

Downtown Tunnel/Midtown Tunnel/MLK Extension PPTA Project

Financial Evaluation of the Elizabeth River Crossings Conceptual Proposal

May 13, 2009

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Priority 1 – Financial Evaluation

Criteria:

- **Financial Capacity**
- **Performance Security**
- **Financial Experience**
- **Project Leaders**
- **Toll Facility Operations**

Findings:

Financial Capacity is evidenced by the resources of the parent companies (as of March 31, 2009, Skanska had current assets of approximately \$7.5 billion and Macquarie Group reported cash and liquid assets of \$22.5 billion)

Priority 1 – Financial Evaluation

Findings, *continued*:

Performance Security is demonstrated by provision of performance and payment bonds exceeding \$500M.

Project – Location	ERC Member	Value of Bond (Year Posted)
I-25 (T-REX) - Denver, CO	Kiewit	\$580 million (2001)
Ravenel Bridge – Charleston, SC	Skanska Civil	\$531 million (2001)
Willis Avenue Bridge – Bronx, NY	Kiewit	\$612 million (2006)

Financial Experience includes over \$8 billion raised by Macquarie to finance the acquisition of US toll facilities, including the Dulles Greenway (2005), the Chicago Skyway (2005) and the Indiana Toll Road (2006). Skanska ID has raised capital for infrastructure projects in Finland (1997, 2005) and Norway (2003).

Priority 1 – Financial Evaluation

Findings, *continued*:

Project Leaders have relevant experience managing the financing efforts for various P3 projects in the U.S., Canada, U.K. and Chile, but key leaders have less than five years experience with their current firms.

ERC has strength in **Toll Facility Operation** with ownership interests in projects with fully electronic toll collection systems and toll facilities with peak hour pricing policies.

Project	Location	Toll Facility Operations Since:
ETR 407	Canada	1999
Chicago Skyway	Illinois	2005
Dulles Greenway	Virginia	2005
Westlink M7	U.K.	2006
Autopista Central	Chile	2007

Priority 1 – Financial Evaluation

Conclusions for Priority 1 Criteria:

A detailed review of the financial statements submitted with the Conceptual Proposal and publicly available information confirms that ERC has the capacity to provide the financial resources needed to successfully develop and secure financing for the Project.

Net profit for Skanska and Macquarie was down significantly in 2008, but both entities have significant assets and ready access to credit facilities and the capital markets.

Financial liquidity of the project sponsors is very important because of the substantial amount of money that will need to be invested in project development prior to closing on the construction financing.

The parent companies of ERC have both committed significant resources to infrastructure development in general and to their operations in North America.

Priority 2 – Financial Evaluation

Criteria:

- **Work History**
- **Project Qualifications**

Findings:

Relevant Work History of the project sponsors includes significant initial equity investments in major P3 concessions.

Project (ERC Member)	Year of Financial Close	Initial Equity Investment
Chicago Skyway (Macquarie Capital)	2005	\$397 million
Indiana Toll Road (Macquarie Capital)	2006	\$374 million
Autopista Central (Skanska ID)	2003	\$100 million
Autostrade A1 (Skanska ID)	2005	\$16 million

Project Qualifications in Finance include negotiation of TIFIA Loans for the South Bay Expressway and Florida I-595 project. The project sponsors have not closed a transaction involving private activity bonds.

Priority 2 – Financial Evaluation

Conclusions for Priority 2 Criteria:

The ERC project sponsors have successfully secured financing for large, complex infrastructure investments.

Given the unprecedented turmoil in the capital markets, customary project financing strategies will be difficult to implement. However, the following is relevant:

- **ERC has acknowledged the difficulties project sponsors are having securing cost-effective debt capital and is prepared to pursue multiple financing options, including commercial bank loans, taxable revenue bonds, tax-exempt private activity bonds, and TIFIA.**
- **ERC can draw upon U.S. and international resources and has ongoing relationships with potential lenders, equity investors and rating agencies.**

Priority 3 – Financial Evaluation

Criteria:

- Prior Working Relationships**
- Conceptual Finance Plan**

Findings:

The project sponsors have successful prior working relationships with members of the design-build team; however, Skanska ID and Macquarie have not financed a joint project to date.

Potential sources of financing in the Conceptual Finance Plan include tax-exempt private activity bonds and a TIFIA loan. The capacity of both programs is limited and USDOT may not be in a position to consider new applications.

The Equity commitment by ERC is contingent on financial close.

Priority 3 – Financial Evaluation

Findings, continued:

The Conceptual Proposal includes a range of potential toll rates on the Elizabeth River tunnels that range from \$2 to \$3 for cars and \$6 to \$9 for trucks, in 2008 dollars. ERC's assumed toll rates for vehicles using the MLK extension is \$0.50 for cars and \$1.50 for trucks, in 2008 dollars.

ERC's toll rate assumptions, including adjustments for inflation, account for the full construction scope and costs to operate and maintain the facilities over 50 years.

Priority 3 – Financial Evaluation

Conclusions for Priority 3 Criteria:

The working relationship between the project sponsors is not a concern for the financial evaluation.

Additional investment grade traffic and revenue analysis is needed to assess the financial viability of the Conceptual Proposal or the reduction of toll rates below the initial estimates. Key issues to be addressed include the amount of traffic that may be diverted or discouraged at certain toll levels and the impact to the community of different tolling regimes.

Priority 4 – Financial Evaluation

Criteria:

- **Innovations & Ideas**
- **Risk Allocation**
- **Project Understanding & Approach**
- **Organizational Structure**

Findings:

The innovations and ideas included in the Conceptual Proposal, such as concurrently pursuing different sources of debt financing, are reasonable.

ERC has provided a detailed summary of potential Risk Allocation prior to and after financial close. Shared risks that could delay or preclude a financial close include the inability to secure Private Activity Bonds or TIFIA Loans and adverse market conditions that make the project financing cost-prohibitive or unattainable.

Priority 4 – Financial Evaluation

Findings, continued:

Risks allocated to VDOT include the inability to secure legal authority to impose tolls on the existing facilities, tolling early or to increase toll rates pursuant to a negotiated formula.

Risks to be assumed by ERC include reliability of traffic and revenue forecasts, the ability to refinance construction financing, and cost overruns.

Project Understanding is demonstrated by ERC's understanding of tolling systems and the elements considered in the Conceptual Finance Plan which assume no public funding.

Organizational structure for the finance effort is based in the US with support from international offices. This approach facilitates close coordination with VDOT and USDOT and leverages ERC relationships with potential lenders around the world. ERC technical advisors for legal work, traffic and revenue analysis, and toll operations have excellent qualifications and significant experience working with rating agencies and investors.

Priority 4 – Financial Evaluation

Conclusions for Priority 4 Criteria:

The Conceptual Proposal properly identified potential risks and opportunities that should be addressed through the PPTA negotiation process.

ERC understands the challenge of managing the risk of securing project financing under difficult market conditions and has proposed an organizational structure that will facilitate the development and implementation of a viable finance plan.

Additional Financial Considerations

Macquarie's Role in Recent Transaction

Given uncertainty in the capital markets, Macquarie's ability and willingness to provide a significant direct investment in the Project should be monitored.

I-595, FLORIDA, USA (March 2009)

- Macquarie was engaged as an equity partner, but did not participate as investor in final bid. Served as financial advisor.

PORT MANN P3, BRITISH COLUMBIA, CANADA (February 2009)

- Macquarie was a member of the concession team; it now serves as financial advisor.

Due to current market conditions, monitoring of the financial capacity of the equity partners will be key.

Financial Evaluation Summary

Despite the continuing instability in the capital markets, VDOT finds that Elizabeth River Crossings (ERC) is financially qualified and capable of securing equity and debt financing to construct and maintain the Downtown Tunnel /Midtown Tunnel /MLK Extension Project.

NEXT STEPS

- **The Engineering Presentation:**
 - **What project do we want them to build?**

- **The Financial Presentation:**
 - **What level of toll is acceptable?**
 - **How can we achieve it?**

Secretary Homer asked the Independent Review Panel to Consider the Following:

- **Funding this project will require retroactive tolling of three existing corridors where there are no free travel alternatives.**
- **The suggested two to three dollar toll rate, with escalation, will be a significant expense for struggling families and businesses that use the project on a daily basis.**
- **If tolls are imposed on the facilities, the previous commitments and investments of the Cities of Norfolk and Portsmouth should be revisited.**
- **The only alternative to tolling is continued and severe traffic congestion and diminished opportunities for economic development.**

Items for Consideration:

- Review scope alternatives with cost saving measures being considered.
- Consider modification of certain risk allocations associated with toll violations, operation and maintenance as well as security performance.
- Consider the possibility of operational or construction phasing.
- Obtain approval to toll existing structures.
- Obtain approval to collect tolls during construction to reduce financing costs.
- Consider congestion pricing during peak periods and tolling escalation throughout the life of the concession.
- Review public sector contribution to stabilize or reduce toll rates. No funds have been identified to date.

Items for Consideration:

Pursue an interim agreement with ERC with well-defined deliverables to facilitate the development of a viable project scope and funding strategy.

- **Create collaborative working groups**
- **Clearly define scope of work, deliverables and schedule for the project**
- **Provide an ability to terminate if a reasonable financing plan cannot be agreed upon**

Potential Interim Agreement Milestones:

- Finalization of Project Scope.
- FHWA approval of tolling existing facilities and/or tolling early.
- Investment grade traffic and revenue study with demographic analysis of existing users of the Elizabeth River tunnels, including general origin and destination data.
- More detailed analysis of potential traffic diversion at different toll rate levels.
- Confirmation from USDOT that Private Activity Bonds and TIFIA loans are available financing options.
- Agreement on financing plan and reasonable toll rates.

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