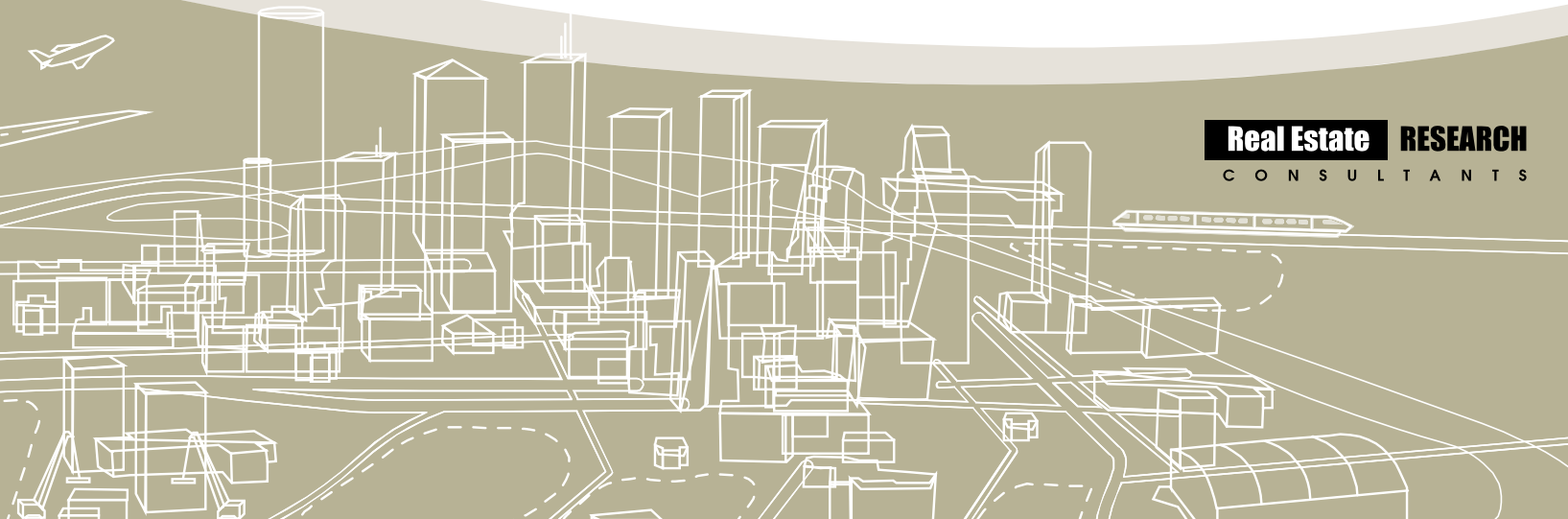


# Parking as Essential Infrastructure

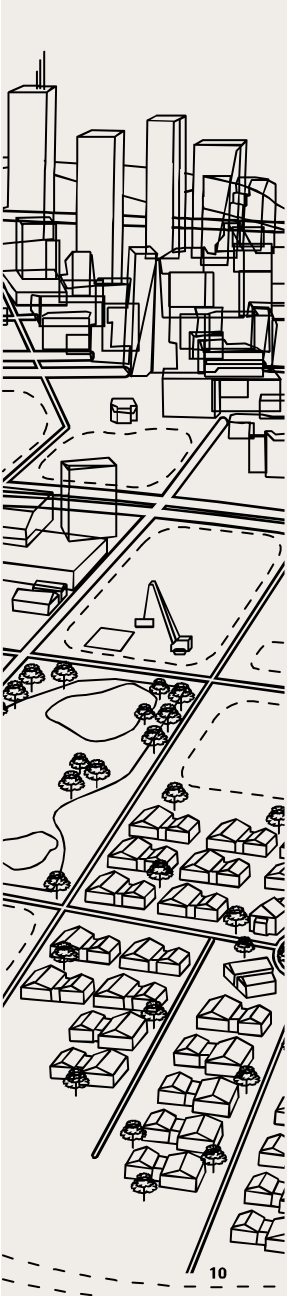
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# Terminology- Lots of Buzz Words

- Privatization = Sale/Lease of existing public sector assets or “brown field” transactions. An existing public sector asset is operated and maintained by the private sector pursuant to a long-term “concession agreement.” Much more than a management agreement.
- Public-Private Partnership/PPP/P3 = financing and development by the private sector of new public sector infrastructure or “greenfield transactions.” This term is also separately used to refer to a broad range of municipal economic development initiatives involving public and private sector resources.
- Not a tax-driven leasing transaction – Privatization/P3 transactions have substance and important policy and political implications and involve a complete transfer of revenues, operational responsibility and risks to the private sector.
- “Enterprise Fund” assets supported by user fees are among the best candidates for privatization and P3 transactions.



# Completed and Announced Transactions

Asset	Chicago Skyway	Indiana Toll Road	Chicago Downtown Public Parking System	Northwest Public Parkway Authority	Penn Turnpike	Chicago Metered Parking System	Chicago Midway Airport	Alligator Alley (Florida I-20 Toll Road)	Chicago Material Recovery and Recycling Facilities	Harrisburg PA Public Parking System
Date	January 2005	June 2006	December 2006	December 2007	Current	Current	Current	Current	Current	Current
Value	\$1.8 billion	\$3.8 billion	\$563 million	\$540 million	\$12.8 billion	TBD	TBD	TBD	TBD	\$215 million
Term	99 Years	75 Years	99 years	99 Years	75 Years	TBD	99 Years	TBD	TBD	75 years
Use of Proceeds	Defease existing debt, establishment of long term reserves and short term reserves and human resources purposes.	Defease existing debt; provision of funds to counties, expenditure on new infrastructure and a toll rate freeze.	Defease existing debt, park improvements and reserve funds	Defease existing debt	Defease existing debt, establish trust fund to dedicated to transportation infrastructure	TBD	Defease existing debt, TBD	Defease existing debt, TBD	TBD	Defease existing debt

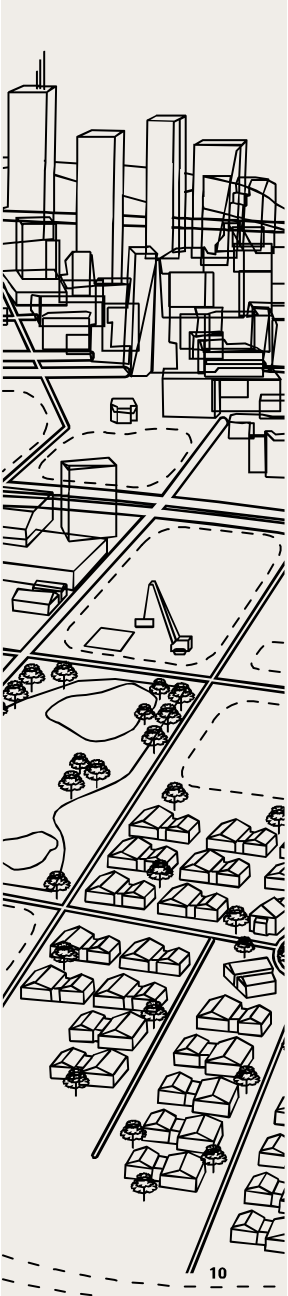


# Why Privatization and P3 are Likely Here to Stay

- Limited governmental resources -- now more limited than ever
- Our existing public infrastructure is aging and inadequate for future needs – insatiable demand for reinvestment
- Continued reluctance by elected officials and the general public to increase taxes of general applicability
- State and local governments face significant funding demands for pensions and other post employment benefits

# Who are the Investors?

- *Strategic Buyers* – Mostly international corporations that design/finance/build/operate public sector assets
- Examples include Ferrovial/Cintra, a large Spanish company involved in airports, parking facilities and toll roads as a developer, owner and operator
- *Financial Buyers* – primarily investment funds capitalized by public pension funds and other institutional investors
- Examples include:
  - Macquarie, an international financial institution and infrastructure fund manager that has significant investments in parking
  - Babcock & Brown (Australia)
  - Carlyle Group
  - Citi
  - Goldman Sachs
  - JPMorgan
  - Morgan Stanley
  - UBS
- An enormous amount of private equity capital is available for American infrastructure investments – impact is further magnified by leverage
- Some investment banking firms are facing potential conflicts of interest arising from being an adviser and an investor
- Still a good time to be a “seller”



# What Infrastructure Investors are Looking For

## Three Categories of Infrastructure Assets

### User Pays

Provide basic, everyday services

Consistent, inelastic demand

### Contracted

Long-life, high-value physical assets

### Regulated

Significant barriers to entry

Low risk of technological obsolescence

### Active Management

Revenues correlated to inflation

Generally low ongoing capex requirements

Low correlation to other asset classes

Stability of Cash Flow with Potential for Capital Growth



# Typical Privatization Structure

- Long-term “concession and lease” of a public sector infrastructure asset – 30-99 years
- In exchange for an upfront payment, the “concessionaire” assumes responsibility for operating and maintaining asset and collects and retains all revenues generated by the parking facility
- Generally, a concession shifts all economic benefit and risk to the concessionaire
- Alternatively, the concession compensation could be structured to include a stream of payments, thus sharing the risk and return
- Rights and obligations of the “seller” and the concessionaire are set forth in a lease or “Concession Agreement”
- Concessionaire is generally responsible for making capital improvements during the term of the Agreement, and to return the asset in good condition at the end of the concession
- Concessionaire must satisfy detailed “Operating Standards” relating to the operation and maintenance of the asset



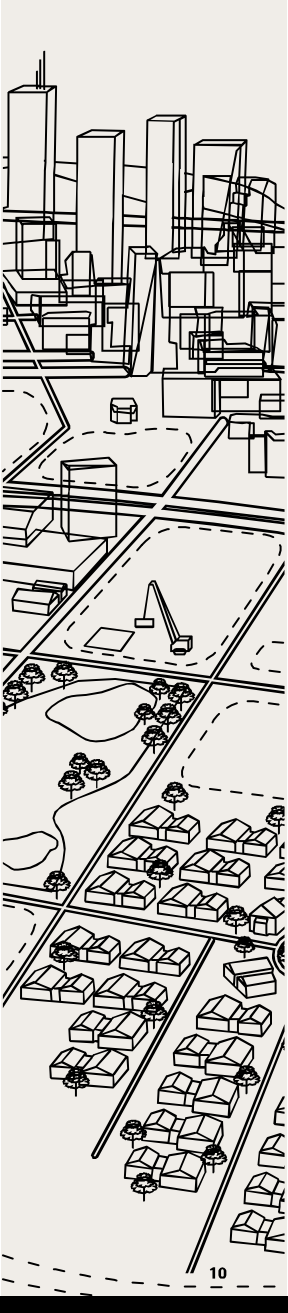
# The Chicago Experience

- While Chicago has been aggressive in its approach to infrastructure privatization, it is important to recognize that the City has developed and implemented a unique model for conducting public-private partnerships. The Chicago model guides the selection of assets, business process and terms and the outcome of the transactions.
- In selecting assets, Chicago has required that:
  - Experienced and professional operators improve efficiency and quality of service
  - The transaction will produce a significant financial benefit to Chicago's residents and taxpayers
- So far this initiative has yielded an unprecedented infusion of \$2.4 billion for Chicago's taxpayers, and has enabled the City to retire debt, invest in infrastructure, establish cash reserves and fund programs for residents most-in-need
- The City believes that investing these dollars in infrastructure today represents an important investment in the City's future



# Completed Transaction – Chicago Privatization of Downtown Underground Parking Garages

- 9, 178 parking spaces in four underground garages located in downtown Chicago
- Owned by the City of Chicago and Chicago Park District
- First garage constructed in 1953; newest garage completed in 2001





# Rationale for Chicago Garage Privatization Transaction

- Operating parking garages is not a core competency of City/Park District
  - City had previously sold its downtown parking garages– only owned and operated the new Millennium Park Garage and its airport facilities.
  - Chicago Park District previously entered into private management agreements for parking facilities, marinas and other concessions.
- Success of long-term concession and lease of Chicago Skyway and Indiana Toll Road
- Potential to retire outstanding debt related to the Parking System and adjacent Millennium Park
- Obligate Concessionaire to fund future garage repairs and capital improvements
- Opportunity to generate funds for needed city-wide park improvements and operational reserves to replace lost revenue stream



# Other Key Transaction Terms

- No limit on parking rates
- City still collects its parking tax
- Concessionaire must satisfy detailed operating standards and capital improvement requirements
- Concessionaire may develop “non-parking” concession revenue opportunities
- City agreed to a limited “non-compete” covenant and related barriers to entry of competing facilities
- Concessionaire must satisfy City policy objectives, including MBE/WBE and similar requirements



# Possible Advantages of P3/Privatization

- Generate cash in an upfront payment or stream of payments
- Private financing can increase the amount of funds available today that may provide a better option than traditional tax-exempt bonds
- Allows the public sector to concentrate on its core functions/mission
- Achieve improved quality of facilities and services
- Accommodate growing demand for facilities and services
- Accelerate project delivery
- Gain access to expertise
- Improve efficiency
- Spur innovation
- Better manage risks
- Reduce or manage costs



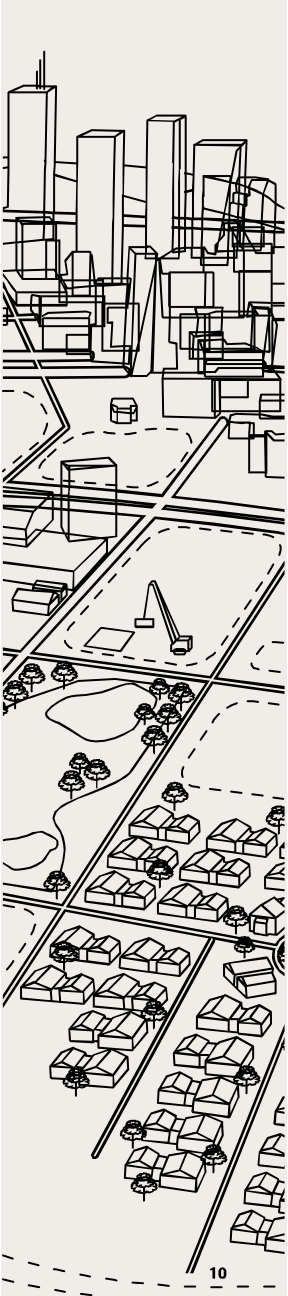
# Valuation Considerations

- Other factors influencing concession value:
  - Limits on user fees
  - Location and projected demand/nature of utilization
  - Competition – infrastructure investors will pay more for monopolies
  - Capital improvement needs and obligations
  - Governmental fees/ taxes
  - Opportunity to generate non-parking revenues
  - Development opportunities
  - Security and cure rights for lenders
- Do not proceed unless you are reasonably confident that the value produced will be sufficient to:
  - Retire all related debt if required
  - Replace any lost revenue stream
  - Shift capital improvement obligation to concessionaire
  - Be greater than the traditional options available to public agency



# Policy Considerations

- Impact on user fees – sensitivity depends upon nature of asset, its location and utilization and identity of the users
- Economic development, zoning and related issues
- Impact on public employees (special exceptions)
- Organized political opposition – unions, user groups, other stakeholders, etc.
- Control of facilities and services
- Homeland Security
- Some or all of these issues can be addressed through the concession agreement





# P3 and Privatization for Public Sector Infrastructure Assets

- Identify potential P3 or Privatization opportunity
- Retain experienced and qualified advisers and consultants
- Analyze financial feasibility for private sector investment
- Nature, location and size of asset will influence financial feasibility and level of investor interest
- “Enterprise” assets work best
- Identify key policy concerns
- Determine whether legal authority exists for transaction and if any legislation required
- Determine value of continuing property tax exemption
- **Achieve political consensus for transaction – POLITICAL RISK IS A MAJOR CONCERN**