



# Alternative School Construction Financing

January 10, 2019





# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

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# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

## AGENDA

1. Overview of Cycle 1 Delivery Methods
2. Current School Construction Challenges
3. Potential Solution
4. Alternative Financing
5. How This Will Work for PGCPS



# DEPARTMENT OF CAPITAL PROGRAMS: Overall Construction Delivery Plan

## CYCLE 1:

There are 37 schools identified as Cycle 1 schools, which were established in 2017 from the Master Plan support Project study, which evaluated all 208 school buildings. Cycle 1 is supposed to be executed over 6 to 7 years. All 208 schools are divided amongst Cycles 1, 2, 3 and 4.

### CYCLE 1 (FY2017-22)

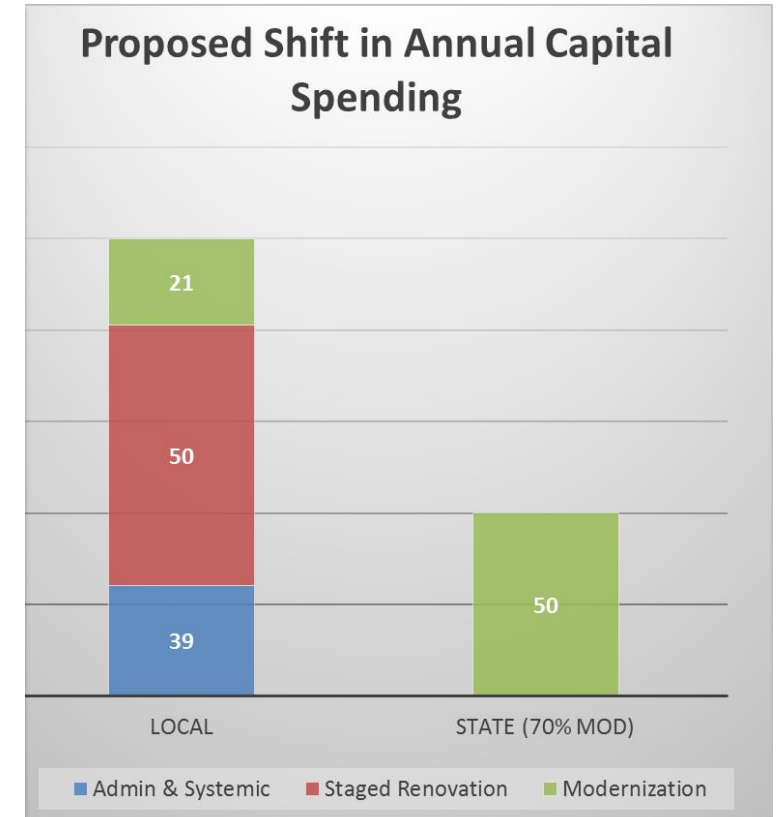
(planning, design, construction 4-6 yrs)

	Pre-FY17	FY17	FY18	FY19	FY20	FY21	FY22
North	New MS #1 (PA 34)	New ES #1 (PA3)	Hyattsville ES (PA 7)	Charles Carroll MS (PA 34)	Cherokee Lane ES (PA 3)	High Point HS (PA 38)	Benwyn Heights ES (PA 5)
	New MS #2 (PA 34)	New HS #1 (PA 38)		James Duckworth (PA 2)	Frances Fuchs ECC (PA2)	Hyattsville MS (PA 34)	Calverton ES (PA 2)
		New International School at Langley Park (PA 38)		Templeton ES (PA 12)	Margaret Brent (PA 8)	Rogers Heights ES (PA 12)	
		William Wirt MS (PA 34)			Riverdale ES (PA 7)		
					Springhill Lake ES (PA 5)		
Central	Bowie-Belair Annex- LR (PA 39)	Kenmoor MS (PA 36)	Thomas Johnson MS (PA 35)		Longfields ES TBD (PA 21)		Benjamin Tasker MS (PA 35)
	C. Elizabeth Rieg Regional- LR (PA 17)				Walker Mill MS (PA 36)		
	Fairmont Heights HS (PA 39)						
	Glenarden Woods ES (PA 15)						
	Tulip Grove ES (PA 10)						
South		Benjamin Stoddert MS (PA 37)	Drew-Freeman MS (PA 37)	Gwynn Park HS (PA 40)	Rose Valley ES (PA 29)	Gwynn Park MS (PA 37)	
		Suitland HS Campus (PA 40)				Potomac Landing TBD (PA 32)	



# DEPARTMENT OF CAPITAL PROGRAMS: Overall Construction Delivery Plan

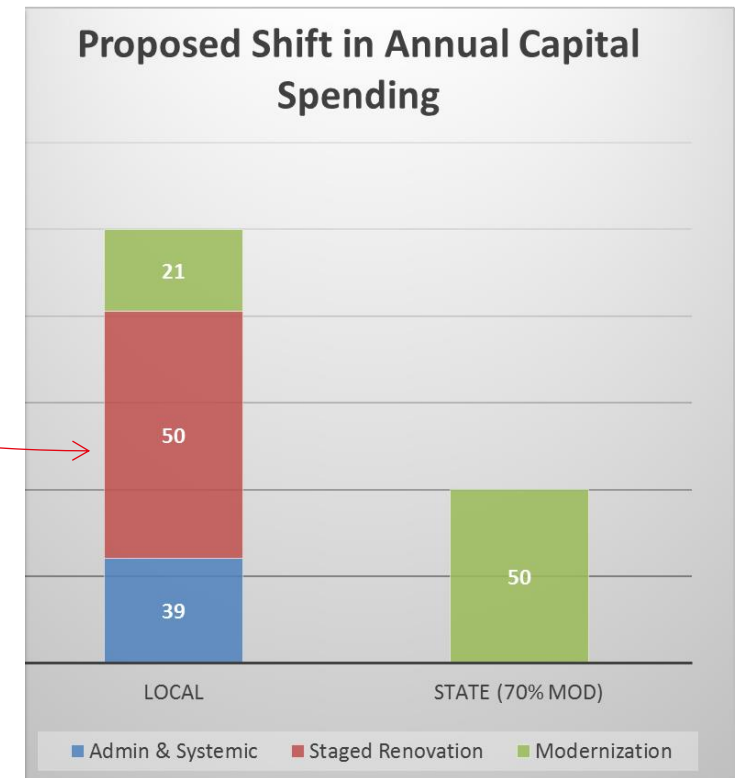
1. *Shift systemic maintenance projects to County-only funding and utilize State funding for comprehensive modernizations.*
- The 2019 CIP represented a shift in the manner the Department of Capital Programs planned the funding of future projects. PGCPS shifted systemic projects to local funding and concentrated State capital funding on larger Modernization and renovation projects. PGCPS now has greater control over the majority of projects, reducing paperwork and saving money.





# DEPARTMENT OF CAPITAL PROGRAMS: Overall Construction Delivery Plan

1. *Shift systemic maintenance projects to County-only funding and utilize State funding for comprehensive modernizations.*
2. *Use local funding for **Staged Renovations** to address the most critical needs at more schools sooner and with less disruption. Focus on summer projects in five categories:*
  - Healthy Buildings
  - Core Enhancements
  - Future Ready Schools
  - Safe Passages to Schools (SPS)
  - Secure Accessible Facilities Entrances (SAFE)

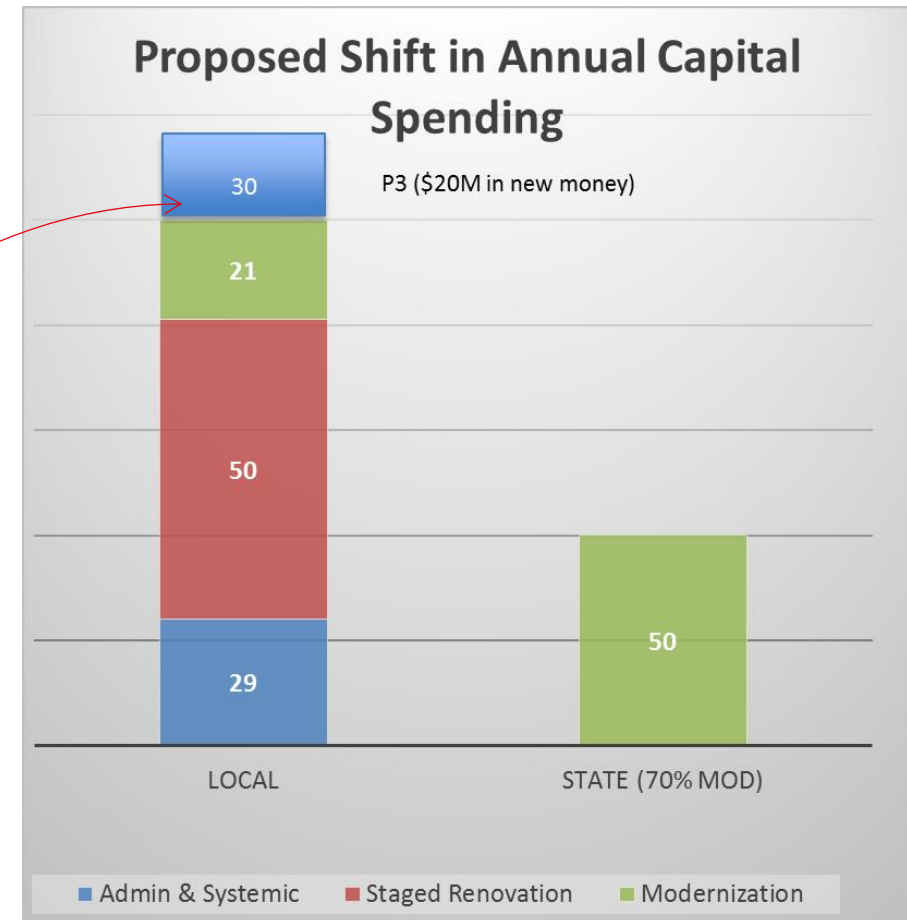






# DEPARTMENT OF CAPITAL PROGRAMS: Overall Construction Delivery Plan

1. *Shift systemic maintenance projects to County-only funding and utilize State funding for **comprehensive modernizations**.*
  2. *Use only local funding for **Staged Renovations** to address the most critical needs at more schools sooner and with less disruption.*
  3. *Utilized an **Alternative School Construction Financing Method (“ACF”)** for the construction of multiple major projects.*
- The goal is to build 5 to 10 schools through a private partner; we need roughly \$30M annual revenue stream.





## DEPARTMENT OF CAPITAL PROGRAMS: Overall Construction Delivery Plan

1. *Shift systemic maintenance projects to County-only funding and utilize State funding for comprehensive modernizations.*
2. *Use only local funding for **Staged Renovations** to address the most critical needs at more schools sooner and with less disruption.*
3. *Utilized an **ACF** for the construction of multiple major projects.*
4. ***Reduce the overall construction costs** through different delivery methods, reduced scope and quality control.*





# DEPARTMENT OF CAPITAL PROGRAMS: Overall Construction Delivery Plan

## *SUMMARY of Overall Plan*

- 1. Shift our systemic projects to County funding and utilize state funding to replace or modernize schools.*
- 2. Use Staged Renovations to address many Cycle 1 modernizations.*
- 3. Utilize a P3 to construct major projects (number TBD).*
- 4. Reduce the overall construction costs.*



# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

## Challenges and Drivers

- *Aging facilities, backlog of deferred maintenance and acute overcrowding are hampering PGCPS ability to deliver on its core mission: Education.*
- *The 20-year Education Facilities Master Plan approved in FY17 (as amended in FY2019) identifies a total capital investment need of approximately \$8 billion, which translates into an annual capital funding requirement of \$400 million. Nevertheless, projected funding suggests \$160M per year.*
- *Therefore, PGCPS is exploring alternative finance and delivery options that will allow it to accelerate infrastructure delivery and reduce life-cycle asset costs, as authorized by Maryland Education Article Section 4-126.*



# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

## Alternative Financing Methods

No universal definition of Alternative Financing. *Maryland Education Article Section 4-126 considers a wide range of modalities:*

- (1) Sale–leaseback arrangements
- (2) Lease–leaseback arrangements
- (3) Public–private partnership agreements
- (4) Performance–based contracting
- (5) Preference–based arrangements
- (6) Design–build arrangements

Section 4-126 explicitly authorizes a County to use alternative financing methods “in order to finance or to speed delivery of, transfer risks of, or otherwise enhance the delivery of public school construction.”

## What is Alternative Financing?

Alternative financing refers to a range of contractual arrangements between a public agency and a private sector to deliver public infrastructure facilities and services.

There are a wide variety of alternative financing models, each of which is differentiated by the allocation of rights, risks and responsibilities between the public and private entity:

### Infrastructure Delivery Spectrum of Options



## Key Drivers of Alternative Financing

- *State and County have limited financial resources to devote to capital and operational expenditures.*
- *Need to address growing backlog of deferred maintenance is diverting resources from modernization and expansion projects.*
- *Intense competition for scarce funding.*
- *Protracted appropriations delay construction delivery and exponentially increase costs.*
- *Lack of funding leads to deferred maintenance/fix-as-fails approach is not cost-effective for tax payers.*

### *Key Alternative Finance & Delivery Drivers*

- *Access to new sources of financing/Accelerated Delivery of Infrastructure*
- *Asset life-cycle considerations*
- *Operational efficiencies and life-cycle cost savings*
- *Budget predictability*
- *Risk allocation and incentivized performance*

*Public authorities are increasingly turning to alternative finance and delivery to meet infrastructure needs.*

## Challenges Go Beyond Funding

### *Infrastructure delivery system is flawed*

- Public confidence gap in infrastructure delivery
- Limited life-cycle asset consideration
- County retaining excessive delivery and performance risk (to the detriment of taxpayers)
- General lack of incentivized performance
- Excessive regulatory and administrative burdens unnecessarily increase costs

### *Taxpayers and ratepayers deserve a better deal*

- Need to leverage alternative finance and delivery modalities
- Linking funding (and financing) to infrastructure delivery and performance
- Protect investments by ensuring life-cycle asset maintenance

Of all of the world's megaprojects,  
9 out of 10:

Overrun their budget

Are delayed

Don't deliver the expected benefits

Source: Bent Flyvbjerg, University of Oxford Saïd Business School

P3 value proposition lies in aligning incentives and optimizing risk transfer to deliver infrastructure in a timelier and more cost-effective manner, while simultaneously locking in in life-cycle asset maintenance.





# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

## Benefits and Challenges of Alternative Financing

**Alternative Finance and Delivery Structures** could be helpful for the following reasons:

- Reduce/transfer cost and schedule risk
- Accelerate delivery
- Bundle works and phases to capture economy of scale efficiencies and reduce administrative burden (just one procurement)
- Eliminate costly delays due to funding shortfalls
- Provide budget predictability over asset life-cycle
- Allow PGCPS to pay **ONLY AFTER COMPLETION** (align repayment with delivery of public benefits)
- Potentially reduce capital and/or O&M costs
- Leverage private capital (off-balance sheet financing)
- PGCPS retains ownership of facilities and continues to exercise governance over school infrastructure
- Transparency and accountability in cost and performance

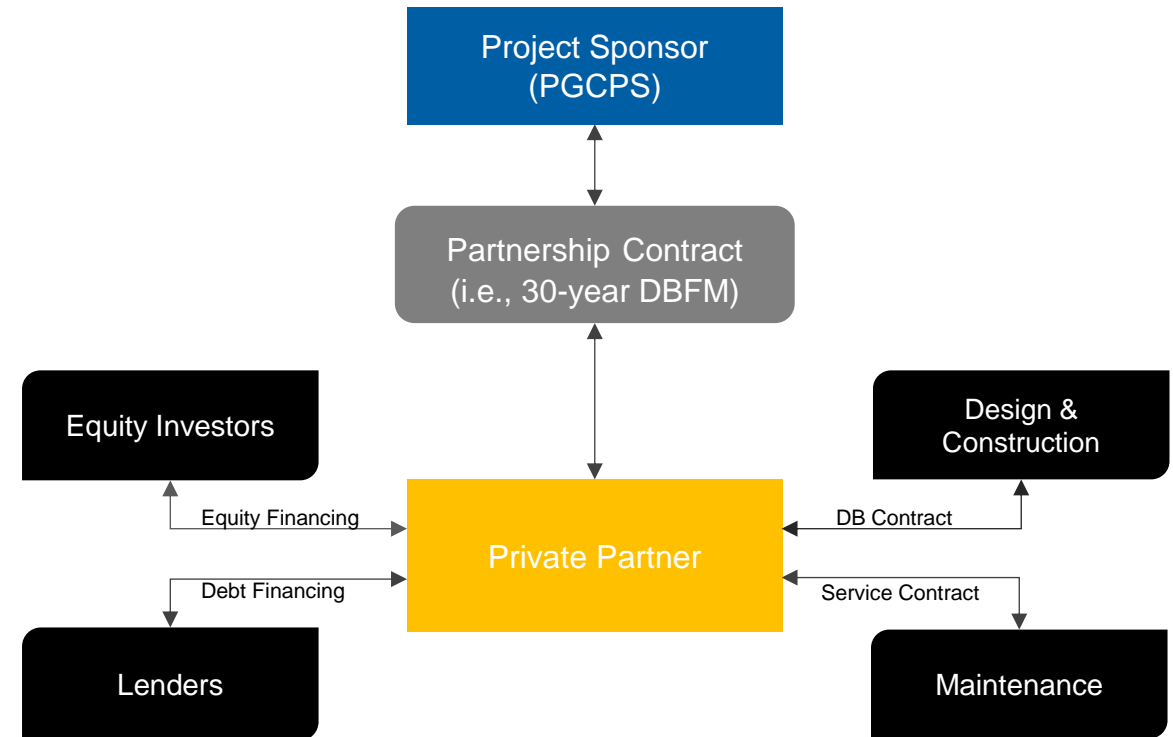
### **Challenges to alternative financing:**

- Project still dependent on public funding (not free money)
- Much of project life-cycle elements under contract
- Long-term commitment
- Higher private sector cost of financing

## Contracting Modalities – Scope

### Design-Build (DB)

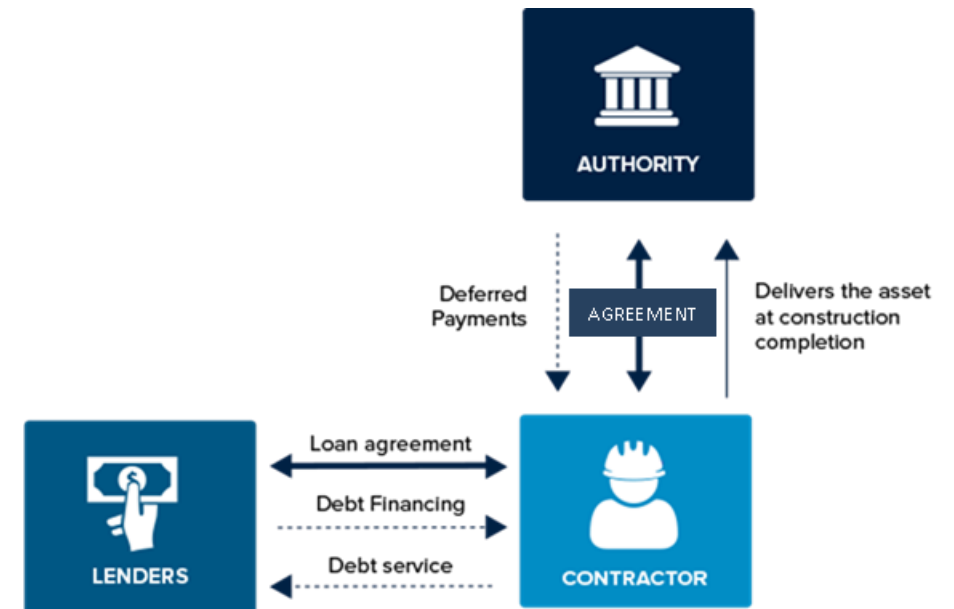
- Single contract awarded for design, and construction, and full or partial financing of a facility
- Responsibility for financing and long-term maintenance and operations of the facility remains with project sponsor (PGCPS).
- *This type of partnership can reduce time, save money, provide stronger guarantees (as the work is with a single entity rather than a consortium) and allocate additional project risk to the private sector.*



## Contracting Modalities – Scope

### Design-Build-Finance (DBF)

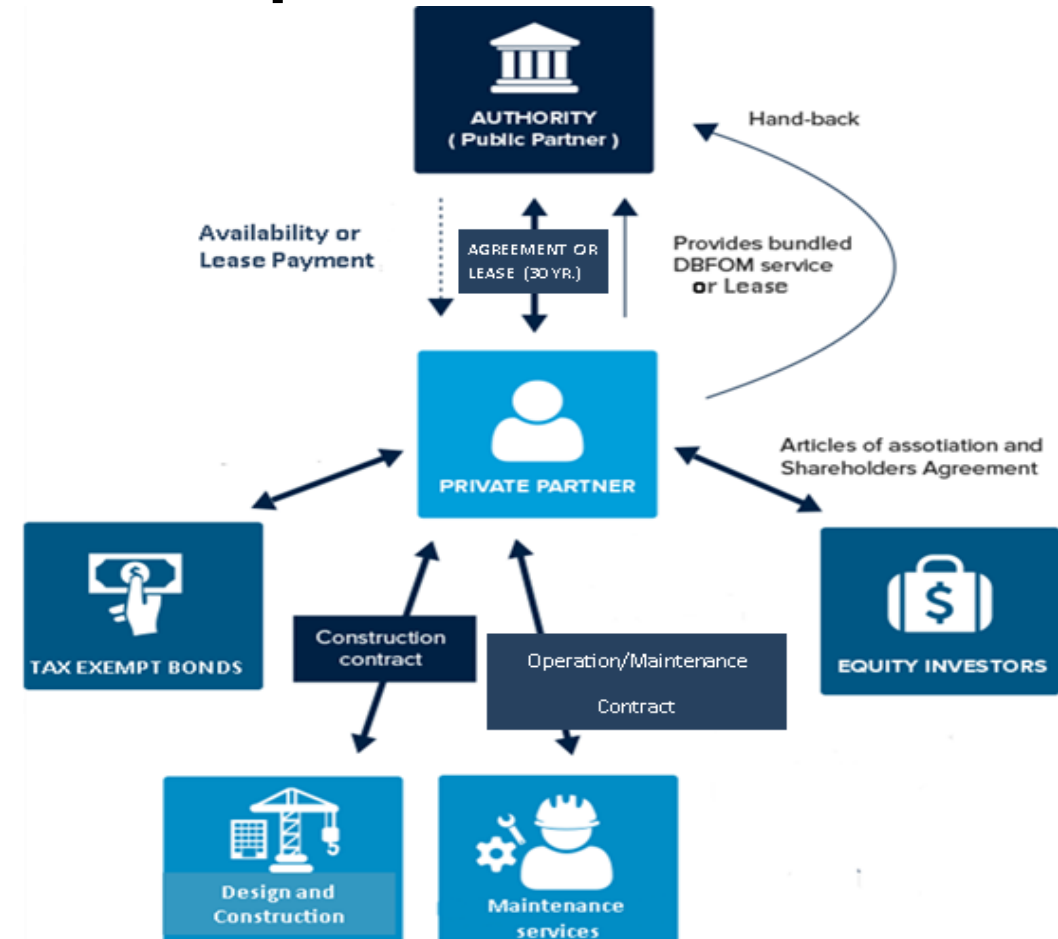
- Single contract awarded for design, construction, and full or partial financing of a facility.
- Responsibility for long-term maintenance and operations of the facility remains with project sponsor (PGCPS).
- The LEA takes over the building at the completion of construction. This defers payment, but often requires a large lump sum payment at turnover.
- This type of partnership can reduce time, save money, provide stronger guarantees (as the work is with a single entity rather than a consortium) and allocate additional project risk to the private sector.
- This model does not provide: 1) a guarantee of the quality of the construction; 2) the maintenance, nor 3) the operation of the building systems. As we have seen in Prince George’s County, many new buildings have been delivered with flaws in design and function, which have availed themselves during cold snaps or other inopportune moments.



## Contracting Modalities – Scope

### Design-Build-Finance-Operate-Maintain (DBFOM)

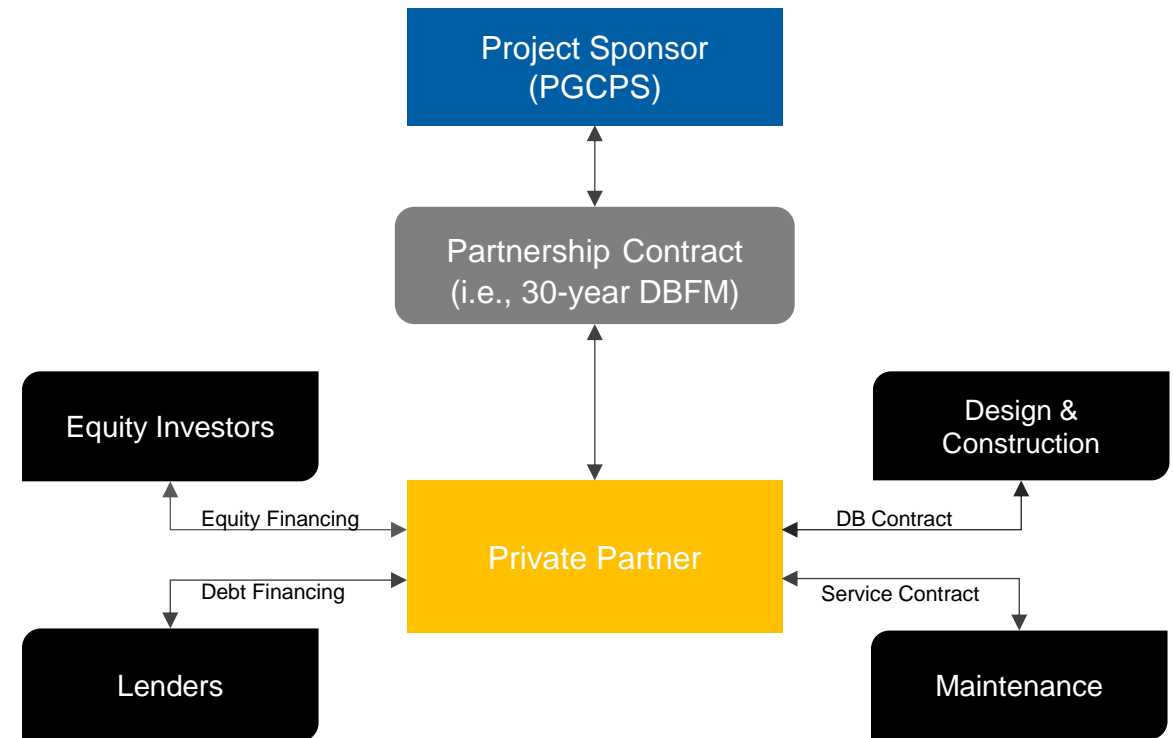
- Responsibilities for designing, building, financing, operating and maintaining the facility are bundled together and transferred to a private partner.
- DBFO and DBFOM are often used in the UK for PFI (Private Finance Initiative) projects. Skanska built over 20 schools in the UK using this model. The private sector designs, builds, finances, operates the school, then leases it back to the government, typically over a 25-30 year period. Public sector long-term risk is reduced and the regular payments make it an attractive option to the private sector.



## Contracting Modalities – Scope

### Design-Build-Finance-Maintain (DBFM)

- Single contract awarded for design, construction, full or partial financing, and long-term maintenance of a facility.
- Responsibility for operations of the facility remains with project sponsor (PGCPS).
- There are a number of benefits to DBFM:
  1. The school system controls to a large measure what is built.
  2. The facility gets all of the financial benefit of deferred payment by setting up an availability fee or lease payment structure.
  3. The Private Partner will maintain the building, thus incentivizing both good construction and maintenance practices.
  4. An expected element of this method and other similar models is a claw back provision, permitting the school system to lower payments, if the building fails to meet operational metrics.
- **DBFM is the model that DCP currently envisions for PGCPS.**





# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

## Payment Mechanism A.

In a DBFM or DBFOM Agreement, private investments are repaid via **availability or lease payments**.

- Budget-based or Completion payments begin after substantial completion of the project.
- Long-term payment schedule locks in project costs over asset life-cycle resulting in budget predictability.
- Credit rating agencies have specific guidance as to credit impact of availability payments in DBFM agreements.
- Financing is based on the Stream of funding guarantee, not the assets.

### Potential PGCPS Availability Payment Sources:

- County allocated funds
- PGCPS allocated funds (cost savings deferred spending on modernization, new efficient construction methods, and improved operations and maintenance)





# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

## How Will This Work for PGCPS?

Per the Resolution of the Prince George's County Council, a P3 Alternative Financing School Infrastructure Work Group (the "Work Group") has been formed to move the ACF forward. The members of the Work Group are as follows:

Dannielle M. Glaros	Prince George's County Council
Todd M. Turner	Prince George's County Council
Sonya Williams	Member, Board of Education
William M. Hunt	Deputy Council Administrator
Inez N. Claggett	Legislative Auditor
Leroy D. Maddox, Jr.	Legislative Officer
Stanley A. Earley	Director, OMB
Barry L. Stanton	Chief Operating Officer (PGCPS)
Shawn Matlock	Director of Capital Programs (PGCPS)
Elizabeth Chaisson	CIP Officer (PGCPS)



# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

## How Will This Work for PGCPS?

The Work Group is tasked with developing a plan for the ACF that the County Council and the Board of Education can approve, and then moving forward with the selection of a Private Partner/Group to implement the plan:

1. Develop a business case and affordable financial model;
2. Develop a governance structure;
3. Present the governance structure, the business case along with proposed legislation in support of the plan;
4. Upon approval, engage in a two stage solicitation process for a Private Partner/Group; and
5. Select the a Private Partner/Group and negotiate the final contract.



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## How Will This Work for PGCPS?

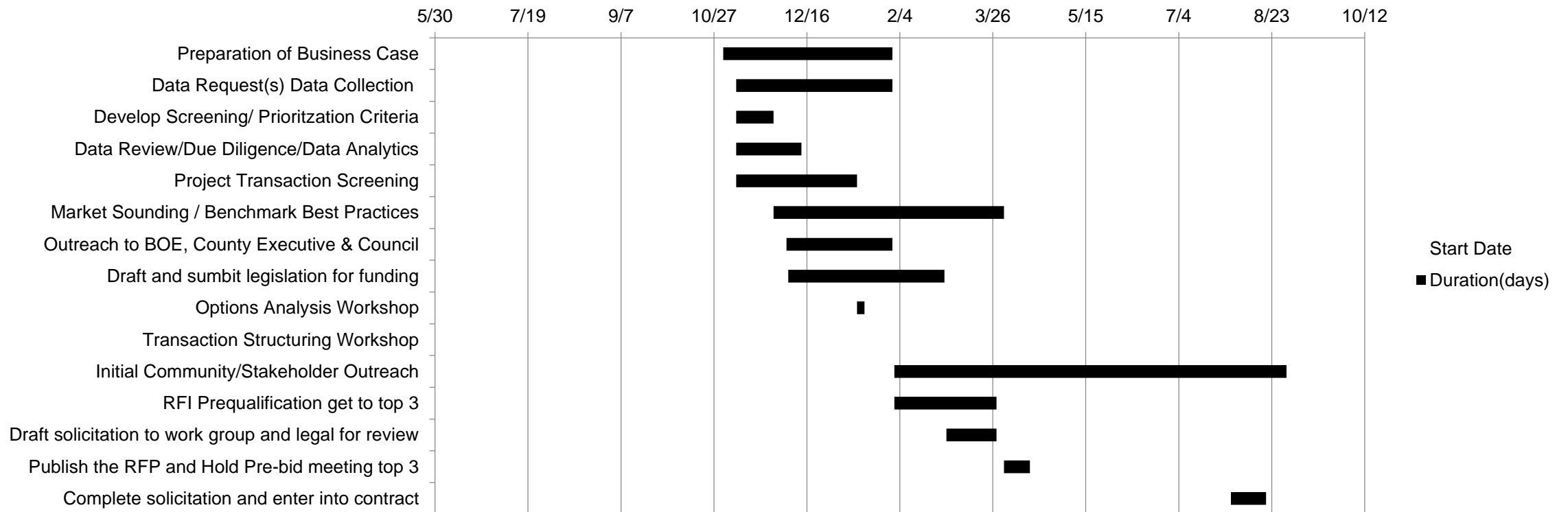
- PGCPS will develop initial design and operation standards for ACF school buildings and will participate in the solicitation process to ensure that preliminary designs meet those standards. PGCPS will develop during the solicitation and selection process:
  1. Required design features and performance standards of facilities;
  2. Contractual terms acceptable to PGCPS;
  3. Alternative technical concepts which reduce project costs or improve facility quality; and
  4. Evaluation criteria for bidders.
- Designated Department of Capital Programs (DCP) staff will work with the selected Private Partner/Group from design through construction and will act as owner agents.
- Said DCP staff will also facilitate both external and internal stakeholder engagement and participation.



# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

## Preliminary Schedule

The overall goal is to have all of the ACF schools ready for occupancy by August 20, 2022. PGCPS's preliminary schedule to establish a business case, pass legislation and contract with a private partner is as follows:

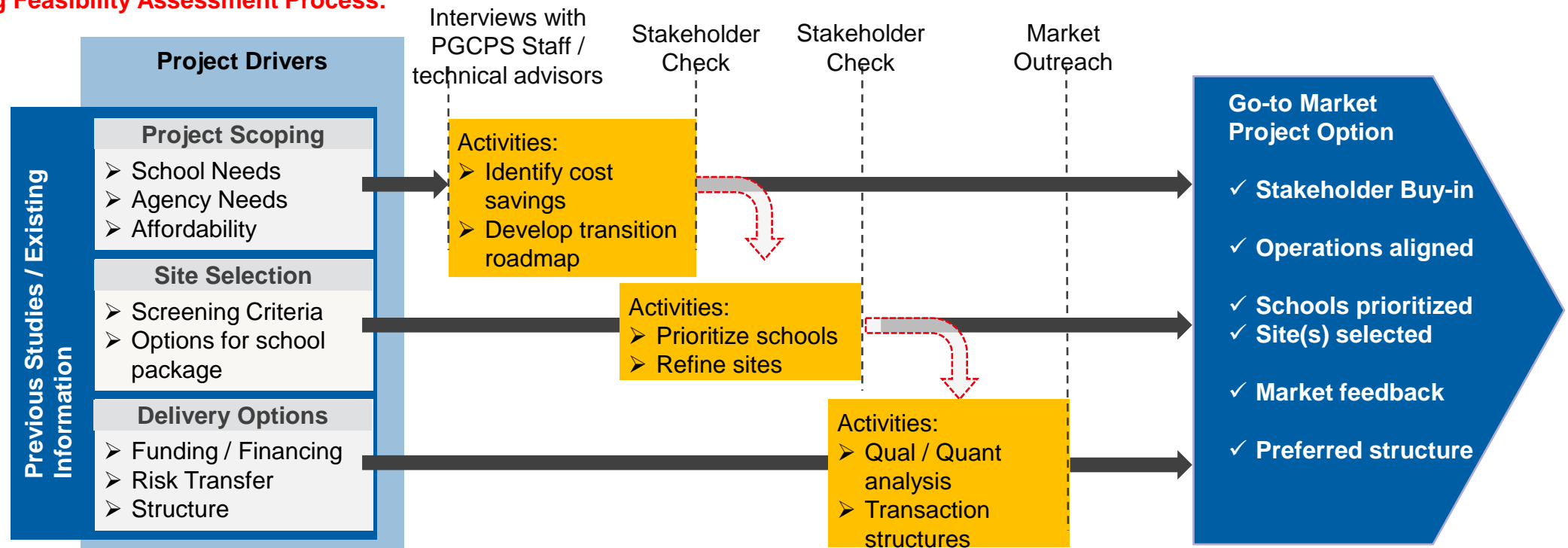


# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

## How Will This Work for PGCPS?

PGCPS has contracted Jones Lang LaSalle (JLL) to provide consulting services on the feasibility of a DBFM for new school construction and to work and advise the Work Group through the solicitation and selection process of choosing a private developer.

### Alternative Financing Feasibility Assessment Process:





# DEPARTMENT OF CAPITAL PROGRAMS: ALTERNATIVE SCHOOL CONSTRUCTION FINANCING

**Questions?**