

**PRESIDENT'S COUNSEL ON PUBLIC/PRIVATE PARTNERSHIPS AND
THE FUTURE OF CITY HALL, WEYANDT HALL,
FORMER DOVER LIBRARY, AND OTHER CITY PROPERTIES
AGENDA**



OCTOBER 21, 2015 - 9:00 A.M.

**CITY HALL CONFERENCE ROOM
15 LOOCKERMAN PLAZA
DOVER, DELAWARE**

PUBLIC COMMENTS ARE WELCOMED ON ANY ITEM AND WILL BE PERMITTED AT APPROPRIATE TIMES. WHEN POSSIBLE, PLEASE NOTIFY THE CITY CLERK (736-7008 OR E-MAIL AT CITYCLERK@DOVER.DE.US) SHOULD YOU WISH TO BE RECOGNIZED.

AGENDA ADDITIONS/DELETIONS

- 1. INTRODUCTION OF NEW MEMBERS**
- 2. UPDATE - DOVER POST OFFICE**
- 3. OVERVIEW OF PUBLIC/PRIVATE PARTNERSHIPS**
- 4. PRESENTATIONS - PROPOSED PUBLIC/PRIVATE PARTNERSHIPS**
- 5. ADJOURNMENT**

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THE AGENDA ITEMS AS LISTED MAY NOT BE CONSIDERED IN SEQUENCE. THIS AGENDA IS SUBJECT TO CHANGE TO INCLUDE THE ADDITION OR THE DELETION OF ITEMS, INCLUDING EXECUTIVE SESSIONS.



PFM University: Public-Private Partnerships



The PFM Group

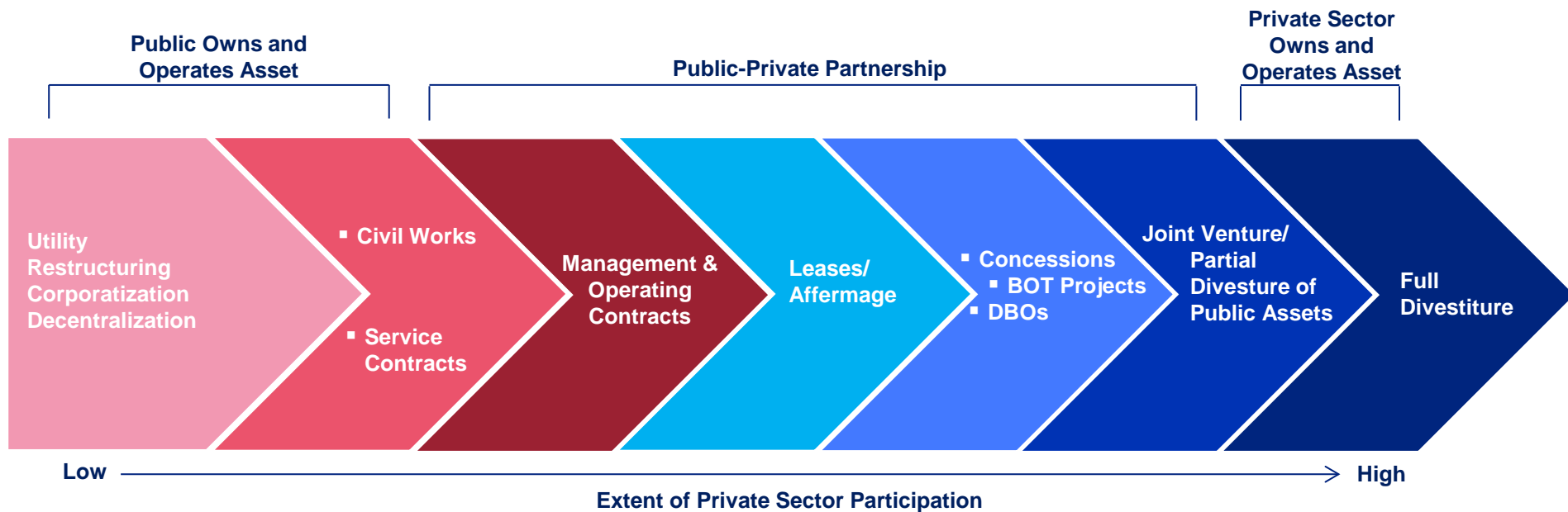
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What are Public-Private Partnerships?

What are Public-Private Partnerships (P3s)?

- Contractual agreements between a government agency and a private party for construction, operation and financing of projects and significant government functions
- Provides an alternative financing option for governments
- Concession agreements address key terms between the public and private entity:
 - Scope, duration and exclusivity
 - Allocation of risk and responsibilities
 - Service and performance requirements
 - Financing mechanism



P3s Encompass a Spectrum of Possibilities

Structure	Control/Risk	Description
	<div style="display: flex; justify-content: space-between; width: 100%;"> Gov't Private </div>	
Public Ownership		Traditional revenue stream – design, construction, O&M, governance... remains with government
Public Ownership / Private Management		Certain elements of above may be contracted
New Development / Availability Payment and Sharing Models		Private entity constructs, operates, maintains and finances a project in return for periodic lease payments based on performance
Concessions		Public owns asset and maintains governance. Private entity responsible for O&M, construction and revenue and cost risk
Private Ownership		All activities controlled by private entity, including rates

Financially Distressed Governments May Seek Alternate Financing Options



Financially Distressed Governments May Seek Alternate Financing Options

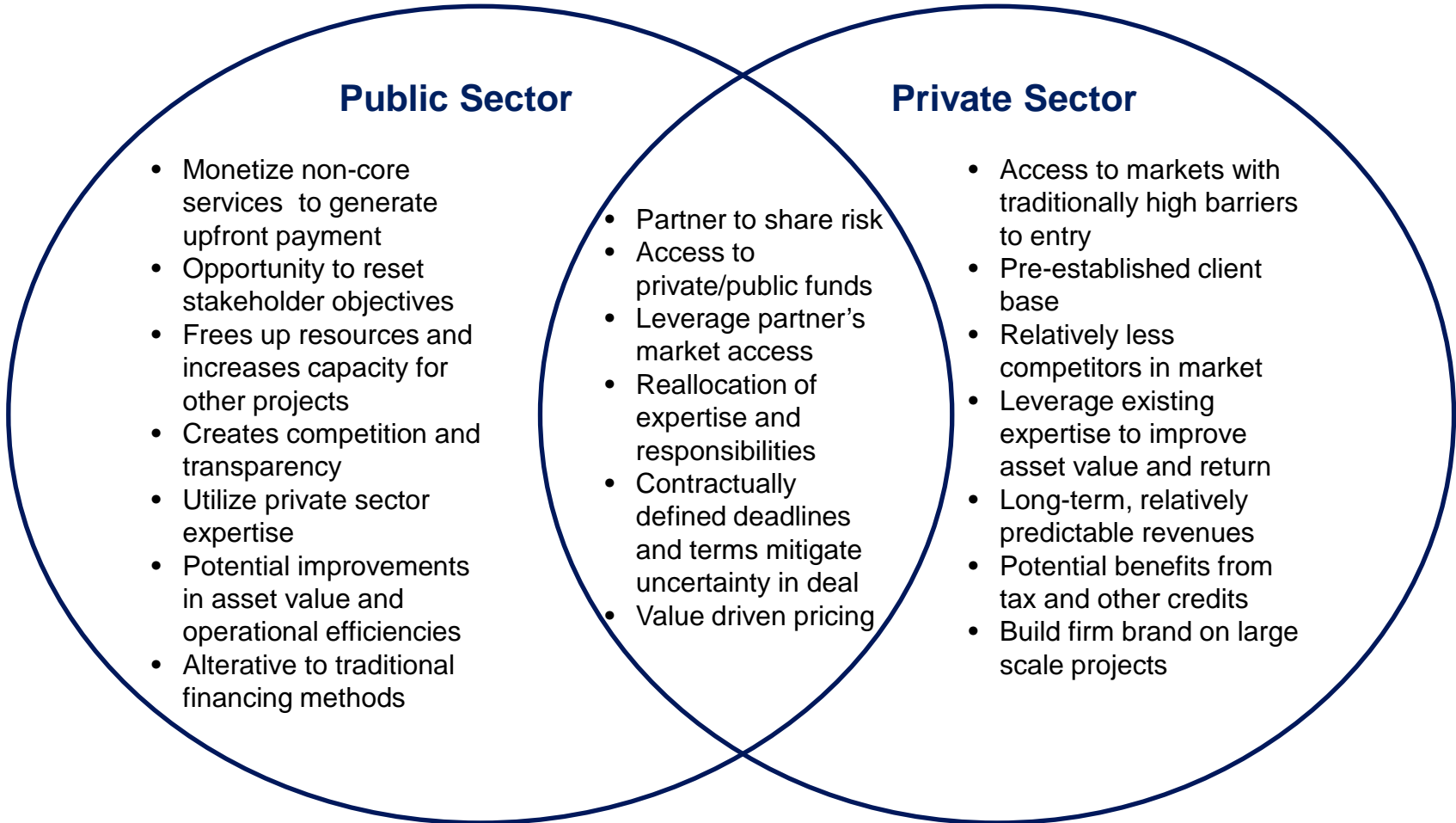
- Revenue shortages
 - As of the first quarter of 2012, state revenues remained 5.5% below pre-recession levels
 - Require 8.3% compounded annual growth until 2019 to return to pre-recession average growth curve
 - Thirty-one states projected (and in most cases now have closed) budget gaps totaling \$55 billion for fiscal year 2013
- Restricted access to debt
 - Rating agencies have updated rating criteria, making it more expensive for many entities to access the bond market
 - Market restructuring has removed bond products such as auctions
 - Recent political events have produced popular opinions highly critical of excess public debt
- Increasing costs and underfunded liabilities
 - Public safety, an already large portion of city budgets, has risen with unemployment, threat increases and growing citizen expectations
 - Over \$2.2 trillion is required to meet infrastructure capital improvement needs for municipal and state governments
 - Local and state unfunded pension liabilities exceed \$1 trillion
- Budget cuts
 - Total local government employment has dropped 581,000 between July 2008 and October 2012 (U.S. Bureau of Labor Statistics)
 - Public services essential; top public safety including police and firefighters are threatened with budget cuts
- P3s provide an alternative access to capital and private sector expertise to perform public service

Source: Center on Budget and Policy Priorities Survey, revised June 2012 http://www.cbpp.org/cms/index.cfm?fa=view&id=711#_ftn1

P3s Appeal to a Diverse Investor Base

- Governments looking to pursue P3s will likely find a great deal of interest on the part of investors
- Many market participants have demonstrated the ability to pursue private sector deals in the absence of public sector deals that meet their criteria
- Private equity investor funds and pension funds have designated specific funds for investments in infrastructure assets
 - Assets include transportation, parking, gaming, alcohol, airports, port, utilities, and social infrastructure (i.e. student housing)
 - Each investor or fund will have a different view as to the size of asset, risk tolerance, project requirements, other value driving variables
 - Fund governance and rules may preclude investment in certain types of assets or transactions
 - Certain funds will charge an advisory fee to co-investors
 - Real estate type of assets, for example certain parking assets, will meet investment criteria for certain funds but not for others
 - Infrastructure assets are generally considered safe and stable returns on investment
- Projects that have a well-designed, fair P3 process in place will receive the greatest attention from investors
 - Procurement process ought to be transparent and unbiased
 - All potential conflicts of interest are disclosed
 - Independent transaction advisor
- Political certainty is of paramount importance

P3s Create Value for Both Public and Private Partners



Identifying P3 Opportunities

Project Selection

- P3 opportunities exist across many asset classes, and many specifically address opportunities in:
 - Greenfields
 - New projects that will require design, build, and management services
 - Wish list projects without available funding
 - Political barriers to accessing traditional funding sources
 - Brownfields
 - Improvements to existing facilities or project
 - Deteriorating, underfunded assets
 - Changing demographics and economics subject project to creative reuse
 - Additional services and projects characterized by:
 - User fee revenue stream
 - Expensive construction and maintenance costs
 - Competition with robust private market
 - Operational struggle and inefficiencies
 - Intensive resource and labor allocation
 - Lack of popular support

Select Sector Trends and P3 Opportunities

Roads and Transit

- Trends
 - Increased government interest in private investment in US infrastructure
 - Urban highway system is particular need of upgrades
 - Transit continues to be underfunded
 - Political challenges remain; significant barriers to completing transaction
- Opportunities
 - Airport privatizations
 - Road maintenance and related companies
 - Parking and facilities operators
 - Transit

Water / Wastewater

- Trends
 - 85% of US water and 98% of US wastewater systems are owned by municipalities, many with capital need for renovation or replacement
 - USEPA regulations driving investments requirements
 - Increased investment in desalination and water recycling/reuse as a method of saving costs long-term
- Opportunities
 - System privatization
 - Fragmented system renovation
 - Service consolidation
 - District water

Port and Rail

- Trends
 - Governments globally are seeking investment in ports as a key catalyst of economic development
 - Record cap ex investment by railroads in rail infrastructure to compete with trucking and maritime shipping
- Opportunities
 - Regional marine terminal operators and port-side services
 - Terminal expansion and redevelopment
 - Short-line rail, rail-oriented logistics and services

Select Sector Trends and P3 Opportunities

Energy

- Trends
 - Most active and diversified infrastructure asset class
 - Renewables and alternative energy
 - Distribution, transportation, and focus on storage
- Opportunities
 - High level of competition across assets
 - Power generation
 - Natural gas distribution and transportation
 - Storage and energy services companies

Social Infrastructure

- Trends
 - Capital constraints across educational institutions especially those reliant on state and local funding
 - Cost cutting in health care to improve balance sheets
 - Rapidly shifting health care market due to legislative, demographic, and technological changes
 - Exiting non-core businesses (energy, parking, housing)
- Opportunities
 - Privatized non-core businesses (energy, parking, housing)
 - Health care consolidations

Gaming and Alcohol

- Trends
 - Many states rethinking consumer facing businesses like alcohol and gaming
 - 18 control states in wholesale or retail alcohol businesses
 - 43 state lotteries facing increasing competition and regulatory changes (i.e. internet gaming)
 - Expanded and redevelopment of gaming in many states
- Opportunities
 - Private management
 - Wholesale consolidation
 - Services companies

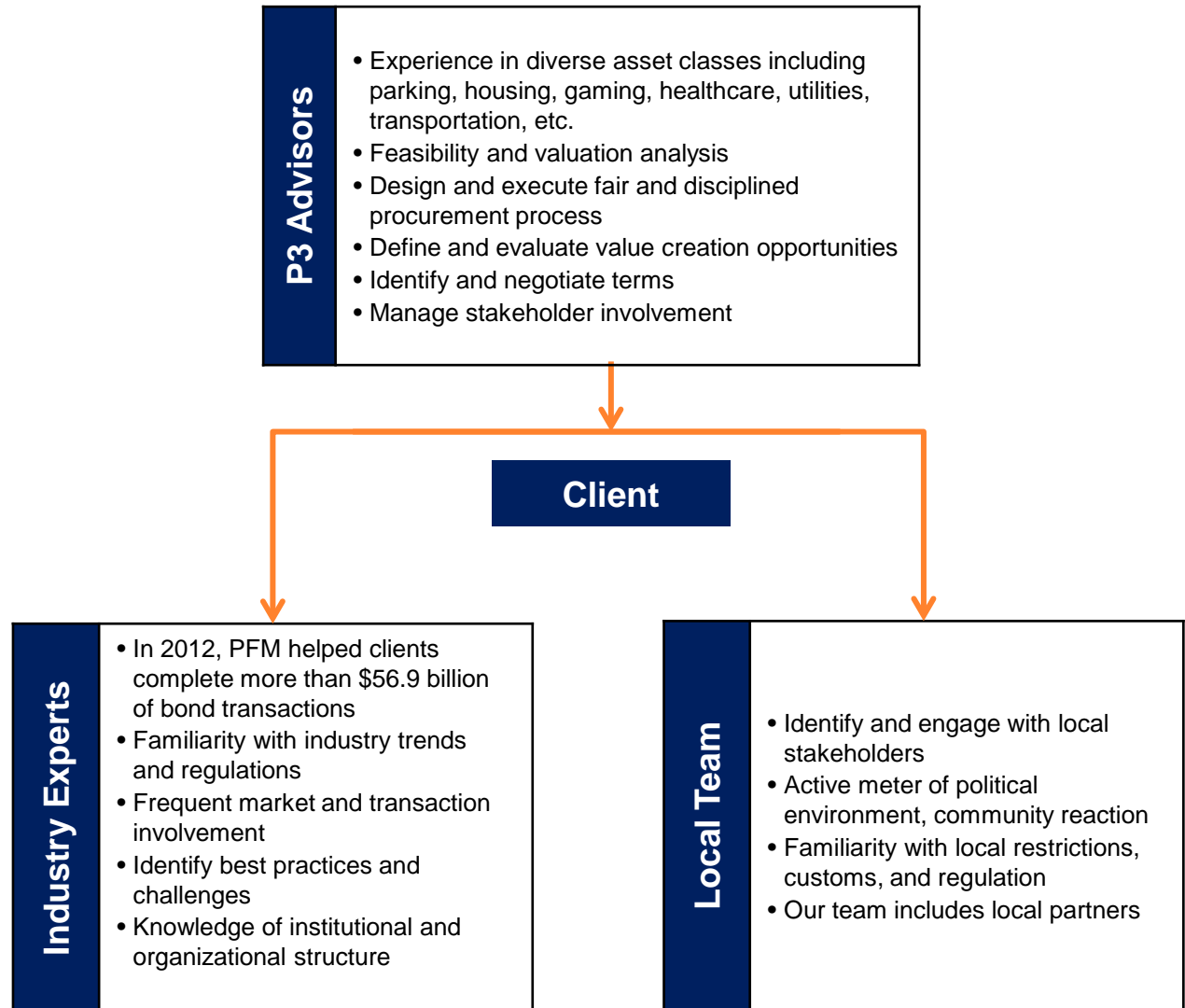
The P3 Process

PFM Project Management Approach

	Steps	Detailed Tasks	Milestones	
1	Assessment & Preparation	<ul style="list-style-type: none"> Determine project objectives Identify policy considerations Identify legal and legislative hurdles Confirm project scope Collect data and build financial model 	<ul style="list-style-type: none"> Form project team Engage key decision makers 	} Feasibility
2	Alternative Analysis	<ul style="list-style-type: none"> Short list viable structures against criteria Develop valuation for alternatives Select preferred alternative Initiate selection of remainder of advisory team 	<ul style="list-style-type: none"> Perform valuation of alternatives and sensitivity analysis Selection of preferred alternative 	
3	Communications	<ul style="list-style-type: none"> Inform and engage key stakeholders Inform and engage political and legislative participants Develop presentation materials 	<ul style="list-style-type: none"> Identify policy issues and workable solutions 	
4	Procurement Process	<ul style="list-style-type: none"> Assist in development of transaction documents (RFQ, Confidential Information Memorandum (CIM), RFP, etc.) Review and provide input on the Concession Agreement Qualify bidders 	<ul style="list-style-type: none"> Ensure transaction documents meet University objectives Communicate key document terms to stakeholders 	} Procurement
5	Transition & Implementation	<ul style="list-style-type: none"> Ensure detailed transition plan is in place Inform stakeholders and educate the public Contract oversight and management 	<ul style="list-style-type: none"> Closing Initiate transaction Review and monitoring 	

Typical P3 Advisory Team

- A typical team involved in a P3 includes:
 - Feasibility or revenue consultants
 - Independent advisor
 - Sell-side advisor
 - Legal advisors
- Depending on the project, PFM may serve as feasibility consultants, independent advisors, and sell-side advisors
- PFM has a dedicated team focused on nationwide P3 and municipal financing opportunities spanning a variety of asset classes



Identifying Value in a Deal

- Many value drivers transcend asset classes, but the specific considerations may vary according to sector and project

Driver	Consideration
<i>Length of Lease</i>	<ul style="list-style-type: none"> • The length of partnership between owner, licensor, and/or operator
<i>Product Line</i>	<ul style="list-style-type: none"> • Product mix has direct impact on profitability • Clustering of ancillary amenities may generate spillover effect and additional income • Introduction of new technologies and products
<i>Product Distribution</i>	<ul style="list-style-type: none"> • Costs and benefits of various delivery models • Distribution channels affect market reach • Access to regional, domestic, or international markets
<i>Pricing</i>	<ul style="list-style-type: none"> • Rate structures and price discrimination • Potential funding from public or other sources • Bargaining power with vendors • Licensing fees and pre-existing large sum contracts for project viability
<i>Maintenance Cost</i>	<ul style="list-style-type: none"> • Building requires continued upkeep and possibly improvements throughout life time
<i>Capital Costs</i>	<ul style="list-style-type: none"> • Large upfront construction costs • Equipment and technology upgrades
<i>Demographics</i>	<ul style="list-style-type: none"> • Trends in customer base • Availability of qualified human capital
<i>Marketing</i>	<ul style="list-style-type: none"> • Strategies to target desired consumer base
<i>Exclusivity and Competition</i>	<ul style="list-style-type: none"> • Proximity and availability to competitors • Sell a unique product to avoid substitution in the market
<i>Risk</i>	<ul style="list-style-type: none"> • Risk allocation between public and private partner
<i>Political Environment</i>	<ul style="list-style-type: none"> • Communities support and approval of project • Legislative changes and impact on the projected value of the deal

Valuation Approaches

- Income approach (discounted cash flow)
 - Value of the business is equal to the present value of its future cash flows
 - Anticipated future cash flows are discounted at a rate commensurate with the risk characteristics associated with the cash flows
 - Market data supports the discount rate
 - Ability to reflect different assumptions and factors associated with desired arrangement and time horizons
 - Ability to discretely incorporate various forecasted growth and margin assumptions
- Market comparable approach
 - Estimate value by applying market multiples, from similar businesses that are publicly traded, to the subject company's earnings, sales or other market indicators
 - Market multiples are adjusted for differences between the publicly traded companies and the subject company based upon sustainable growth, profit margins, asset returns, size and leverage
- Market transaction approach
 - Estimate value by applying transaction multiples from ownership interests that have been sold to the subject company's earnings, sales or other market indicators
 - Transaction multiples are adjusted for comparability factors such as profitability and sales terms
- Cost approach
 - Estimate value by determining the market cost to replicate the existing assets of the business
 - Requires detailed appraisal of each asset
 - Does not capture goodwill value of ongoing business

Successes and Failures

Best Practices

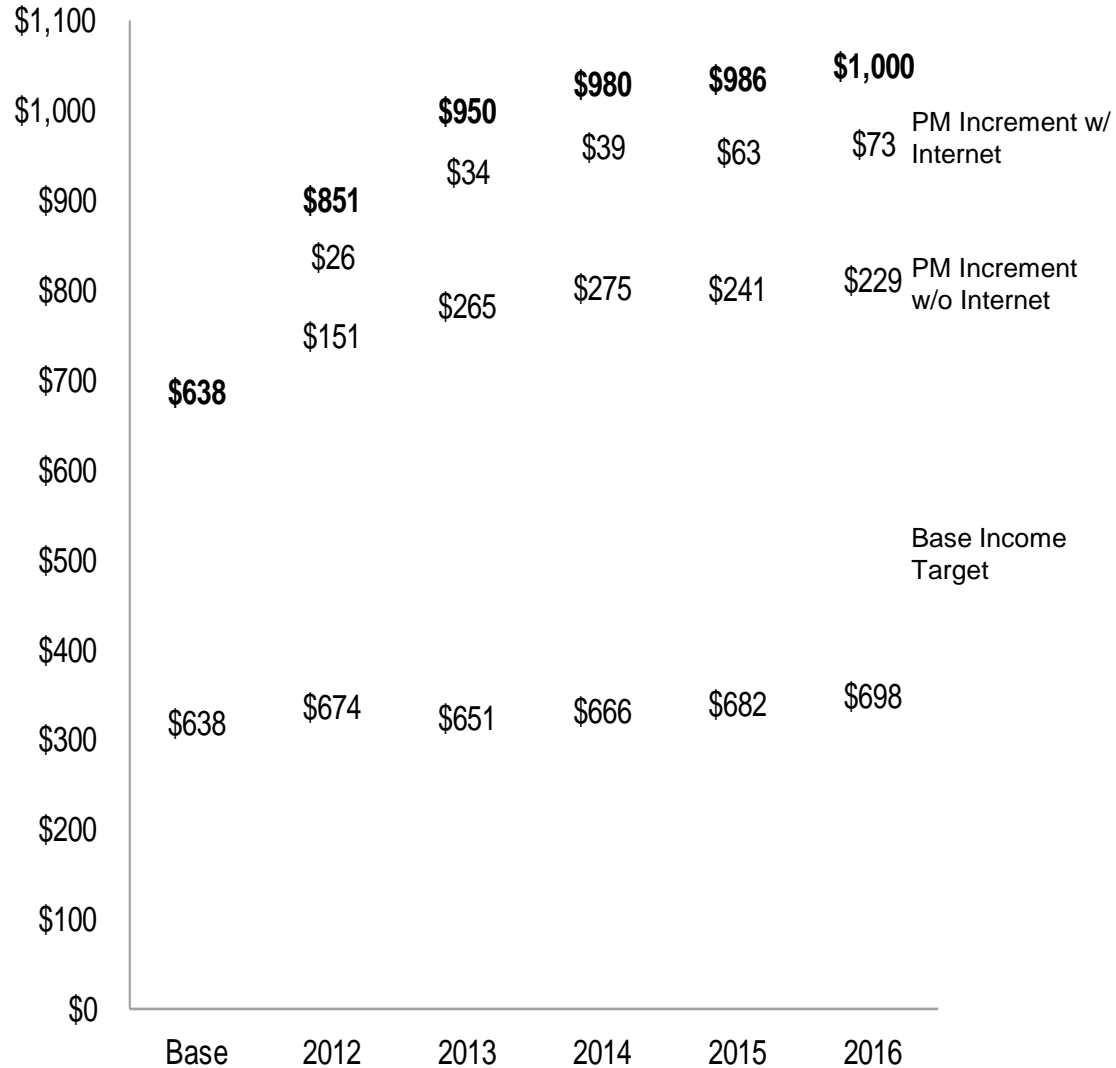
- Actively model the valuation and public policy considerations
 - Consider revenue sharing to align private and public motivations in the run long
 - Weigh the long-term and short-term value
 - If rate increases are necessary, implement gradually
- Ever-increasing transparency and communications
 - Grant stakeholders ample time to review relevant documents
 - Modify terms for special interests based on rational public debate
 - Form diverse advisory committee to engage stakeholders
 - Engage labor unions and proactively develop solutions
 - Use stakeholder feedback to inform the transaction process
- Comprehensive procurement process
 - Retain financial advisor from beginning to perform independent analysis throughout
 - Develop the same framework to evaluate bids
 - Thoroughly vet operators through bidding process
 - Provide adequate time for transition to new operator and new technologies
- Establish penalties for non-compliance with terms of contract
 - Retain financial advisor from beginning to perform independent analysis throughout
 - Develop the same framework to evaluate bids

Risks in P3 Transactions

- Financial
 - Not receiving as much proceeds as asset is worth in the public sector
 - Loss of future upside potential
 - Reversion or compensating event risks
 - Proceeds must be protected from unanticipated uses
- Service levels
 - Private operator may not provide service at desired levels, at transition or in future
 - Unexpected events may obstruct service and delivery
 - Transition can be a challenge
 - Monitoring and enforcement will require active oversight for life of the deal
- Political
 - Citizens, elected officials, stakeholders and the press may assess differently
 - Communication plans take time
 - Labor and union contentions
 - Information asymmetry must be carefully managed
- Failure to close!

Private Management of Illinois lottery

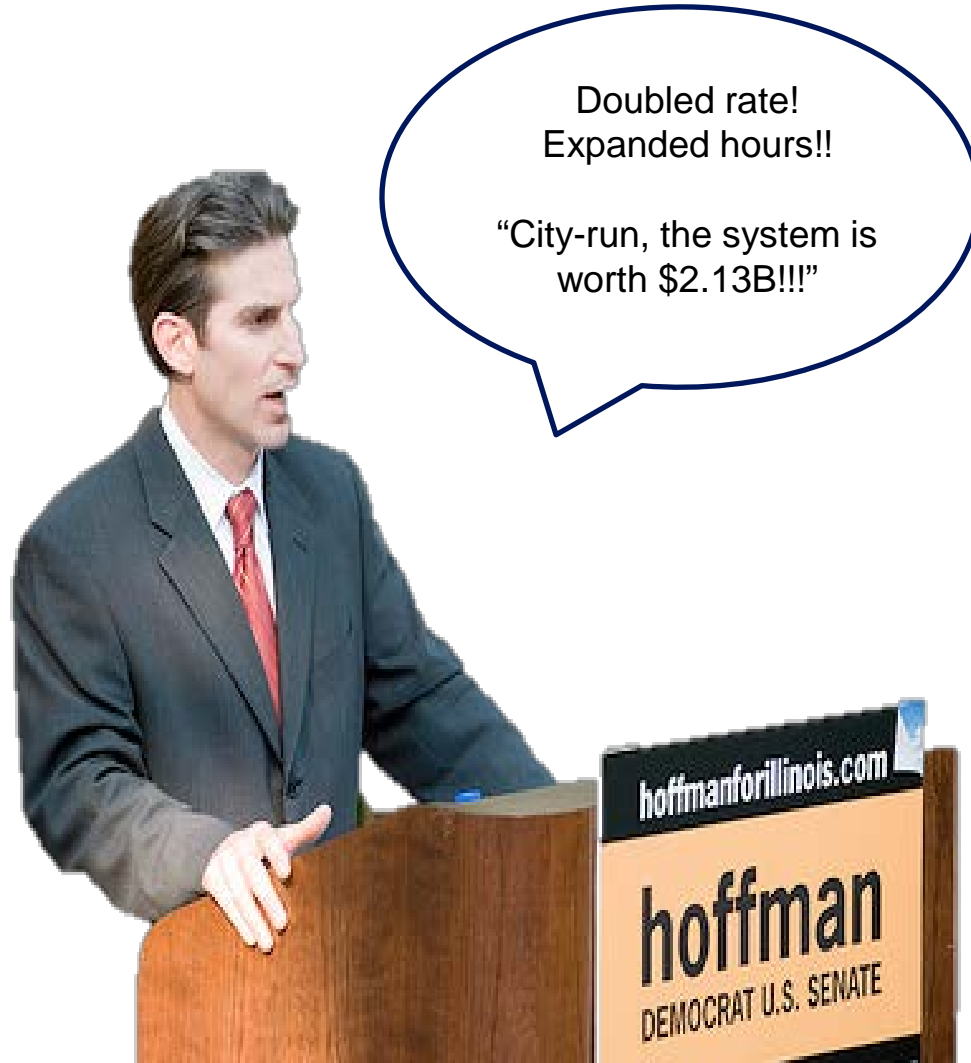
- Past structure placed many “handcuffs” on the Lottery Management in terms of their flexibility
- Private Manager has both the latitude as well as the private sector knowhow to grow the Lottery significantly
- Returns to the State will grow accordingly
- 10-year term
- 5-year net income commitment
 - Backed by a letter of credit
 - Creates in excess of \$1.1 billion in net additional value to the State in just 5 years
 - Internet channel is expected to add \$235 million in additional net income for the state
- Governor awarded the contract to Northstar on September 15, 2010



Parking Privatization in Chicago



- \$1.15 billion plugs budget gaps through 2012, funds Meals on Wheels, low-income housing and more
- Strengthened city credit rating
- Drivers now paying more of actual cost of driving



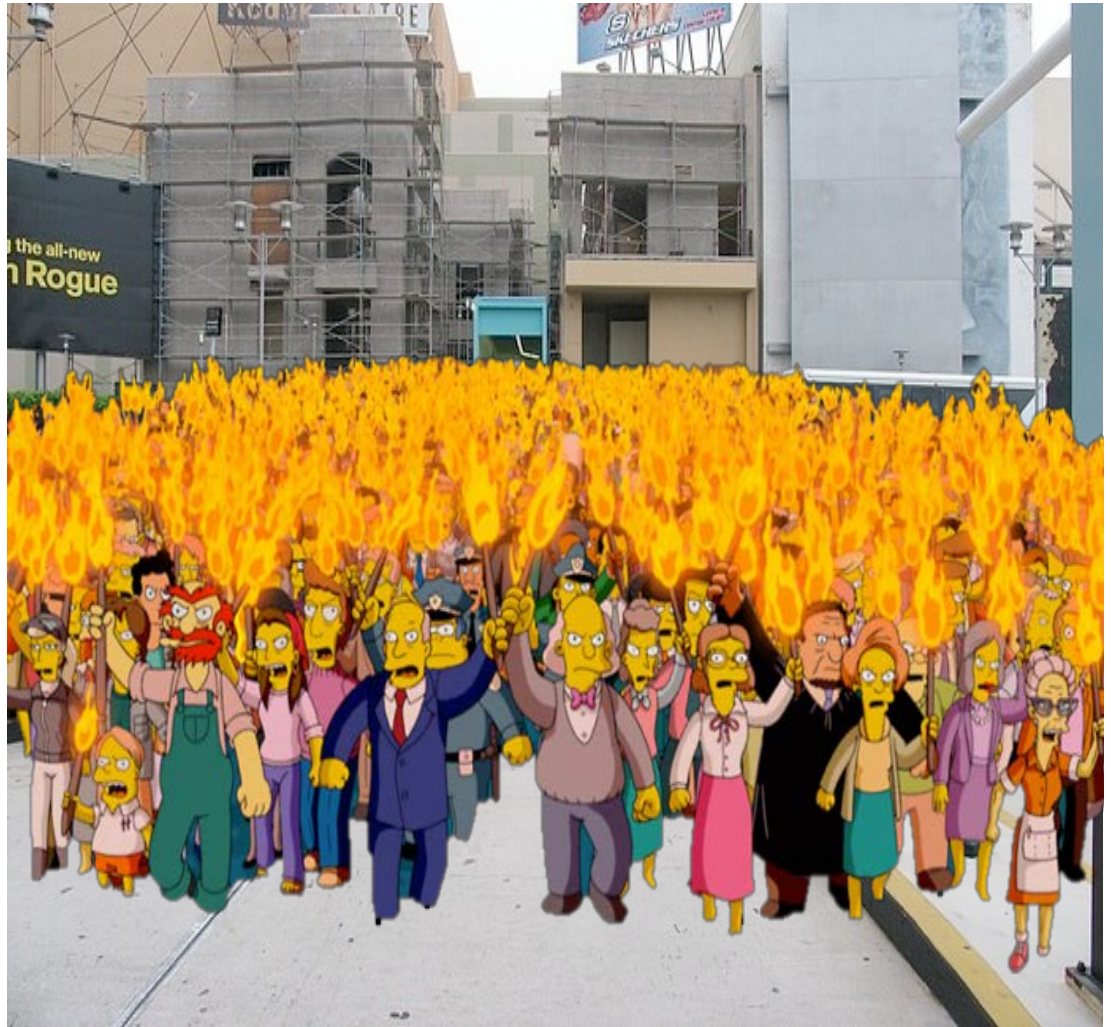
Indiana Parking Privatization

- “Damage control”
 - Public input before closing
 - Delayed Chicago-like outrage
- Upfront payment for sidewalk and road improvements
- Revenue sharing with meters PLUS upfront payment
- Private partner agrees to add 200 jobs in Indy within 2 years
- Rates can raise only after new meters are installed
- Flexibility to terminate the deal every 10 years and remove spaces from deal



City of Los Angeles Parking Privatization

- Public input over scope of pushed away potential bidders in LA
- Revenues from private operator contract for garages expected to plug \$53.2 million budget gap
- City must figure out how to increase city revenues from parking meters now that privatization is off the table



City of Allentown Water/Wastewater Privatization

- The City faced a large and growing unfunded pension liability related to its fire and police pensions
- To address this dilemma, the City evaluated various funding alternatives, and determined the most efficient way to dramatically reduce its unfunded liability was a concession lease of the City's water and wastewater systems
- Lehigh County Authority, a public entity, was selected as the winning bidder with an upfront consideration of \$211.2 million for a 50-year concession lease
- City will receive ongoing revenue share payments to offset costs currently funded by the water fund and has the ability to set operational standards and retain oversight over many important public concerns

