

# **Bond Case Briefs**

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## **Indy Justice Center Draws Big Guns to U.S. P3 Market.**

The U.S. P3 market reached a milestone recently when the winning bidder for a large social infrastructure project submitted a financial proposal that featured a committed-price private placement financing drawn down at the start of construction. This is the first time large insurers and pension funds have been willing to fund construction of a large U.S. DBFOM project with a fixed credit spread that was competitive with other sources of funds and, in this case, that allowed the winning team to meet the city's strict affordability limit.

WMB Heartland Justice Partners, led by Meridiam Infrastructure, was selected on Dec. 12 from three finalists to negotiate a 35-year availability-payment contract for DBFOM delivery of the Marion County Justice Center in downtown Indianapolis. WMB's low capital cost, \$408 million, won the day.

That and other details will be confirmed over the next few months as the P3 agreement is finalized and submitted to the City-County Council.

WBM marketing efforts last fall led to commitments for about \$525 million in senior debt by U.S. and Canadian institutions. They agreed to take the credit-spread risk from selection to financial close, now set for March 31, 2015. The total financing, including 10% equity, is \$583 million.

Meridiam has experience in the private placement market. It refinanced its Long Beach Courthouse P3 project with a private placement of \$520 million in 5.88% senior secured notes in November 2013. The credit spread started at 275 bps and steps up to 375 bps at maturity in 2047.

There is some cross-over between the participants in the two financings, but most of the Marion County Justice Center lenders assembled by Barclays Private Placement are new to the P3 market.

"This is a great milestone," says Joe Aiello, Meridiam's Director of Business Development North America. "It's an additional source of reasonably priced debt from extraordinarily high-quality institutions." Moreover, the borrowed funds can be taken down immediately at financial close to support construction.

Indianapolis was a good jumping-off point. The city is a strong credit with a history of supporting long-term P3s. Mayor Greg Ballard's recent decision not to run for a third term reduces the risk of politics in the final vote by the City-County council in March. The private participants in the WMB Heartland Justice Partners consortium have world-class credentials. And the P3 contracts are well structured:

- The city agreed to acquire the 46-acre brownfield site and to provide all land entitlements prior to financial close. It will assume all environmental risk at the former industrial site, and pay for pollution liability insurance. The developer will secure a local land-use permit.
- There is no real estate component to the revenue calculation in the affordability cap. Prospective revenues from selling excess downtown property after the existing jails and courthouse are vacated in three years are not counted.
- The city is focused on affordability and is not seeking to win architectural awards.

The \$58.3 million in equity is shared between three experienced developers: Meridiam (70%), Walsh Investors, LLC (15%), and Balfour Beatty Investments, Inc. (15%).

A world-class joint venture of Walsh Construction and Heery International will undertake the three-year design-build work. Skidmore, Owings & Merrill, Dewberry Architects, and Parsons Brinckerhoff will support their effort. Walsh has a major presence in Indiana as an investor and builder, including a DBFOM contract for the \$1.1-billion East End Crossing of the Ohio River.

Cofely Services, based in Belgium, is a subsidiary of French giant GDF Suez. Cofely will operate and maintain the jails and courtrooms in Indianapolis for the 35-year operating period, starting in July 2018. Its site manager, Albert French, brings prison management expertise from British Columbia.

### **Justice Center Advisors Praised**

Adam Collins, Indianapolis Deputy Mayor of Economic Development, gives high praise to the city's consulting team, which helped speed the Justice Center procurement to completion in under 18 months. "If we hadn't hired these consultants, we wouldn't have issued an RFP by now," he says. "The number one reason we got value-for-money is we brought consultants in early."

Advising the Indianapolis Mayor's Office, the Marion County Sheriff Office and the Marion County Circuit Court are:

- KPMG LLP—has a division that is solely focused on helping cities find efficiency savings; insisted on a 5% design in the bid documents, encouraging innovation, says Collins.
- Nossaman LLP —brought national experience in P3 procurements, bid documents, contract negotiation, says Collins.
- Hellmuth, Obata & Kassabaum, Inc. (technical)—brought national best practices to master planning and urban design, Collins says.

Advising WMB Heartland Justice Partners are:

- Barclays Capital (private placement agent)
- The Bank of Nova Scotia (financial advisor)
- Norton Rose Fulbright (lead legal counsel)
- Ice Miller (local counsel)

Advising the institutional lenders are:

- Mayer Brown (legal counsel)
- Greenberg Traurig (legal counsel private placement)
- BTY Consultancy Group (technical advisor)

### **Affordability Depends On Efficiency Savings**

The winning proposal by WMB Heartland Justice Partners required the lowest annual payment from the City/County while also meeting the rigorous technical specifications established for the project. The new justice complex will feature 37 criminal court/hearing rooms, offices for the Marion County Sheriff's Office, a 3,000-bed detention facility with on-site medical and mental health units, a 960-bed community corrections facility, and surface parking facilities.

Key financial aspects of WMB Heartland Justice Partners' proposal include:

- An annual service fee payment by the City/County of \$46.8 million (2019 dollars)

- This annual service fee is \$3.3 million a year less than the City's affordability limit
- The construction cost of the campus and the facilities will be \$408 million, well below estimates of \$500 million to \$700 million.

The present value of the service fee payments the City will make to WMB Heartland Justice Partners over the 35-year term of the agreement is \$717.7 million. This covers the construction costs and facility management.

Marion County expects to fund the project from the reallocation of budget dollars from expiring contracts and leases, including savings of \$19 million per year from closing a jail, as well as from reduced operational costs and future revenue sources such as \$50 per diem for holding federal arrestees.

The new center will significantly reduce the Sheriff's costs for transporting arrestees among multiple detention and court buildings and save taxpayers' dollars through the use of centralized security, food preparation, medical, laundry, maintenance and other shared services. The new facility will not require an increase in taxes.

The City will began final negotiations with WMB Heartland Justice Partners on a project agreement in mid-December. Once that agreement has been finalized, proposals from the two non-selected P3 teams will be released. They are:

- Indy Justice Partners: Fengate Capital Management/ AECOM Global Fund I LP/ Shiel Sexton Company, Inc.
- Plenary Edgemoor Justice Partners: Plenary Group USA Ltd./Edgemoor Infrastructure & Real Estate LLC, with Clark Construction/HDR.

The final project agreement and the proposals submitted by Fengate and Plenary will be made public prior to a vote by the City-County Council by the end of March. If approved, construction could begin in June 2015 and open in 2018.

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Public Works Financing is a monthly newsletter covering P3s in all infrastructure markets, since 1988. It is widely read and cited in the media, academic research, federal reports and congressional testimony.