

The Future: What's in Store for the Next Generation?

3rd Annual Texas Transportation Forum

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April 20 – 22, 2008

The Future - Financial Innovation? Where and How?



POSSIBLE STRUCTURES

- ◆ Non-for-profit enterprise
- ◆ Availability Payment
- ◆ Shadow Tolls
- ◆ Hybrid Revenue Structures
- ◆ Public/Private Sponsored Cos
- ◆ Leasing or Tax-Structures
- ◆ Pension Fund Structures

When to stay away from the 100% revenue based structures



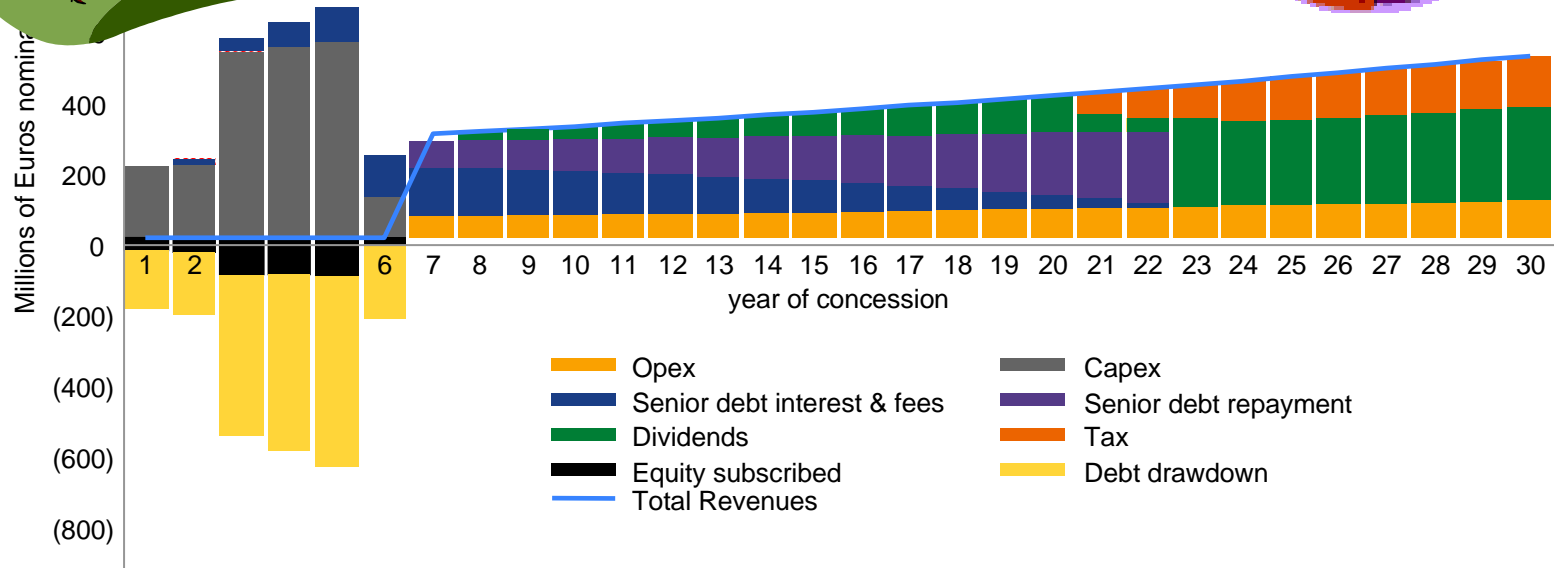
(sample)

- ◆ **POLITICS / POLICY**
- ◆ Needs or Crisis
- ◆ **AFFORDABILITY**
- ◆ Law & Regulation
- ◆ Viability
- ◆ Technical Challenges
- ◆ Environmental Issues
- ◆ Land & Permits
- ◆ **MARKET**

Risk Alignment

A typical PPP/concession cashflow analysis

Sample



- ◆ In structuring a project financing, sponsors will seek to optimize their capital structure and:
 - Take lifecycle approach to costs
 - Offer BEST VALUE for MONEY
 - Maximize leverage / optimize capital structure
 - Continuous review and monitoring for a project's performance
- ◆ Funders simply want to ensure repayment of their debt

Different models for funding infrastructure

	Public Finance Model	PPP / Concession
Management	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Rating	AA-BBB	Mostly BBB
Debt	100%	70-90%
Equity	None or possibly development cost/investment	10-30% optional capital structure
IRR/dividends	None	Target [10% – 20%]
Taxation	None	Limited tax holiday(s)
Depreciation	None	Yes – depends on asset base
Cost of Debt	4.5% – 5.5%	5.5% – 7.5%
Control of Tolls / User Fees	State/Public Enterprise	Private Sector / Joint

Governments and corporations have often different objectives in financing infrastructure projects ...

Private sector

Government objectives

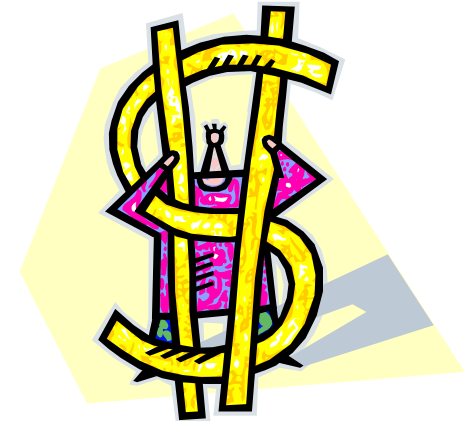
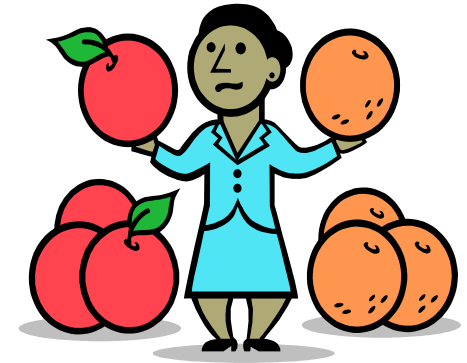
- ◆ Social and political justification
- ◆ Third party funding
- ◆ Value for money
- ◆ Balanced transfer of risk
- ◆ Compliance with legislation
- ◆ POLITICS?

Corporate objectives

- ◆ Economic justification
- ◆ Financeable project—debt repayment
- ◆ Commercial contracts (O&M; Construction; Design)
- ◆ Manageable risk
- ◆ Attractive return—appropriate equity IRR

Debt financiers and investors objectives

- ◆ Manageable risk profile
- ◆ Revenue model
- ◆ Government support
- ◆ Defined regulation (risks)
- ◆ Competition
- ◆ Security arrangements

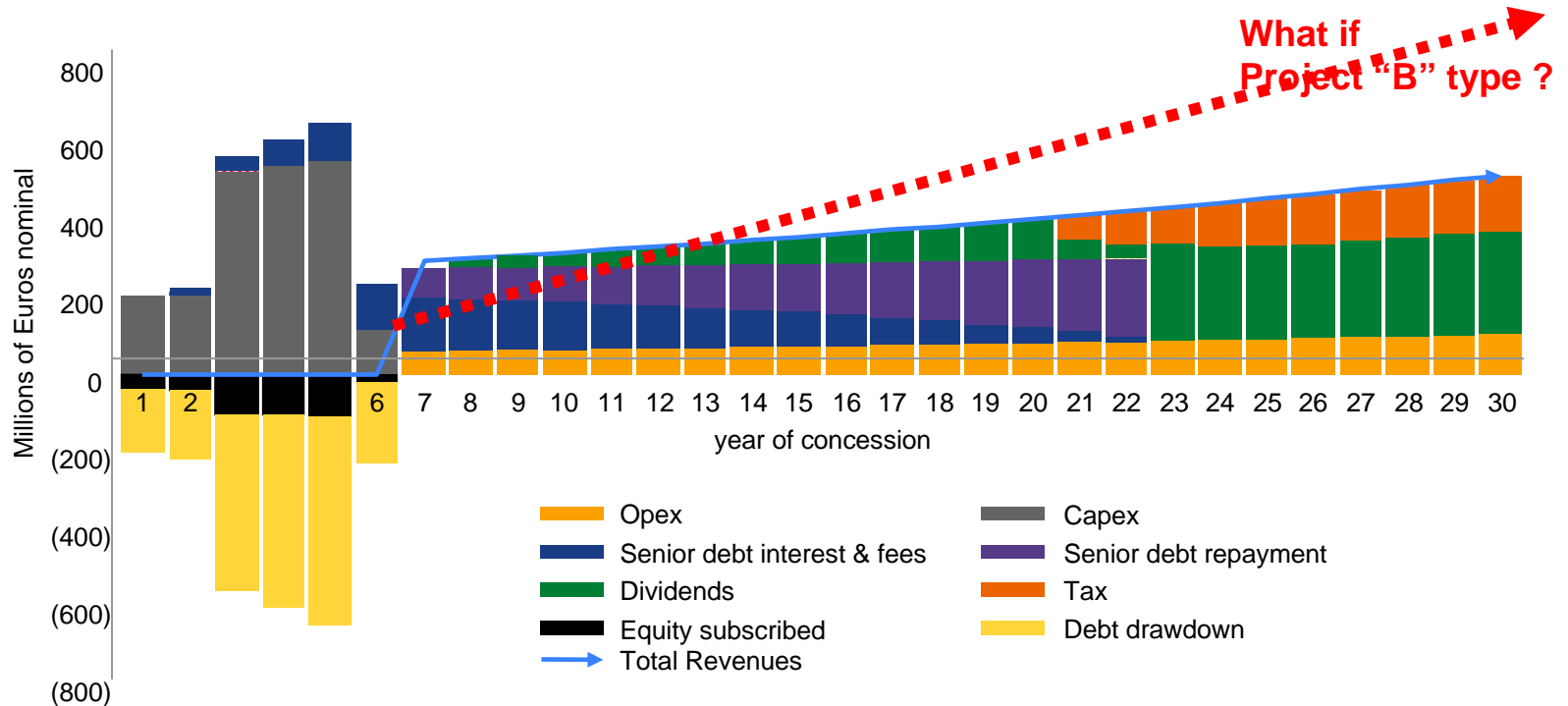


Governments and corporations have often different objectives in financing infrastructure projects ...



... that need to be reconciled to ensure the project's success

A typical PPP/concession cashflow structure – Illustrative



- ◆ In structuring a project financing, sponsors will seek to optimize their capital structure and:
 - Take lifecycle approach to costs
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Financial & Commercial Innovation via Optimal Alignment of Risks

	Public	Private	Shared	Structural/Comments
Key → Design	✓	✓	Depends	◆ Joint effort / timing of design
Key → Construction		✓	No	◆ Fixed price contract facilitates cost overrun
Key → Operation		✓	No	◆ Penalties against substandard performance
Maintenance	✓	✓	No	◆ Maintenance reserve / Equity returns post-funding of maintenance service
Land	✓		No	◆ DOT's job / Public sector
Permits	✓	✓	Yes	◆ Construction permits are the responsibility of the Contractor
Key → Revenue/ Traffic	?	✓	Key risk - Depends	◆ Key finance driver / Project viability / thorough analysis of traffic and revenue risk
Finance	?	✓	Depends	◆ Project type / Capital structure / reserves / viability

Financial Support Alternatives

Financial Support:

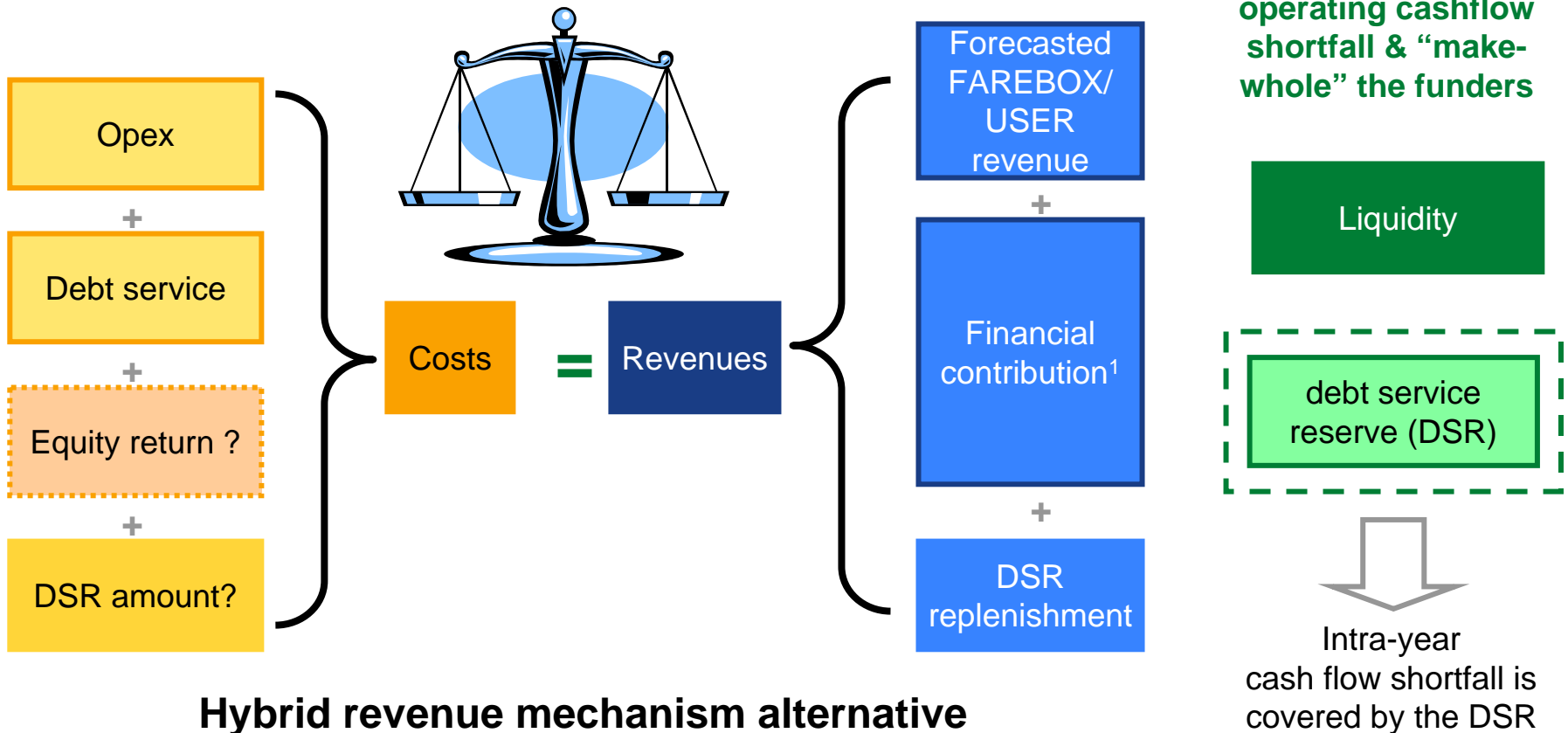
- **Government grant**
- **Government funding as loan**
- **Subsidy – “make whole”**
- **Minimum revenue guarantees**
- **Financial guarantees**

Considerations:

- **No risk sharing**
- **Depends on performance by operator & manager**
- **Uncertainty (level of exposure)**
- **Unfavorable risk transfer?**
- **Requires complex arrangements and risk transfer**

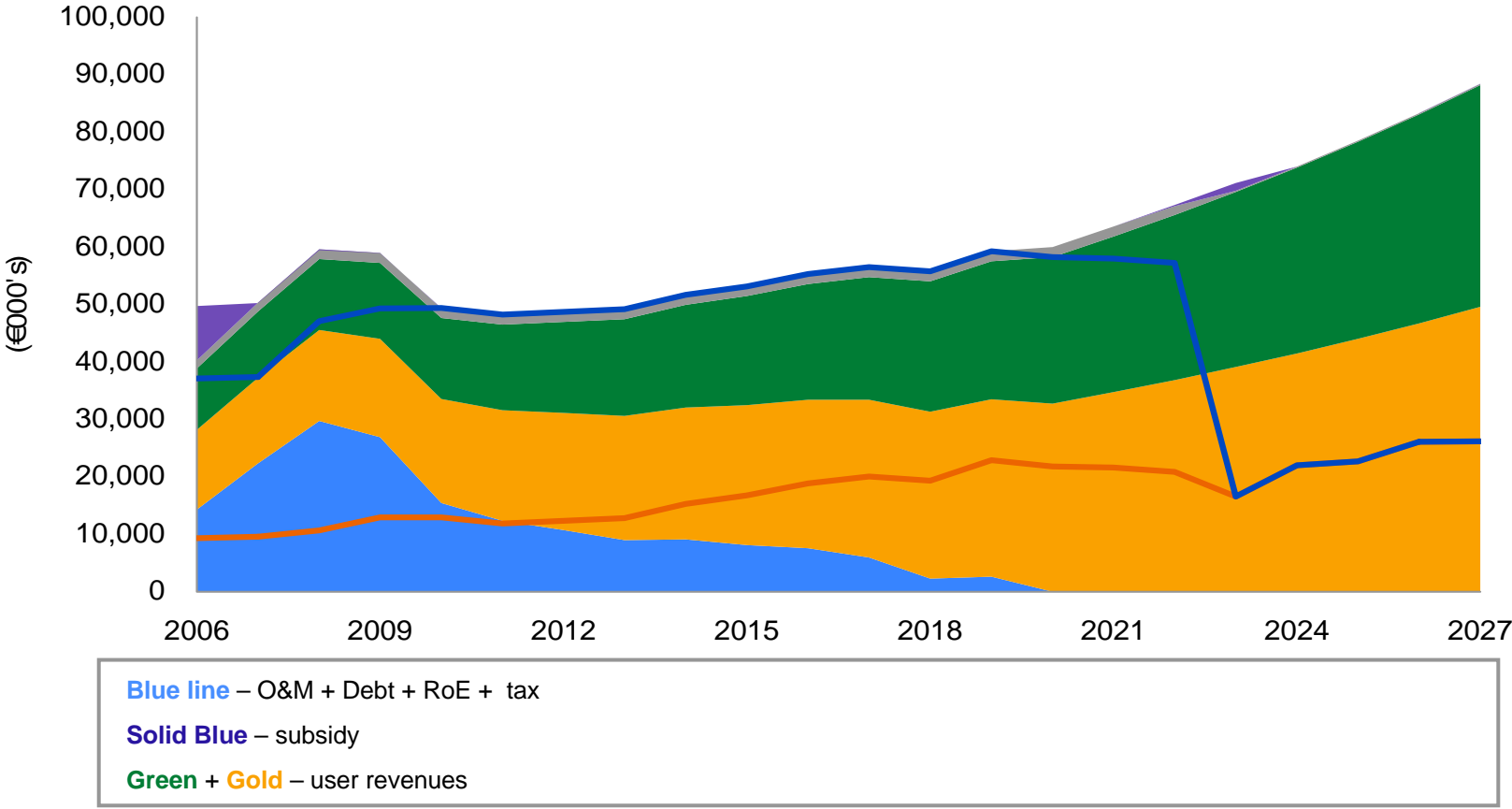
Potential Funding Solution:

Hybrid Revenue Mechanism => Financial Equilibrium



**Hybrid revenue mechanism alternative
– hybrid farebox & availability payment**

Project X - Case Study: Revenues and expenses breakdown

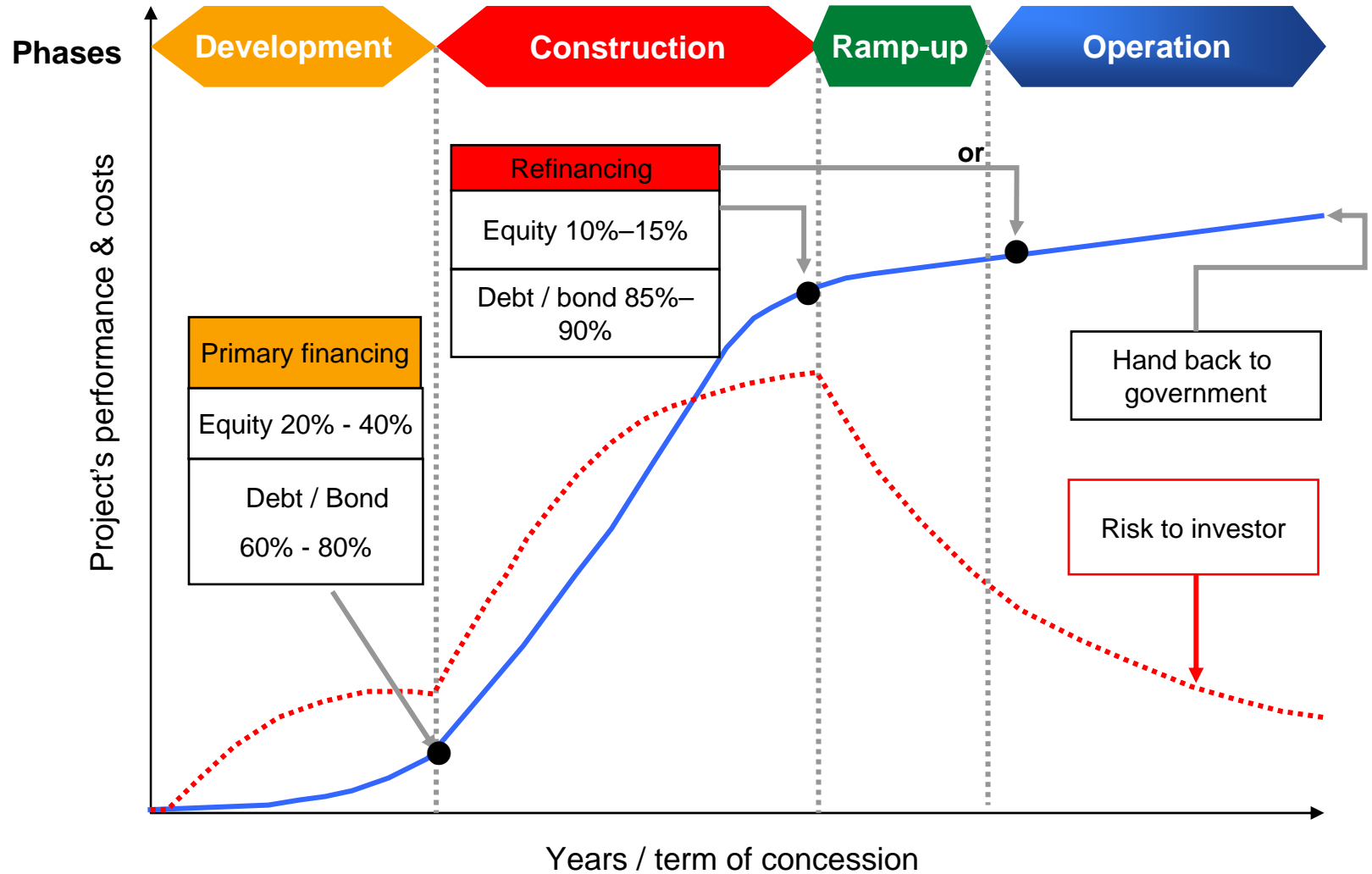


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John Lipman, 5/24/2006

Greenfield Project Stages



Is this where we want to be?

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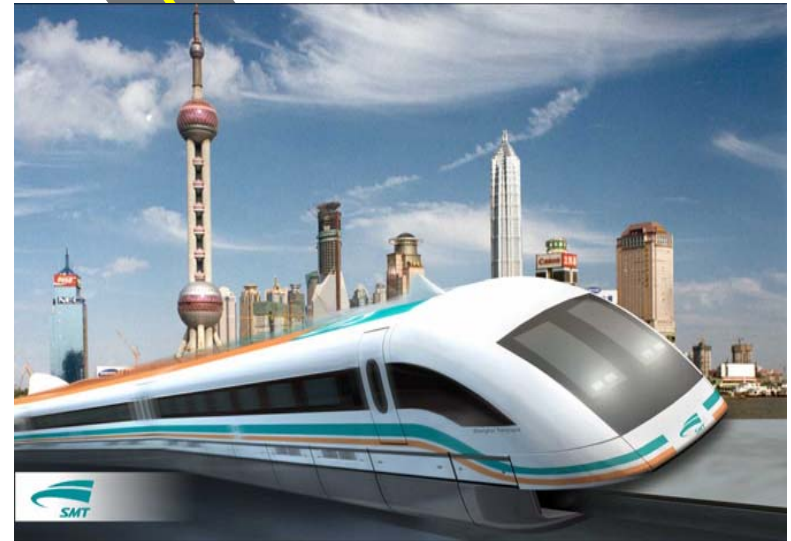


(1) Georgia Department of Transportation

**ACCEPT THE
LIMITATIONS &
CHALLENGES
OF TODAY'S
TRANSPORT
MODES**

OR

**START
BUILDING
TOMORROW'S
TRANSPORT
SYSTEM**



THE END

“A leader takes people where they want to go. A great leader takes people where they don't necessarily want to go, but ought to be.” ROSALYNN CARTER

“Change is the law of life. And those who look only to the past or present are certain to miss the future” JOHN F. KENNEDY