

Development of Private Activity Bonds for Transportation Projects

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- Qualified Private Activity Bonds (“PABs”) are tax-exempt bonds issued by a state or local government, the proceeds of which are used to build certain qualified facilities that will be owned, leased or otherwise used by a private entity.
 - Focused mostly on new facilities
- For a PAB to be tax-exempt, 95% or more of the net bond proceeds must be used for one of the several qualified purposes, as described in the Internal Revenue Code within 5 years of issuance.
- As opposed to state-by-state volume cap allocations that limit the issuance of certain other PABs, SAFETEA-LU establishes a national limit of \$15 billion to be allocated by 2009 and issued by 2015. As a result of this new provision, tax-exempt financing will be made available to surface transportation projects with significantly more private participation than has been permitted in the past under the Code.
- The Secretary of Transportation is responsible for allocating this amount to different projects.
- Like other PABs, the issuer must be a governmental agency that acts as a conduit.

Several projects have already applied for PABs under the Highway Authorization Bill.

Project	Description	Request (\$)
■ Texas State Highway 121 (TX)	■ Toll Highway	■ \$1.866 Billion (approved)
■ Port of Miami Tunnel (FL)	■ Toll Bypass Tunnel	■ \$1.4 Billion
■ MO DOT 800 Bridges (MO)	■ Renovate & Maintain 802 bridges	■ \$600 Million
■ CenterPoint Railroad (IL)	■ Railroad Distribution Facilities	■ \$505 Million
■ Knik Arm Bridge and Toll Authority (AK)	■ Toll Bridge	■ \$600 Million (anticipated)

Impact of PABs on Public-Private Partnerships

- Assuming a representative \$500 million financing with taxable versus tax-exempt bonds, the impact of PABs can be significant:

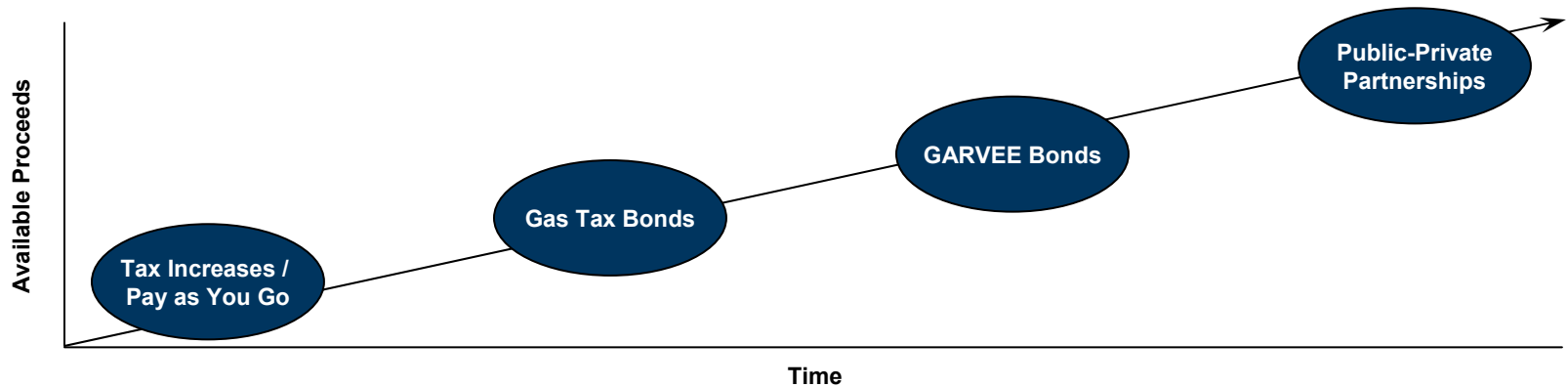
Taxable Summary Statistics	
Project Fund	\$500.0 Mn
Total Debt Service	\$940.2 Mn
Avg Annual Debt Service	\$31.3 Mn
All-In True Interest Cost	4.68%

Tax-Exempt Summary Statistics	
Project Fund	\$500.0 Mn
Total Debt Service	\$1,088.6 Mn
Avg Annual Debt Service	\$36.3 Mn
All-In True Interest Cost	5.99%

Present Value savings of \$81.8 Million over 30 years can be obtained by using PABs.



Public-Private Partnerships represent an evolution in the size and scope of the US transportation financing market.

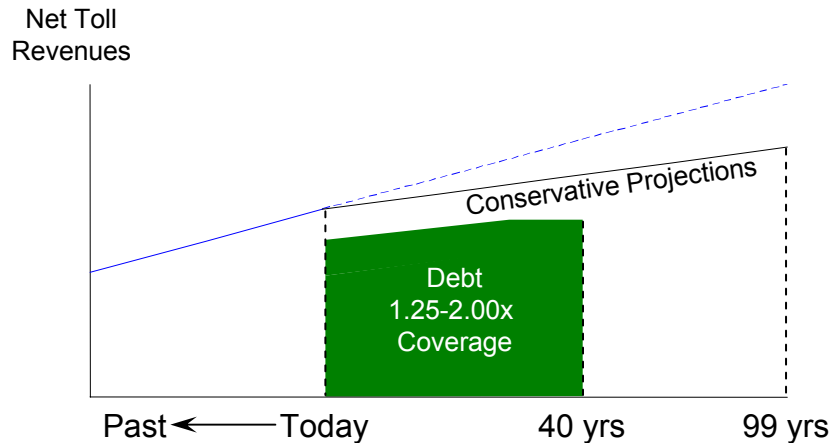


	Tax Increases / Pay as You Go	Gas Tax Bonds	GARVEE Bonds	Public-Private Partnerships
Description	Annual increases in taxes to fund new projects and maintenance	Increase and lever federal and state gas tax revenues	Lever future receipts of federal gas tax revenues	Long-term lease for use and maintenance of asset
Capital Structure	No Leverage	100% Debt	100% Debt	80% Debt / 20% Equity
Available Funds	<ul style="list-style-type: none"> ■ Tax Revenues 	<ul style="list-style-type: none"> ■ Tax-Exempt Debt 	<ul style="list-style-type: none"> ■ Tax-Exempt Debt 	<ul style="list-style-type: none"> ■ Public market debt ■ Private equity ■ Public equity
Strengths	<ul style="list-style-type: none"> ■ Retain debt capacity ■ Perception of fiscal conservatism 	<ul style="list-style-type: none"> ■ Transportation-based tax ■ Leverages future dollars for current projects 	<ul style="list-style-type: none"> ■ Useful if state gas tax unavailable ■ Accelerates Federal contributions 	<ul style="list-style-type: none"> ■ Structured to avoid taxpayer impact / focus on user fees ■ More capital available ■ Ability to monetize future growth today ■ Transfer of operating risk
Issues	<ul style="list-style-type: none"> ■ Highly conservative ■ No flexibility ■ Heavy / immediate taxpayer burden ■ Limited capacity for new projects 	<ul style="list-style-type: none"> ■ Conservative tax-exempt growth assumptions ■ Limited amortization term ■ Retention of operating risk ■ Rising fuel costs 	<ul style="list-style-type: none"> ■ Higher cost of debt ■ Limited term ■ Limited proceeds ■ Retention of operating risk 	<ul style="list-style-type: none"> ■ Fear of unknown ■ Transfer of operational control ■ Concerns about rate increases ■ Foreign ownership

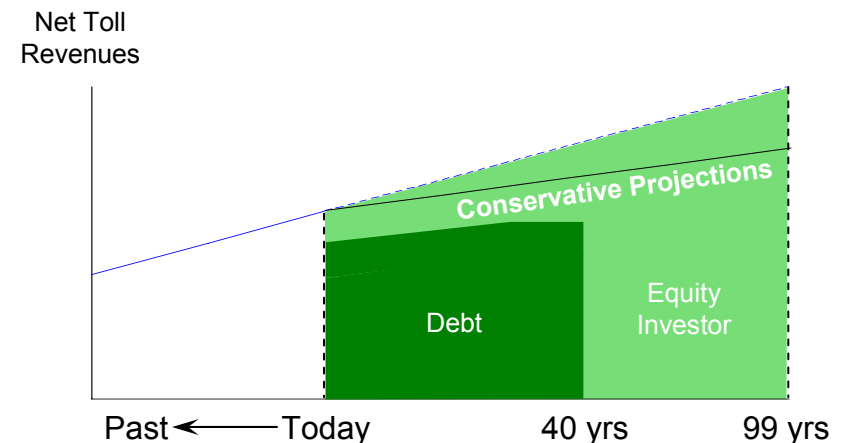
Public-private partnerships provide an opportunity to fully capture the “growth wedge” in future revenue increases.

- Municipal bond investors rely on historical revenues to determine the leverage levels which constrains total value for the owner
- Equity investors look for future returns based on growth
- Debt + Equity = Greater Proceeds for Owner of Asset

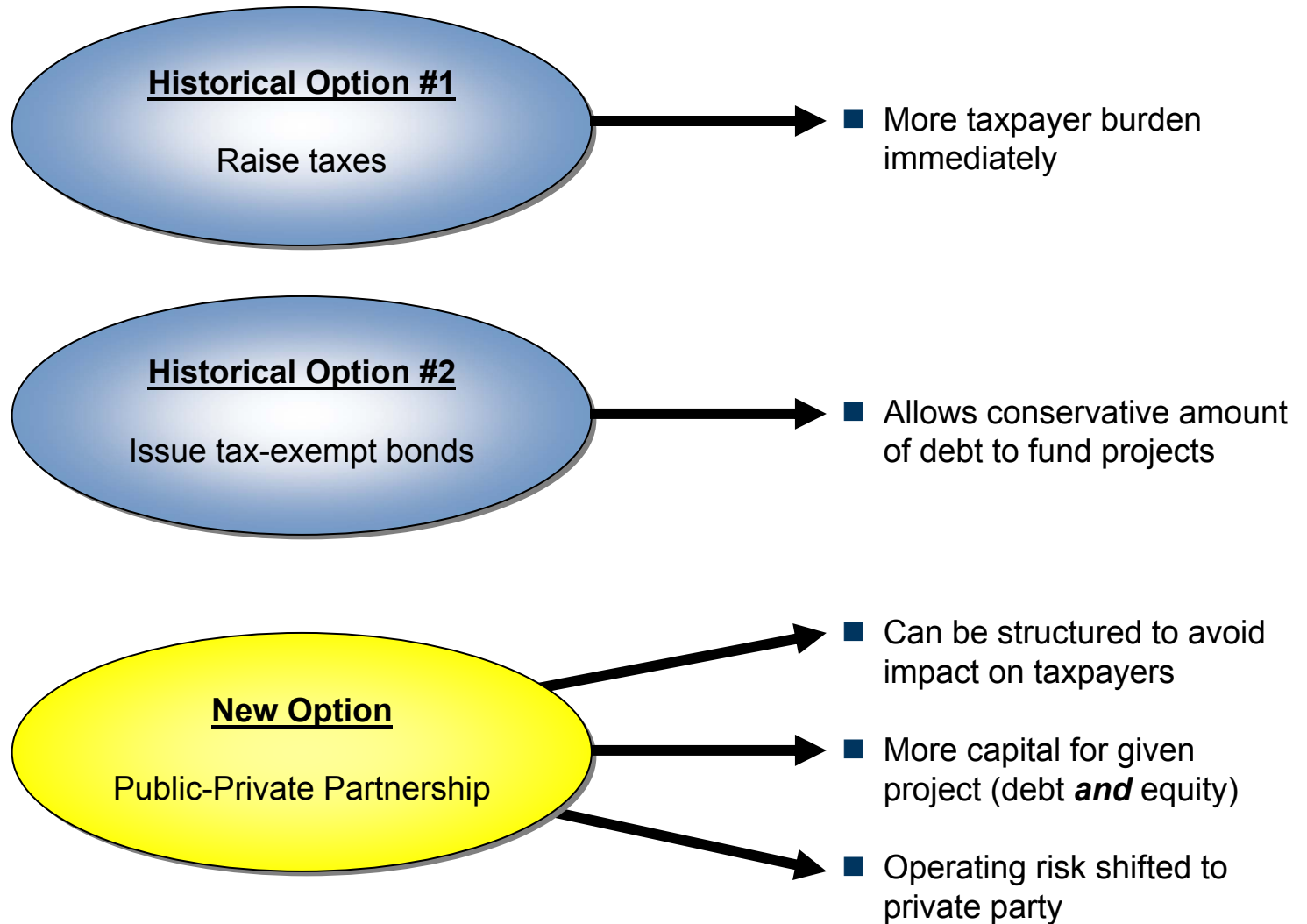
Maximum Municipal Bond Leverage
Chicago Skyway = \$800 – 900 Million



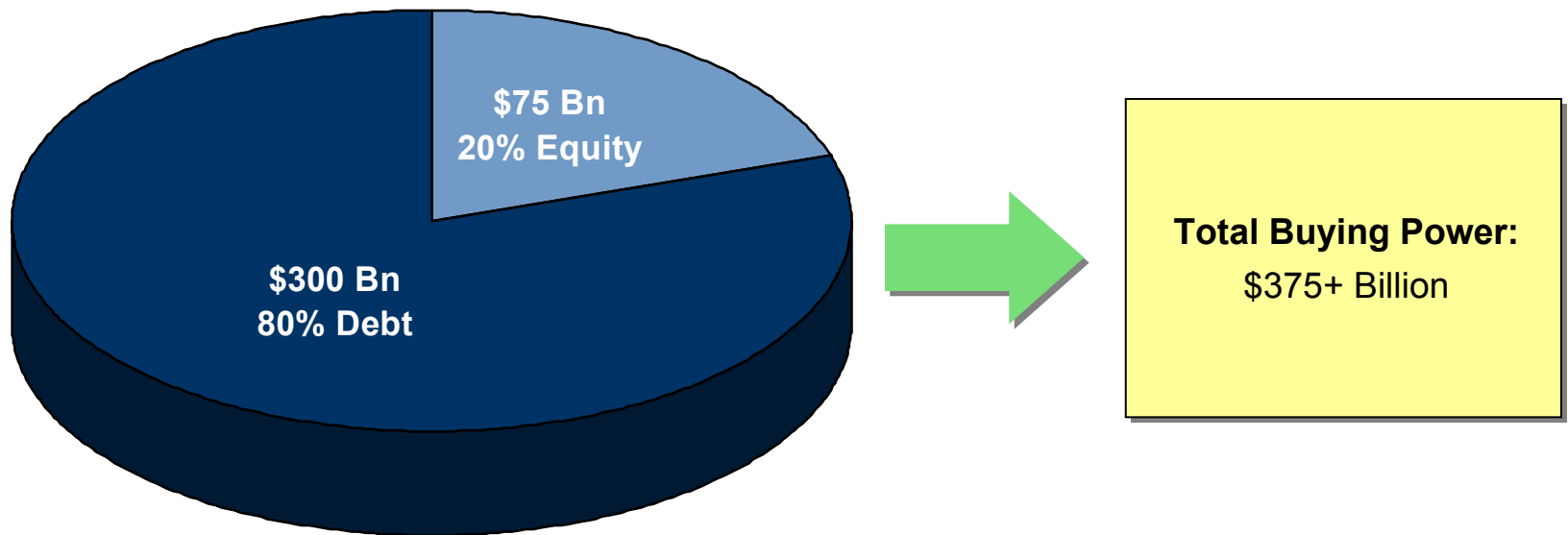
Concession Sale
Chicago Skyway = \$1.8 Billion



Public-Private Partnerships provide a new source of capital for state and local governments.



Substantial pools of capital are focused on investing in infrastructure assets.



Private partners will consider several project parameters that help determine value.

Value Drivers		Impact on Value
Future Revenue Growth	<ul style="list-style-type: none"> ■ Rate Increases ■ Variable Pricing ■ Volume Increases ■ Potential for Capacity Expansion ■ Increased Penetration of Efficiencies (e.g. Electronic Tolling) 	<ul style="list-style-type: none"> ■ Structured and established rate increases provide visibility into future cash flows. ■ Focused rate increases (i.e., trucks during rush hour on a road) provide increased cash flow and reduce congestion. ■ Increased traffic drives growth without raising rates. ■ Increased capacity generates more volume and more demand. ■ Increases price / demand inelasticity
Longer Term of Concession	<ul style="list-style-type: none"> ■ Cost of Capital ■ Shift Tax Benefits ■ Extend Principal Amortization of Debt ■ Provide More Years of Cash Flow to Private Partner 	<ul style="list-style-type: none"> ■ Private operator will apply leverage to the infrastructure asset. Current favorable interest rate environment can provide attractive value of government entities. ■ Term of 50 years or more potentially provides buyer with ability to use depreciation to shield income taxes. ■ Longer term allows debt to be amortized over greater time, increasing cash flow. ■ Additional years of Free Cash Flow are valued and included in upfront payment.
Expense Reduction	<ul style="list-style-type: none"> ■ Create Operating Efficiencies ■ Reduce State-Specific Costs 	<ul style="list-style-type: none"> ■ Buyer can streamline construction and other operational costs through economies of scale. ■ Streamlined operations can reduce operating costs.
Capital Expenditures	<ul style="list-style-type: none"> ■ Mandated Capital Expenditures ■ Options to Expand Road 	<ul style="list-style-type: none"> ■ Deduction for value received up front ■ Ability to expand project can enhance value significantly.

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