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Charles County Public Schools

P3 Task Force Presentation

Agenda

I. Introduction and Study Objectives

II. School Selection Methodology

III. P3 School Packages

IV. Funding Source Analysis

V. P3 Project Analysis

VI. Recommendations and Next Steps

I. Introduction and Study Objectives

Introductions

JLL was appointed by CCPS to carry out a feasibility study into the potential of applying a P3 arrangement to its school portfolio. A project team was subsequently formed comprising JLL, SXM Strategies, GWWO Architects, and CCPS (the "Project Team") and the first Project Team meeting was held in March 2023.

Overview

JLL undertook the Project in four Phases as outlined below:

Phase 1: Project Kick-off and Organization
Project coordination and identification of key objectives
Phase 2: Project Funding Analysis
Analyze current funding sources and considerations to address limitations
Phase 3: Project Conceptualization
Define potential P3 project packages that meet the potential P3 Project objectives
Phase 4: Project Financial Analysis
Compare the cost of a potential P3 project to the cost of self-delivery

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Study Objectives

The following goals and objectives for a potential P3 project were identified through a series of meetings with JLL, GWWO and CCPS:

1. Facilitate renovations or replacements for existing schools based on condition assessment reports
2. Address and alleviate future school capacity needs
3. Increase the capacity for 3K and Pre-K enrollments to meet State requirements in an expeditious and cost-effective manner
4. Garner political and funding support to facilitate a potential P3 project that meets the needs of CCPS and the County

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School Selection Methodology

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Project Conceptualization

The Project conceptualization phase focused on understanding what CCPS's needs and objectives were from a school renovation, addition and replacement perspective, and which school capital projects could be bundled into a potential P3 package. The conceptualization phase gave due consideration to pre-k classrooms and centers that could be included, where feasible.

Key activities in this phase include:

- Conducting a project conceptualization workshop to **align on screening criteria**;
- **Discussing Pre-K needs**, including the use of individual classroom additions versus pre-k "centers" to meet Blueprint requirements;
- **Creating a framework for screening** existing or new schools for inclusion in a potential P3 package; and
- **Identifying preliminary sets** of schools for analysis during the financial modeling exercise, along with the corresponding cost estimates (provided by CCPS' technical advisors).

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Project Conceptualization Methodology

JLL, GWWO and CCPS identified individual schools most in need of full renovation or replacement using the following screening factors:

- School age
- State of Maryland Facility Condition Index (“FCI”)
- Capital improvements completed to date
- Capacity projections (over 100%) by 2031
- Location/area served
- Swing space capabilities
- Whether funding has already been earmarked for renovation/new construction through CIP

Considering the above factors, GWWO recommended **2 sets of schools** through an initial screening exercise for further evaluation.

Set #1 included those with an **FCI of 60 or greater and were outside the Growth Area** (5 schools).

Set #2 included those with an **FCI score of 50 or greater with future capacity constraints** (6 schools).

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Initial Screening – School Groupings

The following outlines the initial 11 schools broken down into each set:

Set #1: FCI >60 – Outside of Growth Area

- Thomas L. Higdon Elementary School
  - *FCI 69.4% - Newburg*
- Indian Head Elementary School
  - *FCI 65.8% - Indian Head*
- Matthew Henson Middle School
  - *FCI 64.5% - Indian Head*
- Malcolm Elementary School
  - *FCI 62.4% - Waldorf*
- Mount Hope-Nanjemoy Elementary School
  - *FCI 62.2% - Nanjemoy*

Set #2: Capacity + FCI >55

- Walter J. Mitchell Elementary School
  - *Capacity 146% + FCI 59.7%*
- Gail-Bailey Elementary School
  - *Capacity 128% + FCI 50.6%*
- Daniel of St. Thomas Jenifer Elementary School
  - *Capacity 122% + FCI 52.5%*
- John Hanson Middle School
  - *Capacity 114% + FCI 51.3%*
- Piccowaxen Middle School
  - *Capacity 113% + FCI 58.6%*
- General Smallwood Middle School
  - *Capacity 108% + FCI 56.1%*

Note: La Plata High School was excluded from the list due to existing commitments from Blueprint.

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Initial Screening – School Groupings

Considering capacity was one of the key driving factors for identifying priority schools, the team considered whether future "new" schools should be considered for a potential P3 in addition to the schools with high FCI scores.

Based on discussions with CCPS and stakeholders including the CCPS Superintendent and County Commissioner President, future Middle School #10 and Elementary School #24 were added to the evaluation exercise to highlight the importance of meeting the needs of the growing population.

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Site Visits

Following the site visits, GWWO determined that 9 of the 11 existing schools were more suited to full replacement, and 2 were best suited as renovation/addition candidates.

Replacement candidates:

1. John Hanson MS
2. Matthew Henson MS
3. General Smallwood MS
4. Piccowaxen MS
5. Thomas L. Higdon ES
6. Indian Head ES
7. Walter J. Mitchell ES
8. Malcom ES
9. Gail Bailey ES

Renovation/Addition candidates:

1. Daniel of St. Thomas Jenifer ES
2. Mount Hope-Nanjemoy ES

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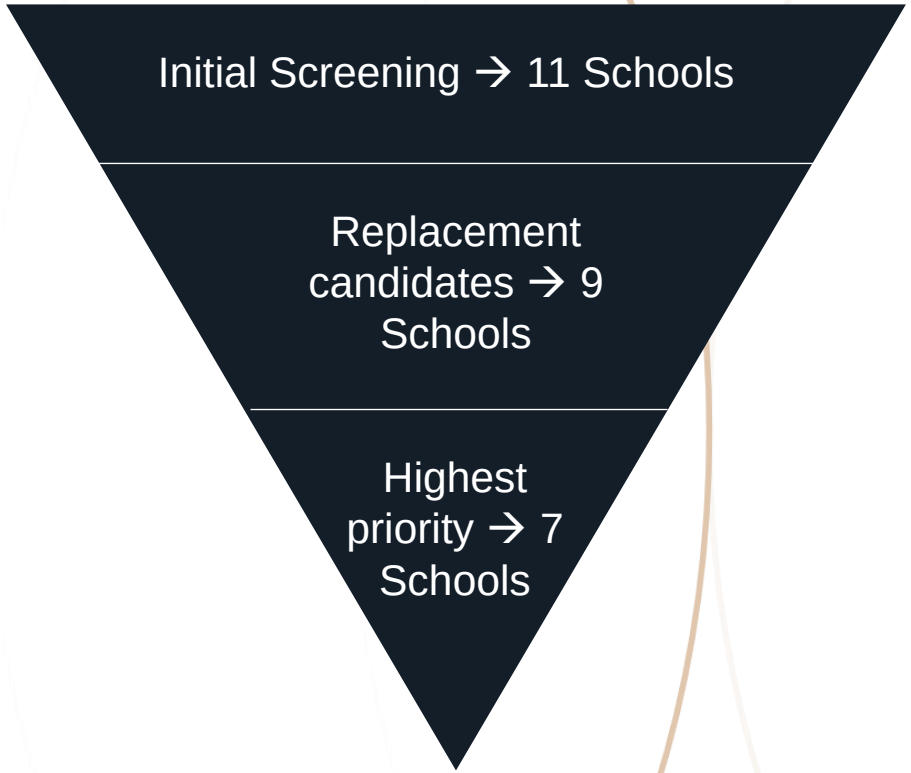
Highest Priority Replacement Schools

Once the initial 11 existing schools were identified and validated via site visits, the team underwent an exercise to narrow down the number of schools to those that were deemed to be the highest priority. This resulted in a final list of 7 replacement schools that could be bundled together into P3 packages:

1. Matthew Henson MS
2. John Hanson MS
3. General Smallwood MS
4. Thomas L. Higdon ES
5. Indian Head ES
6. Walter J. Mitchell ES
7. Malcom ES



Recommended School Packages

The final step in the project conceptualization phase was to group the schools into P3 packages that could be evaluated through financial analysis. The following criteria were used to determine 3 packages:

- A minimum target construction budget feasible for an Availability Payment (“AP”) P3 structure
- Efficiencies with module types/grouping similar school types
- Dispersion of the schools across the district

The following table shows the three proposed school packages for further evaluation:

Package 1: New Schools	Package 2: Middle Schools	Package 3: Elementary Schools
ES 24	Matthew Henson	Thomas L. Higdon
MS 10	John Hanson	Indian Head
	General Smallwood	Walter J. Mitchell
		Malcolm

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Technical Information for the Packages

The following provides the proposed SRC and hard construction cost for each of the 3 packages. Each replacement school scope resolves capacity and condition/age issues and will provide a cohesive modern learning environment.

PKG #01: New Schools

- Elementary School #24 (SRC 775)
  - $57,356,250
- Middle School #10 (SRC 975)
  - $70,743,750

PKG #02: Replacement Middle Schools

- Matthew Henson Middle School (SRC 668 >> SRC 800)
  - $66,389,530
- John M. Hanson Middle School (SRC 797 >> SRC 975)
  - $74,275,480
- General Smallwood Middle School (SRC 604 >> SRC 800)
  - $66,443,290

PKG #03: Replacement Elementary Schools

- Dr. Thomas L. Higdon Elementary School (SRC 461 >> SRC 640)
  - $58,378,175
- Indian Head Elementary School (SRC 461 >> SRC 640)
  - $55,598,290
- Walter J. Mitchell Elementary School (SRC 578 >> SRC 885)
  - $66,055,815
- Malcolm Elementary School (SRC 394 >> SRC 640)
  - $55,356,735

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Funding Source Analysis

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CCPS Funding Source Overview

CCPS requests and is allocated annual funding from the State of Maryland and Charles County for its Capital Improvement Program (CIP):

- State Sources of Funds for CCPS' CIP:
  - General Obligation Bonds
  - Revenue Bonds
  - General Funds
  - Federal Funds
- County Sources of Funds for CCPS' CIP:
  - General Obligation Bonds
  - Fair Share Exercise Tax Bonds
  - Operating transfers (from operational cost savings)
  - Forward funding of State funding
  - State funding

The State and County have multiple competing needs for available funding sources; as such, the funding received is typically less than what is requested.

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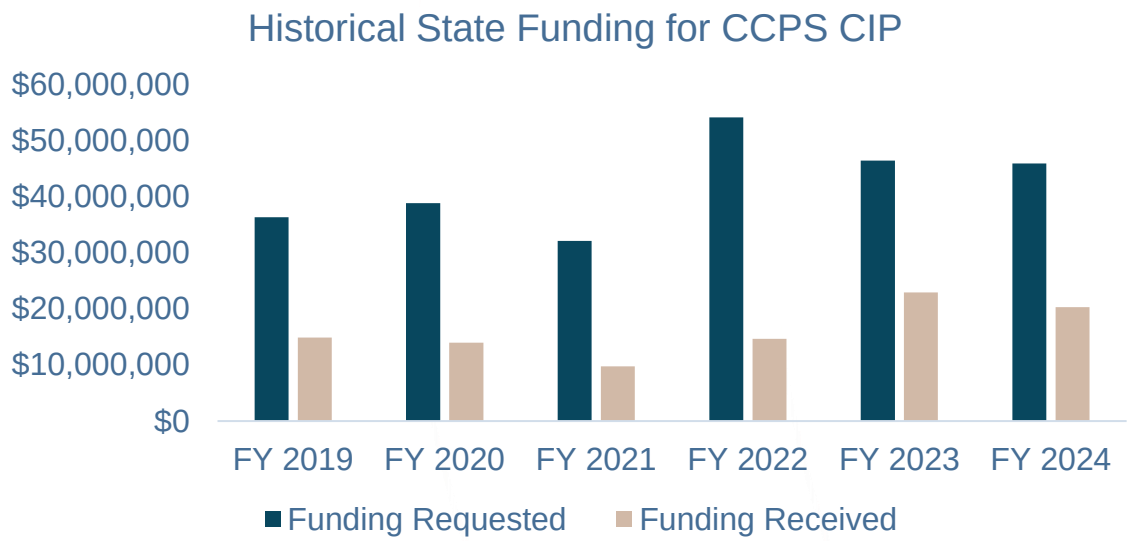
Historical State Funding for CCPS' CIP

CCPS receives significantly less funding annually than what is requested from the State. This results in challenges for CCPS to fund major capital projects. The below table presents the historical funding requested and received from State funding sources.



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State Funding Considerations

Funding Source	Current Status	Implications	Considerations / Potential Solutions
Aging School Program	CCPS receives approximately $50k per year, and this program will sunset in FY 2027	Currently this is not a funding sources that could be dedicated to a potential P3 project	• Review condition assessments reports to determine if there is a potential for future requests • Renovations may be considered as a component of a Project Package to achieve project scale and may be eligible for this program
Built to Learn ("BTL")	CCPS, with support of the County, has been allocated a total of approximately $25m from BTL bond proceeds. No further allocation is expected.	All existing BTL funds have been allocated/committed, leaving no funding for a potential P3 project	• Understand potential for additional funding through conversations with the IAC • State mandates for 3K and Pre-K expansion would require additional funding to implement
Healthy School Fund	CCPS submitted two projects but neither were approved	Currently this is not a funding sources that could be dedicated to a potential P3 project	• Review condition assessments reports to determine if there is a potential for future requests • Renovations may be considered as a component of a Project Package to achieve project scale and may be eligible for this program
Public School Construction Program	CCPS, with support of the County, has been in receipt of approximately $9m per year from this program (historically lower than annually requested amounts)	The annual amount received is far lower than requested and must cover several other projects in CCPS' future CIP plan. As such, it will be difficult to use this as a dedicated source of funding for a P3 unless the amount received is materially increased.	• Discuss with IAC historically underfunded allocations versus annual requests • State mandates for 3K and Pre-K expansion would require additional funding to implement
Supplemental Capital Grant Program	In FY24, CCPS has been allocated a total of $1.5m from the Supplemental Capital Grant Program, all of which have been committed to projects	Currently this is not a funding sources that could be dedicated to a potential P3 project	• Discuss with IAC eligibility of a Supplemental Capital Grant as a funding source for a P3 project package • Supplemental grant program annual funding limits may not provide a substantial source of funding.

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County Funding Considerations

Funding Source	Current Status	Implications	Considerations / Potential Solutions
Charles County General Bonds (“GO”)	The County is currently at the bonding capacity limit where debt service on the general bonds cannot be greater than 8% of the general fund revenues	Additional GO Bond capacity is not anticipated to be a source for a potential P3 project. The County would have to prioritize CCPS projects over other County capital projects within the current amount of annual GO bond proceeds.	• Discuss with County Commissioners an increase in the 8% debt limit. Given debt capacity has not changed in over 20 years this may prove challenging politically. • To enable a higher debt capacity, an increase in taxes may be required to cover debt service, which may not be favorable to County residents and businesses.
Charles County Fair Share Excise Tax Bonds	The County collects a fair share school construction excise tax against owners of real property which can only be used for additional school capacity	This is a source of funding that could be considered for a potential P3 project if new capacity is added to a school.	• Conduct further analysis to project future real estate developments in the County and corresponding tax proceeds • Consider changes to excise tax policy to bolster revenues or allow use of proceeds for renovation/replacement of existing schools
County General Funds	The County is currently budget constrained with operational expenditures on existing infrastructure assets	Based on discussions with the County, this does not appear to be a source of dedicated funding for a potential P3 project unless funds can be diverted from other budget items through greater prioritization of CCPS.	• Assess whether there are operational cost saving opportunities and if savings could be applied to school construction. • The maintenance of effort (MOE) law requires the County to provide at least the same amount of funding to public departments as provided the prior year. • Due to MOE, funding from the County General Fund is constrained by current operational needs.

CCPS Funding Considerations

Funding Source	Current Status	Implications	Considerations / Potential Solutions
CIP	The CIP budget has historically been around $14m annually, significantly lower than what CCPS requests	The current size of the CIP budget limits the ability to use this funding source for a potential P3 project as the overall budget is much lower than the need and must be spread across many different priority projects	• Working collaboratively with the County stakeholders, CCPS could develop a robust business case that demonstrates the need for additional funding to meet its capital requirements and the rationale for P3 delivery. Funding could be in the form of additional CIP contributions or another dedicated source of ongoing funding for a P3.
Operating Budget	CCPS has a proposed FY24 operating budget of $481m. Historically, the operating budget has not been used to fund capital projects. However, lease payments are funded from the operating budget.	The operating budget does not appear to be a viable funding source for a potential P3 project unless funds can be diverted away from other operating expenses for the schools through savings in O&M or other allocations.	• While an Availability Payment or lease payment could theoretically be funded from the operating budget, CCPS would need the County to contribute additional funds into it as there is not currently any identified excess operational funding.

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Funding Analysis Summary

Charles County Public Schools currently relies on funding primarily from the State and the County. Unfortunately, JLL was unable to identify a dedicated funding source for a potential P3 project based on the existing sources of funding.

Recommendations for further investigation are summarized below:

- Advocate for additional funding from the County via redirection of existing funding sources toward CCPS, increasing the debt limit or finding ways to increase tax revenues
- Lobby for additional state funding for a P3 by building a strong business case that is supported by the County and delegates

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P3 Project Analysis

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Transaction Structuring

JLL held a risk and transaction structuring workshop to walk CCPS through a variety of P3 structures as well as the risk allocation of each during the design, construction, financing, operations and maintenance phases of a project. This workshop and subsequent discussions led to the following conclusions that informed the quantitative and qualitative analysis of the P3 versus CCPS traditional delivery:

- A Design Build Finance Maintain (“DBFM”) Availability Payment P3 structure would be the most appropriate P3 structure for the 3 bundles identified in Phase 3. The following factors led to this decision:
  - ✓ CCPS retains ownership of the school facilities relative to a lease-leaseback or sale-leaseback approach
  - ✓ Enabling legislation and local precedent exists for the DBFM approach
  - ✓ Routine operations (e.g., janitorial services, waste disposal, security etc.) are better suited to be retained by CCPS

Quantitative and Qualitative Analysis Overview

To help determine which delivery model is most beneficial for the delivery of the three packages, both a quantitative and qualitative assessment was undertaken

- The quantitative assessment determined differences in cashflow expenditures under each delivery model
- A qualitative assessment evaluates non-financial risks and benefits of each delivery model

The quantitative “Value for Money” analysis considers all Project costs including, design, development, financing, construction, operations and maintenance and lifecycle, over the construction period and a 30-year operational period. The 30-year period provides ample time for lifecycle renewal and the amortization of debt and is commensurate with the terms of similar P3 projects.

The subsequent pages provide an overview of key assumptions for each delivery model and the outcome of the financial analysis.

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Quantitative Analysis

Value for Money Analysis Overview

The Value for Money financial analysis quantifies the net present value of cash flows for a Traditional (DBB) and P3 (DBFM) delivery model

- Traditional (DBB) model assumes a traditional pay-as-you-go (Pay-Go) approach where schools are constructed when funding is requested through the CIP process are received
- P3 (DBFM) model utilizes financing assumptions that were developed to represent terms that would be available to a private developer under current market conditions and paid for through Availability Payments from State and County funding sources

	Traditional (DBB)	P3 (DBFM)
Overview	DBB financial model reflects a scenario in which CCPS would be appropriated State and County funds to build one school every 3 years	DBFM would competitively engage a private developer to design, build, finance, and maintain the Project. CCPS will pay an annual Availability Payment, subject to performance deductions, to the developer starting with the first full year of operations from State and County funds.
Project Term	• Pre-Development Phase: 2.5 years for each school, sequentially • Project Term: 32.0 years for each school – Construction Phase: 2 years for each school sequentially, commencing July 2026 (1 school commence construction every 3 years) – Operation Phase: 30 years after the end of construction	• Procurement Phase: 2 years for all schools, as a package • Project Term: 32.5 years for all schools – Construction Phase: 2.5 years for all schools, commencing in January 2026 – Operation Phase: 30 years after the end of construction
Funding Source[1]	Funding requested when needed through CIP Process	Funding requested for Availability Payments

[1]Debt service on public funding sources is excluded from analysis as both the DBB and DBFM rely on public funding sources that would be bonded monies.

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Design and Construction Cost Comparison

	Package 1		Package 2		Package 3	
	Traditional (DBB)	P3 (DBFM)	Traditional (DBB)	P3 (DBFM)	Traditional (DBB)	P3 (DBFM)
Nominal Design and Construction Costs[1]	165,281,645	146,327,083	282,040,181	236,577,310	331,701,053	268,882,026
Nominal Pre-development Costs[1,2]	6,736,469	16,785,583	10,580,477	22,208,955	14,783,163	22,208,955
Total Nominal Pre-development and DC Costs	172,018,113	163,112,666	292,620,657	258,786,265	346,484,216	291,090,980
Year of completion for all Schools	June 2031	June 2028	June 2034	June 2028	June 2037	June 2028

[1]Pre-development costs and design and construction costs are assumed to escalate at 3% per annum. Design and construction costs are escalated to the midpoint of construction, which is later for the DBB given sequential delivery. Hard construction costs in real terms are assumed to be 15% lower for the DBFM relative to the DBB given efficiencies of a design-build process, which is grounded in empirical industry data.
[2]Nominal pre-development costs include: Project planning costs (DBB); CCPS procurement and advisor fees (P3), Developer predevelopment costs (P3)

Package 1: ES 24, MS 10
Package 2: Henson, Hanson, Smallwood
Package 3: Higdon, Indian Head, Mitchell, Malcolm

Key Takeaways:

- Design and construction costs are higher for the DBB
- Predevelopment costs are higher for the P3
- In the DBB, schools are delivered sequentially which drives higher construction cost escalation, while in the DBFM they are delivered at the same time in an accelerated manner
- Overall development costs are estimated to be higher for the DBB, driven by both escalation / sequencing and higher hard costs

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Operating Cost Comparison

	Operating Costs Estimates		Package 1		Package 2		Package 3	
	Traditional (DBB)	P3 (DBFM)	Traditional (DBB)	P3 (DBFM)	Traditional (DBB)	P3 (DBFM)	Traditional (DBB)	P3 (DBFM)
Prior to Completion[1]								
Operations Costs	$2.60/ Sq. Ft. on existing Sq. Ft.		-	-	7,018,660	4,005,495	6,580,577	3,111,230
Maintenance Costs	$6.89/ Sq. Ft. on existing Sq. Ft		-	-	18,842,402	10,753,213	17,666,319	8,352,457
Deferred Maintenance Investment[2]	Estimated Asset Replacement Values		-	-	94,119,577	2,836,590	98,991,617	2,279,646
Post Completion								
Operations Costs[3]	$2.60/ Sq. Ft. on new Sq. Footage	$2.60/Sq. Ft on new Sq. Footage	32,941,460	31,869,786	52,432,075	49,796,540	56,796,505	54,809,392
Maintenance Costs[3]	$6.89/ Sq. Ft. on new Sq. Footage	$3.75/Sq. Ft on new Sq. Footage (included in AP)	88,435,151	73,771,659	140,759,955	116,777,242	152,476,770	130,145.980
Lifecycle Costs	15% on Hard Costs. (Variable)	15% on Hard Costs (included in annual AP)	35,900,941		58,847,306		70,578,938	

[1]Values presented reflect total nominal costs over the Project Term taking into consideration cost escalation

[2]Deferred Maintenance Investments reflect the costs to address major deferred maintenance issues before schools can be replaced, estimated from the Maryland IAC's Statewide Facilities Assessment Report. These figures are considered the worst case scenario. This analysis assumes CCPS would not be subject to a penalty from the state when the school is replaced even if it is within 16 years after receiving State funds for the deferred maintenance investment.

[3]Cost/SF assumptions are based on CCPS actuals for the DBB and estimated developer bid for P3

Package 1: ES 24, MS 10
Package 2: Henson, Hanson, Smallwood
Package 3: Higdon, Indian Head, Mitchell, Malcolm

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Value for Money Results - Package 1 (ES #24, MS #10)

Value For Money Comparison			
	Traditional Delivery	**P3 Delivery**	**P3 Value for Money Difference**
	Total NPV	**Total NPV**	**Total NPV**
P3 Procurement Costs	-	5,385,694	5,385,694
CCPS Pre-Development Costs	5,639,299	-	(5,639,299)
Operations Costs (Prior to Completion)	-	-	-
Maintenance Costs (Prior to Completion)	-	-	-
Capital Repairs Costs	-	-	-
Construction Costs	124,968,352	-	(124,968,352)
Operations Costs (Post Completion)	11,412,109	11,771,902	359,793
Maintenance Costs (Post Completion)	30,637,124	-	(30,637,124)
Lifecycle Costs (Post Completion)	10,365,001	-	(10,365,001)
Availability Payment	-	204,952,833	204,952,833
Total Cashflows	**183,021,886**	**222,110,429**	**39,088,543**
First Year Availability Payment ($2028)	**Not Applicable**	**15,870,000**	

Key Takeaways:

- The first year availability payment for Package 1 under the P3 model is estimated to be $15.87m.
- For Package 1, there is not positive value for money for a P3 relative to a DBB. This is primarily driven by the fact that for new construction schools there is not significant deferred maintenance that results in general conditions costs while the new schools are being constructed.
- In addition, given the assumption that CCPS could build 1 school every three years and there are only two schools, there are not significant acceleration benefits for a P3 versus the DBB.

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Value for Money Results- Package 2 (Henson, Hanson, Smallwood)

Value For Money Comparison			
	Traditional Delivery	**P3 Delivery**	**P3 Value For Money Difference**
	Total NPV	**Total NPV**	**Total NPV**
P3 Procurement Costs	-	5,385,694	5,385,694
CCPS Pre-Development Costs	8,224,101	-	(8,224,101)
Operations Costs (Prior to Completion)	5,503,124	3,438,322	(2,064,802)
Maintenance Costs (Prior to Completion)	14,773,772	9,230,571	(5,543,200)
Capital Repairs Costs	74,652,960	2,434,933	(72,218,028)
Construction Costs	196,427,077	-	(196,427,077)
Operations Costs (Post Completion)	17,137,460	18,393,597	1,256,137
Maintenance Costs (Post Completion)	46,007,489	-	(46,007,489)
Lifecycle Costs (Post Completion)	16,117,264	-	(16,117,264)
Availability Payment	-	327,614,976	327,614,976
Total Cashflows	**378,843,247**	**366,498,093**	**(12,345,155)**
First Year Availability Payment ($2028)	**Not Applicable**	**25,400,000**	

Key Takeaways:

- The first year availability payment for Package 2 under the P3 model is estimated to be $25.4m.
- For Package 2, there is an approximately $12M financial benefit to CCPS through the P3 approach. This is driven by the acceleration of the schools and related financial benefits as well as the significant general conditions costs that would be required to keep the existing schools operational while the replacement schools are being constructed under the DBB.

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Value for Money Results - Package 3 (Higdon, Indian Head, Mitchell, Malcolm)

Value For Money Comparison			
	Traditional Delivery	**P3 Delivery**	**P3 Value For Money Difference**
	Total NPV	**Total NPV**	**Total NPV**
P3 Procurement Costs	-	5,385,694	5,385,694
CCPS Pre-Development Costs	10,665,006	-	(10,665,006)
Operations Costs (Prior to Completion)	4,913,882	2,670,684	(2,243,198)
Maintenance Costs (Prior to Completion)	13,191,882	7,169,759	(6,022,123)
Capital Repairs Costs	75,812,849	1,956,851	(73,855,998)
Construction Costs	216,386,959	-	(216,386,959)
Operations Costs (Post Completion)	18,332,927	20,245,219	1,912,293
Maintenance Costs (Post Completion)	49,216,858	-	(49,216,858)
Lifecycle Costs (Post Completion)	19,183,992	-	(19,183,992)
Availability Payment	-	368,760,322	368,760,322
Total Cashflows	**407,704,355**	**406,188,529**	**(1,515,827)**
First Year Availability Payment ($2028)	**Not Applicable**	**28,590,000**	

Key Takeaways:

- The first year availability payment for Package 3 under the P3 model is estimated to be $28.59m.
- For Package 3, there is an approximately $1.5M financial benefit to CCPS through the P3 approach. This is driven by the acceleration of the schools and related financial benefits as well as the significant general conditions costs that would be required to keep the existing schools operational while the replacement schools are being constructed under the DBB.
- The general conditions costs for Package 3 versus Package 2 are lower on a per-school basis, which drives Package 2 to show higher value for money.

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Qualitative Analysis

Qualitative Considerations

The following considerations are critical to consider alongside the financial analysis in selecting the appropriate delivery approach. As demonstrated, there are significant advantages that a P3 brings and relatively few disadvantages.

Consideration	DBB	P3 - DBFM	P3 Advantage
Risk Transfer	CCPS retains all project risks and the associated costs	Private partner takes on the construction, financing, maintenance, and performance risk	✓
Timing of Delivery	Schools delivered 3 years, 6 years and 9 years later than the DBFM for packages 1, 2 and 3, respectively	Accelerated delivery benefits which increase with the number of schools in the package	✓
Design Control	CCPS selects architect separate from a development team and has significant control over the school design	Design control is more limited given the procurement, particularly if a progressive approach is not utilized	✗
DB Contracting	Potentially several separate design and construction contracts, exposing CCPS to potential cost and schedule risk	Fixed-price DB contract with one contractor responsible for design, build, finance and maintenance provides efficiency in schedule and whole-life cost	✓
Complexity	DBB is familiar and tested by CCPS	A P3 is highly complex requiring time, resources and expertise throughout the procurement, construction and operations phase	✗

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Qualitative Considerations

Consideration	DBB	P3 - DBFM	P3 Advantage
Budget	Limited by amount and irregular frequency of CIP allocations to CCPS	Private partner will fund the whole project in return for a single annual Availability Payment, giving budget certainty to CCPS	✓
Payment Timing	Pay-Go funding requires significant upfront liquidity	Availability Payments only begin upon delivery of the schools	✓
Maintenance	CCPS responsible for all maintenance costs and risks with potential for deferral	Long-term warranty through transfer of major maintenance and key performance metrics that must be adhered to or deductions from the Availability Payment will result	✓
Lifecycle replacement	Asset replacement is dependent on CIP funding, resulting in large budget spikes and the potential for replacing systems past their useful life, thereby increasing risk and cost	Private partner will integrate maintenance plans into its design, construction and financing thereby extending the life of each asset through careful whole-term cost and performance management. Lifecycle maintenance is built into the annual Availability Payment and not subject to CCPS budget process	✓

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Qualitative Considerations

The following table provides additional details specifically regarding maintenance practices for the traditional DBB versus the P3 - DBFM Availability Payment.

Traditional and P3 Project Operations and Maintenance Comparison		
	Traditional (DBB)	P3 (DBFM)
Long term funding of capital renewal requirements	No	Yes
Contractually specified response time to cure facility performance failures	No	Yes
Fee deductions for failure to perform to standards	No	Yes
Pre-determined condition requirements for facilities at project Hand Back	Not Applicable	Yes

Recommendations and Next Steps

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Final Recommendations

A Design-Build-Finance-Maintain P3 model is an optimal structure for delivering replacement schools (Packages 2 and 3). Given the scale of the financial benefits, Package #2 is the optimal first P3 package for CCPS. This recommendation is supported by the following factors:

- Package #2 demonstrates a $12.3M financial benefit by utilizing a P3 versus a Traditional DBB
- School delivery can be accelerated by 6 years for Package #2
- Additional advantages include risk transfer, asset performance and budget certainty

The financial savings are achievable due to accelerated delivery timelines, time and cost savings realized from not having to make significant capital investments while the replacement schools are being constructed under the DBB, and operational efficiencies achieved by the private partner during the contract term.

A traditional DBB may be the optimal approach for the delivery of new schools (Package 1) given the size of the package, the relative need for acceleration, and the financial analysis results demonstrating savings of $39M relative to the P3.

Next Steps

As demonstrated through the Funding Analysis, there are challenges regarding the identification of a dedicated funding source for a P3. The anticipated Availability Payment for Packages #2 and #3 are estimated to be approximately $25M and $29M, respectively in the first year that the schools would be available. This payment would increase slightly over the term of 30 years, as the operating portion would be linked to CPI.

As such, we present the key next steps as follows:

- Introduce P3 legislation in the County, the result of which will be to give CCPS another delivery option that would accelerate the enhancement in condition of existing schools while addressing school capacity needs
- Advocate for additional funding from the County via redirection of existing funding sources toward CCPS, increasing the debt limit or finding ways to increase tax revenues
- Socialize the business case for the P3 with key local and state stakeholders to garner support for state funding for an Availability Payment

Appendix – Detailed VfM Assumptions

VfM Assumptions – DBB

	Package 1- New Schools	Package 2- Middle School Replacement	Package 3- Elementary School Replacement
Description	ES 24 MS 10	Matthew Henson John Hanson General Smallwood	Thomas L. Higdon Indian Head Walter J. Mitchell Malcolm
Period of Analysis	Each School Sequentially: Predevelopment: 2.5 years Construction: 2 years Operations: Solved 32.5-year cons. and ops.	Each School Sequentially: Predevelopment: 2.5 years Construction: 2 years Operations: Solved 32.5-year cons. and ops.	Each School Sequentially: Predevelopment: 2.5 years Construction: 2 years Operations: Solved 32.5-year cons. and ops.
Construction Start Date	One school commences construction every 3 years MS 10: Jul 2026 ES 24: Jul 2029	One school commences construction every 3 years Matthew Henson: Jul 2026 John Hanson: Jul 2029 Smallwood: Jul 2032	One school commences construction every 3 years Walter J. Mitchell: Jul 2026 Malcolm: Jul 2029 Thomas L. Higdon: Jul 2032 Indian Head: Jul 2035
Construction Sq. Footage	240,000 sq. ft	375,000 sq. ft	412,750 sq. ft
Existing O&M Sq. Footage	0 Sq. ft	314,840 Sq. ft	244,549 Sq. ft
New O&M Sq. Footage	240,000 sq. ft	60,160 Sq. ft	168,201 Sq. ft

[1] Analysis assumes existing legislation for State and Local funding

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VfM Assumptions – DBB

	Package 1- New Schools	Package 2- Middle School Replacement	Package 3- Elementary School Replacement
Construction Costs ($2023) (excluding Predevelopment costs)	Hard Costs: $125,217,750 Soft Costs: $13,215,000 Total Costs: $138,432,750 No Risk Adjustment Factor applied to Hard Costs Soft Costs same as P3 less $3m Pre-dev Costs per school	Hard Costs: $202,448,363 Soft Costs: $22,066,245 Total Costs: $224,514,608 No Risk Adjustment Factor applied to Hard Costs Soft Costs same as P3 less $3m Pre-dev Costs per school	Hard Costs: $230,080,660 Soft Costs: $23,308,352 Total Costs: $253,401,111 No Risk Adjustment Factor applied to Hard Costs Soft Costs same as P3 less $3m Pre-dev Costs per school
Annual Facility Operations Costs – Prior to Completion ($2023)	None	$2.60 $/sq ft On Existing Sq. Footage	$2.60 $/sq ft On Existing Sq. Footage
Annual Facility Operations Costs – Post Completion ($2023)	$2.60 $/sqft On New Construction Sq. Footage	$2.60/ sq ft On New Construction Sq. Footage	$2.60 / sq ft On New Construction Sq. Footage
Annual Facility Maintenance Costs- Prior to Completion ($2023)	None	$6.98/ sq ft On Existing Sq. Footage	$6.98/ sq ft On Existing Sq. Footage
Annual Facility Maintenance Costs- Post Completion ($2023)	$6.98/Sq ft On New Construction Sq. Footage	$6.98/ sq ft On New Construction Sq. Footage	$6.98/sq ft On New Construction Sq. Footage
Deferred Maintenance Investment Costs- Prior to Completion ($2023)	None	Matthew Henson: $21,749,231 (5 yrs. until replacement) John Hanson: $33,112,148 (8 yrs. until replacement) Smallwood: $28,174,699 (11 yrs. until replacement)	Walter J. Mitchell: $16,453,833 (5 yrs. until replacement) Malcolm: $27,493,333 (8 yrs. until replacement) Thomas L. Higdon: $19,550,158 (11 yrs. until replacement) Indian Head: $22,208,781 (14 yrs. until replacement)
Lifecycle Costs (post completion $2023)	15% of new construction hard costs. (Variable lifecycle curve)	15% of new construction hard costs. (Variable lifecycle curve)	15% of new construction hard costs. (Variable lifecycle curve)
Predevelopment Costs	CCPS Pre-Development: $3m per school	CCPS Pre-Development: $3m per school	CCPS Pre-Development: $3m per school

VfM Assumptions – DBB

	Package 1- New Schools	Package 2- Middle School Replacement	Package 3- Elementary School Replacement
Funding Source	State and local funding		
Discount Factor	5.0% to 2023 (VfM analysis year)		
Target Leverage	N/A		
Pre-tax Equity IRR, Nominal	N/A		
Debt Terms	N/A		
Rate	N/A		
Taxation	N/A		
Major Maintenance Reserve Account	N/A		
Debt Service Reserve Account	N/A		
Indexation	Construction: 3% O&M: 2.5% Lifecycle cost: 2.5%		
Availability Payment	N/A		
Interest Income	Historical average of the 1-year Treasury of on all interest generating accounts 2.50%		

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VfM Assumptions - DBFM

	Package 1- New Schools	Package 2- Middle School Replacement	Package 3- Elementary School Replacement
Description	ES 24 MS 10	Matthew Henson John Hanson General Smallwood	Thomas L. Higdon Indian Head Walter J. Mitchell Malcolm
Period of Analysis	Entire Package: Procurement: 2 years Construction: 2.5 years Operations: 30 years 32.5-year project term	Entire Package: Procurement: 2 years Construction: 2.5 years Operations: 30 years 32.5-year project term	Entire Package: Procurement: 2 years Construction: 2.5 years Operations: 30 years 32.5-year project term
Construction Start Date	January 2026	January 2026	January 2026
Construction Sq. Footage	240,000 Sq. ft	375,000 Sq. ft	412,750 Sq. ft
Existing O&M Sq. Footage	0 Sq. ft	314,840 Sq. ft	244,549 Sq. ft
New O&M Sq. Footage	240,000 Sq. ft	60,160 Sq. ft	168,201 Sq. ft

[1] Analysis assumes existing legislation for State and Local funding

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VfM Assumptions - DBFM

	Package 1- New Schools	Package 2- Middle School Replacement	Package 3- Elementary School Replacement
Construction Costs ($2023) (excluding pre-development costs)	Hard Costs: $108,885,000 Soft Costs: $19,215,000 Total Costs: $128,100,000 (15% downward Risk Adjustment Factor applied to Hard Costs) Soft Costs estimated as 15% on unadjusted Hard Costs	Hard Costs: $176,042,055 Soft Costs: $31,066,245 Total Costs: $207,108,300 (15% downward Risk Adjustment Factor applied to Hard Costs) Soft Costs estimated as 15% on unadjusted Hard Costs	Hard Costs: $200,080,660 Soft Costs: $35,308,352 Total Costs: $235,389,012 (15% downward Risk Adjustment Factor applied to Hard Costs) Soft Costs estimated as 15% on unadjusted Hard Costs
Annual Facility Operations Costs - prior to completion ($2023)	None	2.60 $/sq ft on existing sq. footage	2.60 $/sq ft on existing sq. footage
Annual Facility Operations Costs – post completion ($2023)	2.60 $/sqft (excluded from AP) on New Construction Sq. Footage	2.60 $/sqft (excluded from AP) on New Construction Sq. Footage	2.60 $/sqft (excluded from AP) on New Construction Sq. Footage
Annual Facility Maintenance Costs - prior to completion ($2023)	None	6.98 $/sq ft on existing sq. footage	6.98 $/sq ft on existing sq. footage
Annual Facility Maintenance Costs – post completion ($2023)	3.75 $/sqft (included in AP) on New Construction Sq. Footage	3.75 $/sqft (included in AP) on New Construction Sq. Footage	3.75 $/sqft (included in AP) on New Construction Sq. Footage
Deferred Maintenance Investment Prior to Completion ($2023)	None	10% of existing school Hard Costs (30 yr until replacement)	10% of existing school Hard Costs (30 yr until replacement)
Lifecycle Costs (post completion $2023)	15% of New Construction Hard Costs (included in AP)	15% of New Construction Hard Costs(included in AP)	15% of New Construction Hard Costs(included in AP)
Predevelopment Costs	P3 Procurement: $5m P3 Pre-Development: $10m	P3 Procurement: $5m P3 Pre-Development: $15m	P3 Procurement: $5m P3 Pre-Development: $15m

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VfM Assumptions - DBFM

	Package 1- New Schools	Package 2- Middle School Replacement	Package 3- Elementary School Replacement
Funding Source	State and local funding		
Discount Factor	5.0% to 2023 (VfM analysis year)		
Target Leverage	92-93% private debt		
Pre-tax Equity IRR, Nominal	11.0%		
Debt Terms	Taxable debt issued by the Project Company Low investment grade (A-/BBB+) Tenor: 29 years (assumes amortization starts at project occupancy, 1yr tail) Issuance Date: start of construction Sized to design and construction costs Sculpted P&I Capitalized interest during construction 2.5-year deferred draw schedule Debt upfront fee: 2.00% of issuance Quarterly agency fee: $25,000/year (index CPI) Minimum Senior DSCR: 1.19x		
Rate	20-year Treasury bond: 4.00% Spread: 188 bps Total interest rate: 5.88%		
Taxation	N/A – Pre-tax Model		

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VfM Assumptions - DBFM

	Package 1- New Schools	Package 2- Middle School Replacement	Package 3- Elementary School Replacement
Major Maintenance Reserve Account	3 year look forward requirements 1 year: 100% 2 years: 66% 3 years: 33%		
Debt Service Reserve Account	1-year MADS		
Indexation	Construction: 3% O&M: 2.5% Lifecycle: 2.5%		
Availability Payment	80.0% fixed at flat rate 20.0% inflated at CPI		
Interest Income	Historical average of the 1-year Treasury of on all interest generating accounts 2.50 %		

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Thank you

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