

PUBLIC PRIVATE PARTNERSHIPS

Panel Discussion

The CI Regional Seminar
New York, NY

January 30, 2008



PPP Panel

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The CI Regional Seminar
New York, NY
January 30, 2008

PPP Topics

- The PPP Model
- Key Drivers
- Target Assets
- Contractor Risks Associated with PPP
- Surety
- Questions

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Public Private Partnerships (PPP) in North America The Advent of a Market

RBS North American Infrastructure Advisory and Finance



Sell-Side Driver: The PPP market, while in its infancy in the United States, is one of the only alternatives for state and local governments to fund their vast infrastructure needs.

- The cost for infrastructure repair in the US and North America is in the trillions of dollars.
- Federal governments are highly unlikely to fund infrastructure repair or build.
- The willingness of state and local governments to fund new debt service to pay for infrastructure, which requires an increase in taxes, is non-existent.
- Where can cities and states turn to foot the bill for repairing the existing or building new infrastructure?

■ **The PPP Market**

■ BUYERS OF ASSETS IN THE PPP MARKET

- Investors, such as public pension funds, which control hundreds of billions of investment dollars, are looking for long-dated, cash-flow reliable assets, the return on investment for which is approximately 10-12%. Neither the traditional equities nor fixed-income markets during the past 7 years, but for stocks in 2006 and 2007, has been able to supply this return consistently without undue risk.

■ SELLERS OF ASSETS IN THE PPP MARKET

- Cities and states happen to own existing assets that fit the characteristics of an investment that investors want: toll roads, parking garages, lotteries, harbors, airports, etc., that have steady and calculable cash flows.

- ❖ The PPP market allows the seller to retain control of the asset and pocket a large, up-front “rent” payment in return for transferring, under a long-term lease, the entity’s profit and loss risk to a private operator which, in turn, can operate the asset far more efficiently. The asset stays in place with no interruption for the users and is intended to provide to the investor the benefits of a traditional equity return for the risk of a bond. The large, up-front rent payment can then be used by the seller for new infrastructure

Buy Side Industry Driver: The nominal amount of money raised to date by infrastructure funds is considerable; the leveraged capacity is immense.

<u>Fund Investment Capacity*</u>	<u>Equity Amount Raised</u>		<u>Total</u>
■ Goldman Sachs Infrastructure Fund	US\$	6.5 Billion	US\$ 26.0 Billion
■ CalPERS	US\$	2.5	US\$ 10.0
■ Morgan Stanley Infrastructure Fund	US\$	1.0	US\$ 4.0
■ GE & Credit Suisse First Boston	US\$	1.0	US\$ 4.0
■ Carlyle Infrastructure Group	US\$	1.0	US\$ 4.0
■ JP Morgan Infrastructure Fund	US\$.750	US\$ 3.0
■ Unnamed Funds**	<u>US\$</u>	<u>162.25</u>	<u>US\$ 649.0</u>
■		US\$ 175 Billion	US\$ 700 Billion

- **Assuming leverage of 75%*
- While the funds' sponsors' equity is assumed to be approximately 5%-10% of the total equity amount raised, the balance is coming primarily from pension funds in Australia, Canada, and more recently, the United States.

**Includes Construction and Concession Companies

Despite the amount of money that's been raised and its immense financing capacity, the amount of assets bought by the funds in the US so far totals less than US\$8 billion.

- **Northwest Parkway Toll Road – Total of \$603 million paid to the Colorado Northwest Public Highway Authority by the Portuguese consortium Brisa/Companhia des Concessoes Rodoviaras (Closed August 2007)**
 - This 9-mile toll road as well as an agreement by the concessionaire to build a 2+ mile extension is the most recent **PPP involving a municipal asset** coming to market.

 - **Chicago Downtown Parking System (CDPS) – Total of US\$563 million paid to the City of Chicago by Morgan Stanley (Closed December 2006)**
 - CDPS is one of the largest underground car parking systems in North America with **over 9,100 spaces**. The City of Chicago sought a private sector operator to lease these parking garages under Millennium and Grant Parks under a **concession of 99 years**.

 - **Indiana Toll Road (ITR) – Total of US\$3.8 billion paid to the State of Indiana by Cintra-Macquarie (Closed June 2006)**
 - ITR is the largest monetization of an infrastructure asset to date in North America. The State of Indiana sought a private sector operator for the 274-mile Indiana Tollway under a **concession of 75 years**.

 - **Pocahontas Parkway – Total of US\$611 million paid to the Pocahontas Parkway Association by Transurban (Closed June 2006)**
 - The project is located in Greater Richmond, Virginia and involves a **new 8.8 mile toll facility four-lane road** operating under a **99-year lease**.

 - **Chicago Skyway – Total of US\$1.83 billion paid to the City of Chicago by Cintra-Macquarie (Closed January 2005)**
 - The long term lease of this 45-year old 7.8-mile toll highway marked the **first privatisation/monetization** of a tollroad facility in the US. The City of Chicago sought a private sector operator to lease the Skyway toll bridge under a **concession of 99 years**.
- **These transactions add up to \$7.41 billion or just over 1% of the funds' "buying power" of \$700 Billion.**

Characteristics of Infrastructure Assets Suitable for Monetization:

- An asset associated with, or required for the **provision of an essential service** – be it **public** or **otherwise**. **Monopolistic** assets will garner the highest possible price paid to the seller.
- **Stand alone** asset/operation with clear physical and service boundaries to aid in defining operational responsibilities, risks and risk mitigation methods.
- Assets which have a **long term useful life** - usually with a remaining life of greater than 30 years.
- Assets which have the ability to be **operated** by the **private sector**.
- Assets with the potential for **growth**.
- Assets that **aren't used by a large segment** of the indigenous population.
- **Predictable**, steady **revenues** with a **substantial operation component** which provides the **opportunity for cost efficiencies** to potential private investors.

Types of Assets to Consider for Monetization:

- Transit Assets such as toll roads, bridges & tunnels (*The Chicago Skyway and the Indiana Tollway have already been leased; Pennsylvania has announced the possible lease of its turnpike; New Jersey has considered a possible lease of its turnpike, among other assets as well.*)
- Parking Garages (*Chicago leased its 4-garage downtown parking system for \$563 million.; Harrisburg, PA has issued an RFQ for its downtown parking system.*)
- Airports (*Chicago has announced the possible lease of Midway International Airport.*)
- Lotteries (*Illinois and Indiana have announced possible leases.*)
-
- Convention Centers and Stadiums
- Harbors
- Hospitals
- Newly-Tolled Facilities
- Prisons (Existing)
- Real Estate Development/Train Stations
- Rights-of-Way
- Solid Waste Facilities
- Water/Wastewater Facilities
- Waterways and Ports

What does all this mean for investors in both bank and public debt issued to finance infrastructure purchases?

- The equity sponsors (owners) of these types of infrastructure assets usually supply 10%-35% of the purchase price **with the balance financed in the bank and/or public debts markets.**
- To date, the **only PPP asset financed with public debt was The Chicago Skyway** which was issued 6 months after the financial close and which took out the original bank debt used to finance the purchase.
- Given the expected and potential magnitude of future multi-billion plus asset purchases, **both bank and public debt will proliferate as the primary financing vehicles for these assets.** Asset-Backed Securities will also be part of the landscape.
- In all likelihood, the public and asset-backed debt will be issued by a Special Purpose Vehicle (SPV) **with no recourse to the owner (the equity sponsor) of the asset; limited recourse to the asset is standard.**
- The public **debt issued will be taxable** in most cases.
- The public debt will be issued **both on a wrapped and unwrapped** basis.
- The public debt issued **will be rated.**
- The credit decision for investors in the debt will be based upon a number of factors, not the least of which will be the **ability for the asset to be run more efficiently by a private operator** as opposed to the previous municipal operator.

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Summary of RBS Infrastructure for the North American Market:

- **Market leading expertise in advisory, limited recourse infrastructure debt arranging, and specialist in PPP type transactions**
- **Substantial experience in the North American structured and infrastructure financing sectors**
- **A leading capital markets franchise**
- **Significant bank and bond underwriting capacity for infrastructure finance**
- **Substantial infrastructure finance resources on the ground in the US, London and Continental Europe**

USA	December 2006
Orient Overseas Ports Acquisition USD 1,880,000,000 Senior Secured Credit Facilities Mandated Lead Arranger and Bookrunner 	

USA	June 2006
Indiana Toll Road Acquisition USD 4,063,341,497 Senior Debt Facilities Joint Lead Arranger and Joint Bookrunner 	

USA	April 2006
Century Campus Housing USD 201, 200, 000 Senior Debt Facilities Sole Lead Arranger and Bookrunner 	

Canada	June 2005
Sea to Sky Highway CAD\$ 496,700,000 Senior Secured Credit Facilities Mandated Lead Arranger and Bookrunner 	

Here's how RBS can assist in the PPP process:

■ **ADVISING SELLERS**

- The experience by RBS infrastructure professionals has been at the forefront of the PPP market in the United States. The head of North American Infrastructure at RBS, Dana Levenson, is the former Chief Financial Officer of the City of Chicago where the PPP movement in the US started with the long term leases of the Chicago Skyway and its Downtown Chicago Parking System. Dana was integrally involved directing both transactions and was instrumental in making sure that the highest possible price was paid for both assets. The RBS advisory team can bring that same expertise to bear by advising sellers as to ways that are critical not only to making the bid price as robust as possible, but that the process for public sellers is entirely transparent from a political perspective.

■ - or -

■ **FINANCING BUYERS**

- Long its strong suit in Europe and Asia, RBS' expertise in assessing and financing long-lived infrastructure assets has made the Bank a "first call" by potential buyers of infrastructure assets around the world. That expertise has, indeed, been replicated in the United States where, in June of 2006, RBS lead the bank Public Private Partnership financing of the Indiana Toll Road. RBS also has developed an extensive "private-to-private infrastructure financing practice such as with ports. Moreover, given the size of its balance sheet in excess of US\$1.7 trillion, as well as a credit culture where infrastructure is a very comfortable discipline, RBS is quite willing to take on balance sheet risk to finance the purchase of infrastructure assets by equity and strategic sponsors. RBS also maintains a strong capability to place corporate debt, both High Grade and High Yield, and Asset-Backed securitizations in the capital markets as permanent financing sources.

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Contractor Risks in PPPs: US Perspective

- Jacques Cook
- Peckar & Abramson, P.C.



What is a PPPs and why use it?

- Provision of a “public” service.
- Contractual relationship.
- Defined length and purpose.
- Allocation of Substantial Risks to private co.
- “Value for money” and PPP incentives.



Types of PPP

Public
Sector

- Management Contracts
- Design-Build
- Design-Build-Operate-Maintain
- Build Operate Transfer
- Build Transfer Operate
- Build Own Operate
- Design Build Operate Finance
- Concession
- Asset Sale.

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Private
Sector

PPPs: Where are they by Sector? (1985-2004)

Project Type (worldwide)	Value \$billion	%of Total
Roads	324.7	37
Rail	280.6	32
Airports	88.0	10
Seaports	39.5	4
Water	95.4	11
Building	59.2	7
Total	887.4	100

PPP Transactions in 2005 and Rankings

(Source: Dealogic and NCPMP)

Rank	Country	No of deals	Volume in \$b	Share %
1	UK	62	10.7	27.6
2	Spain	10	7.1	18.3
3	Italy	8	4.5	11.6
4	US	5	3.3	8.5
5	S. Korea	4	3.1	8.2
6	Canada	5	3.1	8.1
7	Australia	9	2.2	5.7
8	France	3	1.2	3.1
9	Japan	11	0.6	1.7
10	Portugal	3	0.4	1.2

Size of US Market for Transport PPPs

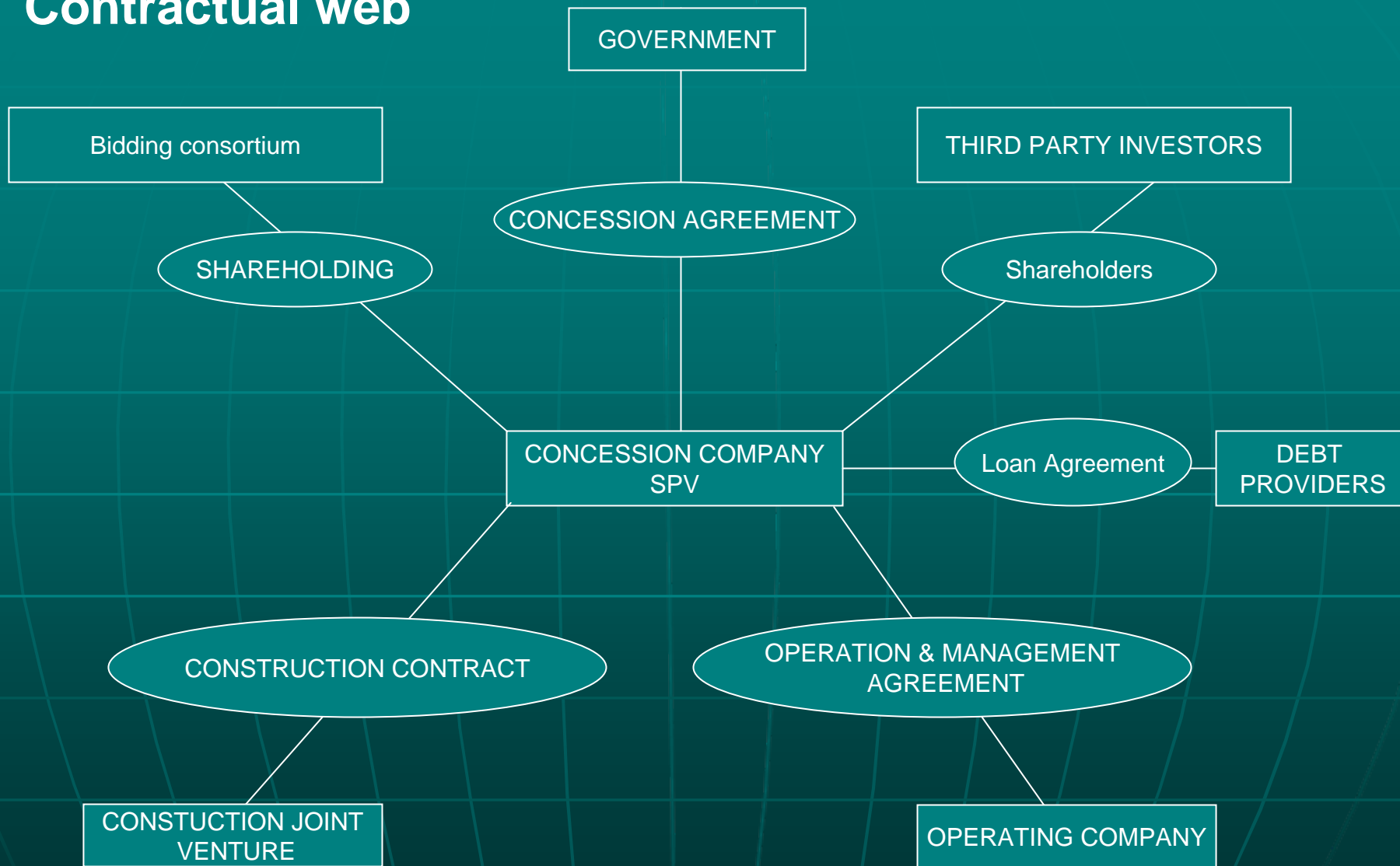
- **Next 3 years there will be 25 large US toll road privatizations.**
- **Total value of the US toll road privatization to be worth up to \$250 billion.**
- **US DOT estimates that \$120 billion annual investment required in highways?**
- **Other Sectors- Health, Education, Judicial offer more opportunities. Estimates vary by state.**

Managing PPP risks with Project Finance.

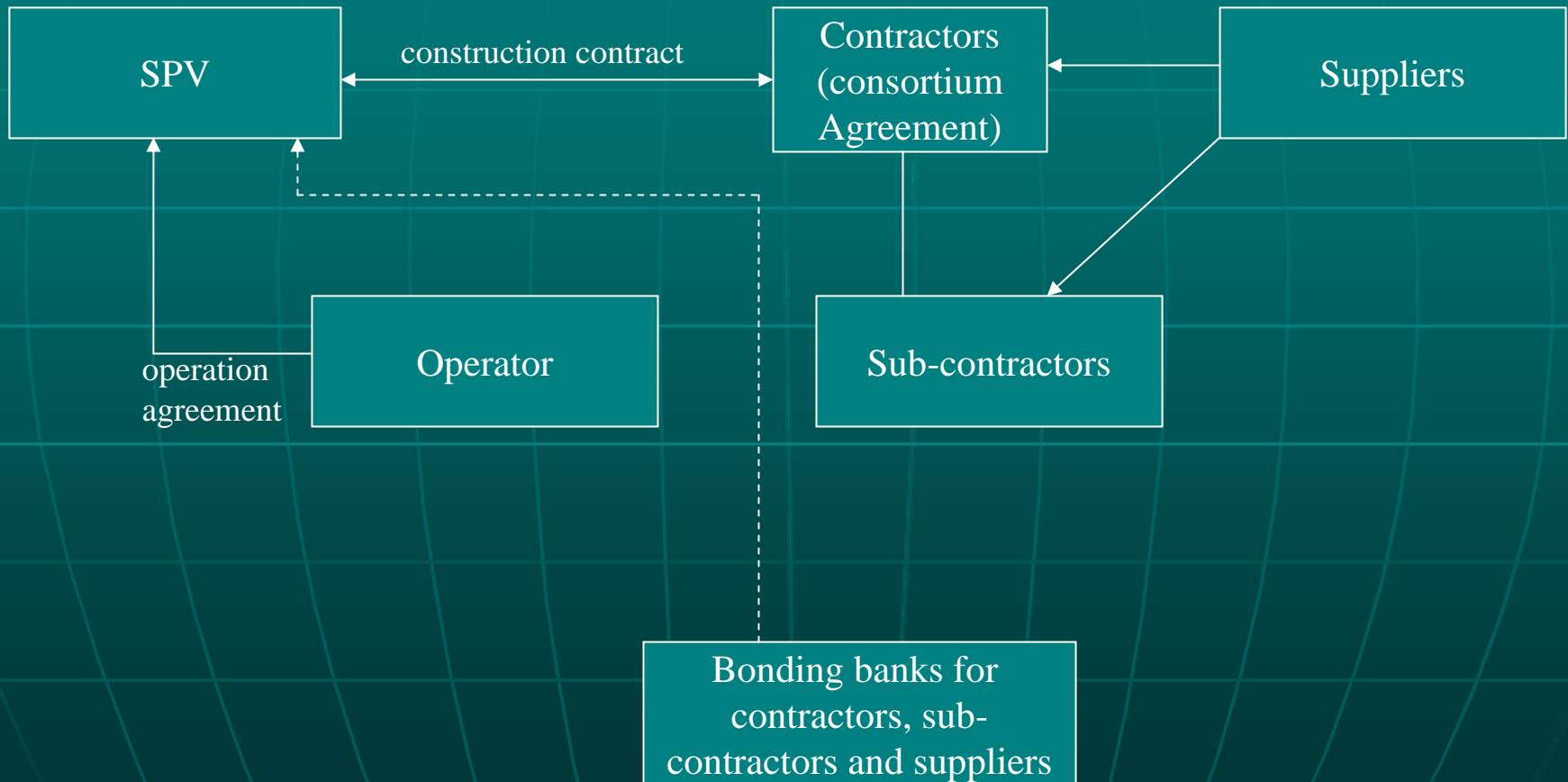
- Policy issues faced in US PPPs are very similar to those faced in PPPs overseas.
- Structure depends on gov't objective and perceived "value for money".
- Project Finance will be more widely used.
- Critical importance of contracts and mitigants.
- Role of stakeholders.

Project finance

Contractual web



Construction



PPP Concession & Project Finance

- **Construction in P/F matrix.**
- **P/F structure opportunities for risk mitigation.**
- **Contractor due diligence and strategy for subs.**

Managing PPP Risks

- Construction Risk Matrix:
 - Fixed price, lump sum turnkey contracts.
 - PPP concession interface
 - Compensatory Events.
 - Retained risks. (Supervening Events)
 - Insurable Risks.
 - Termination risk.
 - *Force Majeure*
 - Latent Defects Risks.
 - Lender/gov't step-in risks.

A Successful Road Map to US PPPs

- Construction contractors will need to:
- Identify jurisdictions with highest potential for PPPs.
- Consider strategies for JVs with experienced developers.
- Examine full range of profit opportunities (O&M, construction, equity).
- Rely on experienced advisors specialized in PPP markets.
- Take long-range view of US market and expect periods of uncertainty.

PUBLIC PRIVATE PARTNERSHIPS: Surety Underwriting Approach and Issues

Brian H. Reynolds

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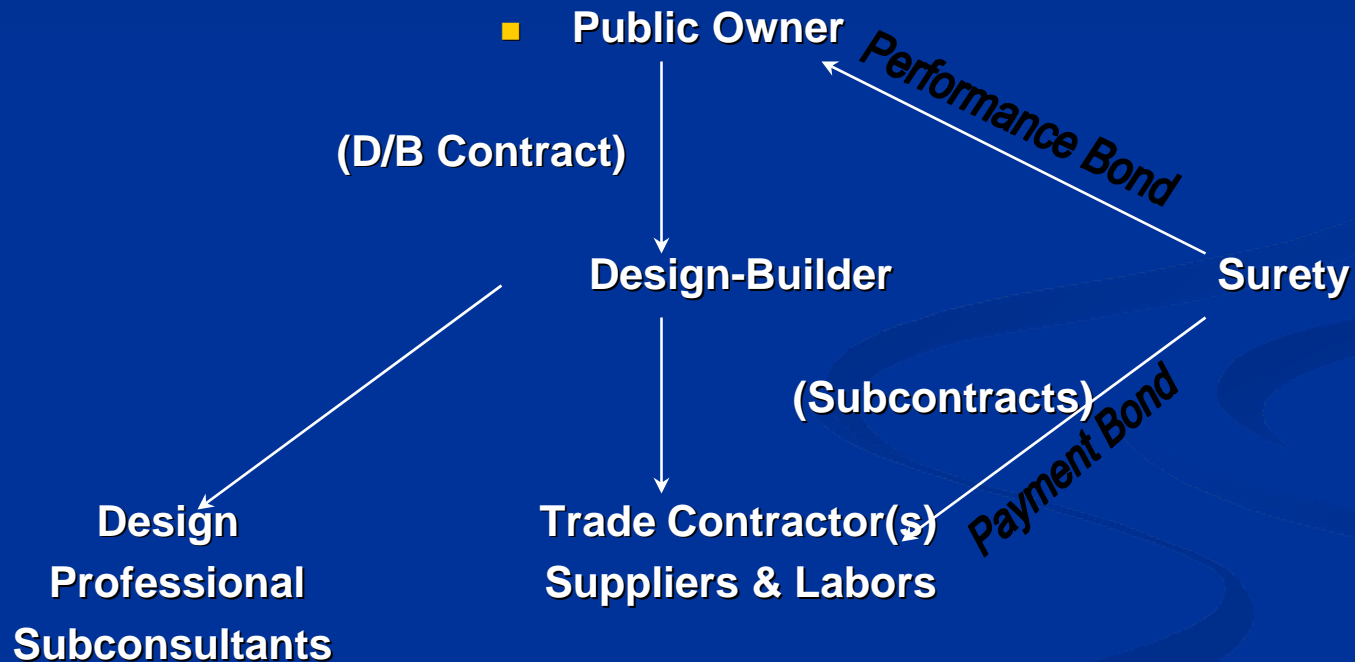
ALLIED NORTH AMERICA



ZURICH

Design-Build Contract

- Who are the Typical Project Participants in a Design Build Contract



Public-Private Partnership

- Private Sector consortia are engaged through a bidding process to DESIGN, BUILD and OPERATE infrastructure and capital intensive public services, under long term project agreements from a sponsoring government or one of its agencies.
- The PPP structure is designed to shift certain FINANCING, CONSTRUCTION and OPERATING risks of the projects to the private sector.

RISK ALLOCATION

- MARKET RISK
 - Availability payments / Unitary payments / Economic equilibrium
 - Shadow tolls
 - Private tolling
- FINANCIAL RISK
 - Cost escalations / Delay risk / Repayment risk
- CONSTRUCTION RISK
 - Contractor default / Design and technology risk / Environmental risk
 - Cost escalation / Delay risk
- OPERATING RISK
 - Operator default / Maintenance and warranty / Cost escalations
- POLITICAL RISK
 - Termination / Renegotiation / Rebalancing

Concession Framework

- PUBLIC OWNERS
 - Objectives / Commitment / Experience / Sophistication
- CONCESSIONAIRE
 - Shareholders / Equity commitment / Experience / Business Strategy
- PROJECT FINANCING
 - Terms and conditions
- DESIGN / BUILD CONTRACT
 - Performance measures / Risk allocation / Unforeseen conditions / Damages
 - Force Majeure / Completion terms / Default termination / Warranties

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Questions?

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