Public-Private Partnership (P3) Program Update

Presidio Parkway Achieves Financial Close
Other Projects Under consideration

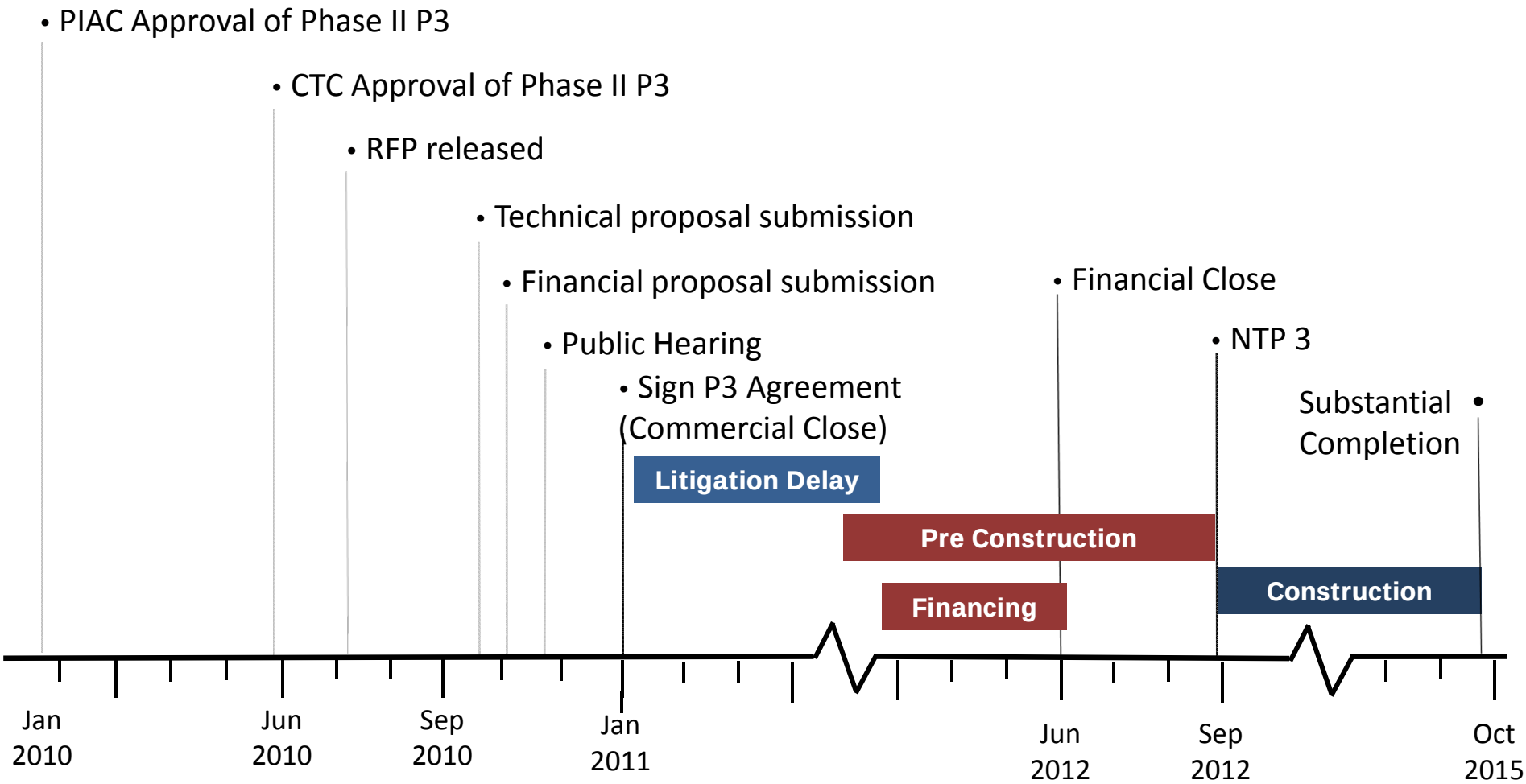
Phased Construction and Procurement Approach

Phase I Construction: 2009 – 2012 (Design-Bid-Build Procurement)

Phase II Construction: 2012 – 2015 (P3 Procurement – DBFOM)

- **Presidio Parkway P3 Project includes:**
  - Design, construction and financing of Phase II
  - Future operation and maintenance of both Phase I and Phase II of the completed Presidio Parkway facility

Project Timeline
From Approval to Construction



Key Milestones to-date for the P3 Project

- February 2010: Public Infrastructure Advisory Commission approval
- May 2010: California Transportation Commission approval
- October 2010: Preferred Proposer selected (October 16, 2010)
  (Golden Link Concessionaire – GLC)
- November 2010: Litigation Filed by Professional Engineers in CA Govt.
- January 2011: P3 Agreement signed (Commercial Close on January 3, 2011)
- February 2011: Trial Court rules in favor of Department
- February 2011: Initial Project Debt Competition (IPDC) commenced
  (later suspended until end of litigation delay)
- April 2011: Notice to Proceed (NTP 1) issued (to commence design)
- August 2011: Appellate Court rules in favor of Department
- October 6, 2011: First Amendment to P3 Agreement
  (adjusts for delay, including new financial close deadline)
- November 2011: California Supreme Court Denies PECG Petition for Review
- March 2012: TIFIA Loan Approved; Bank Shortlist approved
- June 2012 Financial Close (June 14, 2012)

P3 Agreement – Key Financial Terms

- Financial Close results provide significant savings over prior estimates
  - **$271.2 MM** Design-build construction costs (vs. Engineer's Estimate of $473 MM)
  - **$22.1 MM** Base Maximum Availability Payment (vs. CTC cap on MAP of $35 MM)
  - **87.5% to 12.5%** Debt-to-Equity ratio (remains unchanged from time of Proposal)

- Due to time between Proposal and Financial Close, financing costs were not "firm" – they were subject to adjustment based on various factors
  - Risks were allocated between Caltrans and GLC, depending on nature of change, with certain risks shared "pro-rata"
  - Caltrans received the benefit of improved financing costs (having carried the risk of certain higher rates and transaction costs)

Financing Sources at Financial Close

Multi-tranche financing structure is tailored to Presidio Parkway's funding sources and P3 Agreement structure

	Amount (millions)	**Funding Source for Repayment**	**Comments**
Construction Bank Loans	$166.6	State Federal Aid Local Transportation Funds	3+ Year Bank Loan Repaid w/Milestone Pmt 1
Short-Term TIFIA Loan	$89.8	Local Transportation Funds	3+ Year TIFIA Loan Repaid w/Milestone Pmt 2
Long-Term TIFIA Loan	$60.2	State Hwy Funds	30-Year TIFIA Loan Repaid with APs
Private Equity	$45.6	State Hwy Funds State Federal Aid	Hochtief & Meridiam Repaid with MP & APs
Total Financing	**$362.2**		

P3 Agreement Payments

- Milestone Payments at Substantial Completion
  - Adjusted financial structure to take advantage of attractive short-term rates, lower costs in bank market, and reduced reliance on long-term TIFIA loan
  - **$185.4 MM** Milestone Payment 1 is used to repay short-term bank loans and a portion of equity
  - **$91.0 MM** Milestone Payment 2 is used to repay short-term TIFIA Loan
- Availability Payments over 30 Years
  - Compensate Developer for routine O&M, lifecycle maintenance; repay long-term TIFIA loan, and provide return to equity
  - APs are subject to performance regime and potential reductions; a small portion is indexed to the Consumer Price Index (CPI)
  - Base Maximum Availability Payment (MAP) is **$22.1 million** – a savings of **$12.9 million** below the CTC's MAP affordability limit
- **Over $325 million reduction in total 30-year cost between time of CTC approval and Financial Close (and $99 million savings since GLC Proposal)**

Unique TIFIA Loan Tailored to Available Funds

- TIFIA Office proposed a two-tranche loan
  - Short-term TIFIA tranche will be repaid at Substantial Completion, and has a rate of **0.46%**
  - Long-term TIFIA tranche amortizes over roughly 30 years, and has a rate of **2.71%**
  - GLC Proposal had assumed **4.5%** TIFIA rate; Caltrans took the full interest rate risk on the TIFIA Loan (and received 100% of the benefit of falling US Treasury rates)
- Both tranches designed to match availability of non-federal funds for repayment of the loans
  - **$91 million** in state and local funds available at Substantial Completion for the Short-term tranche
  - **$100 million** in State Highway Account available as a continuous appropriation for Long-term tranche

Bank Loans & Equity
Complete Financing Package

- **Short-term bank debt (≈3.5 years)**
  - **$166.6 million** Construction Loan; repaid with **$185.4 million** Milestone Payment
  - Reduced all-in Bank Loan costs by over 55 basis points
    - All-in rate of **3.10% anticipated at time of Proposal** (benchmark MMD rate of 0.85% plus 225 bps margin)
    - All-in rate of **2.535% achieved at Financial Close** (LIBOR-Swap rate of 0.785% plus 175 bps)
  - Highly competitive market with 14 banks responding; Six banks met the project's aggressive pricing and terms
- **Private Equity**
  - **$45.6 million** of invested equity capital provides "skin in the game" to make project operate efficiently; equity must be drawn before construction loans from banks and TIFIA
  - Significant risk transfer – deductions can reach 100% of APs

Payments / Costs over Life of P3 Project

Costs over the life of the P3 Agreement are significantly lower at Financial Close than had been estimated previously ($ in millions)

	Milestone Payment *	TIFIA Milestone Payment **	Total Availability Payments	Risk Res. / Transaction Costs	Total Payment / Costs Over 30-year P3 Agreement
CTC Approval (May 2010)	$173.43	0	$1,131.070	$97.290	$1,401.790
GLC's Proposal (October 2010)	$173.43	0	$909.267	$97.290	$1,179.987
As of Financial Close (June 2012)	**$185.43**	**$91.00**	**$716.5**	**$87.610**	**$1,080.54**
Savings / (Costs) FC vs. CTC Approval					**$327.25**
Savings / (Costs) FC vs. GLC's Proposal					**$99.45**

** Milestone Payment 1 is dedicated to payments of Bank Loan and Equity*
*** Milestone Payment 2 is dedicated to payment of Short-Term TIFIA tranche*

Presidio Parkway P3 Project Set Key Precedents

1. **First P3 under California's new statutory framework of SB 4**
   - First P3 Project approved by California Transportation Commission
   - Demonstration of life-cycle, performance-based Availability Payment (AP) structure – fitting within the existing State Budget framework
2. **Caltrans broke new ground with the Federal Highway~~s~~ Administration (FHWA) for direct federal participation in future APs**
   - Negotiated with FHWA for a federal participation share equal to **81.66%** of Presidio Parkway APs
   - Presidio Parkway P3 Project cost allocation methodology will provide valuable "road map" for future AP projects nationally
3. **Initial Project Dept Competition (IPDC) provided transparent debt pricing as structure and market conditions evolved**
   - Final effective interest rate for bank loans fixed at **2.535% at Financial Close** vs. estimated bond interest rate of **3.10% at time of Proposal**

Presidio Parkway P3 Project Beat its Financial Goals

4. **Obtained $362 million in up-front external financing, deferring need for state and local funds until after construction is completed**
   - P3 financing fills construction funding gap by augmenting public sources
   - Will free up state funding capacity for other projects through Presidio Parkway Phase II Substantial Completion in 2015
5. **Cost of TIFIA Loan reduced from an estimated $293 million over 30 years to $182 million, using innovative, two-tranche TIFIA Loan structure**
   - Two-tranche maturity structure tailored to available non-federal funds
   - TIFIA Loan rate dropped from an **est. 4.50%** at time of Proposal to **0.46%** (Short-term) and **2.71%** (Long-term) at Financial Close
   - This reflects a June 14, 2012, 30-year US Treasury bond auction reported to be at the **lowest rate ever!**
6. **Base Maximum Availability Payment (MAP) is $12.9 million below the $35 million MAP Affordability Limit set by the CTC**
   - Est. MAP at time of Proposal / Commercial Close: **$28.6 MM**
   - Final MAP at time of Financial Close: **$22.1 MM**

Key Lessons Learned

- **Presidio Parkway broke new ground at CTC, FHWA and TIFIA**
  - Patience and persistence and not talking "no" for an answer
  - Partnerships between Caltrans and local agencies facilitated P3 Project approvals at state and federal levels
- **Experienced advisors helped reinforce the Department's position in negotiating with private, local, state and federal stakeholders**
  - Gained benefit of advisors' in-depth knowledge of precedents and participants
- **Flexibility was needed to adjust to evolving situations while preserving the public interest – and lowering state costs**
  - Litigation delay complicated the process to reach financial close – but did not destroy the value-for-money of the P3 transaction
  - No revision to underlying O&M or Lifecycle costs due to delay
  - Adjusted financial structure to take advantage of attractive short-term rates, lower costs in bank market, and reduced reliance on long-term TIFIA loan – **achieved net savings in the maximum annual AP of $12.9 million since CTC approval and $6.5 million since the original GLC Proposal**

Other Projects Under Consideration

- I-710 South – Goods Movement Corridor
- I-710 North – Tunnel
- SR 152 Goods Movement Corridor
- ***SR 156 Widening***
- ***LA/D7 Highway Goods Movement Package***

State Route 156 Widening

- **7-mile capacity Improvements over $200 Million**
  - 4 new lanes on new alignment
  - New Interchanges at Castroville and US 101
  - Potential Tolling
- **Schedule**
  - Complete PAED -- Summer 2012
  - Conduct Traffic and Revenue Study – Fall 2012
  - Procurement By Spring 2013

LA/D7 Highway Goods Movement Package

- I-5 North Capacity Enhancement Project
- I-5 North Pavement Rehab Project
- SR 71 Gap Closure (I-10 – Mission Blvd)
- SR 71 Gap Closure (Mission Blvd – Rio Rancho)
- Soundwall Package 10
- Soundwall Package 11

LA/D7 Highway Goods Movement Package

- HGMP total Value is over $700 Million
  - Mostly Measure R and Prop C funded
  - Some SHOPP Funds
  - Potential Tolls (HOT Lanes)
- Potential Schedule Advancement
  - Delivery Advanced from 2030
  - Procurement Likely in Spring 2013
  - Construction Completed by Winter of 2017/18

Questions