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Public-Private Partnership Overview

November 1, 2007

I. Public-Private Partnership Overview

Public-Private Partnerships (P3) provide a new source of capital for state and local governments.

Historical Option #1

Pay-As-You-Go

- Insufficient to accelerate priority projects

Historical Option #2

Issue tax-exempt bonds

- Allows conservative amount of debt to fund projects

New Option

Public-Private Partnership

- Can be structured to reduce impact on taxpayers
- More capital for given project (debt ***and*** equity)
- Operating risk shifted to private party
- Just another tool in toolkit

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While several strategies exist to implement and finance infrastructure assets, Public-Private Partnerships offer a unique alternative.

Strategy	Description
1) Public Ownership	Traditional delivery system – design, construction, O&M, governance, etc., remain with public entity
2) Private Contracting	Same as above except certain activities may be contracted for – i.e., design/construction, operations, etc.
3) Concession/ Lease Agreement	Public owns facilities and maintains governance, enters into lease agreement with a private entity that is responsible for operations, maintenance, construction
4) Private Ownership	All activities, including the setting of rates, are controlled by a private entity

Strategies 2-4 are variations of P3 alternatives

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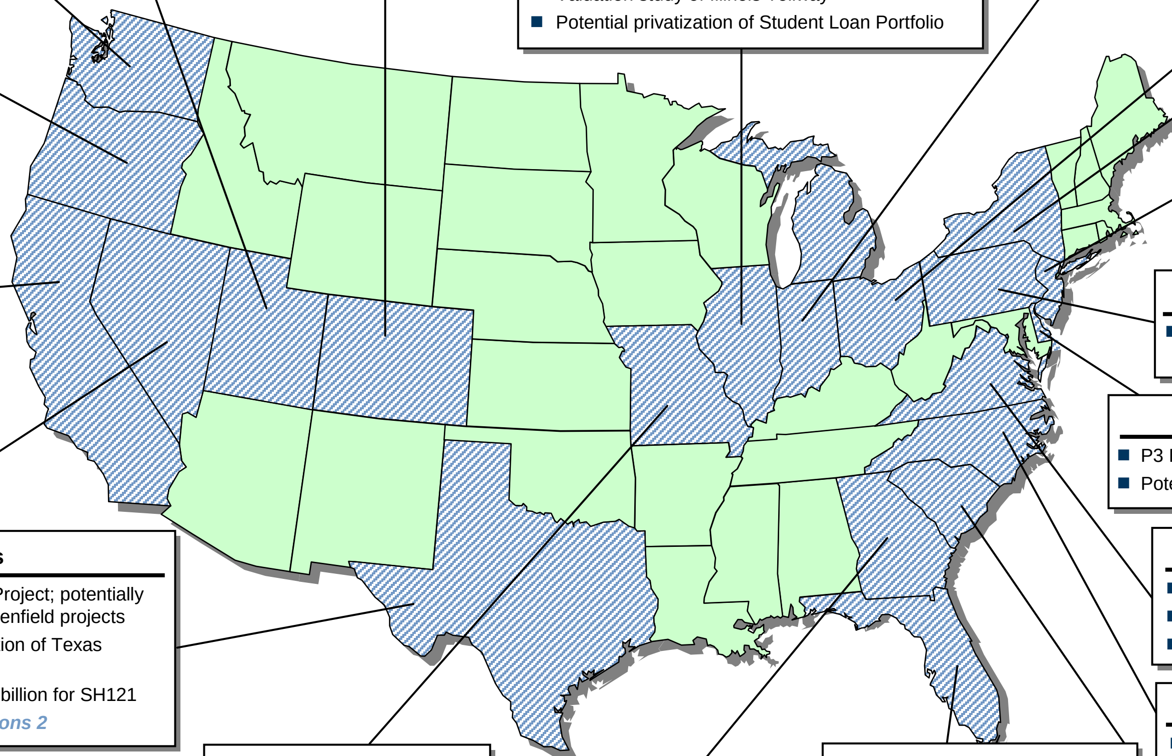
There continues to be a surge in Public-Private Partnership activity in the US.



Washington
- Evaluating tolling existing assets to fund replacement bridges using P3

Oregon
- Evaluating private concessions on two separate greenfield projects

California
- Limited P3 legislation approved
- ***BART Airport Connector bids being solicited***
- SR125

Nevada
- DOT is currently considering P3 on a variety of projects

Utah
- P3 Legislation in place
- Evaluating concession of Mountainview Corridor

Colorado
- Announced award of concession for Northwest Parkway for $603 Mn
- ***RTD FasTracks***

Illinois
- Concession sale of Chicago Skyway for $1.83 Bn
- $563 million Chicago Downtown Public Parking System 99 Year Lease
- Preliminary privatization application filed for Chicago Midway International Airport
- RFQ for concessionaires issued for Illinois Lottery
- Valuation study of Illinois Tollway
- Potential privatization of Student Loan Portfolio

Indiana
- Concession sale of Indiana Toll Road for $3.8 Bn
- Evaluating bids for concessionaires for Lottery
- Potential private development of I-69

Ohio
- Discussion of privatization of Ohio Turnpike and Lottery

New York
- Solicitation of Financial Advisor

New Jersey
- P3 Legislation in process
- Hudson-Bergen Light Rail
- South Jersey Light Rail

Pennsylvania
- Request for Expression of Interest from bidders and advisors for PA Turnpike

Delaware
- P3 Legislation in place
- Potential sale of State Route 1, Route 301 & I-95

Virginia
- Capital Beltway HOT Lanes
- $611 Mn Pocahontas Parkway concession
- I-95/395 HOT lanes

North Carolina
- P3 Legislation in place

South Carolina
- P3 Legislation in place

Texas
- Trans Texas Corridor Project; potentially six concessions for greenfield projects
- Discussion of privatization of Texas Lottery
- Received a bid of $2.8 billion for SH121
- ***Houston Metro Solutions 2***

Missouri
- Concession to refurbish and maintain bridges

Georgia
- Proposal for I-285 truck toll lanes

Florida
- Bids received to build and operate a tunnel connecting the Port of Miami with Downtown
- P3 contemplated for Miami Streetcar project

Note: Highlighted projects are Penta-P participants.

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How does P3 apply to transit?

Net Revenue Generating Assets

- Parking Facilities
- Rail Lines

Concession Sale Can Raise Funds for New Projects

Subsidized Assets

- Rail Lines
- Rolling Stock
- Buses
- Stations

P3 Structure Can Limit and / or Reduce Public Subsidy

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Availability-based P3 structures can transfer significant risk to the private sector.

- Base unitary charge with deductions for “unavailability”
- Payments to concessionaire depend upon performance, with clear penalty system to ensure that the concessionaire is bearing meaningful risk
- Concessionaire has an incentive to manage maintenance program efficiently in order to avoid disruption to users and maximize payments
- Structure allows for capital markets’ financing of the concessionaire
- Typically considered as slightly higher quality cash flows than a pure traffic model by the rating agencies, depending on the likelihood of breaching availability conditions

The Concession Agreement would be tailored to key public policy and operational issue.

Objectives

- Project Delivery
- Compatibility
- Durability
- Safety
- Capacity
- Reliability
- Cleanliness
- Diversity

Standards

- Design & construction
- Project completion
- On-time performance
- Customer service
- M/WBE Requirements
- Environmental
- Lighting
- Fares
- Renewal & Replacement

Concession Agreement

Availability, performance and ridership criteria
Revenue generation

Contract Monitoring

Payment Mechanism

(Price + Service Adjustment) x Inflation x Availability factor
- Availability Deductions
- Performance Deductions
+ Ridership Incentives

Availability Payment

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A competitively bid P3 process will drive significant savings.

- A competitive bid process will cause bidders to provide the lowest lease payment they can accept to make the project viable.
- Private sector partners will likely build the following project savings into their bid.

Construction Cost Savings
- Cost savings assumptions
  - Port of Miami
- Integration of design and construction
- Heightened accountability

O&M Cost Savings
- Cost savings assumptions
- Construction and maintenance coordination
- Heightened accountability
- Potential labor savings

Revenue Optimization
- Maximize non-fare revenue
- Airport service related revenues
- TOD revenues

Financial Engineering
- Aggressive debt and equity structures to lower financing cost
- Maximization of tax benefits
- Possible use of Private Activity Bonds

Project Acceleration
- Incentives to start/ finish earlier
- Penta-P accelerates New Starts grant approval
- Reduces impact of inflation

Lowest Lease Payment = Greatest Savings to RTD

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II. Innovative TOD Financing

Can real-estate development be incorporated into a P3 concession to reduce the public subsidy/availability payment?

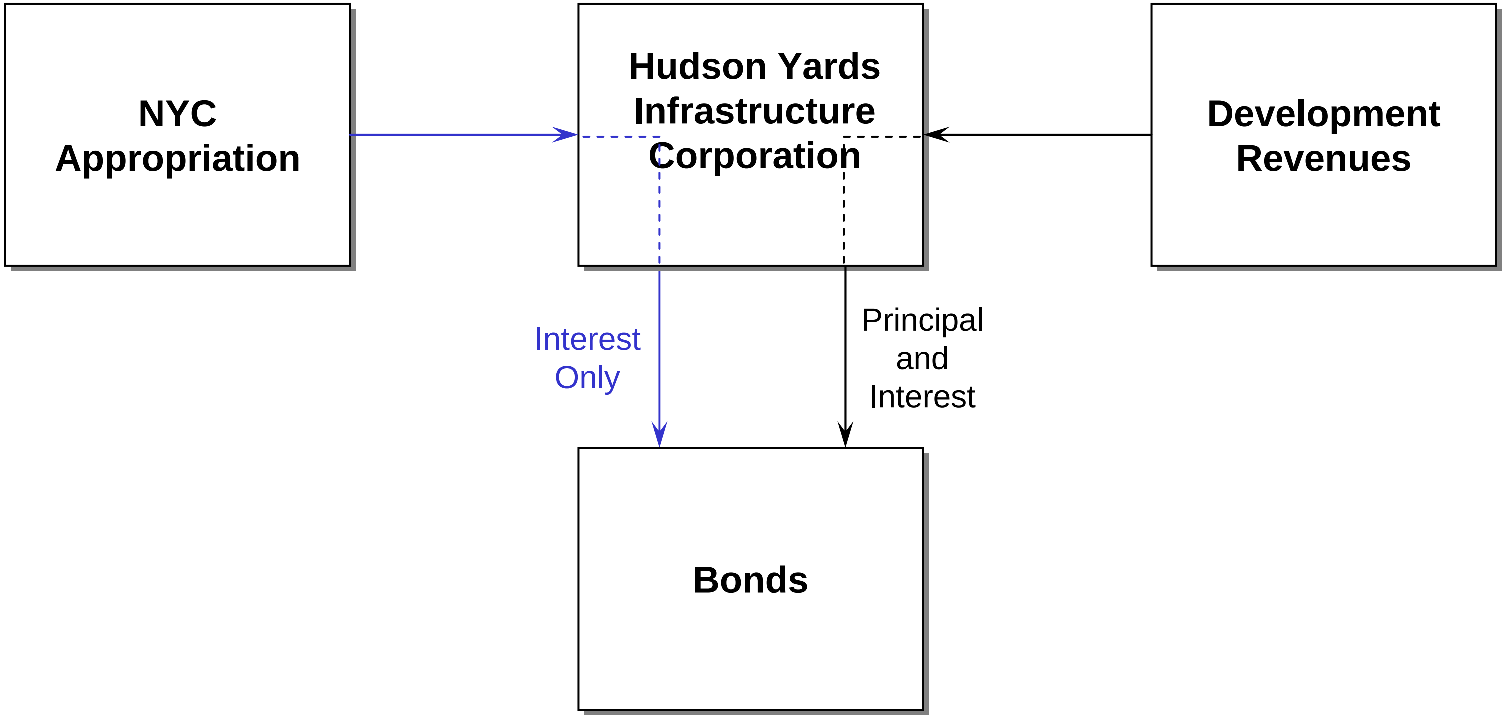
- Ideal conditions:
  - Transit agency owns land
  - Clear development goals
  - Development value apparent
  - Advantageous timing
- If conditions are not ideal:
  - Separate P3 and TOD processes
  - Advance consideration of station location/configuration
  - Coordination of developments

The NYC Hudson Yards financing model merits consideration for other transit oriented development projects.

- The Problem:
  - The Hudson Yards Infrastructure Corporation (HYIC) is financing public infrastructure in combination with a recent rezoning to catalyze the redevelopment of a 48-block area west of Midtown Manhattan
  - Expected development revenues not currently available.
  - Current funding sources available did not cover the anticipated scope of public infrastructure
- The Solution:
  - Combination of various current and anticipated revenue streams to create both an investment grade and a more easily financable credit
    - Projected Revenue Sources include Property Taxes, Mortgage Taxes, and District Improvement Fund Zoning Bonus Payments
  - $2 billion issuance
    - Bonds to be structured as 40-year bullet maturity with principal super sinker paid from development revenues.
  - Financing structure lowered the cost of capital while accelerating and increasing total bonding capacity

The NYC Hudson Yards financing model merits consideration for other transit oriented development projects.

Structure of Hudson Yards Financing



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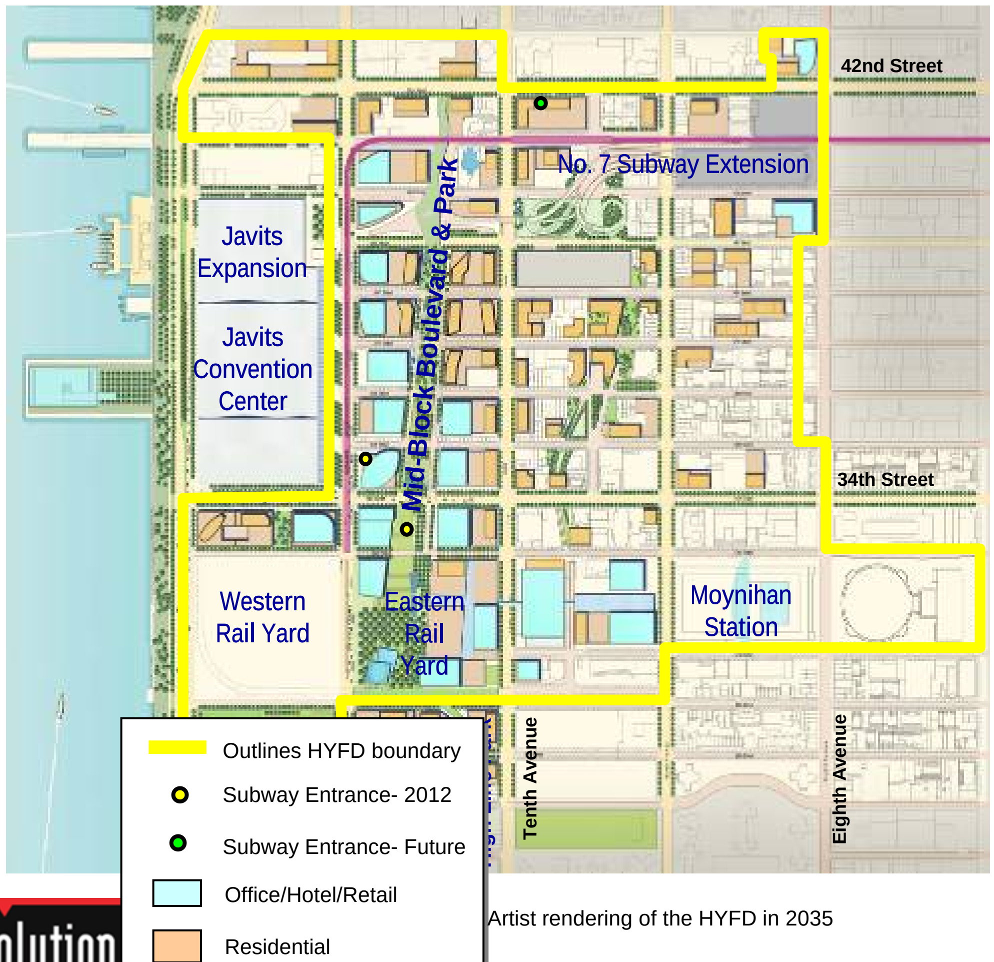
Goldman Sachs acted as book-running senior manager on the Hudson Yards Infrastructure Corporation's inaugural $2.0 billion financing.

The Hudson Yards Infrastructure Corporation (HYIC) is a local development corporation created by the City of New York to provide financing to facilitate the transformation of the Hudson Yards Financing District (HYFD) to a mixed-use community consisting of commercial, residential, hotel and retail development.



Artist rendering of the HYFD in 2035

- The transformation of the HYFD will expand the premier central business district in the world and create a neighborhood with parks and walkways.
- The key to the development of the HYFD is the extension of the No. 7 subway from Times Square to near the Javits Center.
- The initial bond issuance of $2 billion will fund approximately two-thirds of the $3 billion capital program planned for Hudson Yards.

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The HYIC bonds are secured by a combination of Project Development Revenues and Subject-to-Appropriation Revenues from the City of New York.

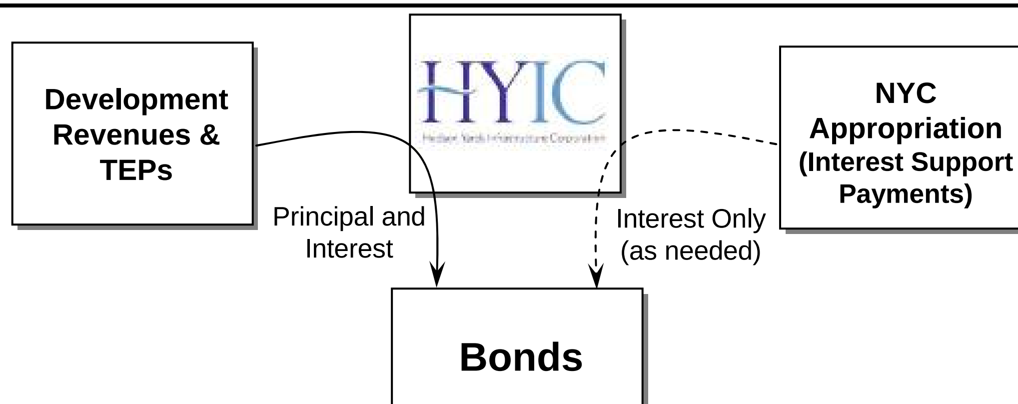
Project Development Revenues

- Payments in lieu of property taxes (PILOTs) and payments in lieu of mortgage recording taxes (PILOMRTs) generated in the Hudson Yards Financing District (HYFD)
- District Improvement Fund Bonus (DIB) payments
- Proceeds of sales from Eastern Rail Yard Transferable Development Rights (ERY TDRs)

Revenues from New York City Subject-to-Appropriation

- Payments of interest to the extent that project revenues are less than interest payments (Interest Support Payments)
- Tax Equivalency Payments (TEPs) from the City on newly developed properties in the HYFD not subject to a PILOT agreement, predominantly residential and hotel development

HYIC Credit Structure



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Goldman Sachs created the bond structure that was integral in producing the lowest cost of capital for HYIC.

- All bonds were issued as 40-year bullet maturities with a “modified turbo” amortization structure.
- After a 10 year no-call period, net revenues in excess of interest due will be used to call principal (a turbo structure) until Conversion is achieved.
- Conversion is achieved when net recurring revenues (PILOTs and TEPs) are great enough to achieve 1.25x coverage on senior bonds amortized to from that point in time to maturity on a level debt service basis.
- At Conversion, the amortization will change from a turbo structure to a level debt service amortization schedule in which revenues in excess of debt service will be paid to the City of New York.

The flexibility in the amortization schedule was attractive to investors, shown by the financing being 3x oversubscribed with over 50 investors participating.

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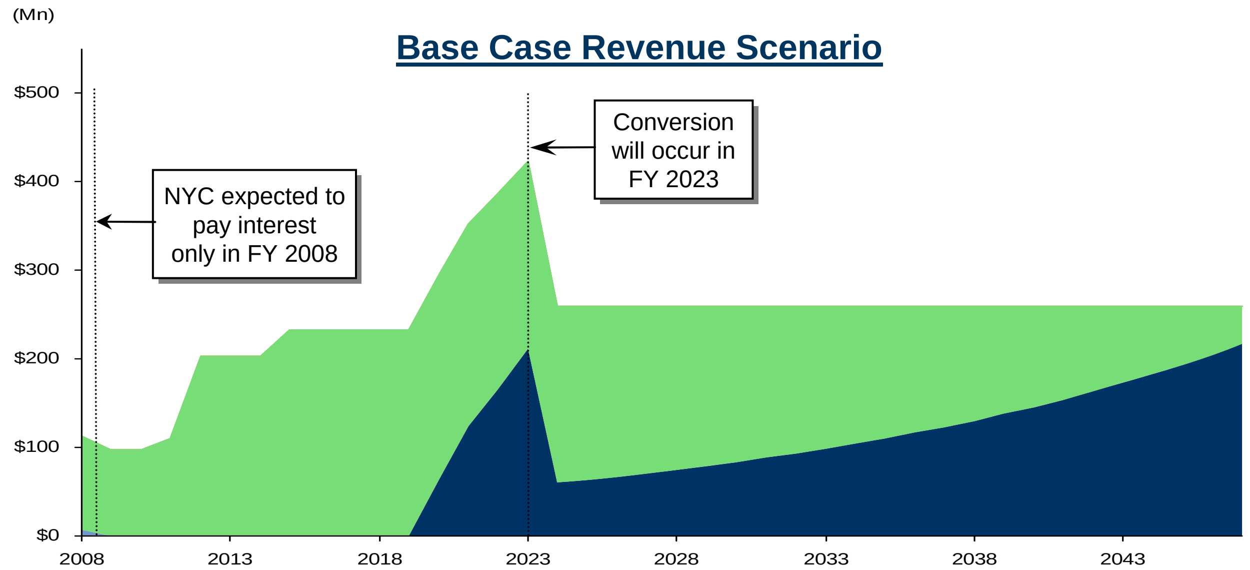
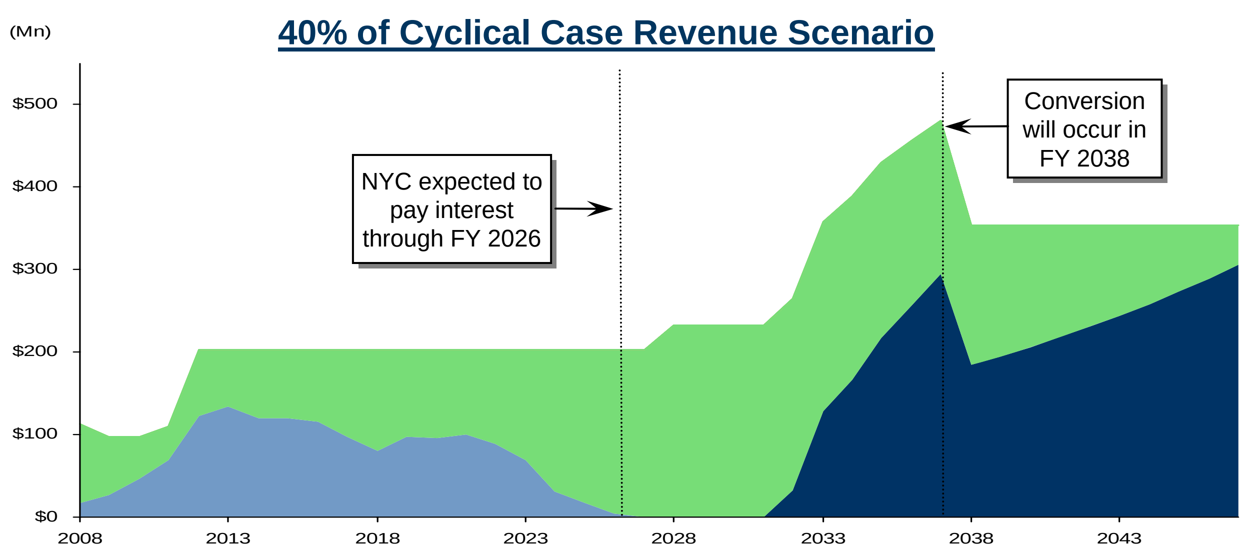
The city provides significant credit rating support through limited contingent financial support.

- A total financing program of $3.5 billion received ratings of A3/A/A-.
- Two revenue scenarios were prepared by HYIC's real estate consultant; a Base Case and Cyclical Case.
- The financing structure survives with only 40% of Cyclical Revenues received.





Interest Paid by New York City
Interest Paid by Hudson Yards
Principal Retired
Graphs represent $3.5 bn financing program.

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