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Harnessing the Power of Public-Private Partnerships

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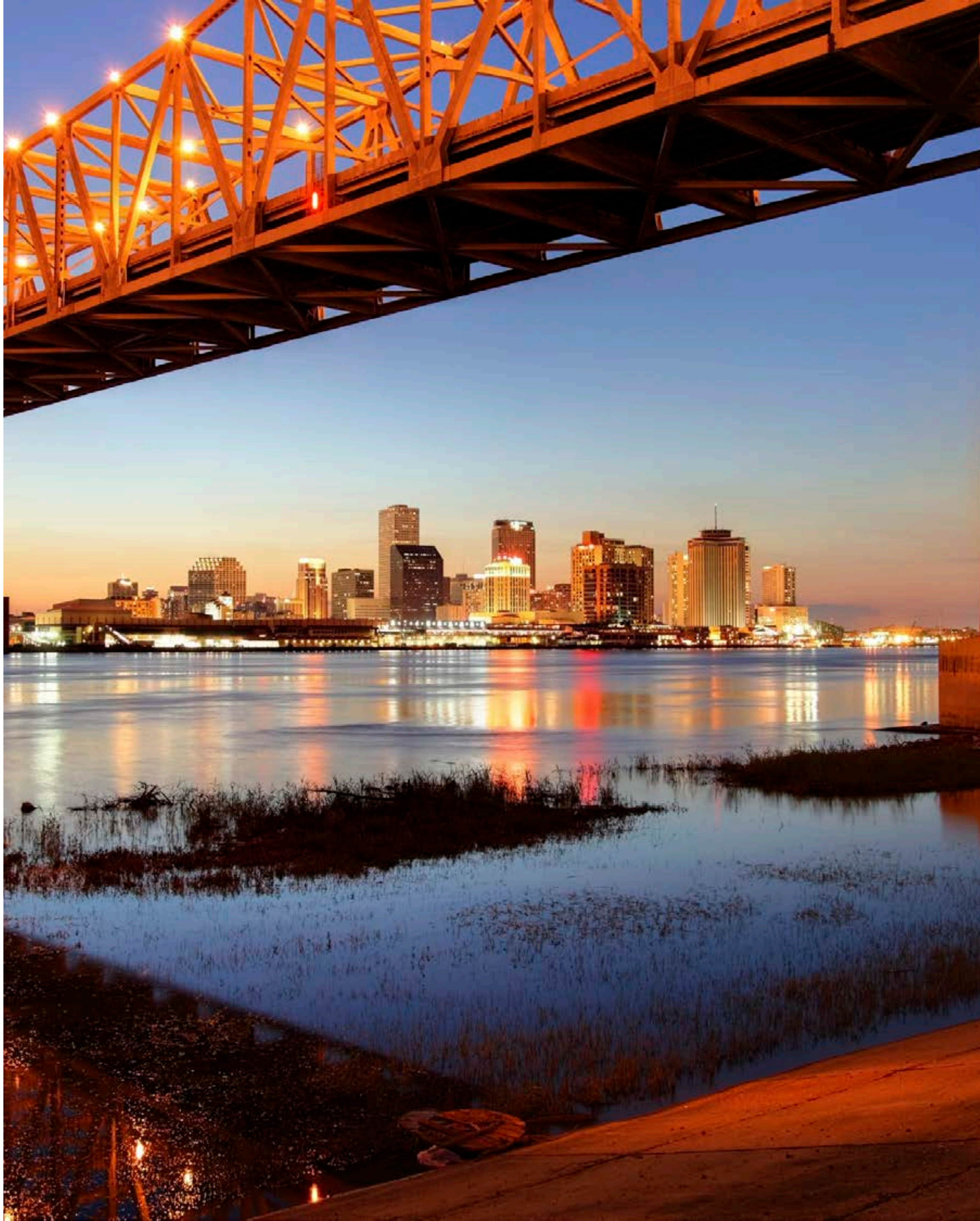


Contents

Overview of the market for U.S. public-private partnerships (PPPs)

PPP
Definition

Public-private partnerships (“PPP”s or “P3”s) are arrangements in which a governmental entity, such as the department of transportation, contracts with a private entity or consortium of private parties (“Development Entities”) to build, operate, or maintain a public asset, such as a highway or other public infrastructure. In exchange for building and maintaining the infrastructure, the governmental entity pays the Development Entities a fixed amount over the life of the agreement.

These PPP arrangements are becoming increasingly popular for financing and building public infrastructure because private entities are often able to leverage their expertise in order to complete the projects more efficiently than governmental entities.

PPP

Definition (continued)

There are many PPP structures, but most share the following characteristics:

- Long-term contractual arrangement with some regulatory element
- Not a full asset sale (although some may be deemed sales for tax purposes)
- Designed to secure value or control costs for the public sector
- Private sector contractor accepts risks and responsibility for (some or all of) design, construction, financing, maintenance and operations
- Public sector retains strategic control over service delivery, may retain certain risks that it is able to handle more efficiently than the private sector, and either cedes revenue generated from asset or makes payments for performance

A PPP is a contractual relationship in which the public and private sector agree to share the risks and rewards associated with a public asset.

Infrastructure Landscape

U.S. Infrastructure ownership, delivery and operational models

	Public	Public/ private	Private (incl. "non-profit")
Surface transportation	most	some	
Ports		some	some
Aviation		all	
Freight rail			all
Power/Energy	some		most
Healthcare	some		most
"Social" (education/corrections / municipal buildings)	most	some	some
Telecoms/Cable			all
Water/Wastewater	most		some
Broadband	some		most

Unique U.S. characteristics

- State, Local and Public Authorities primarily responsible for infrastructure
- Robust market for sub-sovereign debt (municipal bonds)
- Diversity of legal/regulatory framework across jurisdictions
- Significant sectors that are "privatizing" overseas are already largely private in the U.S.

Unique characteristics of U.S. market imply that PPP is likely to develop in markets, sectors and geographies where it brings unique value, and to continue to grow as it is proven out.

Commonly Cited Public Sector Benefits and Concerns in PPP

Benefits	Concerns
• Accelerated delivery	• Loss of public control
• Incentivized performance	• Inflexibility
• Whole-life costing efficiencies	• Pricing/regulation
• Optimal allocation of risk	• Non-domestic capital
• Divesting “non-core” assets	• Loss of public sector jobs
• New capital source	

Select Completed Transactions

The market has seen consistent public/private activity, which has shifted from monetizations of existing assets to brownfield improvement and greenfield transactions.

Project	Year	Capital amount ($M)	Procurement mechanism	Payment type	Project nature	Asset type
Chicago Skyway	2005	1,800	DBFOM	Revenue Risk	Monetization	Highway
Indiana Toll Road	2006	4,600	DBFOM	Revenue Risk	Monetization	Highway
Virginia I-895 /Pocahontas Parkway	2006	611	DBFOM	Revenue Risk	Monetization	Highway
Chicago Downtown Parking	2006	565	DBFOM	Revenue Risk	Monetization	Parking
Northwest Parkway (CO)	2007	726	DBFOM	Revenue Risk	Monetization	Highway
I-495 Capital Beltway HOT Lanes	2008	2,068	DBFOM	Revenue Risk	Greenfield	Highway
Florida I-595	2008	1,760	DBFOM	Availability	Greenfield / Brownfiled	Highway
SH-130 (TX)	2008	1,380	DBFOM	Revenue Risk	Greenfield	Highway
North Tarrant Expressway	2009	2,000	DBFOM	Revenue Risk	Brownfield	Highway
Chicago Parking Meters	2009	1,200	OM	Revenue Risk	Monetization	Parking
Miami Port Tunnel	2009	860	DBFOM	Availability	Greenfield / Brownfield	Bridge/Tunnel
Connecticut Highway Service Area Concession	2009	178	DBFOM	Revenue Risk	Brownfield	Services
Santa Paula Water	2009	58	DBFOM	Availability	Greenfield	Wastewater
I-635 (LBJ)	2010	2,600	DBFOM	Revenue Risk	Greenfield	Transportation
Denver FasTracks (Eagle P3)	2010	1,600	DBFOM	Availability	Greenfield	Transit / Light Rail
Long Beach Courthouse	2010	500	DBFOM	Availability	Greenfield	Social / Courthouse
Seagirt Marine Terminal	2010	334	DBFOM	Revenue Risk	Greenfield	Ports
Florida Atlantic University	2010	123	DBFOM	Availability	Greenfield	Social / Education
Indianapolis Parking Meters	2010	30	DBFOM	Revenue Risk	Greenfield / Brownfield	Parking
Port of Portland Terminal 6	2010	68	DBFO	Revenue Risk	Brownfield	Port
Puerto Rico Highway Package Phase One (PR-22, PR-5)	2011	1,436	DBFOM	Revenue Risk	Brownfield	Transportation
Midtown Tunnel	2012	2,100	DBFOM	Revenue Risk	Greenfield / Brownfiled	Bridge/Tunnel
U.S. Route 460 Corridor Improvements (VIRGINIA)	2012	1,400	DBFO	Revenue Risk	Greenfield	Roads
I-95 HOV/HOT Lanes	2012	900	DBFOM	Revenue Risk	Greenfield / Brownfield	Highway
Carlsbad Seawater Desalination Plant (CALIFORNIA)	2012	900	DBFOM	Revenue Risk	Greenfield	Water
Ohio State University Parking Facility	2012	483	FOM/DBFOM	Revenue Risk	Monetization/Greenfield	Parking

Source: Infra-Americas.com, Infra-Deals.com, IJOnline.com, Deloitte Analysis

Select Completed Transactions (cont'd)

The market has seen consistent public/private activity, which has shifted from monetizations of existing assets to brownfield improvement and greenfield transactions.

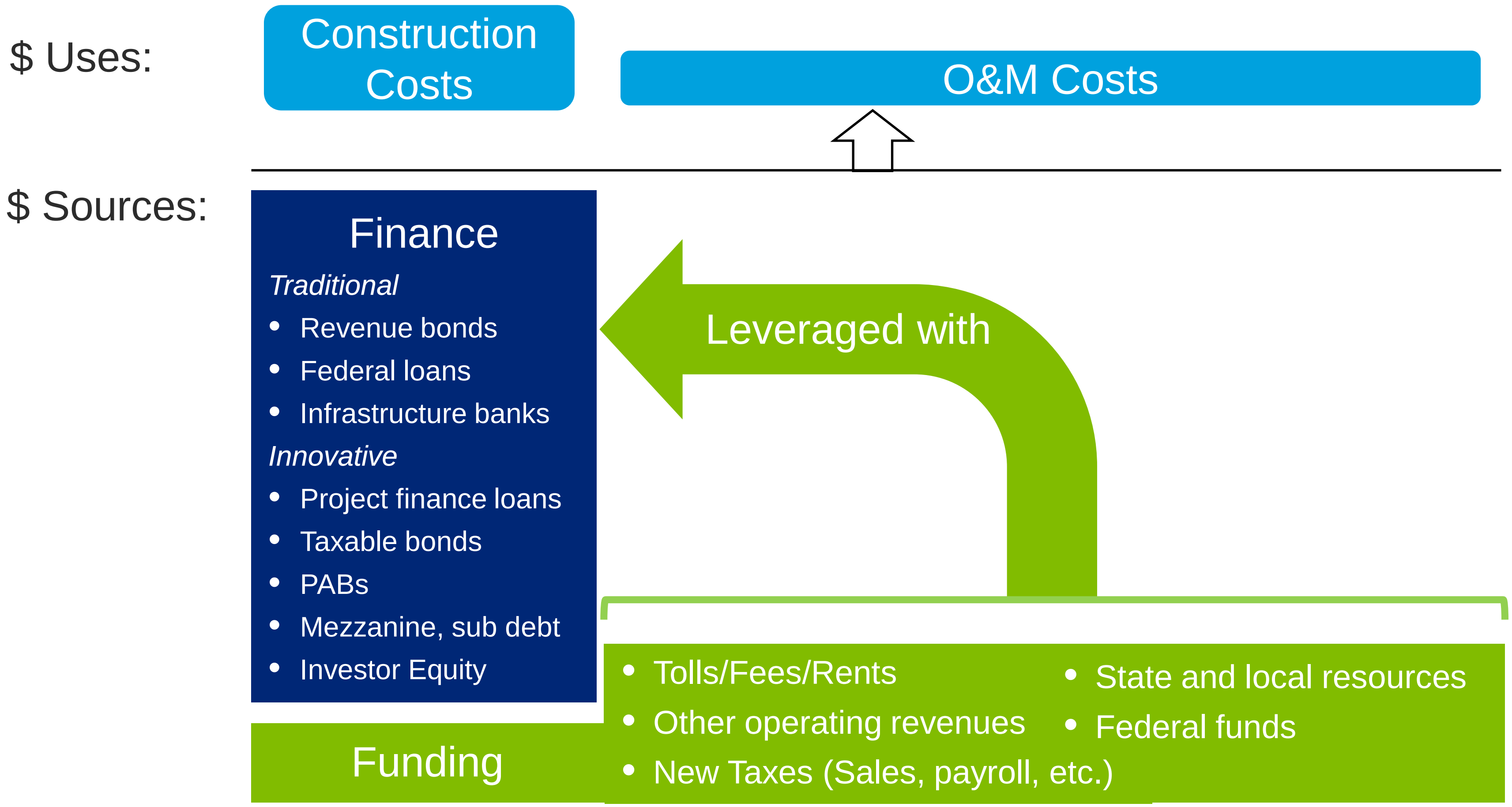
Project	Year	Capital amount ($M)	Procurement mechanism	Payment type	Project nature	Asset type
Rialto Water System	2012	172	DBFOM	Revenue Risk	Brownfield	Water
I-75 Expansion	2012	72	DBF	Availability	Brownfield	Highway
Luis Munoz Marin International Airport	2013	615	DBFOM	Revenue Risk	Greenfield / Brownfiled	Airports
Presidio Parkway	2012	365	DBFOM	Availability	Greenfield / Brownfield	Highway
Goethals Bridge P3	2013	1,500	DBFM	Availability	Brownfield	Bridges and Tunnels
North Tarrant Expressway Segments 3A and 3B	2013	1,360	DBFOM	Revenue Risk	Greenfield / Brownfield	Roads
Georgia Northwest Corridor (NWC) P3	2013	840	DBF	Revenue Risk	Greenfield	Roads
Ohio River Bridges Project - East End Crossing	2013	1,300	DBFOM	Availability	Greenfield	Bridges and Tunnels
Luis Munoz Marin International Airport	2013	615	DBFOM	Revenue Risk	Greenfield / Brownfiled	Airports
US 36 P3	2014	120	DBFOM	Revenue Risk	Greenfield / Brownfiled	Roads
I-69 P3	2014	370	DBFOM	Availability	Greenfield	Roads
I-4 Ultimate P3	2014	2,300	DBFOM	Availability	Greenfield	Roads
SH-183	2014	848	DBOM	Mixed	Greenfield	Roads
Pennsylvania Bridges Project	2015	900	DBFOM	Availability	Greenfield	Bridges and Tunnels
Southern Ohio Veterans Highway (Portsmouth Bypass)	2015	554	DBFOM	Availability	Greenfield	Roads
I-77 HOT Lanes	2015	655	DBFOM	Revenue Risk	Greenfield	Roads

Source: Infra-Americas.com, Infra-Deals.com, IJOnline.com, Deloitte Analysis

Funding/ Finance

Funding is the revenue and capital that pay for the creation and ongoing maintenance of an asset or service.

Financing is the structure and related financing instruments that are used to leverage or securitize the funding revenues.



Key Principles

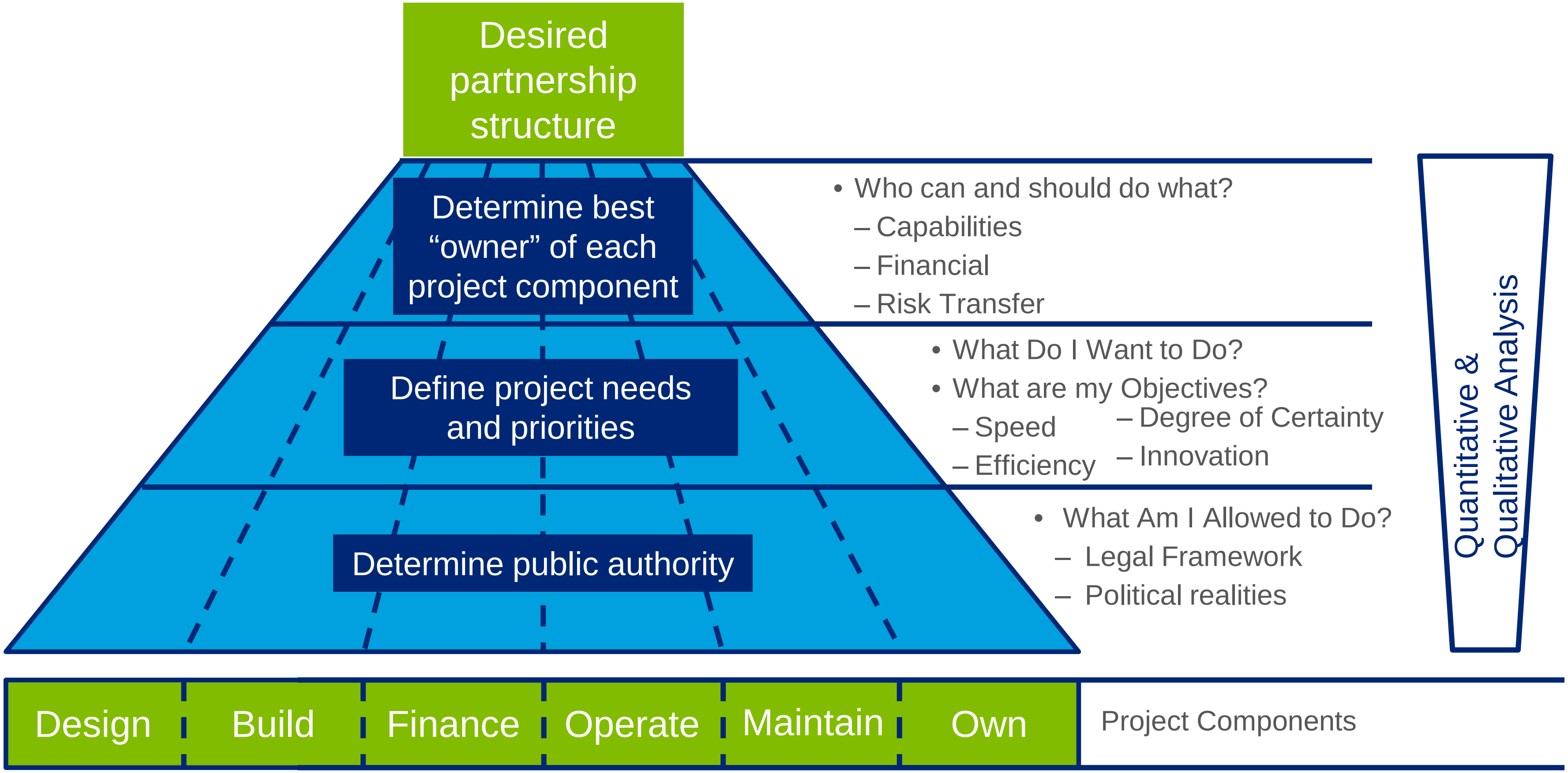
1. PPPs are:

- First, a procurement mechanism
- Second, a financing mechanism
- Almost NEVER, a funding mechanism

2. The bulk of the value in PPPs comes from efficiencies in the design, construction, operations, and maintenance of an asset or service, not from financial engineering.

Designing the Structure

Once funding is identified, an involved and systematic process is undertaken to structure the partnership.



A Healthy Public/Private Pipeline

Select Publicly-Announced U.S. PPP Transactions

Project	State	Current Status	Capital Amt ($ m)	Procurement Mechanism	Payment Type	Project Nature	Asset Type
Maryland Stormwater P3	MD	Preferred Proponent	100	DBFM	Revenue/Demand Risk	Greenfield	Water
San Antonio Water PPP	TX	Preferred Proponent	100	DBFOM	Revenue/Demand Risk	Greenfield	Water
UTOPIA Broadband (Utah)	UT	Preferred Proponent	300	[TBD]	Mixed	Greenfield	Telecom
Long Beach Civic Center	CA	Preferred Proponent	200	DBFOM	Availability-Based	Greenfield	Accommodation
Indianapolis Courthouse	IN	Preferred Proponent	408	DBFOM	Availability-Based	Greenfield	Accommodation
Tajiguas Resource Recovery	CA	Preferred Proponent	100	DBFOM	Availability-Based	Greenfield	Waste
University of Kansas Campus	KS	Preferred Proponent	TBD	DBF	Other	Greenfield	Education
SH 288	TX	Preferred Proponent	820	DBFOM	Revenue/Demand Risk	Greenfield	Roads
Harbor Bridge (Gap Financing)	TX	Preferred Proponent	800	DBM	Other	Greenfield	Bridges and Tunnels
Michigan Freeway Lighting	MI	Preferred Proponent	100	DBFOM	Other	Greenfield	Street Lighting
LaGuardia Airport Terminal Building	NY	Preferred Proponent	3,600	DBFOM	Other	Greenfield	Airports
Illiana Expressway (Indiana)	IN	On Hold	300	DBFOM	Availability-Based	Greenfield	Roads
Purple Line	MD	Shortlisted Proponents	2,200	DBFOM	Availability-Based	Greenfield	Light Rail
UC Merced Campus Expansion	CA	Shortlisted Proponents	1,000	DBFOM	Other	Greenfield	Education
Pennsylvania CNG Fueling Station	PA	Shortlisted Proponents	150	DBFOM	Other	Greenfield	Power
Emerald Coast Utilities Authority	FL	Shortlisted Proponents	53	DBFO	Other	Greenfield	Waste
I-285/SR 400 Improvements	GA	Shortlisted Proponents	1,056	DBF	Other	Greenfield	Roads
Denver Airport	CO	Shortlisted Proponents	500	[TBD]	Other	Greenfield	Airports
Chicago CNG	IL	RFQ returned	TBD	DBFOM	Other	Greenfield	Power
Ohio State University Energy Project	OH	RFQ returned	TBD	[TBD]	Other	Greenfield	Energy Storage
I-70 East	CO	Transaction Launch	1,170	DBFOM	Availability-Based	Greenfield	Roads
Easton Police Station	PA	Transaction Launch	TBD	[TBD]	Other	Greenfield	Accommodation
State Street Redevelopment Project	IN	Transaction Launch	TBD	DBFOM	Availability-Based	Greenfield	Roads
South Miami Heights Water Treatment Plant	FL	Transaction Launch	TBD	DBFOM	Other	Greenfield	Water
I-66	VA	Pre-Launch	2,100	DBFOM	Revenue/Demand Risk	Greenfield	Roads
I-395 Corridor (Miami)	FL	Pre-Launch	600	DBF	Other	Greenfield	Roads
Project Rest Stops	MA	Pre-Launch	TBD	[TBD]		Brownfield	Roads

Source: Infra-Americas.com, Infra-Deals.com, IJOnline.com, Deloitte Analysis

Recent Trends

Continued activity focused on the transportation sector, but some activity or discussion in:

- Social infrastructure
- Water/ wastewater

Increasing consideration and use of a diversity of PPP structures

- Commercial/ financial structures ranging from DB through DBFOM
- Availability payment, revenue risk, hybrid
- Grants and other contributions used to lower overall capital costs

Activity dominated by a few states with others in process

- Active: CA, FL, IL, PR, TX, VA
- In-process: IN, KY, MD, NY, PA
- Considering: MI, CT, DC

Expanding interest by the Federal government in:

- Procuring/ disposing of assets and accelerating through using PPPs
- Providing long-term debt capital to projects through expanded or new credit programs

PPP competes for infrastructure equity capital, which has been going elsewhere

- Private energy investments (mid-stream)
- Overseas

Key Challenges to PPPs “Taking Off” Across the U.S.

- Authority to use PPP
- Political risk
- Existing capital structures and revenue pledges
- Timing challenges
  - Public sector procurement processes
  - Education of procurer
- Availability of long-term low-cost debt capital
- Accounting treatment

Key Success Factors

- Compelling estimated benefits and credible analytical support – “value for money”
- Clearly identified source for repayment – funding
- Robust framework for protecting the public interest
- Clear, regular communications with all stakeholders – “transparency”
  - Can require long “education” period for some stakeholders before transaction activity begins
- Careful early-stage analysis and structuring
- Efficient allocation of risk and reward
- Flexibility and an understanding of available alternatives is key
- Robust process designed to result in competitive bids, but also allowing for reasonable private sector innovation
- “Partnership” approach begins before financial close

Potential tax implications for companies investing in PPPs

Typical Forms of Transportation Concessions
Toll Concession vs. Availability Payments

Toll Concessions

Concessionaire :

- Acquires the right to operate the toll road pursuant to a lease with the State
- Has right to charge tolls to the public for the use of the Toll Road
- Responsible for maintaining the road during the term of the concession period subject to standards set forth in the concession agreement
- May require a single upfront payment or fixed and/or contingent periodic payments

Availability Payments / Shadow Toll Arrangements

Concessionaire:

- Required to design, build, finance, operate, and maintain
- Receives payment directly from the State or municipality
  - Availability payments: payments for making the facility open and available to the public
  - Shadow tolls: payments contingent upon public usage

Treatment of the Concession Payments

Toll Concession vs. Availability Payments

Toll Concessions	Availability Payments / Shadow Toll Arrangements
Government:	Government:
• Cash Flow	• Cash Flow
− (+) Upfront payment	− (-) Milestone payments during construction
− (+) If revenue sharing, percentage of toll revenue	− (-) Availability payments or shadow tolls
	− (+) Potential toll revenue

Treatment of the Concession Payments

Toll Concession vs. Availability Payments (continued)

Toll Concessions	Availability Payments / Shadow Toll Arrangements
Concessionaire:	Concessionaire:
• Responsibilities	• Responsibilities
− Maintenance	− Design/Build
− Operations	− Maintenance/Operations
− Collect tolls	− Finance
• Revenue Source	• Revenue Source
− Tolls collected from third party users	− State or municipality

Treatment of the Concession Payments

Toll Concession vs. Availability Payments (continued)

Toll Concessions	Availability Payments / Shadow Toll Arrangements
Concessionaire: • Cash Flow – (-) Upfront payment – (+) Toll revenue – (-) If revenue sharing, percentage of toll revenue above threshold – (-) Costs associated with operating, maintaining, and financing. May include design and build costs.	Concessionaire: • Cash Flow – (-) Costs associated with designing, building, financing, operating, and maintaining. – (+) Availability payments or shadow tolls

Characterization of the Agreement
Toll Concession

- Typical property transferred and tax characterization of interests
  - Long-term lease of underlying land
  - Fixed assets, such as bridges and toll roads
  - Intangibles, such as grant of right by a government, permit, franchise, or other concession right
- Tax ownership and entitlement to depreciation deductions are not determined by possession of title or nomenclature used by the parties
  - Based on a facts and circumstances analysis
    - Intent of parties
    - Length of lease term as compared to property's economic useful life
    - De minimis purchase options
- Conditional sale of assets if lease term significantly exceeds useful life

Characterization of the Agreement
Availability Concession

- Agreement is in the form of a single contract covering design, build, operations, maintenance, and financing activities.
- Agreement does not specifically allocate the payments from the state or municipality between these activities
- Tax law may require bifurcation of the contract between the following:
  - Long-term construction contract accounted for under the percentage-of-completion method (“PCM”)
  - Non-long-term contract for non-construction activities (e.g., operations and maintenance and financing) subject to different tax accounting rules
- Different methodologies have been employed to allocate contract price between the long-term construction contract and non-construction contract

Legal Entity Structure
Tax Considerations

- Form of investment vehicle (e.g., corporation, partnership, disregarded entity)
- Tax profile of investors / sponsors (e.g., US, non-US, US tax exempt)
- “Top side” tax planning
  - Direct investment vs. US corporate “blocker” vehicle
  - Debt vs. equity capitalization
- Foreign Investment in Real Property Tax Act (“FIRPTA”)
- Cash distributions to investors

Capital Structure
Tax Considerations

Equity

- Timing of equity contribution
- Letter of credit

Debt

- Common types of debt financing:
  - Project Activity Bonds (“PABs”)
  - Transportation Infrastructure Finance and Innovation Act (“TIFIA”)
  - Private debt placement
  - Bank loan (short-term/long-term)
- Interest deductibility
- Premium / discount amortization
- Issuer options (i.e., call option)
- Financing costs

Financial Model

Tax Considerations

- Impact on return on investment
- Entity (SPV) vs. investor level analysis
- Cash taxes incurred as a result of the transaction
- Net operating loss (NOL) and alternative minimum tax (AMT) considerations
- U.S. federal, state, and local income tax
- Non-income taxes
  - Sales and use; Property; Payroll; Transfer and other transactional taxes; Other local taxes

Cost Recovery Issues
Treatment of Assets

- Tangible assets
  - General Depreciation Systems (GDS)
  - Modified Accelerated Cost Recovery Systems (MACRS)
  - Alternative Depreciation System (ADS)
  - Bonus Depreciation
- Intangible assets
  - Generally amortized straight-line over 15 years

Concession Agreement

Key Provisions with Tax Implications

- Payment structure (e.g., availability payments vs. toll collection)
- Project ownership
- Payment of taxes
- Reimbursement provisions
  - Sales and use tax
  - Property tax
- Termination provisions (e.g., Force Majeure, developer default, convenience)
- Allocation of payments to government authority
  - Concession payment
  - Revenue sharing
  - Refinancing gain

Sample Concession Agreement Provisions
SH 130 (Texas)

Key tax provisions in Concession Agreement:

- **Allocation of payments:** “For federal income tax purposes, the (i) Concession Payment and (ii) Developer's cost to acquire the Facility Right of Way on behalf of TxDOT…shall both be allocated for the grant to the Developer of the exclusive franchise and license pursuant to the terms of the Agreement to impose and collect tolls.”
- **Project Ownership:** “…Developer's expenditures to construct the Facility…shall be for its own account, with Developer owning such improvements for federal income tax purposes.”
- **Payment of taxes:** “Developer shall pay, prior to delinquency, all applicable Taxes.”
- **Reimbursement of sales tax:** “TxDOT shall reimburse Developer for certain State sales taxes...”

Illustrative Tax Summary – Public Private Partnership (P3) "Availability Style" Transaction

Tax Treatment of the Public Private Agreement

- The tax law does not provide specific rules for allocating consideration under a single agreement among long-term contract and non-long-term contract activities.
- Generally, for federal income tax purposes it is reasonable to treat the "Public Private Agreement" as bifurcated into: (i) a long-term construction contract accounted for under the Percentage of Completion Method ("PCM") under IRC section 460 and, (ii) a separate non-long term contract for non-construction activities (e.g., O&M services and financing) subject to different tax accounting rules.

Public Private Agreement

Long-term contract activity

- Long-term contract methods of tax accounting apply only to the gross receipts and costs attributable to long-term contract activities (i.e., the construction arrangement).
- In general, a contract that meets the definition of a long-term contract must be accounted for using the PCM. Under the PCM, the contract price is recognized in income proportionately as contract costs are incurred.

Non long-term contract activity

- A non long-term contract activity means the performance of an activity other than manufacturing, building, installation, or construction.
- These activities generally include the provision of operation and maintenance services.

Construction Period

Contract Price Measurement & Determination of Taxable Income

- Section 460 contract price is computed by determining the amounts attributable to long-term construction activities.
- Section 460 defines total contract price as the amount that a taxpayer reasonably expects to receive under a long-term contract.

Milestone Payments ("MP")

- MPs are made to the developer during the construction period for meeting certain construction milestones.
- Included as part of contract price and recognized using the PCM.
- Receipt generally not taxable and the timing of receipt would generally not impact the PCM computation.

Construction begins

Construction ends

Construction Expenditures

- Consideration should be given to deductibility of construction expenses for federal income tax purposes (and timing of deduction).
- Costs that directly benefit and are incurred by reason of construction activities are generally included in PCM computation.
- Certain non-construction expenses (e.g., debt financing costs) may be capitalized and amortized and excluded from the PCM computation.

Operations & Maintenance Period

"Availability" Payments ("AP")

- Periodic APs are made to the developer throughout the O&M period for keeping the project available for public use. The tax law does not provide specific rules for the treatment of APs.
- Payments received during the construction period are generally not adequate to compensate the developer for construction activities. Accordingly, it is reasonable to treat a portion of the payments received during the O&M Period (i.e., APs) as compensation for construction activities (i.e., such construction activities had been taxed during the construction period under PCM).
- The portion of each AP not treated as a return of the unreimbursed construction amount would appear to constitute ordinary income (i.e., service and/or interest income) for income tax purposes recognized under generally applicable tax accounting principles.

O&M begins

O&M ends

O&M Expenditures

- O&M expenses are generally deductible in the tax year in which they are incurred under generally accepted accounting principles.
- Certain capitalized costs will continue to be amortized during the O&M period.

Accounting implications for PPP investors

Overview of Key Accounting Issues

Financial reporting considerations – Accounting by a PPP

- Accounting for PPP agreements involves some complexity. As PPP agreements initially gained popularity in Europe, IFRS standards offer specific guidance on how to account for such arrangements. Current U.S. GAAP, on the other hand, does not contain specific guidance.

Issue	IFRS	U.S. GAAP
Revenue Recognition	IAS 11 (for construction or upgrade services) and/or IAS 18 (for operation services)	ASC 605, ASC 606, SCU 2014-0, *Update to ASC 606*, ASU 2014-5, *Service Concession Agreements,* and various other sources, including materials from the Emerging Issues Task Force
Accounting Models	IFRIC 12 Financial Asset – Operator receives fixed amount Intangible Asset – Operator has right to charge users	ASC 606 Identify transaction price (606-10-32-2) and allocate among performance obligations (6060-10-32-28) • Recognize revenue by measuring progress towards completion (606-10-25-31)
Development Entities' Rights over Assets	IFRIC 12 Infrastructure assets are not recognized as PP&E of the developer/operator	ASU 2014-5 Infrastructure assets are not recognized as PP&E of the developer/operator. Further, the arrangement is not accounted for as a lease.

FASB and IASB Converged Revenue Guidance

The converged revenue recognition guidance related to contracts with customers will be effective in the year 2017.

The new standard will require significant management judgment and may change the way that many U.S. companies recognized revenue in their financial statements.

In transitioning to the new guidance, the concessionaire will have two options:

1. Apply a retrospective application to restate prior periods for differences in accounting for all contacts (considering requirements of ASC 250); or
2. Apply the new standard to contracts not completed as of the adoption in Jan-17 and record a cumulative catch-up adjustment. Under this option, you would not apply the new standard to previously completed contracts.

Initial Application Year (Jan-17)	2017 Current Year	2016 Prior Year 1	2015 Prior Year 2
New contracts	New standard	N/A	N/A
Existing contracts	New standard & cumulative catch-up	Legacy GAAP	Legacy GAAP
Completed contracts	N/A	Legacy GAAP	Legacy GAAP

Application of Accounting Guidance

Construction Services

Scenario #1 - 'Availability Payments': The Development Entities have a contractual right to receive a fixed amount of milestone payments and availability payments from the governmental entity or grantor.

	IFRS	U.S. GAAP
Applicable Guidance	IFRIC 12, *Service Concession Agreements* – Financial Asset Model	Percentage of Completion*
Revenue Recognition	Revenue and costs associated with the construction services are accounted for in accordance with IAS 11, *Construction Contracts*. • Contract revenue should only be recognized to the extent that contract costs incurred are expected to be recovered and contract costs should be expensed as incurred. • As the amount of construction costs and revenues recognized will typically exceed cash payments received, a financial asset is recognized related to construction activities. • This asset is recognized under the effective interest method and is settled through receipt of future payments from the grantor (i.e. availability payments).	Two potential approaches to recognizing revenue: • Zero Margin Approach: Equal amounts of revenue and cost, measured on the basis of performance during the period, are presented in the income statement. The resulting excess of revenue recognized over the progress payments is recorded as an unbilled receivable asset. • Normal Margin Approach: Contract revenue and margin is apportioned to the performance obligations based on relative selling prices of each service as a standalone deliverable. Revenue recognized in each period exceeds costs by the amount of a normal margin for the work performed based on the developer's experience in performing similar construction and O&M services separately.

* As indicated in the previous slides, U.S. GAAP does not include specific guidance on accounting for PPP arrangements. Choice of the appropriate revenue recognition methodology will depend on the facts and circumstances of individual transactions and market participants' accounting policies may vary in practice.

Application of Accounting Guidance

Operating and Maintenance Services

Scenario #1 - 'Availability Payments': The Development Entities have a contractual right to receive a fixed amount of milestone payments and availability payments from the governmental entity or grantor.

	IFRS	U.S. GAAP
Applicable Guidance	IFRIC 12, *Service Concession Agreements* – Financial Asset Model	Percentage of Completion*
Revenue Recognition	Revenue and costs associated with the operating and maintenance services are accounted for in accordance with IAS 18, *Revenue*. • Revenue and costs for services are recognized on a straight-line basis over a specified period of time unless there is evidence that some other method better represents the stage of completion (e.g. percentage of completion method). • Upgrades or additional construction activities required under the contract are considered separate revenue-generating activities.	Two potential approaches to recognizing revenue: • Zero Margin Approach: Equal amounts of revenue and cost, measured on the basis of performance during the period, are presented in the income statement. The resulting excess of revenue recognized over the progress payments is recorded as an unbilled receivable asset. • Normal Margin Approach: Contract revenue and margin is apportioned to the performance obligations based on relative selling prices of each service as a standalone deliverable. Revenue recognized in each period exceeds costs by the amount of a normal margin for the work performed based on the developer's experience in performing similar construction and O&M services separately.

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Application of Accounting Guidance

Toll Concession Arrangement

Scenario #2 - 'Toll Concession': The Development Entities receives the right (or license) to charge users, or the grantor, based on use of the public service. There is no unconditional right to receive cash as amounts are contingent on public use.

	IFRS	U.S. GAAP
Applicable Guidance	IFRIC 12, *Service Concession Agreements* – Intangible Asset Model	ASU No. 2014-05 Service Concession Arrangement (Topic 853)
Revenue Recognition	• During the construction portion of the contract, revenue recognized during the construction phase increases the intangible asset balance, which is accounted for under IAS 38. If the intangible is purchased, the concession is capitalized as an intangible asset at cost. • During the operational phase, revenue is collected from the developer's right to charge users, while the intangible asset used to recognized that right will be amortized during the operational phase over the life (or usage) of the concession.	Points to other areas of GAAP to record concession contracts. • Service concession should not be recorded as a lease • Infrastructure used in a service concession arrangement should not be recognized as PP&E of the operating entity
Change in estimated cash flows	Concessions generally cover long periods of time, therefore intangible assets may need to be impaired or their amortization schedule reviewed.	

* As indicated in the previous slides, U.S. GAAP does not include specific guidance on accounting for PPP arrangements. Choice of the appropriate revenue recognition methodology will depend on the facts and circumstances of individual transactions and market participants' accounting policies may vary in practice.

Application of Accounting Guidance – U.S. GAAP

US$000s		Payments			Costs			GAAP Zero Margin Revenue					Asset
	Year	Design and Construction	O&M	**Total Payments**	Design and Construction	O&M	**Total Costs**	Construction Revenue	% of Completion	O&M Revenue	**Total Revenue**	**Total Income**	Unbilled Receivable
Construction	**2017**	5,000	-	5,000	(15,000)	-	(15,000)	15,000	-	-	15,000	-	10,000
	2018	10,000	-	10,000	(20,000)	-	(20,000)	20,000	-	-	20,000	-	20,000
Substantial	**2019**	10,000	-	10,000	(5,000)	-	(5,000)	5,000	-	-	5,000	-	15,000
Completion	**2020**	-	11,000	11,000	-	(2,000)	(2,000)	-	*20.0%*	8,000	8,000	6,000	12,000
	2021	-	11,000	11,000	-	(2,000)	(2,000)	-	*20.0%*	8,000	8,000	6,000	9,000
O&M Phase	**2022**	-	11,000	11,000	-	(2,000)	(2,000)	-	*20.0%*	8,000	8,000	6,000	6,000
	2023	-	11,000	11,000	-	(2,000)	(2,000)	-	*20.0%*	8,000	8,000	6,000	3,000
	2024	-	11,000	11,000	-	(2,000)	(2,000)	-	*20.0%*	8,000	8,000	6,000	-
		25,000	55,000	**80,000**	(40,000)	(10,000)	**(50,000)**	40,000	*100.0%*	40,000	**80,000**	**30,000**	

Total Revenue	80,000
Total Cost	(50,000)
Gross Profit	30,000
Total Payments	80,000
Revenue Recognized During Construction	(40,000)
Remaining Revenue to Recognize During O&M	40,000

Payments that exceed construction costs are allocated to the O&M portion of revenue based on PoC of total O&M cost.

Revenue sources (highlighted in blue):

1. Example considers zero margin construction revenue (matches construction and design costs)
2. O&M revenue which is calculated as total payments less construction revenue and allocated on a percentage of completion ("POC") basis on O&M total costs.
3. The unbilled receivable balance consists of revenue recognized in excess of payments received, which typically builds in early years and is reduced to zero by the end of the contract as cash receipts outstrip revenue recognized in the latter years.

* As indicated in the previous slides, U.S. GAAP does not include specific guidance on accounting for PPP arrangements. Choice of the appropriate revenue recognition methodology will depend on the facts and circumstances of individual transactions and market participants' accounting policies may vary in practice.

Application of Accounting Guidance – IFRS

US$000s		Payments			Costs			IFRS Zero Margin Revenue								
		Design and Construction	O&M	**Total Payments**	Design and Construction	O&M	**Total Costs**	Construction Revenue	% of Completion	O&M Cost Revenue	10% O&M Margin Revenue	Net Services over Cash Rec'd	Finance Income	Financial Asset Balance	**Total Revenue**	**Total Income**
Construction	**2017**	5,000	-	5,000	(15,000)	-	(15,000)	15,000	-	-	-	10,000	-	10,000	15,000	-
	2018	10,000	-	10,000	(20,000)	-	(20,000)	20,000	-	-	-	10,000	2,565	22,565	22,565	2,565
Substantial	**2019**	10,000	-	10,000	(5,000)	-	(5,000)	5,000	-	-	-	(5,000)	5,788	23,353	10,788	5,788
Completion	**2020**	-	11,000	11,000	-	(2,000)	(2,000)	-	*20.0%*	2,000	200	(8,800)	5,990	20,544	8,190	6,190
	2021	-	11,000	11,000	-	(2,000)	(2,000)	-	*20.0%*	2,000	200	(8,800)	5,270	17,013	7,470	5,470
O&M Phase	**2022**	-	11,000	11,000	-	(2,000)	(2,000)	-	*20.0%*	2,000	200	(8,800)	4,364	12,577	6,564	4,564
	2023	-	11,000	11,000	-	(2,000)	(2,000)	-	*20.0%*	2,000	200	(8,800)	3,226	7,004	5,426	3,426
	2024	-	11,000	11,000	-	(2,000)	(2,000)	-	*20.0%*	2,000	200	(8,800)	1,796	(0)	3,996	1,996
		25,000	55,000	**80,000**	(40,000)	(10,000)	**(50,000)**	40,000	*100.0%*	10,000	1,000		29,000		**80,000**	**30,000**

Total Revenue	80,000	
Total Cost	(50,000)	
Gross Profit	30,000	
Total Payments	80,000	
Revenue Recognized During Constructi	(40,000)	
O&M Cost Revenue	(10,000)	*O&M Margin*
O&M Margin Revenue	(1,000)	*10.0%*
Remaining Revenue for Finance Income	29,000	
IRR on Finance Cash Flows	*25.7%*	

Revenue apportioned to Finance income is allocated by applying the IRR to the Financial Asset Balance.

Revenue sources (highlighted in blue):

1. Example considers zero margin construction revenue (matches construction and design costs)
2. O&M revenue which includes O&M cost and a reasonable mark up
3. Remaining profit to be recognized is apportioned to finance income and allocated using the IRR on the financial asset balance, which is accrued through revenue recognized, less payments received. This income, unlike the other revenue streams, is considered interest income and does not flow through the top line.

Sample Concession Agreement Provisions

Accounting for termination provisions in Concession Agreement:

In some cases, termination provisions my be present in the contract that impact the recognition of revenue. For example, the following provision relates to a termination for convenience:

- "DOT will pay Developer the sum of: (a) Developer's actual reasonable out-of-pocket costs… and (b), as profit on clause (a), an amount determined by DOT to be fair and reasonable that shall in no event exceed four percent of the cost owing to Developer"

A conservative accounting approach may limit the amount of revenue recognized to the amounts to which the developer is entitled under the termination provisions until certain hurdles or milestones have been met as stipulated by the Agreement.

Termination provisions often differ from contract to contract and may require different accounting based on the clauses included, primary reporting standards followed, and how management and its auditors determine to represent them.

* As indicated in the previous slides, U.S. GAAP does not include specific guidance on accounting for PPP arrangements. Choice of the appropriate revenue recognition methodology will depend on the facts and circumstances of individual transactions and market participants' accounting policies may vary in practice.

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