Private Sector Port Financing, Investment and Development Initiatives

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Outlook for US Port Investment

- Significant unmet needs
  - AAPA 2016-2020 Port Planned Infrastructure Investment Survey:
    - US Public Ports/Private Sector Partners expect to spend $154 billion
    - Likely contribution of the Federal Government is approximately $25 billion
  - Private sector opportunities to close the gap?

- President Trump proposing $1 trillion in new investment over 10 years, including spending and tax credits to spur private investment
  - Budget proposal to Congress reportedly may include $200 billion for infrastructure with a requirement of 5 to 1 private sector leverage
  - Members of both parties in Congress support increased infrastructure investment

- State and local governments already increasing taxes to pay for infrastructure

- New initiatives could be the catalyst that draws significant private investment

- Next year Infrastructure funds will have more than $100 billion in “dry powder”
Evaluating Private sector Investment Opportunity – Financial Implications

- Brownfield versus Greenfield
- Debt/equity investment mix
- Life of concession (if PPP opportunity)
- Payment mechanism
  - Full concessionary right, availability payment or hybrid
- Control over user fee increases/protelctions against competition
- Whether project will receive federal or other subsidy
- Historic returns and outcomes
  - Projected use and modeled financials
- Required regulatory approvals
  - State
  - HSR
  - CFIUS
  - Other federal regulatory agencies (FMC)
Private Sector Investors

- Types of investors:
  - Pension Funds
  - Infrastructure and PE Funds
  - Sovereign wealth funds
  - Strategic industry participants
  - Institutional investors

- Why is Infrastructure interesting:
  - Sustainable and predictable cash flows
    - Long-term concession or
    - Availability payment
  - Significant (high cost) barriers to entry
  - Limited competition
  - Acceptable risk-adjusted returns
  - Reputational enhancement

- There is private sector money available for port and other infrastructure projects
## Private Equity Sees Infrastructure Opportunities

<table>
<thead>
<tr>
<th>Fund Manager</th>
<th>Total AUM*</th>
<th>Infrastructure AUM*</th>
<th>Infrastructure Strategy</th>
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<tbody>
<tr>
<td>CARLYLE</td>
<td>USD 162bn</td>
<td>USD 0.3bn</td>
<td><strong>2006:</strong> Launched Carlyle Infrastructure Partners (CIP) at USD 1.1bn</td>
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<td><strong>2016:</strong> Launched Carlyle Global Infrastructure Opportunities I. Target size USD 2.5bn</td>
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<td>KKR</td>
<td>USD 138bn</td>
<td>USD 5.3bn</td>
<td><strong>2010:</strong> Launched its first KKR Global Infrastructure Fund which raised USD 1.04bn</td>
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<td><strong>2017:</strong> Launched its third global infrastructure fund with a target size of USD 5bn</td>
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<td>BLACKSTONE</td>
<td>USD 367bn</td>
<td>USD 15bn+</td>
<td><strong>2002:</strong> Invested primarily through three private equity strategies: Blackstone Energy Partners, Blackstone Capital Partners and Blackstone Tactical Opportunities</td>
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<td><strong>2017:</strong> Invested over USD 15bn in infrastructure. Launched a USD 40bn global infrastructure fund alongside the Public Investment Fund of Saudi Arabia (PIF)</td>
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<td>OAKTREE</td>
<td>USD 101bn</td>
<td>USD 2.76bn</td>
<td><strong>2014:</strong> Acquired Highstar Capital and assumed management of Highstar's two infrastructure funds. Invests in infrastructure equity primarily across North America and select OECD countries</td>
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<td><strong>2017:</strong> Restructured Oaktree Infrastructure Fund</td>
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Source: www.Infra-Deals.com *accurate as of 31 March 2017
Accessing Private Capital

- Is the project right for private investment
  - Sound economic and developmental basis
  - Rigorous cost/benefit analysis
  - Positive economic internal rate of return
  - Political consensus
  - Appropriately balanced environmental and development needs
  - Supports local government’s development needs

- Need for exit mechanism changing

- Due Diligence

- Long-term cash flow

- Project scale (bigger is better)

- Transparency
Port Planning & Investment Toolkit (PPIT)

- Planning ✓
- Feasibility ✓
- **Finance Module** helps project leaders navigate a wide range of transaction structures and capital investment decisions, including the costs/benefits of pursuing private sector financing.
- Takes into account the fragmented nature of the industry.
- Used for any number of capital investment activities including, but not limited to:
  - Asset-Backed and Lease Financing
  - Weighing Traditional vs. Alternative Financing
  - Project Finance Structuring
  - Evaluation and Implementation of Public-Private Partnerships
  - Procuring Government Loans and Grants

*Source: Exhibit 3-1 Project Definition: Financing Process – Port Planning & Investment Toolkit*
Due Diligence

**Approach**

- Prepare Revenue Forecast
- Identify O&M and R&R costs for the project
- Develop business terms
- Determine enterprise value of terminal operations
- Evaluate impact of alternative financing strategies
- Evaluate impact of project risks

**Value Model Considerations**

- Cargo-passenger throughput
  - Vessel calls
- Changes in rates and terms
- Minimum Annual Guarantees
  - New infrastructure requirements/costs
- Capital market factors/financing structure
  - Labor costs
  - Routine O&M costs
- Capital renewal & replacement
  - Equipment replacement schedule & costs

Source: Exhibit 3-3 Due Diligence Approach – Port Planning & Investment Toolkit
Project Delivery Models

Source: Exhibit 3-26 Project Delivery Models – Port Planning & Investment Toolkit
Public Private Partnerships (P3s)

- The US is still an “emerging market”
  - Currently only 33 states (plus DC and Puerto Rico) have adopted enabling legislation
  - More common in the international market
  - Moodys (March 2016)
    - Slowly developing
    - Dwarfed by municipal infrastructure market
    - Projects are generally on time

- Structure
  - Availability Payment
  - Concession (demand risk)
  - Hybrid

- Availability Payment P3
  - Life cycle cost control
  - Risk transferred to private sector
  - Improved delivery time and design quality
Value for Money

Public Finance Procurement Model
Risk-adjusted, whole-life cost of a project assuming Design-Build procurement model

Public Private Partnership Models
Aspects of project financing, risk transfer, and efficiencies using different P3 delivery models

Value for Money Analysis
Comparison of delivery model benchmarks based on risk allocation and financial performance

Better Value for Money?
- Optimal risk allocation
- Development opportunities
- Continuing commercial incentives
- Lower cost of finance
- Innovation efficiencies
- Operational integration efficiencies

Source: Exhibit 3-10 Value for Money Public Comparator Approach—Port Planning & Investment Toolkit
Structure: Public-Private Partnerships

Why Consider P3s?

- Expand public sector capacity
- Accelerate delivery
- Transfer risk
  - Financial and operational
- Save or reallocate funds
- Reduce debt
- Improve operations
- Transparent regulation of revenues
  - Tariffs, fees

Source: Exhibit 3-25 P3 Key Objectives – Port Planning & Investment Toolkit
Structure: Public-Private Partnerships

How P3 Approach Can Contribute to Project Delivery

- Relieve financial pressure(s)
  - Operation support from General Fund, debt capacity, pension costs, PEB
- Streamline operations
- Expand service
- Transfer capital responsibility
- Launch new program or service
- Manage rate setting process

Source: Exhibit 3-25 P3 Key Objectives – Port Planning & Investment Toolkit
Structure: Public-Private Partnerships

The Value of P3s

- A well-structured and executed P3 can:
  - Increase agency operating capacity
  - Heighten accountability
  - Value time and performance
  - Value innovation and efficiency
  - Stimulate competition
  - Enhance revenues

Source: Exhibit 3-25 P3 Key Objectives – Port Planning & Investment Toolkit
Structuring Your Project

- Public Policy
  - Understand local and federal regulatory environment
  - Closely monitor federal infrastructure proposals
  - Party in power changes; structure deal that is a good value proposition
- Actively engage stakeholders
- Legal considerations
  - Authorization
  - Appropriation risk
  - Default and Termination
  - Develop efficient DD process for investors

- Financial modeling
- Transaction structure
  - Develop options
  - Well-developed transaction documents
- Transparent tender process and evaluation criteria
- Regulatory Considerations
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