PPP 101

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What is a PPP?

*An Agreement Between the Public and Private Sector Parties that Transfers Infrastructure Delivery Functions to the Private Sector*

◊ Planning, design, financing, construction, operations and/or maintenance functions are candidates

◊ Most of these are traditionally regarded as public sector responsibility in the U.S.

◊ Transfer of risk associated with transfer of responsibility
The PPP Continuum

Segmented delivery method

Public responsibility

Public funds
Direct

Private funds
Indirect

Private responsibility

Combined delivery method

DBB
Design-Bid-Build

CM
Construction Management

O&M
Service Contract

DB
Design-Build

FT
Fast Track

DBO
Design-Build-Operate

DBOM
Design-Build-Operate-Maintain

DBFO
Design-Build-Finance-Operate (Maintain)
Availability Payment

User Fees

BOO (Privatization)
Build-Own-Operate

Limited to some high-tech components
### PB’s Role In Public-Private Partnerships

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<th>Role</th>
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<tr>
<td>Strategic Advisor – Public Sector Owner</td>
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<td>Program Manager – Public Sector Owner</td>
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<td>Prime Designer on Design-Build Team</td>
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<td>Due Diligence and Developer’s Engineer</td>
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<td>Lender’s Technical Advisor</td>
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<td>Construction Oversight – Public or Private</td>
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International Infrastructure: Cinderella Asset Class

- **Widening investment Gap**
  - 2005-10 needed global infrastructure investment estimated $370 billion PER YEAR
  - Balanced against growing deficits & other demands

- **Infrastructure Now New Asset Class**
  - Australian pension funds: Infrastructure now 5%

- **What Do They Like?**
  - High entry barriers
  - Inelastic demand
  - Stable cash flow
  - Long duration

- **2002 – 2007 Performance**
  - 124% vs. 96% Equities & 25% Bonds

- **More Challenges Financing Today**
Greenfields vs Brownfields

New Infrastructure?

Budget Balancing??
PPPs: More Than Concessions

- Innovative Tax-Exempt Financing Structures
- Blending Various Funding Sources incl Value Capture
- Creative Use of Design-Build, DBOM to Obtain Innovation, Cost Efficiency, Schedule & Cost Certainty
Non-U.S. Perspective

- U.S. Tax-Exempt Market is Unique
  - International: More Bank Involvement in Routine Financing
- More Policies at Country-level
- Public/Private Corporations
  - More “mixing” of lines between public and private
  - True profit sharing between government and private
- Traditions of Concession Companies Delivering and Financing Projects
European View on PPPs

- Just like US, Governments in Europe Struggle with Public Sector Deficits
- Financing in European PPP Market (excl UK) grew by 1/3 during the first half 2007
- New PPP Program
  - Help governments develop PPP projects & meet guidelines for European Investment Bank and other EU entities
- PPPs Estimated to Fund 15% of Infrastructure Projects in Europe
Canada PPPs

- Most PPP Activity in British Columbia (Partnerships BC)
- Primary PPP Reasons
  - Efficient delivery/cost certainty
  - Innovation in design/delivery
- 2007 Announced New Infrastructure Plan
  - $1.25 Billion new national PPP fund
  - Merit-based
  - Contribute up to 25% of eligible costs
- Established New Federal P3 Office
  - Identify opportunities & execute PPPs
  - Oversee assessment of PPP options for projects funded from federal infrastructure initiatives
U.S. Environment for PPPs

- Record Infrastructure Needs Increasing Public Sector Interest
- New Level of Infrastructure Funding Available
  - International Players – Long-term expertise
  - Growing Participation by US Financial Firms
- State by State Approach
- Protecting Public Interest Critical
- Transparency
U.S. Private Concession Model Characteristics

- **Committed Revenue Source**
  - Direct Revenue or Availability

- **Long-term Lease Agreement (~35-99 years)**
  - Convey “tax ownership” & depreciation benefits
  - Need to length to finance expensive projects

- **Public Sector Retains Asset Ownership & Oversight**

- **Typically An Equity Investment Plus Debt Financing Or Taxable Bonds**
  - PABs and TIFIA becoming more important

- **Transfer Of Construction & Operating Risk**

- **Availability Payment Structure**
  - Potentially better public acceptance
  - More easily financed

**How To Deliver More Projects?**
U.S. Pension Funds

Increasing Interest from U.S. Pension Funds

- Pension Funds Do Not Invest in Tax-exempt Debt
- Talking with Obama Administration Urging Incentives to Encourage Investment
- Growing Support for National Infrastructure Reinvestment Corporation

Changes in Investment Policy

- CalPERS target 1.5% of market value toward infrastructure
- Alaska Permanent Fund Corporation 3% infrastructure target
- Illinois State Board of Investments $300 million (4%)
- Dallas Police & Fire Pension may be an investor in Cintra-led managed lane project in Texas ($75 million minority stake)
Protecting the Public Interest: How Can Public Officials Decide if PPPs Make Sense?

- GAO Issued Report on PPP Toll Roads
  - UK, Canada, Australia use quantitative test of Value for Money (VfM) using the Public Sector Comparator

- Public Sector Comparator
  - Examines life-cycle project costs over concession term
  - Seeks to quantify the value of various types of risk transfer

- Partnerships Victoria 4-Part Process

   - Raw PSC
   - Competitive Neutrality
   - Transferable Risk
   - Retained Risk
Leveraging Lessons On PPPs
SR 125/South Bay Expressway

- $600 Million 12-mile Greenfield Toll Road In San Diego, California
- Concession Model: 35-years
- Developed by California Transportation Ventures (PB Equity Partner)
  ◊ First TIFIA loan for a private project
  ◊ Sold to Macquarie in 2002 to finalize financing
  ◊ Project opened late 2007
- Full Development Risk, Including Environmental, Started In 1995, Extended Through 2002
FDOT Managed Lanes

- $1.2 Billion 10.5 miles of New Express Lanes
- $64M, 35-Year Availability Payment
  - First use in US
  - FDOT retains control of toll rates
- Developer: ACS-Iridium
- $1.7 Billion Financing
  - $780 M 10-year bank loans financed as “club deal”
  - $680 M 35-year TIFIA Loan (3.6%)
  - $210 M 12% Equity (IRR 11.5%)
- Originally Assumed $826 M PABs
  - Bond market collapse forced restructure
- Cost 87% of Estimate
Capital Beltway: HOT PPP

- 14-mile (4) HOT Lanes Added to Capital Beltway
  - ORT & Dynamic Pricing, HOV-3+ “Free”
- Owner: Virginia Department of Transportation
- Private Developer: Capital Beltway Express
  - 90% Transurban
  - 10% Fluor
- 80-Year Concession Agreement
  - Protection against excess HOV usage
  - ROE 12.98% then revenue sharing with VDOT
- $1.93 Project Financing
  - $589M 40-year PABs – FIRST ISSUANCE
  - $350M Private Equity: $88M Financial Close $262 Construction
  - $589M TIFIA Loan
  - $409M VDOT
Portland MAX Airport Extension

- 5.5-mile LRT Extension to Airport
- Key Factor: Prime Real Estate Owned by Port (458 Acres Portland International Center)
- PPP Effort Initiated and Led by Bechtel Enterprises
  - SPEED: 1997 Unsolicited Proposal to 2001 Opening
  - $125M LRT Engineering & Construction
  - Partnered with Trammel Crow to develop 120-acres parcel Cascade Station (85 yrs)

Airport Max Funding, in millions

- TriMet, $45.5
- City of Portland, $23.8
- Port of Portland, $28.3
- Bechtel, $28.2
Dulles Corridor Rail

- Sponsoring Agency:
  - Original: VDOT/DRPT
  - Current: MWAA

- Selected Dulles Transit Partners (Bechtel & Washington Group) after unsolicited PPTA proposal in 1997; $1.6 Billion DB agreement for Phase 1 3/07

- Project Cost Phase 1: $2.7 Billion
  - Total Project $5+ Billion

- MWAA took over leadership role in 2007
  - Initiated by Dulles Tollroad PPP proposals
Dulles Corridor Rail

TOTAL PROJECT FUNDING

- FTA "New Starts": $900 Million
- Virginia: $50 Million
- Fairfax County: $400 Million
- Dulles Toll Road: $1.296 Billion
California High Speed Rail

- $40 Billion 800-mile, 220 mph Rail Service from San Diego to San Francisco
- Annual Revenue $2.4 - $4B, Expectations: Operate Without Public Subsidy & Generate Private Investment
- High Speed Train Bond Approved Nov 2008
- New Federal Emphasis on HSR
- $Financing Plan$
  - Federal – 25-33%
  - State & Local
    - $9B Bond Issue
  - Private

New Federal Emphasis on HSR

$Financing Plan$

- Federal – 25-33%
- State & Local
  - $9B Bond Issue
- Private
Chicago Midway Airport Privatization

- Sponsor: City of Chicago
- Pilot FAA Program Allowed One Major Hub: Required Agreement Of Airlines
  - First privatization of a major US airport
- 99-year Lease
- $2.52 Billion Bid by YVR Airport Services, Citi, John Hancock Life Insurance
  - Proceeds: $1.3B repay debt, 90% of remainder on infrastructure & pension liability, $100 million unrestricted
- Financing Uncertain
QUESTIONS & DISCUSSION

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