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**Public-Private Partnerships Presentation  
2009 Tampa Bay Forum**

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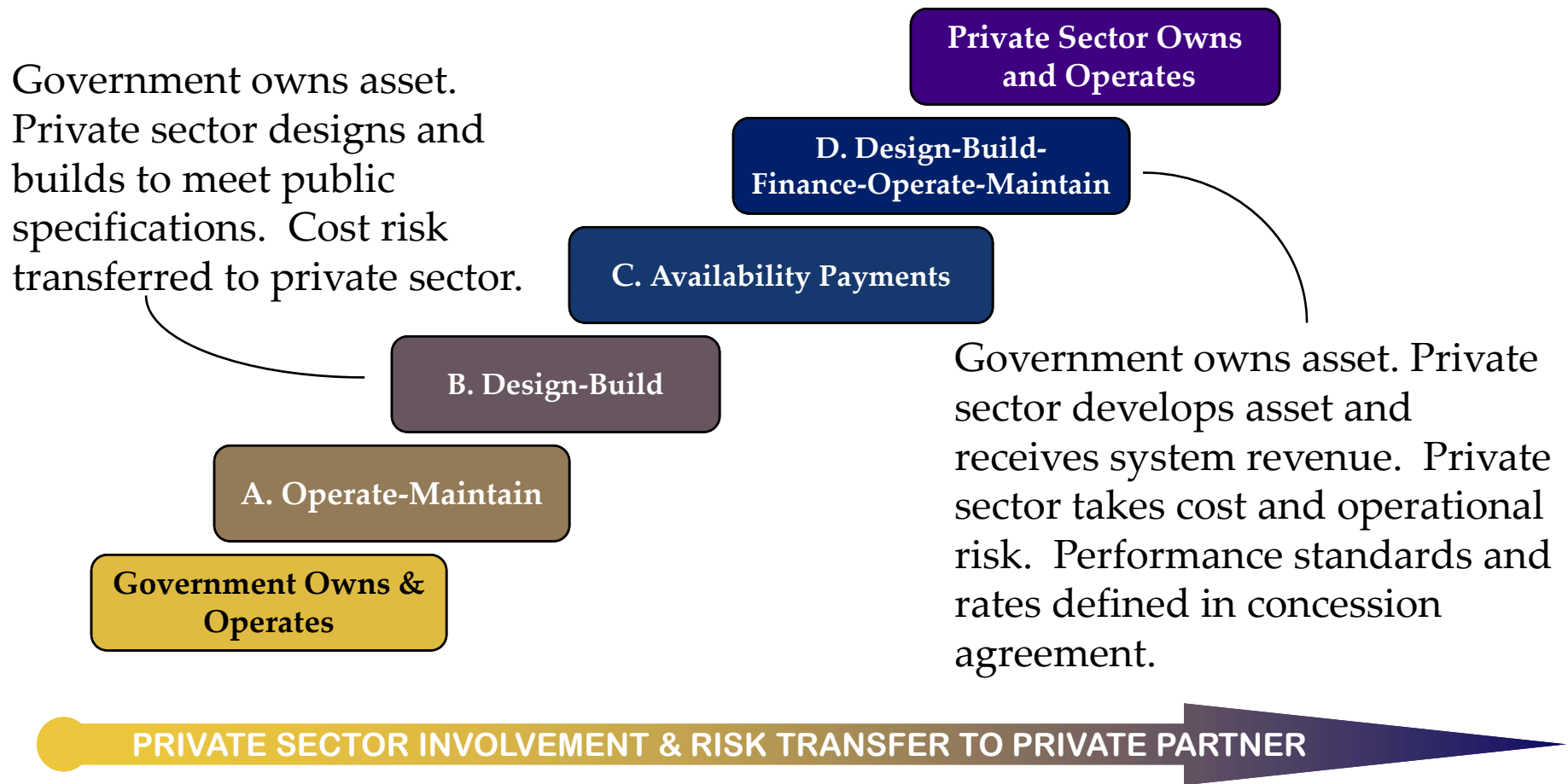
## What is a Concession?

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- Long-term lease between an asset owner (i.e. state, county or city) and a concessionaire
  - Consideration may include cash, ongoing rent payments or construction of new facilities
  - Terms of the agreement usually include:
    - Operating and maintenance standards
    - Toll rates
    - Scheduled capital improvements
    - Renewal and replacement requirements
    - Default provisions
- Assets are still owned by the government, although the concessionaire may be able to achieve “tax ownership”

# Evolution of Concession Agreements

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# Risks and Responsibilities of Concession Agreements

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## Public Entity Retains

1. Oversight and contract management



## Private Sector Accepts

All operating risks

2. Ability to set toll rates up-front



Revenue risks/gains

3. Ownership of assets



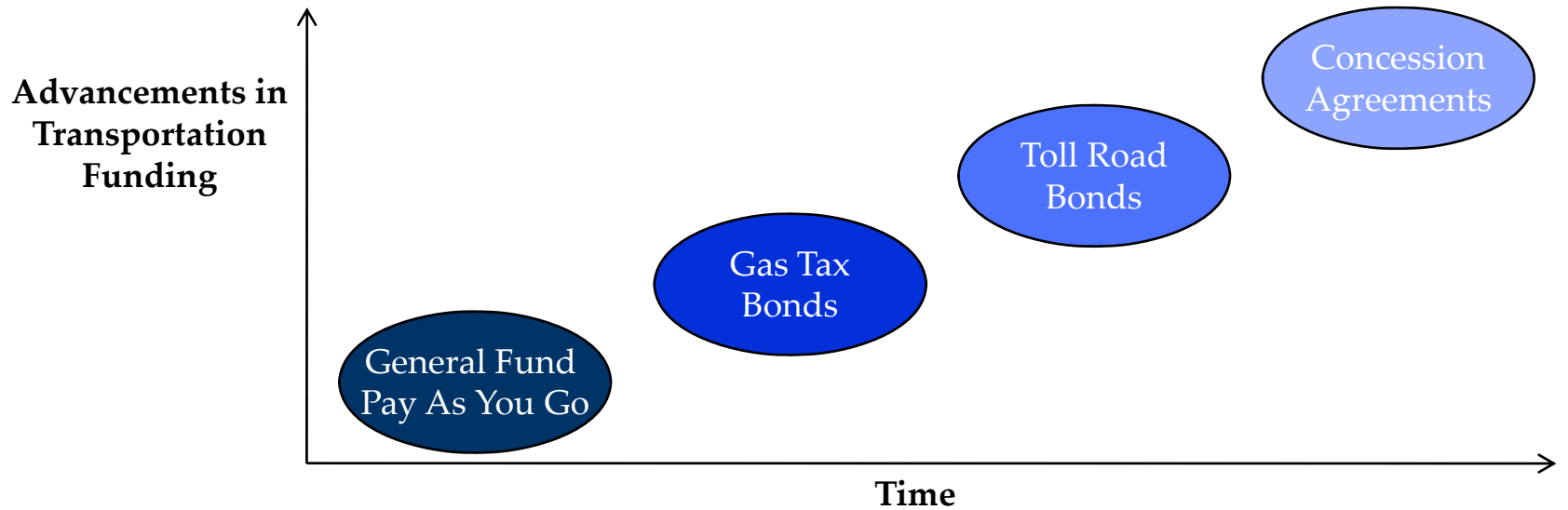
Long-term lease

4. Right to cancel agreement via default



Obligation to perform

# Transportation Concession Agreements: A New Transportation Funding Tool



## Characteristics:

- |                                     |                            |   |   |
|-------------------------------------|----------------------------|---|---|
| ▪ Tax revenues                      | ▪ User pay                 | ▪ User pay                                    | ▪ Private equity                          |
| ▪ Heavy burden on current taxpayers | ▪ Leverage on future taxes | ▪ Leverage on future tolls                    | ▪ Risk transfer (operations and revenues) |
| ▪ Limited flexibility               | ▪ Collection volatility    | ▪ Expansion limited by growth or higher tolls | ▪ Perception issues                       |

## Public Private Partnerships Can Be Used for a Variety of Asset Classes

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### Transportation

- Airports
- Ports
- Bridges/Tunnels
- Toll Roads
- Rail
- Car Rental Facilities
- Parking

### Other Revenue Producing Assets

- Power
- Water and Sewer Systems
- Lotteries
- Hospitals

## P3s Have Been Used Extensively in Europe, Asia, Australia and Canada

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Country	Airports	Ports	Roads	Water / Wastewater
France	X	X	X	X
United Kingdom	X		X	X
Spain	X	X	X	X
Germany	X		X	X
Australia	X	X	X	X
Canada	X	X	X	X
China			X	

## Types of Concession Agreements

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- Transportation concession agreements may be used for existing or planned facilities

### Brownfield

Existing facilities that have operating and performance records

### Greenfield

Desired or planned improvements that rely on feasibility reports, permitting, etc.

- Brownfield projects are easier to value and attract private capital
- Greenfield projects are speculative and offer more risks/upside to potential concessionaires

## Summary of Recent Developments

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- Toll Roads and P3's
  - The U.S. highway system has historically been improved and expanded through gas-tax funded sources
  - Significant growth in vehicle miles accelerated the need for toll roads
  - The growing development of toll roads by private companies across the world and privatization of existing assets is leading to a growth in the number of P3 projects
- P3's may provide increased efficiency, specialized management, and acceleration in project development and completion schedules
- Federal and state legislation has further encouraged private sector involvement in the designing, constructing, financing and operating of toll roads
- Strong international investor demand at historically low returns has resulted in aggressive bidding for infrastructure market share:
  - Significant demand with limited U.S. assets
  - Asset pricing is based on long-term inflation protected pricing
  - Toll roads provide favorable pricing when compared to other infrastructure projects due to the growing revenues and inelastic demand of toll roads

## Reasons to Consider Concessions

Reasons	Advantages	Disadvantages
Need for cash for general purposes	Aggressive revenue projections (via growth or toll increases)	Public perception of government's role/responsibility
Desire to monetize revenues for the purpose of investing in other transportation projects	Operating efficiencies	Distrust of private sector profit motives
Risk transfer strategy	Construction / Capital Expenditures	Accountability
Lack of political will to build new facilities via taxes	Low debt costs	Lack of competition and transparency
The U.S. is experiencing a period of high infrastructure investment activity		Concerns for safety and maintenance
Fiscal pressures at state and local levels		
Increased private capital for investment		
Viewed as an alternative asset class		
Possible new source of capital		

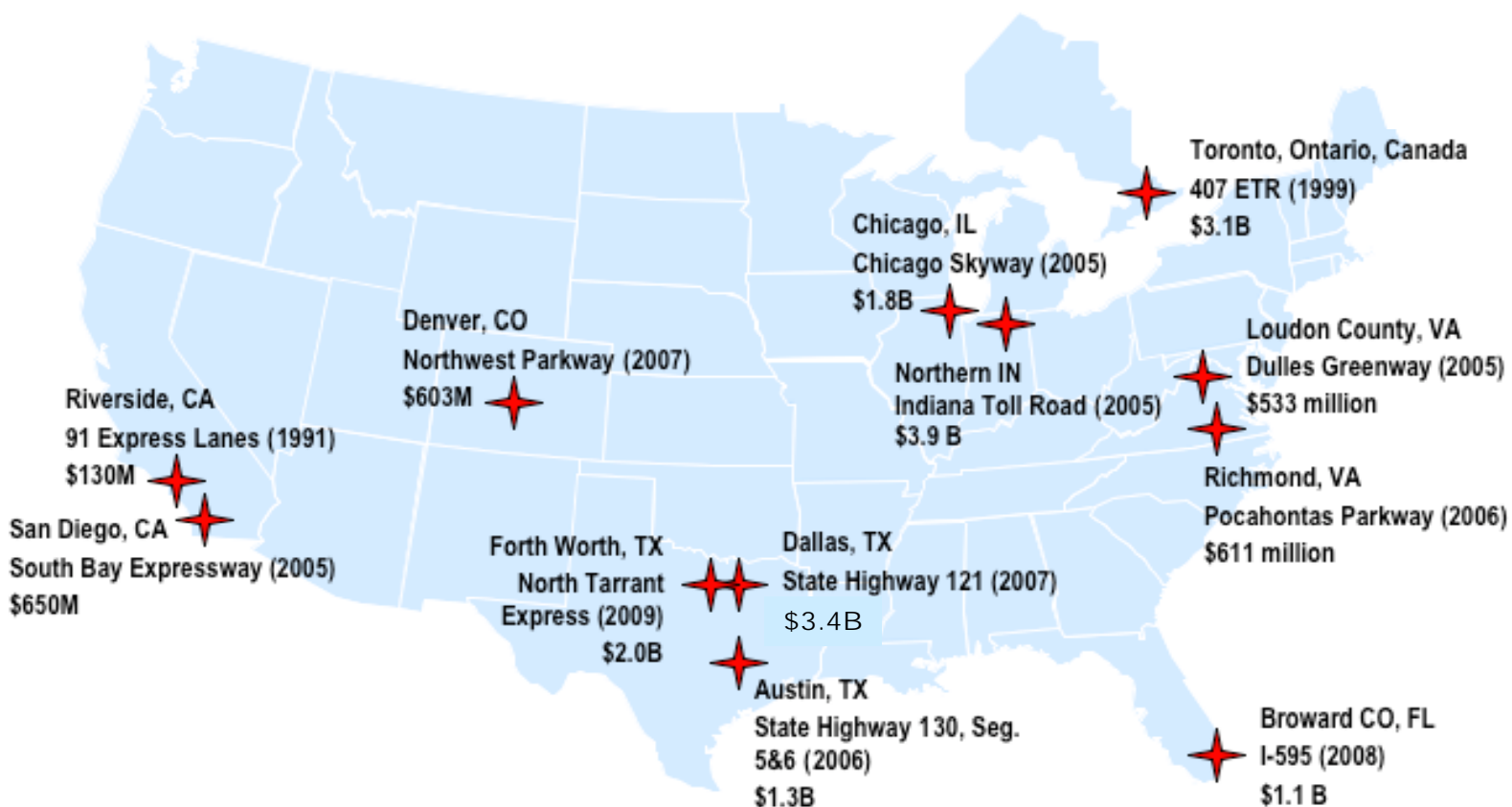
## Why Has Interest in Transportation Concessions Grown So Quickly?

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- Early Successes
  - Chicago Skyway
  - Indiana Toll Road
- Transportation Funding Gap
  - Estimated at \$47 billion per year
- Inadequacy of Other Funding Sources
  - Gas taxes periodically in decline
  - Lack of support for tolls and taxes
- Availability of Private Capital
  - Estimated at \$400-500 billion in U.S.

## Existing Domestic Concession Agreements

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## Concession Agreement Valuations

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Project	Road Length (miles)	Lease Length (years)	Upfront Payment	Sale Value / EBITDA
Pennsylvania Turnpike	531	75	\$12.8 B	N/A
Chicago Skyway	7.8	99	\$1.83 B	63.1x
Indiana Toll Road	156.9	75	\$3.8 B	63.5x
Pocahontas Parkway (VA)	8.8	99	\$548 MM	83.1x
SH 121*	26	99	\$3.4 B	N/A
Chicago Parking	N/A	75	\$2.5 B	35.2x
Chicago Midway*	N/A	99	\$2.5 B	N/A

\* Not Closed

# Major Public Policy Issues Relating to Transportation Concessions

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<u>Issue</u>	<u>Consideration</u>
<ul style="list-style-type: none"><li>▪ Award of the agreement</li></ul>	<ul style="list-style-type: none"><li>▪ Transparency, how the agreement is structured</li></ul>
<ul style="list-style-type: none"><li>▪ Term of the agreement</li></ul>	<ul style="list-style-type: none"><li>▪ Value of incremental term length</li></ul>
<ul style="list-style-type: none"><li>▪ Cash receipts</li></ul>	<ul style="list-style-type: none"><li>▪ Up-front payment or over time</li></ul>
<ul style="list-style-type: none"><li>▪ Toll increases</li></ul>	<ul style="list-style-type: none"><li>▪ Public's appetite for periodic toll increases</li></ul>
<ul style="list-style-type: none"><li>▪ Construction/expansion</li></ul>	<ul style="list-style-type: none"><li>▪ How future capital needs will be met</li></ul>
<ul style="list-style-type: none"><li>▪ Operating and maintenance standards</li></ul>	<ul style="list-style-type: none"><li>▪ Assurances, remedies</li></ul>
<ul style="list-style-type: none"><li>▪ Default</li></ul>	<ul style="list-style-type: none"><li>▪ Circumstances where the government can take back control of the assets</li></ul>

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## Recent Credit Crisis Impact on Concession Valuations

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- Despite early successes, recent concession attempts have failed due to credit market upheaval

Project	Reasons for Failure
New Jersey Turnpike	Public opposition, lack of political consensus
Miami Tunnel	Lack of capital formation
Pennsylvania Turnpike	Lack of political consensus
Chicago Midway	Credit spreads
Alligator Alley	Credit spreads

- Current investor base has been diminished due to recent credit crisis with remaining participants including mainly foreign corporations:
  - Fortress Investment Group
  - Macquarie Group of Australia
  - Caja Madrid
  - BNP Paribas
  - Royal Bank of Scotland
  - Société Générale
  - Cintra

## Global Credit Crisis Has Made Debt Financing For Concessions Very Difficult

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### Early Concession Agreements

Project	Debt Raised	Debt Cost	Interest Cost After Tax Deduction	Debt / Equity Ratio
Chicago Skyway	\$1.4 Billion	LIBOR + 125-175 basis points	3.9%	81/19
Indiana Toll Road	\$3.3 Billion	LIBOR + 125-175 basis points	4.2%	78/22

### Today

- If accessible, credit spreads for the above deals would be in the LIBOR + 400-500 basis points range
- Equity requirement would likely be 40-50%

## The Future of Concessions

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- Short term: Expect more syndication among private equity participants
- With economic recovery and stabilization of credit markets, lower credit spreads will make privatization more attractive
- Transportation funding gap continues to widen, making concession agreements desirable, especially for Greenfield projects
- Continued political debate about privatization, possible legislative actions restricting privatization