AAPA Finance Seminar - Savannah

Public Private Partnerships

PFM Financial Advisors LLC

Mary Francoeur

April 18, 2017

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

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

Seaport Project Delivery and Financing Alternatives

Public ⟷ **Private**

Traditional public operations — **Privatized**

Contracts

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

Concessions

- Design-Build-Finance
- Design-Build-Operate-Maintain
- Design-Build-Finance-Operate
- Asset sales

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

Public-Private Partnerships Enable Risk Transfer

Risk	Traditional Public Financing	Public - Private Partnerships
Construction cost and completion	Public agency at risk	Fixed price, date certain delivery
Institutional capacity	Organizational framework and staffing supports project delivery	Responsible for project delivery; public sector responsible for contract oversight
Institutional capacity	Multiple priorities across business lines	Singular focus on project delivery
Provision for lifecycle maintenance	Generally separated from capital costs	On-going O&M costs factored into construction program to achieve lowest all-in cost
Long-term demand risks	Mitigated by long-term contracts	Assumed and managed
Commercial management	Challenged by public agency bidding requirements	Priority for revenue maximization; contract can incorporate revenue sharing with public agency

The PFM Approach

Analysis and valuation

Transaction development and execution

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

Market outreach and communication

- Solicit input from investors and operators
- Gauge level of interest
- Identify risks
- Communications and education with stakeholders and constituents

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

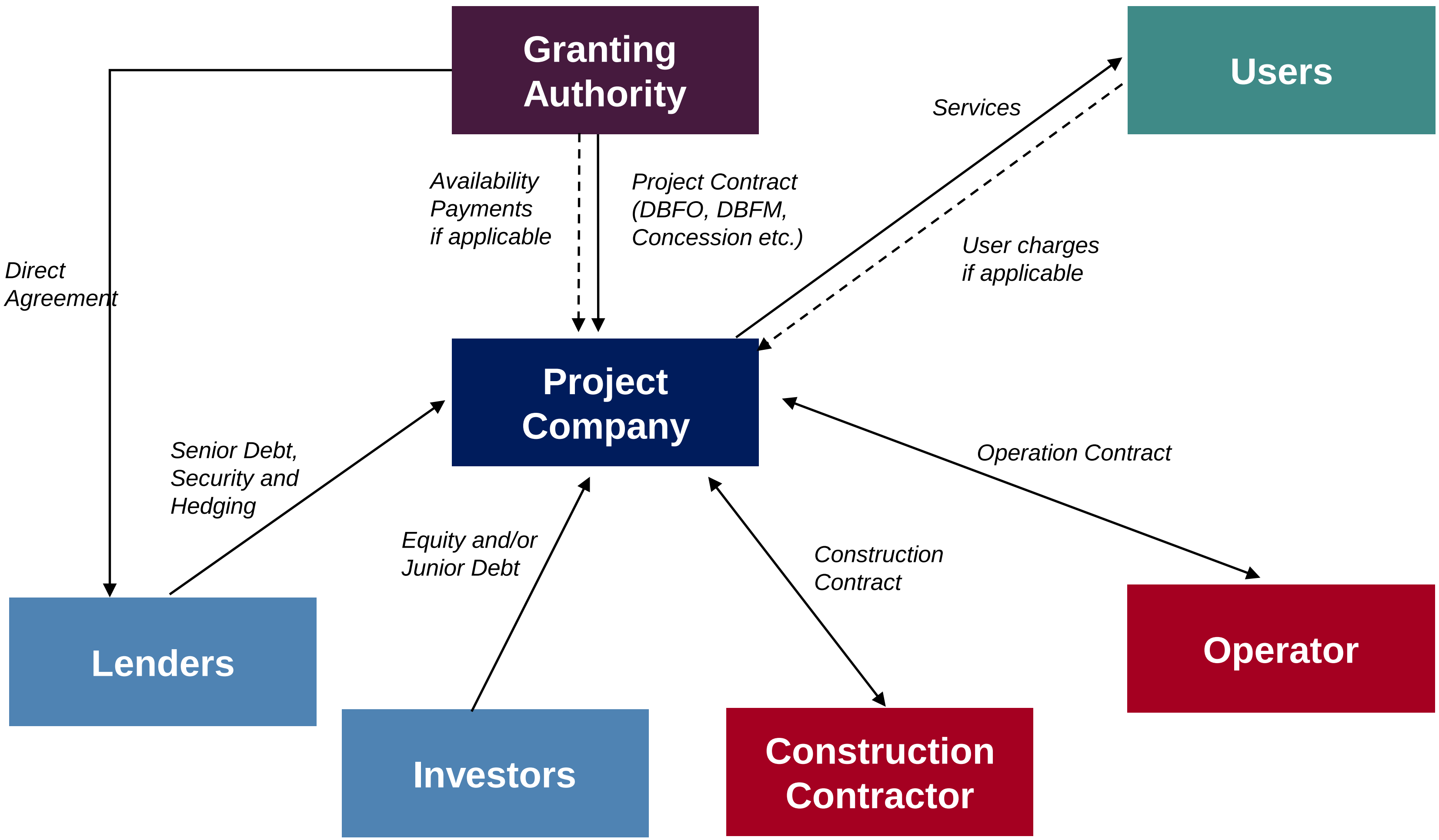
RFP and selection

- 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

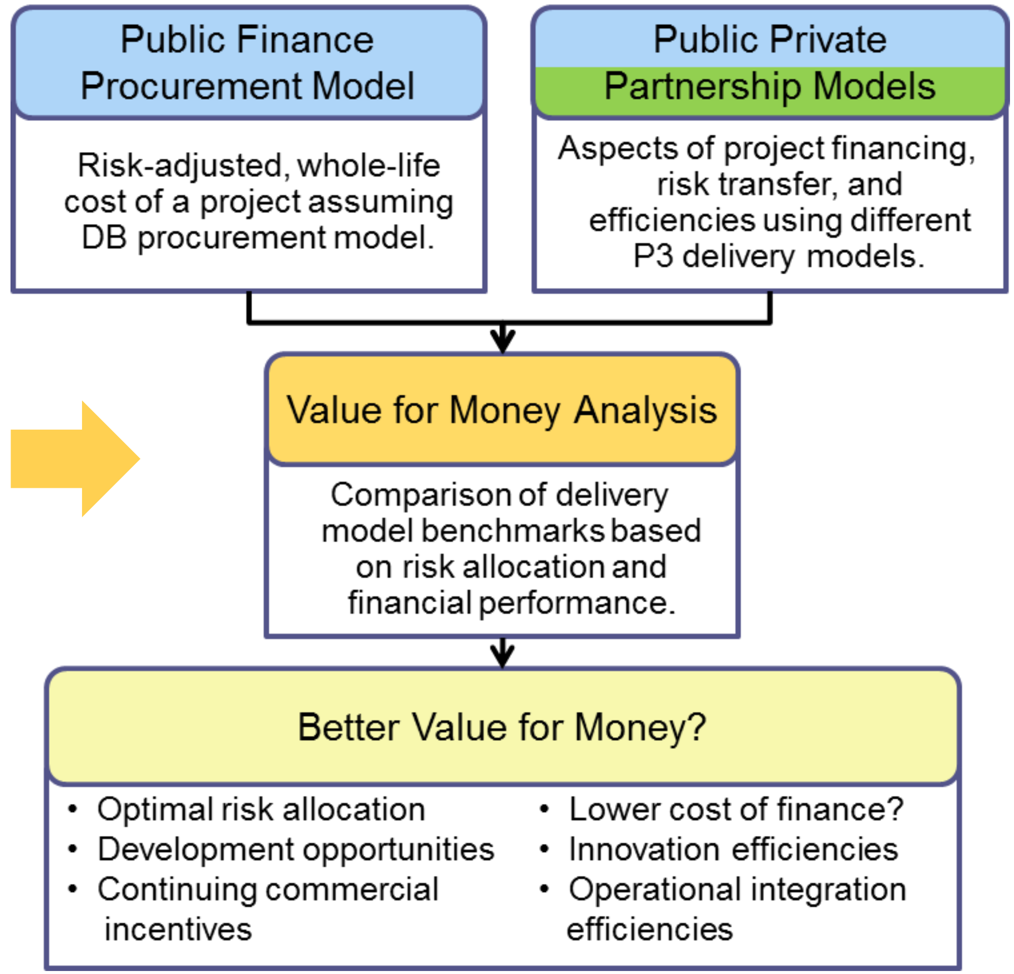


Greenfield Terminal Financing Options

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

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



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

		Container Revenues				Existing Facility	Palletized	Liquid Bulk	Dry Bulk	RORO	Net
	Moves	Rev/Move	Exp/Move	Net Rev/Move	Net Revenue	Container		Net Revenue	Net Revenue	Net Revenue	Revenues
Year	A	B	C	D=B-C	E=A*D	F	G	H	I	J	K=E+F+G+H+I+J
2017											
2018											
2019											
2020											
2021	164,111	$250	$163	$88	14,359,713	19,546,854	2,595,694	1,373,021	5,007,030	4,093,489	46,975,801
2022	294,111	$255	$166	$89	26,249,407	7,948,647	2,647,608	1,391,194	5,382,462	4,379,326	47,998,645
2023	340,333	$260	$169	$91	30,982,215	4,039,871	2,700,560	1,411,831	5,766,443	4,685,172	49,586,092
2024	398,111	$265	$172	$93	36,966,876	1,368,806	2,754,571	1,434,262	6,033,358	5,012,428	53,570,301
2025	467,444	$271	$176	$95	44,272,937	0	2,809,663	1,458,153	6,301,063	5,362,591	60,204,406
2026	476,793	$276	$179	$97	46,061,563		2,865,856	1,453,872	6,551,776	6,937,410	63,870,477
2027	486,329	$282	$183	$99	47,922,450		2,923,173	1,438,587	6,544,694	7,179,777	66,008,683
2028	496,055	$287	$187	$101	49,858,517		2,981,637	1,412,238	6,541,435	7,430,628	68,224,455
2029	505,976	$293	$190	$103	51,872,802		3,041,269	1,388,156	6,538,601	7,690,258	70,531,086
2030	516,096	$299	$194	$105	53,968,463		3,102,095	1,366,315	6,536,178	7,958,975	72,932,025
2031	526,418	$305	$198	$107	56,148,789		3,164,137	1,346,575	6,517,681	8,237,098	75,414,279
2032	536,946	$311	$202	$109	58,417,200		3,227,419	1,328,015	6,504,575	8,524,954	78,002,164
2033	547,685	$317	$206	$111	60,777,255		3,291,968	1,310,881	6,491,905	8,822,886	80,694,895
2034	558,639	$323	$210	$113	63,232,656		3,357,807	1,294,963	6,484,881	9,131,245	83,501,551
2035	569,812	$330	$214	$115	65,787,255		3,424,963	1,279,822	6,482,413	9,450,397	86,424,849
2036	581,208	$336	$219	$118	68,445,060		3,493,462	1,263,191	6,473,165	9,780,719	89,455,598
2037	592,832	$343	$223	$120	71,210,240		3,563,332	1,246,777	6,464,414	10,122,602	92,607,366
2038	604,689	$350	$228	$123	74,087,134		3,634,598	1,230,576	6,456,156	10,476,452	95,884,917
2039	611,111	$357	$232	$125	76,371,487		3,707,290	1,214,586	6,448,389	10,842,686	98,584,438
2040	611,111	$364	$237	$127	77,898,917		3,781,436	1,198,804	6,441,111	11,221,738	100,542,005
2041	611,111	$371	$241	$130	79,456,895		3,857,065	1,183,226	6,434,319	11,614,057	102,545,562
2042	611,111	$379	$246	$133	81,046,033		3,934,206	1,167,851	6,428,012	12,020,107	104,596,209
2043	611,111	$386	$251	$135	82,666,953		4,012,890	1,152,676	6,422,186	12,440,369	106,695,075
2044	611,111	$394	$256	$138	84,320,293		4,093,148	1,137,698	6,416,840	12,875,340	108,843,319
2045	611,111	$402	$261	$141	86,006,698		4,175,011	1,122,915	6,411,972	13,325,535	111,042,131
2046	611,111	$410	$267	$144	87,726,832		4,258,511	1,108,323	6,407,579	13,791,487	113,292,733
2047	611,111	$418	$272	$146	89,481,369		4,343,681	1,093,922	6,403,660	14,273,748	115,596,379
2048	611,111	$427	$277	$149	91,270,996		4,430,555	1,079,707	6,400,212	14,772,887	117,954,357
2049	611,111	$435	$283	$152	93,096,416		4,519,166	1,065,677	6,397,233	15,289,496	120,367,989
2050	611,111	$444	$289	$155	94,958,345		4,609,550	1,051,830	6,394,722	15,651,961	122,666,406
2051	611,111	$453	$294	$158	96,857,512		4,701,741	1,038,162	6,392,676	15,651,961	124,642,051
2052	611,111	$462	$300	$162	98,794,662		4,795,775	1,024,672	6,391,094	15,651,961	126,658,164
2053	611,111	$471	$306	$165	100,770,555		4,891,691	1,011,357	6,389,974	15,651,961	128,715,538

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

Transaction Development

Transaction Execution

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	
Program Development	Feasibility & Valuation (Due Diligence)	Preliminary Market Outreach	Confirm Preferred Contract Structure	Procurement Design	Request Qualifications	Request Bids	Negotiate & Commercial Close

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

Non-recourse tax-exempt Bonds $245 million

Equity Contribution from Ports America $75 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

pfm