

Public Private Partnerships (P3s)

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- Many different types of P3s ranging from “design-build” arrangements to complete privatization
- Private participation can occur at various stages of capital project development
 - Design, construction, finance, or operations
- Must analyze costs vs. benefits on a case by case basis



P3s: When are they Effective?

- Multi-faceted projects where both public & private components exist & some infrastructure is shared (i.e., County parking deck with condos & retail)
- Private sector is willing to bear certain risks (i.e., construction cost escalation) that the public sector wishes to minimize
- If other benefits such as timing or construction costs can overcome the County's favorable cost of capital
 - Public sector can access lower, tax-exempt cost of funds from the capital markets
 - Private sector borrows at higher, taxable cost of funds, typically limited to banks and individual financial institutions
 - As a triple-A rated County, Wake is more creditworthy than most, if not all, of the major development/construction firms
 - Private sector credit quality is less favorable than triple-A rated Wake County, leading to higher borrowing costs

P3s: How will the County evaluate?

- Construction Comparisons
 - Apples to apples cost comparison – who can build it at a lower cost?
 - Life cycles of major systems – quality of construction?
 - Timing – can the private sector build the project more quickly to help avoid inflation costs or provide needed seats more quickly?
- Cost of Capital
 - What is the interest rate being charged by the private sector?
- There is no “one-size fits all” analysis
 - Each component of the transaction will be evaluated

P3s: County Examples

- New Davie Street Parking Garage
 - Partnership necessary because of the non-governmental use: condos and retail space
 - If developer's cost of constructing the garage is less than the County, developer will construct, otherwise, County will construct
 - Regardless of who constructs, County will own and operate the garage
- Holly Hill partnership for Mental Health beds
 - Partnership necessary because County is not in the business of running hospitals
 - County is paying for access to beds and treatment

P3s: Flow of Funds – Two Possible Scenarios

- Scenario 1: Payment from Bond Proceeds
 - A public-private partnership structured as a capital lease can be paid from bond proceeds
 - Criteria have to be met for recording as a capital lease. Lease must meet one of the following criteria to be considered a capital lease:
 - Lease transfers ownership of the property at the end of the lease term
 - Lease contains a bargain purchase option
 - Lease term is equal to 75% or more of the estimated economic life of the property
 - Present value of minimum lease payments exceeds 90% of the fair market value of the leased asset at the inception of the lease.
 - If the capital lease criteria are not met, then lease is an operating lease, which cannot be paid from bond proceeds
- Scenario 2: “Substitute” Capital Lease Payments for Debt Service
 - Bonds would not be issued for the project and the debt service that would have been paid on those bonds would be used to pay the capital lease payments

Questions?