

26 August 2015

# Palmdale Regional GRRP

## Preliminary Evaluation of Financing Options

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*MWH Infrastructure Development, Inc.*



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# Why Would You Consider Private Finance?

## Leverage Capital

- New sources of capital to better leverage your own – resulting in more needs met at optimal cost.

## Save Money

- Delivery approaches provide faster & less expensive options than traditional means.

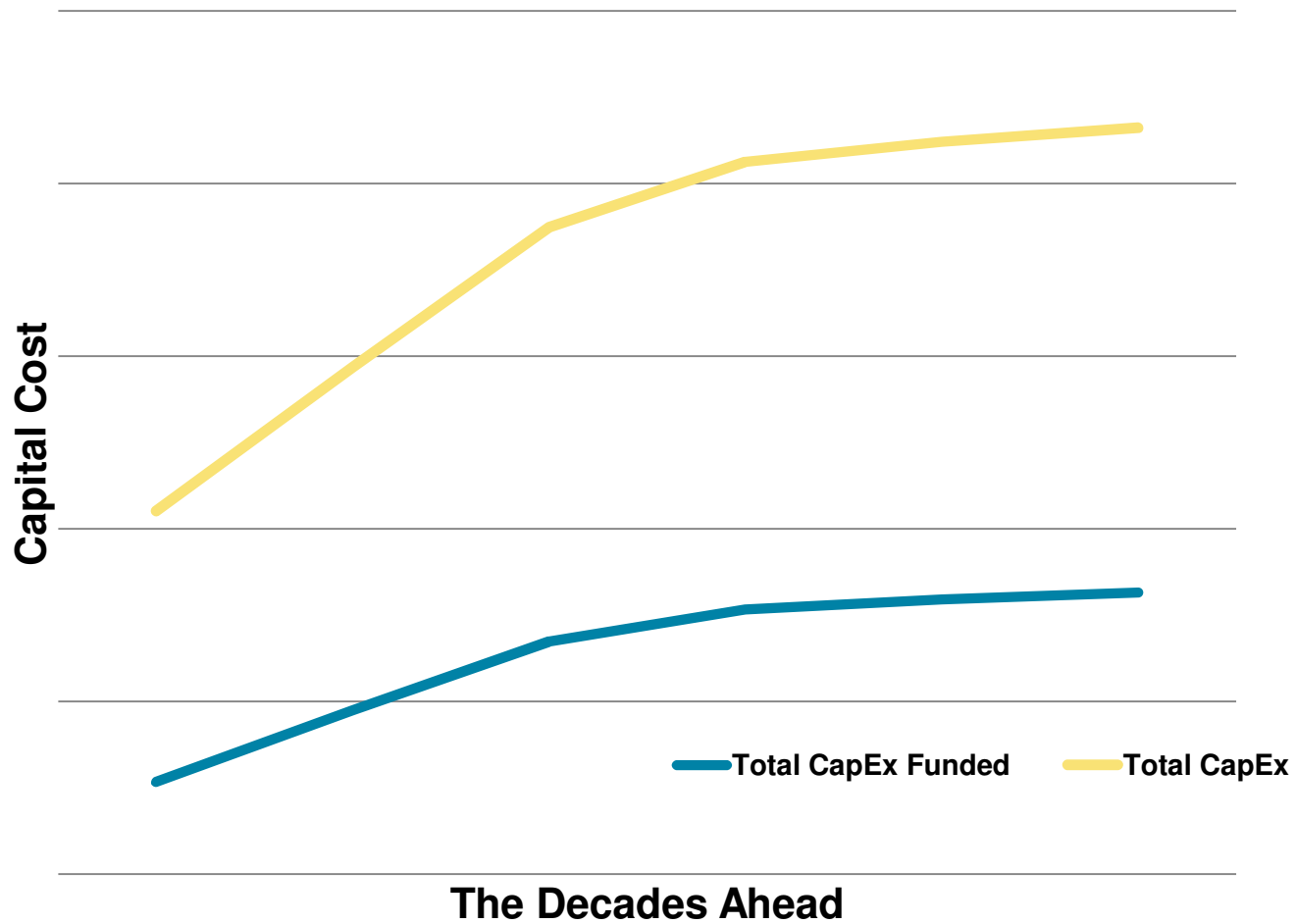
## Transfer Risks

- Allows you to allocate risk through proven private sector risk management approaches.

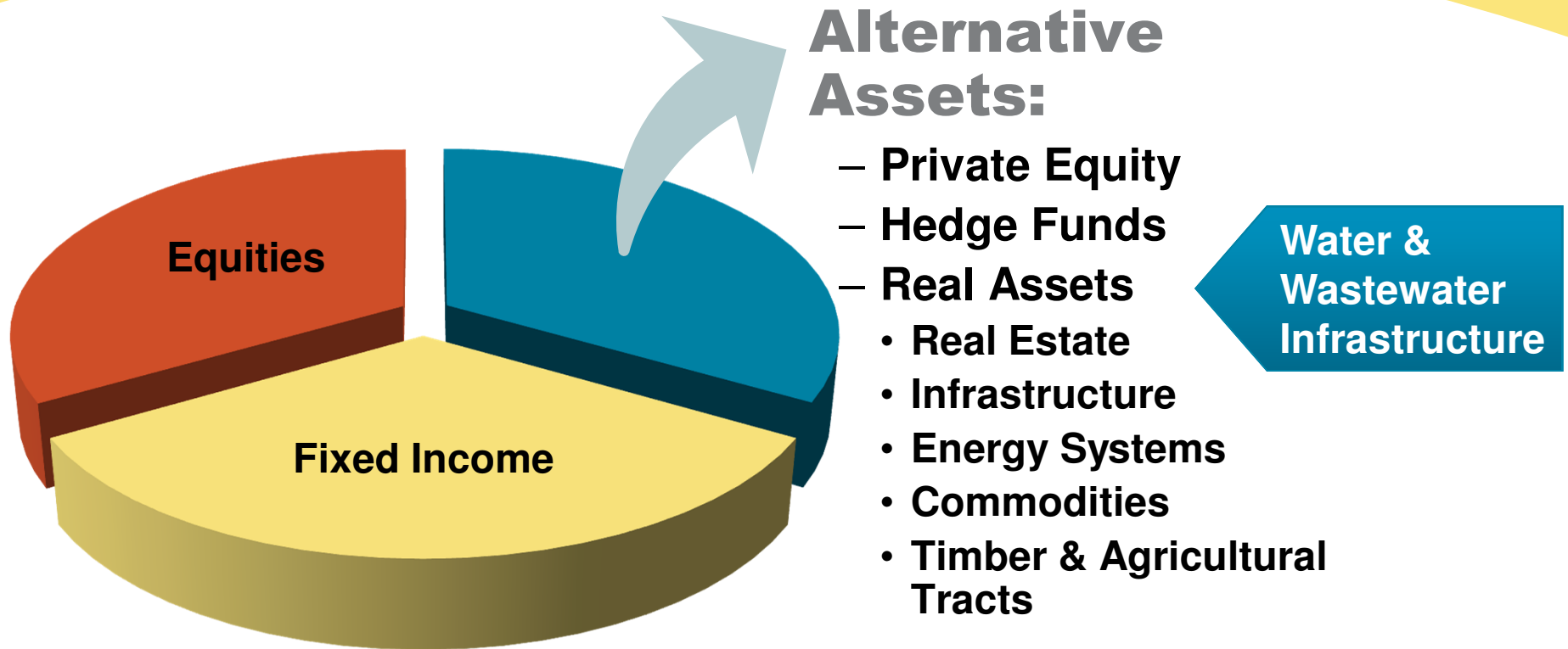
# Background



# Water Infrastructure Funding Gap

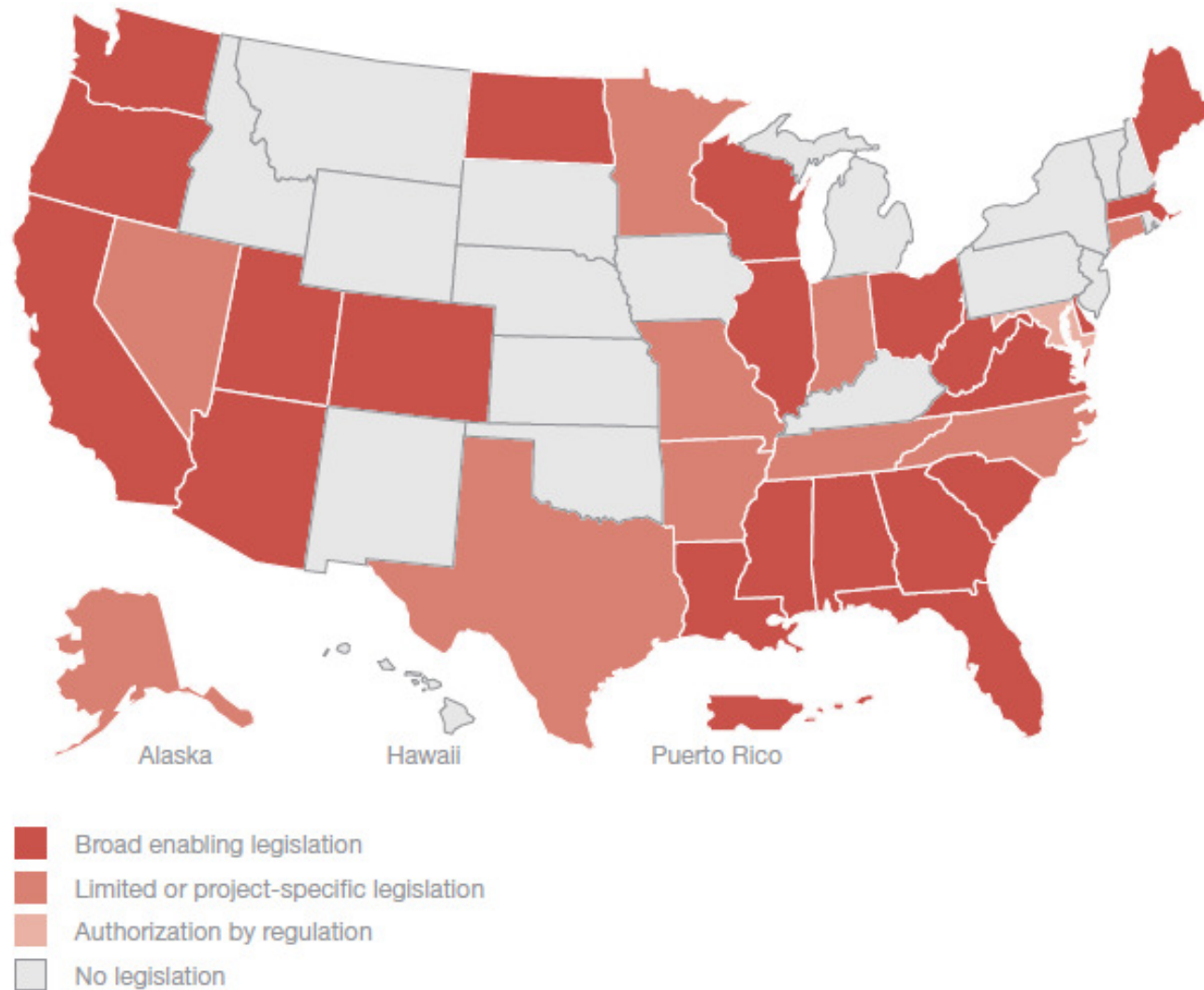


# Private Capital Targeting Infrastructure Investments



**Institutional Investors**

# States with PPP Enabling Legislation



# Parties to the Deal: Roles and Expectations

## Project Sponsor

*Role:* Project Sponsor

*Expected Return:*  
Capital, Efficiency, Quality,  
Consistency

## Investor

*Role:*  
Capital Provider

*Expected Return:*  
8 -12% ROE, 5 - 8%  
WACC\*

\*Risk profile dependent

## MWH

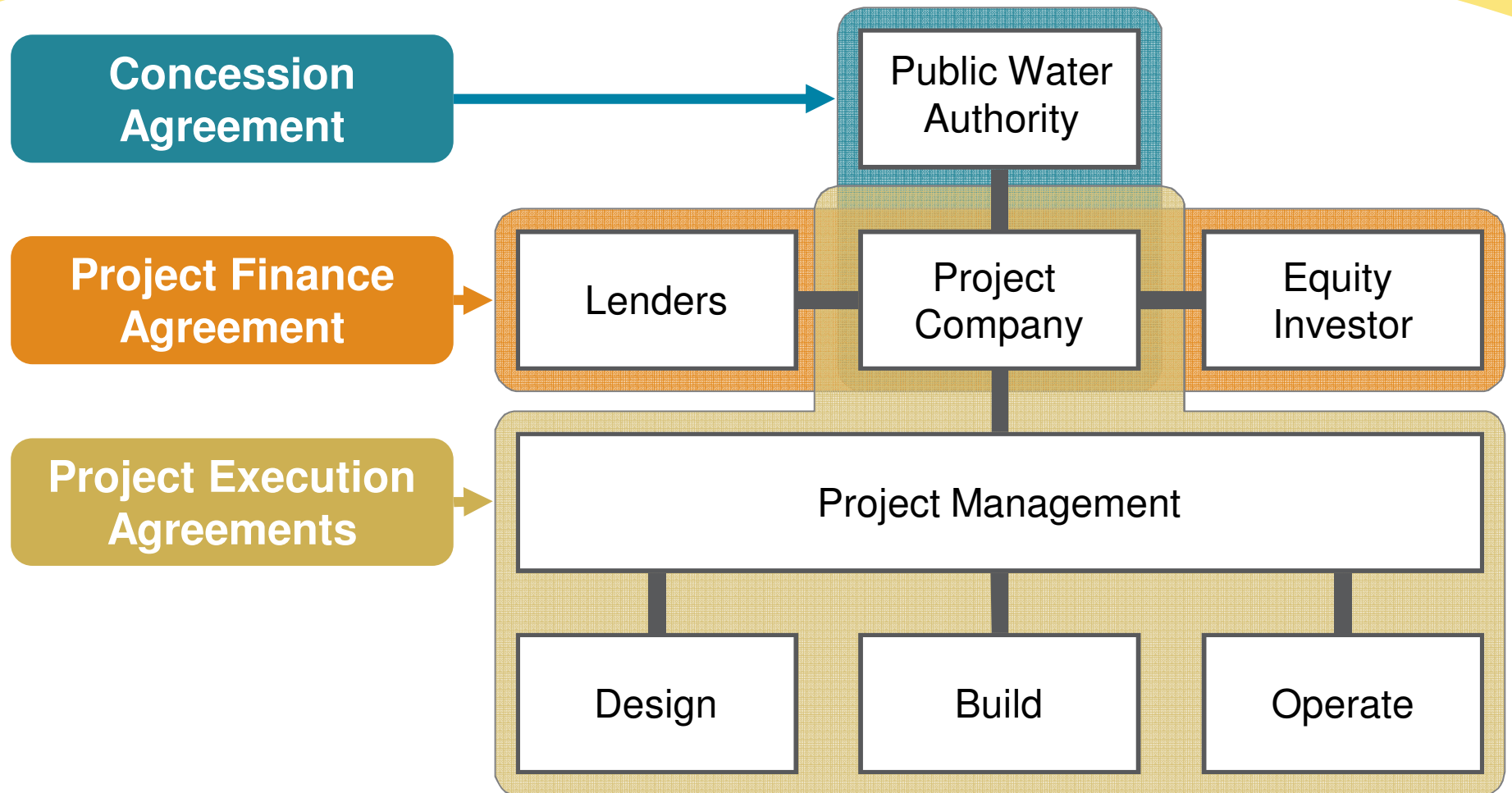
*Role:* Deal Origination,  
Project Development,  
Project Execution

*Expected Return:*  
Fees, Carried Interest





# Typical Project Development Structure





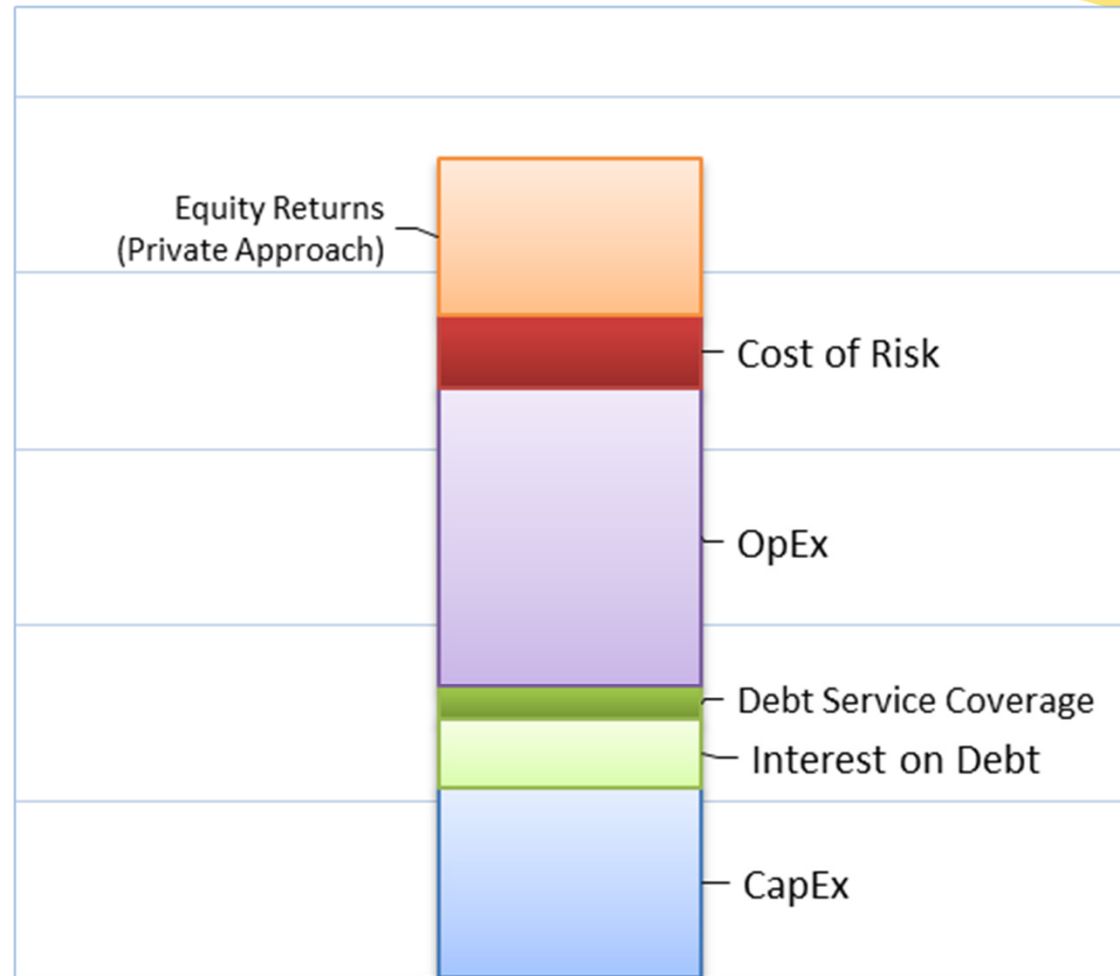
Palmdale Regional GRRP  
**Model Review**



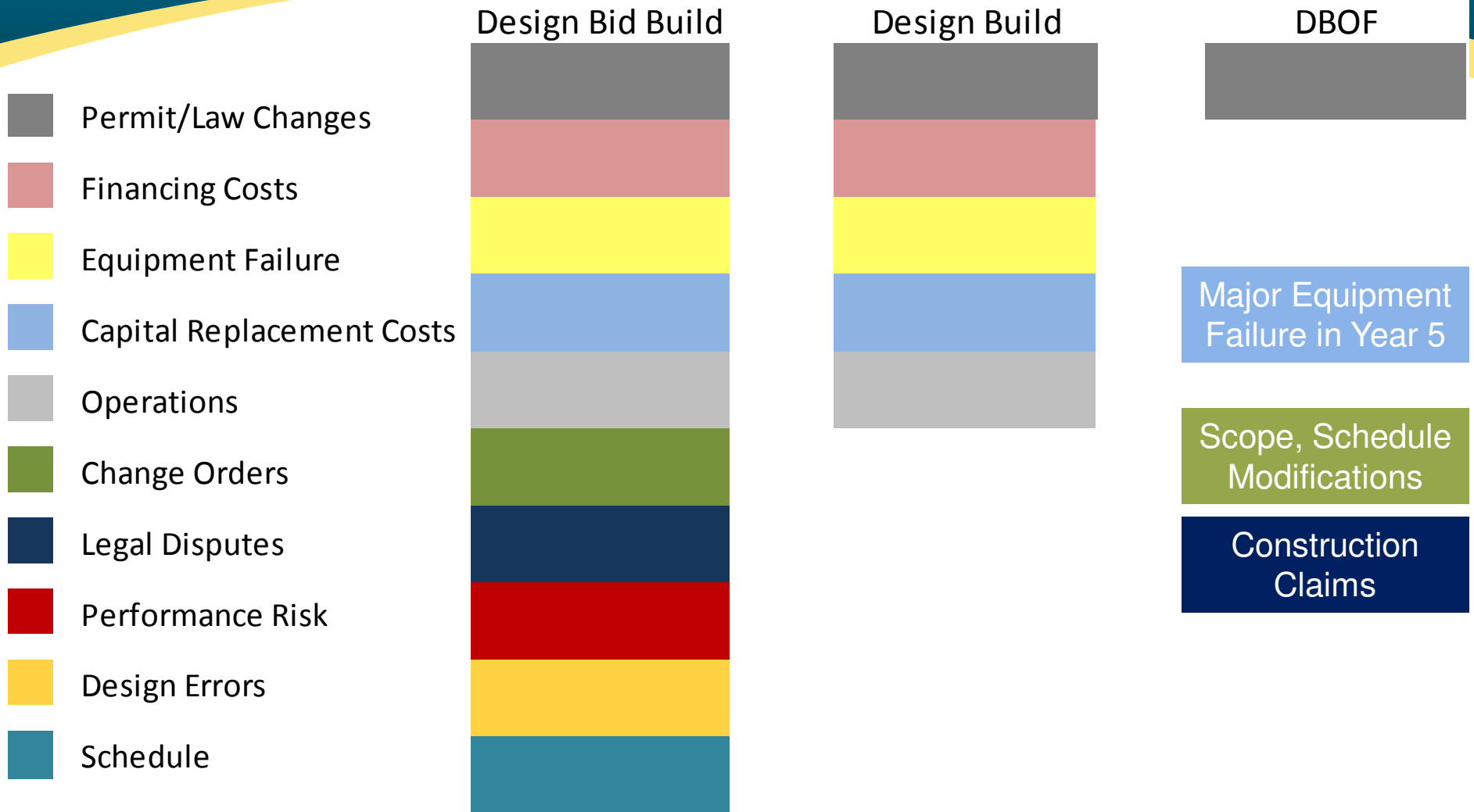
# Cost of Service Over the Life of the Project

- CAPEX
- OPEX
- FINEX
- RISKEX

Lifecycle Cost per Unit Delivered



# How Risks Stack Up for the Project Sponsor



# Quantify the Risk

RISK REGISTER - INITIAL DRAFT											Weekly Design Team and Town Meeting, Pump Station	
Risk Type & Risk Event	Life/Health of Occurrence (L)	Severity (S)	Risk Ranking	Assets Impacted	Approximate Schedule Impact (months)	Potential Cost Impact (\$M)	WHY Risk	IT Risk	Level Responsibility	Design Description Affected	Risk Assessment	Preventative Mitigation
1. Very Low 2. Low 3. Moderate 4. High 5. Very High	1 2 3 4 5	1 2 3 4 5	L x S	A - Schedule B - Cost C - Safety/Health D - Other					1. District 2. Design Team 3. District 4. WHC 5. Other	1 - District 2 - District 3 - District 4 - WHC 5 - Planning 6 - Electrical		
<p><b>Regulations</b></p> <p>ADA (Americans with Disabilities Act) - all new buildings</p> <p>ADA (Americans with Disabilities Act) - all new buildings</p>												

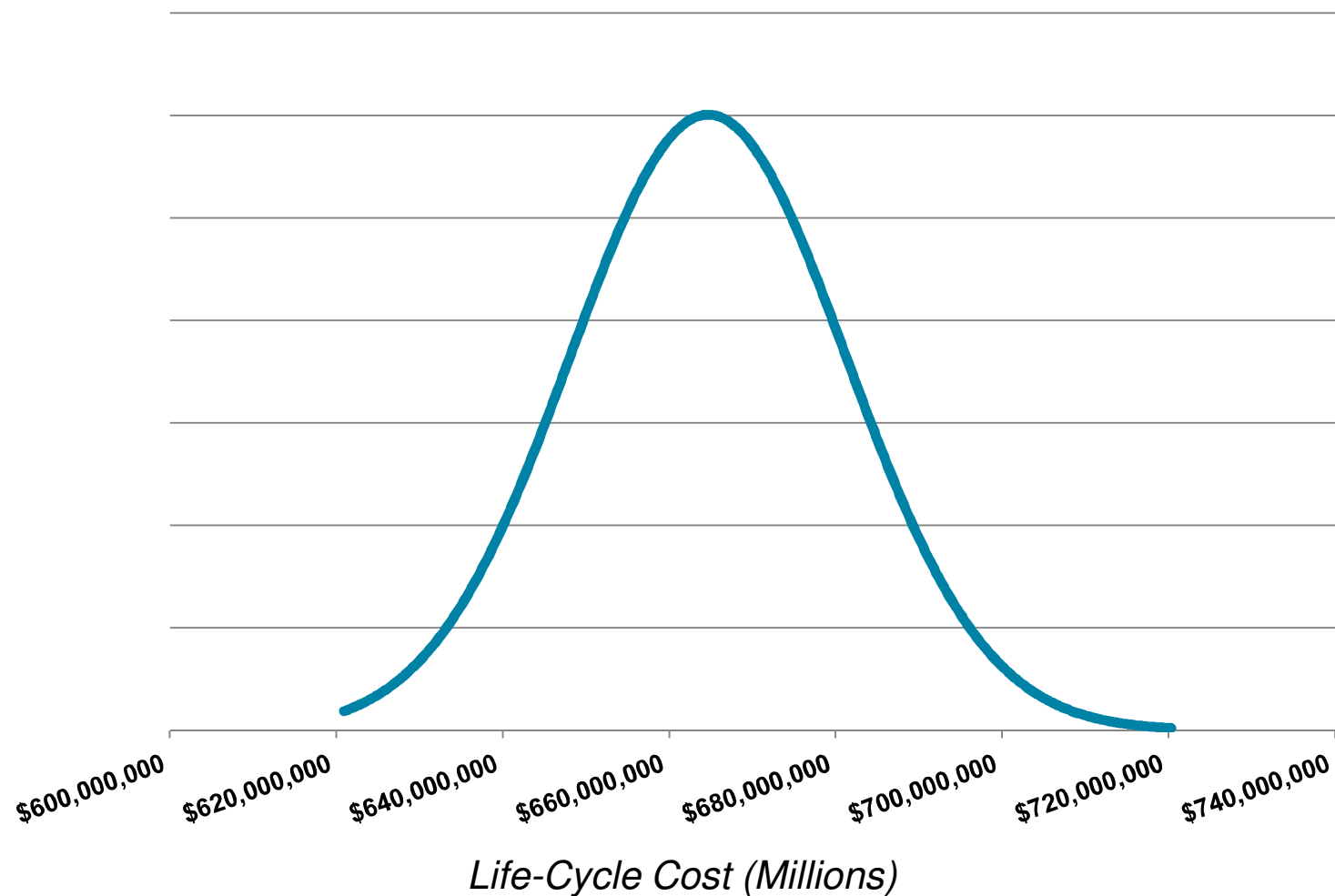
Transferrable Risks	Estimated Cost	Probability of Occurrence	Probability-Adjusted Cost of Risk
Design Delay	\$3,000,000	30%	\$900,000

[illegible]

# Probability Distribution of Life-Cycle Costs

## *Publicly Funded Project*

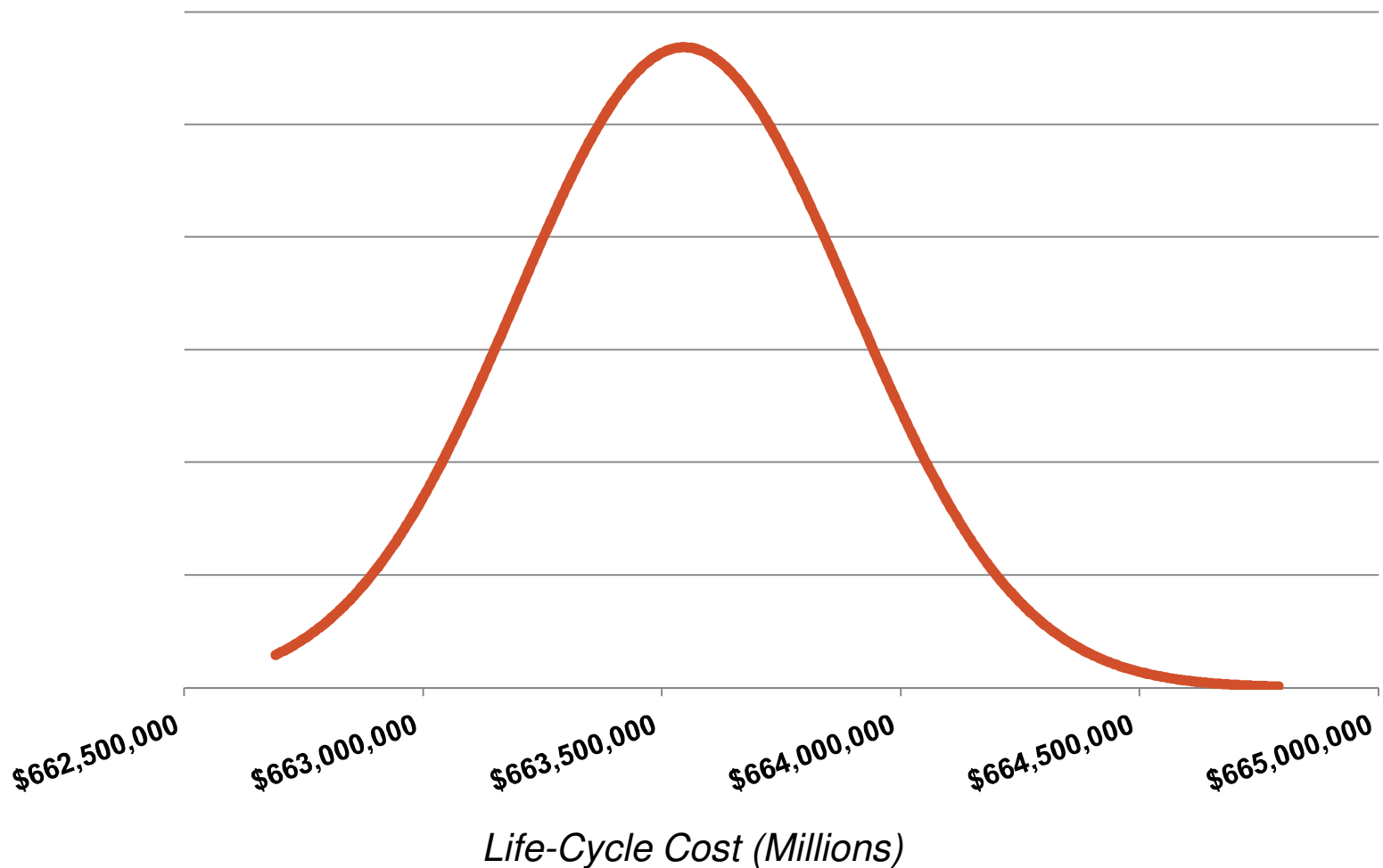
**Publicly Funded Life-Cycle Cost**



# Probability Distribution of Life-Cycle Costs

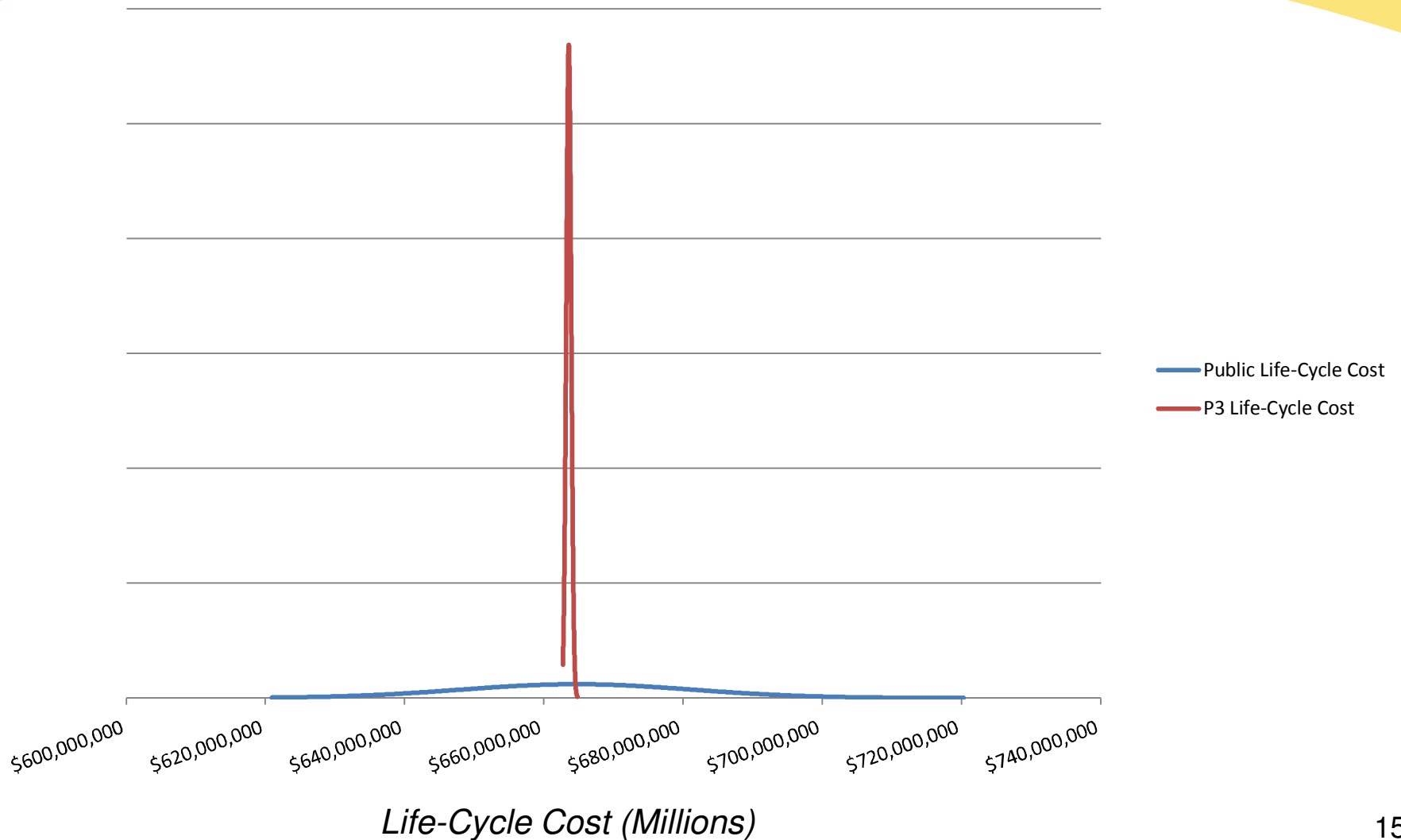
## *Public-Private Partnership*

### Privately-Financed Life-Cycle Cost



# Probability Distributions of Life-Cycle Costs

## *Public Funding vs. Private Finance*





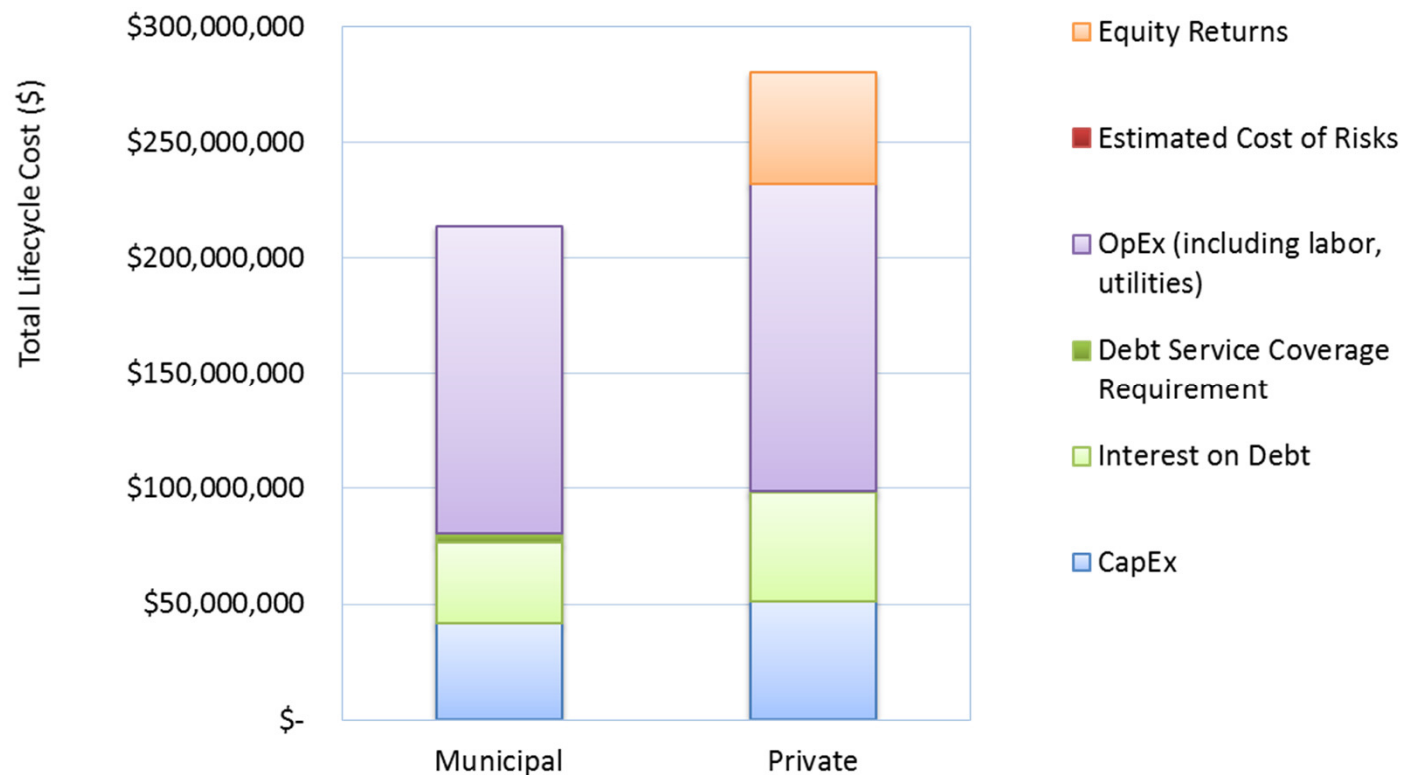
# Assumptions in the Model for Palmdale

- Kennedy/Jenks report was the basis of the assumptions
- Phase 1 only
  - CapEx = \$85,310,000
  - Design time = 1 year
  - Construction time = 2 years
  - 50 year asset life
- Discount rate = 5%
- Inflation = 3%
- Muni Debt @ 3.5%
- Commercial Debt @ 6.0%
- Equity Rate of Return goal: 12.0%

# Palmdale Regional GRRP

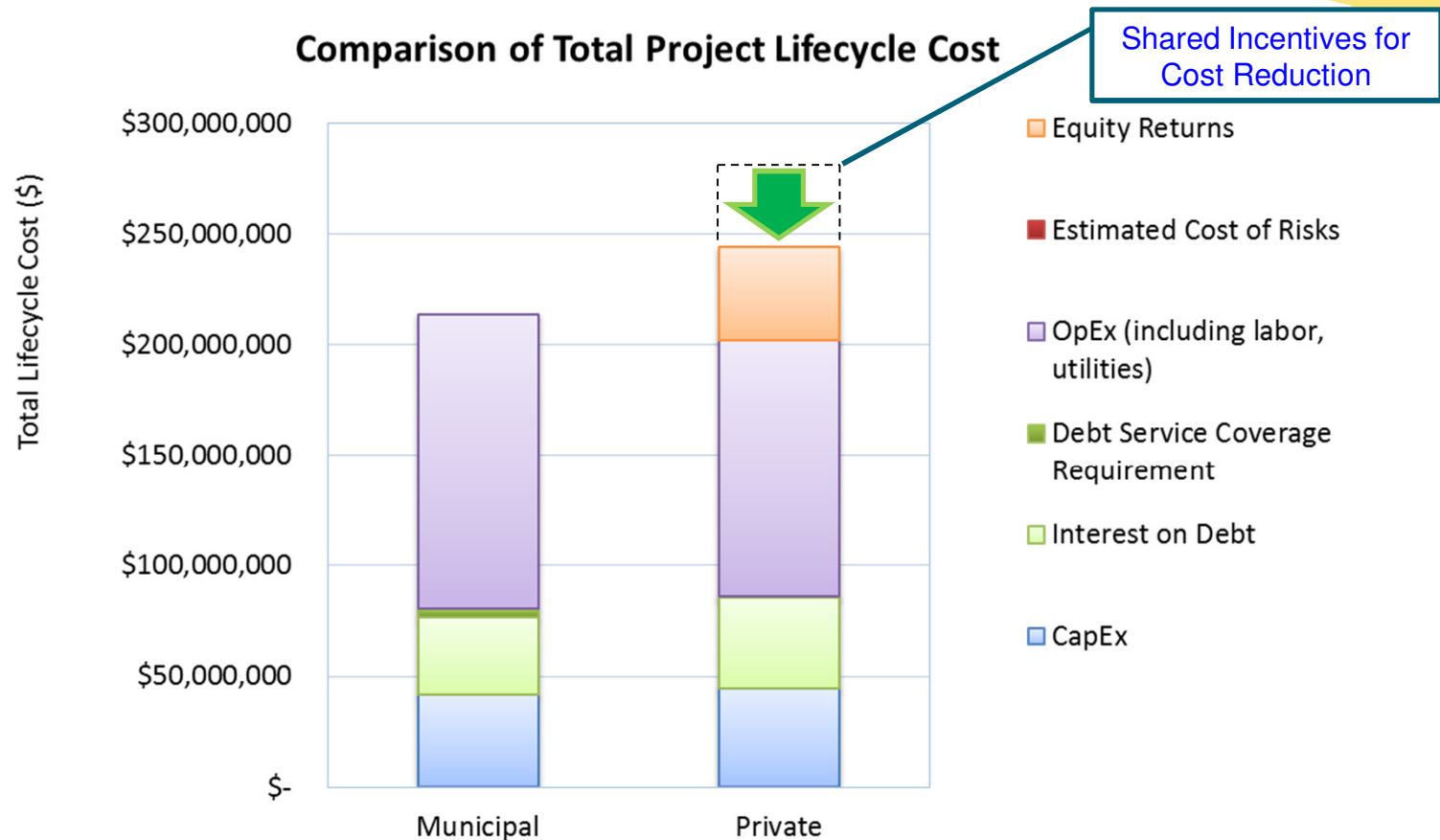
## Comparison Model

Comparison of Total Project Lifecycle Cost



# Palmdale Regional GRRP

## Comparison Model – Shared Savings



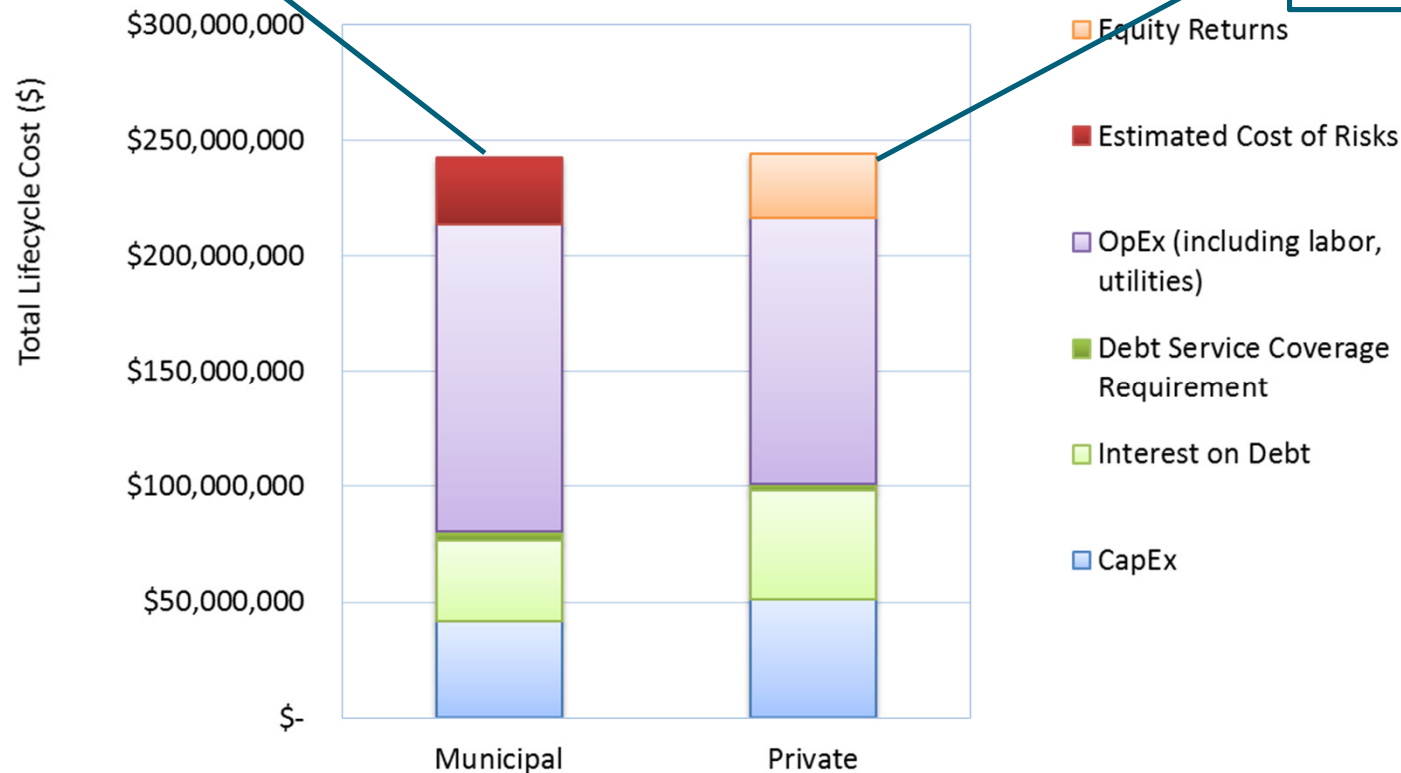
# Palmdale Regional GRRP

## Comparison Model – Risk Transfer

Risk Exposure

Comparison of Total Project Lifecycle Cost

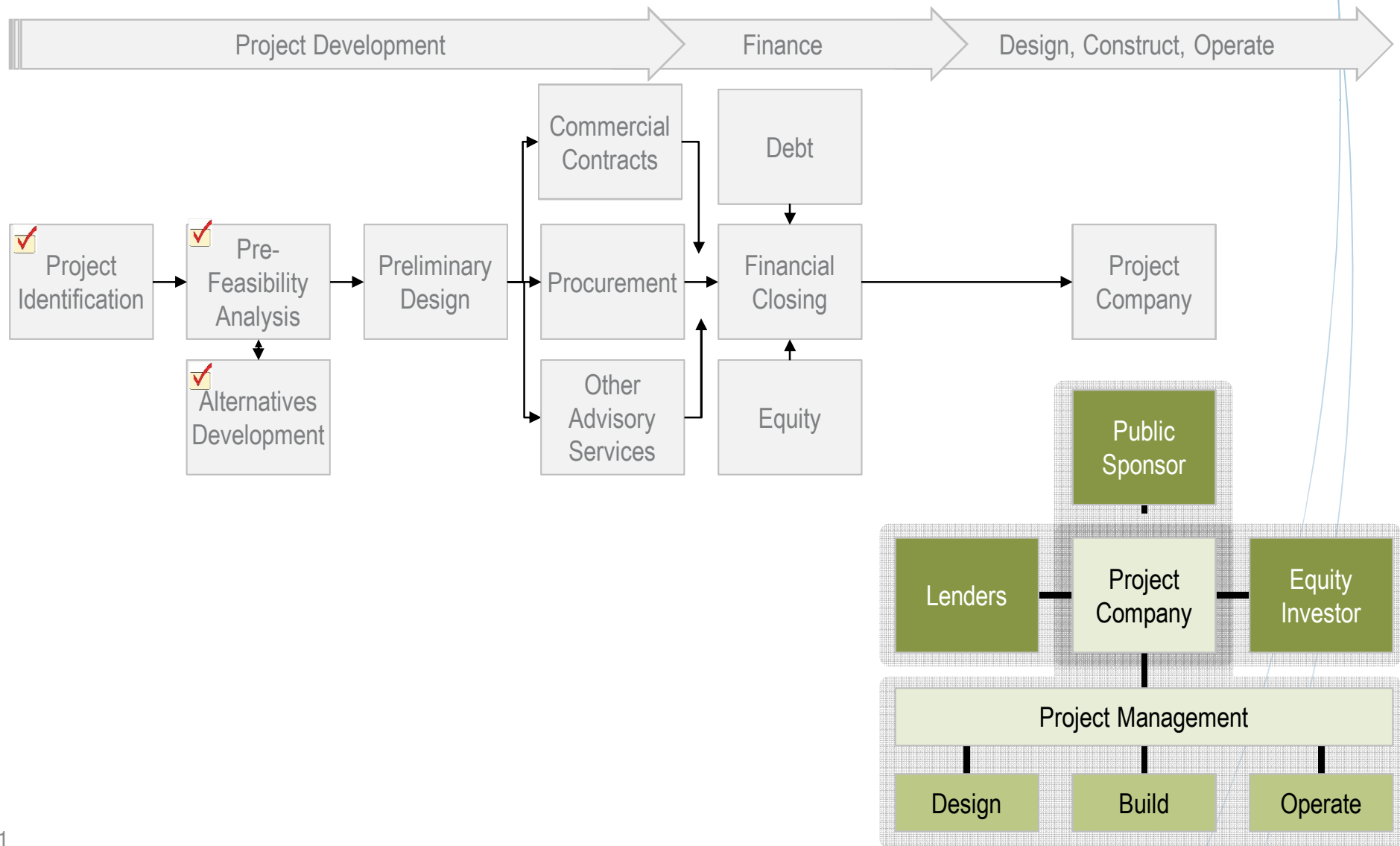
Risk Transfer  
- Costs Increased  
- Rates Preserved  
- Lower Equity Return



# Next Steps



# Typical Project Development Cycle



6 August 2015

# Thank You

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MWH Global, Inc.



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