Private Sector Financing of Ports and Infrastructure

Mobilizing Private Capital While Balancing Public and Private Interests

May 4, 2010
AAPA Greenports Conference
Charleston, SC
Morgan Stanley Acquires Montreal Gateway Terminals
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
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….“
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

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<td>PPP accounting</td>
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<td>Market sounding</td>
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<td>PSC / Value for money</td>
<td>Inadequate or inaccurate and unrealistic</td>
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<td>Procurement process</td>
<td>Inefficient, excessively costly wrong timetable, discourages competitive bidders</td>
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<td>Ensuring adequate commitment and evaluation</td>
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<td>UK PPPs; Chicago Midway Airport; Port of Miami Tunnel</td>
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<td>Negotiation with bidders</td>
<td>Failure to maintain competitive tension</td>
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<td>Closing</td>
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<td>Chicago On-street Car Parking</td>
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<td>Public acceptance</td>
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<td>Operational challenges</td>
<td>Transition from government operator to private is not smooth</td>
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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 !!!

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