

Public Private Partnership on Jefferson – Houston Site

Presentation to:



Alexandria City Public Schools

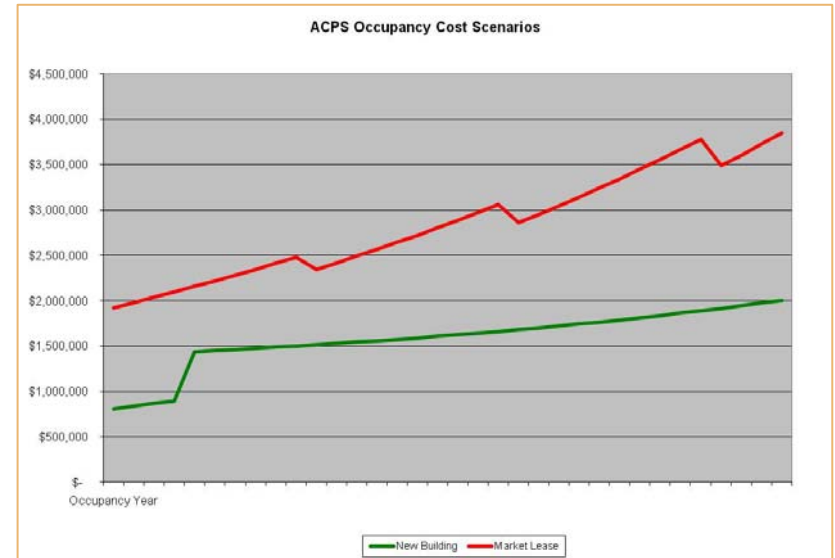


City of Alexandria

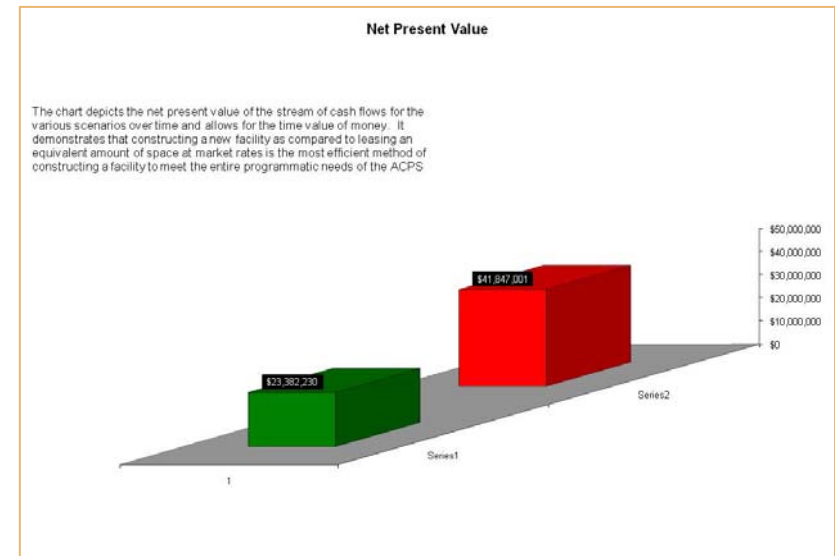
January 2010

- 1. Tour of Existing ACPS Sites**
- 2. Negotiate reduction and extension of existing lease**
 - **Substantial reduction in cost**
 - **Extension of term to 6/30/13**
(accommodates new construction schedule)
- 3. Programming exercise to establish future space requirements for Central Office**
- 4. Construction Cost estimate and schedule for Stand Alone ACPS Central Office Facility**
- 5. Development of preliminary financial model/business case in support of new ACPS Central Office Facility**

Cash Flow Analysis Status Quo versus New Build



Net Present Value Analysis Status Quo versus New Build



1. New Elementary School
2. ACPS Administrative Facility on existing site
3. New Performing Arts Center and Public Swimming Pool
4. New City Administrative Facility
5. Mix of private uses to subsidize above

Basic Structure of PPP

- 1. Community engaged
Development Concept established
RFP Issued
Developer Selected

- 2. Foundation formed/ID'd to issue tax exempt debt for public elements
(School, Performing Arts Center, Pool, Central Office)

- 3. ACPS/City enter into development agreement with Developer through Foundation to construct Public Elements.

- 4. Developer assumes delivery risk and constructs improvements to bid specs

ACPS/City delivers long term lease w Foundation

T.E. \$\$ provided to construct improvements

Developer assumes risk and builds public elements

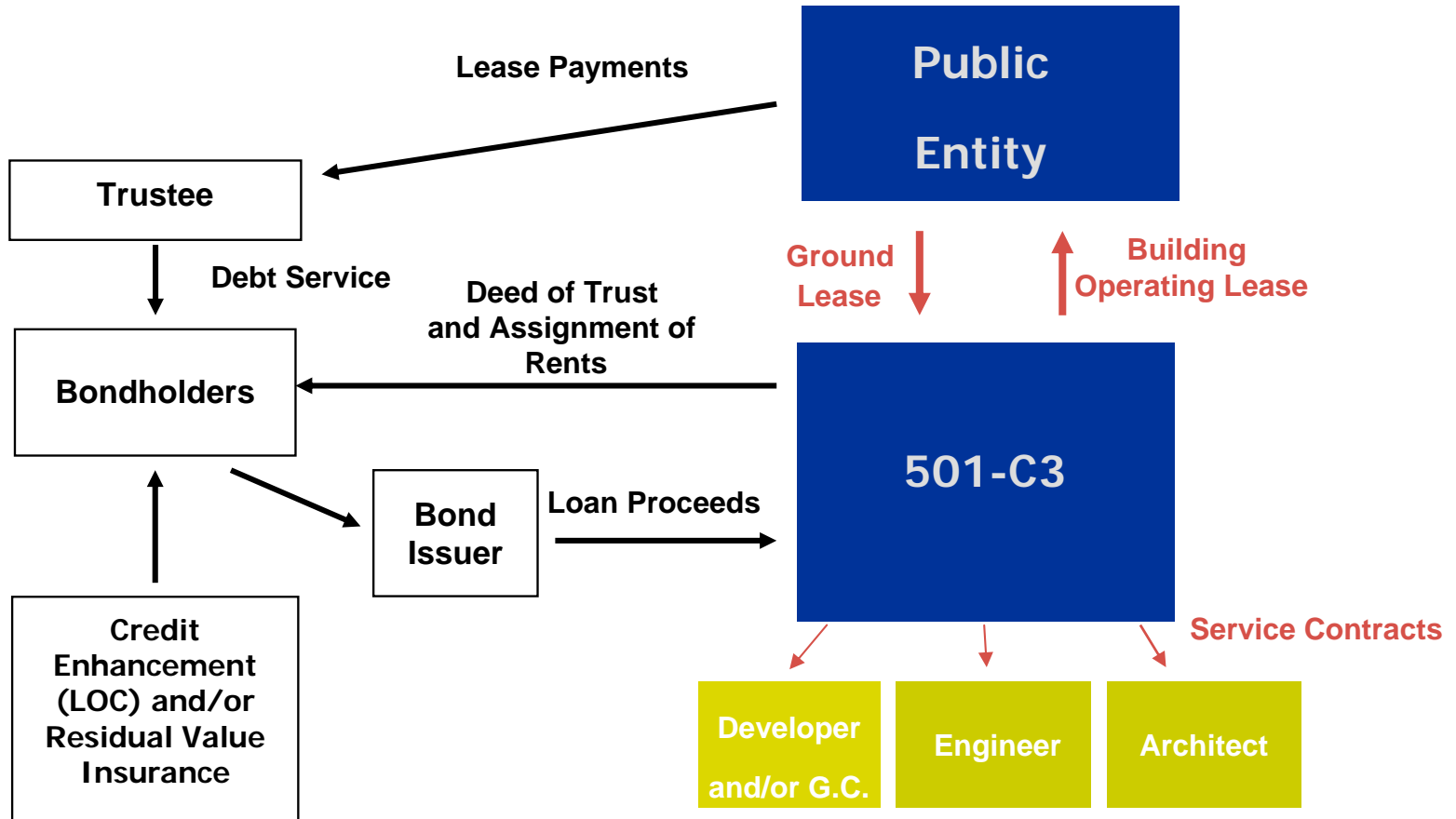
Developer obtains financing for private development



Typical Lease Terms

- **Public organization retains (or receives by gift) land ownership**
- **501-c3 receives a 40-year ground lease for project land (could be longer)**
- **501-c3 purchases (or constructs) buildings on project land**
- **Buildings are leased to public occupier for (typical) 15 to 20 year base term, plus renewal options**
- **Rent is calculated as a direct pass-through of bond financing (principal, interest and associated financing expenses)**
- **Public occupier has ongoing option to purchase buildings at remaining principal balance of bonds (buildings on ground leases are a “wasting asset” and decline in fair market value over time)**
- **At end of base lease term public occupier can renew, purchase or vacate**
- **Lease structure meets all FASB & GASB tests for operating lease treatment**
- **Building ownership reverts to Public occupier at end of ground lease by operation of law**

Typical Transaction Structure



Accounting and Rating Agency Considerations

- Both build-to-suit and sale/leaseback transactions meet operating lease tests of FASB and GASB rules
- No credit support, debt guarantees or other financial participation required from the public organization beyond a simple operating lease commitment in conventional “NNN” lease format
- Form of project financing is non-recourse lease revenue-backed bonds issued by the 501-C3 owner, with credit enhancement in the form of a letter of credit and/or residual value insurance
- Rating agencies will typically deem “non-mission-critical” properties to be (largely or entirely) “off-credit”
- Rating agencies may consider the net present value of the base term lease payment commitment in credit underwriting process

Appeal to Public Organization Occupiers

- Lease costs far below current market lease rates
- A cost of funds (and occupancy) closely equivalent to the organization's own debt rates
- Ability to fund specialized buildings or improvements that would not typically be appealing to conventional landlords
- Control of future property residual value through the ground lease reversionary rights, and the declining-price purchase option
- Complete financial "transparency" for all costs and expenses
- Operating Lease accounting treatment (off-balance sheet), allowing preservation of balance sheet and financial ratios
- (In most jurisdictions) exemption from sales taxes on construction materials and portion or all of property taxes
- Opportunity to generate tax revenue on private development (real estate, sales, etc.). Taxes can be used to underwrite public elements, TIF, etc. (Lockbox/PILOT)

Expense and Income - Putting Real Property to Work

Element/Feature	Costs/Expense	Income/Offsets	Comment
School & Performing Arts Center	Tax Exempt Debt through COP or 501 C3	Land Lease for private development, new property taxes or Payment in Lieu of Taxes offsets cost of public elements	Construction Costs at 3 year low. Good time to spec, bid and buy
Public Pool & Rec Center	Tax Exempt Debt through COP or 501 C3	Land Lease for private development, new property taxes or Payment in Lieu of Taxes offsets cost of public elements	Construction Costs at 3 year low. Good time to spec, bid and buy
Administrative Building (ACPS)	Tax Exempt Debt through COP or 501 C3	Existing lease expense	Preliminarily shown that build/own is less expensive than existing strategy of leasing at market rates
Administrative Building (City)	Tax Exempt Debt through COP or 501 C3	Existing lease expense	Will likely prove that build/own is less expensive than existing strategy of leasing at market rates
Community Retail	Tax Exempt Debt through COP or 501 C4	Income from 1st floor retail will subsidize some construction cost	Tax exempt debt limited to 5-10% of total construction budget
Private Development 1		Land Lease, Property Taxes or Payment in Lieu of Taxes (see above)	Likely Residential and Office Use. Underground Parking. Anticipate significant community input. Density substantial given Metro Access. Possible Non Profit HQ location.
Private Development 2		Land Lease, Property Taxes or Payment in Lieu of Taxes (see above)	Likely Residential and Office Use. Underground Parking. Anticipate significant community input. Density substantial given Metro Access. Possible Non Profit HQ location.

Oyster School Public Private Partnership



Challenge:

- Successful dual language acquisition program
- Crowded, run-down building
- Active parents
- City in fiscal crisis
- School located in high density residential area where housing was in demand
- School system had not built a new school in 20 years
- New funds to pay for school design and construction

Solution:

- Subdivided former 1.67 acre site in half
- Developer designed and constructed new school and a new 211 unit market-rate apartment
- Fee simple sale of portion of property (1/2)
- Private developer pays \$804,000/year for 35 years in lieu of taxes to pay off the \$11 million Oyster School Bond

Result:

- First new school built in District of Columbia with **no out of pocket expense** to taxpayers

What are next steps/process?

1. Determine if ACPS and City will pursue joint development
2. ACPS and City enter into MOU for project
3. Hire ACPS Project Manager
4. Identify and contract for supporting team members needed, assign responsibilities and create schedule (FA, Legal, A&E, etc.)
5. Identify community stakeholders and gain input
6. Identify and/or create Foundation/501-c3
7. Complete programming exercise to determine which elements will be included:
 - New Elementary School, Public Swimming pool, Performing Arts Center,
 - Administration Building
 - ACPS only
 - ACPS and City
8. Establish what if any additional development potential exists on site
9. Create Development Concept
10. Estimate value to be captured by Public Private Partnership
11. Prepare preliminary construction budgets for individual elements
12. Develop and distribute Request for Proposal to go to Market
13. Receive and analyze Developer Proposals
14. Submit findings to City/ACPS and Community
15. Select preferred development partner
16. Negotiate and document development agreement
17. Oversee developer activities on site and construction manage City/ACPS elements through completion

Project Schedule

	2009	2009	2010	2010	2011	2011	2012	2012	2013
	Q3	Q4	Q1-Q2	Q3-Q4	Q1	Q1-Q4	Q1-Q4	Q3-Q4	Q1
PROJECT TASK	PROJECT TIMELINE								
LEASE EXTENSION AT CURRENT FACILITY/PROGRAMMING FOR NEW REQUIREMENTS	█								
DEVELOP FINANCING OPTIONS/FINALIZE SITE SELECTION/PREPARE DESIGN CONCEPT FOR APPROVAL		█							
DESIGN DEVELOPMENT/CONSTRUCTION DOCUMENTS AND PERMITTING			█						
CONSTRUCTION/COMPLETION OF ADMIN FACILITIES					█				
FF & E/TECHNOLOGY INTEGRATION							█		
FINAL INSPECTIONS AND COMMISSIONING							█		
OCCUPANCY OF ADMIN. BUILDING PORTION OF MIXED USE DEVELOPMENT									█

Questions

**FY 2011-2016 Proposed CIP
ADA-Related Projects**

Needs-Based ADA Requests:

Category	Site	Project	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Total, All Years
School: Elementary	Cora Kelly	Elevator or Lifts							-
	William Ramsay	Elevator or Lifts		1,317,864	-	-	-	-	1,317,864
School: Elementary Total				1,317,864	-	-	-	-	1,317,864
School: Secondary	Francis C. Hammond	Elevator or Lifts	529,000	-	-	-	-	-	529,000
	George Washington	Elevator replacement	173,800	-	-	-	-	-	173,800
	TC Williams: Minnie Howard Campus	Bathroom Renovations: OCR compliance	350,000						350,000
Locker room upgrade OCR		790,000						790,000	
School: Secondary Total			1,842,800	-	-	-	-	-	1,842,800
Division-wide	Maintenance and Transportation facility	Elevator or Lifts	602,166	-	-	-	-	-	602,166
		Plumbing upgrade	246,786	-	-	-	-	-	246,786
Division-wide Total			848,952	-	-	-	-	-	848,952
Grand Total			2,691,752	1,317,864	-	-	-	-	4,009,616

Constrained Resources ADA Request:

Category	Site	Project	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Total, All Years
School: Elementary	Cora Kelly	Elevator or Lifts							-
	William Ramsay	Elevator or Lifts		1,317,864	-	-	-	-	1,317,864
School: Elementary Total				1,317,864	-	-	-	-	1,317,864
School: Secondary	Francis C. Hammond	Elevator or Lifts		542,225	-	-	-	-	542,225
	George Washington	Elevator replacement		178,145	-	-	-	-	178,145
	TC Williams: Minnie Howard Campus	Bathroom Renovations: OCR compliance	350,000						350,000
Locker room upgrade OCR		790,000						790,000	
School: Secondary Total			1,140,000	720,370	-	-	-	-	1,860,370
Division-wide	Maintenance and Transportation facility	Elevator or Lifts					681,295		681,295
		Plumbing upgrade				272,406			272,406
Division-wide Total						272,406	681,295		953,701
Grand Total			1,140,000	2,038,234	-	272,406	681,295	-	4,131,935