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P3 Trends: Rise in Private Placement Financing of Mid-Size P3s

In the last twelve months, four national public-private partnerships ("P3s") have been financed in the U.S. private placement market, accounting for over $800 million in project cost financing. While there has been a shift towards private placement investors as a P3 financing source, the market activity in the last year has confirmed investor appetite in P3s, particularly those with availability payment-based compensation structures.

Private placements are securities offerings to limited numbers of sophisticated investors. These offerings are exempt from registration under the U.S. Securities Act of 1933. Conservative, long-term investors, such as insurance companies and pension funds, tend to dominate the U.S. market. While private activity bonds and TIFIA loans present cheaper financing options, they are not available as financing sources across certain asset classes, including social infrastructure and smart city initiatives. Many features of the traditional private placement market align with financing features of the P3 market. For example, private placement investors favor long-term debt, with tenors of 30 years or more depending on the project, far exceeding the short tenors available in the bank finance market. In addition, as private placements in the P3 context are typically closed with a small number of investors, the project benefits from more flexibility in financing terms and, if needed, a simplified process for amendments and waivers over the life of the project, as compared to similarly-tenored bond financings. Finally, because of their long tenors and fixed credit spreads, private placements minimize project refinancing risk.

In addition, private placements offer significant benefits during the proposal phase for both the public and the private sectors. With credit spreads typically fixed at the time of the financial proposal, private placement financings are beneficial from a grantor's perspective as credit spread risk protection between the time of proposal and financial close is not necessary. In addition, bid costs, particularly as compared to bond financing solutions, tend to be lower with private placement financing solutions, and there are no public rating requirements (even though a least one public rating is customary.)

The rise in P3 private placement offerings is a particularly strong trend when considered in the context activity in the U.S. private placement market. In the first quarter of 2019, the dollar volume of private placements has fallen by 30% as compared to the same period last year. With more infrastructure projects on the horizon that do not benefit from federal financing alternatives, such as Dartmouth's proposed biomass energy heating facility and student housing project, as well as Fresno State's proposed heating and cooling plant.

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Thursday, May 30, 2019