

THE CURRENT ENVIRONMENT OF INNOVATIVE FINANCING FOR INFRASTRUCTURE PPPs

Anita Molino
Bostonia Partners, LLC
April 8, 2009
2009 NCPP Conference

Bostonia

EXECUTIVE SUMMARY

- **Market Update**

- Slow recovery from disastrous 2008
- Credit markets beginning to function somewhat, but only for investment grade credits
- Many sectors of the credit markets still in disarray
- Market will carefully weigh policy decisions and implementation guidelines

- **Financing Energy Projects**

- Energy Savings Performance Contracts (ESPCs) still financeable in this market
- ESPC pricing has tracked AA / A Corporate bonds
- Overall borrowing costs have increased despite decline in Treasury yields

- **Financing Real Estate Projects**

- Credit Tenant Lease (CTL) transactions have become effective alternative to commercial mortgage lending in many instances
- Investors are demanding tighter risk mitigants

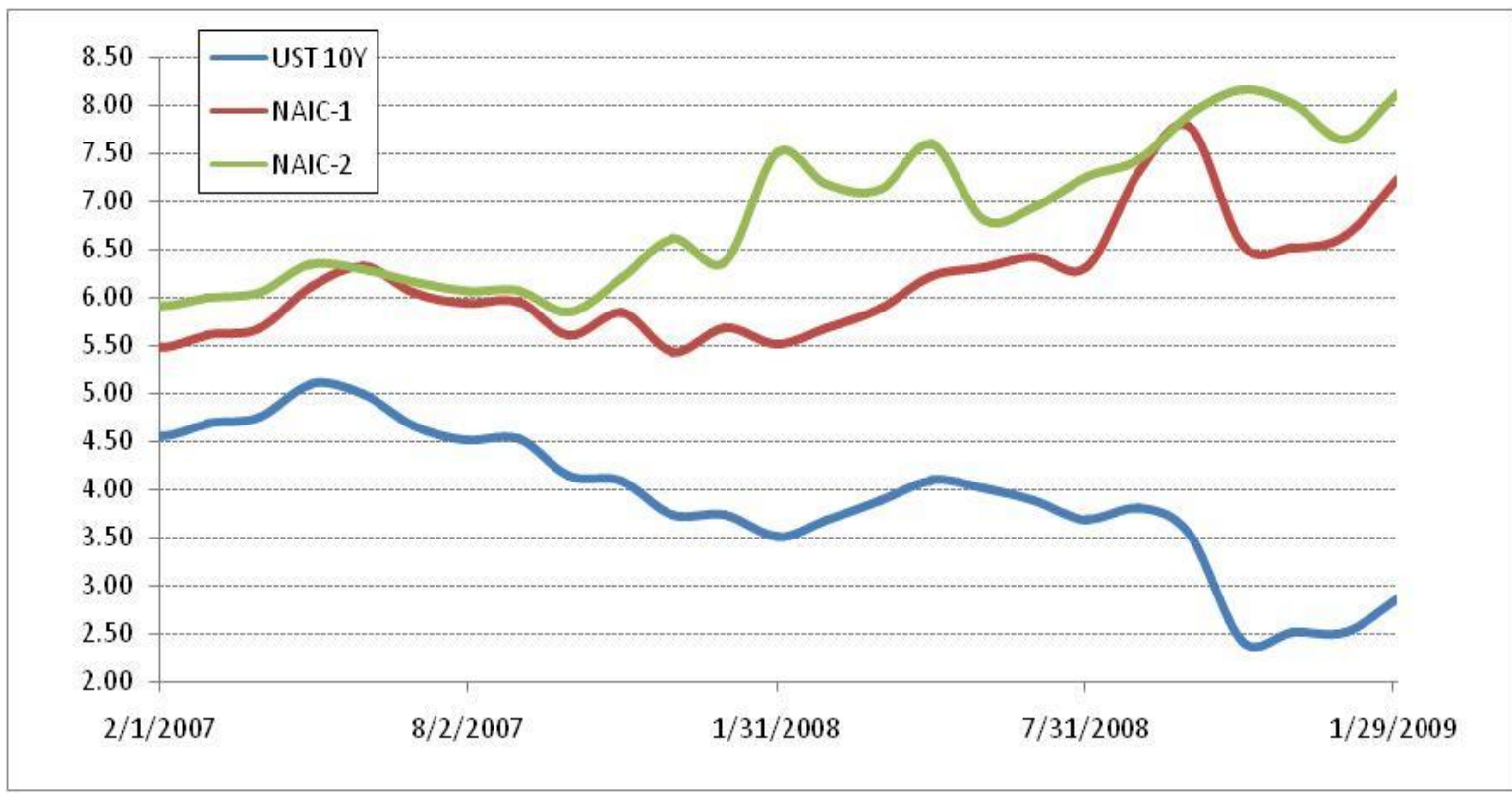
US TREASURY MARKET

Murky outlook for 2009

- **Abundance of Supply**
 - Government bonds used to fund recovery plans and budget deficit
 - Treasury issues first 7 Year note auction since 1993
 - Fed's buyback program will absorb some supply
- **Questionable Demand**
 - Investors have absorbed supply to date
 - Demand concerns have been offset by weak financial data
- **Silver Lining**
 - Rising long-dated UST yields have steepened the yield curve
 - Effect will serve to boost banks and may encourage lending

NAIC-1 and NAIC-2 vs UST 10Y

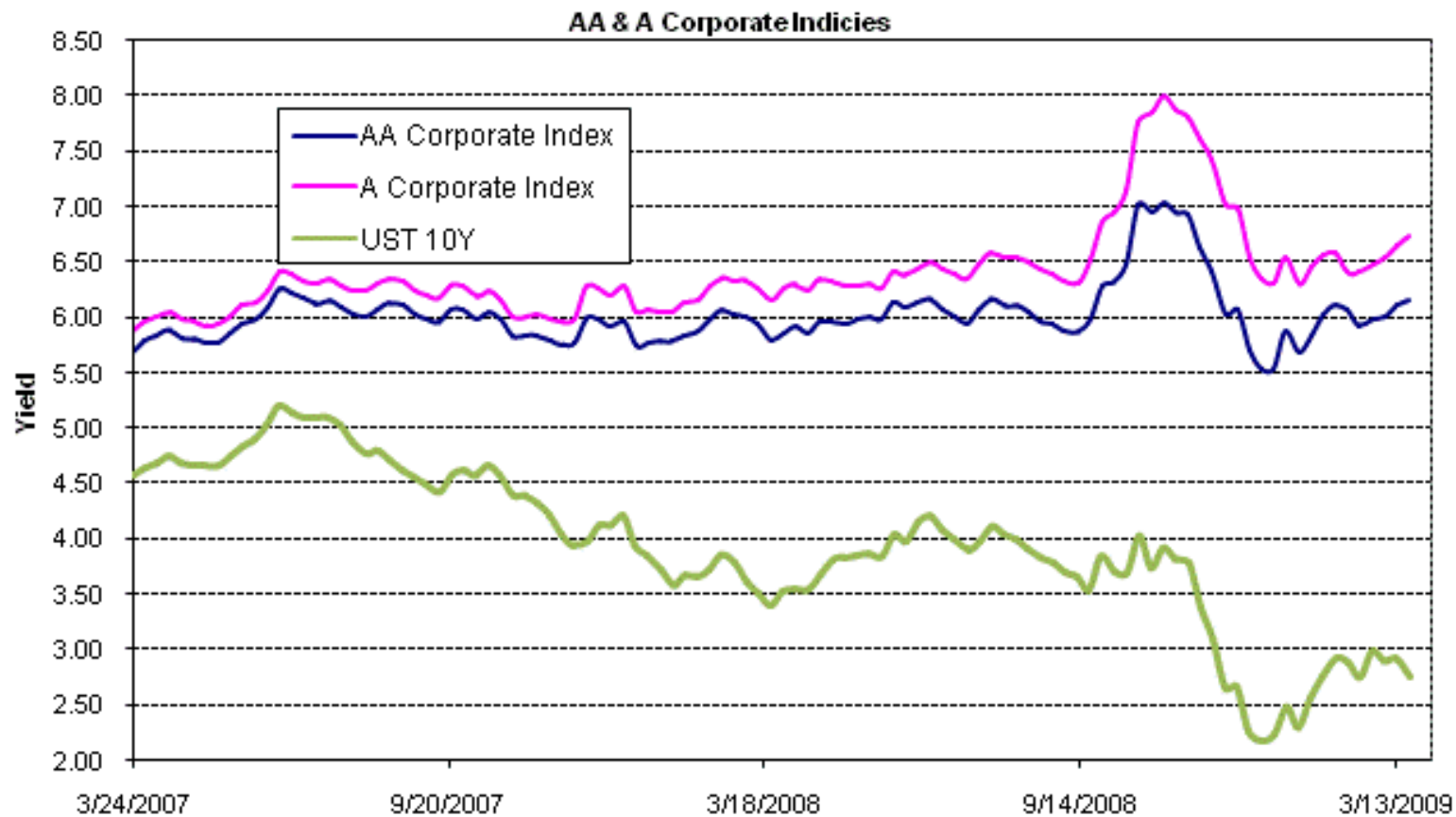
UST 10Y yields have declines but borrowing cost still increased



Bostonia

UST 10Y vs. AA & A Corporates

Spreads wider but borrowing cost has decreased on AA & A credits since Oct '08



INVESTOR PROFILE

Long Term Institutional Debt

- **FINANCING STRATEGY**
 - Fixed rate debt
 - Fully amortizing loan term
 - Credit driven
 - Coverage requirements
- **SCHEDULE D TREATMENT**
 - Insurers are required to classify their investments by the National Association of Insurance Commissioners (NAIC)
 - The safest investments are classified as Schedule D and require insurers to put the least amount of reserves on hold for that investment
 - After project acceptance ESPC and Federal CTL transactions can be treated as Schedule D for the purposes of NAIC filing

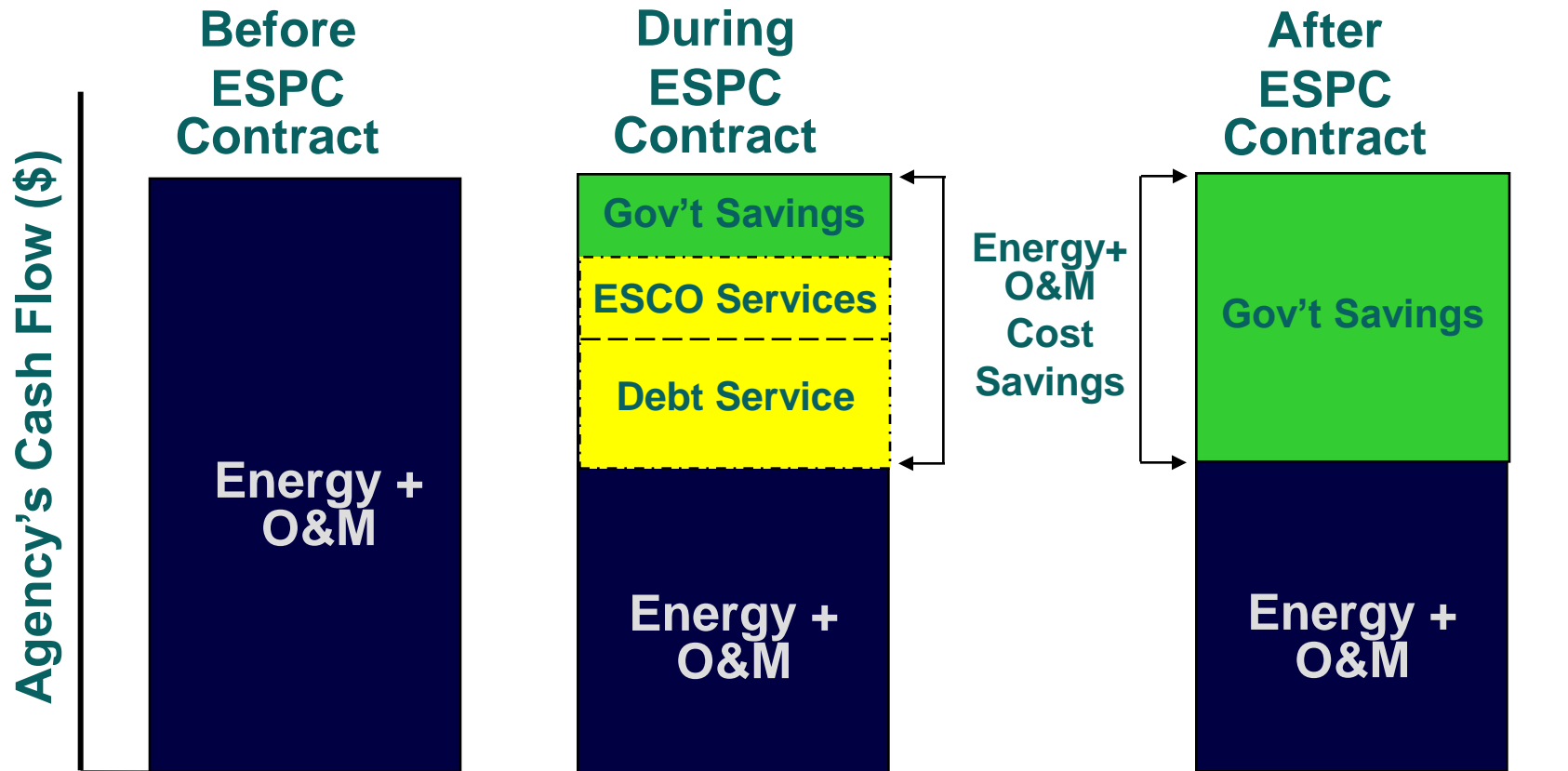
FINANCING ENERGY PROJECTS

Energy Savings Performance Contracts (ESPC)

- **WHAT ARE ESPCs**
 - Contracting vehicles that allow federal agencies to accomplish energy projects without upfront energy costs.
 - Partnerships between federal agencies and Energy Services Companies (ESCOs)
- **HOW DO ESPCs WORK**
 - ESCO conducts comprehensive energy audit, identifies improvements, and designs a project to meet agency's needs
 - ESCO finds private investors to finance the project on the strength of the contract with the federal government
 - Energy cost savings generated by the project provides the debt service over the contract term
 - After the financing term concludes the federal agency realizes all of the energy cost savings

FINANCING ENERGY PROJECTS

ESPC reallocates agency's payments for Energy and Energy-Related O&M Expenses (Energy + O&M)



FINANCING ENERGY PROJECTS

ESPC Risk Analysis

- **Contract Risk**
 - Longer terms
 - Termination for Convenience
 - Debt service offsets
- **Contractor Risk**
 - ESCOs have varying credits
 - Construction / acceptance risk
- **Customer Risk**
 - Closure / Realignment
 - History of payments / acceptance
- **Project Risk**
 - Equipment
 - M&V / O&M

FINANCING REAL ESTATE PROJECTS

Staying Ahead of the Curve: Available Capital for CTLs

- **Credit Tenant Lease (CTL) Outlook**
 - CTL volume expected to increase as commercial mortgage lending declines
 - Investors have money to invest in investment grade CTLs
 - Spreads are expected to compress in 2009
- **Commercial Mortgage Structure**
 - Investors see 'more of the same' in the commercial mortgage sector for 2009
 - Origination has decreased / buyers waiting for distressed selling

FINANCING REAL ESTATE PROJECTS

Staying Ahead of the Curve: Required Risk Mitigants

- **Construction Risk Mitigation**
 - Stronger construction guarantee
 - Absolute rent start date
 - Cost of forward starting swaps likely to ease in 2nd half of 2009
- **Structure Characteristics**
 - Investors have demanded simple, “vanilla” transaction structures
 - Unwilling to take any additional risks beyond intended credit risk

THANK YOU

**ANITA MOLINO
BOSTONIA PARTNERS LLC
264 BEACON ST, 3RD FL
BOSTON, MA 02116
617.437.0150
amolino@bostonia.com**