Presentation to

FTA/NCPPP
PARTNERSHIPS IN TRANSIT

Public Private Partnerships-Funding Options

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Merrill Lynch

Global Markets & Investment Banking Group

APTA Legal Seminar

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Alternative Ownership & Financing Options

Alternative Ownership & Financing Options

Many of the P3 alternatives Transit Agencies may wish to consider. These include:

- **Deferred Availability Payment**
- **Public and Private Lease Transactions**
- **Long-term Concession Sales** whereby a private bidder would pay
- **TIF and Assessment Districts**

P3 Solutions
Executive Summary

Executive Summary

P3 Solutions

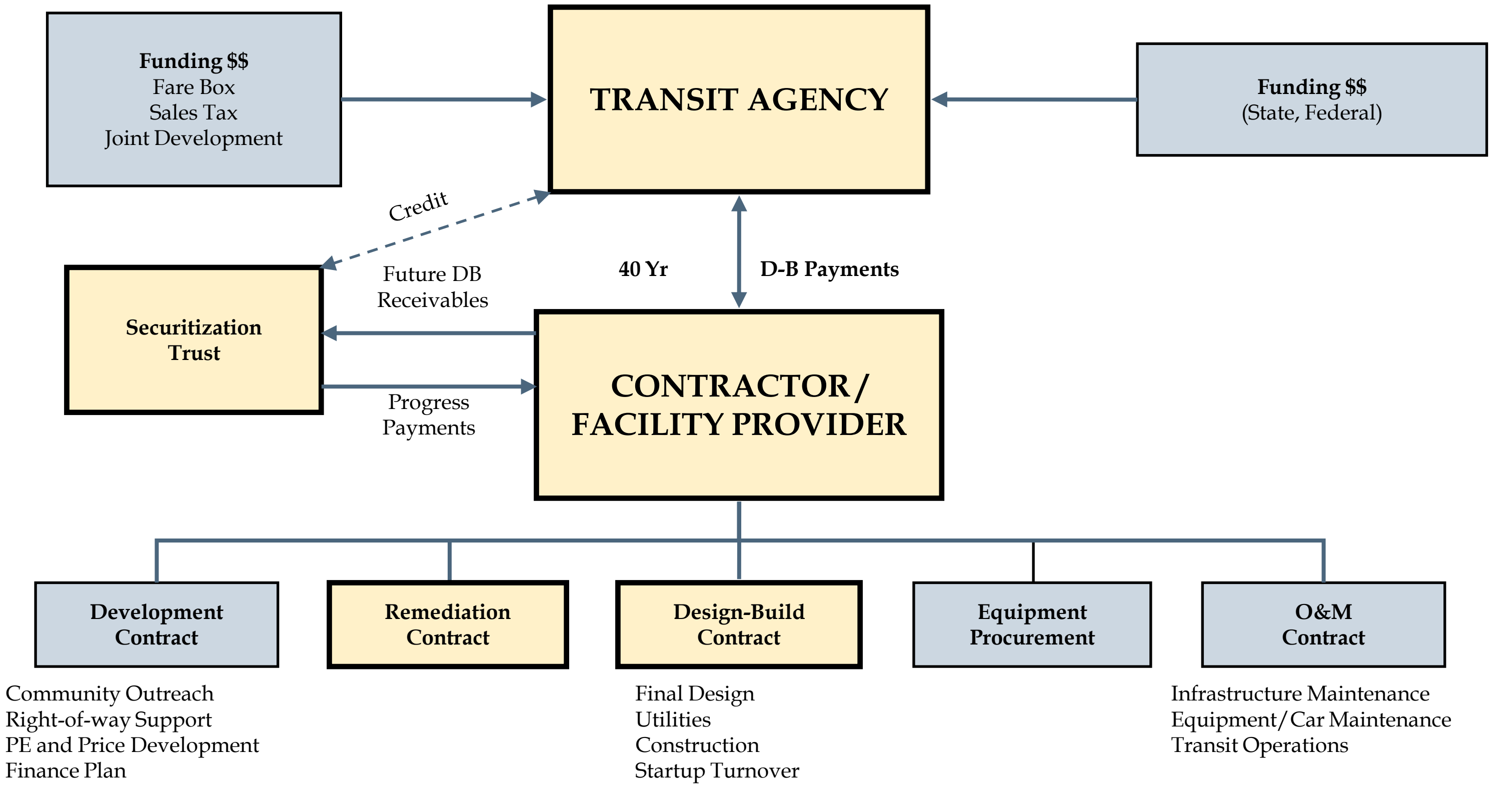
Strategy	Solution Type	Implementation	Financial Benefit
Deferred Payments Securitization	P3	Contractual agreement with D/B contractor assigned to securitization trust	Additional funding without the use of bond authorization
Lease Revenue Financing of Other Assets •Rail Stations •Other Development Opportunities	P3	Utilizes lease: structure, private, non-profit entity to provide financing for the issuance of COP's or other securities	Amount depends on value of leased assets and Sponsor's ability to enter into such agreements under its statutory authority
Sale of Long-Term Concession	P3	Formal auction to private bidders for long-term concession agreement for the design, construction, operation and maintenance of all or part of the project	Revenues inure to the benefit of concessionaire who assumes revenue risks. Transit requires additional sources of revenue
TIF/TIRZ/Assessment Districts	P3	Real estate interests contribute	Revenues from TIF and/or Assessment Districts pay for transit

Deferred Payment Securitization

Deferred Payment Securitization

- Merrill Lynch has developed an enhanced financing approach. Key features of the proposal include:
  - **P3 Deferred Payment Securitization ("DPS")-** Allows contractor to finance part or all of the entire system without Transit Agency issuing sales tax revenue bonds
  - **No lease or concession agreement**-Avoids right of way referendum challenges associated with the Transit Agency transferring right of way use to third party
  - **Ownership and control of system resides with Transit Agency-** No separate board of directors or discretionary governmental approval from a City or County or Attorney General required to implement financing approach
  - **Qualifies for tax-exempt financing**-With long-term risk sharing operating agreement (QMA)
  - **No leasehold mortgage** or other encumbrance on system for financing purposes
  - **No legislative authorization required-**(In Texas and some other jurisdictions.

Deferred Payment Securitization



Deferred Payment Securitization

Key Benefits

- Elimination of lease or concession agreement with third party entity.
- Eliminates control and governance issues
  - Avoids AG opinion on whether Transit Agency has the authority to create a 63-20 NPC or LGC
  - Securitization Trust contracts directly with Transit Agency; No separate board of directors as is the case for 63-20 or 501(c)3 NPC
  - Transit Agency owns the system upon completion of construction; no leasehold mortgage
- Transit Agencies typically have explicit statutory authority to enter into contracts for goods and services, such as DPS, with no statutory limitation on term of contract
- Completion and Debt service insurance helps to lower cost of Liquidated Damages

Deferred Payment Securitization

Additional Considerations

- **Risk Transfer-** encourages expedited approvals
- **"True Sale" accounting treatment-** requires timely acceptance of Transit Agency's contractual payments that are being sold to the trustee or all financed amounts may have to be recognized on the Facility Provider's financial statements. As such, the Facility Provider must have terms of payment which keep them cash positive.
- **Transit Agency has flexibility** to apply federal grants to buy down DPS payments (accelerate repayment, or lower annual payment amounts), or apply to new capital program since grants are deemed be reimbursement for expended funds
- **Tax-exempt financing-** equals lower cost of funds

Deferred Payment Securitization

Imbedding financing through DPS avoids legal authority and control issues

- Rather than entering into a long term lease or concession agreement, we propose that a Transit Agency enter into a DPS contract with a Securitization Trust
- DPS contract would include industry standard risk allocation and performance obligations with one key difference – DPS would contain an extended repayment term of 40 years (or such shorter or longer term as desired by Sponsor)
- The DPS Securitization Trust would transfer financing risk to underwriting team ("Lenders") under a securitization, or "true sale" of the future payments from the Transit Agency provided for in the DPS
- The proceeds from the purchase of the future Transit Agency payments ("Transit Agency Receivables") would be deposited in a trustee-held account and used to fund construction of the project
- Payments by Transit Agency under the DPS would be unsecured obligations payable from any available funds on the payment due date. Lenders will have no leasehold mortgage security interest or lien on project or system assets

Other P3 Alternatives

Lease Revenue Financing

Lease Revenue Financing Structure:

- Private entity enters into lease agreement with Transit Agency
- Payments based on estimated cost of design, construction, vehicles and equipment
- Lease can provide for O & M – adjust for cost estimate
- Can be structured on an Availability Payment basis
- Allows for use of tax-exempt bonds
- Can be issued as Certificate of Participations (COP’s)
- Subject to statutory authority of Transit Agency

TIF, TIRZ and Assessment District Financing

TIF & TIRZ:

- Determine base valuation of property in defined TIF or TIRZ District – can be linear
- Estimate increase in valuation of property annually over authorization period of TIF/TIRZ
- Securitize revenue stream from TIF/TIRZ or use revenue stream as source of payment in a Deferred Payments Securitization structure
- Additional real estate areas such as in and around stations can be included in defined area of TIF/TIRZ

Assessment Districts:

- Areas along and near the transit line can agree to be included in Assessment District
- Property owners pay an annual assessment to cover all or a portion of debt service on bonds and O&M costs of transit line
- Transit Agency can reduce interest expense by agreeing to backstop or replenish debt service reserve fund

Other P3 Alternatives

Spectrum of P3 Options (1)

Traditional Public Agency	Municipal Securitization	Subsidized Privatization	Unsubsidized Privatization	Other P3 Alternatives
Precedents/Considerations				
BATA Model: Uses a traditional structure for the new Bay Bridge in San Francisco. Substantial use of derivatives to lock in financing costs.	Create qualified tax-exempt entity to which asset is contributed. Achieve operating efficiency through Qualified Management Agreement.	Long-term Concession Agreement with private operator including sale of Private Activity Bonds. Highly levered equity/mezzanine debt.	**Indiana Tollroad and Chicago Skyway Model:** 75- and 99-year concessions; transfer of risk and upside for substantial immediate proceeds.	**Pocahontaas Parkway and Texas SH-130 Model:** "Hybrid" model with Public Toll Road Company and IPO. Transit Agency retains partial control; or, passive interest in project revenues through a Revenue Sharing Arrangement.
Application				
Many Transit Agencies have substantial debt capacity but finite voter approved sales tax authorization.	Increases project capacity financing to the extent revenues are available to cover debt service.	Mid-way point between Leveraged Municipal and Unsubsidized Privatization. Combines the efficiencies of competitive market forces as well as the "subsidy" of tax-exempt financing.	Unprecedented multiples seen in infrastructure leases to date, and supply/demand imbalance make this an important option to assess. Time-tested and very common model used around the globe.	These "hybrid" options are highly customizable and can be crafted to address Transit Agency's specific interests in Public Policy Objectives as well attaining a dedicated long-term revenue stream.

Transit Agency can design a P3 Alternative to meet its unique legal, financial and operating requirements

(1) Subject to statutory authority

Other P3 Alternatives

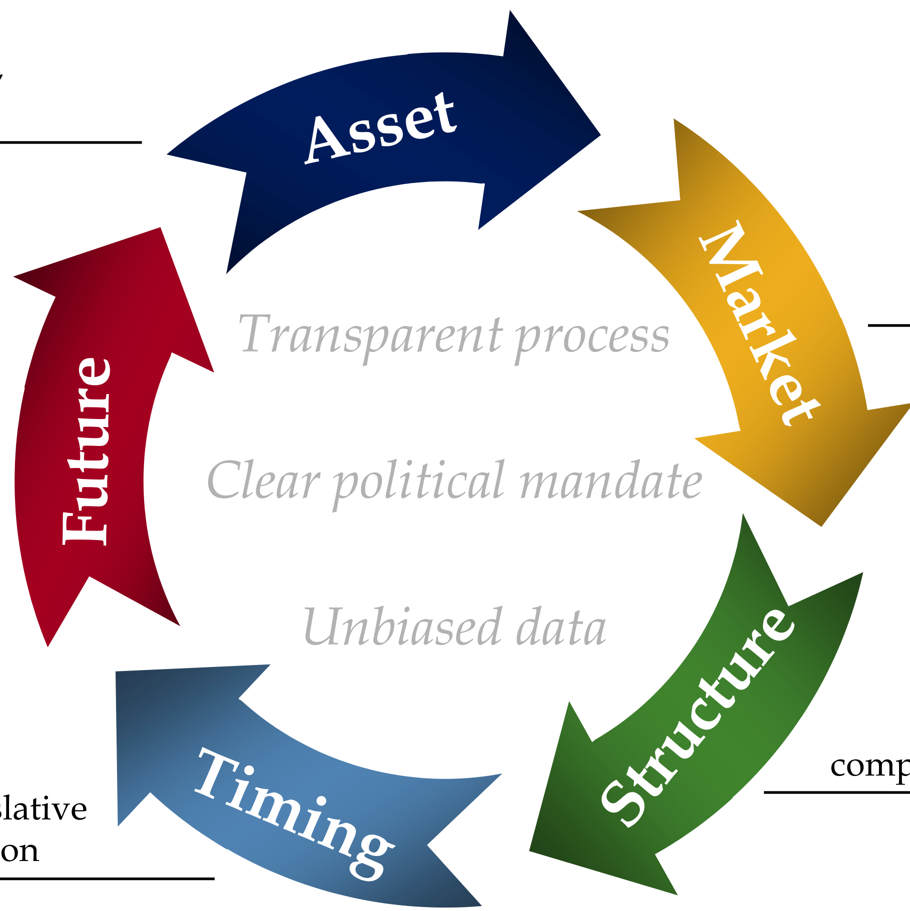
Key Lessons Learned: Overall

Merrill Lynch will help Transit Agency through the decision process

Public goods, policy, structure, public/legislative buy-in

Golden share, leverage, concession agreements, optimize use of proceeds

Market dynamics, public/legislative buy-in, management cooperation



Tax-exempt/taxable, public/private, debt/equity, pricing dynamics

Business rationale, governance, management, competition, regulation, leverage

Alternative Ownership & Financing Options

P3 Considerations

Merrill Lynch would provide assistance in the following areas:

- **Analysis of Alternatives** - A viable project that has been deemed acceptable to all involved must subsequently prove to be 'doable'
- **Evaluation of Technical Considerations -** If a strong financial case can be made, a project would must undergo further review for legal and technical considerations
- **Assessment of Operational Considerations** - With a viable technical solution guiding construction, attention must next be turned to the operational considerations of the project
- **Risks and Benefits** - The value of a P3 structure would based upon the ability to share the risks and benefits of a project with a private sector partner

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