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Private Financing for Port Infrastructure

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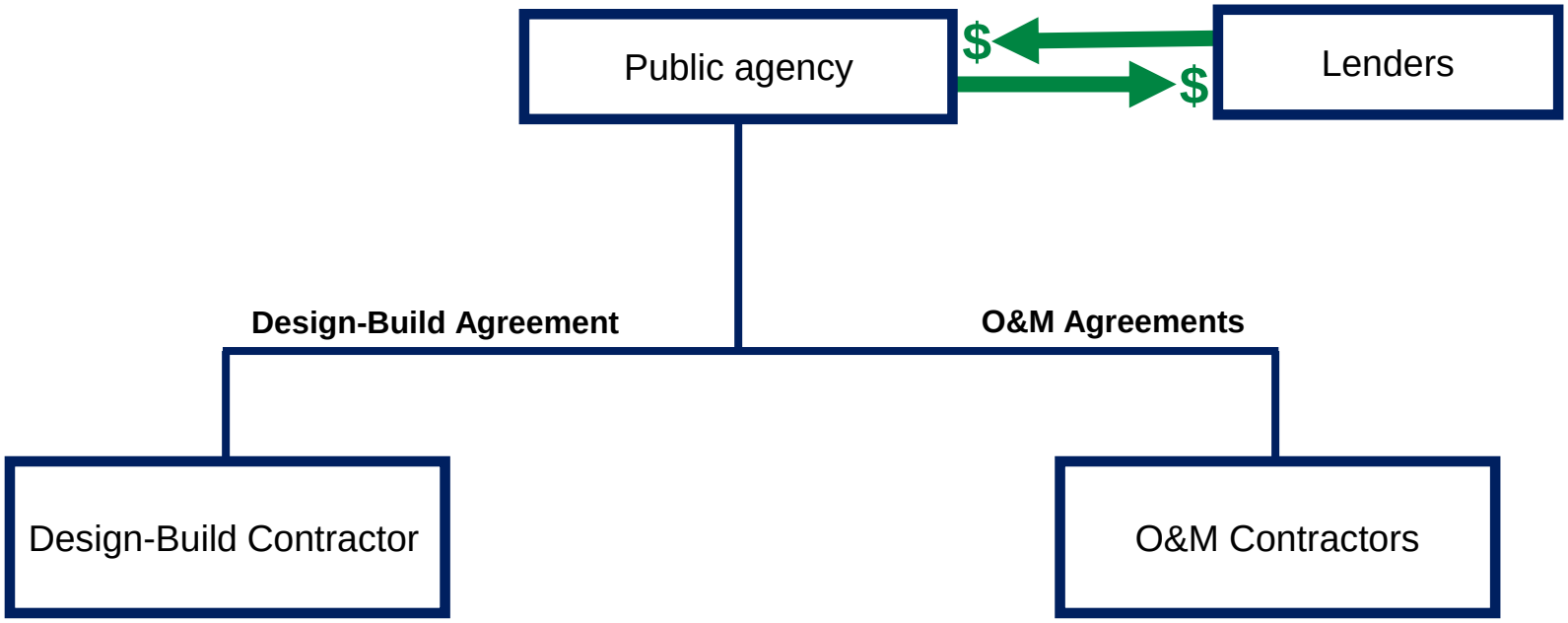
Session Overview

- Review alternative methods to deliver and finance public infrastructure
- Survey certain federal programs and policies relating to the use of public-private partnership models at ports
- Break into two groups for case study discussions
- Reconvene for wrap-up observations and comments

Current Common Infrastructure Development Method at Ports

- Terminals
  - Traditional landlord port model
- Common use port infrastructure (e.g., access roads and rail, quay walls, jetties, etc.)
  - Traditional delivery methods (e.g., DBB, DB, CM/GC)
  - Public financing (e.g., muni bonds, grants)

Typical DB Contractual Structure with Public Finance



Public Private Partnerships (P3s)

Ports are exploring alternative ways to deliver and finance large projects

Why?

- Limited access to capital
- Better capture the value of the infrastructure port is providing
- Attract private sector financing and expertise to accelerate delivery of large projects
- Share risk

What is a P3?

- Delivery and financing method for the development of **public infrastructure** that includes **private finance**
- Private entity has **long term maintenance and renewal**, and possibly **operating**, responsibility
- Private entity's **investment is at risk** to its performance

DBFOM – Classic P3

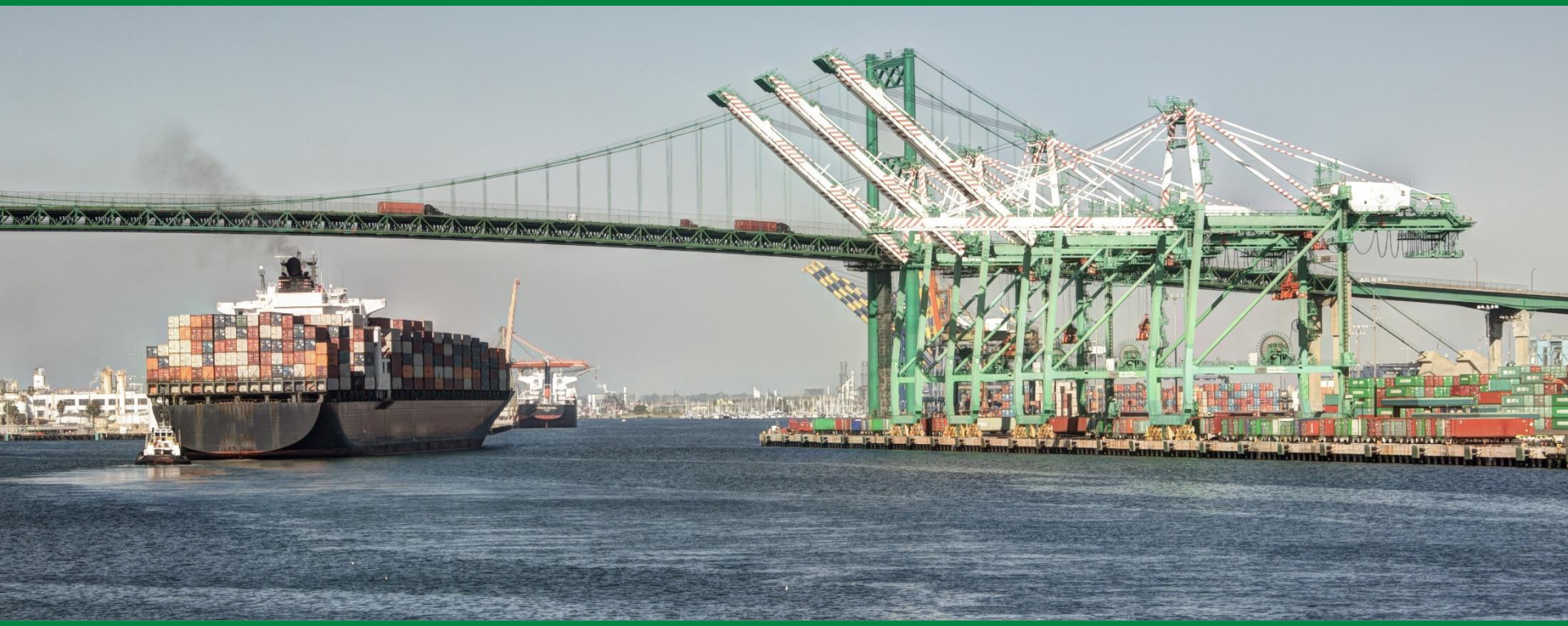
- DBFOM models include private sector financing
- Not a legal partnership
  - contractual arrangement between a public agency and private sector entity (Project Co.) for design, construction, financing and long-term operations and maintenance of infrastructure by Project Co.
- Project Co. hands back asset at end of term in contractually specified condition
- Ownership of lands and asset remains with public owner; no ownership or leasehold interests are granted to Project Co

DB*F*OM – Private Financing

- Private financing:
  - Equity:
    - Private investors provide equity financing into Project Co.
    - Minimum equity ratio – “skin in the game”
  - Debt:
    - Bank loans/facilities
    - Bond financing
- Private financing is at risk (in whole or in part) for Project Co. defaults
  - Provides added layer of discipline in ensuring performance of Project Co. and subcontractors

DBFOM Payment Structures

- Availability Payment
- Concession/Revenue



Availability Payment Model

Public owner makes Availability Payments (APs) to Project Co. once Project is “Available” for its intended use

- Motivates on-time and on-budget completion so Project Co. achieves its expected rate of return
- APs are the revenue stream anchoring private financing

MAKING IT HAPPEN.

AP-P3 – typical payment terms

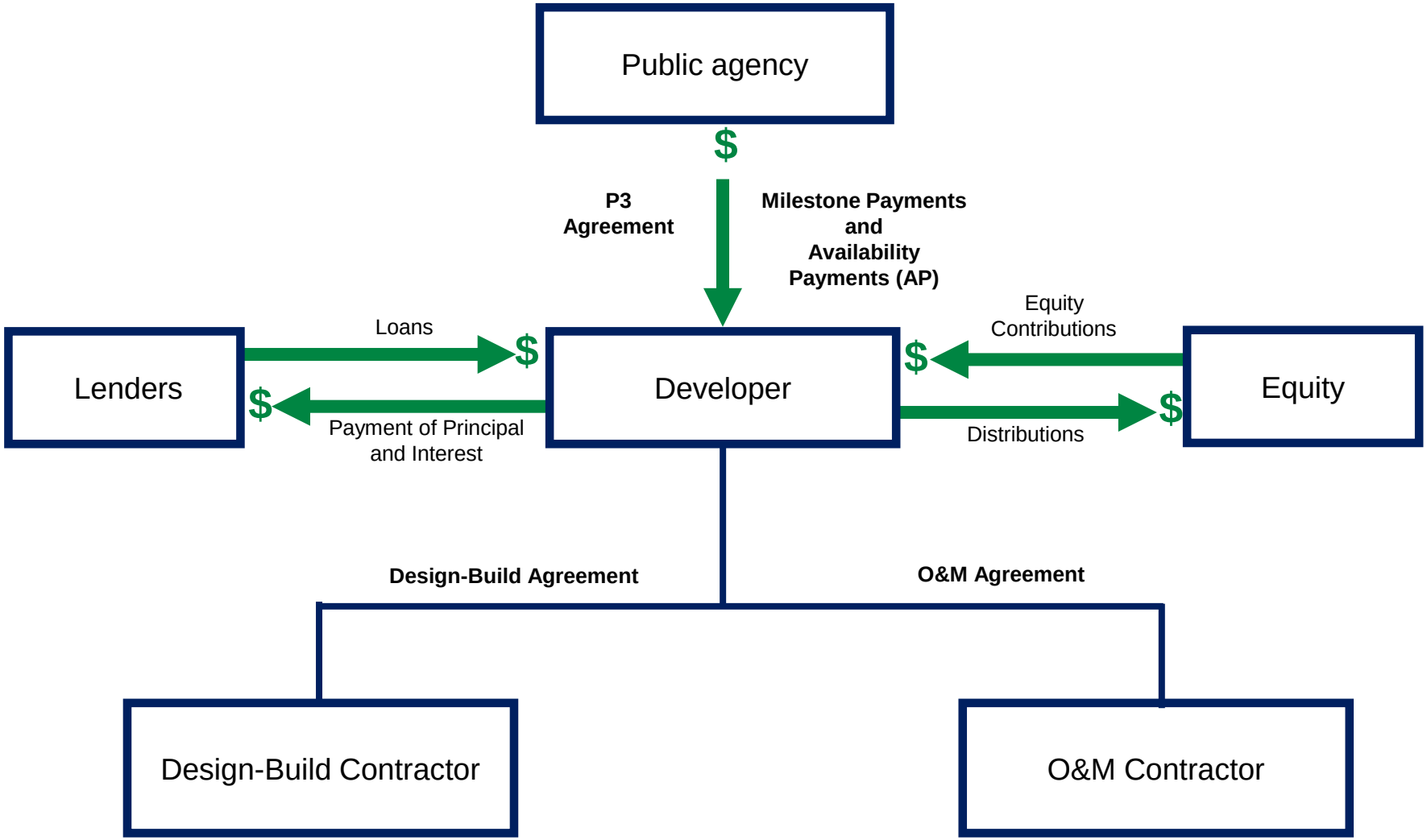
Private financing

- Developer raises capital against AP stream promised in the P3 Agreement
- Project debt and equity raised to finance the project are paid back overtime from the APs (being the “cash flow” generated by the project in an AP-P3 delivery)

Payments at risk to performance

- Availability payments may be adjusted downward based on the Developer’s performance
- Affects Developer’s ability to pay back lenders and equity providers

Typical AP-P3 Contractual Structure: Classic Project Finance



Availability Payment Model (cont.)

- Availability Payment:
  - A unitary payment that encompasses Project Co.'s:
    - Capital expenditures (CAPEX)
    - Operating expenditures (OPEX)
    - Financing costs
  - Payment for performance and availability, irrespective of demand
  - Paid periodically (e.g., monthly or quarterly)
  - Capped annually at "Maximum Availability Payment" – *i.e.*, the winning proposer's bid MAP
- Public owner retains project revenues, if any, and related risks

When to Use Availability Payments

Availability payments are generally appropriate for projects if:

- Project does not generate direct revenue
- Public agency wishes to retain direct rate setting authority
- Revenue or demand is difficult to predict or manage
- Service quality is a more important or applicable goal than private sector revenue maximization

Concession / Revenue Model

- User charges/fees generated by project are primary revenue source
- Private sector partner has right to collect revenues during concession period
- Private sector partner expects revenues generated from project to be adequate to pay underlying loans and interest and make fair profit
- To protect public sector interest in case of robust revenue generation, concession agreements typically include revenue-sharing provisions if revenues exceed a specified threshold

Concession / Revenue Model (cont.)

Public Owner

- Contributes no or limited tax revenues to project costs
- May provide limited financial assistance (e.g., limited revenue guarantees)

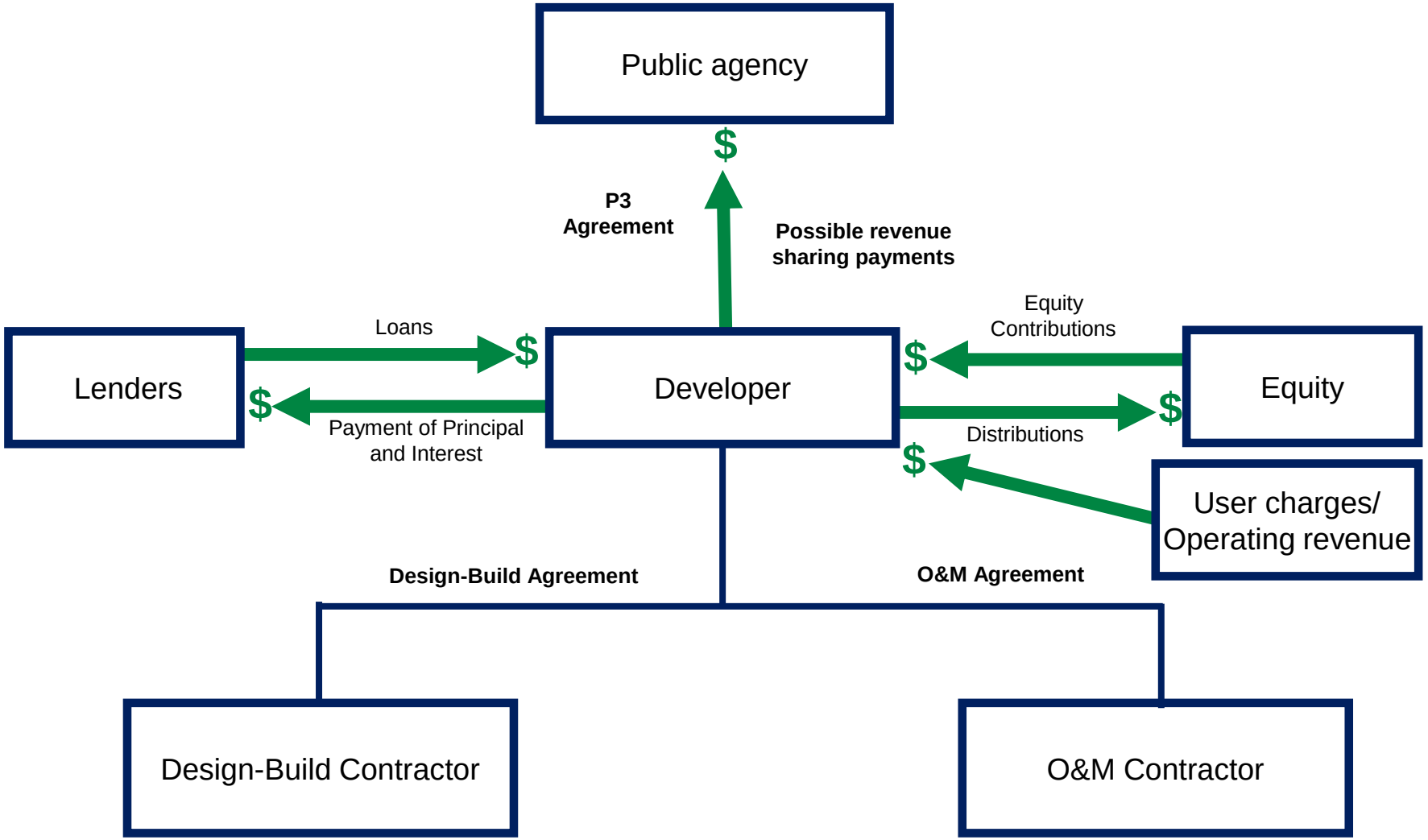
Private Party

- Bears risk that revenues may not meet expected forecasts
- Collects user fees/operations revenue

Challenges with Concession / Revenue Model

- Revenue risk
- Demonstrating revenue projections
- Issues with control of user charges and operations program

Basic Concession / Revenue P3 Contractual Structure



Advantages of DBFOM

1. Realize lifecycle cost efficiencies
   - Project Co. incentivized to make greater investment in initial design and construction of asset to optimize lifecycle costs
2. Efficient risk transfer
   - Allocation to Project Co. of risks better managed by private sector
3. Close funding gaps by accessing the private equity market and as a result deliver the project sooner
4. Harness private sector innovation
   - Performance/output specifications
5. Incentivize on-time and on-budget project delivery
   - Private financing of design and construction, with availability payments / revenue only flowing upon commencement of ops

Challenges with DBFOM

1. Cost of private finance
2. Less public agency control
3. Enabling legislation with sufficient flexibility
4. Strength of proposed revenue stream to anchor private financing
   - Public agency funding certainty
   - Forecasted operating revenue certainty
5. Deal complexity and front end project development to ensure private financing is ultimately at risk to performance

Airport Experience with P3 Procurement and Financing Models

Automated People Mover (APM) Project at LAX

- DBFOM availability payment deal
  - Developer arranged private financing comprised of
    - $1.2 billion in private activity bonds
    - $270 million construction period credit facility
    - $103 million equity contribution

Airport Experience with P3 Procurement and Financing Models (cont')

APM at LAX (cont')

- City of Los Angeles (Owner) payments:
  - approximately $1 billion in milestone payments during construction
  - availability payments commencing at Passenger Service Availability
- City's payments are funded through:
  - its own revenue bonds
  - existing airport revenues generated through rate agreements with airlines and concession revenues
  - passenger facility charges for certain eligible expenditures
  - customer facility charge collections

Airport Experience with P3 Procurement and Financing Models (cont')

Great Hall Project at Denver International Airport

- Hybrid DBFOM structure, combining availability payments with shared concessions revenue risk
- Developer responsibilities:
  - Design and construct improvements
  - Operate and maintain new concessions area
  - Develop and manage concessions program
- Developer arranged private financing comprised of
  - $189 million in private activity bonds
  - $73 million in equity

Airport Experience with P3 Procurement and Financing Models (cont')

Denver Great Hall Project (cont')

- Owner (City and County of Denver) payments:
  - Progress payments (approx. ¾ of capital costs)
  - Availability ("supplemental") payments commencing on substantial completion
  - Revenue sharing of new concessions program: 80% Denver / 20% Developer
- Owner's payments funded through its own revenue bonds

Airport Experience with P3 Procurement and Financing Models (cont')

LaGuardia Airport Terminal B Redevelopment

- 34-year lease where Owner (Port Authority of NY/NJ) will lease facilities to Developer
- Developer will design, build, finance, operate, and maintain redeveloped terminal
- Developer will collect revenues from redeveloped terminal operations and pay Owner rent and other fees

Airport Experience with P3 Procurement and Financing Models (cont')

LaGuardia Airport Terminal B Redevelopment (cont')

- Developer arranged private financing comprised of
  - $2.26 billion in tax-exempt special facilities bonds
  - $150 million in taxable special facilities bonds
  - $200 million in equity
- Owner will pay up to $1 billion for Passenger Facility Charge-eligible costs in connection with design and construction work

Examples of Port Experience with P3 Financing Models

1. Access P3s

   e.g., **Port of Miami Tunnel**

2. Terminal lease structures that include development of public assets/benefit, long term O&M and private financing at risk to performance

   e.g., **Seagirt Marine Terminal**

Examples of Port Experience with P3 Financing Models (cont.)

Seagirt Marine Terminal (SMT) (2010 deal)

- Long-term lease and concession agreement for operation of an existing terminal and development and operation of a new terminal
- Private financing (tax exempt bonds and equity)
- User charge/operations revenue stream anchors financing

Seagirt Marine Terminal (cont.)

- Reported benefits of deal structure to Maryland Port Administration and State of Maryland
  - Ensures SMT is developed, maintained and operated in a manner that exceeds what the public sector could accomplish in the 50 year term
  - Avoids need for additional State debt
  - Provides a capital reinvestment payment to Maryland Transportation Authority
  - Creates additional volume and opportunities for the Port of Baltimore
  - Delivered capacity to handle larger Panamax vessels 2 years early

Exploring P3 options for ports

- Legislative authority
- Nature of required infrastructure
- Funding sources
- Revenue streams
- Timeline
- O&M concerns
- Control of operations

MAKING IT HAPPEN.

Federal Funding and Financing Tools

- Nationally Significant Freight and Highway Projects Program
- National Infrastructure Investments Program
- Consolidated Rail Infrastructure and Safety Improvements
- TIFIA
- WIFIA
- Others

Nationally Significant Freight and Highway Projects Program

- Commonly known as “INFRA” Program (and formerly known as “FASTLANES” Program)
- Grant funding authorized in FAST Act (roughly $1B per year)
- Eligible projects include freight projects such as rail, port, or intermodal improvements
- Specifically designed to promote innovative project delivery and accountability
- For FY16 – FY20, non-highway freight projects limited to $500M (roughly $200M remains available)

National Infrastructure Investments Program

- Commonly known as “BUILD” Program (and formerly known as “TIGER” Program)
- Provides grant funding to eligible infrastructure projects, including port infrastructure
- Funded in appropriations bills
- Freight projects have received significant funding under this program in past years
- Generally lower-dollar-amounts than INFRA grants

Consolidated Rail Infrastructure and Safety Improvements

- Provides grant funding for rail infrastructure, including freight rail transportation safety, efficiency, and reliability
- Authorized in FAST Act
- Received significant increase in funding in FY18 appropriations bill
- $200M awarded for 15 PTC projects in August
- Funding opportunity for $318M closes on October 12, 2018 (originally scheduled to close yesterday, but deadline extended due to Hurricane Florence)

TIFIA

- Provides low-interest financing assistance to certain transportation projects
- Common tool for P3 transactions
- Land-based improvements to wharves, piers, docks, waterborne mooring infrastructure are eligible
- Land-based infrastructure or assets that directly facilitate the transfer of goods are eligible
- Dock or Wharf improvements are eligible
- Dredging is not eligible

WIFIA

- Provides low-interest financing assistance to water infrastructure projects
- EPA administers WIFIA for wastewater, drinking water, stormwater, and water recycling projects
- Army Corps administers WIFIA for navigation improvement, flood control or storm damage reduction projects, and environmental restoration projects
- Army Corps has not implemented its WIFIA authority
- T&I Committee Chairman recommended reforming WIFIA to allow EPA to administer Corps WIFIA loans

Other Federal Developments

- Port Operations, Research, and Technology Act
  - Would create the Port and Intermodal Improvement Program that would authorize grant funding for port infrastructure

- Army Corps Non-Federal Implementation Pilot Program (Section 1043 of WRRDA 2014)
  - Authorizes Army Corps to provide its share of a project's construction cost directly to a non-federal sponsor who is able to assume responsibility for construction of a project

Thank You