The State of P3 Financing
Building Michigan’s Municipal Infrastructure Through P3’s

June 12, 2014

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Senior Director
Bostonia Partners
Bostonia Overview

- **Bostonia Group** (Bostonia) has completed over $10 billion of transactions in energy, real estate, and contract finance since 1998. The firm consistently ranks in the top ten among all banks for U.S. for domestic private placements.

- **Bostonia Partners**, the investment banking arm of Bostonia Group, specializes in financing federal, corporate, and institutional energy and real estate projects.

- **Bostonia Global Securities**, the broker/dealer arm of Bostonia Group, provides direct access to institutional investors through daily activity in the capital markets.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Bank</th>
<th>2011 - 2013</th>
<th>Number of Deals</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BAML</td>
<td>18,077</td>
<td>136</td>
<td>25%</td>
</tr>
<tr>
<td>2</td>
<td>JPM</td>
<td>12,253</td>
<td>80</td>
<td>17%</td>
</tr>
<tr>
<td>3</td>
<td>Wells Fargo</td>
<td>5,709</td>
<td>58</td>
<td>8%</td>
</tr>
<tr>
<td>4</td>
<td>Citi</td>
<td>5,207</td>
<td>34</td>
<td>7%</td>
</tr>
<tr>
<td>5</td>
<td>Morgan Stanley</td>
<td>3,811</td>
<td>31</td>
<td>5%</td>
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<tr>
<td>6</td>
<td>US Bank</td>
<td>3,491</td>
<td>46</td>
<td>5%</td>
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<tr>
<td>7</td>
<td>Mitsubishi</td>
<td>2,878</td>
<td>31</td>
<td>4%</td>
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<tr>
<td>8</td>
<td>Barclays</td>
<td>2,453</td>
<td>20</td>
<td>3%</td>
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<tr>
<td>9</td>
<td>Key Banc</td>
<td>2,102</td>
<td>29</td>
<td>3%</td>
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<tr>
<td>10</td>
<td>Bostonia</td>
<td>1,937</td>
<td>54</td>
<td>3%</td>
</tr>
<tr>
<td>11</td>
<td>Goldman</td>
<td>1,824</td>
<td>8</td>
<td>2%</td>
</tr>
<tr>
<td>12</td>
<td>RBS</td>
<td>1,699</td>
<td>13</td>
<td>2%</td>
</tr>
<tr>
<td>13</td>
<td>RBC</td>
<td>995</td>
<td>10</td>
<td>1%</td>
</tr>
<tr>
<td>14</td>
<td>Mesirow</td>
<td>923</td>
<td>31</td>
<td>1%</td>
</tr>
<tr>
<td>15</td>
<td>SunTrust</td>
<td>905</td>
<td>10</td>
<td>1%</td>
</tr>
<tr>
<td>16</td>
<td>Deutsche Bank</td>
<td>837</td>
<td>8</td>
<td>1%</td>
</tr>
</tbody>
</table>
Building Michigan’s Municipal Infrastructure Through P3’s

AGENDA

• Developing a Financing Plan / Value For Money Analysis

• Capital Markets Landscape

• Case Study: 200 I Street, SE Washington DC (fka 225 Virginia Avenue)
Tax Exempt & Taxable Debt

- **Tax Exempt—Public Sector Transaction**
  - Retail investor driven investment product
  - Requires traditional credit/revenue streams
  - Generally must obtain a published credit rating
  - Fundamentals allow for 100% leverage and/or public entity can contribute cash equity
  - Public ownership is preferred/necessary
  - Debt Capacity may be an issue
  - “Public Offering” costs of issuance

- **Taxable Debt—Private Sector Transaction**
  - Multiple institutional investor types/classes to access
  - Accommodates a diverse credit/revenue streams
  - A published credit rating not required
  - Maximum leverage is credit/structure driven
  - Private ownership is typical
  - “Private Placement/Loan” costs of issuance
  - Municipal vs. Corporate Taxable Markets
Drivers For Developing the Financing Plan

**P3 Financing Overview: Financing Mechanisms**

- **Expected Rate of Return**
  - Tax-Exempt Debt
  - Taxable Debt
  - Tax Equity
  - “Spread”

- **Risk to Investor**
  - 100% Recourse to Government
  - Private Sector Transaction
  - Public/Private Risk Sharing
  - Project Equity
  - Private Sector Transaction

**Public Sector Transaction**

- **Private Sector Transaction**
  - Public/Private Risk Sharing
  - Project Equity
Evaluating P3’s

• Common misperception is that PPPs are always a more expensive form of project delivery for Governments
• As highlighted by the National Council for Public-Private Partnership’s (NCPPP) white paper, “Testing Tradition: Assessing the Added Value of Public-Private Partnership”, a thorough and proper evaluation involves several analyses:
  - Costs of deferred maintenance, repair, replacement
  - Project timing
  - Complete financial analysis using Value for Money (Vfm) assessment on Net Present Value (NPV) basis
    • Establish Public Sector Comparator (PSC) as baseline to compare to PPP or privatized options
    • Conduct full Life-Cycle (FLC) cost and revenue analysis for each option
    • Value and assess transfer of risk more effectively

Interest costs for projects may be higher for PPPs however FLC analysis often shows savings over time due to risk allocation, design, construction, and long-term O&M.
True Value for Money

• Public debt will likely have lower interest costs because municipalities can issue tax-exempt debt.

• Private debt can realize cost savings in other areas, including
  • Lower costs for employee compensation
  • Reduced operation and maintenance costs
  • The value of off-balance sheet financing
  • The value of shifting risk from the public sector to the private sector

• Certain risks are transferred to the private sector and provide incentives for long-term maintenance

• Public sector is able to focus on outcome-based public value of infrastructure project

• Lower cost of infrastructure by reduced construction costs and life-cycle costs

• Encourage strong customer service approach by private sector
Drivers for Developing the Financing Plan

• **Project**: Types, Risks and Available Revenues

• **Public Entity’s Objectives and Constraints**
  - Political
  - Legislative
  - Economic
  - Programmatic
  - Policy

• **Private Sector’s Appetite**—Not all project types have the same appeal

*Don’t let the Financing tools drive the process, as this approach will not optimize the business model for the public benefit*
# Financial Risks & Mitigation

<table>
<thead>
<tr>
<th>RISK</th>
<th>MITIGATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completion Risk</td>
<td>Net Worth / LOC</td>
</tr>
<tr>
<td>Operating Risk</td>
<td>Long Term Contracts / Covenants</td>
</tr>
<tr>
<td>Demand Risk</td>
<td>Lease Agreements</td>
</tr>
<tr>
<td>Force Majeure Risk</td>
<td>Casualty Insurance</td>
</tr>
<tr>
<td>Political Risk</td>
<td>Track record</td>
</tr>
<tr>
<td>Refinancing Risk</td>
<td>Termination Clauses</td>
</tr>
<tr>
<td>Liquidity Risk</td>
<td>Standard documentation</td>
</tr>
<tr>
<td>Interest Rate Risk</td>
<td>Hedges</td>
</tr>
</tbody>
</table>
3P Issues and Considerations

Accounting Issues
• Certain PPP structures meet “off-balance sheet” criteria
• Contract securitization structures with “non-recourse” debt
• Ownership structures that do not require accounting consolidation
• Consideration of new proposed Financing Accounting Standards Board/International Accounting Standards Board requirements for lease accounting

Opportunity Considerations
• Non core revenues to support institutional mission activities
• Deferred maintenance costs for infrastructure projects
• Historically low interest rates
• Tax advantaged structures
• Programmatic benefits
• Risk transfer
• Leasing opportunities
Rates trend lower during first quarter

Key Points

- Current 30-year UST of 3.43% is 72 bps below the 10-year average of 4.15%
- Current 30-year MMD of 3.36% is 81 bps below the 10-year average of 4.17%

30-Yr. Benchmark Taxable Rates

- Max. = 4.77%
- Min. = 2.45%
- 1-year avg. = 3.66%
- Current = 3.43%
- Decrease of 97 bps since January 1, 2011

30-Yr. Benchmark Tax-Exempt Rates

- Max. = 5.08%
- Min. = 2.47%
- 1-year avg. = 3.93%
- Current = 3.36%
- Decrease of 132 bps since January 1, 2011

Current as of June 6, 2014

Source: Bloomberg, Thomson Reuters Markets Inc. The MMD data contained herein has been obtained from Thomson Reuters Markets Inc., which is the sole owner and copyrights holder of such data. Such data is subject to copyright protection.
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- **STEP1:** DC exercises option on their lease with Washington Telecom to purchase the existing property for $85.2M.

- **STEP2:** DC leases existing property to an SPE of the developer, StonebridgeCarras for $1/YR for 22 years (lease extends an additional 20 years)

- **STEP3:** SPE designs, builds, finances and maintains (DBFM) $86M of improvements to the existing property.

- **STEP4:** SPE subleases improved property back to DC for 20 years.

- **STEP5:** Lease and sublease expire 20 years after substantial improvements complete, assuming DC does not default on payment. Ownership retained by DC.
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<tr>
<th>RISK</th>
<th>MITIGATION</th>
</tr>
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<tbody>
<tr>
<td>Completion Risk</td>
<td>Absolute Rent Start Date</td>
</tr>
<tr>
<td>Operating Risk</td>
<td>NNN Lease</td>
</tr>
<tr>
<td>Demand Risk</td>
<td>Lease Agreements</td>
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<td>Standard documentation</td>
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<tr>
<td>Interest Rate Risk</td>
<td>Fixed Rate</td>
</tr>
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**Bostonia Partners**
## Case Study – 200 I Street SE, Washington, D.C.

### BEFORE P3

<table>
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<th>AFTER P3</th>
</tr>
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<tbody>
<tr>
<td>$6.5M / YR to lease unimproved bldg</td>
<td>$85M one time cost to purchase unimproved bldg (equivalent of $8.3M/ YR for 20YRS)</td>
</tr>
<tr>
<td>$8.2M / YR lease space for eventual tenants</td>
<td>$8.4M / YR sublease cost for improved bldg</td>
</tr>
<tr>
<td>$14.7M / YR TOTAL COST</td>
<td>$16.7M / YR TOTAL COST(equivalent) to occupy new bldg &amp; eventual ownership of $225M asset.</td>
</tr>
</tbody>
</table>

### Public-Private Partnership Benefits

- Solved two issues for the District of Columbia:
  - Transformed an aging and unoccupied newspaper plant into a modern, fully occupied office space. Helped revitalize a section of downtown.
  - Will save DC tax payers and ownership of the building will revert back to the District at the end of the 20 year lease term
Awards

- Washington Business Journal - Best Rehab Award
- Washington Business Journal - Deal of the Year Award
- NAIOP National - Award for Sustainable Development of the Year
- NAIOP DC/MD - Best Rehab/Reuse Award
- NAIOP DC/MD - Best Sustainable Project Award
- CREW Placemaking Award
- U.S. Green Building Council - LEED Platinum Core & Shell and Commercial Interiors
- U.S. Green Building Council National Capital Region - Awards of Excellence, LEED Core & Shell
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