



DEVELOPMENT

A New Way to Pay

Public-private partnerships increase government buying power and offer companies safe, long-term investments.

WRITTEN BY KRIS WISE MARAMBA

In Joplin, Missouri, where a 2011 tornado caused billions of dollars in damage and destroyed more than 7,000 homes, city leaders are trying to figure out how to provide more affordable housing to their displaced and growing senior population. At the Indianapolis International Airport, officials want to make improvements to their aging wastewater and stormwater systems, including finding a better way to dispose of chemicals used to de-ice planes. And

in Maryland, county and city politicians, government planners, and transportation officials have banded together to build a 16-mile light rail line that would connect the areas of Bethesda and New Carrollton. They're all great ideas for communities struggling to provide new or improved services to their citizens.

But how to pay for them? It's the multimillion-dollar question. In many of these places, private businesses already are lining up to help provide an answer. Enter the P3: the public-private partnership.

Government bodies are looking to team with private industry to finance and develop public works projects that might otherwise put too big a drain on a government's budget or create too much long-term debt for taxpayers to swallow. For the private sector, it's a way to get involved in high-profile projects with reliable partners. In exchange for assuming the risks involved with financing and development, businesses usually can count on regular payments from their government partners. And, in the end, they typically get to share any profits.

In West Virginia, the method already has been tested on several major road projects, including a three-mile stretch of the Coalfields Expressway near Mullens and the final segment of U.S. 35 in Putnam County. Colleges and universities are also

relying more on P3s to expand campuses while dealing with stagnant state budgets and avoiding huge tuition hikes on students.

Making Room

When officials at West Virginia University were faced with an unprecedented surge in enrollment a few years back, sticking to the status quo wasn't an option. There just weren't enough places for 29,000 students to live, says Narvel Weese, vice president of finance and administration at WVU. That, and the available options weren't altogether pleasing to students and their families. "We had parents who were frustrated that we had limited or no capacity to offer housing or, more specifically, apartments to students who had finished their freshman year," Weese says.

Dealing with some of Morgantown's landlords and navigating a web of older and sometimes subpar rental properties was turning off prospective students. "We concluded the age of our existing housing systems were such that we were either going to have to make significant investments on the university side or come up with an alternative way to replace existing inventory or create new inventory," Weese says.

WVU needed "new and innovative ways to manage our demands and expectations," he says. And it needed them fast. That's

where the P3 came in. To build College Park, a 567-bed mixed-use residential facility that opened last year, WVU partnered with American Campus Communities, a Texas-based firm that has developed billions of dollars of student housing around the country.

The college and contractor entered into a 40-year lease agreement, with American Campus Communities taking on the construction loan with United Bank to pay for the \$44.2 million project. The firm and the university now jointly manage College Park and split 50/50 any revenues left over after loan payments and operating costs are covered.

Sharing the Load

One of the most attractive aspects of that split, says Weese, is “there is also a strong financial incentive working with our private partners to operate in a very efficient manner.” At the end of College Park’s first operating year, the net profit was about half a million dollars. That’s part of the attraction for private industry to join in these partnerships. They’re usually fairly solid investments that see stable returns.

For the state’s largest university, the benefits were straightforward. WVU can pay for its share of project costs through operating revenue without tying up tuition or state money. And, “it allows WVU to focus its debt capacity on other things,” Weese says. Just in the past few years, WVU has used public-private partnerships to finance and build University Park, a \$90 million, 1,310-bed residence facility, and University Place, a \$70 million mixed-use retail and residential center and 550-space parking garage that was the brainchild of private developers.

The newest project to employ the public-private partnership is the \$25 million Evansdale Crossing, another mixed-use facility with elevators and covered stairs designed to connect the upper and lower parts of the Evansdale Campus with the PRT line. It includes several restaurants, a coffee shop, bar, a student services office, and the Reed College of Media’s new Innovation Center.

For this project, WVU partnered with Fresh Capital, a real estate investment group with developments around the country. It’s

a complex deal: WVU owns the property and leases it to Fresh Capital, which borrowed money and constructed the facility. The company leases most of the building back to WVU, which essentially acts as a tenant. According to the terms, at the end of the 40-year lease, WVU owns the building outright.

“It’s not unique to the rest of the country, but it is to West Virginia,” says Brian Helmick, an attorney with Charleston law firm Spilman Thomas & Battle, which consults with WVU and other entities on the development of these partnerships. The university says that by the end of the 40-year agreements, all its existing public-private projects will have generated more than \$81 million in tax revenue for local and state governments. “This is a great model for the state,” Helmick says.

West Virginia has been trying to delve deeper into public-private partnerships for quite some time. Marshall University was the first to try it almost a decade ago, partnering with an Alabama firm to build almost \$90 million worth of new facilities, including a recreation center. Another major step came in 2013 when legislation passed allowing transportation officials to use money from the state road fund for P3s to build roads that cost more than \$20 million.

“It’s a project-delivery system,” says Brent Walker, spokesman for the state Department of Transportation. “Prior to this concept we had to wait until we had all the money budgeted.” When you’re talking about a \$187 million road project, such as the final 15-mile stretch of U.S. 35 in Putnam County, it could take many years for that kind of money to be built into the budget. Transportation agencies are also plagued with fluctuations in materials costs and weather issues that can hold up a project and then lead to spikes in overtime costs when a deadline nears. “With (a P3), we get consistent, stable payments over the course of the project, and any fluctuation up or down would be absorbed on the private side by the contractor,” Walker says.

The Cost of Competition

The use of P3s for public works projects is not, however, without controversy. The PPP in Infrastructure Resource Center, a venture of the World Bank, is studying the

use of public-private partnerships around the globe. The group has identified several risks, including the cost of bidding and financing a project potentially being higher for private companies than for government agencies. An additional worry is that private firms involved in a P3 can often be more motivated by financial incentives than desired social impact.

In West Virginia, one point of contention is that, so far, most of the road projects using P3s have involved huge contracts that were awarded to large, out-of-state firms. With the U.S. 35 project, the largest road contract in the state’s history, the transportation department partnered with Bizzack Construction of Kentucky. “At (\$187 million) for a P3 project, smaller West Virginia companies are eliminated from bidding, which limits the number of contractors, thus limiting competition,” says Mike Clowser, executive director of the Contractors Association of West Virginia. “When contractors must put financing costs in their bids, this further limits the number of contractors who can bid on WVDOH projects.”

Clowser also raised concerns that the state’s ability with P3s to undertake mammoth new construction projects might sideline smaller road projects and routine maintenance on existing public works. “A P3 project does obligate future highway funds for the life of the construction project—typically three to five years,” he says. “Without additional funding for the state road fund, these obligations will result in fewer miles of roads being paved and deferred maintenance or replacement of small bridges and striping and guardrail projects.”

Clowser noted that P3s must be explored in some capacity because the funding crisis for roads is severe and there is a “critical need to improve our state’s roadways and bridges,” he said. “The good news is that the project is getting done and the WVDOH has worked to ensure the P3 projects are carried out in an accountable and transparent manner,” he says.

Walker at the transportation department says the state is only just beginning to explore the potential of public-private partnerships. “We definitely see it as the way in the future to help fund and finance some of our largest projects.”