

PUERTO RICO
**PUBLIC-PRIVATE
PARTNERSHIPS**
AUTHORITY



Partnership Committee Report

**PUERTO RICO PUBLIC-PRIVATE
PARTNERSHIP FOR THE
SAN JUAN BAY CRUISE TERMINALS**

July 12, 2022



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An aerial photograph of a large bridge under construction over a body of water. The bridge has a central pylon and two side spans. A construction barge with a crane is visible in the water. In the background, a city skyline is visible across the water. The entire image has a green tint.

1. EXECUTIVE SUMMARY



Executive Summary

After a robust and competitive procurement process that lasted more than 48 months, on July 5, 2022, the Partnership Committee (the “**Partnership Committee**”) established by the Puerto Rico Public-Private Partnerships Authority (the “**P3 Authority**”) for this project pursuant to Section 8 of the Public-Private Partnerships Authority Act, Act No. 29-2009, as amended (“**Act 29**” or the “**Act**”), recommended to the Board of Directors of the P3 Authority (the “**P3 Authority Board**”) the approval of the Public-Private Partnerships Agreement (the “**PPP Agreement**”) between the Puerto Rico Ports Authority (“**PRPA**”) and San Juan Cruise Port LLC (“**SJ Cruise Port**” or the “**Concession Company**”, a subsidiary of Global Ports Holding Plc (“**Global Ports**”) solely organized to execute and implement the PPP Agreement with the support of Global Ports and alongside Enka Construction and Development BV (“**Enka**”), a global engineering and construction firm, who will act as the lead construction contractor. The PPP Agreement awards a 30-year concession (the “**Concession**”) for the operation, maintenance, repair, improvement and replacement of certain cruise terminals and related facilities in San Juan Bay (the “**San Juan Bay Cruise Terminals**”). References herein to the “**GP Group**” shall be deemed to mean Global Ports and other team members that participated during the procurement process.

Global Ports is the world’s largest cruise port operator with an established presence in the Caribbean, Mediterranean, and Asia-Pacific, as well as extensive commercial port operations in Montenegro. Global Ports was established in 2004 as an international port operator. They hold a unique position in the cruise port landscape as the world’s leading cruise port brand, with an integrated network of cruise port serving cruise liners, ferries, yachts and mega-yachts. Global Ports operates 26 cruise ports in 14 countries and continues to grow steadily. Global Ports provides services for 15 million passengers reaching a market share of 29% in the Mediterranean annually. Global Ports is known for its industry-leading experience of sustainable growth of cruise traffic. It has a proven track record in operating multiple world-class cruise ports and expertise in managing and developing

complex construction projects for the cruise terminals they operate.





Global Ports has incorporated a wholly-owned, single purpose entity, San Juan Cruise Port LLC ("**SJ Cruise Port**" or the "**Concession Company**"), to sign and implement the Concession as the party to the PPP Agreement with PRPA.

The Partnership Committee has concluded that the Concession Company is uniquely positioned and equipped to transform the San Juan Bay Cruise Terminals into the leading cruise port of the Caribbean and maximize benefits for the people of Puerto Rico.

The Partnership Committee's decision marks an important milestone in addressing the current infrastructure deficiencies and operational disadvantages of the San Juan Bay Cruise Terminals. This Concession will not only reposition San Juan as a must-visit cruise port in the Caribbean, but it will also serve as a driver of economic growth in Puerto Rico following the destruction brought by Hurricane Irma ("**Irma**") and Hurricane María ("**María**", together with Irma, the "**Hurricanes**"), in 2017 and the ongoing COVID-19 pandemic ("**COVID-19**").

Prior to the impact of the Hurricanes and COVID-19, the San Juan Bay Cruise Terminals were already suffering from inherently deficient infrastructure. Due to PRPA funding constraints, improvements to the San Juan Bay Cruise Terminals since the 1990s have been modest and as needed, with PRPA endeavoring to support the evolving needs of the cruise industry but unable to make more than the minimum level of investment needed to maintain the piers. As a result, the San Juan Bay Cruise Terminals today are outdated, undersized, and fail to meet the needs and expectations of the modern cruise industry.

The damage caused by the Hurricanes exacerbated PRPA's challenges and created new ones. As a result, the Government of Puerto Rico (the "**Government**") has sought not only to rebuild after the Hurricanes, but also utilize the recovery process as an opportunity to jumpstart a long-term revitalization of the Puerto Rican economy. This revitalization would include, among other things, upgrading PRPA's facilities through major renovations to meet the needs of the modern cruise industry and be more resilient against future natural disasters, making San Juan a high-demand, vibrant and must-visit touristic cruise destination.

Pursuant to Act 29 and the Regulation for the Procurement, Evaluation, Selection, Negotiation and Award of Participatory Public-Private Partnership Contracts (the "**Regulation**"), on October 17, 2017, the P3 Authority received from Global Ports and Civil & Building North America ("**CBNA**") an unsolicited proposal for the exclusive right to repair, design, build, finance, maintain, and operate ("**RDBFMO**") certain cruise terminals in the San Juan Bay (the "**Unsolicited Proposal**"). The P3 Authority evaluated the Unsolicited Proposal following the requirements set forth by Act 29 and the Regulation, and, after careful evaluation, determined that the Unsolicited Proposal was beneficial to the public interest. Therefore, in compliance with Section 7 of the Regulation and Article 9 of Act 29, a project for the operation, maintenance, repair, improvement and replacement of the San Juan Bay Cruise Terminals through a public-private partnership ("**PPP**") with PRPA (the "**Project**") was opened to competitive procurement. The Project commenced with the Desirability and Convenience Study ("**D&C Study**") and was followed by the publication of a request for qualifications (the "**RFQ**") and subsequently, a request for proposals (the "**RFP**").

On September 5, 2018, the P3 Authority issued the RFQ for the Project. On or about October 17, 2018, five (5) private sector participants (including the GP Group) (each a "**Respondent**") submitted statements of qualifications ("**SOQs**") in response to the RFQ. Section 9(d) of Act 29 addresses consortia, a prevalent structure in PPP, and provides that parties wishing to participate in the procurement process for a PPP may present their proposals jointly as a consortium in order to best utilize the skills and expertise of each of the consortium members.

On November 20, 2018, the Partnership Committee selected the following three (3) experienced and reputable Respondents in the qualification process conducted pursuant to the RFQ (the "**RFQ Process**") to participate in the next phase of the process: (i) Puerto Rico Cruise Terminal Partners ("**PRCTP**"); (ii) San Juan Cruise Terminal Partners ("**SJCTP**"); and (iii) the GP Group.



On December 3, 2018, the P3 Authority issued the RFP for the Project. Before the RFP submission deadline, the P3 Authority received formal notifications from PRCTP and SJCTP confirming their withdrawal from the procurement process. On July 31, 2019, one participant in the RFP procurement process (the “**RFP Process**”), the GP Group, submitted a proposal in response to the RFP (the “**Proposal**”).

The RFP required proponents to submit as part of their proposals the following:

A comprehensive proposal, which required, among other things, acceptance of the form of the PPP Agreement and submittal of a proposal security to secure the commitment of the proponent to its proposal until financial closing;

A technical proposal, which required each proponent to provide details for (i) business and marketing, (ii) the operating plan and (iii) the port master plan and capital and Construction plan; and

A financial proposal, which required each proponent to propose (i) an upfront fee equal to or greater than \$72 million, (ii) robust and realistic financing plans, and (iii) plans to incorporate local equity or debt financing.

The Partnership Committee recommended that the GP Group be designated as Preferred Proponent, as defined in this Report, and proceed to further and final negotiations given that its Proposal provided a thorough, detailed and viable approach to each of the technical and financial components of the RFP. At the same time, the Proposal addressed the Project goals which include: (i) repairing and expanding the San Juan Bay Cruise Terminals; (ii) securing access to private funds; (iii) reducing PRPA's debt; and (iv) increasing operational efficiencies and cruise passenger traffic.

The Proposal presented a customized approach to repair and expand the San Juan Bay Cruise Terminals, which illustrated a comprehensive understanding of PRPA's circumstances. Among other things, the GP Group provided a detailed transition plan, business and marketing plan, operating plan, master plan, as well as an in-depth capital investment plan and construction plan. Additionally, the Proposal offered as an upfront concession fee \$72 million and an additional amount of \$3 million to be held in escrow for certain purposes which were also for the benefit of PRPA.

Based on the above, the Partnership Committee believes that the Concession (i) presents the most viable path forward to repair and expand the San Juan Bay Cruise Terminals, (ii) provides a sustainable path to achieving the Government's objective of positioning Puerto Rico as the must-visit cruise port in the Caribbean, and (iii) is the most advantageous option for the people of Puerto Rico. This report explains the final Partnership Committee recommendation to award the Project to the GP Group for signing of the PPP Agreement by the Concession Company after extensive negotiations and detailed revisions to the PPP Agreement and the Project resulting from the circumstances of the past two years of COVID-19 and its effect in the cruise industry. The Partnership Committee is pleased to present to the P3 Authority Board and other government stakeholders its recommendation.

An aerial photograph of a tropical city, likely Miami, featuring a large cruise ship docked in the harbor. The city is characterized by dense urban development, including high-rise buildings and a prominent church with a dome. The foreground shows a mix of modern and older architecture, palm trees, and a beach area. The entire image is overlaid with a teal color filter.

2. INTRODUCTION



Introduction

This Partnership Committee Report (the “**Report**”) has been prepared pursuant to:

- Section 8(b)(vii) and Section 9(g)(i) of Act 29; and
- Section 9.1 of the Regulation.

Except as provided in Exhibit A (Defined Terms) to this Report, capitalized terms used but not otherwise defined in this Report have the meaning ascribed to them in, as applicable, Act 29, the Regulation, or the RFP.

In accordance with Section 9(g) of Act 29, and Resolution 2018-44, as amended by Resolutions 2019-32, 2019-49 and 2021-05¹, of the P3 Authority Board, the P3 Authority established the Partnership Committee responsible for the procurement of a PPP with PRPA for the repair, improvement, operation and maintenance of the San Juan Bay Cruise Terminals and related facilities. Act 29 provides the Partnership Committee with the authority to negotiate the terms of the PPP Agreement and provides PRPA with the authority to execute the PPP Agreement negotiated by the Partnership Committee with the Concession Company, subject to (i) the approval of the P3 Authority Board of Directors and the Board of Directors of the PRPA and (ii) the approval of the Governor of Puerto Rico or his/her delegate, in each case pursuant to Act 29 and the Regulation (the approvals described in clauses (i) and (ii) together, the “**Required Approvals**”).

In addition, the negotiated PPP Agreement is subject to the consent of the Financial Oversight and Management Board for Puerto Rico (the “**FOMB**”) in accordance with the policy established pursuant to Section 204(b)(2) of PROMESA, which requires FOMB’s approval before execution of all local Puerto Rico contracts with an aggregate expected value of \$10 million or more.

On February 9, 2022, the Partnership

Committee voted unanimously to approve and commence the process for the Required Approvals, starting with the FOMB. On June 9, 2022, and after more than a dozen meetings and multiple calls with the FOMB or its representatives, the FOMB conditionally approved the PPP Agreement. Following FOMB’s approval, the P3 Authority met with the Preferred Proponent to finalize the PPP Agreement. Accordingly, on July 5, 2022, following a process of more than 48 months, the Partnership Committee voted unanimously to approve the PPP Agreement.

Accordingly, the PPP Agreement is submitted to the relevant entities for the Required Approvals. Upon receipt of the Required Approvals, as well as the execution of the PPP Agreement, this Report will be filed with the Office of the Clerk of the House of Representatives and of the Senate of the Legislative Assembly of the Commonwealth of Puerto Rico. The Report will also be published on the P3 Authority’s website at www.p3.pr.gov and on the website of the Government of Puerto Rico.

As required by Section 9(g) of Act 29, the Partnership Committee has prepared this Report to describe the procedures followed in the procurement process for the award of the PPP Agreement and the reasons for its decision. In particular, this Report describes, pursuant to Section 9(g) of Act 29, the following considerations:

- the public policy and social welfare objectives the Government seeks to address through the implementation of the Project;
- the processes resulting in the recommended award of the PPP Agreement, including the RFQ Process, the RFP Process and the evaluation of the Proposal;
- the Partnership Committee’s selection of the GP Group as the preferred proponent to engage in exclusive discussions and

¹ The Resolutions from the P3 Authority Board of Directors can be found on the P3 Authority’s website: www.p3.pr.gov



negotiations with the P3 Authority in connection with the Project (the “**Preferred Proponent**”); and the Partnership Committee’s rationale for recommending the final award of the PPP Agreement to the Concession Company (the “**Recommended Award**”).

In addition, although not a Required Approval under Act 29, since the Pan American Piers portion of the San Juan Bay Cruise Terminals are located within the perimeter and airport layout plan of the Ribas Dominicci Airport (also known as the Isla Grande Airport), the PRPA will identify certain amount to be approved by the Federal Airport Administration (“**FAA**”) for the use of Pan American Piers under the Concession. Members of the P3 Authority, PRPA and Consultants have met with the FAA to review the Project and its potential benefits, in addition to the regular meetings and conferences that PRPA holds with FAA where the Project has also been discussed. PRPA and members of the P3 Authority and Consultants will meet further with the FAA after obtaining the Required Approvals to support and complete the FAA process before financial closing of the Project.

Throughout the Project’s procurement process, the P3 Authority and the Partnership Committee have received advice from various consultants to the P3 Authority (the “**Consultants**”).²

This Report is divided into six (6) main sections:

the Executive Summary;

this Introduction;

the Project Background and Objectives;

the Procurement Process;

the Recommended Award; and

the Conclusion.

2 IMG Rebel (“IMG”), Macquarie Capital (USA) Inc. (“Macquarie”), CPM PR, LLC (“CPM”), DLA Piper (“DLA”), and Blanco Fuertes & Associates LLC acted as Consultants. IMG provided technical advice. Macquarie provided financial advice. CPM provided advice in the procurement process. DLA provided legal advice. Blanco Fuertes & Associates LLC provided real estate advice. In addition to the aforementioned Consultants, the P3 Authority engaged several other specialized consultants to advise on specific matters and liaised with (i) AAFAF and its consultants in connection with PRPA’s financial and fiscal condition to, among other purposes, respond to FOMB’s questions and (ii) PRPA and its consultants.



3. PROJECT BACKGROUND AND OBJECTIVES



3.1 Project Background

3.1.1 PRPA and the San Juan Bay Cruise Terminals

PRPA is a public corporation and government body created by Law No. 125 on May 7, 1942. It was originally established as the Transportation Authority of Puerto Rico, under the direction of the General Administrator who reported to a Board of Directors. In 1950, the functions of the Board of Directors were transferred to the Administrator of Economic Development. The Transportation Authority was renamed the Ports Authority in 1955. PRPA is currently directed by an Executive Director and a Board of Directors.

PRPA is subdivided into two (2) divisions: the Maritime Division and the Aviation Division. As part of the Maritime Division, PRPA owns and currently operates the San Juan Bay Cruise Terminals, consisting of Pier 1, Pier 3, Pier 4, Pier 11, Pier 12, Pier 13, Pier 14, Pan American Pier 1, Pan American Pier 2 and related walkways and adjoining property, as seen in the image below.

In addition, PRPA also operates other facilities in the harbor area of Isla Grande and the wharfs of Puerto Nuevo, as well as the wharfs in the harbor zones of Arecibo, Fajardo, Vieques, Culebra, Guayama, Guayanilla and Yabucoa. As part of the Aviation Division, the PRPA is responsible for nine (9) regional airports (the “**Regional Airports**”) and is the owner of the Luis Muñoz Marín International Airport, currently being operated by Aerostar Airport Holdings LLC (“**Aerostar**”), a private partner pursuant to a PPP.

3.1.2 Puerto Rico’s Under-Investment Compared to Other Ports

Puerto Rico has under-invested in its cruise terminal infrastructure in comparison to other competing ports. This under-investment has limited, and unremedied will continue to limit, the ability of the San Juan Bay Cruise Terminals to take advantage of the recovery and growth of the cruise line business.





Pier 1 was constructed around 1970 and predominantly serves homeport traffic. Pier 4 and the Pan American Piers 1 and 2 were constructed around 1980 for an older class of ships and for a mix of cargo and passengers. Throughout the years, these piers have been augmented to increase their capacity. In particular, Pier 4 was developed into a new homeport in the 1990s and subsequently redesigned to increase its capacity to meet the market requirements of that time. Since then, however, the improvements of these piers have been modest, with PRPA endeavoring to support the evolving needs of the cruise industry within the limits of the financing available for development. Due to funding constraints, PRPA's development strategy has been limited to a minimum level of investment needed to maintain Piers 1, 4 and the Pan American Piers 1 and 2 operational. Pier 3, on the other hand, was renovated in 2013 and is in satisfactory condition. Today, and as a result of the above-mentioned under-investment, portions of the San Juan Bay Cruise Terminals are outdated, undersized and fail to meet the needs and expectations of the modern cruise industry.



Pier 1



Pier 4



Pan American Pier

This contrasts with the major investments recently made or planned for the competing Floridian and Caribbean ports.

Miami. In recent years there has been considerable investment and future-announced investment across the Dante B. Fascell Port of Miami ("**PortMiami**") world-class cruise terminals. Considered already among the most modern and sophisticated cruise terminals in the world, PortMiami has positioned itself as a sought-after destination for both passengers and cruise lines. Recognizing the changing landscape of the region's cruise operations, PortMiami has undertaken, or plans to undertake, the following projects, among others:

- Terminal A: Starting in November 2018, Terminal A became home to Royal Caribbean Cruise Ltd ("**Royal Caribbean**") and its largest ships and is known as the largest cruise terminal in the US, the result of much collaboration with Miami-Dade County.
- Terminal AA/AAA: MSC Cruises is planning to design, finance, build, operate and maintain Cruise Terminals AA/AAA and its three berths for an approximate cost of \$350 million with completion estimated for December 2023.
- Terminal B: Dubbed "The Pearl of Miami," Terminal B is home to Norwegian Cruise Line Holdings Ltd. ("**Norwegian**"). In 2018, a \$239 million facility upgrade started, transforming the terminal into a 166,500 square foot state-of-the-art terminal which can accommodate cruise ships with a capacity of up to 5,000 passengers. The new terminal was inaugurated in August 2021.
- Terminal E: Most recently updated in 2018 with an investment of \$8 million, Terminal E exclusively serves Carnival Corporation PLC ("**Carnival**") with new passenger boarding bridges. This 3-story facility has a VIP lounge, advanced

security screening, new check-in counters, and a conveyor baggage system.

- Terminal F: Miami's third-largest cruise terminal is currently under construction at an estimated cost of \$170 million and is expected to accommodate Carnival's planned 7,000 passenger vessels (the Panorama, Celebration, and Mardi Gras). Terminal F will have facial recognition software to increase security efficiency during embarkation and 32-meter-long passenger boarding bridges specifically to accommodate the larger vessels.
- Terminal V: Most recently known as Terminal H, this terminal exclusively serves Virgin Voyages. Terminal V has a unique architecture, complete with palm trees and the like achieving a tropical-inspired feel. The 132,000 square foot terminal was inaugurated in February 2022.

Port Canaveral. The world's second largest cruise port by passenger count, Port Canaveral completed in mid-2020 a \$163 million upgrade to Terminal 3; the largest upgrade of such project in port history. This new 188,000 square foot facility boasts a six story, 1,800 vehicle parking garage, cutting-edge technology baggage processing, state-of-the-art security and check-in area, seating for 1,700 guests, and the ability to handle the largest of cruise ships. The terminal can accommodate vessels up to 1,309 feet in length.

Freeport, Bahamas. Bahamas Port Investments ("BPI"), a joint venture between Royal Caribbean and ITM Group, were in negotiations with the Bahamian government for the transformation of the Grand Lucayan Resort into a major destination with additional hotel and conference space, a water adventure theme park, retail and restaurants. While this project has been cancelled by the new Bahamian government, the negotiations between BPI and the Freeport Harbour

Company for the expansion and transformation of the cruise port into a world-class port facility are ongoing.

Nassau, Bahamas. In 2019 an affiliate of the Concession Company signed a 25-year management agreement post-construction for the Nassau Cruise Port. The Nassau Cruise Port will become a cruise homeport after a \$300 million redevelopment project, which will increase the number of ship berths from five to six, boosting the passenger capacity from 20,000 to 30,000 on any given day. The project will replace a customer warehouse and include a new terminal building, retail facilities, food and beverage outlets, a major outdoor events and entertainment space, amphitheater, museum, and waterfront park.

Antigua. In November 2020, the St. Johns Port completed a \$30 million construction investment of its fifth berth, the newest pier at the cruise port facility. This expansion is part of an \$80 million development agreement signed between an affiliate of the Concession Company and the Government of Antigua in 2019 to redevelop a larger cruise complex.

3.1.3 Recent Challenges

Natural Disasters

PRPA's challenges were both highlighted and significantly aggravated by the Hurricanes, which struck Puerto Rico within two weeks of each other and resulted in one of the largest and most complex disaster response and recovery efforts in recent U.S. history. Irma skirted the northern coast of Puerto Rico, its eye passing north of Puerto Rico as a category five hurricane³ on September 6, 2017, causing significant flooding, regional power and water outages, and other damage to Puerto Rico's

3 FEMA's definition for hurricanes is based on the Saffir-Simpson scale which takes into account a storm's maximum sustained wind speed. A category four hurricane is defined as having sustained winds ranging from 130 to 165 miles per hour and that will result in significant infrastructure damage, power outages lasting for months, and loss of life. A category five hurricane is the highest category and is defined as sustained winds over 157 miles per hour.

infrastructure. On September 20, 2017, while Irma's response operations were still ongoing, María made a direct strike over Puerto Rico as a category four hurricane, causing widespread and unprecedented devastation and destruction to the entire Island. María resulted in loss of life and massive infrastructure and property damage that severely affected Puerto Rico's population, economy, critical infrastructure, social service network and healthcare system.

The Hurricanes struck Puerto Rico in the midst of an already dire financial situation for PRPA and the Government. The series of earthquakes that struck Puerto Rico in December 2019 and January 2020, and the ensuing damage, further demonstrated the critical need for infrastructure investment.

COVID-19

The COVID-19 pandemic's effects from 2020 on the cruise industry have been widely documented. As many countries across the globe closed their borders in response to COVID-19, thousands of passengers were kept at sea, while vessels sought a port to dock. In mid-March 2020, Canada banned all ships with more than 500 people from docking in their ports. Australia, New Zealand, and the United States banned all ships arriving from foreign ports and directed all foreign flagged ships to leave the country. As a result of these redirections, passengers were quarantined on board for almost a month before being repatriated. The financial impacts on the cruise industry of these governmental measures and passengers' aversion to short-term cruise travel turned out to be temporary and overall recovery is on the horizon. The cruise industry is gaining momentum as most of the cruise brands have started sailing again. As an example, Royal Caribbean has about 80% of its fleet up and running.⁴

As of July 12, 2022, the Center of

4 See www.cruiseindustrynews.com/cruise-news/2678-jason-liberty-q2-in-line-royal-caribbean-won-t-compromise-guest-experience.html.

Disease and Control Prevention ("CDC") continues to recommend cruise ships operating in U.S. waters to participate in its COVID-19 Program for Cruise Ships. While participation is not compulsory, it is understood that those who opt out will require crew and passengers to wear masks when located indoors.⁵

Prior to the COVID-19, the cruise industry was the fastest-growing category in the leisure travel market. Since 1980, the industry had experienced an average annual passenger growth rate of approximately 7% per annum⁶. Between 2008 and 2018, the industry grew by 35%⁷. The Caribbean region is the largest market within the global cruise ship industry, representing over a third of the global demand, followed by the Mediterranean with 16%, and emerging markets, particularly Asia/Pacific and China, with over 10%. Within this timeframe, the global port capacity expanded from 269,000 berths to 563,000 berths and was expected to grow to 784,000 berths by 2027, a 290% increase in over 15 years.

In the past, the cruise industry has been relatively resilient to economic downturns. Passenger growth continued to be positive even during the last three recessions. Consistent with that history, manufacturers, service providers, and industry publications have indicated that there is significant cruise industry "pent-up demand" following the COVID-19-era limitations. Cruise Lines International Association, a trade organization for the cruise industry, found in December 2020, before major vaccine rollout announcements were made, that 73% of cruisers say they are "likely to cruise in the next few years", and "50% say they will cruise within the year." Carnival's President and Chief Executive Officer ("CEO") Arnold Donald said that advance bookings for the first half of 2022 were at or above 2019's bookings for the same period spread across the globe, including Caribbean itineraries, strengthening the

5 See CDC Cruise Ship Guidance at <https://www.cdc.gov/quarantine/cruise/index.html>

6 Florida Caribbean Cruise Association (2017). Cruise Industry Overview – 2017.

7 Florida Caribbean Cruise Association 2019; CLIA 2019.

cautiously optimistic outlook for the sector. Likewise, Disney's CEO Bob Chapek highlighted the "extremely strong" demand for the cruise lines in the entirety of 2022, and particularly in the 2nd half of 2022, based on current bookings. Michelle Fee, CEO of travel agency Cruise Planners, noted this pent-up demand after observing more cruise bookings for 2022 than in 2019 and 2020. In general, the pent-up demand for the industry continues to be reflected in the level of cruise bookings for 2023. However, the actual recovery of the cruise industry for 2021 proved less strong than anticipated, as a result of the additional unforeseen restrictions that were imposed after a new global surge in the COVID-19 cases, which slowed the industry from reaching the pre-pandemic levels of 2019.

The pandemic also created an opportunity for cruise lines to update their fleets. Although the number of cruise ships being sent to "shipbreaking" facilities, or recyclers, has increased since the COVID-19 began, the cruise lines seem to be adding new ships to their fleets. Carnival, for instance, ordered eighteen of its ships across nine of its operating brands to be disposed of; however, they are not cancelling any new build orders. Arnold Donald said, "we will be adding more efficient ships that will give us a greater opportunity for returns." Jason Liberty, President and Chief Financial Officer of Royal Caribbean recently echoed this sentiment, stating that they will not be cancelling any new build orders. The new vessels tend to be more efficient and larger.⁸

Based on cruise line trends and developments during the COVID-19 and given that the cruise market has traditionally been supply-driven, with cruise lines bringing down prices and filling capacity with discounted prices,

8 See: <https://markets.businessinsider.com/news/stocks/carnival-cruise-line-to-grow-fleet-by-two-additional-ships-by-2023-1030547341>; <https://thepointsguy.com/news/carnival-cruise-line-ship-expansion>

<https://www.businessinsider.com/carnival-selling-18-ships-amid-billions-losses-no-sail-order-2020-9?international=true&r=US&IR=T>; New Cruise Ships on Order (cruisecritic.co.uk)

there is an expectation that the industry will continue to recover successfully and expand.

PRPA's Financial Condition

PRPA's balance sheet deterioration, reflecting continued budget imbalances between revenues and expenditures, and significant debt caused by deficit financing, led to the loss of capital markets access in 2014. This limited PRPA's ability to make necessary investments in the San Juan Bay Cruise Terminals. Coupled with the deterioration in the local and global economic environment, PRPA's funding capacity has been further affected, limiting the funding options available to PRPA and resulting in the deferral of routine and major maintenance projects on the San Juan Bay Cruise Terminals. The last major structural improvement to the San Juan Bay Cruise Terminals funded by the Government and PRPA was in 2013 and involved the expansion of Pier 3.

PRPA's three main sources of funding are maritime operations, airport operations, and government financial assistance, both from the Federal Government and from the Government of Puerto Rico.

• **Government Contributions.**

After the Hurricanes, PRPA has been actively seeking funding through federal grants from the Federal Emergency Management Agency ("**FEMA**") and the U.S. Department of Housing and Urban Development ("**HUD**"), including from the Community Development Block Grant Disaster Recovery ("**CDBG-DR**") and Community Development Block Grant Mitigation ("**CDBG-MIT**") programs administered by Puerto Rico Department of Housing ("**PRDOH**") in collaboration with HUD or through other Government sources (collectively, "**Government Contributions**").

- To the date of this Report, PRPA has not received Government Contributions for any of the capital expenditures needed for the San Juan Bay Cruise Terminals



because FEMA has determined that the structural deficiencies in the San Juan Bay Cruise Terminals were primarily “pre-existing” and not caused by the Hurricanes. Therefore, the most urgent infrastructure repairs do not qualify for FEMA public assistance disaster relief funding. FEMA funds recently available to PRPA were spent on other needed repairs, such as repairing the cogeneration facility at the Luis Muñoz Marín International Airport. As for CDBG-DR and CDBG-MIT, PRPA and PRDOH are in the process of updating the Action Plan to include Piers 11 through 14 quay wall as a prospect to receive funding by PRDOH through the CDBG-MIT program. This process, however, will take time to complete and confirm any definitive funding.

- **Cruise Line Funding.** For the past 20 years, PRPA has relied upon funding from cruise line companies to make improvements to the San Juan Bay Cruise Terminals. Major quay wall or other similar pier piling, and foundation improvements have not been a part of the improvements made by the cruise lines, as such these are a primary focus for PRPA. The amount contributed by the cruise line companies has been repaid by a credit given to the cruise line companies against the passenger fees they would otherwise have to pay PRPA. In addition, the cruise line companies have obtained preferential berthing rights at various piers. Funding through the cruise lines is expensive and also results in Preferential Berthing Agreements (“**PBAs**”) that are inconsistent with the policy of PRPA to expand the use of the San Juan Bay Cruise Terminals by a wider range of cruise lines under an open access regime. The existing PBAs give preferential rights to two cruise lines for 20-35 years in exchange for the financing of about \$30 million

in capital improvements on Piers 3, 4, and Pan American Piers, which in turn result in a cost of \$56 million for PRPA. Moreover, the COVID-19 has had a devastating impact on the finances of the cruise lines and the reliability of the cruise lines as a future source of funding for San Juan Bay Cruise Terminals is unknown, as highlighted by recent reports of rating agencies. Moody’s Investor Services (“**Moody’s**”) changed its outlook for US Lodging and Cruise from “*Stable*” to “*Negative*” in H1 2020 as a result of the grounding of cruise operations from the CDC’s no-sail order. Per Moody’s most recent July 2021 update, US cruise operations have returned following a 15-month standstill. However, there is still uncertainty around the ramp-up speed of operations, restricted occupancy compliance, and the recovery of increased leverage. Therefore, Moody’s expects 2022 to be a recovery year with modest levels of cruising and occupancy aboard those ships. Moody’s expects earnings to return to 2019 levels in 2023 at the earliest but notes the priority of free cash flow will be used to bring debt balances back to sustainable levels.

3.1.4 The Vision for the San Juan Bay Cruise Terminals

In response to the Hurricanes, the United States Maritime Administration (“**MARAD**”), under assignment by FEMA, conducted a condition assessment of the

9 The firm Iglesias-Vazquez and Associates was hired by the PRPA after the Hurricanes to assess the condition of the piers under consideration (the “IVA Report”). The survey included a walk-over inspection of the piers and buildings as well as a visual inspection by boat of the fenders and underside of the piers. A diving survey and detailed structural calculations were not part of the firm’s scope of work. Considering the IVA Report did not include any structural analysis, it is of limited use and was not relied upon for determining required improvements to the San Juan Bay Cruise Terminals. PRPA subsequently hired Gvelop LLC to undertake a supplemental evaluation (including a diving survey and more detailed structural evaluation) (the “Gvelop Report”) to verify MARAD’s conclusions related to the condition of Pier 4 and the Pan American Piers. IVA Report and the Gvelop Report are collectively referred to herein as the “PRPA Technical Evaluation”.



San Juan Bay Cruise Terminals through a private consultant (the “**MARAD Report**”)⁹. The MARAD Report includes cost estimates for two categories, repairs and resilience measures. Additionally, the MARAD Report includes a walk-over inspection of the piers and buildings; a diving inspection, including ultrasonic thickness measurements; and structural calculations. The MARAD Report recommended, among others measures, that Piers 1 and 4 be rebuilt entirely and identified initial capital improvements costs as high as \$300 million.

Moreover, PRPA concluded that in order to maintain San Juan as a major cruise port destination and increase the number of cruise passengers entering San Juan, it needed to expand the number of cruise lines that use the San Juan Bay Cruise

Terminals as either a port of call or a home port. In order to achieve such expansion, less dependence on PBAs is required, as such dependence typically ties the terminals to a limited number of cruise lines. Further, a better integration of San Juan with the rest of the Caribbean and global cruise industries would support these expansion goals.

From the MARAD Report and the importance of the San Juan Bay Cruise Terminals to the economy of Puerto Rico, the Government has sought not only to rebuild after the Hurricanes, but also see the recovery process as a chance to jumpstart a long-term revitalization of the Puerto Rican economy. Along with the aforementioned initiatives, PRPA is seeking to upgrade its facilities through major renovations to meet the needs of the modern cruise industry and be more resilient against future natural disasters.

As discussed above, based on the current economic conditions and PRPA's debt caused by deficit financing, PRPA does not foresee near term opportunities to access the debt markets to fund repairs and upgrades or, more importantly, the expansion and modernization to the San Juan Bay Cruise Terminals needed to maximize the opportunity that will be available in the cruise industry as demand for attractive Caribbean destinations recovers and expands. Further, due to structural damage to the piers that predates the Hurricanes, PRPA does not have access to certain federal funds that may assist with the rebuilding and expansion of the San Juan Bay Cruise Terminals. Consequently, and as concluded in the D&C Study undertaken by the P3 Authority for the Project, PRPA and the P3 Authority concluded that these are tasks that are better suited to a private operator and the best path forward would be through a PPP.



Pier 1



Pier 4

Puerto Rico's Existing PPP Program

For several years, Puerto Rico has been one of the few U.S. jurisdictions with an organized PPP program. The Government has a robust and successful PPP program under Act 29 and the use of this framework is ideal to meet the goals and objectives of PRPA and the Government for the rebuilding and developing of the San Juan Bay Cruise Terminals. The use of the PPP model to develop projects like the San Juan Bay Cruise Terminals is well established in Puerto Rico. Over the past decade, the Government has had success in harnessing best industry practices, expertise, experience, and know-how for



its infrastructure projects by entering into PPPs with private sector participants in other sectors. These projects include the long-term concession of toll roads PR-22 and PR-5 that was awarded in 2011 (the **“Toll Roads Project”**), the long-term lease agreement for the Luis Muñoz Marín International Airport that was awarded in 2013 (the **“LMM Airport Project”**), and, more recently, the long-term operation and maintenance agreement (**“O&M Agreement”**) of the Puerto Rico Electric Power Authority’s (**“PREPA”**) electric transmission and distribution system, and the long-term O&M Agreement of the Puerto Rico and the Island Municipalities Maritime Transport Authority (**“MTA”**) ferry systems (the **“MTA Project”**), both awarded in 2020. In each of these cases, the Government sought to strike a balance between government and private sector participation through a mutually beneficial contractual relationship that results in the efficient, effective, and affordable delivery of public goods and services to all citizens of Puerto Rico.

By providing clarity, uniformity and certainty with respect to PPP selection and contracting, Act 29 and the Regulation comprise one of the most robust legal frameworks for PPPs in the Americas. In particular, Puerto Rico’s PPP program is guided by the following five key components of a successful PPP program identified by the World Bank Group: (i) clear public policy; (ii) strong legal framework; (iii) clear processes and institutional responsibility; (iv) responsible financial management; and (v) good governance arrangements, each of which is described in more detail below.¹⁰

Clear Public Policy – Puerto Rico’s PPP program clearly articulates (i) the Government’s intent to use PPPs to deliver public services and (ii) the objectives, scope and implementing principles of the PPP program.

Strong Legal Framework – Puerto Rico’s PPP program is grounded in a strong legal framework that sets the rules and boundaries for how PPPs are implemented.

Clear Processes and Institutional Responsibility – Puerto Rico’s PPP program provides a detailed, clear and consistent process by which PPP projects are identified, developed, appraised, implemented and managed, and sets forth the roles of different entities involved in that process.

Responsible Financial Management – Puerto Rico’s PPP program requires responsible public financial management that ensures PPPs provide value without placing undue burden on future generations.

Good Governance Arrangements – Puerto Rico’s PPP program provides for governance arrangements that allow other entities, such as auditing entities, the legislature and the public, to participate in PPP projects.

10 See World Bank Group; Private Infrastructure Advisory Facility; Asian Development Bank; Inter- American Development Bank; Multilateral Investment Fund. Public-Private Partnerships Reference Guide, version 3, 2017.

Act 29 provides that the public policy with respect to PPPs must be to maintain such controls necessary to protect the public interest yet balance this need for controls with the profit-making purpose of any private operation. The P3 Authority was created pursuant to the Act 29 as a public corporation of the Government and affiliated with the Puerto Rico Fiscal Agency and Financial Advisory Authority (“**AAFAF**”, by its Spanish acronym). The P3 Authority is designated as the sole government entity authorized and responsible for implementing the Government’s public policy on PPPs and for determining the functions, services or facilities for which PPPs are to be established¹¹.

Act 29 recognizes the need for PPPs to facilitate the development of infrastructure and other projects by delegating the risks inherent to such development or service to the party that is best capable of assessing and managing such risks, improving services, creating new jobs, and developing Puerto Rico’s economy and competitiveness. Likewise, these partnerships enable the Government to make infrastructure projects feasible when the funds needed to complete a project are not available in the public treasury.

Furthermore, to ensure that PPPs provide value without placing an undue burden on future generations, Act 29 provides that all revenue received by the Government from a PPP Agreement may only be employed for any of the following uses:

- to pay debts of the public entity entering into the PPP Agreement;
- to pay debts of the central Government;

¹¹ In addition, Act 29 expressly states that it is the public policy of the Government to favor and promote the establishment of PPPs and further authorizes all departments, agencies, public corporations, and instrumentalities, as well as municipalities and the legislative and judicial branches of the Government, to use the establishment of PPPs in accordance with the process specified therein. Act 29 also prohibits the Government from legislating to limit the powers or rights granted to the P3 Authority and partnering government entities under Act 29 until the obligations under an executed PPP Agreement are satisfied.

- to create a capital investment fund for the capital improvement program of the public entity entering into the PPP or the central Government;
- to create a fund to repay any line of credit that may have been granted by the Government Development Bank for Puerto Rico to the public entity entering into the PPP Agreement; and
- to contribute to the Government retirement systems.

The robustness of the Act’s framework is evidenced by the success of the existing PPPs and O&M Agreements mentioned. In fact, the P3 Authority was presented with the *Organization of the Year – Public Sector* award at the **P3 Awards 2021** international awards ceremony. The *Organization of the Year – Public Sector* award was presented to the P3 Authority for its ability to solidly lead and execute large-scale transformation projects, even in the face of unprecedented challenges such as the impact of the Hurricanes, the earthquakes of 2019 and 2020; a deteriorated fiscal situation, and the restrictions stemming from the pandemic; among others.

The Toll Roads Project

The Toll Roads Project was structured as a 40-year concession agreement (the “**Toll Roads Agreement**”) between Autopistas Metropolitanas de Puerto Rico LLC, a consortium composed by Goldman Sachs Infrastructure Partners and Abertis Infraestructuras (“**Metropistas**”), and the Puerto Rico Highways and Transportation Authority (“**PRHTA**”) for the maintenance and operation of two highways, PR-22 and PR-5. Pursuant to the Toll Roads Agreement, Metropistas made an upfront payment to PRHTA in the amount of \$1.08 billion and committed to make certain investments to upgrade toll roads PR-22 that runs from San Juan to Hatillo and PR-5 that connects Cataño to Bayamón and bring these highways to world-class standards. The Toll Roads Agreement provides that remaining



revenues generated by the toll roads belong to Metropistas. The Toll Roads Project was the first concession of its type successfully achieved in Puerto Rico and was internationally recognized as a successful PPP project, winning both Project Finance International's deal of the year in the Americas category and the American Road and Transportation Builders Association's project of the year award in 2011.

The LMM Airport Project

The LMM Airport Project was structured as a 40-year lease agreement (the "**LMM Airport Agreement**") between the PRPA and Aerostar, to operate the Luis Muñoz Marín International Airport, the busiest airport in the Caribbean and containing the largest air cargo operation in Puerto Rico. Pursuant to the LMM Airport Agreement, Aerostar made an upfront payment to PRPA in the amount of \$615 million and committed to make annual payments equal to a percentage of airport revenues and certain investments to upgrade the airport facilities. Like in the Toll Roads Project, the LMM Airport Agreement provides that all other revenues belong to Aerostar. The LMM Airport Project was the first PPP completed for an international airport under the Federal Aviation Administration Pilot Program and was also internationally recognized as a successful PPP project, winning Project Finance International's deal of the year award in 2013.

The Electric Power Transmission & Distribution System Project

On June 22, 2020, PREPA, the P3 Authority and LUMA Energy, LLC together with LUMA Energy ServCo, LLC (collectively "**LUMA**")¹² entered into a 15-year O&M Agreement for the operation, maintenance, management, repair and replacement of Puerto Rico's Electric Transmission and Distribution System. The O&M Agreement was the first PPP Agreement executed under the Puerto Rico Electric Power System Transformation Act, Act No. 120-

¹² LUMA is a consortium composed of: Atco Ltd., Quanta Services Inc. and Innovative Emergency Management, Inc.

2018, as amended, which was enacted with the ultimate goal of ensuring that Puerto Rico's electric power system evolves into a modern, sustainable, reliable, efficient, resilient, and cost-effective system. For this project, the P3 Authority was also a finalist in the P3 Awards 2021 for *Project of the Year – Utilities*.

The Puerto Rico Maritime Transportation Services Project

The MTA Project was structured as a 23-year O&M Agreement between MTA, HMS Ferries – Puerto Rico, LLC and HMS Ferries, Inc. to operate and maintain the MTA's ferry system, including the operation and maintenance of vessels and related facilities for the municipal ferry service provided in the key routes of Cataño-San Juan and Ceiba-Vieques-Culebra. The MTA Project is meant to ensure operational safety and quality of service provided to customers, modernize public services and build a stronger and more resilient infrastructure, the introduction of operational efficiencies, the increase in resources available for vessel maintenance and service improvement, and a reduction in the public sector subsidy of the MTA operations. The MTA Project O&M Agreement was signed on October 27, 2020. This project of the P3 Authority was also nominated as *Project of the Year – Transportation*.



LUMA employees restoring electrical services.



3.2 Project's Objectives

The Project consists of granting the Concession Company a 30-year administrative concession for the primary purpose and essential consideration of:

Repairing, improving, operating and maintaining the San Juan Bay Cruise Terminals;

Maintaining the safety and security of the San Juan Bay Cruise Terminals at the highest possible levels;

Promoting, facilitating, aiding and enhancing commerce, tourism and economic development at the San Juan Bay Cruise Terminals for the Commonwealth of Puerto Rico;

Improving the interaction of relevant local stakeholders, primarily from Old San Juan, Cataño, Puerta de Tierra and Condado areas, with the operations of the San Juan Bay Cruise Terminals; and

Improving the experience of cruise visitors to further promote Puerto Rico as a major cruise destination.

As part of the Concession, the Concession Company will have the right to:

Collect and retain fees, charges, payments and revenues in respect of the San Juan Bay Cruise Terminals included in the Project;

Use all of the immovable property, personal property and equipment located at the Project site, as described in the PPP Agreement, during the Concession term; and

Transfer all assets, as improved and expanded back to PRPA without any further compensation or transfer payment by PRPA upon expiration of the Concession term.



As a result, the Concession Company will have the right of enjoyment and use of the San Juan Bay Cruise Terminals. As a point of clarification, PRPA in no way is assigning, transferring ownership or otherwise conveying title of the San Juan Bay Cruise Terminals to the Concession Company. PRPA will continue to own current terminals and other facilities of the San Juan Bay Cruise Terminals as well as new terminals and facilities built in the future by the Concession Company.



Pier 1



Departure of cruise passengers in Pier 1.



3.3 Project's Anticipated Benefits

The Partnership Committee finds that the Project will generate significant economic and social benefits to the people of Puerto Rico, which are summarized in the following key social welfare and economic goals:

Accelerate completion of important capital improvement works to enhance the performance, and safety conditions of the San Juan Bay Cruise Terminals in the short term and the expansion of the terminals to enhance the capabilities and offerings in the medium and long term;

Spur private infrastructure investment in Puerto Rico, which has a multiplier effect on the economy and leads to the creation of new jobs;

Increase the number of cruise ships and tourists that visit Puerto Rico on an annual basis, which has a positive effect on the island's economy, especially in the nearby communities of Old San Juan, Puerta de Tierra, Cataño and Condado;

Reduce PRPA's debt burden, which has been negatively affected by its financial performance and capital structure;

Provide a world class level of service to visitors of the San Juan Bay Cruise Terminals; and

Make the new wharfs at Pan American Piers and Piers 11- 12 disaster resilient, making its underwater structure strong enough to be used by military and other vessels to bring in supplies or provide medical attention and temporary housing following a future disaster.



3.3.1 Repair and Expand the San Juan Bay Cruise Terminals

As described in previous sections, significant maintenance is needed to bring the piers up to PRPA's desired industry standards. The need to provide safe, efficient, and well-maintained cruise terminals in San Juan is evident. Moreover, the cruise ship order book demonstrates a trend towards larger vessels and with the Caribbean being the most popular cruise destination globally, it is expected that these ever-larger vessels will be deployed on the Caribbean routes (as has been the pattern over the past decades). Consequently, capital improvements will need to be spent on San Juan's cruise terminal infrastructure to ensure that San Juan continues to be able to serve the largest cruise vessels as well as the more demanding visitors.



Actual conditions of the Pan American Piers.

In addition to the investments necessary, operations at the San Juan Bay Cruise Terminals need to be maximized. In the past, the piers have been developed and upgraded in an as needed basis, with individual cruise lines financing improvements to specific piers in return for passenger fees credits and preferential berthing conditions¹³. While this approach has been necessary due to financial constraints, it means that the cruise terminals operation is not optimized. A comprehensive and cohesive strategy and master plan for the cruise terminals, including a long-range capital expenditure program, would enable the piers to be maximized and managed more effectively and operated more efficiently.

The PPP Agreement mandates certain repairs, rehabilitation, and expansion works to be carried out within a designated timeframe and funded solely (or in part, at PRPA's option, if Government Contributions are available) by the Concession Company. Based on the MARAD Report and the subsequent analysis reflected in PRPA's Technical Evaluation reports, the GP Group undertook its own assessment of the condition of

13 Existing PBAs between PRPA and the cruise lines include:

Contract	Key Provisions
PBA with Royal Caribbean for Pier 3 (February 10, 2003)	Royal Caribbean has a 25-year term (subject to suspensions and extensions as provided in the agreement)
PBA and Master Development Agreement with Carnival for Pier 4 (June 7, 2001)	Carnival has a 20-year term (subject to suspensions and extensions as provided in the agreement)
PBA and Development Agreement with Royal Caribbean for Pan American Piers 1 & 2 (April 19, 2002)	Royal Caribbean has a 35-year term (subject to suspensions and extensions as provided in the agreement)

**\$74.8 million**Estimated — Initial
Investment Projects

the existing structures and proposed an initial investment of \$74.8 million for the repair and improvement works of wharves and buildings, including: \$15.9 million for Pier 4 wharf improvements, \$40.1 million for Pan American Piers wharf improvements, and miscellaneous improvements to the Pier 1 wharf and buildings, the Pier 3 wharf, the Piers 1-4 walkways, and the Pan American Piers buildings collectively for \$18.8 million. The Concession Company will undertake these capital improvement projects, described as the Initial Investment Projects (“IIP”) in the PPP Agreement, with its own funds.

In addition, the Concession Company will undertake the Expansion Investment Projects (“EIP”) and the Phase Two Projects, with its own funds, as provided in the PPP Agreement. If the PRPA obtains Government Contributions for some of these capital improvement projects, then the Government Contributions will be used, advancing the commencement of the EIP Projects, and the repairs of Piers 11-14 wharf. The details of the IIP, the EIP, the Phase Two Projects, and the use of Government Contributions are described in the PPP Agreement.

Lastly, the PPP Agreement requires the Concession Company to develop and maintain a Cruise Pier Improvements Master Plan and Open Access Regime during the term of the Concession. This master plan will enable the San Juan Bay Cruise Terminals to be managed more effectively and operated more efficiently and be available to an expanded universe of cruise lines and vessels at the cost of the Concession Company.

3.3.2 Secure Access to Funds

PRPA's limited sources of available funding and weak financial position, which make borrowing and investing new capital expenditures impracticable, are widely known and have been explained in this Report. The traditional sources for funding are either no longer available or, if available, could be used to complement private funding at the San Juan Bay Cruise Terminals.

A PPP model, as opposed to PRPA continuing to operate, maintain and make capital investments on the piers, will allow PRPA and the Government to cause the necessary capital expenditures from private sources to be made on the San Juan Bay Cruise Terminals, and use public funds for other PRPA improvements where private funding is not available. Ultimately, a PPP model allows PRPA to maximize immediate-term value, mitigate the need for additional PRPA debt, and accelerate improvements at the San Juan Bay Cruise Terminals, producing jobs and economic development for Puerto Rico. It is noted that the PPP Agreement includes the opportunity for PRPA to, in its discretion, use Government Contributions if received and provides for the complementary use of private funding and Government Contributions. The development of these capital projects using Government Contributions is described in the PPP Agreement.

Through the PPP Agreement, the Concession Company assumes the financing and revenue risk of the San Juan Bay Cruise Terminals, including the risk of cruise volumes not meeting projections. This is particularly beneficial during the period of recovery from the COVID-19, but it is also a long-term benefit to PRPA. The Concession Company is expected to be able to leverage its global cruise operations expertise and partnerships with the cruise lines, both during this COVID-19 crisis and beyond, to ensure that the San Juan Bay Cruise Terminals adopt the necessary measures and strategies to be competitive with other cruise terminals.



3.3.3 PRPA's Debt and Financial Obligations

PRPA's debt, including funded debt and other operational liabilities, amounts to \$381 million, excluding accrued interest. PRPA's debt includes obligations previously held by Government Development Bank for Puerto Rico ("**GDB**") that were subsequently transferred to the GDB Debt Recovery Authority ("**DRA**") pursuant to the GDB Qualifying Modification under Title VI of PROMESA, past due Pay-Go liabilities, and past due accounts payables to the Puerto Rico Aqueduct and Sewer authority ("**PRASA**") and PREPA. Certain DRA obligations are secured by (i) a mortgage over properties of PRPA ("**DRA Mortgage**"), including a portion of the Concession area that would be released upon reaching an agreement with DRA or (ii) a lien on PRPA's revenues that would have to be resolved through negotiations with the DRA. Therefore, through this PPP delivery model and a corresponding upfront payment, PRPA would be able to reduce its outstanding debt upon reaching agreements with the DRA and subject to the customary approvals, including by the FOMB, pursuant to Section 207 of PROMESA. Any amounts of the upfront payment and any other revenue sharing mechanisms of this PPP, which will generate an ongoing revenue stream for PRPA, could be used to further reduce debt over time, defray expenses, or held as cash on the PRPA's balance sheet.¹⁴

As defined in the PPP Agreement, the Concession Company will pay PRPA:

An upfront payment of \$75 million, which includes a Concession Fee of \$72 million and \$3 million to be deposited into an Escrow Account. The moneys to be initially escrowed will be used, if needed, to cover any Compensation Events that may arise during the construction period of the IIP; any amount remaining of the \$3 million in escrow will be paid to PRPA when the IIP are completed;

An upfront dredging payment of \$1.6 million as an initial dredging payment and no less than \$310,000 and up to \$410,000 for each year after the 3rd year, to be deposited in the Escrow Account. PRPA will then use these amounts for their dredging obligations, including the Berthing Areas Minimum Dredging Depth, Berthing Areas Adjusted Minimum Dredging Depth, Shipping Channels Minimum Dredging Depth and/or the Shipping Channels Adjusted Minimum Dredging Depth, collectively the "**Dredging Depths**", as further described in the PPP Agreement;

The "**Annual Authority Revenue Share**" or "**AARS**", which is an amount to be paid in cash to PRPA on every Reporting Year equal to a minimum of 5% of the gross Cruise Port Revenues, as defined and further explained in the PPP Agreement; and

The Incremental Annual Revenue Share ("**IARS**"), which establishes an additional amount of revenue share the Concession Company shall pay if PRPA obtains at least \$50 million for the Piers 11-12 Wharf Project (consisting of a new quay wall along Piers 11-12). Further detail regarding the IARS can be found in the PPP Agreement.

14 GDB, AAFAF and PRPA.



Further to the financial payments to PRPA, the Concession Company will assume the following key obligations, among others:

Existing obligations under the PBAs with Carnival, Royal Caribbean and Norwegian, though certain Reserved Sections will remain under PRPA's obligation.

Fund costs and perform all operating and maintenance of the San Juan Bay Cruise Terminals during the term of the Concession.

Assume all responsibility for financing all necessary capital repair and replacement in the San Juan Bay Cruise Terminals to keep them operating according to the agreed conditions, expenses that would otherwise be borne by PRPA.

Actively recruit and hire PRPA employees that may want to work for the Concession Company.

On the latter, the Concession Company has agreed in the PPP Agreement the following:

The Concession Company will use reasonable efforts to interview all PRPA employees who apply to the Concession Company for employment.

The Concession Company will give preference to PRPA employees over other applicants with similar qualifications.

The Concession Company commits to offer competitive and attractive benefits to the PRPA employees who receive a job offer.

PRPA's employees may elect to transfer the balance of their retirement account to the defined contribution individual retirement account program the Concession Company may establish at its discretion.

PRPA's employees that are hired by the Concession Company shall be guaranteed a minimum of 2 years employment during which period they may only be separated from their position based on just cause as defined under Act 80-1970, as amended.



3.3.4 Increase Operational Efficiencies and Cruise Passenger Traffic

Tied to the previous objectives, PRPA is seeking a private operator's own creativity and initiative to optimize operations and increase passenger volume at the San Juan Cruise Terminals. As a leading global operator with an established presence in the Caribbean, Mediterranean and Asia-Pacific regions, Global Ports is able to collect and transfer first-hand data and best practices to the ports and terminals they operate, with a strong focus on enhanced security practices and customer-oriented services. Through its portfolio of facilities and commitment to optimize its Caribbean assets following the deals in Nassau and Antigua, Global Ports is able to capture additional market share and reposition San Juan as a must-visit cruise port in the Caribbean, maximizing benefits for San Juan and Puerto Rico as a whole.

Through this Project and the PPP Agreement, the following benefits can be realized:

- Recovery of cruise passenger demand in San Juan post COVID-19 given the experience, world-wide network and market clout behind the Concession Company;
- Reduction in reliance on PBAs as a result of the open access model;
- Increase in the availability of the San Juan Bay Cruise Terminals to a wider range of vessels and cruise line companies, thereby increasing passenger traffic, diversifying passenger profile, and fostering the local tourism economy; and
- Adoption and use of the most state-of-the-art operating approaches, which will allow the San Juan Bay Cruise Terminals to maintain their competitive edge.



Global Ports Holdings

Global Operating Footprint

EUROPE



ASIA-PACIFIC



THE CARIBBEAN



A photograph of a canal with a bridge in the foreground and buildings in the background. The bridge has a large white star painted on its surface. The water is calm, and the buildings on the left include a large one with 'Sheraton' written on its facade. The sky is clear and blue.

4. PROCUREMENT PROCESS



4.1 Partnership Committee

Pursuant to Act 29 and the Regulation, the P3 Authority designates a separate and specific partnership committee for each PPP project, with focused membership based on experience and relevance to each project, to evaluate and select qualified proponents and to establish and negotiate the terms of the relevant partnership agreement. Accordingly, the P3 Authority established the Partnership Committee for the Project on June 14, 2018.

Section 8 of Act 29 requires that the partnership committee for each PPP project be composed of the following members:

- The Executive Director of AAFAF or his/her delegate;
- The officer of the Partnering Government Entity with direct inheritance in the project or his/her delegate;
- One member of the Board of Directors of the Partnering Government Entity (or the Secretary, if it is an agency); and
- Two officials from any Government Entity chosen by the P3 Authority Board for their knowledge and experience in the kind of project subject to the partnership under consideration.

As of the date of the Recommended Award, and pursuant to the requirements summarized in the paragraph above, the Project Partnership Committee was comprised of the following individuals:

- Luis Umpierre Ferrer, CPA, Chief Risk Officer of AAFAF, as the delegate for the Executive Director of AAFAF;
- Joel Pizá Batiz, Esq, as the Executive Director of PRPA;
- Eileen Vélez Vega, PE, Secretary of the Department of Public Works

and Transportation, as a member of the Board of Directors of PRPA;

- Julian Bayne Hernández, Esq., Chief Legal Officer of AAFAF, as one of the government officials chosen for his knowledge and experience in the kind of project covered by the public-private partnership under consideration; and
- Manuel Laboy Rivera, PE, Executive Director of the Central Office for Recovery, Reconstruction and Resiliency, as one of the government officials chosen for his knowledge and experience in the kind of project covered by the public-private partnership under consideration.

Pursuant to Section 8 of Act 29, the Partnership Committee is responsible for the overall management of the process for the award of the Project and determining the Recommended Award, including:

- Approving documents prepared and distributed in connection with the RFQ Process and the RFP Process;
- Evaluating and qualifying the Respondents SOQs submitted in response to the RFQ;
- Inviting the qualified Respondents to participate in the RFP Process;
- Engaging in, or supervising, the negotiation of the terms and conditions of the PPP Agreement with the Proponents;
- Evaluating the Proposals submitted and selecting the one most favorable to the Government and people of Puerto Rico;
- Contracting advisors, experts or consultants on behalf of the P3 Authority;



- Maintaining a book of minutes of the Partnership Committee's meetings;
- Preparing this Report and submitting the PPP Agreement for the Required Approvals; and
- Overseeing proper compliance with the procedures established for the negotiation of the PPP Agreement, the determination of the Recommended Award and the execution of the final PPP Agreement, including those requirements set forth in Act 29 and the Regulation.

It is noted that during the procurement process, the Partnership Committee held a total of 14 meetings and the composition of the Partnership Committee changed several times as prior members left office, thus requiring their substitution, as reflected in the P3 Authority's Board of Directors resolutions.¹⁵

4.2 Unsolicited Proposal

The P3 Authority received the Unsolicited Proposal on October 17, 2017, pursuant to Act 29 and the Regulation, for the exclusive right to repair, design, finance, build, operate and maintain certain cruise terminals in the San Juan Bay and the Navy Frontier Pier. The P3 Authority evaluated the Unsolicited Proposal following the requirements set forth by Act 29 and the Regulation. After a thorough review of the Unsolicited Proposal, on November 3, 2017, the P3 Authority determined that the Unsolicited Proposal was beneficial to the public interest, which is the initial evaluation required to be made. The D&C Study followed and was completed in 2018, resulting in a favorable conclusion about the Project. Consequently, in compliance with Section 7 of the Regulation and Article 9 of Act 29, the Project was opened to competitive procurement.

15 The Resolutions from the P3 Authority Board of Directors can be found on the P3 Authority's website: www.p3.pr.gov

4.3 Desirability and Convenience Study

The P3 Authority, with the support of PRPA, conducted a study on desirability and convenience, as required by Act 29 and the Regulation, to determine whether establishing the Project was advisable. The purpose of the D&C Study was to determine the service needs for the terminals, analyze options to provide for these needs, and select the most efficient and feasible alternative to address the established service needs. The D&C Study was published on June 18, 2018 and made available for the public review on the P3 Authority's website.

After review of the D&C Study, the Partnership Committee considered that the Project should be an administrative concession for the primary purpose and essential consideration of repairing, improving, operating and maintaining Pier 1, Pier 3, Pier 4, Piers 11 through 14 and Pan American Piers 1 and 2. The Navy Frontier and other additional lands included in the Unsolicited Proposal were not recommended to be included within the Project and were excluded.

The D&C Study is organized into two sections: (i) Part A, which explores what needs to be done to improve utility of the existing cruise terminals in San Juan and the degree to which the cruise terminals need to be expanded to enhance economic development and job creation; and (ii) Part B, which analyzes potential options to meet the objectives detailed in Part A.

Part A of the D&C Study concluded that cruise terminals are essential to Puerto Rico's economy. Enhanced cruise terminals are expected to improve economic conditions on the island, increase tourism activities, and promote economic development and job creation. To accomplish these goals, capital needs to be invested in the terminals to bring them up to world class standards and to repair hurricane damage. In addition, terminal operations should be optimized so as to be able to secure additional cruise



line calls and increased homeporting of vessels.

The main service needs identified in the D&C Study to be considered as part of a procurement were:

Support economic development and job creation through tourism;

Improve cruise terminal infrastructure;

Balance the needs of cruise terminals and cruise passengers with other users of the harbor;

Improve the financial position of PRPA and access funding for the projects; and

Preserve Puerto Rico's unique natural environment.

Part B of the D&C Study concluded that a RDBFMO PPP model is the most effective way for PRPA to meet its goals.

RDBFMO described in the D&C Study includes specific repairs required to bring the piers up to good working order, design and construction of new infrastructure at the existing piers and outsourcing the operations and maintenance risk to a private partner. The PPP was evaluated as 'revenue risk', such that the private partner is entitled to the revenues generated by the Project, but the private partner also retains the risks associated with any insufficiency of the revenues generated to repay any financing incurred by the private partner to improve and operate the assets. PRPA and any other applicable Government entity would grant their rights to and interest in cruise line revenue and other Project revenue to the private partner with the expectation that the private partner will compensate PRPA for holding such rights during the term of the PPP Agreement by way of a combination of an upfront payment as well as ongoing payments from the private partner to PRPA. The D&C Study determined that such proceeds could be used by PRPA to pay down debt, thereby improving PRPA's balance sheet position, or could be used to fund ongoing costs of PRPA, such as improvements at other PRPA controlled assets. This approach was determined to maximize immediate-term value, mitigate the need for additional PRPA debt and accelerate improvements at the cruise terminals, producing jobs and economic development for Puerto Rico.

As required by Act 29, the P3 Authority made a comparative analysis of the cost and benefits represented in allowing PRPA to assume the responsibility for carrying out or continuing operations, repair and/or improvement of the San Juan Bay Cruise Terminals, as opposed to channeling the operation, building, repair and improvement through a PPP, including without limitation the effect on public finances. As described herein above, the D&C Study clearly concluded PRPA was not in an economic position to take on the Project, and that the same was best suited for a PPP.



In the D&C Study's Public Notice, which was published in a newspaper of general circulation in Puerto Rico on June 18, 2018, the P3 Authority detailed the public's right to submit comments, the process to do so, and other relevant information. The D&C Study was published and made available to the public through the P3 Authority's website. The deadline to submit such comments was July 19, 2018, on or before 5:00 P.M. AST. Within the established time frame, the P3 Authority received comments from eight parties, including cruise lines. The comments were reviewed, analyzed and discussed by the P3 Authority with PRPA and taken into consideration for the final scope that would become the subject of the competitive procurement process.

The comments received were generally complimentary of the contemplated Project, and of Global Ports, as the submitter of the Unsolicited Proposal. In addition to the foregoing, another common theme among the comments received was the need to encourage open ports that are not dominated or effectively controlled by any one cruise brand or collection of cruise brands. Many referenced the fact that the Caribbean has historically allowed legacy arrangements whereby some of the larger cruise brands have successfully secured preferential berthing rights as a negative factor limiting access to many ports. Generally, the commenters agreed that control of the San Juan Bay Cruise Terminals by one or a few cruise lines would act as a limiting factor for the rest of the industry and be to the detriment of San Juan as a cruise line destination.

4.4 Market Sounding

Prior to the development and preparation of the RFQ and in compliance with the Regulation, the P3 Authority opted to perform a market sounding process with the intention to receive feedback on specific topics relevant to the Project's scope, timeline and other relevant matters. The market sounding was carried out between August 13 and 16 of 2018, with the participation of companies and

other interested parties in the cruise ship industry, including but not limited to port operators, cruise lines, port agents and construction companies.

The market sounding participants provided valuable feedback to the P3 Authority regarding the scope and duration of the PPP Agreement, as well as regarding the potential participation of market players as proponents under the Project.

Regarding the scope of the Project, market participants were in agreement that all San Juan Bay Cruise Terminals should be included as part of the Project in order to lead a successful procurement. The P3 Authority and PRPA agreed with this reasoning and the Project was developed as described in this Report.

Regarding prospective proponents, some market participants mentioned concerns regarding possible cruise line participation in the Project due to the fact that they understood awarding such PPP Agreement to a cruise brand could lead to a monopoly of the San Juan Bay Cruise Terminals in favor of the winning cruise line, excluding all others. Notwithstanding the foregoing, and in the interest of the free and fair competition fostered by Act 29 and the Regulation, both the P3 Authority and PRPA agreed not to limit participation and leave it open to all those that would be interested in being qualified and participating.

4.5 Qualification Process

On September 5, 2018, the P3 Authority issued the RFQ in compliance with Section 3 of Act 29. The objective of the RFQ was to enable the Partnership Committee to identify the Respondents qualified to participate in the RFP Process based on their qualifications. SOQs were due October 17, 2018.

In accordance to Act 29, the RFQ informed all prospective proponents that the Project was being initiated due to the receipt of the Unsolicited Proposal. Consequently, and in compliance with Article 9(b)(ii) of



Act 29, they were informed that the party that submitted such Unsolicited Proposal was to receive a predetermined benefit in the procurement process for the time, resources and expenses incurred in presenting the Project as an Unsolicited Proposal. Said benefit was defined and all participants were notified that it would be as follows:

- RFQ Phase: an increase of 5% on its evaluation score for the RFQ.
- RFP Phase (if qualified to move forward): if the Unsolicited Proposal proponent was not awarded the Project, a stipend of a fixed amount would be paid out to such proponent from the proceeds of the transaction.

The RFQ provided that the RFQ Process sought SOQs from companies or consortia that demonstrated, among other criteria, financial strength, ability to raise financing, and technical and professional ability and experience.

As set forth therein, the RFQ contemplated PRPA entering into a long-term PPP contract with a private partner pursuant to which PRPA would retain ownership of and title to all assets of the San Juan Bay Cruise Terminals and the private partner would assume all rights, responsibilities and risks related to the repair, expansion, financing, operation and maintenance of the San Juan Bay Cruise Terminals.

The prospective proponents were informed in the RFQ that the selected party at the end of the procurement process would be responsible for operating the San Juan Bay Cruise Terminals, under its own business plan and with its own staff, as well as any proprietary technology and systems, with operational costs being payable from the revenues generated from the private partner's operations. This role, as described in the RFQ, would encompass all elements of the San Juan Bay Cruise Terminal operations, including interacting and contracting with cruise lines, scheduling cruise line calls, allocating capacity at the piers, providing certain ancillary services (namely, those

traditionally provided by PRPA, such as freshwater provision, parking services, and management of commercial and operational space on the piers), collecting revenues, providing security of the piers, liaising with Harbor Master, and marketing the piers to cruise lines. In addition, the private partner would be providing facilities maintenance and rehabilitation services for the piers and associated infrastructure over the term of the Concession.

Specifically, pursuant to the RFQ, the private partner would be responsible for providing all facilities maintenance and rehabilitation services, which would include activities such as routine, preventive and scheduled maintenance and rehabilitation works, keeping specifications of structures and preventing failure and/or degradation. The private partner would also be responsible for improving the infrastructure over time, in accordance with certain minimum service requirements and its own plan to grow the business.

Potential proponents were also informed that the preferred proponent would be responsible for financing the Project. The RFQ further emphasized that the risk of financing the Project and covering the costs of operations and maintenance would be borne by the private partner. Under the contemplated structure for the Project, the private partner's revenue stream would consist of fees derived from the passenger fees and related ancillary revenues. PRPA would not compensate the private partner for its services, but the private partner would rather share its revenues with PRPA.

On September 12 and 14, 2018, the P3 Authority conducted pre-submittal conference calls to provide a comprehensive summary of the Project and the requirements to be followed by Respondents in connection with the Project's statutory process. Interested companies and parties were able to participate in a video-call in which the P3 Authority shared a presentation, discussed the Project's scope and objectives, and explained the procurement process.

Pursuant to the RFQ, Respondents were able to submit any requests for clarification (“**RFCs**”) they had with respect to the contents of the RFQ (each such RFC, an “**RFQ-RFC**”) to the P3 Authority prior to 5:00 p.m. (AST) on September 17, 2018. The P3 Authority issued responses to the RFQ-RFCs submitted by Respondents following the process established in Section 5.4 of the Regulation. Notice of the RFQ was given in a newspaper of general circulation in Puerto Rico on September 5, 2018. In addition, the RFQ was published and made available to the public through the P3 Authority’s website.

There were five addenda issued in connection with the RFQ as described in the Table 1.

Table 1. RFQ Addenda

Addendum	Description	Issued Date
1	Updated schedule for the Project	September 19, 2018
2	Responses to questions and clarifications requested by Respondents pursuant section 5.4 of the Regulation	October 1, 2018
3	Responses to questions and clarifications requested by Respondents pursuant section 5.4 of the Regulation; provided general clarifications to the RFQ	October 4, 2018
4	Clarified matters regarding federal grants and FEMA	October 4, 2018
5	Updated information of several preferential berthing agreements and developments related to the Project’s facilities	October 5, 2018

The P3 Authority received five (5) SOQs from the following respondents:

- Carnival
- The GP Group
- PRCTP, a consortium formed by Ports America Group, Inc., Acciona Concesiones, S.L., Del Valle Group, S.P., Jacobs Engineering Group, CSA Architects & Engineers, LLP.
- Royal Caribbean
- SJCTP, a consortium formed by Sacyr, Infrastructure USA, LLC, Sacyr Construccion, S.A., Desarrollos Metropolitanos, LLC, Stantec Architecture Ltd., and L.P.C. & D. Inc.

In accordance with Section 8(b) of Act 29 and Section 3.4 of the Regulation, the Partnership Committee evaluated each SOQ based on the requirements set forth in the RFQ. Specifically, the Partnership Committee evaluated each SOQ considering the extent to which Respondents satisfied the evaluation criteria established in Section 3.2 of the RFQ based on the assessment completed by the Consultants.

The Partnership Committee conducted a meeting on November 14, 2018, to discuss the SOQ’s and evaluate Respondent qualifications. Each member of the Partnership Committee was given access to the SOQs for review. Based on the evaluation completed, the Partnership Committee shortlisted three (3) respondents (the “**Qualified Respondents**”) to participate in the RFP

Process. These were the GP Group, PRCTP and SJCTP. As detailed in the Qualification Memorandum, the GP Group received a final score of 101%, while the other two shortlisted received scores of 97% and 87% respectively. The two Respondents that were not shortlisted received scores of 64% and 50%.

The qualification process memorandum that memorialized the shortlisting process (“**Qualification Memorandum**”), describes the process, and summarizes the evaluation performed by the Partnership Committee in the selection of the Qualified Respondents. It should be noted that the Partnership Committee evaluated and scored each one of the SOQs submitted by the Respondents.

Respondents Not Shortlisted

The P3 Authority notified Respondents the result of the evaluation on November 20, 2018. Those not shortlisted had 20 days to seek review of the Partnership Committee’s determination, as provided in Article 20 of the Act. Before the deadline, on December 6, 2018, one of the non-shortlisted Respondents requested copies of the documents related to the SOQs to evaluate the possibility of filing for judicial review. Respondent’s representatives were given access and undertook their review of the documents on December 10, 2018, at the P3 Authority’s offices. However, after such review, the Respondent did not file a request for judicial review. The other non-shortlisted Respondent did not request additional information about the qualification process nor filed for judicial review of the RFQ process.

4.6 Request for Proposals

4.6.1 RFP and RFP Addenda

On December 3, 2018, the P3 Authority issued the RFP to the Qualified Respondents in accordance with Section 3 of Act 29. The RFP Process sought proposals from the Qualified Respondents who had been pre-qualified in the RFQ Process. The objective of the RFP Process was to enable the Partnership Committee to determine the Qualified Respondent best suited to enter into the PPP Agreement based on the Proposals received.

A total of seventeen (17) addenda were issued as part of the RFP Process. Table 2 summarizes the subject of such addenda and the date they were issued.



Table 2. RFP Addenda

Addendum	Description	Date
1	Proposed Project timeline revision	January 9, 2019
2	Proposed Project timeline revision	January 28, 2019
3	Proposed Project timeline revision	February 16, 2019
4	Responses to request for clarifications submitted by Proponents (Questions #001-#058)	February 22, 2019
5	Proposed Project timeline revisions	April 4, 2019
6	Amendment to the RFP, including but not limited to the increase in scope which rendered the Alternative Technical Concept (ATC) moot, and Schedule 15: Fees and Charges, and revisions to the PPP Agreement	April 16, 2019
7	Responses from the P3 Authority to request for clarifications submitted by Proponents (Questions #010-#074)	May 22, 2019
8	Updated versions of: Draft to PPP Agreement; Schedule 2: Contracts; Schedule 4: Disclosure of Existing Claims; and Schedule 15: Fees and Charges	May 28, 2019
9	Proposed Project timeline revision, and updated version of Schedule 1: Legal Description of Cruise Port Facility and Schedule 13: Design and Build Standards	May 31, 2019
10	Responses to request for clarifications submitted by Proponents (Questions #075-#089)	June 18, 2019
11	Guidelines for the Development of Piers 11-14 Uplands	June 25, 2019
12	Responses to request for clarifications submitted by Proponents (Questions #081-#084)	July 10, 2019
13	Changes to the RFP document as well as updated versions of Schedules # 1, 2, 3, 5, 6, 8 to 13, 15 and 17	July 17, 2019
14	Changes to the RFP document: Proponent Certification Section, and Revenue Share Section	July 19, 2019
15	Changes to the RFP: clarification of Section 7.2.5.2- Forfeiture of Proposal Security	July 23, 2019
16	Propose timeline revision to amend the Proposal Submission Deadline	July 30, 2019
17	Proposed Project timeline Revisions	August 23, 2019

Throughout the course of the RFP Process prior to the Proposal submittal deadline, the P3 Authority drafted five versions of the PPP Agreement, all of which were posted in the Data Room (see Section 4.6.2 for more details) for Qualified Respondents' review and comment. Four individual conference calls were held between the Qualified Respondents, the P3 Authority and Consultants for the P3 Authority to discuss drafts of key documents, as stated under "**Key Milestones in the RFP Process**". Qualified Respondents' comments were taken into consideration by the P3 Authority, the Partnership Committee and the Consultants and incorporated into the PPP Agreement if deemed beneficial to the Project. Section 7.2.2 of the RFP described the proposal submission deadline and requirements, originally scheduled for May 13, 2019, and later amended for July 31, 2019.



4.6.2 Due Diligence

Throughout the RFP Process, the Qualified Respondents were provided the opportunity to conduct thorough due diligence.

Data Room

Subject to having signed confidentiality agreements, on December 3, 2018, the Qualified Respondents were given access to a digital data room with information and key documents related to the Project (the “**Data Room**”). Specifically, the Data Room contained approximately 650 documents which included, among others:

- RFP addenda;
- Draft PPP Agreement and schedules;
- Financial documents, including PRPA financial statements and budget;
- PRPA agreements, including preferential berthing agreement, PRPA deeds and lease agreements;
- Environmental documents;
- PRPA employee and bargaining agreement documents;
- PRPA piers and terminals technical information;
- PRPA operations and maintenance information;
- Conditions survey reports;
- Dredging documents; and
- Permit documents.

Site Visits

From January 22 to January 24, 2019, the P3 Authority held general meetings in Puerto Rico with all Qualified Respondents with the objective of discussing the Project and answer their questions. Qualified Respondents were able the opportunity to visit the San Juan Bay Cruise Terminals through coordinated site visits. Key personnel from PRPA, together with

Consultants and representatives of the P3 Authority participated in these visits. Prior to the proposal submittal deadline, SJCTP visited the facilities on January 22, 2019, while the GP Group and PRCTP visited on January 23, 2019.

RFP Requests for Clarification

Similar to the RFQ Process and in accordance with Section 7.1.4 of the RFP, up to 15 days prior to the proposal submission deadline Qualified Respondents were able to submit to the P3 Authority any RFCs they had with respect to the contents of the RFP, the information available in the Data Room, PRPA and other matters related to the Project (each such RFC, an “**RFP-RFC**”). The RFP required that all RFP-RFCs be submitted in writing through a designated email. Verbal RFP-RFCs were not accepted. The P3 Authority answered RFP-RFCs in writing through RFP addenda that were made available in the Data Room.

4.6.3 PPP Agreement Discussions with Qualified Respondents

A draft PPP Agreement was made available to all Qualified Respondents after the execution of the NDA. As part of the RFP Process, Qualified Respondents were allowed to provide comments and submit suggested changes to the draft PPP Agreement.

Various issues were discussed between the P3 Authority and the Qualified Respondents throughout the comment phases. After addressing these issues, the PPP Agreement was published in final bid form.

4.6.4 Submission of Proposals

Before the submission deadline, the P3 Authority received formal notifications from PRCTP and SJCTP on April 16, 2019, and June 17, 2019, respectively, regarding their voluntary withdrawal from the procurement process. The remaining Qualified Respondent, the GP Group, submitted its Proposal to the P3 Authority on July 31, 2019, prior to the 5:00 P.M. AST deadline.



The Proposal was substantially complete and consistent with the evaluation criteria included in the RFP. However, the Proposal was submitted subject to certain changes to the final form of the PPP Agreement.

Pursuant to the procedures established in the Regulation, and according to Section 7.6 of the RFP, **“Procedures Following the Receipt of Proposals”**, the P3 Authority requested the GP Group to provide supplemental information to the Proposal. Three Requests for Information (**“RFI”**) were issued to the GP Group. The first RFI was issued on August 13, 2019, the second on August 29, 2019 and the final RFI on September 11, 2019.

On August 20, 2019, the Partnership Committee held a meeting and invited the GP Group to make a presentation about their Proposal. A second technical interview was held on September 4, 2019 with the participation of the P3 Authority staff and Consultants. The interviews were informative in nature and served to clarify several items from the Proposal. After the meeting, the Partnership Committee evaluated the Proposal based on the requirements set forth in the RFP, which are included in Section 5.1 of this Report.

4.6.5 Meetings of the Partnership Committee

In accordance with the requirements of Act 29 and the Regulation, the Partnership Committee held a total of 14 meetings and evaluated multiple documents and updated versions of the PPP Agreement throughout the course of this Project in which the P3 Authority, PRPA and the Consultants participated. In addition, the Partnership Committee approved various procurement process documents. Table 3 below provides a summary of the subject matters addressed at each Partnership Committee in person or telepresence meeting throughout the procurement process.



Table 3. Partnership Committee Meetings

Date	Meeting Subject
September 4, 2018	Review of the Partnership Committee's obligations and role pursuant to Act 29; Approval of the Request for Qualifications (RFQ)
November 14, 2018	Discussion, evaluation and scoring of the Statements of Qualifications (SOQs) received in response of the RFQ
November 29, 2018	Discussion and approval of the Request for Proposals (RFP)
December 18, 2018	Review and approval of PPP Agreement draft
May 28, 2019	Review and discussion of latest version of draft PPP Agreement and Schedules
August 20, 2019	GP Group presentation of the Proposal and discussion of the proposal's key aspects
September 13, 2019	Discussion of key details regarding the Proposal before conducting the final evaluation
February 27, 2020	Discussion of status of negotiations
May 13, 2020	Approval of Proposal Security replacement, negotiations status and PPP Agreement open issues (COVID lock down was already in effect in Puerto Rico)
September 18, 2020	Discussion of PPP Agreement and Schedules
December 2, 2021	Project status; GP Group presentation to the Partnership Committee
February 2, 2022	Discussion of the draft PPP Agreement and substitution of CBNA for Enka as construction contractor to future Concession Company
February 9, 2022	Approval of PPP Agreement and discussion of land assemblage and other real estate matters
July 5, 2022	Approval of updated PPP Agreement

4.6.6 Key Milestones in the RFP Process

Table 4 below summarizes the key milestones of the RFP Process.

Milestones	Date
Issuance of RFP and access to the Project's Data Room	December 3, 2018
Commenced Questions and Answers due diligence process	December 10, 2018
Issuance of first draft of the PPP Agreement and certain of its Schedules, including the Operating Standards and the Open Access Regime (" Key Documents ")	December 14, 2018
Pre-Proposal conferences, Site Visits and meetings in San Juan	January 22 - 24, 2019
Submittal of issues list from Key Documents in order of importance (from "deal-breakers" to general comments) in anticipation of conference	February 4, 2019
Issuance of second drafts of Key Documents	February 21-27, 2019
Individual Proponents' conferences regarding second drafts of Key Documents and issues list	February 25 - 28, 2019
Submittal of list of potential Alternative Technical Concepts ("ATC") Proponent proposes to discuss at ATC meeting	March 11, 2019
ATC discussion via web conference	March 19-22, 2019
Submittal of comments on second drafts of Key Documents	March 29, 2019
Last day to submit proposed ATC's	April 4, 2019
Circulation of third draft PPP Agreement and Key Documents	April 16, 2019
Submittal of key issues list and detailed markup of third draft Key Documents in anticipation of conference	April 22, 2019
Third Individual Proponents conferences on detailed comments on drafts of Key Documents	April 24 - 26, 2019
Circulation of fourth draft of Key Documents	May 28, 2019
Submittal of key issues list and detailed markup of fourth draft Agreement and key documents in anticipation of conference	June 13, 2019
Fourth Individual Proponents' conferences on detailed comments on drafts of Key Documents	June 26-28, 2019
Final Key Documents distributed	July 17, 2019
Last day for the P3 Authority to issue substantial addenda regarding RFP (minor/administrative addenda may still be issued)	July 19, 2019
Proposal submission deadline	July 31, 2019
GP Group Presentation to the Partnership Committee (First Evaluation Interview)	August 20, 2019
Second Evaluation Interview technical meeting	September 4, 2019
Notification of Preferred Proponent	September 20, 2019
First negotiation meeting with GP Group	October 22, 2019



After the presentation of the Proposal Security by the Proponent Group in October 2019, negotiations with the Preferred Proponent began and continued through 2020 when they were interrupted as a result of the COVID-19. Consequently, once discussions resumed, a series of new negotiations had to be undertaken to take into account the circumstances and effects of the COVID-19 on the cruise industry and therefore on the Project. The PPP Agreement had to be modified to address how to manage those circumstances and effects.

A photograph of a harbor scene. In the foreground, a large white ferry with multiple decks is docked at a concrete pier. The water is dark and calm. In the background, a city skyline is visible, featuring several multi-story buildings with many windows. The sky is a clear, pale blue. The text "5. RECOMMENDED AWARD" is overlaid in large, white, bold, sans-serif capital letters in the center of the image.

5. RECOMMENDED AWARD



5.1 Process for Selection

5.1.1 Evaluation Criteria

Act 29 requires the Partnership Committee to consider certain specific factors in evaluating responses to the RFP. The Partnership Committee reviewed and evaluated the Proposal based on the evaluation criteria ("**Evaluation Criteria**") set forth in Table 5 below, which was developed by the Partnership Committee, the P3 Authority and the Consultants to meet the objectives of the Project, as well as those set forth in Act 29.

Table 5. RFP Evaluation Criteria

#	Component	Score / Weighing
CONFORMANCE AND COMPLETENESS EVALUATION		
1.1	Completeness of Proposal	Pass / Fail
1.2	Financial, Technical and Professional Reputation	Pass / Fail
1.3	Financial Proposal Compliance	Pass / Fail
GRADED EVALUATION		
2.1	Technical Proposal	
2.1.1	Business and Marketing Plan	55
2.1.2	Business Marketing Plan	10
2.1.3	Operating Plan	15
2.1.4	Port Master Plan & Capital Investments and Construction Plan	30
2.2	Financial Proposal	45
2.2.1	Upfront Concession Fee	40
2.2.2	Robustness of Financing Plan	3
2.2.3	Local Equity or Debt Financing	2

The Evaluation Criteria set forth in the RFP consisted of three (3) Pass/Fail criteria and two other criteria catalogued in grading sub-categories.

Each proposal would have to achieve a rating of "pass" on each of the following criteria to be deemed a compliant proposal: (i) Completeness of Proposal; (ii) Financial, Technical and Professional Reputation; and (iii) Financial Proposal Compliance.

The graded evaluation criteria included technical and financial elements. The Technical Proposal comprised 55% of the Qualified Respondent's total score. For the Technical Proposal, the RFP required each Qualified Respondent to provide detailed plans and proposals as follows:

- Business and marketing plan to (i) increase Homeport traffic, (ii) attract new cruise lines to locate their homeports in the San Juan Bay Cruise Terminals, (iii) increase port of calls operations, (iv) diversify customer base and attract new tenants, (v) integration of the open access plan, and (vi) increase non-passenger/ ancillary revenues;
- Operating Plan to (i) manage federal funds such as FEMA or CDBG-DR, (ii) staffing and transition of existing PRPA staff, (iii) availability of shore power provision at piers 11-12, and (iv) operating under an Open Access Plan;

- Port Master Plan and Capital and Construction Plan to (i) assess the Masterplan, (ii) construct and a construction schedule, (iii) plan for architectural design, and (iv) incorporate local participants.

The Financial Proposal comprised 45% of the Qualified Respondent's total score. For the Financial Proposal, the RFP required each Qualified Respondent to provide detailed plans and proposals with respect to:

- Its proposed Upfront Fee;
- Its financing plan which should be robust and realistic; and
- Its plans to provide local participation in the equity or debt financing component.

5.1.2 Selection of Preferred Proponent

The Partnership Committee finalized its review of the Proposal in a meeting held on September 13, 2019, and individual evaluations and scoring were completed by the Partnership Committee thereafter and submitted to the P3 Authority. Proposal scores were averaged to obtain an average aggregate score (the "**Average Aggregate Score**"). Table 6 below breaks down the Proposal's Average Aggregate Score.

Table 6. Proposal's Average Aggregate Score

Component	Individual Score
Completeness of Proposal	Pass
Financial, Technical and Professional Reputation	Pass
Financial Proposal Compliance	Pass
Technical Proposal	39.6
Financial Proposal	43
Average Aggregate Score	82.6

As detailed in Section 5.1.1 hereof (*Evaluation Criteria*), the Proposal was evaluated on the basis of three elements: Compliance Considerations, Technical Considerations, and Financial Proposal discussed in more detail below. The three elements were designed to enable the Partnership Committee to select the respondent best suited to fulfill the Project's objectives. Based on its evaluation of the Proposal, the Partnership Committee determined that the GP Group clearly demonstrated its ability and commitment to transform the San Juan Bay Cruise Terminals into modern and reliable infrastructure for the people of Puerto Rico. Sections 5.1.3 (*Compliance Considerations*), 5.1.4 (*Technical Considerations*) and 5.1.5 (*Financial Considerations*) in this Report describe the key considerations for the Recommended Award and provide the rationale for the Partnership Committee's determination that the Project be awarded to the GP Group for the Concession Company to sign the PPP Agreement and implement it.



5.1.3 Compliance Considerations

The completeness evaluation required proposals to score a “pass” for the criteria detailed in Section 5.1.1 (*Evaluation Criteria*). Below is a brief description of the completeness of proposal:

- **Completeness of Proposal.**

Though the Proposal was conditioned on the negotiation of certain terms of the PPP Agreement, upon evaluating these points raised by the GP Group, the Partnership Committee acknowledged that they would be better suited for resolution during negotiation of a PPP Agreement or prior to financial Closing:

- Further technical studies of the piers to confirm existing site conditions
- Term Extension and Compensation Events
- Escrow Accounts
- Period of time for certain government filings
- Tax treatment
- Contingency for a future PRPA bankruptcy and PROMESA Title III
- Right of First Offer (ROFO) and Right of First Refusal (ROFR)
- Dredging depth

- **Financial, Technical and Professional Reputation.**

The Proposal effectively confirmed the GP Group was financially capable of undertaking the Project and had a sound professional reputation. In addition, it complied with requirements to provide evidence of no current or pending material claims, litigation or equivalent that would materially adversely affect their ability to undertake the Project. As of the date of this Report, the GP Group continues to be capable of financially supporting the performance of the Concession Company under the PPP Agreement.

- **Financial Proposal Compliance.**

The Proposal included an upfront bid of \$75 million, which was greater than the \$72 million threshold required by the RFP; \$3 million of this amount is allocated to an escrow account to be used for Compensation Events during construction of the IIP, if any, and then to be released to PRPA. Based on review of the updated financial statements provided, the Partnership Committee concluded there did not appear to be any Material Adverse Changes that had occurred since the GP Group submitted the SOQ or as of the date of the submitted Proposal.

5.1.4 Technical Considerations

The Evaluation Criteria includes a technical proposal evaluation section in which the maximum score attainable was 55, based on the following criteria: business marketing plan (maximum score of 10), operating plan (maximum score of 15), and port master plan and capital investments and construction plan (maximum score of 30). The GP Group's technical proposal is described in this section.

- **Business Marketing Plan.**

The Proposal described the GP Group's strategy to increase home port activities. The text described a logical strategy to access new customers, primarily from Europe as this market does not yet have large home port operations in the Caribbean compared to U.S. cruise lines. The Partnership Committee determined



that the GP Group has a significant understanding of the European cruise market, giving credence to their strategy. As part of the strategy, the master plan allocates the new berths at Piers 11 and 12 to the development of the new home port facilities. The strategy largely relies on direct European air service increases at LMM Airport, which is outside the Concession Company's control. However, based on historical precedents, airlines will likely respond positively.

In other strategies, the port of call (“**PoC**”) strategy primarily focuses on the use of Piers 1, 3 and 4 to continue PoC operations. The Proposal also provided a detailed and comprehensive berthing allocation management process which reflects the envisaged open access principles. Lastly, the revenue diversification strategy included some retail offerings and non-passenger revenue development.

- **Operating Plan.**

- **Government Contributions Funds Management.**

The GP Group's incentive to maximize third party grants and to ensure compliance with all regulations and similar experience in other jurisdictions provides comfort of their expected capabilities.

- **PRPA Employment.**

The Proposal stated that the Concession Company will aim to retain, to the extent possible, most of the existing PRPA employees, subject to the employees' interest in working with the Concession Company. Their Proposal further indicated that it is part of their corporate strategy to always prioritize working with local people in every destination they operate. The Partnership Committee believes it is fully in the Concession Company's interest to hire competent PRPA and other local staff that are based full-time in Puerto Rico to manage the operations, given the material investment they are making in San Juan and the travel distance from other Global Ports European operations.

- **Open Access Plan and Other Operating Plan Elements.**

The Proposal presented a detailed transition plan in compliance with the Project's objectives, and the open access plan inclusiveness and non-discriminatory requirements. In general, the description of how to comply with the open access policy is included in the overall operations discussion and the document describes the sequence to allocate berthing with precise time frames. The Proposal provides a detailed description of the allocation mechanisms and how existing PBAs are integrated. The allocation is based on the “first come, first serve” principle, which does not appear to favor any particular customer.

- **Port Master Plan and Capital Investments and Construction Plan.**

- The general concept behind the master plan idea, is to establish a Home Port District in Piers 11-14 (Puerta de Tierra) and Pan American Piers 1 and 2, and a Port of Call District in Piers 1-4 (Old San Juan). The proposed master plan contemplates implementing these capital improvements in two phases.

In particular, the reconstruction of Piers 11-12 included a new terminal building and development of the “Uplands”, certain building repairs at Piers 1, 4 and Pan American Piers 1 and 2, and enhancement of some areas of the walkways. In addition, the Proposal contemplates rebuilding the quay wall in front of the existing bulkhead at the Pan American Piers, which exceeded the requirements set out in the RFP. The construction of new terminals in Piers 13-14 is contemplated for phase 2.



The Proposal seemed to optimize the use of the uplands and at the same time safeguarding proper traffic circulation at the ground transportation area. Nonetheless, the master Plan initially did not contemplate a continuous connection from San Juan to Puerta de Tierra and Bahía Urbana development by means of an adequate street section compatible with the guidelines provided. This was addressed during the negotiation process.

The GP Group confirmed that it bears the complete design and build liability which includes any variations in budget estimates after announcement of Preferred Proponent.

Subsequent negotiations led to agreement by the GP Group to implement the capital improvements in modified order from the original plan, taking into account that the impact of the COVID-19 pandemic created a scenario of delayed industry growth. The adjustments in the schedule for completion of the repairs and improvements resulted in what is referred to in the PPP Agreement as the IIP, the EIP and the Phase Two Projects.

- **Construction Plan / Completion Time.**

The Proposal presented an aggressive, yet feasible construction plan to comply with estimated completion time.

- **Architectural Design Criterion.**

The Proposal provided conceptual and schematic design of the Terminal Building and Piers 11 and 12. Some of the key considerations in the design included the creation of public spaces at the east of Pier 14 and the west of Pier 11 and the extension of the street network, allowing for pedestrian circulation and a continuous connection with Puerta de Tierra and Old San Juan, following the requirements included in the RFP.

In the case of the piers at the Old San Juan area (Piers 1, 3 & 4) from the meetings and RFIs, the GP Group indicated there will only be minor repairs to the buildings, other than the structural issues identified on Pier 4. In addition, they confirmed that the architectural designs will be sensible and respond to the architectural and cultural context of the area.

- **Local Content.**

The GP Group worked with local firms to submit their Proposal. For construction, the GP Group indicated its intention of partnering with Aireko and other local sub-contractors. Bellagio, Interlink, and Constructora Santiago are listed as potential sub-contractors. The GP Group expects to staff all positions of the Concession Company with local employees to perform day-to-day operations and maintenance services.

5.1.5 Financial Proposal

The Evaluation Criteria includes a financial proposal evaluation section in which the maximum score attainable is 45 and includes the following criteria: Upfront Fee criterion (maximum score of 40), robustness of financing plan criterion (maximum score of 3) and local financing criterion (maximum score of 2).

The GP Group's financial proposal is described in this section. It should also be noted that the Partnership Committee reviewed three financial models from the GP Group: (i) the July 2019 model included in the Proposal, (ii) the July 2020 Conservative Case Model updated to reflect lower patronage (due to the COVID-19) but without triggering the development of the EIPs and (iii) the July 2020 Upside Case Model which reflects a higher patronage and triggers the development of the EIPs. However, the analysis in



this Section 5 uses the July 2019 model as this was the model the GP Group formally submitted with its Proposal and on which financing and indicative ratings were based to select the GP Group as Preferred Proponent.

- **Upfront Fee Criterion.**

The GP Group proposed an Upfront Fee of \$72 million, which meets the minimum required in the RFP. In addition, the Proposal provided for a \$3 million escrow deposit.

- **Robustness of Financing Plan Criterion.**

- **Assumptions and Cash Flows.**

The GP Group's model assumed that home port and transit passengers will grow by 6.1% and 5.2% annually, respectively, over the course of the next thirty years with tariffs growing between 1.2% and 1.7% per annum. These assumptions result in a 30-year compounded annual growth rate of 6.5% in Total Revenue. Total expenses are assumed to grow at 3.3% annually over the next thirty years.

- **Practicality of Financing Plan.**

Barclays' commitment letter will either be extended, if needed, or replaced by a bond purchase agreement.

- **Robustness of Financing Term and Evidence of Coherence with Market Conditions.**

Clarification provided by the GP Group through a RFI showed that debt pricing assumptions are consistent with market conditions for comparable credits.

- **Equity Commitment Letters provided by Global Ports.**

- **Debt Commitment Letters (for a volume underwrite) provided by Barclays.**

- **Local Financing Criterion.**

- The Proposal indicated that the GP Group has spoken with all local banks and investors in regard to potential financing and equity investment mechanisms. Furthermore, they held active discussions with FirstBank and Banco Popular de Puerto Rico regarding value-add Debt Service Reserve Account ("DSRA") facilities, working capital and operational lines of credit, merchant banking services and other commercial banking products.

- The GP Group also highlighted that the subcontracting of several local contractors and entities for construction and development will result in either direct or indirect use of local capital.

- Proposed financing solution is to use sponsor equity and a Private Activity Bonds ("PABs") issuance (issuance will be through a Puerto Rico bond issuing authority), which means that the ultimate equity investors will not be local, and the ultimate debt investors are not necessarily local (as the PABs can be sold to any investors).

5.1.6 Preferred Proponent

As detailed in Section 5.1.2 (*Selection of Preferred Proponent*), the Partnership Committee deemed the Proposal to be compliant with the Evaluation Criteria and with the Project's Objectives. Accordingly, on September 17, 2019, the Partnership Committee voted by referendum, pursuant to Act 29 and the Regulation (including Section 5.1 thereof), to designate the GP Group as the Preferred Proponent to engage in discussions and negotiations with the P3 Authority in connection with the Project. On September 20,



2019, the GP Group was notified in writing of its selection as the Preferred Proponent.

The September 20, 2019 notification letter to the Preferred Proponent included a condition that the Preferred Proponent submit a bid bond to the P3 Authority by October 10, 2019, issued by a surety or insurance company authorized to issue financial guaranty bonds in Puerto Rico in the amount of five million dollars. This condition was satisfied by the Preferred Proponent on October 21, 2019. The P3 Authority included in the notification letter certain other matters (in addition of the Proposal list of items for negotiations) that the P3 Authority and PRPA required to be discussed during negotiations of the final form of the PPP Agreement.

As a result of this evaluation process, the Partnership Committee concluded that the Project and the Proposal will generate significant economic and social benefits, which can be summarized in the following key social welfare and economic goals:

Accelerate completion of important capital improvement works to enhance in the short term the performance and safety conditions of the San Juan Bay Cruise Terminals;

Spur private infrastructure investment in Puerto Rico, which has a multiplier effect on the economy and leads to the creation of new jobs;

Increase the number of cruise ships and tourists that visit Puerto Rico on an annual basis, which has a positive effect on the island's economy, especially in the nearby communities of Old San Juan, Puerta de Tierra, Cataño and Condado;

Reduce PRPA's debt burden, which has been negatively affected by its financial performance and capital structure; and

Provide a world class level of service to visitors of the San Juan Bay Cruise Terminals.



5.2 Negotiations and Approval

5.2.1 Key Negotiation Points Identified Before COVID-19

As required by the Partnership Committee, the P3 Authority entered into direct negotiations with the Preferred Proponent after selection in September 2019. Key issues were identified and further negotiated with the Preferred Proponent, including employee matters, competition with local service providers and integration with surrounding communities.

Regarding PRPA employees, the Concession Company agreed to the following: (i) the Concession Company will give preference to PRPA employees over other applicants with similar qualifications; (ii) the Concession Company commits to offer competitive and attractive benefits to PRPA employees who receive a job offer; and (iii) PRPA employees may elect to transfer the balance of their retirement account to the defined contribution individual retirement account program the Concession Company may establish at its discretion. As part of the negotiations, the Concession Company further agreed that PRPA employees hired shall be guaranteed a minimum of 2 years employment and may only be separated from their position based on “just cause” as defined under Act 80-1970, as amended.

The parties also agreed that the Concession Company could only provide Non-Exclusive Ancillary Services (as defined in the PPP Agreement) through its Affiliated Service Providers. Affiliated Service Providers were defined to mean affiliates of the Concession Company organized under the laws of the Commonwealth of Puerto Rico, in which the Concession Company shall never hold majority ownership and the remaining ownership will be held by local Puerto Rico shareholders or members. Local workers or local service providers would also have to be used by the Concession Company and the Affiliated Service Providers when providing Ancillary Services (as defined in the PPP Agreement). Further requirements and limitations were incorporated into the PPP Agreement prohibiting unfair competition or practices by the Concession Company against local competitors. In addition, the Concession Company may establish Administrative Charges in the form of entry fees to persons providing Non-Exclusive Ancillary Services, including stevedoring services based on the equipment used in providing such services.

The parties further included in the PPP Agreement, that Piers 1 through 4 walkways, the lateral areas from the terminal in Piers 11-12 toward Fernández Juncos Avenue, the paved sidewalks abutting the Pan American Piers and any areas described as “walkways” in the design for the Phase Two Projects, shall be open to the public, this with a view of integration of the piers with surrounding areas and Bahía Urban design. Furthermore, the contract provides that space shall be located in these areas, as well as in other locations on the San Juan Bay Cruise Terminals, for Puerto Rican bona fide artisans and Persons providing Guest and Transportation Services and Public Information Centers. Additional confirmation and design modifications were considered and agreed to ensure the compliance with guidelines for the development of the uplands and integration of the Cruise Port Facility to the surroundings, included in Schedule 13 of the PPP Agreement.

In addition to the issues above, the following matters were also discussed at length and resolved:

- **Structural Condition of the Piers.**

It was agreed that: (i) an engineering report to be issued once additional site investigations are completed must confirm the assumption of the Concession Company regarding the “live loading capacity” of Pier 4 or the Concession Company’s budget for the Pan American Piers; (ii) Pier 3 repairs required after the 2019 accident with the EPIC cruise ship shall be funded by PRPA insurance proceeds and the repairs then considered part of the concession and transferred



under the PPP Agreement; (iii) certain liabilities related to Piers 3, 4 and the Pan American Piers were deemed “**Excluded Liabilities**” (for which PRPA is responsible until the commencement of certain related repairs and construction projects) and it was agreed that PRPA must maintain insurance for such Excluded Liabilities; (iv) the Concession Company will rehabilitate the Pier 4 wharf involving the addition of mooring dolphins around Pier 4; and (v) a total reconstruction of Pier 4 may be performed in the future under certain funding availability.

- **Taxes.**

Concession Company taxes has been limited to 20% income tax rate and other tax benefits provided in Act 29. The Government’s Department of Treasury will issue an Administrative Determination on certain tax matters applicable to PPP concession agreements in general, which shall also apply to the Concession Company.

- **Limit on Term Extension for Compensation Events.**

Compensation Events are a limited list of events that, if they occur, require PRPA to compensate the Concession Company. The draft of the PPP Agreement that was issued with the RFP allowed PRPA to provide this compensation by extending the term of the PPP Agreement. This has now been specified to be available to PRPA up to a certain dollar amount.

- **Escrow Account.**

In addition to the \$72 million to be paid as the Concession Fee to PRPA, \$3 million is to be deposited by the Concession Company at the financial close in an escrow account to be used to pay Compensation Events that may occur before the Completion of the IIP. Any remainder of that amount will be released to PRPA.

- **Closing Delays.**

The period for achieving Financial Closing was extended to 180 days after the Award Date (final approval and execution of the PPP Agreement), with an additional 90 days to allow for possible contingent Closing delays.

- **Technical Disputes.**

A faster procedure was established for technical disputes identified in the PPP Agreement.

5.2.2 Key Negotiation Points After COVID-19

COVID-19 had an immediate devastating impact on the cruise line business in Puerto Rico. As with many projects and most businesses, further adjustments to the Project and the PPP Agreement were incorporated to move forward and for an agreement reasonably acceptable to both parties to be reached. These adjustments mostly relate to the stop in cruise pier traffic, the related loss of cruise pier revenue and the uncertainty of when and at what pace the demand will recover and the future revenues will flow-in again.

As such, from May 2020 through January 2022, the following key changes to the PPP Agreement were introduced:

- Financial Closing security details were established. A \$10 million security in the form of a corporate guarantee will be delivered at the signing of the PPP Agreement, and shall be replaced by cash, surety bond or letter of credit within 90 days of signing. This was established to allow for COVID-19 related conditions impacting the insurance offerings available at reasonable costs.
- The Piers 11-12 Project, which includes a new cruise terminal and quay wall for Piers 11-12, was postponed because of reduced demand expected in the next few years and was made contingent on demand targets being met. As a result, the capital improvement projects and execution phases were modified to be the (i) IIP, (ii) EIP and (iii) Phase Two Projects, and certain terms and conditions were included to safeguard compliance by the Concession Company.

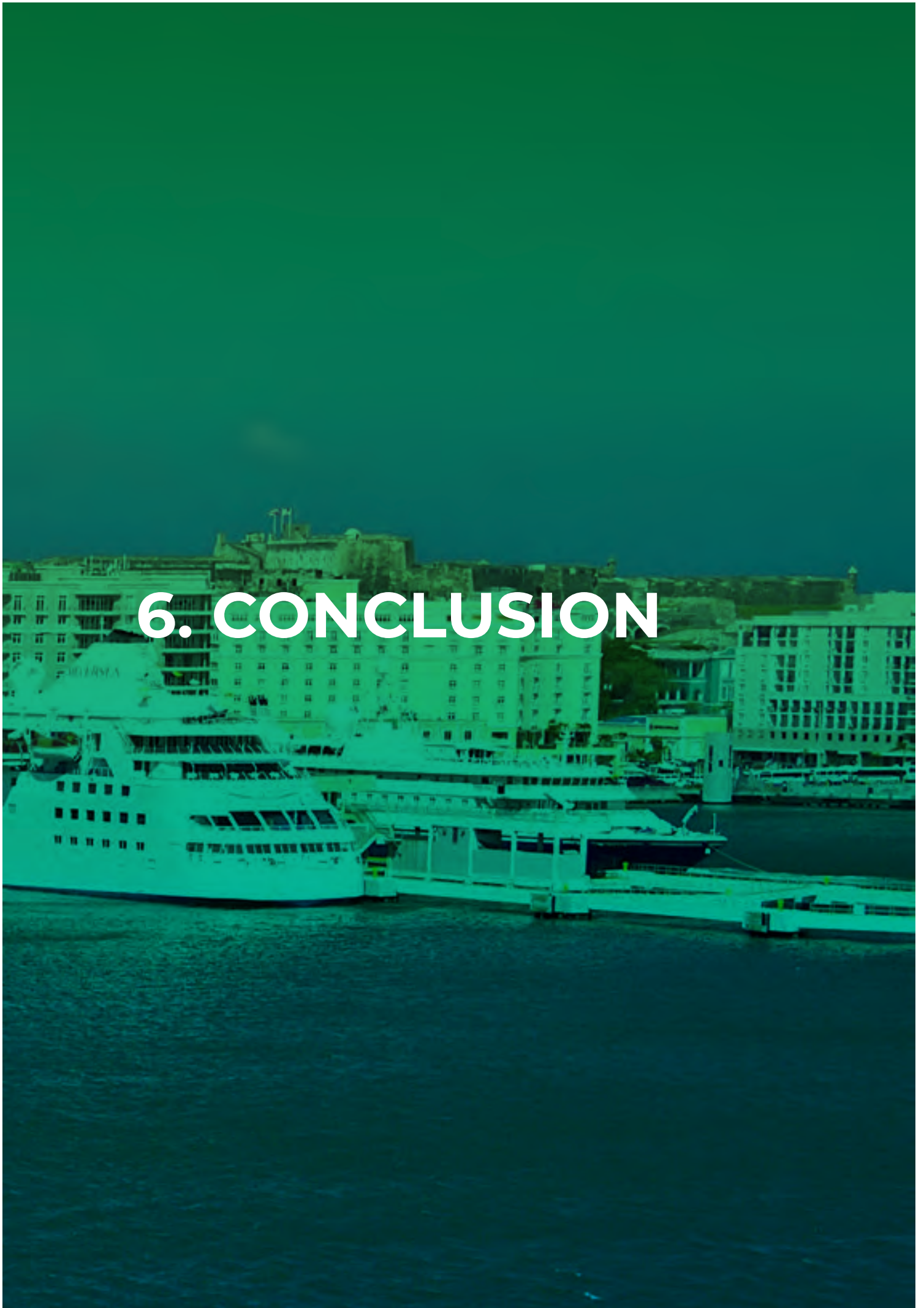


In 2021 PRPA and the P3 Authority learned that additional CDBG-DR and/or CDBG-MIT funds from HUD may be allocated to the Piers 11-12 Wharf Project and to quay wall improvements along Pier 13 and Pier 14 to prepare the entire wharf/quay wall to safely allow the docking of big vessels, including emergency providers such as floating hospitals and other first aid vessels. PRPA and the P3 Authority held discussions with the PRDOH about the likelihood of obtaining CDBG funding. As a result of these discussions, on October 8, 2021, PRPA submitted a letter to the Secretary of the PRDOH, requesting that the quay wall for Piers 11 through 14 be included in the Action Plan for funding by PRDOH through either the CDBG-DR or the CDBG-MIT programs. Based on these developments, the P3 Authority negotiated further revisions to the PPP Agreement related to CDBG funding for the Piers 11-12 Wharf Project. The PPP Agreement now provides that if PRPA receives Government Contributions authorizations for no less than \$50 million for the Piers 11-12 Wharf Project, the Concession Company is obligated to use reasonable efforts to issue Concession Mortgage Debt and obtain permits for the implementation of the Piers 11-12 Project. Upon completion of the Piers 11-12 Wharf Project and the Piers 11-12 Project by the Concession Company, the Concession Company is obligated to pay the IARS, an additional share of the Gross Revenue of the Cruise Port Facility, subject to certain conditions. The IARS is paid annually as a percentage of Gross Revenue (see *PPP Agreement*).

5.2.3 Final Approval of the PPP Agreement

On February 9, 2022, the Partnership Committee reviewed and approved the PPP Agreement between PRPA and the Preferred Proponent. Subsequent to that approval, the PPP Agreement was presented to FOMB for review and approval. FOMB approved it subject to certain conditions; conditions which were accepted by the parties. The revised version of the PPP Agreement was approved by the Partnership Committee on July 5, 2022. After approving the PPP Agreement, the Partnership Committee authorized the P3 Authority to proceed with the remaining Required Approvals.

6. CONCLUSION





CONCLUSION

PRPA is one of the main government entities responsible for promoting Puerto Rico's economy, managing the main ports of entry and exit of passengers, goods, consumer products and raw materials in Puerto Rico. In the years leading up to the Hurricanes, a backlog of important maintenance and expansion projects built up for several reasons, including, among others, the ad hoc development and upgrades of the piers and debt obligations, which led to inadequate levels of infrastructure investment.

In light of these challenges, PRPA's objectives included reaching the Government's long-term goal of contributing to the revitalization of Puerto Rico's economy through upgrading the existing facilities and expanding berthing and terminal capacity. However, due to several factors, including but not limited to a lack of funds, PRPA was not in a position to achieve these goals on its own. After the receipt of the Unsolicited Proposal and the commissioning of the D&C Report, the P3 Authority and PRPA understood that the best path forward for the San Juan Bay Cruise Terminals was through a PPP and the assistance of and investment by a private partner. The P3 Authority commenced an RFQ and RFP procurement process to identify the private partner best suited to repair, design, build, finance, maintain, and operate the San Juan Bay Cruise Terminal. On July 31, 2019, the Partnership Committee received one (1) proposal from a Qualified Respondent.

Following an extensive review of the Proposal, the Partnership Committee determined that it represented the best alternative to achieve the Government's stated goal of upgrading the San Juan Bay Cruise Terminals and implementing diligent management of the same for the benefit of the people of Puerto Rico. On September 17, 2019, after nearly two months of review and evaluation of the Proposal based on the Evaluation Criteria, the Partnership Committee voted to designate the GP Group as the Preferred Proponent. The Proposal not only complied with the requirements of Act 29, the Regulation and the RFP, but also met the objectives of the Project.

Extensive negotiations were held with the GP Group and adjusted based on the impactful reality of the COVID-19 pandemic, concluding in a satisfactory agreement reflected in the PPP Agreement.

In conclusion, the procurement process for the Project was carried out over the course of more than 48 months, a total of 14 meetings were held, which involved (i) extensive due diligence of PRPA assets; (ii) multiple opportunities for comment and discussion of the proposed transaction structure and the PPP Agreement, both with private sector participants and with various government entities and other stakeholders; (iii) an extensive and in-depth assessment and analysis by the Partnership Committee and the Consultants of the GP Group Proposal; and (iv) the scoring of the GP Group Proposal by the Partnership Committee based on clearly-articulated Evaluation Criteria to achieve the Government's objectives for the Project.

In addition, and as a result of the COVID-19, the definitive PPP Agreement was further negotiated by the Partnership Committee to address new and developing challenges to its satisfaction. As such, the Partnership Committee unanimously recommends that the GP Group be awarded the PPP Agreement for execution by the Concession Company.

The Partnership Committee, the P3 Authority and PRPA believe the Project is in the best interest of Puerto Rico. The Project will increase tourism to the Island by ensuring improved facilities, and efficient management and operation of the San Juan Bay Cruise Terminals in a manner PRPA cannot afford to provide. Furthermore, the San Juan Bay Cruise Terminals are currently in a state of such disrepair that current condition studies appear to project total demise of the cruise piers if intervention does not occur promptly. By transferring such tasks to a private partner with the financial resources and experience to implement the necessary improvements, these PRPA assets will not only be saved, but improved and expanded for the benefit of tourism and the Puerto Rico economy.



Approved and received by the Partnership Committee Members:

Luis Umplierre Ferrer
Chief Risk Officer
Financial Advisory Authority and Fiscal
Agency of Puerto Rico

Joel Pizá Batiz
Executive Director
Puerto Rico Ports Authority

Eileen Vélez Vega
Secretary
Department of Transportation and
Public Work

Manuel Laboy Rivera
Executive Director
Central Office for Recovery,
Reconstruction and Resiliency

Julian Bayne Hernández
Chief Legal Officer
Financial Advisory Authority and Fiscal
Agency of Puerto Rico



EXHIBIT A: DEFINED TERMS



Defined Terms	Definition or Section Reference
AAFAF	Section 3.1.4
Act or Act 29	Section 1
Aerostar	Section 3.1.1
Annual Authority Revenue Share or AARS	Section 3.3.3
Average Aggregate Score	Section 5.1.2
Carnival	Section 3.1.2
CBNA	Civil & Building North America, Inc.
CDBG	Community Development Block Grants program administered by the United States Department of Housing and Urban Development with PRDOH
CDBG-DR	Section 3.1.3
CDBG-MIT	Section 3.1.3
CDC	Section 3.1.3
Closing Corporate Guaranty	Section 5.2.2
Closing Security	Section 5.2.2
Closing Security Delivery Date	Section 5.2.2
Concession Company	Section 1
Consultants	Section 2
COVID-19	Section 1
D&C Study	Section 3.1.4
Data Room	Section 4.6.2
Dredging Depths	Section 3.3.3
EIP	Section 3.3.1
Enka	Section 1
Evaluation Criteria	Section 5.1.1
Excluded Liabilities	Section 5.2.1
FAA	Section 2
FEMA	Section 3.1.3
FOMB	Section 2
Global Ports	Section 1
Government	Section 1
Government Contributions	Section 3.1.3
GP Group Section 1HUD	Section 3.1.3
Hurricanes	Section 1
IARS	Section 3.3.3
IIP	Section 3.3.1
Irma	Section 1
Key Documents	Section 4.6.6
Key Milestones in the RFP Process	Section 4.6.1
LMM Airport Agreement	Section 3.1.4
LMM Airport Project	Section 3.1.4
LUMA	Section 3.1.4

MARAD	Section 3.1.4
MARAD Report	Section 3.1.4
María	Section 1
Metropistas	Section 3.1.4
Moody's	Section 3.1.3
MTA	Section 3.1.4
MTA Project	Section 3.1.4
Norwegian	Section 3.1.2
O&M Agreement	Section 3.1.4
P3 Authority	Section 1
P3 Authority Board	Section 1
Partnership Committee	Section 1
PBAs	Section 3.1.3
PoC	Section 5.1.4
PortMiami	Section 3.1.2
PPP	Section 1
PPP Agreement	Section 1
PRCTP	Section 1
PRDOH	Section 3.1.3
Preferred Proponent	Section 2
PREPA	Section 3.1.4
PRHTA	Section 3.1.4
Procedures Following the Receipt of Proposals	Section 4.6.4
Project	Section 1
Proposal	Section 1
PRPA	Section 1
Qualification Memorandum	Section 4.5
Qualified Respondents	Section 4.5
RDBFMO	Section 1
Recommended Award	Section 2
Regional Airports	Section 3.1.1
Regulation	Section 1
Report	Section 2
Required Approvals	Section 2
Respondent	Section 1
RFC	Section 4.5
RFI	Section 4.6.4
RFP	Section 1
RFP Process	Section 1
RFP-RFC	Section 4.6.2
RFQ	Section 1
RFQ Process	Section 1
RFQ-RFC	Section 4.5
Royal Caribbean	Section 3.1.2
San Juan Bay Cruise Terminals	Section 1
SJ Cruise Port	Section 1
SJCTP	Section 1
SOQs	Section 1
Toll Roads Agreement	Section 3.1.4
Toll Roads Project	Section 3.1.4
Unsolicited Proposal	Section 1

An aerial photograph of a coastal city, likely Miami, featuring a large cruise ship docked at a pier. The ship is white with multiple decks and a prominent funnel. The pier is a long, dark structure extending into the water. In the background, a dense urban skyline is visible, including a tall, modern skyscraper and a large, ornate building with a dome. The foreground shows a mix of greenery, including palm trees and other tropical plants, and a paved area. The entire image is overlaid with a semi-transparent green filter.

EXHIBIT B: D&C STUDY

Desirability & Convenience Study: Puerto Rico Cruise Terminals

Prepared by the Puerto Rico Public-Private Partnerships Authority



GOVERNMENT OF PUERTO RICO
Puerto Rico Public-Private Partnerships Authority



15 June 2018

General Disclosure

This Desirability and Convenience Study (the “**Study**”) has been prepared pursuant to the requirements of the Public-Private Partnerships Act, Act 29-2009, as amended (the “**Act**”). This Study seeks to determine whether the establishment of the proposed public-private partnership (“**PPP**”) is advisable and meets the public policy goals established by the Act.

This Study was formulated according to the Act and the Regulation for the Procurement, Evaluation, Selection, Negotiation and Award of Participatory Public-Private Partnership Contracts under Act No. 29-2009, as amended, approved by the Puerto Rico Public-Private Partnerships Authority (the “**Authority**”) on May 4, 2017.

This Study is based on estimates, assumptions and market information obtained from sources believed to be reliable. Actual results may vary from those anticipated in this Study. Changes in the cruise industry or shifts in the overall economic conditions may occur which can alter the assumptions and conclusions presented in this Study. Neither the Authority nor the Puerto Rico Ports Authority (“**PRPA**”) makes any representation or warranty whatsoever, including representations and warranties as to the accuracy or completeness of the information contained in this Study, including estimates, forecasts or extrapolations. The Authority and the PRPA expressly disclaim any liability for any representations or warranties, expressed or implied, contained herein or for any omissions from this Study or for any other matter related to this Study.

The Act and Authority’s regulations, as well as all applicable Puerto Rico and federal laws and regulations, will govern the dissemination of this Study.

Only those representations and warranties that are made in a definitive written agreement relating to a PPP, if and when executed, and subject to any limitations and restrictions as may be specified in such definitive agreement, shall have any legal effect. Readers should make an independent assessment of the merits of pursuing a possible PPP and should consult their own professional advisors.

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EXECUTIVE SUMMARY

OVERVIEW

This Study for Desirability and Convenience (the "**Study**") has been prepared for the purposes of section 7(b) of the Public-Private Partnerships Act, Act No. 29-2009, as amended (the "**Act**") and the Regulation for the Procurement, Evaluation, Selection, Negotiation and Award of Participatory Public-Private Partnership Contracts (the "**PPP Regulation**"), and is prepared on behalf of and with the support of the Partnering Entity (as defined in the Act), the Puerto Rico Ports Authority (the "**PRPA**"), to determine whether establishing a public private partnership ("**PPP**") for San Juan's cruise terminals is advisable.

The purpose of the Study is to:

- i) Determine the cruise terminal Service Needs of the residents and tourists of Puerto Rico;
- ii) Analyze various options for meeting those Service Needs; and
- iii) Select the most efficient of those options.

The cruise terminal project contemplated in this study includes the repair, improvement, financing and operations & maintenance of Pier 1, Pier 3, and Pier 4, Piers 11 to 14, and the Pan-American Pier or some combination thereof under a PPP structure (the "**Project**"). Subject to market demand, the availability of funds and proposals received from entities bidding for the Project, the Project (1) may not include certain of the piers listed above, (2) may include other piers in and around the San Juan Bay and (3) may be developed in phases which include one or more piers in each phase. The Project under a PPP structure may include a lease of such piers and related property or another form of agreement for improving, operating and maintaining such piers and related property to the entity selected as the Private Partner for the PPP structure.

The Study is broken down into two separate parts.

Part A

Part A of the Study explores what needs to be done to improve utility of the existing cruise terminals in San Juan and the degree to which the cruise terminals need to be expanded to enhance economic development and job creation. This part of the Study includes:

1. Definition of the key objectives of the PRPA and the cruise terminal key Service Needs; and
2. The constraints on PRPA in achieving these key Service Needs.

PART A STUDY CONCLUSION: Cruise terminals are essential to Puerto Rico's economy. Enhanced cruise terminals are expected to improve economic conditions on the Island, increase tourism activities, and promote economic development and job creation. To accomplish these goals, capital needs to be invested in the terminals to bring them up to world class standards and to repair hurricane damage, and terminal operation should be optimized so as to be able to secure additional cruise line calls and increased homeporting of vessels. The specific service needs identified to be considered as part of a procurement are identified as:

- Support economic development and job creation through tourism
- Improve cruise terminal infrastructure
- Balance the needs of cruise terminals and cruise passengers with other users of the harbor
- Improve the financial position of the PRPA and access funding for projects
- Preserve Puerto Rico's unique natural environment

Part B

Part B of the Study analyzes potential options to meet these objectives detailed in Part A. Part B includes:

1. Analysis of procurement options;
2. A thorough identification of project risks, focusing on risk description and potential mitigation; and
3. Recommended path forward.

PART B STUDY CONCLUSION: Part B concludes that a "RDBFMO" (Repair, Design, Build, Finance, Maintain & Operate) PPP delivery model is the most effective way for the PRPA to meet its goals.

This form of PPP would include specific repairs required to bring the Piers up to good working order, design and construction of new infrastructure at the existing Piers, and would outsource the operations & maintenance risk to a Private Partner. The PPP would be 'revenue risk', such that the Private Partner would be entitled to the cruise line revenue and other Project revenue, and PRPA and any other applicable Government entity would grant their rights to and interest in cruise line revenue and other Project revenue to the Private Partner. It would be expected that the PPP would include some combination of an upfront payment from the Private Partner to the PRPA and/or ongoing payments from the Private Partner to the PRPA (eg. rent or revenue share). These proceeds could be used by PRPA to pay down debt (thereby improving PRPA's balance sheet position) or could be used to fund ongoing costs of PRPA (such as improvements at other PRPA controlled assets).

This approach to the Project allows PRPA to maximize immediate-term value, mitigate the need for additional PRPA debt and accelerates improvements at the cruise terminals, producing jobs and economic development for Puerto Rico.

STUDY OF DESIRABILITY AND CONVENIENCE PART A

OVERVIEW

This Study will, to the extent applicable to the studied potential Project, address the following matters discussed in Section 7(b) of the Act:

- i. A definition of the essential characteristics of the Function, Facility or Service (as these terms are defined in the Act);
- ii. A history, projections or both on the demand on use, the economic and social impact of the Function, Facility or Service in its area of influence, and the profitability of the PPP;
- iii. As to new projects, their technical and functional feasibility and an assessment of the existing data and reports referring to territorial or urban planning;
- iv. Social feasibility, including an analysis on the cost/benefit to the government and the social impact of the proposed project;
- v. A justification of the PPP modality expected to be used for carrying out priority projects, as established in Section 3 of the Act, indicating the main benefits of the selected modality;
- vi. Operational and technological risks involved in rendering the Service or discharging the Function or building and using the Facility;
- vii. The cost of the investment to be made and the economic and financial feasibility of the project or operation;
- viii. An evaluation of the cost/benefit and the convenience of using public or private financing to render the Service, discharge the Function or develop or build the Facility with a justification of the origin of such investment or financing, taking into account the possible loss of eligibility to receive Federal funding for the project;
- ix. The preliminary preparation of an analysis or identification of the environmental effects of the project or operation that proponents shall consider when analyzing risks in presenting their proposals and participating in a PPP. This study is not equal to an environmental impact statement, nor is it required at this stage to prepare any particular document required under the Puerto Rico Environmental Public Policy Act, Act No. 416 of September 22, 2004, as amended. However, if the Authority should so deem pertinent, it may conduct such additional studies as it deems convenient and feasible to conclude, at this initial stage of the study, on the desirability of establishing a Partnership;
- x. A comparative analysis of the cost/benefit represented in allowing a Government Entity assume the responsibility for carrying out or continuing operations or for carrying out the building, repair or improvement, as opposed to channeling the operation, building, repair or improvement through a PPP, including its effect on public finances;
- xi. Feasibility for businesses with local capital, non-profit entities and cooperative unions to be able to participate in the procedures to forge a PPP intended for building, operating or maintaining a Facility or Service thereunder. The study shall identify areas with the greatest potential for local entities, the measures that government agencies shall take, the function to be discharged by nongovernmental organizations in fostering competitiveness of the entities grouped into this sector, and any other actions that may arise from this participation without impairing the laws or the norms that regulate and guarantee the free market; and
- xii. Feasibility for local pension plans and other local funds to be able to participate as investors in PPP infrastructure projects based on their investment policies and risk profile. Proponent shall demonstrate that it has made efforts to obtain some type of investment from said pension plans and local funds as capital investors in the PPP.

Section 7(b) of the Act further requires, at some point during the study process, an evaluation of potential modifications to the proposed PPP as a result of citizen and local business participation. Said participation may be achieved in an informal manner and solely by written comments. The Authority shall publish a notice to such purposes, in English and in Spanish, in at least one newspaper of general circulation in Puerto Rico and on the Internet, containing (i) a summary or brief explanation of the proposed PPP, (ii) a reference to the legal provisions that authorize said action, (iii) the form, time, date, and place where the comments regarding the proposed PPP may be submitted in writing or via electronic mail, and (iv) the location and webpage where all documents deemed necessary for public comment regarding the proposed PPP shall be made available to the public. The Authority shall prepare a summary of said comments as provided above. Both the comments submitted by the public or local industry and the summary prepared by the Authority shall be included in the record of the proposed PPP. Citizen participation in this process shall not confer standing or allow an individual to become a party with the right to challenge a proposed Partnership, either judicially or administratively.

The Authority shall conduct such public and local industry participation and comments evaluation process in accordance with the Act and Section 5.2 of the PPP Regulation. **Part A** of this Study intends to summarize the discussion and analysis of the service delivery requirements which define the need for the asset / service being delivered. This section will include:

1. Definition of the key Service Needs of the Island of Puerto Rico with respect to cruise terminals;
2. Cost and benefit analysis surrounding the achievement of the Service Needs identified;
3. Financial constraints and overall social and technical feasibility of the PRPA achieving these Service Needs; and
4. The main objectives of the Project considered under the Study.

This information and analysis will be a key driver in the determination whether the proposed Project is a necessary and desirable one for Puerto Rico.

Part A will also be crucial to addressing some key requirements of the Act, more specifically the following sections of the Act:

- **Section 7(b)i:** Part A will define the essential characteristics of the function, facility and services required by the Island and Government of Puerto Rico. This is achieved through the following:
 - Definition of the key Service Needs of the Island;
 - Description of the Project; and
 - The identification of the costs required to achieve the Island's Service Needs and projects through conventional procurement.
- **Section 7(b)iii and iv:** Part A of the Study will include a comprehensive cost-benefit analysis which will discuss in detail the technical, functional, and social feasibility of the proposed Project.

PROJECT OVERVIEW

The purpose of this study is to determine the cruise terminal needs of San Juan, analyze various options for meeting those needs, and select the most efficient of those options. These options include both conventional operations (i.e. government operated and maintained) and alternative procurement (i.e. public-private partnership). The cruise terminals contemplated in this study include the following existing piers (or potential combinations thereof) – collectively “the **Piers**”. Subject to market demand, the availability of funds and proposals received from entities bidding for the Project (i) may not include certain of the piers listed below, or (ii) may include other piers in and around the San Juan Bay.

- Pier 1
- Pier 3
- Pier 4
- Piers 11 to 14
- Pan-American Piers

The Piers are currently owned and operated by the PRPA which is responsible for operating, maintaining, and developing the cargo and passenger port infrastructure in Puerto Rico.

Cruise Terminal Scope

Cruise terminal service offerings differ depending upon whether the terminal is being used for homeporting (additional requirements due to passengers registering, embarking and disembarking with their luggage) or for port-of-call visits (less requirements, as passengers are disembarking for sightseeing only). The key requirements for each type of call are set out below:

Homeport	Port of Call
Embarkation: <ul style="list-style-type: none"> • Arrival curbside and transport center • Curbside luggage collection • Luggage screening & sorting • Passenger screening • Security perimeter and check points • Check-in area and conflict resolution counters • Pre-embarkation photo and check-point • Ancillary retail and food and beverage 	Port of Call Requirements <ul style="list-style-type: none"> • Arrivals meet and greet area • Tour operations area and curbside • Transport and parking areas • Security Perimeter and check points and potentially a land based security building • Tourism related offerings
Disembarkation <ul style="list-style-type: none"> • Luggage display area • US Customs and Border Protection (CBP) spaces 	
Other Administration <ul style="list-style-type: none"> • Bathrooms, canopies and weather protections • Primary area • Secondary screening area • Back-of-house offices • Support spaces • Gangways • Dockside provisioning areas 	Other Administration <ul style="list-style-type: none"> • Bathrooms, canopies and weather protections • Potentially a duty-free retail area • Gangways • Dockside provisioning areas
Service Provision <ul style="list-style-type: none"> • Potable water provision to cruise ships • Waste collection • Refueling (provided by barges) 	Service Provision <ul style="list-style-type: none"> • Potable water provision to cruise ships • Waste collection • Refueling (provided by barges)

There is a significant difference in revenues generated by homeporting as opposed to port of call visits, due to the additional services provided directly to home ported vessels (eg. bunkering, restocking of food and supplies) and also indirect revenues flowing to the broader economy through additional hotel stays of tourists before and after their cruise and the economic impact of home-port based cruise line staff.

San Juan currently has sufficient infrastructure to accommodate larger ships as homeported ships while simultaneously handling up to three additional ships as port-of-call. Although there are days that an additional ship can be added, this does not happen without seriously degrading the overall level of service and experience to passengers.

History of the San Juan Cruise Terminal Development

For years, the PRPA's development strategy has been hampered by a lack of funds and development has been limited to a minimum level of investment. As a result, the San Juan cruise facilities today are undersized and fail to meet the needs of the modern cruise industry. The older, traditional piers along the San Juan waterfront, Piers 1 through 4 were built many years ago, for a different class of ship and for a mix of cargo and passengers. These piers have been continually augmented to increase their capacity and in the 1990's the PRPA invested in developing a new homeport terminal at Pier 4, which was subsequently redesigned to increase its capacity. Pier 4 can currently accommodate cruises up to 1,055 feet in length, but cannot accommodate today's larger ship classes. In general, each pier has different characteristics that limit the type and size of the ships that can dock there, thus an all-encompassing strategy is required to expand the facilities and extract their best possible use.

The Caribbean Cruise Market

The Caribbean cruise market has been one of the most successful in the industry, featuring unique destinations that are widely enjoyed by cruise passengers. This market is politically stable and in high demand, particularly because its proximity to the United States makes it accessible, as well as attractive for first time cruisers.

The Caribbean region is the number one cruise destination by passenger bed-days (a formula based upon lower cabin berths by cruise length by sailings) with the Mediterranean ranking second and Northern Europe third overall. Asia and Alaska round out the top 5 destinations for cruise passenger traffic.

It is important to note that the Caribbean region has been greatly impacted by Hurricanes Irma and Maria. In the short term, it is likely that traditional destinations in the region will be impacted as reconstruction work takes place across the islands. Nevertheless, it is expected that the medium and long-term projections for the cruise industry in the Caribbean will not be impacted, which provide an opportunity for investment in the San Juan cruise facilities both in the short term, to immediately welcome a larger market and retain such market share in the future, and in the long term, through strategic investments in infrastructure and cruise tourism development.

Anticipated San Juan Port Capacity Expansion

An initial assessment for a long-term vision of San Juan is that, in order to stay competitive within the Caribbean cruise market, capacity needs to be increased as follows:

- **Port-of-Call** – The capacity for transit calls at San Juan should increase to match at least the capacity of St. Maarten and the U.S. Virgin Islands, each capable of docking four large cruise ships. This matching will allow the up to fifteen ships that leave the ports of Miami, Port Everglades, and Canaveral to operate an efficient itinerary that will help increase traffic to the island.
- **Homeport** – With increased growth in the Caribbean market, homeport capacity should be increased from four terminals (6 berths) in the short term, and up to five terminals (8 berths) over the long-term. This would allow each major cruise line to operate their turn around operations with more flexibility.

Homeport terminals may be used for port-of-call when not being used for homeport operations, which would provide the San Juan cruise facilities with additional capacity and flexibility.

DEFINITION OF SERVICE NEEDS

The Piers represent all of the cruise terminals in San Juan, the continued operation of which are critical to ongoing tourism and economic development of Puerto Rico. As it is an island, substantially all of the goods consumed in Puerto Rico are imported via ports. This heightened reliance on port infrastructure (when compared to the US mainland) means that any proposed transaction involving the ports needs to be highly scrutinized to ensure that the ongoing viability of the island is not adversely affected. Accordingly, careful consideration must be given to how any PPP process is to be carried out with respect to the cruise terminals and ensuring that cargo terminals are not adversely impacted.

PRPA has developed the following list of Service Needs, drawing from the objectives identified in the 2040 Long Range Transportation Plan produced for Puerto Rico by the Department of Transportation and Public Works and also from the PRPA's own objectives, having regard to its role as the Government agency charged with ensuring the continued operation and expansion of Puerto Rico's ports and airports.

Service Need 1 - Tourism	
Support economic development and job creation through tourism	
Current Constraints	<ul style="list-style-type: none"> • Degraded infrastructure • Significant competition for cruise line calls, including from newer, cheaper and/or higher quality terminals
Objective 1.1	Maximize number of cruise ships & tourists calling Puerto Rico
Objective 1.2	Increase number of cruise lines using Puerto Rico as a 'home port'
Objective 1.3	Increase per passenger spend on the Island
Objective 1.4	Increase opportunities for local employment as part of the tourism industry
Service Need 2 – Infrastructure	
Improve Cruise Terminal Infrastructure	
Current Constraints	<ul style="list-style-type: none"> • Limited berthing space, especially for the largest cruise ships • Degraded infrastructure & deferred maintenance • Lack of information on Pier capacity available for the cruise lines • Requirement of any repair / rehabilitation works to comply with updated building codes • Lack of borrowing capacity, and liquidity to finance repairs and expansions
Objective 2.1	Repair hurricane damage
Objective 2.2	Rehabilitate existing infrastructure & maintain in a good state of repair
Objective 2.3	Invest in new cruise terminal infrastructure
Objective 2.4	Optimize use of cruise terminal infrastructure
Objective 2.5	Job creation through infrastructure investment
Service Need 3 – Harbor Balance	
Balance the needs of cruise terminals and cruise passengers with other users of the harbor	
Current Constraints	<ul style="list-style-type: none"> • Lack of a master-plan for cruise terminal development • Piers 11 – 14 used for mix of cruise and general cargo in an inefficient manner • As an island, Ports are essential for Puerto Rico's viability
Objective 3.1	Optimize use of the harbor to more effectively use cruise terminals and other terminals
Objective 3.2	Preserve sufficient terminal space for cargo and other non-cruise liner use
Objective 3.3	Improve ability to support emergency activities

Service Need 4 - Financial	Improve the financial position of the PRPA and access funding for projects
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| Current Constraints | <ul style="list-style-type: none"> Limited sources of funding available PRPA's debt burden and weak financial position |
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Objective 4.1	Reduce PRPA's debt burden
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Objective 4.2	Improve PRPA's net position
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Objective 4.3	Carry out scheduled and desired projects without additional debt
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Service Need 5 - Environment	Preserve Puerto Rico's unique natural environment
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| Current Constraints | <ul style="list-style-type: none"> Unique environment of Puerto Rico requires protection |
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Objective 5.1	Minimize adverse impacts to natural and built environments
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KEY DRIVERS OF SERVICE NEEDS

Tourism Needs

The Caribbean is the most popular cruise destination in the world. The cruise industry has always been an integral part of tourism and of the economy of Puerto Rico and is a substantial source of revenues for the Puerto Rico economy. Throughout the years, the PRPA has developed and improved the San Juan cruise facilities to make Puerto Rico one of the leading cruise destinations in the Caribbean. While the Port of San Juan was once an integral part of every cruise itinerary in the region, cruise industry growth over the last decade has occurred more rapidly in the surrounding islands than in Puerto Rico due to the infrastructure limitations of the Port of San Juan – depriving Puerto Rico of the economic benefits from additional cruise visitors.

Master-planning

The Piers have been developed and upgraded in an ad-hoc fashion over the years, with individual cruise lines financing improvements to specific Piers in return for preferential berthing rights. While this approach has been necessary due to PRPA's limited financial resources, it means that the cruise terminal operation is not optimized. A single master plan for the cruise terminals, including a long range capital expenditure program, would enable the Piers to be managed more effectively and operated more efficiently.

Repairs & Improvements

Significant maintenance is needed to bring the Piers up to the PRPA's desired standards, and damage from the recent hurricanes has exacerbated this problem. Having recently lacked the necessary funding to carry out important maintenance and expansion projects, a backlog of work has built up.

The need, as mentioned above, to provide safe, efficient and well-maintained cruise terminals in San Juan is evident. With the existing Piers comprising essential infrastructure for Puerto Rico tourism, their upkeep is a prime concern for the PRPA. Therefore, the principal driver of the above Service Needs is the lack of funding available for PRPA to properly meet them on an ongoing basis through available cash flow and funds.

The firm Iglesias-Vazquez and Associates was hired by the PRPA after the recent hurricanes Irma & Maria to assess the condition of the Piers under consideration. The reports issued by the firm also include cost estimates for three categories: A – debris removal, B – emergency protective measures and C – other categories. The survey included a walk over inspection of the Piers and buildings as well as a visual inspection by boat of the fenders and underside of the Piers. A diving survey and detailed structural calculations were not part of the firm's scope of work. The below table summarizes the cost estimates from the reports; cost are shown in USD:

	Category A and B	Other categories	Total
Pier 1	2,476,210	949,440	3,425,650
Pier 3	674,550	161,000	835,550
Pier 4	2,857,620	1,330,960	4,188,580
Piers 11 to 14	2,123,024	2,410,780	4,533,804
Pan American Pier I	1,296,690	1,423,810	2,720,500
Pan American Pier II	1,531,330	1,630,570	3,161,900
Total	10,959,424	7,906,560	18,865,984

In response to the storms, the US Department of Transportation Maritime Administration (MARAD), under mission assignment by the Federal Emergency Management Agency (FEMA), engaged DCM Architecture & Engineering, LLC (DCM) to conduct a condition assessment of piers under consideration. The reports also include cost estimates for two categories: Repairs, and Resilience measures. The survey included a walk over inspection of the Piers and buildings as well as a diving inspection (including ultrasonic thickness (UT) measurements) and structural calculations. The survey report recommends amongst others that Piers 1 and 4 be rebuilt entirely. The below table summarizes the cost estimates from the reports; cost are shown in USD:

	Repairs	Resilience measures	Total
Pier 1	61,612,900	651,000	62,263,900
Pier 3	991,219	113,400	1,104,619
Pier 4	136,733,073	452,900	137,185,973
Piers 11 to 14	72,613,100	781,705	73,394,805
Pan American Piers I and II	28,924,700	20,451,644	49,376,344
Total	300,874,992	22,450,649	323,325,641

Clearly, the in-depth assessment performed by MARAD leads toward major renovations not previously envisioned in the IV&A report. Under a scenario where major resiliency renovations are needed, there will be a need to develop an extensive design, procurement and construction program to provide for safe and sound facilities. The traditional delivery of infrastructure in Puerto Rico entails the procurement of different firms for the design and construction of the facilities. This conventional procurement method typically called design-bid-build (DBB) is commonly used in the development of government construction and rehabilitation projects. It calls, among other characteristics, for multiple and separate contracts that are dependent and related to each other. This type of process usually results in longer development and execution periods, having the public agency to deal with consequences of delays, changes in cost, and unforeseen problems. The service needs demand the repairs to be done in a timely and efficient approach through a process that will best promote a stable and accountable method. A long and fragmented process will be subject of constant administrative changes that will debilitate the implementation of accountability mechanisms preventing the much needed repair and rehabilitation of the piers and terminal facilities.

There may be funding available from FEMA to support some of the repairs and rehabilitation considered as part of the project scope. It is premature to know the availability and the amount of such funding, and so this Desirability

& Convenience Study has been prepared on the assumption that this funding is not forthcoming. If FEMA funding becomes available, then the procurement will take into account such additional funding and the concession terms and conditions will have to be compatible with the provision of FEMA funding.

PRPA FUNDING CONSTRAINTS

The PRPA's three main sources of funding are maritime operations (~67%), airport operations (~26%), and government financial assistance (federal and from the Commonwealth of Puerto Rico ~7%).

(Dollars in Thousands)								2017
Revenues from:	2010	2011	2012	2013	2014	2015	2016	(Unaudited)
Maritime Operations	73,250	61,565	75,585	85,945	74,534	75,355	75,995	71,992
Airport Operations	67,060	84,470	91,103	64,429 ¹	26,057	28,419	27,633	28,510
Federal Financial Assistance	23,658	22,512	20,254	23,712	17,018	11,315	13,638	7,493
Less: Pass through	(8,105)	(12,852)	(8,413)	(3,568)	(4,168)	(5,260)	(2,912)	(610)
Commonwealth of Puerto Rico Appropriations	242	2,817	5,139	6,942	2,726	2,735	25	28
Total Revenues	156,105	158,512	183,668	177,460	116,167	112,564	114,379	107,413

Deterioration in the local and global economic environment has affected PRPA's funding capacity to the extent that PRPA's outstanding bonds have been severely downgraded and PRPA advises that the bond markets are effectively inaccessible to the agency. PRPA's bonds are currently rated C by Moody's and D by Standard & Poor's.

The same economic factors caused PRPA to suffer budgetary issues, which further curtailed the funding options available to Puerto Rico, and, as such, routine maintenance on the Piers was deferred.

Based upon current economic conditions in Puerto Rico and the PRPA's existing debt burden, PRPA does not foresee near term opportunities to access the debt markets to fund repairs and upgrades to the Piers.

CONCLUSIONS AND KEY OBJECTIVES OF THE PRPA

The Service Needs and Objectives set forth above are the key goals the Study intends to address. Part B of the Study will consider the various options available to meet these Service Needs and Objectives. These options include traditional delivery, as well as alternative forms of delivery such as a PPP.

¹ Luis Muñoz Marín International Airport ("LMM") PPP reached financial close in January 2013, so 2013 reflects ~7 months of full revenues and 2014 onwards reflects private ownership of LMM.

STUDY OF DESIRABILITY AND CONVENIENCE PART B

One of the key objectives of the Study is to provide support in thinking creatively and finding the most efficient ways to meet Puerto Rico's capital needs associated with meeting the Service Needs.

Part A identified the key Service Needs of the Project and the constraints the PRPA is experiencing in satisfying these needs. This part of the Study analyzes the various delivery options for the Project to ensure the Service Needs identified in Part A are delivered effectively and efficiently.

Part B will include a:

- Comprehensive identification of project risks and potential mitigation;
- Analysis of procurement options; and
- Qualitative assessment of the proposed Project compared to the status quo alternative.

We also reiterate the Authority's and PRPA's key objectives in undertaking the Study:

- The need to access additional funding sources to allow necessary capital expenditures to be made;
- The need to foster the creation of employment in Puerto Rico, either through employment by a Private Partner on improvements, upgrades and modernization of existing infrastructure and new construction, or in other job opportunities derived from additional cruise traffic and economic activity in general; and
- The need to improve the quality of Puerto Rico's cruise terminals.

In summary, this Part asks:

- By reference to the Detailed Review Criteria (as this term is defined below), which procurement option will best achieve Puerto Rico's objectives and most efficiently deliver the Service Needs?
- If private sector procurement is preferred, what risks are involved in the various procurement options and how do they affect procurement?
- From a value for money perspective, what risks should be retained by the public sector and what risks should be transferred to the private sector?
- Having regard to the above, what is the appropriate procurement option for the Project?
- How can there be local participation?

As discussed in Part A, a key purpose of the Study is to address several legislative requirements put forward by the Act. Part B addresses several of these requirements, more specifically the following sections of the Act:

- **Section 7(b) v.** Based on the objectives identified in Part A, Part B identifies a variety of service delivery options available to the PRPA in structuring a potential Project. This includes both traditional procurement, and a variety of alternative procurement options. Part B concludes with a justification of the PPP modality expected to be used for carrying out priority projects.
- **Section 7(b) vi.** A key component of Part B is a detailed risk analysis and allocations of all the risks present in the delivery of the functions, and service needs identified in Part A. Part B identifies these risks, allocates them, and determines the form of procurement that best allocates the risks identified to the party (public or private) best able to bear them.
- **Section 7(b) x.** Through its comprehensive analysis of the risks of the Projects, and the various service delivery options (traditional and alternative), Part B provides a comparative analysis of the cost/benefit represented in allowing the Government Entity, in this case the PRPA, assume the responsibility for carrying out or continuing operations or for carrying out the repair, or improvement, as opposed to channeling these obligations through a PPP.
- **Section 7(b) xi.** Part B will discuss how the participation of local entities will be utilized in the delivery of the selected service delivery options. It will also fulfill the following: identify areas with the greatest potential for local capital entities, non for profit entities and cooperatives (credit unions) to participate in the PPP to be

created for the Project and the viability of participation by such entities; the measures that Government entities shall take, the function to be discharged by nongovernmental organizations in fostering competitiveness of the entities grouped into the sector, and any other actions that may facilitate this participation without impairing the laws or the norms that regulate and guarantee the free market.

SPECTRUM OF SERVICE DELIVERY OPTIONS

The following are the range of options to achieve the Service Needs ("**Service Delivery Options**") proposed for consideration.

■ **Status Quo:**

- Continued operation & maintenance of the Piers by PRPA
- Capital expenditures deferred until PRPA has funds available

■ **Contracting Model:**

- PRPA continues to own the terminals (and receive terminal revenues) but outsources operations and maintenance to a third party contractor
- Capital expenditures deferred until PRPA has funds available

■ **Alternative Procurement (PPP):**

- Award a concession to a Private Partner to repair, design, build, finance, operate, and maintain the terminals and to earn revenue from the cruise terminals
- Private Partner is required to spend funds on capital expenditures as part of the Concession
- PRPA receives an upfront payment and/or a revenue share in return for granting the Concession

Of these, only the Alternative Procurement is able to generate an upfront payment and/or a revenue share for PRPA to improve its financial position while achieving the identified Service Needs. Status quo would see no change to PRPA's financial position in the ordinary course, and if an extraordinary event such as a major hurricane occurs, then a negative change would be expected from the point of view of financial position and delay in achieving Service Needs. The Contracting Model may see an improvement to PRPA's financial position if the contracting party is able to operate and maintain the Piers more cheaply than PRPA. However, there would not be an upfront payment generated and it is uncertain if the improved operations under the Contracted Model would generate sufficient additional revenues to advance the identified Service Needs.

DETAILED REVIEW CRITERIA: ALTERNATIVE PROCUREMENT

Before we conduct any further analysis on the risk profile of different Procurement Options, we need to measure the Alternative Procurement against the review criteria identified below (the “Detailed Review Criteria”) to ensure that the Project is capable of alternative procurement.

Criteria	Explanation	Guidance
Financial viability	<ul style="list-style-type: none"> — The combined value of expected revenue must be sufficient to provide a commercial rate of return on private funds required to cover acquisition costs and costs of construction / operations / maintenance within a reasonable commercial term — Under a private concession, the Piers may or may not be eligible for federal grants or other type of funding 	<ul style="list-style-type: none"> — The market is very comfortable valuing patronage risk transactions where there is a well-established patronage history and a strong story around growth — Any incoming investor would assess the financial viability of the Piers on a standalone basis without the assumption of federal funding being contributed at a later date — <i>The Puerto Rico cruise terminals have sufficient operating history and the Caribbean cruise industry is sufficiently strong that bidders will be comfortable banking an established traffic story, without reliance on federal support</i>
Structuring	<ul style="list-style-type: none"> — In order to be financeable, the project must be capable of being structured so as to transfer only those risks that the private sector is capable of pricing 	<ul style="list-style-type: none"> — Significant precedent brownfield PPPs exist for the market to have a good understanding of how to structure a transaction — <i>Puerto Rico has successfully structured other transactions as brownfield PPPs, and the market will be comfortable using a similar structure</i>
Timeliness	<ul style="list-style-type: none"> — A key element of this PPP process is delivering the capital expenditure improvements as quickly as possible to improve the condition of the Piers and drive increased cruise line patronage into Puerto Rico 	<ul style="list-style-type: none"> — For a PPP Project to be completed in a timely manner, sufficient information must be available to tender the asset with the bidders only being required to make standard assumptions regarding projections and measurable risks — <i>In this case – sufficient information is able to be gathered quickly and efficiently on each of the Piers and the Puerto Rico cruise industry in general so as to facilitate a timely tender process</i> — <i>Bidders will likely conduct their own patronage surveys and due diligence, however these are customarily able to be completed in a matter of months and are not expected to delay a process</i>

Criteria	Explanation	Guidance
No Legal impediments	<ul style="list-style-type: none"> — Clear path to all environmental and regulatory approvals — Legislative requirements between procurement and closing of the transaction add significantly to failed procurement risk and are unlikely to be acceptable to PPP participants — There should be no legal impediments to entering into the Concession/PPP Agreement 	<ul style="list-style-type: none"> — The Act lays out that construction, operation and/or maintenance of transportation related systems and infrastructure, including maritime transportation, are considered Priority Project that can be advanced and transacted in a PPP. Therefore, the contemplated framework of this Study is permitted. Furthermore, the legal framework created under the Act is very flexible as to the types of agreements that the Participating Entities are allowed to enter into as part of a PPP, provided the procedural requirements of the procurement process and certain minimum substantive content in the negotiated agreements are complied with, as prescribed in the Act. — In addition, any concession of the Piers will require proponents to undertake maintenance and modernization works to ensure that the Project continues to comply with all other statutory requirements, under the Act or otherwise. An example of those may include, but it is not limited to, the following: <ul style="list-style-type: none"> a) Compliance with Puerto Rico's Law no. 416 (Title 1, Article 4.B.3), Environmental Public Policy Act, which requires the preparation of an environmental document (Categorical Exclusion, Environmental Assessment or Environmental Impact Statement) b) If the project is federally funded, compliance with certain federal environmental legislation is also required c) Compliance with Planning Board Regulation No. 25 of planting, cutting and forestation for Puerto Rico d) Performance of archeological studies and submission to Puerto Rican Cultural Institute for acceptance. Special instruction to bidders may be requested as the result of the investigations. If the project is federally funded or requires the involvement of federal agencies such as USACE, the Puerto Rico State Preservation Office shall be also consulted. e) Performance of environmental assessments as deemed necessary. Structures shall be tested for presence of lead paint and asbestos for mitigation f) In coastal areas, consultation with US Coast Guard may be required for new bridge construction or modification of existing ones g) If the project impacts the maritime-terrestrial zone, a delimitation (survey) is required and a concession for the utilization of such zone shall be obtained <p>Care will need to be taken to ensure that none of the above would require any degree of investigation beyond that required of a reasonably prudent cruise terminal operator and that the PRPA provides reasonable support as future partner of the PPP proponent</p>

Criteria	Explanation	Guidance
Track record in private sector	<ul style="list-style-type: none"> — The private sector should have a track record of undertaking similar projects or activities as PPPs in other jurisdictions — At least some of the key resources and expertise necessary to undertake the project should be already present in the private sector in Puerto Rico 	<ul style="list-style-type: none"> — Globally, large numbers of port terminals, including cruise terminals, are privately owned and/or operated, so the concept is not novel in a global context. The USA itself has a long history of private port terminal management and lease construction.. — There are numerous examples of privately managed cruise facilities globally: <ul style="list-style-type: none"> ○ Caribbean: (The Bahamas, Belize, Dominican Republic) ○ Mediterranean: a study by Port Economics reports that for 85 cruise terminals identified in the region, 55% are partially or fully managed by private operators or investors ○ North America: Ports America currently operates 9 cruise terminals in USA (Boston, Brooklyn, Manhattan, Norfolk, Port Everglades, Los Angeles, Seattle, Vancouver, WA) — Japan is currently finalizing a public-to-private PPP arrangement with Genting Hong Kong to remodel and upgrade the cruise terminal of Shizuoka; in exchange, the private partner in obtained priority access to the facility for 105 days per year over a 15 years period — Within Puerto Rico, the concept of a brownfield PPP is well understood, as the Teodoro Moscoso Bridge, PR-22 and PR-5 highways and Luis Muñoz Marín Intl Airport have all transacted under concession models — <i>Not only have toll roads already been concessioned in Puerto Rico, but there are numerous precedents of concessioning of cruise terminals in the United States and internationally</i>
Necessity	<ul style="list-style-type: none"> — Projects should be necessary as evidenced by either or both of 1) a strong user pay revenue stream 2) a likely positive cost benefit analysis supporting the case for availability payments 	<ul style="list-style-type: none"> — There is a necessity in monetizing some of the future benefits in these cruise terminals now to achieve the Service Needs identified by the PRPA in the near term. Moreover, the PRPA recognizes the funding benefit and risk allocation benefit of having a private party be responsible for the operation and maintenance of the Projects — <i>As detailed in Part A, the Service Needs are clearly present for the concessioning of all of the Project</i> — <i>Moreover, the strong and recurrent revenue stream from cruise passengers demonstrates the necessity of a cruise terminal operation in San Juan</i>
Integration	<ul style="list-style-type: none"> — Projects need to be capable of standing alone without too many interfaces with other projects or activities 	<ul style="list-style-type: none"> — Projects should be selected for PPP delivery where the private sector partner is able to control sufficient aspects of the scope of the Project to accept substantially all of the risks and responsibilities associated with delivery of the service — <i>This will depend ultimately on the risk allocation structure to be granted to the concessionaire (discussed further below)</i> — <i>However, it is important to note that the cruise terminals already operate as a standalone business run by PRPA, so the degree of integration is not expected to be insurmountably high</i>

Criteria	Explanation	Guidance
Effective Risk Transfer	<ul style="list-style-type: none"> — Risks associated with a project should be capable of being identified — The public sector should be willing to transfer key project risks and the control levers associated with managing those risks — The private sector should be capable of accepting, managing or mitigating those risks 	<ul style="list-style-type: none"> — Projects should be selected as PPPs where the risk transfer objectives can be clearly identified and all parties are willing to accept the risk transfer — <i>We believe that a market standard risk allocation structure can be adopted that would be sufficient for all parties</i> — <i>There is sufficient precedent, both within Puerto Rico and within the global ports sector, to be able to develop a 'market' risk allocation relatively easily</i>
Innovation	<ul style="list-style-type: none"> — PPP delivery encourages innovation through development of performance-based "output" specifications based on service objectives rather than detailed highly specified design inputs 	<ul style="list-style-type: none"> — Projects which have already been fully designed for conventional delivery may not provide sufficient scope for innovation — The private sector has shown itself thoroughly capable of bringing innovation to a project through: <ul style="list-style-type: none"> a) Revenue generating innovation (eg. marketing, accommodating cruise line requirements etc.) b) Service offering optimization c) O&M efficiencies d) Maintenance capex efficiencies & willingness to invest capex for an improved asset e) Insurance efficiencies — <i>A transaction such as this, where the Private Partner will be applying their own business plan to the Project, has the highest scope for innovation</i>
Lifecycle Risk	<ul style="list-style-type: none"> — Under PPP delivery, the private sector partner is typically responsible for the design and construction, long term operations, maintenance and rehabilitation of the assets 	<ul style="list-style-type: none"> — A project which does not transfer sufficient lifecycle risk may not be an appropriate candidate for PPP delivery — It is intended that in the case of the Proposed Project, full lifecycle risk is passed to the private sector — <i>In this case the Project will pass as full lifecycle risk to the Private Partner</i>
Term	<ul style="list-style-type: none"> — Term of the deal effects value — Longer term provides private sector with greater opportunity to realize benefits of improved operations and capex spend, and spread risk of demand volatility through economic cycles — The term should match the duration for which revenues and costs can be accurately forecast 	<ul style="list-style-type: none"> — Term of concession is an important criteria for selection as a PPP — Less than 20 years is unlikely to be attractive to the private sector, especially where a significant capital expenditure program is required, as it doesn't provide a sufficiently long time to amortize the costs of acquisition and upgrades — 20 - 50 years permits the private sector to make long-term lifecycle decisions and earn a return on investments over time — 50 years is the maximum permitted term under the Act without further legislative action — <i>Provided that the concession is of an appropriate length, the Project passes this criteria. 30 years is considered an appropriate length for this analysis</i>

Criteria	Explanation	Guidance
Schedule and Cost Certainty	<ul style="list-style-type: none"> One of the key benefits of PPP delivery is to achieve schedule and cost certainty PPPs can also be beneficial in accelerating construction timeframes 	<ul style="list-style-type: none"> Projects where costs and schedule certainty is important should be strong candidates for PPP delivery Projects where reducing the time to service implementation is important – this includes bringing forward capital expenditure that would be deferred under public ownership—are also good candidates for PPP delivery <i>In this case the Project will pass on both counts</i> <i>By passing construction risk to the private sector, the private sector can deliver greater schedule and cost certainty, through the use of bonding, liquidated damages and fixed price contracts</i> <i>By passing O&M risk to the private sector along with patronage risk, the private sector is incentivized to spend capital expenditure upfront to drive patronage through improved facilities</i>
Technical viability	<ul style="list-style-type: none"> Technical requirements of project should depend on proven technologies and engineering practices 	<ul style="list-style-type: none"> PPP projects are ideally delivered with existing technology – as the fixed time fixed price nature of project financing does not include contingencies for proving new technologies PPPs can be highly innovative while still working within the confines of proven technical solutions <i>The Project complies with this requirement because the proposed upgrades to existing marine terminals are not novel works</i>
Competition	<ul style="list-style-type: none"> Effective PPP delivery depends upon the ability to attract a competitive range of proposals for the project or alternatively to create a benchmarking process which delivers competitive outcomes 	<ul style="list-style-type: none"> PPP projects are customarily run as a competition between 2 to 4 shortlisted parties. Shortlisting is based upon a review of credentials and proposed project solution <i>In this case there are numerous cruise terminal operators who would be expected to be interested in pursuing a PPP of the San Juan ports. This would include both cruise line operators who also own cruise terminals, and also independent terminal operators. Therefore, the Project would favorably pass this criteria.</i>

CONCLUSION:

The Project satisfies all of the Detailed Review Criteria, including the critical fatal flaw analysis points of Financial Viability, Timeliness, Legal Impediments and Private Sector Track Record. Therefore, under the discussed criteria, the Project is suitable to be delivered through a PPP.

We now look at the risks associated with the Project and how those risks are best allocated – either through transfer to the private sector or retention by Government.

RISK ASSESSMENT AND PROCUREMENT METHOD FOR PPP

This section provides an overview of the risk analysis process. Please note that risk analysis is performed throughout the Study and is iterative in nature. Although not exclusive to Part B, a large amount of risk analysis is performed at this stage in order to identify what service options effectively manage and transfer risk to the parties that can most effectively absorb them.

The key feature of a PPP approach is “risk transfer”, which is achieved by making the private sector partner responsible for assuming risk and delivering services that would otherwise be assumed or provided by the public sector (or not provided at all). These risks can include construction, functionality of design, financing, receipt of patronage revenues, and the long-term performance of the asset through the optimal allocation of responsibility for operations, maintenance and rehabilitation.

Risk transfer is a key driver of value for money for governments in PPPs. The type, amount and effectiveness of possible risk transfer differs considerably based on the procurement method, contract structure selected and characteristics of a particular project.

PUBLIC-PRIVATE PARTNERSHIP (PPP): WHAT IS A PPP?

Broadly speaking, a PPP is a form of procurement that uses a long-term, performance based contract where appropriate risks associated with a project (including revenue risk) can be transferred cost effectively to a private sector partner.

Key benefits of a PPP approach include:

- **Risk Transfer:** Typically, well-structured PPP projects provide better value for money than the ones developed under traditional procurement, reflecting the whole life costing, design innovation, improved efficiency and risk transfer. Under the public-private partnerships model, the Government transfers key risks (construction, operation and financing) to the Proponent, who is better positioned to manage and control them – thereby (i) avoiding government incurring the associated expenditure and (ii) provide for greater certainty and predictability in relation to the quality and maintenance of infrastructure.
- **Better quality services:** The quality/standards of the services delivered under a PPP by an experienced operator are customarily higher than that achieved under traditional models, reflecting the benefits, service innovation, and customer focus of a commercial entity with an incentive to deliver a high quality user experience.
- **Accelerated project delivery:** The speed of project delivery under a PPP tends to be faster than that achieved under traditional procurement, as the private partner is incentivized to conclude the construction / repair phase as early as possible to start operations and commence earning revenues.
- **Private investment:** By relying upon private finance, a PPP project means that public funds can be used for other purposes. Public funds are also shielded from the performance of the asset.
- **Better asset utilization:** By allowing the private sector to innovate regarding provision of the services, PPPs can provide better utilization of existing infrastructure.

Based on experience with existing projects, risk transfer is the most important area in the determination of value for money in a PPP. The type, amount and effectiveness of possible risk transfer differs considerably based on the procurement method, contract structure chosen and characteristics of a particular project. Traditional procurement has typically involved construction management (CM) and design bid build (DBB), representing points along a continuum of possible procurement methods where there is very little or no transfer of project-related risk to a private partner.

Where Greenfield construction is involved (as opposed to pure modernization and rehabilitation capital expenditure), PPPs can vary greatly in the extent of risk transfer, depending usually on what is the better value for money outcome to the procuring authority. When a PPP is purely brownfield in nature (i.e. the government entity is concessioning off an already constructed piece of infrastructure) then the scope of the PPP is more limited.

The range of private sector partnership procurement options that are generally accepted to be PPP structures include:

Greenfield PPP Options	Brownfield PPP Options	Hybrid PPP Options
■ Design build (DB)	■ Finance maintain and operate (FMO)	■ Repair design build finance maintain and operate (RDBFMO)
■ Design build finance (DBF)	■ Operate & Maintain (O&M)	
■ Design build maintain operate (DBMO)		
■ Design build finance maintain and operate (DBFMO)		

The Project under consideration amounts to a hybrid of Greenfield and Brownfield. The Private Partner finances the “purchase” of the concession and, as part of that obligation, maintains and operates the asset (Brownfield FMO), but in addition the private partner is required to undertake certain design and construction works (effectively a Greenfield PPP).

This report now considers which potential procurement option is best for the Project, evaluating both through PPP procurement and also through traditional procurement.

EFFECTIVE RISK TRANSFER

The table below lays out the various procurement options for the Project and discusses in more detail the level of Risk Transfer achieved by each of these options.

For the Project under consideration, the key risks for the PRPA to transfer to the Private Partner are:

- **Revenue Risk:** The Private Partner will receive the rights to earn revenue from the cruise terminals. In return, the Private Partner will make an upfront payment to the PRPA. PRPA may share in revenue risk to a certain amount, by way of a revenue share.
- **Operating Risk:** The Private Partner will be responsible for operating the cruise terminals, under its own business plan and with its own staff and any proprietary technology and systems, operational costs being payable from the revenues generated from such operations by the Private Partner. This provides the Private Partner with the ability to truly innovate, as the Private Partner is incentivized to grow the client base, improve customer service and drive higher revenues.
- **Design & Construction:** Where major new capital expenditure is to be incurred, the Private Partner shall be responsible for its design and construction. This applies to both committed capital expansions that are agreed at the time of entry into the Concession Agreement, and also to expansion capital expenditures required in the future. The main risks that the Private Partner will be required to accept in respect of design and construction include:
 - **Design fitness for purpose:** Risk that the design meets the requirements of the Private Partner and also of the PRPA under the Concession Agreement
 - **Construction quality:** Risk that the works are completed to the required standards of quality
 - **Schedule certainty:** Risk that the works are completed on time. To the extent that the works are completed late, the Private Partner has no recourse to the PRPA (unless the PRPA caused a delay, or provides other relief under the Concession Agreement) and may be required to pay liquidated damages. As revenue risk has been transferred to the Private Partner, a delay in schedule is likely to lead to a delay in earning revenues.

- **Cost certainty:** Risk that the works are completed on or under budget. To the extent that the works are over budget, the Private Partner has no recourse to the PRPA (unless the PRPA caused additional costs, or provides other relief under the Concession Agreement).

- **Maintenance & Repair Risk:** The Private Partner will be required to undertake ongoing maintenance of the Piers, and also undertake certain repairs necessary to improve the conditions of the Piers.
- **Integration Risk:** The Private Partner will be responsible for all aspects of the design and construction, long-term operations, maintenance and rehabilitation of the asset, which creates opportunities and incentives to integrate these functions to optimize performance and maintenance spend over the entire Concession.
- **Finance:** The Private Partner will be required to raise all of the finance for the Concession – including for the upfront payment to PRPA, the initial repairs and capital expenditures, and to fund its own working capital. As expansions and major maintenance are required throughout the Concession, the Private Partner will be responsible for financing these also (either through raising new financings, or through retained earnings). The Private Partner will be responsible for servicing the financing through project revenues, and therefore needs to determine its optimal capital structure. Any financing will be without recourse to PRPA.

ALTERNATIVE PROCUREMENT OPTIONS: EFFECTIVENESS OF RISK TRANSFER

Procurement Option	Does Option Achieve Risk Transfer?	Effectiveness of Risk Transfer
Conventional Procurement	X	<ul style="list-style-type: none"> — Conventional Procurement does not achieve any degree of risk transfer as all risks are retained by the Government
Design Build (DB)	X	<ul style="list-style-type: none"> — Risks transferred to the Private Partner: <ul style="list-style-type: none"> — Design Scope Risk — Construction Risk — The Project and PRPA should have the following characteristics for this option to be viable: <ul style="list-style-type: none"> — Conceptual design completed — Operating and maintenance costs are low and are already performed effectively by the public sector agency — Significant construction and schedule risks that are better managed by the Private Partner — Limited financial and solvency risk (as the PRPA is required to make progress payments) <p>Conclusion: This option does not meet the objectives of the PRPA. In particular, it does not achieve transfer of operations, maintenance, revenue risk and it requires PRPA to fund the works.</p>

Procurement Option	Does Option Achieve Risk Transfer?	Effectiveness of Risk Transfer
Design Build Finance (DBF)	X	<ul style="list-style-type: none"> — Risks transferred to the Private Partner: <ul style="list-style-type: none"> — Design Scope Risk — Construction Risk — Financial and Sponsor Risks (but not for the long term) — The Project and PRPA should have the following characteristics for this option to be viable: <ul style="list-style-type: none"> — Conceptual design completed — Operating and maintenance costs are low and are already performed effectively by the public sector agency — Significant construction and schedule risks that are better managed by the Private Partner — Limited financial and solvency risk (as the PRPA is required to make a substantial completion payment to repay the financing) <p>Conclusion: This option does not meet the objectives of the PRPA. In particular, it does not achieve transfer of operations, maintenance or revenue risk, and it requires PRPA to fund the works (through the substantial completion payment).</p>
Operate and Maintain (O&M)	X	<ul style="list-style-type: none"> — This procurement method is effective at transferring only the following risks to the Private Sector: <ul style="list-style-type: none"> — Operating Cost Risk — Long term maintenance risk — The Project and PRPA should have the following characteristics for this option to be viable: <ul style="list-style-type: none"> — Clear scope of O&M to be outsourced — Operating costs are able to be effectively managed by the Private Sector — Limited degree of financial and solvency risk (as the PRPA is required to pay the contractor for performing the O&M scope) <p>Conclusion: This option does not meet the objectives of the PRPA. In particular, it does not achieve transfer of revenue risk, and it requires PRPA to fund both the O&M costs and also any capital improvements. Furthermore, if key operation and maintenance tasks are not able to be effectively priced by the Private Partner then the O&M contract may need to be structured as a 'cost plus' arrangement, which is unlikely to deliver value for money. In other instances, depending upon the pricing and O&M control granted to the Private Partner, an O&M contract may be cheaper than the PRPA continuing to self-perform the O&M scope.</p>

Procurement Option	Does Option Achieve Risk Transfer?	Effectiveness of Risk Transfer
Design Build Maintain Operate (DBMO)	X	<ul style="list-style-type: none"> — Risks transferred to the Private Partner: <ul style="list-style-type: none"> — Design Scope Risk — Construction Risk — Operating Cost Risk — Long term maintenance risk — The Project and Authority should have the following characteristics for this option to be viable: <ul style="list-style-type: none"> — Conceptual design completed — Operating costs are able to be effectively managed by the Private Sector — Long term capital expenditure costs can be accurately forecast and managed by the Private Partner — Significant construction and schedule risks that are better managed by the Private Partner — Limited degree of financial and solvency risk (as the PRPA is required to pay the contractor for performing the scope) <p>Conclusion: This option does not meet the objectives of the PRPA. In particular, it does not achieve transfer of revenue risk, and it requires PRPA to fund the works through both the DB and OM phases.</p>
Design build finance maintain and operate (DBFMO)	✓	<ul style="list-style-type: none"> — Risks transferred to the Private Partner: <ul style="list-style-type: none"> — Design Scope Risk — Construction Risk — Financial and Sponsor Risks for the long term — Operating Cost Risk — Long term maintenance risk — Revenue generation risk — The Project and PRPA should have the following characteristics for this option to be viable: <ul style="list-style-type: none"> — Conceptual design completed — Operating costs are able to be effectively managed by the Private Sector — Long term capital expenditure costs can be accurately forecast and managed by the Private Partner — Significant construction and schedule risks that are better managed by the Private Partner <p>Conclusion: This option meets the objectives of the PRPA and could be structured to provide an upfront payment for PRPA as well as transferring revenue risk to the Private Partner. However, it should be noted that a DBFMO is customarily applied for Greenfield projects that involve new builds. While the Project can be delivered under this construct, a better solution is the RDBFMO (discussed below).</p>

Procurement Option	Does Option Achieve Risk Transfer?	Effectiveness of Risk Transfer
Repair, design build finance maintain and operate (RDBFMO)	✓	<ul style="list-style-type: none"> — In addition to the risks transferred by the DBFMO procurement option above, the RDBFMO option also transfers the following risks to the Private Sector: <ul style="list-style-type: none"> — Specified repair obligations — The Project and Authority should have the following characteristics for this option to be viable: <ul style="list-style-type: none"> — Conceptual design completed — Clear list of repairs to be undertaken to existing infrastructure and timeframe for completion — Long term capital expenditure costs can be accurately forecast and managed by the Private Partner — Operating costs are able to be effectively managed by the Private Sector — Significant construction and schedule risks that are better managed by the Private Partner <p>Conclusion: This is the option that best meets the objectives of the PRPA, as it accommodates both construction of new facilities and repair of existing facilities, all within the framework of a long-term concession that outsources operations, maintenance and lifecycle risk to the Private Partner while able to be structured to provide an upfront payment for PRPA as well as transferring revenue risk to the Private Partner.</p>

Based on the detailed risk analysis presented in the previous section, this Study concludes that the best option for the procurement of the Project is the **Repair, Design, Build, Finance, Maintain and Operate (RDBFMO)** procurement option.

Given the PRPA's financial circumstances, the most feasible procurement method is one where a significant amount of risk (including the risk of raising finance) is transferred to the Private Partner. This gives the Private Partner the largest scope to operate the Project, and minimizes the likelihood that the Private Partner will need to seek any form of payment from the PRPA.

DOES THE PROCUREMENT METHOD MEET THE SERVICE NEEDS?

The Service Needs set out in Part A clearly demand the following objectives to be met by this process:

- Support economic development and job creation through tourism
- Improve cruise terminal infrastructure
- Balance the needs of cruise terminals and cruise passengers with other users of the harbor
- Improve the financial position of the PRPA and access funding for projects
- Preserve Puerto Rico's unique natural environment

These objectives can be met in a variety of ways and a variety of options will be evaluated by this section of the desirability study. These options primarily include:

- **Status Quo** – PRPA retains ownership, operations and maintenance of the Piers
- **O&M** – PRPA tenders an Operations & Maintenance contract to outsource maintenance and operations of the Piers, but otherwise retains ownership and terminal revenues
- **Alternative Procurement Option** – Repair, Design, Build, Finance, Maintain and Operate (RDBFMO) option

REVIEW OF SERVICE NEEDS

SERVICE NEED 1 – TOURISM

Service Need 1 requires that the Project support economic development and job creation through tourism:

Number of Calls, Number of Tourists, and Per Visitor Spend

The expected Project's outputs (increase in the number of passengers, total calls, high standards of operation/services, new investments), will produce a number of economic, social, commercial, and cultural impacts to the community/users, the government of Puerto Rico and others involved in the tourism industry. The benefits provided by cruise port projects can be categorized as follows:

- **Direct Impact** – Consists in the sum of the spending of the three principal agents involved in the cruise activity (passengers, crew and cruise lines)
 - **Passengers & Crew:** Trips and entertainment, accommodation, food and beverages, clothing, souvenirs, and city internal transport services, including the use of airport facilities
 - **Cruise Lines:** Restocking of food and beverages, fuel, technical support, services provided by shipping agencies, services provided by the port operator and other public entities, mooring, and nautical pilotage
- **Indirect Impact** - Revenue received by local businesses that supply goods and services to businesses benefiting from direct economic impact
- **Induced and Other Impact** - Effect derived from consumer spending of revenue generated employment (directly and indirectly) in cruise activities

The Direct Impact from passengers is a function of the number of passengers and their average expenditure. According to a report by Business Research & Economic Advisers² ("BREA"), in the 2014/2015 cruise year, 1,393,900 passengers visited Puerto Rico, with an average expenditure of US\$88.95 on the Island. Under a PPP structure, the Private Partner is incentivized to maximize the number of passengers calling at the Port. And it could reasonably be expected that with higher quality port infrastructure (eg. better connectivity to road tours, upgraded concessions, and improved amenities) that the average spend per head could increase also. By way of

² BREA – "Economic Contribution of Cruise Tourism to the Destination Economies: A Survey-based Analysis of the Impacts of Passenger, Crew & Cruise Line Spending" – October 2015

comparison, average passenger expenditure in the same period was \$119.29 per passenger in Jamaica and \$115.60 in the Cayman Islands.

Homeporting

Improved San Juan cruise terminal facilities would be expected to induce more cruise ships to make San Juan its 'homeport'. A homeport terminal requires significant amount of land and logistics in order be able to move passengers, supplies (food & beverages etc.) and luggage, as well as have a large dedicated space for Customs and Border Protection stations and security & check in stations.

The benefit to Puerto Rico of additional homeporting is that the average expenditure per passenger is higher at the home port, as passengers are more likely to stay additional nights before and/or after the cruise and to fly in and out of the airport. As a reference, 2016 data from BREa shows that the average global spending per transit cruise passenger was \$94.61 per person at ports of call, while the equivalent spend at home ports was US\$356.10³. It can be appreciated that both of these numbers are significantly higher than the US\$88.95 spent per passenger in Puerto Rico in 2014/15, demonstrating the significant additional revenue for the economy that could be captured by improving facilities and an increase in homeporting.

With its excellent air transport connectivity to the US mainland and strategic location between the north and south Caribbean, San Juan would be expected to be a key homeport for Caribbean cruising. However, San Juan currently has very low homeport utilization compared with the other main Caribbean homeports. A PPP procurement could be structured so that the Private Partner is required to spend capital to expand San Juan's ability to homeport cruise vessels, including the capacity to serve the largest class of cruise ships as a home port.

Increase employment opportunities in the Tourism Industry and Broader Economy

It is estimated that, in 2014/2015 cruise year, the cruise industry employed more than 5,000 people in Puerto Rico (including direct and indirect jobs).⁴ Increased tourist numbers, especially through an increase in homeporting, would necessarily drive an increase in tourism related jobs in Puerto Rico – including hospitality, tours, and service industries that supply them. This creation of new, well-paying jobs would also expand the tax base for Puerto Rico.

Conclusion

A well-structured RDBFMO PPP could deliver benefits to the Commonwealth of Puerto Rico through the enhanced economic development and job creation that an improved cruise terminal could unlock, with the Island effectively benefitting from the commercial disciplines, expertise and capital provided by the Private Partner. In contrast, neither the status quo nor an O&M Contract would be expected to bring additional tourists to Puerto Rico on the same scale.

SERVICE NEED 2 – IMPROVE CRUISE TERMINAL INFRASTRUCTURE

Due to a lack of capital investment and limited maintenance of the San Juan cruise facilities, they are undersized, in poor condition, and unable to meet the needs of the global cruising industry. Puerto Rico's financial situation has meant that essential maintenance has been deferred repeatedly, to the point where the terminals are (with limited exceptions) in need of urgent repairs in order to maintain their utility. The recent passage of Hurricanes Irma and Maria through the Caribbean has exacerbated this issue.

Moreover, the cruise ship order book demonstrates a trend towards larger vessels – and with the Caribbean being the most popular cruise destination globally it is expected that these ever larger vessels will be deployed on the Caribbean routes (as has been the pattern over the past decades). Capital will need to be spend on San Juan's cruise terminal infrastructure to ensure that San Juan continues to be able to serve the largest cruise vessels.

³ BREa – *"The Global Economic Contribution of Cruise Tourism 2016"*

⁴ BREa – *"Economic Contribution of Cruise Tourism to the Destination Economies: A Survey-based Analysis of the Impacts of Passenger, Crew & Cruise Line Spending"* – October 2015

Repair, Rehabilitate & Expand

Under the status quo, PRPA advises that there are insufficient funds available to carry out the necessary repair and rehabilitation works at the Piers or to expand the cruise terminals.

In contrast, a RDBFMO PPP could mandate that certain repair, rehabilitation and expansion works are carried out within a designated timeframe, and funded solely by the Private Partner. This has the dual benefit of bringing forward the works in time, and also not requiring PRPA to fund them.

Job Creation during Construction

Any significant infrastructure development at the port will require a significant skilled workforce. While the Private Partner may include global firms who will bring their own management, the nature of the works will require a significant local workforce to execute the works. This is likely to include local labor force and trades and local construction subcontractors. It is estimated that during the construction phase of a RDBFMO project more than 300 direct jobs would be created.

Neither the Status Quo nor the O&M Contract provide for large scale construction at the cruise terminals, and so the RDBFMO PPP is the only alternative that will deliver these construction jobs in the near term.

Optimize Use of Cruise Terminal Infrastructure

Due to funding constraints at PRPA, improvements to the cruise terminals have been made in a haphazard, piecemeal basis, relying upon financing from different cruise lines to cover improvements to their own specifications. This financing method, tied to individual cruise line's requirements, has prevented the PRPA from implementing a cohesive strategy and master-plan for the development of the San Juan cruise facilities. Establishing a RDBFMO PPP would transfer the responsibility for master-planning and strategy to the Private Partner, resulting in a holistic approach to the improvement, expansion and management of the cruise facilities. Both the Status Quo and the O&M Contract would result in no change to the master-planning for the facilities.

SERVICE NEED 3 – BALANCE THE NEEDS OF CRUISE TERMINALS AND CRUISE PASSENGERS WITH OTHER USERS OF THE HARBOR

As an island, Ports are essential for Puerto Rico's viability. This heightened reliance on port infrastructure (when compared to the US mainland) means that any proposed transaction involving the ports needs to be highly scrutinized to ensure that the ongoing viability of the island is not adversely affected.

Preserve sufficient terminal space for cargo and other non-cruise liner use

In particular, sufficient terminal and Pier space needs to be preserved for cargo and other non-cruise uses, and increased cruise traffic needs to be managed in such a way that it does not interfere with cargo uses. PRPA, as the government entity responsible for ports planning, would retain an oversight role to ensure that cargo and other uses are protected.

Optimize use of the harbor to more effectively use cruise terminals and other terminals

As well as optimizing the use of Cruise Terminal infrastructure (as discussed above), given the limited space available within the port of San Juan, a Service Need is to ensure that the port as a whole is optimized (i.e. cruise traffic, cargo, ferries and other uses).

Conclusion

Under any of the possible delivery mechanisms (RDBFMO PPP, Status Quo or O&M Contract), the PRPA would be expected to maintain overarching control over the uses in the harbor. Under the RDBFMO PPP, the Concession Agreement could clarify that the PRPA retains ultimate control over planning within the harbor, with a mechanism for the Private Partner to seek approval for proposed growth projects and based upon agreed triggers, criteria and performance indicators.

SERVICE NEED 4 – IMPROVE THE FINANCIAL POSITION OF THE PRPA AND ACCESS FUNDING FOR PROJECTS

The PRPA has limited sources of funding available, and a weak financial position that makes borrowing and investing in new capital expenditures not practicable. PRPA advises that the bond markets are effectively closed

to it for new borrowing. Hence Service Need 4 is the dual goal of (i) improving PRPA's financial position and (ii) securing funding for the necessary works that does not require a contribution from PRPA.

Reduce PRPA's debt burden and improve its net position

As of the fiscal year ended June 30, 2016, PRPA's debt burden was approximately \$500m. The upfront payment paid as part of the RDBFMO PPP could be applied to reducing this debt amount. Any amounts not applied to debt reduction could be held as cash on PRPA's balance sheet to improve its net position. Neither the Status Quo nor the O&M Contract would provide an equivalent upfront payment.

Similarly, if there is a revenue sharing component as part of the RDBFMO PPP, this will create an ongoing revenue stream for Puerto Rico which can be used to reduce PRPA debt over time, defray expenses, or held as cash on the PRPA balance sheet.

Under both the RDBFMO PPP and the O&M Contract the maintenance and operations scope would be outsourced. However, the impact on net position differs. Under the RDBFMO PPP, PRPA will see a direct and immediate cost saving as it no longer needs to incur maintenance and operations spend on the cruise terminals. However this would be offset by a reduction in cruise revenues (which, under the RDBFMO PPP would accrue to the Private Partner).

Under the O&M Contract, the same maintenance and operations expenditure is avoided, however, as a new expense is created in making payments to the O&M Contractor. Depending upon the terms of the O&M Contract, the cost could be more or less than the cost of self-performing (therefore the net position of PRPA under an O&M Contract could be either worse or better, respectively, depending upon the contract price).

Carry out scheduled and desired projects without additional PRPA debt funding

Under the Status Quo and O&M Contract scenarios, capital expenditure can be funded from either PRPA's own balance sheet (which, as of the fiscal year ended June 30, 2016 had a net position deficit of \$19m) or from PRPA's borrowings.

In contrast, the RDBFMO PPP provides a new funding source for capital expenditure, as the Private Partner could be required to undertake certain works as part of the Concession Agreement. The Private Partner could raise project finance against the expected cruise passenger revenues.

Broader Economic Impacts

As discussed above, the broader economic impacts of improved cruise terminal infrastructure include indirect impacts (like employment opportunities for people supplying organizations who directly serve cruise lines) and induced impacts (like the multiplier effect of consumer spending from cruise lines flowing on through increased spending across the broader economy). All of this activity improves Puerto Rico's economic position and expands the tax base.

A large foreign investment such as a RDBFMO PPP concession with an upfront payment signals to the market that Puerto Rico is 'open for business' as a safe and stable jurisdiction in which to invest. This could be expected to encourage other investors to explore investment opportunities within Puerto Rico that they may have otherwise passed over.

Conclusion

Only the RDBFMO procurement method is capable of achieving all of PRPA's financial objectives. Most importantly, a RDBFMO PPP procurement would provide a source of new, committed financing to carry out the near term repair and expansion works, resulting in increased certainty around the capital expenditure and bringing forward the works by potentially many years. In addition, the capital expenditure involved in an RDBFMO concession (and the resultant increase in tourist numbers) can be expected to have multiplier effect across the Puerto Rican economy.

SERVICE NEED 5 – PRESERVE PUERTO RICO'S UNIQUE NATURAL ENVIRONMENT

It is an objective of the Project to minimize adverse impacts to natural and built environments. While a detailed environmental study is beyond the scope of this report, it should be noted that the works proposed to form the basis of this Project amount to rehabilitation and expansion of existing Piers rather than construction of entirely new Piers, so the environmental impact is expected to be lessened.

The Status Quo and the O&M Contract could be expected to have the least environmental impact, but that is because under those two scenarios there is no funding available for any capital improvements. Conversely, the RDBFMO PPP scenario would be expected to have some environmental impact as capital improvements are a central tenet of the RDBFMO. With appropriate environmental studies undertaken, and customary protections for PRPA under the Concession Agreement, it is expected that the RDBFMO could successfully navigate the environmental requirements of Puerto Rico.

SERVICE NEEDS CONCLUSION

It can be seen from the above that the only procurement option that meets all of the Service Needs is the RDBFMO PPP procurement. The combination of upfront payment (or revenue share) and committed financing to repair and expand the cruise terminals is key to the RDBFMO PPP being able to meet the PRPA's key objectives.

STRUCTURING THE CONCESSION

Now that it has been determined that the optimum procurement option for the Project is the Repair, Design, Build, Finance, Maintain, and Operate (RDBFMO) option, the Study intends to utilize information gathered in the Detailed Review Criteria, and Risk Analysis matrix to determine the optimal concession structure.

The main issues that must be considered when structuring a concession are the following:

- **Scope of the Concession** – Which Piers are to be included in the Concession, and which are to remain under PRPA control?
- **Payment Mechanism** – Method in which the private sector pays the PRPA for the right to operate and maintain the Piers over the life of the concession
- **Concession Term** – Optimal concession term for the projects

The outcome of this analysis will be used to develop a potential structure for a PPP concession.

SCOPE OF THE CONCESSION

PIERS INCLUDED

A key benefit of using PPP procurement is to harness private sector ingenuity. While this report focuses primarily on Pier 1, Pier 3, Pier 4, Piers 11 to 14 and the Pan-American Pier, it may well be that a private sector respondent is able to deliver a more efficient potential solution for cruise terminals in San Juan that doesn't require use of all of those piers, or that requires use of additional piers. PRPA would be open to considering proposals from entities bidding for the Project that (i) do not include certain of the piers listed above and/or (ii) include other piers in and around the San Juan Bay and/or (iii) include the phased repair, improvement, operation and maintenance of piers.

Provided that the repair and expansion works on the included Piers is able to meet the Project objectives (with sufficient spare capacity for future expansion as required), the PRPA should encourage innovative solutions regarding piers for inclusion. This will allow proponents to place the highest value on piers where they can see the most upside, without having to burden their proposal with a budget to operate and maintain a Pier that is not desirable for their business.

Recommendation: To maximize private sector ingenuity, run a single procurement that can include all of the Piers or, at the proponent's election, a sub-set of them. PRPA would need to develop a framework to assess competing proposals that did not elect to use all of the Piers (eg. a proponent who bids a lower upfront payment but doesn't require use of one of the Piers) – however this can form part of the evaluation criteria. The Authority would welcome feedback from interested parties on how this issue should be addressed under the evaluation criteria.

PAYMENT MECHANISM

PAYMENTS TO PRPA

A number of different mechanisms are possible for payments from a private sector partner to the PRPA.

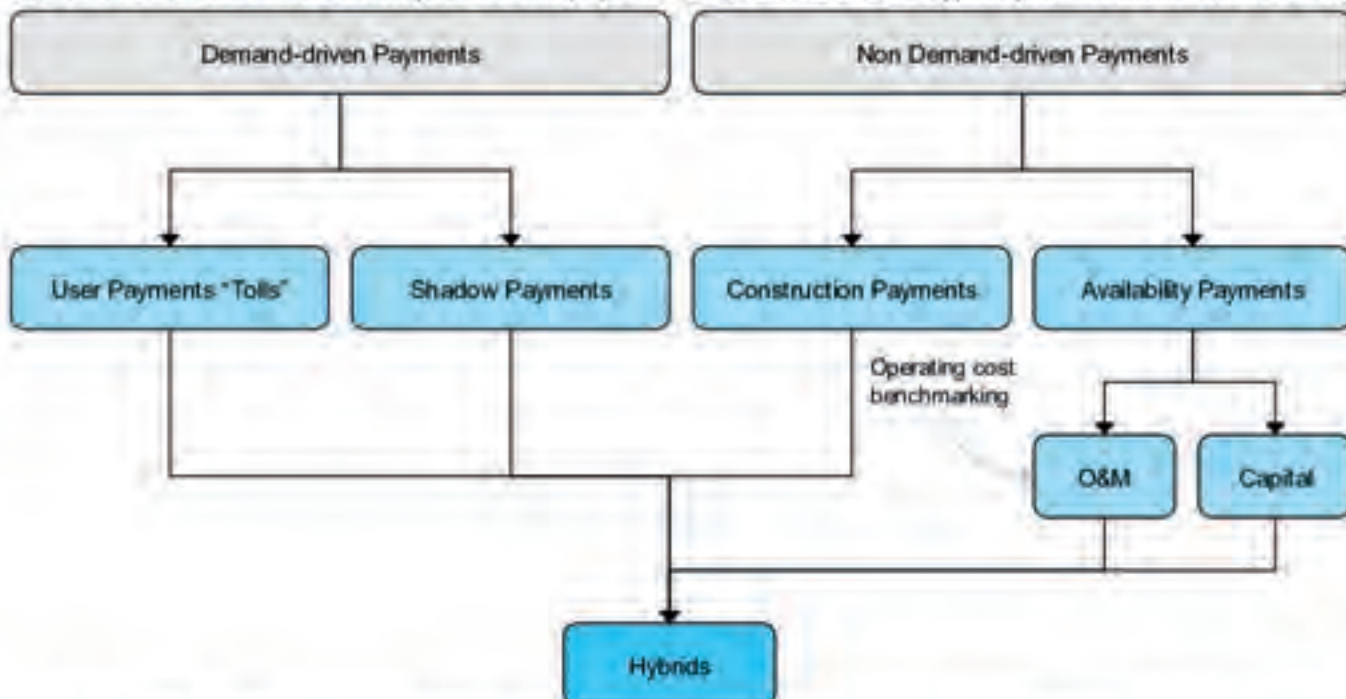
The major options are:

1. **Upfront:** Upfront Payment of a Concession Fee upon financial close. This is the simplest and lowest risk option from the PRPA perspective but may not lead to value maximization.
2. **Periodic:** Payment of Concession Fees on a periodic basis (for example annually) throughout the Concession term (ie. a lease structure)
3. **Sharing:** Profit or revenue sharing formulas under which the PRPA shares in the revenue risks of the Project, and benefits from upside if actual passenger numbers are higher than forecast.

These payment mechanisms have different risk transfer implications which are considered further below.

PAYMENTS TO PRIVATE SECTOR CONCESSIONAIRE

The chart below illustrates a variety of different payment mechanisms that are typically utilized in a PPP structure:



Given the long history of cruise passenger patronage and growth in the San Juan cruise terminals, the Concession is expected to be a 100% demand driven (i.e. "user pays") structure, under which the Private Partner earns revenues through passenger fees and other charges. A Concession structure that uses Non-Demand Driven Payments (i.e. Availability Payments or Construction Payments) does not meet the Authority's Objectives. A Demand Driven payment structure will require the Private sector bidders conduct their own individual patronage forecasts and size their Concession Payments to the PRPA based on their view of patronage growth throughout the life of the concession.

Conclusion: A 100% demand risk structure best meets the needs of the PRPA.

CONCESSION TERM

A key risk transfer issue for consideration is the length of any private sector concession. The PPP Act allows for Concession Terms of up to 50 years.

The appropriate Concession Term is determined by:

- The ability of the Private Partner to accurately forecast revenues and costs out to the end of the Concession term
- The size of the capital investment and the period required to earn an appropriate rate of return on that investment
- The term of available debt finance for the Project
- The economic life of the assets and the timing of any significant refurbishments
- The NPV benefits to the PRPA in granting a longer or shorter concession (ie. larger upfront payment, longer stream of revenue share payments)
- Flexibility for future use of the facilities post-handback

Good practice is generally to ensure that the assets will remain in good condition for at least 10 years following the end of the Concession, so that the procuring authority does not need to make immediate capital expenditures upon handback.

Conclusion: It is recommended that a 30 year concession is considered as the base case. While a longer concession (up to 50 years) could be considered, the NPV difference in proceeds received by the PRPA would be minimal. Given the inherent uncertainty in forecasting costs and revenues over long periods of time in an industry as dynamic as the cruise industry, any Private Partner forecasts of patronage and revenue in the outer years will necessarily be conservative, and so any upfront payment made to the PRPA may not fully reflect the value of the longer dated concession.

With the ever evolving nature of the cruise industry and the demands for constant upgrades that this places on cruise terminals, 30 years is also considered an appropriate length of concession for PRPA in order to ensure that the cruise terminals and the obligations set out in the Concession Agreement are still relevant and appropriate for the cruise market at all times during the Concession term.

Upon the expiry of the Concession, PRPA could resume control of the improved Piers, or could re-tender a new Concession (with the ability to build in new capex or operational requirements as appropriate for the cruise industry at that time). Alternatively, PRPA could include option periods to extend the Concession if certain performance thresholds have been met.

Finally, a shorter concession has the added benefit of providing PRPA with flexibility to extend the Concession in the event of a compensation event (in lieu of making a cash payment). While longer concessions can also be extended, the value of an extension on a longer dated concession is less.

RECOMMENDED PROCUREMENT / SERVICE DELIVERY OPTION(S) AND BIDDING PACKAGES

Having carefully considered:

- the Detailed Review Criteria and how the various Service Delivery Options satisfy or fail to satisfy each Criterion;
- assuming a Service Delivery Option which involves a Private Partner acquiring a Concession of the Project, how each risk should be allocated to achieve the best value-for-money outcome for the PRPA;
- where a risk could be borne by either the private sector through a concession or by the public sector through conventional procurement, how that different assumption of risk affects the cost of providing the Service Need; and
- the opinion of the market of investors as to timing, risk, size and complexity of the packages.

we consider the Service Needs are best provided by a Service Delivery Option which involves a RDBFMO concession to a private party, based on the risk allocation and parameters contemplated above.

LOCAL PARTICIPATION

The local market participation spans three main sectors: i) construction contractors, ii) professional workforce, and iii) finance sector. These three local stakeholders have ample knowledge and experience in their respective disciplines in the local market and are ready and able to collaborate with international partners.

- **Construction Contractors:** Puerto Rico has one of the most sophisticated construction industries in the Caribbean with companies providing specialized technical services to the hospitality, health, infrastructure and pharmaceutical industries. However, given the recession, the construction industry in Puerto Rico has shrunk from \$5.8 billion in 2007 to \$2.8 billion in 2016⁵, although more recently the influx of insurance and federal monies after Hurricanes Irma and Maria has provided additional revenues. Despite this

⁵ Source: Puerto Rico Planning Board / <http://p.r.gov/Portals/0/Economia/Comercio%20Exterior/Estadisticas%20Sectoriales%20de%20la%20Construccion/C3%83n-%20F.pdf?ve=2017-07-13-001344-243>

shrinking of the industry, local general contractors and operations and maintenance (O&M) companies remain a potential asset to international developers given their local expertise with the local labor force and industry practices. In addition to general contractors, Puerto Rico has a wide range of competent specialized contractors in different areas of construction such as mechanical and electrical contractors, specialist crafts, and highly skilled engineers.

- **Professional Workforce:** Puerto Rico has a strong technical workforce product of mainland universities and internationally reputable local universities like the University of Puerto Rico at Mayagüez Campus. Which the American Society for Engineering Education in its 2016 Profiles of Engineering and Engineering Technology Colleges ranks the Mayaguez Campus as 2nd in awarding Bachelor's degrees to Hispanics and 27th in number of Bachelor's degrees to women in the U.S.
- **Local Banks:** The local banking institutions have actively participated in previous PPP transactions in Puerto Rico. Providing lending as part of international bank consortiums to: i) the PR-22 & PR-5 Concession Agreement between Autopistas Metropolitanas de Puerto Rico ("Metropistas") and Puerto Rico Highways and Transportation Authority and ii) the Luis Muñoz Marín International Airport Concession Agreement between Aerostar Airport Holdings and the Puerto Rico Ports Authority. The local financial sector is one of the most sophisticated in the region and local banks have shown interest in providing lending to well-structured infrastructure projects.
- **Local Pension Plans, Funds, and other Local Equity Investors:** While no local equity has been part of precedent PPPs in Puerto Rico, local pension plans and other local equity investors would be able to participate in a procurement process on the same terms as other participants. Such local investors may be attractive partners for bidding consortia as they would provide local knowledge and the best relationships with Puerto Rico based construction subcontractors and other specialists.

Clearly, Puerto Rico's local market provides several opportunities for international developers to utilize local expertise and financing. Expertise gained in previous PPP transactions allows these three sectors to make strong contributions to international consortia. The combination of local knowledge coupled with strong world-class best practices will provide the best value to the Government of Puerto Rico.

The Act requires consideration of the feasibility of businesses with local capital, non profit entities and unions to participate in the PPP. We consider that some degree of local participation can be introduced at various stages of the process for each of these classes of organization, as further detailed below.

PROCUREMENT STAGE

The procurement process involves a range of consultants to assist the PRPA with its analysis of the various submissions received from the private sector. We consider there is scope for a significant amount of local consultant involvement in each part of this process including:

- local legal counsel involvement
- local social advisor involvement (to assess the social costs and benefits)
- local technical advisor involvement
- local traffic & revenue adviser involvement (to develop patronage forecasts)
- local economic advisor involvement

A selection criterion similar to the below could be included in the RFP:

"The extent to which local Puerto Rico advisors, experts and professionals are integrated into the teams of proponents as sub-contractors and partners. This will be viewed very favorably by the Authority. To avoid doubt, this is referring to third party local partners/sub-contractors and not local representative offices of global proponents."

LOCAL PARTICIPATION THROUGHOUT THE CONCESSION

Throughout the term of the Concession, it is envisaged that there will be extensive local involvement in the PPP, both in the Design, Construction & Repair scope, and in the Operations & Maintenance scope.

Design, Construction & Repair

This work is likely to be concentrated in the early years of the concession. While the Private Partner may include global firms who will bring their own management, the nature of the works will require a significant local workforce to execute the works. This is likely to include:

- Local labor force and trades
- Construction and construction services companies
- Licensed engineers and architects used in the design, supervision of construction and repairs
- Supporting professionals (eg. lawyers, architects, financial services)

Operations & Maintenance

This work will continue throughout the entire concession, and includes both the day to day operations and also the major lifecycle replacement works. Again, while the Private Partner may include global firms with their own management, a significant local workforce will be required for the O&M scope. This is likely to include:

- Terminal operations staff
- Construction and construction services companies (for major maintenance)
- Engineers used in supervision of maintenance and for periodic surveying
- Supporting professionals (eg. lawyers, architects, financial services)

Financing

Local capital providers, pension plans, non-profit entities and cooperative unions should be able to participate in the PPP process on the same terms as non-Puerto Rican capital providers. As set out above, such local investors may be attractive partners for bidding consortia as they would provide local knowledge and the best relationships with Puerto Rico based businesses. As such, no special incentive needs to be provided to encourage Puerto Rico based financial organizations to participate as their locality already affords them an advantage.

Participation by local pension plans and other local funds would need to be subject to their investment policies and risk profile. However infrastructure investments such as the proposed RDBFMO PPP when structured appropriately (including that adequate security and rights to take over the operation of the project under certain circumstances are granted to the lenders), are generally considered relatively stable investments that are suitable for investment by pension plans and other investment funds. In fact some of the world's largest infrastructure investors are managers of pension funds that require low volatility, stable returns.

Provided that the local capital providers are able to meet the market on financing price and terms, they would be expected to be able to participate in any financing along with other non-Puerto Rican financiers.

Workforce

The Private Partner will be encouraged, but not required, to assume the employment of PRPA's current employees. The Private Partner, however, will be required to interview all PRPA's employees interested in applying for a position and, to the extent acceptable, extend an offer on the same terms it would provide its own employees at the same level. Any PRPA employee not assumed by the Private Partner will be re-deployed by the government of Puerto Rico in accordance with federal law and the laws of Puerto Rico.

ENVIRONMENTAL ASSESSMENT

According to section 7(b) ix of the Act, this study is required to "conduct a preliminary preparation of an analysis or identification of the environmental effects of the project or operation that Proponents shall consider when analyzing the risks presented by the Project." A detailed environmental study is outside the scope of this report, and the PRPA will comply with this requirement for further environmental effect analysis prior to a procurement.

The typical permitting process will need to comply with all applicable local, state and federal permits and approvals for project implementation prior to construction. The permits strategy shall be presented in three main phases: Planning Phase, Construction Phase and Inspection Certification for the Use and Operation Phase. Some of the local permits and endorsements to be filed during the Planning Phase include an Environmental Recommendation (REA for its acronym in Spanish). Input, recommendations and guidance will be received from environmental agencies such as the Puerto Rico Department of Natural and Environmental Resources (DNER) and the Puerto Rico Environmental Quality Board (EQB), among others. Further, as part of the evaluation of the Project, comments will be provided by other governmental entities on potential infrastructure improvements needed given the extension or improvements of the Project. Some of the agencies that could provide their input are: Puerto Rico Highway and Transportation Authority, Puerto Rico Aqueduct and Sewer Authority, Puerto Rico Electric Power Authority, and Puerto Rico Telecommunications Board. After comments are received, they shall be addressed in an Environmental Assessment (EA) or if deemed necessary, an Environmental Impact Statement (EIS).

The potential capital expenditures scope of work envisioned for the project comprises structural repairs, mechanical and electrical system upgrades, site improvements and utilities and potential future pier expansions or replacements. Given this scope of work, it is likely that the improvements needed will be developed in phases and will need to comply with the United States Environmental Protection Agency and all local regulations from the Puerto Rico Environmental Policy Act to fulfill all the applicable environmental compliance requirements prior to construction. Additionally, work affecting Jurisdictional Waters of the United States of America will be assessed by the United States Army Corps of Engineers (USACE). This federal agency is responsible for the permits evaluation and approval part of the *Nationwide Permit* or a *Joint Permit* application.

Additionally, the USACE is also involved in the dredging of the San Juan Bay, they perform this work every five (5) years in coordination with the PRPA, who is responsible for the preparation and compliance of the permitting process, including the required technical studies. Further, given the damages occurred in hurricanes Irma and María, the structural and pier reconstructions could be considered emergency work. Hence, these improvements could be evaluated through an expedited process. However, the full extent of required federal and local permits will be better understood once the PRPA has initiated the permitting process, which will be later transferred to the selected proponent of the project for all final applications.

QUANTITATIVE ASSESSMENT

As outlined above, PRPA advises that based upon its current financial state it does not foresee possibilities to access bond markets or generate sufficient cashflows from existing operations to repair and improve the Piers. This means that a full quantitative assessment comparing the status quo to the proposed RDBFMO is difficult to undertake.

The upfront payment provided to PRPA upon a RDBFMO concession will provide a positive cash injection and the ongoing revenue stream will provide PRPA with recurrent cashflows that grow in line with increased patronage. However the bigger impact on Puerto Rico is expected to be the island-wide economic benefits of improved cruise terminals – namely more tourist spending through additional cruise calls and increased homeporting.

CONCLUSION

Part A of this study examined the impact of cruise terminals on Puerto Rico's economy and concluded that enhanced cruise terminals are expected to improve economic conditions on the Island, increase tourism activities, and promote economic development and job creation. To better accomplish these goals, PRPA is required to invest capital in the terminals to bring them up to world class standards and to repair hurricane damage and to optimize the operation of the terminals so as to be able to secure additional cruise line calls and additional homeporting.

A reference Project was developed with the following Service Needs:

- Support economic development and job creation through tourism
- Improve cruise terminal infrastructure
- Balance the needs of cruise terminals and cruise passengers with other users of the harbor
- Improve the financial position of the PRPA and access funding for projects
- Preserve Puerto Rico's unique natural environment

And **Part A** concluded that a Project that addresses each of these Service Needs (and their specific objectives) would be appropriate for procurement as a PPP.

Part B of this study:

- Measured the Alternative Procurement (PPP) against the Detailed Review Criteria to ensure that the Project is capable of Alternative Procurement
- Analyzed the key risks for the PRPA to transfer to the Private Partner, and determined that a Repair, Design, Build, Finance, Maintain & Operate PPP provides the best contractual framework for transferring those risks.
- Confirmed that the RDBFMO contractual framework is capable of meeting all of the Service Needs
- Considered the structure of a possible procurement and RDBFMO contractual framework

Part B concludes that a "**RDBFMO**" (Repair, Design, Build, Finance, Maintain & Operate) PPP delivery model is the most effective way for the PRPA to meet the Service Needs and use the redeveloped Piers to drive positive economic outcomes for the broader Puerto Rican economy.

APPENDIX A – HISTORY & CONDITION OF THE PIERS

HISTORY AND DESCRIPTION OF THE PIERS

TOTAL CRUISE TRAFFIC

The traffic data for the period 2013-2017 for passengers and ships' calls is presented in the following table

CRUISE OPERATIONS HISTORICAL USAGE – TOTAL SAN JUAN

Year	2013	2014	2015	2016	2017
Vessel Callings	455	515	533	510	426
- Home Port	175	176	188	201	185
- Transit	280	339	345	309	241
- YoY %	-	+13.2%	+3.5%	-4.3%	-16.5%
Passengers ('000s)	1,038	1,213	1,509	1,342	1,469
- Home Port	382	421	476	461	443
- Transit	656	792	1,033	881	1,026
- YoY %	-	+16.9%	+24.4%	-11.1%	+9.5%

PIER 1

Pier 1 is the Western most pier and the closest to Old San Juan. As such, this pier is ideal for a port of call facility as it facilitates passengers walking into Old San Juan. However, being one of the older piers it is also the smallest. Today, the pier has a small cruise terminal and a single floor lay-down area used for both embarkation and disembarkation. The upstairs of the building has been rented out as offices. The front of the building is used for vehicular access to the security at the front.

Pier 1 was constructed around 1970 and measures in total 950 ft. The structure consists of a reinforced concrete deck slab founded on reinforced steel piles. Pier 1E has a depth of 27' and has handled 1,500 passengers in one call. Pier 1W has a depth of 32' and has processed 2,500 passengers in one call.

Key Requirements

1. Extension / expansion to enable calling by larger vessels
2. Immediate capital expenditure to repair hurricane damage (discussed below)
3. Medium-term capital expenditure requirements to restore deteriorated condition.

PIER 1 CRUISE OPERATIONS HISTORICAL CALLS

Year	2013	2014	2015	2016	2017
Vessel Callings 1E					
- Home Port	4	8	11	12	5
- Transit	9	4	11	4	2
Vessel Callings 1W					
- Home Port	14	12	8	13	11
- Transit	22	29	26	14	5

HURRICANE DAMAGE AT PIER 1

Two condition survey reports were performed since the most recent hurricane event. In October 2017 a survey was executed by Iglesias-Vazquez and Associates. In March/ April 2018 DCM Architecture & Engineering LLC (DC) conducted a survey on behalf of MARAD/ FEMA.

Building

Overall, the Old San Juan Pier No. 1 Terminal was found in a poor condition. In terms of the impact of hurricanes the building exterior glass components and fascia elements were the most affected by the wind pressure and debris impact. Cost estimates for repair vary between USD 2.3M and 8.6M. The difference in cost estimates is mainly due to difference of opinion regarding; a) the condition of the building structure, and b) required contingencies, general conditions, insurance, taxes and profit.

Pier

The pier is in an advanced state of deterioration and was therefore classified to be in serious condition. The MARAD report recommends that the structure be demolished and replaced with a new structure. Cost estimates for repair vary between USD 160k and 53M. The very large difference in the estimates are due to the fact that the Iglesias-Vazquez and Associates survey did not include a diving survey nor detailed structural calculations. Hence, the study did not evaluate the condition of the pier foundation elements nor include cost estimates for its repair. In contrast the cost estimate as included in the MARAD report includes CAPEX for complete replacement of the pier.

PIER 3

Pier 3 is the new and improved port of call facility, which was just recently renovated by the PRPA. As such, Pier 3 is in excellent condition, and it is able to accept the largest cruise ships in operation today. The west side of the pier is still largely operational following the hurricanes.

The pier suffers from a lack of traffic management and parking areas for tour buses and when ships are in port, traffic is seriously congested along the frontage road.

Pier 3 was renovated in 2013 and is a wedge-shaped structure. Access is provided by means of two trestle structures originating from the narrow northern edge of the pier and heading one, northwest, and the other, northeast. Six mooring dolphins and one large mooring platform are present south of the wide portion of the wedge, connected to the main structure via platforms and catwalks. The total length of the trestles, pier, and dolphins is 1,484'.

The structure consists of a cast-in-place concrete deck supported by cast-in-place beams and pile bents. The pier and dolphins are supported by square concrete piles. Pier 3E has a depth of 34' and may handle 7,500 passengers in one call. Pier 3W has a depth of 36' and may handle 7,500 passengers in one call.

Key Requirements

1. Improved vehicular access
2. Duty Free Building

PIER 3 CRUISE OPERATIONS HISTORICAL CALLS

Year	2013	2014	2015	2016	2017
Vessel Callings 3E					
- Home Port	0	0	0	0	0
- Transit	55	19	57	62	60
Vessel Callings 3W					
- Home Port	0	0	0	0	0
- Transit	58	55	72	99	78

HURRICANE DAMAGE AT PIER 3

Overall, Pier 3 was observed to be in satisfactory condition. Two walkways and one fender need to be replaced. Cost estimates for repair vary between USD 260k and 990k.

PIER 4

Pier 4 is currently used by Carnival as a cruise ship terminal. It was initially built by the Ports Authority in two stages and subsequently its interior was modified by Carnival. Pier 4 can handle ships of approximately 2,000 to 3,000 passengers due to the building size. In addition, the length of the pier (877 feet) does not allow most new cruise vessels to berth on either side. As is, Pier 4 can operate as a single homeport terminal on the east side and a port of call facility in the west side, however, the two cannot operate simultaneously because of traffic congestion and security and customs provisions while the terminal is in operation.

Pier 4 was built around 1980 and has received a number of modifications since then. Pier 4 has a length of 1,146 ft. Pier 4E has a depth of 32' and has handled 4,500 passengers in one call. Pier 4W has a depth of 34' and has handled 4,500 passengers in one call.

Key Requirements

1. Immediate capital expenditure to repair hurricane damage (discussed below)
2. Medium-term capital expenditure requirements to restore deteriorated condition.

PIER 4 CRUISE OPERATIONS HISTORICAL CALLS

Year	2013	2014	2015	2016	2017
Vessel Callings 4E					
- Home Port	53	51	57	51	47
- Transit	80	127	62	46	48
Vessel Callings 4W					
- Home Port	1	2	4	14	17
- Transit	55	105	116	81	45

HURRICANE DAMAGE AT PIER 4

Building

Overall, the Old San Juan Pier No. 4 Terminal was found in a fair condition. In terms of the impact of hurricanes, the entrance of water at the interior of the building was the major concern. Cost estimates for repair vary between USD 2.6M and 5.4M. The difference in cost estimates is mainly due to difference of opinion regarding the required contingencies, general conditions, insurance, taxes and profit.

Pier 4

Pier 4 was observed to be in serious condition with extensive spalling and delamination of the bent caps with excessive concrete cover cracks. Due to the extensive deterioration of the concrete caps which are the primary load carrying members and the complications that are involved in strengthening these members, it is recommended that the existing pier structure be demolished and replaced with a new structure. Cost estimates for repair vary between USD 310k and 131M. The very large difference in the estimates are due to the fact that the Iglesias-Vazquez and Associates survey did not include a diving survey nor detailed structural calculations. Hence that study did not evaluate the condition of the pier foundation elements. In contrast the cost estimate as included in the MARAD report includes CAPEX for complete replacement of the pier.

PIERS 11-14

Currently severely deteriorated, these piers are abandoned. The warehouse is currently used by the FEMA hurricane response team. The combined wharves have a total length of approximately 2,500 ft.

Pier 11 appears to be reconstructed around 1991 and measures 580 ft. The structure consists of a suspended deck supported on vertical and raked prestressed concrete piles. Additional sheet pile along the waterfront is slotted into the capping beam.

The wharf section of Pier 12 appears to be dating from around 1979. This section measures 33 ft in width, the area behind the wharf appears to be dated from 1950. The structure consists of a suspended deck supported on vertical concrete piles.

Key Requirements

1. Optimize use (rather than continue use as a 'catch all')
2. Immediate capital expenditure to repair hurricane damage (discussed below)
3. Medium-term capital expenditure requirements to restore deteriorated condition.

HURRICANE DAMAGE AT PIERS 11-14

Building

Overall, the FEMA warehouse building was found in a fair condition. Cost estimates for repair vary between USD 910k and 1.6M.

Piers 11 to 14

Piers 11 to 14 were observed to be in critical condition with widespread advanced deterioration of the reinforced concrete piles, pile caps, deck beams, and concrete deck. Due to the extensive deterioration MARAD has recommended that the existing pier structure be demolished and replaced with a new structure. Cost estimates for repair vary between USD 734k and 71M. The very large difference in the estimates are due to the fact that the Iglesias-Vazquez and Associates survey did not include a diving survey nor detailed structural calculations. Hence, that study did not evaluate the condition of the pier foundation elements. In contrast the cost estimate as included in the MARAD report includes CAPEX for complete replacement of the pier.

PAN-AMERICAN PIERS

These are the two most functional facilities in San Juan today from an operational point of view. However, the lack of maintenance has caused significant corrosion and structural failures can be seen throughout the facility. In addition, the length of the wharf is not sufficient to handle two large vessels simultaneously. The westernmost part of the terminal is currently being used by the ferry facility.

Pan America Pier is located to the south of Old San Juan and was built around 1980. The modern San Juan cruise ship terminal building at Pan America Pier is in Isla Grande.

Pan-American Pier I or East has a length of 1,200 feet and a depth of 32'. This pier has handled 2,500 passengers in one call. Pan-American Pier II or West has a length of 1,100 feet and a depth of 33'. This pier has handled 3,800 passengers in one call.

Key Requirements

1. Immediate capital expenditure to repair hurricane damage (discussed below)
2. Medium-term capital expenditure requirements to restore deteriorated condition.

PAN-AMERICAN PIERS CRUISE OPERATIONS HISTORICAL CALLS

Year	2013	2014	2015	2016	2017
Vessel Callings E					
- Home Port	28	33	27	42	31
- Transit	1	0	1	2	2
Vessel Callings W					
- Home Port	75	70	81	69	74
- Transit	0	0	0	1	1

HURRICANE DAMAGE AT PAN AMERICAN PIERS

Building

Overall the Pan American Main Terminal and Baggage Claim Buildings are in fair condition. In the other hand, the Cruise Passenger Bridge was observed in a very poor condition due to severely corroded and significant loss of section of main structural components. Cost estimates for repair vary between USD 1.2M and 7.1M. The difference in cost estimates is mainly due to difference of opinion regarding; a) the condition of the building structure, b) project management, and c) required contingencies, general conditions, insurance, taxes and profit.

Piers

Pan American Piers I and II are in poor condition. This is based primarily on the widespread advanced deterioration of the steel sheet pile bulkhead along the relieving platform portion of the docks. The sheet pile is considered a critical element in retaining fill material under the relieving platform and widespread failure has provided for loss of fill material and therefore increased the unbraced length of the steel H-piles supporting the platform (deck). Cost estimates for repair vary between USD 2.8M and 21.7M. The very large difference in the estimates are due to the fact that the Iglesias-Vazquez and Associates survey did not include a diving survey nor detailed structural calculations hence did not evaluate the condition of the pier foundation elements. Hence, that study hence did not evaluate the condition of the pier foundation elements. In contrast the cost estimate as included in the MARAD report includes CAPEX for repair of the two piers.

An aerial photograph of a large bridge under construction over a body of water. The bridge has a distinctive Y-shaped design with a central pier and two side piers. A construction barge with a crane is positioned near the central pier. In the background, a city skyline is visible across the water. The entire image has a green tint.

EXHIBIT C: RFQ



GOVERNMENT OF PUERTO RICO
Puerto Rico Public-Private Partnerships Authority



Request for Qualifications

San Juan Bay Cruise Terminals

Date of Issue: 5 September 2018

Responses Due: 17 October 2018 at 5:00 PM AST





GOVERNMENT OF PUERTO RICO
Puerto Rico Public-Private Partnerships Authority



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GOVERNMENT OF PUERTO RICO
Puerto Rico Public-Private Partnerships Authority



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1. Overview of RFQ and PPP Process

1.1 Introduction

The Puerto Rico Public-Private Partnerships Authority ("Authority"), in collaboration with the Puerto Rico Ports Authority (the "PRPA"), wishes to request qualifications from companies, developers, contractors, teams or consortia interested in participating in a procurement process to repair, expand, finance, maintain and operate certain marine cruise terminals in the San Juan Bay (the "Project"). The piers in the San Juan Bay that are proposed to form part of the Concession are Pier 1, Pier 3, Pier 4, Piers 11 to 14, and the Pan American Piers, along with the quay wall and walkways between Pier 1, Pier 2, Pier 3 & Pier 4 (collectively the "Piers" or "Cruise Terminals").

Respondents should note that the PRPA is considering a second phase for the Project which would include additional piers. The conditions and responsibilities for this second phase, if determined to be included, will be elaborated in the RFP. For purposes of responding to this RFQ, Respondents should assume the development of the Piers as described in this RFQ.



Figure 1: San Juan Cruise Ship Piers

The Authority and the PRPA wish to enter into a PPP Contract with a private sector operator or consortium ("Private Partner") in order to achieve the following objectives for the San Juan bay Cruise Terminals:

- **Repair:** Over time, repairs to the San Juan Bay Cruise Terminals have been postponed. This, combined with damage from the recent hurricanes, requires an investment of capital by the Private Partner in order to restore the Cruise Terminals to world class standards.
- **Expand:** Cruise traffic in the Caribbean continues its strong growth, and San Juan Bay Cruise Terminals need to expand in order to continue to be able to serve the largest cruise ships. The Private Partner would be required to invest in certain defined expansion projects in order to improve the capacity and amenities at the Cruise Terminals.
- **Operate:** Through the Private Partners' own creativity and initiatives, it would be able to optimize operations and increase passenger volumes at the San Juan Bay Cruise Terminals
- **Finance:** Make a contribution to the PRPA, through either an upfront "Concession Fee," an ongoing revenue share arrangement, or some combination of both.



- **Maintain:** The Private Partner would be required to undertake routine and lifecycle maintenance of the Cruise Terminals throughout the PPP Contract term, so as to keep the Cruise Terminals operating at world class standards.

Prospective Respondents are encouraged to review the following documents, which are available for download on the Authority's website at <http://www.p3.pr.gov>:

- Desirability and Convenience Study for the Concession of San Juan Bay Cruise Terminals ("**Desirability & Convenience Study**").
- Public-Private Partnership Authority Act, Act No. 29 of June 8, 2009, as amended.
- Regulation for the Procurement, Evaluation, Selection, Negotiation, and Award of Participatory Public-Private Partnerships Contracts under Act No. 29-2009, as amended.

In addition, the Commonwealth of Puerto Rico's Financial Information and Operating Data Report is accessible at <http://www.aafaf.pr.gov/>.

1.2 Background to Puerto Rico's PPP Program

The Public-Private Partnership Authority Act, Act 29-2009 (the "**Act**"), as amended, was first enacted on June 8, 2009. The Act states that the public policy of the Government of Puerto Rico ("**Government**") is to favor and promote the establishment of public-private partnership ("**PPPs**" or "**P3s**") for the creation of certain Priority Projects (as such term is defined in the Act) and among other things, to further the development and maintenance of infrastructure facilities, share with the private sector the risks involved in the development, operation or maintenance of such projects, improve the services rendered and the functions of the Government, encourage job creation and promote Puerto Rico's socio-economic development and competitiveness.

The Act provides that the PPP public policy must maintain such controls as are necessary to protect the public interest and temper this need with the profit-making purpose of any private operation. The contractual relationship must thus be mutually beneficial, while ensuring the efficient, effective and affordable provision of public goods and services to all citizens.

The Authority was created pursuant to the Act as a public corporation of the Government, affiliated to the Puerto Rico Fiscal Agency and Financial Advisory Authority ("**FAFAA**"). The Authority is designated as the sole government entity authorized and responsible for implementing the Government's public policy on PPPs and for determining the functions, services or facilities for which PPPs are to be established.

The Authority must establish a PPP Committee for each proposed PPP project. The PPP Committee is responsible for: (1) the qualification, evaluation and selection processes of the proposed PPP; (2) establishing the terms and conditions of the PPP Contract; and (3) reporting on the procedures followed, among others.

Respondents should note that the PPP Committee has been vested with the authority to negotiate the terms of the PPP Contract. The Authority and, in this case, the PRPA, have been vested with the authority to approve the PPP Contract agreed by the PPP Committee with a Private Partner, subject to final approval by the Governor of Puerto Rico or his delegate.

1.3 Unsolicited Proposal

This RFQ is being issued in response to an unsolicited proposal submitted in respect of the Piers. The proposer group was seeking the exclusive right to repair, design, finance, build, operate, and maintain, as well as optimize the operations of the San Juan Bay Cruise Terminals, commercial activities, ancillary facilities, and adjacent / associated real estate development in Piers 1, 3, 4, Pan American, and 11 through 14, as well as the Navy Frontier Pier to the extent it is available for development and operation. In accordance with Puerto Rico's P3 legislation, the Project is being opened up to competitive procurement. Even though this was the original proposed scope, the scope for this procurement has been limited to the Cruise Terminals.



Pursuant to the Public-Private Partnership Authority Act, Act No. 29 of June 8, 2009, the party submitting an unsolicited proposal is required to receive an advantage in the procurement process. In satisfaction of this legislative requirement, the unsolicited proposer shall receive:

- **RFQ Phase:** An increase of 5% on its evaluation score for the RFQ.
- **RFP Phase (if applicable):** A stipend of a fixed amount (quantum TBD) paid out of the proceeds of the transaction either by the PRPA or the Preferred Proponent.

Note that the PRPA does not intend to pay a stipend to unsuccessful bidders other than in the special case above pursuant to the requirements of the Act.

1.4 Function of this RFQ; Definitions

1.4.1 Function of this RFQ

This document is a Request for Qualifications ("**RFQ**") issued under Section 5.4 of the Regulation for the Procurement, Evaluation, Selection, Negotiation and Award of Participatory Public-Private Partnership Contracts under Act No. 29 of June 8, 2009, as amended ("**Regulation**"). This RFQ may be amended at any time through the publication of addenda which shall be posted in the Authority's website at <http://www.p3.pr.gov>. Interested parties shall be responsible for verifying periodically the Authority's website for announcements and publication of relevant information concerning this process, including addenda.

Prospective Respondents should review carefully the Act and the Regulation (each of which is available for download on the Authority's website; <http://www.p3.pr.gov>) and should ensure that, in addition to the terms and conditions of this RFQ, they comply with all applicable provisions set out therein.

This RFQ provides each interested prospective Respondent with sufficient information to enable it to prepare and submit a Statement of Qualifications for consideration and evaluation by the Authority. This RFQ contains instructions to prospective Respondents and a Form of Respondent Certification, which must be completed in its entirety and submitted to the Authority for the prospective Respondent to be considered for qualification. The completed Form of Respondent Certification, together with all required attachments, shall constitute the prospective Respondent's SOQ. The Form of Respondent Certification is attached in **Appendix A**.

The Authority is issuing this RFQ because it has determined that:

- the Project meets the requirements of Article 3 of the Act; and
- it is advisable to pursue the establishment of a PPP in connection with the Project.

This RFQ is being issued, in anticipation of a Request for Proposals ("**RFP**") to be issued by the Authority for the Project, to identify those Respondents that meet the minimum requirements necessary to comply with the Act (as discussed in Section 4 of this RFQ), in particular:

- financial strength and ability to raise finance; and
- technical and professional ability and experience.

The objective of this RFQ is to enable the PPP Committee to shortlist the best qualified Respondents. Nevertheless, the PPP Committee, in evaluating Respondents, may disqualify a Respondent for any of the reasons stated in Sections 8.1 (Disqualifying Events) and 8.2 (Other Grounds for Disqualification) of the Regulation and if the Respondent:

- is ineligible to submit a proposal on one or more grounds specified in the Act or in the Regulation;
- fails to satisfy the standards established by the PPP Committee with respect to the Respondent's required financial condition, or technical or professional ability and experience (as discussed in Section 4 of this RFQ); or
- fails to comply with the requirements of Articles 9(a) (Applicable Requirements and Conditions for those who wish to be considered as Respondents) and/or 9(d) (Consortia) of the Act, as applicable.



Pursuant to Section 5.4 (Qualification of Proponents (RFQ)) of the Regulation, the PPP Committee reserves the right to limit in its absolute discretion the number of Respondents it considers to be the best qualified in order to arrive at a shortlist of Proponents to allow for an orderly procurement.

The Authority hereby notifies prospective Respondents that it intends to exercise its right to limit the number of Respondents who may be qualified.

Respondents shall not be entitled to an indemnity (including but not limited to reimbursement for costs and expenses) from the Authority or the PRPA if the Authority decides, in its discretion, to terminate the procurement of the Project.

1.4.2 Definitions

For the purposes of this RFQ, the following definitions will apply. Those terms not otherwise defined herein shall have the meaning ascribed to them in the Act or the Regulation.

"Advancing Firms" or "Shortlisted Respondents" means the Respondents that based on their SOQ are qualified pursuant to this RFQ to participate in the RFP process.

"Conflict of Interests" shall have the meaning ascribed to the term in Section 4.8 of this RFQ.

"Contractor" or "Private Partner" means the Person, Company or Consortium that executes a PPP Contract with a Partnering Government Entity, this case the PRPA, or the successor thereof.

"Cruise Line" means a private company that actively operates cruise vessels in major Caribbean and international markets or is a member of the Cruise Lines International Association or similar association.

"Days" means calendar days, unless otherwise expressly stated.

"Desirability and Convenience Study" or "Study" means the study that seeks to determine whether the establishment of the proposed Public-Private Partnership ("PPP") described herein is advisable.

"Facilities" means for purposes of the Project each of the piers contemplated to be potentially included in the Project.

"FAFAA" means the Puerto Rico Fiscal Agency and Financial Advisory Authority, created by virtue of Act No. 2-2017.

"Federal Agency" means any of the departments of the Executive Branch of the Government of the United States of America, or any department, corporation, agency or instrumentality created or which may be created, designated or established by the United States of America.

"Financial Close" means the time when the PPP Contract and all financing and other agreements related to the Project have been executed and delivered and all conditions to the effectiveness of the PPP Contract and Project financing agreements have been satisfied.

"Government Entity" means any department, agency, board, commission, body, bureau, office, Municipal Entity, public corporation or instrumentality of the Executive Branch, as well as of the Judicial Branch and the Legislative Branch of the Government of Puerto Rico, whether existing or to be created in the future.

"Key Individual" means an individual who will play an important role in the Project on behalf of a Team Member.

"Key Subcontractor" means each person or legal entity which will be principally or partially and materially responsible for providing professional or technical services or support in connection with the design, construction, maintenance, improvement and life cycle work on the Project.

"Local Parties" means local general contractors, subcontractors, suppliers, manufacturers, professionals (including architects and consulting engineers) and relevant service providers who are based in or have a significant on-going business presence within Puerto Rico.

"Owners" or "Project Owners" refers to the PRPA, which constitutes the Partnering Government Entity and public sector owner of the Project.



"Partnership Committee" or "PPP Committee" means a Committee designated as provided in the Act to evaluate and select qualified persons and the proponents of a PPP and to establish and negotiate the terms and conditions it deems appropriate for the corresponding PPP Contract.

"PPP" means a public private partnership.

"PPP Contract" or "Project Agreement" means a concession agreement executed by the selected Proponent and the Partnering Government Entity to establish a PPP, which may include, but shall not be limited to, a contract to delegate a Function, administer or render one or more Services, or conduct the design, building, financing, maintenance, or operation of one or more Facilities. The PPP Contract may be, without it being understood as a limitation, any modality of the following kinds of contract: design / build, design / build / operate, design / build / finance / operate, design / build / transfer / operate, design / build / operate / transfer, turnkey contract, long-term lease contract, surface right contract, administrative concession contract, joint venture contract, long-term administration and operation contract, and any other kind of contract that separates or combines the design, building, financing, operation or maintenance phases. The obligations arising from the Project Agreement shall be binding insofar as these do not disrupt the law, morality, or public order.

"Project" means the San Juan Bay Cruise Terminal Project described in this RFQ solicitation.

"Proponent" means a Shortlisted Respondent that participates in the RFP Process.

"Preferred Proponent" means the Proponent selected by the Authority to negotiate a PPP to undertake the Project. A Preferred Proponent may or may not become a Contractor or Private Partner depending on the success of the negotiations.

"Public Interest" means any government action directed to protecting and benefiting citizens at large, whereby essential goods and services are provided for the welfare of the population.

"Puerto Rico Public-Private Partnerships Authority" or "Authority" means the Public Corporation of the Government of Puerto Rico created by virtue of Section 5 of the Act.

"Respondent" means a (i) natural person, (ii) legal person, (iii) joint venture, or (iv) partnership, or (v) consortium of individuals, and/or partnerships, and/or companies or other entities that submit an SOQ in response to this RFQ.

"RFC" means a "Request for Clarification" in respect of this RFQ.

"RFP" means the Request for Proposals and addenda issued by the Authority in Stage 2 to obtain proposals for the Project from the Advancing Firms.

"RFQ" means this Stage 1 Request for Qualifications and all addenda.

"Scope of the Project" means the work and services to be provided by the Contractor in the design, permitting, financing, construction, and operation and maintenance of the Project, under the PPP Contract.

"SOQ" or "Statement of Qualifications" means a statement of qualifications to be submitted by Respondents pursuant to this RFQ. All references in this RFQ to "RFQ submissions", "RFQ submittals", "responses" and expressions of a like nature are deemed to refer to the SOQ.

"Team Member" means a member of a Respondent. Team Members should be identified in Respondents' RFQ submissions and not be changed without the consent of the PPP Committee. For the purpose of this Project, Team Members shall include, without limitation, each of the following with respect to a Respondent:

- each person, partnership, company or legal entity that is formally or informally reviewing the Project and intends to participate as a potential equity investor in the Proponent that will execute the PPP Contract for this Project. This will include (without limitation) the ultimate owner or holding company of any such investor or, in the case of a managed fund or pension plan, the manager of the fund or pension plan;
- design firm;
- construction firm;
- maintenance firm;
- operations firm; and



- each subcontractor performing services estimated to exceed \$5 million (during the design and build phase) or \$500,000 per year (during the operations phase) and any subcontractor that is providing proprietary technology or specialized skills that are important to the Project and cannot be readily acquired from another contractor.

1.5 Process and Schedule

The procurement of the Project is expected to take place in the following stages:

Stage 1 – RFQ Process (Qualification Stage)

The process, as described in this RFQ (the “RFQ Process”), precedes the RFP process described below (the “RFP Process”) and is intended to identify the qualified Respondents that are eligible to participate in the RFP Process.

During this stage Respondents submit their statement of qualifications pursuant to this RFQ.

The RFQ Process is a standalone and independent stage that is completed once the Shortlisted Respondents are identified by the Authority and all Respondents have received final notification from the Owners as to the results of the RFQ Process.

Stage 2 – RFP Process (Binding Bid Stage)

The RFP Process is the competitive procurement process that follows the RFQ Process. The RFP Process is intended for Shortlisted Respondents only and is to result in the selection of a Preferred Proponent, as defined herein, for the Project.

Stage 3 – Implementation of the Project Agreement

Once the Preferred Proponent, the Authority and the Owners have completed the negotiations and executed the Project Agreement, as defined herein, the Project will proceed in accordance with the terms and conditions of the Project Agreement.

A summary schedule of the major activities associated with the procurement process is presented below. The dates and activities are subject to change and may be revised through the issuance of addenda to this RFQ.

The Authority expects to adhere to the following schedule for the qualification of prospective Respondents:

5 September 2018	- Date of issuance and first publication of public notice of RFQ by the Authority.
12 September 2018	- Pre-Submittal Conference Call.
17 September 2018	- Date for End of Submittal by prospective Respondents of Requests for Clarifications (RFCs).
24 September 2018	- Deadline for the Authority to release responses to RFCs.
17 October 2018	- Due date for submission of SOQs no later than 5:00 pm AST.
1 November 2018	- Estimated Date for Notification of Shortlisted Respondents (this date is subject to change).

In furtherance of the Authority’s mission, the PPP Committee reserves the right to reject any and all SOQs, to waive technical defects, irregularities or any informality in SOQs, and to accept or reject any SOQs in its absolute discretion. The PPP Committee also reserves the right to postpone the date on which SOQs are



required to be submitted, or to take any other action it may deem in the best interests of the Authority and the PRPA.

After the PPP Committee reviews and evaluates all SOQs, it will make public the list of Shortlisted Respondents (but reserves all rights to manage the procurement process as deemed advisable in its absolute discretion).

Respondents that are shortlisted by the PPP Committee and decide to participate in the RFP process will have the opportunity to conduct a thorough due diligence, after signing the Confidentiality and Process Agreement, a form of which will be provided to Shortlisted Respondents.

Once a Shortlisted Respondent has executed the Confidentiality and Process Agreement, it will have the opportunity to conduct due diligence of the Project through:

- receipt and review of the RFP for the Project, which will include information about the Project and a draft of a Project Agreement. The Project Agreement will address, among other matters:
 - all of the rights and obligations of the Contractor during the term of the Project Agreement; and
 - detailed and comprehensive description of the Project including draft of operations and maintenance standards, and parameters and formulas for rates modifications, among other documentation.
- access to a data room – this data room will appear online and is intended to provide detailed information on the Project, which may include:
 - design guidelines for the new facilities;
 - operational and architectural program guidelines;
 - demand analysis;
 - site and environmental analysis;
 - historical data;
 - existing contracts; and
 - other relevant information and requirements.
- respondent one-on-one meetings;
- site visits; and
- a review of, and discussion relating to, the proposed Project Agreement and related documents.

A more detailed description of the RFP Process, together with a more detailed timetable, will be provided in the RFP.

1.6 Pre-Submittal Conference Call

The Authority intends to conduct a Pre-Submittal Conference call as part of this RFQ process. The Pre-Submittal Conference Call will allow Authority personnel to introduce the Project to interested parties and explain the RFQ requirements. Prospective proponents and other parties interested in participating in the Pre-Submittal Conference Call should register using the instructions below:

- Send registration email to: prcruiseterminals@p3.pr.gov
- In subject of email write the following: Registration for Pre-Submittal Conference Call.
- Provide your contact information and the number of participants to the call. If other participants will be in different locations those participants will also have to be registered in order to be granted access to the call.

1.7 Consortia

To the extent that any Respondent has formed or proposes to form a consortium to participate in the RFP for this Project, such Respondent should respond to this RFQ setting out the identity, role and capabilities individually of each Team Member, as defined herein, and jointly of the consortium. No member of a proposing



consortium may participate, whether directly or indirectly, in more than one consortium for the Project. Any violation of this provision will disqualify the consortium and/or its Team Members individually.

Please note the following with respect to Respondents:

- Except as specifically provided to the contrary in this RFQ, no Team Member may join or participate, directly or indirectly, as a Team Member in more than one Respondent for this Project. Each person or legal entity who participates as a Team Member is responsible for ensuring that no other person or legal entity which is "Related" to it joins or participates, directly or indirectly, as a Team Member in any other Respondent. Unless otherwise provided herein, any violation of this provision shall disqualify the Respondents and its Team Members.

A person or company is "Related" to another person or legal entity if:

- one may exercise Control over the other; or
- each is under the direct or indirect Control of the same ultimate person or legal entity.

For purposes of this RFQ, a person or legal entity exercises "Control" of another if it is the owner of any legal, beneficial or equitable interest in 50% or more of the voting securities in a corporation, partnership, joint venture or other person or entity or if it has the capacity to control the composition of the majority of the board of directors of any such person or entity or to control the decisions made by or on behalf of any such person or entity or otherwise has the ability to direct or cause the direction of the management, actions or policies of any such person or entity (whether formally or informally); and the terms "Controlling" and "Controlled" have corresponding meanings.

Each of the Team Members shall ensure compliance with all licensing and other requirements under applicable laws with respect to the services to be provided by such Team Member.

Subject to the requirements and entitlements of the Authority set forth below, submission of an SOQ will not limit a Respondent's ability to add to, substitute, or subtract from, its Team Members during the procurement process.

The Authority intends to issue the RFP only to Shortlisted Respondents. If for any reason, after the Submission Deadline and prior to the notification of Advancing Firms issuance of the RFP, a Respondent wishes or requires to: (i) change any Team Members listed in the Respondent's RFQ submission (either by adding new members, removing listed members or substituting new members for listed members), or (ii) materially change the ownership or Control of a Respondent or a Team Member, then, in each case, the Respondent must submit a written application (with such information as the PPP Committee may require) to the PPP Committee seeking its consent to the proposed change, which consent may be withheld or delayed in the absolute discretion of the PPP Committee. Without limiting the foregoing, the PPP Committee may refuse to consent to a change to a Respondent or its Team Members and/or may disqualify the Respondent from further participation in the procurement process if, in the sole opinion of the PPP Committee, the change would result in a weaker Respondent or Respondent team than that which is listed in the Respondent's SOQ or result in the Respondent or the Respondent team being materially different from the Respondent, or evaluating the application for a change would delay the qualification process, or for any other reason the PPP Committee may deem detrimental to the process, the Project, the PRPA or the Authority.

For clarity, the Authority's discretion to consent to changes to a Respondent's Team Membership includes discretion to approve changes to the legal relationship between the Respondent and/or its Team Members such as the creation of a new joint venture, partnership or legal entity that will take the place of the Respondent.

The Authority's consent may include such terms and conditions as the Authority may consider appropriate.

1.8 Restricted Parties

Restricted Parties (as defined below), their respective directors, officers, partners, employees and persons or legal entities Related to them (as defined in Section 1.7 above) are not eligible to participate as Team Members, or advise any Team Member, directly or indirectly, or participate in any way as an employee, advisor, or consultant or otherwise in connection with any Respondents. Each Respondent will ensure that each Team



Member does not use, consult, include or seek advice from any Restricted Party. The following Restricted Parties have been identified:

- Macquarie Capital (USA) Inc.
- DLA Piper
- CPM International
- IMG Rebel Advisory Inc.

Moreover, Respondents must comply at all times during the procurement process with the Authority's Guidelines for the Evaluation of Conflicts of Interest and Unfair Advantages in the Procurement of Public-Private Partnership Contracts (the "Ethics Guidelines"). Prospective Respondents should review the Ethics Guidelines, which are available for download on the Authority's website: <http://www.p3.pr.gov>.

Finally, Respondents should be aware that the list of Restricted Parties is not exhaustive and that a person that is not included as a Restricted Party may still be prohibited from participating in the Project pursuant to the provisions of the Ethics Guidelines. However, the fact that a person provides or has provided services to the Authority or an Owner in matters not related to the Project may not automatically ban such person from participating in the Project. Each Respondent is responsible for ensuring that all persons engaged to provide any type of assistance in connection with the Project are in compliance with the provisions of the Ethics Guidelines and, to the extent any question exists as to compliance with the Ethics Guidelines, the Respondent should consult with the Authority.

1.9 Deadline

Those interested in becoming Shortlisted Respondents must submit their responses to this RFQ no later than 17 October 2018 at 5:00 pm (AST) (the "Submission Deadline").

RFQ submissions must be received by the Authority no later than the Submission Deadline at the address and in the manner set out in Section 4.5 below (the "Submission Address"). The Authority will not accept RFQ submissions sent by facsimile, electronic mail, telex or other telegraphic means. The determination of whether an RFQ submission is submitted before the Submission Deadline will be based on the time and date stamp each Respondent must ensure it receives from the Authority at the Submission Address. It is the sole responsibility of each Respondent to ensure that its RFQ submission is delivered to the Submission Address no later than the Submission Deadline. RFQ submissions received after the Submission Deadline will be rejected and returned to Respondents unopened.

1.10 Clarifications and Communications Protocol

Note that a Respondent may submit a request for clarification ("RFC") to the Authority for explanation or interpretation of any matter contained in this RFQ ***no later than 5:00 p.m. (AST) on 17 September, 2018 (the "RFC Deadline")***. Any such RFC from a Respondent must be made in writing.

If the Authority provides any clarification as a result of an RFC, it will provide such clarification by means of a written document delivered to all ***Respondents no later than 24 September, 2018***. Respondents should note the following regarding requests for clarification:

Respondents may make inquiries only by submitting questions or RFCs to the email address of the PPP Committee (the "**PPP Committee Contact**") at pprcruiseterminals@p3.pr.gov no later than the RFC Deadline. Questions submitted to anyone other than through the PPP Partnership Contact by any means other than the provided e-mail will not be answered.

Any Respondent that has questions as to the meaning of any part of this RFQ or the Project, or who believes that the RFQ contains any error, inconsistency or omission, must submit its concern, in writing, to the PPP Committee Contact in accordance with this Section 1.10. The Authority may, in its absolute discretion, provide all submitted questions or RFCs, along with the Authority's answers thereto, to all Respondents without expressly



identifying the originator. The Authority will not respond to Respondents' questions or RFCs that are not submitted in accordance with this Section 1.10.

Any response provided by the Authority other than by way of an Addendum issued in accordance with this RFQ will not be binding on the Authority or the Owners, nor will it change, modify, amend or waive the requirements of this RFQ in any way. Respondents shall not rely on any response or information provided otherwise.

Respondents may also make inquiries regarding matters they consider to be commercially sensitive or confidential. Respondents must designate such inquiries as "commercially confidential". If the Authority determines, in its absolute discretion, that an inquiry designated as commercially confidential is of general application or would provide a significant clarification to the RFQ or any process or other matter outlined hereunder, the Authority may issue a clarification that deals with the same subject matter. If the Authority agrees with the Respondent's designation of an inquiry as commercially confidential, the Authority will provide a response only to the Respondent that submitted the commercially confidential inquiry.

1.11 No Collusion or Lobbying

The Authority and the Owners are committed to a fair, open and transparent selection process.

No Collusion

Respondents and Team Members will not discuss or communicate, directly or indirectly, with any other Respondent(s) or any director, officer, employee, consultant, advisor, agent, representative or Team Member of any other Respondent regarding the preparation, content or representation of their SOQs. SOQs will be submitted without any connection (i.e., arising through an equity interest (other than an equity interest that does not represent a Controlling interest in an entity, as determined by the Authority from time to time) in or of a Respondent or Respondent Team Member), knowledge, comparison of information, or arrangement, with any other prospective Respondent or any director, officer, employee, consultant, advisor, agent, representative or Team Member of any other prospective Respondent.

By submitting a response to this RFQ, a Respondent, on its own behalf and as authorized agent of each firm, corporation or individual Team Member of the Respondent, represents and confirms to the Authority, with the knowledge and intention that the Authority may rely on such representation and confirmation, that its response has been prepared without collusion or fraud, and in fair competition with responses from other Respondents.

No Lobbying

Respondents, and their Team Members and their respective directors, officers, employees, consultants, agents, advisors and representatives, will not, except as expressly contemplated by this RFQ, or as expressly directed or permitted by the Authority, attempt to communicate directly or indirectly with any representative of the Owners, Authority, the PPP Committee, except in the event of an RFC or other official communication following the communications protocol indicated in Section 1, the FAFAA or the Government in relation to the Project or the RFQ Process, at any stage of this RFQ Process, including during the evaluation process. The Authority reserves the right to disqualify a Respondent that contravenes this provision.

Respondents, and their Team Members and their respective directors, officers, employees, consultants, agents, advisors and representatives, must certify that they have complied with the requirements of Section 5.16 of the Regulation by completing the Form of Respondent Certification included as Appendix A to this RFQ.

Confirmation of Intention

Respondents that anticipate responding to this RFQ shall so indicate as soon as possible by providing contact information to the PPP Committee via e-mail at prcruiseterminals@p3.pr.gov. Also, all RFCs regarding this RFQ should be directed to the PPP Committee Representative via the same e-mail address. Please do not contact any officials or related parties of the Authority or the Owners (other than the PPP Committee Representative) via telephone or otherwise. Such contact may serve as grounds for disqualification.



2. Project Description

2.1 Puerto Rico

2.1.1 Overview

Puerto Rico is a self-governing territory of the United States located in the Caribbean approximately 1,030 miles southeast of Miami, FL. Puerto Rico has an area of approximately 3,500 square miles and a population estimated at 3.41 million by the United States Census Bureau as of July 1, 2016.

Puerto Rico has one of the largest and most dynamic economies in the Caribbean region. As a territory of the U.S. since 1898, Puerto Rico offers a stable legal and regulatory framework where major U.S. and foreign multinational corporations have historically operated, benefiting from its favorable investment environment and tax advantages. Puerto Rico has a well-educated and bilingual workforce with a sophisticated financial system that historically has acted as a global center for manufacturing, including pharmaceutical, biotechnology, medical devices, agriculture, rum, aerospace, and electronics, complemented by strong consumer, retail and service sectors.

Generally, United States federal laws apply in Puerto Rico and Puerto Rico is subject to the jurisdiction of the U.S. regulatory authorities. As a U.S. Commonwealth, the U.S. Federal Deposit Insurance Corporation (FDIC) insures banks operating in Puerto Rico, which are subject to all federal controls applied to U.S.-based banks. The U.S. Securities and Exchange Commission (S.E.C.) regulates all publicly traded securities and commodities.

Key Puerto Rico Facts

Population	3.41 million
Land Area	8,959 sq. km
Currency	US Dollar
Language	Spanish, English
GDP Per Capita (USD)	\$19,350

*Data according to US Census 2016 and Puerto Rico Planning Board.

2.1.2 Finances

In June 2015, the Government created a working group tasked with analyzing the fiscal and economic situation of Puerto Rico. After a series of studies and analyses, this working group estimated Puerto Rico's consolidated budget and financing gap (including required pension payments and debt service on tax-supported debt) to be approximately \$59 billion between fiscal years 2017 and 2026.

The Government's balance sheet deterioration, coupled with continued structural budget imbalances, and a lack of continuity and execution capacity in fiscal and economic plans led to the loss of capital markets access in 2015, limited the Government's ability to make necessary infrastructure maintenance and improvements investments, and meet scheduled debt service payments.

Recognizing the delicate fiscal condition of Puerto Rico, the U.S. Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") which was signed into law on June 30, 2016. PROMESA provides a series of mechanisms to achieve fiscal and budgetary balance and capital market access to spur infrastructure revitalization in Puerto Rico. Importantly, PROMESA established a specific chapter (Title V) to identify and pursue critical infrastructure projects through an accelerated local permitting process and a



prioritized federal review procedure to ensure the prompt and effective revitalization of Puerto Rico's critical infrastructure, necessary to spur and support sustainable economic development.

Governor Ricardo A. Rosselló took office on January 2, 2017 and has since delivered a 10 year fiscal plan that as a central tenet seeks to advance PPPs as a way to revitalize infrastructure, attract private investment and spur economic development on the Island.

Demand risk PPPs such as the Project are particularly suitable for exploration as they customarily do not require ongoing payments by the Puerto Rican government to the private sector.

2.1.3 Hurricanes and Recovery Efforts

Puerto Rico recently was struck by two devastating hurricanes, Irma and Maria, which left much of the infrastructure in Puerto Rico damaged or unusable. The National Oceanic and Atmospheric Administration's Office for Coastal Management approximated that Hurricane Irma and Maria caused damages of roughly \$50 billion to \$90 billion dollars respectively.¹

As Puerto Rico looks to the future, it sees the recovery effort as not just an opportunity to rebuild what was damaged, but to use recovery investments to help transform the Island by implementing solutions that:

- are cost-effective and forward-looking;
- are resilient and built pursuant to updated codes and standards;
- harness innovative thinking and best practices from around the world; and
- contribute to greater economic development, revitalization, and growth (in alignment with broader Government of Puerto Rico efforts to achieve fiscal and economic stability) as well as enhanced human capital.

Puerto Rico will move forward in its economic and disaster recovery by investing in infrastructure, people, and the environment. Federal funds from FEMA will go some of the way to achieving this vision. But in order to fully deliver upon all of the economic, infrastructure, and societal goals identified by Puerto Rico, private sector creativity and resources will need to be harnessed. Hence the PRPA and the Authority are exploring a P3 for the San Juan Bay Cruise Terminals as a means to achieve these goals sooner than would be possible with public financing and other sources of funds.

2.1.4 Prior P3 Experience

The Project is being procured under the framework of the Act and is managed by the Authority, on behalf of and in collaboration with the PRPA and within the detailed guidelines of the Regulation. The Act and the Authority's procurement process are well organized, transparent and clear; and proof of the robustness of the investment framework can be seen in the successful long-term concession of toll roads PR-22 and PR-5 (2013) and the long-term lease agreement for the Luis Muñoz Marín International Airport (2013).

2.2 The San Juan Bay Cruise Terminals

2.2.1 History of the Cruise Terminals

The Caribbean cruise market is the number one cruise destination globally, featuring unique destinations that are widely enjoyed by cruise passengers. This market is politically stable and in high demand, particularly because its proximity to the United States makes it accessible as well as attractive for first time cruisers.

The port of San Juan is one of the key itineraries on any Caribbean cruise. It has older, traditional piers along the waterfront of the famous Old San Juan district. Piers 1 through 4 were built many years ago, for an older class of ship and for a mix of cargo and passengers. These piers have been continually augmented to increase

¹ National Oceanic & Atmospheric Administration: <https://coast.noaa.gov/states/fed-facts/hurricane-costs.html>



their capacity and in the 1990's the PRPA invested in developing a new homeport terminal at Pier 4, which was subsequently redesigned to increase its capacity to meet market requirements at that time.

Since then, the development of the Piers has been ad-hoc; with PRPA endeavoring to support the evolving needs of the cruise industry within the limits of the finances available for development. Due to these funding constraints, the PRPA's development strategy has been hampered and development has been limited to a minimum level of investment needed to maintain the Piers. As a result, the San Juan cruise facilities today are undersized and fail to meet the needs of the modern cruise industry.

The PRPA makes every effort to welcome cruise lines to San Juan. At present, cruise vessels are given priority over all other vessel types on both arrival and departure from San Juan Harbor. The San Juan Bay pilots shift the arrival and departure times of non-cruise vessels to accommodate cruise vessels if needed.

2.2.2 Cruise Terminal Infrastructure

The waterside capacity of the existing infrastructure is difficult to assess due to the seasonality, daily fluctuations and size of ships, however it is known that the current waterside capacity is constrained in terms of number of berths and available berth length due to increasing vessel sizes. The table below summarizes current capacity and use of each pier.

Piers	Current use	Average calls (2013 – 2017)		Approximate dimensions		Vessel capacity
		Homeport	Port of Call	Length	Width	
Pier 1	Port of Call	20	25	550' + 400'	100'	1 x 900'
Pier 3	Port of Call	0	123	1,484'	85'	1 x 1,200' or 2 x 1,100
Pier 4	Homeport	58	153	870' + 250'	150'	1 x 1,100
Pan Am Piers	Homeport	106	2	1,518' + 779'	NA	1 x 1,200' + 1 x 900'

Table 1: Cruise Terminal Infrastructure

2.2.3 Cruise Terminal Patronage

Notwithstanding these infrastructure constraints, San Juan continues to be a popular destination for cruise lines, as can be seen from the strong five year growth in the traffic data for the period 2013-2017 for passengers and ships' calls (with the limited exceptions being due to the effects of hurricanes):

Year	2013	2014	2015	2016	2017
Vessel Callings	455	515	533	510	426
Homeport	175	176	188	201	185
Transit (Port of Call)	280	339	345	309	241
YoY %	-	+13.2%	+3.5%	-4.3%	-16.5%
Passengers ('000s)	1,038	1,213	1,509	1,342	1,469
Homeport	382	421	476	461	443
Transit (Port of Call)	656	792	1,033	881	1,026
YoY %	-	+16.9%	+24.4%	-11.1%	+9.5%

Table 2: Historical patronage of San Juan Cruise Terminals

One of the key objectives of the proposed transaction is for the PRPA to partner with an appropriately qualified Private Partner who can implement a plan to continue growing passenger volumes, for the benefit of both the Private Partner and Puerto Rico.



With over 400 weekly flights from U.S. cities, a high quality modern airport, and exemplary transportation linkages and accommodation facilities, Puerto Rico is one of the easiest destinations to get to in the Caribbean. This ease of access and bountiful amenities makes Puerto Rico an ideal location for homeporting, as cruise passengers are readily able to stay before and or after their cruise.

The additional services provided to homeported vessels (e.g. restocking of food and supplies) means significant opportunity for additional revenues by the Private Partner in serving Homeported vessels, such that improvements in the ratio of homeported vessels to port of call vessels will drive revenue growth at the Piers. As can be identified from Table 2, Homeport visits are materially less volatile than port of call visits due to the fact that home-porting involves additional long range planning and supporting infrastructure on the cruise lines behalf.

2.3 Project Description

The Authority and the PRPA are interested in delivering a Project that not only solves the aforementioned objectives associated with condition and capacity of the Piers, but more importantly one that supports and encourages continued tourism and economic growth in Puerto Rico.

The proposed Project consists of repairing, expanding, financing, operating and maintaining the cruise terminal infrastructure in San Juan over a defined concession period specified in the Project Agreement. The Contractor will assume a series of Project risks in exchange for the right to receive project revenues, which will include fees based on demand from users and also certain ancillary revenues to be described in the Project Agreement and generally related to the services to be provided by the Private Partner. The Authority and the PRPA are prepared to develop a productive relationship with the Contractor and to mutually align objectives to ensure the success of the Project for the benefit of Cruise Terminal users and the broader population of Puerto Rico.

The Project consists of the following main components:

2.3.1 Repairs to existing infrastructure

Significant maintenance is needed to bring the Piers up to the PRPA's desired standards with damage from the recent hurricanes exacerbating this problem. Since the PRPA has recently lacked the necessary funding to carry out maintenance projects, repairs have been deferred and a backlog of work has built up.

As mentioned above, the need to provide safe, efficient and well-maintained Cruise Terminals in San Juan is evident. With the existing Piers comprising essential infrastructure for Puerto Rico, their upkeep is a prime concern for the PRPA.

After the recent hurricanes Irma and Maria two separate surveys were initiated, one by the PRPA and the other by the US Department of Transportation Maritime Administration (MARAD), under mission assignment by the Federal Emergency Management Agency (FEMA).

It appears from both surveys that the older piers have been overloaded over time due to increasing vessel sizes. Overloading typically results in deterioration of the structure and a degradation of its structural capacity. In addition, lack of maintenance to most of the piers and buildings is causing further deterioration.

Pier 1

Based on the MARAD survey report, the pier structure has suffered from extensive deterioration, with complete section loss for a number of structural elements. It is therefore likely that the entire pier structure, including the building, needs to be demolished and be rebuilt.

Pier 3

The pier is in a satisfactory condition and minor refurbishment works are required to the walkways and fenders.

Pier 4

Similar to Pier 1, the pier structure has suffered from extensive deterioration with complete section loss for a number of structural elements. It is therefore deemed likely that the entire pier structure, including the building, needs to be demolished and be rebuilt.

Piers 11 to 14

Piers 11 to 14 are currently abandoned due to extreme deterioration. Therefore, these piers should likely be completely rebuilt to provide capacity when other piers are being rebuilt and for expansion needs.

Pan American Piers I and II

These piers comprise two structures, a relieving platform structure and a cantilevered bulkhead structure to the east of the piers. The MARAD survey report concludes that both structures are in a poor condition and require extensive repairs.



Figure 2: Piers & Walkways

Walkway 2

Walkway 2 is used primarily as a pedestrian walkway. It is also used to moor pleasure vessels up to 100' long. The walkway extends from the center of Pier 1 to the eastern edge of Pier 4. Based on the MARAD survey report the walkway was found to be in poor condition.

2.3.2 Expansion Works

In addition to the repair needs, certain expansions of the Piers are required in order to ensure that San Juan remains able to properly service growing passenger numbers and ever-increasing vessel sizes.

In general, each pier has different characteristics that limit the type and size of the vessels that they can serve, thus an all-encompassing strategy is required to expand the facilities and extract their best possible use.

In order to stay competitive within the Caribbean cruise market, capacity needs to be increased to match at least the capacity of St. Maarten and the U.S. Virgin Islands.

The proposed Project structure provides significant flexibility for the Private Partner to implement its own masterplan for the Cruise Terminals subject to meeting a number of minimum requirements which will be set out in the RFP.



An indicative scope for possible upgrades and expansion works is provided below.

As per Section 2.2 the current waterside capacity is constrained in terms of number of berths and available berth length due to increasing vessel sizes. In order to add capacity, Piers 11 – 14 may be developed into a new homeport facility. As per the MARAD survey reports Piers 1 and 4 are likely to be rebuilt to address the extensive deterioration. Construction works for these piers are expected to occur after adding additional homeport pier(s) at Piers 11 – 14 to ensure that there is no shortfall in capacity. The Pan American Piers I and II require extensive repairs and may potentially be extended to allow simultaneous berthing of two 1,200 ft vessels. Relatively small CAPEX is required to repair Pier 3 and Walkway 2. The Authority envisions that the Private Partner will be given flexibility on the sequence and timing of these construction works subject to an overall deadline and other performance measures. This will be clarified further in the RFP.

Depending on design requirements for each pier it is estimated that overall CAPEX for both the repairs and upgrades works may roughly vary between USD 360M and 560M. While these estimates cover the bulk of the works required to realize the Project, they do not represent the total capital requirement of the Private Party. Furthermore, these estimates are based on recent studies and experience, but do not benefit from detailed designs and studies and therefore should not be relied upon. During the RFP stage additional details will be provided to allow bidders to prepare their own assessments.

2.3.3 Cruise Terminal Operations

The Private Partner will be responsible for operating the Cruise Terminals, under its own business plan and with its own staff and any proprietary technology and systems, with operational costs being payable from the revenues generated from such operations by the Private Partner. This provides the Private Partner with the ability to truly innovate, as the Private Partner is incentivized to grow the client base, improve customer service and drive higher revenues.

This role will encompass all elements of Cruise Terminal operations, including interacting and contracting with cruise lines, scheduling cruise line calls, allocating capacity at the Piers, providing ancillary services (such as shore power, fresh water provision, parking services, and management of commercial facilities on the piers), collecting revenues, security of the piers, liaison with Harbor Master, and marketing the Piers to cruise lines. It is expected that the PRPA or another Government Entity will continue to be responsible for pilot boat services, port police and fire services (other than security for the piers), and customs. This allocation of responsibility will be set out in greater detail in the RFP.

2.3.4 Facilities Maintenance

The Project will involve the Private Partner providing facilities maintenance and rehabilitation services for the Piers and associated infrastructure over the term of the Concession.

Specifically, the Private Partner will be responsible for providing all facilities maintenance and rehabilitation services, which will include activities such as routine, preventive and scheduled maintenance and rehabilitation works, keeping specifications of structures and preventing failure and/or degradation. The Private Partner will also be responsible for improving / upgrading the infrastructure over time, in accordance with certain minimum service requirements (which will be set out in the Project Agreement) and its own plan to grow the business.

2.3.5 Financing

The Private Partner will be responsible for financing the Project and will be encouraged to utilize innovative financing solutions that meet the requirements of the RFP, including the use of local capital. PRPA does not plan to provide a subsidy to the Project at any time and thus financing the Project is a risk solely to be borne by the Private Partner without any recourse to the PRPA or the Authority.

The Private Partner will be required to make a contribution to the PRPA, through either an upfront "Concession Fee" or an ongoing revenue share arrangement, or some combination thereof, as further detailed in the RFP.



FEMA funds or other federal disaster recovery grant funding may become available to partially finance the repairs to the Cruise Terminals; however the timing and quantum of any FEMA or other federal disaster recovery grant proceeds is uncertain. Accordingly, the Private Partner should assume that it is required to raise all of the financing required for the Project itself and that the terms and conditions imposed on projects financed by FEMA or other federal disaster recovery grants would not apply to the Project. To the extent that FEMA or other federal disaster recovery grant funding does become available for the Cruise Terminals or any of the Piers, the PRPA may elect to make it available to the Private Partner, subject to compliance with the terms of the FEMA or other federal disaster recovery grant and with the terms of the financing implemented by the Private Partner for the Project. If FEMA or other federal disaster recovery grant funding is incorporated into the financing of the Project, the Private Partner would be required to comply with the terms and conditions of the applicable grants and sub-grants and the conditions required by PRPA in order not to jeopardize the availability of such funding.

2.4 Project Commercial Structure

The Owners are interested in effectively transferring a series of Project risks to the Private Partner while also granting the Private Partner the right to collect certain fees and commercially maximize the Project. It is anticipated that the PPP Contract for the Project will have a term between 20 and 30 years.

As stated in the Desirability & Convenience Study, a repair-design-build-finance-operate-maintain ("RDBFOM") delivery model is considered the most suitable option for the Project when evaluated against the procurement objectives and the affordability of the Project. The risk allocation table herein provides an indication of how the scope of functions and responsibilities may be allocated between the Owners and the Private Partner. This risk allocation is indicative and may be further modified as the RFP is developed.

Project Risks	Private Partner	Shared	PRPA
Land acquisition			X
Site condition		X	
Initial Site Repairs	X		
Design	X		
Construction	X		
Completion	X		
Operations	X		
Maintenance	X		
Rehabilitation	X		
Financing	X		
Demand / Revenue	X		
Force Majeure Event		X	
Change in Law		X	

The proposed Project structure provides significant flexibility for the Private Partner to implement its own masterplan for the Cruise Terminals (subject to meeting the requirements of the PRPA as set out in the Project Agreement) and to develop and execute its own business plan for the Cruise Terminals and drive revenue growth. This flexible Project structure provides the Private Partner with growth potential and the ability to implement its own creativity and proprietary processes to drive revenue and operational performance.



The following sections describe in more detail the commercial structure of the Project and certain contemplated key responsibilities of the Private Partner throughout the term of the Project.

2.4.1 Demand Risk & Revenue Share

The principal payment mechanism for the Private Partner will be fees derived from revenue streams of the Project. The Project is expected to be procured as a demand risk project where the payment mechanism is fully based on fees of users, free from any subsidy to be provided by PRPA or the Authority.

PRPA currently generates revenue at the Piers through the following fees and charges. Under the proposed PPP, the Private Partner would be entitled to collect and retain revenues, subject to revenue sharing with the PRPA.

2.4.1.1 Passenger Fees

PRPA currently collects Passenger Fees of \$13.25 per manifested passenger from each cruise ship that calls in San Juan. There is no charge for cruise ship staff. The Private Partner would assume this right to collect Passenger Fees, with agreed parameters for modifying rates and a rate setting formula to be established as part of the RFP.

The Passenger Fees that have been collected by PRPA over the past four years are set out below:

Year	2014	2015	2016	2017
Passenger Fee	\$13.25	\$13.25	\$13.25	\$13.25
Passengers	1,213,219	1,509,473	1,340,661	1,470,969
Passenger Fee Revenue	\$16,075,152	\$20,000,517	\$17,763,758	\$19,490,339

Table 3: Passenger Fee Revenue by Year

2.4.1.2 Ancillary Revenues

In addition to the Passenger Fees, the PRPA also earns certain revenues from leasing out portions of the Cruise Terminal infrastructure for complementary uses, including duty free stores, and other ancillary revenues from servicing or administering certain third party services to cruise ships (e.g. water supply and shore power). The Private Partner would assume the right to collect these ancillary revenues and lease revenues (**Ancillary Revenues**). The Private Partner is expected to utilize spare space on and around the Piers to generate additional Ancillary Revenues.

2.4.1.3 Revenue Sharing

Under the Project Agreement, a certain portion of the Private Partner's gross revenues from Passenger Fees, and Ancillary Revenues shall be shared with the PRPA. The details of the expected arrangement will be set out in the RFP.

2.4.1.4 Tourism Rebate

The Puerto Rico Cruise Ship Industry Promotion and Development Act (Act 113-2011, as amended) established a series of incentives currently funded and administered by the Puerto Rico Tourism Company. These include, subject to certain conditions and restrictions, a rebate of \$4.95 per passenger paid to the Cruise Lines, increasing to \$7.45 per passenger after the Cruise Line exceeds 140,000 passengers in a fiscal year.



Additionally Homeport rebates are offered to Cruise Lines, consisting of:

- \$1.00 per passenger
- \$2.00 per passenger after the 21st departure
- \$3.00 per passenger after the 53rd departure
- \$0.50 per passenger for homeport ships sailing on weekdays
- \$0.50 per passenger if the homeport ship includes any other Puerto Rico port during a weeklong itinerary
- \$0.50 per passenger if the homeport ship embarks/disembarks from a Puerto Rico port more than once in one week
- \$1.50 per passenger if the homeport ship sails before 4pm
- \$1.00 per homeport passenger for a co-op marketing program to promote homeporting in Puerto Rico (requires separate agreement with the Puerto Rico Tourism Company)

A time-in-port incentive of up to \$1.50 per passenger is also available for port of call visits for ships docking before 11am and for a minimum of 8 hours. Moreover, the incentives also include a 10% reimbursement of eligible purchase of supplies from local certified businesses and/or maintenance and repair services of the cruise ship in Puerto Rico, with an additional 5% available for the purchase of certain products manufactured or grown in Puerto Rico. Stacked incentives may not exceed \$13.25 per passenger.

The incentives were originally set to expire on 2013-2014, but were extended until June 30, 2018 by Act 80-2013. On June 30, 2018, Act 124-2018 was signed into law, which further extended the incentives until fiscal year 2019-2020 for cruise ships that visit Puerto Rico until June 30, 2020. The incentives are currently not expected to be extended beyond fiscal year 2019-2020.

2.4.2 Rate Escalation

Each year, the Private Partner will be permitted to modify the Passenger Fees. The RFP will contain the overall rate setting mechanism for modifying the Passenger Fees (and, as appropriate, other Ancillary Revenues). The Private Partner will not have unfettered ability to raise Passenger Fees.

2.4.3 Preferential Berthing Agreements & Other Agreements

As of today, there exist several Preferential Berthing Agreements ("PBAs") and other agreements with Cruise Lines and duty-free retail establishments, with certain key terms as set out below:

Contract	Key provisions
Preferential Berthing Agreement with Royal Caribbean Cruises Ltd. ("RCCL") for Pier 3 (February 10, 2003)	<p>RCCL vessels must be scheduled at Berth 3A of Pier 3 in accordance with the 6-month schedules provided by RCCL to the PRPA at least a year in advance, twice a year.</p> <p>RCCL has a 25 year term (subject to suspensions and extensions as provided in the agreement)</p> <p>The PRPA may accept ships of other cruise lines at Berth 3A of Pier 3 as long as doing so does not conflict with RCCL's schedules</p>



Preferential Berthing Agreement and Master Development Agreement with Carnival Corporation ("Carnival") for Pier 4 (June 7, 2001)	<p>Carnival vessels must be scheduled at Pier 4 in accordance with the 12-month schedules provided by Carnival to the PRPA at least 6 months in advance, twice a year.</p> <p>Carnival has a 20 year term (subject to suspensions and extensions as provided in the agreement)</p> <p>The PRPA may accept ships of other cruise lines at Pier 4 as long as doing so does not conflict with Carnival's schedules</p>
Preferential Berthing Agreement and Development Agreement with RCCL for Pan American Pier (Berths 1 and 2) (April 19, 2002 and October 27, 2017)	<p>RCCL vessels must be scheduled at berths PA1 and PA2 of the Pan American Pier in accordance with the 6-month schedules provided by RCCL to the PRPA at least a year in advance, twice a year.</p> <p>RCCL has a 35 year Term (subject to suspensions and extensions as provided in the agreement)</p> <p>The PRPA may accept ships of other cruise lines at the Pan American Piers as long as doing so does not conflict with RCCL's schedules</p>
Development and Lease Agreement with Duty Free Americas Puerto Rico, LLC ("DFA") for construction of improvements and lease of space for duty-free shops in Pier 3 (August 25, 2016).	<p>30 year term (subject to suspensions and extensions as provided in the agreement)</p>
Lease Agreement with SMT Puerto Rico, Inc. ("SMT") for lease of space for duty-free shops in Pier 1 (August 31, 1995).	<p>Expires on August 31, 2025</p>
Lease Agreement with SMT for lease of space for lease of space for duty-free shops in Pier 4 (August 31, 1995).	<p>Expires on August 31, 2025</p>

Table 4: Existing Agreements

It is anticipated that these agreements will survive the proposed transaction and that they will be integrated into the PPP and become part of the Private Partner's operating plan.

2.4.4 Capacity Allocation

One of the key requirements of the Private Partner will be to allocate capacity at the Piers to customers so as to drive revenue and passenger growth through the Cruise Terminals while maintaining fair and equitable treatment of and access to cruise lines who want to call at San Juan.

The Private Partner shall be required to assess requests for cruise calls at the Piers in good faith, and allocate capacity on an "open access" basis, such that all Cruise Lines shall be treated equally and fairly. The only exception to this shall be for the legacy Preferential Berthing Agreements as detailed above. If the Private Partner is affiliated with a particular Cruise Line, then that Cruise Line shall not receive any preferential treatment from the Private Partner based on the Private Partner's discretion.



These conditions of open access, fairness, equality, and maximization of capacity, visits and passengers to the San Juan Bay Cruise Terminals are essential to the Project and thus will constitute a significant criterion in evaluating SOQs and RFPs. Furthermore, the Owners and the Authority are developing a framework for an open access regime which will be included in the RFP and will form part of the PPP Contract. The Private Partner will be required to comply with such regime when allocating berthing capacity to cruise lines. Therefore, Respondents that are not willing to or cannot demonstrate they can comply and provide the best alternatives and value in connection with these conditions, should not participate.

2.4.5 Conclusion

The Authority believes that the proposed transaction represents an excellent investment opportunity for the private sector to assume control of a valuable piece of Puerto Rican infrastructure, share in Puerto Rico's burgeoning tourism trade, and use private sector creativity to unlock significant additional value and grow the Cruise Terminal business for the benefit of both the Private Partner, the Owners and the people of Puerto Rico.

Puerto Rico is one of the top destinations in the Caribbean. With its tropical colors, beloved colonial architecture, historic fortresses, ecological attractions, and endless festivals and cultural events, Puerto Rico is a touristic experience and must see on any Caribbean itinerary and a key destination for Caribbean cruise lines to call.

Tourism is a key contributor to Puerto Rico's economy (8.0% of GDP in 2016 and forecast to rise to 10.7% of GDP by 2027), reflecting the Government of Puerto Rico's continued investment in tourism marketing and other initiatives to drive tourism to the island. The Cruise Terminals are poised to benefit from this growth and marketing campaign.





3. Proponent Qualification Requirements and Evaluation Criteria

3.1 Introduction

This RFQ is available for prospective Respondents who desire to participate in the RFP for the Project. All SOQs will be reviewed based on the requirements set forth in this Section 3 of this RFQ.

In accordance with Section 5.4 of the Regulation, the PPP Committee reserves the right in its absolute discretion, to limit the number of Respondents it considers to be the best qualified in order to arrive at a shortlist of Respondents to allow for an orderly procurement.

The Authority hereby notifies prospective Respondents of its right to limit the number of Respondents who will be qualified.

3.2 Evaluation Criteria

In order to provide an objective and transparent evaluation method, the PPP Committee will evaluate SOQs by applying and weighting the criteria as outlined in the table below ("Evaluation Criteria"). Application of the Evaluation Criteria will assist the PPP Committee in identifying the Shortlisted Respondents.

The Act calls for Respondents to engage Local Parties as Team Members to the greatest extent possible. This will be part of the evaluation criteria of Respondents SOQs. When required by law, Team Members shall include Local Parties with the applicable licenses to perform the services, such as with respect to design and engineering work.

When referring to "Respondents" and/or "Team Members" in the criteria list below, the SOQ shall include the relevant information with respect to Respondent jointly and with respect to each Team Members, if any, as may be applicable, taking into consideration that when submitting as a consortia, the Act and the Regulation call for Respondent groups or Consortia to provide their qualifications jointly and with respect to each one of the Team Members.

Evaluation Criteria		% Weight
Part 1	Compliance with Requirements of the Act	Pass or Fail (not weighted)
<i>Each SOQ submitted pursuant to this RFQ will be reviewed to determine whether it satisfies the Act's and the Regulation requirements in the following areas:</i>		
1.1	Respondents that are corporations, partnerships, or any other legal entity, U.S. or Puerto Rico based, shall be properly registered or capable to be registered to do business in Puerto Rico and the U.S. at the time of the submission of their proposals, and comply with all applicable Puerto Rico or U.S. laws and/or requirements; and	



	Evaluation Criteria	% Weight
1.2	<p>(a) Each Team Member and each Respondent, if the Respondent has been formed as of the date of a submission of a response to this RFQ, shall certify that neither it nor any of its directors, officers, shareholders, or subsidiaries, nor its parent company, nor in the case of a partnership, any of its partners, nor any person or entity that may be considered an alter ego or the passive economic agent of the Respondent (each a "Covered Party"), has been convicted in Puerto Rico or United States Federal court for any of the crimes referenced in Articles 4.2, 4.3 or 5.7 of Act No. 1-2012, as amended, known as the Organic Act of the Office of Government Ethics of Puerto Rico, any of the crimes typified in Articles 250 through 266 of Act No. 146-2012, as amended, known as the Puerto Rico Penal Code, or any of the crimes listed in Act No. 2-2018, as amended, known as the Anti-Corruption Code for a New Puerto Rico or for any other felony that involves misuse of public funds or property, including but not limited to the crimes mentioned in Article 6.8 of Act No. 8-2017, as amended, known as the Act for the Administration and Transformation of Human Resources in the Government of Puerto Rico, or under the Foreign Corrupt Practices Act; nor is any Covered Party under investigation in any legislative, judicial or administrative proceedings, in the Commonwealth of Puerto Rico, the United States or any other country. The Respondent is in compliance and will continue to comply at all times with all federal, state, local and foreign laws applicable to the Respondent that prohibit corruption or regulate crimes against public functions or public funds, including the Foreign Corrupt Practices Act;</p> <p>(b) Respondent and Team Members completed their SOQs without prior understanding, agreement, connection, discussion or collusion with any other person, firm or corporation submitting a separate SOQ or any officer, employee or agent of the Authority, Owners or the Government of Puerto Rico; and</p> <p>(c) Respondent and Team Members will not attempt to communicate in relation to the RFQ, directly or indirectly, with any representative of the Owner, the Partnership Committee or the Authority, including any Restricted Parties, or any director, officer, employee, agent, advisor, staff member, consultant or representative of any of the foregoing, as applicable, for any purpose whatsoever, including for purposes of: (i) commenting on or attempting to influence views on the merits of the Respondent's and Team Members' SOQ, or in relation to their SOQ; (ii) influencing, or attempting to influence, the outcome of the RFQ stage, or of the competitive selection process, including the review, evaluation, and ranking of SOQs or the selection of the Shortlisted Firms; (iii) promoting the Respondent and Team Members or their interests in the Project, including in preference to that of other Respondents or Team Members; (iv) commenting on or criticizing aspects of the RFQ, the competitive selection process, or the Project including in a manner which may give the Respondent or its Team Members a competitive or other advantage over other Respondents or Team Members; or (v) criticizing the SOQs of other Respondents</p> <p><i>These requirements 1.1 and 1.2 may be satisfied by completing the Form of Respondent Certification included as Appendix A to this RFQ.</i></p>	



Part 2 Background & Team Information (15 pages maximum)

20%

Respondents are encouraged to provide enough supporting information and details to enable the evaluators to perform a thorough evaluation of the Team Members' strengths, roles and responsibilities.

- 2.1 A description of the Respondent and all Team Members which identifies:
 - Their roles (include an organizational chart of Team Members)
 - Their respective percentage equity ownership interests
 - Identification and roles of Local Content Team Members
 - Anticipated legal relationships (e.g. joint ventures, partnerships) and % interest
 - Up to five key personnel and their roles (one of which must be "Cruise Terminal Operations Manager" or similar)
 - Where Team Members have worked together before (if relevant)
 - Evidence of experience of each Team Member in carrying out major infrastructure projects, including DBFOM or RDBFOM projects
 - Evidence of experience of Team Member(s) in marine terminal operations
 - Any experience in administering FEMA funding
- 2.2 Resumes (indicating overall experience and any specific experience relevant to the nature and scope of the Project) for no more than three (3) Key Individuals representing the Respondent (*1 page per resume maximum – resumes do not count towards the overall page count for Part 2*)

Part 3 Financial Capabilities (10 pages maximum)

30%

The evaluation of financial capabilities will examine each SOQ in accordance with the criteria set out below, including, but not limited to, the extent to which the SOQ satisfies the anticipated financial capability requirements of the PPP Agreement with respect to the following:

- 3.1 **Financial Capacity of Team:** Respondents must demonstrate their financial capacity to pay the expected equity portion of the up-front acquisition proceeds and to fulfil the terms of the PPP Contract.
To demonstrate sufficient financial capacity, each Team Member must provide copies of audited financial statements for the past two years, together with any other relevant financial information.
(Audited financials & supporting information not included in page count)
- 3.2 **Ability to Raise Financing:** Respondents must provide specific evidence demonstrating their ability to raise financing for a project of this nature and scope. Specific factors that will be assessed include:
 - a. Capability of raising debt and equity in the current capital markets;
 - b. The number and size of past relevant transactions;
 - c. Specific experiences on past relevant transactions; and
 - d. Any local content financing (if relevant).
- 3.3 Letters of support from up to three financing institutions indicating a willingness to provide debt financing for the project (*not included in page count*)
- 3.4 Equity Funding Letter as set out in Part 6.6 (*not included in page count*)



PART 4 Technical & Operational Capabilities (20 pages maximum)

50%

The evaluation of technical capabilities will examine each SOQ in accordance with the criteria set out below:

- 4.1 Design & Construction Capabilities:** Respondents must provide specific evidence demonstrating their ability to undertake the design & construction elements for a project of this nature and complexity. Specific factors that will be assessed include:
- The number and size of past relevant transactions (in particular marine terminal transactions);
 - Capacity to plan, construct, and commission a marine terminal development or similar projects; and
 - Ability to incorporate elements of repair / refurbishment as well as new build components.
- 4.2 Cruise Terminal Operations:** Respondents must provide specific evidence demonstrating their ability to operate a cruise terminal (or other marine terminal). Specific factors that will be assessed include:
- The number and size of past or current cruise terminals (or marine terminals) under operation;
 - Track record of successful operations
 - Demonstrated ability to grow patronage of cruise terminals.
- 4.3 Open Access:** Respondents must set out their approach for ensuring that the terminals are operated in a fair and non-discriminatory fashion. Specific factors that will be assessed include:
- Approach for allocating capacity between competing Cruise Lines
 - Approach for ensuring fair treatment of Cruise Lines when their interests conflict with interests of the Private Partner (or a Cruise Line affiliate of the Private Partner), if relevant
 - Track record of successfully demonstrating fair and non-discriminatory operations at other terminals
- (Open Access policies, preferred models and/or precedents used or recommended by Respondents to demonstrate their proposed approach and track record may be submitted as an Appendix and will not be included in page count)*
- 4.4 Facilities Maintenance & Rehabilitation:** Respondent must provide evidence of experience with facilities management and rehabilitation in a marine environment. Specific factors that will be assessed include:
- The number and size of past or current cruise terminals (or marine terminals) under operation;
 - Track record of successful maintenance operations
- 4.5 Local Content:** The Authority is called under the Act to evaluate Respondents' use of local capital and other professionals and subcontractors to the greatest extent possible. As such, Respondents shall, as part of their SOQs, provide descriptions of their current and/or anticipated business arrangements with Local Parties and, in particular, Local Parties who are Team Members and/or Key Individuals for the Project. Respondents may provide relevant and credible information to support their response, including, signed copies of the relationship documentation and/or legal agreements(s) (e.g., letters of support, memoranda of understanding, partnership or joint venture agreements, etc.) supporting their response.
- (Letters of support, memoranda of understanding, partnership or joint venture agreements, etc. will not count towards the page maximum.)*



Part 5 Safety Performance (no page limit)

Pass or
Fail (not
weighted)

- 5.1 Respondent shall submit copies of the Occupational Safety and Health Administration (OSHA) 300 forms for the past three (3) years. If not applicable, a prospective Respondent shall present a document explaining the reasons for not submitting the form. *These may be included in an Appendix if the Respondents so desire.*

Part 6 Attachments (no page limit other than as specified)

- 6.1 **Comparable Projects:** Provide a list of comparable projects in which Team Members have participated in the last 10 years. Respondents should specify how these comparable projects relate to the Project. *(List should be 2 pages maximum)*
- 6.2 **References:** Provide a list of up to three references with respect to each Team Member. These references should be able to describe the relevant qualifications and capabilities of Team Members looking to take a leading role in the operation and maintenance of the Project. If possible, these references should come from the procuring government agencies or lead sponsors in previous roles.
- 6.3 **D&C Case Studies:** Up to three (3) project case studies showing the Respondent's design & construction capability relevant to the nature and scope of the Project within the last ten years *(2 pages per project maximum)*
- 6.4 **Operational Case Studies:** Up to three (3) project case studies showing the Respondent's capability to operate cruise terminals, marine terminals, or another project similar to the Project as relevant to the nature and scope of the Project within the last ten years *(2 pages per project maximum)*
- 6.5 **Financing Case Studies:** Up to three (3) project case studies showing the Respondent's financing capability relevant to the nature and scope of the Project within the last ten years *(1 page per project maximum)*

Required minimum details for Case Studies:

1. *Name and location of project*
2. *Type of facility*
3. *Client (including name of client contact, telephone number and email address)*
4. *Description of the services provided by the Team Member and % interest*
5. *Contract Value for the Construction / maintenance / operations (as applicable)*
6. *Start date and completion date of the project*
7. *Maintenance and/or operations period – start, end and duration*
8. *Legal contractual status of the firm (main contractor, consortium, partner, subcontractor, operator)*
9. *Description of how the reference project was financed and the financing was structured (if applicable)*
10. *Description of how the reference project is similar or relevant to the San Juan Bay Cruise Terminals Project*



- 6.6 Each Equity Member shall provide an Equity Funding Letter which will be used as supporting evidence of the Equity Member's commitment to the funding of the Project.

If the Equity Member is an investment fund, then the Equity Funding Letter must be signed by the fund's authorized signatory, and at a minimum shall include the following items:

- a. **Approval Process.** Provide an overview of the completed to-date and remaining approval process (along with an indicative schedule) required to commit to and fund the required equity commitment for the Project.
- b. **Funding Vehicle.** Provide the name and ownership structure of the investment fund that will ultimately carry this investment.
- c. **Investment Capacity.** Provide supplemental information to the financial statements (as necessary) of the investment fund to positively demonstrate existing and/or committed capital capacity for the Project, consistent with the likely equity investment and the Equity Member's responsibility to provide the share percentage.
- d. **Investment Criteria.** Provide assurances that the Project meets all of the investment policy requirements of the investment fund cited in (b) above (e.g., is an approved project, does not contradict any capital allocation policy) and is consistent with its investment objectives.

If the Equity Member intends to fund its equity commitment through use of internal resources (e.g., a corporate entity supplying its own capital), the letter must be signed by the Chief Investment Officer, the Chief Financial Officer, or the Chief Executive Officer, and at a minimum shall include the following items:

- a. **Approval Process.** Provide an overview of the approval process required to commit to and fund the required equity commitment. This section should include an identification and description of any required board, investment committee, or other formal approvals needed, as well as an indicative schedule for securing those approvals.
- b. **Sourcing Commitment.** Identify where and how the equity commitment will be sourced and a narrative description of how competing allocation and capacity issues are considered between several project opportunities the Equity Member pursues simultaneously.
- c. **Investment Criteria.** Provide assurances that the Project meets all corporate strategy and investment policy requirements.

If the Equity Member intends to fully or partially rely on third party investors or investment managers to fund the equity investment in the project and to meet the financial capacity requirements of this RFQ, the Equity Member must provide either from each investor or the manager of such funds:

- a. The name of institutional partners;
- b. The investment criteria and confirmation that the anticipated investment and amount are permitted under the criteria; and
- c. The approval process for such investment.



4. SOQ Requirements & Procedure

4.1 SOQ Requirements

Overview of Requirements

Prospective Respondents that anticipate responding to this RFQ shall so indicate as soon as possible by providing contact information via e-mail to the PPP Committee Contact's e-mail address listed below. The SOQ should comply with the outline provided under "Required Information for RFQ Submission" below and all other conditions identified in this RFQ. Additional information not specifically related to the Project or this RFQ should not be included. All questions or requests for information regarding this RFQ should be directed to the PPP Committee Contact via e-mail. Please do not contact any officials or related parties of the Authority or the Owners in any other manner. Such contact may serve as grounds for disqualification.

Address questions, comments, RFCs to:

San Juan Bay Cruise Terminals PPP Partnership Committee

Request for Qualifications –

San Juan Bay Cruise Terminals Project

E-mail: prcruiseterminals@p3.pr.gov

No Liability for Costs

The Owners, the Authority and their advisors are not responsible for costs or damages incurred by Respondents, Team Members, subcontractors, or other interested parties in connection with the solicitation or procurement process, including but not limited to costs associated with preparing responses, qualifications, and proposals, and of participating in any conferences, oral presentations or negotiations, whether in connection with this RFQ and the RFP or otherwise. A Shortlisted Respondent will not be entitled to indemnity (including, but not limited to, reimbursement for costs and expenses) from the Authority or the Owners if the Authority or the Owners decide, in their discretion, to terminate the procurement process for this Project.

Modification and Termination Rights

The Owners and the Authority reserve the right to modify or terminate the RFQ and the RFP process for this Project at any stage if the Authority or the Owners determine such action to be in the best public interests. The receipt of responses or proposals or other documents at any stage of either the RFQ or the RFP process will in no way obligate the Owners or the Authority to enter into any contract of any kind with any party.

Authorization for Further Investigation

By submitting a response to this RFQ, each Respondent specifically authorizes the Owners, the Authority, the PPP Committee and their respective officers, employees and consultants to make any inquiry or investigation to verify the statements, documents, and information submitted in connection with this RFQ, and to seek clarification from the Respondent's officers, employees, advisors, accountants and clients regarding the same.



4.2 Required Information for RFQ Submission

Compliance with the RFQ

The SOQ must be prepared in English and follow the outlined below. Respondents can opt to submit responses in Word or Power Point templates. Responses should STRICTLY comply with the following format:

- Cover Page (to include identification of all Team Members)
- Cover Letter (2 pages maximum)
- Table of Contents
- Executive Summary (2 pages maximum)
- The specific requirements as set out in section 3.2 above;
 - **Part 1: Compliance with the Requirements of the Act (No page limit) - Pass or Fail**
 - An executed Respondent Certification from the Respondent and each Team Member. The form of this must strictly follow the form attached to this RFQ as Appendix A.
 - An executed Document Acknowledgement and Contact Information letter from the Respondent (executed by the Respondent's representative). The form of this must strictly follow the form attached to this RFQ as Appendix B.
 - **Part 2: Background & Team Information (15 pages maximum) - Weight 20%**

Respondents should address all areas referred to in the Evaluation Criteria set out in Section 3.2 of this RFQ, under the heading "Background & Team Information".
 - **Part 3: Financial Capabilities (10 pages maximum) - Weight 30%**

Respondents should address all areas referred to in the Evaluation Criteria set out in Section 3.2 of this RFQ, under the heading "Financial Capabilities".
 - **Part 4: Technical & Operational Capabilities (20 pages maximum) - Weight 50%**

Respondents should address all areas referred to in the Evaluation Criteria set out in Section 3.2 of this RFQ, with respect to "Technical Capabilities".
 - **Part 5: Safety Performance (No page limit) - Pass or Fail**

Respondents shall submit copies of the documents required in Section 3.2 of the RFQ with respect to safety performance. If not applicable, a Respondent shall present a document explaining the reasons for not submitting the form. Respondents must demonstrate (a) their ability to address and resolve safety issues, and (b) knowledge of safety strategies and methodologies.
 - **Part 6: Attachments (Page limits where indicated)**

Respondents should provide all attachments set out in Section 3.2 of this RFQ under the heading "Attachments". Such attachments shall be assessed under "Background & Team Information", "Financial Capabilities" and "Technical Capabilities" as relevant.

4.3 Pre-RFP Submission Confirmation

Prior to the issuance of the RFP documents, the Owners and the Authority may, in their discretion, request any Respondent to confirm that there have been no material changes to the information submitted with respect to the Respondent and/or any Team Member in response to the submission requirements set out in this RFQ. If there have been any material changes to the submitted information, the Respondent shall provide details of such changes in accordance with any requirements the Owners or the Authority may impose at that time. The Owners and the Authority shall evaluate the information submitted by the Respondents in accordance with the evaluation



criteria set out in Section 4.2 of this RFQ and may revise the Respondent's score and ranking to reflect the results of the evaluation. If a Respondent's revised score results in a change in its ranking, the Owners may, in their discretion, invite other Respondents based on their ranking in this RFQ process to be added to the list of Shortlisted Respondents and replace the Respondent whose score was re-evaluated under this Section 4.3, even if those replacement Respondents were not Shortlisted Respondents in the first instance.

4.4 Reporting of Material Adverse Change

At any time prior to the issuance of the RFP documents, a Shortlisted Respondent shall submit immediately to the Owners information pursuant to the submission requirements set out in this RFQ either (i) upon the occurrence of a material adverse change to the information previously submitted by the Respondent or any key Team Member in response to such submission requirements, or (ii) from time to time upon the Owners' or the Authority's request. The PPP Committee shall evaluate the information submitted by the Respondent in accordance with the evaluation criteria set out in Section 4.2 above, and may revise the Respondent's score and ranking to reflect the results of the evaluation. If a Shortlisted Respondent's revised score results in a change in its ranking, the Owners may, in their discretion, invite other Respondents based on their ranking in this RFQ process to be added to the list of Shortlisted Respondents and replace the Respondent whose score was re-evaluated under this Section 4.4, even if those replacement Respondents were not Shortlisted Respondents in the first instance.

4.5 RFQ Submission Instructions & Next Steps

The Respondent shall submit one (1) originally executed SOQ, with signatures in blue ink, and four (4) copies along with one copy in portable document format (PDF) on a CD. The SOQ containing original signatures shall be marked as "Originals". **The SOQ shall be delivered no later than the Submission Deadline.** Respondents should not submit promotional materials as part of their RFQ submissions and are strongly encouraged not to submit information that is not required by this RFQ. Respondents are strongly encouraged to be succinct in their prequalification submissions. If there are page limits set out in Section 4.2, a Respondent shall limit its prequalification submission, or each component of the RFQ submission, to the maximum number of pages indicated in Section 4.2. Respondents are cautioned that, if there are page limits set out in Section 4.2, the PPP Committee will not review or score pages submitted in excess of the maximum number of pages indicated for such item. The SOQ shall be labeled as follows:

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Puerto Rico Public-Private Partnerships Authority
San Juan Bay Cruise Terminal PPP
SOQ Submitted by (Respondent's name and Address)

The SOQ shall be delivered to:

San Juan Bay Cruise Terminal PPP
Puerto Rico Public-Private Partnerships Authority
cc: Laura Femenías, Esq. – Deputy Executive Director
Puerto Rico PPP Authority
Puerto Rico Fiscal Agency and Financial Advisory Authority Building
(former GDB Building), 3rd Floor Roberto Sánchez Vilella Government Center, De Diego Ave
San Juan, PR 00940-2001

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4.6 Confidentiality of RFQ Submission

All SOQs shall become the property of the Authority, except for documents or information submitted by Respondents which are trade secrets, proprietary information or privileged or confidential information of the Respondents. Respondents are advised to review the confidentiality and publication provisions contained in Articles 9(i) and 9(j) of the Act and Section 9.3 of the Regulation. In order to ensure that documents identified by Respondents as "confidential" or "proprietary" will not be subject to disclosure under the Act, Respondents must label such documents as "confidential" or "proprietary," provide a written explanation of why such labeled documents are "confidential" or "proprietary," including why the disclosure of the information would be commercially harmful, reference to any legal protection currently enjoyed by such information and why the disclosure of such information would not be necessary for the protection of the public interest, and request that the documents so labeled be treated as confidential by the PPP Committee according to the process described in the following paragraph.

If a Respondent has special concerns about confidential or proprietary information that it desires to make available to the PPP Committee prior to its RFQ submission, such Respondent may wish to:

- Make a written request to the PPP Committee for a meeting to specify and justify proposed confidential or proprietary documents.
- Make an oral presentation to the PPP Committee staff and legal counsel.
- Receive written notification from the PPP Committee accepting or rejecting confidentiality requests.

Failure to take such precautions prior to filing an RFQ submission may subject confidential or proprietary information to disclosure under Articles 9(i) and 9(j) of the Act and/or Section 12.3 of the Regulation.

The PPP Committee will evaluate all confidentiality requests according to the criteria indicated in the Act and the Regulation. The PPP Committee shall determine whether or not the requested materials are exempt from disclosure. Upon such determination, the Authority will endeavor to maintain the confidentiality of any information that a Respondent indicates to be proprietary or a trade secret, or that must otherwise be protected from publication according to law, except as required by law or by a court order. In the event that the PPP Committee elects to disclose the requested materials, it will provide the Respondent notice of its intent to disclose, in which case the Respondent may request the immediate return of such materials prior to disclosure by the PPP Committee and they will thereafter form no part of the Respondent's submission. In no event shall the Government of Puerto Rico, the Authority, the PPP Committee or the PRPA be liable to a Respondent for the disclosure required by law or a court order of all or a portion of an RFQ submission filed with the Authority.

Upon execution of the PPP Contract, the PPP Committee is required to make public its report regarding the procurement process, which shall contain information related to the qualification, procurement, selection and negotiation process, and the information contained in the RFQ submission, except information that qualifies as trade secrets, proprietary or privileged information of the Respondent or its Team Members clearly identified as such by the Respondent, or information that must otherwise be protected from publication according to law, as may have been determined by the PPP Committee, unless otherwise required by law or by a court order.

4.7 Use of Confidential Information

Each Respondent must declare and continue to be under an obligation to declare that it does not have knowledge of or the ability to avail itself of Confidential Information of the Government or the Authority relevant to the Project where the Government or the Authority have not specifically authorized such use. Such Confidential Information:

- shall remain the sole property of the Government, the Authority or the Owners, as applicable, and the Respondent shall treat it as confidential;



- may not be used by the Respondent for any other purpose other than submitting an SOQ, RFP submission or the performance of any subsequent agreement relating to the Project with the Government or the Owners, as applicable;
- may not be disclosed by the Respondent or any Team Member to any person who is not involved in the Respondent's preparation of its SOQ, RFP submission or the performance of any subsequent agreement relating to the Project with the Government or the Owners, as applicable, without prior written authorization from the party in respect of whom the Confidential Information relates;
- if requested by the Government or the Owners, will be returned to same no later than ten calendar days after such request; and
- may not be used in any way that is detrimental to the Government, the Authority or the Owners.

Each Respondent shall be responsible for any breach of the provisions of this Section 4.7 by any Person to whom it discloses the Confidential Information. Each Respondent acknowledges and agrees that a breach of the provisions of this Section 4.7 would cause the Owners, the Authority, the Government and/or their related entities to suffer loss which could not be adequately compensated by damages, and that the Owners, the Authority, the Government and/or any related entity may, in addition to any other remedy or relief, enforce any of the provisions of this Section 4.7 upon submission of the Respondent's SOQ to a court of competent jurisdiction for injunctive relief without proof of actual damage to the Owners, the Authority, the Government or any related entity.

The provisions in this Section 4.7 shall survive any cancellation of this RFQ or the RFP and the conclusion of the RFQ and RFP processes.

4.8 Conflict of Interest & Ineligible Persons

Each Respondent Representative, on behalf of the Team Members identified as meeting the experience requirements of this RFQ, must declare and continue to be under an obligation to declare all Conflicts of Interest or any situation that may be reasonably perceived as a Conflict of Interest that exists now or may exist in the future. "Conflict of Interest" includes any situation or circumstance where in relation to the Project, the Respondent or any Team Member identified as meeting the experience requirements contemplated in this RFQ have other commitments, relationships or financial interests that,

- (a) could or could be seen to exercise an improper influence over the objective, unbiased and impartial exercise of the Owners' or the Authority's independent judgment; or
- (b) could or could be seen to compromise, impair or be incompatible with the effective performance of its obligations under the Project Agreement.

In connection with its SOQ, each Respondent and each Team Member shall,

- (a) avoid any Conflict of Interest in relation to the Project;
- (b) disclose to the Owners and to the Authority without delay any actual or potential Conflict of Interest that arises during the RFQ process; and
- (c) comply with any requirements prescribed by the Owners and the Authority to resolve any Conflict of Interest.

In addition to all contractual or other rights or rights available at law or in equity or legislation, the Owners and the Authority may immediately exclude a Respondent or any of its Team Members from further consideration or remove the Respondent or any Team Member from the RFQ process if,

- (a) the Respondent fails to disclose an actual or potential Conflict of Interest;
- (b) the Respondent or a Team Member identified as meeting the experience requirements of this RFQ fails to comply with any requirements prescribed by the Authority or Owners to resolve a Conflict of Interest; or



(c) the Respondent's Conflict of Interest issue cannot be resolved.

Pursuant to Section 8.1 of the Regulation, note that any Person by virtue of its participation in this RFQ process, authorizes the Authority to apply to the relevant competent governmental authority to obtain further information regarding the prospective Respondent and in particular, details of convictions of the offenses listed in Article 9(c)(ii) of the Act if the Partnership Committee considers it necessary for its selection or evaluation process.

4.9 RFQ Miscellaneous Instructions

Addenda to RFQ

The Authority reserves the right to amend this RFQ at any time. Any amendments to this RFQ shall be described in written Addenda. Copies of each Addendum shall be available at the Authority's website; <http://www.p3.pr.gov>. Respondents are encouraged to review the Authority's web page regularly. All Addenda will become part of this RFQ. In the event of any conflict in the wording or any issue of interpretation, Addenda, when issued, will take priority over the original wording in the RFQ and any wording in prior Addenda. Each Respondent shall, in its SOQ, acknowledge receipt of each Addendum. Each Respondent is solely responsible to ensure that it has received all communications issued by the Authority and the Owners. A failure to obtain any such communication is at the sole and absolute risk of the Respondent and the Authority and the Owners accept no responsibility for any Respondent that does not receive or obtain all RFQ information (including Addenda). Each response to this RFQ is deemed to be made on the basis of the complete RFQ issued prior to the Submission Deadline.

Withdrawal of SOQs

A Respondent may withdraw an SOQ by delivering to the Authority, prior to the Submission Deadline, at the address for delivery of SOQs set forth in Section 4.5, a written request for withdrawal of an SOQ. Any such withdrawal does not prejudice the right of a Respondent to submit another SOQ by the Submission Deadline.

4.10 Disclaimer

The information provided in this RFQ, or any other written or oral information provided by the Authority, the PRPA, the PPP Committee, the Government, or their respective officers, employees, advisors or consultants in connection with the Project or the selection process is provided for the convenience of the Respondents only. Respondents shall make their own conclusions as to such information. Oral explanations or instructions from officials, employees, advisors or consultants of the Authority, the PRPA, the PPP Committee, or any Puerto Rico public agency shall not be considered binding on the Authority, the PRPA, the PPP Committee, or the Government. The Authority, the PRPA, the PPP Committee, the Government, and their respective officers, employees, advisors and consultants make no representation as to such information, the accuracy and completeness of such information is not warranted by any of them and none of them shall have any liability in connection with such information or the selection process, all of which liability is expressly waived by the Respondents and each Team Member. This RFQ is not an offer to enter into any contract of any kind whatsoever.

4.11 Reservation of Rights

In connection with the proposed Project, the Authority and the PRPA reserve all rights (which rights shall be exercisable by the Authority and the PRPA in their absolute discretion) available to them under applicable laws and regulations, including, without limitation, with or without cause and with or without notice, the right to:

- a) modify the procurement process to address applicable law and/or the best interests of the Authority, the PRPA and the Government;
- b) develop the Project in any manner that they deem necessary and change the limits, scope and details of the Project;



- c) If the Authority and the PRPA are unable to negotiate a PPP Contract to their satisfaction with a Preferred Proponent, they may negotiate with the next highest ranked Shortlisted Respondent, terminate the process and pursue other alternatives relating to the Project, or exercise such other rights as they deem appropriate;
- d) cancel the procurement process, as applicable, in whole or in part, at any time prior to the execution by the PRPA of an agreement, without incurring any cost, obligations or liabilities whatsoever;
- e) issue a new RFQ after withdrawal of this RFQ;
- f) reject or disqualify any and all RFQ submissions and responses received at any time for any reason without any obligation, compensation or reimbursement to any Respondent or prospective Respondent or Team Member;
- g) modify all dates, deadlines, process, schedule and other requirements set out, described or projected in this RFQ;
- h) terminate evaluations of responses received at any time;
- i) exclude any Respondent from submitting any response to the RFQ or bid, as the case may be, based on failure to comply with any requirements;
- j) issue addenda, supplements and modifications to this RFQ;
- k) require direct confirmation of information furnished by a Respondent, additional information from a Respondent concerning its response or additional evidence of qualifications to perform the work described in this RFQ;
- l) consider, in the evaluation of any RFQ submission, any instances of poor performance by a Respondent, Team Member or key individual that any of the Authority, the PRPA or the Government may have experienced or experienced by a third party, be it one of the included references or otherwise;
- m) seek or obtain data from any source that has the potential to improve the understanding and evaluation of the responses to this RFQ;
- n) add or delete Respondent responsibilities from the information contained in this RFQ or any subsequent process instruments.
- o) negotiate with any party without being bound by any provision in its response.
- p) waive any deficiency, defect, irregularity, non-conformity or non-compliance in any response to the RFQ or permit clarifications or supplements to any response to the RFQ, and accept such response even if such deficiency, defect, irregularity, non-conformity or non-compliance would otherwise render the response null and void or inadmissible.
- q) add or eliminate facility expansion to or from the Project.
- r) incorporate the RFQ or any Respondent's response to the RFQ or portion thereto as part of the RFP or any formal agreement with a Private Partner.
- s) not issue a notice to proceed after execution of any contract.
- t) exercise any other right reserved or afforded to the Authority and the PRPA under the Act, the Regulation, this RFQ or applicable law.

This RFQ does not commit the PRPA to enter into a contract or proceed with the Project as described herein. The Authority, the PRPA, and the Government assume no obligations, responsibilities, or liabilities, fiscal or otherwise, to reimburse all or part of the costs incurred or alleged to have been incurred by parties considering a response to and/or responding to this RFQ, or in considering or making any submission. All of such costs shall be borne solely by each Respondent.



In no event shall the Authority or the PRPA be bound by, or liable for, any obligations with respect to the PPP Contract until such time (if at all) as a contract, in form and substance satisfactory to the Authority, the PRPA and the Governor, has been executed and authorized by the PRPA and, then, only to the extent set forth therein.

4.12 Limitation of Damages

Each Respondent, by submitting a response to this RFQ, agrees that in no event will the Authority, the PRPA, the PPP Committee, the Government, or any of their respective directors, officers, employees, advisors or representatives, be liable, under any circumstances, for any Claim, or to reimburse or compensate the Respondent in any manner whatsoever, including but not limited to costs of preparation of the response, loss of anticipated profits, loss of opportunity, or for any other matter. Without in any way limiting the above, each Respondent and Team Member specifically agrees that it will have absolutely no Claim against the Authority, the PRPA, the PPP Committee or the Government or any of their respective directors, officers, employees, advisors or representatives if any such party for any reason whatsoever:

- does not select a shortlist of prequalified Respondents;
- suspends, cancels, or in any way modifies the Project or the solicitation process (including modification of the scope of the Project or modification of the RFQ or both);
- accepts any compliant or non-compliant response or selects a shortlist of one or more prequalified Respondent(s);
- under the terms of the RFQ permits or does not permit a Restricted Party to advise, assist, or participate as part of a Respondent team; or,
- for any breach or fundamental breach of contract or legal duty of the Authority, the PRPA, the PPP Committee or the Government, whether express or implied, and each Respondent waives any and all Claims whatsoever, including Claims for loss of profits or loss of opportunity, if the Respondent is not shortlisted in the solicitation process for any other reason whatsoever.

For purposes of this Section 4.12, "Claim" means any claim, demand, liability, damage, loss, suit, action, or cause of action, whether arising in contract, tort or otherwise, and all costs and expenses relating thereto.

4.13 Judicial Review

Judicial review of the selection and award process for qualifications must be pursued in accordance with Section 20 – Judicial Review Procedures of the Act. Mechanisms for requesting reconsideration before the Authority or PRPA shall not apply and will not be available as part of this procedure. Only those Respondents who comply with the applicable requirements set forth in Section 20 of the Act may request judicial review of a final determination that the Respondent is not qualified.

Section 20 establishes the period to seek judicial review, the period for the Puerto Rico Court of Appeals to address the writ of review, and the period to seek a writ of certiorari before the Puerto Rico Supreme Court. Section 20 also prescribes the notification requirements and the consequences of seeking such judicial remedies, including that if either the Puerto Rico Court of Appeals or the Puerto Rico Supreme Court grant a writ of review or writ of certiorari, as applicable, the procedures for the qualification of proponents, or for the evaluation or selection of proposals or negotiation of the PPP Contract by the PPP Committee will not be stayed.

The qualification determinations of the PPP Committee and the approval of the PPP Contract by the Governor or the official onto whom he/she delegates, as provided under Section 9(g)(ii)-(v) of the Act shall only be overturned upon a finding of manifest error, fraud or arbitrariness. The non-prevailing party shall defray the expenses incurred by the other parties involved in judicial review proceedings under Section 20 of the Act. The Respondent that seeks judicial review may not, under any circumstance, as part of its remedies, claim the right to be redressed for indirect, special or foreseeable damages, including lost profits.



The above is only a succinct summary of Section 20 of the Act and Respondents should review and understand such judicial review provisions.



APPENDIX A: FORM OF RESPONDENT AND TEAM MEMBERS CERTIFICATION

[Letterhead of each Respondent or Team Member, as applicable]

Ms. Laura Femenías Jové, Esq.
Deputy Executive Director
Puerto Rico PPP Authority

Dear Ms. Femenías Jové,

Re: Puerto Rico Cruise Terminal PPP - Request for Qualifications

We have carefully reviewed the Request for Qualifications dated 5 September 2018 ("RFQ") issued by the Puerto Rico Public-Private Partnerships Authority and all other documents accompanying or made a part of the RFQ. Capitalized terms used in this certificate have the meanings given to them in the RFQ.

We acknowledge and agree to comply with all terms and conditions of the RFQ, the attached Statement of Qualifications (SOQ) and all enclosures thereto. Without limitation, we specifically acknowledge the disclaimer contained in Section 4.10 and the limitation of damages contained in Section 4.12 of the RFQ.

We certify that the information contained in the attached Statement of Qualifications is truthful. We further certify that the individual who has signed and delivered this certification is duly authorized to submit the attached Statement of Qualifications on behalf of the Respondent or Team Member, as applicable, as its acts and deed and that the Respondent or Team Member, as applicable, is ready, willing and able to participate in the RFP process and perform if awarded the PPP Contract.

We further certify that we are *[describe the type of entity or entities (corporation, partnership, LLC, etc.)]* organized in *[indicate the jurisdiction of organization]* and the entity contemplated by Respondent and Team Members to be the one that will execute the PPP Contract will have no impediment to, and will be authorized to do business in Puerto Rico and to enter into a contractual relationship with government entities in Puerto Rico, as well as to comply with any other applicable Puerto Rico or U.S. laws and/or requirements.

We further certify that neither we nor any of our directors, officers, shareholders, or subsidiaries, nor its parent company, nor in the case of a partnership, any of its partners, nor any person or entity that may be considered an alter ego of the Respondent or Team Member, as applicable (each a "Covered Party"), has been convicted, has entered a guilty plea or has been indicted, nor has probable cause been found for their arrest, in any criminal proceeding in the courts of the Government of Puerto Rico, the Federal courts of the United States, or the courts of any jurisdiction of the United States or a foreign country, of criminal charges related to acts of corruption or any of the crimes referenced in Articles 4.2, 4.3 or 5.7 of Act No. 1-2012, as amended, known as the Organic Act of the Office of Government Ethics of Puerto Rico, any of the crimes typified in Articles 250 through 266 of Act No. 146-2012, as amended, known as the Puerto Rico Penal Code, or any of the crimes listed in Act No. 2-2018, as amended, known as the Anti-Corruption Code for a New Puerto Rico or for any other felony that involves misuse of public funds or property, including but not limited to the crimes mentioned in Article 6.8 of Act No. 8-2017, as amended, known as the Act for the Administration and Transformation of Human Resources in the Government of Puerto Rico, or under the Foreign Corrupt Practices Act; nor is any Covered Party under investigation in any legislative, judicial or administrative proceedings, in the Commonwealth of Puerto Rico, the United States or any other country. The Respondent and Team Members are in compliance with all federal, state, local and foreign laws applicable to the Respondent or Team Member, as applicable that prohibit corruption or regulate crimes against public functions or public funds, including the Foreign Corrupt Practices Act.



We further certify that we shall continue to comply at all times with laws which prohibit corruption or regulate crimes against public functions or funds, as may apply to the Respondent, or Team Member, as applicable whether Federal, state or Government of Puerto Rico statutes, including the Foreign Corrupt Practices Act.

We further certify that no officer or employee of the Authority, the PRPA, the PPP Committee or any other public agency of Puerto Rico who participates in the selection process described in, or negotiations in connection with, the RFQ (nor any member of their families) has an economic interest in or is connected with the *[Respondent or Team Member, as applicable]*, and no officer or employees of the Authority, the PRPA, the PPP Committee or any other public agency of Puerto Rico (nor any member of their families) has directly or indirectly participated with the *[Respondent or Team Member, as applicable]* in the preparation of its RFQ submission.

We further certify that we are in compliance with the provisions of Act No. 2 of 2018, also known as the Anti-Corruption Act 2018.

We further certify that we are in compliance with the provisions of the Authority's Guidelines for the Evaluation of Conflicts of Interest and Unfair Advantages in the Procurement of Public-Private Partnership Contracts, a copy of which is available at the Authority's website: <http://www.p3.pr.gov>.

We further certify that this SOQ is made without prior understanding, agreement, connection, discussion or collusion with any other person, firm or corporation submitting a separate Statement of Qualifications or any officer, employee or agent of the Authority, the PRPA or the Government of Puerto Rico; and that the undersigned executed this Respondent's and Team Member Certificate with full knowledge and understanding of the matters herein contained and was duly authorized to do so.

We further certify that Respondent and Team Members will not attempt to communicate in relation to the RFQ, directly or indirectly, with any representative of the Owner, the Partnership Committee or the Authority, including any Restricted Parties, or any director, officer, employee, agent, advisor, staff member, consultant or representative of any of the foregoing, as applicable, for any purpose whatsoever, including for purposes of: (a) commenting on or attempting to influence views on the merits of the Respondent's and Team Members' SOQ, or in relation to their SOQ; (b) influencing, or attempting to influence, the outcome of the RFQ stage, or of the competitive selection process, including the review, evaluation, and ranking of SOQs or the selection of the Shortlisted Firms; (c) promoting the Respondent and Team Members or their interests in the Project, including in preference to that of other Respondents or Team Members; (d) commenting on or criticizing aspects of the RFQ, the competitive selection process, or the Project including in a manner which may give the Respondent or its Team Members a competitive or other advantage over other Respondents or Team Members; and (e) criticizing the SOQs of other Respondents.

The undersigned Respondent and Team Members acknowledge that any violation or misrepresentation with respect to the above prohibit their participation in any procurement process under the Act and other applicable laws of Puerto Rico and therefore will be disqualified from participating hereunder.

The attached Statement of Qualifications shall be governed by and construed in all respects according to the laws of Puerto Rico and the terms of the RFQ.

Our business address is:

[Insert business address]

Yours faithfully,

[Insert appropriate signature block for signature by a person duly authorized to bind the Respondent or Team Member]



APPENDIX B: FORM OF DOCUMENT ACKNOWLEDGEMENT & CONTACT INFORMATION

[Letterhead of the Respondent]

Ms. Laura Femenías Jové, Esq. – Deputy Executive Director
Puerto Rico Public-Private Partnerships Authority
Puerto Rico Fiscal Agency and Financial Advisory Authority Building, 3rd Floor
Roberto Sánchez Vilella Government Center, De Diego Avenue San Juan, PR 00940-2001 USA

Dear Ms. Femenías Jové,

I, *[Name of Respondent Representative]* in my capacity as *[Title]* of *[Name of the Respondent]*, acknowledge on behalf of the Respondent and each Team Member that the Respondent (for itself and each anticipated Team Member) was able to access the Puerto Rico Public-Private Partnerships Authority (the "Authority") web site and downloaded the following documents regarding the Request for Qualifications ("RFQ") for the San Juan Bay Cruise Terminals PPP Project (the "Project"), issued on 5 September 2018 by the Authority. Our contact information for further notifications included below. We accept the transmission of such additional notifications via electronic communications, but acknowledge and accept that we shall have the responsibility of periodically checking in the Public Private Partnership Authority website (at <http://www.p3.pr.gov>) for any and all official communications regarding the RFQ and other stages of the procurement process for the Project.

Document/File Title

Date Received/Downloaded

Respondent Representative Signature

Date

Contact Information: [Respondent Representative name, title, company, address, electronic mail, telephone number]



APPENDIX C: OVERVIEW OF THE PIERS

PIER 1

Pier 1 is the western most pier and the closest to Old San Juan. As such, this pier is ideal for a port of call facility as it facilitates passengers walking into Old San Juan. However, being one of the older piers it is also the smallest. Today, the pier has a small cruise terminal and a single floor lay-down area used for both embarkation and disembarkation. The upstairs of the building has been rented out as offices. Vehicle access is provided at the front side of the building for operations and vessel supply.

Pier 1 was constructed around 1970 and measures in total 950 ft. The structure consists of a reinforced concrete deck slab founded on reinforced steel piles. Pier 1E has a depth of 27' and has handled 1,500 passengers in one call. Pier 1W has a depth of 32' and has processed 2,500 passengers in one call.

The main structure is approximately 100 ft wide x 550 ft long and has been modified after its initial construction to support the cruise terminal building. Along the length of the main structure are a series of mooring dolphins and aprons which were added around the same time as the terminal building.





PIER 3

Pier 3 is the new and improved port of call facility, which was just recently renovated by the PRPA. As such, Pier 3 is in excellent condition, and it is able to accept the largest cruise ships in operation today. The west side of the pier is still largely operational following the hurricanes.

The pier suffers from a lack of traffic management and parking areas for tour buses and when ships are in port, traffic is seriously congested along the frontage road.

Pier 3 was renovated in 2013 and is a wedge-shaped structure. Access is provided by means of two trestle structures originating from the narrow northern edge of the pier and heading one, northwest, and the other, northeast. Six mooring dolphins and one large mooring platform are present south of the wide portion of the wedge, connected to the main structure via platforms and catwalks. The total length of the trestles, pier, and dolphins is 1,484'.

The structure consists of a cast-in-place concrete deck supported by cast-in-place beams and pile bents. The pier and dolphins are supported by square concrete piles. Pier 3E has a depth of 34' and may handle 7,500 passengers in one call. Pier 3W has a depth of 36' and may handle 7,500 passengers in one call.





PIER 4

Pier 4 is currently used by Carnival as a homeport and port of call. It was initially built by the Ports Authority in two stages and subsequently its interior was modified by Carnival. Pier 4 can handle ships of approximately 2,000 to 3,000 passengers. In addition, the length of the pier (877 feet) does not allow most new cruise vessels to berth on either side. As a standalone terminal, Pier 4 can operate as a single homeport terminal on the east side and a port-of-call facility in the west side, however, the two cannot operate simultaneously because of traffic congestion and security and customs provisions while the terminal is in operation.

Pier 4 was built around 1980 and has received a number of modifications since then. Pier 4 has a length of 1,146 ft. Pier 4E has a depth of 32' and has handled 4,500 passengers in one call. Pier 4W has a depth of 34' and has handled 4,500 passengers in one call.

Pier 4 is a rectangular shaped structure that is approximately 150 ft wide x 870 ft long, with five additional mooring dolphins outboard of the pier extending an additional 250 ft in the channel. The pier structure consists of a reinforced concrete deck spanning between concrete bent caps. The bent caps were supported on six rows of pile clusters. The number of piles in each cluster varies from one to five throughout, and the piles are typically 18" square piles. Each of the five mooring dolphins consist of a rectangular concrete cap supported on 24 concrete piles, supporting a single mooring bollard and fender. Four of the dolphins are connected to the pier by walkways.





PIERS 11-14

Piers 11-14 piers are not used for vessels operations as they have deteriorated severely. The various warehouses located along the piers are currently used by the FEMA hurricane response team as a logistics base.

Piers 11 to 14 are reinforced concrete wharf structures located within San Juan Port and have a combined length of 2,100 ft. The structures are constructed with reinforced concrete piles, supporting reinforced concrete pile caps, deck beams, and a concrete deck. In total, there are 161 pile bents forming the wharf. Each bent typically contains between five and seven vertical piles and one to two battered piles positioned near the inshore side.





PAN-AMERICAN PIERS I & II

The Pan American Piers are located on the south of Old San Juan and were built around 1980. The modern San Juan cruise ship terminal building at the Pan American Piers is in Isla Grande. It measures in total around 1,518 ft with a depth of 36 ft.

Currently, these are the two most functional facilities in San Juan from an operational point of view. However, there is evidence of significant corrosion and structural failures, due to a lack of maintenance.

In addition, the length of the wharf is not sufficient to handle two large vessels simultaneously. Currently, ferry cruise lines such as Ferries del Caribe is using the westernmost part of the terminal.






EXHIBIT D: QUALIFICATIONS PROCESS MEMORANDUM

CONFIDENTIAL

Qualifications Process Memorandum

San Juan Bay Cruise Terminals Project

Qualifications Process Memorandum

San Juan Bay Cruise Terminals

MEMO FOR THE FILERE: San Juan Bay Cruise Terminals Project

On October 17, 2017, the Puerto Rico Public-Private Partnerships Authority ("**Authority**") and the Puerto Rico Ports Authority ("**PRPA**") received an unsolicited proposal for the exclusive right to repair, design, finance, build, operate and maintain certain cruise terminals in the San Juan Bay and the Navy Frontier Pier (the "**Unsolicited Proposal**"). The Authority evaluated the Unsolicited Proposal following the requirements set forth by the Public-Private Partnerships Act No. 29-2009, as amended ("**Act 29**") and the Regulation for the Procurement, Evaluation, Selection, Negotiation and Award of Participatory Public-Private Partnership Contracts Under Act No 29-2009, as amended ("**Regulation**"). After a thorough review of the Unsolicited Proposal, the Authority determined that the Unsolicited Proposal was beneficial to the public interest. Pursuant to Act 29 and the Regulation, the Authority completed the Desirability and Convenience Study ("**D&C Study**") in July 2018, resulting in a favorable conclusion about the Project. Consequently, the Project was opened to competitive procurement.¹⁷

On September 5, 2018, pursuant to the processes contemplated in Act 29 for the development of public-private partnerships ("**PPP**"), the Authority and PRPA, issued a Request for Qualifications (the "**RFQ**") to repair, expand, finance, maintain and operate certain cruise terminals in the San Juan Bay (the "**Project**"). Its issuance was announced in the Authority's website, in the Puerto Rico Fiscal Agency and Financial Advisory Authority ("**AAFAF**" for its Spanish acronym)'s website and in PRPA's website as well as published in El Vocero de Puerto Rico and in El Nuevo Día on September 5, 2018.

The Authority received statements of qualifications (the "**SOQs**") in response to the RFQ from five (5) prospective Proponents ("**Respondents**"). This Qualification Process Memorandum (the "**Memorandum**") describes the qualification process followed to evaluate the SOQs and determine if the Respondents are qualified to participate as potential proponents in the next stage of the Project ("**Qualified Respondent**"), which is the Request for Proposal ("**RFP**") stage. Moreover, the Memorandum presents the official list of the qualified Respondents for the RFP stage. The Memorandum consist of the following parts: (I) Project Background; (II) Description of Respondents; (III) Qualification Process Background; (IV) Qualification Process; (V) Outcome of SOQ Evaluation; and (V) Conclusions.

I. Project Background

The port of San Juan is one of the key itineraries on any Caribbean cruise. Piers 1 through 4 were built many years ago, for an older class of ship and for a mix of cargo and passengers. These piers have been continually improved to increase their capacity. In

¹⁷ Capitalized terms used but not otherwise defined in this Report have the meaning ascribed to them in, as applicable, Act 29, the Regulation, and the RFQ.

the 1990's the PRPA invested in developing a new homeport terminal at Pier 4, which was subsequently redesigned to increase its capacity to meet market requirements at that time. Since then, the development of the piers have been ad-hoc, with PRPA endeavoring to support the evolving needs of the cruise industry within the limits of the financing available for development. Due to these funding constraints, the PRPA's development strategy has been hampered and development has been limited to a minimum level of investment needed to maintain the piers. In many cases, PRPA has relied on preferential berthing agreements ("**PBAs**") with certain cruise lines to finance improvements on various terminals. While this approach has allowed PRPA to finance capital improvements, these tie the terminals to a limited number of cruise lines and result in limited improvements. As a result, the San Juan cruise facilities today are undersized and fail to meet the needs of the modern cruise industry.

The Authority and PRPA are interested in delivering a Project that not only solves the aforementioned objectives associated with condition and capacity of the piers, but more importantly, one that supports and encourages continued tourism and economic growth in Puerto Rico. To that effect, the Authority and PRPA wish to enter into a Public-Private Partnership Contract ("**PPP Contract**") with a private sector party ("**Private Partner**") in order to achieve the following objectives for the San Juan Bay Cruise Terminals:

- **Repair:** Over time, repairs and replacements to the San Juan Bay Cruise Terminals have been postponed. This, combined with damage from the hurricanes Irma and María, requires an investment of capital by the Private Partner in order to restore the San Juan Bay Cruise Terminals to world class standards.
- **Expand:** Cruise traffic in the Caribbean continues its strong growth and the San Juan Bay Cruise Terminals need to expand and be upgraded in order to continue to be able to serve the largest cruise ships. The Private Partner would be required to invest in certain defined expansion projects in order to upgrade and improve the capacity and amenities.
- **Operate:** Through the Private Partners' own experience, creativity and initiatives, it is expected to optimize operations and increase passenger volumes at the San Juan Bay Cruise Terminals.
- **Finance:** Make a contribution to PRPA, through either an upfront "Concession Fee," an ongoing revenue share arrangement, or some combination of both.
- **Maintain:** The Private Partner would be required to undertake routine and lifecycle maintenance of the San Juan Bay Cruise Terminals throughout the PPP Contract term, so as to keep the terminals operating at world class standards.

The Private Partner is expected to assume a series of risks associated to the Project in exchange for the right to receive the Project's revenues, including the passenger fees and other fees related to terminal operations.

II. Description of Respondents

Below is a brief description of the Respondents, listed in alphabetical order. The descriptions provide a summary of each Respondent's principal characteristics and are provided merely for convenience and ease of reference. The full SOQs are on file and the Partnership Committee evaluated all such files. Respondents were evaluated strictly based upon the information provided in their SOQs. Other than the Respondents that are travel leisure companies/cruise lines, all other Respondents submitted their qualifications as consortiums. These consortiums comprised of more than one company contributing their respective experience and expertise, mainly available development. As per the RFQ, such Respondent needed to set forth the identity, role and capabilities of each Team Member individually.

1. Carnival

- Carnival is a travel leisure company with a combined fleet of over 100 vessels across nine (9) cruise line brands. It is a single entity incorporated in Panama with its principal offices in Miami. Through its Global Port & Destination Development Group, it has undertaken multimillionaire projects.
- Carnival has fully funded, managed, owned and maintained projects such as: Puerta Maya, Cozumel Mexico; Mahogany Bay, Honduras; Amber Cove, Dominican Republic, among others.
- This Respondent would perform the operating and maintenance aspects of the Project, but does not provide information as to their design, technical, contractors or subcontractors' teams qualifications for the project
- Currently, Carnival has a right to preferential berthing at Pier 4 subject to that certain Preferential Berthing Agreement and Master Development Agreement with Carnival Corporation dated June 7, 2001.

2. Global Ports

- Global Ports operates fourteen (14) ports in eight (8) countries and provides services to 7.8 million passengers annually, including ports such as Barcelona and Malaga, Spain; Venice and Catania, Italy and Lisbon, Portugal.
- As a Respondent for this Project, Global Ports was joined by the following companies as consortium or Team Members, with CBNA and GPH as available Equity Team Members:
 - **CBNA**, owned by Bouygues Construction Group, is a construction and development company that has developed projects such as Kai Tak Cruise

- ### 3. Puerto Rico Cruise Terminal Partners ("PRCTP")

- D-6

in Puerto Rico, including the Tren Urbano. Acciona is interested in participating in the project as: i) an Equity Team Member through Acciona Concesiones, and ii) as the Design Build contractor through Acciona Construcción and Acciona Ingeniería.

- **Jacobs' Engineering Group ("Jacobs")** is an engineering and architecture company that has provided services in Puerto Rico for many years. Jacobs' experience on the island includes engineering, environmental, and other consulting services to the industrial, manufacturing, chemical, and infrastructure sectors, including ports. In the last eight years, Jacobs has been involved including the extension of Pier 12 and the inspections of Piers 11 through 14. As part of the consortium, they will be providing master planning for the port facilities.
- **CSA Architects & Engineers LLP ("CSA")** is a local, full-service program management and project delivery company. CSA has accumulated over 60 years of consulting service-experience to a variety of government entities, municipalities, Non-Profit Organizations, various local offices of Federal Agencies, and numerous private sector entities.
- **Del Valle Group, S.P. ("DVG")** is a special Puerto Rico Partnership with over 29 years of experience in the construction industry. DVG is a recognized in heavy and civil engineering construction. DVG has the expertise to manage and execute high quality construction services on large projects including construction of boat ramps, channel excavation and construction, stone and scour protection, dredging, flood control structures, installation of drilled shaft, sheet piling, and regrading sites, amongst others.

- PA and Acciona would be available Equity Members.

4. Royal Caribbean

- Royal Caribbean is a cruise line company founded in Miami that owns and operates 60 cruise ships valued at approximately \$30 billion with annual gross and revenues exceeding \$7 billion.
- They operate cruises under the following brands: Royal Caribbean International, Celebrity Cruises and Azamara Club Cruises.
- Their local experience includes the development of Pan American Terminal Buildings I and II and their restoration following Hurricane María. Royal Caribbean also assisted in the dredging works to maintain and deepen the berthing area alongside the Pan American Piers and a section of the Canal de San Antonio. This assistance is part of the preferential berthing agreement between PRPA and Royal Caribbean at Pier 3 and the Pan American Pier I and II ((i) Preferential Berthing Agreement dated February 10, 2003, (ii) Preferential Berthing Agreement and Development Agreement dated April 19, 2002, and (iii) Preferential Berthing Agreement and Development Agreement dated October 27, 2017).

- This Respondent would perform the operating and maintenance aspects of the Project, but did not provide information as to their design, technical, contractor or subcontractor teams for the project.

5. San Juan Cruise Terminal Partners ("SJCTP")

- SJCTP is a consortium with the following Team Members:
 - **Sacyr Infrastructure USA, LLC ("Sacyr")**, is an infrastructure development company that has secured funds for large infrastructure projects such as Pedamontana-Veneta Highway in Italy. They would serve as the equity partner of the Project.
 - **Sacyr Construcción SA, Las Piedras Construction ("Las Piedras"), and Desarrollos Metropolitanos, LLC ("DM")**, these three (3) firms will form a joint venture and serve as the construction firm for the Project.
 - Sacyr is a leading construction company with over 30 years of experience and covering all types of construction work. They have a track record of more than 50 maritime projects around the world, including the Panama Canal Expansion Project.
 - Las Piedras has more than 50 years of experience in the heavy construction industry in Puerto Rico. Most of Las Piedras projects include public works, mainly construction of highways, bridges, earth movement, dredging, sheet piling installation, marine works, among other heavy civil works. Las Piedras has been involved in large infrastructure projects such as the New LO/LO Pier and Berth Dredging in Port of San Juan completed in 2017.
 - DM is one of the local leading general contractors with over 45 years of operations. DM has executed projects in the areas of commercial, tourism, and industrial development for public institutions as well as for the private sector.
 - **Johnson Bros. Corporation** will be serving as key subcontractor for heavy civil works. This company has 89 years of experience specializing in bridge, highway, infrastructure, marine, industrial and emergency construction.
 - **Stantec** will be the lead design team partnering with key design subconsultant **AECOM Caribe**. They are among the Top 10 design firms in the world for terminals, ports, and maritime infrastructure and will be supported by **Berenblum Busch Architects**, architectural designer of cruise terminal buildings such as Terminal F at Port of Miami. These three (3) companies would serve as the Project's design team.
 - Stantec has 62 years of experience and has developed all types of maritime facilities in US, Canada and the Caribbean.

- AECOM Caribe, affiliate of AECOM has been designing projects for Puerto Rico and the Caribbean since 1962. The design team indicated that it would rely on the technical capabilities of local subconsultants such as: Benitez, Ramos and Associates, CMA Architects and Engineers, SCF Arquitectos, Geo Cim and VAG Transportation Engineering Consultants.
- **SSA International ("SSA")** will lead the operation and maintenance activities together with Sacyr Infrastructure USA, LLC., as a joint venture for the operations and maintenance of the Project. SSA operates terminals in over 250 locations across five continents, with focus on: cruise terminals, container terminal and convention cargo operations, ancillary services, project development and consulting.

III. Qualification Process Background

Pursuant to Act 29 and the Regulation, the Board of Directors of the Authority established a Partnership Committee for the Project (the "**Partnership Committee**") through Resolution 2018-44, dated June 14, 2018. The Partnership Committee has the duty and responsibility to evaluate and select qualified proponents to participate as Respondents in the RFP stage and to establish and negotiate the terms and conditions it deems appropriate for the corresponding PPP Contract.

Section 3.1 of the Regulation grants the Partnership Committee ample discretion to delegate their functions into a group of advisors, by imposing to such Committee the duty to "contract, on behalf of the Authority, advisors, experts or consultants with the knowledge necessary to assist the Partnership Committee and the Authority in the adequate discharge of its functions". Likewise, Section 3.5 of the Regulation provides:

"The Executive Director may appoint employees of the Authority and contract with consultants, advisors or agents to assist the Authority and the Partnership Committee in the review of the Proposals and the selection and negotiation process for a Partnership and provide any other assistance that is deemed necessary or appropriate in connection with an Award of a Partnership Contract, including participating as nonvoting members of the subcommittees of the Partnership Committee. The individuals or entities providing such assistance must satisfy the conflicts of interest or ethics guidelines adopted by the Authority from time to time and may participate in any evaluation and negotiation process conducted by the Partnership Committee as the Partnership Committee may deem necessary."

Accordingly, the following advisors were engaged to give assistance to the Partnership Committee throughout the Project's development and RFQ process: Macquarie Group Limited, DLA Piper, IMG Rebel and CPM PR, LLC.

Furthermore, the Regulation states that the Partnership Committee may qualify a limited number of Respondents in order to arrive at a shortlist for the Project. It further provides that the RFQ process shall identify prospective Proponents that satisfy minimum standards of financial condition and technical or professional ability and experience. Accordingly, Section 1.4 of the RFQ provides that "...The objective of th[e] RFQ is to enable the [Partnership] Committee to shortlist the best qualified Respondents."

It should be noted, however, that the Partnership Committee may determine in its sole discretion that all of the Respondents are qualified to participate as proponents in an RFP process. In other words, such right to shortlist a limited number of Respondents is not mandatory, but rather a discretionary right that the Partnership Committee may utilize when it determines that it serves the best interests of the process.

The RFQ also confers the Partnership Committee's ample discretion in evaluating SOQs. Specifically, Section 4.11 (f) of the RFQ provides for the Partnership Committee to "reject or disqualify any and all RFQ submissions and responses received at any time for any reason without any obligation, compensation or reimbursement to any Respondent or prospective Respondent or Team Member."

Lastly, and as indicated in the RFQ and in compliance with Act 29, the Partnership Committee determined that the party that submitted the Unsolicited Proposal, Global Ports, was to receive a predetermined benefit in the procurement process for the time, resources and expenses incurred in presenting the Project as an Unsolicited Proposal. Said benefit was defined and all participants were notified that it would be as follows:

- RFQ Phase: an increase of 5% on its evaluation score for the RFQ.
- RFP Phase (if qualified to move forward): if the Unsolicited Proposal proponent was not awarded the Project, a stipend of a fixed amount would be paid out to such proponent from the proceeds of the transaction payable by the winning bidder. No increase in the evaluation score was included for the RFP phase.

As part of the Market Sounding process, participants were asked about their views and recommended approach to granting, as Act 29 provides, a compensation or benefit to the party that submitted the Unsolicited Proposal. The above determination by the Partnership Committee was consistent with such recommendations, which rejected increasing the evaluation score in the RFP stage or proving the unsolicited proponent the right to match or improve the best offer by any other participant in the RFP stage, which are benefits used in other jurisdictions.

IV. Qualification Process

The RFQ required, among other things, that prospective Respondents submit completed SOQs by no later than 5:00 p.m. AST on October 17, 2018. The Authority received five (5) SOQs on or before the required date and time.

Respondents were evaluated pursuant to Article 8(b) of Act 29 and Section 3.1 of the Regulation, as well as the extent to which Respondents satisfied the evaluation criteria established in Section 3 of the RFQ, (the “**Evaluation Criteria**”). Specifically, Respondents were evaluated by reference of to the following Evaluation Criteria:

Part 1 – Act 29 Compliance Requirements

All SOQs were reviewed to determine whether it satisfied Act 29 and the Regulation's requirements. Section 3.2 of the RFQ established the Evaluation Criteria for Part 1, which included the following:

- 1.1 Respondents or Team Members that are corporations, partnerships or any other legal entity, U.S. or Puerto Rico based, shall at the time of submission of their proposals be properly registered or capable, if selected in the future, to be registered to do business in Puerto Rico and the U.S. and comply with all applicable Puerto Rico or U.S. laws and/or requirements; and
- 1.2
 - a) Each Team Member and each Respondent, if the Respondent has been formed as of the date of a submission of a response to this RFQ, shall certify that neither it nor any of its directors, officers, shareholders or subsidiaries, nor its parent company, nor in the case of a partnership, any of its partners, nor any person or entity that may be considered an alter ego or the passive economic agent of the Respondent (each a “Covered Party”), has been convicted in Puerto Rico or United States Federal court for any of the crimes referenced in Articles 4.2, 4.3 or 5.7 of Act No. 1-2012, as amended, known as the Organic Act of the Office of Government Ethics of Puerto Rico, any of the crimes typified in Articles 250 through 266 of Act No. 146-2012, as amended, known as the Puerto Rico Penal Code, or any of the crimes listed in Act No. 2-2018, as amended, known as the Anti-Corruption Code for a New Puerto Rico or for any other felony that involves misuse of public funds or property, including but not limited to the crimes mentioned in Article 6.8 of Act No. 8-2017, as amended, known as the Act for the Administration and Transformation of Human Resources in the Government of Puerto Rico, or under the Foreign Corrupt Practices Act; nor is any Covered Party under investigation in any legislative, judicial or administrative proceedings, in the Commonwealth of Puerto Rico, the United States or any other country. The Respondent is in compliance and will continue to comply at all times with all federal, state, local and foreign laws applicable to the Respondent that prohibit corruption or regulate crimes against public functions or public funds, including the Foreign Corrupt Practices Act;
 - b) Respondent and Team Members completed their SOQs without prior understanding, agreement, connection, discussion or collusion with any other person, firm or corporation submitting a separate SOQ or any officer, employee or agent of the Authority, Owners or the Government of Puerto Rico; and
 - c) Respondent and Team Members did not attempt to communicate in relation to the RFQ, directly or indirectly, with any representative of the Owner, the Partnership Committee or the Authority, including any Restricted Parties, or any director, officer,

employee, agent, advisor, staff member, consultant or representative of any of the foregoing, as applicable, for any purpose whatsoever, including for purposes of: (i) commenting on or attempting to influence views on the merits of the Respondent's and Team Members' SOQ, or in relation to their SOQ; (ii) influencing, or attempting to influence, the outcome of the RFQ stage, or of the competitive selection process, including the review, evaluation, and ranking of SOQs or the selection of the Shortlisted Firms; (iii) promoting the Respondent and Team Members or their interests in the Project, including in preference to that of other Respondents or Team Members; (iv) commenting on or criticizing aspects of the RFQ, the competitive selection process, or the Project including in a manner which may give the Respondent or its Team Members a competitive or other advantage over other Respondents or Team Members; or (v) criticizing the SOQs of other Respondents.

All of these requirements could be satisfied by completing the Form of Respondent Certification included as Appendix A to the RFQ.

Part 2 – Background & Team Information

Respondents were encouraged to provide enough supporting information and details to enable the evaluators to perform a thorough evaluation of the Team Members' strengths, roles and responsibilities.

2.1 A description of the Respondent or Team Members, as applicable, identifying:

- Their roles (include an organizational chart of Team Members);
- Their respective percentage of contemplated or actual equity ownership interests, as applicable;
- Identification and roles of Local Content Team Members;
- Anticipated legal relationships (e.g. joint ventures, partnerships) and percentage interest;
- Up to five (5) key personnel and their roles (one of which must be "Cruise Terminal Operations Manager" or similar);
- Where Team Members have worked together before (if relevant);
- Evidence of experience of each Team Member in carrying out major infrastructure projects, including DBFOM or RDBFOM projects;
- Evidence of experience of Team Member(s) in marine terminal operations; and
- Any experience in administering FEMA funding.

2.2 Resumes (indicating overall experience and any specific experience relevant to the nature and scope of the Project) for no more than three (3) Key Individuals representing the Respondent

Part 3 – Financial Capabilities

The evaluation of financial capabilities examined each SOQ in accordance with the criteria set out below, including, but not limited to, the extent to which the SOQ satisfied the anticipated financial capability requirements of the PPP Contract with respect to the following:

3.1 Financial Capacity of Team – Respondents must demonstrate their financial capacity to pay the expected equity portion of the up-front proceeds and to fulfil the terms of the PPP Contract. To demonstrate sufficient financial capacity, each relevant Team Member must have provided copies of audited financial statements for the past two (2) years, together with any other relevant financial information.

3.2 Ability to Raise Financing – Respondents must have provided specific evidence demonstrating their ability to raise financing for a project of this nature and scope. Specific factors assessed include:

- Capability of raising debt and equity in the current capital markets;
- The number and size of past relevant transactions;
- Specific experiences on past relevant transactions; and
- Any local content financing (if relevant).

3.3 Letters of support from up to three (3) financing institutions indicating a willingness to provide debt financing for the project (not included in page count).

3.4 Equity Funding Letter as set out in Part 6.6.

Part 4 – Technical & Operational Capabilities

The evaluation of technical capabilities examined each SOQ in accordance with the following criteria:

4.1 Design & Construction Capabilities – Respondents must have provided specific evidence demonstrating their ability to undertake the design and construction elements for a project of this nature and complexity. Specific factors assessed included:

- The number and size of past relevant transactions (in particular marine terminal transactions);
- Capacity to plan, construct, and commission a marine terminal development or similar projects; and
- Ability to incorporate elements of repair / refurbishment as well as new build components.

4.2 Cruise Terminal Operations – Respondents must have provided specific evidence demonstrating their ability to operate a cruise terminal (or other marine terminal). Specific factors assessed included:

- The number and size of past or current cruise terminals (or marine terminals) under operation;
- Track record of successful operations; and
- Demonstrated ability to grow patronage of cruise terminals.

4.3 Open Access – Respondents must have set out their approach for ensuring that the terminals are operated in a fair and non-discriminatory fashion. Specific factors assessed included:

- Approach for allocating capacity between competing cruise lines;
- Approach for ensuring fair treatment of cruise lines when their interests conflict with interests of the Private Partner (or a cruise line affiliate of the Private Partner), if relevant; and
- Track record of successfully demonstrating fair and non-discriminatory operations at other terminals.

4.4 Facilities Maintenance & Rehabilitation – Respondent must have provided evidence of experience with facilities management and rehabilitation in a marine environment. Specific factors assessed included:

- The number and size of past or current cruise terminals (or marine terminals) under operation; and
- Track record of successful maintenance operations.

4.5 Local Content – The Authority is called under Act 29 to evaluate Respondents' use of local capital and other professionals and subcontractors to the greatest extent possible. As such, Respondents shall have provided as part of their SOQs descriptions of their current and/or anticipated business arrangements with local parties and, in particular, local parties who are Team Members and/or key individuals for the Project. Respondents were given the opportunity of providing relevant and credible information to support their response, including, signed copies of the relationship documentation and/or legal agreements(s) (e.g., letters of support, memoranda of understanding, partnership, or joint venture agreements, etc.) supporting their response.

Part 5 – Safety Performance

Respondent shall have submitted copies of the Occupational Safety and Health Administration ("OSHA") 300 forms for the past three (3) years. If not applicable, a prospective Respondent shall present a document explaining the reasons for not submitting the form.

Respondents were also required to submit the following information and documentation, described as attachments under the RFQ:

Part 6 – Attachments

- 6.1 **Comparable Projects** – Provide a list of comparable projects in which Team Members have participated in the last ten (10) years. Respondents should have specified how these comparable projects relate to the Project.
- 6.2 **References** – Provide a list of up to three references with respect to each Team Member. These references should have been able to describe the relevant qualifications and capabilities of Team Members looking to take a leading role in the operation and maintenance of the Project. If possible, these references should come from the procuring government agencies or lead sponsors in previous roles.
- 6.3 **Design & Construction Case Studies** – Up to three (3) project case studies showing the Respondent's design & construction capability relevant to the nature and scope of the Project within the last ten (10) years.
- 6.4 **Operational Case Studies** – Up to three (3) project case studies showing the Respondent's capability to operate cruise terminals, marine terminals or another project similar to the Project as relevant to the nature and scope of the Project within the last ten (10) years.
- 6.5 **Financing Case Studies** – Up to three (3) project case studies showing the Respondent's financing capability relevant to the nature and scope of the Project within the last ten (10) years.
- 6.6 Each Team Member available to become an Equity Member shall have provided an Equity Funding Letter which will be used as supporting evidence of the Equity Member's commitment to the funding of the Project. If the Equity Member is an investment fund, then the Equity Funding Letter must have been signed by the fund's authorized signatory, and at a minimum shall have included the following items:
 - a) **Approval Process.** An overview of the completed to-date and remaining approval process (along with an indicative schedule) required to commit to and fund the required equity commitment for the Project.
 - b) **Funding Vehicle.** The name and ownership structure of the investment fund that will ultimately carry this investment.
 - c) **Investment Capacity.** Supplemental information to the financial statements (as necessary) of the investment fund to positively demonstrate existing and/or committed capital capacity for the Project, consistent with the likely equity investment and the Equity Member's responsibility to provide the share percentage.
 - d) **Investment Criteria.** Assurances that the Project meets all of the investment policy requirements of the investment fund cited in (b) above (e.g., is an approved project, does not contradict any capital allocation policy) and is consistent with its investment objectives.

If the Equity Member intends to fund its equity commitment through use of internal resources (e.g., a corporate entity supplying its own capital), the letter must be signed

by the Chief Investment Officer, the Chief Financial Officer or the Chief Executive Officer, and at a minimum shall have included the following items:

- a) **Approval Process.** An overview of the approval process required to commit to and fund the required equity commitment. This section should include an identification and description of any required board, investment committee or other formal approvals needed, as well as an indicative schedule for securing those approvals.
- b) **Sourcing Commitment.** Where and how the equity commitment will be sourced and a narrative description of how competing allocation and capacity issues are considered between several project opportunities the Equity Member pursues simultaneously.
- c) **Investment Criteria.** Assurances that the Project meets all corporate strategy and investment policy requirements.

If the Equity Member intends to fully or partially rely on third party investors or investment managers to fund the equity investment in the project and to meet the financial capacity requirements of this RFQ, the Equity Member must have provided either from each investor or the manager of such funds:

- a) The name of institutional partners;
- b) The investment criteria and confirmation that the anticipated investment and amount are permitted under the criteria; and
- c) The approval process for such investment.

Qualitative Evaluation Scoring

The Partnership Committee evaluated each of the SOQs based on the Evaluation Criteria described above and applied a corresponding weighting for each part. Part 1 and Part 5 were evaluated as a Pass/Fail criteria and no weight was allocated to them. The remaining parts were weighted as follow:

- Part 2 – Background & Team Information (20% Weight)
- Part 3 – Financial Capabilities (30% Weight)
- Part 4 – Technical & Operational Capabilities (50% Weight)

V. Outcome of SOQ Evaluations

In accordance with the authority granted to the Partnership Committee's pursuant to Act 29 and the Regulation, the Authority and its advisors assisted the Partnership Committee in evaluating each of the SOQs. The Partnership Committee subsequently met with the Authority and its advisors to discuss the SOQs. In particular, the Authority and its advisors provided the Partnership Committee with an overview of each Respondent and its SOQ

and an analysis of their observations and recommended scoring pursuant to the Evaluation Criteria.

After the initial review and discussion of the observations, the Partnership Committee determined that, to provide the best possible opportunity to all Respondents, all SOQs would be evaluated in their merits even if some failed to comply with several required elements of the RFQ. The Partnership Committee also agreed that for this Project it would shortlist all Respondents who scored a total of 75% or higher. Furthermore, no less than three (3) of the five (5) Respondents would be qualified to maintain competition among the most qualified candidates during the RFP process. Therefore, the Partnership Committee determined that if the minimum number of three (3) Respondents was not reached, then the next highest scored Respondent would be considered in the shortlisting even if its total score was less than 75% until at least three Respondents were qualified.

Table 7 summarizes the scores for each Respondent. The Partnership Committee agreed with the observation and assessment presented by the advisors. Qualified Respondents with scores above 75% were invited to continue to the RFP Phase. The Partnership Committee believes that the three (3) shortlisted Respondents demonstrated significantly higher operational and/or financial capabilities to meet all the Project's objectives than the two (2) Respondents that were not shortlisted.

Table 7. SOQs Evaluation Scores Summary

Evaluation Criteria	Global Ports	PRCTP	SJCTP	Royal Caribbean	Carnival
Part 1	Pass	Pass	Pass	Pass	Pass
Part 2	20%	19%	16%	11%	12%
Part 3	26%	28%	23%	20%	14%
Part 4	50%	50%	48%	33%	24%
Part 5	Pass	Pass	Pass	Pass	Pass
Total Score	101%*	97%	87%	64%	50%

* This >100% was caused by the additional 5% granted to this Respondent who presented the Unsolicited Proposal, as required under Act 29-2009 and as provided in Section 1.3 of the RFQ.

The Respondents that did not make the shortlisting presented an SOQ that reflected the lowest scores mainly in two of the criteria, these were: Part 2 – Background & Team Information and Part 4 – Technical & Operational Capabilities. With respect to Part 2, both respondents were not explicit on which partners or Team Members will undertake the Design & Construction and Operations & Maintenance of the facilities and no specific roles were described for the Team Members they did mention. Therefore, no proper assessment of their team's qualifications could be made. Of the personnel with relevant

experience presented, one Respondent did not have experience in terminal operations and the other did not have experience in construction management. As for Part 4, there was no discussion or very limited discussion on how to handle or develop a strategy for ensuring that terminals are operating in a fair, non-discriminatory fashion and they presented general and limited information to validate experience in the facilities management and rehabilitation in a maritime environment. Also, no local partners were listed to prove the Respondent's local commitment or intention to engage in the use of local capital and local professionals or subcontractors. No Design & Construction and Operational case studies nor evidence in the administration of federal funds (FEMA) were included.

In addition, with respect to Part 3 – Financial Capabilities the lowest scores were given to sections 3.2 Ability to Raise Financing, 3.3 Letters of support from financing institutions, 3.4 Equity funding Letter. Particularly, for factors described in section 3.2, they did not prove capability of raising debt and equity in the current capital markets, did not provide specific experiences on past relevant transaction nor any local content financing. In the case of Carnival, no letters of support and Equity Funding letter were provided as requested.

Based on the results above and in accordance with the authority granted to it in compliance with Act 29 and the Regulation, the Partnership Committee decided to shortlist the following three (3) Respondents to participate in the RFP Phase:

- Global Ports;
- PRCTP; and
- SJCTP

VI. Conclusion

The shortlisted Respondents will provide the RFP process with the necessary competitive bidding environment needed to achieve the objectives of the Authority and the Government for this procurement process and meet the public policy considerations set forth in Act 29.

