

Arizona Transportation Summit

Public Private Partnerships: Issues and Opportunities

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Agenda

1. U.S. Transportation Finance Overview
 - A. Public Private Partnerships – Overview
 - B. Public Private Partnerships – Lessons Learned
 - C. Public Public Partnership Alternative – Tax-Exempt Leverage with Public Control
 - D. Public Public Partnership Case Studies
2. Appendix
 - State-by-State Comparison of Transportation Funding Tools

1. U.S Transportation Finance Overview



The U.S. Transportation Landscape is Rapidly Changing

Geopolitical and economic factors have increased uncertainty for state transportation capital programs.

- Skyrocketing inflation for construction costs
- Increasing traffic congestion
- Capital expenditures and routine maintenance are being deferred
- Limited Resources
 - 18.4 cent per gallon Federal motor fuel excise tax has not been raised since 1993
 - With high oil prices, states are reluctant to raise gas taxes
 - National/Federal transportation funding gaps; deficit facing Highway Trust Fund

States Are Implementing New Programs to Fund Construction



Inaugural **GARVEE** Program to fund portion of new start-up toll road (2007)



Complete Transportation Plan - Public **Toll Monetization & Hwy Rev. Bonds** (2007)



Multi-Billion **Hwy. Rev. Bond** Program (2006)
Toll Road Concessions



Winning Bidder over Cintra for 50-year "concession" to build and operate new toll road (SH 121)



FDOT Miami Tunnel PPP – **Availability Payments** (2007)

CHICAGO SKYWAY



IN Toll Road **Concession** \$3.8 b (2006)
Skyway **Concession** \$1.83 b (2005)



Current National Status of Transportation Finance

The evolving national, state and local governmental and regulatory environments are only adding to the pressure on States to craft broad funding solutions.

Federal

- Congress and Administration knowingly underfunded the current 6-year Federal Authorization Act
 - Result:
 - 5 rescissions since December 2005
 - Obligation Authority (OA) at 83% (committed at 92.5%)
 - Forecasted OA at 81% for FFY 2008
 - 42% forecasted reduction for FFY 2009 without a 3-cent increase in FFY 2008 for Federal Motor Fuels Taxes (18.4 cents)
- New and expanded flexibility to implement limited tolling on the Interstate System
- Expansion of TIFIA and Private Activity Bonds for privately run toll facilities and Intermodal Freight facilities
- House Transportation and Infrastructure Committee Chairman, Jim Oberstar (D-MN) is expected to introduce legislation to raise the federal gas tax by 5 cents in the near future
 - Increased revenues would be used to address national road and bridge repairs and improvements

A. Public Private Partnerships Overview



Development of Transportation PPP Market

With flat motor fuel tax collections and future increases unlikely, PPPs have garnered interest to meet the transportation funding gap.

States Are Exploring PPPs as an Additional Tool to Raise Funds and Monetize Value

- \$1.6 trillion of infrastructure needs over the next 5 years
- Insufficient federal and state funding and political reluctance to raise taxes
- Desire to accelerate projects, meet funding gaps and pass risks to the private sector
- Federal highway legislation has strongly encouraged PPPs
- Significant transportation and other capital needs have prompted governments to explore asset monetization
- Public backlash, particularly in Indiana and Texas, has states reconsidering traditional PPPs

Growth in Investor Demand for Infrastructure Assets

- Foreign investors and new domestic participants have shown strong interest drawn by attractive and stable returns of infrastructure assets
- Demand is high from both strategic/financial investors as well as from equity participants
- Financial institutions are currently in the process of raising significant capital to invest in global infrastructure assets
- Investors see U.S. as one of few first-world markets with substantial growth opportunities
- Investors have shown the greatest interest in seasoned infrastructure assets

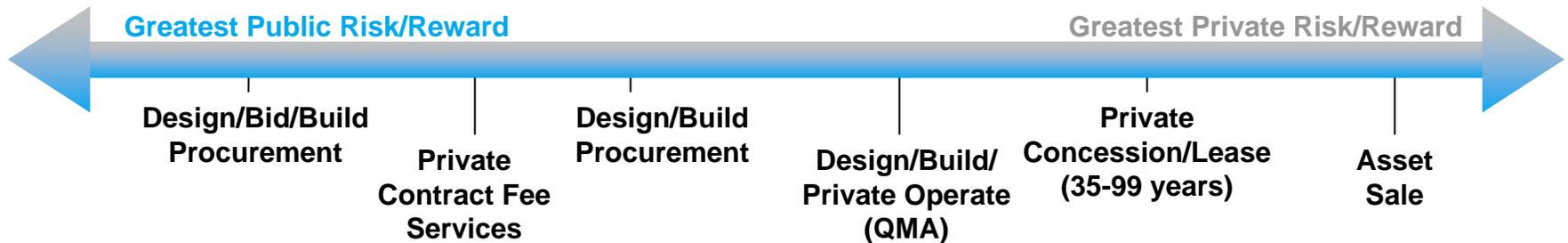
28 States Currently have PPP Enabling Legislation

| PPP Enabling Legislation | |
|--------------------------|---|
| State | Authorization |
| Alabama | - Alabama DOT and County Commissions authorized to license toll roads, toll bridges, ferries or causeways |
| Alaska | - Authorizes PPP to finance, design, construct, operate and maintain the Knik Arm bridge |
| Arizona | - Authorizes ADOT to request proposals from private entities |
| Arkansas | - Grants franchises for bridges, turnpikes or causeways through or along any watercourse |
| California | - Authorizes the CalTrans and regional transportation agencies to enter into lease agreements with public and private entities |
| Colorado | - Solicited and unsolicited PPP proposals are now allowed for specific CDOT projects |
| Delaware | - PPPs proposals, solicited and unsolicited, are now allowed |
| Florida | - FDOT authorized to receive or solicit proposals for PPPs; projects required to be on legislatively approved 5-year STIP |
| Georgia | - Georgia DOT authorized to accept solicited proposals for PPPs |
| Illinois | - PPPs for high speed rail and magnetic levitation transportation sanctioned |
| Indiana | - Allowed concession of Indiana Toll Road; authorizes Indiana Port Commission to enter into PPPs |
| Louisiana | - Allows parishes, municipalities and the Louisiana Transportation Authority to enter into PPPs; creates the LTA |
| Maryland | - Provides the Maryland Transportation Authority with the authority to construct toll roads using certain forms of PPPs |
| Massachusetts | - Authorized the Route 3 North Project to proceed as a PPP |
| Minnesota | - Authorizes PPPs for toll facilities including HOT Lanes |
| Mississippi | - Authorizes Mississippi Transportation Commission to enter into wide spectrum of PPPs |
| Missouri | - Creates the Transportation Corporation as a vehicle for PPPs |
| Nevada | - Authorizes public entities to accept unsolicited proposals to develop transportation facilities, excluding toll bridge and toll roads |
| North Carolina | - Allows North Carolina Turnpike Authority to construct toll facilities |
| Oregon | - Certifies Oregon DOT to award PPPs for tollway projects |
| Puerto Rico | - Allows PPPs in public highway projects. |
| South Carolina | - Approves South Carolina DOT right to enter into PPPs |
| Tennessee | - Authorizes Tennessee DOT to enter into a wide spectrum of PPPs including toll concessions, and design-build contracts |
| Texas | - Texas Tpk Authority and regional mobility authorities authorized to accept solicited and unsolicited proposals for PPPs |
| Utah | - Proves general authority for Utah DOT to establish toll roads |
| Virginia | - Authorizes PPPs and allows solicited and unsolicited proposals |
| Washington | - Authorizes up to six PPP demonstration projects |
| Wisconsin | - Authorizes build-operate-lease or transfer agreements for transportation projects |

Spectrum of PPP Alternatives

PPPs can include private involvement in many different facets of transportation projects.

- In addition to a concession, there are many different options of private participation



- Determining the appropriate PPP approach for individual projects within this spectrum will depend on a variety of factors including:
 - Public need
 - Feasibility of the project
 - Schedule for the project
 - Reasonableness of the financial aspects of the project
 - Impact of the project on local public sector transportation partners and other State and local municipal partners

Citi's North American Toll Road PPP Expertise

Citi has advised or executed a capital markets transaction on 5 out of the 7 toll road PPPs that have occurred in North America.

| SR 125 San Diego | 407 Toronto | SR 91 Toll Lanes | Skyway Chicago | Indiana Toll Road |
|--|---|---|---|---|
|  <ul style="list-style-type: none"> • San Diego, California • 10 mile greenfield toll road • 2003 • Advisor to Macquarie on the financing of the \$600 million project • Arranged and negotiated a \$140 million US DOT loan under the TIFIA program |  <ul style="list-style-type: none"> • Toronto, Ontario • 107 km green and brownfield toll road • 1999 • Co-advisor to the SNC Lavalin, Cintra and Caisse des Depots for acquisition of the C\$4 billion project • Joint lead arranger, underwriter and syndication agent of the senior bridge facilities • Joint lead arranger of hedge facilities • Arranger of Sponsor LC backstop for equity support |  <ul style="list-style-type: none"> • Riverside County, California • 10-mile greenfield toll road in the median of the Riverside Freeway • 1994 and 2001 • Lead arranger on project loan to construct project and bookrunner on the \$135 million refinancing bonds |  <ul style="list-style-type: none"> • Chicago, Illinois • 8 mile brownfield toll road and bridge • 2005 • Advisor to the Cintra-Macquarie consortium on their bid for the 99-year Skyway concession • Joint bookrunner and counterparty on \$1.4 billion of bonds and swaps |  <ul style="list-style-type: none"> • Indiana (Ohio-Indiana Border in the east to Indiana-Illinois Border in the west) • 157 Mile Toll-Road • 2006 • Capital Markets Advisor to Cintra-Macquarie on bid, currently analyzing takeout options |

Transportation Financing and Funding Tools Available

In addition to PPPs, States are undertaking a comprehensive review of a wide variety of transportation funding sources, across both the public and private spectrum

| Federal | State | Local | Private |
|--|--|---|--|
|  |  |  |  |
| <ul style="list-style-type: none"> • Highway Trust Fund • GARVEE / GANs <ul style="list-style-type: none"> – Direct / Indirect • Section 129 Loans • TIFIA <ul style="list-style-type: none"> – Direct Loan, Line of Credit, Loan Guarantee Highway Trust Fund • State Infrastructure Bank <ul style="list-style-type: none"> – Loans, Guarantees, Interest Rate Buydowns • Private Activity Bonds <ul style="list-style-type: none"> – SAFETEA-LU Alternative Funding | <ul style="list-style-type: none"> • Dedicated Highway Trust Fund (Leveraged and Pay-Go) <ul style="list-style-type: none"> – Motor Fuel / Sales Tax – Sales Tax on Motor Vehicles – Use Tax on Motor Vehicles – Licensing Fees • Tolls and Toll Credits • Obtain Design/Build Contract • Grants/Capital Contributions • Provide Shadow Tolls • Back-up Appropriations for Toll Roads, Highways <ul style="list-style-type: none"> – O&M, CapEx, DSRF Guarantee | <ul style="list-style-type: none"> • Right of Way • Tolls • Capital Investment • Special Tax Districts • Transportation Corporations | <ul style="list-style-type: none"> • Toll Concession <ul style="list-style-type: none"> – Debt – Equity • Leverage Availability Payments, including Shadow Tolls • Provide Design/Build Contract <ul style="list-style-type: none"> – Subordinate loan/up-front equity as consideration for contract |

General Benefits and Considerations of Privatization

Privatization allows the Public Entity to transfer certain risks/rewards to a Private Entity while maintaining public ownership.

- The Public Entity seeks an upfront or annual payments and reduction in operating/ownership risk
- The Private Entity seeks future equity returns comparable with alternative uses of capital

Public Ownership

Public Benefits

- Surplus revenues flow to project and related projects
- Public retains flexibility regarding road maintenance and toll pricing
- Can access low-cost, tax-exempt market

Public Considerations

- Public has operating risk/management responsibilities
- Willingness to raise tolls to fund other projects
- Significant amount of debt
- Public must fund current and future capital improvements

Private Ownership

Public Benefits

- Receives upfront payment or annual payments
- Private benefits “passed through” to public include:
 - Potential operating efficiencies, including tolling technologies
 - Potential accelerated completion of any additional segments

Public Considerations

- Private entity’s equity return
- Future maintenance/tolling governed by long-term agreement
- Measurement of Private Entity performance
- Political repercussions of increased tolls
- Decision on whether to assess property taxes on owner/lessee will impact upfront or ongoing payment

Public and Private Goals of a Transportation PPP

Successful PPP requires efficiently meeting public and private goals.

Public Goals (Seller)

- Receive a competitive valuation price
- Objective, fair and consistent financial assumptions
- Structure agreement to ensure future performance and efficiently allocating risks/responsibilities
- Manage political considerations
- Ensure a fair and transparent solicitation process
- Preempt/withstand legal challenge
- Strong public relations effort and notification
- Rules of privatization clearly outlined and maintained
- Sufficient time allowed between “bid” stages
- Full disclosure of information in organized, timely manor

Private Goals (Concessionaire)

- Anticipate a return on capital competitive with comparable investments
- Maximize strength of future revenue stream
 - Inflation protected return
 - Enforce rate increases
- Maximize leverage and financing flexibility
- Agreements have sufficient senior lender protections
- Structure agreement to ensure protection of equity investment
- Fair allocation of risks and *force majeure* protection between public and private entities

Citi's Lessons Learned

Citi's guidance will help the State understand the the political and technical challenges of executing a PPP

Citi has represented the successful bidder in 5 of the 8 executed North American Toll Road PPP transactions

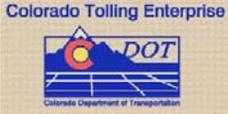
- Indiana Toll Road, Chicago Skyway, California SR 91, California SR 125 and 407 Toronto

Our Key Lessons Learned Are:

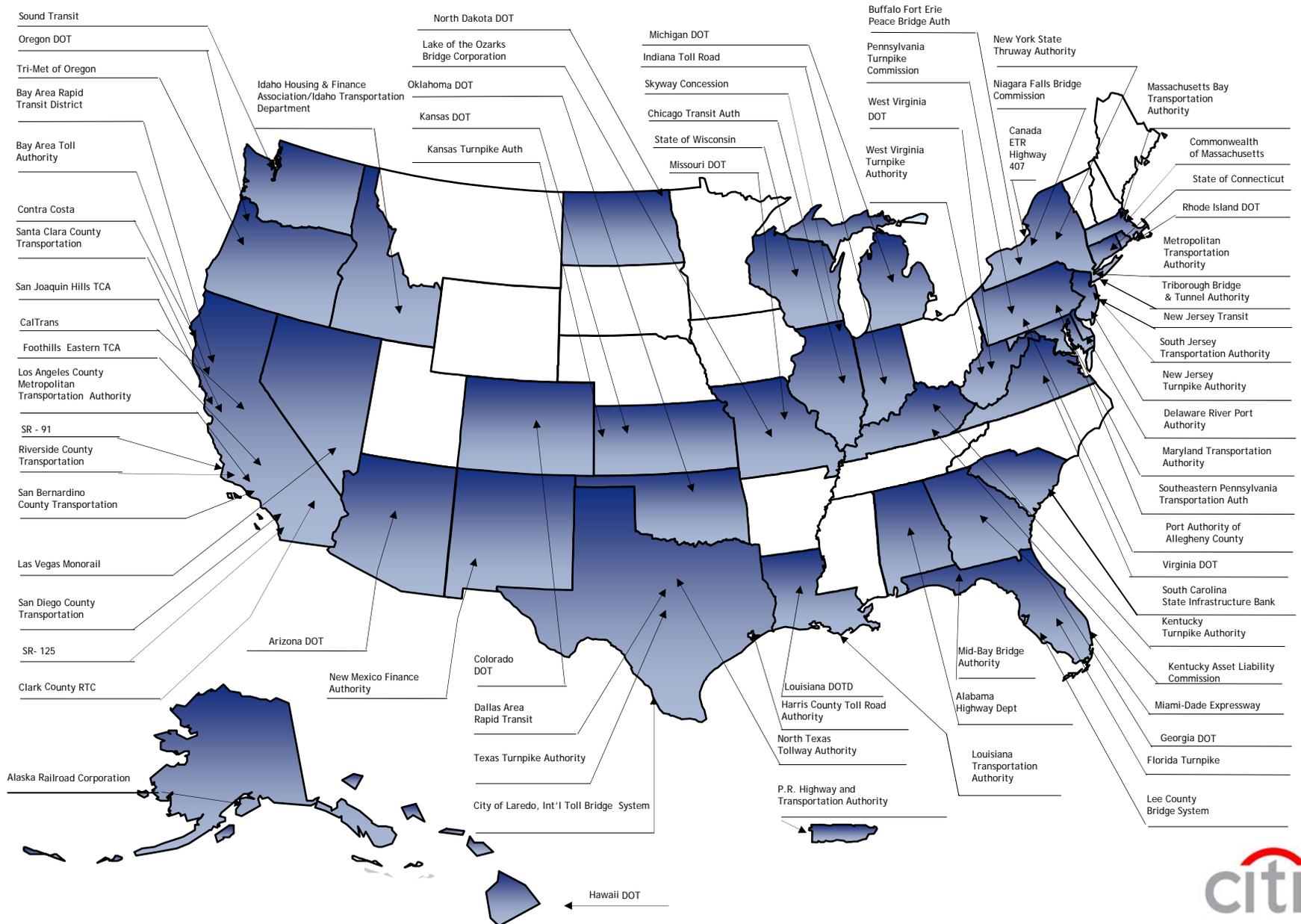
- Strategic governmental approach can increase competition and maximize value
 - Stapled financing can add value by establishing floor price and preventing insurance capacity from being locked up
 - Comprehensive traffic and revenue report focused on upside potential
- Provide bidders with a higher degree of certainty that the transaction will proceed
 - Maintain highly disciplined, credible process with consistent message
 - Obtain needed legislative approvals prior to beginning the bidding process
- Facilitate use of governmental programs, like tax-exempt debt and TIFIA, to maximize proceeds
- Concession term beyond 50 years may not materially improve value
- Give bidders adequate time and provide fair playing field
- Thoroughly examine public policy implications
 - Manage active public relations campaign
 - Politically feasible tolling regime

Citigroup's U.S. Toll Road Advisory Experience

Citigroup has experience working with municipal agencies, financial advisors and traffic consultants to develop and present valuation studies

| Harris County Toll Road Authority | Louisiana Transportation Authority | Peace Bridge Authority | Colorado Tolling Enterprise | Puerto Rico Hwys. & Transp. Auth. |
|--|---|---|---|---|
|  <ul style="list-style-type: none"> • Jan 06 – June 06 • Analyze Financing options and capacity analysis for existing and planned expansion • Evaluate public ownership options including the Enterprise Fund as well as regional / statewide entities • Analyze debt restructuring opportunities for the county and Toll Road Authority |  <ul style="list-style-type: none"> • Jan 03 - Jun 05 • Analyzed feasibility and developed financing strategy; including use of TIFIA for LA1 • Identified multiple revenue sources to enable feasibility • Citigroup senior managed the inaugural debt issuance in Jun-05 |  <ul style="list-style-type: none"> • Jul 04 - Mar 05 • Analyzed feasibility and developed financing strategy, including TIFIA, for bridge and plaza expansion alternatives • Currently working with the Authority to prepare for long-term bridge financing |  <ul style="list-style-type: none"> • Dec 02 - Aug 04 • Analyzed feasibility and funding analysis for 64 projects; 9 projects identified for Phase 1 • Explored the potential for a Denver Regional System and recommended a development plan |  <ul style="list-style-type: none"> • Jun 02 – Sep 03 • Represented PRHTA in renegotiation of the concession and restructuring the debt of the Moscoso Bridge • Restructuring gained \$24 million in released reserves • Toll bridge is owned by PRHTA, but built, operated and leased by Dragados |

Citi's Senior Managed Surface Transportation Clients



Representative Senior Managed Clients By Category

Citi serves the broadest and deepest transportation client base in the United States.

Revenue Bonds/GARVEEs



Toll Facilities



Mass Transit



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