



Hidalgo County Regional Mobility Authority Financing Overview

September 25, 2008



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Working Group

Hidalgo County Roadbuilders LP

HCRB Engineering, Development
and Finance Proposal



Construction Management Review

Owen Consulting

Finance, TRZ &
Equity Partner Review



Legal Review



Traffic and Revenue Review

Baez Consulting

Strong in Texas

- Largest US Project Finance/ PPP advisory team
- Unique perspective having advised NTTA, TxDOT and Cintra
- Municipal Bankers based in Dallas & Houston
- Been involved in every Texas CDA project either on Public or Private side
- Involved in evidence process for new P3 legislation
- Currently advising NTTA on a hybrid process for SH161

Unparalleled PPP Experience

- PPP projects advisor since inception of procurement model in UK, Australia & Canada
- Wide ranging sector expertise (Transit, highways, maritime ports, TOD & car parks)
- Large & complex projects (e.g. Trans Texas Corridor & London Underground PPP)

Market Leading Transport PPP Experience

- Leading adviser to public sector on transport PPPs (GDOT, Port of Oakland, NWP)
- Unique Combination of Project Finance Advisory, PF Lending and Municipal Finance
- Strong International experience (e.g. Canadian Roads, UK DBFO, Australia, France)
- Financial modelers experienced in building Project Finance models

Experience Of Negotiated PPPs in US

- Financial Advisor to GDOT on its program including Unsolicited Developer Projects
- Working with GDOT to evaluate potential new P3 Investors for those projects
- Funder to bidder on MidCurrituck Bridge based on a CDA development process
- Advised Cintra on Trans-Texas Corridor I69
- Team members helped set up Texas CDA Program

RBC Infrastructure & Project Finance



No other Bank combines Municipal strengths and broad coverage with Project Finance Advisory and big ticket Infrastructure Project Finance Lending

Global Infrastructure Group

Global Bond House of the Year



Global Bond Arranger of the Year



Leading US PPP Advisor



North American Transport Deal of the Year



Northwest Parkway
Financial Adviser to the Authority

Leading US Project Finance Bank



N. American Acquisition Deal of the Year



Global Container Terminals
Lead Arranger



North American Deal of the Year



Port Harbour
Lead Arranger

Leading US Public Finance Advisor & Underwriter



US Municipal Advisory & Underwriting



#4
Financial Adviser for 2007

#10
Sr. Managing Underwriter for 2007

- **More than Twenty Years of Experience**
- **Fourteen Years of Travel Demand Modeling in Texas**
- **Participated in rating and insurance agency presentations for more than \$7 Billion**
- **Auditing traffic and toll revenue for:**
 - **US 281, San Antonio**
 - **SH 121 Collin and Denton Counties, Dallas**
- **Market Valuation for:**
 - **SH 161, Dallas**
 - **SH 121 & Southwest Parkway, Fort Worth**
- **Expertise in:**
 - **Traditional toll roads**
 - **Managed lanes**
 - **Congestion pricing strategies**
- **Has evaluated more than 100 toll projects in Texas, including:**
 - **US 83 Relief Routes, Hidalgo County**
 - **US 281 Relief Routes, Hidalgo County**
 - **West Loop, City of Brownsville, Cameron County**
 - **Rio Grande-Roma Relief Route, Starr County**
 - **US 281 Falfurrias Relief Route, Brooks County**
 - **US 281, City of Edinburg**

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Scope of Review

Scope of Review

Preliminary Notice

- At least 210 days (7 months) before Finance Plan is submitted
- Non-binding Guaranteed Max Price figure
- Draft Traffic and Revenue numbers
- TRZ Projected Revenues
- Financial Commitment Fee

Formal Notice

- At least 180 days (6 months) before Finance Plan is submitted
- Updates to information provided with Preliminary Notice will be provided
- Authority has 60 days to DECLINE to receive Finance Plan (90 days from receipt of Preliminary Notice) -- STOPS THE CHAIN.

Guaranteed Max Price Submitted

- Any deferred Fixed Fee components
- Construction Costs
- Utility relocation
- Risk fee
- *Not* Right-of-Way costs

Risk Based Finance Plan Submitted

- Plan for Financing the Project through Construction Phase and until RMA can finance independently
- A Take-Out Price to be paid by RMA at time of subsequent financing

➤ RBC Capital Markets will perform:

- **Thorough review of key financial inputs and assumptions**
- **Traffic and Revenue review (Baez Consulting)**
- **Financial modeling and sensitivity analysis**
- **Reasonableness and preliminary feasibility assessment**
- **Evaluate financial delivery methods**
- **Educate Board on opportunities and analysis**

➤ RBC Capital Markets will perform:

- **Thorough review of key financial inputs and assumptions**
- **Traffic and Revenue review (Baez Consulting)**
- **Financial modeling & sensitivity analysis**
- **Evaluation of market acceptance**
- **Potential counterparty review**
- **Evaluate financial delivery methods**
- **Provide recommendation as to feasibility of project and alternatives**

Scope of Review

Accept Finance Plan in whole

- Accept Revised Guaranteed Max Price
- Accept Revised Risk Based Finance Plan
- Execute the Project Development Agreement

Accept Guaranteed Max Price Only

- Accept Revised Guaranteed Max Price
- Price to be increased by the amount of the Financial Commitment Fee
- Execute Project Development Agreement

Reject Finance Plan Entirely

- Rejection may occur expressly or by failing to accept by Acceptance Deadline
- Terminates Preliminary Project Development Agreement
- Fixed Fee will be increased by Financial Commitment Fee

Program Management Agreement

- If the Finance Plan is rejected, the Developer may (but is not required to) submit a proposed Program Management Agreement
- Allow project to move forward under a conventional bid/build procurement
- RMA is not required to engage Developer for these services

➤ RBC Capital Markets will perform:

- **Thorough review of key financial inputs and assumptions**
- **Traffic and Revenue review (Baez Consulting)**
- **Financial modeling**
- **Sensitivity analysis**
- **Evaluation of market acceptance**
- **Provide explanation of final financing structure**

- **Evaluate and recommend alternate financial delivery methods**

➤ RBC Capital Markets will perform:

- **Financial modeling**
- **Ongoing review**
- **Execute alternate financing structure**

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Market Update

Timeline Of Major Financial Events Within The United States

March 16, 2008

- ❑ Bear Stearns & Co. Inc. is forced to sell to JPMorgan Chase & Co. after suffering a “significant deterioration” in its cash position.

July 11, 2008

- ❑ IndyMac Bank is seized by federal regulators making it the largest thrift in the United States to ever fail.

July 21, 2008

- ❑ Moody’s Investors Services places FSA and Asset Guaranty, two of the remaining three “Aaa” rated bond insurers, on review of possible downgrade.

September 7, 2008

- ❑ The U.S. Treasury places Fannie Mae and Freddie Mac in conservatorship in an effort to restore confidence in the U.S. housing market.

September 15, 2008

- ❑ Lehman Brothers declares bankruptcy.
- ❑ Shares of AIG, the nation’s largest insurer, decline sharply as the company is downgraded by all three rating agencies.

September 16, 2008

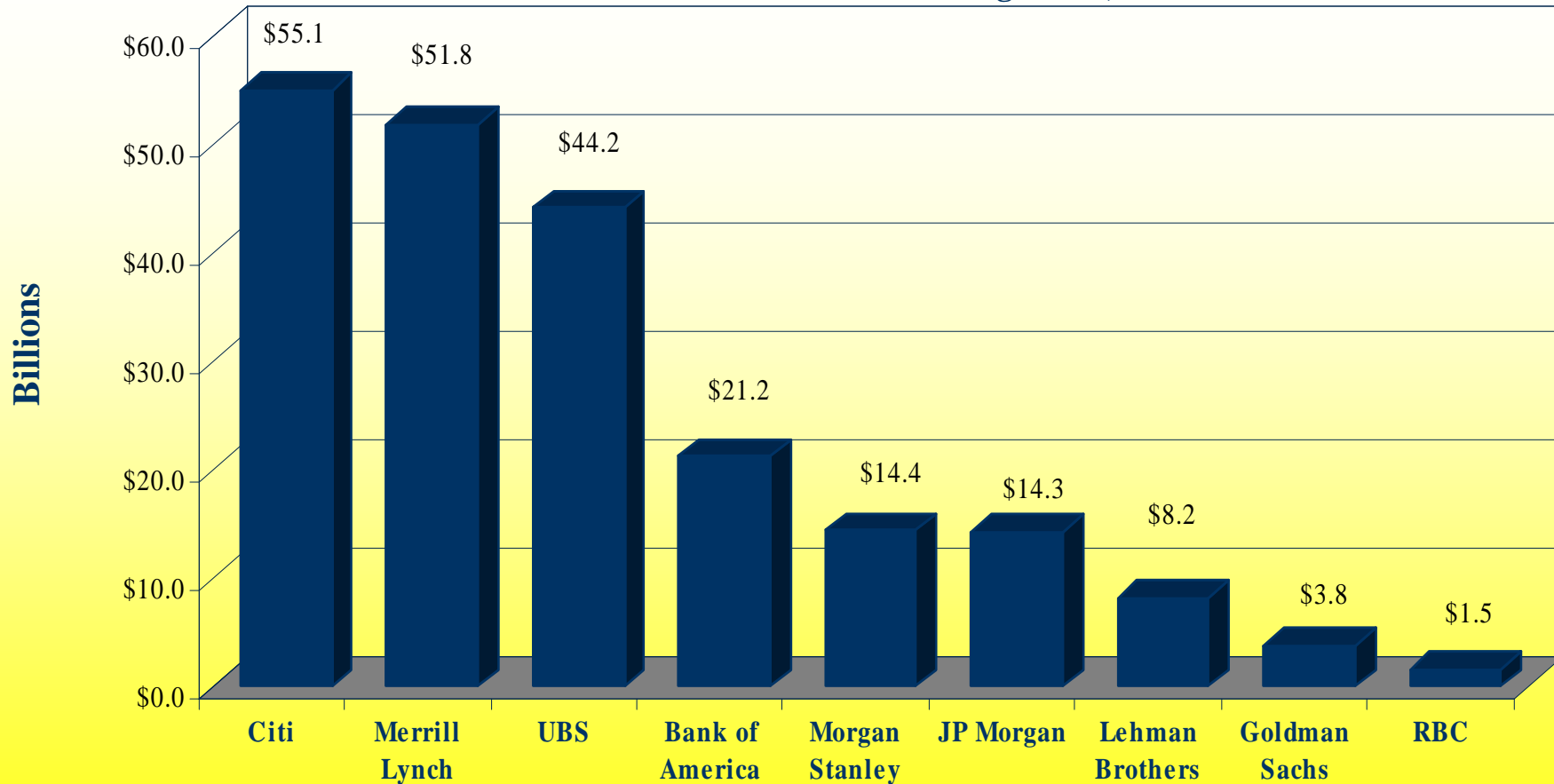
- ❑ The U.S. Government provides AIG an \$85 billion emergency loan citing failure of the company could cause a catastrophic impact on the financial markets and the U.S. economy.

September 19, 2008

- ❑ U.S. Treasury Secretary Henry Paulson outlines the government’s plan to bailout troubled financial institutions, saying “the financial security of all Americans...depends on our ability to restore our financial institutions to a sound footing.”

Bank Writedowns

**Banks and Financial Firms
Total Writedowns as of August 12, 2008**



Bond Insurers



**BERKSHIRE HATHAWAY
ASSURANCE**



**Aaa
Stable**

**Aaa
Under Review**

**Aaa
Under Review**

**Aa3
Negative**

**A2
Negative**

**A3
Negative**

**Ba2
Under Review**

**B1
Negative**

**AAA
Stable**

**AAA
Stable**

**AAA
Negative**

**AA
Negative**

**AA
Negative**

**A
Negative**

**A-
Negative**

**BB
Negative**

NR

**AAA
Stable**

**AAA
Stable**

Withdrawn

Withdrawn

NR

CCC

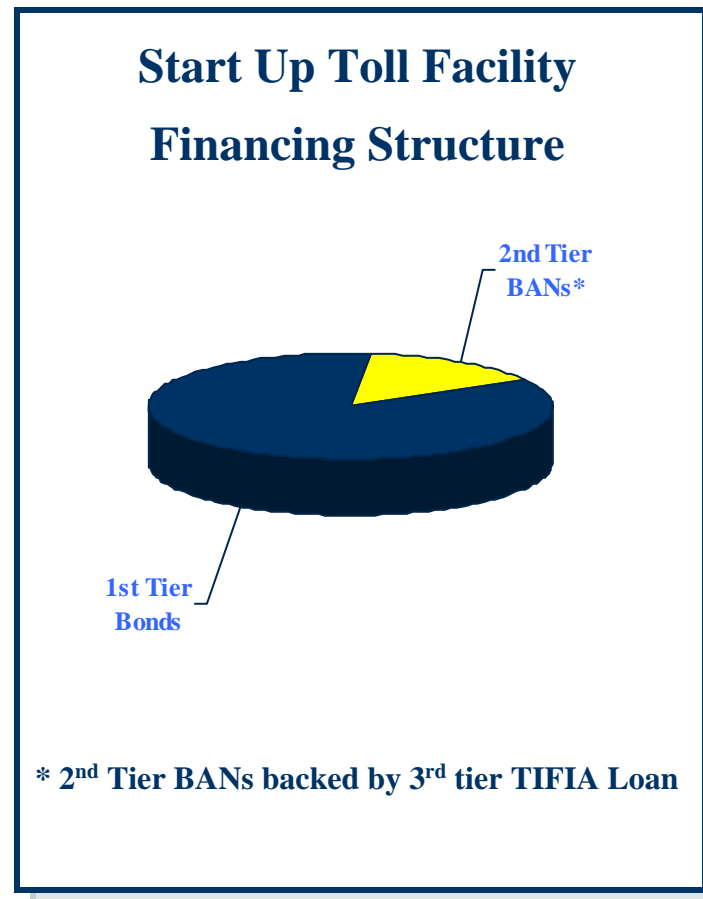
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Case Studies

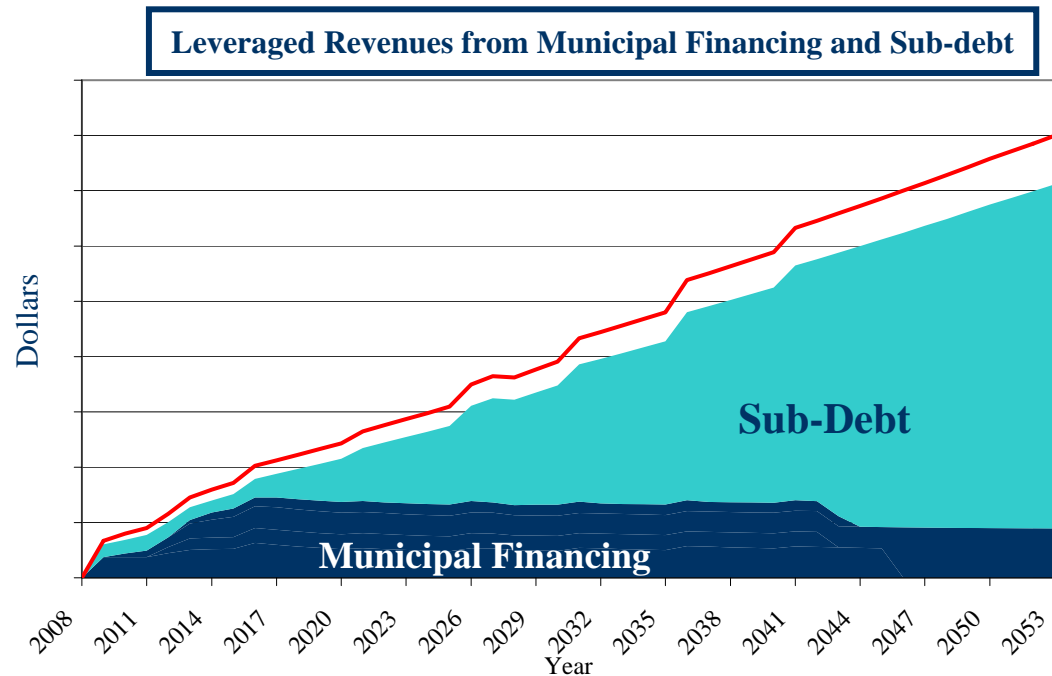
CTTS 2002 & CTRMA 2005 Financings

- Inaugural public debt offerings for Start Up Toll Facilities
- Three tiers of Debt:
 - First Tier Bonds
 - Second Tier BANs
 - Third Tier TIFIA Loan
- CTTS – \$916 million (largest TIFIA loan ever awarded); CTRMA – \$66 million
- BAN structure created to lower accretion on TIFIA loan during construction resulting in interest savings
- TIFIA loan provisions structured around TIFIA requirements



CTRMA Sub-Debt Structure

- **Sub-debt allows the Authority to leverage revenues that are non-accessible from traditional municipal financing strategies**
- **Hybrid public-private financing structure**
- **Capital infusion provided by third party**
- **Four tiers of Debt:**
 - **First Tier Bonds**
 - **Second Tier BANs**
 - **Third Tier TIFIA Loan**
 - **Fourth Tier Sub-debt**



North Texas Tollway Authority - SH 121



- **Financial advisor to the NTTA for its SH 121 proposal of \$3.333 billion to TxDOT**
 - **NTTA pays TxDOT \$3.333 billion upfront payment in addition to funding the construction of the \$698 million project**
 - **Additional revenue sharing with TxDOT if toll revenue is higher than projected**
 - **Excess revenue reinvested in regional transportation infrastructure by NTTA**
- **RBC solely supported NTTA's bid with a bank loan commitment for \$3.5 billion**
- **NTTA bid \$533 million more than private sector**
- **Multiple funding sources**
 - **Tax-exempt toll road revenue bonds**
 - **Commercial paper program**
 - **Bank loan**
- **Crafted a system supported financing providing additional system benefit for future regional projects**
- **50 year concession for a 25-mile long toll road**

NTTA

NORTH TEXAS TOLLWAY AUTHORITY

North Texas Tollway Authority

Closed 2007

\$3,333,000,000 Upfront

\$698,000,000 Construction

SH 121 "Public Sector Alternative"



Financial Advisor

Lead Arranger / Sole Bookrunner

El Paso – Pass Through Toll Financing

- **El Paso State Spur 601 – A six lane, seven mile divided freeway with interchanges**
- **Estimated \$312 million project cost**
- **Purpose to enhance economic growth and increase the value of local transportation assets**
- **Pass-through Financing**
 - ❖ **Partnership between the RMA, JD Abrams as developer, and TxDOT**
 - ❖ **RMA finances**
 - ❖ **Developer constructs**
 - ❖ **TxDOT owns, operates, & reimburses the cost of the project based on traffic**
- **Federal Funds**



- **Alamo RMA selected Cibola Creek Infrastructure to be the Design-Build team for the 281 North Toll Project**

- **Received \$4.7 million in development loans from TxDOT and \$1.2 million from Bexar County and the City of San Antonio**

- **Tollway expected to be delivered by 2014**

- **Possible funding sources include:**
 - ❖ **TIFIA**
 - ❖ **Municipal Bonds**
 - ❖ **Pass-Through Money**
 - ❖ **TxDOT Loan**
 - ❖ **Private Equity/Sub-debt**



Northwest Parkway Concession

- **Northwest Parkway Public Highway Authority (the “Authority”) P3 in Denver, Colorado closed in November, 2007**
- **The procurement yielded a \$603 million 99-year concession between the Authority and the Brisa / CCR consortium**
 - **90x \$6.7 million of 2006 toll revenue**
- **Bid far exceeds the value of the bids for much more established toll roads such as Chicago Skyway and Indiana Toll Road that were approximately 40x revenue**
- **First and only Brownfield PPP Concession in the U. S. for a “stand-alone” toll authority with no taxing authority or governmental support**
- **Significant value attributed to tangible and intangible embedded rights**
- **Creative solutions to defease outstanding debt that effectively increased the value of the wining bid**



Northwest Parkway
Public Highway Authority

Closed October 2007

\$603,000,000 Toll Road PPP
Northwest Parkway, Colorado



*Financial Advisor
to Authority*

History of the Northwest Parkway

- Sold \$416,422,072 million of toll road revenue bonds in 2001 for construction of the 11-mile toll road opens in 2004 with underlying BBB ratings
- Parkway opened in 2004 with revenues at about 50% T & R forecasts resulting in NWP drawing down on reserves
- Bonds downgraded to non-investment grade by rating agencies
- Failed debt restructuring attempt in fall 2005
- Board of Directors decided to pursue long-term concession/lease in August 2006 as best option.
- 11 qualified firms short listed to submit bids
- Concession agreement signed with Brisa in August 2007
- Landmark agreement retires all bonded debt, provides a mechanism for future expansion of the road, and turns operations over to a globally respected team.

RBC's P3 Financial Advisory Role

- Completed a valuation analysis for the Authority that became the basis for soliciting the Concession proposals
- Designed the Procurement and the SRQ/RFP with Authority staff
- Developed concession financial model and data book
- Provided "market soundings" to create maximum interest from potential bidders
- Assessed value of bids in selecting winning proposal
- Analysis of alternatives to defeasance including bond tender options
- Served with concession counsel in negotiating concession and lease agreement
- Structured defeasance escrow to achieve legal defeasance and analyses of IRS penalties

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Hidalgo County RMA Project Delivery Option



Release of Assignment   Revenue Assignment

Hidalgo County Roadbuilders LP

Construction Risk

Start-Up Risk

Financing Sources:

- **Vehicle Registration Surcharge**
- **Transportation Reinvestment Zone (TRZ)**
- **Pass-Through Toll**
- **Toll Revenue**
- **Equity/Sub-Debt Partnership**

Iterative Process – Evaluating Assumptions

Owen Consulting

➤ Costs

- Phasing of construction
- Value engineering/cost reductions
- Contribution from others



➤ Financing

- Timing of bond issue
- Alternative financing products
- Alternative structures



Baez Consulting



➤ Revenues

- Toll rate strategy
- Demographics
- Competing routes

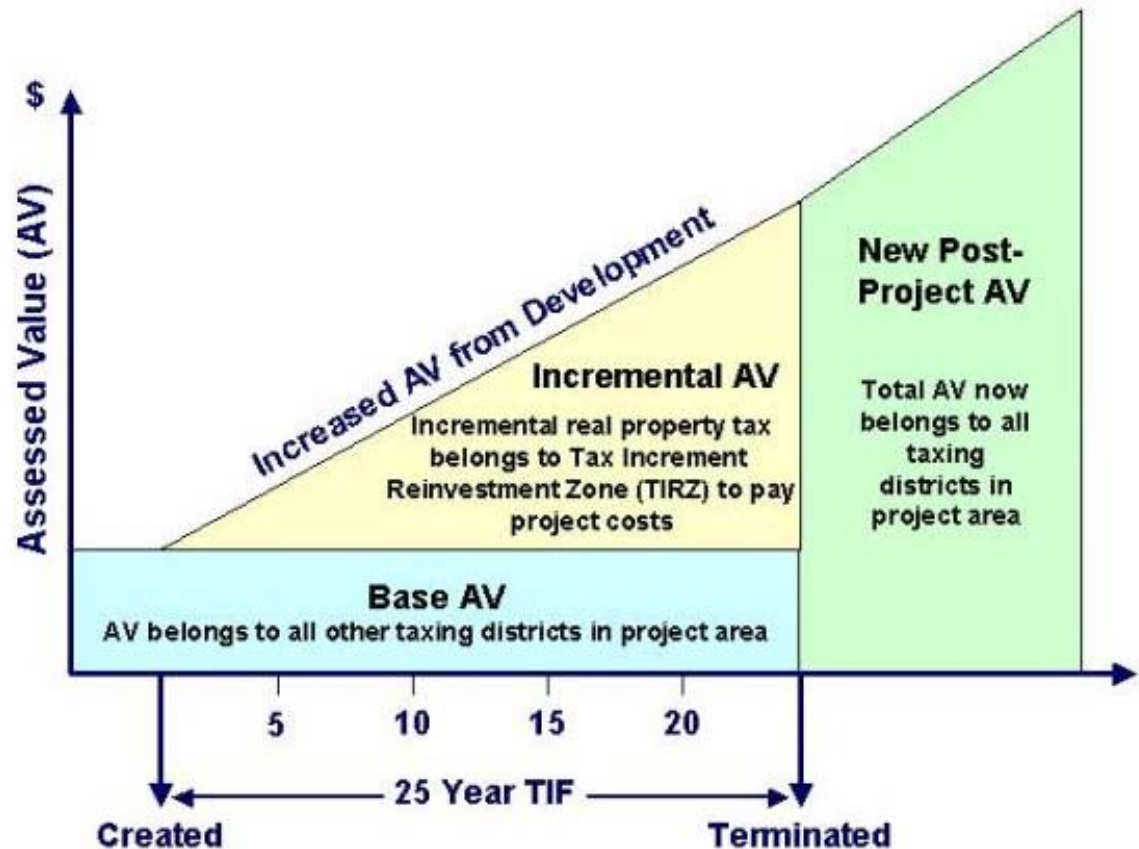


➤ Policies

- Credit ratings
- Reserve goals
- Risk analysis

TRZ Financing

- **Separate political subdivision**
- **No pledge of any other revenues of the municipality**
- **No general obligation of the municipality**
- **No liability of the municipality**
- **Any debt issued is an obligation of the TRZ only**



Pass Through Toll Financing

- A partnership between a developer and the Texas Department of Transportation where roadway construction is funded with a per-vehicle or per-vehicle mile fee paid by TxDOT to the developer.
- Developer agrees to finance, construct, maintain and/or operate a project on the state highway system. TxDOT reimburses the developer the cost of the project rather than assessing a toll directly on users via a toll. TxDOT makes periodic payments based on the number and types of vehicles using the facility.



- **Population and employment growth**
 - **Future and past**
- **Revenue days (Constant versus variable)**
- **ETC/Video Toll Surcharge**
- **Frontage Road Traffic (12% – 30%)**
- **Diversion (traffic staying on the facility; 50%- 70%)**
- **Traffic after the forecast year (Mobility 2030 Plan)**
- **Truck Traffic (very important on Hidalgo projects)**
- **Toll Rate, Escalation Percentage & Frequency**
- **International Trade**

- **Demographic Growth**
- **Value of Time**
- **Income Distribution**
- **Existing Level of Congestion Travel Time Savings**
- **Toll Rate**
- **Competing Facilities**
- **Time Lag between the Study and Opening Year**
- **Ramp-up**

➤ Sketch Level

- Two – Four Weeks
- Very Limited Amount of Information Available

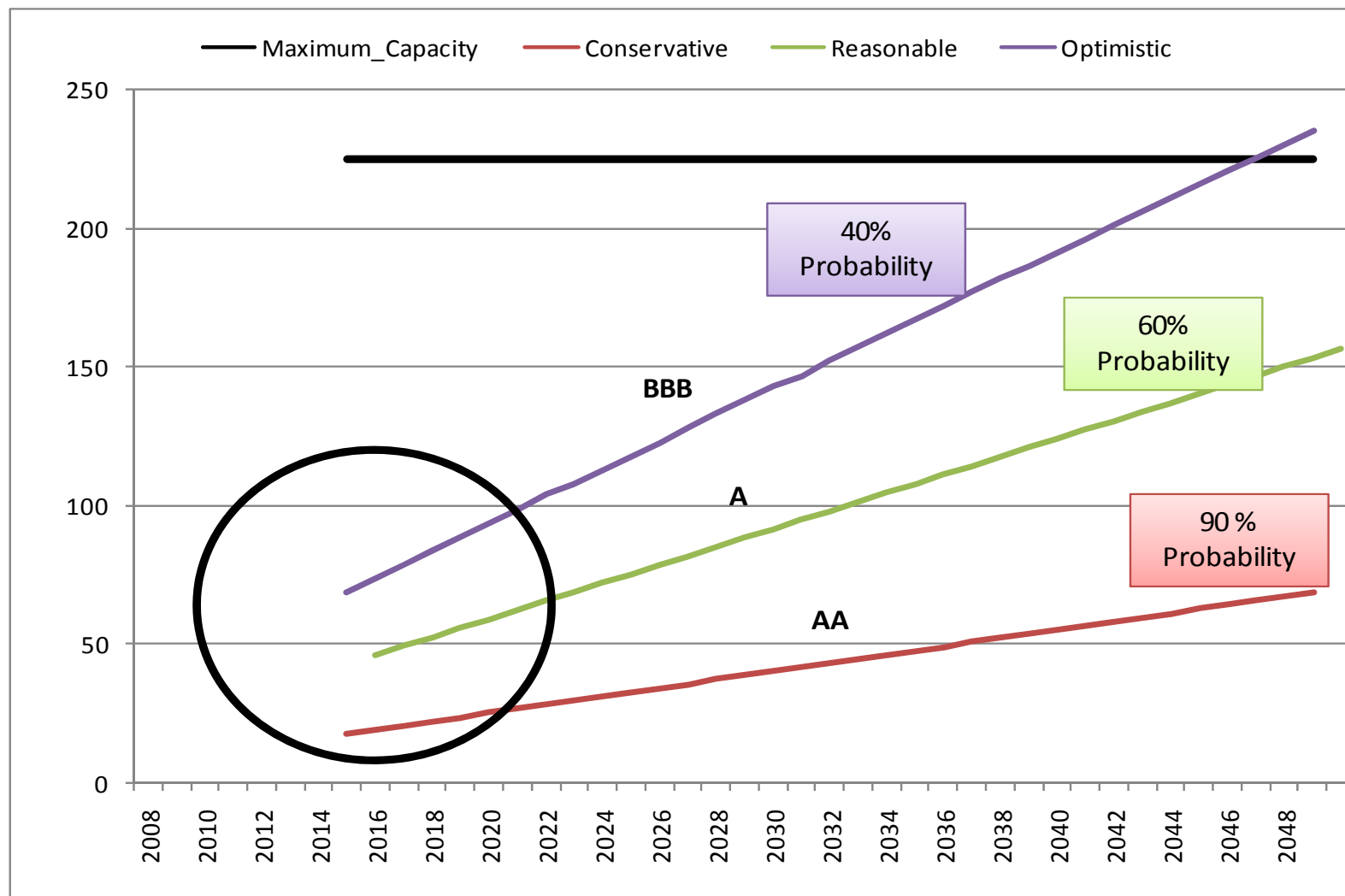
➤ Preliminary Level

- Four – Six Months
- Data Collection such as traffic counts, speed and delay, highway attributes, etc.
- Toll Rate Sensitivity Curves

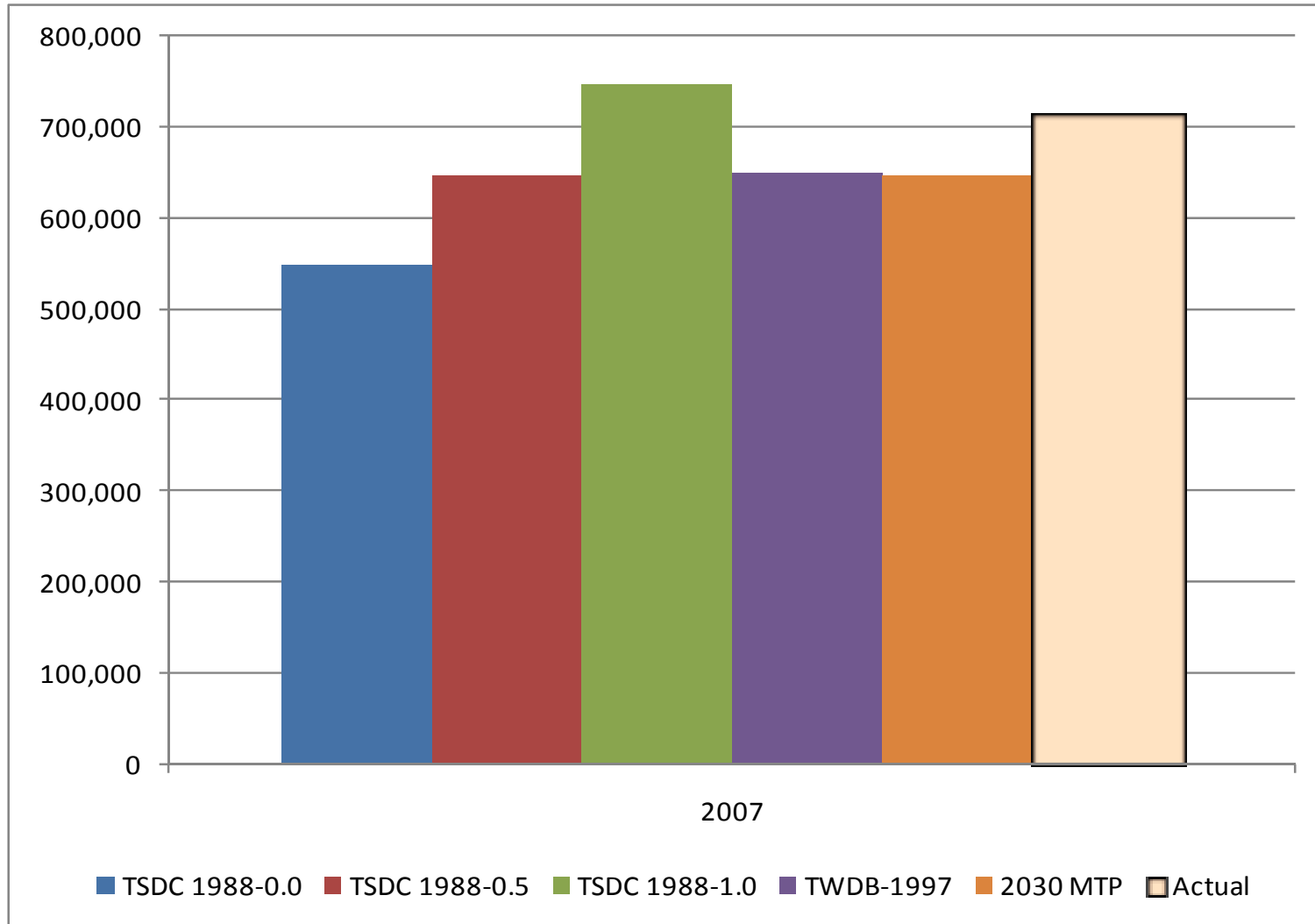
➤ Investment Grade

- Ten – Twelve Months
- Update Preliminary Level information if necessary
- Origin-Destination Survey, Stated Preference Survey
- Independent Economic Review
- Stress Tests (economic growth, value of time, competing facilities)

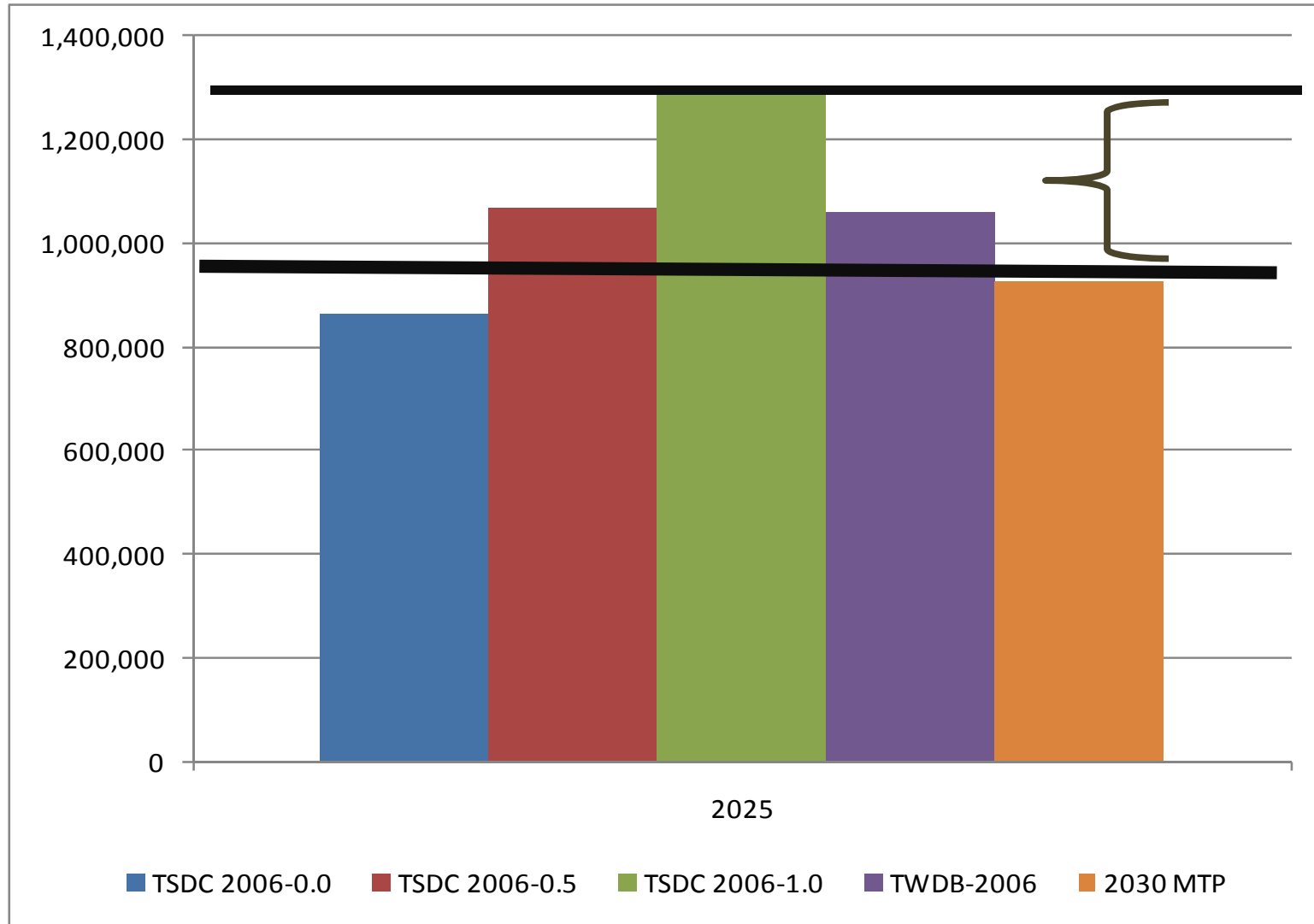
Credit Ratings versus Risk Level



Actual V. Forecast (Population) Hidalgo County

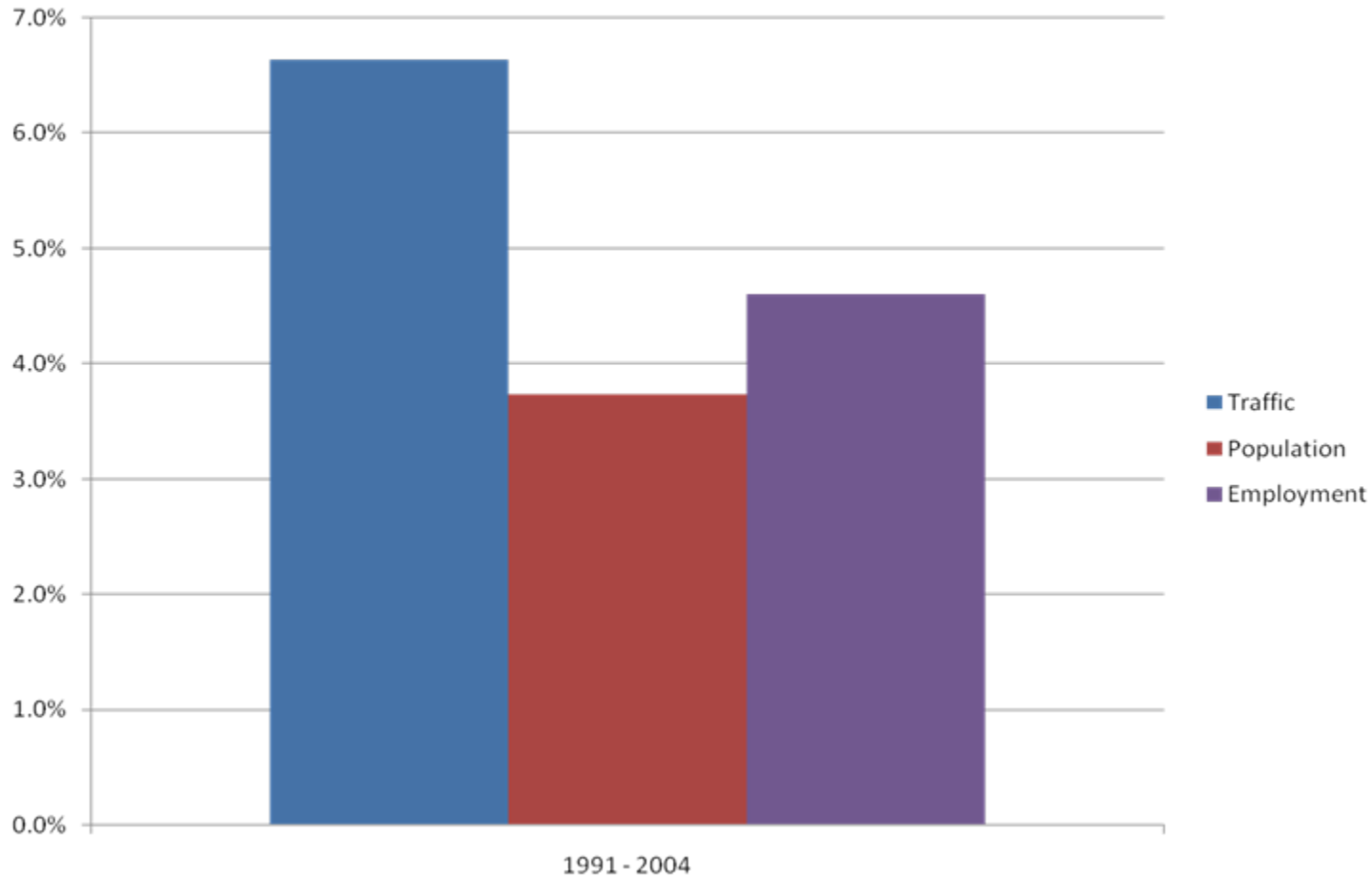


T&R Study Should Capture Potential Variance (Future Population Hidalgo County)

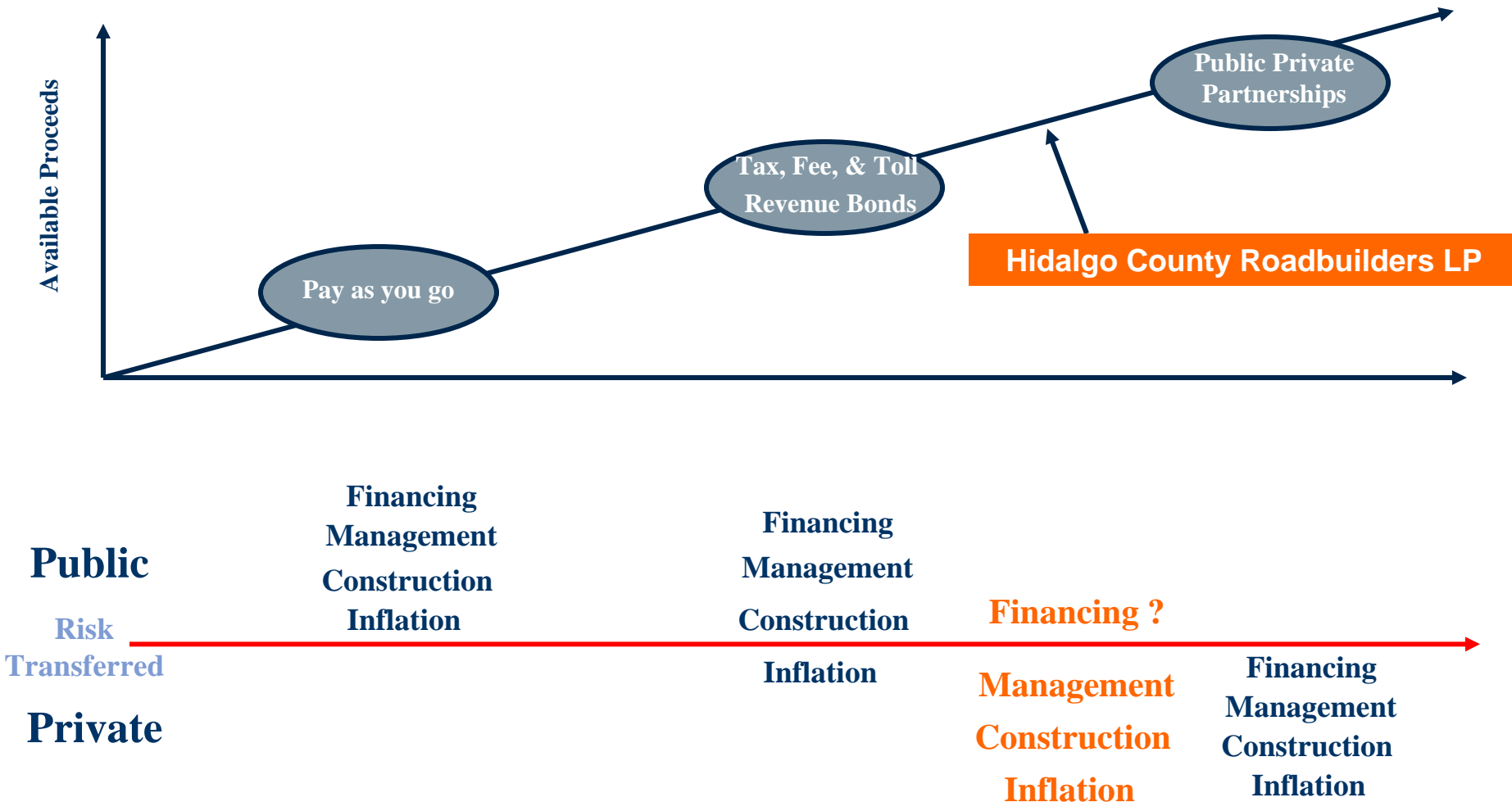


Local Traffic Influenced by Macroeconomics

Annual Compounded Growth Hidalgo County



Developments in Road Financing Market



Typical Criteria for Shortlisting P3 Investor

- **Typical Questions asked of Developer's Equity Investors in a P3 Request for Qualifications (taken from a recent RfQ developed by RBC):**
- **Current information concerning:**
 - **Adequacy and availability of liquid equity;**
 - **Ability to raise funding for on-going capital improvements; and**
 - **Demands from other infrastructure projects.**
- **Past evidence demonstrating their ability to raise financing :**
 - **Provide a list of comparable projects in the surface transportation sector (limited to the last 10-years) with references**
 - **The number and size of those transactions; and**
 - **Specific experiences on those transactions.**
- **Audited Financial Statements for last 2-3 years**
 - **Identify individuals or companies who hold a major or controlling interest**
 - **Identify advisors/ due diligence support**

Benefits

- **Negotiated process accelerates decision making**
- **Options can be jointly evaluated**
- **Investors or Funding sources can still be competed**
- **Flexibility to chose appropriate experienced partner**
- **Eliminates redundant design work of multiple bids**
- **Alternative of full competed P3 process takes 9-15 months**

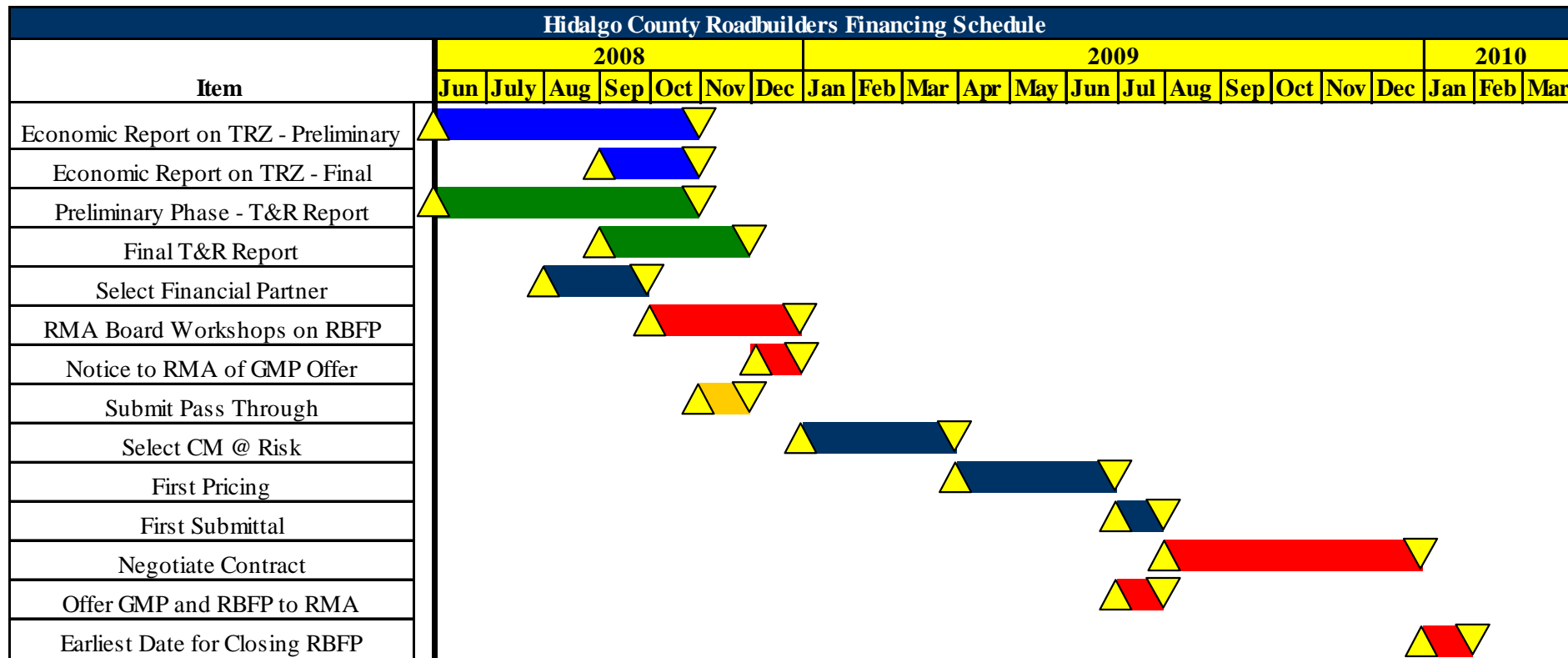
Challenges

- **Maintaining “Open Book” pricing**
- **Demonstrating Value for Money**
- **Controlling/ Approving Selection of P3 Equity Investor**
- **(Re-) Negotiation of Concession Contract required by investor**
- **At risk from disputes between Developer and P3 Equity Investor**

- **Traditional Municipal Delivery**
- **City/County/State Guarantees**
- **Private equity (deeply subordinated debt)**
- **Guaranteed Maximum Price contract**
- **Design-Build contract**
- **Comprehensive Development Agreement (Concession)**
- **Availability payments**

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Timeline

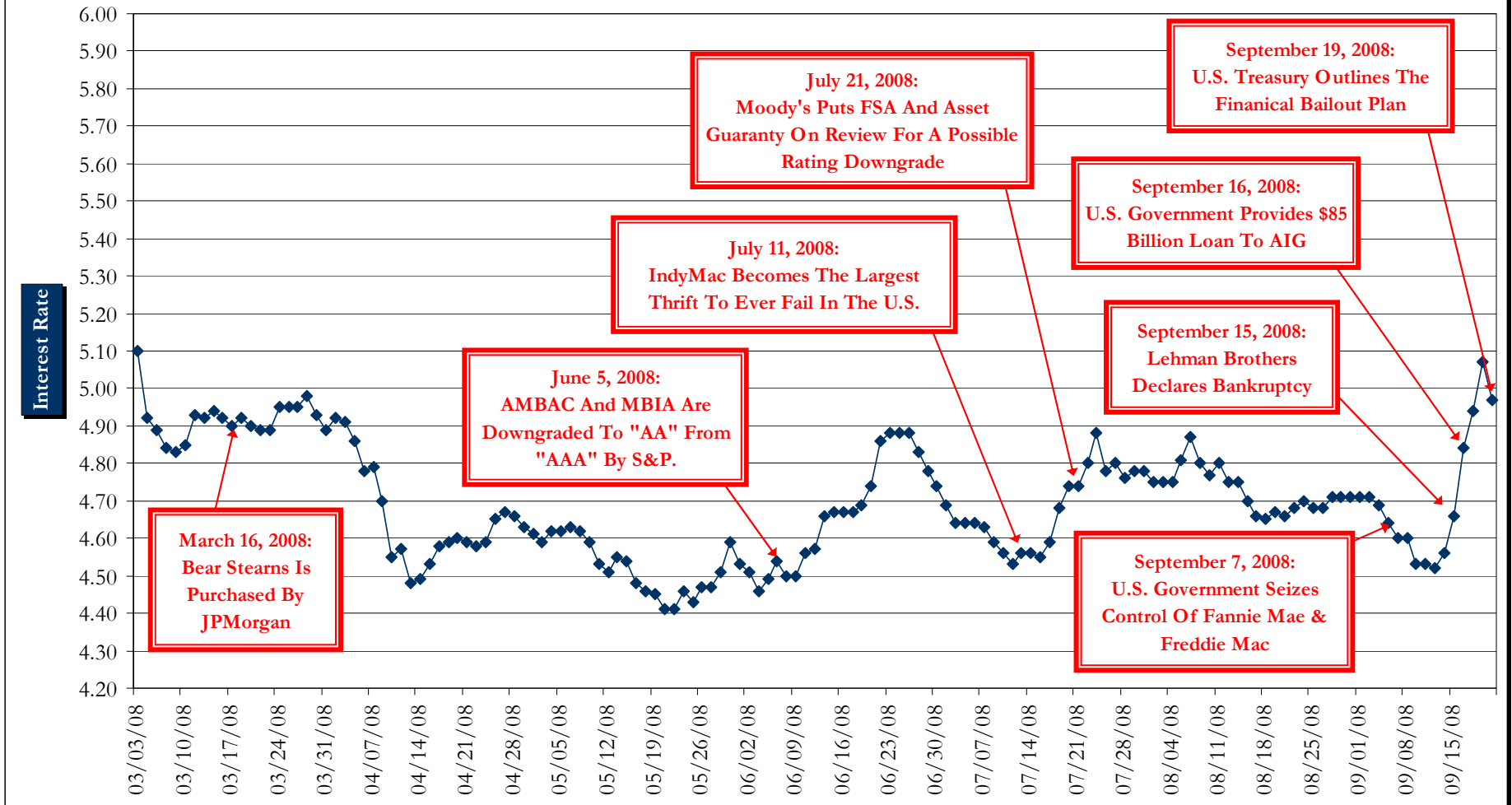


- **Oct 08 – Preliminary TRZ and T&R Reports complete & Financial Partner selected**
- **Oct 08 – Final TRZ and T&R Reports complete, Pass-Through Application submitted & Preliminary GMP**
- **Dec 08 – Developer notice to submit GMP and RBFP**
- **Dec 08 – Workshop to develop Finance Plan**
- **Jan 09 – RMA decision to receive GMP and RBFP**
- **Jun 09 – First Pricing**
- **Aug 09 – Developer submits GMP and RBFP**
- **Dec 09 – Environmental Clearance & Negotiate Contract**
- **Jan 10 – Closing RBFP**



Long-Term Bond Index

**Long-Term Bond Index - Historical 30-Year Municipal Market Data ("MMD") Index -
March 3, 2008 Through September 19, 2008**



Short-Term Bond Index

Short-Term Bond Index - Historical Securities Industry and Financial Markets Association's ("SIFMA") Municipal Index - March 3, 2008 Through September 19, 2008

