



L.F. WADE INTERNATIONAL AIRPORT REDEVELOPMENT PROJECT
PROJECT AGREEMENT REVIEW
FINDINGS REPORT

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1 Executive Summary

1.1 Background

On 15th March 2017, the Government of Bermuda signed the Project Agreement with the Canadian Commercial Corporation arranged under a negotiated procurement process for the L.F. Wade International Airport Redevelopment Project (The “**Project**”). Subsequently the Project Agreement was transferred by novation to the Project Agreement’s current counterparties: the Bermuda Airport Authority and Bermuda Skyport Corporation Limited (“**Skyport**”).

The Bermuda Airport Authority was established under the Bermuda Airport Authority Act 2017 and owns the L.F. Wade International Airport. The Bermuda Airport Authority oversees, on behalf of the Government, the performance by Skyport and Aecon, of the Project Agreement. The Bermuda Airport Authority also delivers certain retained Government services and regulates airport fees. Bermuda Skyport Corporation Limited is a special purpose Bermudian company, wholly-owned by Aecon Concessions. Skyport is responsible for the overall development and implementation of the project. The Canadian Commercial Corporation (the “**CCC**”), through a subcontract to Aecon Construction Group Inc., will deliver the construction component of the project.

The Project Agreement was structured as a 30-year design, build, finance, operate and maintain (“**DBFOM**”) public-private partnership (“**P3**” or “**PPP**”) concession using a revenue-risk model with project funding sourced from revenue generated by airport operations. The Project Agreement will expire on 15th March 2047.

The Project includes the development of a new passenger terminal building with six aircraft stands, associated landside and airside improvements, repurposing of the legacy terminal facility, management of ongoing airport operations (excluding specific retained Government services) and maintenance of facilities within the airport property. The target date for substantial completion of the new passenger terminal is 15th July 2020.

As part of its 2017 Platform, the PLP Government made a pledge to review the Project Agreement to see if Bermuda could get a better deal. The lack of competitive bidding and a relinquishment of the airport’s revenues were key concerns of the PLP Government. The PLP Government instructed the Bermuda Airport Authority to lead the review. The Bermuda Airport Authority, with advice and support from LeighFisher, undertook the review between August and December 2017 the scope of which was determined by the Bermuda Airport Authority. This report summarizes the observations and findings of that review and makes recommendations for securing a better outcome for Bermuda.

1.2 Synopsis of Observations and Findings

In reference to procurement and the disbenefits of sole source negotiations in this context, one key question is whether proponents (and lenders) would have materialized in sufficient numbers to pursue the same or an alternative demand-risk opportunity in an open RFP procurement. The situation is made more challenging by the concurrent complexities of assembling project financing, the downward trending of Bermuda’s passenger volumes and the loss of pursuit costs for unsuccessful bidders (when other investment prospects were available at that same time).

Such speculation is beyond the remit of this review and will not be the subject of this report as it is impossible to turn back the clock to determine. What is evident however, and it is worth noting, is

that the majority of P3 deals in mature P3 markets are competitively procured by Government agencies or sponsoring authorities for the purpose of securing the best value for money. Competitive procurement creates value through design competition and innovation, it enables the public sector to control the drafting of contractual provisions and the procurement process, and helps to maintain public sector negotiating leverage

With respect to the Project Agreement's terms and conditions, the drafting of the Project Agreement is aligned with industry standards for similar revenue-risk P3 models. Terms and conditions reflect the risks transferred to Skyport and the rewards for revenue growth. Airport Regulated Revenues (below the Revenue Sharing Threshold as set out in the Project Agreement) will fund the pre-closing transaction development costs, the design, construction, operations and maintenance of the existing and new airport terminals and the payment of Skyport shareholder dividends. For completeness and to illustrate the Agreement's risk allocation, the Bermuda Airport Authority has its own upside and downside exposures.

The Bermuda Airport Authority will share in revenue growth above a certain threshold which mirrors Skyport's projected internal rate of return ("IRR") on its equity investment. Conversely the Bermuda Airport Authority will only guarantee revenues on the downside to protect the debt repayments when revenues fall below a lower limit, but this guarantee covers no other revenue growth risks, as these are assumed by Skyport.

More specifically, certain Project Agreement provisions protect Skyport's revenue risk/reward, its complex project financing structure and its reliance on cash flows from future passenger volumes, via several specific contractual provisions. One of these provisions is preventing changes to the Project Agreement achieved by excluding mechanisms for incorporating variations, which is unusual for P3 projects. Therefore, introducing changes to change the current Project Agreement would be difficult to implement in practice.

Generally, P3 deals are difficult to change once signed. The added complexity of the underlying project financing structure and absence of a change mechanism in this case represents a significant and costly hurdle to overcome, which limits the range of options available for Bermuda's pursuit of a better deal.

Within this context, the Project Agreement review has identified two scenarios for consideration:

- a) Optimization of the current contract through incremental enhancements of key elements; and
- b) Changing the contract only through use of the Project Agreement's termination mechanism.

Of note, the termination provisions are set out in a prescribed mechanism within the Project Agreement. These termination provisions are available to the Bermuda Airport Authority throughout the 30-year concession, as is typical for P3 projects. However, due to the contractual complexities of the Project Agreement and various contractual breakage costs for terminating at the Authority's convenience, termination would present significant direct and indirect challenges to Bermuda, Bermuda's economy and Bermudian's in general (as outlined in *Section 3.6* of this report). For example, the cost of terminating the Project Agreement four to five months into the construction period would likely have been in excess of \$100 million. Additionally, the unintended consequences of termination would include: employment loss, economic damage and instability, international reputational risk, threat of credit rating downgrades, and negative impact on tourism.

1.3 Key Conclusions

The following are the key conclusions of the review:

- *Terms and conditions of the Project Agreement are broadly consistent with other similar contracts;*
- *The airport revenues are being used to fund the design, construction and financing of the new airport terminal building, as well as operating and maintaining the airport, including the existing terminal, and once complete, the new terminal;*
- *The interest rate for the long-term debt is within market range;*
- *The return on investment for the equity sponsor, Aecon, is within market range;*
- *The balance of risk/reward is consistent with other similar projects;*
- *This project was not competitively procured. Typically, these types of P3 projects are competitively procured by a public sector procuring agency to retain control of the procurement process, to retain competitive tension, increasing Government's negotiating leverage, and ultimately garner best value for money;*
- *Unlike other similar P3 projects, this Project Agreement doesn't allow changes; it doesn't have variation provisions, which is unusual for a 30-year concession agreement. The only way to make substantive changes to its terms and conditions is to terminate the agreement;*
- *Terminating the agreement would be extremely costly and would have far reaching negative consequences for Bermuda; and*
- *Notwithstanding the inability to change the contract, there are opportunities for optimizing the Project Agreement but it will require co-operation from Skyport and Aecon.*

1.4 Recommendations

Changing the contract through termination is not recommended at this juncture.

Optimization is the recommendation of this review.

This review has identified six optimization elements that should be pursued by the Bermuda Airport Authority to obtain incremental enhancements for a better deal. The following represent approximately \$15 million worth of enhancements for Bermuda and Bermudians under the Project Agreement. There is potential for this benefit to be significantly higher when the optimization portfolio has been implemented.

1. Jobs for Bermudians
2. Workforce Development and Training
3. Energy Costs
4. Passenger Traffic Growth and Revenue Sharing
5. Social Investment (Corporate Social Responsibility)
6. Physical Accommodation (BAA offices)

It remains for the Project Agreement counter-parties (the Bermuda Airport Authority and Skyport) to co-develop and entrench these elements going forward as declared benefits in their framework and to operationalize the fulfillment of the optimization portfolio across the concession term to maximize their value to Bermuda and Bermudians.

2 Scope of Review

In July 2017, as part of its 2017 Platform, the PLP Government issued a pledge to review the Project Agreement between the Bermuda Airport Authority and Skyport to ascertain whether Bermuda can get a better deal.

The scope of the review includes identifying betterment opportunities for the Bermuda Airport Authority to facilitate enhanced outcomes for Bermuda through optimization of Project Agreement mechanisms in collaboration with Aecon and Skyport executives.

The Project Agreement review was undertaken in two stages. Each stage included key milestones that involved internal and external stakeholders:

2.1 Project Agreement Review – Stage 1

The initial due diligence began with a full review of the Project Agreement, all associated Schedules, Memorandum of Understanding, underlying debt and equity arrangements and previous due diligence reports to ultimately obtain a working knowledge of the structure, mechanisms and entitlements within. This helped to identify observed gaps, risks, and suspected root causes of a “sub-optimal deal” or underperformance in terms of benefits for Bermuda.

2.2 Optimization – Stage 2

a) Strategic Considerations

This included the facilitation of a collaborative process engaging the Bermuda Airport Authority and Government in the identification of potential betterment options and the resulting outcomes. Strategic considerations were assessed and ranked in the best interest of Bermuda and its citizens.

b) Optimization Portfolio Development

This involved facilitated working sessions between Bermuda Airport Authority and Skyport stakeholders to review targeted Project outcomes, propose and rank strategic optimization options, to sustain optimum performance and ultimately be the basis for a better deal.

c) Optimization Implementation Planning

This required the Bermuda Airport Authority and Skyport to develop an implementation framework for execution of the optimization portfolio. This included: defining specific goals, working groups, scope, execution actions/methods, timeframes and measurement of results that institute betterment going forward.

This report further outlines timelines and outcomes of the Project Agreement review.

3 Project Agreement Review - Stage 1

3.1 Original Concerns

The PLP Government expressed the following concerns with respect to the Project Agreement:

- *Sole Source Procurement: competitive procurement may have resulted in lower construction costs and more favorable terms.*
- *Revenues: concerns with respect to revenues being transferred off-island, which may have been better retained by the Government of Bermuda*

The review includes consideration of these concerns.

3.2 Documents Reviewed

The review included a due diligence examination of the following documents to aid in obtaining a working knowledge of the structure, mechanisms and complexities of the Project Agreement:

- *Project Agreement and all twenty eight associated Schedules*
- *Memorandum of Understanding with the Ministry of Home Affairs*
- *Historical and Projected Traffic Forecasts*
- *Financial Model and underlying debt and equity arrangements*
- *Government of Bermuda, Overall Business Case – Entrustment Report, Nov 2016*
- *Previous due diligence reports as outlined in Section 3.7*
- *Presentation materials produced by Skyport/Aecon*

3.3 Project Agreement Structure

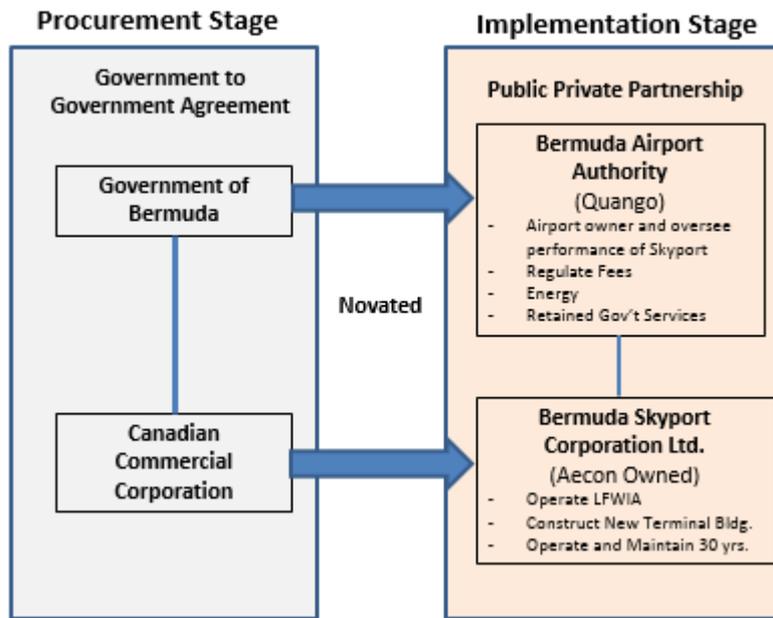
The L.F. Wade International Airport (“**LFWIA**”) includes the Design, Build, Finance, Operation and Maintenance of a new passenger terminal located in St. George’s, Bermuda.

LFWIA is the only airport serving Bermuda, handling approximately 800,000 arriving and departing passengers per year. The existing airport facilities do not provide for efficient airport operations and do not support traffic growth potential with the appropriate level of service provided to passengers.

The OBA Government therefore entered into negotiations with the CCC and Aecon Concessions for the construction of a new terminal and other provisions/obligations to enhance the passenger experience, facilitate the forecast growth in traffic, and for the concession of the operation and maintenance of the new terminal. In view of the investment costs and expertise required for the implementation of this project, the OBA Government agreed to develop the LFWIA based on PPP principles.

Through novations from the Government of Bermuda and CCC respectively, the public sector contracting authority is Bermuda Airport Authority, and the private sector partner is Skyport.

Figure 1 – Project Agreement Counterparties



3.4 Key Contract Milestones

The key contract milestones, as per the Project Agreement, are listed below.

The Effective Date is the date on which the Project Agreement was executed between the Bermuda Airport Authority and Bermuda Skyport Corporation Limited.

The Target Substantial Completion Date is the date on which the construction requirements set forth in the Project Agreement are achieved.

The Expiry Date pursuant to the Project Agreement is the 30th anniversary of the Effective Date.

Table 3.4.1 – Key Contract Milestones

| Milestone | Date |
|------------------------------------|-----------------------------|
| Effective Date | 15 th March 2017 |
| Target Substantial Completion Date | 15 th July 2020 |
| Expiry Date | 15 th March 2047 |

3.5 Financial Aspects of the Project Agreement

Given the uniqueness of the LFWIA in terms of the modest size of the airport's traffic volume and recent experience in the Latin America-Caribbean region, the drafting of the Project Agreement's financial terms and conditions are aligned with industry standards for similar revenue-risk P3 models.

The risks transferred to Skyport include:

- *Design;*
- *Construction;*
- *Maintenance and lifecycle rehabilitations;*
- *Airport operations; and*
- *Project financing.*

Throughout the construction phase of the airport redevelopment, project financing is provided through a combination of Skyport's debt and equity. Regulated Revenues will be used to fund the operations, maintenance, debt servicing for the new terminal and equity shareholder distributions ultimately illustrating the significant correlation between financial returns and passenger volumes.

As a result, the Project Agreement is drafted, in part, to protect Skyport's revenue risk/reward model to meet the Internal Rate of Return ("**IRR**"), its complex project financing structure and its reliance on cash flows from future passenger volumes, via several specific contractual provisions as outlined in *Tables 3.7.1 and 3.7.2*.

The benefits to Bermuda as a result of the current financial structure include:

- *No Increase in sovereign debt;*
- *No impact to Debt/GDP ratio;*
- *No effect on Bermuda's credit rating;*
- *Leaves lending room available for other projects/priorities;*
- *Sharing in upside revenue above a set Revenue Sharing Threshold; and*
- *Potential off-balance sheet transaction (accounting treatment currently being reviewed).*

3.6 Changes to the Project Agreement

The Project Agreement does not contain a mechanism to facilitate the introduction of changes or variations to the Project. This is extremely unusual for P3 projects particularly due to the lengthy term of the concession period. It is likely that the procuring authority will require some changes during the term. The only method available to effect substantive change is to terminate the Project Agreement.

The termination process is set out in the Project Agreement, Schedule 9 [Compensation on Termination], which defines three circumstances whereby certain parties may trigger termination. All such circumstances would require a compensation payment by the Bermuda Airport Authority to Skyport:

- *Termination for a Bermuda Airport Authority event of default or at the convenience of the Bermuda Airport Authority;*
- *Termination for a Skyport event of default; and*
- *No-fault termination.*

It is difficult to make an accurate determination of the compensation payment arising from the Bermuda Airport Authority opting to terminate, without full disclosure by Skyport of information at the particular time that termination has been triggered. For example, there are many factors involved and the various terms and conditions of the financing agreements and other Project documents are voluminous and complex.

However, as an order of magnitude, taking into account the contractual complexities, various contractual breakage costs, and other compensation on termination provisions of the Project Agreement, the compensation payments four to five months into construction would likely have been well in excess of \$100 million. The level of compensation payable on termination continues to escalate as construction progresses.

In addition to the compensation payable for terminating the Project Agreement, there may be many other unintended consequences to Bermuda, Bermuda's economy and Bermudians directly which include:

- *Bermudian employment: job losses resulting from the many subcontracts with local Bermudian firms and Bermudians employed either directly or indirectly by Skyport;*
- *Bermudian economy: direct and indirect negative economic impact resulting from job losses;*
- *New terminal building: Bermuda would be left with a new terminal building in the early stages of construction lying dormant for an extended period of time;*
- *Sub-standard facility: Bermuda would continue to operate in a sub-standard facility, with a likely negative impact on tourism and high operating and maintenance costs.*
- *International perception: material and detrimental impact on inward investment in any future major capital infrastructure project; and*
- *Rating Agencies: negatively impact on reputation and a potential downgrade of Bermuda's credit rating resulting in higher borrowing costs for the country.*

3.7 Project Agreement Review Findings

Through the Project Agreement review process the following commercial and contractual findings were identified to support the development of strategic considerations for the Bermuda Airport Authority:

Table 3.7.1 – Contractual Findings

| Contractual Findings |
|---|
| <ul style="list-style-type: none"> • Structure: The drafting of the Project Agreement is aligned with industry standards for similar revenue-risk based P3 models; • Scale: Private sector delivery models (PPP) are typical in Latin America-Caribbean region airports where arriving and departing passengers are in excess of one million per annum; • Sole source procurement: Previous third party due diligence found that the likelihood of success from a negotiated deal is expected to be higher in this case than under a competitive tender, given the modest size of the airport traffic volume and recent experience in the region. However, it is worth noting that the majority of P3 projects in mature P3 markets are competitively procured by Government agencies/authorities for the purpose of securing the best value for money. Competitive tensions also creates value through design competition and innovation, it enables the public sector to control the drafting of contractual provisions and the procurement process, and helps to maintain public sector negotiating leverage; • Variations: The Agreement does not include a mechanism for the introduction of any change/variation. This is not normal in these types of PPP projects and limits the public sector party's flexibility over a 30-year concession agreement. PPP Project Agreements typically include a separate schedule addressing variations. This Project Agreement does not have such a schedule. Changing the terms and conditions would be complex and expensive as there is no variation clause, termination is therefore only change mechanism; • Termination: Due to the contractual complexities of the Project Agreement and various contractual breakage costs for terminating at the Authority's convenience, termination would present significant direct and indirect challenges to Bermuda, Bermuda's economy and Bermudians in general. For example, the cost of terminating the Project Agreement four to five months into the construction period would likely have been in excess of \$100m. Additionally, the unintended consequences of termination would include: employment loss, economic damage and instability, international reputational risk, threat of credit rating downgrades, and negative impact on tourism; • Technical terms: Schedule 3 of the Project Agreement is input-based with a pre-established design, specifications and program of requirements not output-based specifications typically used for PPP projects. For example, whereas an input-based, pre-established design may include vinyl, an output-based specification would describe having a floor covering to meet a certain volume of pedestrians and/or service equipment, and to be maintained to certain standards of presentation, cleanliness, etc., possibly resulting in a more robust floor finish; and • Governance: Evidence of past due diligence using third party validation however, LeighFisher has not opined on these third party reports under this review: <ul style="list-style-type: none"> • LeighFisher, Industry Review of Airport Privatization and PPP Models, Aug 2013 – Preliminary conclusions assume BDA could afford CapEx program through 2020 under a PPP model; • Deloitte, Appraisal of Airport Development Business Case, May 2015 – Overall assessment of the strategic, economic, commercial, financial and management case; |

| Contractual Findings (continued) |
|--|
| <ul style="list-style-type: none"> • Director, Overseas Territories, Foreign and Commonwealth Office, Entrustment Letter, July 2015 – No additional sovereign debt to appear on the balance sheet of the Government of Bermuda that relates to the airport construction; • HNTB, Faithful & Gould, Reconciled Cost Estimate, Jun 2016 – independent review of Airport cost estimate concluding within market standards; • LeighFisher, High Level Review of AECON Traffic Forecasts (Issue 16), Nov 2016 – independent review of air traffic forecast represents reasonable basis for financial assessments and determining the size of required facilities; • Steer Davies Gleave, Value for Money Assessment LFWIA ARP – Final Report, Nov 2016 - Analysis of the strategic and financial case and estimate of the economic impacts, the Government’s chosen option (Government to Government) represents value for money; and • Blue Ribbon Panel Report, Feb 2017 – Transaction found to be commercially sound and reasonable and in addition terms are within the parameters for similar P3 Airport Projects. |

Table 3.7.2 – Commercial Findings

| Commercial Findings |
|--|
| <ul style="list-style-type: none"> • The Project Agreement’s terms are commensurate with underlying risk; • Risk transfers to Skyport are balanced and target reward proportionate to risk exposure; • Skyport’s actual IRR is highly dependent on future passenger volumes; • Skyport’s target IRR is considered modest but reflective of risk exposure and is within market range, typically between 15% - 20%¹; • Debt interest is considered to be within risk adjusted market range of 4% - 8%¹; • Only change mechanism is Termination for which associated costs will be a substantial burden to Bermuda; and • Mechanisms noted as required by Lenders to mitigate risks to revenue stream and to secure the interest rate for Skyport's debt portion of the project financing: <ul style="list-style-type: none"> • <i>No concession fee payable by Skyport to Government of Bermuda;</i> • <i>Minimum Revenue Guarantee by Bermuda Airport Authority below a set threshold to protect debt repayments when revenues fall below a lower limit, this guarantee covers no other revenue growth risks, as these are assumed by Skyport;</i> • <i>Revenue sharing when revenues exceed an agreed upper limit;</i> • <i>Energy costs retained by public sector; and</i> • <i>Retained Government Services which include weather services, air traffic control services, and ground electronic services.</i> |
| <p>¹ The Canadian Council for Public-Private Partnerships Database</p> |

In Summary

A competitive procurement may have resulted in more attractive commercial terms, competitively priced bids and better value for the Government procuring authority. However, it is impossible to turn back the clock and make such an assessment. With regards to revenues, they may or may not have been better retained by the Government of Bermuda, but again, it is impossible to make such a determination as this was never market tested under a competitive procurement process. Changing the terms and conditions of the Project Agreement at this juncture would present significant material challenges to Bermuda, as termination is the only change mechanism.

Findings suggest the agreement represents a balanced allocation of risk, the financing terms of the project are within market ranges, the contractual terms are within the parameters for similar P3 projects. The Project Agreement does not offer opportunity for introducing change (unusual for P3 projects); termination is the only change mechanism.

All of that being said, the review has identified strategic considerations for the Bermuda Airport Authority to consider regarding the pursuit of a better deal, as outlined in the following section.

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4 Strategic Considerations – Stage 2a

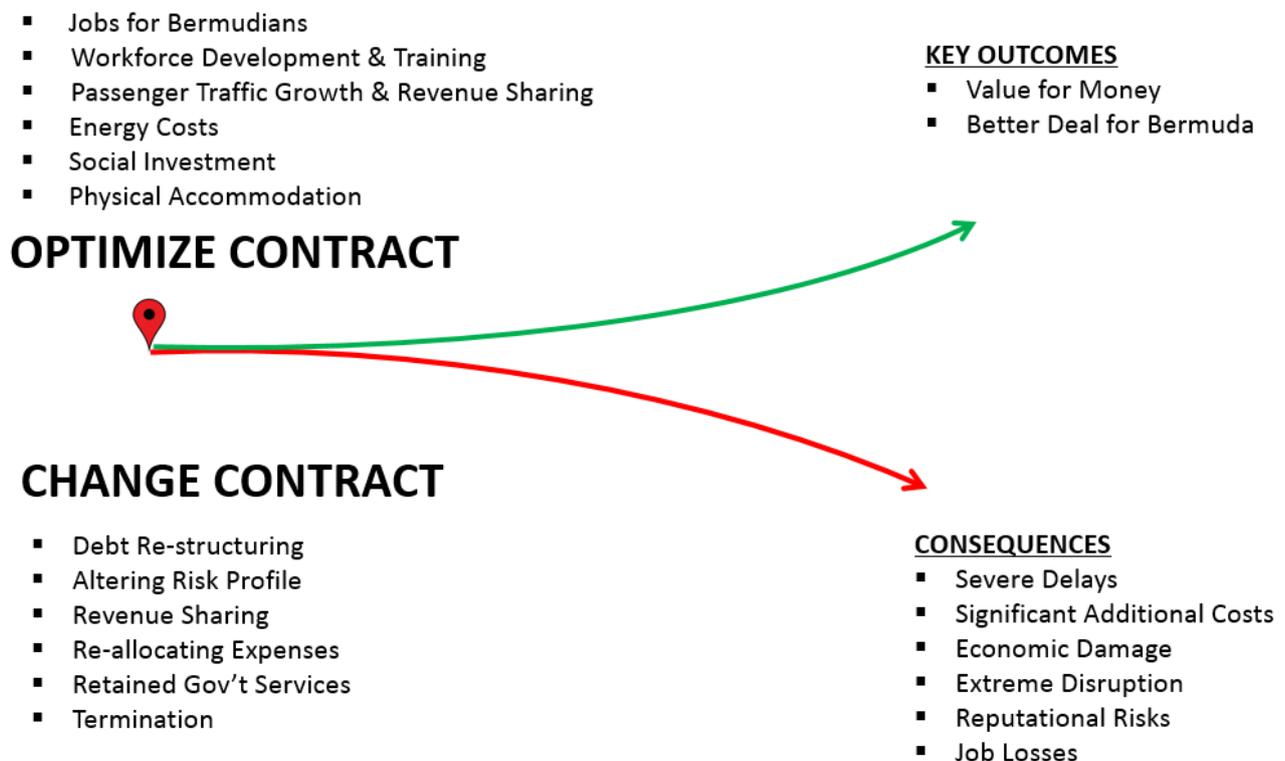
In determining a roadmap to achieve betterment for Bermuda, a collaborative process engaging the Bermuda Airport Authority and Government in the identification of strategic options and the potential for beneficial outcomes was conducted under the auspices of this review.

During the Project Agreement review, two options emerged which were subsequently considered with the objective of achieving a better deal for the Government of Bermuda:

- *Option A – Optimization of the existing contract*
- *Option B – Change the contract*

The strategic consideration of these two options is illustrated in the figure below.

Figure 2 – Strategic Considerations



With respect to the strategic consideration Option B – Change the contract, a variation clause as a mechanism to alter contract terms was not present in the Project Agreement thus changes identified would be the potential results of terminating the Agreement.

Option A - Optimizing the contract was selected as the preferred approach to securing better value and a better deal for Bermuda and Bermudians. This however, would require the cooperation of Skyport and Aecon.

In Summary

As implied during the review process, changing the contract through termination presents significant challenges to Bermuda. It was therefore not pursued as a strategic consideration. Through facilitation of a collaborative process engaging the Bermuda Airport Authority and Government, optimization was selected as the preferred approach.

The six identified optimization elements that were pursued by the Bermuda Airport Authority to obtain incremental enhancements for a better deal as illustrated in Figure 2 include:

1. Jobs for Bermudians
2. Workforce Development and Training
3. Energy Costs
4. Passenger Traffic Growth and Revenue Sharing
5. Social Investment (Corporate Social Responsibility)
6. Physical Accommodation (BAA offices)

Subsequent steps included:

1. Engaging Aecon/Skyport
2. Agreeing jointly on the optimization portfolio, targets and the mechanism

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5 Optimization Portfolio Development – Stage 2b

5.1 Introduction

A workshop took place on November 23rd, 2017 which included company representatives from Bermuda Airport Authority, Skyport, Aecon and LeighFisher.

The objective of the workshop was to brainstorm and reach an agreement on a portfolio of initiatives that can be achieved through a joint effort from both the public and private partner to ultimately result in betterment for Bermuda. An important premise for the exercise was to ensure the stability of the transaction, the financing and international investments, by staying squarely within the bounds of the existing Project Agreement.

Participating representatives included:

- *Mark Fields, Chairman, Bermuda Airport Authority*
- *Lester Nelson, CEO, Bermuda Airport Authority*
- *James Campbell, Director PPP Contract Management, Bermuda Airport Authority*
- *Steve Nackan, President, Aecon Concessions and Chairman, Skyport*
- *Aaron Adderley, President, Skyport*
- *Ken Hassard, Commercial Director, Skyport*
- *Frank Ross, Executive Advisor, Aecon Infrastructure*
- *David Pratt, Vice President, LeighFisher*
- *Jim Lew, Associate Director, LeighFisher*

5.2 Optimization Elements

As a result of the November 23rd, 2017 workshop, and multiple follow up meetings and conference calls, Bermuda Airport Authority and Skyport/Aecon as partners, developed a portfolio of optimization initiatives. Each portfolio element was curated by classifying the below six categories to ensure betterment is achieved for the citizens of Bermuda:

- *Subject;*
- *Commitment for a Better Deal, not formalized, required or obligated in the Project Agreement*
- *Outcomes;*
- *Incremental enhancements;*
- *Implementation timing; and*
- *Monitoring and reporting, through oversight by an optimization steering committee but using existing PA committee structures where possible and appropriate.*

The resulting obligations identified by this workshop process and committed to by Skyport/Aecon will be formalized in a letter of commitment written by Skyport/Aecon, addressed to the Bermuda Airport Authority, as a record of Skyport/Aecon's agreement to perform and achieve the proposed initiatives.

5.2.1 Jobs for Bermudians

Subject: This element of the optimization portfolio covers Jobs for Bermudians during construction period and, Jobs for Bermudians during airport operations.

Commitment for a better deal: Enhanced Bermudian labour commitments including establishment of a new minimum target of 90% for Bermudian employment at Skyport, the airport operator, as well as increasing the minimum target for Bermudian employment on airport construction from 60% to 65% of the labour force.

Outcome: In 2016, Bermuda reported its first job increase in eight years however the number of Bermudian job holders declined with a loss of 82 jobs. In efforts to ensure employment opportunities are fulfilled by Bermudians to every extent possible, and that efforts are made to facilitate knowledge transfer from guest workers, with certain specialised skills not available in Bermuda, Skyport and Aecon have committed to increasing minimum targets for Bermudian employment. This initiative will ultimately result in long term gains and benefits for Bermudians, the employment industry and the country as a whole from a macro perspective i.e. GDP/CPI.

Specifically, the economic impact includes subcontracting additional Bermudian businesses, retaining further companies for host services such as legal, payroll, and catering while continually boosting Bermuda’s construction industry.

Incremental enhancements:

Table 5.2.1 i)

| Subject | Description | Project Agreement Targets (baseline) | Optimization Commitment |
|---------------------|----------------------------------|---|-------------------------|
| More Bermudian Jobs | Construction jobs for Bermudians | Project Agreement: 55% Memorandum ¹ : 60% | 65% |
| | Operations jobs for Bermudians | Unspecified in Agreement | 90% |

Implementation timing: The proposed enhancements shall be initiated within the following time frame and be sustained for the designated period.

Table 5.2.1 ii)

| Enhancement | Start up | Duration |
|----------------------------------|-----------------------|---------------------|
| Construction jobs for Bermudians | With immediate effect | Construction period |
| Operational jobs for Bermudians | With immediate effect | Concession period |

Monitoring and reporting: Follow up progress reviews and routine reporting of actual outcomes shall be the joint responsibility of the Bermuda Airport Authority and Skyport. Reporting can be done via a new special section in the Monthly Report and monitored via the Joint Airport Construction Committee (65% min. target) and the Joint Airport Operations Committee (90% min. target).

¹ MOU – [Memorandum of Understanding dated March, 2017 between Skyport, Aecon (and affiliates of Skyport and Aecon), CCC and the Ministry of Home Affairs of the Government of Bermuda.]

5.2.2 Workforce Development and Training

Subject: This element of the optimization portfolio covers Workforce development and training programs for Bermudians.

Commitments for a better deal: Enhanced workforce development and training commitments, including a \$6 million training budget over the term with expanded internship and mentorship programs, working closely with the Department of Workforce Development and the Bermuda College.

Outcome: Across the world and across all industries, a successful business – and economy – is dependent on an educated, highly skilled workforce. In efforts to competitively enhance the Bermudian workforce and ensure that citizens have the skills and knowledge to support current and future businesses and industries, Skyport and Aecon, as appropriate, have committed to support the development and implementation of customized and meaningful workforce development and training programs, including participation in the development of a National Trade Skills Registry in addition to those identified in table 5.2.2 i). Successful implementation of the workforce development training programs, which are annually refreshed based Bermuda’s need, will deliver return on investment through a highly skilled and competitively enhanced Bermudian economy.

Incremental enhancements:

Table 5.2.2 i)

| Subject | Description | Project Agreement Targets (baseline) | Optimization Commitment |
|------------------------------------|--|--------------------------------------|---|
| Workforce Development and Training | Skills development for Bermudians <ul style="list-style-type: none"> • Construction internship program • International assignment program • Soft skills training program • National trade skills Registry Fair • Mentorship program • YouthNet mentoring program • Technical training programs • Job shadowing program | Unspecified in Agreement | \$6 million for airport team Implementation of all programs identified to the left |

Implementation timing: the proposed enhancements shall be initiated within the following time frame and be sustained for the designated period.

Table 5.2.2 ii)

| Enhancement | Start up | Duration |
|---|--|-------------------|
| Workforce Development and Training for Bermudians | Programs are refreshed annually based on scale of actual need and workflow | Concession period |

Monitoring and reporting: Follow up progress reviews and routine reporting of actual outcomes shall be the joint responsibility of the Bermuda Airport Authority and Skyport under the auspices of an optimization steering committee and the Joint Airport Operations Committee.

5.2.3 Energy Costs

Subject: This element of the optimization portfolio covers energy consumption reduction initiatives.

Commitments for a better deal: An agreement to form a Joint Energy Task Force and a commitment to identify and advance further energy consumption reduction measures and alternative energy opportunities – to further reduce Government costs. The Task Force is to focus on the following:

- (i) monitoring and delivering on energy efficiency targets set out in the Program of Requirements;
- (ii) initiatives for energy savings through education and awareness i.e. identifying opportunities for changed behavior; and
- (iii) collaboratively identifying opportunities for energy savings by using new and existing technologies or alternative energy sources and presenting any business cases to the broader optimization steering committee.

Outcome: To focus on the identification and implementation of Energy consumption reduction measures and alternative Energy opportunities that result in long term cost savings and environmental benefits for Bermuda.

Incremental enhancements:

Table 5.2.3 i)

| Subject | Description | Project Agreement Targets (baseline) | Optimization Commitment |
|--------------|---|---|---|
| Energy Costs | <p>Means and methods that facilitate further reductions in energy consumption</p> <ul style="list-style-type: none"> • Staff awareness and training • Controls and system use strategies • Inside-the-fence alternative energy • Technology enhancements and upgrades | As contained in Project Agreements Program of Requirements and Preliminary Energy Model | Reductions in annual energy consumption that result in direct costs savings to Government |

Implementation timing: the proposed enhancements shall be initiated within the following time frame and be sustained for the designated period.

Table 5.2.3 ii)

| Enhancement | Start up | Duration |
|--|---|-------------------|
| Energy consumption reduction initiatives | Initiatives refreshed annually based on actual facility performance and energy reduction models | Concession period |

Monitoring and reporting: Follow up progress reviews and routine reporting of actual outcomes shall be the joint responsibility of the special Joint Energy Task Force under the auspices of an optimization steering committee.

5.2.4 Passenger Traffic Growth and Revenue Sharing

Subject: This element of the optimization portfolio covers revenue sharing from passenger traffic growth.

Commitments for a better deal: Enhanced traffic growth initiatives including an initial \$1.3 million air service development and tourism promotion commitment, funded by Skyport, the outcome of which is intended to benefit Government’s participation in the Project Agreement’s revenue sharing arrangement.

Outcome: To intensify the identification and implementation of airport development and promotional initiatives that result in benefits to Bermuda through increased traffic and sharing of resulting revenues.

Incremental enhancements:

Table 5.2.4 i)

| Subject | Description | Project Agreement Targets (baseline) | Optimization Commitment |
|-----------------|--|---|---|
| Revenue Sharing | Airport development and promotional initiative that facilitates revenue sharing for Bermuda from regulated fees <ul style="list-style-type: none"> • Robust development plan • Air service/tourism promotion • Increased traffic growth • Develop terms of reference | Target Revenue threshold as per Project Agreement | Agreed investment program (\$1.3m) and measures to help achieve revenues above Project Agreement targets. |

Implementation timing: the proposed enhancements shall be initiated within the following time frame and be sustained for the designated period.

Table 5.2.4 ii)

| Enhancement | Start up | Duration |
|--|-----------|-------------------|
| Revenue sharing derived from increased traffic growth and regulated fees | Immediate | Concession period |

Monitoring and reporting: Follow up progress reviews and routine reporting of actual outcomes shall be the joint responsibility of the Airport Promotion and Development Committee under the auspices of an optimization steering committee.

5.2.5 Social Investment

Subject: This element of the optimization portfolio covers corporate social responsibility and social investment.

Commitments for a better deal: Expanded corporate social responsibility and social investment program worth \$4 million, with a focus initially on education, the environment and youth programs supporting initiatives such as East End Primary classroom libraries, Kids in Construction and Youthnet Mentoring.

Additionally, Skyport has committed to working alongside the Bermuda Department of Workforce Development in adopting a new Environment, Health and Safety Program that will serve as a benchmark in Bermuda to help promote a safe and effective workplace for Bermudians.

Outcome: To build relations and offer sustained collaboration with neighbouring communities in order to improve local capacity and quality of life as well as the reaffirmation of Bermudian cultural, social and historical values a \$4-million-dollar corporate social responsibility program will be rolled out through the concession period. In efforts to respect and support the Bermudian society this initiative is to promote higher productivity, better health and social inclusion within Bermudian society.

Incremental enhancements:

Table 5.2.5 i)

| Subject | Description | Project Agreement Targets (baseline) | Optimization Commitment |
|-------------------|---|--------------------------------------|------------------------------------|
| Social Investment | Community partnering, initiatives and philanthropy that benefits surrounding areas, initial focus: <ul style="list-style-type: none"> • Education • Youth development • Environment • Health and Safety Program | Unspecified in Agreement | \$4 million over concession period |

Implementation timing: the proposed enhancements shall be initiated within the following time frame and be sustained for the designated period.

Table 5.2.5 ii)

| Enhancement | Start up | Duration |
|-------------------|--|-------------------|
| Social investment | Immediate implementation and refreshed every year based on emerging priorities | Concession period |

Monitoring and reporting: Follow up progress reviews and routine reporting of actual outcomes shall be the joint responsibility of the Bermuda Airport Authority and Skyport under the auspices of an optimization steering committee.

5.2.6 Physical Accommodation

Subject: This element of the optimization portfolio covers accommodation for the Bermuda Airport Authority offices.

Commitments for a better deal: Commitment to provide the Bermuda Airport Authority with office accommodation for a peppercorn rent at the L.F. Wade International Airport terminal building or elsewhere on or adjacent to the airport site, valued at \$3.8 million to \$4.4 million over the concession.

Outcome: In an effort to provide long term cost savings and enhance project efficiencies the Bermuda Airport Authority will relocate within the refurbished legacy premises of the L.F. Wade International Airport terminal building or other appropriate space. This will ultimately result in synergistic project benefits that ensure the Bermuda Airport Authority is onsite and fulfills their mandate to oversee the performance by Skyport in the Public Private Partnership and ensure contractual value is delivered in accordance with the key performance indicators and the quality specifications contained in the Project Agreement.

Incremental enhancements:

Table 5.2.6 i)

| Subject | Description | Project Agreement Target (baseline) | Optimization Commitment |
|------------------------|---|--|--|
| Physical Accommodation | Allocation of reasonable office space for Bermuda Airport Authority within the repurposed legacy Passenger Terminal Building or elsewhere <ul style="list-style-type: none"> • Administration offices, workspaces • Reception, meeting, amenities | Bermuda Airport Authority offsite rent and costs | Bermuda Airport Authority onsite with savings of \$3.8 to \$4 million over concession period |

Implementation timing: the proposed enhancements shall be initiated within the following time frame and be sustained for the designated period.

Table 5.2.6 ii)

| Enhancement | Start up | Duration |
|------------------------|---|--------------------------------|
| Physical Accommodation | Occupancy after Substantial Completion Equipping by the Bermuda Airport Authority | Remainder of concession period |

Monitoring and reporting: Follow up progress reviews and routine reporting of actual outcomes shall be the joint responsibility of the Bermuda Airport Authority and Skyport under the auspices of an optimization steering committee.

6 Optimization Implementation Planning – Stage 2c

Enablers identified by Bermuda Airport Authority and Skyport to implement each optimization portfolio element as per portfolio requirements will subsequently be rolled out in the next few months, commencing immediately, as a joint effort.

The following working groups have been developed to ensure the targets for each optimization portfolio item are met and in the best case scenario exceeded.

An optimization steering committee will be responsible for the oversight and governance of each portfolio item and will hold ultimate responsibility in ensuring that goals and objectives of each sub group are met.

Table 6.1.1 – Working Groups

| Item | Group | Scope |
|--|---|--|
| Jobs for Bermudians | Joint Airport Construction Committee and Joint Airport Operations Committee | Create a reporting and tracking tool and incorporate into monthly reports |
| Workforce Development & Training | Joint Airport Operations Committee | Develop workforce and development training programs that align with Bermuda’s needs |
| Energy Costs | Joint Energy Task Force | Identify and present energy saving initiatives to the Optimization Steering Committee. |
| Passenger Traffic Growth & Revenue Sharing | Airport Promotion and Development Committee | Prepare committee terms of reference and Air Service Development and Tourism Promotion Programme |
| Social Investment | Bermuda Airport Authority and Skyport Communications and Public Relations Personnel | Coordinate the implementation of this initiative and report on the outcomes and benefits |
| Physical Accommodation | Accommodations Group | Develop accommodation plan and lease arrangements |

7 Conclusion

The Bermuda Airport Authority is mandated to undertake its oversight role in a way so as to ensure that Bermuda's interests are always put first, and it is encouraged to do so. This optimization is a good example of how this can be achieved, with the Bermuda Airport Authority's leadership, professionalism and due diligence.

A review of the Project Agreement has identified opportunities for the Bermuda Airport Authority to pursue that can generate better outcomes for Bermuda. Altering a P3 agreement once signed is always challenging and this case is no exception. That said, the findings of this review suggest tangible gains for Bermudians are possible to achieve within the framework of the current Project Agreement.

The risk allocation within the Project Agreement aligns with P3 industry standards for similar revenue-risk models. Terms reflect a balanced allocation of upside and downside exposures assigned to the counterparty best positioned to manage the risk. For example, the Bermuda Airport Authority will share in revenue growth above a certain threshold while only guaranteeing downside risk to Skyport's debt repayments, but will assume no other revenue growth risks, as these are assumed by Skyport.

Making changes to the Project Agreement will be challenging and most certainly costly. Terms are drafted to protect, in part, Skyport's revenue risk/reward, its complex project financing structure and its reliance on cash flows from future passenger volumes via several specific contractual provisions. One of these provisions is preventing changes by excluding mechanisms for incorporating variations. The absence of such mechanisms preclude the use of changes to generate opportunities for betterment.

Notwithstanding the above constraints, there exist opportunities to facilitate better outcomes for Bermuda by optimizing the current Project Agreement within allowable parameters. This review has identified two scenarios for consideration and further development.

Option 1 - Optimization

Optimization provides Bermuda with an opportunity to obtain enhancements on key elements or measures within the allowable parameters of the Project Agreement, which have not been articulated, formalized, required or obligated under the existing Project Agreement terms. These offer the benefit of tangible gains without the need to renegotiate or incur significant costs. This approach has been discussed and endorsed by the Bermuda Airport Authority and Skyport thus optimization represents an opportunity to leverage the existing collaborative working relationship and partnering spirit of this P3 project.

Option 2 - Contract Change

Contract change provides Bermuda with the opportunity to withdraw out of the contract entirely through the use of the Project Agreement's termination mechanism. This scenario uses a defined process within the Project Agreement available to the Bermuda Airport Authority throughout the concession. It triggers a prescribed and drastic sequence of consequences that will require costly support and present significant and material challenges to Bermuda as the triggering party. As a result of the contractual complexities of the Project Agreement and various contractual breakage costs for terminating at the Authority's convenience, termination would present significant direct and indirect challenges to Bermuda, Bermuda's economy and Bermudians in general (as outlined in

Section 3.6 of this report). For example, the cost of terminating the Project Agreement four to five months into the construction period would likely have been in excess of \$100 million. Additionally, the unintended consequences of termination would include: employment loss, economic damage and instability, international reputational risk, threat of credit rating downgrades, and negative impact on tourism.

Each scenario generates diametrically opposed consequences in the pursuit of change for the better, representing radically different cost versus benefits to Bermuda. Optimization generates benefits within the current Project Agreement through a collaborative process that is integral to P3 partnering. Contract change seeks benefits through replacement of the current Project Agreement, using drastic measures that will trigger wide-reaching consequences for Bermuda before any benefits can materialize, but offers the eventual prospect of a fresh start.

In Summary

Key conclusions are summarized as below:

1. The terms and conditions of the Project Agreement are broadly consistent with other similar contracts
2. The airport revenues are being used to fund the design, construction and financing of the new airport terminal building, as well as operating and maintaining the airport, including the existing terminal, and once complete, the new terminal
3. The interest rate for the long-term debt is within market range
4. The return on investment for the equity sponsors, Aecon, is within market range
5. The balance of risk/reward is consistent with other similar projects
6. This project was not competitively procured. Typically these types of P3 projects are competitively procured by a public sector procuring agency to retain control of the procurement process, to retain competitive tension, increasing governments negotiation leverage, and ultimately garner best value for money
7. Unlike other similar P3 projects, this Project Agreement doesn't allow changes; it doesn't have variation provisions, which is unusual for a 30-year concession agreement. The only way to make substantive changes to its terms and conditions is to terminate the Project Agreement
8. Terminating the Project Agreement would be extremely costly and would have far reaching negative consequences for Bermuda
9. Notwithstanding the inability to change the contract, there are opportunities for optimizing the Project Agreement but it will require co-operation from Skyport and Aecon

8 Recommendations

Contract change through termination is not recommended as the downside consequences will have significant and long lasting impacts on Bermuda while upside benefits, if any, will take longer to materialize.

Therefore, optimization is the recommended scenario for moving forward, based on these findings.

Following a collaborative process with the Bermuda Airport Authority and Skyport, this review has identified six optimization elements from within the current Project Agreement that should be pursued by the Bermuda Airport Authority to obtain Skyport's incremental commitments for a better deal.

8.1 Optimization Elements

The following represent approximately \$15 million worth of enhancements for Bermuda and Bermudians under the Project Agreement. There is potential for this benefit to be significantly higher when the optimization portfolio initiatives have been implemented.

1. Jobs for Bermudians
2. Workforce Development and Training
3. Energy Costs (reduction)
4. Passenger Traffic Growth and Revenue Sharing
5. Social Investment (Corporate Social Responsibility)
6. Physical Accommodation (BAA offices)

Potential for tangible betterment exists, as an example - the revenue sharing threshold presents a modest hurdle that could be surpassed with the addition of a single new airline route to Bermuda. It remains for the Project Agreement counter-parties (the Bermuda Airport Authority and Skyport) to co-develop and entrench these elements going forward as declared benefits in their framework and to operationalize the fulfillment of the Optimization Portfolio across the concession term to maximize their value to Bermuda and Bermudians.

To formalize the optimization, a commitment letter from Skyport to the Bermuda Airport Authority is suggested as the method to anchor the commitments achieved under the auspices of this review and provide a frame of reference for moving forward to deliver better outcomes for Bermuda.

9 Glossary of Terms

| | |
|-----------|---|
| CCC | The Canadian Commercial Corporation |
| DBFOM | Design-Build-Finance-Operate-Maintain |
| IRR | Internal Rate of Return |
| LFWIA | L.F. Wade International Airport |
| P3 or PPP | Public Private Partnership |
| Project | L.F. Wade International Airport Redevelopment Project |
| Skyport | Bermuda Skyport Corporation Limited |