



cutting through complexity™

# Beyond Parking Meters

The future of Public-Private Partnerships in Illinois

March 14, 2012



# Public Private Partnerships Today: Ohio River Bridges



**Left:** Rendering of the East End Bridge which connects Utica, Indiana to Prospect, Kentucky.  
**Right:** Rendering of the Downtown Bridge, next to the existing Kennedy Bridge.

## Public Private Partnerships Today: North Tarrant Expressway



Aerial photograph of the construction progress as of December 2011 on the North Tarrant Expressway near Dallas/Fort Worth, Texas.

## Social Infrastructure: Long Beach Courthouse



Architect's rendering of the Long Beach Courthouse in Long Beach, California.

## Social Infrastructure: Alberta Schools

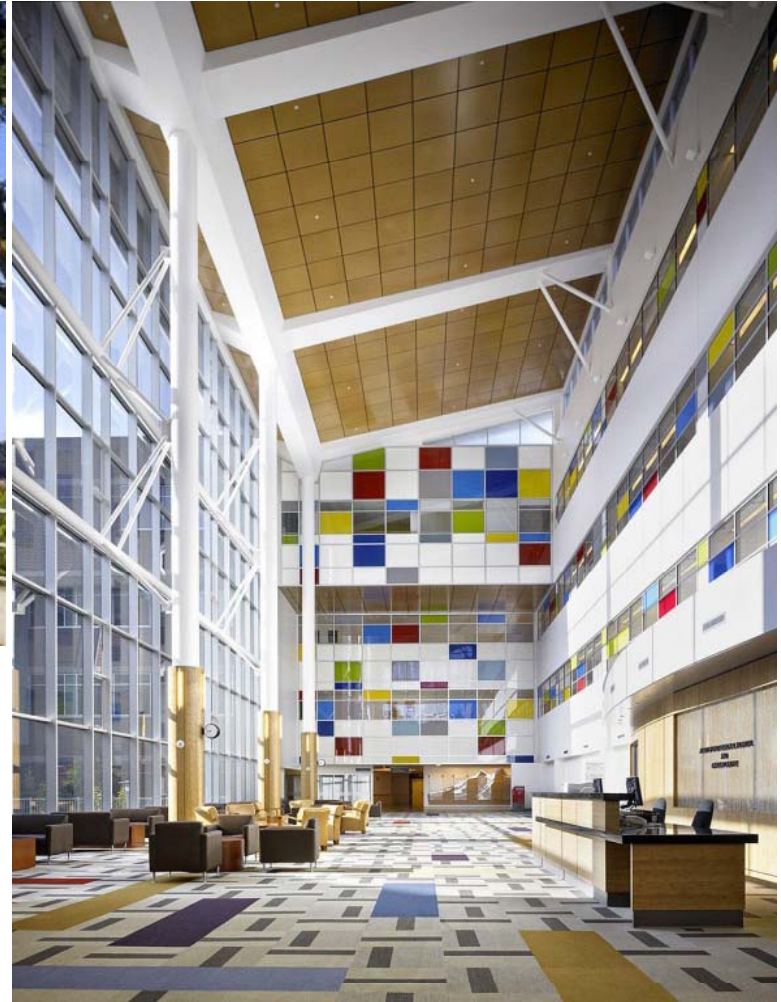


**Top and Left:** Photographs of one of the 16 Alberta Schools in Calgary and Edmonton, Canada.

## Social Infrastructure: Abbotsford Regional Hospital and Cancer Center



**Top and Right:** Photographs of the completed Abbotsford Regional Hospital and Cancer Center in British Columbia, Canada



# Overview of KPMG Infrastructure Advisory

- KPMG serves as strategic and financial advisor to both public and private clients globally and within the US
- KPMG is a market leader in P3 advisory
- KPMG has broad experience across all infrastructure sectors
  - Social Infrastructure
  - Water and Utilities
  - Transportation
- KPMG is leader of educational thought leadership publications

## Infrastructure Advisory Awards



## KPMG PPP Thought Leadership



**#1 Financial Advisor for P3 projects by number of deals and transaction value for 2010, *Infrastructure Journal***

## Financial Advisor North American P3s

January 1, 2007 - December 31, 2010\*

Rank	Firm	\$ Millions	Market Share (%)
1	<b>KPMG</b>	<b>13,560.0</b>	<b>18.4</b>
2	Macquarie	9,757.2	13.3
3	RBC Capital Markets	6,557.5	8.9
4	Goldman Sachs	6,263.6	8.5
5	Ernst & Young	3,657.1	5.0
6	JPMorgan	3,602.6	4.9
7	PwC	3,023.5	4.1
8	Montague DeRose	2,661.0	3.6
8	High Street Consulting Group	2,661.0	3.6
10	Deloitte	2,641.6	3.6

\* Source: *Infrastructure Journal*

## PPP Project Experience



# Non-Transportation Application of P3



## Social

- Schools
- Corrections
- Court houses
- University accommodation
- Mental health centers
- VA hospitals
- Social housing
- Public/administrative buildings
- Lotteries
- Urban regeneration
- Levees



## Energy & Utilities

- Mining rights
- Carbon capture
- Renewables
- Water / wastewater
- Electricity transmission & distribution
- Nuclear



## Technology

- Data centers
- Telecom towers
- Broadband
- Shared services



## Defense & Aerospace

- Military housing
- Other defense infrastructure
- Commercial space flight



# Social Infrastructure P3s in the US

## Why consider P3s for delivering social infrastructure projects?

- Risk transfer
- Budget certainty
- Accelerated project delivery
- Integrated whole-life solutions
- Financial impact on balance sheet

## How are they paid for?

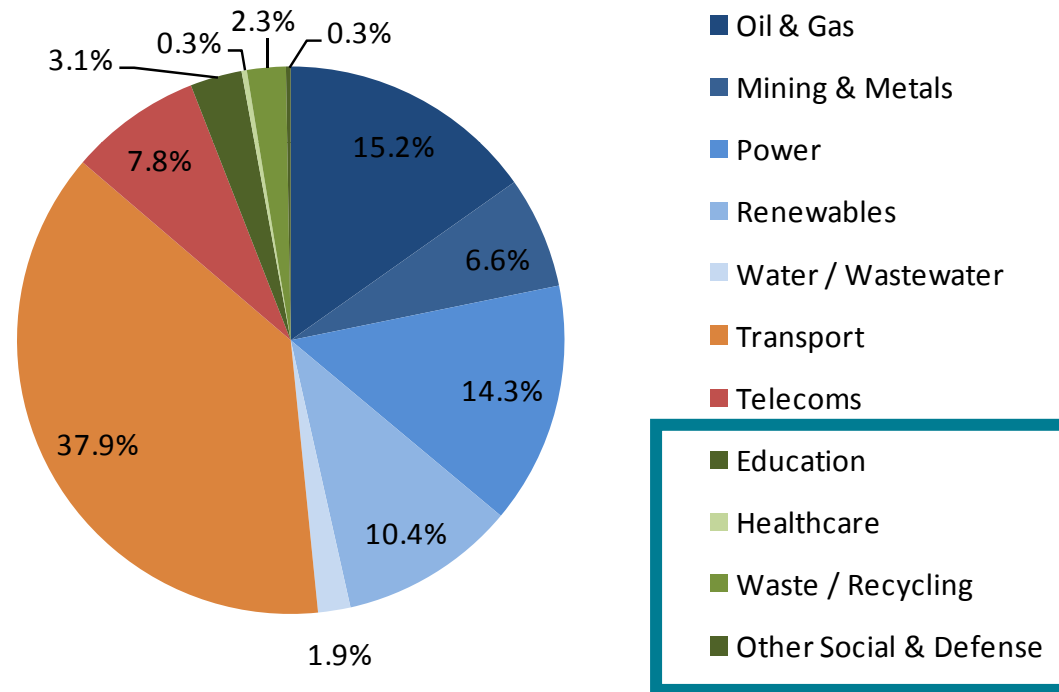
- Social infrastructure projects generally do not pay for themselves, therefore they require a payment mechanism:
  - Availability Payment structure
  - User fees
  - Real estate based revenues

**P3 provides an innovative solution for delivering important non-revenue generating / revenue sufficient projects**

# Have Social Infrastructure P3s Been Successful in the Past?

## PPP and Project Finance Transactions – United Kingdom Transaction Value 2009 to Present

Source: Infrastructure Journal



**US market participants are increasingly interested in using P3 to deliver important social infrastructure projects**

# Social Infrastructure P3s in the Market – Lessons Learned

## What has worked:

- Projects with a clearly defined project need and upfront capital expenditure
  - Schools
  - Prisons
  - Housing
  - Courthouses
  - Defense and accommodation
- Projects with transparent P3 solicitation guidelines
- Projects with competitive tension
- Projects with political and funding support

## What hasn't worked:

- Very small projects
- Very large complex projects
- Complex technology projects
- Projects without a well-defined project need and empowered sponsoring entity

**Review of successes and failures in P3 delivery provides a reliable roadmap for success**

# A Checklist for Successful P3 Projects

- 1 Leadership
- 2 Stakeholder buy-in
- 3 Effective government counterparty
- 4 Legal authority
- 5 Dedicated payment or funding source
- 6 Value for money
- 7 Risk transfer
- 8 Meets policy objectives
- 9 Provides positive outcome to end user
- 10 Provides whole life solution
- 11 Financeable and marketable

**Thinking about the above will facilitate market appetite for the project and enhance credibility**

# Appendix



# Social Infrastructure P3 Case Studies – Long Beach Courthouse (California)

## Innovative courthouse facilities development

2009 – 2010  
\$495 million



**KPMG Role:** Financial adviser

## Project Background

- Private sector to perform Design, Build, Finance, Operation and Maintenance (DBFOM) of facility for 35 years in return for an availability payment from the Administrative Office of the Courts (AOC)
- AOC in California led the procurement
- 31 civil and criminal courthouses, including holding cells, jury port, office space
- LA county office space under a separate lease agreement
- 900 space parking structure
- Retail and commercial space
- Facility accommodates 800 workers and 3,500 – 4,500 visitors daily
- Project agreement spans a 35 year operating period
- Replaces outdated and overcrowded existing facility build in 1959

## Outcome

- 2010 successful closing of \$495m Long Beach Court Building project in Long Beach, California
- First availability payment based social infrastructure P3 in US

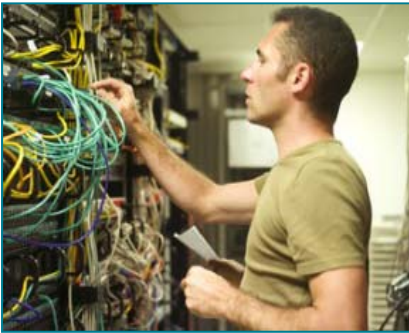
## Key Considerations

- Significantly accelerated construction of facility
- Appropriation risk was a key credit issue for lenders especially in California
- If private sector does not operate facility appropriately they receive deductions to payment

# Social Infrastructure P3 Case Studies – Michigan Data Center

## Development of modern data center facility

2009 – 2010  
\$150 million



## Project Background

- The State of Michigan needs to secure a new primary, purpose built data center to replace aging and inefficient hosting facilities
- Desired solution initially included a Tier 4 level hosting facility with approximately 100,000 square feet and LEED platinum certification
- The State is not in a position to approach the project through traditional delivery models utilizing municipal debt financing

## Outcome

- Strong market interest exists in providing data center facilities and hosting services
- Responses came from a variety of organizations including IT firms such as SAIC, Digital Realty Trust, IBM, Verizon, and Sun Microsystems
- Market can accommodate a variety of approaches to financing, operating, maintaining and providing IT related services however not all priorities can be equally balanced
- The market brought interesting and innovative approaches, including one proposal for cash flow financing the data center facility through a 10 year operating contract, co-location of a power plant, pod approaches for scalability, and revenue sharing arrangements for excess hosting capacity
- The State is currently in the process of determining the proper balance for the data center effort

## Key Considerations

- Determining the overall level of specific IT related services to include in the commercial structure
- Balancing very different asset lifecycles of a physical data center facility (20+ years) and IT (less than 5 years)
- Achieving a lower total operating cost (TOC) for data center activities

# Availability Payment Structure

## Common Characteristics of Availability Payment (AP) Model

### Description:

- Payments are not made by Public sponsor until substantial completion or facility is operational (available)
- Payments can be made as milestones are met or on a periodic basis
- AP concept smoothes upfront capital expense over life of asset.
- AP payments are aligned with performance expectations
- Deductions to availability payments can be made per contract terms if the facility is unavailable in whole or in part

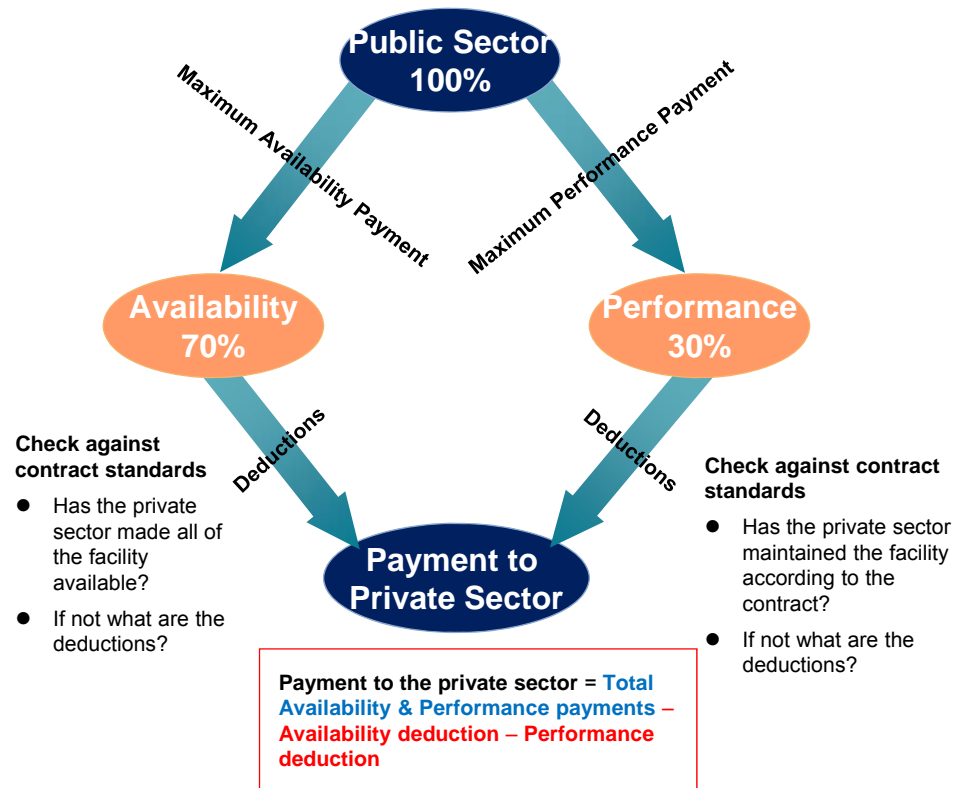
### Financing:

- Developers can access capital market, bank debt and/or equity market to finance project
- AP structure creates high quality revenue stream without demand risk
- The payment can be from different sources: User fee Revenue, General Fund, Capital Fund, Bonding, Grants, etc

### Commitment to maintenance:

- Contract terms include detailed O&M provisions, if not met, AP deductions are made
- Promotes whole-life costing approach during design and construction
- Concessionaire returns the asset in a "like new" condition at the end of the concession term (30-99 years)

The diagram below represents how a typical payment mechanism for social PPP works:







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