UNECE/UNOG Special Session on PPP

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Richard Ornitz *Chairman, Infrastructure*
Patton Boggs LLP

PPP Activity Global Snapshot

New Trends: Design-Build, Performance Based Contracts

Illinois and Virginia. Market innovators in PPP

British Columbia. 20% of new infrastructure done through PPPs

Ontario. 30 hospital infrastructure PPPs over the next 5 years

UK. Largest schooling PPP program; more than 105 educational PFI deals with value of £3.6 billion. Transport accounts for 7% of PFI deals with 50% capital value of PFI projects. Defense accounts for 9% of signed PFI deals; 56 deals by 2005.

Netherlands. World leader in PPP for social housing/ urban regeneration

American Recovery and Reinvestment Act. $120B in infrastructure funding

France. $1.25B in prison projects

Italy. 75% of PPP projects undertaken in transportation sector

Spain. $113B or 1/3 of investment in roads and rail to be done through PPPs by 2020

Texas. One of the world's largest transportation PPP programs

India. $35.5B in highway PPP projects

Brazil. PPP investment opportunities – $6.3B of investment in transport, waste and water and prison

Australia. Transport sector – first to use PPP; 25% of PPPs are related to transport

Ireland. Over 100 PPP projects in wasterwater

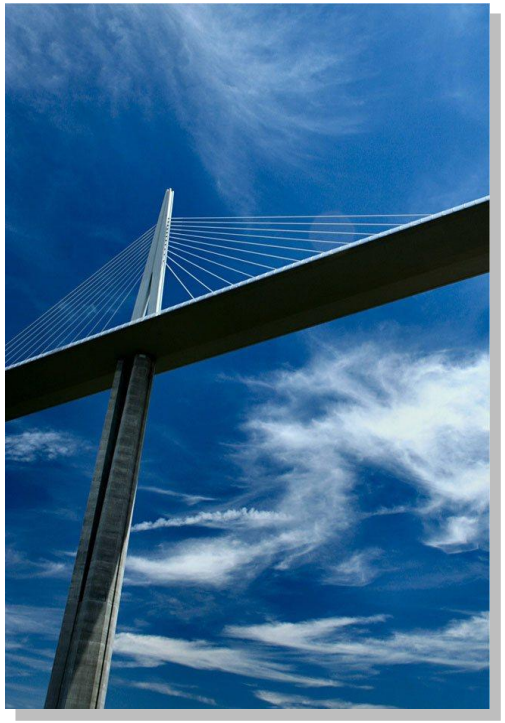
Portugal. 31 hospitals to be privatized under PPP – value of $28B

Africa. 14% of energy, transport, and water projects, through private infrastructure firms during 1990-2004; higher than rest of developing world.

Sources: Australia National Public Private Partnership Forum, HM Treasury, e-Privatization.com, Projects Today, Public-Private Infrastructure Advisory Facility, EuroMoney, Infrastructure Journal, Deloitte Research.

Key Features of Infrastructure Investments – An Asset Class for Today's Economic Turmoil

- **Long Term Investments**
  - Asset lives often exceed 30 years
  - Often long term support for off-take of output or service
- **Stable Cash Flows**
  - Low volatility and steady dividend streams arising from:
    - Regulated prices or long term off-take contracts
    - Essential services
    - Predictable operating and maintenance costs
    - Concessions often limit competition
    - High cost, physical and regulatory barriers to entry
- **Supplementary to Other Asset Classes**
  - Long term development and planning horizons
  - Expenditure by users is less discretionary



What is a Public-Private Partnership?

A public-private partnership (PPP) is usually defined as:

> ***A form of collaboration or joint endeavor between the public and private sectors for the purpose of developing, constructing or operating an infrastructure project through a series of interrelated agreements between public and private participants which define their respective rights and responsibilities*.**

Public-Private Partnership Options

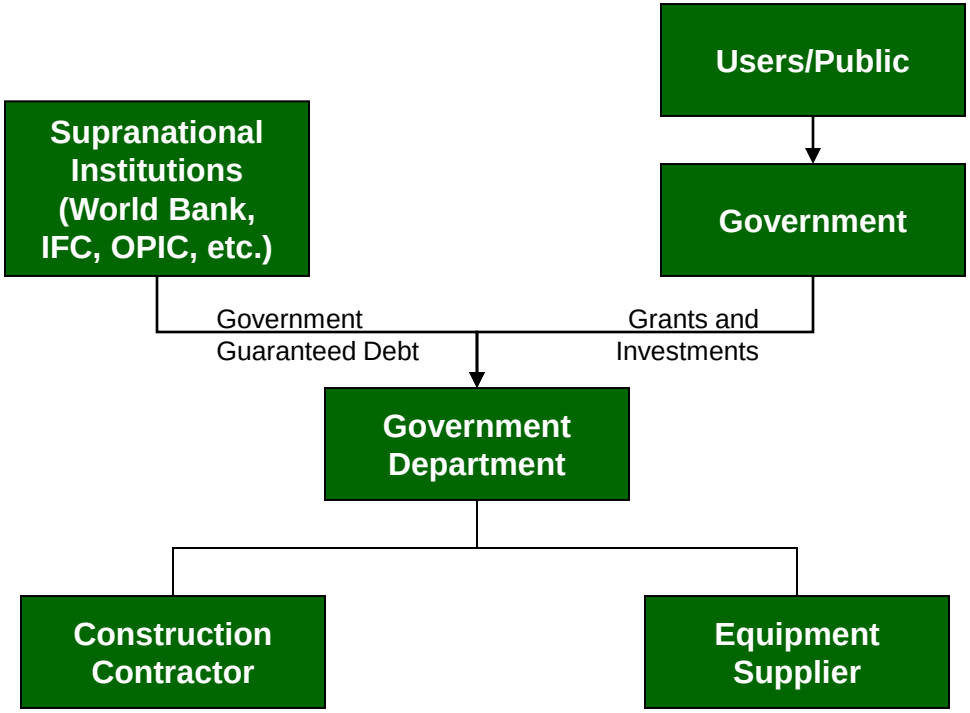
Form	Asset Ownership	Operations & Maintenance	Capital Investment	Commercial Risk	Typical Duration
Service Contract	Public	Public and Private	Public	Public	1–2 years
Management Contract	Public	Private	Public	Public	3–5 years
Lease	Public	Private	Public	Shared	8–25 years
Concession	Public	Private	Private	Private	25–30 years
BOT/BDO	Private and Public	Private	Private	Private	20–30 years
Divestiture/ Privatization	Private or Private and Public	Private	Private	Private	Indefinite (may be limited by license)

Finance Elements: Private Capital Sources

- ➔ Equity from Concessionaires, Private Equity, Infrastructure Funds, High Net Worth Families, Finance Institutions—Lots of Money
- ➔ Debt from Lending Banks, Public Finance Markets, Hybrid Funds
- ➔ International Finance Institution Participation
- ➔ Equity from Subordinated Debt from Contractors
- ➔ Long-Term Capital Markets/Private Placements
- ➔ Structured Products Like Insurance Company Annuities and Sale-Leaseback Pension Funds

Traditional Governmental Approach

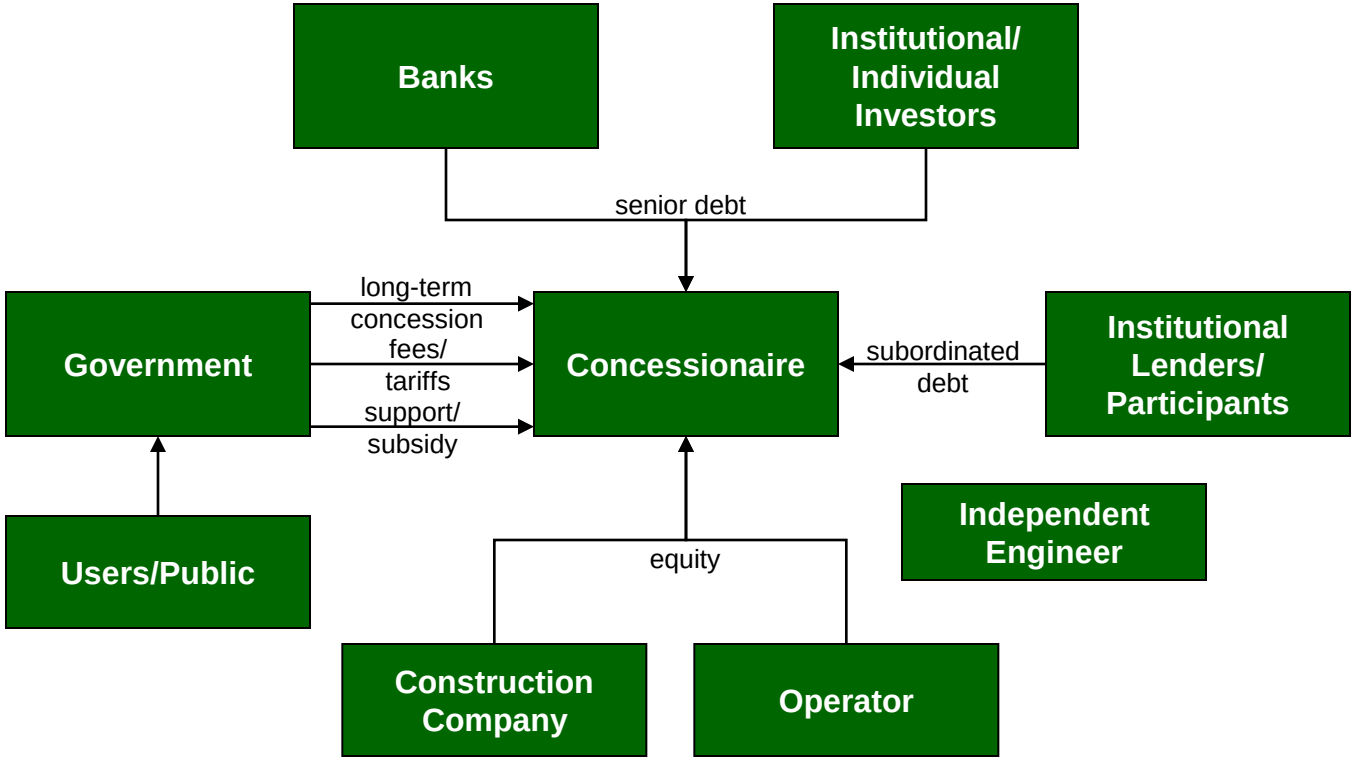
Capital funding is raised primarily through Government guaranteed or Governmental grants and investment, with private sector involvement limited to construction.



Typical Privatized Concession Approach

Private concessionaire is responsible for making equity investments and for designing, building, financing and operating the facility.

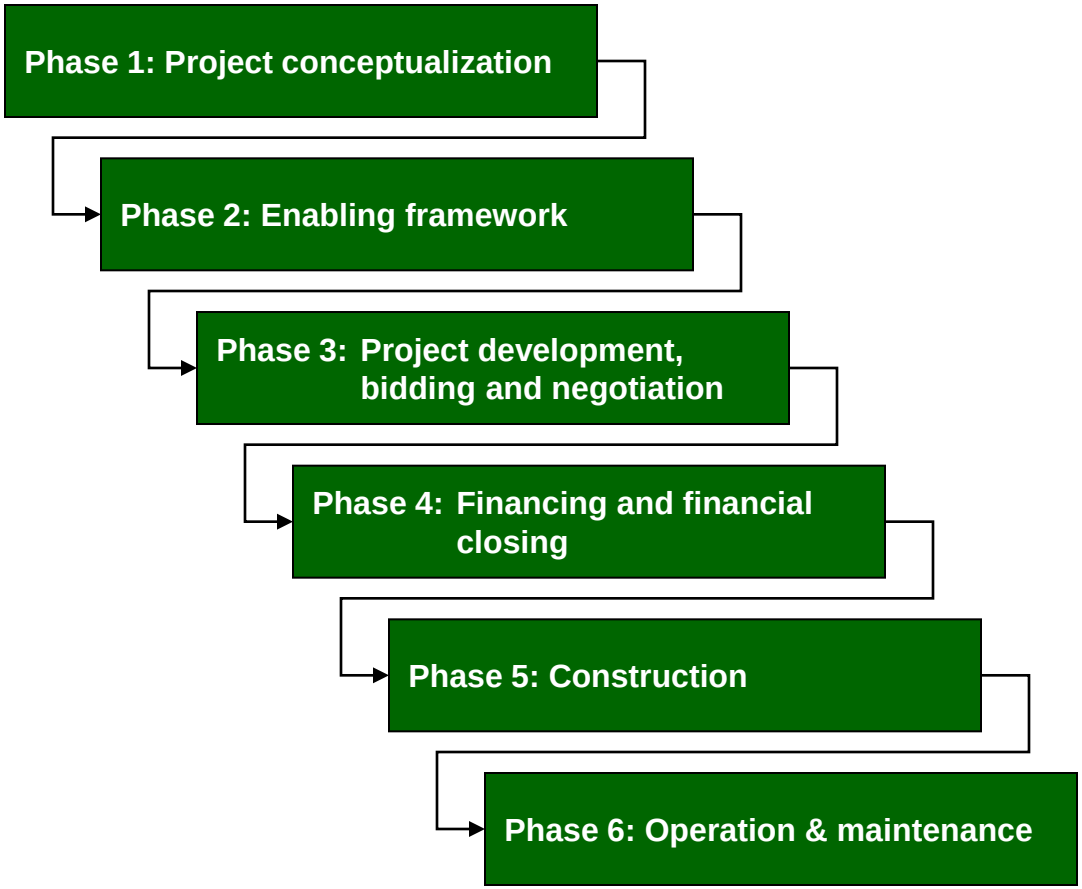
The concessionaire is usually subject to strict contractual requirements, as well as to governmental regulation.



Project Phases

A typical project takes a minimum of 18 months to financial closing.

Basic phases of the overall project are:



Project Financing—
A Roller Coaster Event

Risks

The parties will need to consider the allocation of three principal kinds of risks:

Government and Regulatory Risks

Financial and Economic Risks

Technical, Construction and Operational Risk

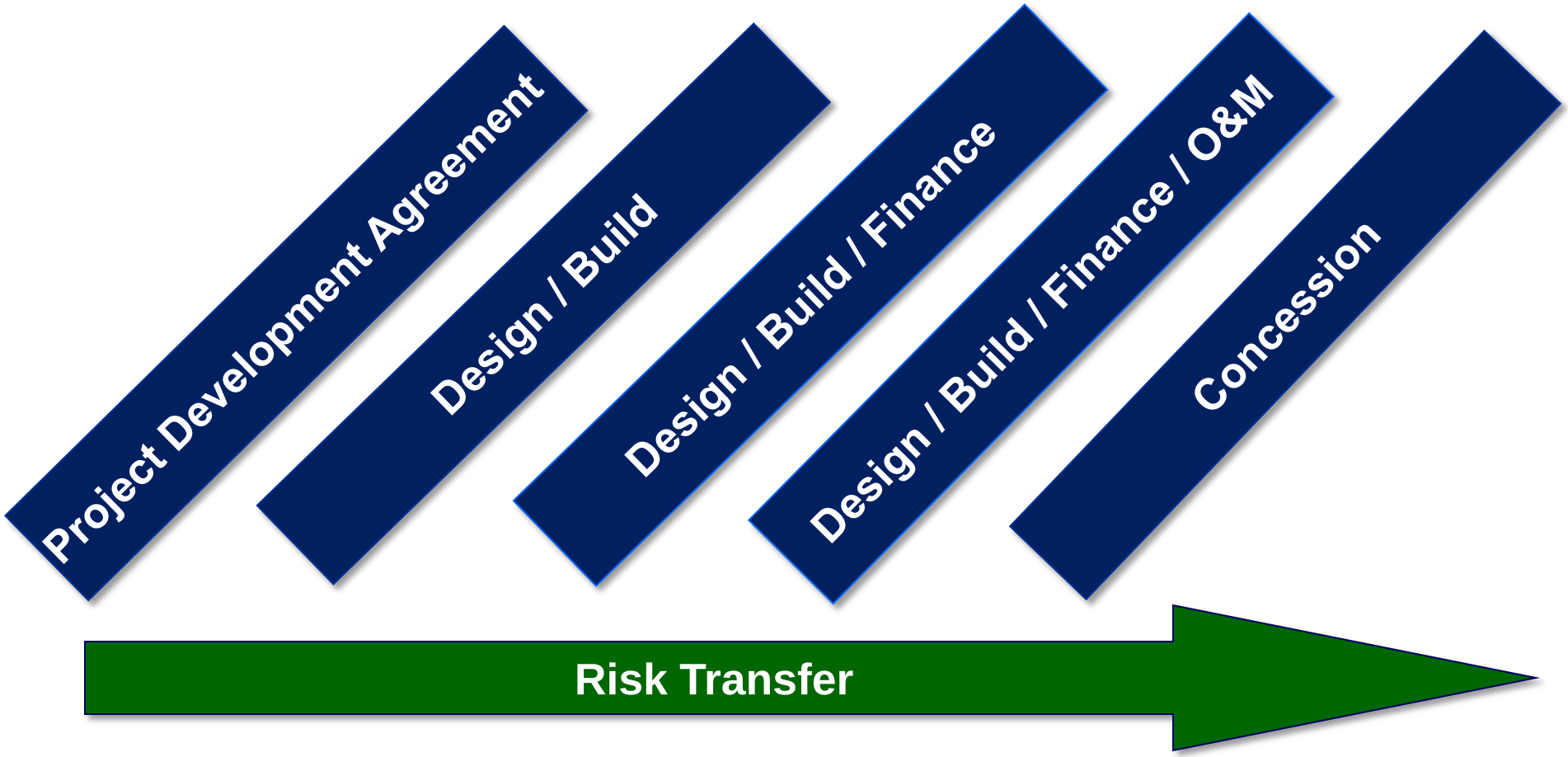
Risk Perspectives of Participants

Party	Goals	Seeks
Concessionaire	• Recover development expenses • Management fees • Cash returns on operations	• Low cost debt • Control of Contractor/Subcontractor Participation • Efficient use of tax benefits • Refinancing flexibility • Time and excuse for delays • Sufficient access to funding.
Operator	• Fees	• Sufficient Funds • Limited Price Risk • Liability Protection • Host Government Support • Project as Part of System
Lender	• Minimum Financial Risk • Timely Repayment of Principal and Interest • Fees	• Reliable Sources of Revenue • Sufficient Equity • Sufficient capital to Finance Project • Senior Collateral Position and/or Control • Satisfactory Intercreditor Agreement • Limited Market Risk • Credit Support as Necessary

Risk Perspectives of Participants

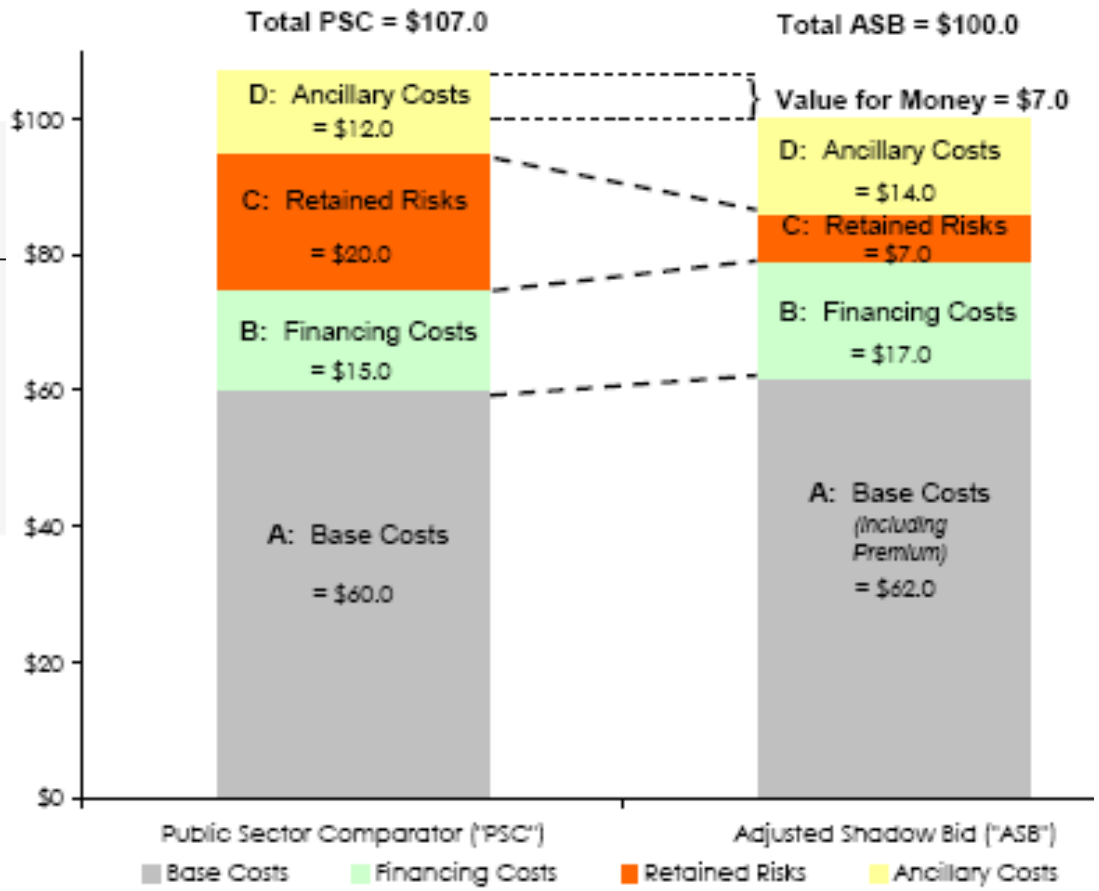
Party	Goals	Seeks
Host Government/Agency	• Well constructed road/airport at an affordable price • Balance of public and private interests • Proper operation of road • Ultimate ownership of road • Integration of road into transit system • Security in the event of default	• Reliable concessionaire • Adequate and affordable financing • Performance guarantee • Timely completion • Review and approval controls • Compliance with concession law • Safety and maintenance • Environmental sensitivity • Community sensitivity

Risk Transfer



Risk Transfer in Value for Money

Model #1 Public Sector Comparator (PSC)	Model #2 Adjusted Shadow Bid (ASB)
Total estimated costs to the public sector of delivering an infrastructure project using traditional procurement processes	Total estimated costs to the public sector of delivering the same project to the identical specifications using AFP



US Precedent Deals – The Good, The Bad and the Ugly

Good: I-595, Long Beach Courthouse, Denver RTD, Chicago Skyway, Baltimore Seagirt Marine Terminal, Puerto Rico PR-22

Bad: Alligator Alley, BART Light Rail I, Florida High Speed Rail, Chicago Parking

Ugly: Pennsylvania Turnpike, Midway Airport

Sale-Leaseback of Existing Assets

Using the Public Private Investment model more and more municipalities and government agencies are monetizing assets in sale-leaseback transactions to raise critically needed capital while retaining control over core assets.

In a sale-leaseback, the government sells the asset to a private investor for a lump sum price and in most cases is equal to Fair Market Value. Then the agency leases the asset back from the investor for 15 to 30 years. At lease maturity the asset may revert back to the government agency.

This is an effective way of raising substantial amounts of inexpensive capital without incurring additional debt or reducing services to the community.

Government Lease Financing

Government leasing can be separated in to four (4) transaction and lease types:

1.Build to Suit | New Construction Lease: This type of lease is used to build and privately finance a new asset. Lessor/Landlord will invest 100% of construction costs. Tenant may have the ability to control design and construction.

2.Sale-leaseback: A Sale-leaseback is used when a government entity owns an asset and seeks to raise capital by selling an asset to an investor and entering into a lease to lease the asset from the investor. In most cases this is used as a way to raise capital as an alternative to loans or bond debt since this is considered "rent/leasing" not debt.

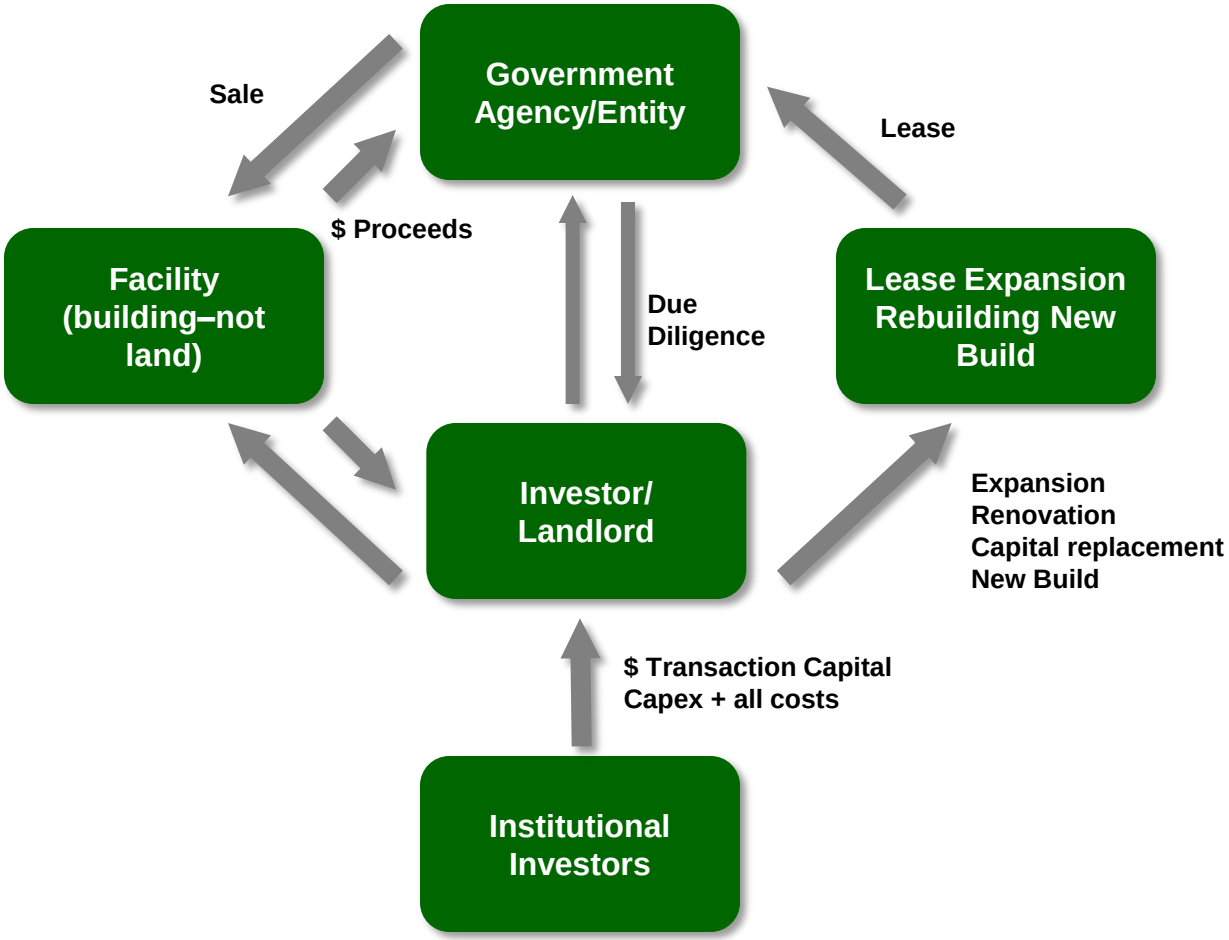
3.Lease-Leaseback: A lease-leaseback is the same type as above (1 and 2), however it allows the government agency to retain complete ownership of the asset with the investor only maintain a leasehold interest in the asset and the government agency pays rent to the investor under the Lease-leaseback structure and benefits from the lump sum funds made available from the investor or from the investor funding construction costs.

4.Lease Purchase: A lease purchase is an installment-purchase contract. Under this model, the private sector finances and builds a new facility, which it then leases to a public agency. The public agency makes scheduled lease payments to the private party. The public agency accrues equity in the facility with each payment. At the end of the lease term, the public agency owns the facility or purchases it at the cost of any remaining unpaid balance in the lease.

Transaction Profile

Project Sponsor	Cities, counties, states, large corporations and all public agencies
Lease or Service Contract Terms:	10 - 30 years
Types of Real Estate Leases:	NNN or Bonded, non-appropriation clauses acceptable (case by case).
Locations:	Worldwide [some exceptions apply]
Size:	$10 million to $750 million

Transaction Structure



Historical Volume

- Over the past twenty years more than 1,400 variations of lease oriented government sponsored deals were created which represents an estimated capital value of approximately $500 billion in European Union countries alone.
- The US Government's General Services Administration currently leases approximately 7,100 properties worldwide that are privately owned and privately financed including FBI Buildings, Social Security Offices and Post Office Buildings generally on 20-year leases to the Federal government.
- In Canada, the Federal Government as well as Provincial government utilize a privately developed, privately financed and contracted or leased model for a large percentage of large government facilities as well as universities and government run hospitals.

Examples of US Government Long-Term Private Leases with Private Sector

- The US Government's, General Services Administration (GSA) currently leases approximately 7,100 assets and properties worldwide that are privately owned and privately financed including FBI Buildings, Social Security Offices, Veteran Affairs Hospitals and Post Office Buildings generally on 20 year leases to the Federal government. Large multinational corporations also commonly use this form of long term real estate leasing for their corporate real estate including corporations such as Wal-Mart, Home Depot, Bank of America and Walgreens.

$256,500,000

1,080,000 sq ft project leased to

INTERNAL REVENUE SERVICE

$62,250,000

215,000 sq ft project leased to

DEPT OF VETERAN AFFAIRS

Examples of US Government Long-Term Private Leases with Private Sector

$140,000,000

587,528 sq ft project leased to

SOCIAL SECURITY ADMIN

$106,600,000

498,425 sq ft project leased to

NAT'L RECORDS & ARCHIVE ADMIN

$75,000,000

150,000 sq ft project leased to

DEPARTMENT OF ENERGY

$19,000,000

103,500 sq ft project leased to

US POSTAL SERVICE

Examples of US Government Long-Term Private Leases with Private Sector

$14,500,000

66,000 sq ft project leased to

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$14,500,000

61,150 sq ft project leased to

INTERNAL REVENUE SERVICE

$15,100,000

95,500 sq ft project leased to

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Financial Risk Transfer

- The private sector investor assumes the financial liability of the project costs and the government agency retains freedom and full control over the asset just as would occur in ownership.
- The only requirement and obligation of the government is a lease for real estate assets or an annual contract payment for non-real estate assets. These payments can be considered part of the operating budget instead of long-term liability/debt in most cases, if properly structured.
- This method allows a contractor to build the project for the government without the government having to spend any of their money in advance. Associated costs can include architect fees, engineering fees, consultant costs, and development expenses all of which can be combined into the overall lease and amortized over an extended period of time.

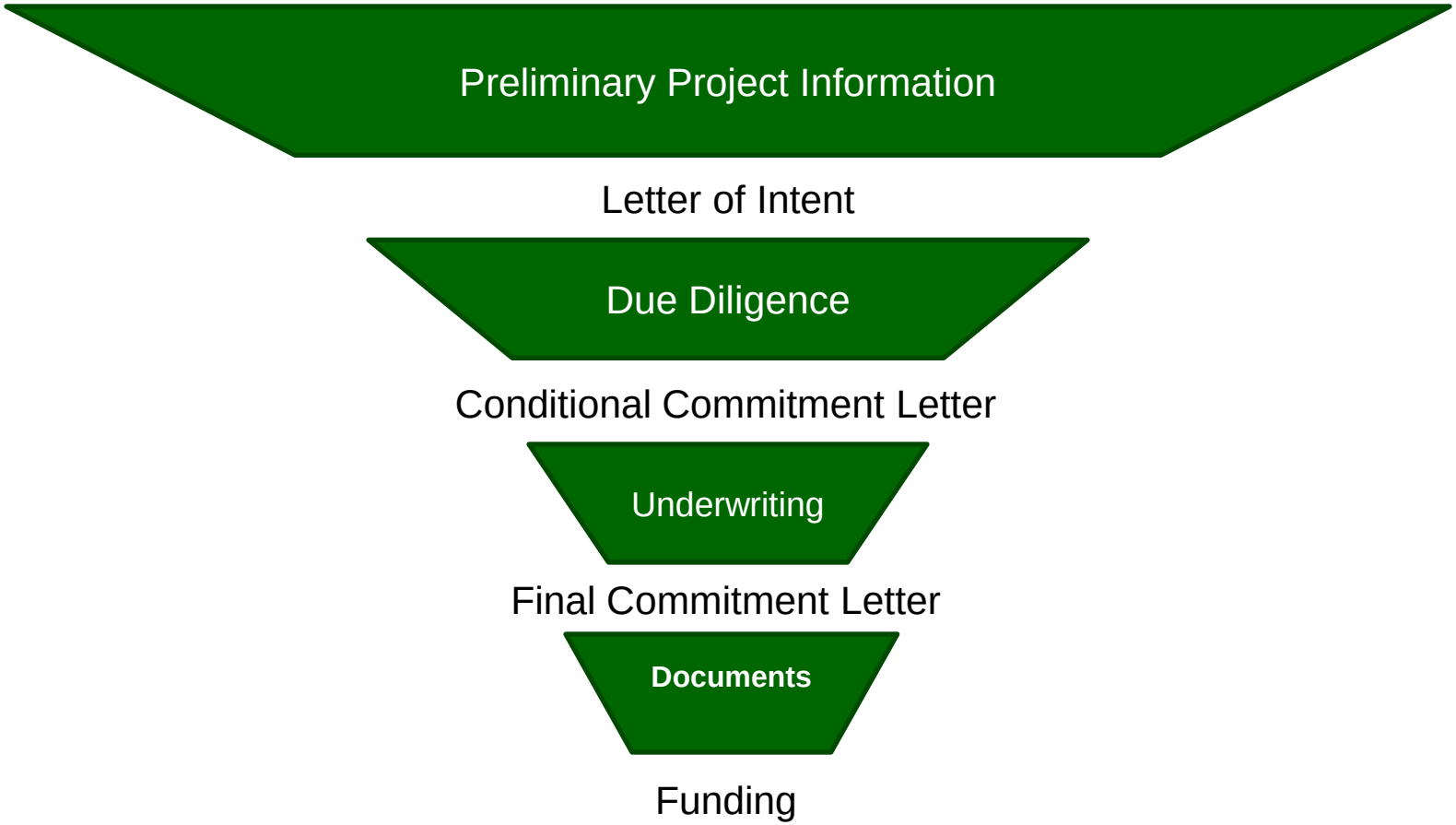
Efficiency and Cost Savings

- Numerous studies have validated that Public Sector projects undertaken by the Private Sector in the form of a Public Private Partnership (PPP) were more likely to be completed on time and on/or below budget than the same project conducted by the municipality directly.
- One such study by the State of Maryland showed that State's educational developments were only completed on time and on budget 24% of the time compared to over 70% when using a PPP design, build and finance delivery model.
- The most significant saving in private operation of public sector projects is the life cycle costs associated with risk transfer.

Sample Project Types

- Administration or Municipal Buildings; courthouses, correctional facilities, city halls, community centers and others
- Convention Centers or Tourism Related Developments
- Sporting Venues
- Hospitals and Healthcare Facilities (profit and non-profit)
- Economic Development Focused Initiatives that involve real estate or other asset development needs
- Airports and Public Transportation
- Infrastructure, Public Works and Utilities; energy, water, sewer, etc.
- Public Housing
- Universities and K-12

Transaction Profile



Transaction Process — Simple, Fast

- **LETTER OF INTENT or LETTER OF INTEREST (3-10 DAYS)**
  Submittal of basic project information. Following review, representatives might schedule an initial due diligence call to determine preliminary level of interest. This phase culminates with a Letter of Intent (LOI).
- **CONDITIONAL INVESTMENT LETTER (15-30 DAYS)**
  Personal meetings and site visits are conducted. During this second level due diligence, project specific information, capital structure, costs, expenses and investment metrics are evaluated. Should the project meet investment criteria, a Conditional Offer Letter will be issued stipulating basic terms and conditions of project funding. If acceptable to the client, the Letter is to be returned within the required timeframe along with any required expense deposits.

Transaction Process — Simple, Fast

- **FORMAL COMMITMENT LETTER (30-60 DAYS)**
  Upon acceptance of the Conditional Offer Letter, the client will receive a comprehensive final due diligence checklist. Two complete sets of information will be required including all third party reports. Once final due diligence and underwriting is complete, a Committee Report and subsequent recommendation will be prepared and presented to the Investment Committee for approval to issue a Formal Commitment Letter.

- **FUNDING/CLOSING (15-30 DAYS)**
  Upon receipt of an executed formal commitment letter, a Master Closing Agenda, outlining all legal requirements for closing, will be issued. Documentation will be prepared and reviewed by respective counsel. The principal document is typically a standard form net lease of 40 to 50 pages in length. A Closing Notice will be issued by counsel and closing/funding shall occur per the Closing Notice.

Major Advantages to Traditional PPP

- Provides 100% of project costs
- Capital Costs are lower than traditional PPP
- Transaction can be completed quickly
- Provides long term fixed rate capital up to 30 years
- Government retains 100% control over operations with no interference from investor
- Long term proven model over decades in both government and corporate sectors
- Institutional funds available for leasing even in light of Economic Crisis
- Government can control design and construction using private capital
- Flexible and customizable lease terms and structures to meet needs
- Government can retain all asset appreciation and upside by owning asset at end of lease or via lease-leaseback

Lease Structure Resulting Advantages to the Strategic Heritage Project Objectives

This alternative finance structure retains full control. It's less complex and uniquely flexible, with the lowest cost of capital. For the Strategic Heritage project this means:

- Phasing can be used to optimize business and operational continuity
- The lessee can assert own requirements for local and international regulatory compliance
- As all costs are included, and there is a lower cost of capital, more money to optimize information technology, communication and energy efficiency upgrades
- There is a direct accountability for life cycle extension and building quality and maintenance
- Simple, fast and not complex
- Many fewer stakeholder issues
- Control—the capital is passive
- Preservation of a strategic heritage with private paertnership

Critical Success Factors

- Proper enabling legislation/framework
- Public vision
- One size does not fit all
- Reasonable expectations on all sides
- Political leadership
- Open mindedness/value of private money
- Definable project
- Reasonable project economics
- Stakeholder analysis/support/buy-in
- Best value financing vehicle
- Knowledgeable/experienced advisors
- Fair risk allocation
- Fair and balanced procurement process
- Comprehensive but simple documentation
- Progressive critical path
- Leadership and focus