Public-Private Partnerships (P3) Can Energize Downtown Development

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Albany, Georgia
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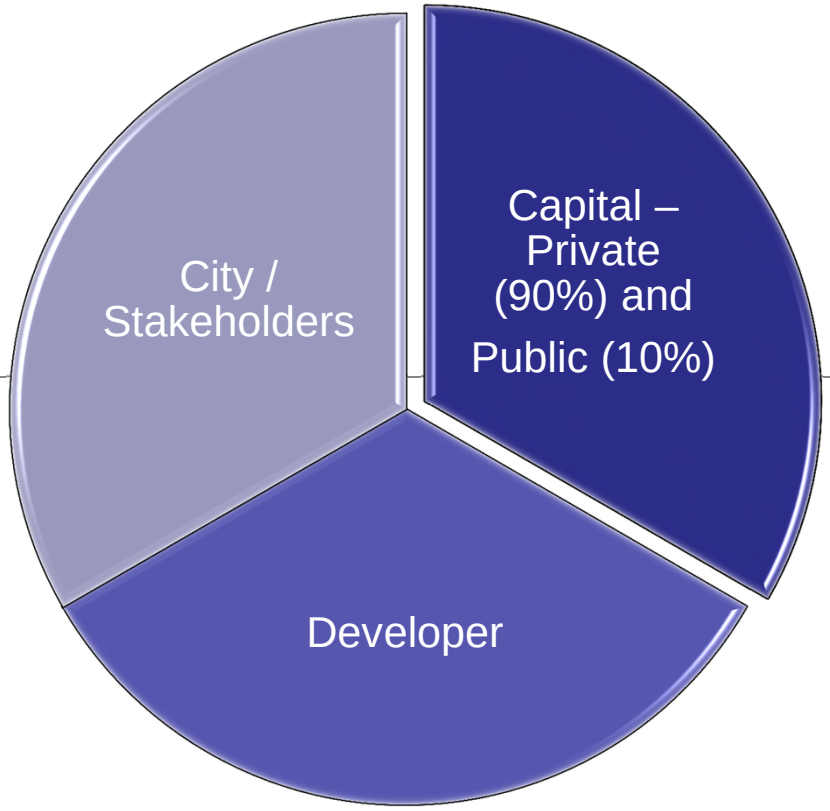
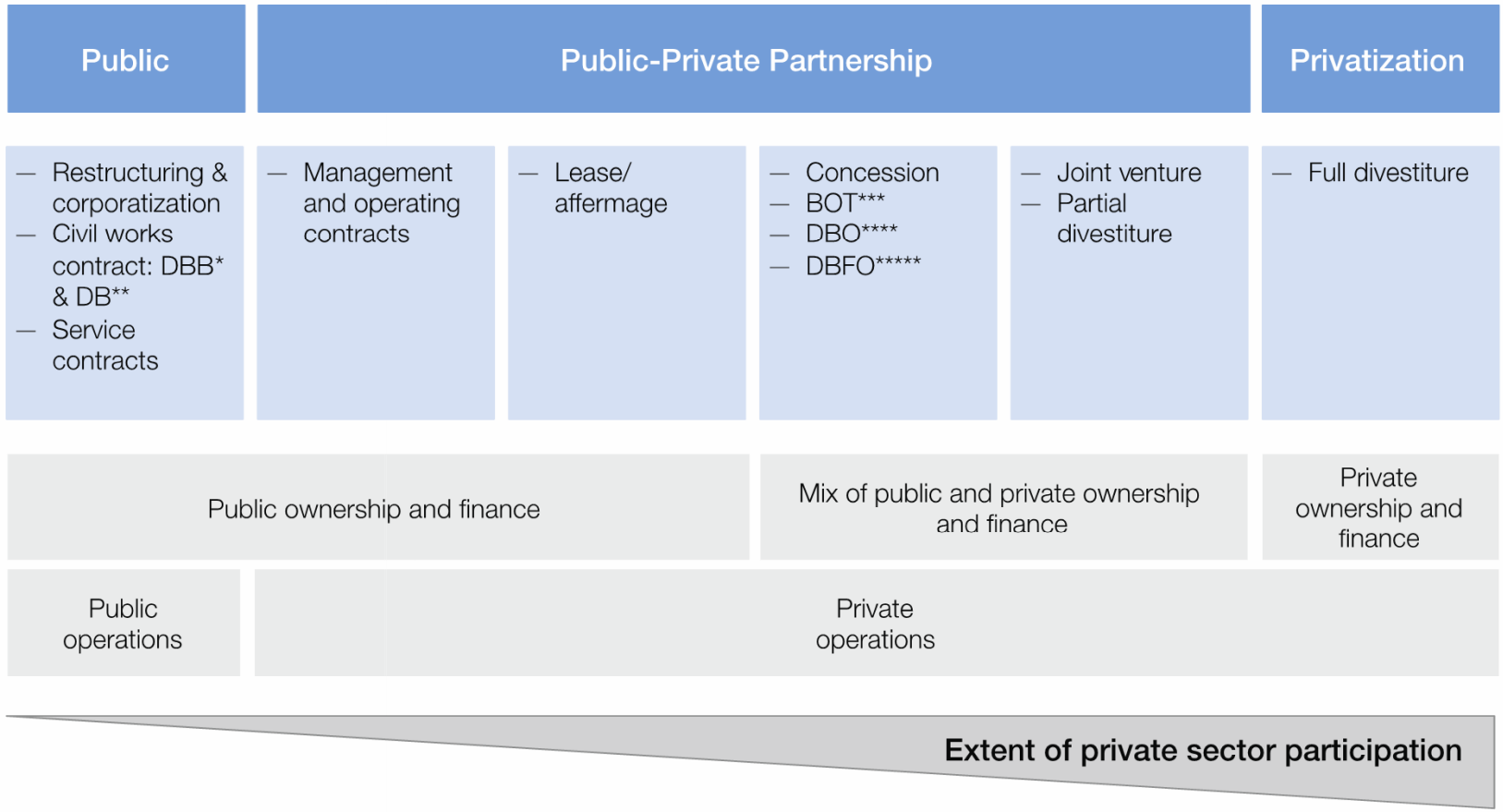
Planning Correctly Is Everything…..

"We made a miscalculation, but it's consistent with our over-all strategy."

The Capital Gap



P3 vs. Public or Private Project Delivery



*DBB = design-bid-build **DB = design-build ***BOT = build-operate-transfer ****DBO = design-build-operate *****DBFO = design-build-finance-operate

Source: World Bank PPP in Infrastructure Resources Centre. "PPP Arrangements / Types of Public-Private Partnership Agreements." Available at http://ppp.worldbank.org/public-private-partnership/agreements

Source: World Economic Forum and The Boston Consulting Group - Strategic Infrastructure - Steps to Prepare and Accelerate Public-Private Partnerships, 2013, p. 15.

What are P3s?

- Public-Private Partnerships - **close collaboration of public and private entities to structure, negotiate and implement the finance, design, development, construction and operation of facilities or infrastructure**
- **P3s are a flexible delivery approach - no single model**
- Tax-exempt developer-led turnkey lease-purchase project delivery of a municipal facility
- Taxable turn-key finance and development approach for municipal facilities
- Primary method for financing federal facilities
- **Not suited for all projects but should be a considered option for any significant public project**

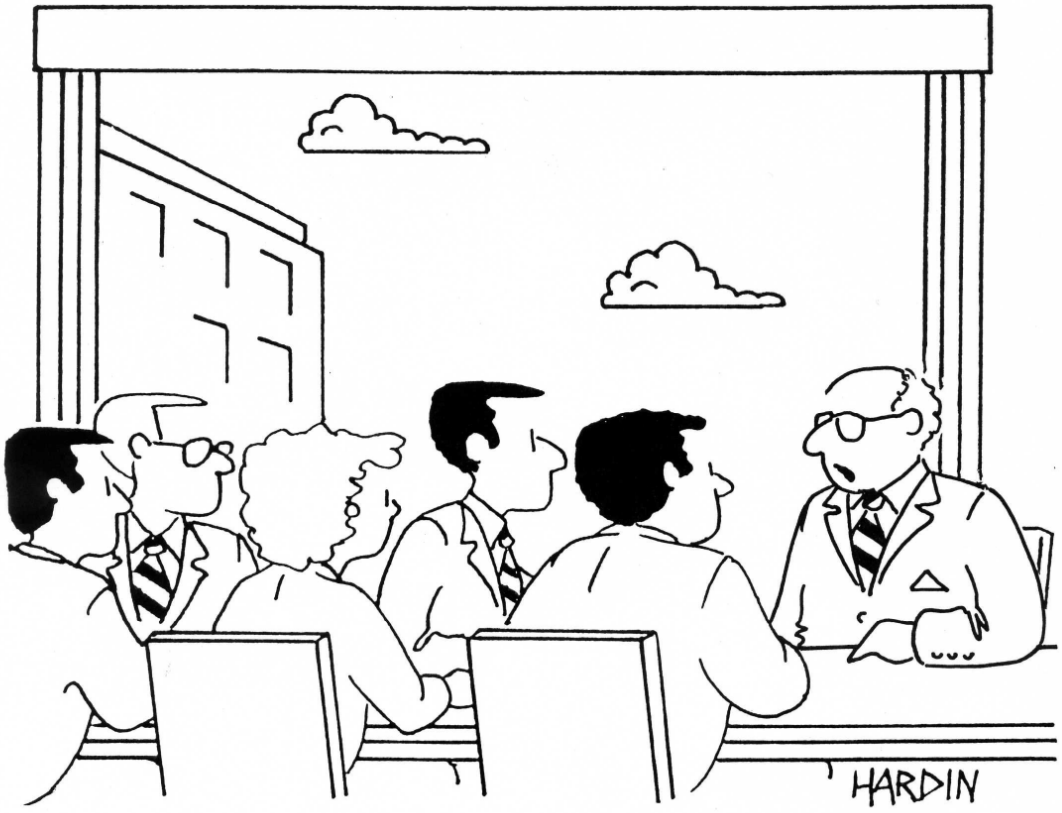
Public Sector Rationale

- Commercial conversations about project, economics and requirements
- Delaying capital plans risks higher costs later
- Competing priorities and politics
- Limited debt capacity, “inability” to raise taxes, or limited financing options
- New or increased demand on services, facilities or infrastructure
- Referendum fear
- Long standard procurement cycle

The P3 Process - Public Sector

- Defining the Project and Investment Decision
- Procurement Decision
- Value **for** Money Analysis
- Integrated Recommendation
- Project Funding and Affordability
- Procurement Strategy
- **Implementation Plan**

Managing Risk is Essential



Potential Project Cycle Risks

Design & construction		**Site risk**	— Availability of site (land acquisition/rights-of-way), quality of site (geological conditions, existing asset condition), zoning permits
		Design risk	— Inadequate planning, substandard design vs user requirements, lack of system integration, delayed construction permits, delay in PPP approval
		Construction risk	— Time delays, completion risk, cost overruns, quality issues, sub-contractor underperformance, untried and complex technologies, design change requests
		Environmental and social risk	— Delayed environmental permits, environmental constraints for construction and operation, stakeholder opposition, costs of social and environmental mitigation
Operations		**Commercial risk**	— Lower demand than forecast, higher price elasticity, network interface risk, revenue collection risk
		Operating cost risk	— Higher operating costs, maintenance costs, labour costs and commodity prices
		Performance risk	— Operational inefficiency, system underperformance, reduced asset availability and capacity, service interruptions, innovation risk
		Financing risk	— Refinancing availability, borrowing rate risk, counter-party and government sponsor risk
Political & macro		**Macroeconomic risk**	— Changes to economic growth, population, demographics, industrial development, interest rates, exchange rates, inflation
		Regulatory risk	— Changes in regulated prices, competition, sector framework, taxation
		Political risk	— Breach of contract, expropriation, currency inconvertibility, no profit repatriation
		Force majeure	— Natural or man-made events, e.g. earthquake, flood, hurricane, civil war, riot, crime, strike

Source: World Economic Forum and The Boston Consulting Group - Strategic Infrastructure - Steps to Prepare and Accelerate Public-Private Partnerships, 2013, p. 46.

Public Risks, Private Risks, Shared Risks

- **P3 method transfers and allocates risk to appropriate party - it does not eliminate the project cycle risk**
- Pay for performance / incentivizes innovation
- Operations & Maintenance (O&M) are included in project scope and budget
- Discipline and rigor around defining requirements are essential
- Investors see infrastructure and public facilities as a class of assets
- Sharing of costs, risks, responsibilities, and economic returns is attractive to capital markets

Prime P3 Project Candidates

- Infrastructure
- Municipal Facilities
- Hotel and Conference Centers
- Parks and Recreation
- Affordable Housing
- Healthcare
- Education

Principles of Downtown Development

- **Broaden the Economic Development Finance/Incentive Toolkit**
- **Build Strong Public-Private Partnerships**
- Develop a Vision and Plan for Downtown
- Identify and Build Upon Local Assets
- Enhance the Downtown’s Sense of Place
- Determine the Downtown Market
- **Consider P3 as the Delivery Method for Appropriate Projects**

Indicators of Success

- Organization and Partnerships – CIDs, Development Authorities,
- Downtown Mixed-Use Development – Office, Hospitality, Retail and Housing
- Downtown Traffic Generators – Arts, Attractions, Sports, Natural Amenities, Civic
- Preservation and rehabilitation – Historic rehab and adaptive reuse, Heritage tours
- Demographic Diversity – Age, Gender, Ethnicity
- Downtown Design – Sense of Place, Design guidelines, Green Space
- Multi-purpose Infrastructure – Bike/Pedestrian friendly streets, Green Infrastructure
- Branding and promotion – Events, Celebrations, Regular Activities
- Downtown Economics – Increased property values, New investment

Fredericksburg, TX

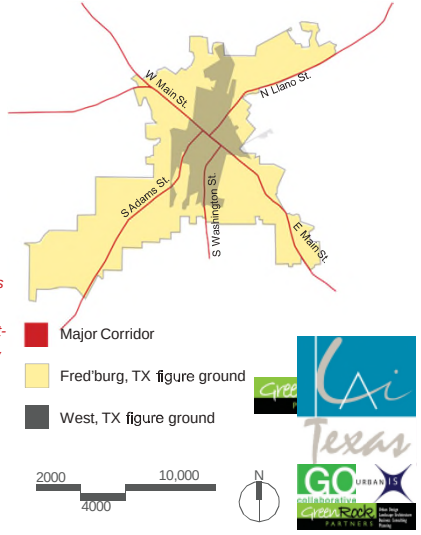
Size: 4,224 acres [6.6 sq. miles]

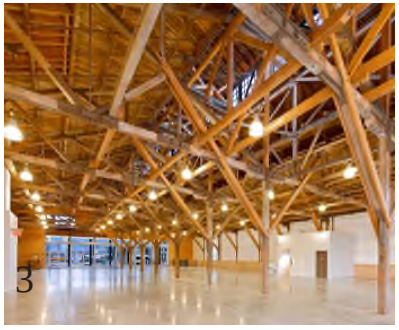
Location:
- Country: United States
- State: Texas

Land Use:
- Single/ Multi-Family Residential
- Historic District
- Office
- Local Retail/ Commercial

Demographics:
- 10,350 people
- Density: 1,595.5/sq. mi

**Fredericksburg lies in the very center of the Texas Hill Country, a geographic area that spans all or parts of 15 counties in central Texas and encompassing roughly 10,000 square miles. This historic town, settled by Germans in 1846, is roughly 70 miles west of Austin, the state capital, and approximately 65 miles northwest of San Antonio, home to the legendary Alamo.*





1. Interpretation Center for Agriculture and LIvestock
2. The New Warehouse Depot
3. Salt BUilding
4. Olisur: Olive Oil Factory

CREATIVE PLACEMAKING

STEPS	TOOLS	EXAMPLES
MAPPING CULTURAL ASSETS	*story telling visual surveys mapping*	
DECIDING WHAT'S IMPORTANT	*community mtgs history social media*	
SETTING PRIORITIES	*surveys open houses council*	
CREATING AN ACTION PLAN	*community mtgs social media business alliances*	

CULTURE
DEVELOPMENT STRATEGIES

West Fest

EVENTS / FESTIVALS

Ely, MN

BRANDIN G

Farm / Art DTour, Reedsburg, WI

AR T

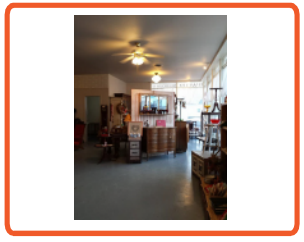
Designing a Waterfront Trail in Seguin, TX

PLACE S

LIGHTER QUICKER CHEAPER

Better Block in Oak Cliff, TX

POP-
UPS



Shoshone, ID (pop. 1,482) - CrossRoads Mercantile

“INTERWHILE”
USES

Fergus Falls, MN (pop. 13,138) Bureau of Urban Experimentation

EXPERIMEN
TS

Montezuma, New York (pop. 1,277) - Mural Painting Program

LOCAL
TALENT

Farm/Art D'Tour – Reedsburg, WI

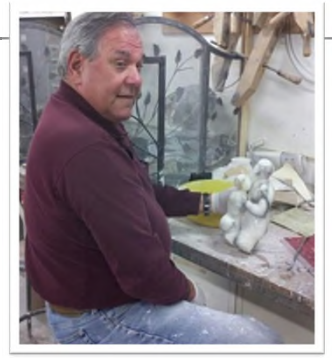
Benefits of Artist Habitation

1. Artists can often act as anchor tenants for main street revitalization.
2. Artists often contribute their own capital and sweat-equity into revitalization projects.
3. Artists can contribute to towns both aesthetically, and civically.

Bastrop, TX

Why do artists like small towns?

1. Relatively low cost of living
2. Environmental quality
3. Character



Sculptor Marty Scheinberg in the studio at Capitol Arts Network in Washington DC.

All Artists?

1. Visual artists, writers, and older artists prefer rural locations.
2. Compared with performing artists, musicians, and younger artists.

An Arts-Based State and Rural Development Policy, Ann Markeusen, Journal of Regional Analysis, 2006.

How artists contribute to a community

1. Sell work elsewhere, but spend a portion of their incomes locally on housing, food, gasoline, and entertainment.
2. Serve as teachers in the local communities.
3. Draw in consumers from the surrounding areas.
4. The presence of artists in a community, as residents or retreat guests, can make an area more attractive to other residents and retirees.

How small communities attract artists.

1. Creating arts centers through bonding initiatives.
2. Giving vacant city-owned buildings to organizers, provide infrastructure, combine tourism staffing with arts center management.
3. Creating artist relocation incentive programs. (Paducha, KY)

New York Mills Regional Arts Center

1. New York Mills, MI
2. Town founded by Finnish settlers
3. Center is 22 years old
4. Annual community festivals – Finnish Winter Festival, large-scale street Puppet Pageant, and Longest, Night Music Festival

http://kulcher.org/

Paducah, KY – Artist Relocation Program

1. Program started in 2001
2. Artists invest in the rehabilitation of dilapidated housing.
3. Town provides incentives through relaxed zoning (live-work spaces) and financial incentives.

http://www.paducahalliance.org/artist-relocation-program

TIRES
TUBES
LOANS

GULF
Gulf

TUBES
MECHANIC OFF DUTY
7up

SHOE

OLD SETTLERS ASSN

RoundRock
Donuts
106

www.round-rock.net

DELL

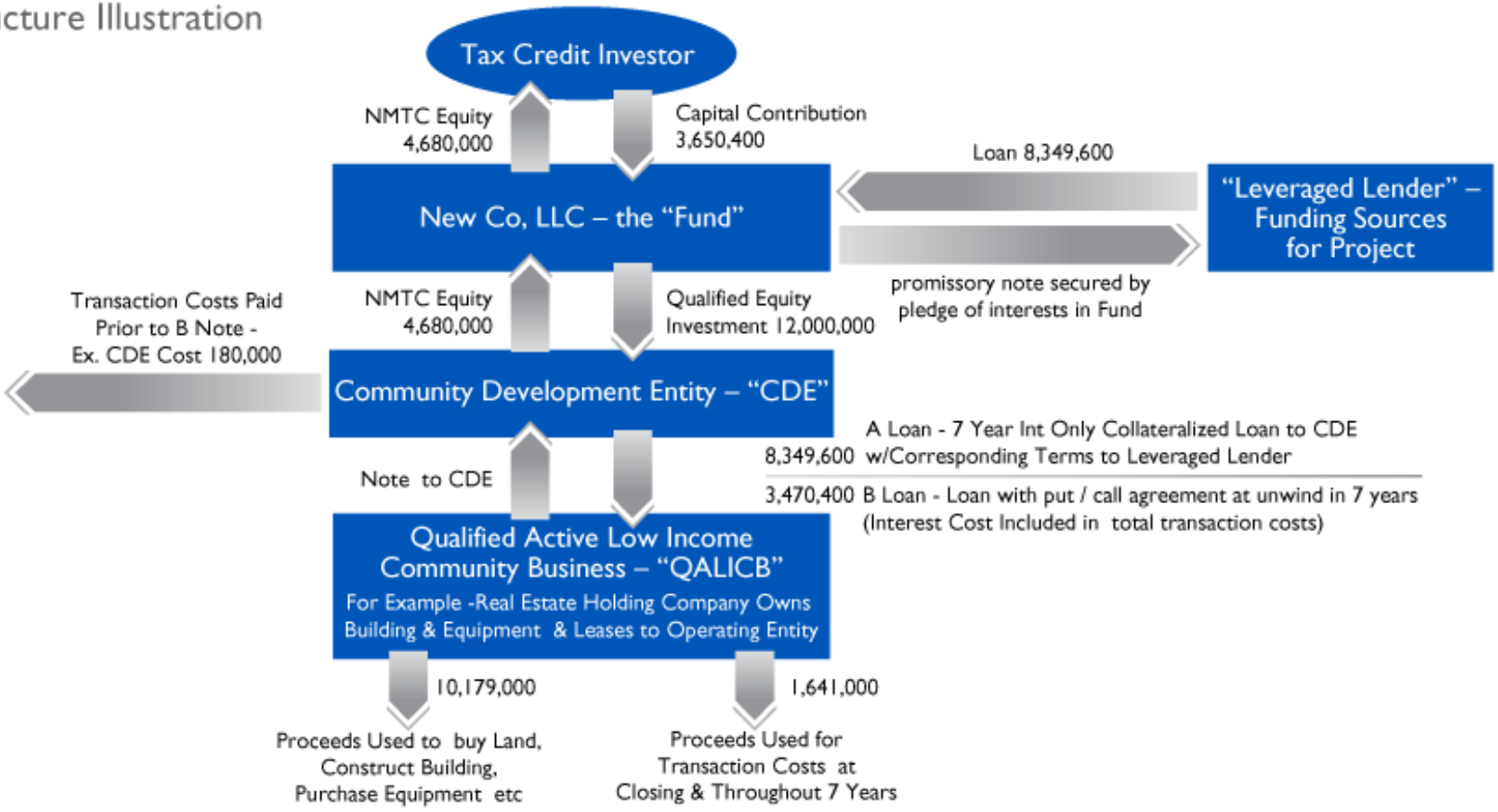
Tools for Redevelopment Projects

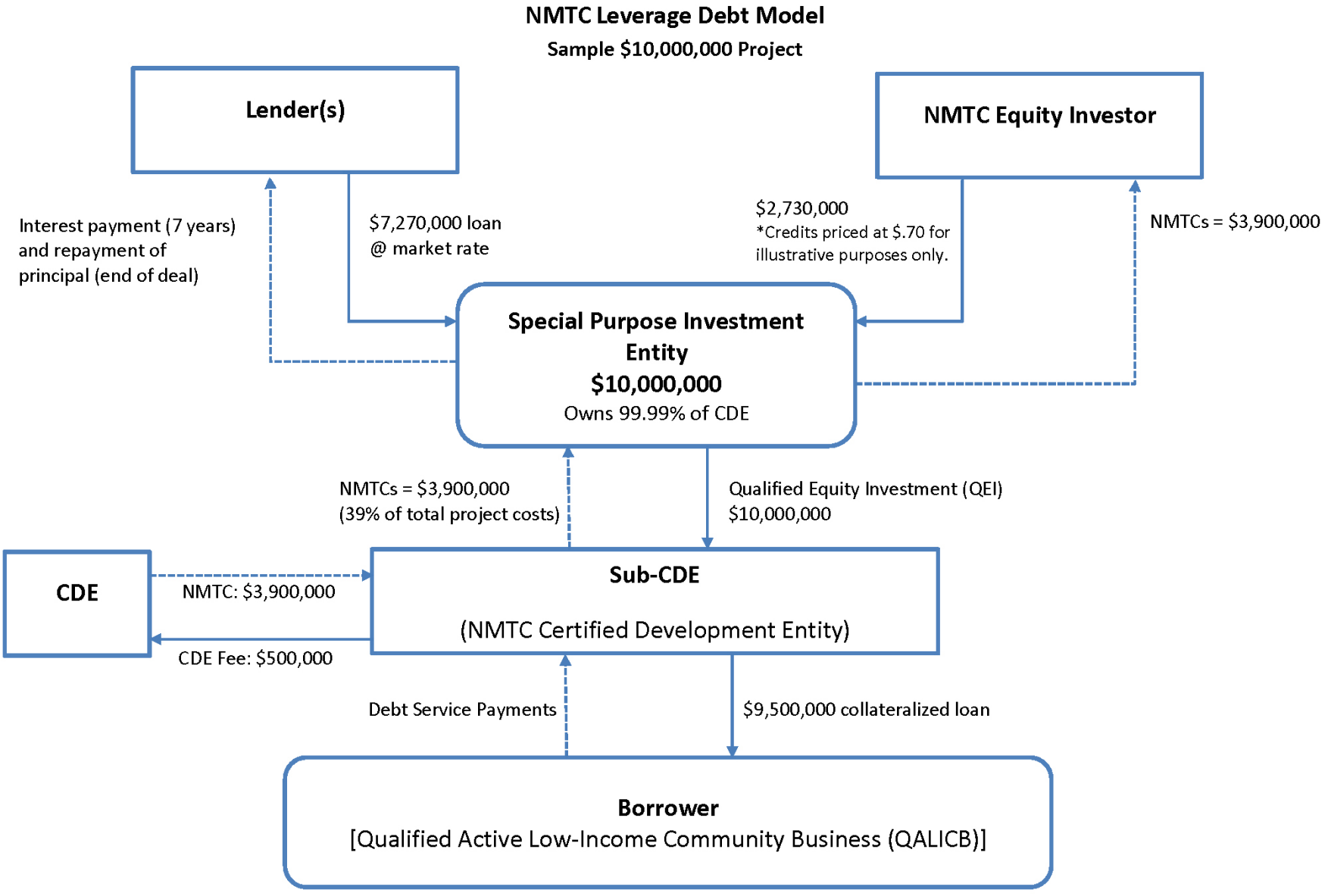
Enterprise Zones
Urban Redevelopment Area
New Market Tax Credits
EB-5 Financing
Brownfield Programs
CDBG
State and Local Economic Development Incentives and Grants
Economic Development Administration (Commerce) grants
HUD 108
Assessment Districts
Business Improvement Districts (and other special districts)
Opportunity Zones
Workforce Housing Tax Credits
Historic Tax Credits

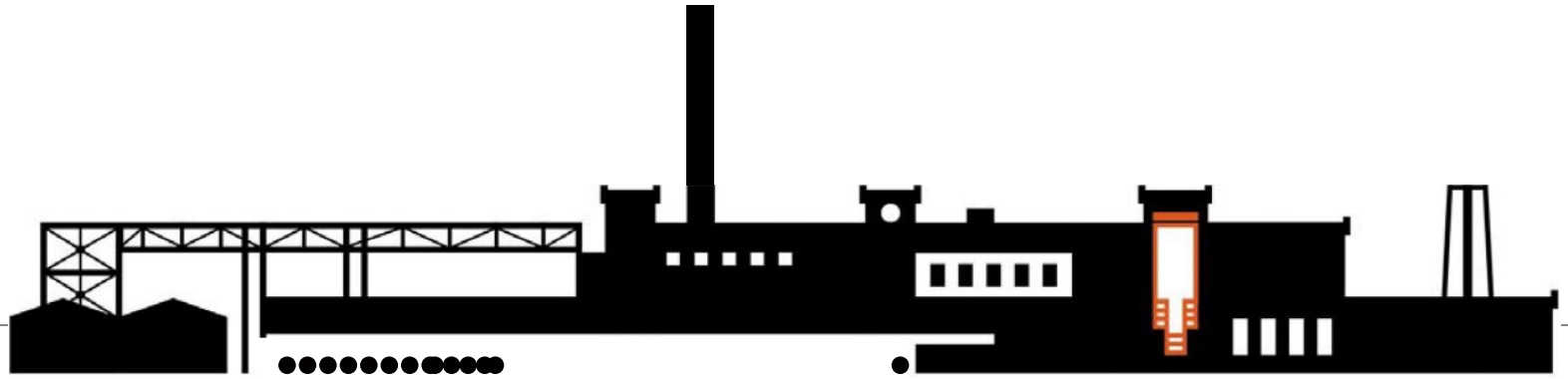
New Market Tax Credit Transaction Example

Qualified Equity Investment	12,000,000	
39% Tax Credit	4,680,000	
Estimated Tax Credit Investor Contribution	3,650,400	
Less Transaction Costs Paid at Closing & Over Time	1,821,000	
Net Tax Credit Benefit After all Transactional Costs	1,829,400	★ 18% of Construction Cost Net Benefit
New Market Tax Credit Cash Procedes Available for Use at Closing	2,320,400	★ 23% of Construction Cost Cash Benefit
Other Financing Sources Needed for Project	8,349,600	

Structure Illustration




NMTC Leverage Debt Model
Sample $10,000,000 Project
Lender(s)
NMTC Equity Investor
Interest payment (7 years) and repayment of principal (end of deal)
$7,270,000 loan @ market rate
$2,730,000
*Credits priced at $.70 for illustrative purposes only.
NMTCs = $3,900,000
Special Purpose Investment Entity
$10,000,000
Owns 99.99% of CDE
NMTCs = $3,900,000
(39% of total project costs)
Qualified Equity Investment (QEI)
$10,000,000
CDE
NMTC: $3,900,000
CDE Fee: $500,000
Sub-CDE
(NMTC Certified Development Entity)
Debt Service Payments
$9,500,000 collateralized loan
Borrower
[Qualified Active Low-Income Community Business (QALICB)]



TheImperialCentre

for the Arts and Sciences

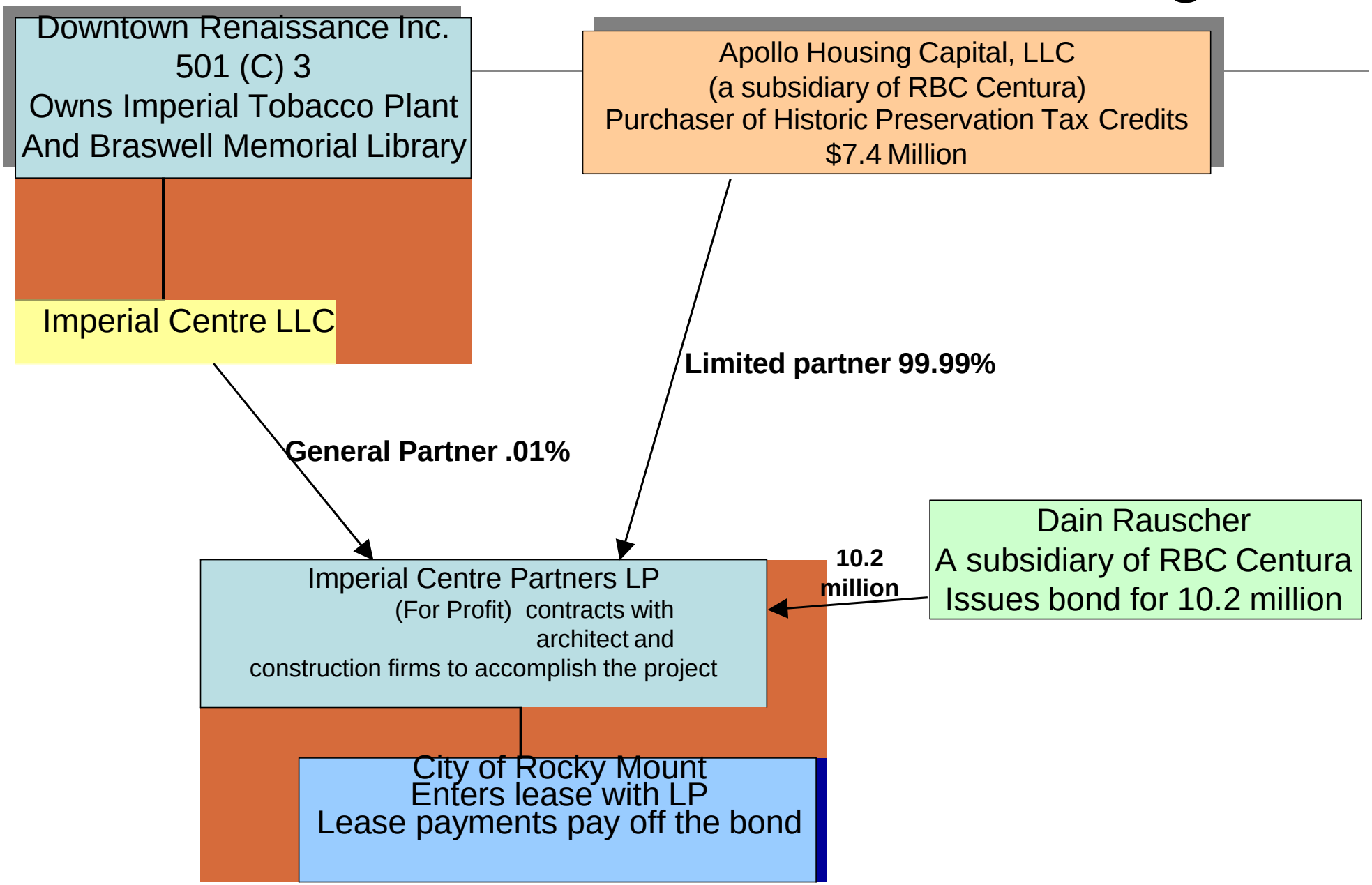
Imperial Centre Financing Structure

- The Imperial Centre is financed as two projects:

1. **New Construction: $9.3 MM**
   - The Theater
2. **Rehabilitation: $22.8 MM**
   - Imperial Tobacco Braswell Memorial Library

- Reason: Historic Preservation Tax Credits

Rehabilitation Financing



State and Federal Historic Preservation Tax Credit Structure

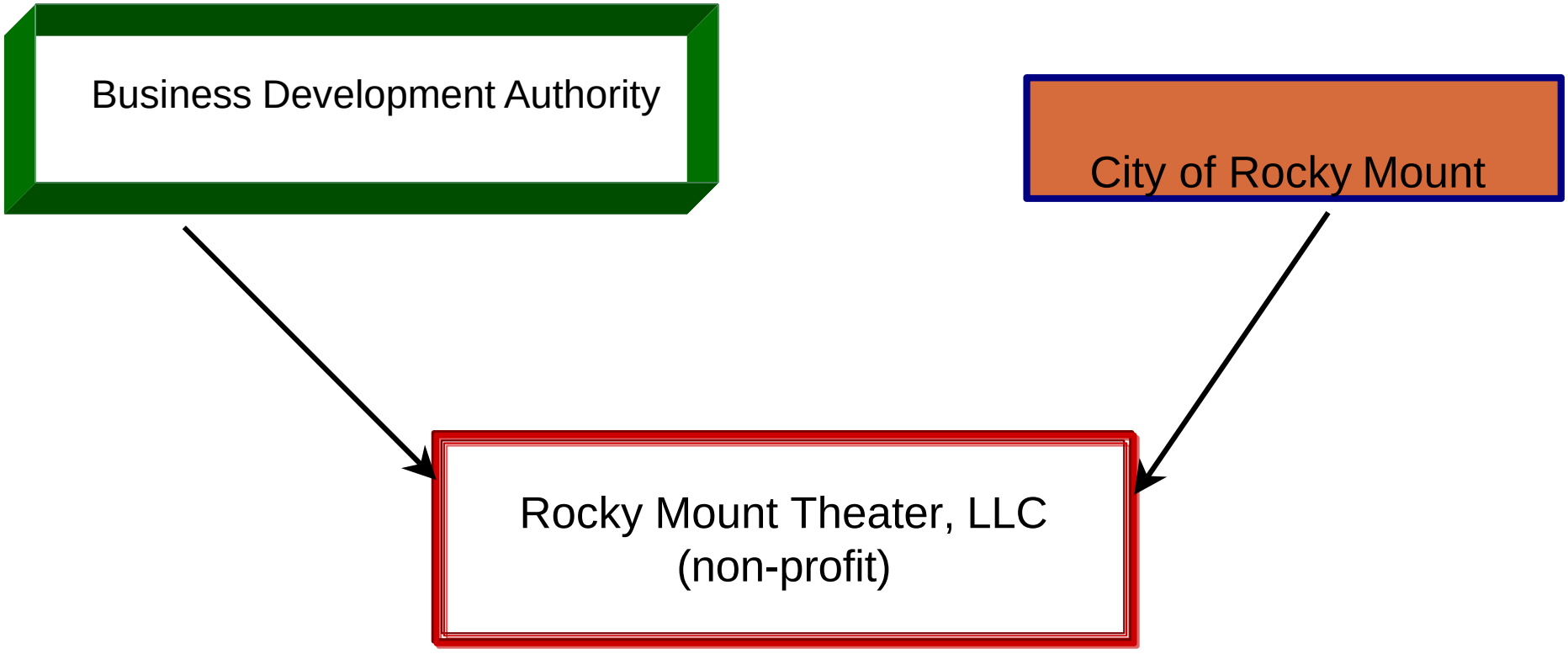
New Construction Financing (Theater)

Sources

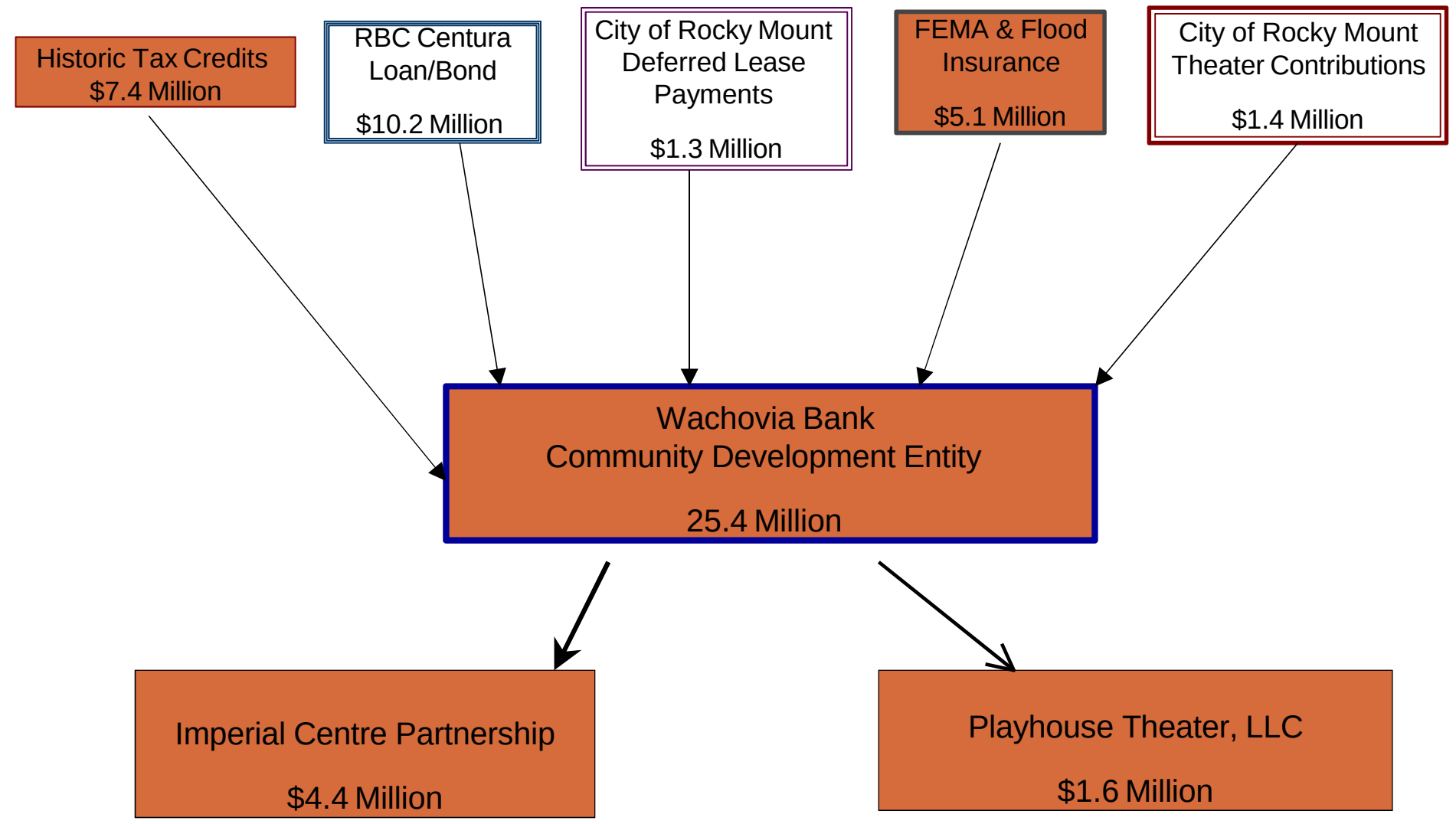
• FEMA	$3,436,260
• Flood Insurance	$1,663,350
• NMTC	$1,574,398
• City: General Fund	$1,400,000
• City: Reserve	$1,278,704
• Interest Earnings	$ 33,191
	$ 9,385,903

Theater Ownership Structure for New Market Tax Credits

To qualify for New Market Tax Credits, the theater must be owned by an entity other than the City. The entity must have some other partner with the City as the parent (i.e., the City cannot be the sole member controlling entity).



NEW MARKET TAX CREDITS



Rehabilitation Funding Sources

• Historic Preservation Tax Credits	$ 7,406,000
• Permanent Loan/Bond	$10,200,000
• City Reserve	$ 476,628
• Federal Grant IMLS	$ 100,000
• Interest Earnings	$ 260,000
• New Markets Tax Credits	$ 4,378,003
	$22,820,631

Observations

- Funding arrangements are complicated
- Multiple Interests
  - -FEMA
  - -National Park Service
  - -State Historic Preservation Office
  - -Local Preservationists
- Partnerships
  - -City and Non-profit
  - -RBC Centura and Wachovia
- Mayor/Council Support
- Other opportunities?

Here we go!

Resources

- World Economic Forum and PwC Strategic Infrastructure Steps to Prioritize and Deliver Infrastructure Effectively and Efficiently, 2012

- World Economic Forum and The Boston Consulting Group - Strategic Infrastructure - Steps to Prepare and Accelerate Public-Private Partnerships, 2013

- World Economic Forum and The Boston Consulting Group - Strategic Infrastructure Steps to Operate and Maintain Infrastructure Efficiently and Effectively, 2014

- World Economic Forum - Paving the Way: www3.weforum.org/docs/WEF_IV_PavingTheWay_Report_2010.pdf

- World Economic Forum - Infrastructure Investment Policy Blueprint - www3.weforum.org/.../WEF_II_InfrastructureInvestmentPolicyBlueprint_ Report_2014.pdf

- World Economic Forum - Infrastructure and Urban Development - http://www.weforum.org/industry-partners/groups/iu-infrastructure-urban-development

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