



Transportation Financing in Ever-Challenging Times

October 7, 2008

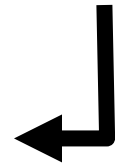


Global Markets & Investment Banking Group

In a Nutshell...



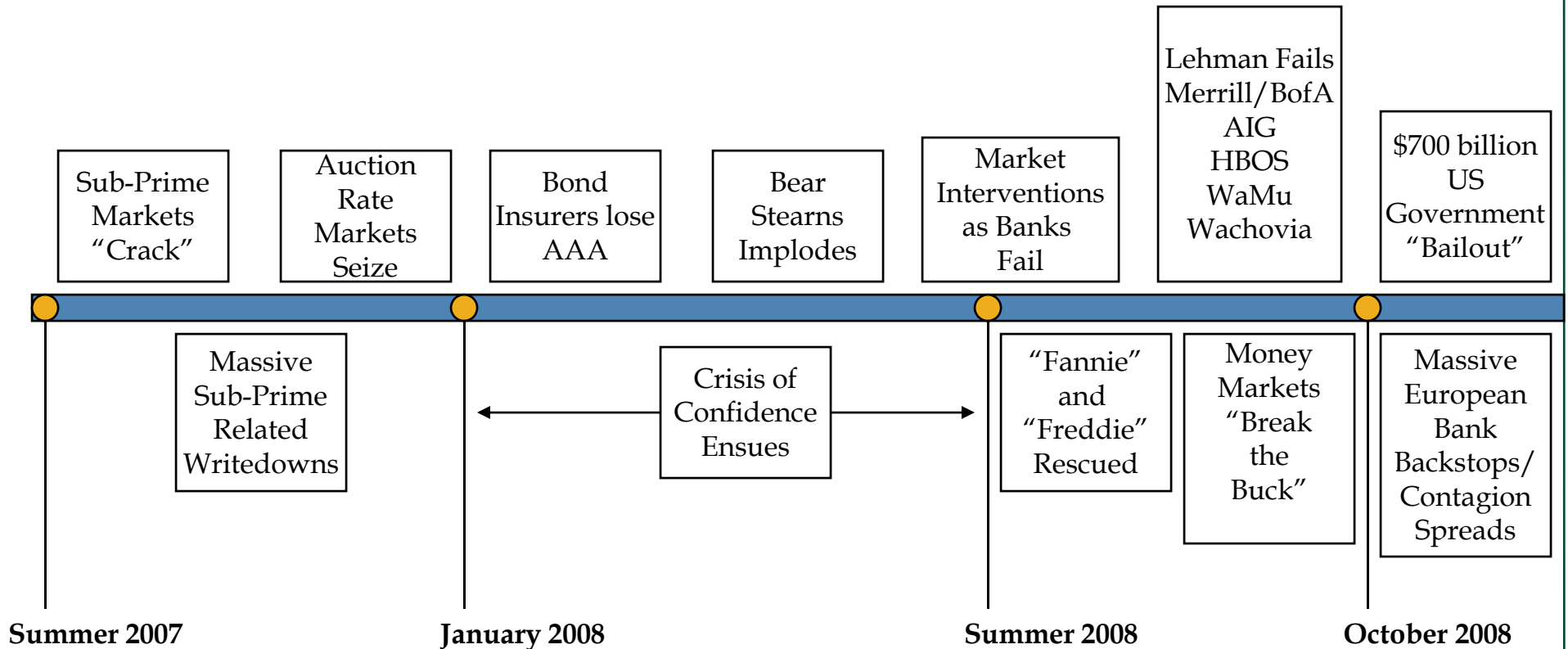
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Market Update

When Things Go Bad...

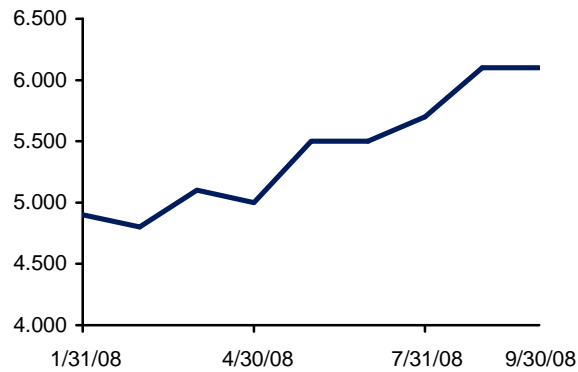
We can get here from there



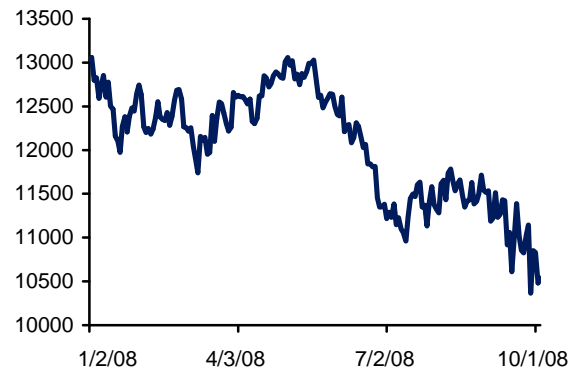
Market Update

Snapshot of the Fallout

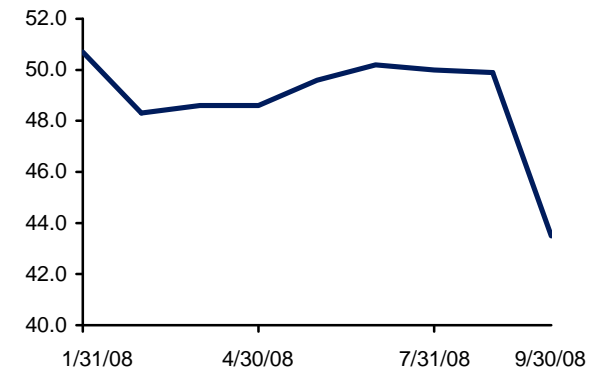
Unemployment Rate⁽¹⁾



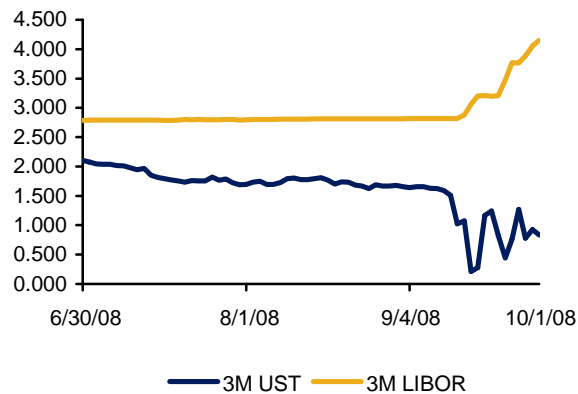
Dow Jones Industrial Average⁽¹⁾



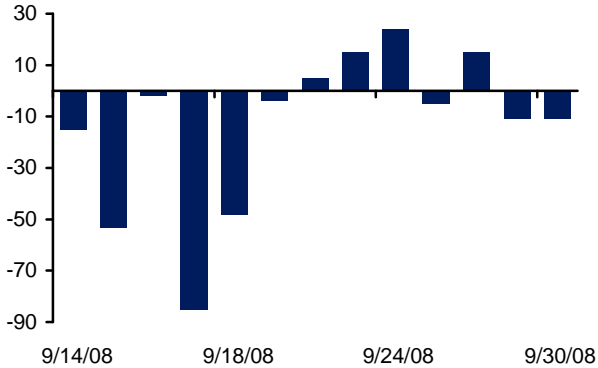
ISM Manufacturing⁽¹⁾



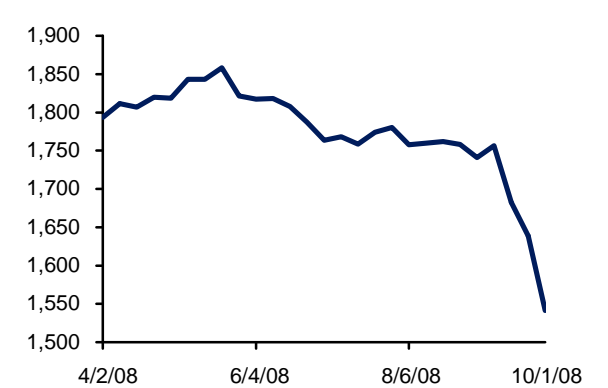
"TED" Spread⁽¹⁾



Money Market Flows⁽²⁾ (\$ billions)



Commercial Paper Outstanding⁽³⁾ (\$ billions)



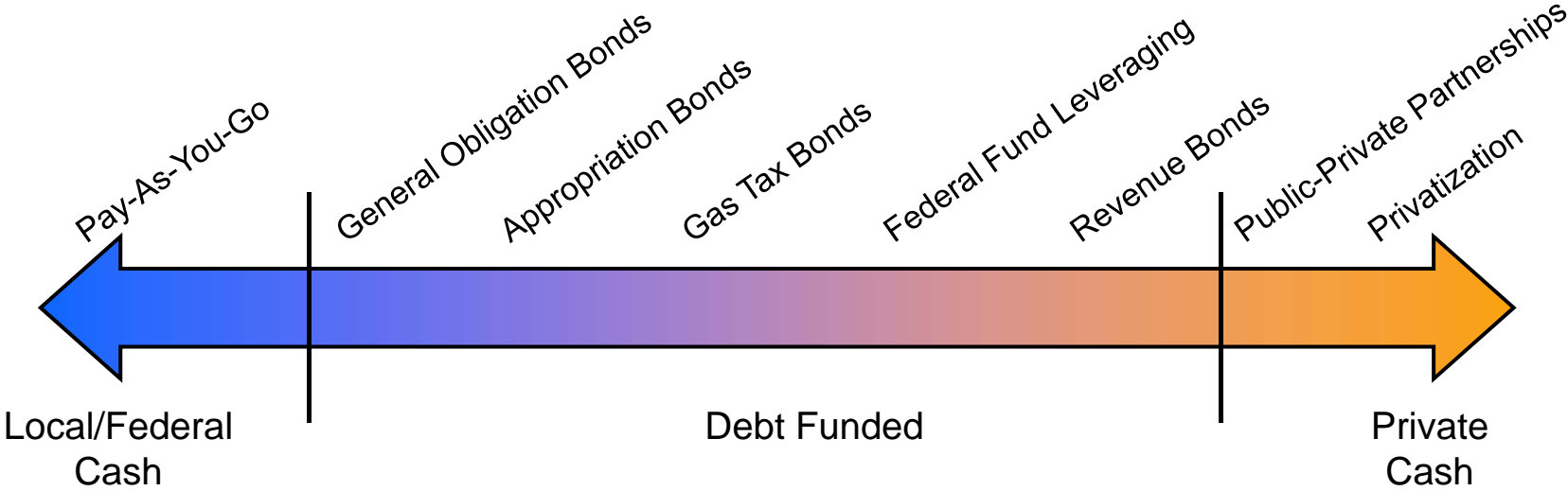
(1) Source: Bloomberg - ISM, BLS data

(2) Source: The New York Times

(3) Source: Federal Reserve Board Data

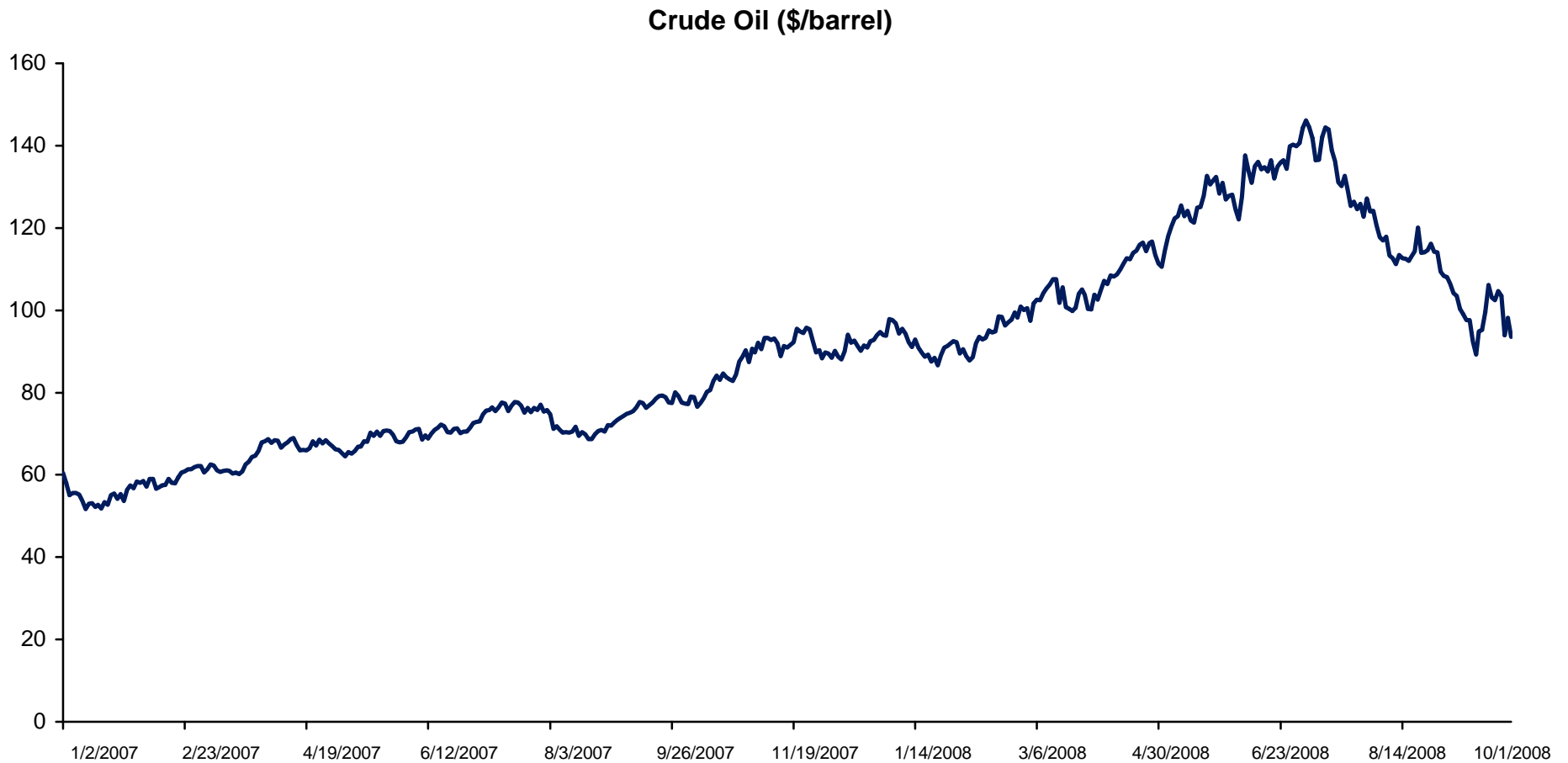
Infrastructure Funding Alternatives

Full Spectrum Under Pressure



Market Update Crude Oil

The price of oil increased dramatically through the summer of 2008 but has recently subsided

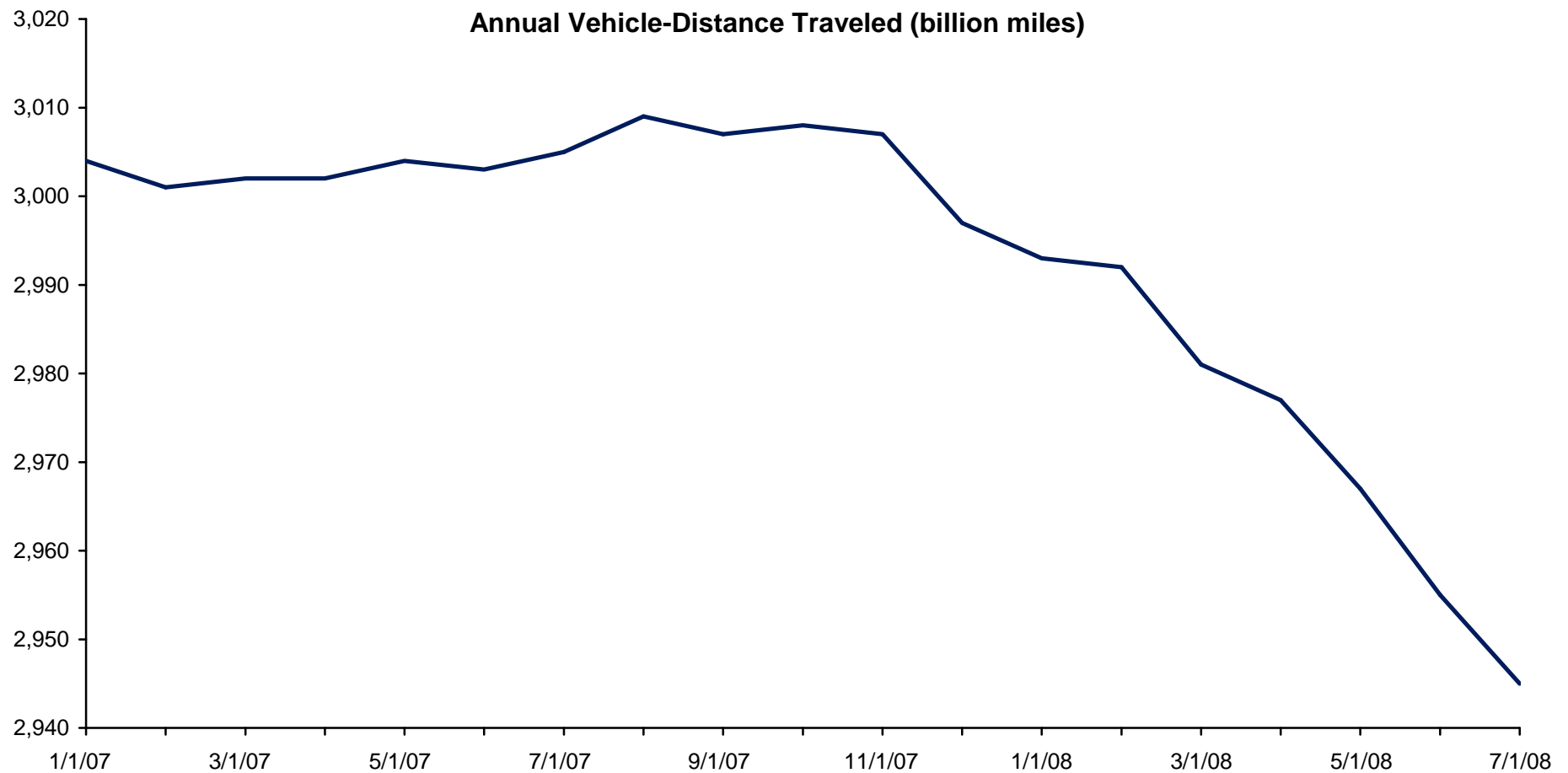


Source: Bloomberg

Market Update

Vehicle Miles Traveled Dropping at an Accelerating Rate

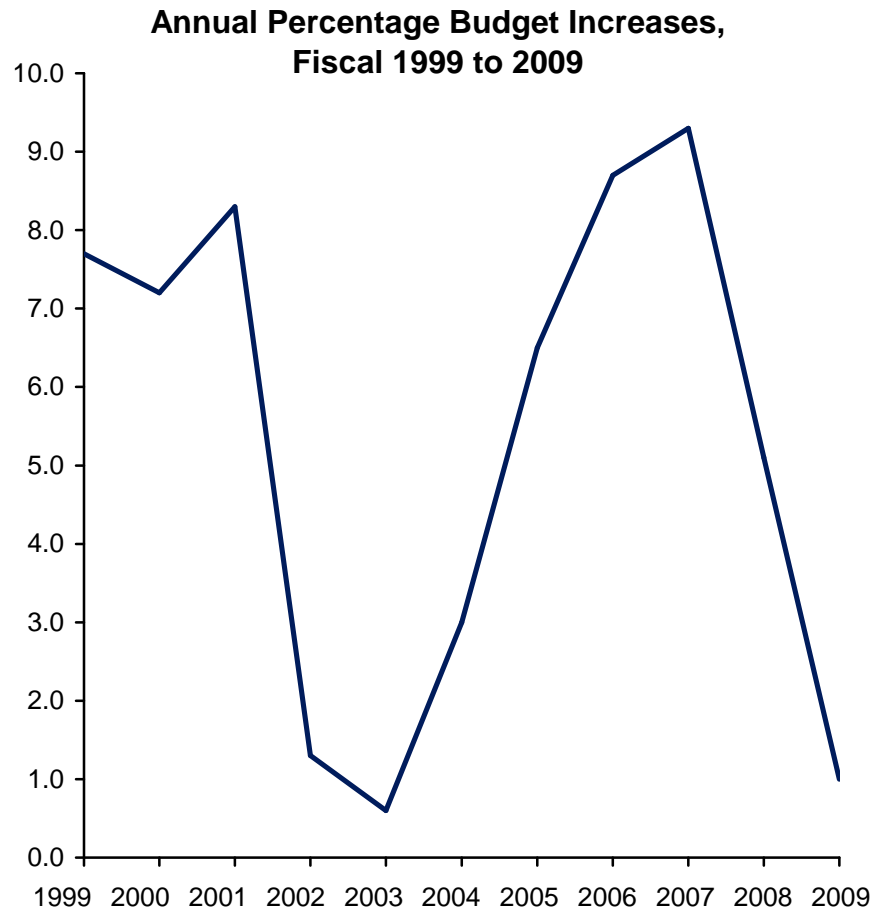
The annual number of vehicle miles driven has also dropped to a four-year low



Source: US Department of Transportation, Federal Highway Administration

Market Update

State Budgetary Gaps



Fiscal 2009 Projected

Source: National Association of State Budget Officers









- Wall Street fallout projected to impact New York state by as much as \$3.5b in tax revenue associated with loss of 40,000 industry jobs.
- California requests \$7b in emergency federal funds in order to maintain day-to-day operations.
- Most states in massive budget review as economic impacts are re-assessed.

Market Update

Meltdown of the Bond Insurers

Rating agencies continue to monitor the bond insurers for further downgrades.

- 1/16: Fitch affirms MBIA at AAA
- 1/18: Fitch downgrades Ambac to AA
- 1/24: Fitch downgrades XL Capital to A
- 1/30: Fitch downgrades FGIC to AA
- 1/31: S&P downgrades FGIC to AA
- 2/14: Moody's downgrades FGIC to A3
- 2/25: S&P affirms MBIA and Ambac at AAA
- 2/26: Moody's affirms MBIA at Aaa
- 3/7: Fitch downgrades CIFG to AA-
- 3/12: S&P downgrades CIFG to A+
- 3/28: S&P downgrades FGIC to BB
- 3/31: Fitch downgrades CIFG to A-
- 3/31: Moody's downgrades FGIC to Baa3
- 4/4: Moody's affirms Radian at Aa3 but changes outlook to negative
- 4/9: S&P places Radian on negative watch
- 5/2: Fitch withdraws Radian rating
- 5/20: Moody's downgraded CIFG to Ba2
- 5/30: Fitch downgraded to CIFG to CCC
- 6/4: Moody's reviewing Ambac and MBIA for possible downgrade
- 6/5: S&P downgraded MBIA and Ambac to AA and CIFG to A-
- 6/16: S&P downgraded Radian to A
- 6/20: Moody's downgraded XL to B2 and FGIC to B1
- 6/25: Moody's downgraded Radian to A3
- 6/27: Fitch withdraws MBIA and Ambac ratings
- 7/22: Moody's placed FSA and Assured Guaranty under review for possible downgrade
- 7/30: Moody's placed XL on watch with direction uncertain and Fitch downgraded XL to CCC
- 7/31: Fitch downgraded FGIC to CCC
- 8/6: S&P placed FSA on negative outlook
- 8/11: Fitch placed Syncora on Positive Watch
- 8/22: S&P downgrades CIFG to B

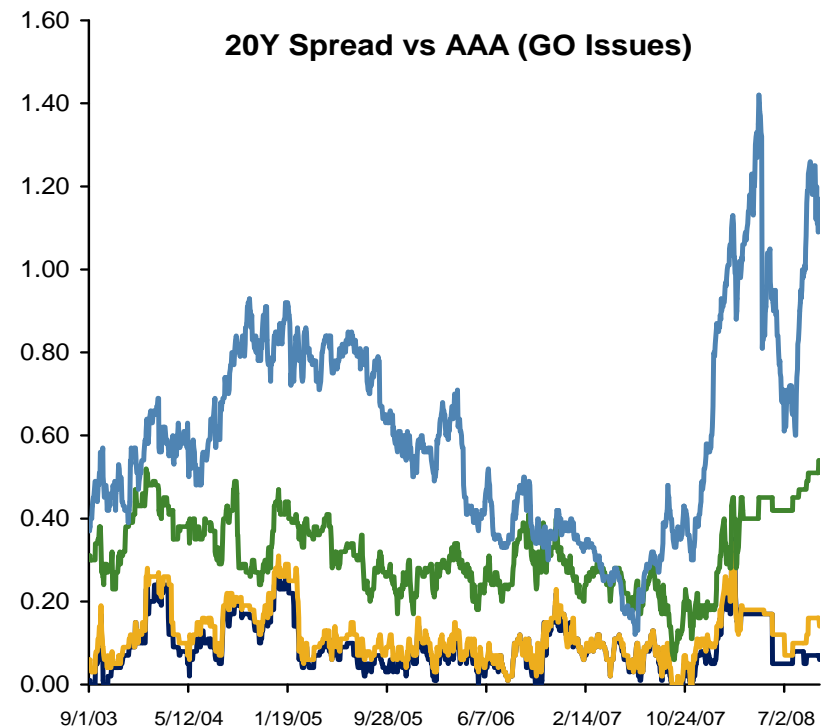
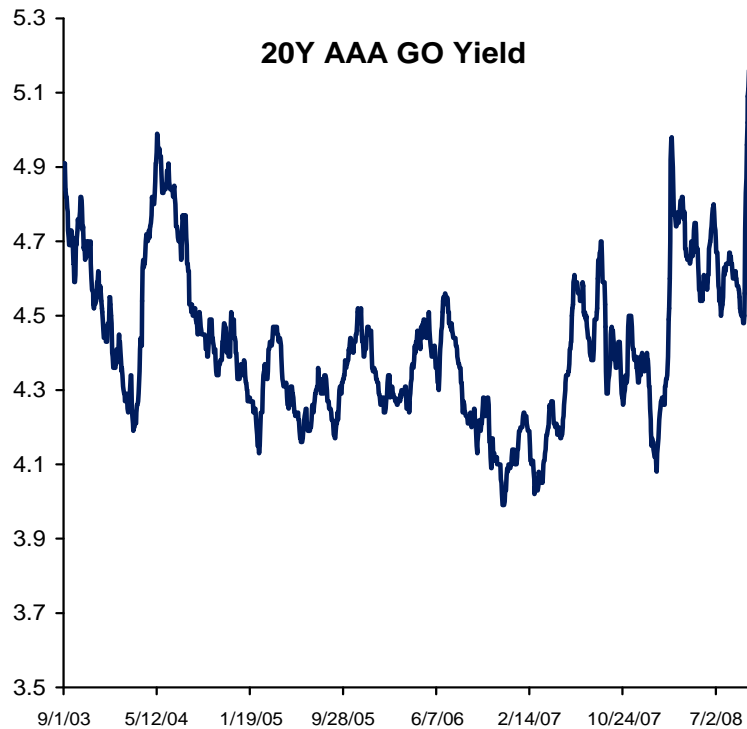
Insurer	Moody's	S&P	Fitch
Berkshire Hathaway	Aaa Stable Outlook	AAA Stable Outlook	N/A
	AAA Review for Downgrade	AAA Stable Outlook	AAA Stable Outlook (Affirmed)
	AAA Review for Downgrade	AAA Negative Watch	AAA Stable Outlook (Affirmed)
	Aa3 Negative Outlook	AA Negative Outlook	Withdrawn
	A2 Negative Outlook	AA Negative Outlook	Withdrawn
	A3 Negative Outlook	A Negative Watch	Withdrawn
	Ba2 Direction Uncertain	B Developing Watch	CCC Rating Watch Evolving
	B1 Negative Outlook	BB Negative Outlook	CCC Watch Evolving
	B2 Direction Uncertain	BBB- Negative Watch	CCC Positive Watch

Market Update

Insulated Municipal Market Hit Hard

The global credit crunch has created a challenging municipal market environment over the past year

- Dislocation in the credit markets and corporate balance sheet pressures have increased the overall cost of debt across the marketplace.
- A “flight to quality” related to investor concerns and an increase in overall supply has also caused credit spreads to widen significantly.

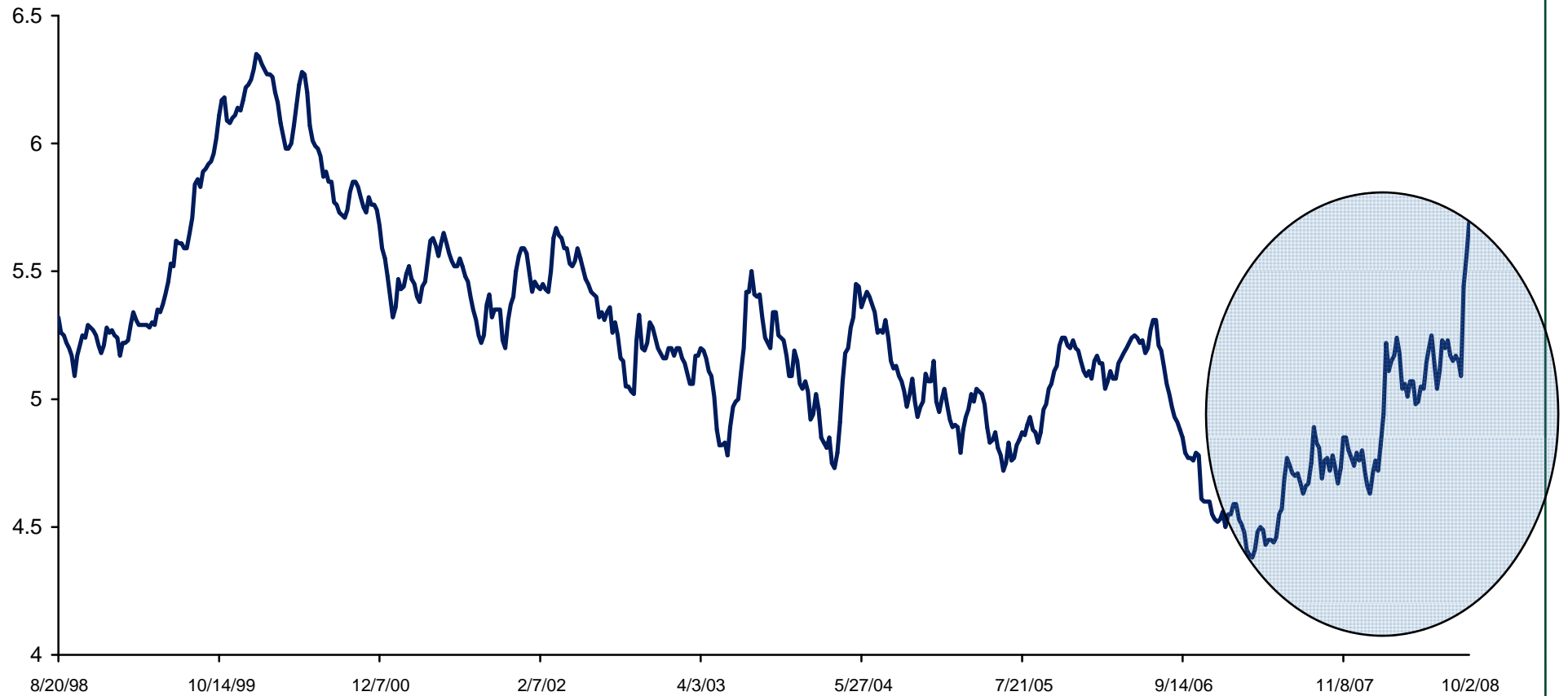


— AA+ — AA- — A- — BBB

Market Update

Revenue Bond Index Up Significantly

Revenue Bond Index - 10 Year History



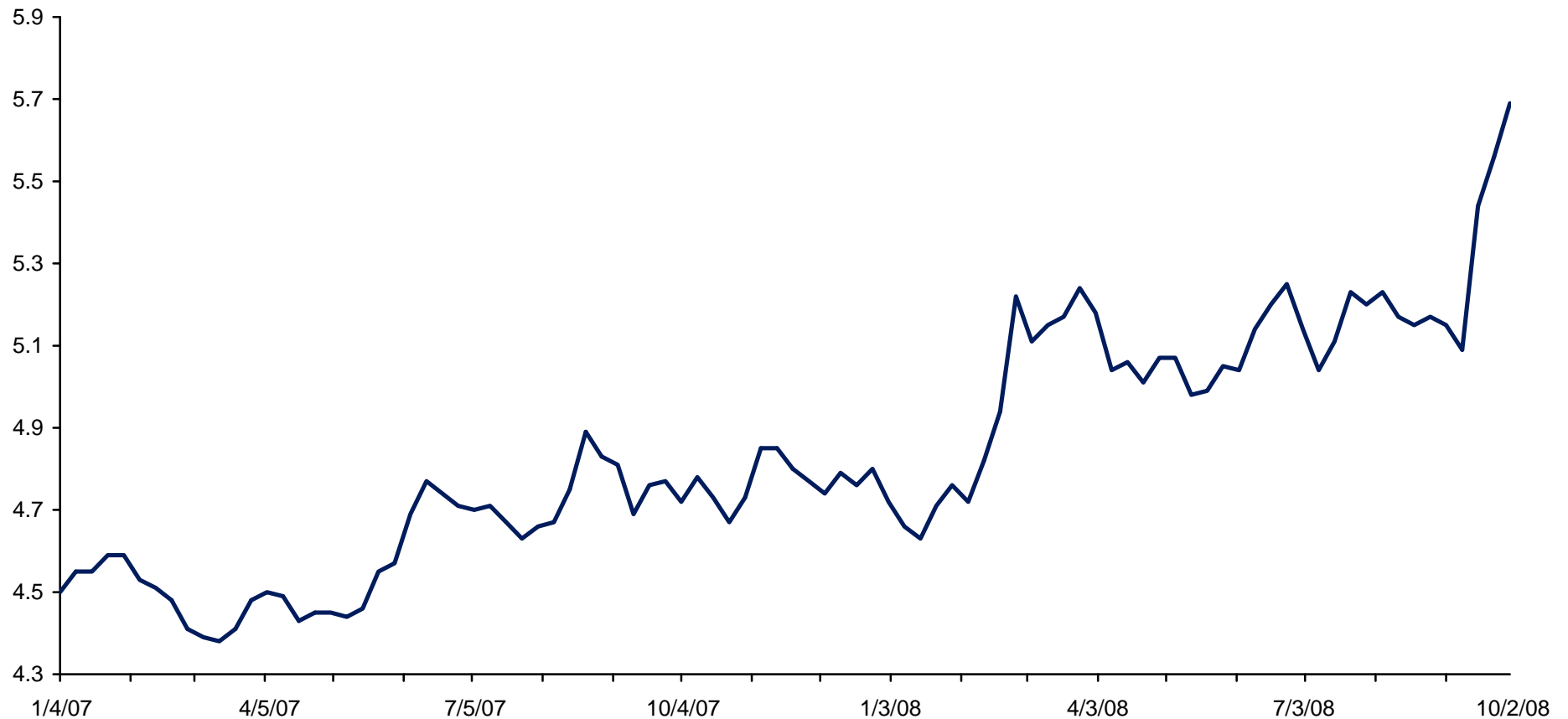
Source: Bloomberg, Bond Buyer

Market Update

Lack of Demand Sending Borrowing Rates Higher

The Revenue Bond Index has Remained at its Highs Since the Market Dislocation

Revenue Bond Index



Source: Bloomberg, Bond Buyer

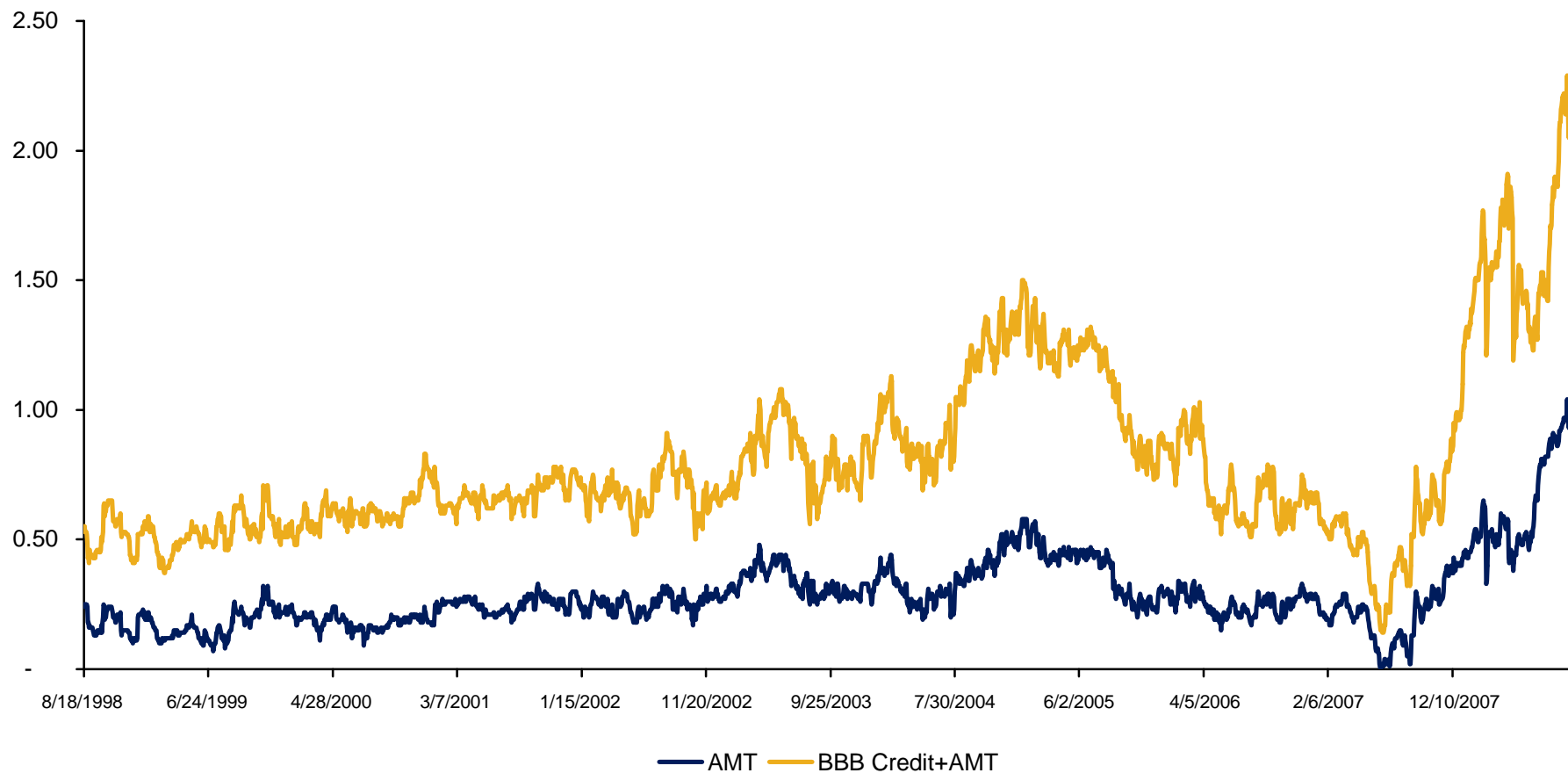
Market Update

\$15 billion PABs Program Further Challenged

The AMT penalty has also widened significantly

- Combined with extremely wide credit spreads, lower rated AMT bonds are proving extremely difficult to sell in the current environment.

20Y AMT/Credit Spread



Source: Bloomberg

Market Update

Borrowing Short-Term a Daunting Alternative

Concerns regarding money market assets have caused a record spike short term indices

SIFMA Index - 10 Year History

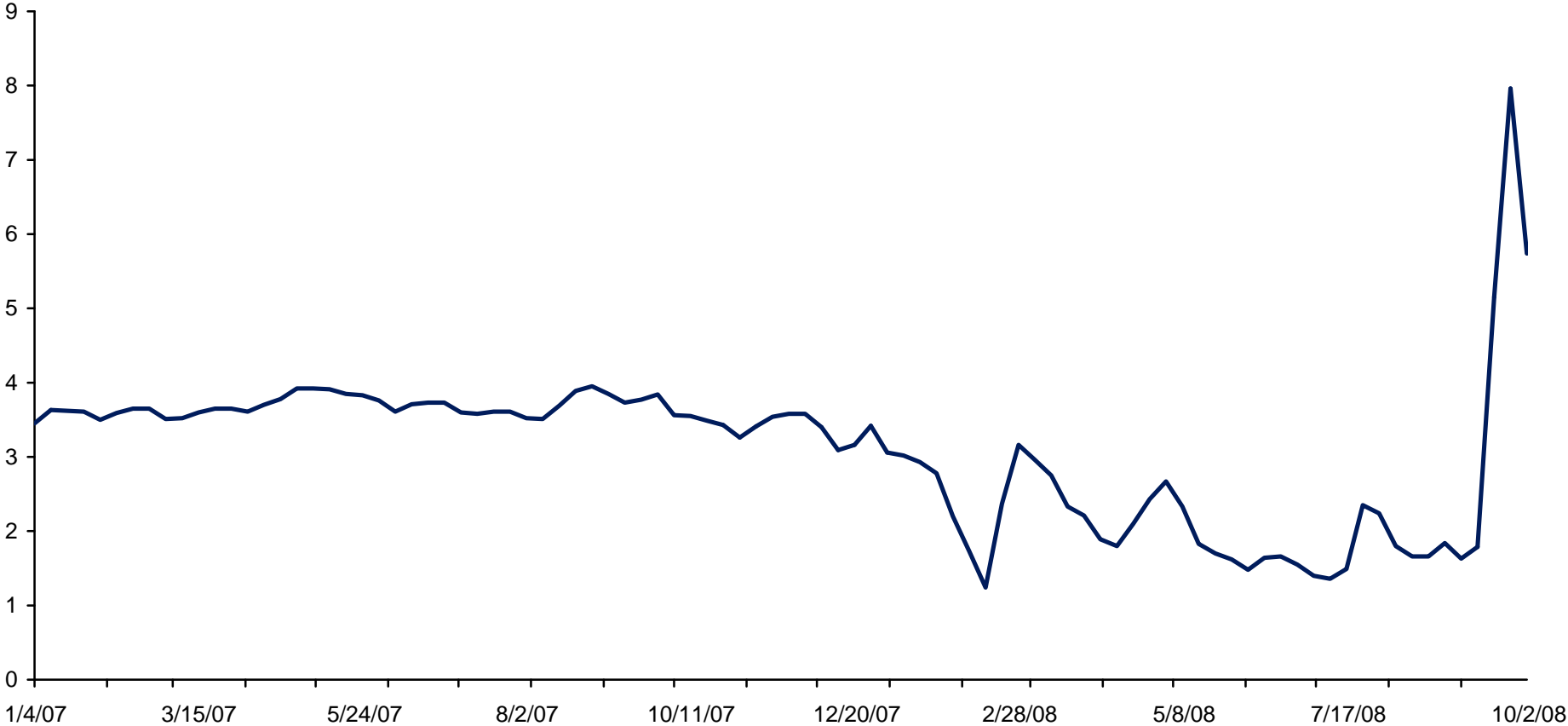


Market Update

VRDOs Hammered by Bank Liquidity Issues and Exodus of Funds

The weekly SIFMA rate has increased from 1.79% to 7.96% over a two week span

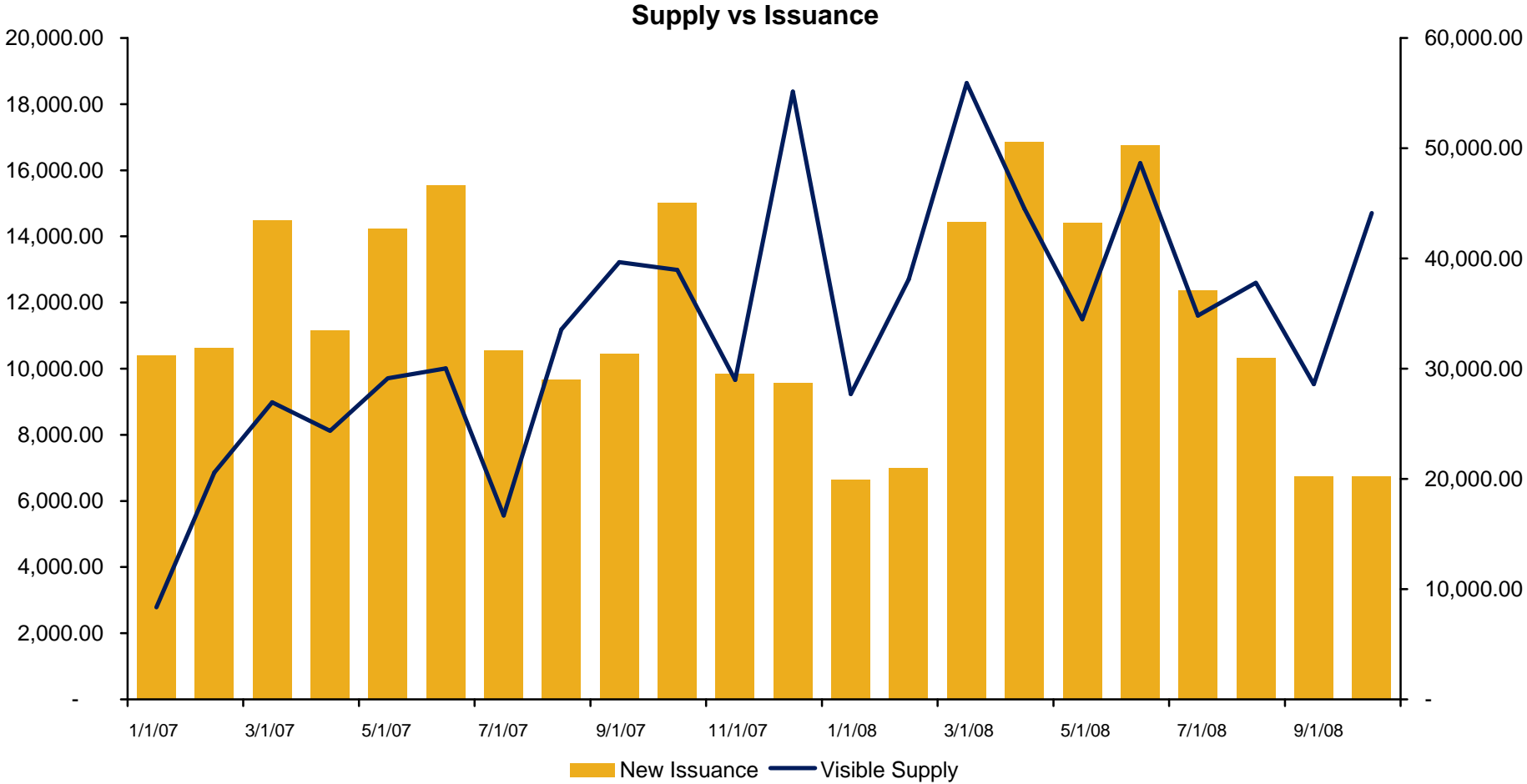
Weekly SIFMA Index



Market Update

Record Postponement of New Issuance

Market factors have driven new issuance down in recent months, with supply backing up

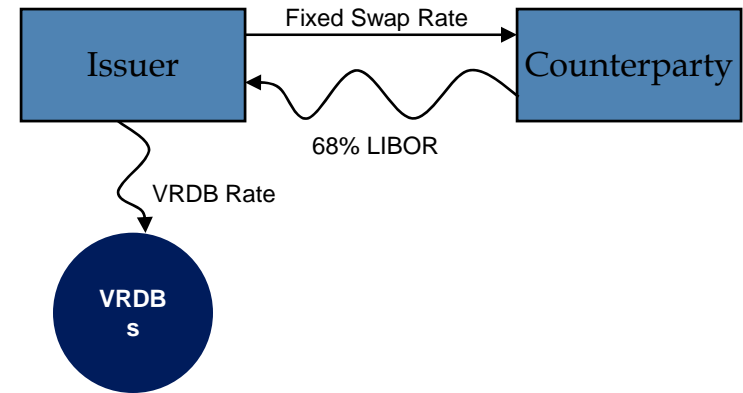
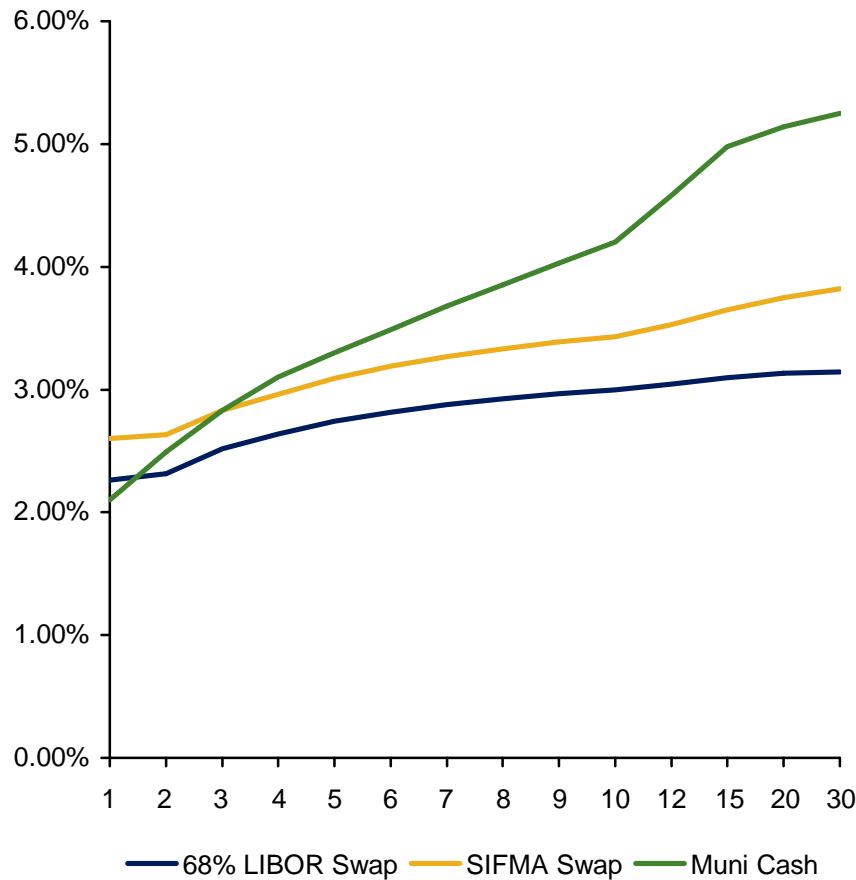


Market Update

Synthetic Alternatives – Heightened Risk Profile

The swap market provides a cheaper cost of funds, however includes additional risks

Current Yield/Swap Curves



Current 20 year MMD yield 5.14%

Current 20 year 68%L swap rate 3.13%

Plus LOC 1.00%

Less 68%L 1M cash rate (2.72%)

Plus rate on VRDBs 7.96%

All-in cost 9.37%

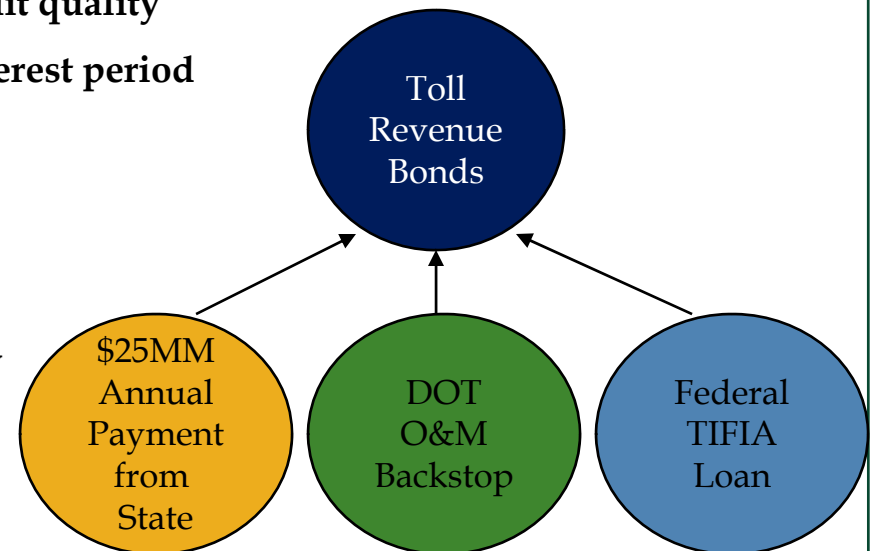
"Leakage" 5.24%

Case Study

North Carolina Turnpike Authority

Public-Public Partnership as only way

- Triangle Expressway - 18.8 mile facility in Research Triangle region
- In addition to toll revenues, financing to be enhanced by:
 - \$25 million in annual payments from State - part of \$99 million in annual funding
 - NC DOT covenant to cover O&M shortfalls
 - Subordinate TIFIA loan to bolster senior bond credit quality
 - Fully funded reserves and extended capitalized interest period
- Other key project elements include:
 - Fixed priced/fixed schedule design build contract
 - Cashless toll system provides pricing flexibility
 - Enforcement legislation supporting tolling strategy

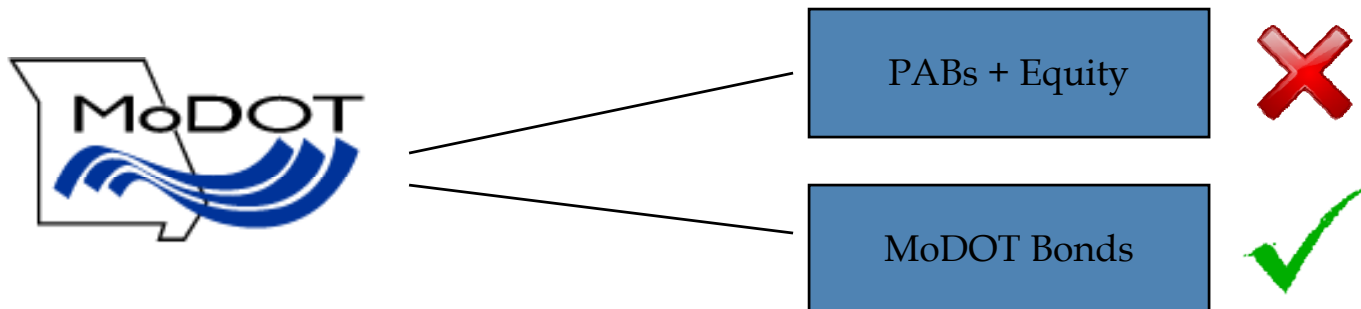


Case Study

Missouri Highways and Transportation Commission

Current Financial markets impede P3 approach

- Missouri DOT was proceeding with \$800 million DBFM Contract with winning private consortium
- Bundled 800 bridges for repair/rehabilitation in 5 years, with 25 year long-term maintenance contract
- Financing via federal allocation of \$700 million Private Activity Bonds (“PABs”)
- Conventional and synthetic fixed rate markets became prohibitively expensive to finance under P3 approach
- MoDOT now proceeding to finance “on balance sheet” and re-scope contract to a traditional design-build contract



Looking Forward

Stark Needs... Fewer and More Expensive Solutions

P-A-Y-G-O

- Downsized budgets force re-prioritization and de-scoping of projects
- Taxes and tolls - political realities

Municipal
Finance
Options

- Traditional markets will “settle” but buyer base has diminished
- Swap/Structured Products harder to incorporate
- Public-Private partnerships to close funding gaps

PPPs

- Weak capital markets driving down valuations and overall buying power
- Bank financing options severely challenged by “frozen” balance sheets
- Hybrids will emerge with greater public participation

Conclusions

Changing Landscape in Uncharted Waters

- Unprecedented markets – return to “normalcy” unclear
- “Elephant in room” – infrastructure demands growing exponentially
- Election year transition compounds addressing problems
- Schizophrenic political will
- “Something’s got to give”
 - New playbook changes for reauthorization
 - User fee mentality a must
 - Prudently embrace use of debt
 - Efficiently harness private participation
 - Political champions must emerge

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