Introduction to Public-Private Partnerships (P3)

WHAT IS A P3 AND WHAT DOES IT LOOK LIKE?

PROS AND CONS

DEVELOPMENT STRUCTURES

ATTRIBUTES OF SUCCESSFUL P3 DEALS

What is a P3?

A development or deal structure in which a public sector entity takes on a private sector partner(s) to share in

- Resources
- Risks
- Incentives

that come with development and operations & maintenance of campus facilities.

There are at least 18 different types of legal and financial P3 structures, and each one is unique to the partnership/deal.

Pros and Cons

Reasons to consider a P3

- Unable to finance project requirements
- Avoid cumbersome procurement structures
- Faster delivery timeframe
- Need development expertise
- Opportunity for land assemblage
- Owner requires management and operating expertise
- Potential benefit of risk transfer

Reasons NOT to consider P3

- Concerned about losing sole control of assets of facilities
- Able to finance and achieve a lower cost of capital
- Lacks procurement challenges and the ability to utilize alternative procurement options (i.e., design-build)
- Has the appropriate skillset and leadership on the project to drive it forward
- Has appropriate facilities and operations expertise
- Can consider a range of construction standards and delivery methods
- Negative impact to current balance sheet

Development Structures

Development Continuum

Public-Private Partnerships

Traditional

- District owned
- District operated
- District financed

Foundation

- 501(c)(3) owned
- Operations vary
- Financed through a ground lease

Concessionaire

- District owned
- Privately operated
- Developer financed

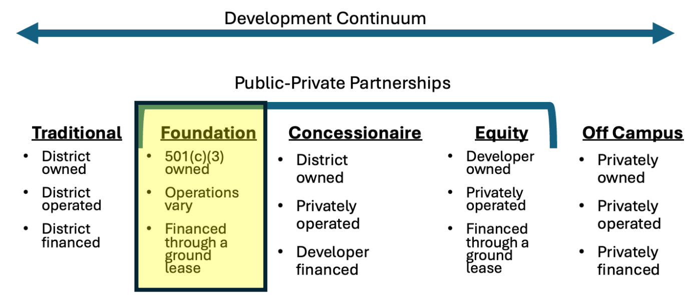
Equity

- Developer owned
- Privately operated
- Financed through a ground lease

Off Campus

- Privately owned
- Privately operated
- Privately financed

Development Structures



Foundation

Pros

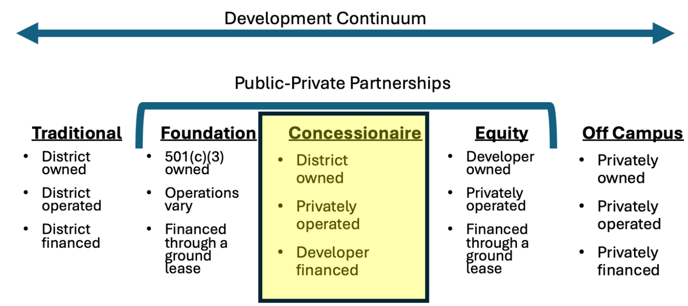
- Typically, tax-exempt
- Typically, no real estate taxes
- School has no financial commitment
- Cost of capital is low-to-moderate
- Some cash flow (revenue) possible
- Ground rent

Cons

- Debt can impact landowners balance sheet
- Debt can negatively impact landowner's credit
- Additional costs associated with this structure:
  - Capitalized interest
  - Deby service reserve fund
  - Annual fees

Concessionaire

Development Structures



Pros

- School has high control of improvements
- School has no financial commitment
- Cost of capital is low
- Most cash flow (revenue) goes to the school
- Accelerated delivery schedule

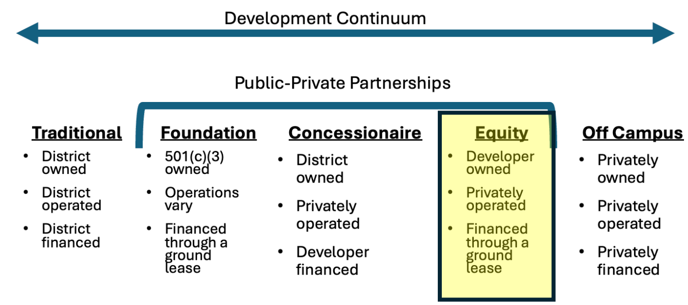
Cons

- May incur real estate taxes
- Debt is not tax-exempt
- Large amount of fees
- Would likely include majority of the school's real property

O&M of final facilities typically an incentive revenue stream for developers

Equity

Development Structures



Pros

- School has no financial commitment (reserved debt capacity)
- Some cash flow goes to the school (waterfall)
- Ground rent

Cons

- School has little control of improvements
- Ground leases typically 40-80 years
- Cost of capital is moderate-to-high
- Real estate taxes
- Debt is not tax-exempt

Attributes of successful P3s

Clear definition of expected outcomes

Sufficient development time

True partnership, not a hierarchy

Honesty

A fair and equitable contract/management agreement

A close working relationship between landowner and developer

Pari Passu mentality – equal footing among facilities

Intentional design and construction

Flexibility

Takeaways

P3s are:

- Long-term partnerships
- Alternative delivery methods
- Means of leveraging inherent values of assets

P3s are not:

- “Silver bullets”
- “black and white”