

# Partnerships in Transportation Workshop

Sponsored by:

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LEHMAN BROTHERS

# Executive Summary

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- ◆ The recent Chicago Skyway and Indiana Toll Road concession sales have caught the attention of the domestic transportation finance community
- ◆ The upfront concession payments were well beyond expectations causing increased focus on the underlying value of transportation assets
- ◆ Innovative financing approaches utilized by the private sponsors in these two situations facilitated funding these concession payment levels
- ◆ Financing techniques imbedded in private concession financing models can be utilized to increase proceeds under a variety of ownership and financing structures

# Evolution of Toll Road Financings

## Government Perspective

- ◆ Fiscal challenges
- ◆ Increasing capital needs
- ◆ Lack of funding sources
- ◆ Resistance to tax increases
- ◆ Transportation/congestion issues
- ◆ Management of non-core assets
- ◆ Operational cost savings
- ◆ Accelerated project requirements

## Financial Markets Perspective

- ◆ Increase in global liquidity
- ◆ Patient international equity investors
- ◆ Tax-exempt/taxable spread compression
- ◆ Private sponsor appetite for transportation sector investments
- ◆ Established long-term international concession financing models
- ◆ Established international credit and rating criteria

## Catalysts

- ◆ Increased willingness to shift cost to users
- ◆ New focus on optimizing toll regimes
- ◆ Longer-term perspective on revenue generation capability of toll roads

**New Paradigm for US  
Toll Road Investment**

# Evolution of Toll Road Financings

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**As a result of recent concession financings, the following characteristics are becoming accepted for domestic toll road financings**

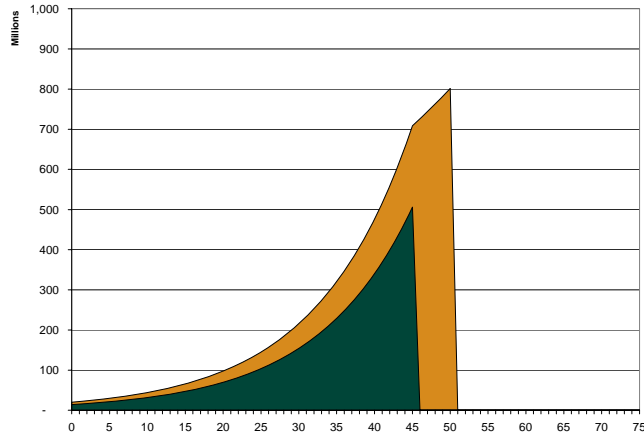
- ◆ Toll pricing regimes – shift from cost-recovery to market-based indexed caps
- ◆ Private investment replaces or supplements public debt
- ◆ Asset management transfers to private sector with public oversight through contractual agreements
- ◆ Long-term debt financing horizons considered investment grade (50 years plus)
- ◆ Deferred principal amortization (can be negative amortization)
- ◆ DSCR is measured as cash-on-cash while partial interest is paid
- ◆ Multiple rollovers/refinancings are modeled in base finance plan similar to corporate finance model
- ◆ Free cash distributes to equity investors as debt principal accretes to a targeted level

# Toll Road Financing Dynamics: Key Drivers

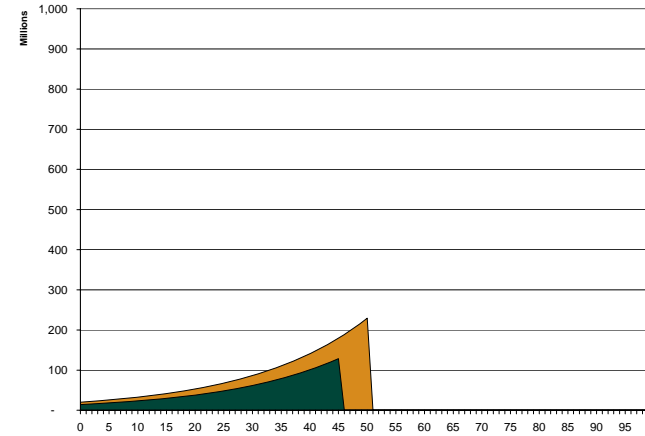
## Toll regime and financing horizon drive value

Short-Term  
Financing  
Horizon

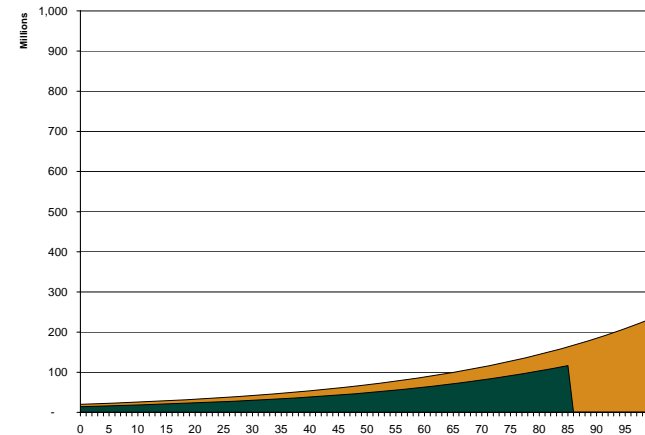
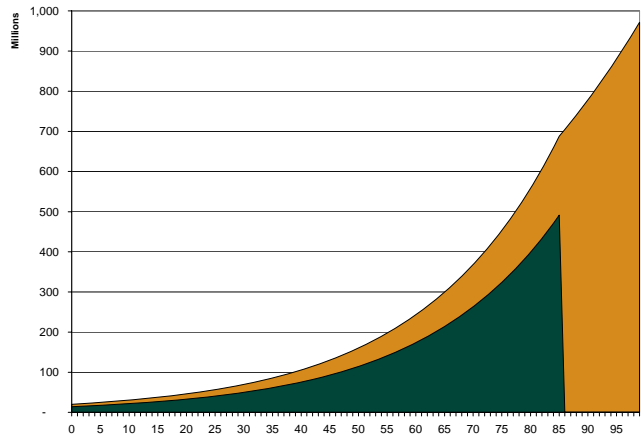
High Toll Regime



Low Toll Regime



Long-Term  
Financing  
Horizon



■ Debt Service

■ Residual Cash Flow

**Historical regimes and longer financing horizons create greater asset value as demonstrated by the areas under the curve**

# Toll Road Financing Dynamics: Ownership

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## Partial or full private ownership can attract additional capital

### ◆ Public:

- Control of operations and residual interest
- Traditionally very conservative leverage with minimum A-category rating targets

### ◆ Public/Private:

- Public control of operations and residual interest in most cases
- Opportunity to increase leverage at BBB rating category and/or with private investment while keeping majority interest

### ◆ Private:

- Public contractual control of operations and maintenance through concession agreements with residual value shifting to private investors
- Maximizes leverage and upfront capitalization of value

# Public Ownership Model (Traditional)

## Key Characteristics:

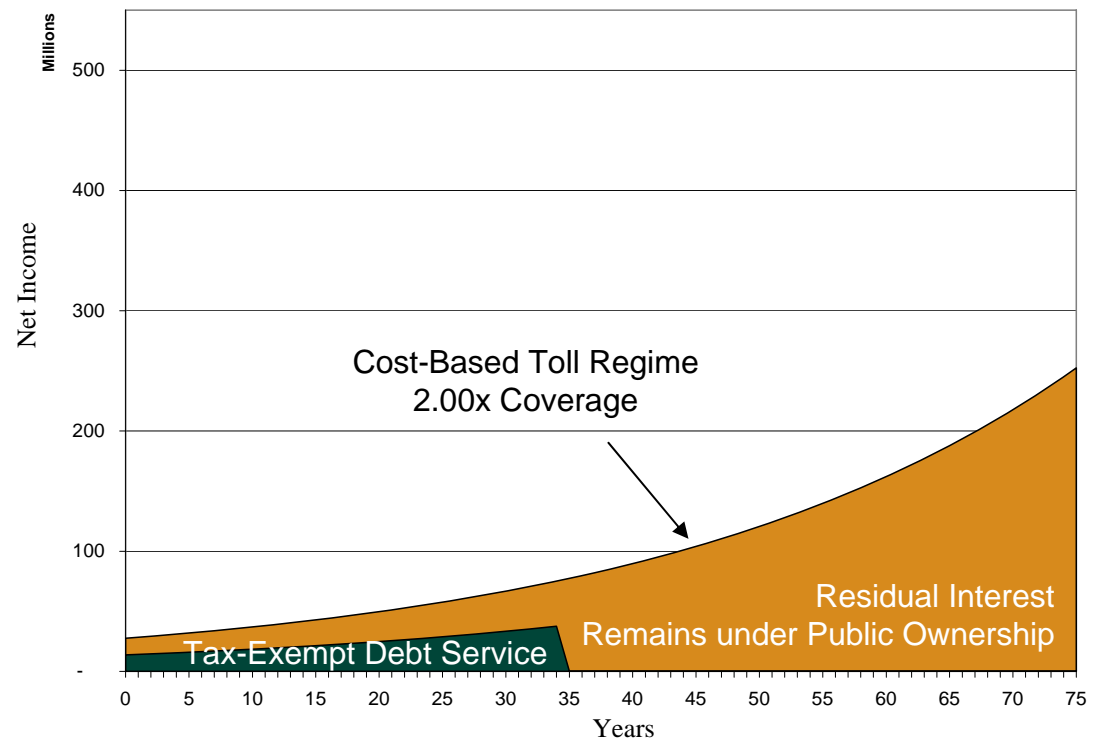
- ◆ Cost-based toll regime
- ◆ Traditional bond covenants
- ◆ 35-year final maturity
- ◆ Fully amortizing tax-exempt bonds
- ◆ “A”-category rating target

## Financing Capacity:

- ◆ \$350 million tax-exempt debt

## Assumptions:

- 3.0% average annual revenue growth rate
- 2.00x debt service coverage
- \$27.5mm year 1 net revenues
- 35-yr final debt maturity



# Public Ownership Model (Highly Leveraged)

## Key Characteristics:

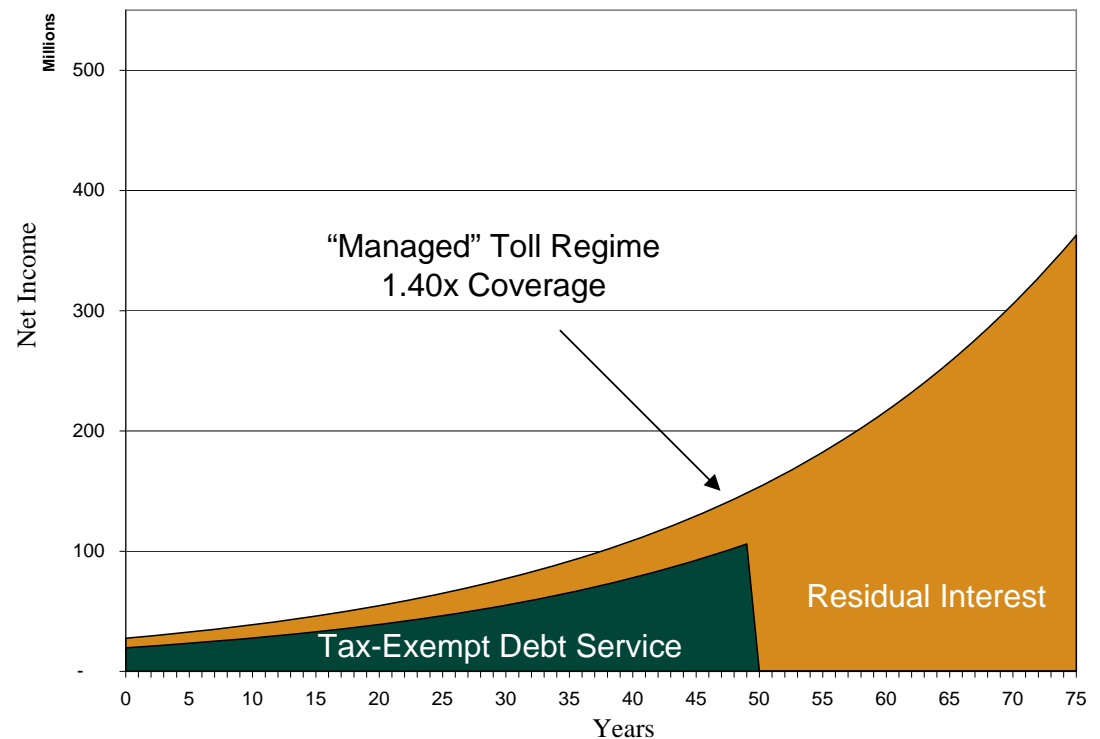
- ◆ “Managed” toll regime
- ◆ Market standard bond covenants
- ◆ 50-year final maturity, tax-exempt bonds
- ◆ BBB-category rating target

## Financing Capacity:

- ◆ **\$675 million** tax-exempt debt

## Assumptions:

- 3.5% average annual revenue growth rate
- 1.40x debt service coverage
- \$27.5mm year 1 net revenues
- 50-yr final debt maturity



# Public/Private Ownership Model

## Key Characteristics:

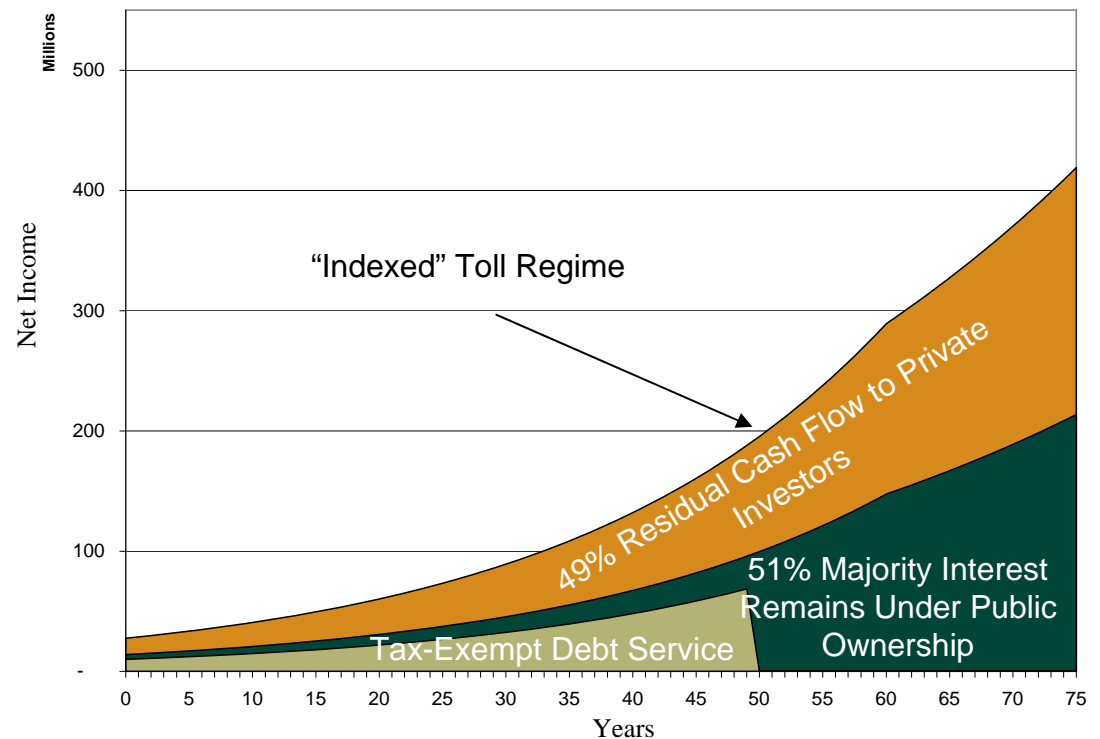
- ◆ Minority interest held by private investors
- ◆ Market standard operating covenants
- ◆ Indexed and/or market-based toll regimes
- ◆ 50-year final maturity, tax-exempt bonds for public interest portion
- ◆ BBB-category rating target

## Financing Capacity:

- ◆ \$390 million tax-exempt debt +  
\$350 million private investment =  
**\$740 million**

## Assumptions:

- 4.0% average annual revenue growth rate through 60 years, 2.5% after
- 1.40x debt service coverage
- \$27.5mm year 1 net revenues
- 50-yr final maturity
- Private Investor IRR: 8-10%



# Private Ownership Model

## Key Characteristics:

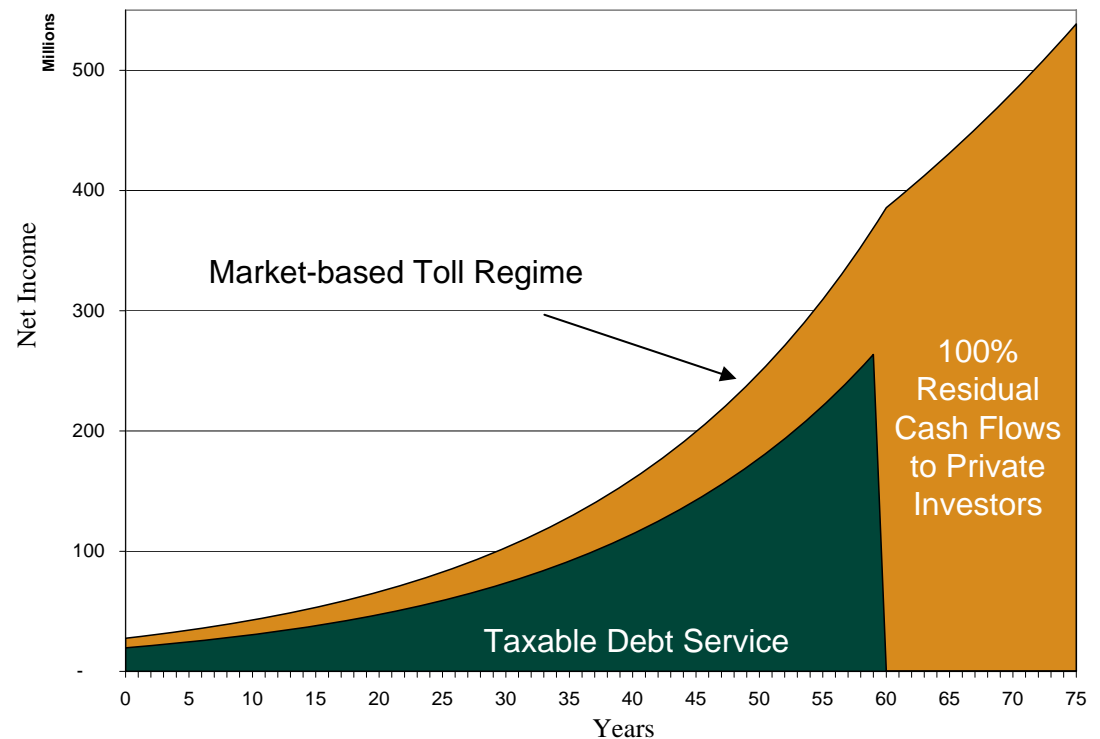
- ◆ “Market-based” toll regime subject to indexed caps
- ◆ Privately driven financing covenants
- ◆ Highly leveraged “corporate” financing model
- ◆ 60-year debt horizon with taxable bonds

## Financing Capacity:

- ◆ \$790 million taxable debt +  
\$310 million equity = **\$1.1 billion**

## Assumptions:

- 4.5% average annual revenue growth rate through 60yrs, 2.5% after
- 1.40x debt service coverage
- \$27.5mm year 1 net revenues
- 60-yr final maturity
- Private Investor IRR: 7%



# Paradigm Shift Driven by Recent Market Developments

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## Recent evolution of long-term financings of toll road projects

- ◆ Increased private sector interest in infrastructure investments presents new financing opportunities for toll road assets
- ◆ Market acceptance of long-term financing structures beyond traditional fully amortizing 30-40 year final maturity practice
  - Rating agencies: revenue generation potential
  - Credit enhancers: insuring embedded refinancing risk
  - Private Investors: stable, long-term investment return
- ◆ Financing proceeds can be increased through extended final maturities, managed toll regimes, and/or partial or full ownership sales
- ◆ Toll regime and residual value policy is critical to the evaluation of options

*Ability to unlock value in toll assets not realized under traditional toll road financings can be applied to public, joint and private ownership models*

# Toll Road Financing Decision Matrix

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- ◆ Public policy considerations
  - Ownership
  - Control
  - User fees
- ◆ Objectives/needs
- ◆ Timing/schedule
- ◆ Asset-specific characteristics
- ◆ Toll regime
- ◆ Residual Value
- ◆ Use of proceeds

*Lehman Brothers can evaluate public and private financing alternatives and select a tailored and optimized solution to meet specific financing objectives*

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