

Bringing Broader Resources to Bear Chicago's Foray into Public-Private Partnerships

RBS North American Infrastructure Advisory and Finance



Sell-Side Driver: The PPP market, while 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 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\$ 26.0 Billion
■ CalPERS	US\$ 2.5	US\$ 10.0
■ Morgan Stanley Infrastructure Fund	US\$ 1.0	US\$ 4.0
■ GE & Credit Suisse First Boston	US\$ 1.0	US\$ 4.0
■ Carlyle Infrastructure Group	US\$ 1.0	US\$ 4.0
■ JP Morgan Infrastructure Fund	US\$.750	US\$ 3.0
■ Unnamed Funds**	<u>US\$ 162.25</u>	<u>US\$ 649.0</u>
	US\$ 175 Billion	US\$ 700 Billion

*Assuming leverage of 75%

**Includes Construction and Concession Companies

While the funds' sponsors' equity 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 financing capacity, the amount of assets bought by the funds in the US so far totals less than US\$8 billion.

- **Northwest Parkway Toll Road – Total of \$603 million paid to the Colorado Northwest Public Highway Authority by the Portuguese consortium Brisa/Companhia des Concessoes 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 transactions add up to \$7.41 billion or just over 1% of the funds' "buying power" of \$700 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 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.

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 announced the possible lease of its turnpike; New Jersey has considered a possible lease of its turnpike, among other assets as well.*)
- Parking Garages (*Chicago leased its 4-garage downtown parking system for \$563 million.; Harrisburg, PA has issued an RFQ for its downtown parking system.*)
- Airports (*Chicago has announced the possible lease of Midway International Airport.*)
- Lotteries (*Illinois and Indiana have announced possible leases.*)

- Convention Centers and Stadiums
- Harbors
- Hospitals
- Newly-Tolled Facilities
- Prisons (Existing)
- Real Estate Development/Train Stations
- Rights-of-Way
- Solid Waste Facilities
- Water/Wastewater Facilities
- Waterways and Ports

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	

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.

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