Lambda Alpha

PPP Overview

December 2020

FENGATE

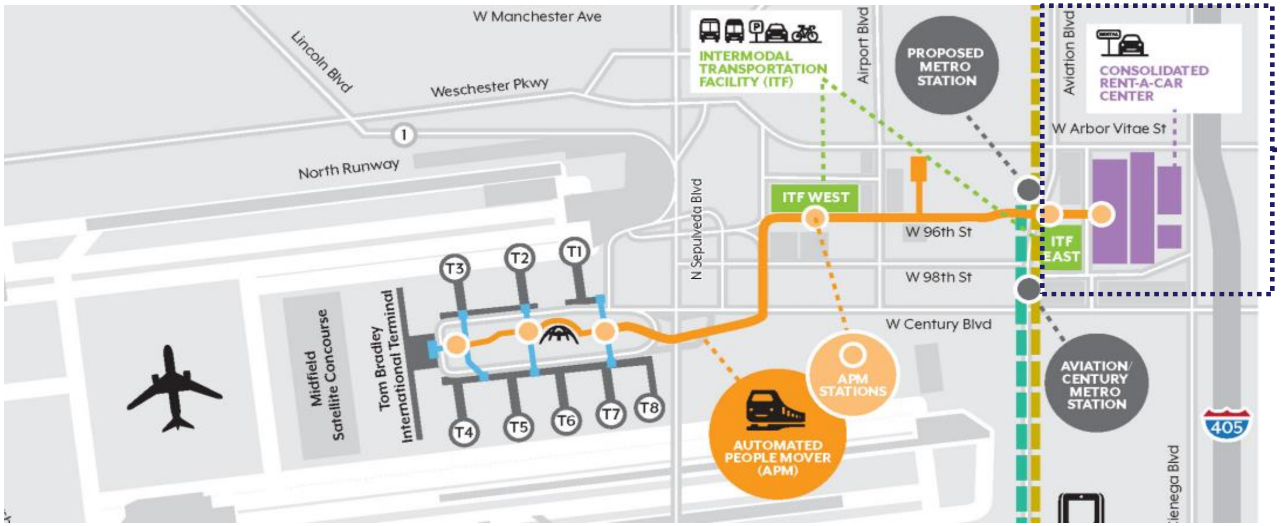
LAX ConRAC Project Background

The Project is being procured by Los Angeles World Airports (LAWA), an independent, financially self-sufficient department of the City of Los Angeles

Background - LAX Landside Access Modernization Program

- Project is being procured as a key component of LAWA's $14 billion Landside Access Modernization Program ("**LAMP**") - a package of development projects aimed at improving the LAX passenger experience, relieving traffic congestion, and making LAX a world-class airport
- LAMP was developed to relieve traffic congestion in the central terminal area and on the surrounding streets; provide convenient passenger pick-up and drop-off; provide fast, reliable access to terminals; and reduce vehicle emissions and improve air quality
- LAMP consists of four project components:
  - ConRAC - consolidate rental car agencies into a single facility
  - Automated People Mover ("**APM**") System - elevated train connecting passengers to airline terminals via six stations
  - Intermodal Transportation Facilities ("**ITFs**") - two new offsite passenger pick-up and drop-off locations, including parking facilities
  - Traffic and Roadway Improvements - alleviate traffic congestion in and around airport facilities

LAMP Program Map & ConRAC Site



- Project site is located on a 130-acre site known as Manchester Square
- Manchester Square is bounded by W. Century Boulevard on the south, Aviation Boulevard on the west, W. Arbor Vitae Street on the north, and S. La Cienega Boulevard on the east

(1) Parking stall number includes Employee Parking, which is an optional component that includes 1,100 stalls. The Employee Parking option rests was elected by LAWA following LAGP's selection as Lowest Ultimate Cost Proposer

PPP Overview

- Public-Private Partnerships ("**PPPs"**) consist of a long-term contract between a private party (the "**Concessionaire**") and a government entity (the "**Sponsor**"), for providing a public asset or service, in which the Concessionaire bears significant risk and management responsibility, and remuneration is linked to performance
- A typical PPP contractual structure reflects the fixed nature of the cashflows between the Sponsor and the Concessionaire, which minimizes lenders' risk exposure, and permits a highly-leveraged capital structure with an efficient cost of capital

Key Features

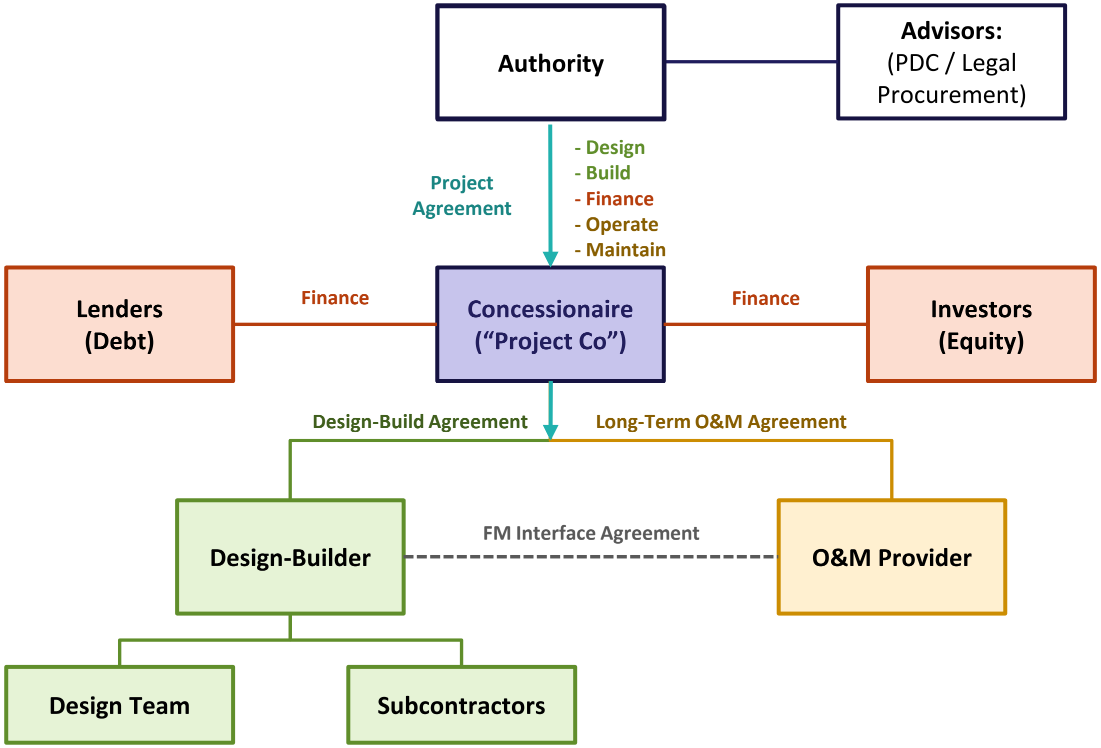
Design-Build Contract

- Fixed-price, date-certain, turn-key contract
- Liquidated damages for performance and delay
- Limit of liability
- Parent company guarantee and liquid security (i.e. letter of credit)

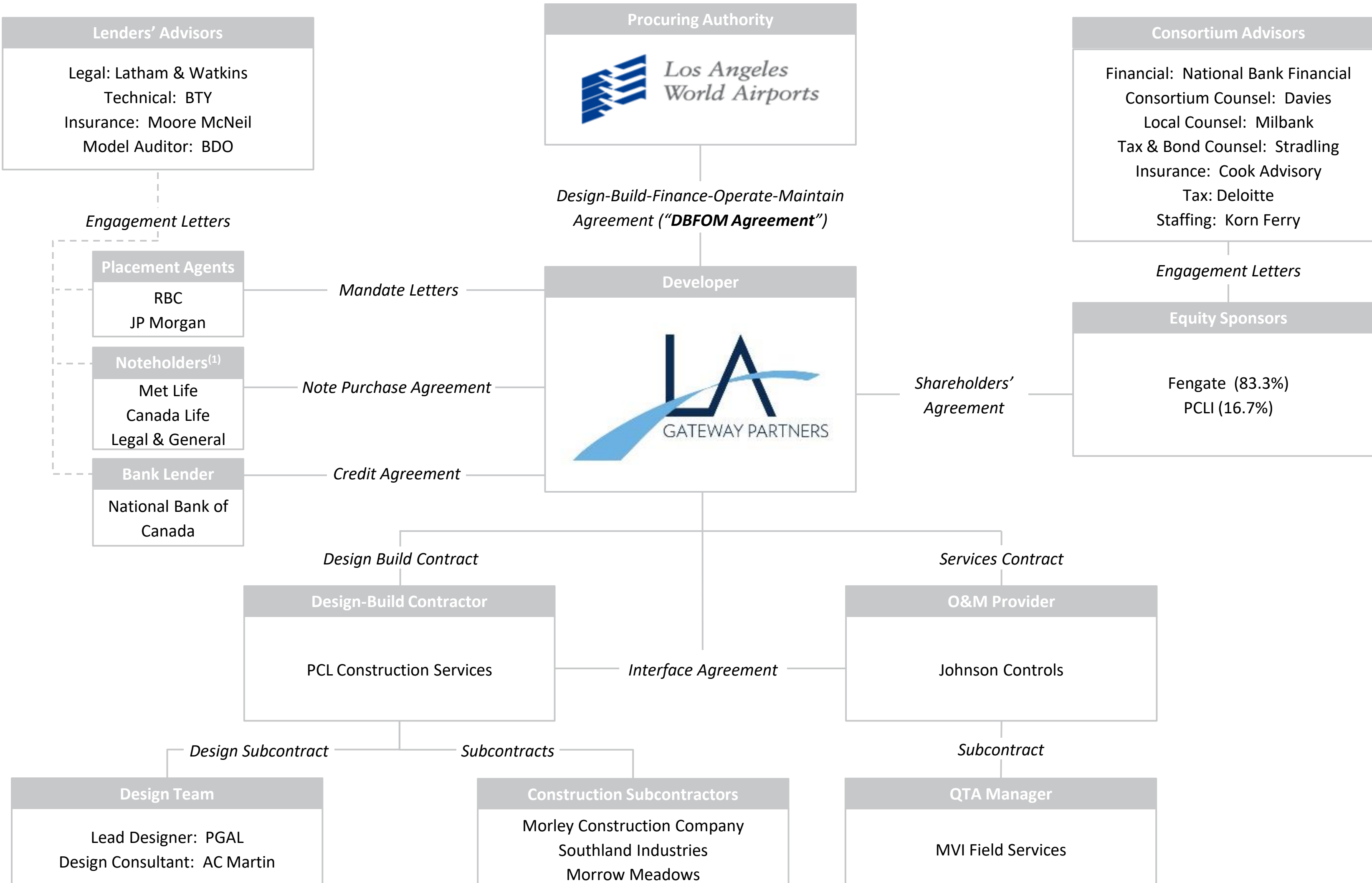
Operations and Maintenance Contract

- 20 to 35 year term, fixed-price, turn-key contract
- Performance obligations with pass-through of penalties and/or deductions
- Limit of liability multiple of annual average contract value
- Parent company guarantee and liquid security (i.e. letter of credit)

Typical Contractual Structure



LAX ConRAC Consortium Organization



DBFOM Delivery

- The design-build-finance-operate-maintain ("**DBFOM**") delivery model is an integrated partnership that combines the design and construction responsibilities of design-build procurements with ongoing operations and maintenance responsibilities, for which a portion of the capital is provided by private sources
- Under a DBFOM model, the private sector partner(s) would assume the risk for and deliver the following elements under a single fixed-price, date certain contract (i.e. all costs to be incurred for the duration of the project term are set at Financial Close):

Component	Services Provided
Design	• Design of the project solution to meet the Sponsor's objectives
Build	• Construction of the project, on time and to budget (delays and / or cost increases caused by the Concessionaire remain with Project Co)
Finance	• Private financing, including short-term and long-term debt and equity funding necessary to construct the project for the specified project term
Operate	• Soft and hard management services that support the basic operation of the asset
Maintain	• Daily facilities maintenance, annual maintenance, and major upgrades or replacements of major components

Typical Risk Allocation

- Under a PPP procurement with DBFOM delivery, the risks of a project are allocated to the party best suited to manage them:

			Concessionaire		
Contract	**Risk**	**Sponsor**	**Project Co**	**DB Team**	**O&M Team**
DB Contract	Design			X	
	Permit Approvals			X	
	Health & Safety			X	
	Construction Delays			X	
	Construction Defects			X	
	Cost Overruns			X	
	Disclosed Contamination			X	
	Ground Conditions			X	
Interface Agreement	Contractor / Operator Interface			X	X
O&M Agreement	Interface with Tenants / Users			X	X
	FM performance				X
	Rehabilitation				X
Finance Documents	Financing		X		
Project Agreement	Force Majeure / Relief / Compensation Events	X	X	X	X
	Change in Law	X	X	X	X
	Utilities	X	X	X	

Private Financing

- Private financing creates several advantages over traditional public, tax-exempt debt:

Value for Money

Long-term contracts (25+ years) capture the asset's lifecycle costs

Performance is Incentivized

Private finance = skin in the game

Payment is contingent on performance: on-time and on-budget delivery and long-term performance of the asset

Increased Cash Flow

Private financing reduces demands on the public's bonding capacity, freeing up government funds for other vitally needed public services

Public payments begin when construction is complete, reducing upfront financing costs and incentivizing an accelerated completion schedule

Risk Transfer

A PPP (DBFOM) structure, not the public sector, absorbs the risks of short- and long-term cost overruns. This guarantees the quality of maintenance performed

Highly complex projects especially benefit from this approach (such as the Port of Miami Tunnel and the Goethals Bridge Replacement in New York)

Associated Costs

- The DBFOM model has associated costs, although these create corresponding benefits for the Authority:

Cost	Description	Benefit to Authority
Financing Costs	▪ Private financing sources can result in higher financing costs than public financing sources	▪ No money spent upfront ▪ Lenders provide useful oversight, can step-in and impose more stringent performance thresholds ▪ Finance costs at a historic low with ample lender appetite
Transaction Costs	▪ Costs associated with satisfying conditions precedent necessary to successfully engage in a PPP procurement include permitting and lands, Environmental Assessment, and legal framework / PDC Team	▪ Competitive proposals ▪ Cost certainty
Risk Premium	▪ Private developers require compensation for the risk they are assuming in developing and delivering the project on behalf of the Sponsor	▪ Cost of risk not taken by Owner ▪ Long-Term interests are aligned
Compensation Events	▪ In extreme scenarios, change in law that directly affects the project, the project's industry or the scope of works ▪ Termination - Compensation upon termination by Authority for debt and equity holders under various circumstances	▪ Compensation for extreme events out of Project Co's control allows for senior debt to be obtained at a very low interest rate, lowering the cost of capital for the Project

Contact Us

Mac Bell
Managing Director, Infrastructure Investments
Mobile +1-416-795-4468
Email: Mac.Bell@fengate.com

CANADA

Toronto:
77 King Street W, Suite 4230
Toronto, ON, M5K 1H1

Oakville:
2275 Upper Middle Road E, Suite 700
Oakville, ON, L6H 0C3

UNITED STATES

Houston:
708 Main Street, Suite 08-103
Houston, TX, 77002