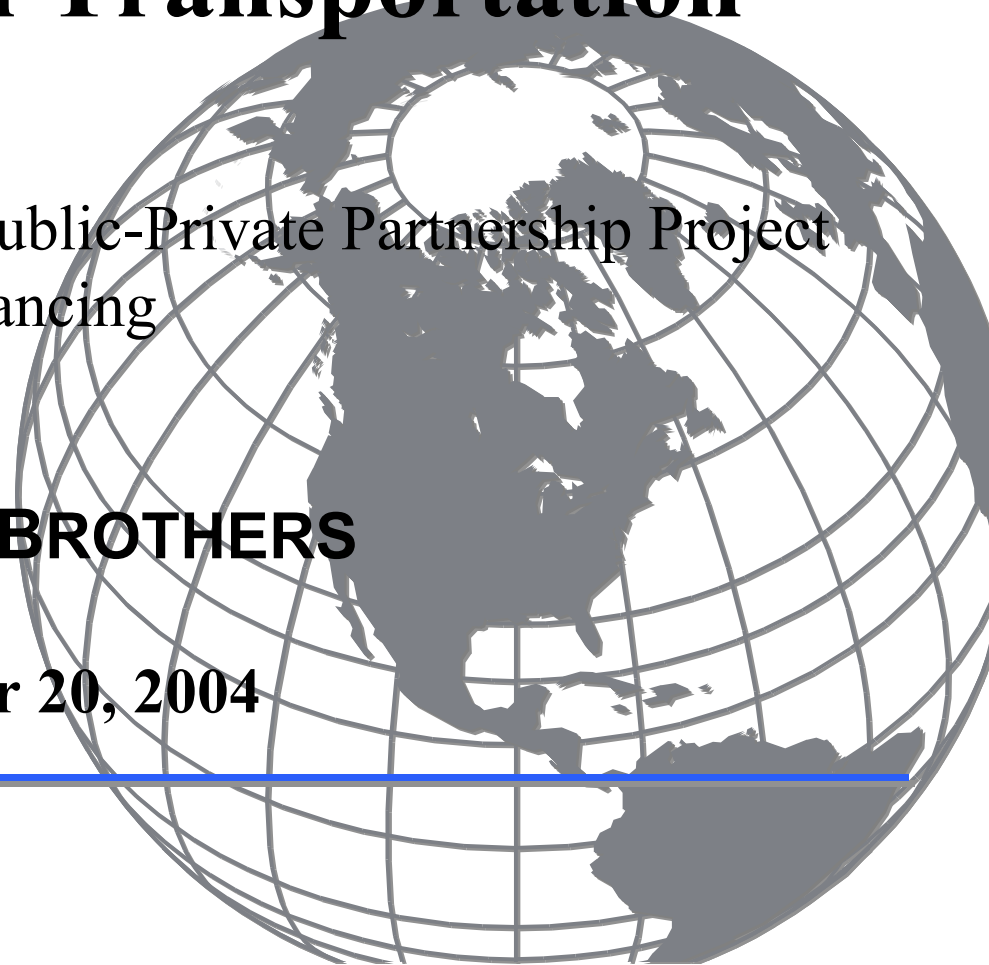

Partnerships in Transportation

Overview of Transportation Public-Private Partnership Project
Financing

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October 20, 2004



Financing Approaches for Public-Private Partnerships

- There are four basic public-private partnership structuring approaches based on project ownership and operation

	Ownership	Operation	Partnership Agreement Term	Typical Model
I	Public	Private	3 to 5 years	Operations Only
II	Public	Private	5 to 25 years	Design/Build/Operate
III	Private	Private	25+ years	Design/Build/Operate/Own with possible Transfer
IV	Private	Private	Various	Design/Build/Operate/Own

Financing/Ownership Options for New Infrastructure Projects

Financing

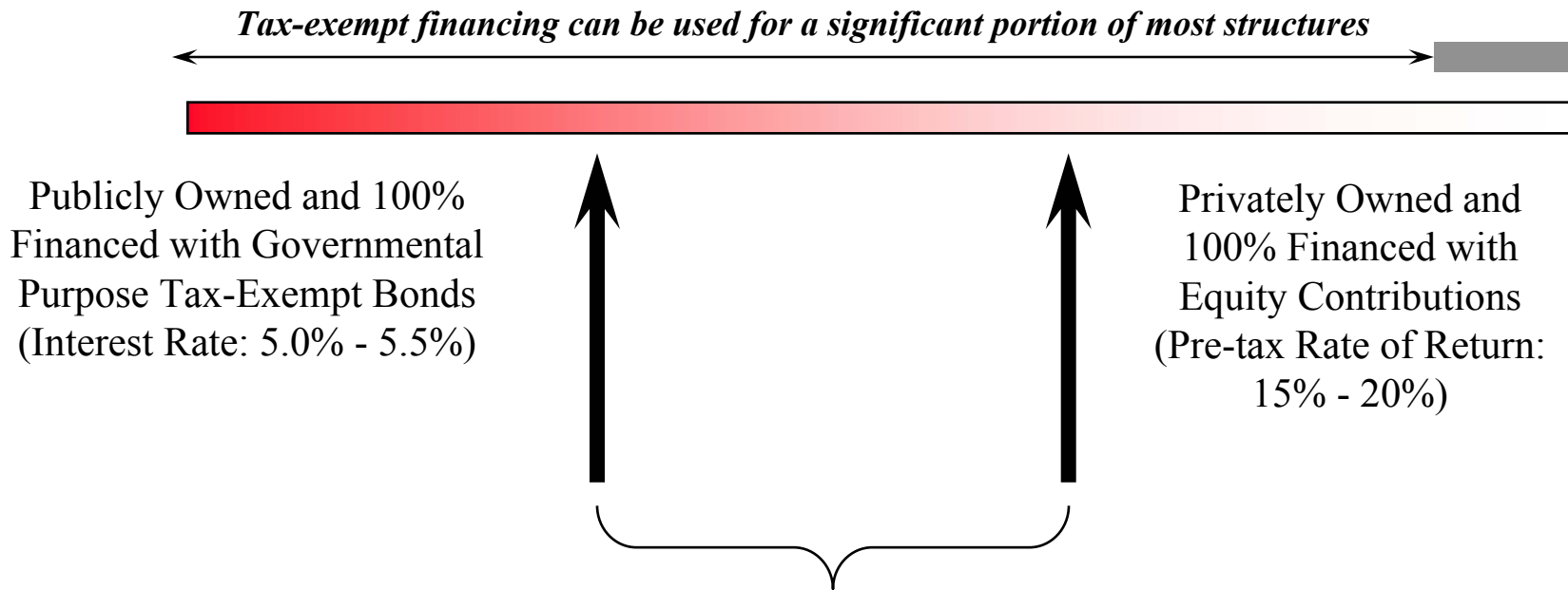
- Tax-Exempt Bonds
 - Governmental Purpose Bonds: Limits private participation
 - Private Activity Bonds: Allows private participation
- Taxable Bonds: Unlimited use, but potentially higher all-in cost
- Private Equity: Can be used in conjunction with certain types of Tax-Exempt Private Activity Bonds and all Taxable Bonds

Ownership

- Public Ownership: Limits private participation in many types of projects
- Public “Benefit” Corporations: 501(c)(3) or 63-20 non-profit corporations
- Private Ownership: Limits use of Tax-Exempt Bonds

Financing Options for New Infrastructure Projects

- There is a broad spectrum of project financing options:



Between these two extremes, a variety of financing structures utilizing tax-exempt debt, taxable debt and equity funding are possible

Capital Markets Infrastructure Project Financing

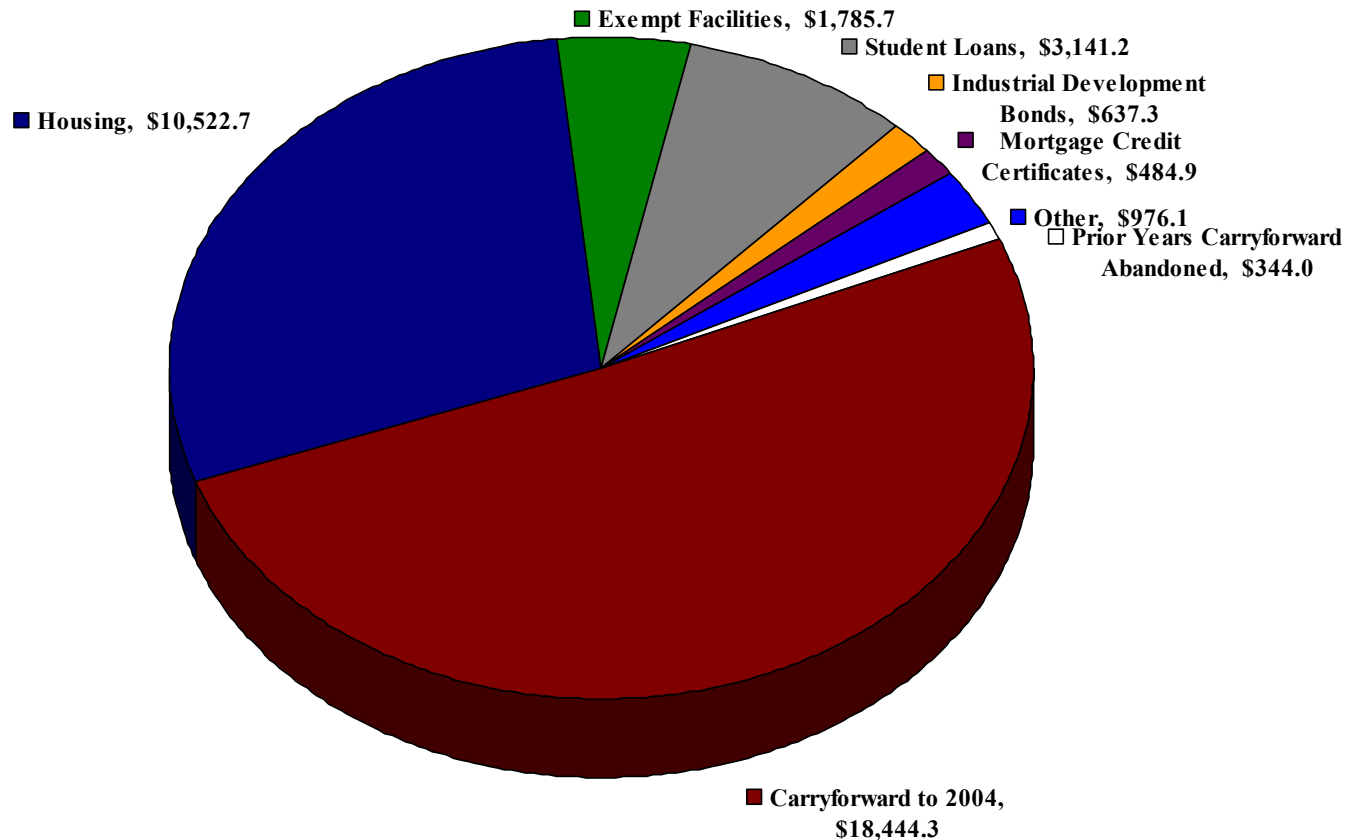
- The capital markets have been an increasing source of “off-balance sheet” non-recourse financing for large public-private partnership projects
- With public ownership (including 63-20 and 501(c)3 corporations), the tax-exempt market is possible to access, but with limits on operating flexibility and private equity investment/return
- Under most publicly owned projects financed with tax-exempt governmental purpose bonds, private partners can at a minimum recover development expenses, fees and a profit through completion of construction and a fixed return during the operating period
- Under certain publicly owned and all privately owned projects financed with tax-exempt private activity bonds, developers can earn “equity” returns in addition to the above

Tax-Exempt Financing Availability

<i>Type of Tax-Exempt Bond</i>	<i>Governmental Purpose Bond Cap Not Required</i>	<i>Private Activity Bond Cap Not Required</i>	<i>Private Activity Bond Cap Required</i>
Ownership	Public	Public	Private
Asset Class			
Public Facilities	✓		
Water/Wastewater	✓		✓
Solid Waste	✓	✓	✓
Airport	✓	✓	
Surface Transportation	✓		
Ports	✓	✓	
Housing	✓		✓
Education	✓		
Healthcare	✓		

Volume Cap Allocation by Sector

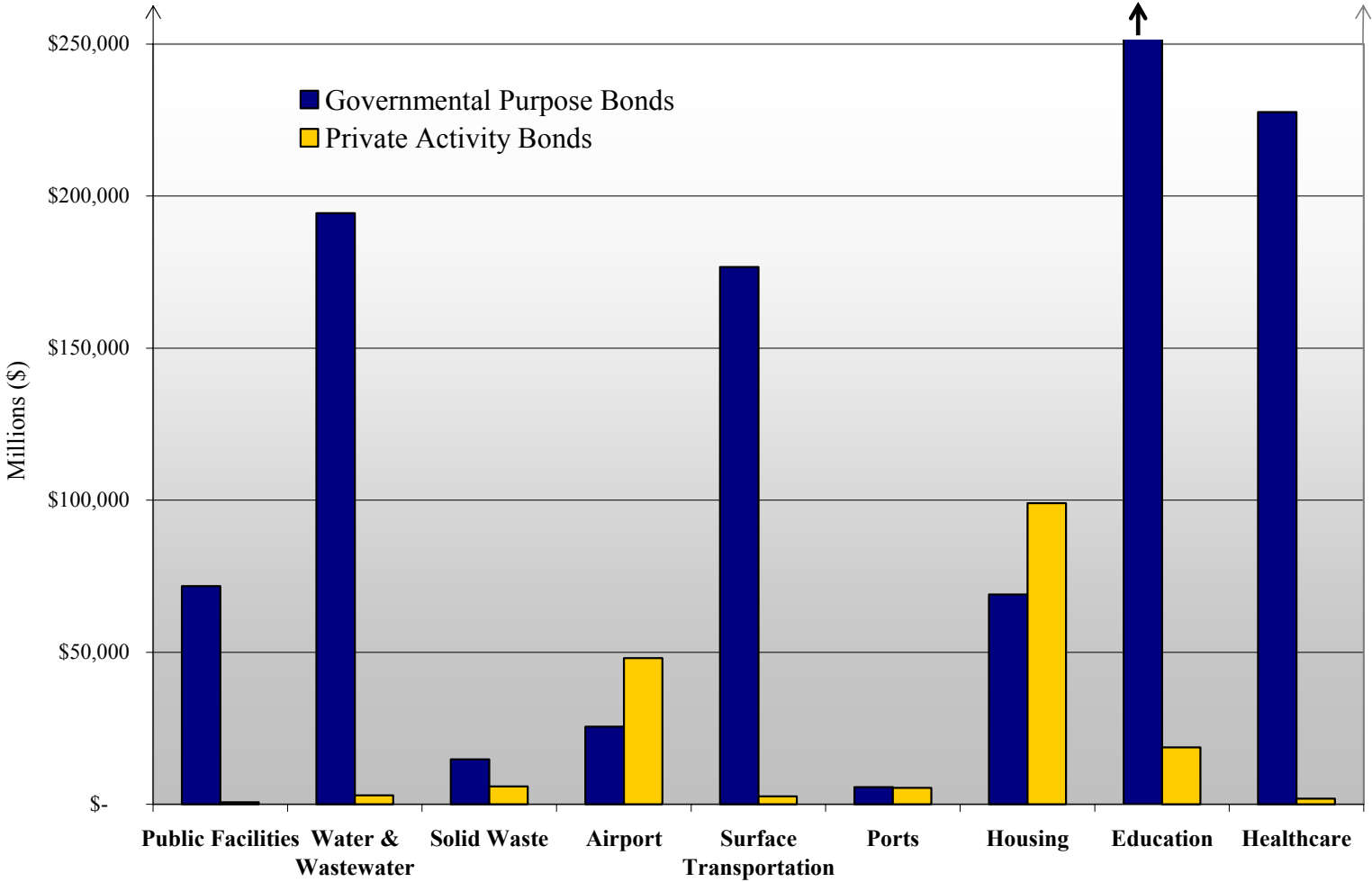
2003 Private Activity Bond Cap Allocation Total Cap Available \$36,335.5 (\$ in Millions)



Source: The Bond Buyer

Note: Individual state volume cap allocation for 2003 is the greater of \$75.00 per capita or \$229 million

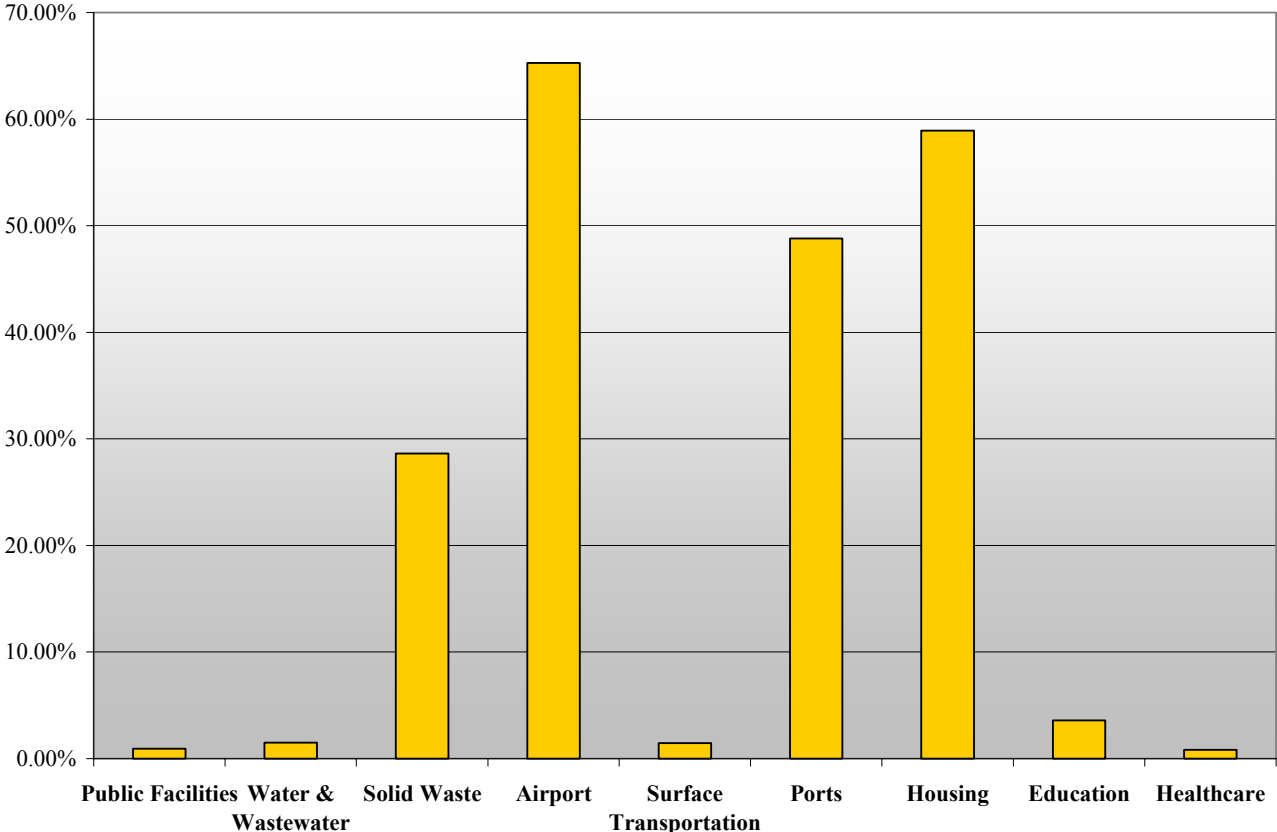
Issuance of Governmental Purpose and Private Activity Bonds by Sector from 1993 to 2003



Source: SDC – Thomson Financial

Percentage of Private Activity Bond Issuance By Sector from 1993 to 2003

- Private Activity Bond Issuance is an indicator of sectors attracting private equity investment under current tax law

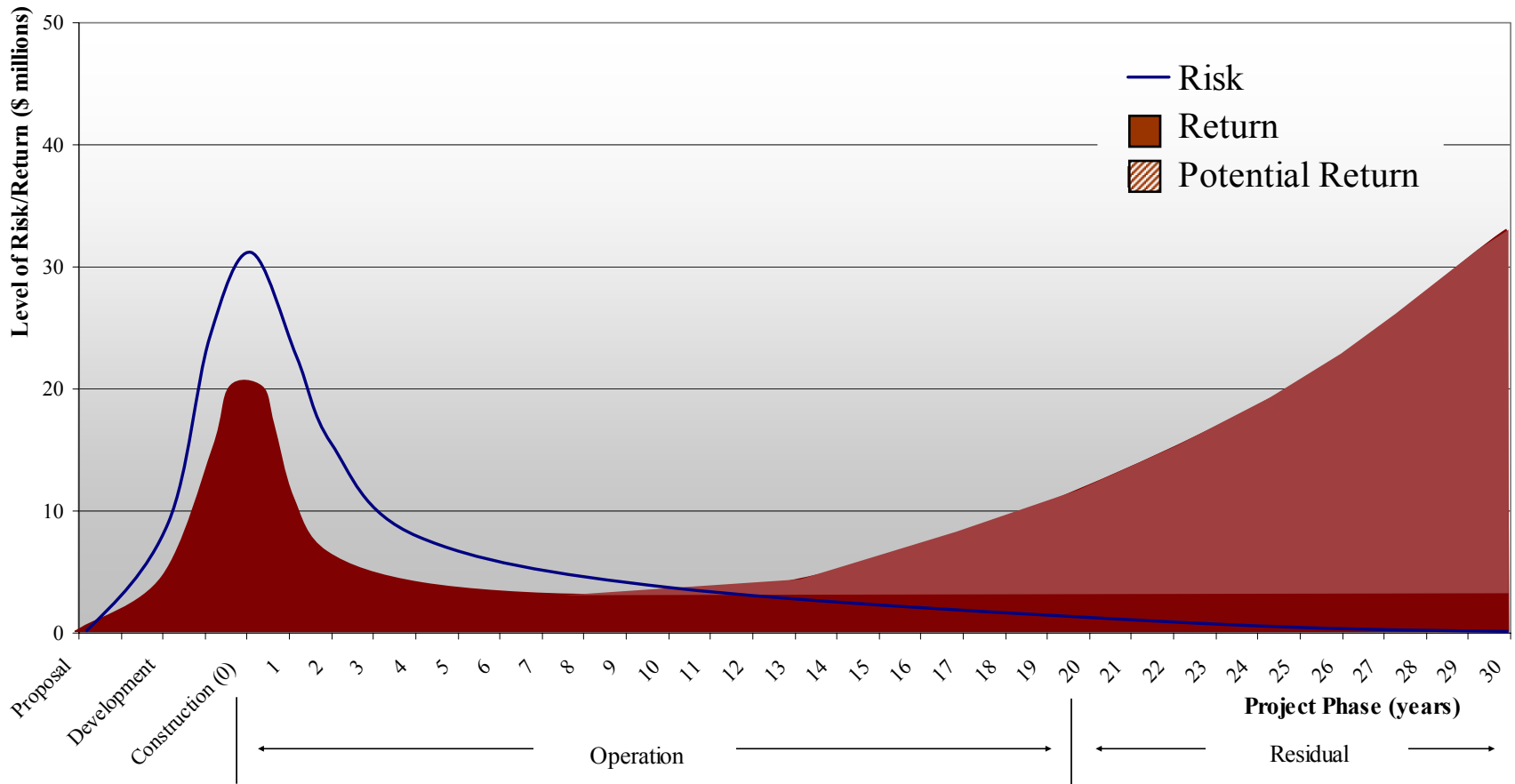


Source: SDC – Thomson Financial

Profile of Public-Private Partnership Projects

- Most private sector investment and risk taking occurs in sectors with a high percentage of private activity bond issuances
- These sectors are solid waste, airport, ports and housing, where private activity bond exemptions exist and cap is available or doesn't apply
- The airport sector has seen the highest percentage of private sector "investment" due to the ability of airlines to finance terminals with private activity bonds and take equity-like risks
- Except for special situations, private activity bond financing is generally not available for surface transportation and toll roads

Typical Project Risk/Return Profile



Private Partner Risk Assumption /Return Profile as a Function of Tax-Exempt Bond Structure

<i>Private Partner Risk Assumption/Return Profile</i>	<i>Governmental Purpose Bonds</i>	<i>Private Activity Bonds</i>
Proposal Costs	Yes	Yes
Negotiation and Development Costs	Yes	Yes
Fixed Construction Costs	Possible	Yes
Fixed Operating Costs	Possible	Yes
Fixed Subordinated Debt Return	Possible	Yes
Debt Guarantee	Possible for limited amount typically subordinated	Yes
Equity Investment with upside	No	Yes
Residual Value	No	Yes

Capital Markets Case Study: JFK International Air Terminal Tax-Exempt Private Activity Bond Structure



Project Details:

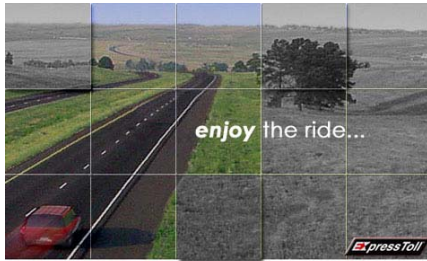
- The terminal redevelopment project consisted of the design and construction of the JFK International Air Terminal, new \$1.2 billion, 16-gate, 1.5 million square foot facility with two flight concourses connected by a three-level terminal.

Financing Details

- Largest U.S. Airport Privatization Project and Largest Non-Recourse Airport Revenue Bond Issue, \$934 million JFK International Air Terminal LLC (“JFK IAT”) bonds
- Lehman Brothers contributed a portion of the development costs to the project and is currently a 20% equity partner in the project, along with Schiphol USA, a subsidiary of Amsterdam Airport Schiphol, and LCOR, a New York based property developer.
- JFK IAT entered into a 28-year lease with the Port Authority to operate the existing terminal and the new terminal
- Initial mid-level investment grade ratings of “A”, “BBB+” and “Baa2” on the non-recourse tax-exempt project bonds.

Capital Markets Case Study: E-470 Toll Road Project

Tax-Exempt Governmental Purpose Bond Structure



Project Details:

- E-470 Toll Road located in Colorado
- The first segment of the Project (approximately 5 miles) opened to traffic in June 1991.
- Construction of two additional segments of the Project totaling 28.5 miles were completed in 1999.

Financing Details:

- \$722 million multiple-lien debt structure issued on behalf of the E-470 Public Highway Authority; two series of subordinated debt, one purchased jointly by Fluor Daniel and Morrison Knudsen, the developers of the Project, and the other purchased by the Colorado Department of Transportation.
- The financing is secured solely by toll revenues and a regionally-imposed vehicle registration fee.
- Pro forma debt service coverage exceeded 2.0 times, resulting in a “Baa” rating from Moody’s.

Capital Markets Case Study: 91 Express Lanes Taxable/Tax-Exempt Governmental Purpose Bond Structure



Project Details:

- Originally financed, constructed and owned by a private consortium under AB 680
- The Orange County Transportation Agency (OCTA) purchased the 91 Express Lanes from the private consortium in 2001
- Toll rates are established utilizing a congestion pricing model that keeps traffic flowing at all times

Financing Details:

- The original private owners financed the 91 Express Lanes through a private placement of taxable bonds in 1993
- In January 2003, OCTA purchased the 91 Express Lanes and assumed the outstanding taxable bonds
- In November 2003, Lehman Brothers underwrote \$195 million of tax-exempt governmental purpose bonds to refund the outstanding taxable bonds
- The tax-exempt bonds are rated Aa2/A-/A-, the first “stand-alone” toll facility revenue bond to be rated in the “A” category

Conclusion

- Tested and proven tax-exempt bond financing structures exist to finance public-private partnerships in the transportation sector
- Projects can be structured as public-private partnerships to optimize development, construction and long term operation, as well as appropriate sharing of risks between the public and private partners
- Highly-regarded private companies active in the transportation market facilitate the structuring of long-term public-private partnerships
- Long term private partner risk assumption and equity investment for surface transportation projects would increase with the use of tax-exempt private activity bonds