

Public-Private Partnerships (P3):

Overview and Opportunities

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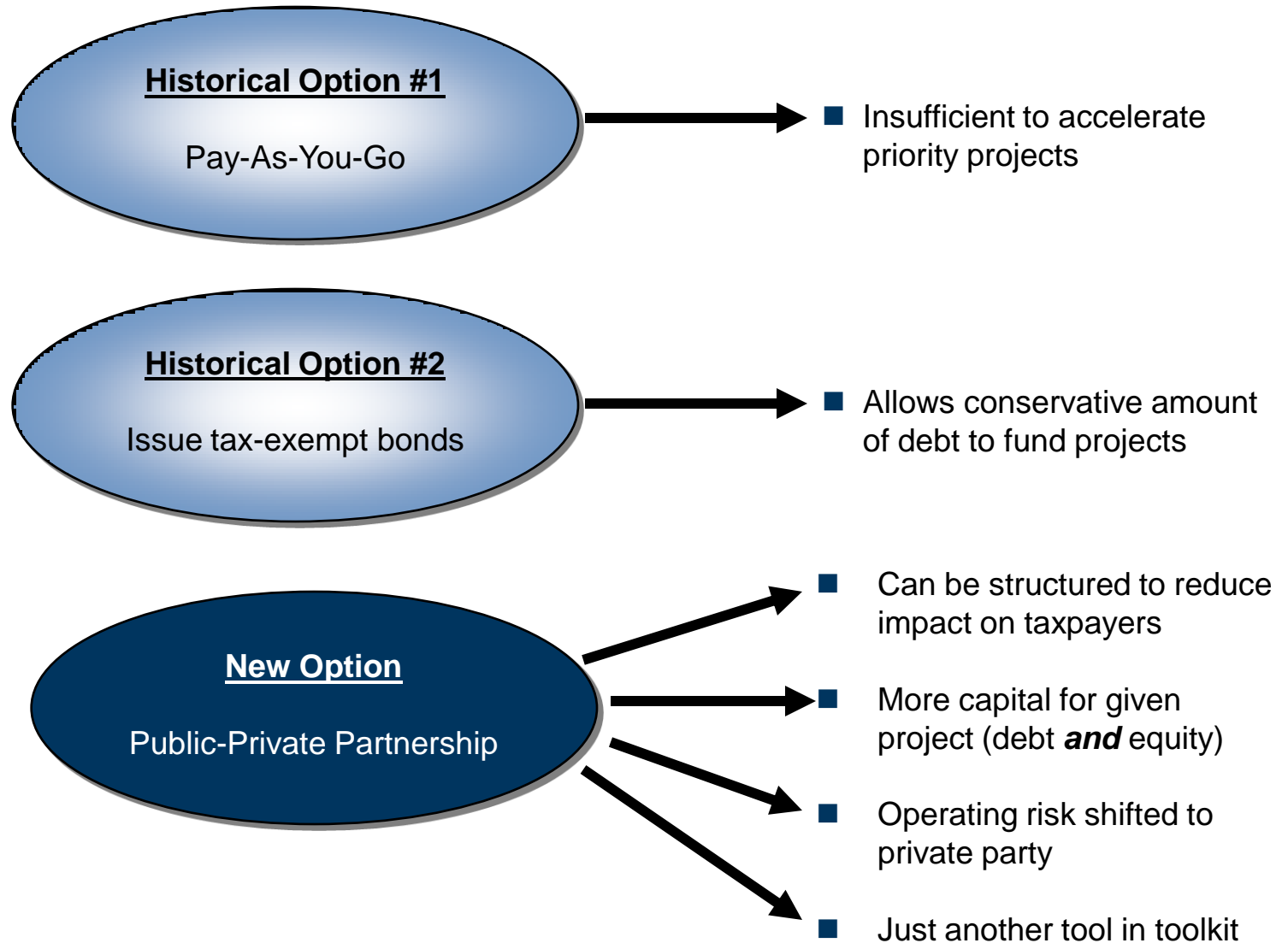
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I. Overview of Public-Private Partnerships (P3)

Numerous factors are contributing to an increased interest in Public-Private Partnerships in the US

- **The US is currently experiencing a period of high infrastructure investment activity**
 - The US Department of Transportation estimates that upwards of \$100 billion per annum is required over the next 20 years to simply maintain the country's existing surface transport infrastructure
 - Significant greenfield infrastructure investment is needed throughout the country, driven by demographic growth and delayed maintenance
- **Supply Side Factors contributing to P3 activity**
 - Fiscal pressures at the state and local government levels due to cost escalations
 - Increased government awareness of and desire to mitigate operating risks
- **Demand Side Factors contributing to P3 activity**
 - Increased capital available for investment
 - Infrastructure assets represent long duration investments with diversification benefits
 - Infrastructure assets offer a stable return on investment
 - Equity investments provide high dividend yields with leveraged growth tied to GDP and/or inflation
- **Activity continues to grow**
 - Chicago Skyway, Indiana Toll Road, Port of Miami Tunnel, Pennsylvania Turnpike, Midway Airport
 - BART Oakland Airport Connector, Denver FasTracks, Houston Metro
 - Active procurements in Texas, Florida, Mississippi

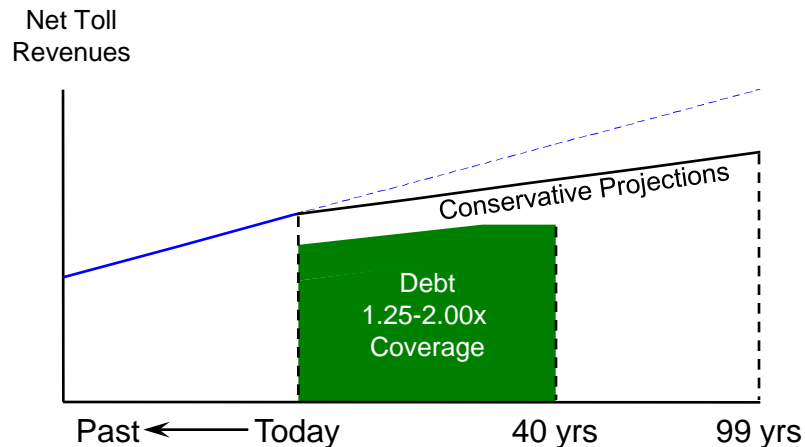
Public-Private Partnerships (P3) provide a new source of capital for state and local governments



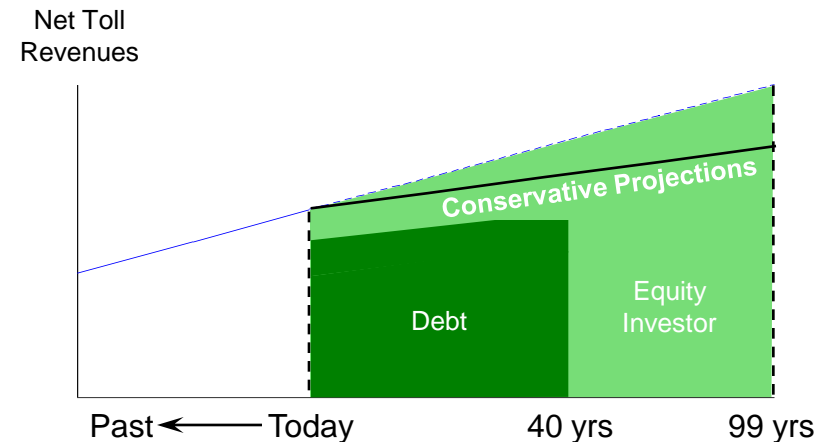
A Public Private Partnership can result in more funds today

- Municipal bond investors rely on historical revenues to determine bonding capacity
- Equity investors look for future returns based on growth
- Debt + Equity = Greater Proceeds

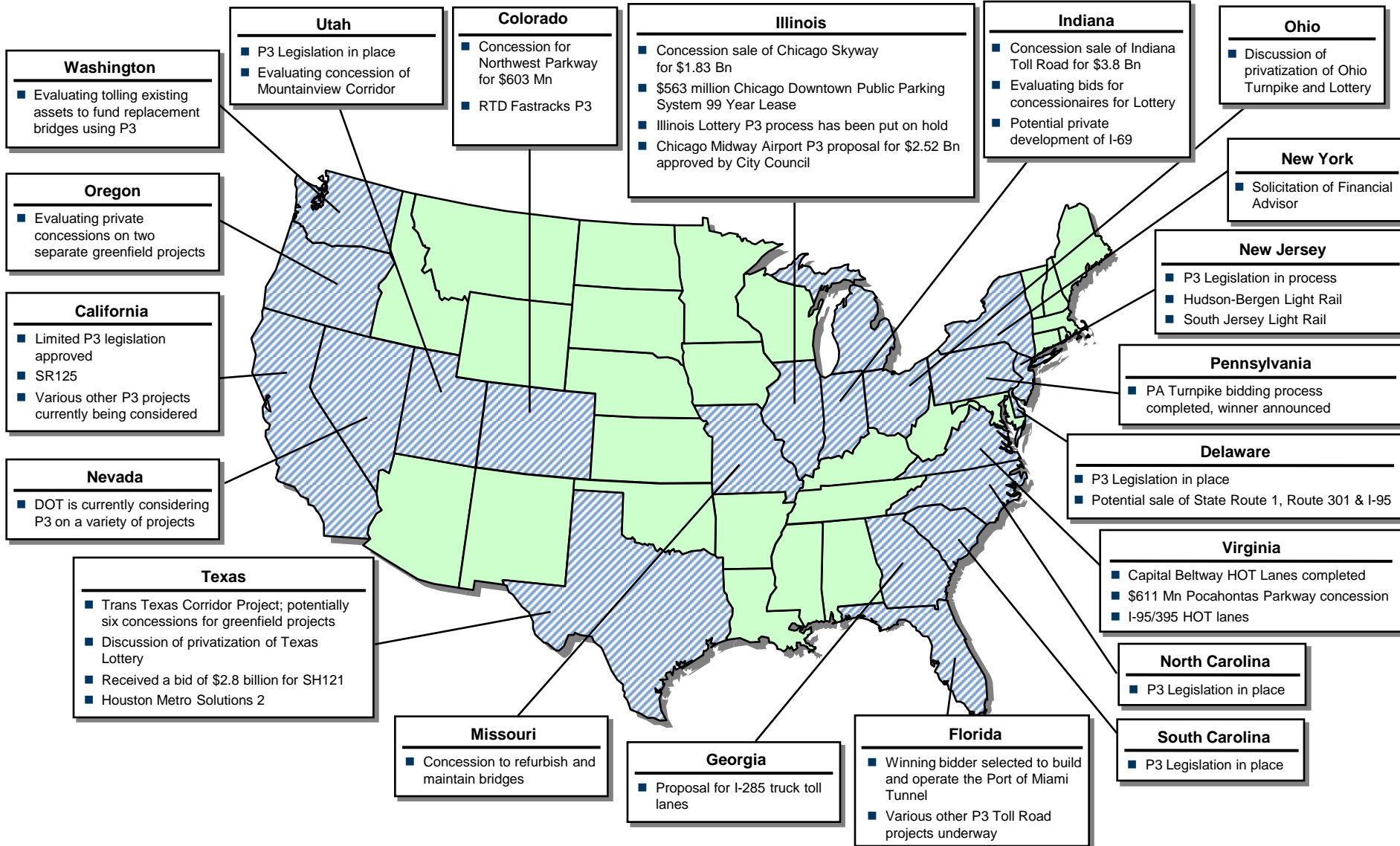
Municipal Bond Leverage



Concession Sale



There continues to be a surge in Public-Private Partnership activity in the US

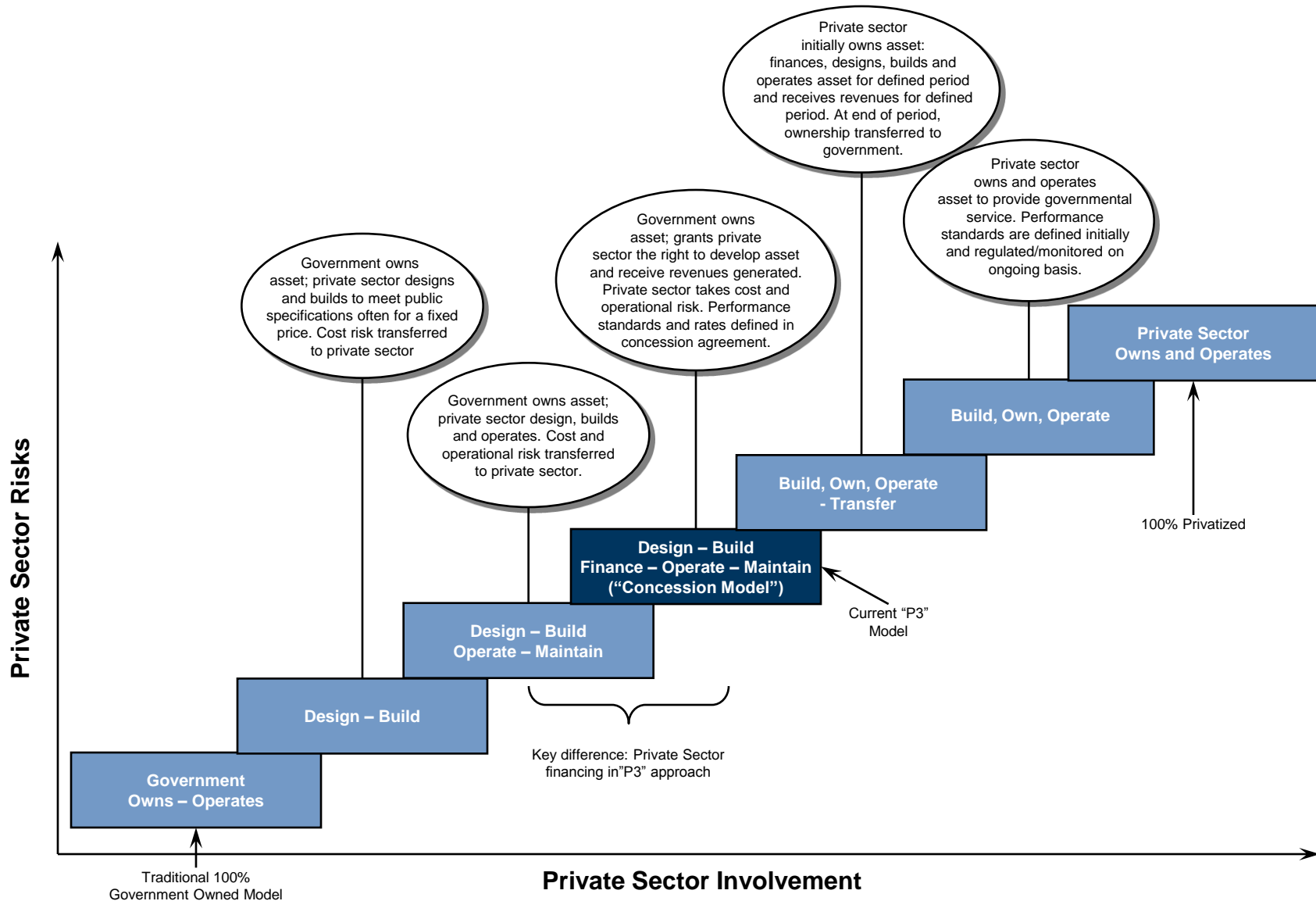


While several strategies exist to implement and finance infrastructure assets, Public-Private Partnerships offer a unique alternative

| Strategy | Description |
|--------------------------------|--|
| 1) Public Ownership | Traditional delivery system – design, construction, O&M, governance, etc., remain with public entity |
| 2) Private Contracting | Same as above except certain activities may be contracted for – i.e., design/construction, operations, etc. |
| 3) Concession/ Lease Agreement | Public owns facilities and maintains governance, enters into lease agreement with a private entity that is responsible for operations, maintenance, construction |
| 4) Private Ownership | All activities, including the setting of rates/ fares, are controlled by a private entity |

Strategies 2-4 are variations of P3 alternatives

Spectrum of Private Sector Risk and Involvement



P3 Benefits

- The Public-Private Partnership (“P3”) offers a new approach to achieve efficient project delivery and transfer certain operational and construction risks to the private sector

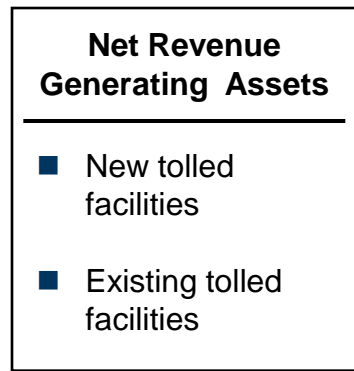
- Possible benefits of P3 approach
 - Design-Build Savings – Reduced construction costs
 - Operations and Maintenance Savings – Reduced O&M costs
 - Private Sector Financing – Longer-term debt and wide array of financing tools
 - Long-term Risk Allocation and Transfers
 - Long-term lease provides tax benefits to private partner that can flow through as savings to public agency

- This approach should be considered alongside others to develop an optimized plan for the government agency
 - Innovative debt structures
 - Public-Private Partnerships (P3)
 - Public-Public Partnerships
 - Revenue enhancement and investment opportunities, including Transit-Oriented Development (TOD)
 - Traditional government own and operate model

What is contractual nature of a P3?

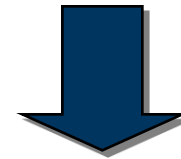
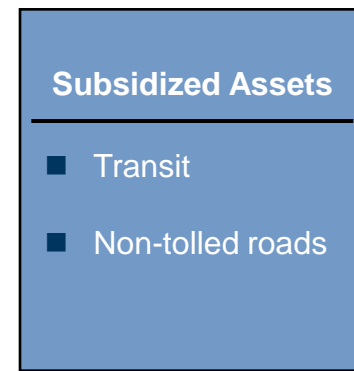
- Public-Private Partnerships are an innovative financing and project delivery structure where a public entity partners with the private sector to build and operate an infrastructure project
- Public-Private Partnerships are long-term contractual arrangements with private sector partners to build and operate new facilities in return for annual “lease” payments that are paid to the private partner if the facility is available for use
 - Agency retains ownership of all assets
 - Agency retains oversight over policy items, including fares and design/operational standards
- P3 projects go a step beyond traditional DBOM procurements by incorporating financing into the private sector role
- P3’s have been successfully used to deliver projects on time and on budget; they are known for accelerating project delivery at reduced cost

How does P3 apply to transit agencies?



P3 concession can:

- Raise funds for new projects
- Build new “green-field” toll roads

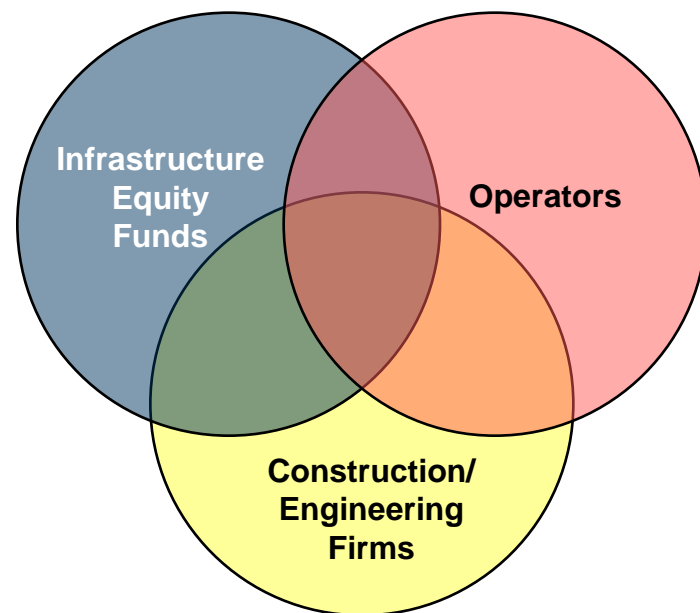


P3 availability concession structure can:

- Transfer risk
- Reduce costs
- Increase certainty
- Accelerate funding/
project completion

P3 Investor Universe Overview

- **Infrastructure Equity Funds** – Have experience in government concession structures and are attracted to stable cash flows provided by P3 projects
- **Construction/Engineering Firms** – Can create value by optimizing construction phases; equity participation would further align interests with potential partners
- **Operators** – Experience with similar procurement structures in Europe and Asia; critical partners in project delivery and ongoing operation



II. Availability-Based P3 Structures

Potential Transit P3 Financing Structures

- “Toll Road” type concession structure
 - Net revenue generating asset
 - Long-term, steady returns to attract equity
 - Some fare flexibility

- Pure availability-based concession
 - Payments to concessionaire depend upon performance, with clear penalty system to ensure that concessionaire is bearing meaningful risk
 - Primarily debt financed, with investor looking at agency’s ability to pay the availability payment
 - Taxable cost of capital, but effective borrowing cost could be reduced
 - Possible to qualify for tax-exempt Private Activity Bonds
 - Equity provided by parties to concession as well as third-party investors

- Hybrid structure
 - Equity investment in ridership, parking and real estate reduces public subsidy
 - Public subsidy can be provided in the form of annual fixed or availability payments to concessionaire, or agency tax-exempt debt

Availability-based P3 structures can transfer significant risk to the private sector

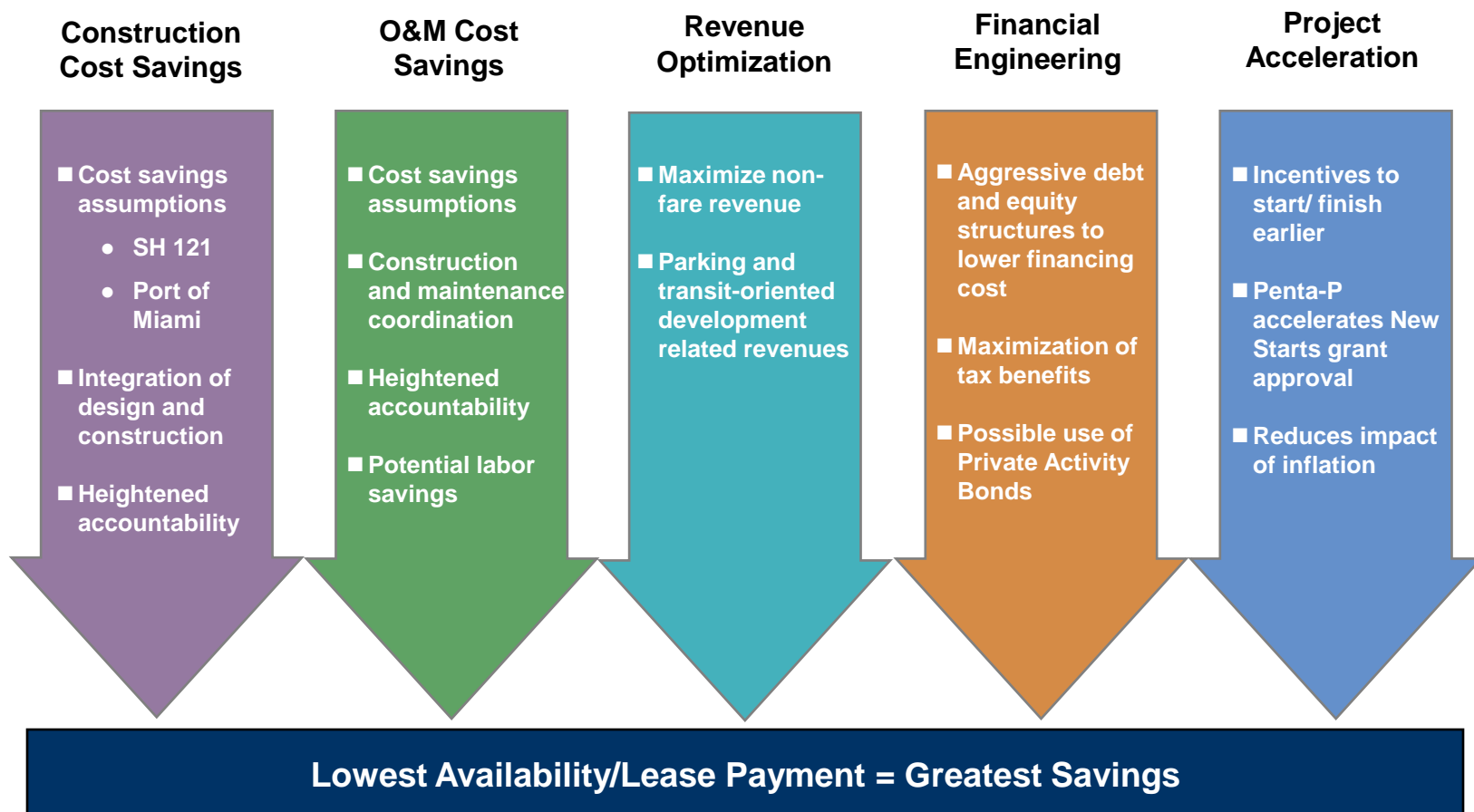
- Base unitary charge with deductions for “unavailability”
- Payments to concessionaire depend upon performance, with clear penalty system to ensure that the concessionaire is bearing meaningful risk
- Concessionaire has an incentive to manage maintenance program efficiently in order to avoid disruption to users and maximize payments
- Structure allows for capital markets’ financing of the concessionaire
- Typically considered as slightly higher quality cash flows than a pure traffic model by the rating agencies, depending on the likelihood of breaching availability conditions

Summary of Availability-Based (DBFOM) P3 Approach

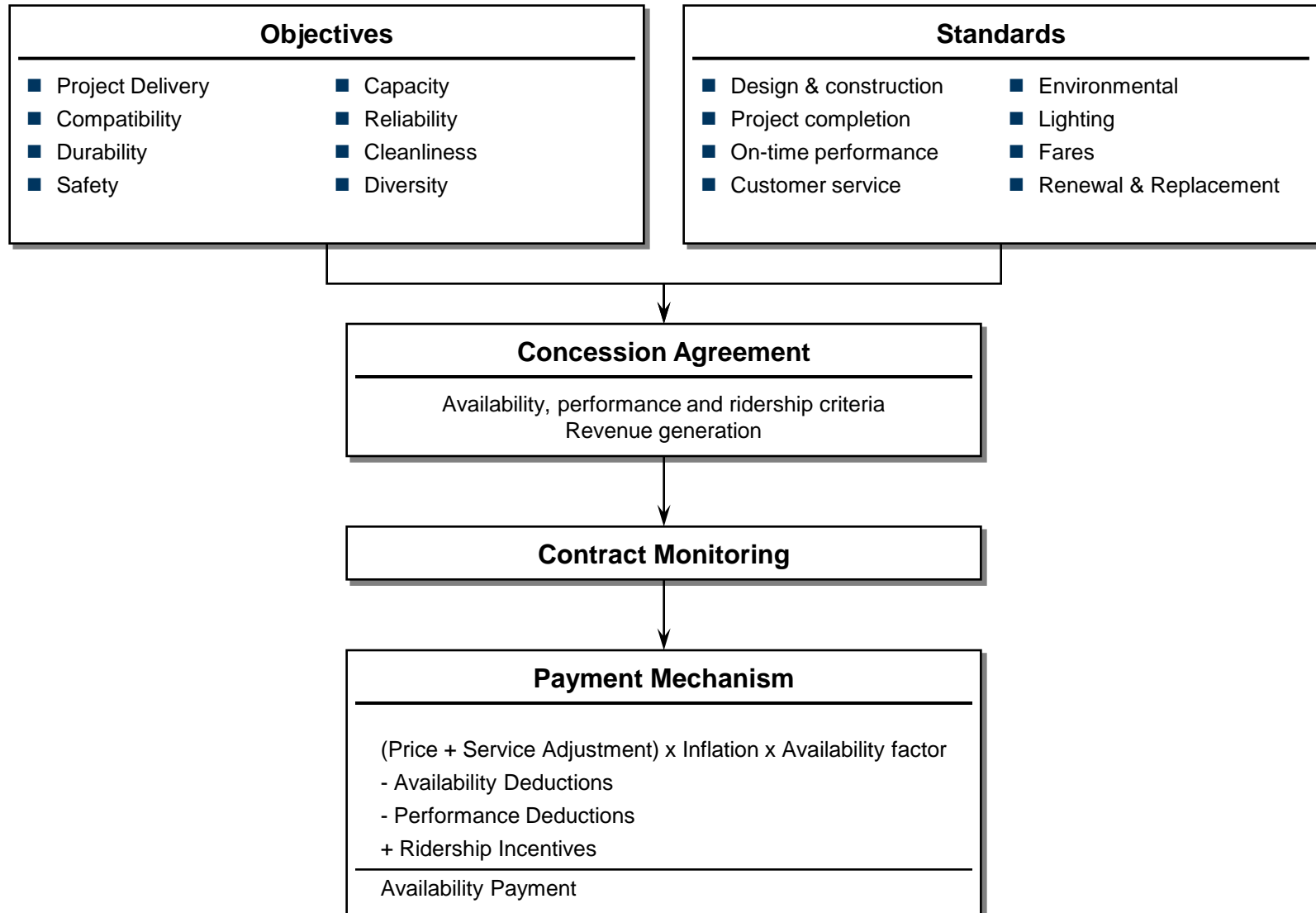
- Contractual agreement between government agency and a private partner to construct, operate, maintain and finance a project in return for periodic lease payments
 - Could include a combination of some or all of these components
 - Lease payment to private partner would be lower than if project were financed/operated by the agency
 - Not a sale of assets, nor a privatization
- Agency retains ownership of all assets
- Agency retains oversight over policy items, including fares and design/operational standards
- Agency retains right to reduce payments and ultimately cancel agreement if private operator does not perform
- Agency, with P3 Advisor, will run an open, competitive process to select a private partner who will best achieve the goals of the agency
- Agency can voluntarily elect to stop the P3 process at any time prior to contract award
- Public-Private Partnership will be long-term (30-50 years) to drive the greatest value and lowest cost

A competitively bid P3 process will drive significant savings

- A competitive bid process will cause bidders to provide the lowest availability/lease payment they can accept to make the project viable
- Private sector partners will likely build the following project savings into their bid



The Concession Agreement would be tailored to key public policy and operational issues



Key P3 Considerations and Questions

Question

- Don't I lose control?
- What will happen to fares?
- How does the agency retain control?
- What if the private operator doesn't perform?
- Why is there demand for these assets now?
- What is the necessary term to create interest for prospective investors?

Answer

- ➔ The Concession/Lease Agreement provides the agency control over fares, design & construction standards, operating standards and other key parameters
- ➔ The public agency will control fare levels. The Concession/Lease Agreement could provide for participation in fare revenues or payments tied to ridership (unless value is captured solely through lease payment)
- ➔ Concession/Lease Agreement is accompanied by operating standards outlining specific ongoing criteria that the agency will oversee with risk of termination for failure to perform
- ➔ After some opportunities to cure the problems, the agency can take back the asset without any responsibility for the Concessionaire's debt and equity obligations
- ➔ Huge pools of pension fund and other investor monies are being allocated to the infrastructure space. There is particularly strong demand for US infrastructure assets due to their stable and predictable cash flows as an asset class
- ➔ Typical term is likely 30 to 50 years to create sufficient time for investors to achieve returns commensurate with the risk they are taking