

Making Equity Equate

National Council for Public-
Private Partnerships

Partnerships in
Transportation, October 6,
2004, Orlando, Florida

Combining Private Equity,
Economic Development and
Transportation

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Early Equity Finance Example

- Structured Financing:
 - 8% county bonds
 - 6% federal government bonds, first mortgage
 - Construction paid in part with heavily discounted bonds
 - \$10,000 in sponsor's equity
 - Second mortgage federal bonds, junior to sponsor's equity

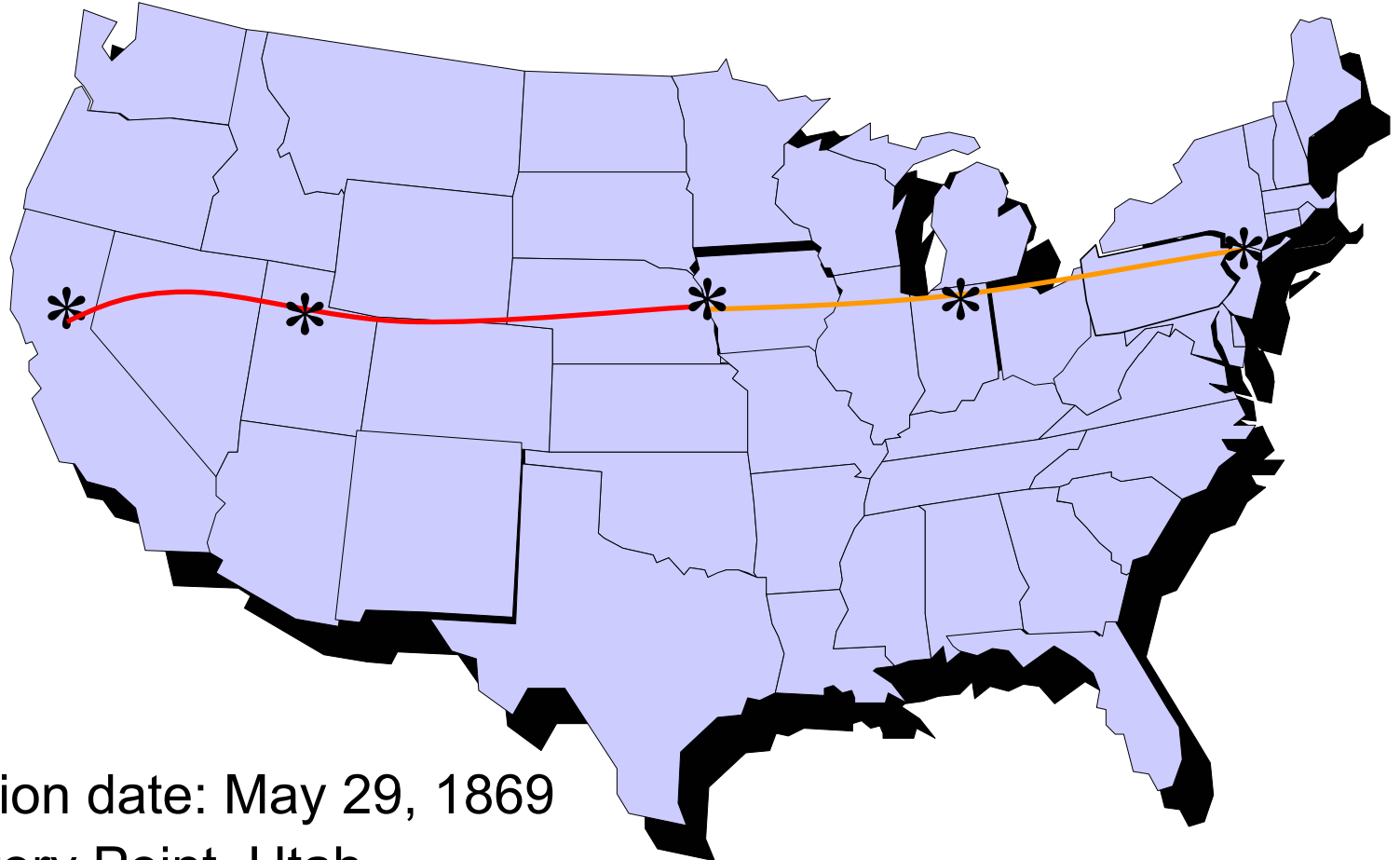
Early Equity Finance (cont'd)

- Concession Terms:
 - Federal bonds paid as follows:
 - \$14,000 per mile on flat grade
 - \$48,000 per mile on steep grade
 - Joint-development opportunities on adjacent land
 - 100 miles would have to be finished and fully operational within 2 years otherwise concession lost

Early Equity Finance (cont'd)

- Project Challenges:
 - Steep grades, snow, tunnels,
 - Labor shortages
 - Controversy over location of start of project
 - Native-American opposition
 - Challenges obtaining supplies across river
 - National war going on
- Project support:
 - Security assistance of U.S. Army
 - Favorable political support from U.S. President
 - Favorable federal legislation

Transcontinental Railroad



- Completion date: May 29, 1869
- Promontory Point, Utah

From Empire Express, David Haward Bain. New York: Viking, 1999.

History Repeats Itself

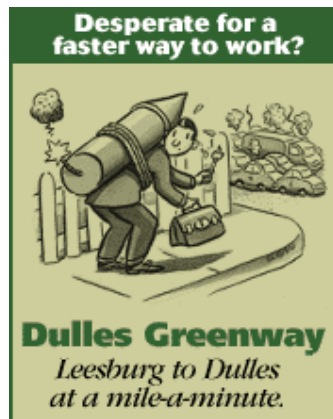
- Structured Financing **(63-20?)**:
 - 8% county bonds -- **Senior tax-exempt debt**
 - 6% federal government bonds, first mortgage -- **TIFIA**
 - Construction paid in part with heavily discounted bonds -- **Capital Appreciation Bonds**
 - \$10,000 in sponsor's equity -- **Equity**
 - Second mortgage federal bonds, junior to sponsor's equity -- **TIFIA**
 - **Concession contract**
 - **Joint Development**

Equity Can Play a Role, if . . .

- Should and does have a role in U.S. PPPs
- Based on experience of several cases:
 - California AB-680 projects
 - SR-91 (Orange County/Riverside Counties)
 - SR-57 (Orange County)
 - SR-125 (San Diego County)
 - Other North American transportation and other PPPs
 - Dulles Greenway (Washington, D.C.)
 - Highway 407 (Toronto)
 - International road, airport, power projects

Equity is Land, Contributions, Cash

- Land: Dulles Greenway, SR-125
- Subordinated bonds or construction payments: Southern Connector, SC; Route 895, VA
- Cash from strategic and financial investors (banks, institutions, funds): Highway 407, SR-91 SR-125



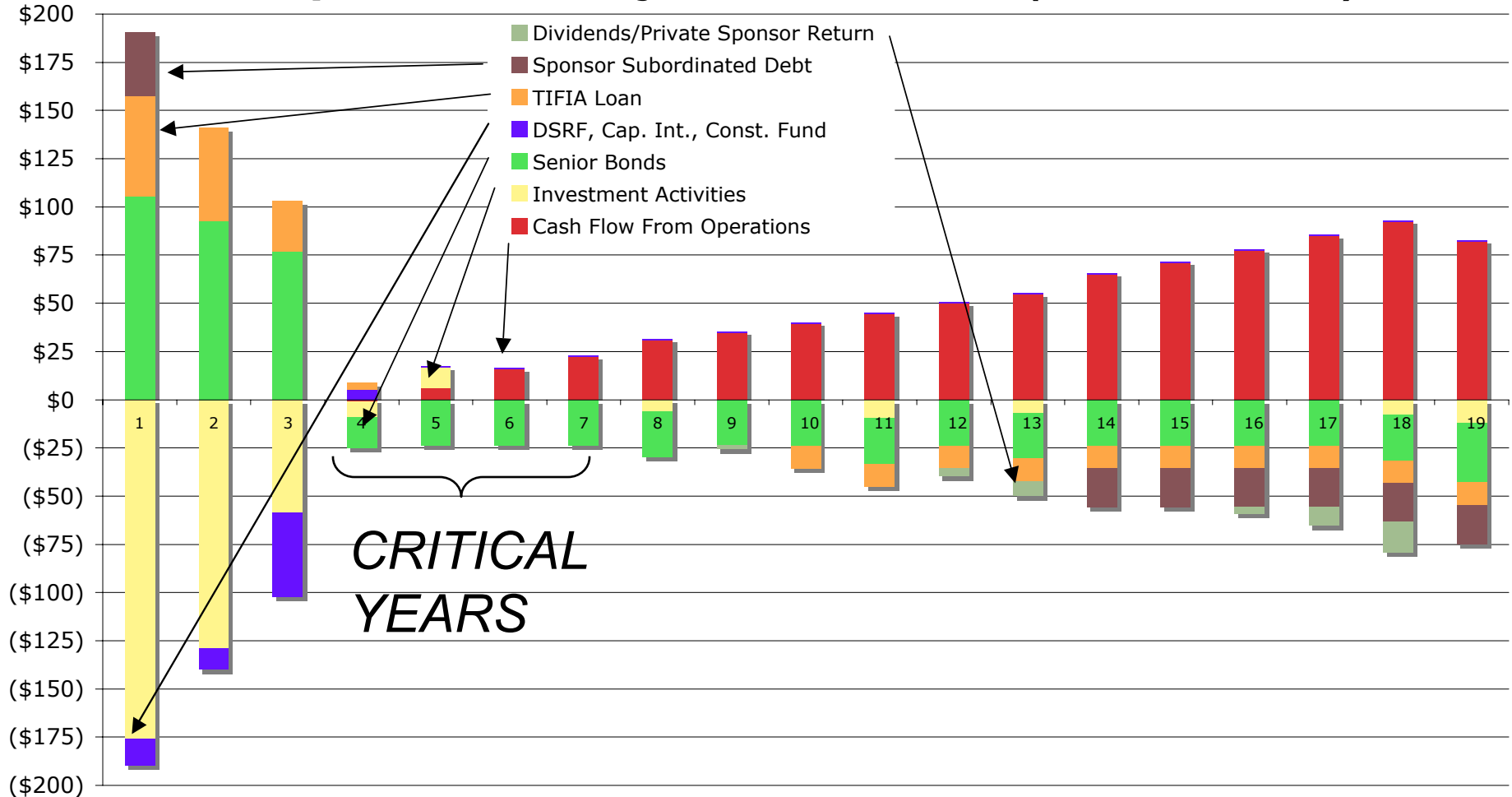
Equity Repaid at Waterfall's Bottom



- Equity dividends subordinate to:
 - Operating costs
 - (Taxes)
 - Senior debt service
 - Senior debt service reserve fund
 - Sinking funds
 - Maintenance fund
 - Capital fund

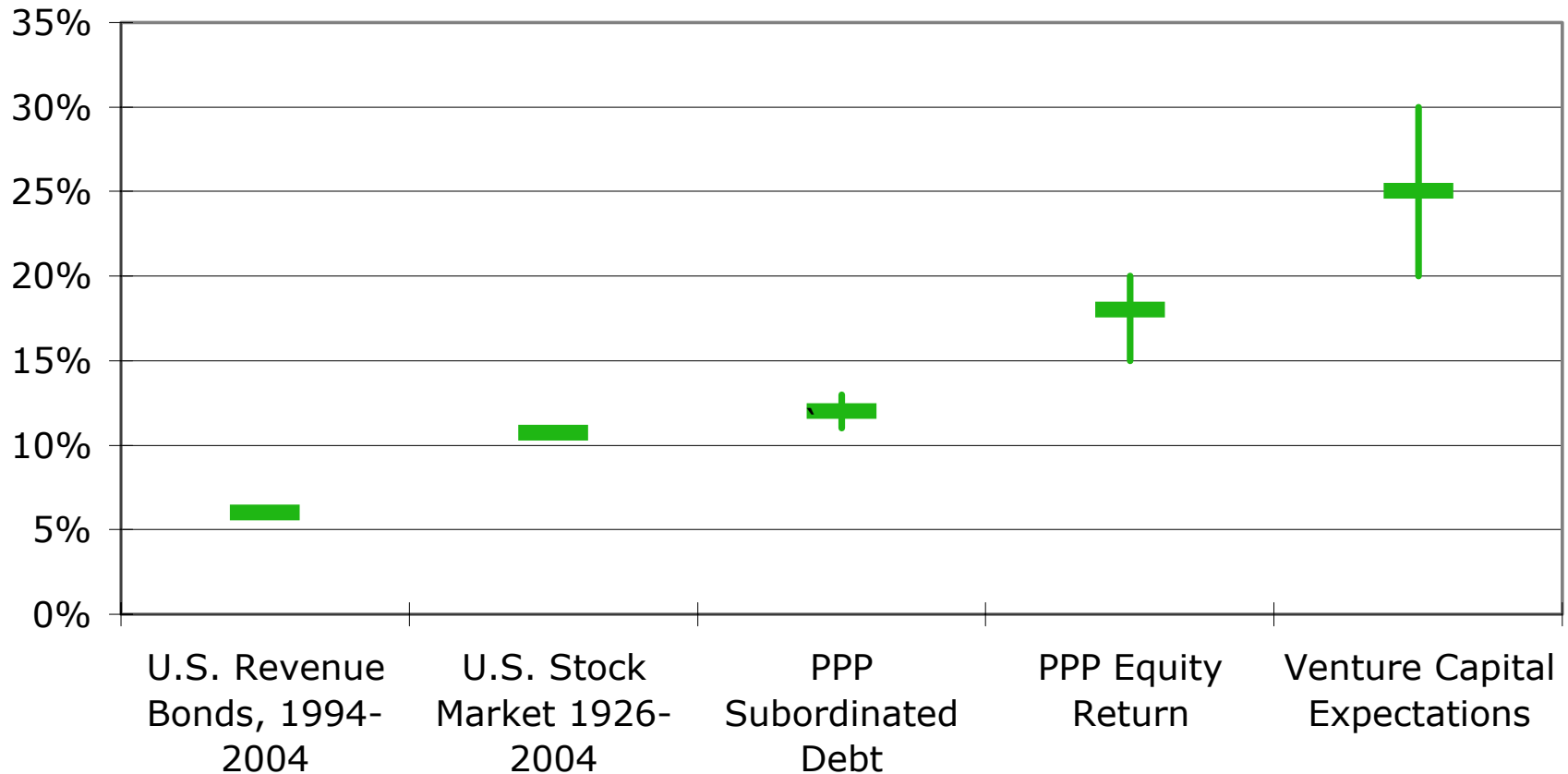
Used to Relieve Senior Debt

Transportation Project Cash Flow (in millions \$)



But Has Financial Hurdles . . .

Returns of U.S. Equity PPPs and Other Investments



. . . And Risk Mitigation Needs

- Environmental: SR-57



- (Real Estate: Dulles Greenway)



- Timing: SR-125



. . . Risk Mitigation Needs (cont'd)

- Political Risk: SR-91 et al

