

NORTH CAROLINA

Turnpike Authority

The Mid-Currituck Bridge Project

Presentation to the
Joint Legislative Transportation Oversight Committee

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October 5, 2012

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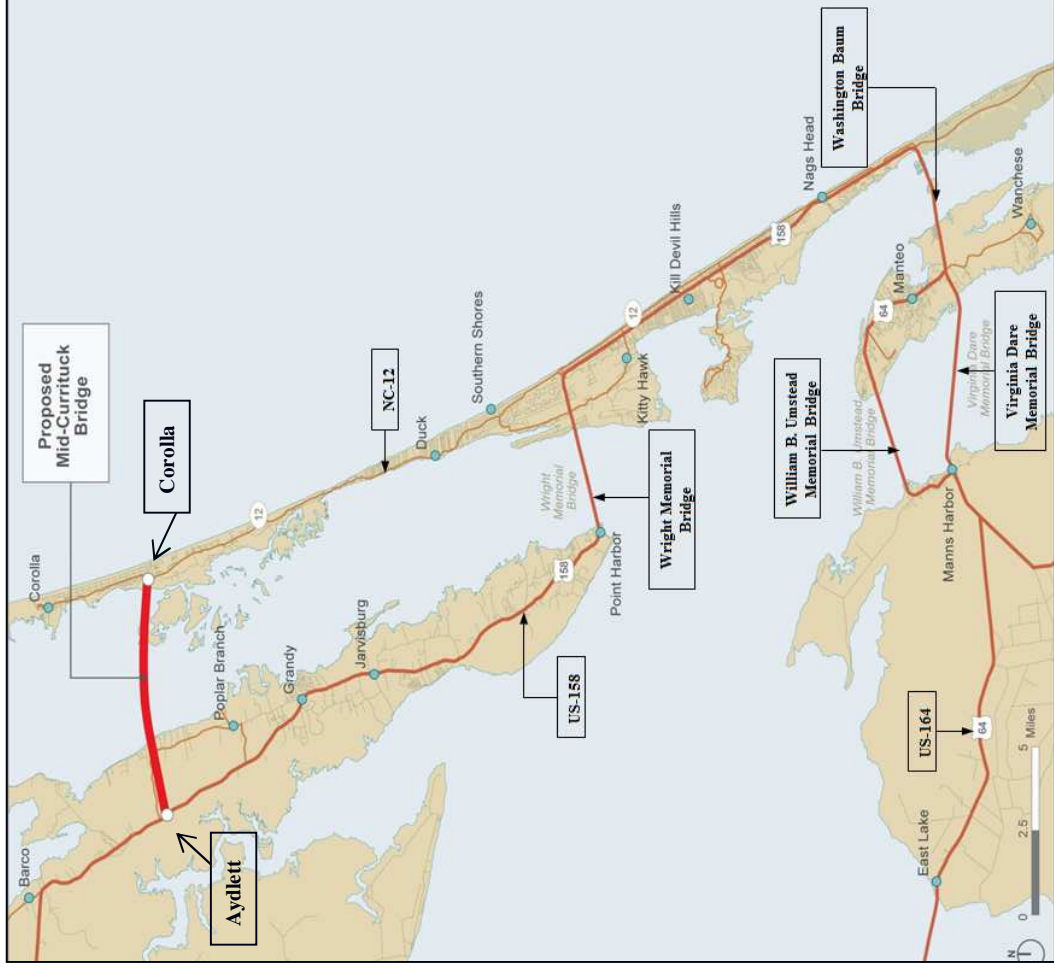
The Project

Background: MCB Project

1975	NCDOT Board endorsed MCB – studies began
1995	NC Bridge Authority created to build MCB
2005	NC Turnpike Authority ordered by NCGA to build project as P3
2008	Following competitive procurement, pre-development agreement (PDA) signed with Currituck Development Group (CDG)
2008-2012	NCGA approved annual gap funding

Mid-Currituck Bridge Project

- **Size**
 - 7 miles long
 - 2-lane bridge
 - Toll plaza on US 158
 - Roundabout at NC 12
- **Location:**
 - Connects Aydlett to Corolla on Outer Banks
- **Population**
 - Aydlett: Permanent 1,478
Seasonal 1,714
 - Corolla: Permanent 1,707
Seasonal 25,964
- **Includes improvements**
 - 1.75 miles on US 158
 - 2.1 miles on NC 12



Mainland US 158 Interchange

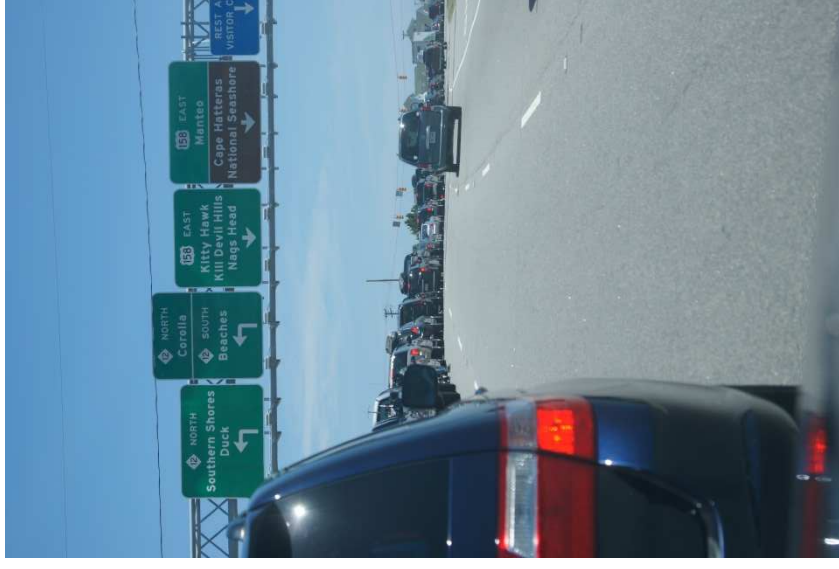


Project Costs

- **Capital costs - \$550 M**
 - Construction
 - Right of way
 - Inspections and testing
 - Mitigation
- **Additional costs - \$102 M**
 - Construction oversight and insurance
 - Capitalized interest
 - Debt service reserves, financing costs
- **Annual gap fund appropriation**
 - \$28 M – likely less

Project Benefits

- Congestion relief - saves 37 miles and 2+ hours during peak season
- Vastly improves hurricane evacuation time
- Ensures tourism values and enhances mobility in one of State's key economic areas



Strong Local Support

The following have recorded resolutions of support for construction of MCB:

Counties:

- Camden County Board of Commissioners
- Currituck County Board of Commissioners
- Dare County Board of Commissioners

Towns:

- Town of Duck
- Town of Kitty Hawk
- Town of Kill Devil Hills
- Town of Manteo
- Town of Nags Head
- Town of Southern Shores

Business and community associations:

- Albemarle Hospital Authority Board of Commissioners
- American Legion
- Build the Bridge
- Currituck Club Property Owners Association

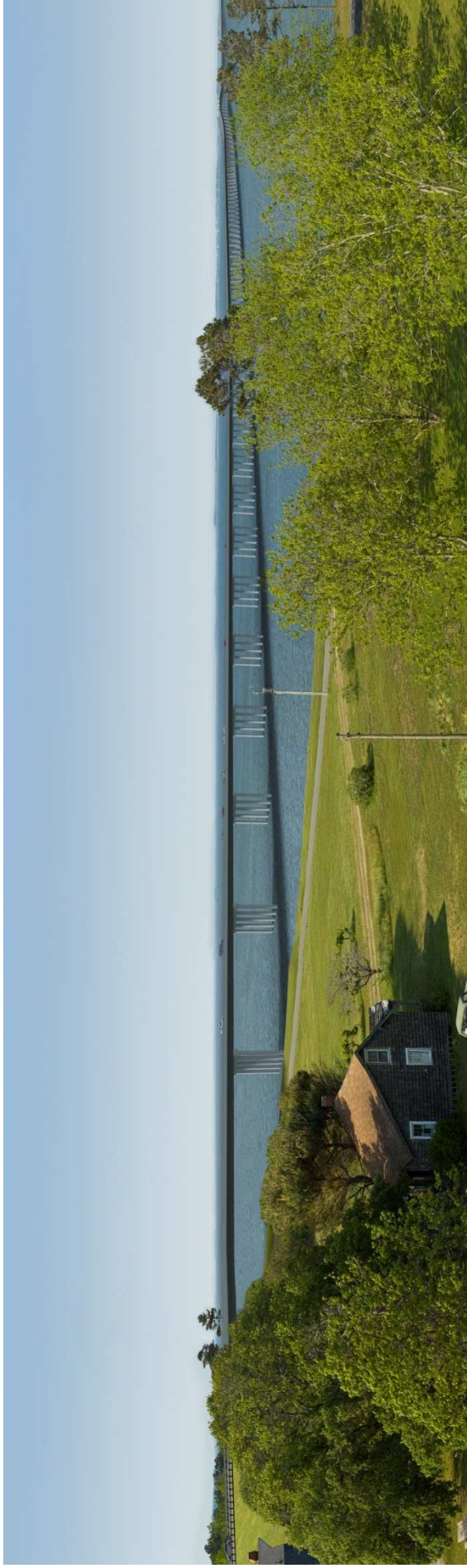


Strong Local Support (cont'd)

Business and Community Associations (cont'd)

- Currituck County Chamber of Commerce
- Currituck Economic Development Board
- Dare County Tourism Board
- Duck Civic Association
- Northeastern North Carolina Regional Economic Development Commission
- Outer Banks Association of Realtors, Inc.
- Outer Banks Chamber of Commerce
- Outer Banks Home Builders Association
- Outer Banks Hotel/Motel Association
- Outer Banks Post and Military Officers Association of America (First Flight) Chapter
- Southern Albemarle Association
- Southern Shores Civic Association

Mid-Currituck Bridge Rendering



Public Private Partnerships

What Is a Transportation Public Private Partnership (P3)?

- Contractual arrangement between State and private entity (“concession agreement”) to design, build, finance, maintain *and/or* operate public transportation project
- Private partner usually...
 - Assumes substantial financial, technical, construction and/or operational risks
 - Invests equity
 - State allows partner to collect and retain tolls as compensation for investment and risk

What is a P3?

Are P3s CHEAPER than traditional financing?

NOT NECESSARILY!

What is a P3?

Are P3s FASTER delivery system than traditional municipal financing?

NOT NECESSARILY!

What is a P3?

Are P3s **BETTER** overall delivery system than traditional municipal financing?

NOT NECESSARILY!

Then Why Use a P3?

- Certain projects benefit from transfer of long-term risks to private sector
 - Seasonal revenue projects
 - HOT lanes
 - Long-term asset management projects
 - Expensive mega-projects (\$500 M+)
- State may be able to leverage developer's equity with lower risk, higher ratings, and lower interest costs
- State can deliver projects years earlier than otherwise possible
- Developer incented to use innovative design, construction, and financing to reduce costs

The MCB P3 Process

MCB P3 Process

Why We Used a PDA

- **Timing:** In 2007, MCB was at stage of development that offered opportunities for mutual benefit from joint environmental, preliminary engineering, and design work
- **Developer offered expertise and experience in all areas**
 - **Environmental:** Project requires construction in environmentally sensitive areas
 - **Engineering:** Project could benefit from innovative, experienced private sector skills in design and construction to reduce costs
- **Working together, realized significant cost savings**
- ***Valuable learning experience for State***

MCB P3 Process

How Does PDA Benefit Project Development?

Joint activities:

- **Traffic & Revenue studies**
- **Design and cost estimates**
 - Design work belongs to State and is transferable
- **Financial evaluation**

MCB P3 Process

Selection of PDA Partner

- **Competitive procurement issued in 2008**
 - 4 teams submitted qualifications
 - 3 teams shortlisted and submitted proposals
 - Selection criteria based on:
 - Qualifications
 - Project approach
 - Understanding of risk profile
- **Advantage to selected partner: 1st right of refusal to negotiate concession agreement**



SKANSKA

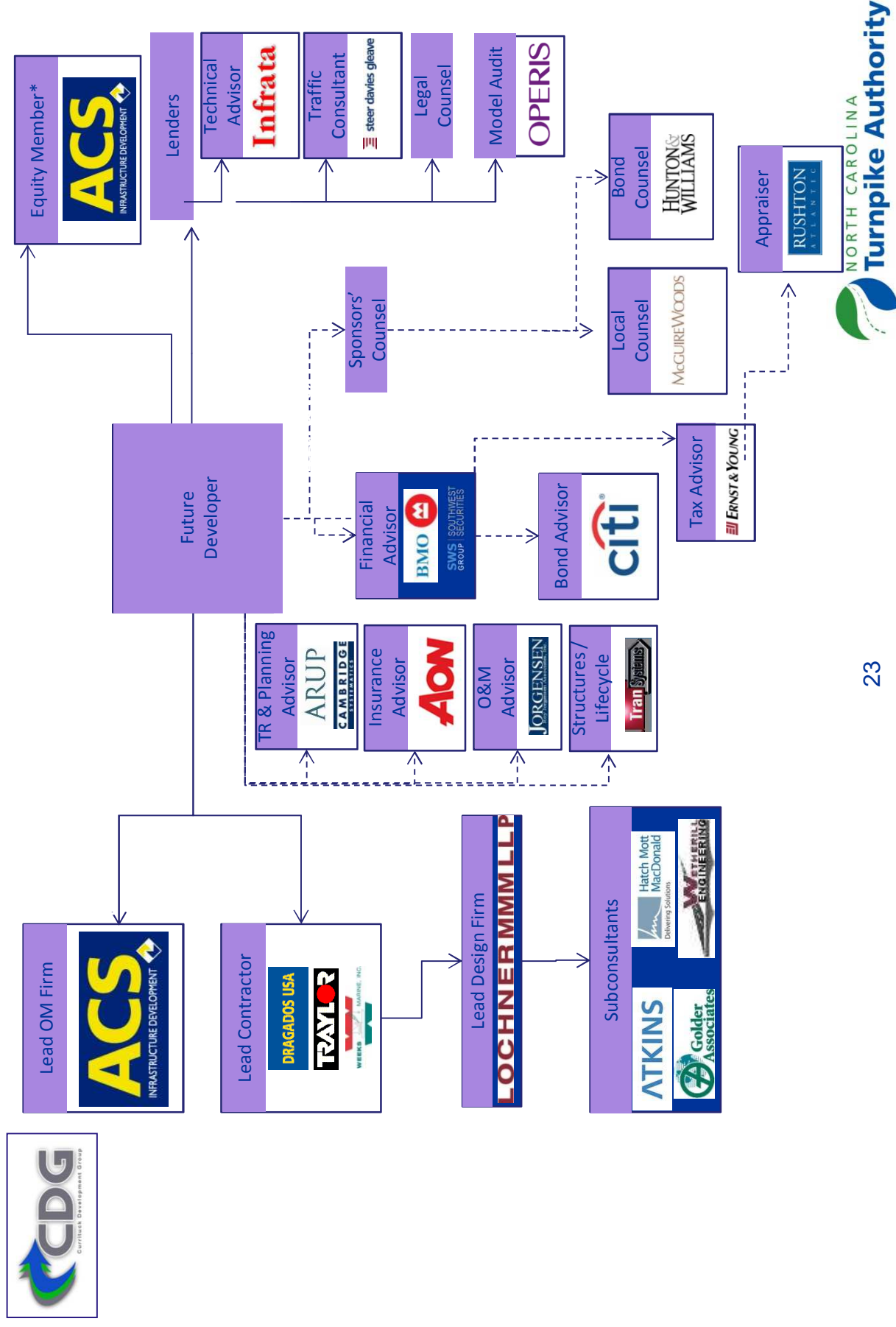


MCB P3 Process

PDA Partner Chosen

- **Selected Currituck Development Group LLC (CDG)**
 - Part of ACS Dragados Group
 - 40+ years experience
 - One of world's largest bridge builders
 - Holds P3 contracts in 50 countries
 - Completed 80+ successful concession agreements
- **Team comprised of:**
 - Dragados USA, Inc., Weeks Marine, Inc., and Traylor Brothers, Inc.
 - Lead designer: Lochner MMM LLP
 - North Carolina subcontractors:
 - Wetherill Engineering
 - McKim & Creed
 - Alpha and Omega Group
 - National subcontractors
 - Hatch Mott MacDonald
 - Golder Associates
 - Moffatt and Nichol
 - Gershman-Brickner&Bratton
 - Atkins North America Corporation

Currituck Development Group



MCB P3 Process

Due Diligence Under PDA Contracts

- In Spring 2012, completed evaluation of P3 versus municipal financing
 - Project slightly less expensive as municipal
 - Gap of \$20M-\$23M compared to \$23M-\$26M
 - However, developer assumes significant project risk
- Due diligence assessments completed:

Area	NCTA	CDG
Traffic & Revenue Studies	Stantec	Steer, Davies, Gleeve
Technical	HNTB	Partner and Contractors
Legal	Nossaman	Nixon Peabody
Financial	PFM, Inc.	Bank of Montreal

MCB P3 Process: Remaining Negotiations of Concession Agreement

NCTA Negotiating Teams

Management Team: David Joyner, Mark Foster, Spencer Franklin

Environmental	Jennifer Harris, Turnpike Authority Tracy Roberts, HNTB Phil Watts, PB Spencer Franklin, HNTB
Engineering and Design	Victor Barbour, NCDOT Roger Rochelle, NCDOT Steve DeWitt, Turnpike Authority (formerly) Shannon Sweitzer, Turnpike Authority (formerly) Donna Keener, HNTB HNTB Engineering
Finance	Mark Foster, NCDOT Laurie Smith, NCDOT Katherine White, NCDOT Wally McBride, Hunton & Williams David Miller, Public Financial Management, Inc. Spencer Franklin, HNTB
Traffic & Revenue	Spencer Franklin, HNTB Arup Stantec Steer, Davies, Gleeve Matt Scott Consulting
Legal	Beth McKay, NC Attorney General's Office Ebony Pittman, NC Attorney General's Office Katherine White, NCDOT Simon Santiago, Nossaman Law Firm Brian Pasternik, Nossaman Law Firm Wally McBride, Hunton & Williams
Toll Operations	Barry Mickle, Turnpike Authority Andy Lelewski, Turnpike Authority Jeff O'Neil, AECOM Anna Salvagin, AECOM Dave Burgess, Atkins

MCB P3 Process

Contract Negotiation Elements

- State and CDG are negotiating concession agreement for 50-year term
 - Carefully crafted, complex, long-term business deal
 - Requires great deal of time and resources to negotiate detailed terms and conditions
- State provides appropriations debt (gap funding - 60% of financing)
- Developer provides toll revenue debt
- Note: State always retains ownership of facility

MCB P3 Process

What is Commercial Close?

- Commercial close means State and CDG have reached agreement on concession terms and conditions and financing components for project
- Concession agreement defines:
 - Terms and conditions for designing, constructing, operating, maintaining toll facility
 - Plan of finance
 - Contractual remedies, termination rights, obligations
 - Technical and performance requirements, consequences
 - Risk allocations and responsibilities of each party
 - Process and requirements for financial close

MCB P3 Process

What is Commercial Close? (cont'd)

- Agreement does not obligate expenditure of additional funds
 - Major funds obligated at financial close
- Agreement defines distribution of costs, work product, and liabilities if financial close does not occur - \$10 M maximum liability
- Target dates
 - October 2012 - Sign conditional concession agreement
 - August 2013 - Effective date of concession agreement

MCB P3 Process

Where Are We Now?

Working toward “conditional” commercial close

- Critical step needed to determine financial feasibility of project
- Conditions to be satisfied before commercial close is effective:
 - Record of Decision (ROD)
 - Indicative investment grade rating (for developer)
 - Completion of ROD challenges
 - Legislative approval:
 - Assignability of toll revenues
 - Set and collect tolls
 - Allow use of toll revenue for equity repayment
 - Allow multiple forms of security

Summary of Legislative Action Needed

Assignability of MCB P3 Contract

- Current law prohibits developer from assigning contractual rights as collateral security to lender for loan
- Reasons for change:
 - Private financing is non-recourse to State; thus MCB P3 contract is the only collateral to secure financing from lender
 - Lenders will need “step-in rights” under the MCB P3 contract to cure any performance issues and protect its investment
 - The assignment does not create additional State debt

Summary of Legislative Action Needed

Performance and Payment Security

- Current law only allows performance and payment security to be in form of bond for sole protection of State
- Reasons for change:
 - Multiple forms of security must be allowed (bonds, letters of credit, parent guaranties) under the MCB P3 contract to address construction, finance, and other risks for duration of concession agreement
 - Performance and payment security must protect lenders to enable them to exercise their “step-in rights”

Summary of Legislative Action Needed

Tolling Rights

- Under current law, NCTA has power to fix, revise, charge and collect tolls and fees
- Reasons for change:
 - Clarify that NCTA's existing tolling rights can be exercised by developer under MCB P3 contract
 - Under MCB P3 contract, developer will have traffic and revenue risk and therefore must have the same ability to collect and enforce tolls as NCTA

Summary of Legislative Action Needed

Use of Toll Revenues

- Current law limits use of toll revenues to paying NCTA administration costs; project development, right-of-way acquisition, construction, operation, and maintenance costs; and debt service on revenue bonds or related purposes
- Reasons for change:
 - Because private financing is non-recourse to State, developer relies on ability to use toll revenues to meet its obligations to third-party lenders and investors
 - Developer must have the ability to re-pay its lenders and to pay return on equity to its investors from toll revenues

MCB P3 Process

*Where Are We Now?*_(cont'd)

Negotiating final terms and conditions for commercial close which include:

- Obligations and risk transfers
- Technical requirements
 - Construction
 - Operations and maintenance
 - Hand-back requirements
- Toll Services Agreement
- Termination provisions
- Open-book cost negotiations
 - Construction and toll operations costs
 - Facility operations and maintenance costs
 - Major repair and rehabilitation costs
- Permit application work
- Financing terms and conditions
 - Obligations to reach financial close
 - Limits of State liability
 - Refinancing
 - Security
 - Revenue sharing

MCB P3 Process

Financial Close

- Financial close requires:
 - Completion of commercial close conditions
 - Final plan of finance
 - Final investment-grade credit rating
 - Completion of litigation issues
 - Approvals
 - Local Government Commission
 - Council of State
 - Turnpike Authority Board
- Financial close includes:
 - Sale of appropriation and revenue bonds
 - Delivery of private equity
 - Awarding of construction contract
- Target date: December 2013
 - If lawsuit filed, project could be delayed 18 months
 - Risks include interest rate increases and construction cost inflation

Exposure Remaining

Financial obligations between now and financial close

Amount owed for work under PDA	\$ 3.7 M
Future work	
Permit applications	2.5 M
Other work products under negotiation	<u>3.8 M</u>
Total	\$ 10.0 M

Project Financing

Financing: Unresolved Costs and Other Key Factors

- Interest rates, financial market conditions
- Inflation in case of litigation delays
- TIFIA loan: letter of interest submitted
- Final design components
- Construction methodologies
- Final project scope
- Value engineering
- Final construction cost: Parties remain apart in open-book negotiations
- O&M costs: Parties remain apart in open-book negotiations

Financing: Traffic & Revenue Study

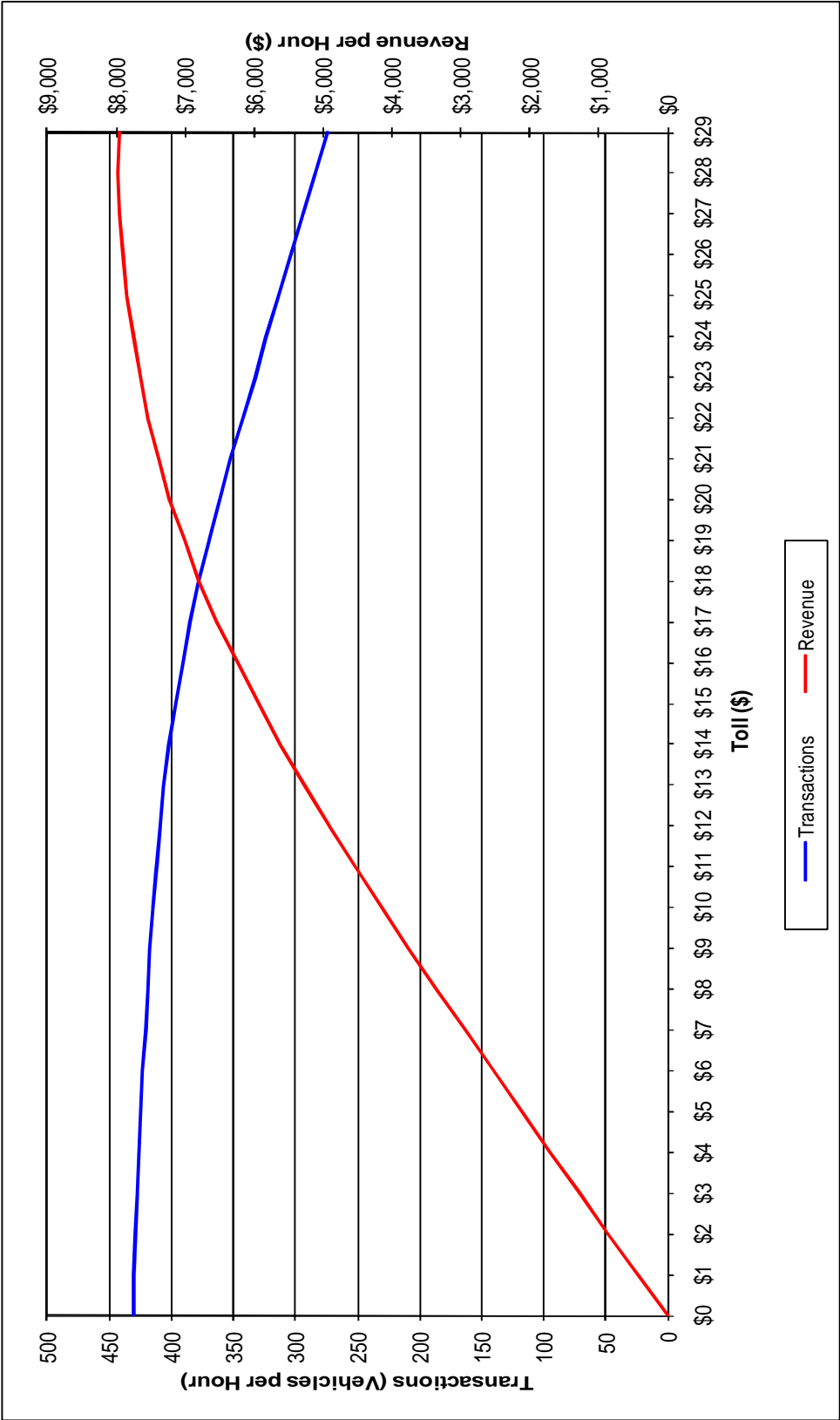
- Used by rating agencies to determine investment grade
 - Subsequently interest rate and bonding capacity
- Arup conducted investment-grade Traffic & Revenue study
- Stantec reviewed Arup study for NCTA
- Steer, Davies, Gleeve prepared due diligence study of Arup study

Financing: Traffic & Revenue Study ^(cont'd)

- **Elements of Traffic & Revenue study**
 - Regional transportation model assessment
 - Origin and destination surveys
 - Value-of-time survey
 - Traffic trend survey
 - Willingness-to-pay survey
 - Socioeconomic and land use surveys
 - Trip generation process
 - Traffic diversion analysis
 - Revenue leakage
 - Competing facilities
 - Future transportation improvements
 - Toll collection structure
 - Estimated traffic volumes
 - Ramp-up estimates
 - Estimated annual transactions and revenue

Financing: Traffic & Revenue Toll Optimization Graph

Toll Rate Sensitivities

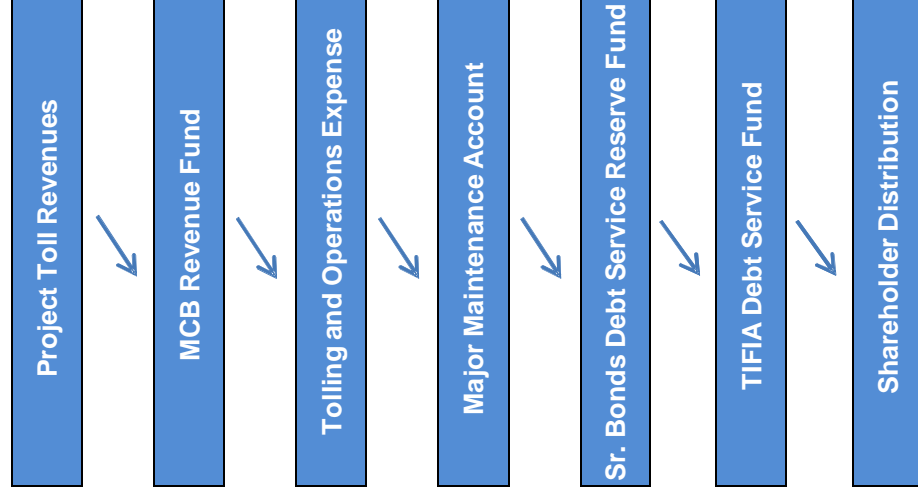


Financing: Instruments

- **Appropriation Bonds - \$464 M**
 - Repaid with annual State Appropriation (gap) funds by NCTA
 - 30-year maturity
 - Average 60 bps interest rate spread to MMD AAA rating
 - Today's rate: 3.55%
- **Toll Revenue Bonds - \$132 M**
 - Repaid from toll revenues
 - CDG has sole liability
 - Could be Private Activity Bonds (PABs), TIFIA loan, or private bank debt
 - 30-year maturity
 - 300 bps flat spread to MMD AAA, better if TIFIA
 - Today's rate: PABs: 5.95%
TIFIA: 2.99%
- **Equity - \$45 M**
 - CDG upfront investment of approximately \$45 M
 - Post-tax return on investment is 14%

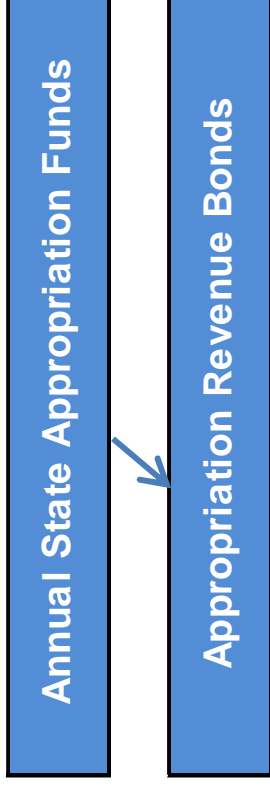
Financing: Flow of Funds for CDG and Toll Revenues

Preliminary Mid-Currituck Bridge Flow of Funds*



Financing: Flow of Funds for Turnpike Authority

Preliminary Mid-Currituck Flow of Funds



Financing: TIFIA

- **Credit assistance program through USDOT**
 - Provides low-cost loans (current interest rate of 2.99% for 35 years versus appropriation bond rate of 3.55%)
 - Borrower may be developer
 - Requires dedicated revenue repayment source (i.e., tolls)
- **Used successfully on Triangle Expressway**
- **TIFIA loan**
 - Provides significant improvement to plan of finance over PABs at 6%
 - Could lower gap fund requirement by +/- \$3 M

Financing: TIFIA (cont'd)

- Required letter of interest submitted to USDOT on August 12, 2012
- Response received September 25, 2012
 - USDOT deferring consideration of loan request due to:
 - Readiness of project (need to move project closer to financial close and permit issuance)
 - Limited rural funding available this fiscal year – increases next year
 - MCB project remains under consideration for loan
 - USDOT advises maintaining TIFIA loan option in MCB plan of finance

Financing: Preliminary Plan of Finance

Sources (\$M)	Non-TIFIA Scenario	TIFIA Scenario
Toll Revenue Bonds	132	0
Equity	45	48
Interest Income	10	8
Appropriation Bonds	464M	410M
(Annual gap fund)	(26.1M)	(22.2M)
TIFIA	\$0	144
Total Sources:	651	611

Uses (\$M)		
Construction	480	480
Tolling Capex	12	12
ROW Cost	57	57
Opex	1	1
SPV and Management Costs	44	44
Interest	35	0
Financing Fees	7	5
DSRA	7	5
Prefunded Interest	9	6
Total Uses:	651	611

Financing: Gap Funding

- **Gap funding requirement remains fluid**
 - Ranges from \$20M - 23M (public sector case) to \$23M - \$26M (P3 case)
- **Gap funding term: 30 years (not 50 years which is concession term)**
- **Gap funds support NCTA-issued Appropriation Revenue bonds**
 - Lower gap funding level means less State support for project
- **Goals of on-going open-book negotiations**
 - Minimize gap funds required
 - Maintain environmentally sound and financially feasible project

Financing: CDG Equity

- CDG makes equity contribution based on negotiated internal rate of return for risks assumed
- Assumed rate at this time: 14%
 - Subject to further negotiation
- Multiple factors could result in lower equity contribution
 - Lower construction cost and lower interest rates
 - More costs could be debt funded
- In addition, CDG expected to incur over \$158 M in expenses after appropriations bonds are paid

What Happens if CDG Defaults?

- State continues to own asset
- CDG loses equity
- Lenders step in to cure – most likely refinance debt, replace partner
- Under complete default, State has right to assume debt (at reduced amount, estimated in today's market at 80 cents on dollar)

Risk Transfer

Toll Revenue Risk

Key Components

- **Base case plan of finance includes no profit for State**
 - **CDG receives negotiated return on equity investment**
- **Toll revenues are dedicated to pay debt, operating costs, and maintenance**
- **CDG accepts 100% of toll revenue risk**
- **Upside revenue sharing under negotiation**
 - **Occurs only if project outperforms base case projections**
 - **Typically occurs years downstream if at all**
 - **Must be used to pay State debt or finance bridge improvements**

Mid-Currituck Risk Sharing

FINANCIAL RISKS

	Partner	State
Revenue risk	✓	
Financial execution	✓	✓
Financing market condition	✓	✓
Operating performance/cost for 50 years	✓	
Construction cost/completion	✓	
Interest rates	✓	✓

Mid-Currituck Risk Sharing

DESIGN AND CONSTRUCTION RISKS (1 of 3)

	Partner	State
Compliance with environmental requirements	✓	
Design/construction/O&M integration and design review	✓	
Definition of engineering solution and design costs	✓	
Schedule management	✓	
Change in material prices / escalation risk / insurance premium costs	✓	
Deviation in quantities	✓	
Failure to adhere to permit requirements	✓	✓

Mid-Currituck Risk Sharing

DESIGN AND CONSTRUCTION RISKS (2 of 3)

	Partner	State
Obtain major environmental permits as part of environmental approval of project		✓
Completion of major environmental permits applications	✓	
Geotechnical risk	✓	
Preexisting hazardous materials		✓
Cost associated with any kind of spill by project equipment during the construction of the project	✓	

Mid-Currituck Risk Sharing

DESIGN AND CONSTRUCTION RISKS (3 of 3)

	Partner	State
Right of Way		✓
Utility relocation	✓	
Unjustified delay by utility owners		✓
Public and worker safety	✓	
Delays due to environmental litigation	✓	✓
Force Majeure	✓	✓

Mid-Currituck Risk Sharing

OPERATION AND MAINTENANCE RISKS (1 of 2)

	Partner	State
Escalation	✓	
O&M fixed costs and performance for 50 years	✓	
Major maintenance fixed costs and performance for 50 years	✓	
Changes in law and technology enhancements	✓	✓
Assignment of resources	✓	
Risk of defective performance	✓	

Mid-Currituck Risk Sharing

OPERATION AND MAINTENANCE RISKS (2 of 2)

	Partner	State
Hand-back risk	✓	
Revenue impact facilities	✓	✓
Interface with Turnpike Authority toll operations services	✓	✓
Force Majeure	✓	✓

Timeline

Mid-Currituck Bridge Schedule

Steps to Commercial Close

Finalize tolling services and concession
Finalize concession agreement terms and conditions
Brief JLTOC, Governor's Office, Treasurer's Office
Complete legal and technical due diligence
Sign conditional commercial close agreement
Receive Record of Decision
Receive preliminary credit rating
Close of litigation window
Approval of required P3 legislation
Receive permits

Oct 2012
Oct 2012
Oct 2012
Oct 2012
Oct 2012
Oct 2012
Dec 2012
Apr 2013
Jul 2013
Aug 2013

Steps to Financial Close

Complete commercial close conditions
Receive final investment-grade ratings
Obtain approvals (LGC,COS, NCTA Board)
Financial close

Oct 2013
Nov-Dec 2013
Dec 2013
Dec 2013

Construction

Begin construction
Open to traffic

Jan 2014
2018

How Will Litigation Affect Project?

- Could delay project up to 18 months
- Will not go to financial close until litigation is resolved
- Financial impacts and risks
 - Construction cost and interest rate increases will impact project cost
 - These risks assumed by State
 - Parties will determine financial feasibility prior to financial close based on prevailing conditions

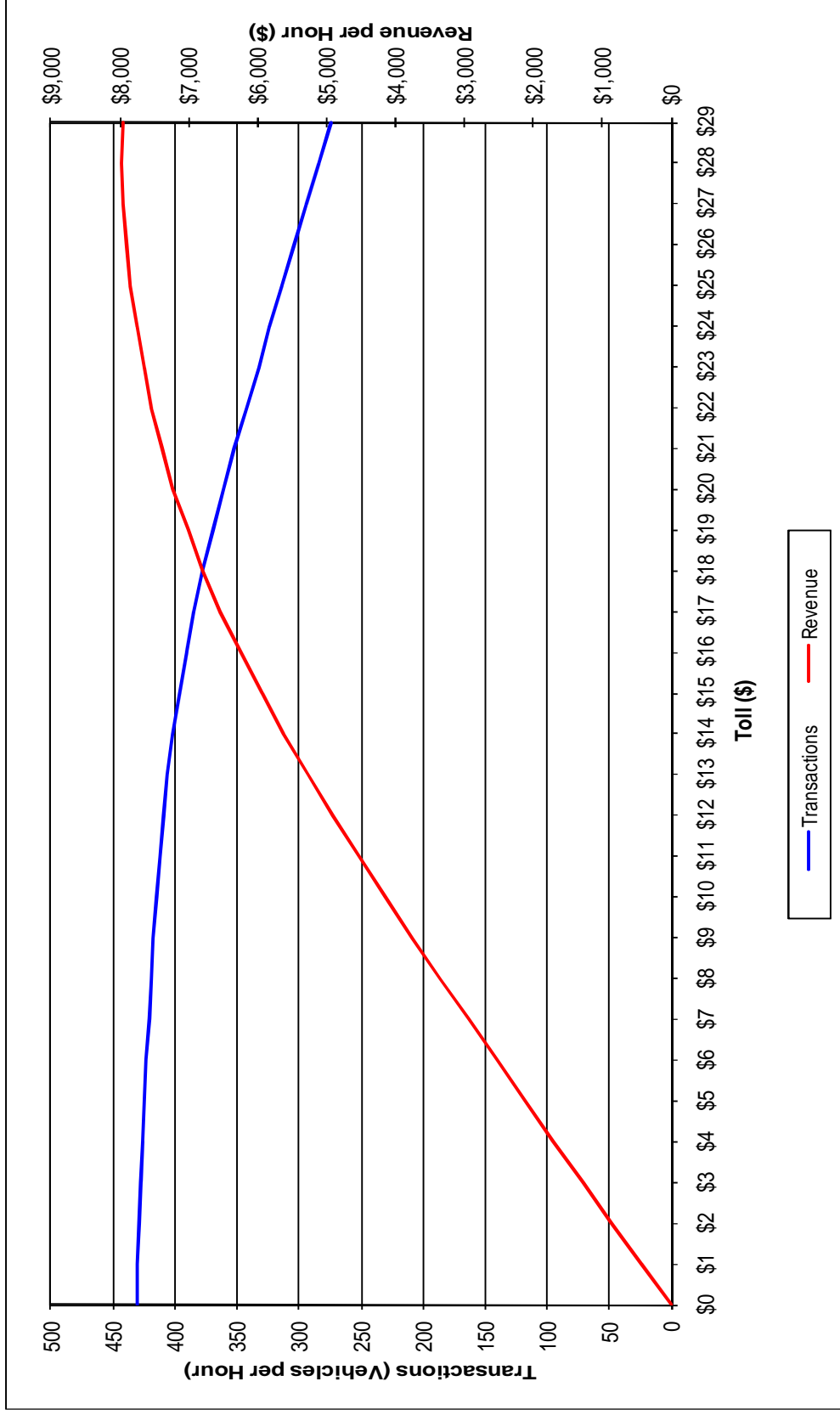
Tolling: Rates, Collections, Operations and Maintenance

How are Toll Rates Set?

- Tolls will vary based on:
 - Time of day
 - Day of week
 - Time of year
- Frequent user discount program is planned
 - 40% discount during peak hours
 - 25% discount during nonpeak hours
- Toll rates are market driven and based on Traffic & Revenue studies
- Toll rates set by CDG

Traffic & Revenue Toll Optimization Graph

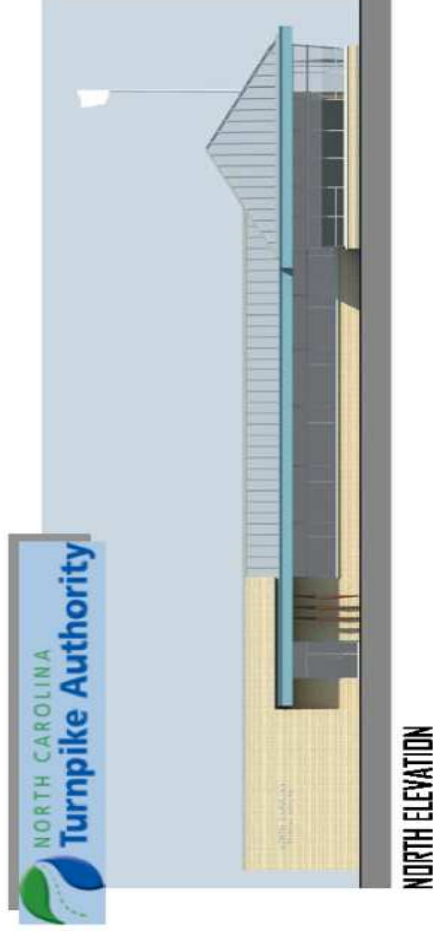
Toll Rate Sensitivities



Toll Collection

- **Initially, combination of cash lanes and electronic tolling**
 - Cash lanes required due to high number of out-of-state users
 - CDG will collect all cash transactions
 - Turnpike Authority will process all electronic toll collection transactions and receive compensation from partner
- **Plan to convert to all electronic toll collection when interoperability agreements with other states are in place**

Toll Plaza Renderings



Operations

- CDG has primary responsibility for operations
- Major responsibilities
 - Manual toll collection
 - Toll and intelligent transportation systems
 - Civil works (renewal and rehabilitation)
 - Routine roadway maintenance
 - Bridge sweeping

Summary

In Summary

- Project is financially feasible and good P3 candidate, although slightly more expensive as P3
- Major risks of State transferred to developer
- Financing terms and concession conditions remain fluid
- State exposure between commercial and financial close is capped at \$10 M
- Absolute final costs not known until financial close
- CDG must hand project back in good, well-maintained condition

Questions?