December 16, 2014

Report to Loveland City Council
Regional Training Campus for Law Enforcement RFP

Wm T. Welch Company
PROJECT NAVIGATION

Discussion of Public Private Partnerships (PPP or 3P) as a Project Delivery Method

A. Common Types Of Public Private Partnerships, though every imaginable hybrid is available based on the ability to negotiate terms and conditions:

1. Build to Suit: Purchase:
Public agency contracts with developer to design, build, and provide construction period finance (equity and debt). At project substantial completion the public agency purchases the facility.

2a. Build to Suit: Lease:
Public agency contracts with developer to design, build, and finance (debt and equity) facility. Public agency occupies, operates and maintains the facility for a specified lease term. At completion of lease term, public agency may vacate or may negotiate the purchase the facility based on an agreed upon formula.

2b. Build to Suit: Lease, Operate-Maintain:
Same as above with developer providing operation and maintenance during the lease term.

3a. Build to Suit: Lease-Purchase:
Public agency contracts with developer to design, build, and finance (equity and debt) facility. Public agency occupies, operates and maintains the facility for a specified lease term. At completion of lease term, public agency either owns the facility outright (higher lease rate during the lease term) or purchases the facility based on an agreed upon formula (lower lease rate during the lease term with cash payment at purchase closing).

3b. Build to Suit: Lease-Purchase, Operate-Maintain:
Same as above with developer providing operation and maintenance during the lease term.

4. Build to Suit: Lease-Purchase, Co-finance, Operate-Maintain:
Public agency contracts with developer to design and build the facility. Public agency and developer share provision of finance (equity and debt) both during the construction period and permanent financing. Equity financing can be provided either as cash or in-kind contributions, land for example. Developer operates and maintains the facility for a specified lease term. At completion of lease term, public agency either owns the facility outright (higher lease rate during the lease term) or purchases the facility based on an agreed upon formula (lower lease rate during the lease term with cash payment at purchase closing).

B. Terms, Conditions, and Discussion Points:

1. Project Value:
Transaction costs of PPP's can be substantial for developer's proposal preparation, contract negotiation and financing costs. $20,000,000 project value seems to be a "sweet spot" for developer interest.

2. Lease Term:
Based on some other local PPP projects 20-year lease term is not uncommon.

3. Financing:
Debt financing may be challenging since similar PPP projects have not been constructed in this market to test financial pro forma projections against. TABOR limitations also affect financing options since lenders would need to be made comfortable with annual appropriation of lease payments.

4. Lease Payments:
How will lease payments be calculated and accrued? Availability of facility for intended use? User fees?

5. Equity Control:
Some developers may want to construct the facility and place it into operation then sell it to a secondary institution to hold the property for the long term. What is the minimum hold time for the selected developer? City will want some ability to approve of a "flip"?

6. Operating and Maintenance Costs (O&M):
O&M costs can vary widely based on material, equipment and system selections made during the design process and actual facility operations. Lower first costs can result in higher O&M. Lease agreement needs to address estimated O&M costs and over-runs/under-runs.

7. Project Location:
Current program assumes the entire project is located on a specialty land lease at the Fort Collins-Loveland Airport. This site may be difficult for private lenders to underwrite financing because of FAA and other statutory and covenant restrictions on land disposition and use. May developers propose alternative sites? Do all program functions have to be within either Loveland or Fort Collins' city limits?

8. Project Program:
The project team has indicated that locating the entire training program located on a single site will result in significant training synergies in terms of direct personnel training time and cost. The campus aspect has also been recognized to be a benefit by

potential user agencies. If first cost is lower is the project program to be separated onto multiple sites by a developer?

9. Alternative Program Providers:
There are providers of the shooting range function with various degrees of conformance with the project program that have expressed an interest providing the range as a service. These are privately owned and operated facilities that are also available to the general public. Will these providers be permitted to propose on only the shooting range function to the exclusion of the balance of the project program?

10. Performance Guarantee and Payments:
What kind of performance guarantees will be required of a developer? Contract surety performance bonding?

11. Statutory Precedent:
Are there any enabling actions that will need to be taken by the City Councils of Loveland and/or Fort Collins before a PPP delivery RFP may be prepared and advertised?

12. Pre-Qualification of Developers:
Pre-qualification criteria will need to be established as part of RFP preparation.

13. Selection of Developers:
The project team will need to create a proposal rating scheme and proposal form that coordinate closely to fairly assess very different proposals.

14. Developer PPP RFP Proposal Preparation:
In order for the PPP RFP to be successful a significant amount of staff and consultant time will be needed to create purpose and policy statements; definition and clarification of business objectives; take the current conceptual designs and create documentation sufficient to establish quality, cost, scope and schedule parameters.