Innovative Funding and Finance: a New Era?

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Overview

- **Both U.S. and Canada have been pursing Public-Private-Partnerships (PPP) as a means to fund and deliver key infrastructure**

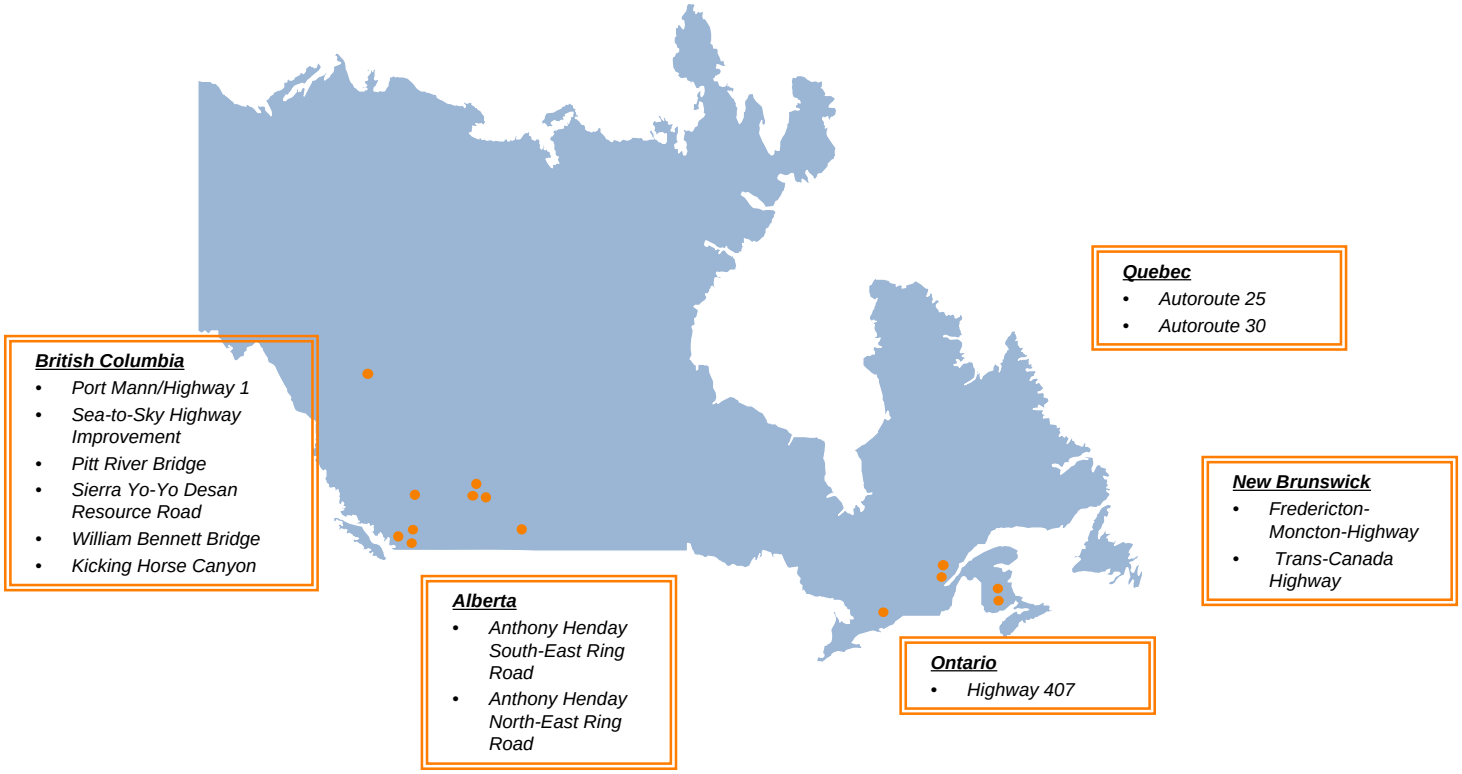
- **Canadian Overview**
  - History
  - Selected case studies
    - Golden Ears Bridge, Vancouver
    - Port Mann / Highway 1, Vancouver
  - Impact of credit crisis going forward

- **U.S. Overview**
  - History
  - Discussion of selected states
    - Texas
    - Virginia
    - Florida
- **Comparison of Canadian and U.S. PPP approaches**

Canadian Overview

History

- PPPs have been used to delivery infrastructure for almost 20 years
- Most large PPP projects have been in transportation infrastructure
- Provinces have taken on responsibility for delivery of highways through PPPs
- Highway projects currently being delivered through a PPP include:



Selected Case Studies

Golden Ears Bridge

- Capital Value: $808 million
- Date of Agreement: March 2006
- Completion Date: June 2009

Port Mann Bridge / Highway 1 Improvements

- Capital Value: $2.46 billion
- Date of Agreement: February 2009
- Expected Completion Date: December 2013

Golden Ears Bridge – Overview

- **High Priority Project for TransLink**
  - Travel time savings of 20-30 minutes

- **Includes**
  - 1 km bridge with 40 meters clearance
  - 15 km of new road for surrounding network
  - 6 lanes plus pedestrian and cyclist sidewalks

- **Achieved Financial Close In March**
  - Led by Bilfinger Berger
  - 32 year DBFO project
    - With performance payments
  - $1.05 billion total financing
    - 96% bank debt
    - Swaps for both interest rates and CPI

Approach to Selecting a Business Model

TransLink Objectives:

- **Stable tolls within acceptable framework**
- **Retain future public policy flexibility**
- **Retain control of tolling to address future interoperability needs**
- **Fully funded project with limited refinancing risk**
- **No additional subsidy**
- **Minimal financial exposure to TransLink operations**
- **Market acceptance**
- **No windfall profits**
- **Respect First Nations' interests**
- **Protect the environment**

Pre-Establish Criteria

- "What are we trying to achieve?"

Identify Potential Models

- DBO, with TransLink non-recourse debt
- DBFO
- Full Concession

Understand Risk Allocation for Each Model

- Key differences with following risks
  - Financial close
  - Revenue – both downside and upside
  - Default
  - Reputation

Analysis of Options – Why a DBFO?

Limitations of the Full Concession Model

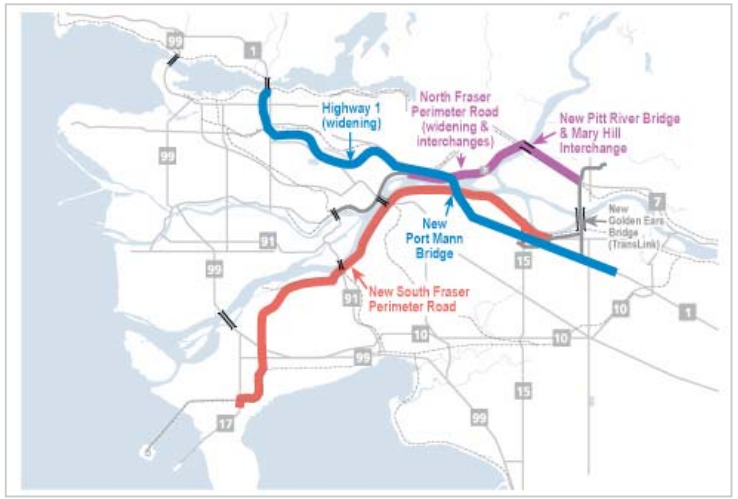
- Limited public policy flexibility
- Increased price by transferring revenue risk
- Potential for private sector windfall profits
- More difficult to manage public accountability of infrastructure asset

Limitations of DBO

- While revenue risk was shared with lenders, this would only be the case IF TransLink was willing to allow default
  - Early year revenues expected to be light
  - In event of default, lenders will exercise step-in rights – with TransLink losing control
  - Default will impact future projects
- Non-recourse financing more expensive
- TransLink would retain risk of arranging financing

Port Mann Bridge/Hwy 1 Improvements

- **Construction of a new $2.46 billion Port Mann Bridge and widening highway and upgrading interchanges and access**



- **Project Objectives**
  - Reduce travel times
  - Reduce congestion
  - Improve goods movement
  - Facilitate introduction of transit
  - Expand HOV, cycling and pedestrian networks
  - Improve safety

- **Originally Contemplated As A Full Concession Model**
  - Team led by Macquarie and Kiewit
  - Concessionaire takes full responsibility for design, construction, finance and operations/maintenance
  - Recovery of capital and operating costs would be through newly implemented tolls

Port Mann Bridge/Hwy 1 Improvements

- **Prior To financial close, credit crises changed availability and Cost of Capital**
  - Initially, Province offered to provide 1/3 of the financing required for the project
  - Unable to reach definitive agreement – transaction model changed to fixed priced design-build with full government financing

- **DB Model**
  - Province to fully finance project and make milestone payments
  - Province to operate and maintain – retains life-cycle risk
  - Province to collect and retain tolls – retains revenue risk

- **Value for Money challenges**
  - High cost of financing made the “value for money” analysis difficult

Impact of Credit Crisis

Value for Money

- All Provinces including B.C. are scrutinizing the Value for Money analysis
- B.C. is revisiting funding model
  - Looking into using a “wide-equity” model with government financing
  - Private sector parties have expressed some concerns
  - Need to work out the details with respect to risk transfer

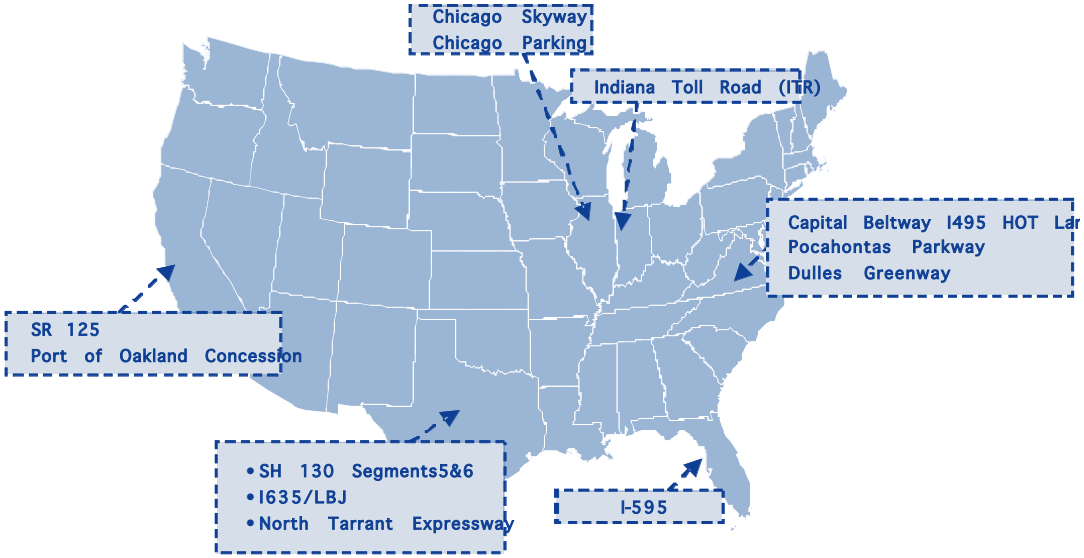
Other Impacts

- Ontario is looking to relax requirement of committed financing at proposal submission
- Projects are being delayed
- Bid validity dates are shortened

U.S. Overview

History and Background

- U.S. States have started to explore PPPs as a delivery model in the last 5 years.
- Most PPPs have been focused on Highway Infrastructure
- Toll roads in many States are already a publicly accepted funding model
- Over half the states have some form of PPP legislation
- Political acceptability of PPP model has been challenging
- PPP models for toll roads have largely been full concession projects



Selected States

- **Texas**
  - The largest PPP program to be implemented in country
  - Number of successful toll road PPP projects implemented through different delivery models
- **Virginia**
  - Successfully implemented a number of toll roads PPPs
  - Currently rolling out a formal program (PPTA)
- **Florida**
  - PPP program relatively new
  - Have reached commercial close on a couple major road PPP projects

Texas

- **Implemented an ambitious CDA (Comprehensive Development Agreement) Program**

- **Number of toll road projects successfully implemented as PPPs**
  - SH 130 Segments 5 and 6
    - Pre-Development Agreement Approach
    - $1.35 billion project
  - North Tarrant Expressway
    - $2.5 billion in infrastructure (capital and maintenance) using public funds of $570 million
    - Expected to reach financial close within 6-8 months
  - I635 / LBJ
    - $4 billion in infrastructure (capital and maintenance) using public funds of $445 million
    - Commercial close imminent
  - Dallas-Fort Worth Connector
    - Different scopes of work contemplated under project agreement
    - Working towards commercial close with Preferred Proposer

Virginia

- **Have tested the PPP Market through successful implementation of several PPP toll road projects**
  - Pocahontas Parkway
  - Dulles Greenway
  - I495 Capital Beltway HOT Lanes
    - $1.9 billion in initial capital costs ($409 million in State funding)
    - Direct negotiations with Transurban / Fluor consortium
    - Dynamic tolling system
    - Included TIFIA and PABs financing
    - Reached financial close in December 2007

- **A PPP Program currently being set up to deliver other Projects (PPTA)**

Florida

- **Relatively new to PPP market**

- **Have pursued a number of different PPP Projects**
  - I595
    - Reached commercial close – October 2008
    - Reached financial close – March 2009
    - Based on availability payments
  - Port of Miami Tunnel
    - Stalled due to preferred Proposer unable to provide equity
    - Reopened process and replaced Proposer
    - Reached commercial close – June 2009
  - Alligator Alley
    - Asset monetization model to leverage toll revenues for up-front funds to be used for other transportation projects
    - Public acceptability challenging for this delivery model
    - Difficult financial markets
    - In the end, no bids were received

PPP Approach Between Canada And The U.S.

Similarities Between Canada and the U.S.

- Significant infrastructure gap in both countries
  - With a limited desire to increase taxes or incur new debt
  - Stimulus funding aimed at infrastructure
- State / Province driven investment decisions
- Significant interest in PPPs recently – with more on the horizon

Key Differences

- Funding
  - Highway Trust Fund established to ensure continued investment in highways
  - In Canada, gas tax = general revenue fund
- U.S. agencies/Private sector consortia able to access tax-exempt financing, and government supported debt (e.g. TIFIA, TIGER), which lowers cost of capital
- User tolls not as prevalent in Canada
  - But becoming more so
  - Subtly different PPP model on many transactions as a result