

Rationale for Public-Private Partnerships and the P3 Procurement Process

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Monetizing Publicly Owned Assets

- **There has been a paradigm shift in the last few years in the U.S. as public authorities and agencies have embraced monetizing infrastructure assets largely due to the enormous market liquidity of investable funds dedicated to that sector (estimated at \$400 billion)**

- **Public Authorities generally have two primary motivations:**
 - **Address overall budget issues and fiscal constraints to generate new funds for public needs**
 - **Capture the maximum value for existing assets by transferring risk to private sector and allowing for public sector revenue maximization**

- **Why are infrastructure assets attractive to the private sector?**
 - **Long-term, stable cash flows**
 - **Cash flow dependability derived from quasi monopolistic nature of the assets**

- **Policy issues with respect to public service being turned private**
 - **What will rates be in the private sector's hands? Should rate-setting be retained by the public sector?**
 - **Will the quality of service be the same or better?**
 - **Will maintenance and safety be the same or better?**
 - **Will the private sector reap what can be viewed as excessive profits?**
 - **What will happen to the public sector employees?**

U.S. P3 Market Overview

Market Activity

- **Brownfield**
 - Alligator Alley, FL
 - Chicago Metered Parking
 - Midway Airport
 - Southern Connector
 - Northwest Parkway

- **Greenfield**
 - I-595 Florida-Availability Payment ML Project
 - First Coast Outer Beltway, FL
 - Port of Miami Tunnel-Availability Payment
 - Long Beach Courthouse
 - Jefferson Parkway, CO
 - TransTexas Corridor
 - North Tarrant Express
 - RTD FasTracks, CO-Availability Payment
 - I-635, Texas
 - Jackson Airport Parkway
 - Mid-Currituck Bridge, NC
 - SH 121, Texas
 - SH 130, Texas
 - Capital Beltway, VA=ML Project

Market Observations

- **Funding**
 - Despite uncertainty in the leveraged loan and corporate credit markets, the infrastructure finance market remains open
 - However, the infrastructure market has not been completely immune to credit market issues:
 - Contraction in lenders' capacity has resulted in increasing selectivity
 - Higher credit spreads and pull back in tenors
 - Lower leverage
 - Ratings (more rated deals and 'BBB' profiles)
 - Currently limited market capacity

- **Credit market difficulties have reduce new debt issuances**
 - Investment grade taxable debt volume: \$51bn in September, a record low
 - Tax-exempt muni's had a selloff that lasted roughly five weeks beginning in Sept, though there was a recent historic rally

- **Highly leveraged assets caught during an economic downturn have led some sponsors to experience difficulties based on their model:**
 - Macquarie
 - Babcock & Brown

Banks, financial and commercial sponsors continue to be willing to commit capital to US Infrastructure for well conceived projects. Unfortunately, market activity has not kept pace with appetite.

Value Drivers for a P3 Concession

- **Rates**
 - Who controls the tariff setting powers? The public authority? Prescribed under the Concession Agreement? Determined by the Private Operator at the market level?
- **Term (length) of concession**
 - Greater than 50 years allows concessionaire to attribute greater value due to the tax benefits of effective “ownership”, typically concession lengths are in the range 50-99 years
- **Asset condition and capital expenditure requirements**
 - Level of capital expenditure required including any mandatory improvements and hand-back requirements
- **Volume & operating history**
 - Long term, stable operating history provides increased comfort for basing projections
- **Macroeconomic factors**
 - Supply and demand factors
 - Key drivers to usage such as economy and demographic forecasts
- **O&M costs**
 - Potential efficiencies can be introduced by the private sector
- **Strong legal framework contained with Concession Agreement**
 - For example, restriction on the development of alternative competing facilities, and compensation under such events.
- **Union & employee contract considerations**

Equity Sourcing from the Private Market

Investor Appetite and Preferences

International Toll Road Portfolio Operators	<ul style="list-style-type: none"> Ability to bring operating skills, technical prowess and efficiencies to bear Long run, sustainable business opportunity 	
Major Infrastructure Construction Companies	<ul style="list-style-type: none"> Construction, project management and major maintenance works 	
Financial Equity Funds	<ul style="list-style-type: none"> Putting significant funds to work fast Fee generation & mid-term returns Identify and quantify risk allocation 	
Natural Buy-and-Hold Equity Investors & Pension Funds	<ul style="list-style-type: none"> Invest in essential infrastructure with stable and predictable cash flows Greater concentration on distant risks 	

Common Bidder Concerns

- Fair, open and transparent bid process
- Reasonable likelihood of a deal occurring
 - Bidding will require significant human and financial resources
 - There may be other significant opportunities in the market
- Partnering dynamics
 - Potential transaction size may require more extensive partnering amongst bidder types
- Certainty of execution once concession is awarded (political and environmental risks, litigation, etc.)

State of the Market

Receptivity for Infrastructure Transactions

- **While current conditions for credit and liquidity for debt are challenging, transactions are still closing in the US. Over the last year a number of deals have been signed / committed or closed:**
 - Pennsylvania Turnpike - \$12.8 billion
 - TX SH 130 (5 & 6) - \$686 million
 - Capital Beltway Managed Lane Toll Project (Transurban) - \$1.524 billion
 - Chicago Midway Airport - \$2.52 billion
 - Chicago Metered Parking System - \$1.16 billion
 - I-595 - \$1.7 billion

- **While there have only been 2 long-term concession and lease of parking assets in the US to date (Chicago's downtown underground system, which closed 2 years ago and Chicago's metered parking system awarded in December 2008), we expect there will be more deals completed in the near term.**

- **Infrastructure investors remain interested in parking assets and parking operators - e.g. Vinci's acquisition of 50% of LAZ Parking, a national parking operator, and Morgan Stanley, Abertis and Cintra's interest in both Chicago transactions**

- **To date, there has only been one significant airport transaction (Chicago Midway), however there is a high level of interest in airport assets globally with transactions such as BAA, Budapest, Brussels and Copenhagen Airports.**

We anticipate that pure infrastructure opportunities will continue to attract strong support from committed infrastructure investors and lenders

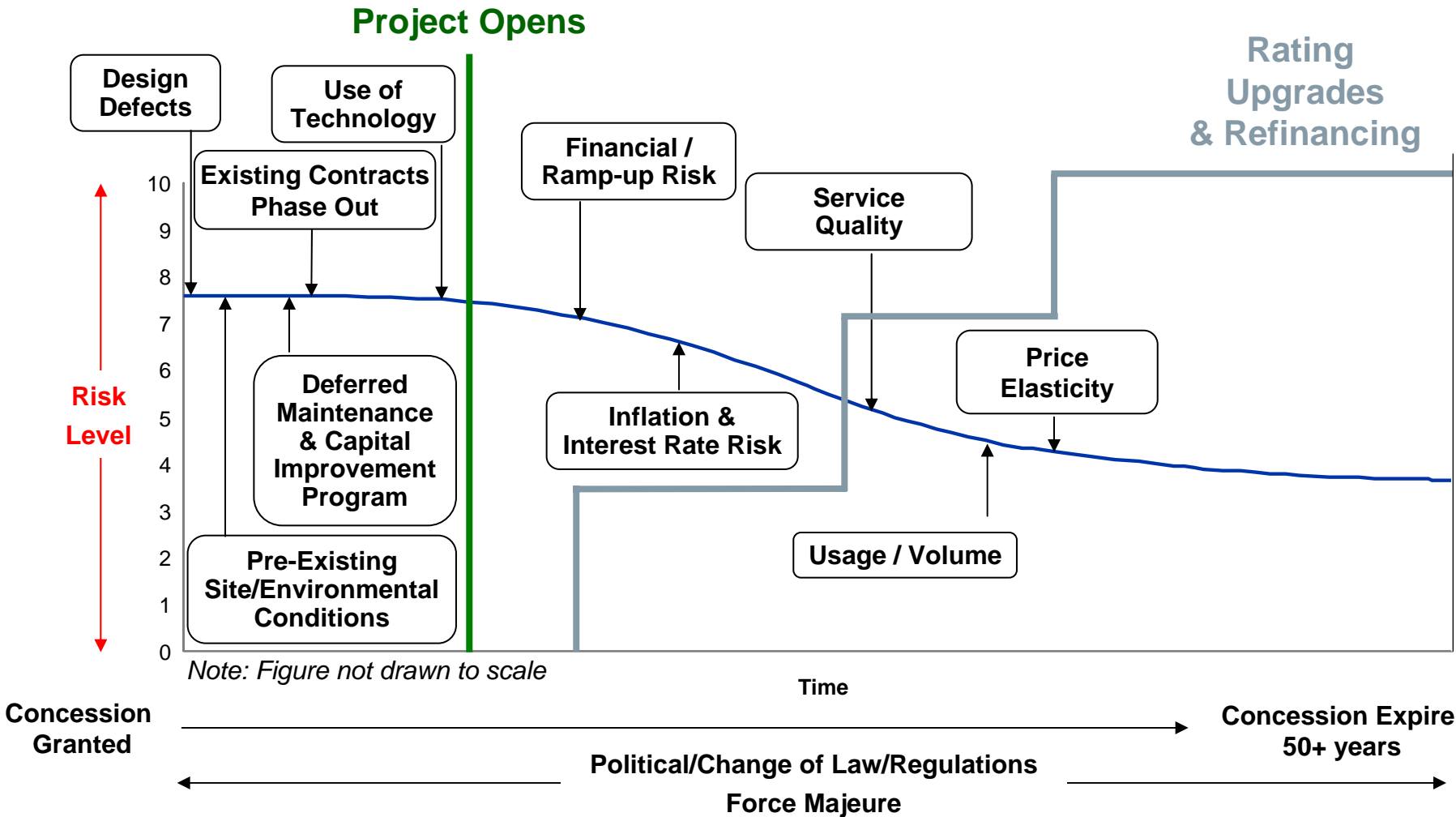
U.S. Sizeable P3 Transactions – Last 2 Years

Activity in the P3 space remains steady in North America

Project Name	Transaction Size	Project Description	Concessionaire / Private Party
Chicago Midway Airport	\$2.5 billion	A 99 year lease for Chicago’s Midway Airport, which handles over 18 million passengers and 285,000 aircraft operations annually. Bids were received in September 2008, and the application was submitted to FAA in October 2008.	Citi Infra Fund / John Hancock Insurance Company, Vancouver Airport Services
Chicago Metered Parking System	\$1.16 billion	The Chicago Metered Parking System is a 75 year concession to collect revenue, operate and maintain 36,000 “On-Street” parking spaces in Chicago. The winning bidder, Morgan Stanley and Laz Parking was announced in November 2008.	Morgan Stanley / LAZ Parking
SH 121	\$3.2 billion (upfront payment) + \$698 million (construction)	The SH 121 project involves the development, design, construction, financing, maintenance and operation of the SH 121 toll road through a comprehensive development agreement (CDA). The project is in Denton and Collin counties and runs from Business 121 to US 75 on the east side.	North Texas Tollway Authority
Northwest Parkway	\$603 million	The Northwest Parkway consists of the two-mile Interlocken Loop between SH128 and Tape Drive and a nine-mile limited access toll road between Tape Drive and I-25 with a connection to E-470.	Brisa
MAHER Terminals	\$1.2 billion	A privately-held operator of Port terminal facilities in Port Elizabeth and Port of Prince Rupert.	RREEF Infrastructure
OOIL	\$2.4 billion	Four container terminals in North America (The terminals are: New York Container Terminal, Staten Island, New York; Global Terminal and Container Systems, Bayonne, NJ; and TSI Deltaport and TSI Vanterm in Delta and Vancouver, BC.)	Ontario Teachers’ Pension Plan
SH 130	\$1.4 billion	The Trans-Texas Corridor links the Mexican border at Lower Rio Grande with the Oklahoma state line (north of Dallas). The road will be 800 miles (1,300 km) long and 1,200 feet (360m) wide.	Cintra / Zachry
I-595	\$1.7 billion	The 35 Year concession involves the operation of and reconstruction, widening and resurfacing of the I-595 mainline (and all associated improvements to adjacent cross-roads, frontage roads and ramps) in central Broward County, Florida, from the I-75/ Sawgrass Expressway interchange to the I-595/ I-95 interchange, for a total project length of approximately 10.5 miles.	ACS Dragados

Understanding the Infrastructure Asset Life Cycle

Risk Premiums to Attract Private Equity Capital

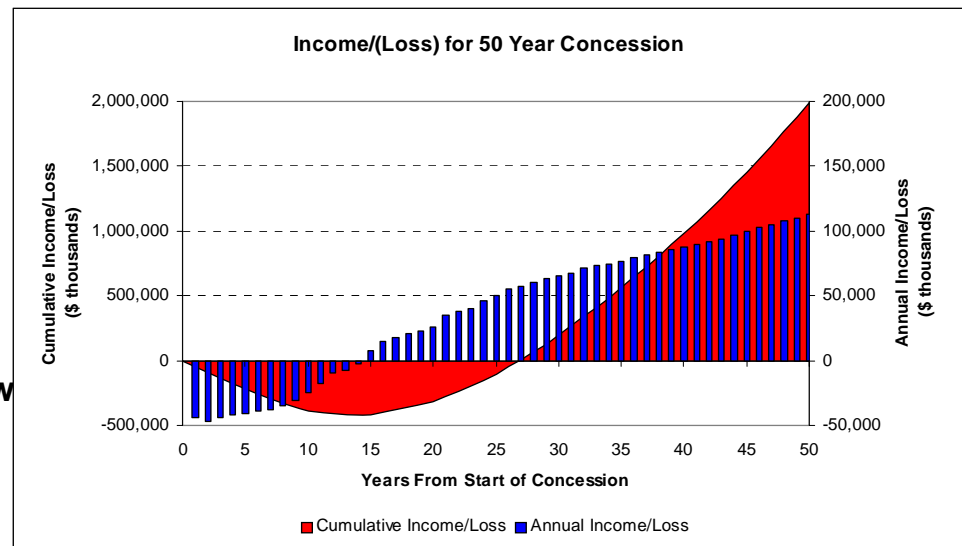


Private Sector

Understanding Revenue Values to the Private Sector

- A long term concession (50 plus years) can produce a higher value than a traditional tax-exempt model as a result of a variety of “drivers”
 - More aggressive projections (and consultants)
 - Use of variable pricing, increased electronic collection, etc.
 - Benefits of anticipated depreciation, amortization and interest deductions can generate significant tax losses and funding benefits related to writing down the purchase price on an accelerated basis (see graph)
 - Assumptions on refinancing/debt structures to reflect increasing value of the asset as revenues materialize
 - Some bidders are able to secure financing at more favorable terms than others (i.e. captive equity, bank relationships, etc.)
 - Creating operational efficiencies that lower costs will yield a higher bid
 - US market is still in early stages, thus some bidders may be more aggressive to get a foothold in the market
- In general, bidders will evaluate a project based on the risks and perform an discounted cash flow targeted equity rate of return (IRR)
- Opportunities for additional acquisitions in the region to enhance revenue potential

Income/(Loss) for a 50 Year Concession



Risk Transfer

- **Public sector looks to incentivize the concessionaire to provide a good service that attracts and satisfies users and allows for a fair return**
 - **A balanced partnership avoids a “winner” or a “loser” in hindsight**

- **Specification of required service outputs and risk allocation in detail within a concession agreement**
 - **Avoidance of perception of excess profits – through revenue sharing arrangements, a variable length concession period and/or refinancing gain share provisions**
 - **Setting a sensible maximum rate progression**
 - **Balanced protections against the expansion or introduction of competitive facilities**
 - **Performance point mechanisms in relation to road condition, safety, incident response times, etc.**
 - **Appropriate hand-back provisions**
 - **Equity sell-down restrictions**

- **Concessionaire will have a natural incentive to perform – funders will be keen to monitor and ensure performance**

Optimize Commercial Structure through Procurement Process

- **Engage experienced professional P3 advisors with an international team**
 - **Advisors must be well regarded in the P3 marketplace**
 - **Prospective bidders will measure the likelihood of a successful transaction relative to the track-record of the advisory team in infrastructure P3 procurements**
 - **The financial advisor will work with a multitude of other advisors and consultants**
 - **Legal – concession agreement development**
 - **Traffic & revenue studies tailored to the expected terms of the concession agreement**
 - **Engineering – need to carefully evaluate required capital expenditures**
 - **Environmental**
 - **Public affairs**
 - **Consultant terms of engagement can be critical**
 - **Engagement must be tailored to fit concession model**
 - **Need for checks and balances**
- **Feedback from the private sector bidding groups will prove to be invaluable**
 - **Private sector will want to provide recommendations as to the commercial structure of the transaction**
 - **Use feedback to attract competitive financing terms and conditions**
- **Financial and legal advisors will account for the strategic procurement objectives and aim to minimize overall level of recourse to procurer**

Key Considerations for Equity Partner Qualifications

- **Key issues that should be considered in selecting the correct partner(s) include the:**
 - **Target return profile and risk appetite**
 - **Investment and exit strategy**
 - **Control and governance provisions**
 - **Taxation implications at a federal, state and local jurisdiction level**
 - **Level of project / bid experience**
 - **Resources to be made available for the bid**
 - **Reliability, investment decision process and allocation of capital**
 - **Existing bank / funder relationships**
 - **Knowledge of local politics and reputation with the key project stakeholders**
 - **Sector knowledge and comfort with the technological aspects of the project**
 - **Any other key strategic considerations specific to the proposed scheme**

- **Common bidder concerns**
 - **Fair, open and transparent bid process**
 - **Reasonable likelihood of a deal occurring**
 - **Bidding will require significant human and financial resources**
 - **There may be other significant opportunities in the market**
 - **Partnering dynamics**
 - **Potential transaction size may require more extensive partnering amongst bidder types**
 - **Certainty of execution once concession is awarded (political and environmental risks, litigation, etc.)**

Risk Assessment and Decision Drivers

- Risk needs to be allocated where it can be managed best
- Expect appropriate risk sharing between the public and private sector to maximize value
- Creation of a risk matrix

Risk Matrix

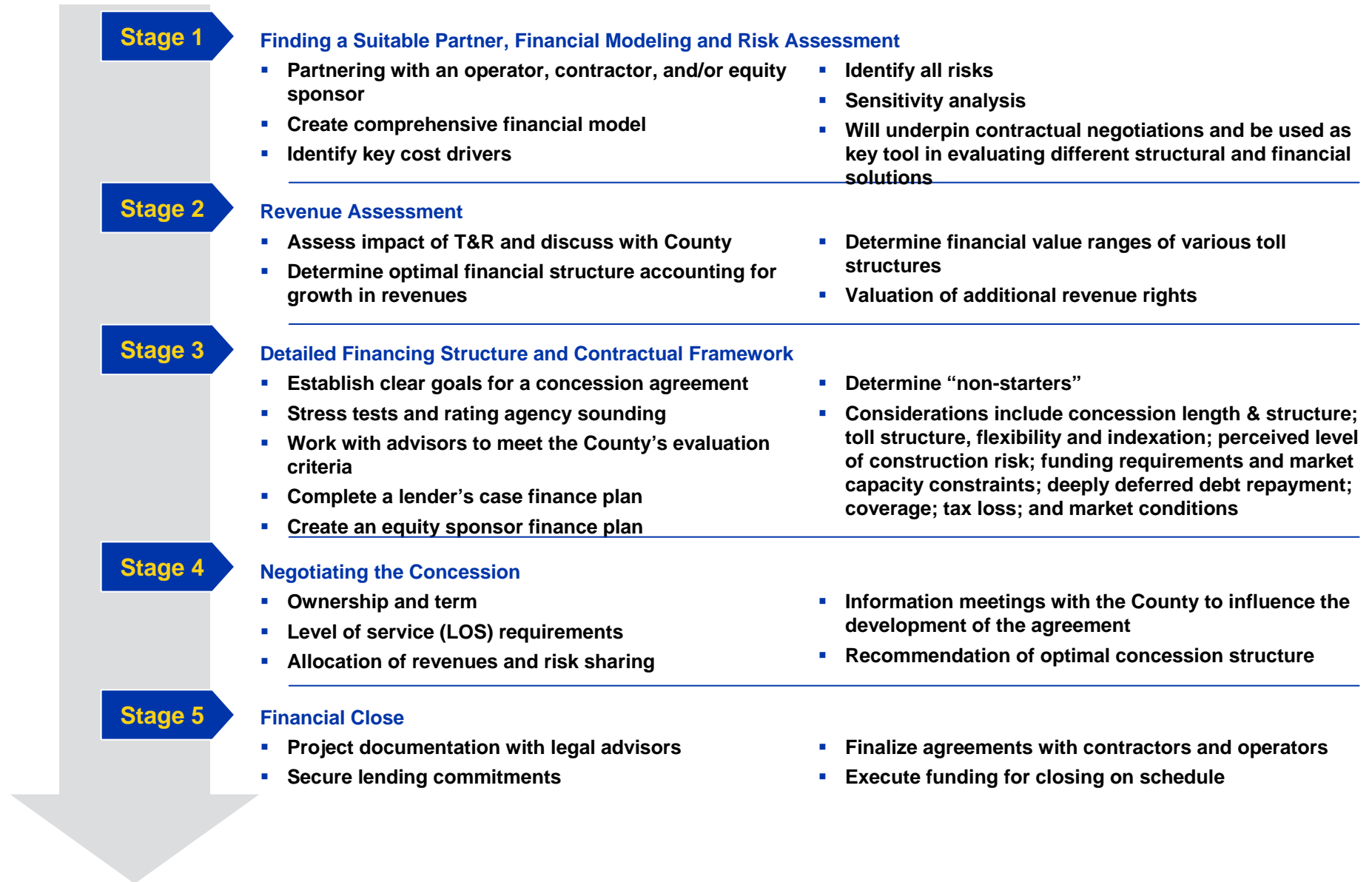
Highway Authority Risk Matrix for Terms and Conditions						
CONFIDENTIAL DRAFT FOR DISCUSSION PURPOSES ONLY (NOT FOR DISTRIBUTION - ATTORNEY CLIENT PRIVILEGE)						
Risk No.	Risk Description	Highway Authority	Local Municipality	State DOT	FHWA	Private Sector
Assumption of Risks and Liabilities Related to Infrastructure						
1.01	Toll rates					
1.02	Local interchanges					
1.03	State interchanges					
1.04	Interstate interchanges					
Other Assumptions						
2.01	Selection of IT Technology					
2.02	Interchange design					
Operations and Maintenance Risks						
3.01	Incorrect Estimated Cost of Providing Specific Services Under the Contract (Other Agreed Upon Range by Party)					
3.02	Legislative / Regulatory Change having Capital Cost Consequences					
3.03	Legislative / Regulatory Change					
3.04	Changes in Taxation (e.g. Property Taxes, etc.)					
3.05	Changes in Standards, Operating on the Nature of the Change					
3.06	Increased Capital Expenditures as a Result of Higher Traffic Volume					
3.07	Third Party Crimes and Accidents					
3.08	Changes in Required Insurance Premiums					
3.09	Misleading Operational Performance Specifications					
3.10	Incorrect Estimated Cost of Maintenance					
3.11	Incorrect Estimated Cost of Energy Volume Usage					
3.12	Operations of the Infrastructure					
3.13	Operations and Functioning of the Toll System					
3.14	Regular Maintenance of the Infrastructure and of the Toll System					
3.15	Capital Maintenance of the Infrastructure and of the Toll System					
3.16	Labor and Material Availability					
3.17	Conditions of Assets Upon Hand Over to Authority at the End of the Partnership Period					
3.18	Maintenance of Toll Technology, Interoperability					
3.19	Traffic Model Maintenance					
Construction Risks						
4.01	Latent Defects in Construction					
4.02	Change in Specification Initiated by Procuring Entity					
4.03	Performance of Sub-Contractors					
4.04	Default by Contractor or Sub-Contractor					
4.05	Labor Dispute					
4.06	Failure to Meet Performance Standards					
4.07	Availability of Facilities					
4.08	Force Majeure - General					
4.09	Force Majeure - Temporary (e.g. excavations)					
4.10	Force Majeure - Permanent					
Financial/Operational Risks						
5.01	Design					
5.02	Change in Construction Standards (requested after closing)					
5.03	Adequacy of Insurance					
5.04	Increased Time and Cost Estimate					
5.05	Relocation of Public Utilities					
5.06	Toll Contamination					
5.07	Unforeseen Ground / Site Conditions					
5.08	Unforeseen Ground / Site Conditions Under the Footprint of Existing Facilities (if any)					
Termination Risks						
6.01	Termination Due to Default by the Procuring Entity					
6.02	Default by the Operator Leading to Breach by Procuree					
6.03	Termination Due to Default by the Operator					
Technology / Environmental Risks						
7.01	Technology Change / Asset Obsolescence					
Other Risks						
8.01	Inflation During the Operating Period					
8.02	Ways Interest Rate Fluctuations Between the Time of Selection of the Preferred Private Sector Proponent and the Date of Financial Close					
8.03	Interest Rate Fluctuations After the Date of Financial Close					
8.04	Approval Rights for Refinancing					
8.05	Fluctuation of Inflation Rates					
Other Risks						
9.01	Reputational					
9.02	Public (prior to Financial Close)					
9.03	Public (after Financial Close)					
9.04	Accounting					

Possible Risks

- Expansion on free competing facilities
- Political
 - ▶ Goals of various governmental jurisdictions involved
- Future growth of geographic area driven by continued development
 - ▶ Population and dwelling units
 - ▶ Employment
- Rate collection systems and rate sensitivity/price elasticity
- Site and environmental conditions
- Latent defects/deferred maintenance
- Inflation and interest rates
- Service quality
- Force Majeure
- Change of laws/regulations
- Exposure to ad-valorem tax levies
- Compensation events

Staged Process to Create a Financeable P3 Project

Active Dialogue and Negotiation with the County and Potential Bidders

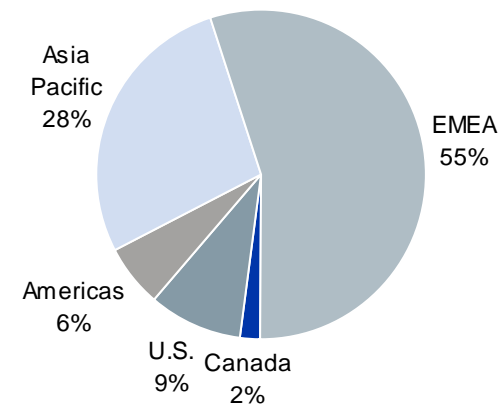
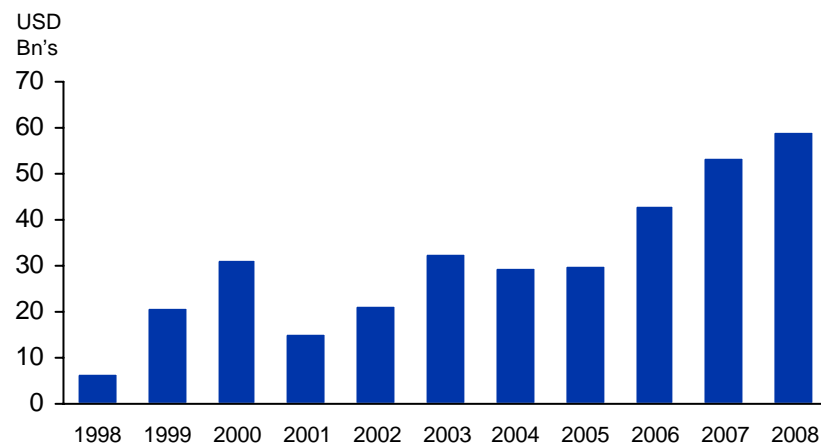


Lessons Learned for Achieving a Viable PPP in the New Era

A Sampling of Points to Consider

- **Political Leadership/Champion**
- Well conceived deal structure with minimal political risk once awarded by County
- Understanding of risks and clarity on proper allocation to responsible parties
- Strategic approach to market.
- Ability to objectively parallel track bank and bond market until execution
- **What's in it for the public? Clearly Articulated....**
- Transparent bid process and Competition
- Public sector relationship over long time horizons
- Commodity cost risk e.g.: fuel or energy price
- Technology risk over extended investment horizons

1998 to 2008 Value of Roads & Transportations Deals Closed World Wide¹



(1) Source: Project Finance International