

Public Private Partnership on Jefferson – Houston Site

Presentation to:



Alexandria City Public Schools



City of Alexandria

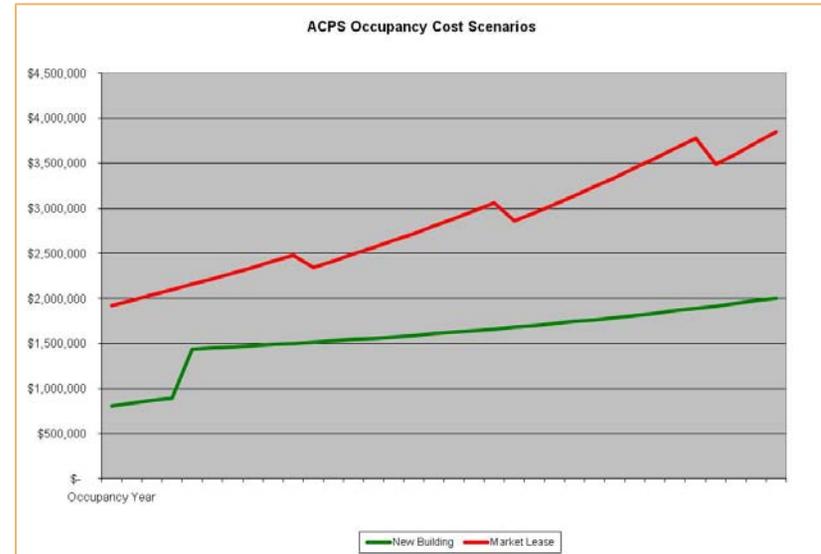
January 2010

CBRE
CB RICHARD ELLIS

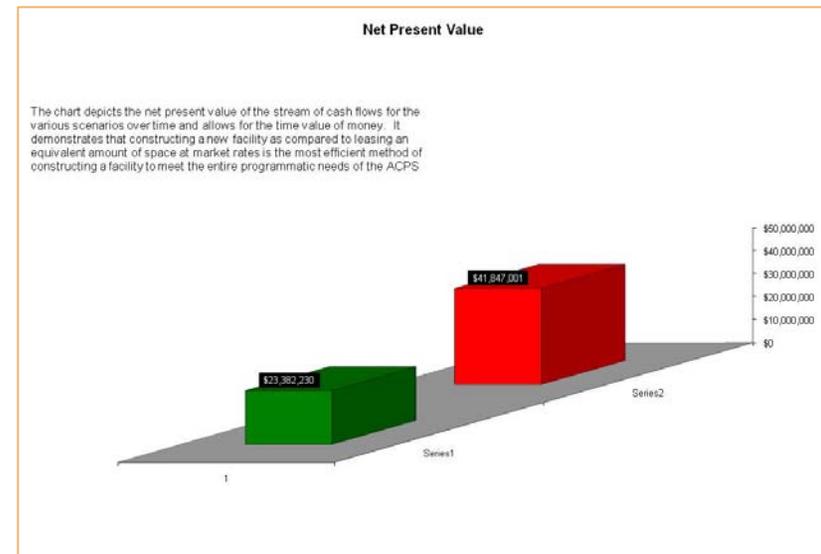
Process to Date (What we've accomplished so far)

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

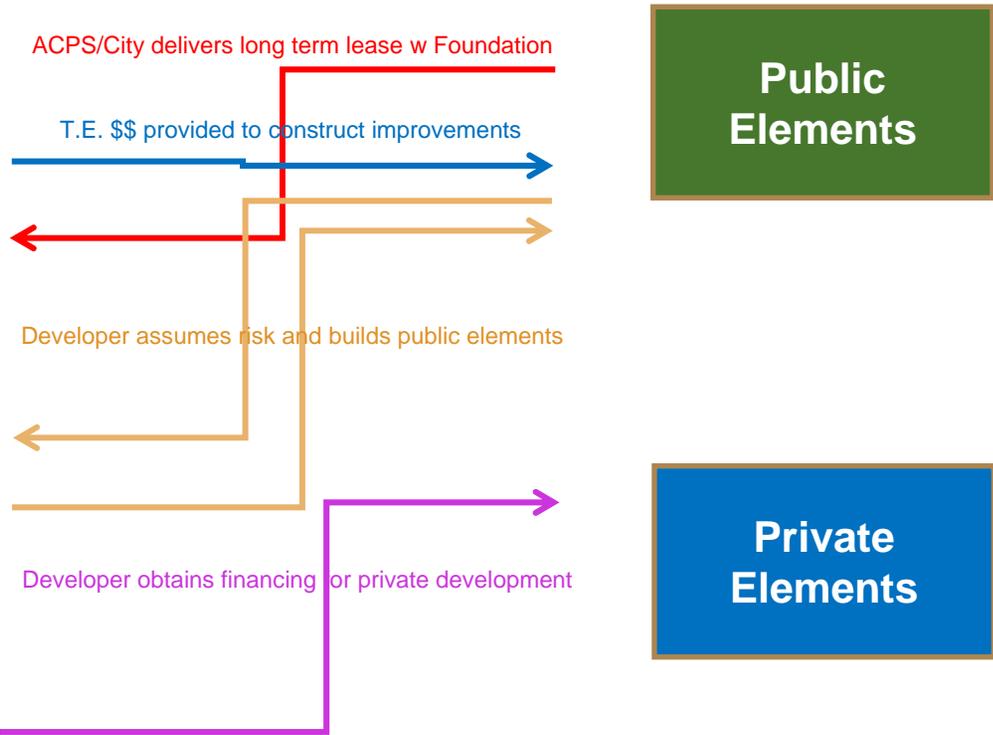


Project Definition

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

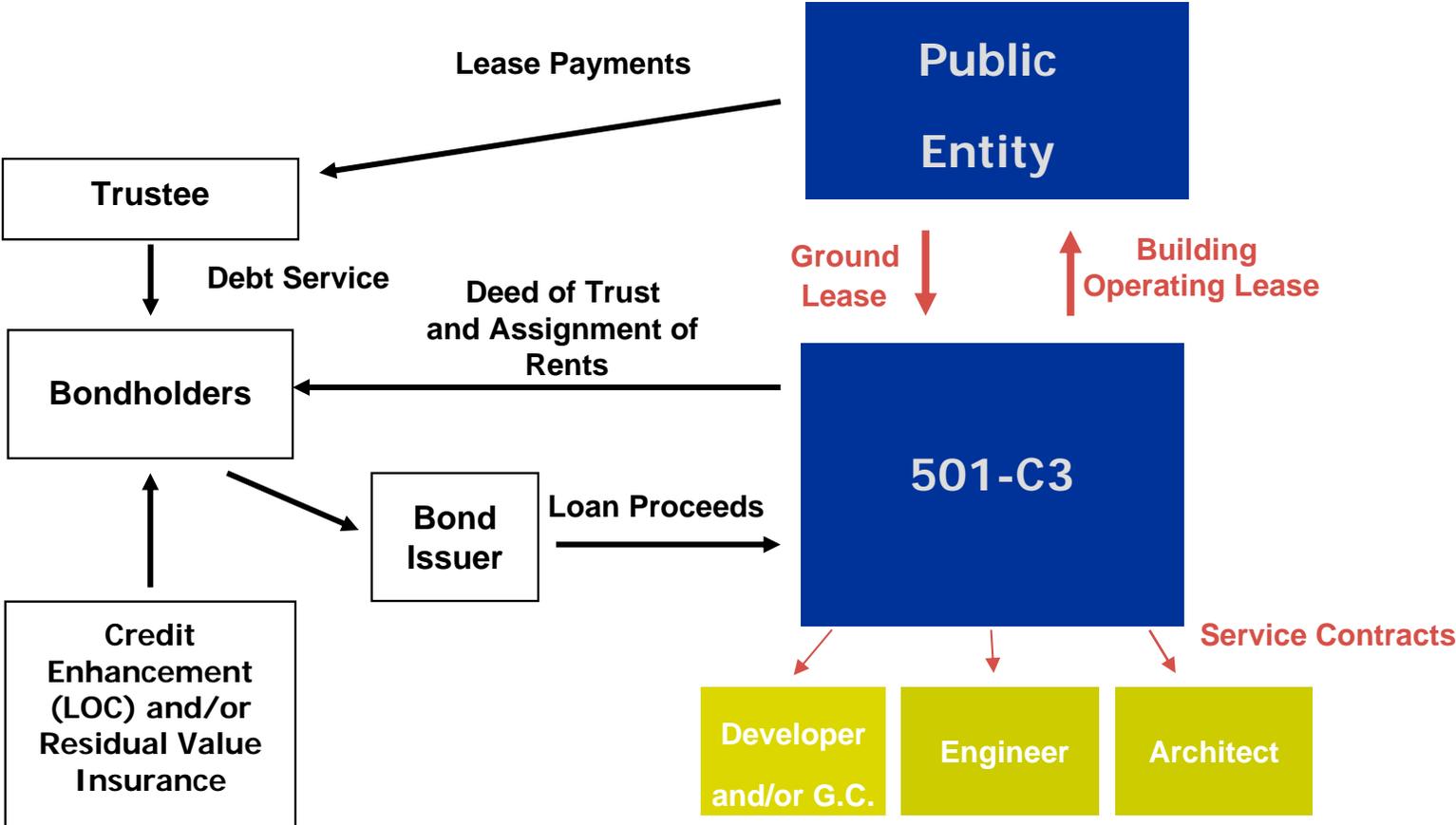
1. Community engaged
Development Concept established
RFP Issued
Developer Selected
2. Foundation formed/ID'd to issue tax exempt debt for public elements
(School, Performing Arts Center, Pool, Central Office)
3. ACPS/City enter into development agreement with Developer through Foundation to construct Public Elements.
4. Developer assumes delivery risk and constructs improvements to bid specs



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



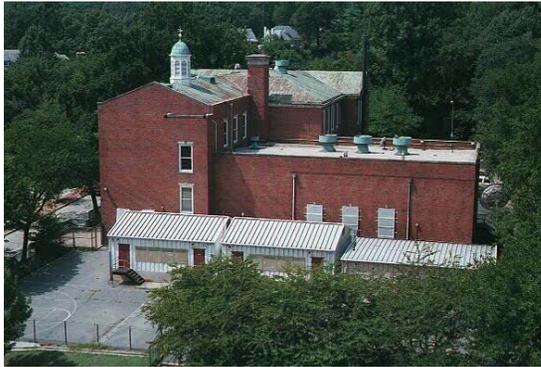
Appeal to Public Organization Occupiers

- 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:

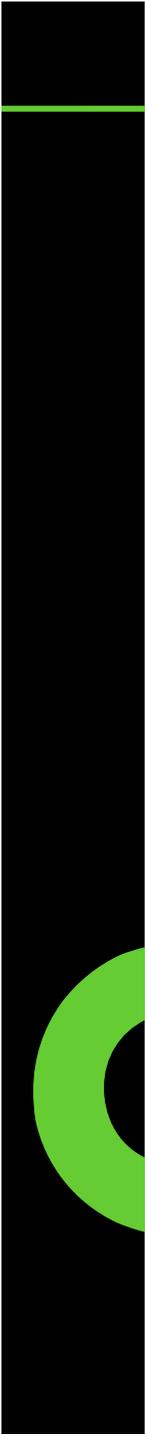
- Subdivided former 1.67 acre site in half
- Developer designed and constructed new school and a new 211 unit market-rate apartment
- Fee simple sale of portion of property (1/2)
- Private developer pays \$804,000/year for 35 years in lieu of taxes to pay off the \$11 million Oyster School Bond

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



Questions