Risks should be allocated to the party best able to manage them at the lowest cost
  - e.g. because the private sector has no influence over a change in law, this risk is usually fully retained by the public agency. Or, because the public agency has no control over cost overruns during construction, this risk is typically fully borne by the private party.
- Risk allocation should be about managing occurrence and impact, i.e. probability it will occur and cost of when it does occur.
- The more risk that is shifted to the private sector, the greater the cost of the project
- You need to understand how much risk you are being asked to absorb and then price your involvement appropriately
- Risk occurs in the development, construction and operations phases



# Monitoring Risk



## Shifting risk to private sector is the foundation of a P3

Potential Risks	Typical Contractor Responsibility	Shifted to Contractor in PPP
Major environmental permits	No	Maybe
Usage rates and traffic and revenue	Never	Not Likely
Conflicts and delays from unknown historical conditions	No	Yes
Conflicts and delays from unknown archeological conditions	No	Yes
Conflicts and delays from unknown endangered species conditions	No	Yes
Conflicts and delays from unknown utility conditions	Maybe	Yes
Cost and delays from hazardous waste unidentified and not caused by contractor	No	Likely
Accuracy of design and survey data initially supplied	No	Yes
Geotechnical and soil conditions	No	Yes
Differing site conditions	No	Yes
Delays from legal action against the project	No	Yes
Delays from public interference	No	Yes
ROW acquisition cost and time to procure (need the public entity's right of Eminent Domain)	No	Likely
Changes in zoning laws or rules that may affect the project	No	Yes
Delays by the grantor and/or other agencies	No	Yes
Insurance coverage	Partial	Likely
Upfront costs to design and develop projects	No	Likely
Long-term liability exposure for maintenance structures	Maybe	Likely
Long-term liability exposure to litigation	Maybe	Maybe
High and unusual liquidated damages for delays	No	Likely
Extraordinary guarantees such as substantial letters of credit in addition to surety bonds	No	Likely



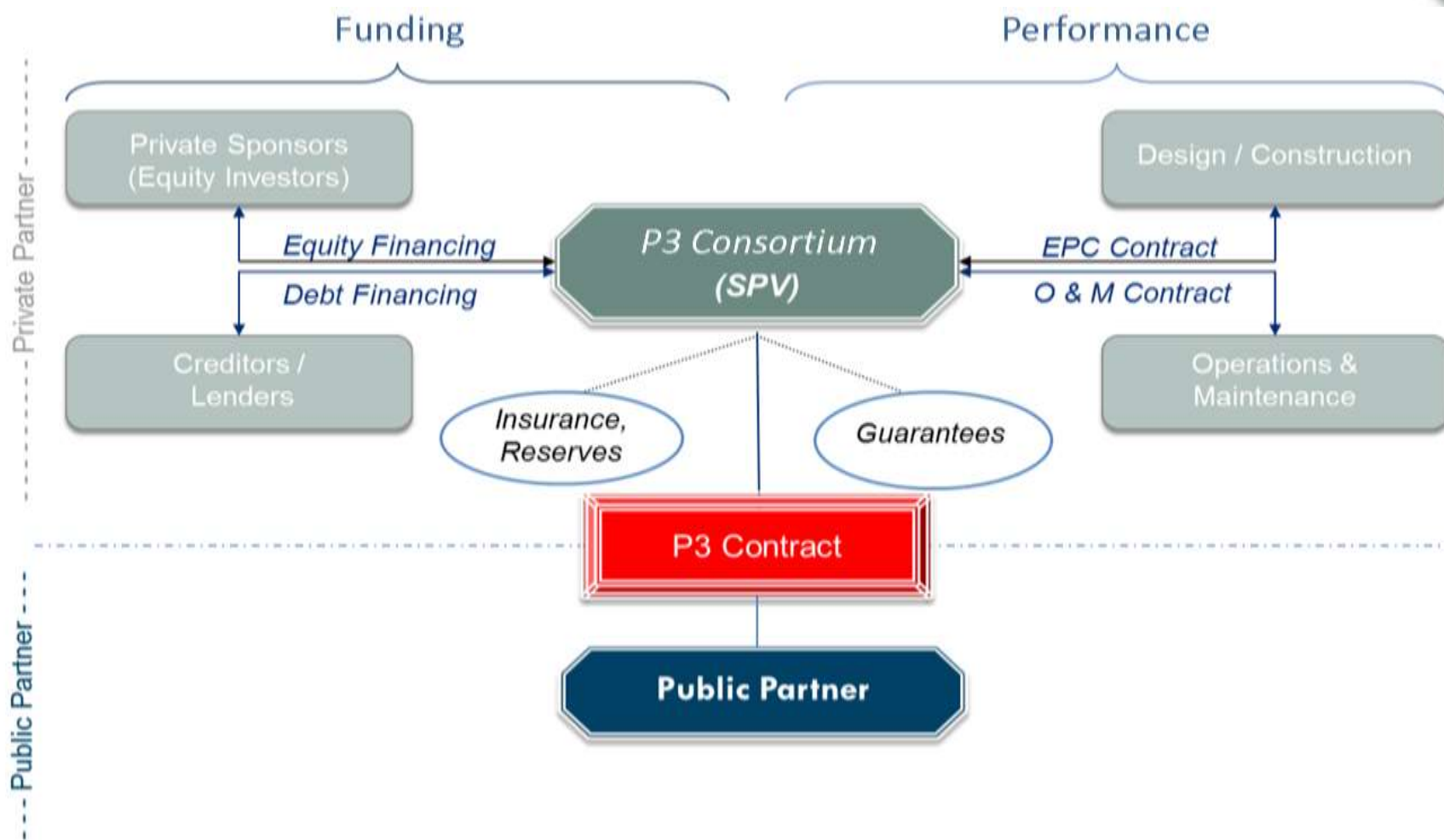
# Performance Requirements



- Performance requirements provide an alternative way to communicate technical requirements of a project in the P3 agreement.
- Unlike traditional prescriptive specifications, performance requirements do not prescribe the “methods” for the P3 private partner to design and construct the facility using the agency’s base design;
- rather the emphasis is placed on the requirements of the proposed facility that the P3 private partner must contractually fulfil from user, operational, structural, functional, budgetary, and delivery perspectives.

- User Charges: Payment is linked to number of users or to other outputs measured by volume
  - Real Tolls Shadow Tolls, Utility Fees, Transit Fares
- Availability payments: Based on the facility being available for use when needed, with penalties if all or part is not available.
- Performance Payments: Payment tied to quality of performance delivery
  - Facility reliability, cleanliness, speed of response to failures
- Ancillary Revenue: Opportunities for contractor to provide ancillary services, e.g. retail, cafes, advertising

# Basic P3 Financial and Contract Structure



# Handback Requirements

- The assets will be “handed-back” to the procuring authority at the end of the contract or concession term. The approach to this transition should be clearly defined in the contract.
- Minimum criteria will be established to ensure that the asset(s) are transferred back to the public sponsor in an acceptable condition.
- The contract will require that the asset has a reasonable remaining useful life at the expiration date



# Termination Options

Termination	Typical Triggers	Termination Payment
Private Party Default	<ul style="list-style-type: none"><li>• Failure to complete construction</li><li>• Persistent failure to meet performance standards</li><li>• Insolvency of project company</li></ul>	Termination payments are typically defined to ensure equity-holders bear the burden of default. Lenders may also be exposed to some possible loss.
Public Party Default	Public party fails to meet its obligations under the contract	A fair contract should ensure the private party does not lose out if the public party chooses to default. Termination payments in this case are typically set to the value of debt plus some measure of equity
Prolonged <i>force majeure</i> damage	Should be carefully defined in the contract and limited to uninsurable, prolonged force majeure events that preclude performance of obligations	Typically, in between the two options above, since neither party is at fault

# American Model - Financing



Tax-Exempt Financing - New American Approach	Taxable Financing – Availability Payment Approach
100% Tax Exempt Debt	Combination of Taxable Debt and Equity
Required Debt Coverage Ratio is 1.0	Required Debt Coverage Ratio is 1.1 or higher
A Single Loan	Two Loans – A Construction Loan and then a Permanent Loan
More accepting of Subject to Appropriation and Abatement language	Difficulty with Subject to Appropriation and Abatement language

# American Model - Management



New American Approach	Availability Payment Approach
Privately contracted Operations and Maintenance	Privately contracted Operations and Maintenance
Competitively Bid on 3 -5 year term	Negotiated Long term Operation and Maintenance Agreement (30 to 50 years)
Cost based on service level set by Tenant	Cost negotiated up front to cover full availability of facility for term with deducts for lack of availability of facility components
Allows Exempt Financing	Requires Taxable Financing



# Phases of a P3 Project





- Very early on assess whether the public sector owner has the necessary legislative authority to procure and finance public buildings and infrastructure using a P3 model.
- Define clearly what role your organization can play
- Understand some of the public concerns over P3s
- Understand the risks and rewards
- The devil is in the details – lawyers, lawyers, lawyers
- Can't do this on your own - find qualified advisors to help you find strategic partners

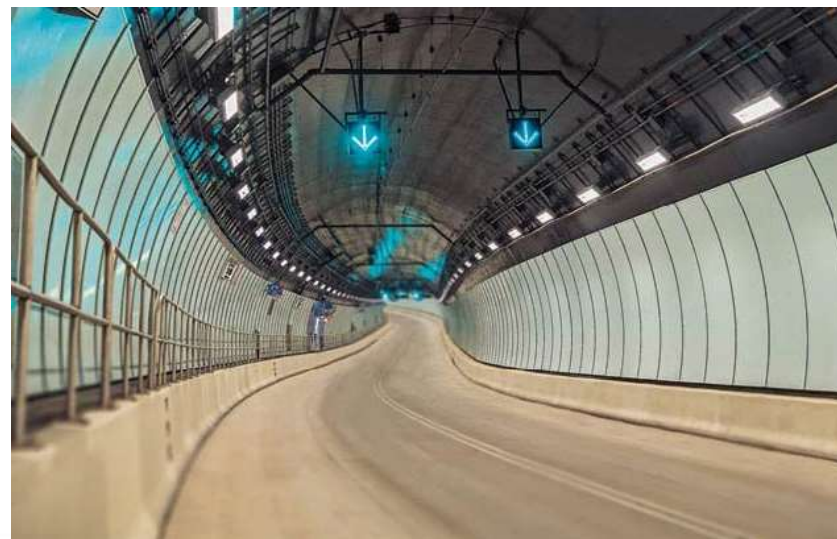
# P3 Examples

- Port of Miami Tunnel, Miami FL
- Arizona Highway LED Lighting
- UAF Woods Center Food Services
- Riverside County Courthouse, Indio CA
- UW South Lake Union, Seattle WA
- Texas A&M University, Park West

# Port of Miami Tunnel, Miami

The project includes twin tunnels connecting MacArthur causeway to Port of Miami, rebuilding one bridge and expanding another.

- The project eases congestion on downtown streets and keeps the port competitive
- Total cost of design and construction - \$668.5 million.
- The State, Miami-Dade County and the City of Miami paid the capital costs (design, construction)
- The State pays the operations and maintenance - 35 yr concession



# LED Lighting

- Convert 19,300 luminaires throughout Greater Phoenix, including in the Deck Park tunnel, from HPS to LED
- 3,300 in the tunnel, 16,000 on the highways
- Anticipated to be Design-Build-Finance-Operate-Maintain
- 2-3 years construction, 15 year maintenance period
- Defined handback conditions



# UAF Woods Center Food Services

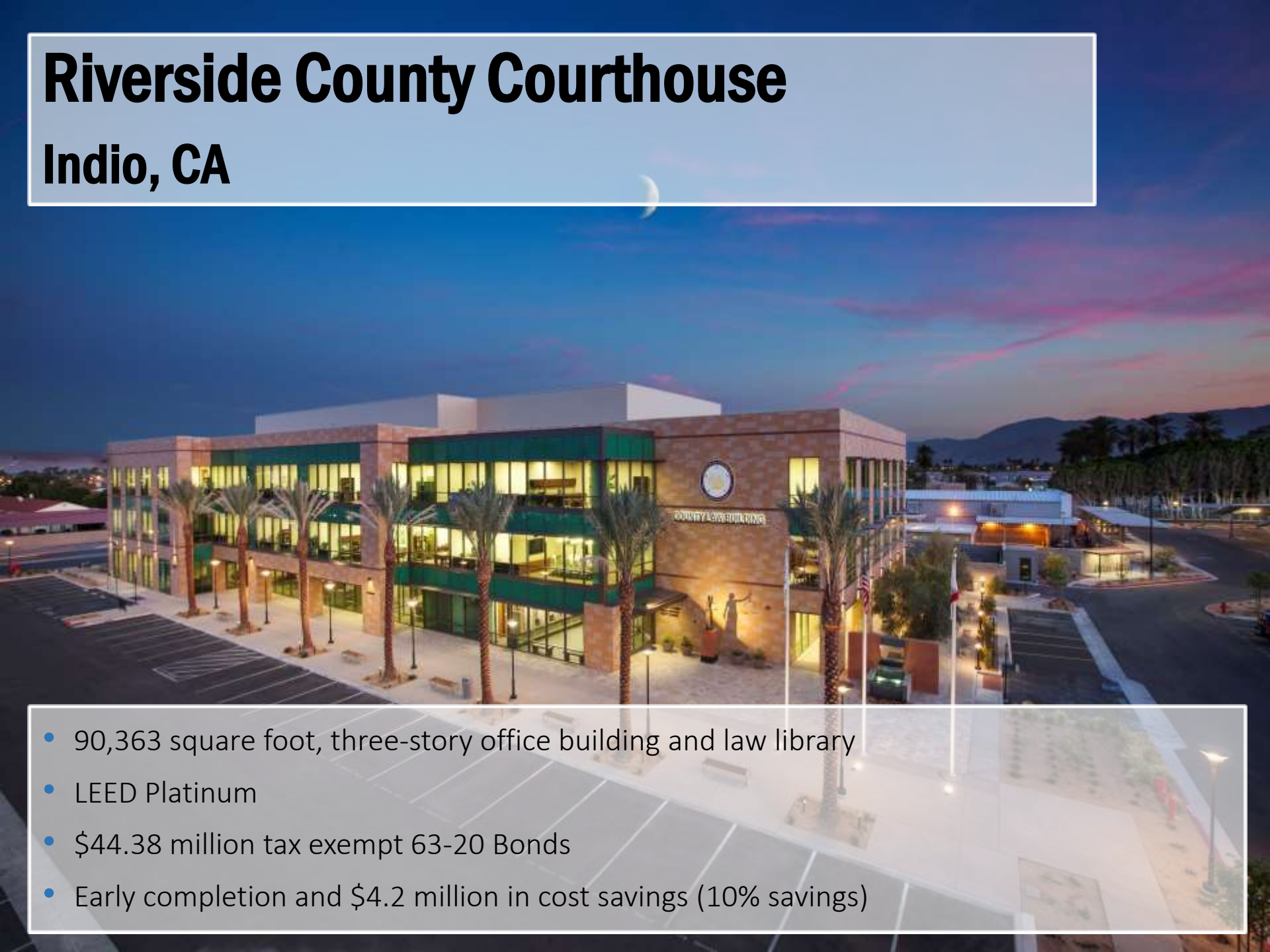
University of Alaska Fairbanks, AK

- New Student dining facility and activities office
- \$23,649,000 in tax-exempt 63-20 bonds
- Mixed New-Construction (34,000 sq. ft.) and Rehabilitation (6,000 sq. ft.)



# Riverside County Courthouse

Indio, CA



- 90,363 square foot, three-story office building and law library
- LEED Platinum
- \$44.38 million tax exempt 63-20 Bonds
- Early completion and \$4.2 million in cost savings (10% savings)



# UW Medicine South Lake Union

## Seattle, WA

- 300,000 sq. ft. Biomedical Research Laboratory for the University of Washington School of Medicine
- 14% - 29% estimated cost savings
- UW Medicine Phase 2 received a 2011 AIA Northwest & Pacific Region Merit Award
- Financing: 501(c)(3) Bonds
- Bond Issue: \$159,465,000

# Texas A&M, Park West

- Largest single new construction student housing project ever completed under a P3
- 3,406 beds of student housing - 2.2 million gross sq ft
- Dining, retail, 3 swimming pools, fitness centers, indoor & outdoor community areas
- Cost \$368 million
- Revenue generated over the life of the project (30 yrs) is in the hundreds of millions





# How to Get Involved



## Conferences

- *Public-Private Partnership Conference & Expo*, Dallas (March)
- *The P3 Water Summit*, San Diego (April)
- *The P3 Airport Summit*, San Diego (July 23-24)
- *The P3 Higher Education Summit*, San Diego (September 12-13)
- *P3 Connect*, Miami (January)
- *2018 P3 Federal Conference*, DC (November 27-28)

## USDOT – Build America Bureau

- <https://www.transportation.gov/tifia/projects-financed>



# Alaska Industrial Development and Export Authority

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[www.aidea.org](http://www.aidea.org)

