

Overview of Public-Private Partnerships

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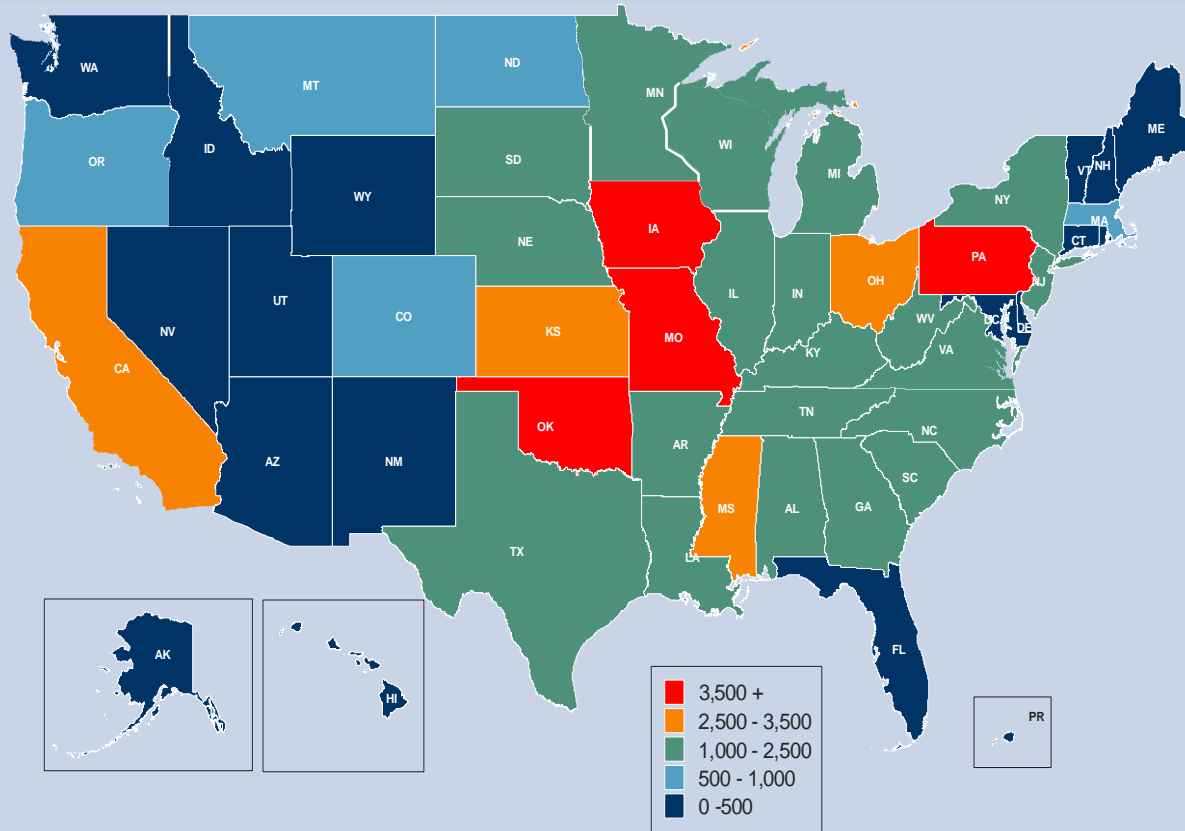
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Overview

- Innovative financing transactions, such as public-private partnerships, in the transportation sector have been a topic of significant interest in the US
- Recent transactions have included both existing assets (Indiana Toll Road, PA Turnpike – in process) and greenfield assets (Miami Tunnel, Denver RTD – in process)
- These transactions have had champions and opponents on both sides of the political aisle
- Each transaction has its own unique financial, operational and political characteristics
- The infrastructure funding gap to maintain existing transportation networks (roads, bridges, etc.) and build new facilities is extraordinary, which will continue to force governments throughout the US to evaluate all options

The Challenge Ahead: Transportation Example

Number of Structurally Deficient Bridges in the US



(a) USDOT estimate.

The Challenge Ahead: Transportation Example (cont.)

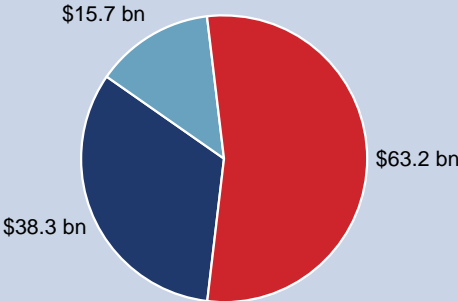
Infrastructure Gap is a Significant Issue

- Underfunded roads, bridges and parking structures cause an estimated \$117.2 billion in economic losses every year
- Americans consume an extra 5.7 billion gallons of gas due to congestion, producing greenhouse gas emissions
- The Federal Highway Administration estimated that substandard bridge and road conditions contribute to around one-third of the nearly 43,000 highway fatalities annually
- Increased investment can create jobs, an estimated 47,500 for every \$1 billion invested

The Needed Investment is Large

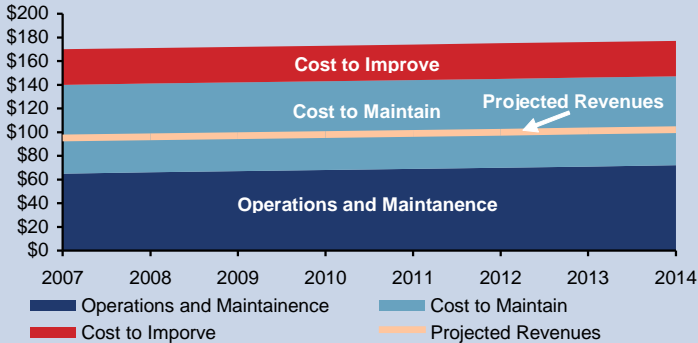
- Nearly \$100 billion per year are needed to maintain and upgrade American roads
- Approximately \$185 billion in new funding needed to upgrade and expand the road network over the next 5 years
- \$94 billion needed to modernize bridges over 20 years
- Spending on infrastructure is at historic lows
 - Only 0.57% of GDP, a 40 year low
 - 2.62% of Federal spending, down from 5.10% in 1977

Estimated Economic Loss Due to Congestion



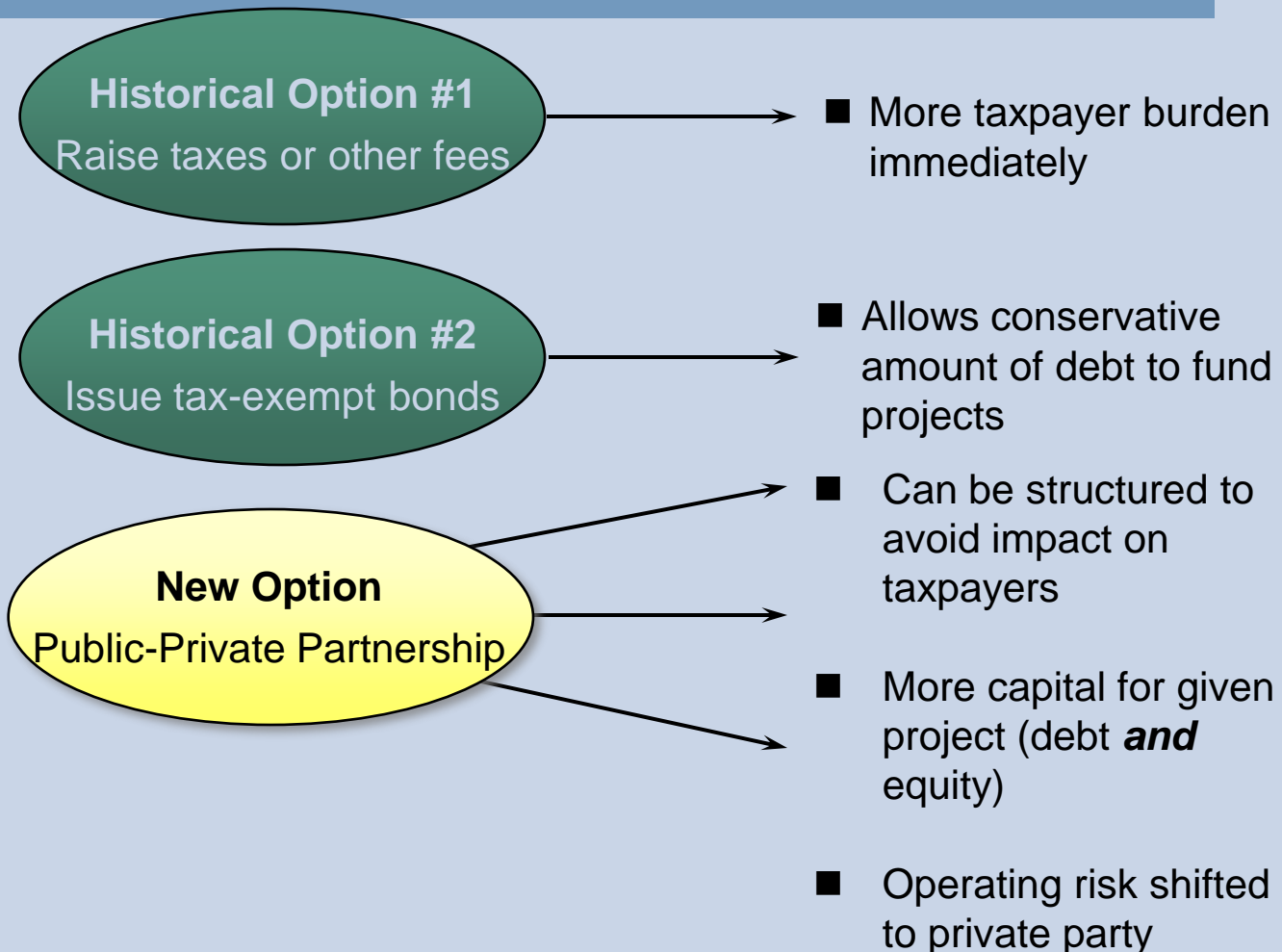
■ Higher Repairs ■ Idling Gas Consumption ■ Loss of Productivity

Highway Funding Gap (\$ Bns)



Source: "Public Works and Private Wealth: New Directions for America's Infrastructure" from CIS Public Infrastructure Project.
 Source: "Closing America's Infrastructure Gap" from Deloitte Research

Public-Private Partnerships provide a new source of capital for state and local governments



Policy Makers Must Choose the Appropriate Revenue Source To Fund Projects

- Public policy objectives are critical to choosing funding sources

General Taxes

- Sales Tax
- Property Tax
- General Operating Budget

Transportation Related Taxes

- Fuel Tax
- Vehicle Registration Fees
- Gas Guzzle Fee

User Fees

- Tolls / Other User Fees
- Vehicle Miles Travelled Toll
- GPS Tolling

There are strengths and issues of both tax-exempt financing and Public-Private Partnerships

Tax-Exempt Financing

- Strengths
 - Benefit of tax-exempt interest costs
 - Established credit parameters
 - Deep, liquid market
 - Retain all operational control of asset
- Issues
 - Full retention of all revenue and operating risk
 - No “equity” to deliver full value

Public-Private Partnership

- Strengths
 - Equity helps to provide full value of project
 - Equity cushion facilitates debt financing
 - Substantial market demand for infrastructure projects
 - Transfer of revenue and operating risk
 - Ability to continue governance/oversight
- Issues
 - Shift from day-to-day operational control to oversight role
 - Public policy implications / transfer of revenue stream

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

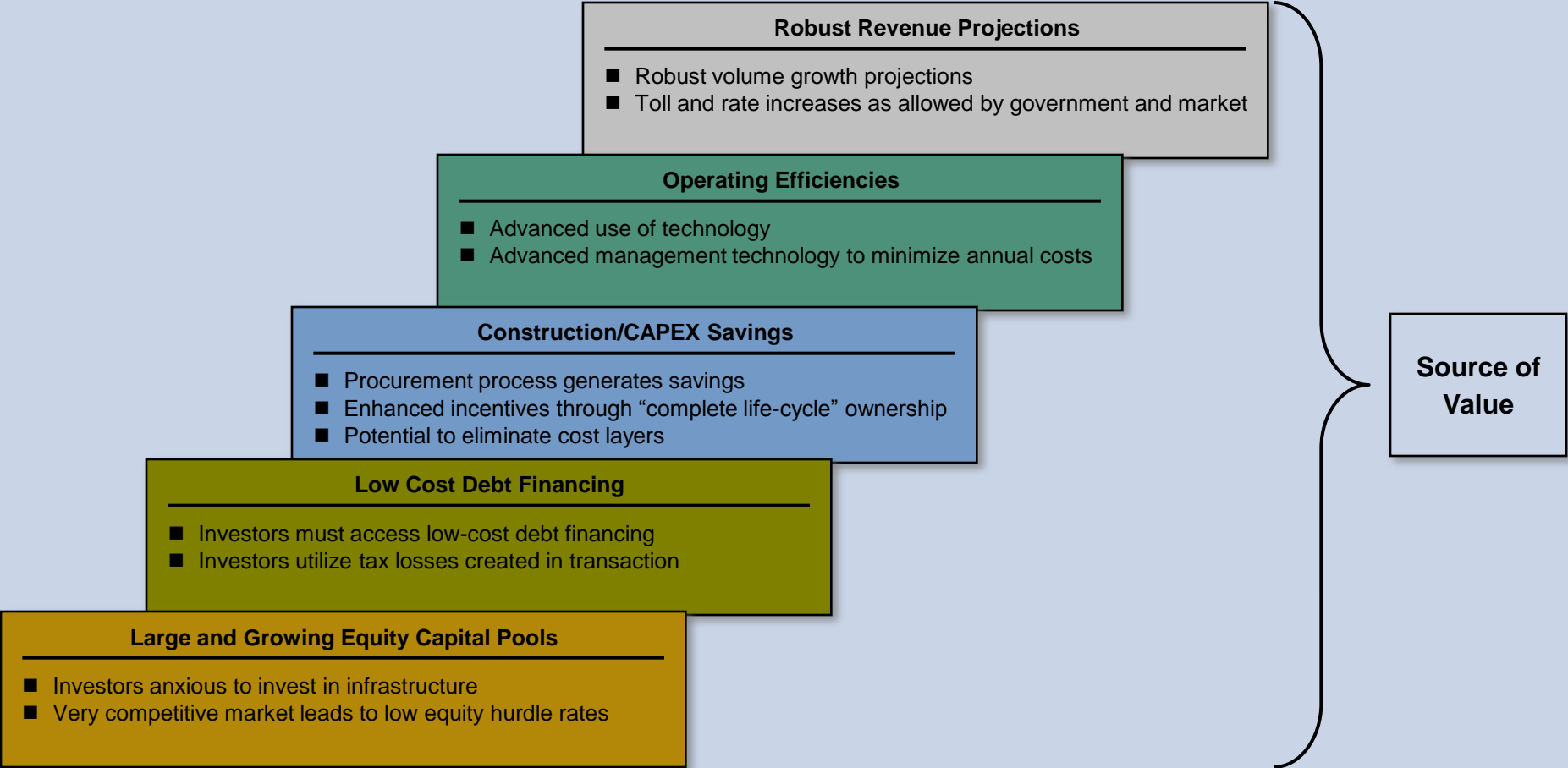
Strategy		Description
1) Public Ownership	→	Traditional toll/revenue system – design, construction, O&M, governance, etc. remain with municipality
2) Public Ownership / Private Contracting	→	Same as above except certain activities may be contracted for – i.e., design / construction, etc.
3) Concession Agreement	→	Public owns facilities and maintains governance, enters into lease agreement with a private entity that is responsible for operations, maintenance, construction
4) Private Ownership	→	All activities, including the setting of rates, are controlled by a private entity

Strategies 2-4 are variations of PPP alternatives

Public Policy Issues in Any Public-Private Partnership Need to be Analyzed

Policy Decision	Description	Considerations
<ul style="list-style-type: none"> ■ Term of Transaction 	<ul style="list-style-type: none"> ■ Length of time a concession partner will be allowed to operate the asset 	<ul style="list-style-type: none"> ■ What is political sensitivity to length of concession? ■ What is value of incremental term length?
<ul style="list-style-type: none"> ■ User Rates 	<ul style="list-style-type: none"> ■ Mandated rate limits 	<ul style="list-style-type: none"> ■ Public appetite for future rate increases ■ What is the rate elasticity of the asset?
<ul style="list-style-type: none"> ■ Labor 	<ul style="list-style-type: none"> ■ Employments levels and conditions of employment 	<ul style="list-style-type: none"> ■ What is the proper employment level? ■ Should employment be determined by government or the private sector?
<ul style="list-style-type: none"> ■ Design and Construction Requirements 	<ul style="list-style-type: none"> ■ What capacity levels should be targeted and maintained? ■ Materials and construction methods 	<ul style="list-style-type: none"> ■ What is the policy objective? ■ What is commercially feasible?
<ul style="list-style-type: none"> ■ Operating and Maintenance Standards 	<ul style="list-style-type: none"> ■ Specific operational rules to which a private operator must adhere 	<ul style="list-style-type: none"> ■ What are operating and maintenance conditions that are most important? ■ What is the appropriate level of capacity at the asset today or over time?

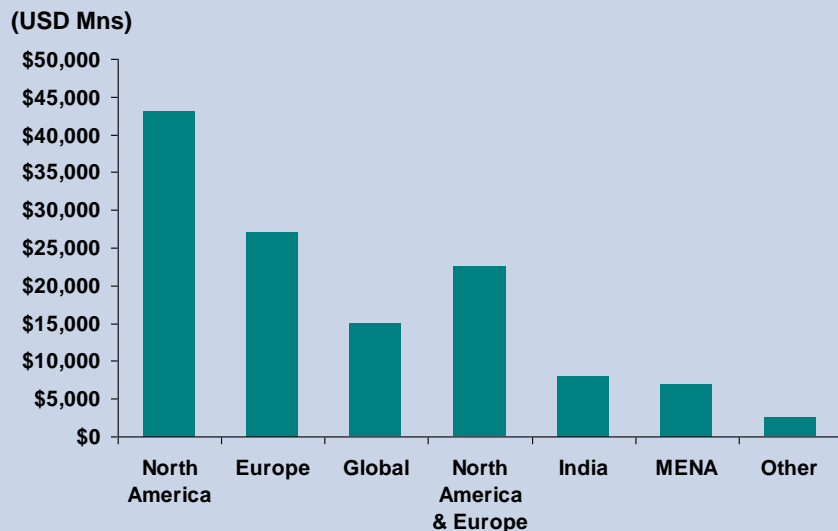
Key Value Drivers for PPP Operators



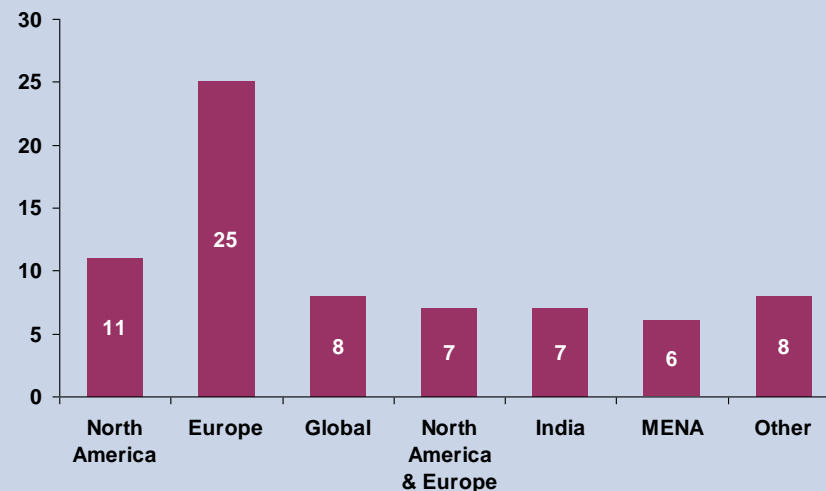
The Increase in Infrastructure Equity Capital has Helped Drive the Demand for Assets

- Historically European/Australian based investors with links to foreign sourced capital (expertise, asset-class distinction, low-cost equity)
- Rise of US-based infrastructure investment funds
- Trend to watch: US pension fund money (e.g., CALPERS)

Infrastructure Equity Capital Raised



Number of New Infrastructure Equity Funds



Source: The Rise of Infra Funds, Global Infrastructure Report, Dr. Ryan Orr; Stanford University

Recent Examples Have Shown A Path to Accelerating Infrastructure Investment

Asset	Goldman Sachs Role	Transaction Size
Indiana Toll Road	Indiana Advisor	\$3.8 Billion
Texas SH-121	Texas DOT Advisor	\$3.5 Billion
Mexican Toll Roads (1 st Tranche)	Principal, Advisor to Consortium	\$4.0 Billion
PA Turnpike	Principal, Advisor to Consortium that finished in second place	\$12.8 Billion (winning bid from Abertis consortium)

More Capital for Infrastructure Reinvestment

Proprietary Polling Has Helped Us Establish a Framework for Approaching the Public

Frame the Issue

- Solve a Problem: Use funds to solve a major problem. Lead with the solution.
- Describe it as a “Partnership” or “Lease”, not a “Sale” or “Privatization”
- Emphasize Continuing Government Control
- Frame as a Non-Partisan Issue

Engage the Public

- Anticipate and engage key stakeholders – Lawmakers, Unions, Geographic Players
- Carefully construct proceeds distribution plan – spread the benefits
- Educate clearly – simplify a complicated issue

Use Effective Messaging

What Works

- Government Control
 - Cancellation Rights
 - Continuing Oversight
 - Ownership Remaining with Government
- Public Benefit
 - Jobs/ Economic Development
- Proof of Success
 - Highlight successes at every step

What Doesn't

- Focusing on Efficiencies of Private Sector over Public Sector Control
- Threatening tax increases or more debt without the transaction
- Being branded as a “sale”
- Foreign involvement without an explanation providing an easy target for opponents