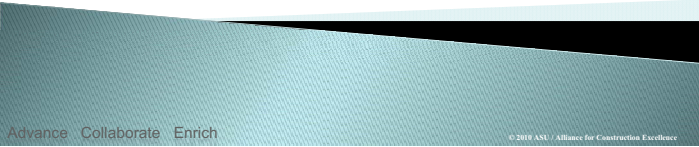


Contents

- 1) What are Public Private Partnerships (PPP's)?
- 2) Transfer of Risk
- 3) Local Perspective of Public Private Partnerships
- 4) Why PPP?
- 5) Infrastructure
- 6) Privatized Lease-To-Own (PLTO)
- 7) Arizona PLTO & BOOT Examples
- 8) Some Food for Discussion
- 9) Questions and Answers

Public Private Partnerships

Presented By:
Gary L. Aller, Director
 Alliance for Construction Excellence
 Del E. Webb School of Construction
 School of Sustainable Engineering and the Built Environment
 Ira A. Fulton Schools of Engineering
 Arizona State University



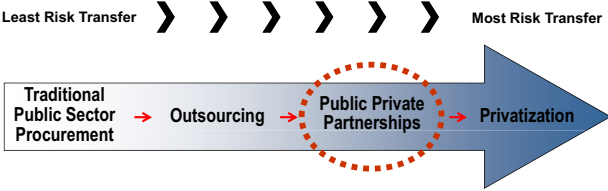
What are Public Private Partnerships (PPP's)?

- The close collaboration of a public entity(s) and a private entity, or team, to structure, negotiate and implement the finance, design, development, construction and operation of facility(ies).
- First and foremost, Public Private Partnerships are about financing a capital project – sometimes referred to as the “deal” or rather the project will “pencil” or not.
- Both the public entity AND the private entity “share” the ownership of the project(s) – as partners.

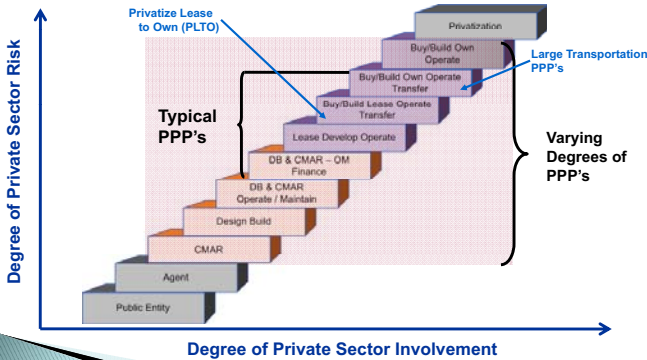


Public Private Partnerships Transfer of Risk

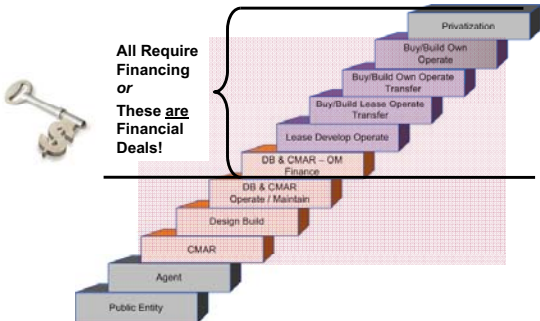
Requires transfer / re-allocation of some risk from public to private:



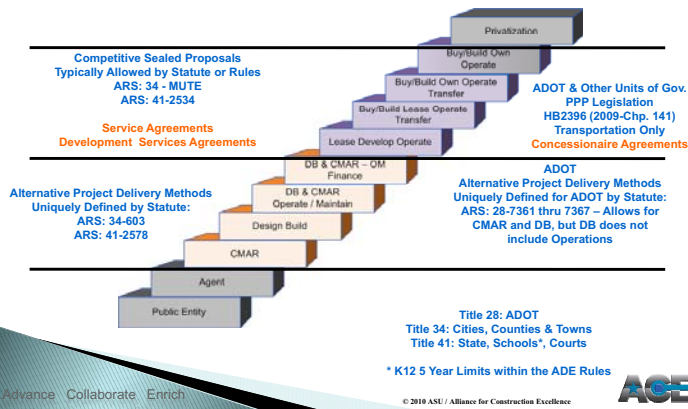
Local Perspective Public Private Partnerships - Delivery



Local Perspective Public Private Partnerships - Delivery



Local Perspective Public Private Partnerships - Legislation



So why do we need to consider bringing a private entity (and equity) to the table to provide this type of service?



Population Estimates for Arizona

- Between 1980 and 2007, the State's population rose by nearly 3.8 million (an increase of 137%)
- Between 2008 and 2032, the projected change in population is even larger – at 4.2 million people (a 65% increase)
 - 1980 = 2,738,000
 - 2007 = 6,500,000
 - 2032 = 10,635,000



That's a lot of growth!
What is the impact to our infrastructure in dollars?

Infrastructure Needs by 2032

In Billions

Energy – Including Electricity, Fuel & Transmission	\$65 - \$77
Telecommunications	\$24 - \$25
Transportation – Including Highway, Transit, Railway & Airway	\$253 - \$311
Water / Wastewater	\$109
Total:	\$460 - \$532

SOURCE DOCUMENT:
"INFRASTRUCTURE NEEDS AND FUNDING ALTERNATIVES FOR ARIZONA: 2008-2032"
WATER, ENERGY, COMMUNICATIONS AND TRANSPORTATION"
ARIZONA INVESTMENT COUNCIL
May 2008

Public-Private Partnerships (PPP's)

- We have found three primary divisions of public sector PPP's:
 - Infrastructure (Transportation) (Concessioner Driven)
 - Vertical Buildings (Developer Driven)
 - Water/Waste Water (Operator Driven)

Public Private Partnerships Infrastructure

- Policymakers are increasingly turning to private financing (public-private partnerships) for infrastructure for a number of reasons, including:
 - Today, tax revenues are substantially lower
 - Maintenance is consuming an increasingly large share of funds
 - The State and municipalities have many competing funding priorities
 - Supply has not kept up with demand especially for infrastructure

Public Private Partnerships Infrastructure

- One benefit of public-private partnerships is that they make available new sources of capital available that are not accessible to public agencies, including:
 - Taxable debt markets
 - Bank financing
 - Equity
 - Institutional investors
 - Private activity bonds

Public Private Partnerships Infrastructure

- Experts suggest that another benefit of PPP's is the transference of economic risks away from government agencies and taxpayers to private partners, including:
 - Construction cost overruns – the private partner is held to fixed-price contracts with firm delivery dates
 - Life-cycle costs – the private partner bears the risks associate with future capital expenditures, O&M costs, operational liability, labor issues, etc.
 - Performance Guarantees – the private partner is held to contractual performance guarantees and the risks associated with them.
 - Guaranteed Regulatory Compliance – Private partner assumes this risk.

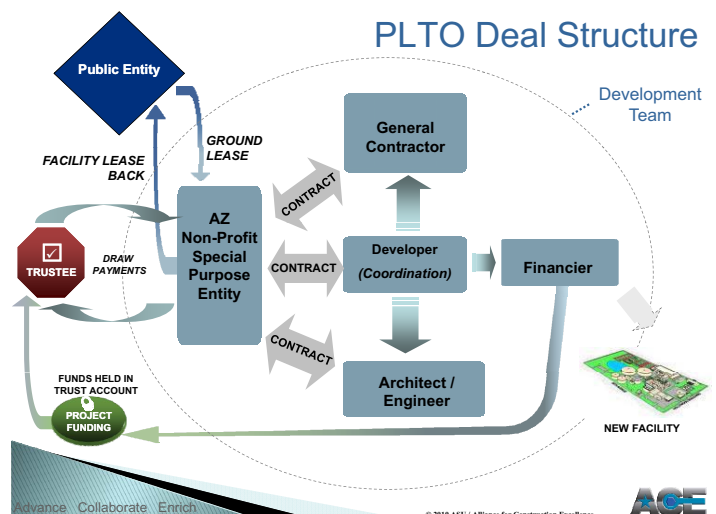
Privatized Lease-to-Own (PLTO)

- A public entity enters into a long-term lease agreement with a development entity.
- The development entity will finance, design, build, own, and operate the public facility during the lease term.
- At the end of the lease term, or at an earlier buyout event, the public entity will take ownership of that fully amortized facility.

PLTO Components

- Development team to plan, design, construct, finance and manage the facility
 - Development Team to be responsible for all documents, agreements, and permits.
- Long-term facility lease (25-30 year) which, at termination, retires full principle and interest and conveys ownership to public entity
- Public entity option to purchase the facility outright at any time
- "Day One" purchase option
- Public entity "\$1 land lease" to private development team to minimize cost
 - Land lease to terminate coincident with facility lease termination or early purchase date

PLTO Deal Structure



PLTO* Project Example

- Arizona Game & Fish New State HQ
 - 25 year PLTO, approx \$1.5 million annually
 - 117,000 SF complex, opened Nov. 13, 2007
 - Designed and constructed to LEED Silver Certification standards
 - Received LEED Platinum Certification
 - Developer – Lincoln Property Co.; Contractor – Sundt; Designer – Will Architects



*Privatized Lease to Own

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PLTO Project Example

- Mohave County Administration Building
 - Scope: \$20 million, 130,000 sf, 15-year PLTO, \$2.45/Yr.
 - Delivery: Design-build project, consolidated more than 350 employees
 - User: Mohave County Administration and Mohave County Health and Human Services
 - Developer/Designer/Contractor - OPUS West - OPUS Architects and Engineers/ – OPUS West Construction
 - LEED Certified
 - Deal: County owns land, leases to developer; developer leases space back to County. State takes ownership after 15 years



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PLTO Project Example

- ADOA/ADEQ Project
 - Scope: 4 & 6 story buildings w/500,000 SF office space and two parking structures for 1800 vehicles
 - Developer/Designer/Contractor - OPUS West - OPUS Architects and Engineers/ – OPUS West Construction
 - LEED Silver
 - Deal: State owns land, leases to developer; developer leases space back to ADOA/ADEQ.
 - State takes ownership after 25 years



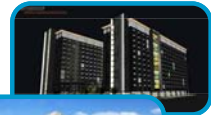
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Build-Own-Operate-Transfer (BOOT) Project Example

ASU Downtown Campus Student Housing – Taylor Place

- Scope: Two high-rise, 13 story student housing towers
- Capacity: 500,000 SF, 660 student rooms, 11,000 SF retail space
- Developer/Designer/Contractor: Capstone/SmithGroup/Austin Commercial
- Cost: \$121M
- Status: Tower 1 opened Aug 2008, Tower 2 completed Jan 2009, opened August 2009



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BOOT Project Example ASU Downtown Campus Student Housing

Deal:

- **Land** – Developer acquired three lots and the City owned three lots. Developer donates their land to the City who then leases the land to the University and they sub-lease back to developer. – Impact – Developer receives “gift credit” for land and project is taken off the property tax roles.
- **Lease** – 40 years to coincide with bond financing term and recapture of all outstanding debt. At the termination of the lease, all land and improvements are given to the University. Impact - Developer gets credit for the value of the improvements that are gifted, University gets ownership of land and improvements.



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BOOT Project Example ASU Downtown Campus Student Housing

Deal:

- **Improvements** – financed through tax-exempt bonds (lower cost) and managed by a non-profit student housing entity. Impact – minimal impact to University debt capacity and balance sheet because of third party financing. ASU has to give up management control to achieve.
- **Financing** – to assist in start up financing, ASU agrees to a four year commitment to rent the last percentage of beds available up to 99%. This is a declining enhancement. ASU to rent the last 15% of the beds in the first year of Phase I and II, the last 10% of the beds in the second and third year of Phase I and the second year of Phase II, the last 5% of the beds up to 99% in the fourth year of Phase I and the third year of Phase II.



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BOOT Project Example

ASU Downtown Campus Student Housing

Deal:

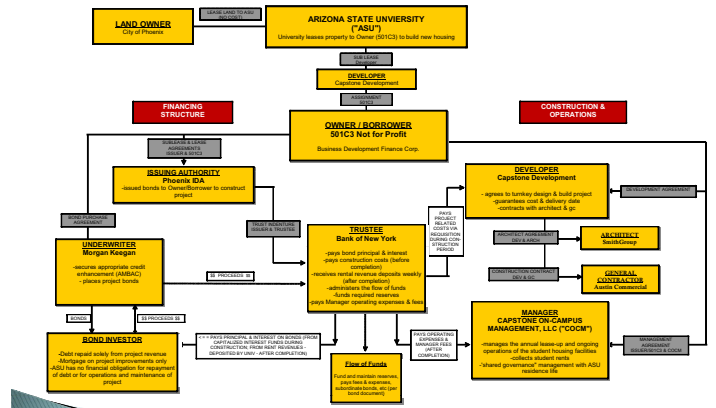
- **Pricing** – University established the current pricing structure of \$695 per bed per month on a ten month lease. Rent can escalate no greater than 3-4% per year.

Win-Win-Win:

- University received student housing without having to finance and manage. At the end of the lease term (2031), the University gets ownership of all improvements.
- City received a catalyst to downtown revitalization, increased tax base, and a sense of place is created.
- Developer received gift credits for land and final donation of improvements, fees for development and management.
- Students received a new student housing opportunity at a price that is lower than a traditional apartment, academic programming and mentoring is provided within the facility, and student housing advisors are provided by the University in space supported by the Developer.
- Everyone wins.



Complex Structures



Key Components of a P3 Project

Dimensions:

- Complexity
- Equitable risk sharing
- Cost sharing
- Trust
- Commitment
- Coordination

Project Transactions:

- Land acquisition
- Not for profit owner
- Ground lease
- Multiple agreements
- Investment

Keys to Success:

- Political leadership
- Public buy-in
- Shared vision
- The right partnership
- Communication
- Benefit to all
- Trust, Trust & Trust



May 2007



September 2007
Financial Deal Closed



Today



DBOM* Project Example

Lake Pleasant Water Treatment Plant

- **Scope:** State of Art/High Quality WTP, operated and maintained to City's reengineered standards
- **Capacity:** 80 MGD, currently producing 40 MGD
- **Design-Builder:** All-American Water Team w/ Black & Veatch and McCarthy
- **Cost Proposal:** \$338.5M total - \$229.5M design and construction, \$109M for 15 years operation w/ 5 yr option and buy-out option
- **Status:** Completed June 2007
- **Deal:** City owns facility, DBOM operates and maintains for 15 years



*Design Build Operate Maintain



Food for Discussion

- **O & M:**
 - Gresham, OR, WWTP (20 MGD) + Co-gen
 - Boyertown, PA, (.75 MGD WWTP, 1.6 MGD WTP, 5 Pump Stations)
 - Pasadena, TX, 3 WWTP's (10, 7 & 4 MGD)
- **DBOM:**
 - Seattle Cedar Water Treatment Plant (180 MGD)
 - City of Phoenix – Lake Pleasant WTP (80 MGD)
- **DBOMF:**
 - City of Beverly Hills WTP (3.5 MGD + 30,000 SF Public Works Building)
- **DBOMFT:**
 - Egypt – 5 WWTP's Completion scheduled 2011/2012

Question and Answers

Public Private Partnerships

Presented By:
Gary L. Aller, ASU
Gary.Aller@ASU.edu
480-965-9284

Thank You!

