Generating Private Sector Financing

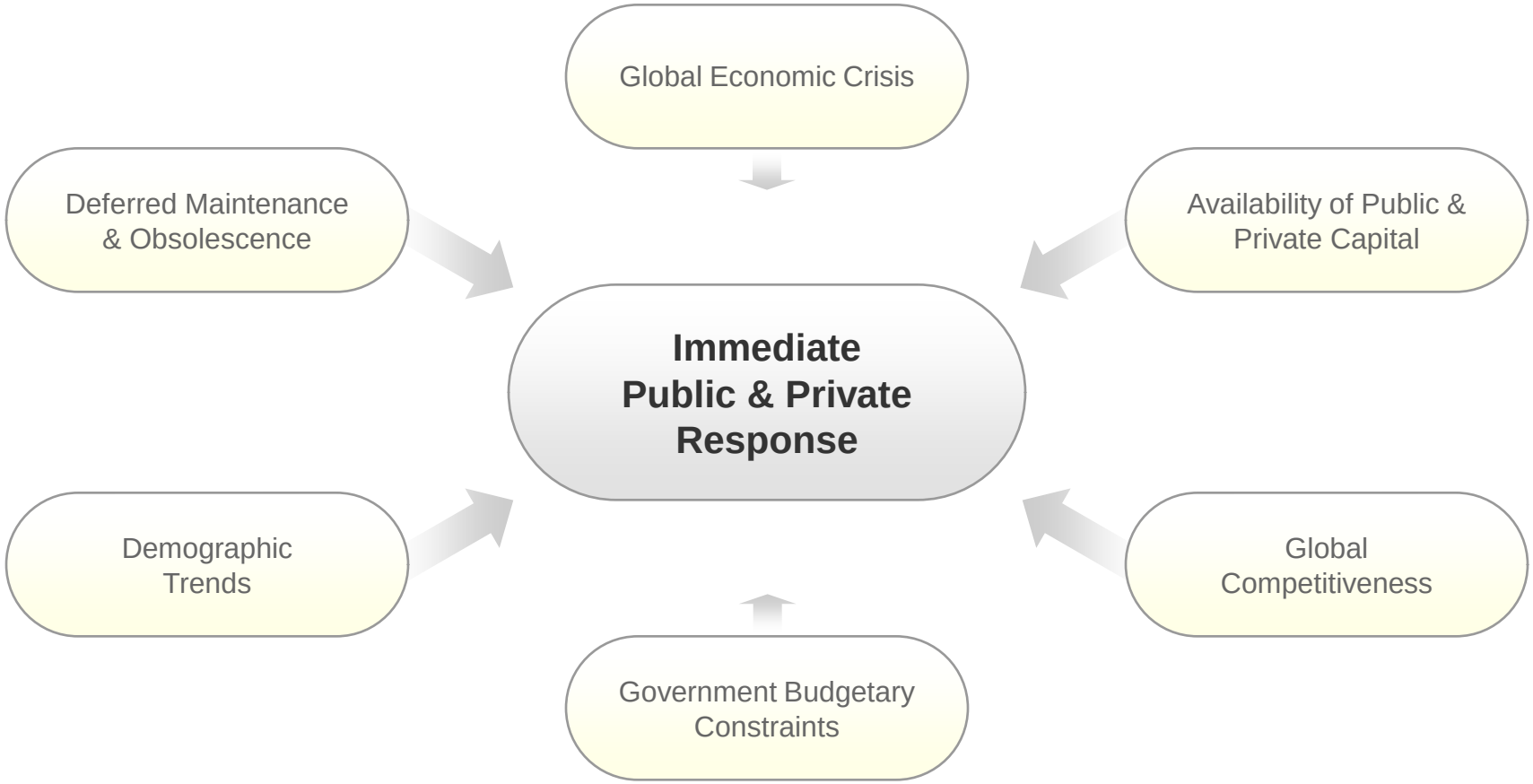
FTA Training Session, Atlanta, March 26, 2008

TRC
TABLE ROCK CAPITAL

Infrastructure Opportunity

CONVERGENCE OF FACTORS DRIVE 1: 50 YEAR INFRASTRUCTURE OPPORTUNITY

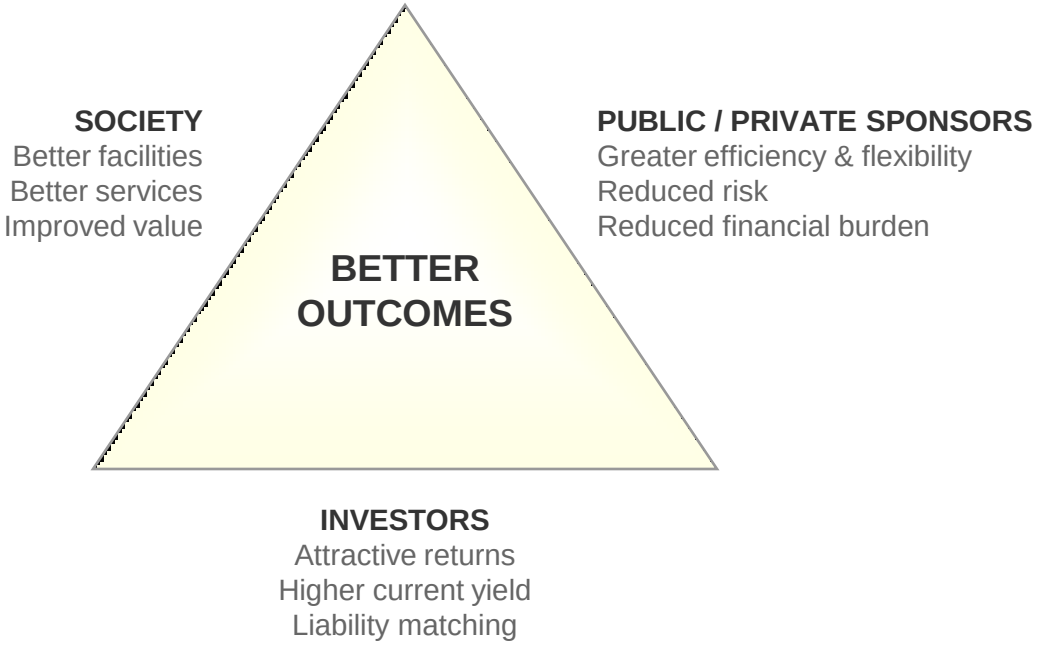
» **Factors present before the economic crisis, which is accelerating the opportunity**



Balancing Stakeholder Interests

CONSIDERATION FOR ALL PARTIES LEADS TO BETTER OUTCOMES

- **Blend public policy interface and finance experience**
  - Promotes ability to balance stakeholder priorities
  - Enables alignment of interests in complex projects
- **Crisis breeds opportunity**



Change in Procurement Methods

RISK TRANSFER GENERATES "BETTER OUTCOMES" AND LIFE CYCLE COST SAVINGS

- **Private sector capital is attracted by the opportunity to contract for the long term**
  - Investors looking for non-correlating, long duration assets with current income and low volatility
- **Moving from public to PPP approach changes roles and responsibilities**
  - "Whole Life Costing" aimed at "Better Outcomes" for the public sector

ADDRESSING DESIGN, BUILD, FINANCE, OPERATE ("DBFO") ELEMENTS

Public	Mixed	Private (PPP)
Public Sector: • **Input Specification** • Design & Engineering • Traditional Funding Sources • Acts as Operator • Covers Operating / Maint. Costs **Private Sector:** • Design/Build • Fits to Contracting Rules	**Public/Private Sector:** •Mix of Roles & Responsibilities	**Public Sector:** • **Output Specification** • Oversight **Private Sector:** • Design • Build • Finance • Operate • Maintain

Shift in Public Policy Since January 1, 2009

NEW ADMINISTRATION COMBINED WITH ECONOMIC STRESS DRIVES CHANGE

- **Three events converge to form a the basis of a shift in policy at the federal state and local levels**
  - Stimulus package
  - National Infrastructure Bank (“NIB”)
  - California PPP legislation
- **Taken together these public policy initiatives have the potential to reform infrastructure procurement practices for the long term**

Stimulus Package

- **$787bn stimulus package finalized in February 2009**
- **Approx. $150bn dedicated to infrastructure**
- **$38bn allocated to States for highways, bridges, public transit and water projects**
  - California received highest allocation of $3.9bn followed by NY and Texas at $2.8bn each
- **TIFIA**
  - $200 MM dedicated to TIFIA translates into ~$2 BN of additional lending
  - DOT will no longer fund projects on a first come, first serve basis. Reverting to a fixed date solicitation process that awards money to the highest-priority projects
- **Remainder allocated through federal programs including:**
  - School improvement programs
  - Renewable energy
  - Electricity delivery and reliability
  - Forest services

National Infrastructure Bank

- **A National Infrastructure Bank provision ($5bn/year for five years) was included in the FY 2010 Obama Administration Budget Summary released on February 27,2009**

- **Would provide grants, credit assistance and tax incentives to invest in America's Infrastructure**
  - NIB could support projects sponsored by public, private and non-profit entities

- **"Qualified projects" include transportation, water and wastewater, public housing, energy, schools and health care facilities**

- **Will encourage project sponsors to identify new revenue streams, promote effective governance and spark innovation in the infrastructure sector**

- **Proposed pilot program to provide:**
  - $9bn in discretionary grants
  - $10bn in direct loans for up to 33% of eligible project costs
  - $10bn in tax credit bonds

California PPP Legislation

- **New budget legislation passed on Feb. 19th to fill $42bn deficit through June 2010**
- **Budget provides enabling legislation for PPPs**
- **The legislation allows:**
  - Unlimited PPPs on state transportation projects through 2017 and up to 4,500 beds in community-based prisons for inmates nearing parole
  - Design / build procurement to be used on specific projects
  - Acceleration of environmental permit approval for 8 state road projects
  - Establishment of new entity called a Public Infrastructure Advisory Commission
    - Will advise California Department of Transportation (DOT) and regional transportation agencies in developing transportation projects through performance-based infrastructure partnerships

Private Capital is Available

CAPITAL STRUCTURES HAVE BEEN IMPACTED

- **Financing market has shifted**
  - Lenders demand credits that offer less risk, stable cash flows and greater visibility
  - Favors well-structured infrastructure projects
  - Broad syndications of debt are not available, but ‘Club’ deals can still get done
  - Debt margins have increased from 75-125 bps to 300 to 600 bps
- **In this most severe phase of the crisis limited deals are being done with 100% equity**
  - Plan to re-finance once the financial markets begin to recover
  - Adds significant re-financing risk
  - 100% equity project are a temporary approach - not sustainable or desirable for an extended period of time
- **Expect project financing for infrastructure projects to improve before corporate financing**
  - Well-structured deals with solid commercial structures and low business risk will be able to attract debt and equity
  - Terms will improve as the crisis abates

Florida I 595 Case Study

AVAILABILITY PAYMENT STRUCTURE APPLIES TO MASS TRANSIT

- **Florida Department of Transportation (FDOT)**
- **$1.76 BN 35 year concession**
- **ACS Dragados Development**
- **FDOT will set toll rates, retain all revenues and make availability payments to the private concessionaire from toll proceeds.**
- **High Occupancy Toll ("HOT") Lanes in the center of I-595**

  $800 MM Private Bank Loan

  $675 MM TIFIA Loan

  $200 MM Private Equity
- **10 Year private bank loan package**

Equity Investment Drivers

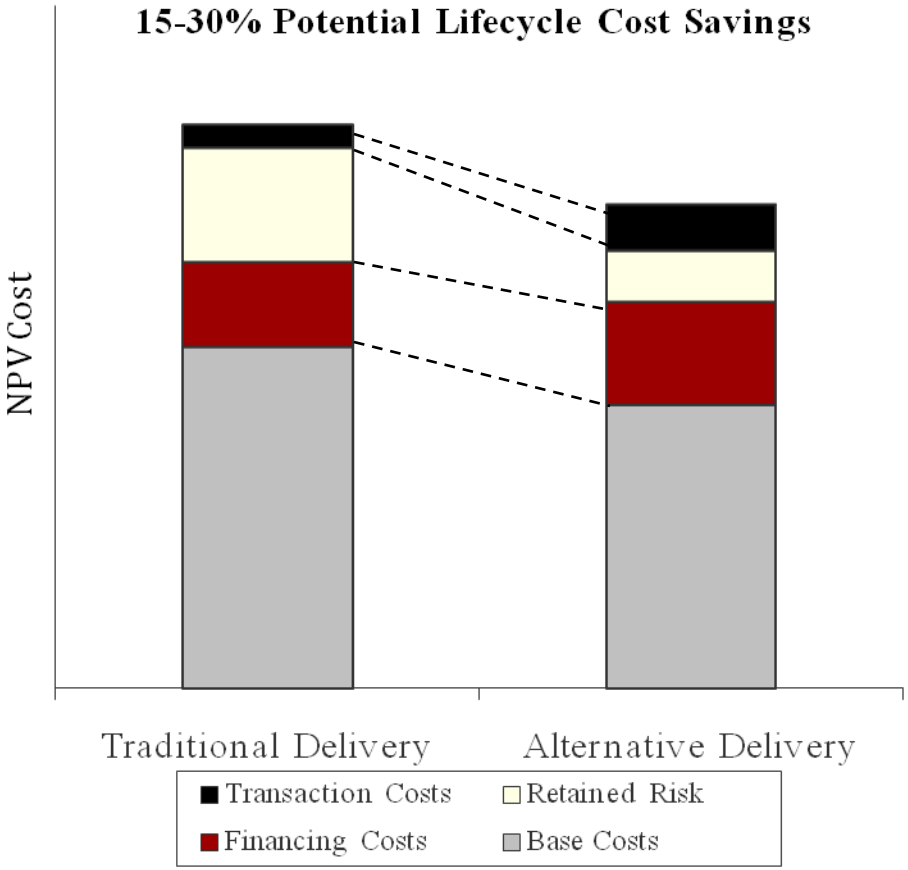
WHAT MOTIVATES PRIVATE SOURCES OF CAPITAL

- **Procurement process reliability**
  - Well-thought out process that doesn't change mid-course
  - PPP legislation finalized before starting procurement
  - Timely procurement and contract negotiations
- **Realistic project structure**
  - Clearly defined roles and responsibilities
  - Realistic and effective risk sharing
  - Predictable and reliable stream of future cash flows
    - Availability payments
    - Comparatively stable fare box and traffic flow
  - Demonstrated Value for Money ("VfM") in the public/private sector comparator
    - Reduces political risk
    - Creates long term stability for the public benefactors and private investors

Value for Money ('VfM') / Comparator

TOOL FOR EVALUATING PROJECT DELIVERY MODELS

- Defined as the "optimum combination of whole life costs and quality (or fitness of purpose) of the good or service to meet the user's requirements" [1]
- VfM analysis compares the NPV of total project costs to public sector of traditional and alternative delivery methods
- Drivers of VfM
  - Life cycle costing
  - Competition
  - Single point of responsibility
  - Output based contracting
  - Innovation
  - Economies of scale
  - Scope efficiencies
  - Bulk purchasing power of the public sector

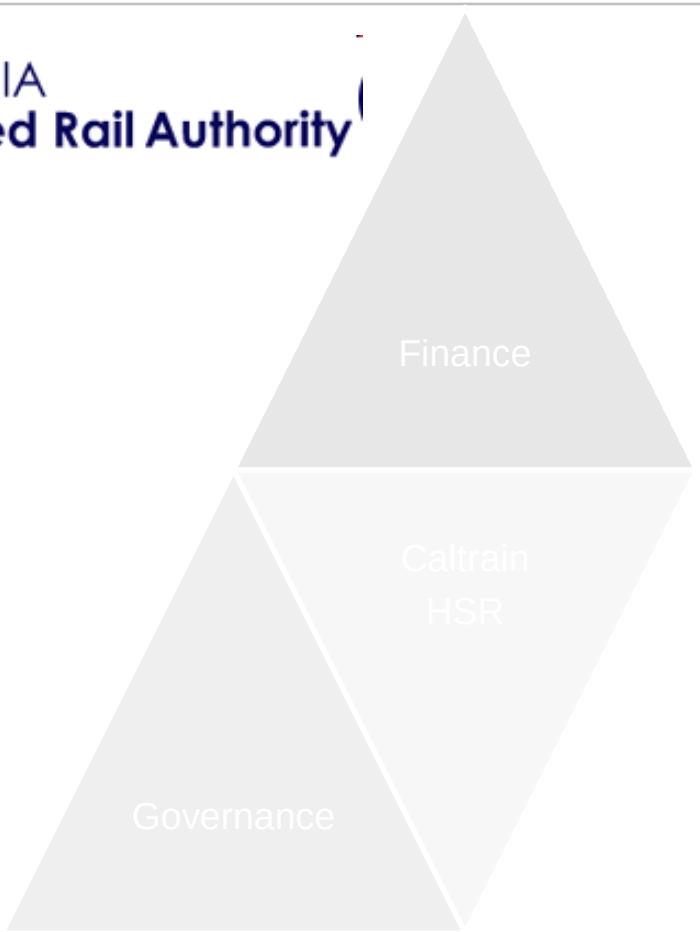


1. UK's HM Treasury Value for Money Assessment Guide

Cal Train, California High Speed Rail

TOOL FOR EVALUATING PROJECT DELIVERY MODELS

CALIFORNIA High-Speed Rail Authority



Putting the Pieces Together

Caltrain

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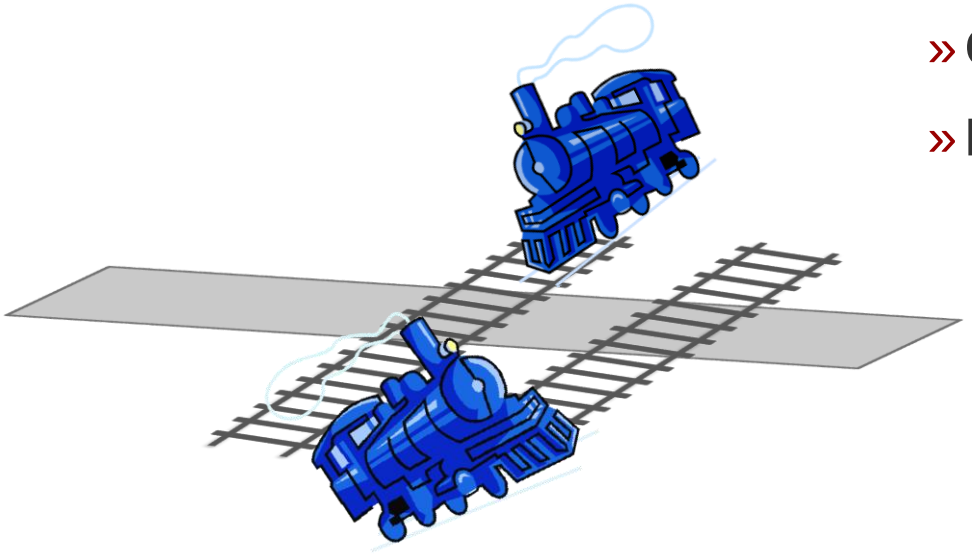
Cal Train / HSR – Ideal Case



Status Quo

- » **Cal-Train Only**
- » **Diesel Powered**

Today

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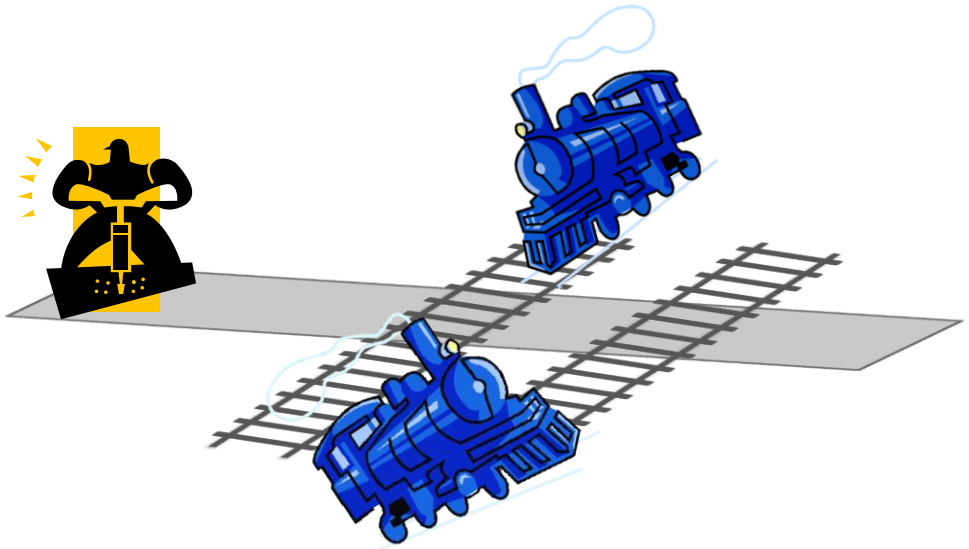
Cal Train / HSR – Ideal Case



Stage 1

- » **Cal-Train Only**
- » **Diesel Powered**
- » **Regional Coordination**
- » **Initial Cost Sharing**

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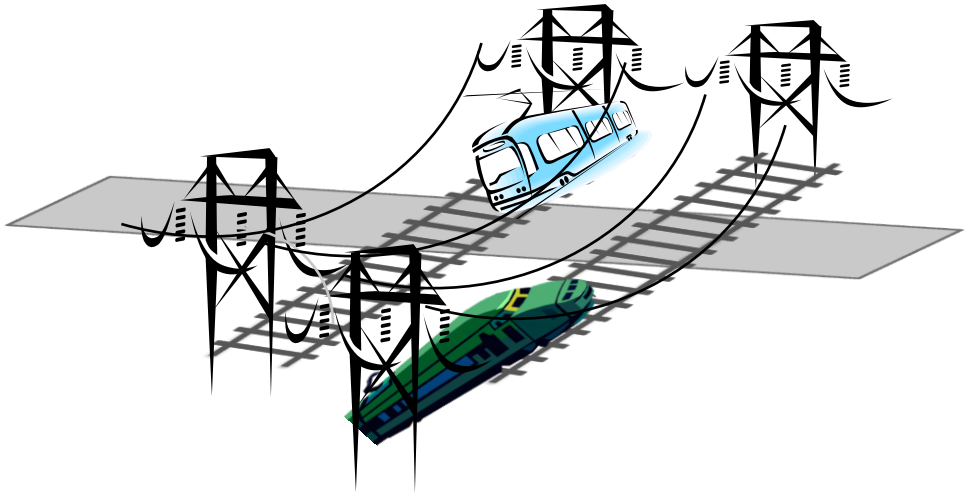
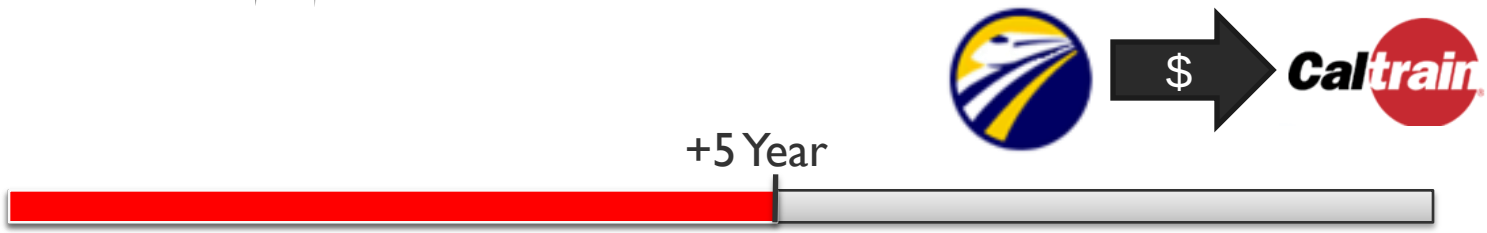
Cal Train / HSR – Ideal Case



Stage II

- » **Cal-Train + HSR on same tracks**
- » **Electrically Powered**
- » **Initial Operating Agreement**
- » **Regional Control w/ State Planning**



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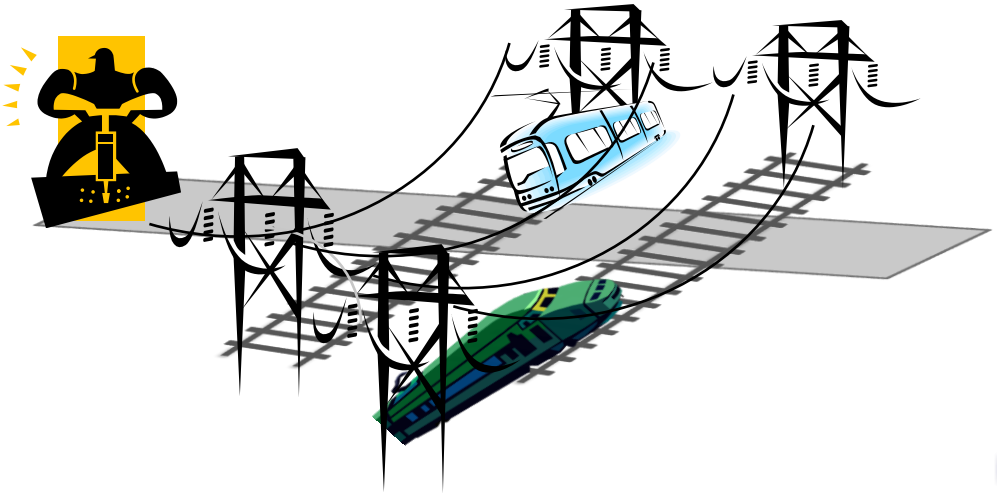

Stage III

- » **Cal-Train + HSR**
- » **Electrically Powered**
- » **Initial Operating Agreement**
- » **Regional Control w/ State Planning**

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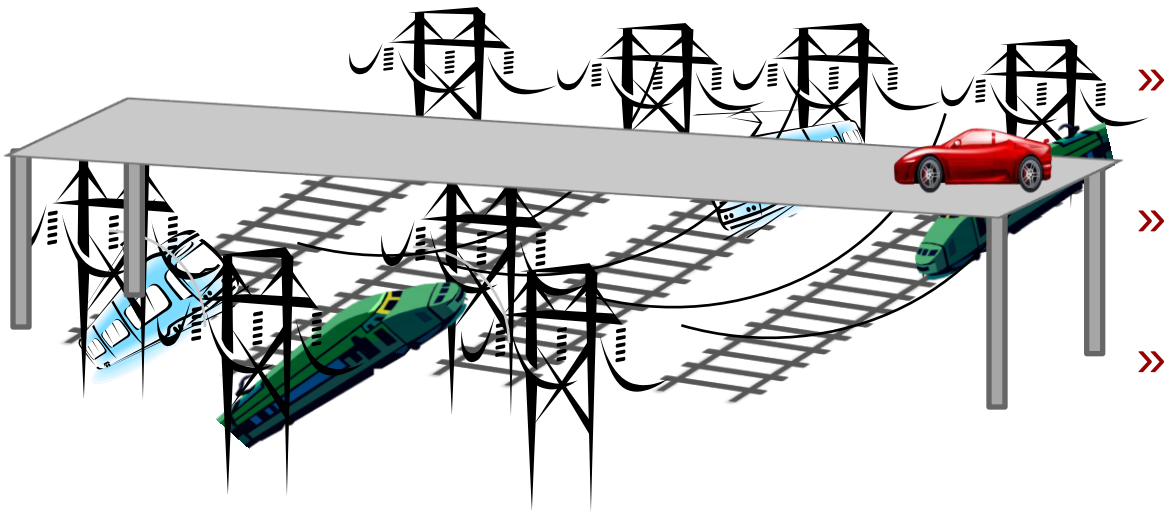
Cal Train / HSR – Ideal Case



Stage IV

- » **Independent, mutually supportable tracks**
- » **Revised Operating Agreement**
- » **Integrated Regional & State Control**
- » **Grade Separated, Optimal Speeds**

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Finance Issues – Conclusions

Now

Collaboration for electrification

- *HSR shares investments and/or provides funding*

Shared tracks

Operating agreement

- *Price considers use of the infrastructure and services provided by Caltrain*

Shared new investments

- *Caltrain' stake is based on future benefits generated by new investments*

Separated tracks

Operating agreement II

- *May be beneficial for both companies to keep the agreement*

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Finance Issues – Next steps

Operating Agreement

Cost of services

- *Cost for HSR to use Caltrain's assets*
- *Cost of services that will be provided to HSR*

Shared investments

Impact in revenue/costs (in collaboration with HSR)

- *Potential gain from commute passengers*
- *Gains in efficiency*
- *Potential attraction of new passengers*
- *Potential loss from migration of passengers and possible mitigations*
- *Potential loss during construction*

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Attracting Private Capital

DEFINING PUBLIC PRIVATE SECTOR PARTNERSHIPS IN THE U.S.

PLANNING REFORM	Federal, State, Local Coordination; life cycle planning & costing
PUBLIC/PRIVATE INTERFACE	NIB: debt funding in Crisis, TIFIA Reform; center of PPP expertise
CROSS CUTTING POLICIES	Resolve cross cutting policies; implement rigorous comparator
LABOR & ENVIRONMENT	Labor standards; improved EA process; opportunity cost assessment
1:50 TO 1:100 YEAR OPPORTUNITY	Improve global competitiveness, economic productivity, create jobs

PRIVATE CAPITAL WILL FLOW

Contact Us

PHONE, FAX, E-MAIL

Peter Luchetti, Partner

Table Rock Partners, L.P.
Managed by Table Rock Capital, LLC
600 Montgomery St. (Eighth Floor)
San Francisco, CA 94111

Main: 415-274-0800
Fax: 415-274-0802