

PPPs in Arizona

Issues and Opportunities

2017 Rural Transportation Summit

Prescott, Arizona

January 19, 2017

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The Infrastructure Catalyst, Making Infrastructure Happen

Historical National Malaise

- ❑ Political will is ALWAYS key to PPP's
- ❑ “Change we can believe in” now transformed into **“change that must and will happen”**
- ❑ YRC has been told consistently
 - You have the right business model – wrong country
 - We are now in a different country
- ❑ How quickly will this filter down?

Does Arizona want to be the leader?

Perspective: Arizona's Need for New Infrastructure

<i>Total U.S. infrastructure needs (7 years)</i>	\$3.6 Trillion
<i>Arizona unfunded infrastructure needs (7 years)</i>	\$34 Billion
<i>Arizona annual unfunded infrastructure needs</i>	\$4.9 Billion
<i>How will that be funded?</i>	

Source of U.S. infrastructure data: 2013 ASCE Report Card on U.S. Infrastructure

Trump Administration Infra Financing Plan

- ❑ Repatriate Offshore Capital (≈\$2.5 trillion)
- ❑ Repatriation tax break if invested in public infrastructure
- ❑ Mostly in the hands of high tech/pharma
- ❑ \$2.5 Trillion ≈ Total outstanding Municipal Market Debt
- ❑ Investors with a much higher risk profile
- ❑ Apple, Google, and others – understand startup risk

HUUUUUUGGGGE Opportunity!

Key Trump Plan Success Elements

- Private sector mentality/management for project selection and early development phase
- Build it like the U.S. Private Power Sector in 1990's
 - On time and rapidly
 - Under budget (up to 40% less)
- But – economic rent must be fairly shared
- Truly transparent approach

Based on project economics – not politics

Infrastructure PPPs in Arizona

- None, to date, in any sector
- Prescott/Prescott Valley tried 8 years ago
- PERCEPTION of opposition to tolls still remains
- We believe users will pay for PERCEIVED VALUE

Needs an honest marketing job

The New Way

- ❑ Privately-led early project development
- ❑ Fewer consultants/studies and faster decisions
- ❑ Government supervises – not executes
- ❑ Government defines
 - Minimum standards
 - Outputs - not inputs
- ❑ Private sector designs the most efficient way

Local buy-in, up front, by general public/users is critical

The New Way (continued)

- ❑ Usually applicable to projects with definable revenues
- ❑ Early-stage carefully controlled capital, probably less than \$1mm per project, used to develop good projects
- ❑ Projects develop cultures early on, so start lean
- ❑ Use principals not consultants
- ❑ Start-up mentality.... not loaded with years of analysis and consulting
- ❑ A hardnosed approach where the projects you say no to are keys to success, because some will fail

Think new, not old

The New Way (continued)

- ❑ High rates of return on development capital
- ❑ But if it halves cost and delivers on time - who cares?
- ❑ Project decision making driven by equity returns
- ❑ Transparency is religion for buy-in
- ❑ A modified unsolicited bid approach

***Financing not just a source of money,
but the engine of behavior change***

The New Way (continued)

- ❑ SPLIT POLITICAL/COMMERCIAL RISK FINANCING
- ❑ Proven overseas
- ❑ Development Capital takes all commercial risks
- ❑ Government repays money spent in the event of change of heart or political wavering that impairs project returns
- ❑ Definition of boundaries challenging, but event-based

***It's the poker game principle:
You only take the risks you can control***

Generic PPP Project Finance Structure

Development Phase

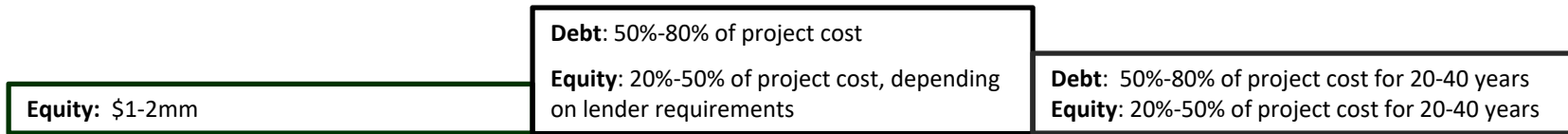
1-2 years

Construction Phase

2-5 years

Operating Phase

20-40 years



Key Differences Traditional vs. The New Way

Traditional

- Gov't commissions studies
- Puts out request for bids
- Government is buyer
- Susceptible to overruns

The New Way

- Private sector identifies good projects with government help, e.g., Cordes to Seligman
- Government awards conditional mandate
- Project Company is buyer
- Low tolerance for overruns

Key Differences

Traditional vs. The New way

Traditional

- Government's role is high-level performance monitoring
- Needs solid advice on financial aspects
- Project procurement and financing not really linked

The New Way

- Private sector deals with change orders
- Also needs advice, but familiar with private financial sources
- Every project decision comes with financing implications

Arizona PPPs – Some Key Challenges

- ❑ Learn from bad experiences overseas and FL, CA, and Illinois
- ❑ Goldwater Institute approval important
- ❑ Allow unsolicited proposals so long as all cost inputs are subject to internal continual project competition
- ❑ If inputs (construction, debt, equity, and others) are competitive, a Kamikaze bid is unlikely

Arizona cannot stay with the old ways and thrive

PPPs are a Conditional Waltz

There are lots of moving parts



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Arizona PPPs – Two-Pronged Approach

- ❑ Find political entities with:
 - obvious big needs
 - willing to underwrite their own political performance risk
 - prepared to repay early-stage capital back if politics intervene

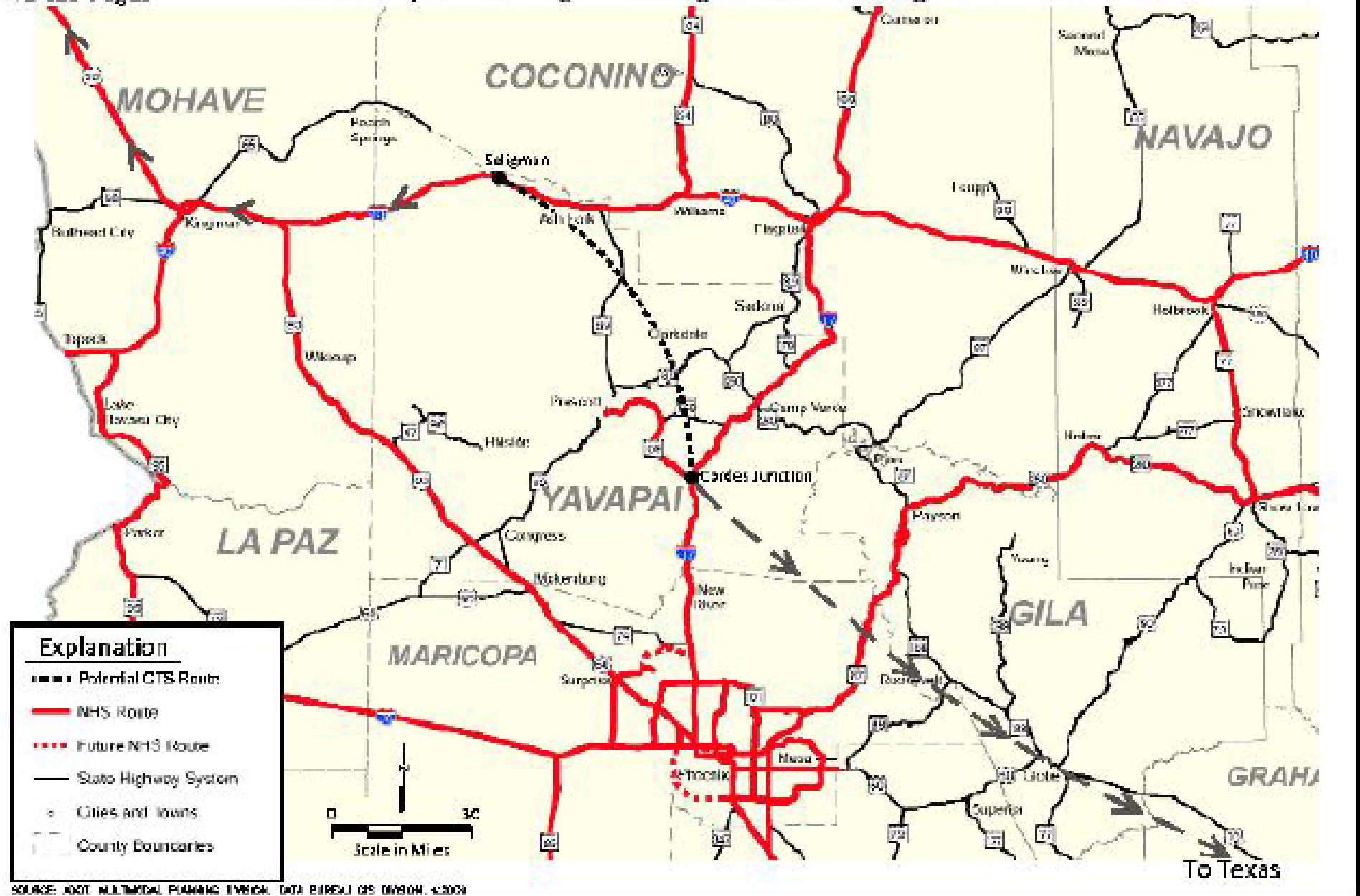
- ❑ Identify groups looking at repatriation
 - Silicon Valley
 - Pharma
 - Oil multinationals

***The challenge as always is to manage the
TRUST INTERFACE***

Schematic Only of Cordes Junction to Seligman Route (CTS2)

Also shows potential long term linkage between Las Vegas and Texas

To Las Vegas



Explanation

- ■ ■ Potential CTS Route
- NHS Route
- · · Future NHS Route
- State Highway System
- Cities and towns
- - - County Boundaries

0 30
Scale in Miles

SOURCE: JOOT, NATIONAL PLANNING TRIBAL DATA BUREAU (NS DIVISION), 4/2004