Generating Private Sector Financing

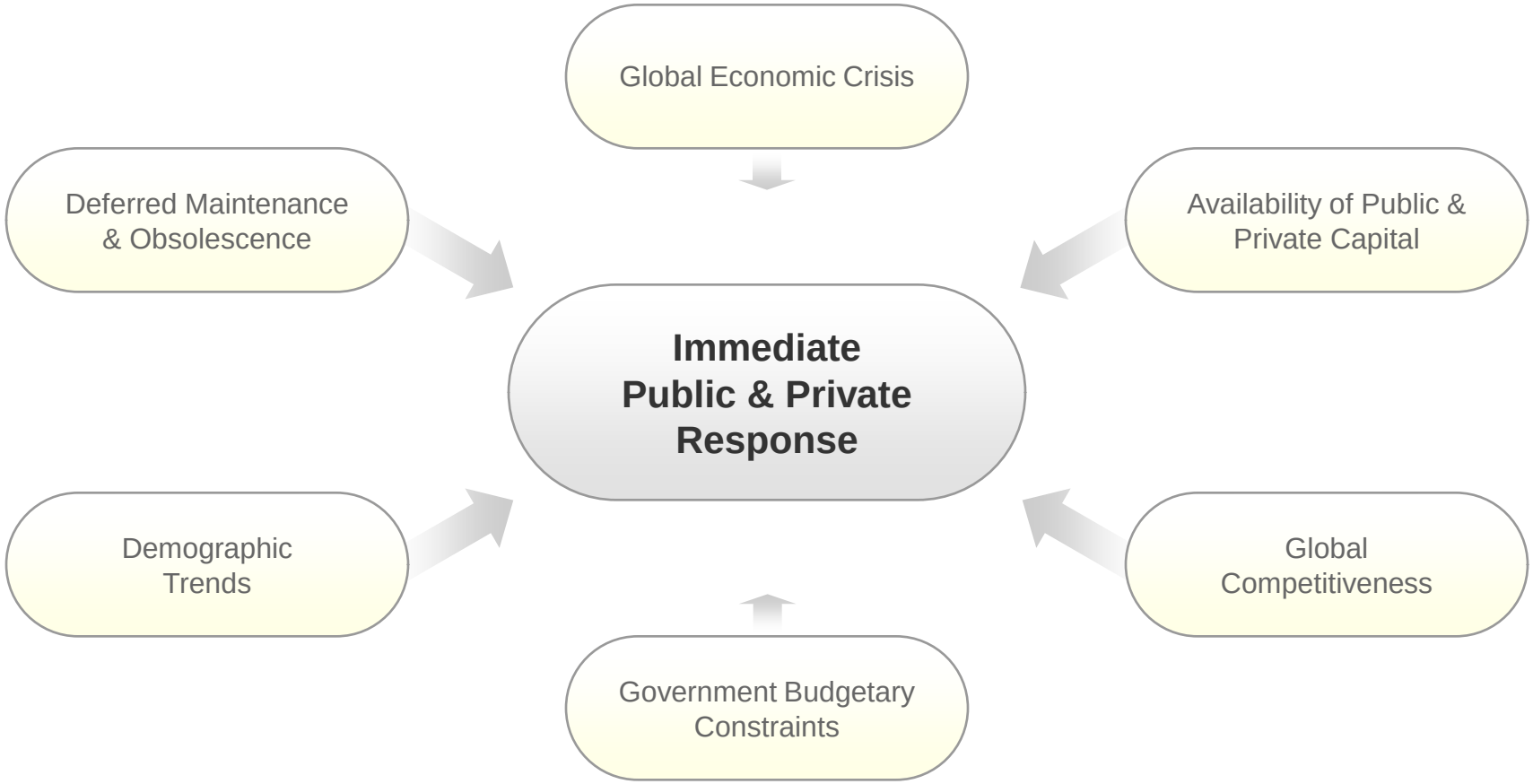
FTA Training Session, San Diego, July 8, 2009

TRC
TABLE ROCK CAPITAL

Infrastructure Opportunity

CONVERGENCE OF FACTORS DRIVE 1: 50 YEAR INFRASTRUCTURE OPPORTUNITY

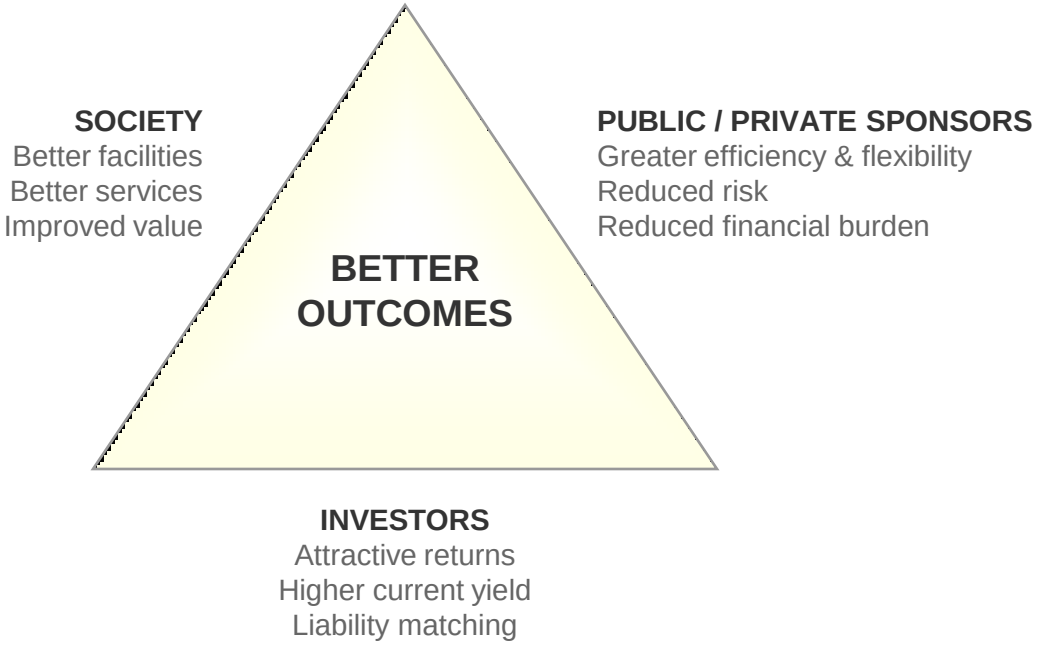
» **Factors present before the economic crisis, which is accelerating the opportunity**



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 SB 4 legislation, center for expertise, unlimited transport PPP’s
  - New York State, State Asset Maximization Board
  - 26 States with some form of PPP legislation
- **Taken together these public policy initiatives have the potential to reform infrastructure procurement practices for the long term**

Stimulus Package

STIMULUS MONEY ALLOCTIONS ARE NOT REACHING AN ADVANCED STAGE

- **$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 ("NIB")

THE NIB CONCEPT IS STILL AT A NACENT STAGE OF DEVELOPMENT

Build America's Future Coalition

- **A National Infrastructure Bank ($5bn/year for five years)**
  - Provides grants, credit assistance and tax incentives
  - Supports projects sponsored by public, private and non-profit entities
- **"Qualified projects"**
  - transportation,
  - water and wastewater,
  - public housing,
  - energy,
  - Schools
  - health care facilities
- **Encourages 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
  - [illegible]
  - project costs

Recent House Version Rosa DeLauro

- **A National Infrastructure Bank ($5 bn/year for five years)**
  - Government backed independent organization
  - Authority to issue tax exempt bonds, make loans and provide loan guarantees
- **Additional $225 BN available from Treasury**
  - 2.5 times multiplier creates[$625 bn] of credit capacity
- **Appears to have similar mandate?**

California & New York PPP Legislation

IMPORTANT LEGISLATIVE DEVELOMENTS IN LEADING STATE ECONOMIES

California #1 Sate GDP

- **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

c

New York #3 State GDP

- **New budget legislation passed on June 1sth, 2009**
- **State level entity to oversee, approve and enable the use of PPP's**
- **Similar to Partnerships BC and Infrastructure Ontario**
  - Serve as a central clearinghouse for shepherding PPP projects from conception to implementation
  - Alternative for providing up to $175 bn in State transportation funding
  - 26 current recommendations include:
    - Bridge improvements
    - High-speed rail
    - Transmission & distribution
    - Data centers, communications

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

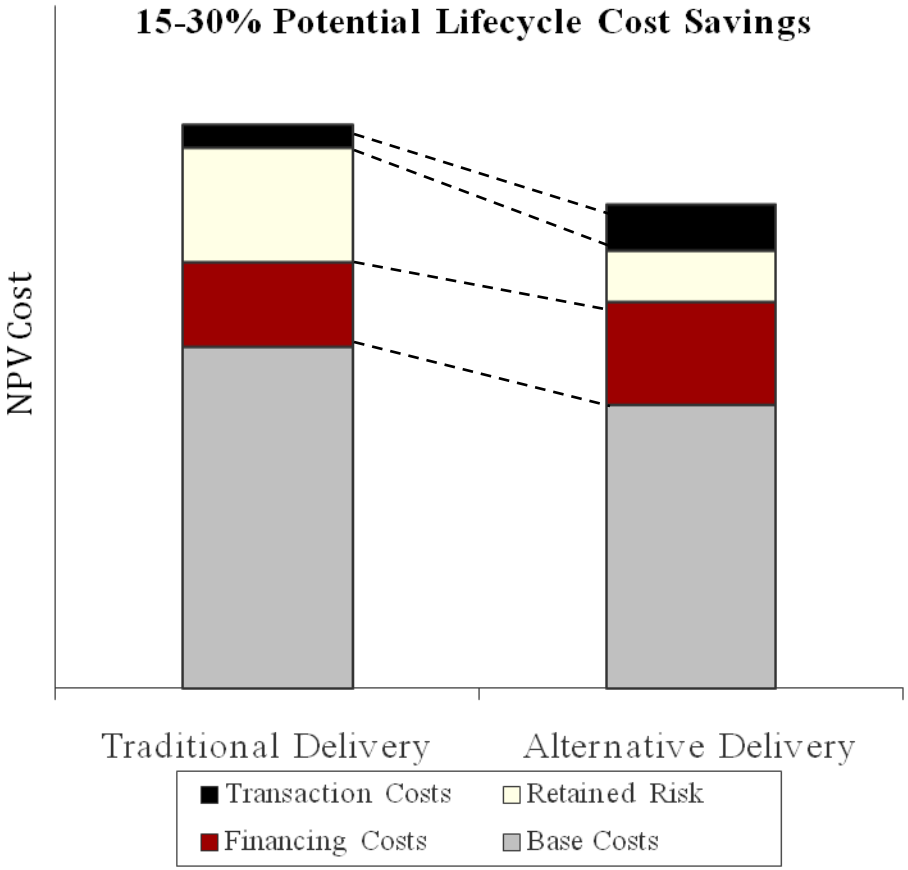
WHAT MOTIVATES PRIVATE SOURCES OF CAPITAL

- **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

Risk Transfer – Cash Flow Water Fall

CAPITAL BELTWAY PROJECT

Gross Revenue

O&M Costs

Capital Expenditures

Senior Interest

Senior Principal

Debt Service Reserves

TIFIA Mandatory Debt Service

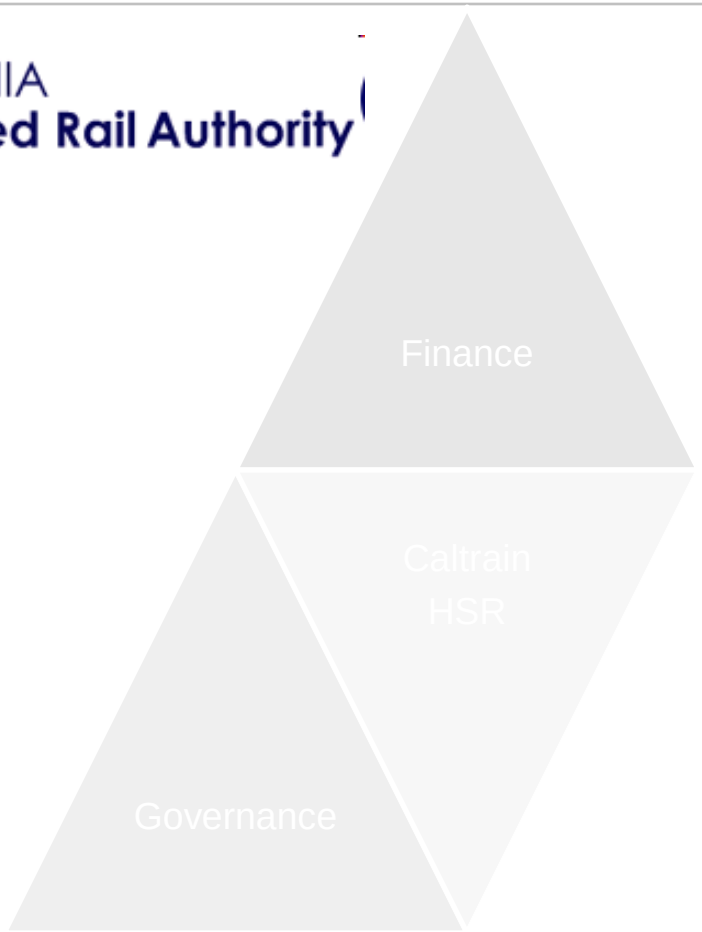
TIFIA Scheduled Debt Service

Equity Distributions

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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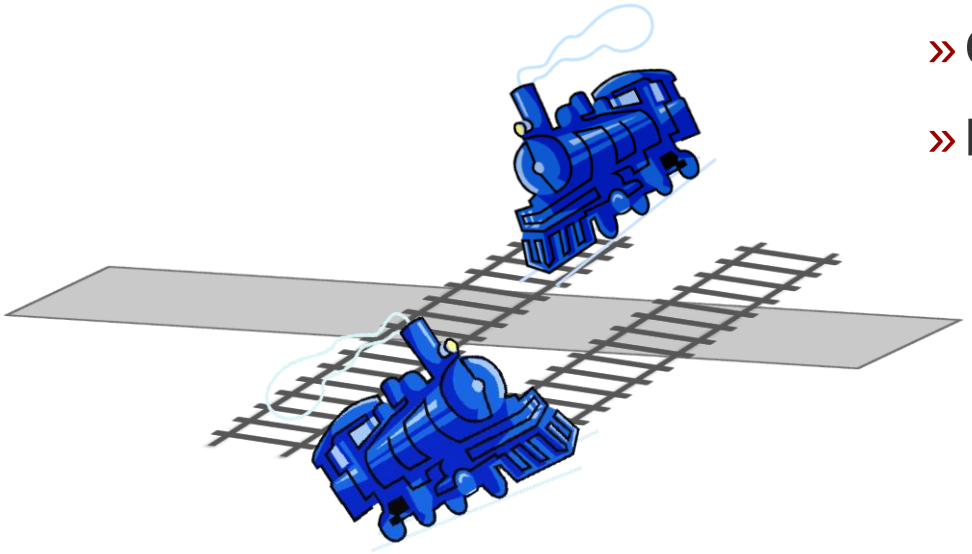
Cal Train / HSR – Ideal Case



Status Quo

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

Today

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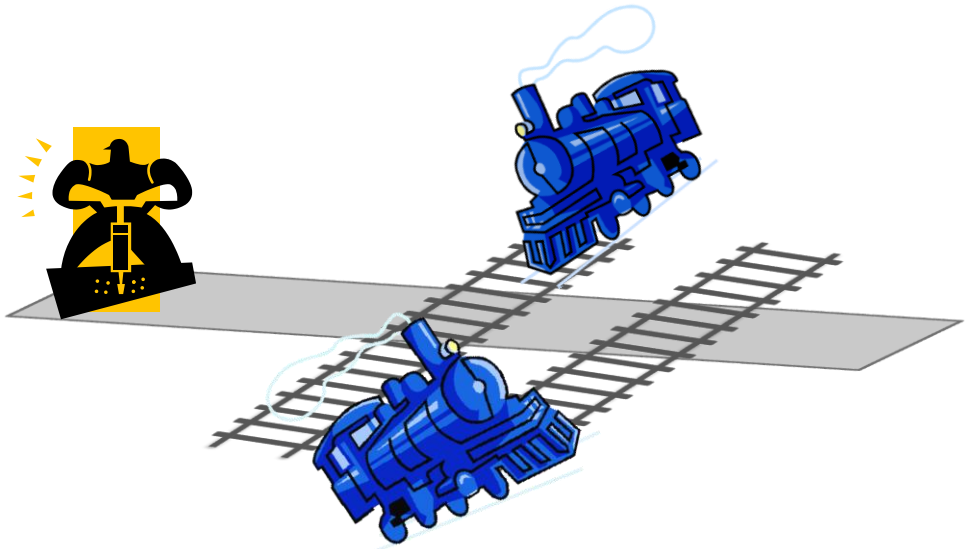
Cal Train / HSR – Ideal Case



Stage 1

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

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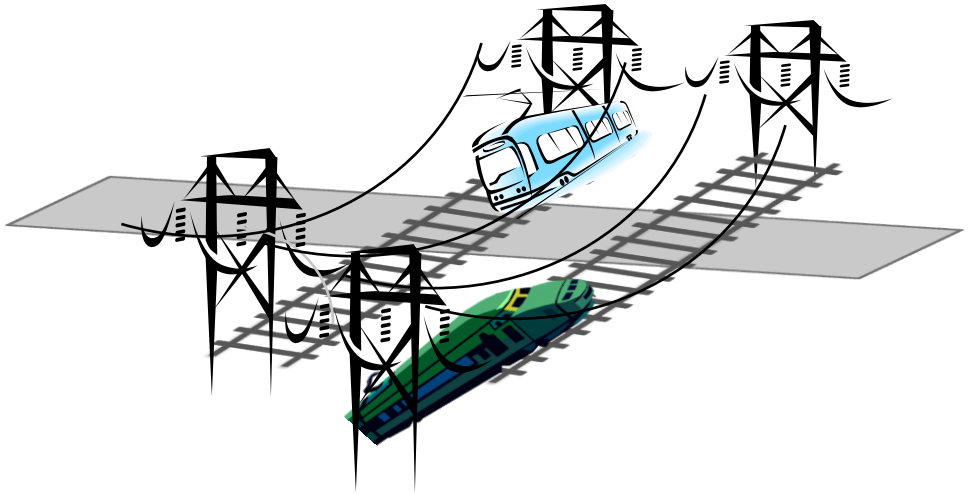
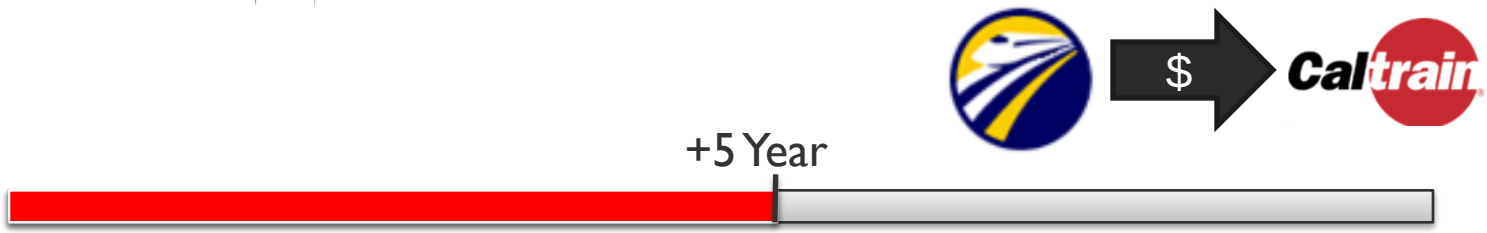
Cal Train / HSR – Ideal Case



Stage II

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



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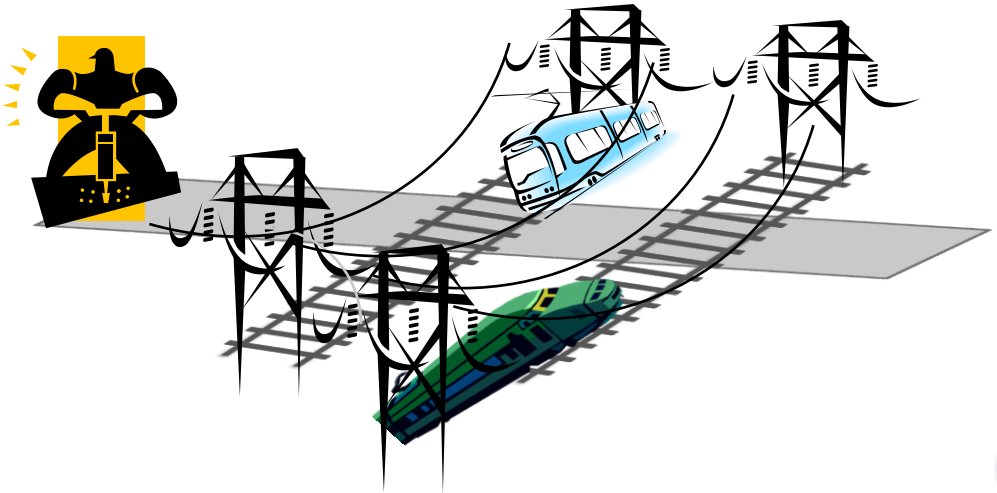

Stage III

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

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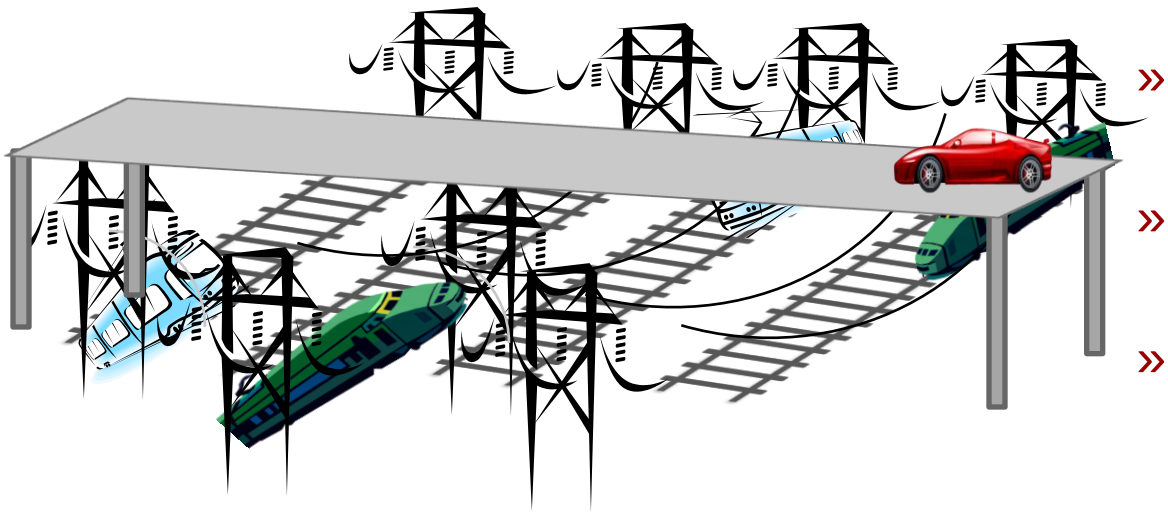
Cal Train / HSR – Ideal Case



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

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