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P3 Sector: Changes in a Developing Market

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The long anticipated wave of public-private-partnership transactions again failed to materialize in 2015. While some projects reached financial close, there were some high profile P3 cancellations, notably the Indianapolis Consolidated Justice Facility, which left market participants bruised.

On the positive side, 2015 saw a number of innovative non-transportation projects, institutional investors showed increased interest, there are significant projects in the pipeline for 2016, and the Fixing America's Surface Transportation (FAST) Act was enacted, which provides federal funding for new projects over fiscal years 2016 through 2020, and removes the bar on use of tax-exempt financing for water projects utilizing WIFIA funding.

2015 Closings

North Carolina's I-77 HOT Lanes P3 and Ohio's Portsmouth Bypass reached financial close in 2015, as did Pennsylvania's Rapid Bridges Replacement Project. The Pennsylvania project was the first to "bundle" multiple projects into a single U.S. P3. The winning Plenary/Walsh team will replace 558 bridges over three years and then maintain them for 25 years. The Michigan freeway lighting P3 and the Kentucky Broadband P3, discussed below, also reached financial close in 2015.

Other Activity in 2015

There were several other significant projects at varying stages of procurement in 2015. Maryland's Purple Line Rail Project was cast in doubt with the election of a new Governor in November 2014, but it moved ahead in 2015, albeit in a modified form. The \$2.2 billion project entails a new 16-mile light rail line in the DC suburbs. The four bidding teams submitted financial proposals on Dec. 8, with the winner to be announced in early 2016.

In May, the Meridiam, Skanska and Vantage Airport consortium was selected by the Port Authority of New York and New Jersey as the preferred proposer on the LaGuardia Airport Central Terminal Building Replacement Project. The consortium will work with the Port and other interested parties to replace the existing Central Terminal, as well as performing related construction, and thereafter operate and maintain the new terminal for 35 years.

Colorado moved ahead with its I-70 East Project in Denver. Colorado's preferred approach includes coverage of a section of the \$1.5 billion, 12 mile- road project with a park or other public amenity. A final RFP is expected in March 2016. On Dec. 8, Virginia confirmed it would proceed with a P3 structure for the I-66 project. Three teams have been shortlisted on this 25-mile road project. Final city council approval of the Long Beach Civic Center P3 in California is expected on Dec. 15. On Dec. 10, Georgia selected the preferred bidder on its I-285 & SR-400 Reconstruction DBF. Financial close is expected in April 2016.

Trends and Developments for 2016

The U.S. P3 sector matured in 2015, expanding beyond transportation. Michigan reached financial close on the first U.S. freeway lighting P3 in August. The winning Star America consortium will finance and replace approximately 14,870 Detroit area freeway lights with energy-efficient LEDs within two years, and maintain the system for 13 years. Chicago issued a request for qualifications for a streetlight P3 in September. Others considering street lighting P3s include Virginia, Arizona, Washington, D.C., and Baltimore.

The Kentucky Broadband P3 garnered significant attention when it closed in September. The Macquarie consortium will develop an approximately 3200 mile high-speed broadband internet network, connecting all 120 commonwealth counties. Its innovative structure uses tax free bond financing, a first in the social infrastructure P3 sector.

Pennsylvania is procuring a P3 for up to 37 compressed natural gas fueling stations, for public and private vehicles. Three teams have been shortlisted, with bids due in January. Arizona is considering a P3 for CNG fuelling stations, as well as a P3 procurement to build truck weighing stations state-wide.

Universities are increasingly looking to P3s to address their infrastructure needs. On Nov. 19, the Board of Regents of the University of California approved its Merced Campus Expansion, which will support projected student growth from 6,200 to 10,000 by 2020 and includes up to 1.85 million square feet of new facilities, at a cost of as much as \$1 billion. Three teams are shortlisted.

In November, the University of Kansas approved the Central District Development for the construction of significant new academic science facilities and student union space, plus two housing facilities. Edgemoor Infrastructure and Real Estate is the preferred bidder. Purdue University and the City of West Lafayette, Indiana are procuring the State Street Redevelopment P3. Bids are due in this month.

The Ohio State University issued a request for information in October 2015 for its Comprehensive Energy Management Project. In July, Texas State University issued an RFQ for a combined heat and power system P3. The University of Georgia is likely to move ahead with a student housing P3 in 2016. Macquarie and Compatriot have established a new joint venture, Amicus Investors, to provide capital financing for university P3 or concession arrangements, demonstrating confidence in this growing P3 sector.

Institutional investors have been active in refinancing P3s, but the Michigan freeway lighting P3 reached initial financial close with private placement debt, the first U.S. P3 to do so. The Indianapolis Consolidated Justice Facility, pre-cancellation, was expected to utilize an

institutional private placement financing. The interest of institutional investors in providing initial financing is a significant development, representing a potential new source of cost effective financing.

The sale of the Indiana Toll Road concession for \$5.7 billion, and the agreement by institutional investors to acquire the Chicago Skyway Concession for \$2.8 billion, demonstrate that there is significant investor appetite for US P3 assets.

Conclusion

Although the 2016 P3 pipeline is not robust, we are likely to see a number of new P3s in 2016, including at LAX and LA Metro, and projects from Miami-Dade County, and the states of Arizona and Arkansas, among others. Global equity investors and sponsors continue to demonstrate strong interest in investing in U.S. infrastructure, notwithstanding the relatively anemic pipeline. Given U.S. infrastructure needs, the value to be derived from the P3 model, and the encouraging enactment of the FAST Act, it has the potential to become the most active global P3 market. No one wants to be late to that party.

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