Fitch Ratings

Infrastructure Financing and Ratings

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Florida Transportation Commission
Cape Canaveral

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Agenda

- Introduction to Ratings
- The Macro Environment
- Toll Road Criteria/Performance/Credit Themes
- Evaluating Managed Lanes
- All Electronic Tolling
- Public Private Partnerships
- Public or Private – Is One Model Better?
- Infrastructure Financing – Summary

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What is a Credit Rating?

- Assesses ability and willingness to pay debts on a full and timely basis

What is a Credit Rating?

- Provides an opinion on the relative ability of an entity to meet financial commitments.
- Used by investors as indications of the likelihood of receiving their money back in accordance with the terms on which they invested.
- Covers the global spectrum of corporate, sovereign, financial, bank, insurance, municipal and other public finance entities, structured finance securities.

What's a Credit Rating?

	Rating	Definition
Investment Grade	**AAA**	Highest Credit Quality
	AA	Very High Credit Quality
	A	High Credit Quality
	BBB	Good Credit Quality
Speculative Grade	**BB**	Speculative
	B	Highly Speculative
	CCC, CC, C	High Default Risk
	RD	Entity has failed to make due payments on some but not all material financial obligations
	DDD, DD, D	Default

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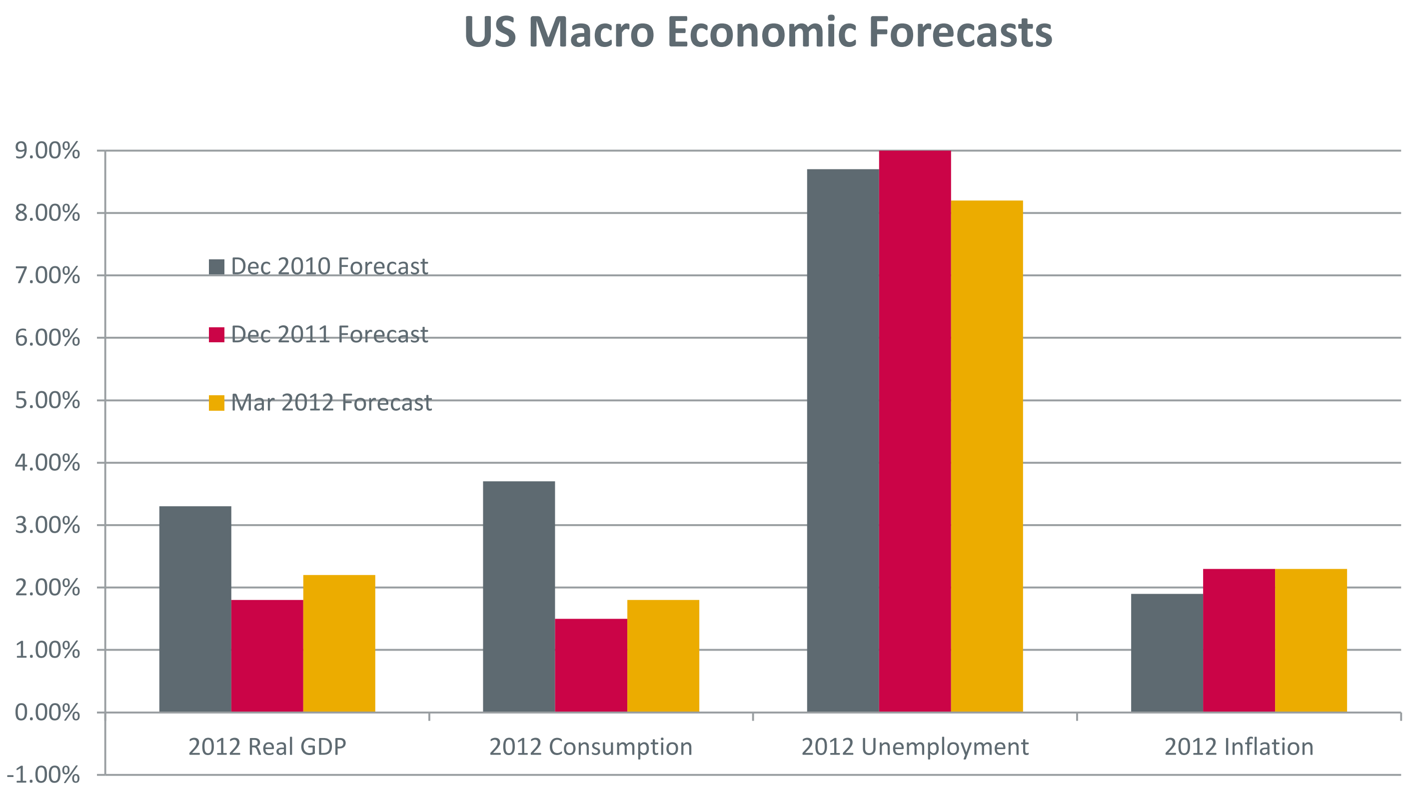
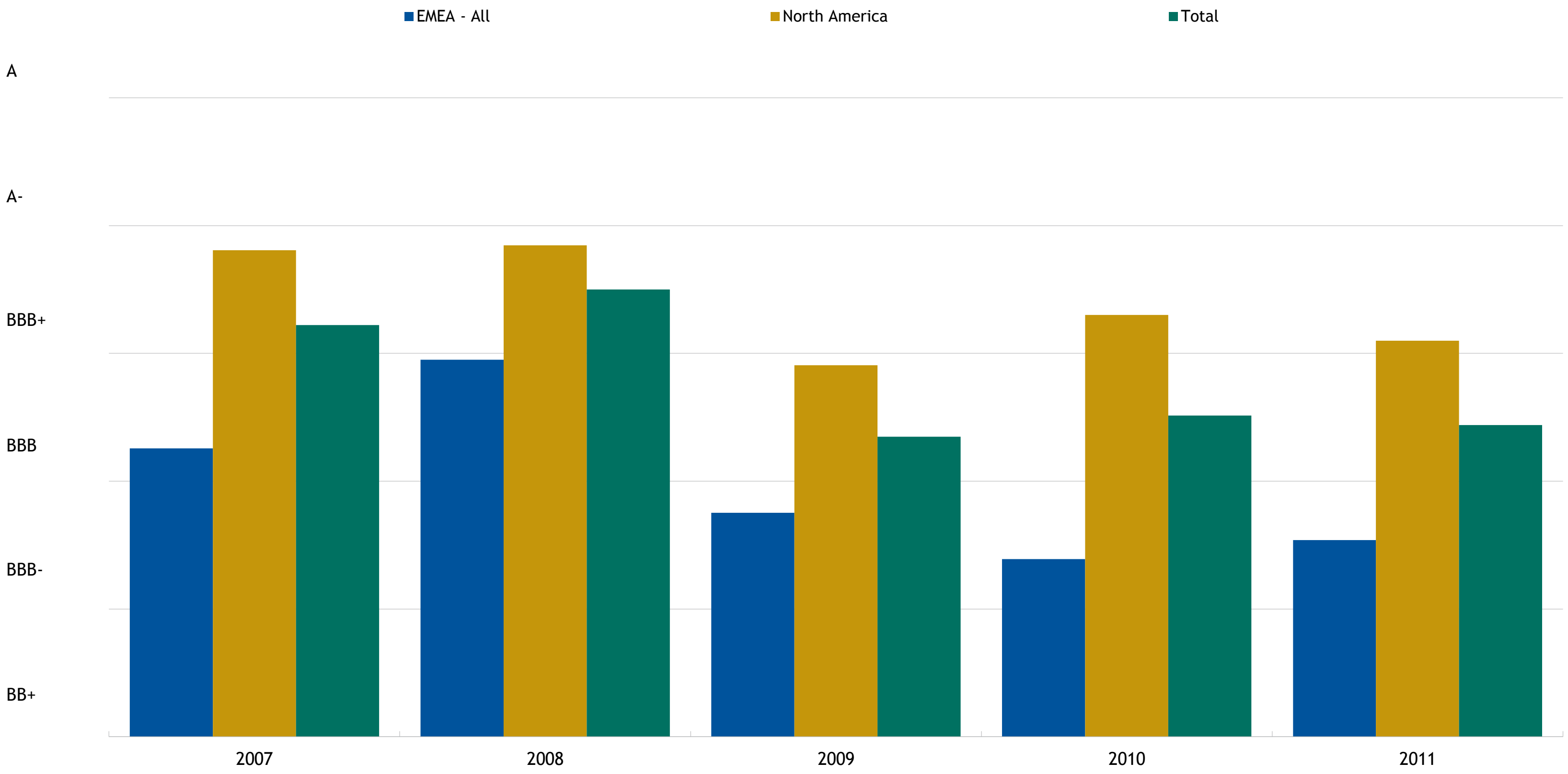
U.S. Economic Outlook:



Rating Migration for Infrastructure



Source: Fitch

U.S. Project Finance Overview – Transportation

Sector	2010 Outlook	2011 Outlook	2012 Outlook
Airports	Negative	Stable/Negative	Stable/Negative
Toll Roads	Stable/Negative	Stable	Stable
Seaports	Stable/Negative	Stable	Stable

The State of the Market

<u>Tax-Exempt (Muni) – Public Authorities</u>

- Massive defaults/bankruptcies have not occurred; small local governments now the issue
- Monoline support and “guaranteed” market access a thing of the past
- Credit is “King” again (but for how long)
- Infrastructure needs/deferred maintenance grow; muni market has tremendous capacity, but economy/environment a constraint
- President’s budget proposes capping tax-exemption benefit
- Unlike many markets, the muni market is open for business; debt still cheap but spreads are wider; supply the issue given government retrenchment

The State of the Market

<u>Taxable – Project Finance/PPP</u>

- Two components – commercial bank market and public bond market
- Commercial bank market the global behemoth in project finance
- Public project finance bond market small (but deepest in the US)
- Commercial bank capital constraints and retrenchment reducing their ability to hold long-term project finance debt
- Issues – Euro sovereign and bank crisis, Basel III higher reserve requirements, domestic regulatory requirements, focus on core markets and relationships
- Net result – increasing focus on private placement market (life insurance companies) and public bond markets
- Project finance requires specialized skills so a challenge; US still in best position (relatively)

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Key Rating Drivers –Toll Roads, Bridges, and Tunnels

1. **Revenue Risk-Volume:** Nature of the transportation link provided, traffic composition of the asset, the economic and demographic fundamentals of the service area; the exposure, if any, to competing alternatives; and the historical and/or projected traffic profile.

2. **Revenue Risk-Price:** Legal and economic toll rate-raising ability and toll rate relative to any cap, to peers, or the revenue maximization point.

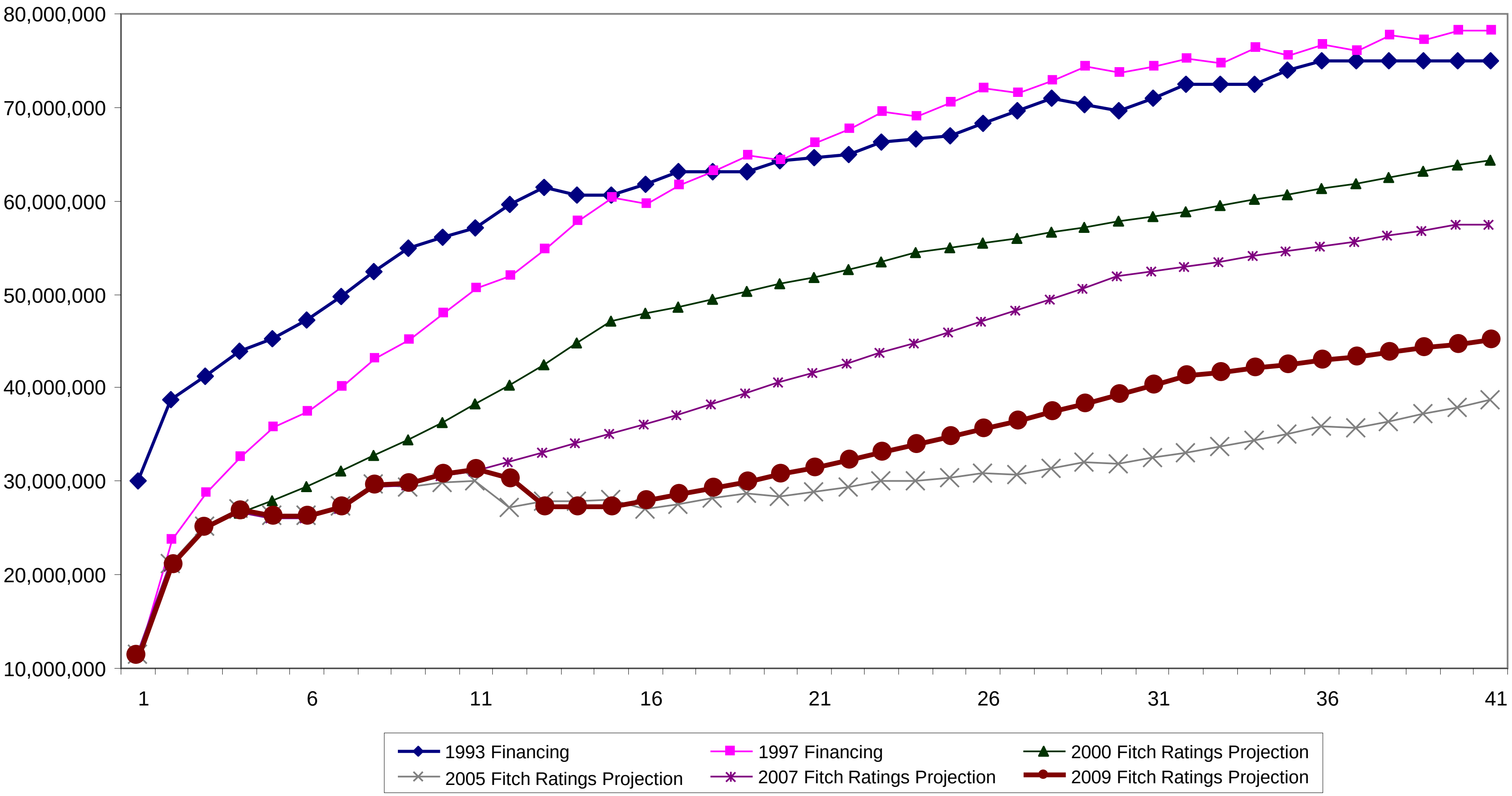
3. **Infrastructure Development/Renewal:** Approach to the capital program and maintenance including planning, funding, and management.

4. **Debt Structure:** Overall debt structure and key structural features/composition of capital structure.

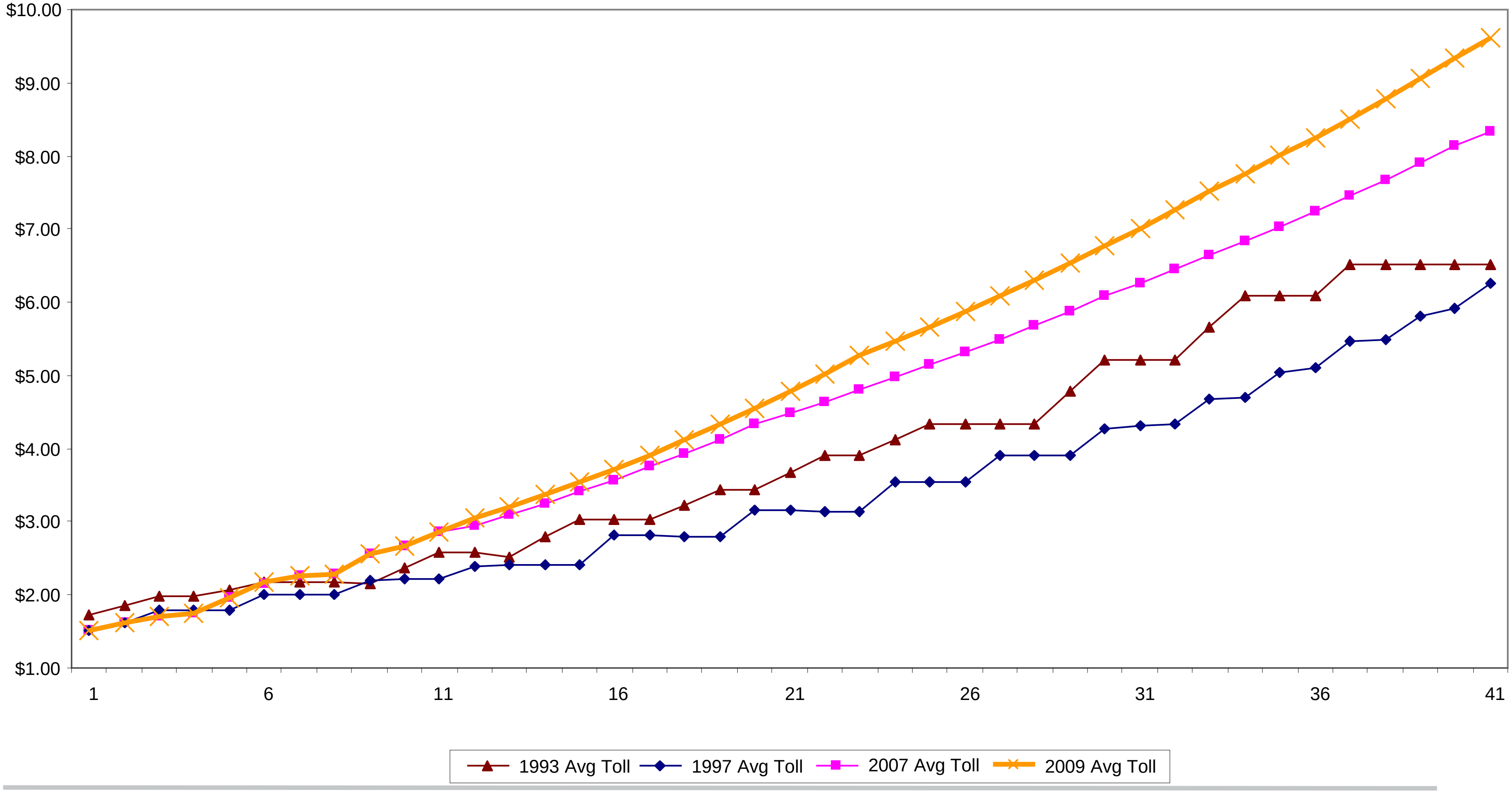
5. **Debt Service:** Leverage, liquidity, and level of dependence on sustained traffic and revenue growth to meet financial obligations..

Source: Fitch

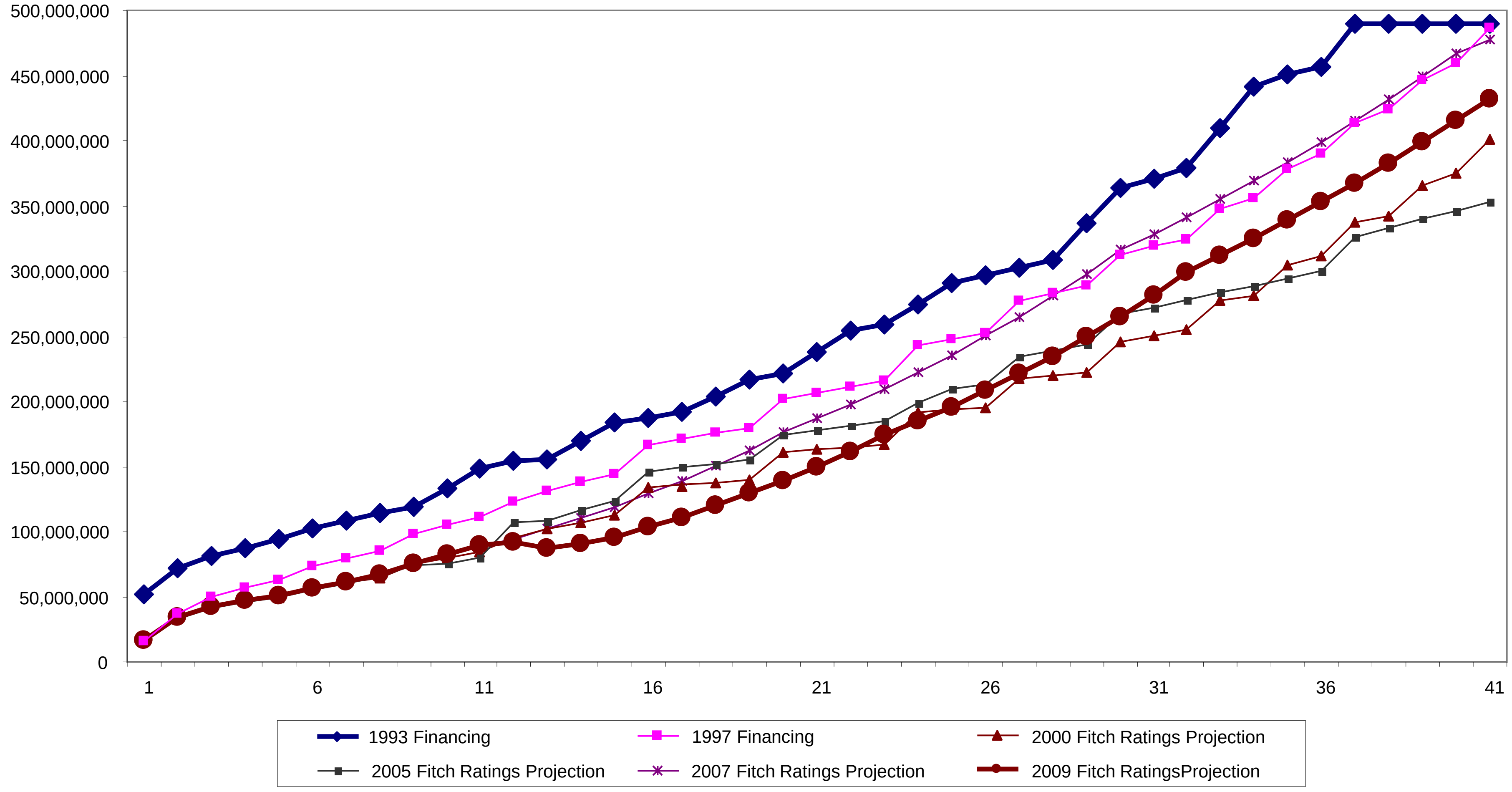
Toll Road X – Traffic



Toll Road X – Average Toll



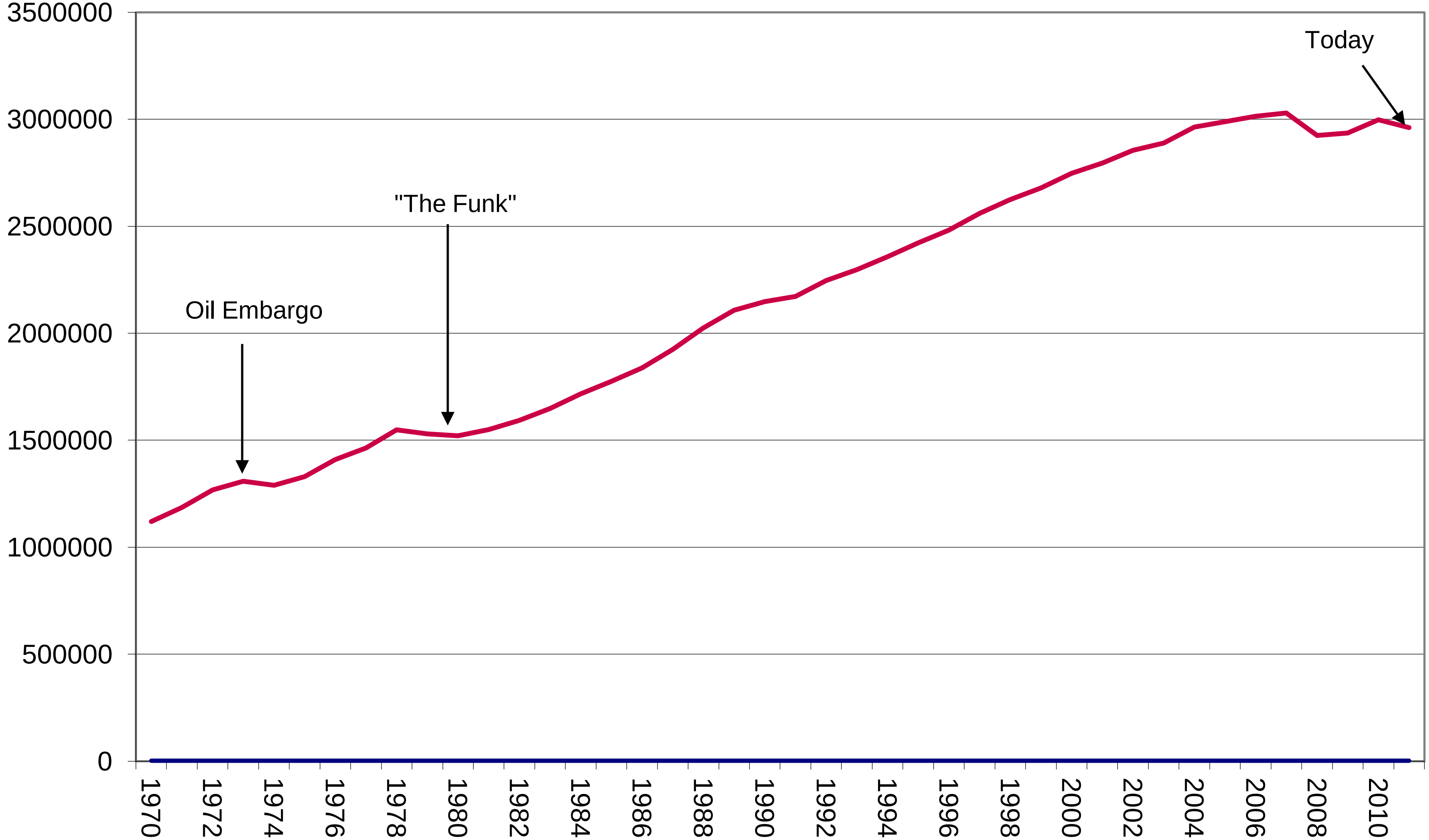
Toll Road X – Revenue



Toll Road – Typical Financial Ratios

User-Pay (amortizing structures)	Fitch Ratings Base Case	Fitch Ratings Stress Case
Minimum DSCR	1.30x	1.00x (incl. liquidity)
Minimum LLCR	1.50x	1.25x
Minimum PLCR	1.75x	1.50x
User-Pay (negative or non-amortizing structures)		
Minimum DSCR	1.30x	1.00x
Minimum PLCR	3.00x	2.00x
Shadow Toll and Availability Payment (amortizing structures)		
Minimum DSCR	1.20x	1.05x
Refinancing risk		
Interest rate assumption	+ approx 200 bps	+ approx 400 bps

Vehicle Miles Travelled Slows Again:



Toll Roads – Key Credit Themes

Themes	Comment	Likely Impact
Soft economic conditions	• Slow to no growth in the near term; how long is the issue. • Low inflation suggests more limited pricing power for some toll roads. • Moderately priced publicly managed roads retain pricing flexibility.	Low/Moderate
Oil prices	• Higher prices could put an additional drag on the economy and impact toll road demand.	Low/Moderate
Traffic Performance Will Vary by Asset Type	• Traffic volume to be flat to slightly positive . • Urban expressway systems and urban bridge systems have proven to be the most resilient. • Turnpikes exposed to commercial traffic volatility. • Standalone projects more exposed to competition.	Low/Moderate

Source: Fitch

Toll Roads – Key Credit Themes (Contd.)

Themes	Comment	Likely Impact
Pricing Power Influenced by Toll Rates and Political Environment	• High toll rates will likely experience greater toll elasticity than in the past. • Economic environment may constrain political willingness to raise tolls.	Low/Moderate
Debt Structure – A Tale of Two Cities	• Some escalation but MADS coverage is > 0.5x • Heavily back-loaded and MADS coverage is > 0.5x	Moderate/High
Infrastructure Renewal and Development Risk	• Deferred major maintenance cannot be prolonged • Expansion projects need to be calibrated to financial capacity • Retaining flexibility for the unknown is important	Low/Moderate/High

Source: Fitch

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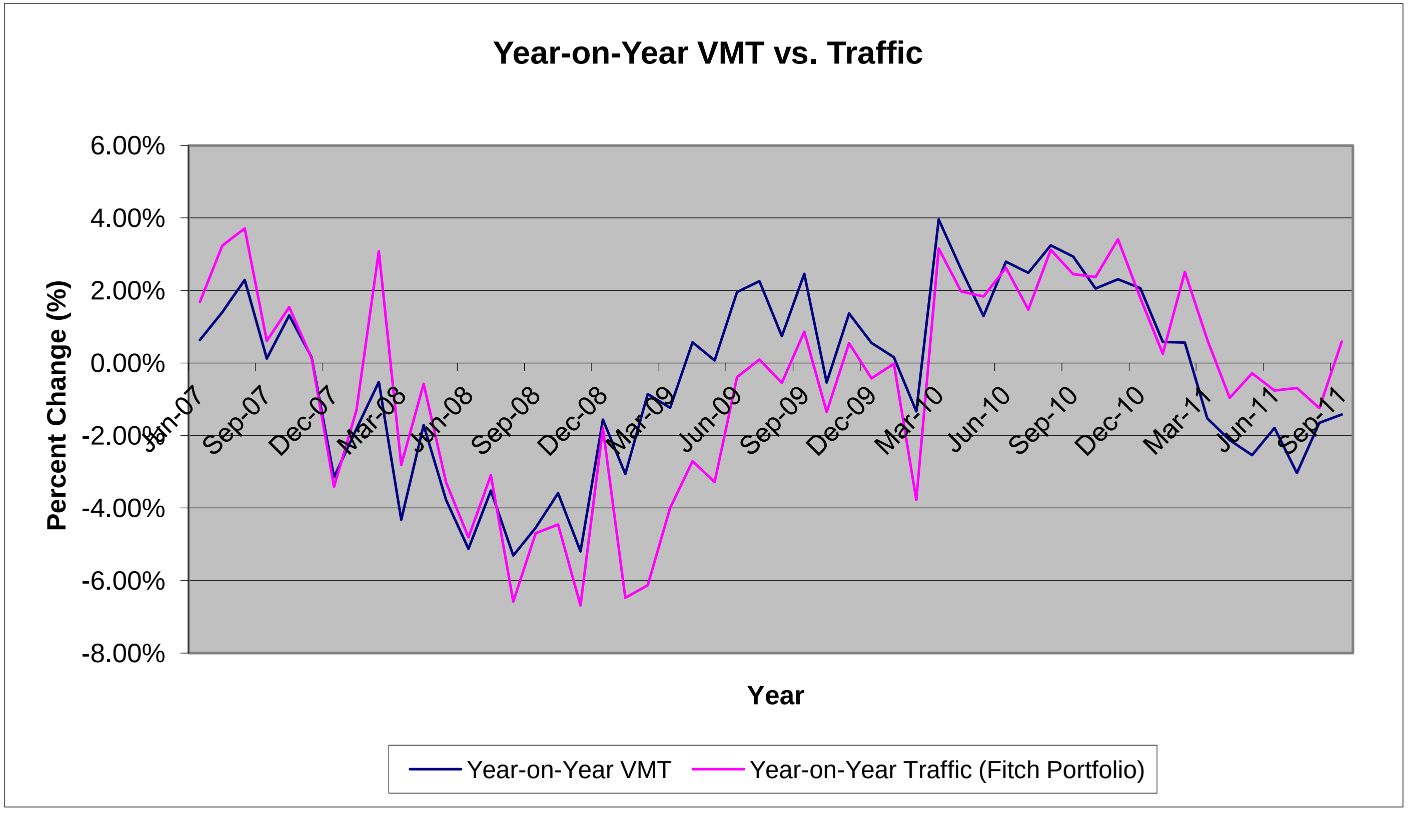
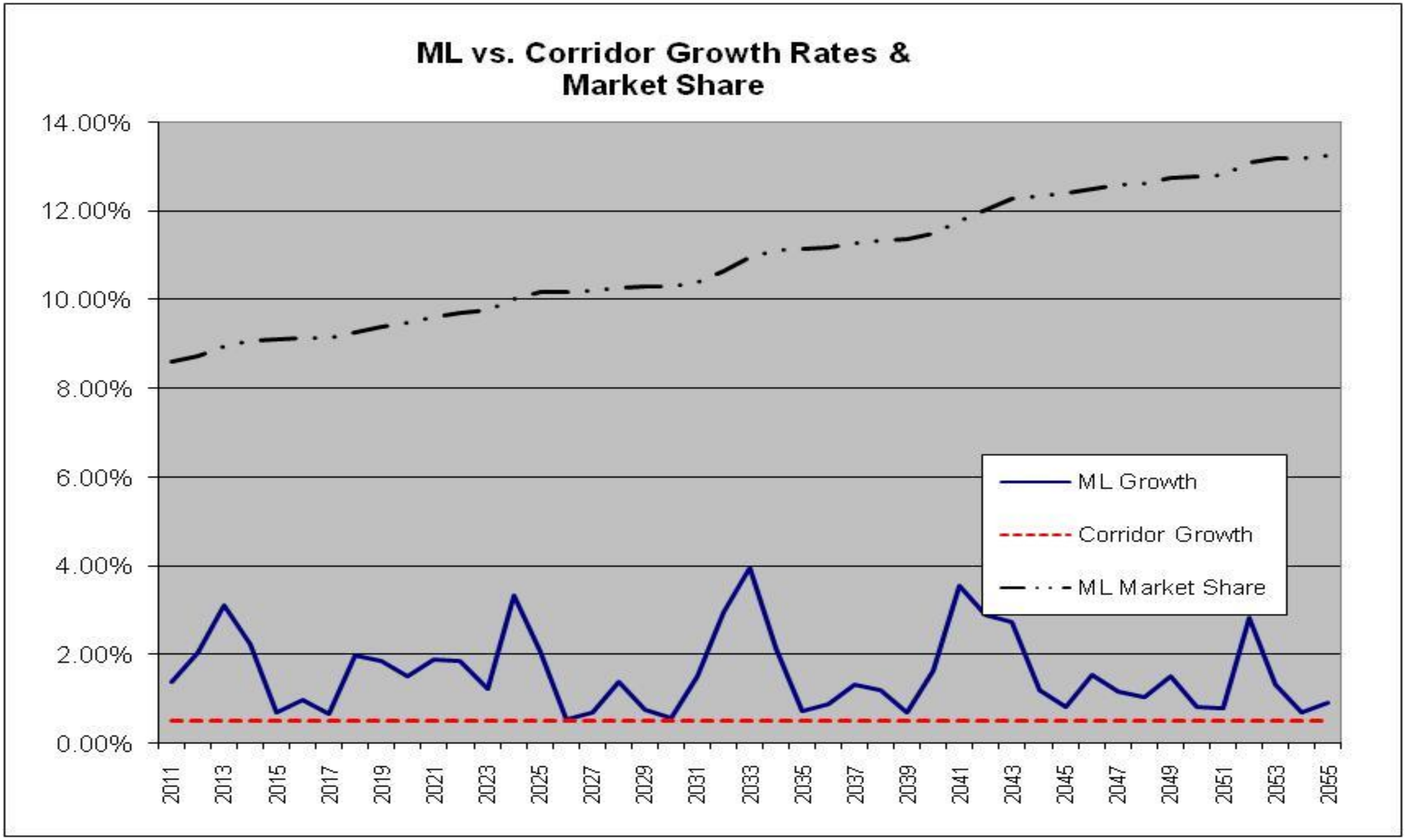
Managed Lanes

- Key strength – established congestion
- Value proposition – primarily AM/PM peak periods; “inter-peak” in dense urban areas
- Key risks:
  - Competition next door and very visible
  - Limited experience with performance; price is key, will vary by location, can vary exponentially as congestion levels change and based on road way configuration
  - Future network improvements (corridor and region)
  - Nature of toll policy (maximize throughput, revenue, HOV policy)
  - Quality of the data

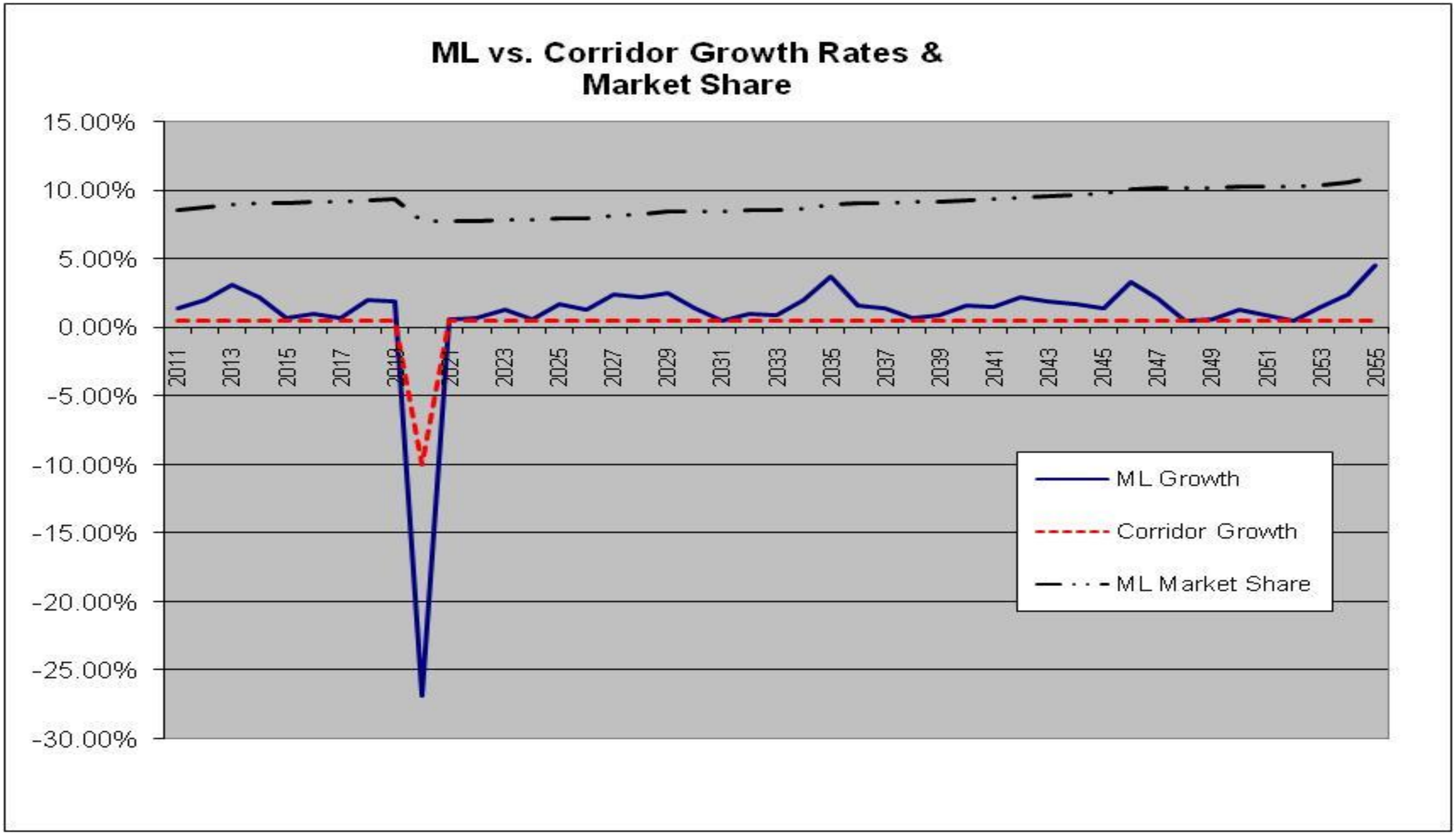
Vehicle Miles Travelled Slows Again (Contd.):



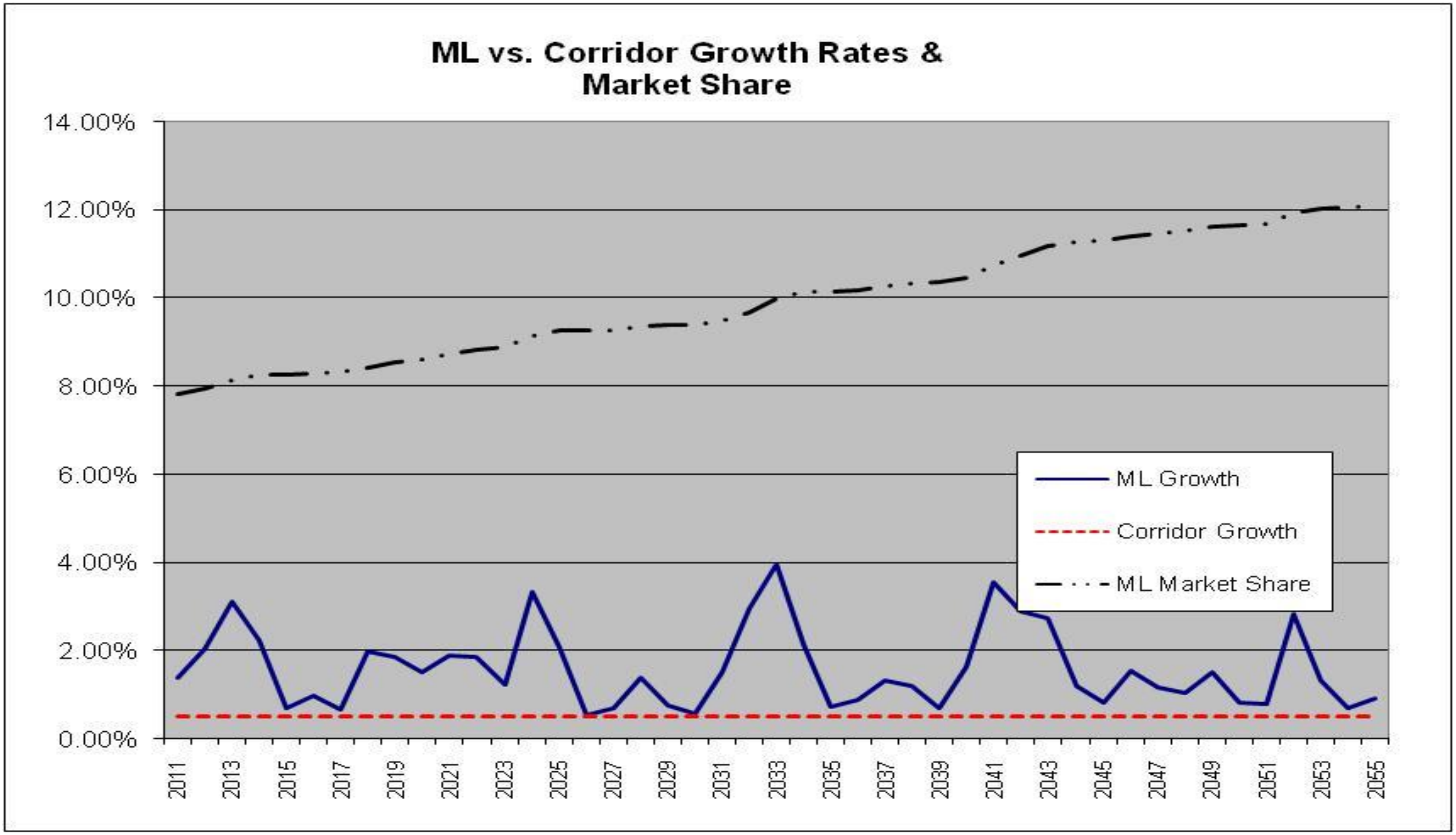
Managed Lanes – Expected Performance



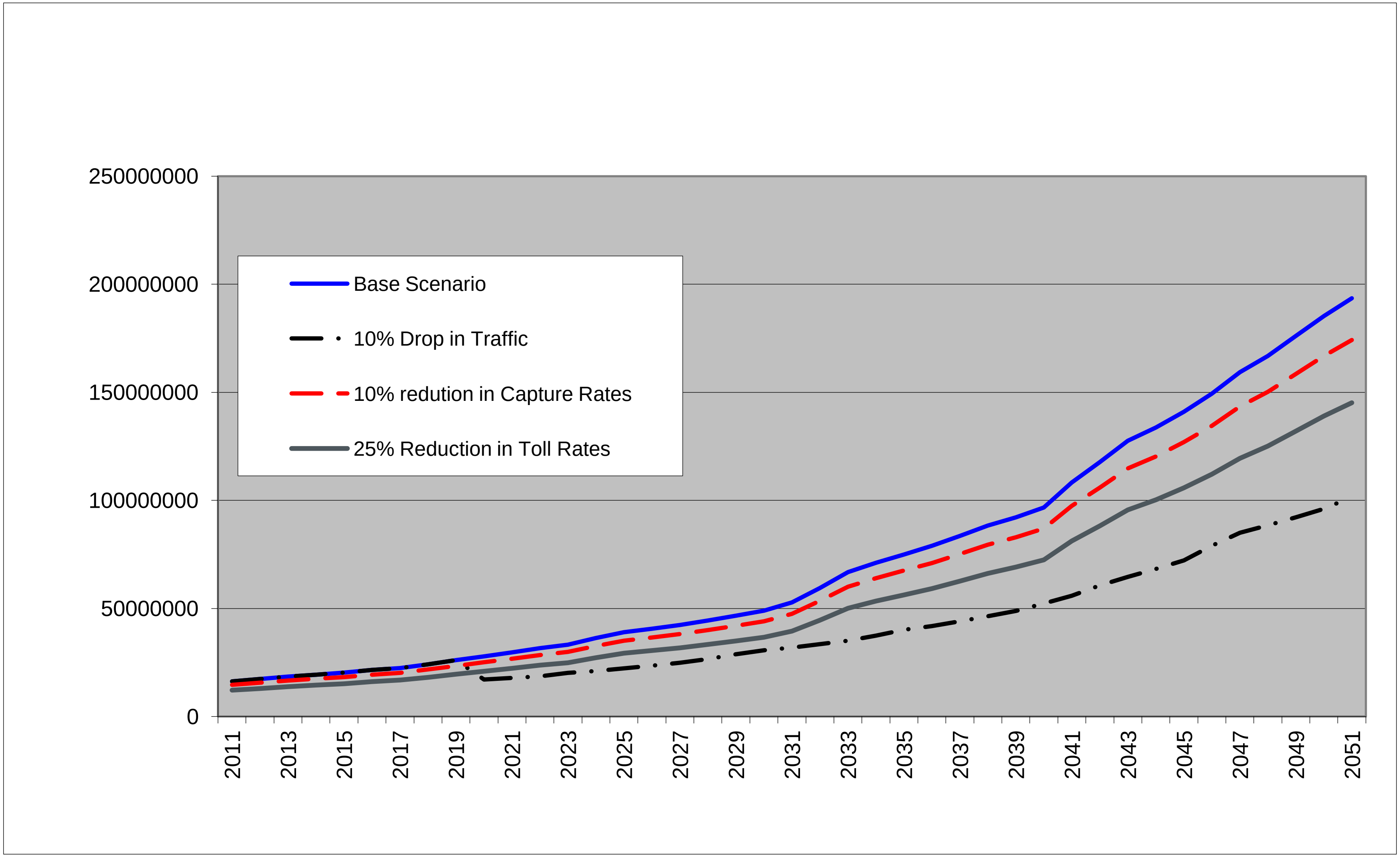
Managed Lanes – 10% Traffic Drop



Managed Lanes – 10% Capture Rate Drop



Managed Lanes – Revenue Scenarios



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All Electronic Tolling

- Has benefits and costs
- Revenue upside from transponder/account/violation processing fees, video toll premiums and violation penalties, and slightly lower toll elasticity
- Revenue downside from increased violations (not unlike corporate bad debt)
- Added costs from electronic toll systems and equipment, technology staff, processing fees, need for regular upgrades and modifications, and one-time toll plaza/roadway reconfiguration
- Avoided costs from toll collector eliminations, no cash processing, no ongoing toll plaza reconstruction needs

Better user value proposition trumps as financial cost-benefit likely a wash

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Public Private Partnerships

- Many models – Public (non-profit), Public/Private, Private
- Demand-based – revenue-generating and profitable assets
- Availability Payment based – nonrevenue-generating and revenue-generating; profitable and subsidized assets
- Stipulated/regulated service provided under a long-term contract/arrangement
- Strategic control over standards, quality and pricing in public control
- Many global investors – looking for stable, reliable cashflow generating investments in the long run
- Investment horizons differ – near, medium and long-term depending on nature of company/investor, equity/debt focus, etc.

Why Choose a PPP – Developing Economies?

- Ability to pay the binding constraint:
  - High debt and tax burden, highly concentrated wealth/tax base
  - Economic growth and competitiveness important in the context of poverty, clean water and basic hygiene being the critical social issues
  - Economic growth dependent in part on improved infrastructure
  - Improved service quality an issue but lower on the scale of concerns
  - Private sector helps address the growing backlog of infrastructure needs

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Why Choose a PPP – Developed Economies?

- Willingness to pay the binding constraint:
  - Moderate to high debt, moderate to high tax burden, less concentrated wealth/tax base
  - Economic growth and competitiveness important in the context of enhancing (but more importantly preserving) quality of life
  - Cost effectiveness and quality of government service and infrastructure delivery the issue
  - Private sector helps improve service quality and address the growing backlog of infrastructure needs

What Makes a Good PPP?

- Provides public value at least cost – for the life of the deal
- Enhances quality, reliability – of the asset/service, and to related assets/services
- Increases accountability – cost-effective/timely project delivery, efficient operations, maintenance & life cycle asset management
- Better customer service – increases perceived user value
- Retains flexibility – for changing needs

Makes government more efficient – lower investment/subsidy

Global PPP Scorecard

- Success is mixed world-wide
- Failure usually due to unanticipated conditions, unrealistic objectives, unachievable benefits, unclear benchmarks
- Success usually due to a cautious approach, development of desired objectives, understanding of benefits and disciplined monitoring
- Yet problems do occur, so long-term success a function of both parties ability and willingness to adjust to changing conditions and public expectations

Key Positive Features in PPPs

- Clear objectives, identify/quantify expected benefits
- Performance benchmarks, actual performance tracked
- Ability to change/fine tune the deal – recognition of need for compensation if the impact is adverse to the private party
- Length linked to ability to generate return – up to 30 years for operating assets; more, if necessary, for greenfield assets
- Structured to limit government subsidy & provide reasonable and stable equity returns
- Structured to provide public sector revenue/profit sharing
- Ability/clear protocol to terminate, if public policy needs change

Issues Associated With U.S. PPPs

- Decisions based on equity considerations not transportation policy
- Nature of approved rate regime
- Adequacy of experience with comparable asset valuation
- Solutions not tailored to meet local needs
- Retaining private sector interest after equity takeout
- Long-term leases can limit flexibility
- Governmental liability may not be completely transferable
- Perception of double-taxation remains

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Public or Private – Is One Model Better?

- Construction – private sector profit motive minimizes delays/cost overruns; if public sector could introduce scope/decision making discipline the results could be similar
- Revenue – private sector will intend to raise rates steadily, but may in fact not be able to; public sector will try for rate stability but will be forced to raise rates to support needed investment and meet debt covenants
- O&M – private sector profit motive will seek to contract out and create cost stability; public sector focus on maximizing service versus cost management introduces higher cost escalation risk
- Lifecycle Asset Protection – private sector incentivized by minimum standards in concession so better maintained; public sector focus is expansion versus state of good repair as there is no risk of loss of asset
- Private sector run asset will be better maintained but with higher rates; public sector run asset will be less well maintained but with lower rates; it comes down to what the public wants

Infrastructure Financing – Summary

- PPPs provide an opportunity to help address the growing backlog of infrastructure needs
- Public tax/fee sources will still likely be the primary choice for infrastructure funding; if so, it needs to be funded
- Financing success dependent upon an equitable sharing of benefits and risks
- Self supporting and non-self-supporting assets can be candidates
- Ultimately, accelerating infrastructure development will depend on a healthy, balanced environment with viable private and public sector options
- Cannot fix the deficit overnight; will take decades, but the time to develop a long-term strategy and start funding it is now

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