

Brownfield Lease Monetizations as Public Private Partnerships (PPPs) in North America - A Way to Fund Infrastructure

RBS North American Infrastructure Advisory and Finance



Sell-Side Driver: The PPP market, while still in its infancy in the United States, is one of the only alternatives for state and local governments to fund their vast infrastructure needs.

- The cost for infrastructure repair in the US and North America is in the trillions of dollars.
- Federal governments are highly unlikely to fund infrastructure repair or build.
- The willingness of state and local governments to fund new debt service to pay for infrastructure, which requires an increase in taxes, is non-existent.
- Where can cities and states turn to foot the bill for repairing the existing or building new infrastructure?
- **The PPP Market**
- BUYERS OF ASSETS IN THE PPP MARKET
 - Investors, such as public pension funds, which control hundreds of billions of investment dollars, are looking for long-dated, cash-flow reliable assets, the return on investment for which is approximately 10-12%. Neither the traditional equities nor fixed-income markets during the past 7 years, but for stocks in 2006 and 2007, has been able to supply this return consistently without undue risk.
- SELLERS OF ASSETS IN THE PPP MARKET
 - Cities and states happen to own existing assets that fit the characteristics of an investment that investors want: toll roads, parking garages, lotteries, harbors, airports, etc., that have steady and calculable cash flows.

The PPP market allows the seller to retain control of the asset and pocket a large, up-front “rent” payment in return for transferring, under a long-term lease, the entity’s profit and loss risk to a private operator which, in turn, can operate the asset far more efficiently. The asset stays in place with no interruption for the users and is intended to provide to the investor the benefits of a traditional equity return for the risk of a bond. The large, up-front rent payment can then be used by the seller for new infrastructure build and repair.

Buy-Side Driver: The nominal amount of money raised to date - despite the dislocation of many other markets - by infrastructure funds is considerable; the leveraged capacity is immense.

<u>Fund</u>	<u>Equity Amount Raised</u>	<u>Total Investment Capacity*</u>
■ Goldman Sachs Infrastructure Fund	US\$ 6.5 Billion	US\$ 19.2 Billion
■ CalPERS	US\$ 3.0	US\$ 8.8
■ Morgan Stanley Infrastructure Fund	US\$ 4.0	US\$ 11.8
■ GE & Credit Suisse	US\$ 5.6	US\$ 16.5
■ Carlyle Infrastructure Group	US\$ 1.0	US\$ 2.9
■ JP Morgan Infrastructure Fund	US\$.750	US\$ 2.2
■ Unnamed Funds**	<u>US\$ 234.2</u> US\$ 255 Billion	<u>US\$ 688.6</u> US\$ 750 Billion

*Assuming leverage of 66%

**Includes Construction and Concession Companies

While the funds' sponsors' actual equity contribution is assumed to be approximately 5%-10% of the total equity amount raised, the balance is coming primarily from pension funds in Australia, Canada, and more recently, the United States.

Despite the amount of money that's been raised and its immense \$750+ billion financing capacity, the amount of "brownfield" assets bought by the funds in the US so far totals just over US\$8 billion.



- **Chicago Midway International Airport** – Total of \$2.521 billion PROPOSED to be paid to the City of Chicago by consortium consisting of Citibank Infrastructure Investors, John Hancock, and Vancouver Airport (CLOSING EXPECTED Q1'09)
- **Chicago Parking Meters** – Total of \$1.157 billion paid to the City of Chicago by Morgan Stanley Infrastructure Partners to operate c.36,000 parking meters throughout the City (Closed February 2009)
- **Pennsylvania Turnpike** – Total of \$12.8 billion PROPOSED to be paid to the State of Pennsylvania (CANCELLED)
- **Northwest Parkway Toll Road** – Total of \$603 million paid to the Colorado Northwest Public Highway Authority by the Portuguese consortium Brisa/Companhia des Concessoos Rodoviaras (Closed August 2007)
This 9-mile toll road as well as an agreement by the concessionaire to build a 2+ mile extension is the most recent PPP involving a municipal asset coming to market.
- **Chicago Downtown Parking System (CDPS)** – Total of US\$563 million paid to the City of Chicago by Morgan Stanley (Closed December 2006)
CDPS is one of the largest underground car parking systems in North America with over 9,100 spaces. The City of Chicago sought a private sector operator to lease these parking garages under Millennium and Grant Parks under a concession of 99 years.
- **Indiana Toll Road (ITR)** – Total of US\$3.8 billion paid to the State of Indiana by Cintra-Macquarie (Closed June 2006)
ITR is the largest monetization of an infrastructure asset to date in North America. The State of Indiana sought a private sector operator for the 274-mile Indiana Tollway under a concession of 75 years.
- **Pocahontas Parkway** – Total of US\$611 million paid to the Pocahontas Parkway Association by Transurban (Closed June 2006)
The project is located in Greater Richmond, Virginia and involves a new 8.8 mile toll facility four-lane road operating under a 99-year lease.
- **Chicago Skyway** – Total of US\$1.83 billion paid to the City of Chicago by Cintra-Macquarie (Closed January 2005)
The long term lease of this 45-year old 7.8-mile toll highway marked the first privatisation/monetization of a tollroad facility in the US. The City of Chicago sought a private sector operator to lease the Skyway toll bridge under a concession of 99 years.

These closed transactions add up to \$8.6 billion or just over 1% of the funds' "buying power" of \$750 billion.

Characteristics of Infrastructure Assets Suitable for Monetization:

- An asset associated with, or required for the **provision of an essential service** – be it **public** or **otherwise**. **Monopolistic** assets will garner the highest possible price paid to the seller.
- **Stand alone** asset/operation with clear physical and service boundaries to aid in defining operational responsibilities, risks and risk mitigation methods.
- Assets which have a **long term useful life** - usually with a remaining life of greater than 30 years.
- Assets which have the ability to be **operated** by the **private sector**.
- Assets with **specific, existing and calculable cash flows** with the potential for **growth**.
- Assets that **aren't used by a large segment** of the indigenous population.
- **Predictable**, steady **revenues** with a **substantial operation component** which provides the **opportunity for cost efficiencies** to potential private investors and operators.

Types of Assets to Consider for Monetization:

- Transit Assets such as toll roads, bridges & tunnels (*The Chicago Skyway and the Indiana Tollway have already been leased; Pennsylvania has received a firm bid for the a lease of its turnpike; New Jersey has considered a possible lease of its turnpike, among other assets as well.*)
- Parking Garages & Meters (*Chicago leased its 4-garage downtown parking system for \$563 million and its parking meters for \$1.2 billion.; Harrisburg and Pittsburgh, PA and LA have issued an RFQs for their downtown parking systems*)
- Airports (*More airports are now expected to announce possible sales in light of the recent bid for Midway.*)
- Convention Centers and Stadiums
- Ports & Harbors
- Hospitals
- Marinas
- Newly-Tolled Facilities
- Prisons (Existing)
- Real Estate Development/Train Stations
- Rights-of-Way
- Solid Waste Facilities
- Water/Wastewater Facilities
- Waterways and Ports

Sources & Uses For Chicago's PPP Projects

Commentary

- The lease concession sale of the Chicago Skyway constitute to first ever toll road privatization in the US.
- Aldermanic approval was critical to consummation of the Skyway deal. The 'Human Infrastructure' fund was critical to getting aldermanic approval.
- The City of Chicago now maintains 20% of its corporate budget in cash as a result of the deal.

- The parking garage facilities in Chicago underneath Grant and Millennium Parks constituted one of the largest parking "systems" in the world. System = Infra.
- The Chicago Park District never had an appreciable capital budget which is now being put to work building and repairing park facilities throughout the City of Chicago.

Chicago Skyway (Closed 23 January 2005)

Sources

Payment 1,830 100.00%

Totals 1,830 100.00%

Uses

Pay down Skyway debt	465	25.41%
"Permanent" Reserve	500	27.32%
Medium Term Annuity	375	20.49%
Pay Down Unrelated City Debt	377	20.60%
"Human Infrastructure" Fund	100	5.46%
Fees Paid to Bankers, Counsel, etc.	13	0.71%

1,830 100.00%

Chicago Downtown Parking Garages (Closed 18 December 2006)

Sources

Payment 563 100.00%

Totals 563 100.00%

Uses

Pay down garage debt	278	49.38%
"Permanent" Reserve	120	21.31%
Capital Budget For Chicago Park District	157	27.89%
Fees Paid to Bankers, Counsel, etc.	8	1.42%

563 100.00%

**All amounts in USD millions*

Sources & Uses For Chicago's PPP Projects (continued)

Commentary

- The Midway deal is the first privatization of a "major" airport in the US.
- The deal was conducted under the rules set forth by the FAA's pilot privatization program which allows for the use of proceeds to be directed "off" the airport.
- The Chicago parking meters deal is also the first of its kind in the US.
- Prior to the financial close of this deal, it cost \$1 to park for an hour at a downtown parking meter.

Chicago Midway International Airport (Closing TBA)

Sources

Payment 2,521 100.00%

Totals 2,521 100.00%

Uses

Pay down airport debt 1,300 51.57%
 Infrastructure build & repair 1,000 39.67%
 Funding MDW Police & Fire 205 8.13%
 Fees Paid to Bankers, Counsel, etc. 16 0.63%

Totals 2,521 100.00%

Chicago Parking Meters (Closing TBA)

Sources

Payment 1,157 100.00%

Totals 1,157 100.00%

Uses

"Permanent" Reserve 400 34.57%
 Medium Term Annuity 325 28.09%
 Budgetary Relief 324 28.00%
 "Human Infrastructure" Fund 100 8.64%
 Fees Paid to Bankers, Counsel, etc. 8 0.69%

Totals 1,157 100.00%

Total Sources & Uses

\$6,071

\$6,071

**All amounts in USD millions*

Cumulative “Benefits” & Uses from Chicago’s Brownfield Lease Concession Sales

Cumulative Benefits

- Public Debt Ratings at their highest in 25 years as a result of Use of Proceeds
- Assets that run as well - if not better - than when under City ownership
- Increased control over assets that are leased
- De-Risking the City from businesses that are not "core competencies"
- The City of Chicago now has the cash on hand to fund its capital projects for the next 10 years as opposed to issuing municipal bonds for capital projects there is no cost of “debt service”
- \$65 Million in Cost Avoidance of having not to rebuild Monroe Street Garage

The total fees paid to bankers, counsel and other vendors constitute less than $\frac{3}{4}$ of 1% or the total revenues paid to the City of Chicago for these assets.

Total Uses

Pay Down (Directly Related) Debt	2,040
Infrastructure Repair & Build	1,160
Establish "Permanent" Reserves	1,020
Establish "Medium" Term Annuity	700
Pay Down Unrelated City Debt	377
Budgetary Relief	324
Fund MDW Police & Fire	205
Establish "Human Infrastructure" Fund	200
Fees Paid to Bankers, Counsel, etc.	<u>45</u>
Totals	6,071

**All amounts in USD millions*

Lessons Learned So Far:

- The two most important considerations in any brownfield lease concession deal are:
 - The Concession Agreement; and
 - The Use of Proceeds.
- The Concession Agreement takes a tremendous amount of time to construct, and well it should.
- The political will behind any transaction must be unwavering as well as passive.
- The deal that gets done is where the transaction gets proposed prior to regulatory approval; the opposite will cause the deal not to happen.
- The Use of Proceeds needs to be prudent in terms of a “capital for capital” exchange as well as applied in light of regulatory bodies’ requirements.
- The wheel has already been invented, and reinventing it is a waste of time.

Here's how RBS can assist in the PPP process:

■ ADVISING SELLERS

The experience by RBS infrastructure professionals has been at the forefront of the PPP market in the United States. The head of North American Infrastructure at RBS, Dana Levenson, is the former Chief Financial Officer of the City of Chicago where the PPP movement in the US started with the long term leases of the Chicago Skyway and its Downtown Chicago Parking System. Dana was integrally involved directing both transactions and was instrumental in making sure that the highest possible price was paid for both assets. The RBS advisory team can bring that same expertise to bear by advising sellers as to ways that are critical not only to making the bid price as robust as possible, but that the process for public sellers is entirely transparent from a political perspective.



- or -

■ ADVISING & FINANCING BUYERS

Long its strong suit in Europe and Asia, RBS' expertise in assessing and financing long-lived infrastructure assets has made the Bank a "first call" by potential buyers of infrastructure assets around the world. That expertise has, indeed, been replicated in the United States where, in June of 2006, RBS lead the bank Public Private Partnership financing of the Indiana Toll Road. RBS also has developed an extensive "private-to-private infrastructure financing practice such as with ports. Moreover, given the size of its balance sheet in excess of US\$1.7 trillion, as well as a credit culture where infrastructure is a very comfortable discipline, RBS is quite willing to take on balance sheet risk to finance the purchase of infrastructure assets by equity and strategic sponsors. RBS also maintains a strong capability to place corporate debt, both High Grade and High Yield, and Asset-Backed securitizations in the capital markets as permanent financing sources.

Summary of RBS Infrastructure for the North American Market:

- Market leading expertise in advisory, limited recourse infrastructure debt arranging, and specialist in PPP type transactions
- Substantial experience in the North American structured and infrastructure financing sectors
- A leading capital markets franchise
- Significant bank and bond underwriting capacity for infrastructure finance
- Substantial infrastructure finance resources on the ground in the US, London and Continental Europe

USA	December 2006
Orient Overseas Ports Acquisition USD 1,880,000,000 Senior Secured Credit Facilities Mandated Lead Arranger and Bookrunner	

USA	June 2006
Indiana Toll Road Acquisition USD 4,063,341,497 Senior Debt Facilities Joint Lead Arranger and Joint Bookrunner	

USA	April 2006
Century Campus Housing USD 201, 200, 000 Senior Debt Facilities Sole Lead Arranger and Bookrunner	

Canada	June 2005
Sea to Sky Highway CAD\$ 496,700,000 Senior Secured Credit Facilities Mandated Lead Arranger and Bookrunner	

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