

Cruise Terminal Financing Public-Private Partnerships

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Outline

- Traditional Financing Models
- PPP Models
- Benefits of PPP's
- Participants' Requirements
- Risks and “Value for Money”
- “Bankability”
- Alternative Financing Models
- Cruise Terminals as an Asset Class

Traditional Financing Models

- Greenfield developments financed by the public under the premise that:
 - Cruise terminals spur economic activity by facilitating the growth of tourism and associated employment
 - Spin-off employment generated through provisioning activities, security requirements, events, etc.
 - Further economic benefits include spending by crews
 - Overriding rationale seemingly:
 - benefit-cost multiplier > 1 = good idea

Are generally not financially viable!

Traditional Financing Models

- Recent developments in the US have revolved around adaptive reuse of brownfield assets:
 - Bayonne
 - Brooklyn
 - Galveston
 - San Francisco
 - San Diego
- Generally a concession model that requires the end-user to make a lease payment to the public entity in charge of ownership and regulation

PPP Models – General Definition

- Broadly speaking:
 - A contractual framework, or structure, where the public and private sector come together to deliver a project/service that is traditionally provided by the public sector, by means of risk transference
 - Various structures exist; however, the key principle is that better value can be achieved through leverage of private sector competencies and the allocation of risks to those parties best-suited to manage them

PPP Models – Contracting Vehicles

- Several types can be considered, including:
 - Service Agreements / Outsourcing
 - Joint Ventures
 - Concessions / Project Delivery
 - Design – Build (DB)
 - Design – Build – Operate (DBO) Structures
 - Design – Build – Finance (DBF) Structures
 - Build – Operate (BO) Structures
 - Hybrid Structures
 - Asset Securitisations / Sales

PPP Models – Asset Classes

- “Infrastructure” is broadly considered to include:
 - Transportation
 - Maritime – terminals, ports, equipment
 - Surface – tolled and non-tolled roads, bridges, tunnels
 - Aviation – terminals, airports, ATC
 - Rail – light rail, metros, transit
 - Utilities
 - Power, telecommunications, water, wastewater
 - Social
 - Healthcare – hospitals, clinics, laboratories
 - Governmental – buildings, courts, prisons
 - Other – museums, stadiums, concert halls

PPP Models – Asset Classes

- “Non-Infrastructure” classes include:
 - Information technology
 - Equipment
 - Training
 - Services

PPP Models – Principles

- PPP's should ideally achieve the following objectives:
 - Maintain or improve service levels
 - Leverage private sector skills in project delivery through improved skills, technologies and innovation
 - Access to capital and cost efficiencies
 - Maintain safe and secure operations
 - Optimise risk transfer
 - Procurement utilising life-cycle costs
 - Efficient asset management
 - “Value for money”

PPP Models – Principles

- Objectives are achieved through:
 - Equity
 - Operations Risk
 - Competition

The foregoing equates to private sector commitment and discipline.

PPP Models – Considerations

- Differing circumstances and objectives lead to different structures
- No “silver bullet” or “one size fits all” solution
- Markets differ
 - Regulatory / institutional frameworks
 - Available funding options through capital markets
 - Local requirements / considerations
 - Public perceptions

PPP Models – Participation Levels

- Increasing private sector participation through:
 - Works and services contracts
 - Management and maintenance contracts
 - Operation and maintenance concessions
 - Build-operate-transfer concessions
 - Full privatisation

Benefits of PPP's

- Project delivery schedule compression
- Cost reduction / inflation hedge
- Best practices = ↑ revenues and ↓ costs
- Risk allocation to parties best-suited to manage
- Increased competition = efficiency
 - Finance
 - Development / construction
 - Operations and maintenance

Benefits of PPP's

- Integrated approach to development and operations
- Innovation
 - Finance
 - Technology
- Defined performance metrics = Accountability
- Enhancement of relationships between public sponsor and private provider

Participants' Requirements

- Public
 - Regulatory / institutional framework in place
 - Stakeholder buy-in (political / institutional)
 - Accelerated project delivery (finance / innovation)
 - Risk transference (cost / schedule)
 - Cost efficiencies (best practices / technology)
 - Competition (price)
 - Qualified providers (experience)
 - Internal resources (procurement / administration)
 - Accountability (monitoring / management)

Participants' Requirements

- Private
 - Regulatory / institutional framework in place
 - Essential to public (“demonstrated” need)
 - Demonstrable feasibility (market / technical / environmental / financial / risk allocation)
 - Risk management (allocation / rewards)
 - Transparency (procurement)
 - Due diligence (volume / costs / revenues / risks)
 - Public sector “buy-in” (permitting / acquisition)
 - “True” partnership (contractual framework)
 - Innovation (costs / risks / revenues)

Risks and “Value for Money”

RISK	PUBLIC	PRIVATE
Legislative (existing and future)	Major responsibility	Sharing within defined parameters
Acquisition and Environmental	Major responsibility	Sharing within defined parameters, with public sector assistance
Permitting and Planning	Major responsibility	Sharing within defined parameters
Design and Construction		Major responsibility
Operation and Maintenance	Sharing within defined parameters	Major responsibility
Financing		Major responsibility
Termination		Major responsibility, unless demonstrably caused by public
Insurance	Sharing based on availability of commercial rates	Major responsibility
Force Majeure	Sharing based on event and availability of insurance	Sharing based on event and availability of insurance

Risks and “Value for Money”

- Risks
 - Identify, allocate and mitigate
- “Value for money”
 - A. Present value of risk transferred
 - B. Present value of public sector procurement costs
 - C. Present value of retained risks
 - D. Present value of concession payments
 - E. Present value of retained risks
- “Value for money” when $A + B + C > D + E$

} Public
} Private

“Bankability”

- Financiers require:
 - Appropriate allocation of risks
 - Clearly defined and well-drafted contractual terms
 - Well-defined procurement process
 - Ability to enter into dialogue with bidders
 - Transparency

The better the understanding of these considerations the likelier that the result will be a more competitive bid price.

Alternative Financing Models

- South East Asia
 - Traditional procurement and financing of “primary” infrastructure – public sector is land owner/developer
 - Phased development considers PPP
- South East Asia
 - Integrated development procured through full transference to private sector
- Caribbean
 - Partnership between authority and cruise line, where cruise line enjoys “holiday” on head-tax in return

Cruise Terminals as an Asset Class

- Cruise terminals can be attractive if they possess the following characters:
 - “Long-dated” assets
 - Increases in passenger volumes
 - High operating leverage
 - Strong cash generation ability / potential
 - Stability of cash flows / earnings
 - Scarcity of capacity
 - “Embedded” value of land

Cruise Terminals as an Asset Class

- In order to be attractive to private investors, cruise terminals need to be viewed as assets that display the following attributes:
 - Ability to generate stable and growing cash flows
 - Typically “naturally” hedged against inflation
 - Strong entry barriers (scale/cost and regulation)
 - Off-takers can generally be considered to be somewhat inelastic to price, within limits
 - “Demonstrable” and “pressing” need (essential)
 - Predictable capex (maintenance and growth)

THANK YOU!

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