

A photograph of a port at dusk. The sky is a mix of blue and orange. In the foreground, there are several large gantry cranes with their lights on. A ship is visible in the background, with its lights glowing. The overall scene is industrial and active.

Private Sector Financing of Ports and Infrastructure

Mobilizing Private Capital While Balancing
Public and Private Interests

May 4, 2010
AAPA Greenports Conference
Charleston, SC

THE NEWS

Morgan Stanley Acquires Montreal Gateway Terminals

Dangers range from inadequate virus protection on a laptop or home computer, to the risk of confidential data being exposed to

RISK ANALYSIS
You do not have to implement every control covered by ISO17799, only those that are applicable and appropriate; the latter largely being determined via risk analysis

A survey of the leading companies in 12 countries undertaken by accounting firm EPMG, established that almost 10% had experienced a

An International Society headed must be reported to outside authorities

Having a security policy document (or listing down an old one) may well not be enough and is fully supportive of ISO17799. Much of the confusion stems from the fact that earlier editions of BS7799 (which preceded ISO17799) did have some differences. However, this is no longer the case - buy one and you effectively buy both. Section 2.1 of ISO17799 states that Management should set a clear policy direction and demonstrate support for, and commitment to, information security through the use and maintenance of

A comprehensive pre-written set of ISO17799 compliant and cross-source security policies. Finding good straight-forward - hopefully the ISO17799 Newsletter can help. Although there is a myriad of sites on this topic, we have produced one which explains the theory and basic methodology for most major approaches. One recommendation worth contemplating with respect to risk - establish the relationship between risk analysis and compliance with security policy. (and to find the

The first edition of ISO17799 News prompted a number of questions related to resources to help achieve compliance of ISO17799. **RESOURCES** of ISO17799 News prompted a number of questions related to resources to help achieve compliance or certification. The following have therefore been identified as leading players for the various topics. **ISO17799 RESOURCES**

The policy set is shipped in MS Word format, making it easy to edit and tailor to your corporate

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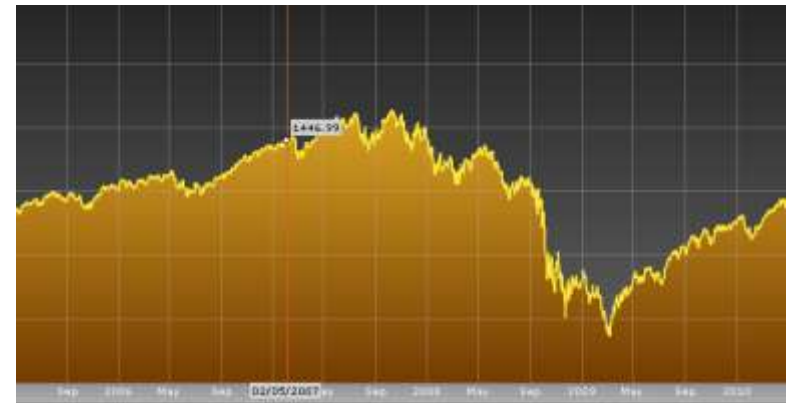
How much has been raised? A few examples...

- Goldman Sachs – \$6.5 Billion
- Morgan Stanley – \$4 billion
- AIG–Highstar – \$3.5 Billion
- Global Infrastructure Partners – \$5.64 Billion
- HSBC – \$580 Million
- The Carlyle Group – \$1.15 Billion
- Macquarie & Everbright Plan – 1.5 Billion



Impacts from the Financial Crisis

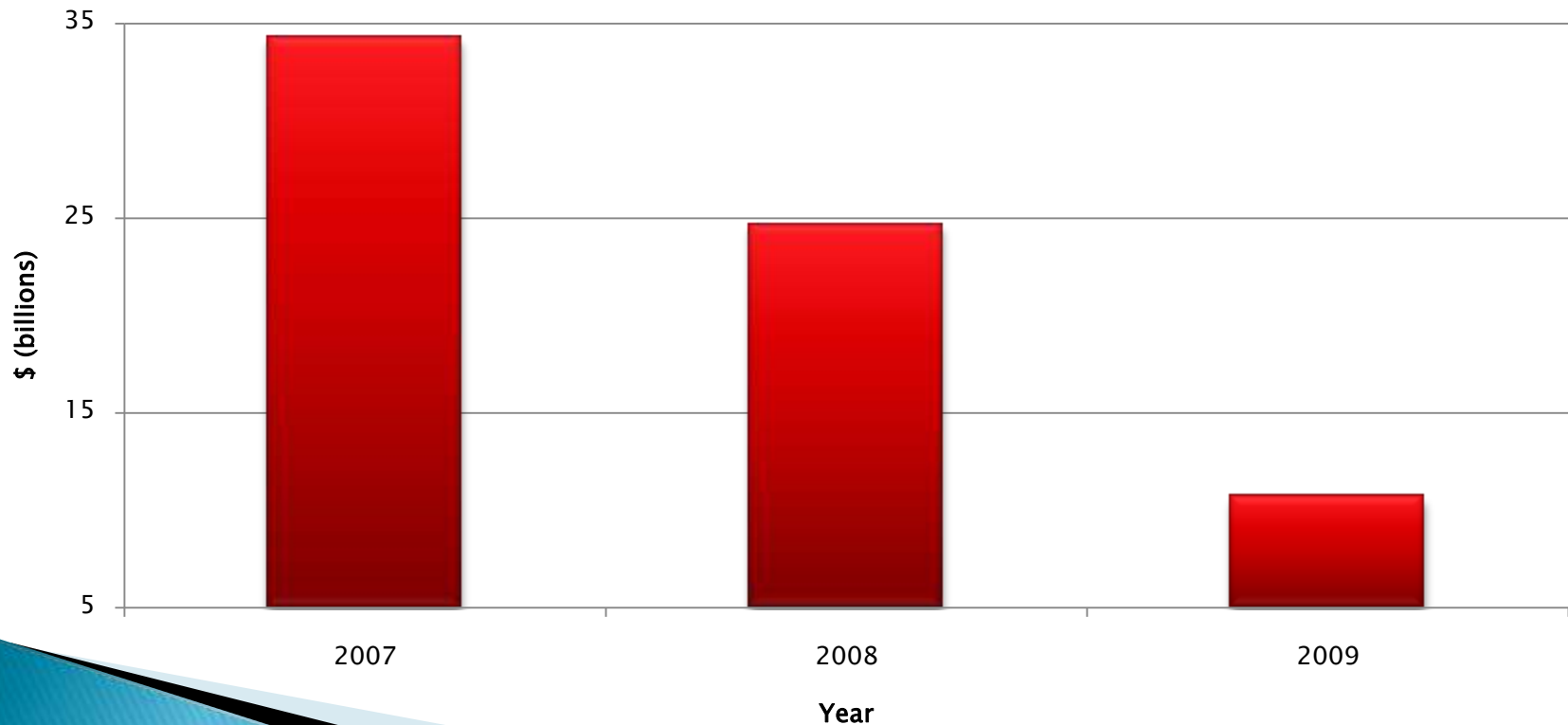
- Drop in Port trade and revenues
- Decreased access to debt financing of deals
- Higher costs of capital, reduced amounts, shorter timeframes for repayment
- More due diligence on business plan & long term trade forecasts
- Undervaluation of assets
- Lower debt to equity ratios
- Stricter terms
- Continued increase in National Debt



S&P 500 (past 5 years)

The numbers from 2009

- Global infrastructure fundraising dropped by more than half in 2009 from the year before as investors moved to more liquid assets



How much will be raised this year?

- There are currently 119 funds on the road worldwide seeking an aggregate \$115 billion
 - "Investors began to come back to the market in the fourth quarter, with fundraising topping \$10 billion for the full year after only hitting \$6 billion over the first nine months,"
 - "The likelihood is that fundraising will increase in 2010, though it is unlikely it will surge dramatically as a number of investors still have liquidity concerns"

Why are Ports seeking Private Investment ?

- **Capital improvements to infrastructure are needed to compete with other ports**
 - Maintenance has been deferred
 - New equipment cannot be procured
 - Engineering studies and plans cannot be completed

"This is pretty much for us one of the last opportunities to compete with our neighbors both North and South," said Kenneth Riley, President of the International Longshoremen's Association Local 1442 in Charleston.

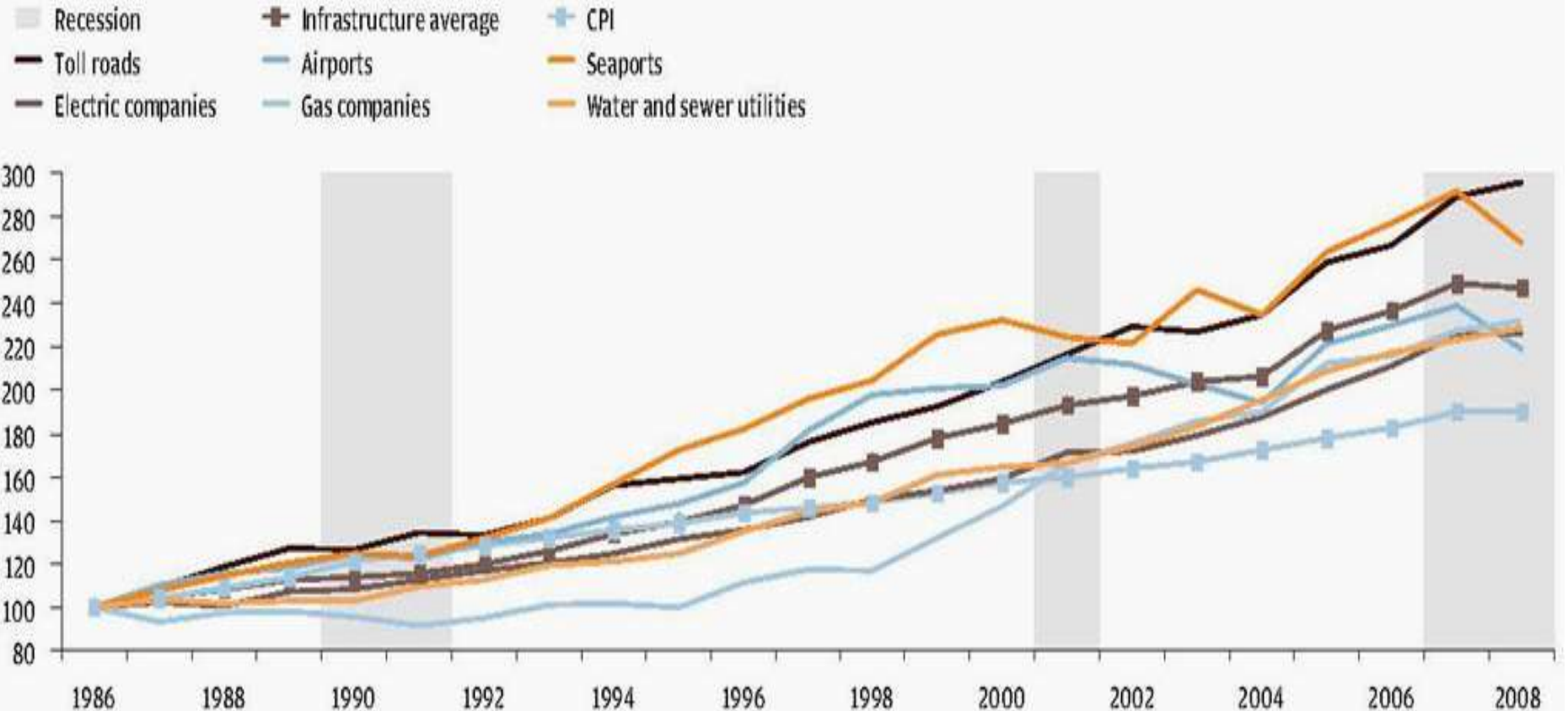
- **Opening of Panama Canal and the major impact of larger vessels entering our Ports**

Why are Investors seeking Ports and Infrastructure ?

- **Investors seek an accretive combination of:**
 - Contracted / regulated or stable cash flows
 - Cost pass-through/inflation mitigation
 - Long life, well positioned, core strategic assets fundamental to economic sustainability and growth
 - High dollar barriers to entry
 - Long standing, entrenched customer relationships and high services levels

Consistent Returns on Investment

EBITDA returns vs. CPI



Source: J.P. Morgan, FactSet, FAA, Federal Highway Administration, Maritime Administration, and company websites

Who Are these Investors ?

▶ Infrastructure Funds

- Typically invest and own a diversified group of infrastructure businesses offering investors an opportunity to participate in the ownership of infrastructure businesses

▶ Pension Funds

- These plans typically pay out more to retirees than they take in as contributions from active employees annually; therefore, the asset mix becomes more conservative by increasing the weighting to inflation-sensitive assets

▶ Terminal Operators

- Companies that typically lease terminals from a public port authority (which acts as landlord) and operate those terminals as a private business that serve ocean common carriers. In some cases, they assume a majority share ownership and operational control of container terminals.

▶ Constructors

- Firms with business model that is focused on end-to-end infrastructure management, design, construction, financing, operation and maintenance

A View from the Top

“Infrastructure is now an important component of any asset allocation strategy; it offers portfolio diversification and the ability to invest in 'real' assets, with uncorrelated investment returns relative to other asset classes”

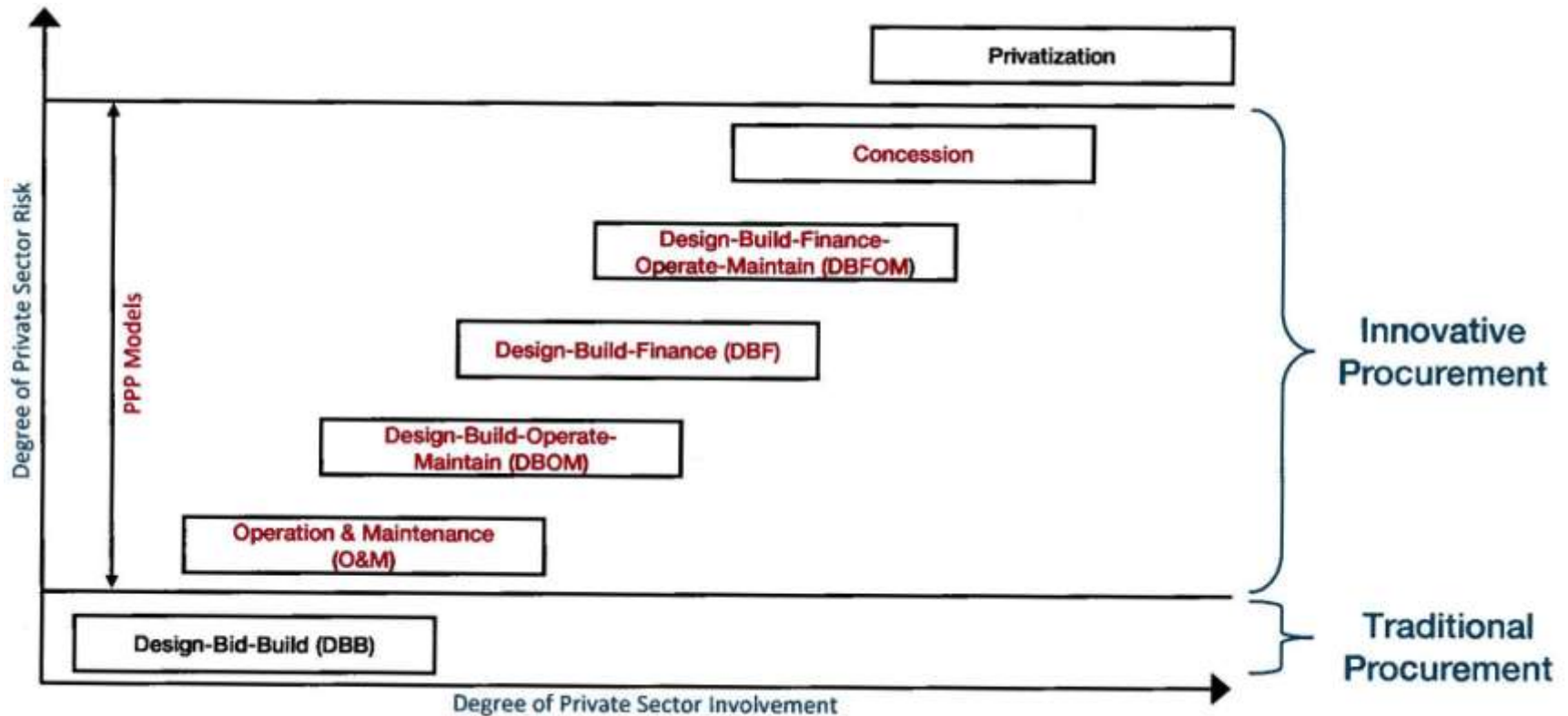
*(Morgan Stanley co-president
James Gorman)*



Some Basic Financing Arrangements

- **There are a large variety of financing and management arrangements such as:**
 - O&M (operate–transfer)
 - DBOM (design–build–own–operate–maintain)
 - DBF (design–build–finance)
 - DBFOM (design–build–finance–operate–maintain)
 - Concession
 - Privatization
- **Challenge is to mobilize private capital while balancing public and private interests**

Scale of PPPs: Risk Transfer and Private Sector Involvement



Source: The Canadian Council for Public-Private Partnerships

Some Deals are Tempting

- **In an offer letter from Ontario Teachers Pension Plan (OTPP) to PANYNJ...**

“Under our proposal....PANYNJ will receive \$5 million in cash for its future use associated with New York Container Terminal (NYCT) and OTPP agrees to make \$57 million of capital expenditures with respect to NYCT and Global Container Terminal (GCT)....OTPP is willing to commit to significant increases in terminal capacity at both NYCT and GCT....”

Some Deals are Failures

What Does Collapse Of Midway Airport Deal Mean For Privatization?

NationalJournal.com

“Last month, the \$2.5 billion deal to lease Chicago's Midway Airport to a private operator fell through because investors -- Vancouver Airport Services, Citigroup, and John Hancock Insurance Company -- could not secure the necessary financing.”

Key Issues Experienced

KEY ISSUES	COMMON PROBLEMS	EXAMPLES
PPP Legislation	Restrictive requirements and cumbersome process requirements	WA; CA
Governance of PPP agency	Insufficient definition of responsibility, poor reporting lines	VA
Legislative oversight and approval	Potential challenges, excessive timeframes from approval	PA Turnpike; Texas TTC Program
Project screening	Taking forward un-commercial project/poor PPP candidates	BART; Oregon; BC Convention Centre
Business case development	Unrealistic assumptions, inappropriate commercial structure or risk transfer	Harris County, Texas; Alligator Alley, Florida
PPP accounting	Issues left too late, unexpected outcomes	SR-125; Port Mann/Highway 1
Market sounding	Unwillingness to listen to market participants	
PSC / Value for money	Inadequate or inaccurate and unrealistic	Sea to Sky Highway
Procurement process	Inefficient, excessively costly wrong timetable, discourages competitive bidders	Okanagan Lake Bridge; Virginia PPTA
Ensuring adequate commitment and evaluation	Preferred bidder lacks financing required	Midway Airport
Negotiation with bidders	Failure to maintain competitive tension	UK PPPs; Chicago Midway Airport; Port of Miami Tunnel
Closing	Delays and changes to risk transfer	
Public acceptance	Lack of transparency and inability to explain transaction	NJ Turnpike; PA Turnpike; Seymour Water Filtration
Operational challenges	Transition from government operator to private is not smooth	Chicago On-street Car Parking

Recent Trends and Announcements

- February 5, 2010 – “British government tells 50 ports to submit privatization plans by April to help address budget deficit”
- November 5, 2009 – “Peru port workers start strike over privatization”
- April 19, 2010 – “Peru port investments seen reaching \$968M by 2012”
- March 4, 2010 – “KKR Fund tripped up as Infrastructure Challenges Private Equity”
- April 9, 2010 – Gov. McDonnell says decision on port privatization bids “will take a while”

Keys to Successful Private Sector Relationships

- Political leadership and the will to “change”
- Dedicated and trained team to see transaction through
- A contract that aligns interests, shares risks, provides milestones and goals, and has clear dispute resolution methodologies
- Dependable revenue stream
- Stakeholder support
- Your best projects, not your worst!
- A good partner with the experience and financial capabilities

Sustainability – Incorporating into Contracts and Agreements

- Identify affected stakeholders and incorporate them into the development of sustainability goals for the project
- Incorporate importance of sustainability into the RFP and request that they include their approach in bidders plan
- Make port sustainability plan part of the concessionaire selection process
- Develop incentives that reward sustainability implementation
- Jointly publicize sustainability successes

Thank You !!!

Mark Jaworski, Client Service Manager

Weston Solutions, Inc.

205 Campus Drive

Edison, NJ 08837

Phone: 732-417-5862

Cell: 732-599-7522

Fax: 732-417-5801

Email: Mark.Jaworski@westonsolutions.com