

---

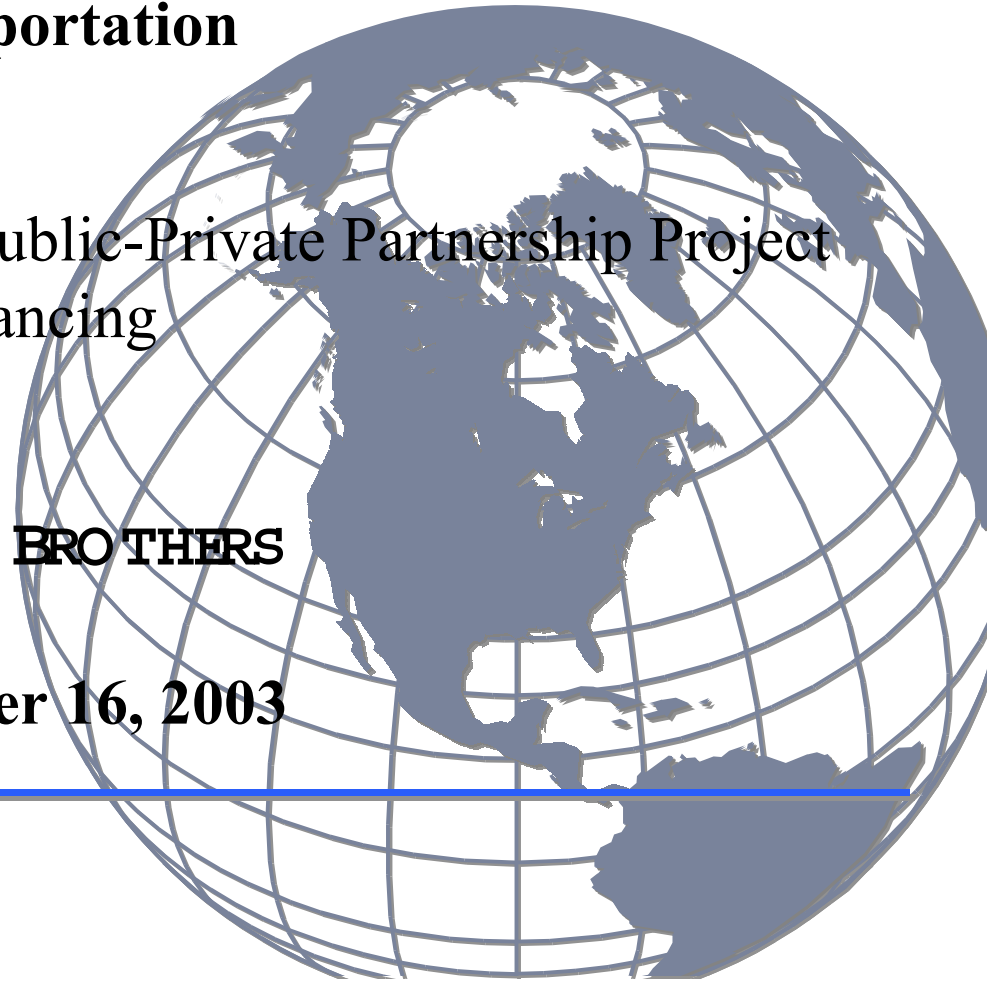
# **Combining Private Equity, Economic Development and Transportation**

Overview of Transportation Public-Private Partnership Project  
Financing

**LEHMAN BROTHERS**

**December 16, 2003**

---



# Financing Approaches for Public-Private Partnerships

---

---

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

	<b>Ownership</b>	<b>Operation</b>	<b>Partnership Agreement Term</b>	<b>Typical Model</b>
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 Approaches for Public-Private Partnerships

---

---

- Structures II and III are the most prevalent forms of public-private partnerships in the US infrastructure project market
- The public sponsor typically maintains interface with service recipients and sets user fees
- The public sponsor and the private partner enter into short, medium or long term construction and operating agreements under predetermined construction and operating fee structures
- Tax-exempt bonds may be issued depending on terms of the agreements with the private partner and ownership of the underlying assets

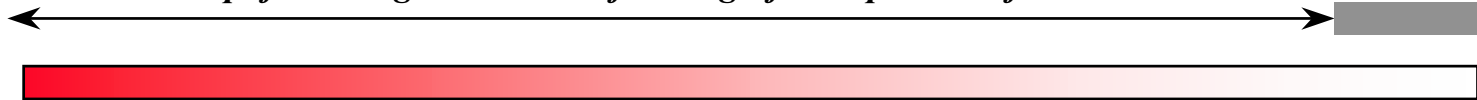
# Financing Options for New Infrastructure Projects

---

---

- There is a broad spectrum of project financing options:

*Tax-exempt financing can be used for a significant portion of most structures*



Publicly Owned and 100%  
Financed with Governmental  
Purpose Tax-Exempt Bonds  
(Interest Rate: 5.0% - 5.5%)



Privately Owned and  
100% Financed with  
Equity Contributions  
(Pre-tax Rate of Return:  
15% - 20%)



**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

---

---

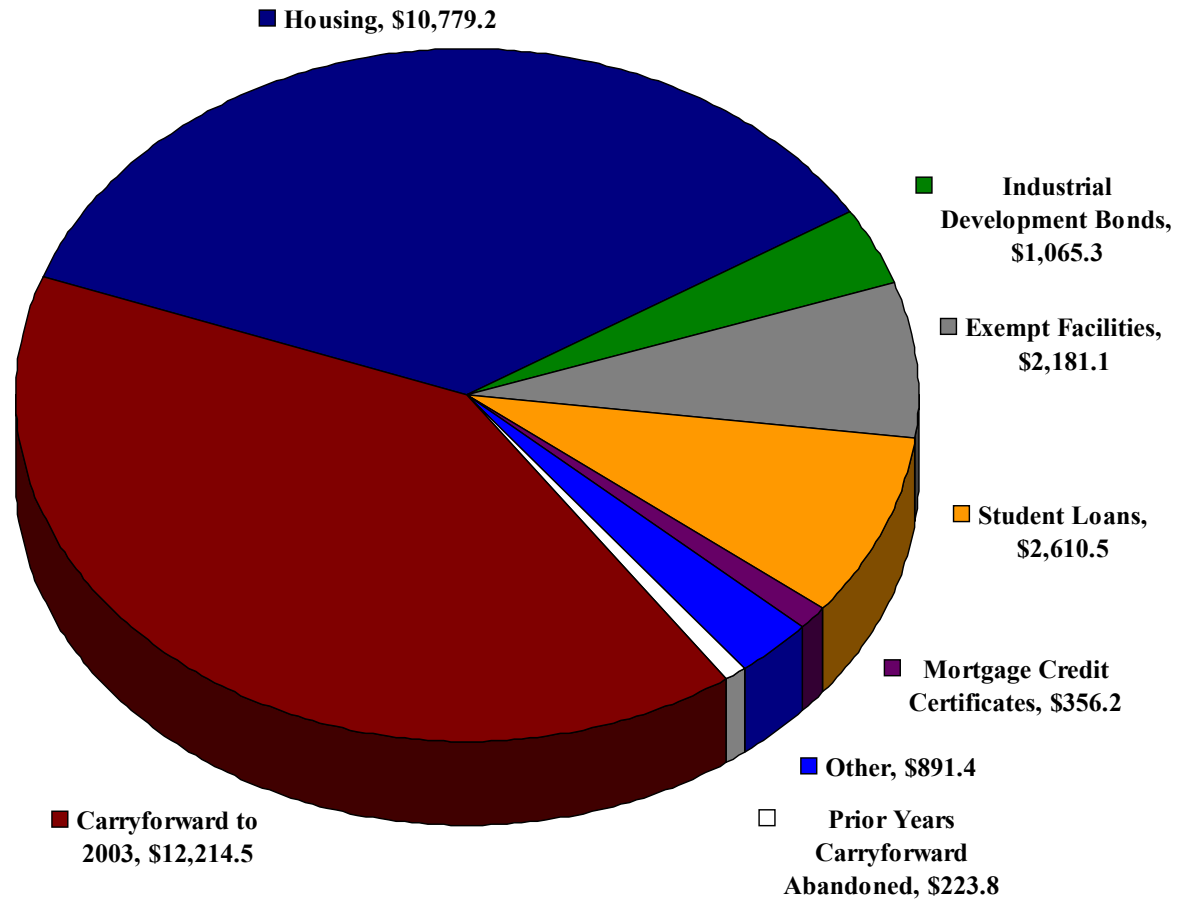
- The capital markets have been an increasing source of “off-balance sheet” non-recourse financing for large public-private partnership projects
- With public ownership (including 63-20 and 501(c)3 corporations), the tax-exempt market is possible to access, but with limits on operating flexibility and 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>
<b>Ownership</b>	Public	Public	Private
<b>Asset Class</b>			
<b>Public Facilities</b>	✓	NA	NA
<b>Water/Wastewater</b>	✓		✓
<b>Solid Waste</b>	✓	✓	✓
<b>Airport</b>	✓	✓	NA
<b>Surface Transportation</b>	✓	NA	NA
<b>Ports</b>	✓	✓	NA
<b>Housing</b>	✓	NA	✓
<b>Education</b>	✓	NA	NA
<b>Healthcare</b>	✓	NA	NA

# Volume Cap Allocation by Sector

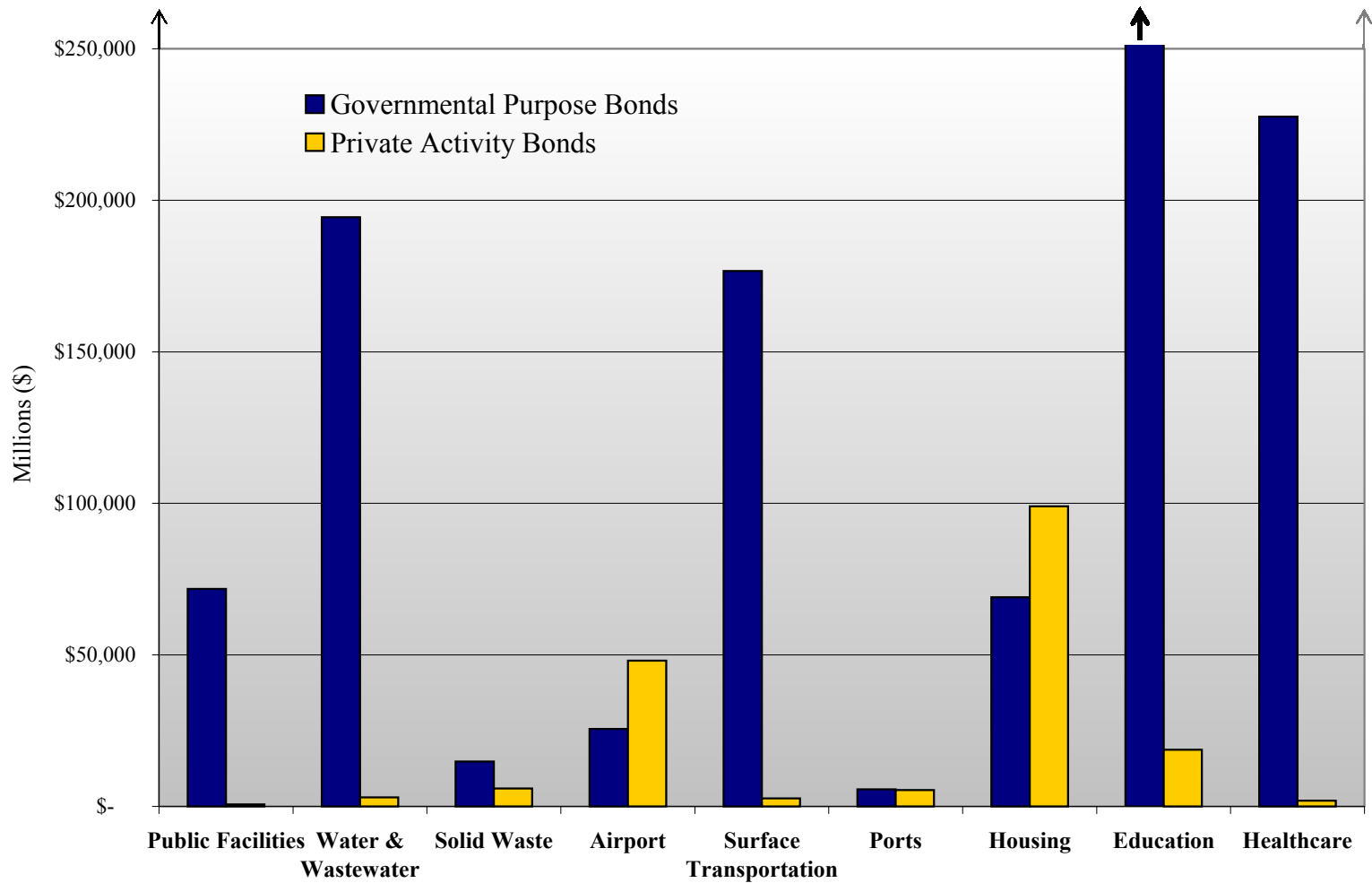
## 2002 Private Activity Bond Cap Allocation Total Cap Available \$30,514.3 (\$ in Millions)



Source: *The Bond Buyer*

Note: Individual state volume cap allocation for 2002 is the greater of \$75.00 per capita or \$225 million.

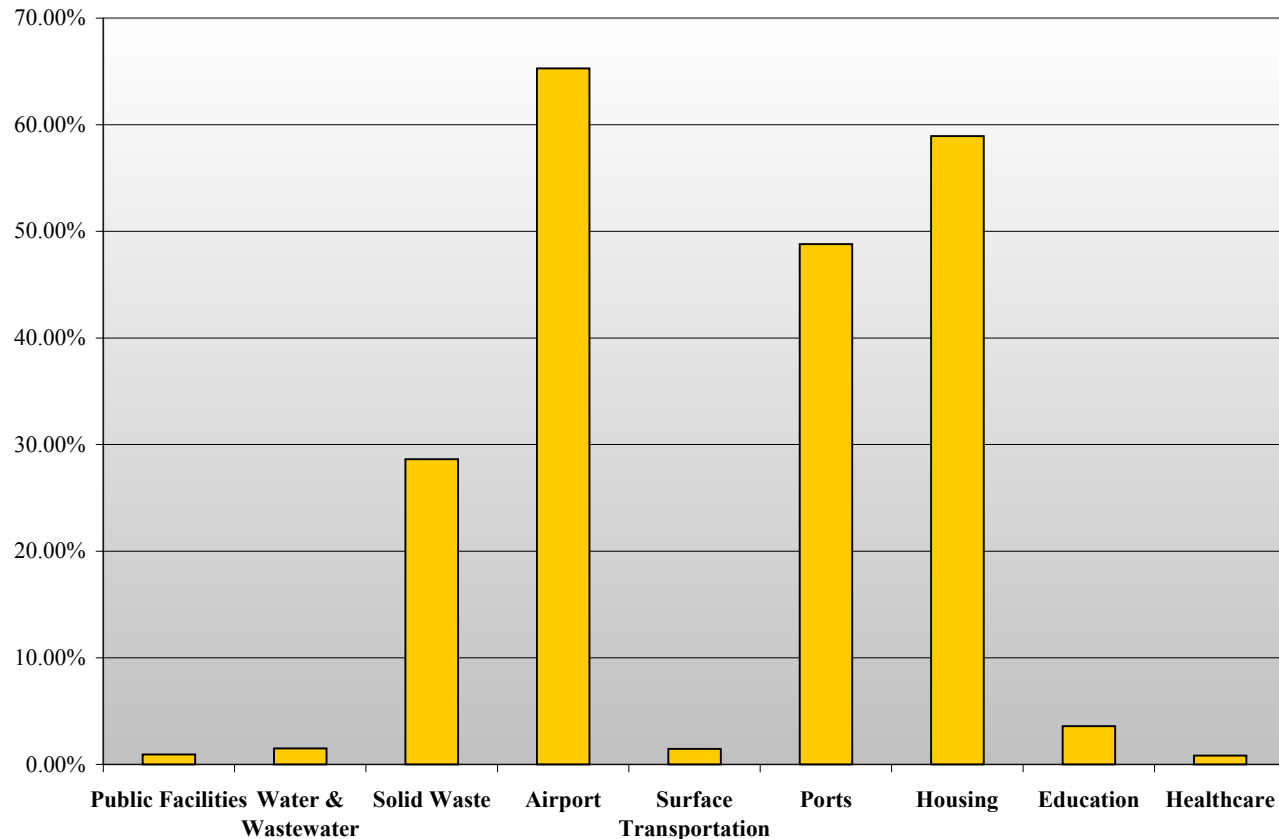
# Issuance of Governmental Purpose and Private Activity Bonds by Sector from 1993 to 2003



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

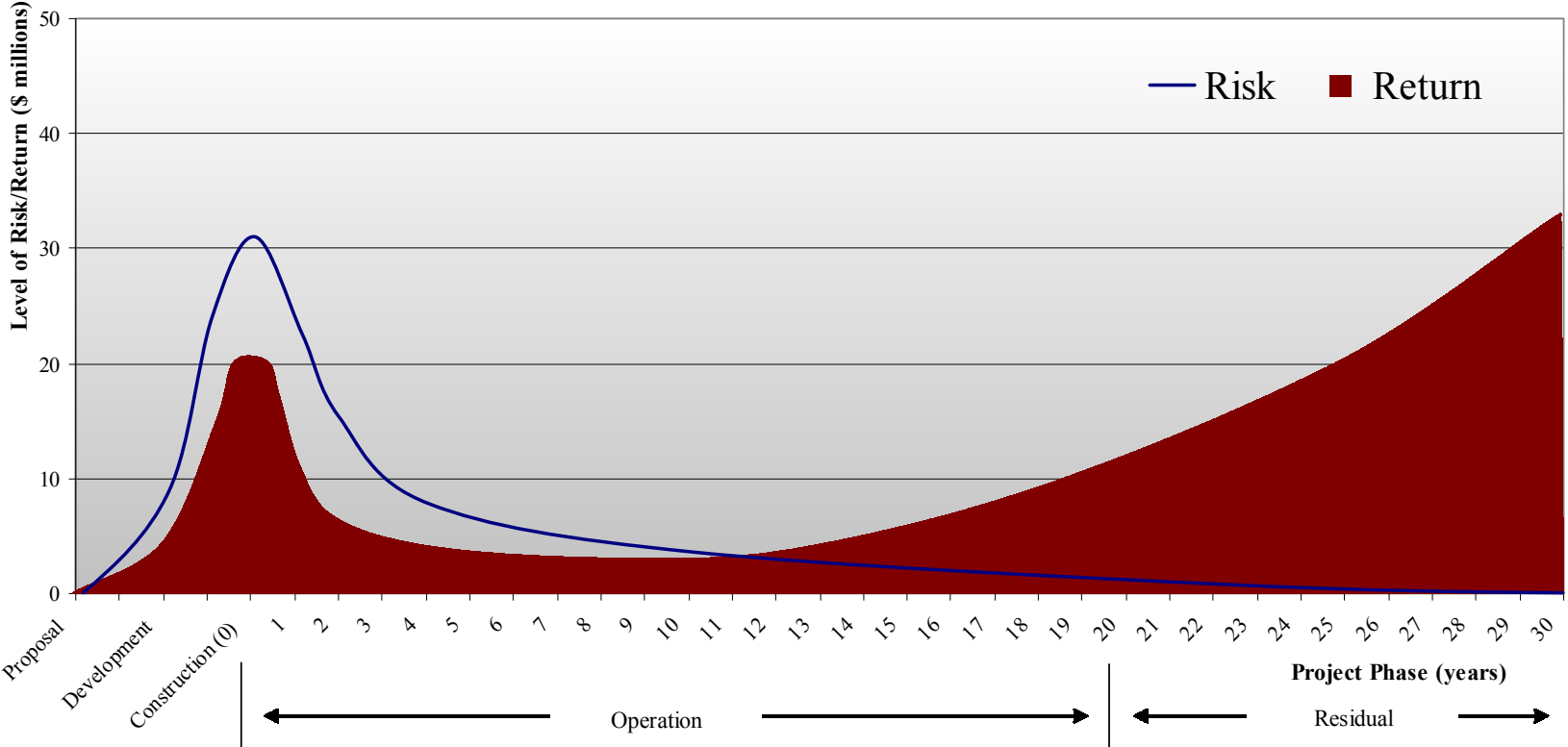
# Profile of Public-Private Partnership Projects

---

---

- 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 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>
<b>Proposal Costs</b>	Yes	Yes
<b>Negotiation and Development Costs</b>	Yes	Yes
<b>Fixed Construction Costs</b>	Possible	Yes
<b>Fixed Operating Costs</b>	Possible	Yes
<b>Fixed Subordinated Debt Return</b>	Possible	Yes
<b>Debt Guarantee</b>	Possible for limited amount typically subordinated	Yes
<b>Equity Investment with upside</b>	No	Yes
<b>Residual Value</b>	No	Yes

# Capital Markets Case Study: JFK International Air Terminal

## 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

## 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.

# Conclusion

---

---

- Tested and proven 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