Project Delivery via P3: International v. American Approach
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## International P3 and American P3 Models

### P3 Approaches for Social Infrastructure

<table>
<thead>
<tr>
<th></th>
<th>DBFOM</th>
<th>Design/Build</th>
<th>Finance</th>
<th>Operate &amp; Maintain (O&amp;M)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International P3</strong></td>
<td></td>
<td>D/B Construction&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>10% Equity</td>
<td>30 – 40 year “life-cycle” O&amp;M management contract</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Guaranteed Price</td>
<td>90% Taxable Debt</td>
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<tr>
<td></td>
<td></td>
<td>- Guaranteed Delivery</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>American P3</strong></td>
<td></td>
<td>D/B Construction</td>
<td>100% Tax Exempt</td>
<td>Typically, discretionary capital expenditures, but it is possible to integrate “life-cycle” O&amp;M management contract</td>
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<td></td>
<td></td>
<td>- Guaranteed Price</td>
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<td></td>
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<td>- Guaranteed Delivery</td>
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</tbody>
</table>

(1) Argument that International P3 provides stronger incentive for concessionaire to optimize project life cycle costs by encouraging otherwise unrelated private parties to work together (contractor, equity investor, operator)
### International P3 and American P3 Models

**Design/Build (D/B)**
- D/B is available under either approach (i.e. “American P3” or “International P3” delivery method”)

**Finance (F)**
- Availability Payments and Lease Payments are technically not debt but they are treated as “debt-like” by rating agencies, since both are paid from General Fund (GF) resources. GF debt capacity is impacted under either approach.
  - **International P3 Availability Payments:**
    - Long-term obligation (debt-like)
    - Subject to annual appropriation and “availability deductions.”
    - Typically, 10% equity and 90% taxable debt structure
  - **American P3 Lease Payments:**
    - Long-term obligations (debt-like)
    - Subject to annual appropriation and “abatement”
    - 100% tax-exempt debt structure

**Operate and Maintain (OM)**
- Under either approach, a long-term facilities management contact for “incidental” maintenance (e.g. janitorial services, security, and property management) can be employed. Under either approach, the public agency has the right to replace the facilities manager for non-performance.
  - **International P3 Approach:**
    - “Life-cycle” capital expenditures included in facilities management contract and the “sponsor” (typically an LLC formed by an equity investor) assumes the risk (cost) of all capital expenditures required to maintain pre-agreed upon “asset value” (i.e. 85%)
  - **American P3 Approach:**
    - Public agency retains financial responsibility for all life-cycle capital expenditures. But, it is possible to incorporate “life-cycle” management
International P3 and American P3 Models

- The primary difference between International and American P3 approaches for social infrastructure P3 centers on
  (a) the cost of capital (Finance), and
  (b) typically, which party retains financial responsibility for capital expenditures to maintain “asset value” (O&M)

- The decision to “contractually obligate” long term capital expenditures (essentially, converting an annual discretionary O&M expenditure to a long-term obligatory (fixed) expense) is both a financial (at what cost?) and public policy decision

- The key to comparing the International P3 approach to the American P3 approach is a “Value for Money” (VM) analysis
  - The VfM analysis is subjective; only as valid as the assumptions
  - Ontario Canada General Auditor’s Report in 2014 examined 200 VfM studies
    - All recommended International P3
    - All assumed added project cost of traditional delivery method

Sample Case Study

- According to public records, the $490MM (incl. $325MM D/B) Long Beach Courthouse (the first social infrastructure International P3 in the US), encompasses a 35-year contract with $51MM annual Availability Payment\(^{(1)}\)
  - $36 MM capital charge service (approx. 7% taxable interest)
  - $15 MM escalating service fee

- By comparison $490MM amortized over 35 years equates to:
  - $26MM annual debt service (approx. 4% tax-exempt interest)

(1) GASB Accounting Treatment: portion of availability payment related to debt service may be treated as debt
Question: Do Rating Agencies consider P3 Obligations Debt?

- **Moody’s**
  
  “We have included availability-payment PPP obligations in our debt metrics for regional governments in...the US...Contractual ongoing PPP obligations such as availability-payment PPP can have a focused, near-term credit impact.”
  
  - Availability payments are sized to cover operating and maintenance costs, debt service costs and equity returns...
  
  - The PPP model is another financing tool for a government to develop infrastructure but it is not a new source of funding...
  
  - It can be a credit negative if the government’s sole motivation to procure infrastructure under the PPP model is not the commercial merit of the transaction but instead is driven by efforts to achieve off-balance sheet treatment of the associated PPP assets and liabilities.”

- **Standard & Poor’s**
  
  “If we consider the revenue stream used to repay the [P3] obligation to be tax-backed revenue, then we’ll include the P3 obligation as tax-supported debt,”
  
  “P3 availability payments have many features that make them debt-like...”
  
  - long-term contract or obligation to pay
  
  - government pays these obligations from the same source as more traditional tax-exempt municipal debt
  
  - similar to debt, these payments fund capital improvements
  
  - the sponsoring government owns the asset

- **Fitch**
  
  “The measured liability may be added to the debt of the [local government’s] in the Issuer Debt Rating analysis...”
  
  - Fitch believes that outstanding company project debt is a better proxy for the [local government’s] PPP liability
  
  - Fitch believes that it also fairly reflects the amount of debt that the [local government] would have issued directly to fund the capital costs of the project.”

**Answer:** Yes.

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(1) Moody’s Sector In Depth: PPP Impact on debt Metrics of Governments, February 22, 201
(3) Fitch ratings: Rating Public sector counterparty Obligations in PPP Transactions, January 15, 2016

Note: GASB Accounting Treatment: portion of availability payment related to debt service may be treated as debt
## Select P3 Projects

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Project</th>
<th>Date</th>
<th>Developer</th>
<th>Funding</th>
<th>O &amp; M</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Higher Education</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>California I-Bank (University of California)</td>
<td>UCSF Neurosciences Building</td>
<td>2010</td>
<td>Edgemoor / McCarthy</td>
<td>Tax-Exempt Bonds, Taxable BABs</td>
<td>None</td>
</tr>
<tr>
<td>CSCDA (University of California)</td>
<td>UC Irvine East Campus Apartments</td>
<td>2012</td>
<td>CHF-Irvine / American Campus Mgmt.</td>
<td>Tax-Exempt Bonds</td>
<td>Management Agreement</td>
</tr>
<tr>
<td>University of California</td>
<td>Merced Campus Expansion</td>
<td>2016</td>
<td>Plenary</td>
<td>Tax-Exempt Bonds, Taxable Debt, Equity</td>
<td>Life Cycle Service Availability Contract</td>
</tr>
<tr>
<td>University Auxiliary and Research Services Corporation at CSUSM</td>
<td>CSUSM Mixed Use Space</td>
<td>2017*</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
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<tr>
<td><strong>General Government</strong></td>
<td></td>
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</tr>
<tr>
<td>Los Angeles County</td>
<td>CDC Headquarters Building</td>
<td>2011</td>
<td>Trammell Crow</td>
<td>Tax-Exempt (6320)</td>
<td>Long Term Facilities Lease</td>
</tr>
<tr>
<td>State of California</td>
<td>Long Beach Courthouse</td>
<td>2013</td>
<td>Meridiam</td>
<td>Taxable Debt / Equity</td>
<td>Life Cycle Service Availability Contract</td>
</tr>
<tr>
<td>Riverside County</td>
<td>Law Building Project</td>
<td>2013</td>
<td>Trammell Crow</td>
<td>Tax-Exempt (6320)</td>
<td>Long Term Facilities Lease</td>
</tr>
<tr>
<td>City of Long Beach</td>
<td>Civic Center</td>
<td>2016</td>
<td>Plenary/Edgemoor</td>
<td>Taxable Debt / Equity</td>
<td>Life Cycle Service Availability Contract</td>
</tr>
<tr>
<td>City of Napa</td>
<td>Civic Center</td>
<td>2017*</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
</tr>
<tr>
<td>City of Los Angeles</td>
<td>Civic Center</td>
<td>2017*</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
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<tr>
<td>Orange County</td>
<td>Civic Center</td>
<td>2017*</td>
<td>Griffin Structures</td>
<td>Tax-Exempt Bonds</td>
<td>TBD</td>
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<td>Los Angeles County</td>
<td>Vermont Corridor</td>
<td>2017*</td>
<td>Trammell Crow</td>
<td>Tax-Exempt Bonds</td>
<td>TBD</td>
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<td><strong>Transportation</strong></td>
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<tr>
<td>Port of Long Beach</td>
<td>Headquarters Building</td>
<td>2016</td>
<td>Plenary/Edgemoor</td>
<td>Developer Financed Construction, Tax-Exempt Takeout: POLB Bonds</td>
<td>None</td>
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<tr>
<td>Los Angeles World Airports</td>
<td>ConRAC / People Mover</td>
<td>2017*</td>
<td>TBD</td>
<td>Tax-Exempt Takeout: LAWA Bonds</td>
<td>Availability Payment</td>
</tr>
</tbody>
</table>

* Expected date