Beyond Parking Meters

The future of Public-Private Partnerships in Illinois

March 14, 2012
**Left:** Rendering of the East End Bridge which connects Utica, Indiana to Prospect, Kentucky.

**Right:** Rendering of the Downtown Bridge, next to the existing Kennedy Bridge.
Public Private Partnerships Today: North Tarrant Expressway

Arial photograph of the construction progress as of December 2011 on the North Tarrant Expressway near Dallas/Fort Worth, Texas.
Social Infrastructure: Long Beach Courthouse

Architect’s rendering of the Long Beach Courthouse in Long Beach, California.
Social Infrastructure: Alberta Schools

Top and Left: Photographs of one of the 16 Alberta Schools in Calgary and Edmonton, Canada.
Social Infrastructure: Abbotsford Regional Hospital and Cancer Center

Top and Right: Photographs of the completed Abbotsford Regional Hospital and Cancer Center in British Colombia, Canada
Overview of KPMG Infrastructure Advisory

- KPMG serves as strategic and financial advisor to both public and private clients globally and within the US.
- KPMG is a market leader in P3 advisory.
- KPMG has broad experience across all infrastructure sectors:
  - Social Infrastructure
  - Water and Utilities
  - Transportation
- KPMG is leader of educational thought leadership publications.

Financial Advisor
North American P3s
January 1, 2007 - December 31, 2010*

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<th>Rank</th>
<th>Firm</th>
<th>$ Millions</th>
<th>Market Share (%)</th>
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<td>Deloitte</td>
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</tbody>
</table>

*Source: Infrastructure Journal

PPP Project Experience

- Long Beach Judicial Partners
- Virginia Department of Transportation
- Tampa Bay Water Reservoir Renovation Project

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Non-Transportation Application of P3

Social
- Schools
- Corrections
- Court houses
- University accommodation
- Mental health centers
- VA hospitals
- Social housing
- Public/administrative buildings
- Lotteries
- Urban regeneration
- Levees

Energy & Utilities
- Mining rights
- Carbon capture
- Renewables
- Water / wastewater
- Electricity transmission & distribution
- Nuclear

Technology
- Data centers
- Telecom towers
- Broadband
- Shared services

Defense & Aerospace
- Military housing
- Other defense infrastructure
- Commercial space flight
Social Infrastructure P3s in the US

Why consider P3s for delivering social infrastructure projects?

- Risk transfer
- Budget certainty
- Accelerated project delivery
- Integrated whole-life solutions
- Financial impact on balance sheet

How are they paid for?

- Social infrastructure projects generally do not pay for themselves, therefore they require a payment mechanism:
  - Availability Payment structure
  - User fees
  - Real estate based revenues

P3 provides an innovative solution for delivering important non-revenue generating / revenue sufficient projects
PPP and Project Finance Transactions – United Kingdom

Transaction Value 2009 to Present

Source: Infrastructure Journal

- Oil & Gas: 37.9%
- Mining & Metals: 15.2%
- Power: 7.8%
- Renewables: 6.6%
- Water / Wastewater: 4.3%
- Transport: 3.1%
- Telecoms: 0.3%
- Education: 1.9%
- Healthcare: 1.0%
- Waste / Recycling: 0.3%
- Other Social & Defense: 0.3%

US market participants are increasingly interested in using P3 to deliver important social infrastructure projects.
Social Infrastructure P3s in the Market – Lessons Learned

What has worked:
- Projects with a clearly defined project need and upfront capital expenditure
  - Schools
  - Prisons
  - Housing
  - Courthouses
  - Defense and accommodation
- Projects with transparent P3 solicitation guidelines
- Projects with competitive tension
- Projects with political and funding support

What hasn’t worked:
- Very small projects
- Very large complex projects
- Complex technology projects
- Projects without a well-defined project need and empowered sponsoring entity

Review of successes and failures in P3 delivery provides a reliable roadmap for success
## A Checklist for Successful P3 Projects

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<tbody>
<tr>
<td>1</td>
<td>Leadership</td>
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<td>2</td>
<td>Stakeholder buy-in</td>
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<td>3</td>
<td>Effective government counterparty</td>
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<td>4</td>
<td>Legal authority</td>
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<td>5</td>
<td>Dedicated payment or funding source</td>
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<td>6</td>
<td>Value for money</td>
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<tr>
<td>7</td>
<td>Risk transfer</td>
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<tr>
<td>8</td>
<td>Meets policy objectives</td>
</tr>
<tr>
<td>9</td>
<td>Provides positive outcome to end user</td>
</tr>
<tr>
<td>10</td>
<td>Provides whole life solution</td>
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<tr>
<td>11</td>
<td>Financeable and marketable</td>
</tr>
</tbody>
</table>

Thinking about the above will facilitate market appetite for the project and enhance credibility.
Appendix
Social Infrastructure P3 Case Studies – Long Beach Courthouse (California)

Innovative courthouse facilities development

2009 – 2010
$495 million

Project Background

- Private sector to perform Design, Build, Finance, Operation and Maintenance (DBFOM) of facility for 35 years in return for an availability payment from the Administrative Office of the Courts (AOC)
- AOC in California led the procurement
- 31 civil and criminal courthouses, including holding cells, sally port, office space
- LA county office space under a separate lease agreement
- 900 space parking structure
- Retail and commercial space
- Facility accommodates 800 workers and 3,500 – 4,500 visitors daily
- Project agreement spans a 35 year operating period
- Replaces outdated and overcrowded existing facility build in 1959

Outcome

- 2010 successful closing of $495m Long Beach Court Building project in Long Beach, California
- First availability payment based social infrastructure P3 in US

KPMG Role: Financial adviser

Key Considerations

- Significantly accelerated construction of facility
- Appropriation risk was a key credit issue for lenders especially in California
- If private sector does not operate facility appropriately they receive deductions to payment
Social Infrastructure P3 Case Studies – Michigan Data Center

Development of modern data center facility

Project Background

- The State of Michigan needs to secure a new primary, purpose-built data center to replace aging and inefficient hosting facilities.
- Desired solution initially included a Tier 4 level hosting facility with approximately 100,000 square feet and LEED platinum certification.
- The State is not in a position to approach the project through traditional delivery models utilizing municipal debt financing.

Outcome

- Strong market interest exists in providing data center facilities and hosting services.
- Responses came from a variety of organizations including IT firms such as SAIC, Digital Realty Trust, IBM, Verizon, and Sun Microsystems.
- Market can accommodate a variety of approaches to financing, operating, maintaining, and providing IT-related services; however, not all priorities can be equally balanced.
- The market brought interesting and innovative approaches, including one proposal for cash flow financing the data center facility through a 10-year operating contract, co-location of a power plant, pod approaches for scalability, and revenue sharing arrangements for excess hosting capacity.
- The State is currently in the process of determining the proper balance for the data center effort.

Key Considerations

- Determining the overall level of specific IT-related services to include in the commercial structure.
- Balancing very different asset lifecycles of a physical data center facility (20+ years) and IT (less than 5 years).
- Achieving a lower total operating cost (TOC) for data center activities.
Availability Payment Structure

Common Characteristics of Availability Payment (AP) Model

Description:
- Payments are not made by Public sponsor until substantial completion or facility is operational (available)
- Payments can be made as milestones are met or on a periodic basis
- AP concept smoothes upfront capital expense over life of asset
- AP payments are aligned with performance expectations
- Deductions to availability payments can be made per contract terms if the facility is unavailable in whole or in part

Financing:
- Developers can access capital market, bank debt and/or equity market to finance project
- AP structure creates high quality revenue stream without demand risk
- The payment can be from different sources: User fee Revenue, General Fund, Capital Fund, Bonding, Grants, etc

Commitment to maintenance:
- Contract terms include detailed O&M provisions, if not met, AP deductions are made
- Promotes whole-life costing approach during design and construction
- Concessionaire returns the asset in a “like new” condition at the end of the concession term (30-99 years)

The diagram below represents how a typical payment mechanism for social PPP works:

- Public Sector 100%
- Availability 70%
- Performance 30%

Check against contract standards:
- Has the private sector made all of the facility available?
- If not what are the deductions?

Check against contract standards:
- Has the private sector maintained the facility according to the contract?
- If not what are the deductions?

Payment to the private sector = Total Availability & Performance payments – Availability deduction – Performance deduction

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