GLOBAL BANKING & MARKETS

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Public Private Partnerships (PPP) in North America
The Advent of a Market

RBS North American Infrastructure Advisory and Finance

18 Jul

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The PPP market, while in its infancy in the United States, is one of the only alternatives for state and local governments to fund their vast infrastructure needs.

- The cost for infrastructure repair in the US and North America is in the trillions of dollars.
- Federal governments are highly unlikely to fund infrastructure repair or build.
- The willingness of state and local governments to fund new debt service to pay for infrastructure, which requires an increase in taxes, is non-existent.
- Where can cities and states turn to foot the bill for repairing the existing or building new infrastructure?
- **The PPP Market**

- **BUYERS OF ASSETS IN THE PPP MARKET**

➢ Investors, such as public pension funds, which control hundreds of billions of investment dollars, are looking for long-dated, cash-flow reliable assets, the return on investment for which is approximately 10-12%. Neither the traditional equi nor fixed-income markets during the past 7 years, but for stocks in 2006, has been able to supply this return consistently without undue risk.

- **SELLERS OF ASSETS IN THE PPP MARKET**

➢ Cities and states happen to own existing assets that fit the characteristics of an investment that investors want: toll road parking garages, lotteries, harbors, airports, etc., that have steady and calculable cash flows.

The PPP market allows the seller to retain control of the assets and pocket a large up-front "rent" payment in ret for transferring, under a long-term lease, the entity's profit and loss risk to a private operator which, in turn, can operate the asset far more efficiently. The asset stays in place with no interruption for the users, and is intende provide to the investor with the benefits of a traditional equity return for the risk of a bond.

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The nominal amount of money raised to date by infrastructure funds is considerable; the leveraged capacity is immense.

Fund	Equity Amount Raised	Total Investment Capacity*
Goldman Sachs Infrastructure Fund	US$ 6.5 Billion	US$ 26.0 Billion
Morgan Stanley Infrastructure Fund	US$ 1.0	US$ 4.0
GE & Credit Suisse First Boston	US$ 1.0	US$ 4.0
Carlyle Infrastructure Group	US$ 1.0	US$ 4.0
JP Morgan Infrastructure Fund	US$ .750	US$ 3.0
Unnamed Funds	US$ 114.75	US$ 459.0
	US$ 125 Billion	US$ 500 Billion

** Assuming leverage of 75%*

While the funds' sponsors' equity is assumed to be approximately 5%-10% of the total equity amount raised, the balance is coming primarily from pension funds in Australia, Canada, and more recently, the United States.

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Despite the amount of money that's been raised and its immense financing capacity, the amount of assets bought by the funds in the US so far totals less than US$8 billion.

- **Chicago Downtown Parking System (CDPS) – Total of US$563 million paid to the City of Chicago by Morgan Stanley (Closed December 2006)**

  CDPS is one of the largest underground car parking systems in North America with **over 9,100 spaces**. The City of Chicago soug private sector operator to lease these parking garages under Millennium and Grant Parks under **a concession of 99 years**.

- **Indiana Toll Road (ITR) – Total of US$3.8 billion paid to the State of Indiana by Cintra-Macquarie (Closed June 2006)**

  ITR is the largest monetization of an infrastructure asset to date in North America. The State of Indiana sought a private sector operator for the 274-mile Indiana Tollway under **a concession of 75 years**.

- **Pocahontas Parkway – Total of US$611 million paid to the Pocahontas Parkway Association by Transur (Closed June 2006)**

  The project is located in Greater Richmond, Virginia and involves a **new 8.8 mile toll facility four-lane road** operating under **a 99 year lease**.

- **Chicago Skyway – Total of US$1.83 billion paid to the City of Chicago by Cintra-Macquarie (Closed Januar 2005)**

  The long term lease of this 45-year old 7.8-mile toll highway marked the **first privatisation/monetization** of a tollroad facility in the US. The City of Chicago sought a private sector operator to lease the Skyway toll bridge under **a concession of 99 years**.

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Characteristics of Infrastructure Assets Suitable for Monetization:

- An asset associated with, or required for the **provision of an essential service** – be it **public** or **otherwise**. **Monopolistic** assets will garner the highest possible price paid to the seller.
- **Stand alone** asset/operation with clear physical and service boundaries to aid in defining operational responsibilities, risks and risk mitigation methods.
- Assets which have a **long term useful life** - usually with a remaining life of greater than 30 years.
- Assets which have the ability to be **operated** by the **private sector**.
- Assets with the potential for **growth**.
- Assets that **aren't used by a large segment** of the indigenous population.
- **Predictable**, steady **revenues** with a **substantial operation component** which provides the **opportunity for c efficiencies** to potential private investors.

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Types of Assets to Consider for Monetization:

- Transit Assets such as toll roads, bridges & tunnels (*The Chicago Skyway and the Indiana Tollway hav already been leased; Pennsylvania has announced the possible lease of its turnpike; New Jersey is considering a possible lease of its turnpike, among other assets as well.*)
- Parking Garages (*Chicago leased its 4-garage downtown parking system for $563 million.*)
- Airports (*Chicago has announced the possible lease of Midway International Airport.*)
- Lotteries (*Illinois and Indiana have announced possible leases.*)

- Convention Centers and Stadiums
- Harbors
- Hospitals
- Newly-Tolled Facilities
- Prisons (Existing)
- Real Estate Development/Train Stations
- Rights-of-Way
- Solid Waste Facilities
- Water/Wastewater Facilities
- Waterways and Ports

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Summary of RBS Infrastructure for the North American Market:

- **Market leading expertise in advisory, limited recourse infrastructure debt arranging, and specialist in PPP type transactions**
- **Substantial experience in the North American structured and infrastructure financing sectors**
- **A leading capital markets franchise**
- **Significant bank and bond underwriting capacity for infrastructure finance**
- **Substantial infrastructure finance resources on the ground in the US, London and Continental Europe**

USA	December 2006
TEACHERS' PENSION PLAN	
Orient Overseas Ports Acquisition	
USD 1,880,000,000	
Senior Secured Credit Facilities	
Mandated Lead Arranger and Bookrunner	
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USA	June 2006
Cintra	MACQUARIE
Indiana Toll Road Acquisition	
USD 4,063,341,497	
Senior Debt Facilities	
Joint Lead Arranger and Joint Bookrunner	
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USA	April 2006
CENTURY CAMPUS HOUSING	
Century Campus Housing	
USD 201, 200, 000	
Senior Debt Facilities	
Sole Lead Arranger and Bookrunner	
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Canada	Ju
S2S	
Sea to Sky Highway	
CAD$ 496,700,000	
Senior Secured Credit Facilities	
Mandated Lead Arranger and Bookrun	
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Here's how RBS can assist in the PPP process:

- **SELLER ADVISORY**

  The experience by RBS infrastructure professionals has been at the forefront of the PPP market in the United States. The head of North American Infrastructure at RBS, Dana Levenson, is the former Chief Financial Office of the City of Chicago where the PPP movement in the US started with the long term leases of the Chicago Skyway and its Downtown Chicago Parking System. Dana was integrally involved directing both transactions a was instrumental in making sure that the highest possible price was paid for both assets. He and his team can bring that same expertise to bear advising sellers as to ways that are critical not only to making the bid price as robust as possible, but that the process for sellers is entirely transparent from a political perspective.

or

- **INFRASTRUCTURE FINANCE**

  Long the strong suit of RBS in Europe and Asia, its expertise in assessing long-lived infrastructure assets has made the Bank one of the "first calls" by potential buyers of infrastructure assets around the world. Given the s of its balance sheet in excess of US$1 trillion, as well as its credit culture where infrastructure is a very comforta discipline, RBS is quite willing to take on balance sheet risk to finance the purchase of infrastructure assets. It also maintains a strong capability to place corporate debt, both High Grade and High Yield, in the capital marke as a permanent financing source.

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