

Parsons, Susan

From: Kate & Chris <samsa@pacifier.com>
Sent: Thursday, May 28, 2015 2:32 AM
To: Council Clerk – Testimony
Cc: Hales, Mayor; Commissioner Fritz; Commissioner Fish; Commissioner Novick; Commissioner Saltzman
Subject: LU 14-218444-HR-EN Testimony of Katherin Kirkpatrick 2015-05-28 -- Email 10 of 11
Attachments: LU 14-218444-HR-EN Testimony of Katherin Kirkpatrick 2015-05-28 -- Exhibit U5.pdf; LU 14-218444-HR-EN Testimony of Katherin Kirkpatrick 2015-05-28 -- Exhibit U6.pdf; LU 14-218444-HR-EN Testimony of Katherin Kirkpatrick 2015-05-28 -- Exhibit U7.pdf; LU 14-218444-HR-EN Testimony of Katherin Kirkpatrick 2015-05-28 -- Exhibit U8.pdf

Dear Karla:

Please accept my attached testimony for submission into the record of LU 14-218444-HR-EN on the Mt. Tabor Reservoirs Decommissioning, scheduled for hearing this afternoon at 2:00 p.m.

This batch consists of Exhibits U5 through U8 of my legal brief. Kindly send me an electronic receipt when these documents are entered.

Thank you,
Katherin Kirkpatrick
1319 SE 53rd Avenue
Portland, OR 97215
samsa@pacifier.com

What are the **OVERARCHING CONSIDERATIONS** that influence formation?

	No Legislation Needed*	Attractive to Private Capital	Early Successes	Multi-Jurisdictional*
PV	FAIL	PASS	PASS	FAIL
CIT	FAIL	PASS	PASS	FAIL
OTP3	FAIL	PASS	PASS	FAIL
PBC	FAIL	PASS	PASS	FAIL
EC	PASS	PASS	PASS	PASS

AS INITIALLY PRESENTED
DOES NOT REFLECT

*The Exchange likely cannot engage in project delivery or I-banking practices on a multi-jurisdictional/ regional basis without legislative changes.

In discussion with State reps, preliminary thoughts on opportunities for early wins and longer-term opportunities were identified

AS INITIALLY PRESENTED AT WORKSHOP - DOES NOT REFLECT FINAL DECISIONS

- Comment: The business case evaluation needs to describe both the expected return from a project and the time horizon for that return.
- Comment: Municipalities are going to be reticent to paying double the interest rate for private equity.
 - o Comment: There's an equity issue here. Places with strong tax bases will be able to afford the higher cost of private capital, and many of these same localities have strong credit ratings and therefore access to lower-cost municipal borrowing. Places that are struggling are not likely to afford the more expensive private capital and may be unable to access the municipal bond market.
- Comment: The overarching call is to improve business cases for projects, whether or not they do traditional financing.

[Target project types identified by the 3 states]

- Question: What types of projects is CH2M HILL working on that might benefit from new financing mechanisms?
- Comment: Washington does not have an idea of typical projects to populate the matrix. The biggest demands are in transportation, but these might be difficult to do given the limited capacity for tolling. Washington does not leverage funds for drinking water or wastewater. Washington agrees that water projects are an interesting group of projects for this purpose.
- Comment: Another criterion for evaluating projects could be its potential to create jobs.
 - o Response: Would prefer this to be generalized into a benefit/cost analysis.
- Comment: Oregon is scouring for early win candidate projects that we can start to develop pro forma business cases on them for the fall. The biggest gap is centralized/engaged project sponsors. Either it's an agency that doesn't want to plan or a bunch of tiny institutions. Right now we're bunching up water/irrigation projects. It's been Oregon's experience that people are willing to pay more for improved service in the water/irrigation arena, especially in eastern OR where there are significant current service challenges. We think there's a ton of potential with those.
 - o There are a couple of public buildings in Oregon that could be a test case. We are interested in finding an engaged project sponsor that wants to be a test case. Need to have somebody willing to try. The downtown courthouse in Portland is one such example; it will cost about \$200 million to rebuild.
- Comment: In California we do not have much of an answer in terms of readily identified projects. Energy efficiency is a likely early adopter, especially the commercial side. Several transportation projects are interested. In transportation, we are interested in projects that are bigger than \$100 million.
- Comment: In an example in Wilmington, Delaware, they had contractors come in and do energy efficiency upgrades, with private financing and the repayment coming from projected operational savings, using an energy service corporation (ESCO) model. The contractor is guaranteeing the savings. The interest rate could be much higher. Making a building more energy efficient can still save money in the long run.

Governance Policy Overview and "Strawman" *(notes below reflect the questions and comments raised during the presentation, not the content of the presentation itself)*

- Comment: OTP3 is a public entity within the secretary of transportation's office. Partnerships BC is different because it does not have a strong linkage back to a public body.
- Comment: Investors often don't have confidence that public agencies can actually manage a project; this is part of the problem in attracting investors.

[Governance Strawman]

- Comment: As it is depicted now, the exchange would not provide project-specific advice because of the conflict of interest issue from the seconded staff. But perhaps there can be conferences where teams of professionals can offer ranges of information about how it might work.
- Comment: There's best practices and then there's deal-doing. There's already a best practices industry. Getting capacity at the state level to do the hard politics – we're losing that. If we're not making the case for hundreds of smart people to be deployed at the project level, we're not doing the marketplace a service.
- Comment: The challenge will be to standardize documents, but these documents will have to vary by state.
- Comment: The exchange needs to be unique and not look like everything else.
- Comment: The exchange needs to have a few things to put in a toolbox that have clear value in accelerating project development.

Conclusions from Day 1 *(One year from now, what is it you want to have achieved?)*

- Comment: We want to have built a better project pipeline/database. The exchange should have a shared back office that gives investors access and ability to look up all projects of a certain type. We could get this populated by June 2013.
- Comment: By June 2013, we should have a website active and work groups in action.
- Comment: Having a standardized screening process for projects across states would make it easier for investors.
 - o Comment: As long as seconded staff didn't actually do the evaluation it would eliminate the conflict of interest.
- Comment: Would like to see some more hard analytics making the case for new financing mechanisms. There are two financial hurdles that US PPPs have to overcome- 1) tax-exempt borrowing, and 2) corporate income tax.
- Comment: We need to make the case that what we are doing is stretching the public dollar in the best way possible. We need to find out if there are some asset classes where users are willing to pay more soon. We need to explore new sources of revenue.
- Comment: The proposed reliance on seconded staff and focus on conflict of interest is due to the lack of ability of the states to hire their own staff. This model should be considered Phase I – until the exchange has funding.
- Comment: We need to develop information so that a marketing manager can solicit funds from a foundation, and we need to develop a list of activities that will be good enough to get more money from our legislatures.
- Comment: A transmission project could be a good example of something that is multi-state.