
**Partnerships in Transportation:
Funding Large Transportation Projects**

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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	Concession
IV	Private	Private	Not Applicable	Regulated Utility

Financing/Ownership Options for New Infrastructure Projects

Financing

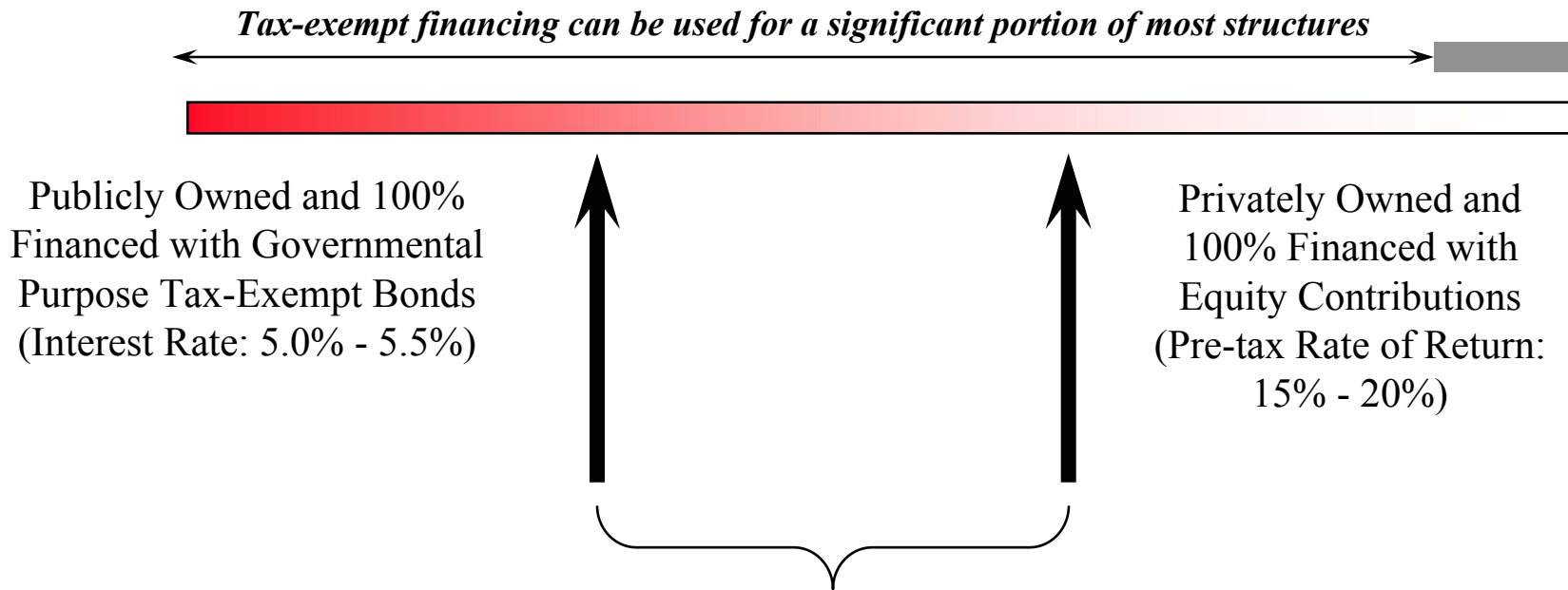
- Tax-Exempt Bonds
 - Governmental Purpose Bonds: Limits private participation
 - Private Activity Bonds: Allows private participation
- Taxable Bonds: Unlimited use, but potentially higher all-in cost
- Private Equity: Can be used in conjunction with certain types of Tax-Exempt Private Activity Bonds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

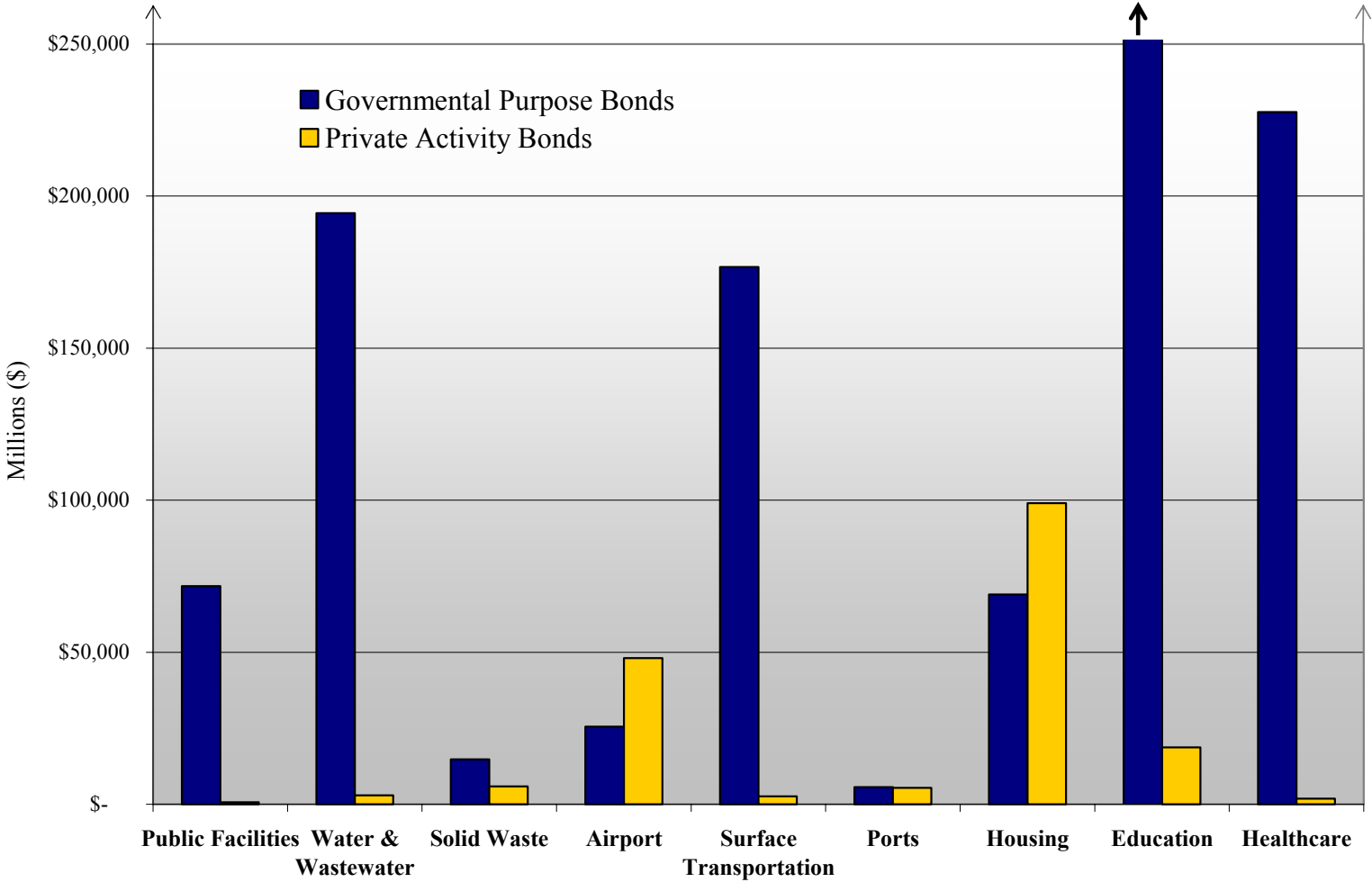
Tax-Exempt Financing Availability

<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	✓	New Authorization Under SAFETEA-LU	
Ports	✓	✓	
Housing	✓		✓
Education	✓		
Healthcare	✓		

Tax-Exempt Financing Availability

- SAFETEA-LU creates a new category of transportation projects receiving Title 23 funds which can be financed with Tax-Exempt Private Activity Bonds
 - **Any surface transportation project**
 - **International bridges or tunnels authorized under federal or state law**
 - **Truck and rail freight transfer facilities**
- Total cap of \$15 billion to be allocated by Secretary of Transportation with no expiration date
- Privately leased as well as owned projects qualify as long as the Tax-Exempt Private Activity Bonds are issued through a governmental entity

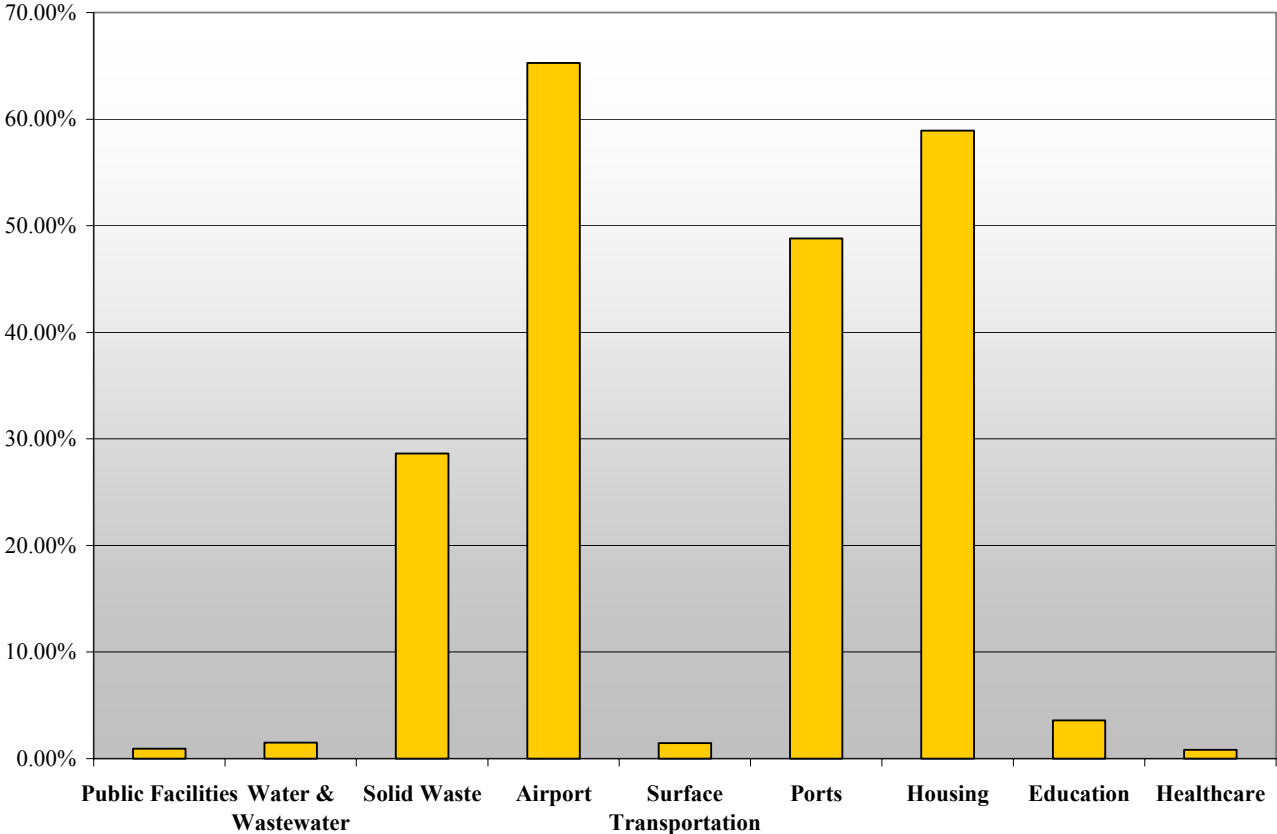
Issuance of Governmental Purpose and Private Activity Bonds by Sector from 1993 to 2003



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

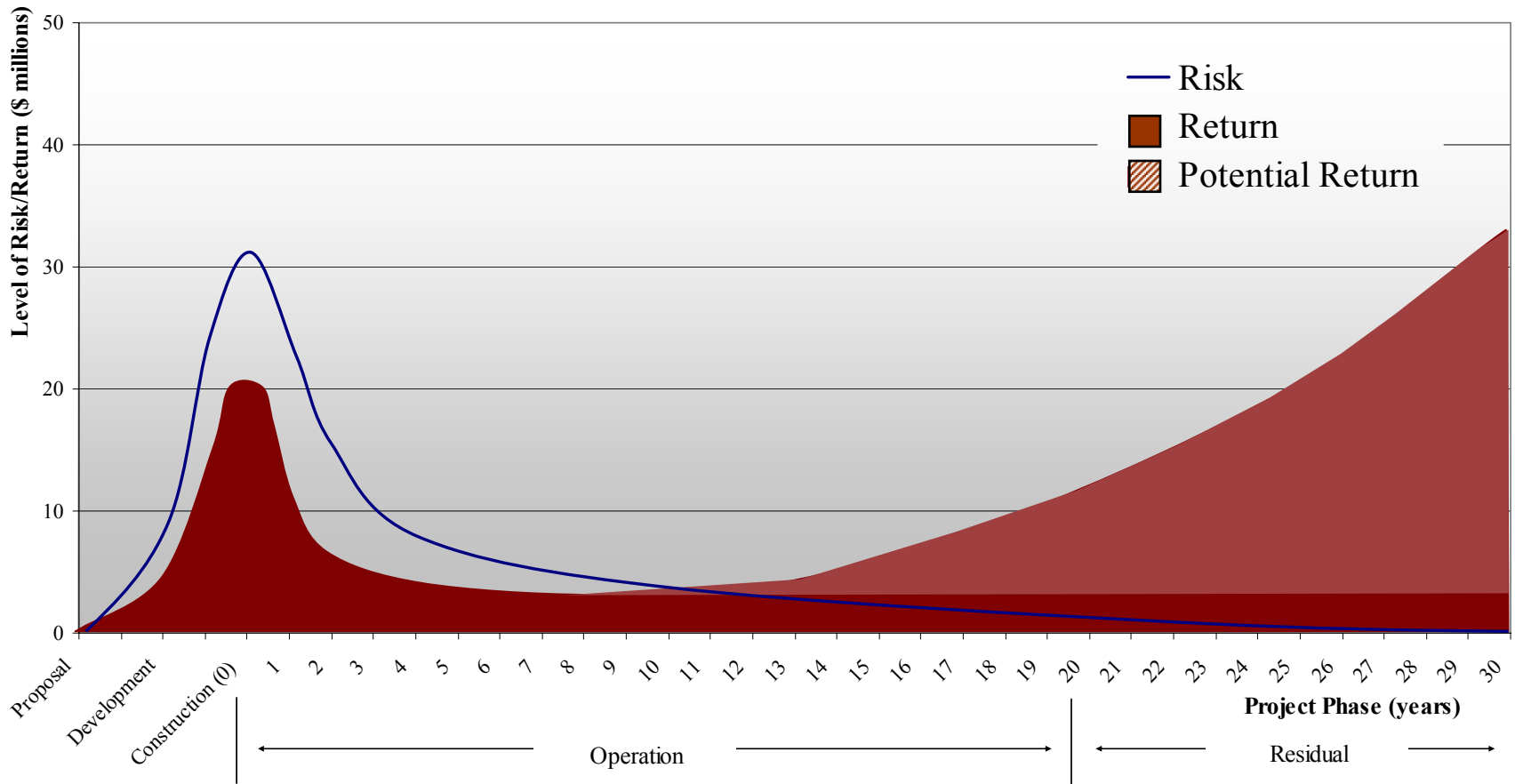


Source: SDC – Thomson Financial

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
- Up to \$15 billion of Tax-Exempt Private Activity Bond financing is now available for certain surface transportation and freight facilities under SAFETEA-LU

Typical Project Risk/Return Profile



Project Risk Assumption /Equity Investment Profile as a Function of Bond Structure

<i>Project Cost/Investment Component</i>	<i>Tax-Exempt Governmental Purpose Bonds</i>	<i>Tax-Exempt Private Activity or Taxable Bonds</i>
Proposal Costs	Private	Private
Negotiation and Development Costs	Public-Private	Private
Environmental Permitting Costs	Public-Private	Public-Private
Uncontrollable Circumstances	Public-Private	Public-Private
Fixed Construction Costs	Private *	Private
Fixed Operating Costs	Private *	Private
Subordinated Debt Investment	Private *	Private
Debt Guarantee	Private* for limited amount typically subordinated	Private
Equity Investment/Residual Value	--	Private
Alternative Revenue Sources	Public	Public-Private

* Subject to private use restrictions

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



Project Details:

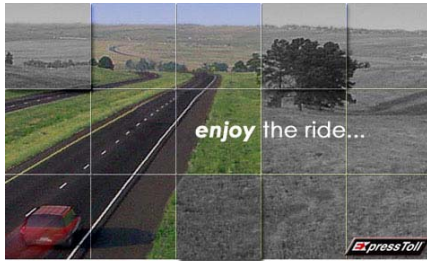
- The terminal redevelopment project consisted of the design and construction of the JFK International Air Terminal, new \$1.2 billion, 16-gate, 1.5 million square foot facility with two flight concourses connected by a three-level terminal.

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 2003
- 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 will increase with the use of Tax-Exempt Private Activity Bonds