

Interim Report to RTC Workshop

June 14, 2007



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Disclaimer

Our Services were performed and this presentation was developed in accordance with our engagement letter dated May 29, 2007 and are subject to the terms and conditions included therein.

Our Services were performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants ("AICPA"). The procedures we performed did not constitute an examination or a review in accordance with generally accepted auditing standards or attestation standards. Accordingly, we provide no opinion, attestation or other form of assurance with respect to our work or the information upon which our work was based. We did not audit or otherwise verify the information supplied to us in connection with this engagement, from whatever source, except as may be specified in this Report or in our engagement letter.

Our work was limited to the specific procedures and analysis described herein and was based only on the information made available through June 14th, 2007. Accordingly, changes in circumstances after this date could affect the findings outlined in this Report.

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PwC Scope

In our role as Independent Financial Advisor to RTC, to help them understand the financial value of each proposal, we performed the following tasks:

- Analyzed the facts underpinning the financial proposals of both Cintra and NTTA, including financial models, tender documents, and CDA;
- Considered other analyses carried out on these bids that were provided to us by RTC, including the review carried out by TxDOT's advisors;
- Conducted discussion and fact finding with NTTA and Cintra;
- Tested assumptions and made adjustments to the models; and,
- Presented initial findings at workshop as RTC Independent Financial Advisor.

PwC Exclusions

We have not been mandated to choose or recommend which of NTTA or Cintra's bids should be preferable to RTC. It is RTC's task to decide which bid represents Best Financial Value (as per SB 792) in its view.

In addition, PwC has not:

- Performed a detailed value for money analysis, undertaken statistical simulation to assess the range of potential impacts of risk, or advised on a range of potential discount rates that could apply to a public sector analysis;
- Undertaken a detailed assessment of technical, legal, commercial aspects of either bid or assessed the relative levels of commitment, deliverability or certainty offered by each bid; or,
- Assessed the impact of a decision to award to either NTTA or Cintra on the wider procurement market in Texas or quantified the impact of any decision to award or not to award on the availability of capital to the region.

Background and Context

The definition of the evaluation criteria to be applied in assessing the two proposals is critically important in defining which proposal is preferable. In respect of SH121, we have the following observations:

- CDA/RFP Criteria
 - “The best value determination will be based on the 80-10-10 point scale recommended by the RTC and approved by the Commission. The Price Score will represent up to 80 points of the total score, the Technical Score will represent up to 10 points of the total score and the Schedule Score will represent up to 10 points of the total score. The determination of apparent best value shall be based on the highest Total Proposal Score.” - TxDOT RFP, Vol. 1, Sec. 5.2
- SB 792 Criteria
 - “If the financial value of the commitment is determined to be equal to or greater value than any other commitment submitted prior to March 26, 2007, the commission shall allow the North Texas Tollway Authority to develop the project.” - SB 792, p. 37-38
- In contrast to the Cintra bid, the NTTA bid has not been presented on a limited recourse basis. While this presentation is reasonable, it raises additional questions and complexity where the balance sheet of the project is secured against part of the public sector.
- The financial evaluation criteria set out in the CDA/RFP are therefore insufficient to assess best financial value between Cintra’s bid (where risk is borne primarily by the private sector impacting external capital) and NTTA’s bid (where risk is borne by the region’s public capital).
- We have been instructed to assist RTC in our role as Independent Financial Advisor to assess the financial value of these bids using the criteria in SB 792.

Background and Context

- PwC recognizes that TxDOT and its advisors have assessed both the Cintra and NTTA bids in detail against the requirements of the RFP and concluded that the Cintra bid is responsive to those requirements, but the NTTA is non-responsive in a number of material respects.
- TxDOT and its advisors have assessed both the NTTA and Cintra bids in great detail and have advised on their relative strengths and weaknesses, and in particular, have identified issues or risks with both bids which may have financial consequences for the successful proponent.
- The definition of best value defined in the CDA/RFP was designed only be applicable to proposals that were substantially responsive to the requirements of the RFP.
- As the NTTA bid is deemed to be unresponsive, it is reasonable to consider the reasons why it has not complied with the requirements of the RFP.
- We cannot state categorically whether the NTTA's bid is ultimately deliverable or not, nor how long may be needed to deliver the bid. It is clear, however, that the NTTA bid is less developed than the Cintra bid.
- However, it is reasonable to assume that, given sufficient time, NTTA could further refine its bid and potentially overcome the deliverability issues and risks identified by TxDOT and its advisors. The resulting final bid, however, would not necessarily be the same as NTTA's current bid, and may offer different financial value.

Base Cases as Stated by Bidders

	NTTA	CINTRA
Upfront Payment	\$2.5B	\$2.1B
Total Annual Lease Payments	\$0.8B	\$0.7B
Public Benefit	\$1.3B	-
Estimated Financial Value	\$4.6B	\$2.8B

*NPV at 5%

Base Case Adjustments

Four areas need to be adjusted in NTTA's base case to assess its value:

- Discount Rate applied to the Annual Lease Payments should be higher than the rate applied to the upfront payment to reflect the increased risk associated with these payments due to the structure of NTTA's Senior Debt relative to these amounts;
- Discount Rate applied to the 'public benefit' cash flows should be higher than the discount rate applied to the annual lease payments to reflect the increased risk associated with these payments due to the residual, or last dollar, nature;
- The cost of servicing the commercial paper issued to fund construction should be included as a charge against SH121 revenue and it was not in the base case as presented; and
- We have been told that NTTA is proposing to operate the road at a standard which does not meet TxDOT's CDA requirements. It has not been possible to determine the financial value that this difference in standards represents. There are other considerations, such as NTTA's operating costs in its model, do not vary with changes in traffic.

Two areas need to be adjusted in the Cintra base case model to assess its value:

- Inter-operability payments;
- Taxation; and,
- Revenue share.

*The NTTA proposal suggests that a variable component has been considered in the Toll collection fees which are part of NTTA's IT and Customer Service line items within O&M, however the model does not reflect this suggestion.

**The number and value of the above adjustments reflect the underlying nature of the respective bids.

Restated Base Cases

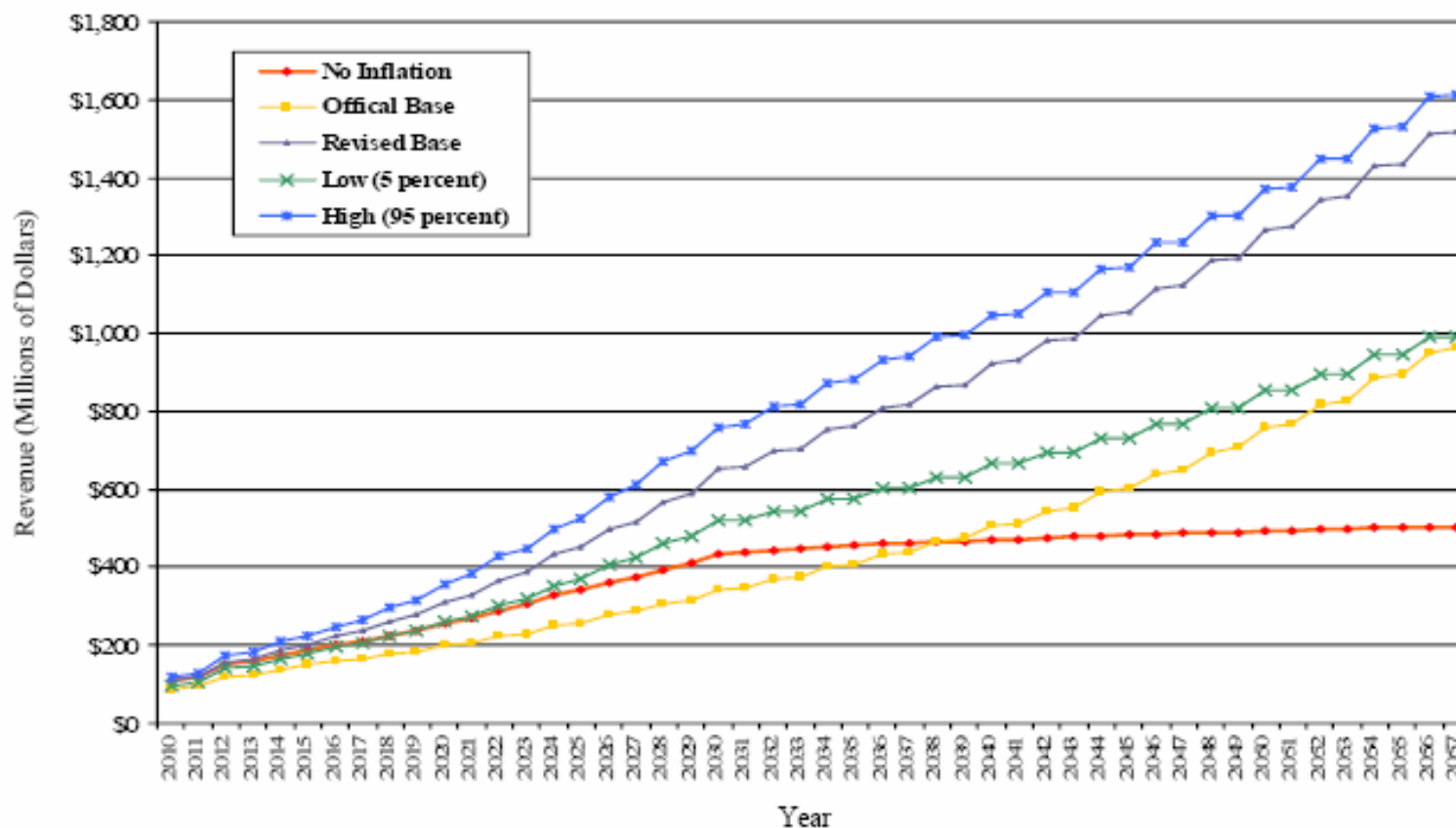
	NTTA	CINTRA
Upfront Payment	\$2.4B	\$2.1B
Annual Repayment	\$0.6B - \$0.7B	\$0.7B
Revenue Share*	-	\$0.1B
Public Benefit*	\$0.2B - \$0.3B	-
Sub-Total	\$3.2B - \$3.4B	\$2.9B
TSA NTTA (Interoperability)*	-	\$0.7B
Sub-Total	\$3.2B - \$3.4B	\$3.6B
Tax (Federal)*	-	\$0.2B
Estimated Financial Value Capture	\$3.2B - \$3.4B	\$3.8B

*The financial value associated with these items is a function of the traffic and revenue numbers achieved in the project.

Revenue

- Toll policy is set by the RTC.
- However, traffic is the single most important variable in assessing the risk and return of a toll road.
- Revenues are a function of tolls and traffic.
- Cintra has taken significant revenue risk. In the restated base case, if revenue does not materialize at forecasted levels, the upfront and annual lease payments are not affected. The financial value accruing from the interoperability and taxes would be reduced, as would equity returns.
- NTTA arguably takes significant revenue risk. If revenue does not materialize at the forecasted levels, the upfront payment will not be affected, the annual lease payments may be reduced, and the public benefit will be reduced.
- NTTA has indicated that should revenue not materialize at forecasted levels, they would consider the following mitigating actions:
 - Reducing costs on other projects;
 - Slowing investment in other parts or system; and/or
 - Raising tolls in the system.
- Revenue share
- Due diligence/deliverability

Revenue Forecasts Vary Greatly Depending on a Number of Factors



Revenue and Inflation Scenario Analysis

	NTTA	CINTRA
Base Value to Region/USA	\$3.2B - \$3.4B	\$3.8B
Revenue Scenario Upside Case	\$3.5B - \$3.7B	\$3.6B
Revenue Scenario Downside Case	\$2.8B - \$3.0B	\$3.3B

*Change applied to NTTA revenue and Cintra revenue share and consequent impact on taxation and interoperability fee.

Qualitative Risks

- Differential risk allocation.
 - Risk of financial default by Cintra or NTTA;
 - Construction risks; and,
 - Operating risks.
- Level of financial commitment and due diligence at time bids submitted.
- Impact of decision on proponent market.

System Implications of RTC's Recommendation

- NTTA has asserted that the incorporation of SH121 will increase its capacity to develop new projects in the region.
- Rating agencies have expressed some degree of reservation about the potential impact of SH121 on the NTTA's credit rating (see rating agency publications of S&P 6/08/07 and Fitch 5/16/07).
- It is understandable that until SH121 is constructed and through revenue ramp-up, rating agencies may hold NTTA on CreditWatch.
- Cintra injects equity into its bid to allow SH121 to be self-financing on a stand-alone basis. In contrast, NTTA bid on a corporate basis and provides its corporate balance sheet as recourse to financiers.
- The incremental borrowing capacity of NTTA is likely to be reduced in the short-term if awarded the SH121 concession. We recognized that to assess the magnitude of this issue would require detailed discussions with ratings agencies and lenders and the impact on NTTA's borrowing capacity is dependent on NTTA's performance. We have not, therefore, attempted to quantify the impact.



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