Rail-Volution

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

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

Strategies 2-4 are variations of P3 alternatives
There continues to be a surge in Public-Private Partnership activity in the US.

**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

**New York**
- Solicitation of Financial Advisor

**Oregon**
- Evaluating private concessions on two separate greenfield projects

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

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

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

**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

**Ohio**
- Discussion of privatization of Ohio Turnpike and Lottery

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

**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

**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

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

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

**New York**
- Solicitation of Financial Advisor

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

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

**Note:** Highlighted projects are Penta-P participants.
How does P3 apply to transit?

**Net Revenue Generating Assets**
- Parking Facilities
- Rail Lines

**Subsidized Assets**
- Rail Lines
- Rolling Stock
- Buses
- Stations

Concession Sale Can Raise Funds for New Projects

P3 Structure Can Limit and/or Reduce Public Subsidy
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 issues.

**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
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.

<table>
<thead>
<tr>
<th>Construction Cost Savings</th>
<th>O&amp;M Cost Savings</th>
<th>Revenue Optimization</th>
<th>Financial Engineering</th>
<th>Project Acceleration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost savings assumptions</td>
<td>Cost savings assumptions</td>
<td>Maximize non-fare revenue</td>
<td>Aggressive debt and equity structures to lower financing cost</td>
<td>Incentives to start/ finish earlier</td>
</tr>
<tr>
<td>Port of Miami</td>
<td>Construction and maintenance coordination</td>
<td>Airport service related revenues</td>
<td>Maximization of tax benefits</td>
<td>Penta-P accelerates New Starts grant approval</td>
</tr>
<tr>
<td>Integration of design and construction</td>
<td>Heightened accountability</td>
<td>TOD revenues</td>
<td>Possible use of Private Activity Bonds</td>
<td>Reduces impact of inflation</td>
</tr>
<tr>
<td>Heightened accountability</td>
<td>Potential labor savings</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Lowest Lease Payment = Greatest Savings to RTD
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

- **NYC Appropriation**
- **Hudson Yards Infrastructure Corporation**
- **Development Revenues**
- **Bonds**

- Interest Only
- Principal and Interest
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.

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

- Payments in lieu of property taxes (PILOTs) and payments in lieu of mortgage recording taxes (PIOMRTs) 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)
- 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**

- **Development Revenues & TEPs**
- **Principal and Interest**
- **Bonds**
- **NYC Appropriation (Interest Support Payments)**
- **Interest Only (as needed)**

---

PILOT = Payments in Lieu of Taxes
PIOMRT = Payments in Lieu of Mortgage Recording Taxes
DIB = District Improvement Fund Bonus
ERY TDR = Eastern Rail Yard Transferable Development Rights
TEP = Tax Equivalency Payment
PILOT = Payments in Lieu of Taxes
PIOMRT = Payments in Lieu of Mortgage Recording Taxes
DIB = District Improvement Fund Bonus
ERY TDR = Eastern Rail Yard Transferable Development Rights
TEP = Tax Equivalency Payment
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.
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.

Graphs represent $3.5 bn financing program.