What can social infrastructure P3s do for your community?

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When the new Long Beach Civic Center opened its doors at the end of July, it was a celebration of a more resilient, efficient, and inspiring space for the City and Port of Long Beach staff and the community. It was also a celebration of a project delivered without costing the city more than the operations and maintenance costs of the old facilities that the project replaced. Its delivery contract includes the cost and responsibility for proper maintenance over the next 40 years. But that's not the end of the story.

The Long Beach Civic Center, as the centerpiece of a broader economic development plan, has redefined downtown Long Beach. Since the Civic Center public-private partnership (P3) agreement was executed in 2016, Long Beach has seen over USD3.5bn of private investment in the downtown area.

Municipalities are cash-strapped, and they prioritize their bond capacity to address core issues closest to voters' hearts: the police force, fire and life-safety issues, and filling potholes, among other issues. However, one asset that many civic organizations have in relative abundance is land. Land assets can be leveraged to offset the cost of developing or revitalizing public facilities through tailored P3 delivery agreements. As demonstrated in Long Beach, the combination of new civic amenities adjacent to land sold for the private development of retail and housing can serve as a major catalyst to bring new investment and residents to a city's core. In more suburban communities, this combination can create an activated district.

As authorities increasingly seek to leverage real estate assets to deliver efficient civic spaces, both public sector officials and the private sector should take several factors into consideration before progressing along a P3 path.

Create value beyond the project

Bringing a real estate element to a civic center project, or other types of major municipal projects, not only creates a funding source to offset project costs but also can redevelop and revitalize the surrounding neighborhood. This means additional benefits in terms of tax revenue and increased property values. In Long Beach, delivering a park and a new civic center jointly with the real estate development meant that more land value was created. Greater land value means more intensive and high-value development, which translates into more tax revenue coming back to the city.

With strategic counsel and the right assets, P3s offer a huge opportunity for cities to revitalize their downtown cores, stimulate their local economies, and build resilient, efficient, and modern civic center facilities. This reality is now on display in Long Beach, and the market is noticing. For example, the San Francisco Municipal Transportation Agency has chosen a joint development approach for its Potrero Bus Yard project, combining a new and modern bus storage and maintenance facility with a housing development. The goal is to deliver much-needed housing to the community and capture value to pay for affordable housing as part of the new public facility.

Consider transit

Significant value can be created by considering projects at the nexus of transportation, real estate, and land use. Transit has been amply shown to add value to land, and conversely, the right land development can help drive value for funding that transit or other related facilities.

Value capture can be complex in the US due to tax structures and jurisdictional boundaries. However, joint development should be explored in earnest by cities and their partner transit agencies. This is especially true where transit agencies are receiving more and more land development powers, such as building affordable housing or gaining as-of-right development authority on the land they own. The value of passenger rail bringing a station, an employment center, and housing together can exceed the sum of its parts.

In the case of Long Beach, we were able to take advantage of the Civic Center's location near transit. Having a link to the Los Angeles Metro Blue Line and major bus lines downtown improved the site's value.

Scale up

Aggregating or bundling smaller projects of a similar type, such as community centers and police and fire stations, is a successful strategy whenever possible. In Pennsylvania, for example, the Rapid Bridge Replacement P3 project aggregated hundreds of bridges that needed to be replaced or refurbished. The project procured the initial construction and ongoing long-term maintenance under a single contract with a developer.

Generating economies of scale enables agencies to manage risks that can be grouped, accelerate completion through a programmatic approach, and lower the cost of each individual project. This strategy is particularly pertinent for agencies that manage portfolios of many assets, such as transportation departments, school districts, or public safety agencies.

Tell a consistent story

How can authorities get these P3 projects off the ground? For public agencies, being judicious is paramount. First, leaders should consider the political calendar and make the appropriate judgments about what is feasible to achieve, how fast, and where it will fit into the election cycle. Staff charged with moving a project forward and through the appropriate approvals process need to ensure there is a high level of transparency and information flow. This will facilitate engagement with elected officials and enable them to make decisions in a timely manner.

Second, authorities must have a clear rationale of why they are using a P3 for a particular project — and maintain consistent messaging. Authorities who struggle to communicate the value a P3 structure brings to a project often find themselves over-explaining and losing political support and momentum. Articulating the essential nature of a facility and its need for future resilience is key for city officials who may be undertaking one of their city's most significant projects. For Long Beach, this story was about seismic resilience and staff safety, upfront cost neutrality, and maintaining assets over the long term.

Finally, the story needs to be supported by sound data. Strong evidence enables political support, and the data that is used for initial project approval should be consistent throughout the course of the project. For Long Beach, our analysis showed that developing and maintaining a new efficient and resilient facility was cheaper in the long run than retrofitting and maintaining the old space. This finding propelled the project from initial approval to its opening in July 2019.

Listen to the market

Arup is a big proponent of engaging with the market to understand diverse viewpoints. This should always be done in a structured process — for example, through a request for information or more targeted discussions with developers around their approach to a project. When introducing new or unfamiliar concepts, authorities should engage the market early to ensure that those concepts resonate. It is important to request feedback on how to improve upon or optimize the concepts they are working with, whether technical, financial, or commercial arrangements, and receive feedback from the market. Market feedback gives authorities the opportunity to make informed decisions about how to advance the documentation necessary for early approvals to move forward with the P3.

Engaging with the market ahead of the request for qualifications and the beginning of a procurement process ensures there is a cohesive plan in place and adequate viability. We are seeing a growing trend of cities or larger authorities considering opportunities programmatically. Instead of solely focusing on one P3, we recommend asking: "What in our portfolio would make the best P3?" One extreme of this approach is an unsolicited-proposal policy, but a well-organized market sounding or request for information can accomplish this programmatic perspective too.

Remember: there's no free money

When we talk about what a P3 model can do for a city or an authority, a central factor is being able to make predictable payments, like a mortgage, with routine and capital maintenance costs locked in over a long term while preserving debt capacity. Importantly, the agency still needs to be able to afford annual payments over time. To get a complete picture of what the project will cost, a significant amount of work is needed to accurately budget and forecast construction costs, ongoing operations and maintenance needs, and cost of financing.

Some projects such as a toll bridge or road generate their own revenue, which can be used to fully or partially offset project costs. The feasibility of generating revenue, the level of user-paid fees, and who takes on the revenue risks need to be carefully considered, both economically and politically. Many social infrastructure projects do not generate their own revenue or only a partial revenue generation is feasible. These projects are structured as annual availability payments from the public entity who owns and uses the project to the developer who delivers, finances, and maintains it. The project is managed to specified requirements and standards, and the payments are based on performance. The ability to generate some project revenue, even if modest, can help to partially offset the annual availability payments, which in turn makes the project more affordable for the owner.

With these factors in mind, P3s offer significant opportunities for civic revitalization and resilience. Connect with Orion Fulton to learn more.