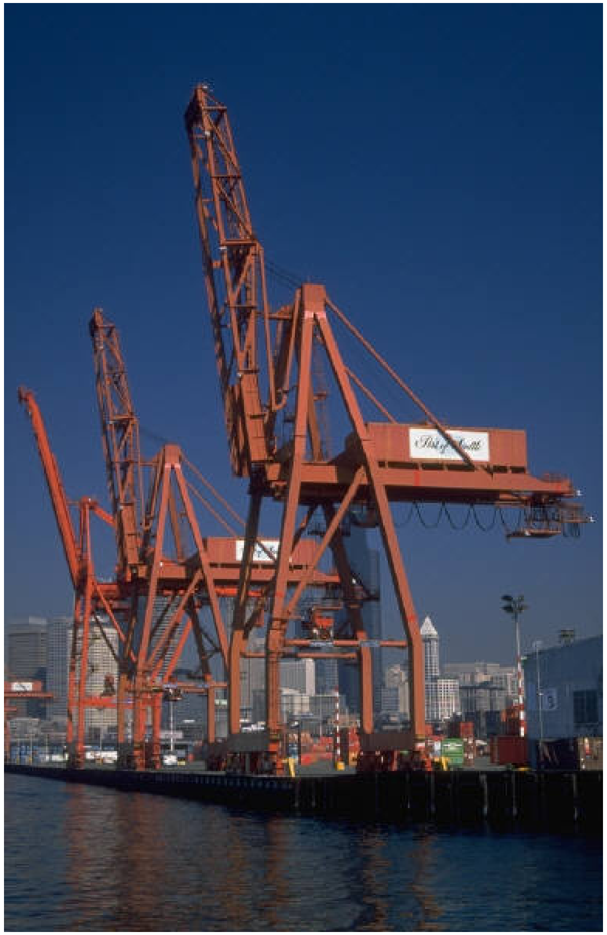
2006 AAPA
Port Finance Seminar

Public Private Partnerships and Transportation Finance



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What Makes PPPs Different in the United States??

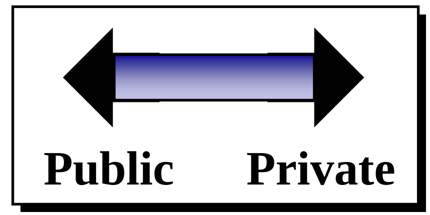
Three Things that Impact the Financing Decision in the US:

- Very efficient, transparent, and effective credit markets provide a viable financing option.
- State and local security and creditworthiness are typically very strong.
- Availability of low cost tax-exempt financing for infrastructure.

The Public Private Continuum

Infrastructure Development Issues

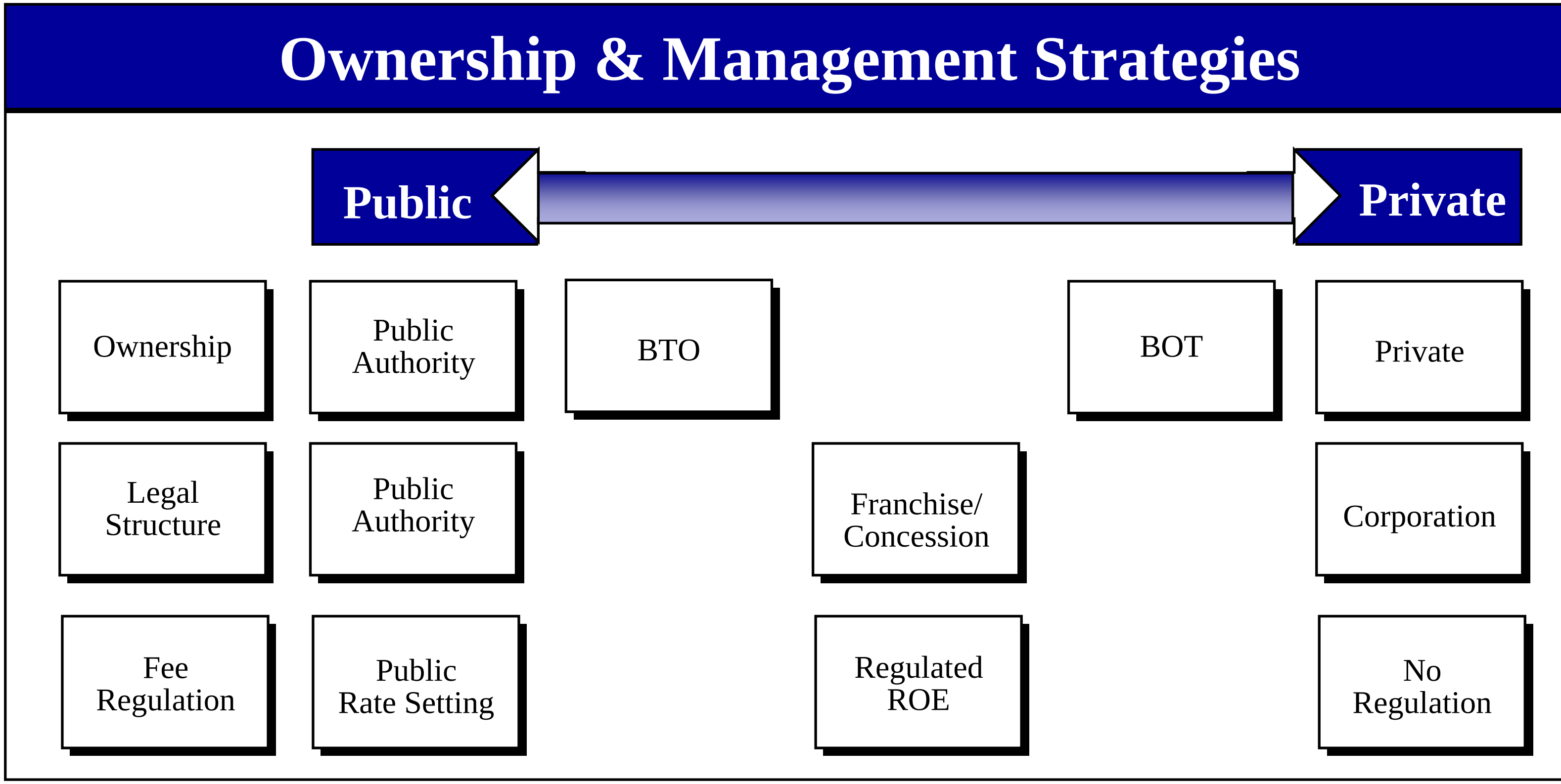
- Design
- Construction
- Finance
- Ownership
- Management
- Operation



- Benefits
- Risks
- Control
- Costs
- Accountability
- Guarantees

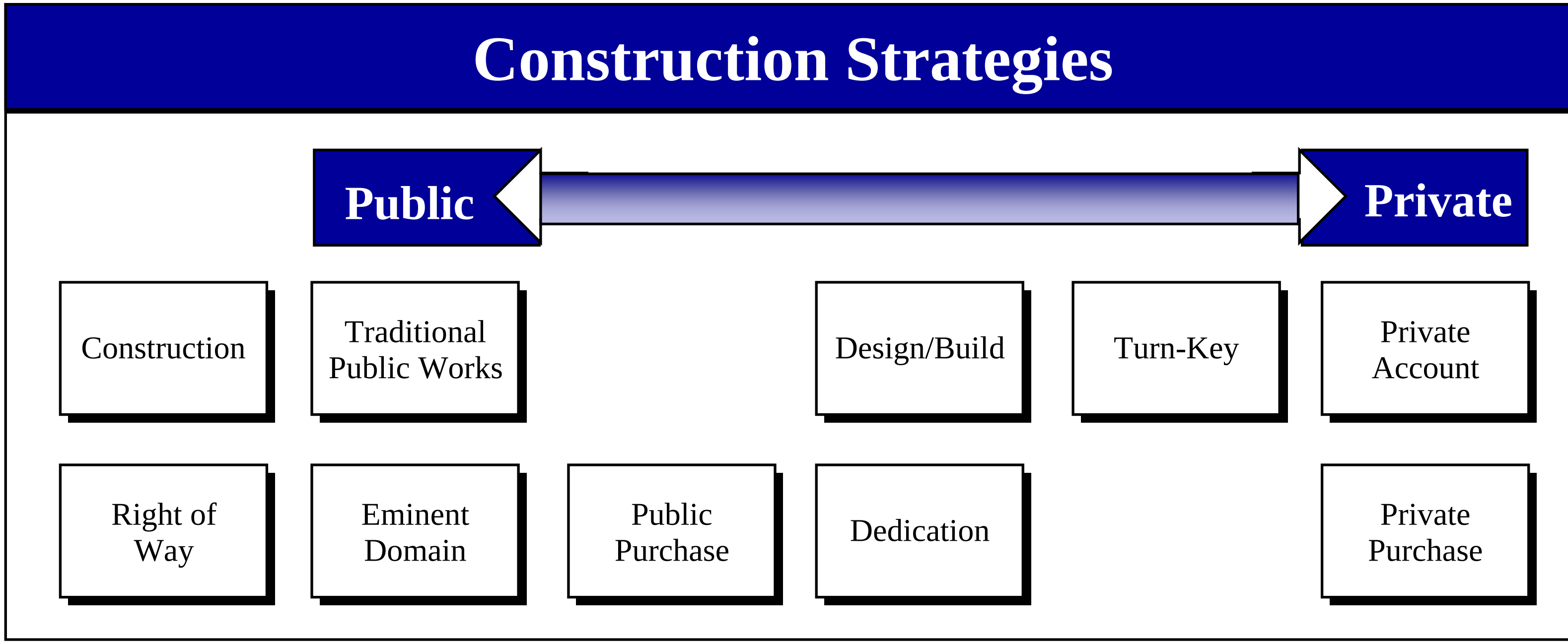
- While often presented as a package (e.g. DBOM or a "Turnkey" project), the various elements of a project do not have to be considered all-or-none along the continuum from a purely public to a purely private project.

Ownership/Management Strategies



- Tax-exempt financing requires public ownership, but seaport management and oversight can be substantially privatized without eliminating tax-exempt financing.
- Private ownership may offer economic benefits via depreciation.

Construction Strategies

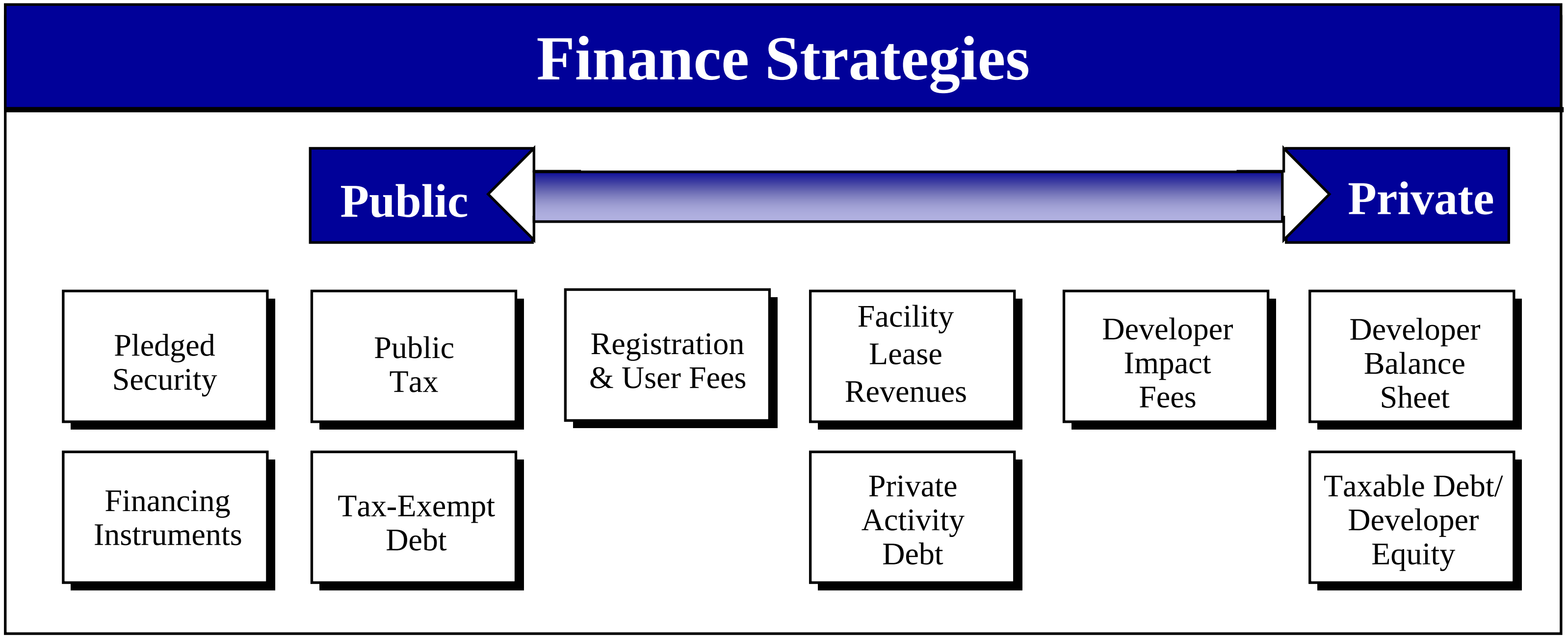


- Typically, almost all construction activity is performed by private sector contractors, and almost all ROW activity is via public processes.
- The Public-Private Continuum for construction is more related to the control of design, the autonomy to manage construction, and the terms (e.g. bonus incentives, liquidated damages, risk sharing) of the construction contract – but **not** finance.

Risk Allocation/Mitigation Table

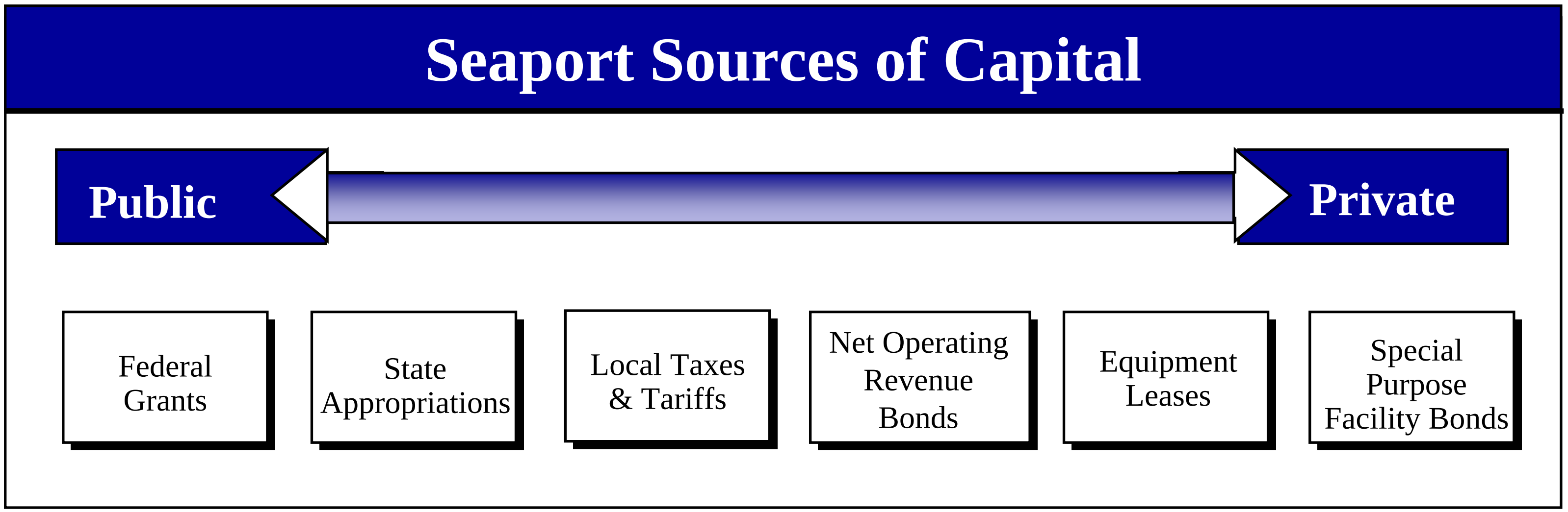
RISKS	NO INCREASE IN FIXED PRICE CONTRACT	INCREASE IN FIXED PRICE CONTRACT	NO EXTENSION OF COMPLETION DATE	EXTENSION OF COMPLETION DATE	RISK MITIGATION PLAN
ROW acquisition (Not caused by plat preparation delays)	Public Sector takes risk on cost of ROW			If Public Sector is late providing ROW	Contingency Fund as estimated by Appraiser
ROW acquisition (Caused by plat preparation delays/errors)	Private Sector at risk		Private Sector at risk		Performance Bond and/or Liquidated Damages
Casualty Loss to 3rd Party	Private Sector at risk		Private Sector at risk		Performance Bond and/or Liquidated Damages
Casualty Loss to Private Sector, subs, their employees & agents	Private Sector at risk		Private Sector at risk		Performance Bond and/or Liquidated Damages
Casualty Loss to Owner, subs, their employees & agents	Private Sector at risk		Private Sector at risk		Performance Bond and/or Liquidated Damages
Non-catastrophic weather delays	Private Sector at risk		Private Sector at risk		Performance Bond and/or Liquidated Damages
Sub Private Sector Failures/Non- performance	Private Sector at risk		Private Sector at risk		Performance Bond and/or Liquidated Damages
Regulatory Compliance	Private Sector at risk for existing law		Private Sector at risk for existing law		Performance Bond and/or Liquidated Damages
Theft, vandalism, intentional or negligent act of 3rd party	Private Sector at risk		Private Sector at risk		Performance Bond and/or Standard Insurance
Soils/ Geotechnical	Private Sector at risk		Private Sector at risk		Performance Bond and/or Errors & Omissions Insurance
Materials/ Labor shortages	Private Sector at risk		Private Sector at risk		Performance Bond and/or Errors & Omissions Insurance
Strike, labor dispute by 3rd party	Private Sector at risk		Private Sector at risk		Builders Risk, Force Majeure Insurance
Acts of God; Drought, Flood, Hurricane, Lightening, etc.	Private Sector at risk		Private Sector at risk		Builders Risk, Force Majeure Insurance
War, riot, civil disturbance	Private Sector at risk		Private Sector at risk		Builders Risk, Force Majeure Insurance
Hazardous Materials		Public Sector takes risk		If delays are caused	Contingency Fund
Archeological Sites		Public Sector takes risk		If delays are caused	Not an issue; permits received
Endangered Species		Public Sector takes risk		If delays are caused	Not an issue; permits received
Mitigation Compliance		Public Sector takes risk		If delays are caused	Not an issue; permits received
Utility Relocation		Public Sector takes risk		If delays are caused	Contingency and/or Capitalized Interest Fund
Scope Changes by Public Sector		Public Sector takes risk		If delays are caused	Contingency and/or Capitalized Interest Fund
Change in Law		Public Sector takes risk		If delays are caused	Contingency and/or Capitalized Interest Fund

Finance Strategies



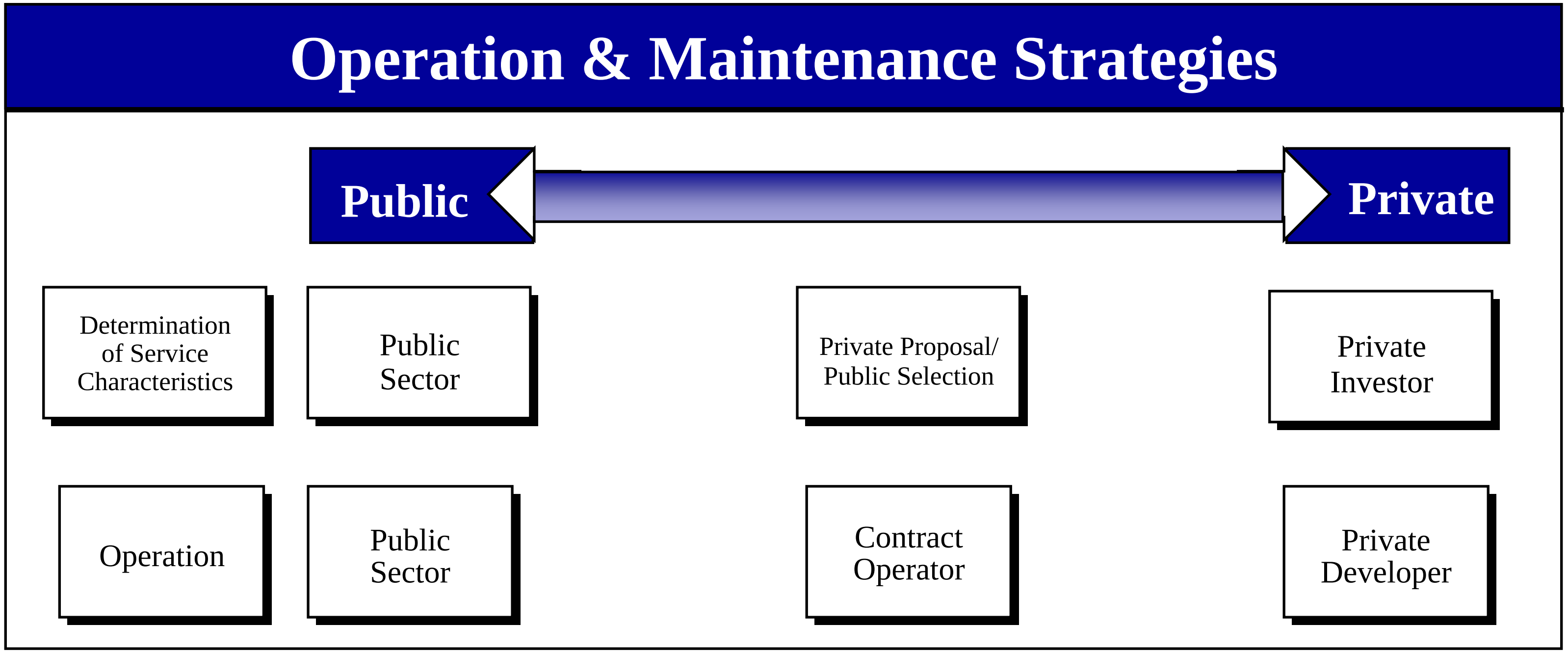
- While sources of revenue often tend toward private attributes, they are – except for rare developer balance sheet security – publicly levied taxes, fees, and rentals.
- Taxable interest rates and return on equity rates are substantially higher than tax-exempt interest rates.

Typical Public Seaport Sources of Capital



- Almost all financing is via public grant/pay-go cash funding and tax-exempt debt. The cost of capital with this method is typically reduced.
- Public funding allows for more competitive rate structures in recognition of the economic benefits.

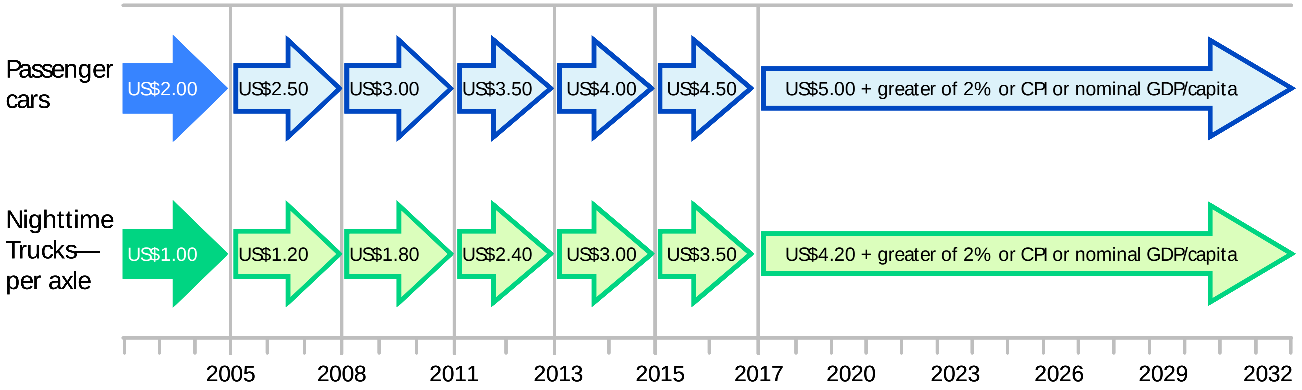
Operation & Maintenance Strategies



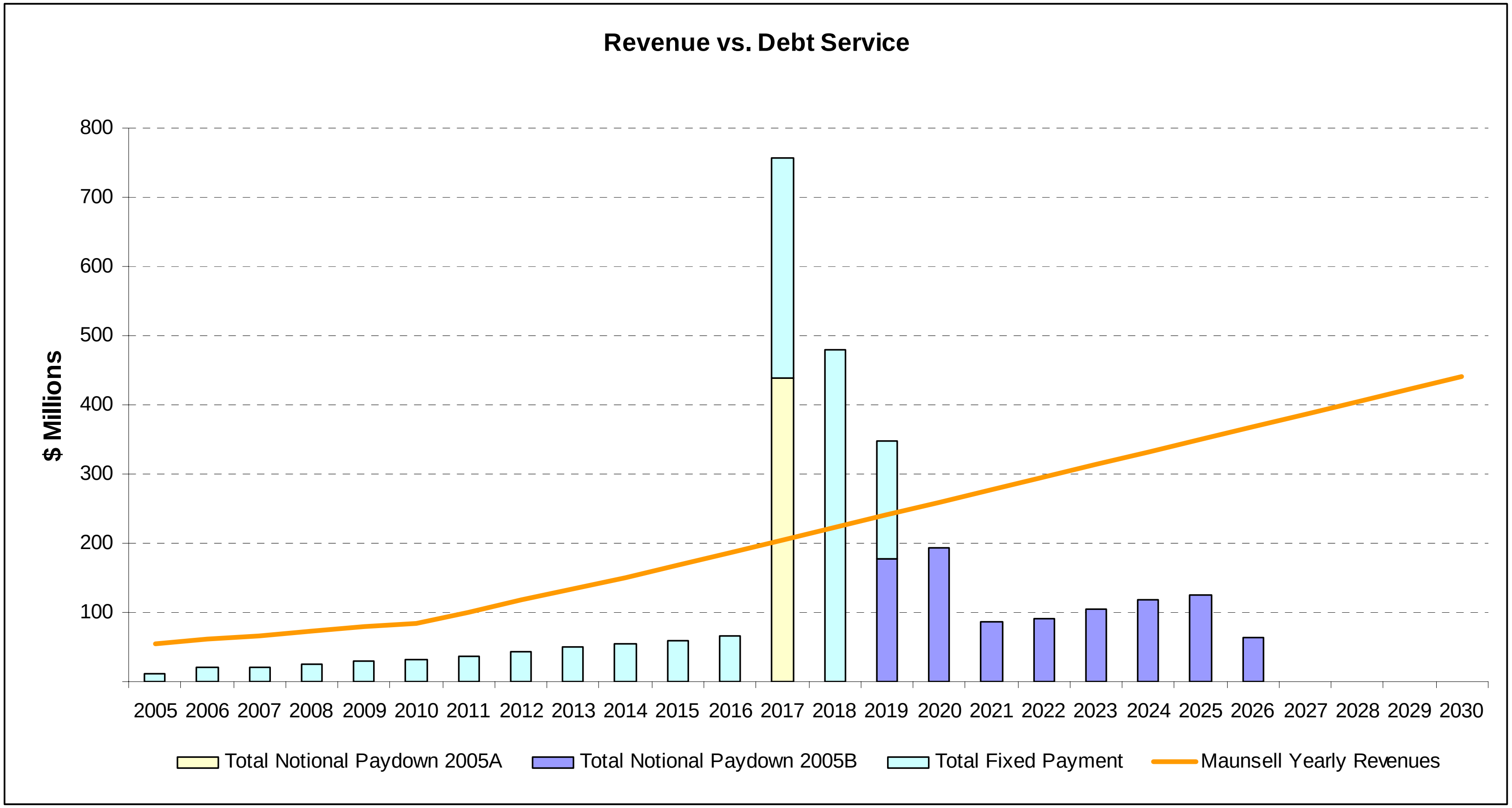
- Private contractors are routinely used to provide operations and maintenance for publicly owned infrastructure.
- For seaports long-term operating contracts do not preclude tax-exempt financing.

Chicago Skyway Sale

- Macquarie Infrastructure Group (45%) and Cintra (55%) purchased a 99-year concession for $1.82 billion
- Acquisition financing: $1 billion of bank debt + $800 m of equity
- Refinancing (less than a year) of $1.4 billion of taxable bonds (FSA insured) + $400 million of equity
- Effort to monetize depreciation ($200 – 300 million)
- Asset overview
  - 7.8 miles elevated roadway / 3 lanes in each direction
  - Current tolls are $2.00 per car and $1.20 per truck axle



Chicago Skyway Annual Debt & Revenue

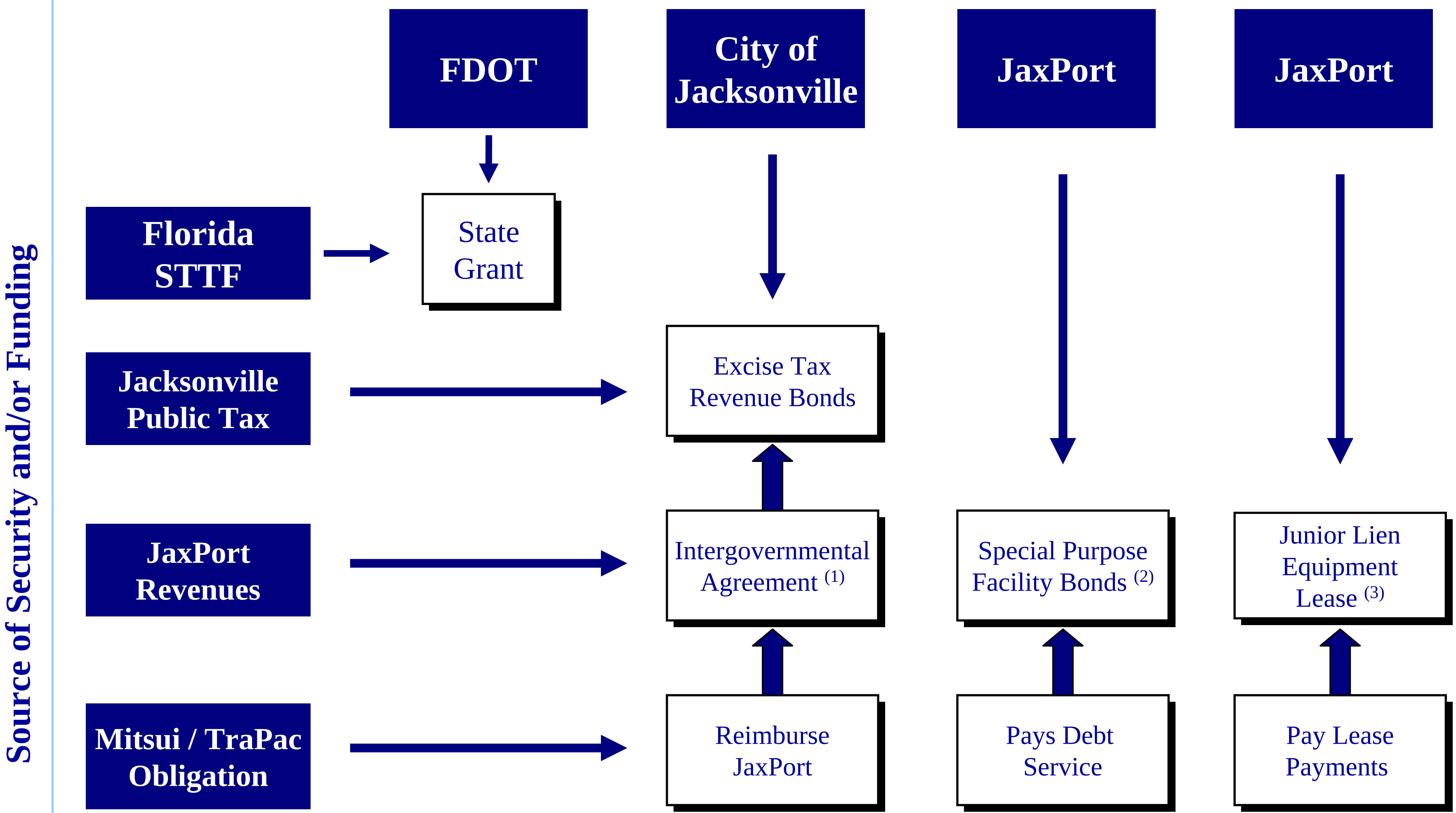


- ABT requires 1.50 projected revenues coverage and investment grade credit rating.
- Financing structure assumes some prepayment of debt and also some refinancing.

JAXPort and Mitsui Operating and Lease Agreement

- JAXPort will own the facility during and after construction. Both parties have representatives on a "construction committee" to oversee the planning and construction of the project.
- Mitsui will lease the premises from JAXPort and operate the container terminal. Term of lease is 30 years from date of beneficial occupancy of the facility.
- Mitsui will have exclusive right to use the facilities during the lease.
- Beginning on date of beneficial occupancy of the facilities, Mitsui will pay JAXPort a "throughput" fee per container.
- Additional Rent under the lease will equal amounts payable by JAXPort for the Excise Tax Revenue Bonds used to finance a portion of the project. Other funding for the project may also be payable by Mitsui as Additional Rent.
- Operating and Lease Agreement constitutes a "full net lease" which means that Mitsui, during the lease term, is responsible for keeping the facilities in good working order at its own expense, including insurance, repairs, security, etc.

Lead Financing Agency



(1) Annual tax backed payments from City to JaxPort for Capital
(2) Secured by Mitsui Guaranty
(3) Secured by JaxPort Net Operating Revenues

What Conclusions to Draw?

- In order to encourage economic development, seaports typically have substantial Federal, state, and local capital funding participation. This is good.
- It is common to involve the private sector in the design, construction, operations and maintenance of publicly owned infrastructure.
- Appropriate risk sharing can take place under a variety of development structures.
- Seaports have wide latitude to encourage private participation while still utilizing tax-exempt financing structures.
- Tax-exempt debt will almost always be cheaper, although private depreciation benefits may help to equalize.
- Corporate credit profiles seemingly, inexplicably, are much more liberalized.
- Public seaport owners in need for maximum capital should consider working with market participants to develop more “aggressive” credit terms and debt structures.
- **Congratulations!! You’re probably already using PPPs!!**