AAPA Finance Seminar - Savannah
Public Private Partnerships

PFM Financial Advisors LLC
Mary Francoeur

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300 S. Orange Avenue
Suite 1170
Orlando, Florida 32801
407-406-5752

40 Wall Street, 49th Floor
New York, NY 10005
212-809-4212
What is a Public-Private Partnership?

- P3s are very often associated with Project Finance, but actually are much broader and do not necessarily include financing

- USDOT’s definition of a public-private partnership is quite broad
  - P3s are contractual agreements formed between a public agency and a private sector entity that allows for greater private sector participation in the delivery and/or financing of transportation projects
  - P3’s can take many different forms
    - The degree to which the private sector assumes responsibility and risk differs from one application to another
    - Different types of P3s are more relevant in certain situations (i.e., development of new facilities vs operation or expansion of existing assets)

- Sound familiar? Perhaps because Ports, among public agencies, have really always been public-private partnerships

- The focus on PPPs can be attributable to the growth in equity funds seeking investment opportunities

- Key is to understand the elements of project delivery alternatives and how Project Finance and P3 techniques can be utilized in various combinations
When is a P3 a Viable Alternative?

**“Greenfield” projects**
- Large, discrete and complex capital initiatives
- Higher completion risk due to design and construction elements
- Accelerated delivery timeline
- Redevelopment and economic development

**“Brownfield” projects**
- “State of good repair” where maintenance had been underfunded
- Improvements or expansion to existing facilities or projects
- Changing demographics and market demand allow for redevelopment and potential repricing

**Financial considerations**
- Debt constraints and “off balance sheet” or “off credit” objectives
- Monetization
- Value capture (unlocking pricing power, expense reductions or other benefits)
## Misconceptions About P3s

<table>
<thead>
<tr>
<th>Misconception</th>
<th>Reality</th>
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<tbody>
<tr>
<td>P3s provide “free money” to close funding gaps for projects</td>
<td>Private sponsors require a return on investment that will depend on project’s risk profile</td>
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<tr>
<td>Cost of capital is most significant value driver</td>
<td>Cost of capital is one consideration, along with construction engineering solutions, lifecycle optimization, risk-sharing, etc.</td>
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<td>P3s give away government oversight and allow private sector free reign to raise rates</td>
<td>Detailed project agreements preserve government oversight or define limitations on rate increases</td>
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<td>Profit incentivizes private sector to deliver a more expensive P3</td>
<td>P3s are implemented after an exhaustive qualification process, having &quot;best in class private sponsors&quot; compete to deliver the most viable option to RT (lowest NPV, highest payment, lowest subsidy, etc.)</td>
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<tr>
<td>P3s “glass half full or glass half empty”</td>
<td>P3s provide public value, but need to be carefully crafted. When they have failed, the issue is often inappropriate transaction design and application</td>
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Seaport Project Delivery and Financing Alternatives

Public

Traditional public operations

Design-Bid-Build
PM/CM at Risk
Design-Build

Contracts

Private

Privatized

Concessions

Pledged Security

Public Taxes

Port Facility Tariffs & User Fees

Facility Lease Revenues

Tenant Min Annual Guarantees

Tenant Balance Sheet

Financing Instruments

Public Tax-Exempt Debt

Net Operating Revenue PABs

Equipment Leases

Special Purpose Facility Bonds

Taxable Debt/Investor Equity

Design-Build-Finance

Design-Build-Operate-Maintain

Design-Build-Finance-Operate

Asset sales
## Public-Private Partnerships Enable Risk Transfer

<table>
<thead>
<tr>
<th>Risk</th>
<th>Traditional Public Financing</th>
<th>Public - Private Partnerships</th>
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<tbody>
<tr>
<td>Construction cost and completion</td>
<td>Public agency at risk</td>
<td>Fixed price, date certain delivery</td>
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<tr>
<td>Institutional capacity</td>
<td>Organizational framework and staffing supports project delivery</td>
<td>Responsible for project delivery; public sector responsible for contract oversight</td>
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<tr>
<td>Provision for lifecycle maintenance</td>
<td>Generally separated from capital costs</td>
<td>On-going O&amp;M costs factored into construction program to achieve lowest all-in cost</td>
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<tr>
<td>Long-term demand risks</td>
<td>Mitigated by long-term contracts</td>
<td>Assumed and managed</td>
</tr>
<tr>
<td>Commercial management</td>
<td>Challenged by public agency bidding requirements</td>
<td>Priority for revenue maximization; contract can incorporate revenue sharing with public agency</td>
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The PFM Approach

### Analysis and valuation

- **Program development**
  - Define project/transaction objectives
  - Determine public interest to be served
  - Establish financial framework
    - Enterprise (user fee based)
    - Availability (tax or appropriation supported)
    - Hybrid (user fee and tax supported)

- **Feasibility and valuation**
  - Build financial model
  - Develop and evaluate alternative solutions
  - Identify legal or legislative hurdles
  - Identify stakeholder and constituent considerations
  - Retain expert technical advisors as required
  - Model best practices
  - Solicit input from investors and operators
  - Gauge level of interest
  - Identify risks
  - Communications and education with stakeholders and constituents

- **Market outreach and communication**

### Transaction development and execution

- **Procurement design**
  - Confirm transaction structure
    - Lease
    - Concession
    - Design-Build
    - Operate-Maintain
    - Other
  - Compare to tax exempt options
  - Determine procurement process requirements
  - Retain balance of transaction team
  - Develop procurement schedule

- **RFQ process**
  - Draft and distribute RFQ
  - Develop shortlist of qualified bidders
  - Initiate due diligence
    - Confidentiality agreements
    - Data room
    - Meetings with bidders
  - Determine requirements for final proposals or offers

- **RFP and selection**
  - Draft transaction documents
    - Concession/lease
    - Operating standards
    - Design specifications
    - Other
  - One-on-one meetings with finalists
  - Finalize transaction documents
  - Release RFP or final bid submittal form
  - Select finalist
  - Close and transition
Deal Foundation Set Forth in Concession

- Agreement between governmental entity (grantor) and private party (concessionaire)
- Allocates risk between parties
- Sets forth either compensation structure or pricing limits
- Also sets forth performance standards
- Default and termination provisions
Typical Structure

Granting Authority
- Availability Payments if applicable
- Project Contract (DBFO, DBFM, Concession etc.)

Project Company
- Senior Debt, Security and Hedging
- Equity and/or Junior Debt
- Construction Contract
- Operation Contract

Lenders

Investors

Construction Contractor

Operator

Users
- Services
- User charges if applicable

Direct Agreement
## Greenfield Terminal Financing Options

<table>
<thead>
<tr>
<th>Financing Option</th>
<th>Security</th>
<th>Benefits</th>
<th>Challenges</th>
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<tbody>
<tr>
<td>Revenue Bonds (Senior or Subordinate Lien)</td>
<td>Net revenues of the authority</td>
<td>• Lowest cost of capital&lt;br&gt;• Retention of control of facility</td>
<td>• Reduces capacity for other priorities&lt;br&gt;• Credit concern for rating agencies and bondholders&lt;br&gt;• Project risk - unless assigned through DBOM contracts</td>
</tr>
<tr>
<td>Tenant Special Facility Bonds</td>
<td>Corporate obligation of Lessee Re-let provisions; Leasehold mortgage</td>
<td>• Non-recourse&lt;br&gt;• Assignment of demand and construction risk</td>
<td>• Dependent on corporate credit quality; bankruptcy risk&lt;br&gt;• Higher cost of capital (non-investment grade rates or need for credit enhancement)</td>
</tr>
<tr>
<td>Project Bonds</td>
<td>Net terminal revenues and security interest in project</td>
<td>• Non-recourse&lt;br&gt;• Assignment of demand and construction risk</td>
<td>• Minimum investment grade ratings yield higher borrowing costs&lt;br&gt;• Higher cost of capital due to equity contribution</td>
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Feasibility Evaluation / Key Drivers

1. Prepare Revenue Forecast
2. Identify Capital, O&M and R&R costs for the project
3. Develop business terms
4. Determine enterprise value of terminal operations
5. Evaluate impact of alternative financing strategies
6. Evaluate impact of project risks

- Public Finance Procurement Model
  - Risk-adjusted, whole-life cost of a project assuming DB procurement model.

- Public Private Partnership Models
  - Aspects of project financing, risk transfer, and efficiencies using different P3 delivery models.

Value for Money Analysis
- Comparison of delivery model benchmarks based on risk allocation and financial performance.

Better Value for Money?
- Optimal risk allocation
- Development opportunities
- Continuing commercial incentives
- Lower cost of finance?
- Innovation efficiencies
- Operational integration efficiencies
Ensuring a Successful Outcome

- Clearly established goals and objectives.
- Early identification of desired outcomes for different stakeholder groups.
- Early and often communication with labor unions, port employees, and political groups.
- Performed thorough due diligence including detailed market, demand, and financial analyses.
- Optimized bid results by pre-marketing the project to target bidders, ensuring the proper coordination and dissemination of information, and being proactive in negotiations.
Valuation Analysis – Appraise before Negotiating

✓ Capital investments have been identified and estimated
✓ Confirm design for maximum throughput capacity
✓ Perform market analyses including dynamics of beneficial cargo owners and competitive position
✓ Establish competitive pricing model; forecast operating costs consistent with established labor practices
✓ Identify incentive structures
Sample Framework to Support Investment

- Forecast net revenue production to establish a base line for negotiation
- Offer share of value added through partnership
General Timeline of Concession Delivery

Building consensus and support for the project may take several months in addition to the actual execution.

Analysis and Valuation

Program Development

Feasibility & Valuation (Due Diligence)

Preliminary Market Outreach

Confirm Preferred Contract Structure

Procurement Design

Request Qualifications

Request Bids

Negotiate & Commercial Close

Transaction Development

24 months Prior

14-18 months prior

8-9 months prior

7-8 months prior

6-7 months prior

5-6 months prior

3-4 months prior

Transaction Execution

Ongoing throughout transaction

Discussions with stakeholder groups including Labor Unions, Public Officials, and potential bidders
Case Study: Port of Baltimore Project

50 year private concession for Seagirt terminal operation and berth expansion.

- Ports America entered into a 50 year lease concession with the Maryland Port Administration (“MPA”), with MPA receiving:
  - A $140 million upfront payment, construction of a fourth berth, and new post panamax cranes were funded by equity from Ports America and non-recourse bonds repaid by Ports America.
  - Capital reinvestment for the terminal over 50 years.
  - Ongoing lease payments:
    - Fixed Component – to pay debt service on bonds and cover other costs
    - Variable component – based on container volume

Ports America Capital Contributions for Seagirt:

- Equity Contribution from Ports America $75 million
- Non-recourse tax-exempt Bonds $245 million
- Reimbursement to Maryland DOT $140 million
- Construction of a 4th berth to accommodate post-Panamax ships $67 million
- Reserves and Transaction Costs $60 million
- Ports America Working Capital $13 million
- Purchase of post-Panamax cranes $40 million
Thank You