

From: [Megan Matson](#)
To: [Natalie Dominguez](#)
Subject: Table Rock Comments, PDB v P3 Staff Report, Purified Water Program
Date: Wednesday, September 07, 2016 11:48:26 AM
Attachments: [Table Rock Comments Santa Clara Staff Report 9-7-16.doc](#)

Greetings and thank you for the opportunity to submit comments to the Recycled Water Committee.

Very best,

Megan

<Table Rock Comments Santa Clara Staff Report 9-7-16.doc>

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Comments • 9-7-16

Santa Clara Valley Water District Staff Report

Recycled Water Committee

Expedited Purified Water Program Dual Track Procurement

Progressive Design Build v. P3

Prepared by Table Rock Capital, P3 Lead, Silicon Valley New Water Partners



Attn: Natalie Dominguez, Board Administrative Assistant, Office of the Clerk of the Board

Via Email: ndominguez@valleywater.org

Greetings –

This morning we received an invitation to comment by noon on the Purified Water Program Staff Report that came out over the Labor Day weekend. This Report recommends a Progressive Design Build procurement to the Recycled Water Committee, and rejects a P3. As the P3 lead on the Silicon Valley New Water Partners consortium, Table Rock has a suggestion and several corrections to submit for the Committee's consideration.

I. First, Table Rock suggests that the P3 direction can be selected without giving up the option of a publicly financed, conventionally delivered Progressive Design Build project, at a later GMP off-ramp point. The Progressive Design Build direction, however, cannot be selected and still produce for Council the definitive construction cost savings, operations and maintenance cost savings, and actual cost of capital implications of a P3. The Progressive Design Build with a P3 financing business case would be developed in open book contrast to the Progressive Design Build conventionally delivered, as part of the first phase work product that is produced by the consortium on the P3 track for SCVWD. This work product includes a market-ready design solution for either delivery, with an alternative financing and delivery option. It is at that GMP point under the Table Rock P3 that the Council would make an informed, data-driven decision on whether to self-finance the Progressive Design Build solution, or choose the risk transfer and performance of an alternatively financed and delivered Progressive Design Build. Table Rock's approach (as currently being implemented in both Rialto, California's Wastewater Treatment Plant Progressive Design Build and in the two-phase P3 public-private comparator commissioned by the City of Wichita, Kansas) enables a firm off-ramp for SCVWD should the desired degree of lifecycle cost savings and desired cost of capital not be achieved under the P3 delivery scenario.

II. Second, Table Rock sees in the Reports concluding statements a misunderstanding of the continued public role as "Doer" not "Regulator" under a hybrid P3 partnership such as that practiced by Table Rock. In both Rialto and Wichita, the City's staff, engineering advisors, finance staff and elected leadership are all consistently and intensively engaged in the design, strategy, expenditures and planning regarding every aspect of the water and wastewater systems, both on the capital projects side, the asset management aspect, and in the operations and maintenance. Table Rock expects a similarly empowered and directive role for staff and leadership within the design and implementation of the Purified Water Program, just as SCVWD would experience under a conventionally delivered Progressive Design Build. The difference under P3 would lie in the degree of risk transfer and associated lifecycle cost savings and guaranteed performance that the two partners, public and private, would jointly define and agree upon at the front end of a P3 agreement.

Third, the Staff Report shows multiple scenarios for PDB v. P3, with construction cost savings ranging from flat to 5% savings under P3, and O&M costs ranging from 20% more costly, to 20% cost savings. Table Rock suggests that this 40% swing across scenarios does not reflect a decision-making degree of certainty. The one accelerated way to determine whether SCVWD can attain 20% O&M savings or not is to pursue Table Rock's hybrid P3 approach, where an indicative GMP is developed not just for the construction cost savings, but for the lifecycle cost of capital and the operations and maintenance cost savings. Only under the comparative P3 track can these NPV comparisons be grounded in indicative figures, and support a more data-driven decision.

Finally, a common public sector bias in the United States against private financing of public sector infrastructure appears in the Staff Report, based primarily on the argument that tax-exempt debt is cheaper than taxable debt. The first development of note that establishes the out-of-date nature of this bias is the

increasingly prevalent use of tax-exempt Private Activity Bonds and tax-exempt financing more generally, in P3. In Table Rock's research for the City of Wichita, ample access to tax-exempt PABs has been established, with an early indicative spread of 29 basis points between the cost of Wichita self-financing, and a P3 consortium financing. Second, the tax-exempt vs. taxable financing differential makes a comparatively small contribution to the total lifecycle cost of any public infrastructure project. The cost of capital differential should therefore be evaluated as an important but not definitive factor within the overall cost profile of the project. Recognizing that public-private partnerships commonly generate 10% to 30% in lifecycle cost savings, any objective comparator of delivery costs should establish whether or not the lifecycle cost savings are present to a degree sufficient to overwhelm the tax-exempt vs. taxable financing differential.

III. The final consideration affecting this cost of capital evaluation is that marked volatility in the spread between taxable and tax-exempt bond yields in recent years has significantly called into question the cost of capital advantage of tax-exempt financing. Factors such as the '08-'09 recession, multiple municipal bankruptcies, and credit agencies incorporating credit considerations such as pension obligations into their municipal ratings have all contributed to these newly unpredictable spreads between tax-exempt and taxable financing.

Cost of Financing Differential & Lifecycle Cost Savings

Infrastructure project lifecycle cost components include three major categories of expense:

- Initial Capital Investment 5% - 25%
- Annual Operations & Maintenance Expense 50% - 75%
- Cost of Capital (Financing Cost) 10% - 30%

The graph below illustrates this point and shows that on numerous occasions since 2008, tax-exempt yields have been higher than taxable yields.



When viewed through a public-private comparator, it is clear that in cases where a 15% to 30% lifecycle cost savings in engineering, construction, and operations through a P3 delivery can be achieved, these savings can more than overtake the cost of capital advantages offered by tax-exempt financing.

In closing, Table Rock suggests that an open workshop with the P3 leads Brookfield and Table Rock could greatly enhance the level of informed discussion between the PDB and P3 options.

Sincerely,

Peter Luchetti, Managing Partner

Megan Matson, Partner

Table Rock Capital