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FINANCIAL FEASIBILTY ANALYSIS
C-470 MANAGED TOLL LANE PROJECT

INTRODUCTION

We have been requested to review the financial feasibility of the proposed C-470 Project as a stand-alone managed lane toll project. In preparing our analysis we have relied upon the Draft Express Lanes Feasibility Study report prepared by PBS&J and Wilson & Co for such information as construction costs, revenues, operating and maintenance expenses and major maintenance costs. Attachment A presents a preliminary financial plan that indicates C-470 could be a self-supporting project, as discussed further below.

FINANCE PLAN ASSUMPTIONS

In developing this financial plan, we have incorporated the following financing assumptions:

1. Revenues and operating and maintenance numbers provided by PBS&J as of July 13, 2005.
2. Funding for Phase I of the Santa Fe Interchange is provided by $30 million from Referendum C/D (if successful) and $5 million from CDOT's STIP.
3. Bonds are issued in July 2006.
4. Senior Lien bonds with a target of 1.75x coverage on net or gross project revenues as applicable.
5. Subordinate Lien bonds with a target of 1.30x coverage on net or gross project revenues, as applicable.
6. A combination of fixed rate debt, including both current interest bonds and capital appreciation bonds, and variable rate debt.
7. Interest payments are capitalized through the end of the construction period.
8. Interest rates as of June 9, 2005. Rates have been inflated by 100bps to account for market movements between current rates, which are historically low, and rates that may be present when bonds are marketed in the future.
9. Construction costs have been inflated from 2005 dollars to year of expenditure dollars at a 3% inflation rate. This rate has been determined by CDOT to be historically reasonable.
10. Operating and maintenance expenses (O&M) and major maintenance costs are funded from excess project revenues available after the payment of debt service.
11. Bond proceeds have been invested at 3.25%.
12. A debt service reserve fund is funded and investment income is used to reduce annual debt service payments.
13. Phases II and III of the Santa Fe Interchange have been shown as potential future capital projects that could be funded on a pay-as-you-go basis from excess toll revenues, subject to legal authority for such expenditures. Construction costs have been inflated from 2005 dollars to year of expenditure dollars using a 3% inflation rate.

ANALYSIS OF FINANCE PLAN ALTERNATIVES

Scenario A: Stand Alone Project

The Project appears to be financially viable on a stand alone basis based on the above assumptions, with sufficient revenues being generated to not only pay current expenses but also fund renewal and replacement costs and long-term major maintenance costs. Under a completely stand alone scenario, the rating agencies only take the net revenues into consideration when calculating debt service coverage, i.e. after the payment of O&M expenses, which results in a smaller amount of tax-exempt capital market bonds that can be supported by the project. Therefore, a TIFIA or other 3rd party loan would be required to fully fund the project. A TIFIA loan increases the leveraging capacity of the project due to the deeply subordinated position that USDOT has typically been willing to take in priority of payments. That is, rather than having to provide a cushion of 30% of revenues over debt service that we have assumed subordinate bondholders would demand, USDOT has been willing to accept only a 10% cushion.

While this finance plan appears to be viable, we believe it may be difficult for the CTE to successfully compete for such a small loan given the level of competition for TIFIA funding. A solution being explored by CTE is to apply for a line of credit that would be available for the C-470 Project as well as subsequent CTE toll projects. The line of credit would be drawn down for capital costs only after maximizing the amount of tax-exempt bond proceeds, thus minimizing the amount of interest payable. Subject to the approval of USDOT, a TIFIA line of credit may also provide support for the payment of O&M expenses. While the cost of a TIFIA loan is higher than tax-exempt debt because interest is taxable, a TIFIA line of credit or loan provides an unparalleled level of financial flexibility that is particularly important for start-up toll facilities. Such a guarantee of funding will enhance the credit profile for the Project and improve the chances of achieving investment grade ratings and access to insurance. Due to the higher cost associated with a TIFIA loan, we have structured the finance plan to ensure that this debt is repaid as quickly as possible, however should project revenues be lower than expected, TIFIA loan payments may be deferred for up to 10 years beyond the opening date of the project. Again, the higher the level of financial flexibility to react to lower than expected revenue collections is paramount to achieving investment grade ratings.

Finally, excess toll revenues, shown in Column T, would accumulate throughout the life of the Project and could be used to capitalize a renewal and replacement fund and fund other projects in the service area.

Scenario B: CDOT Guarantee of O&M

An alternative funding scenario in which the Transportation Commission guarantees the payment of O&M only serves to enhance the financial feasibility of the Project and increases the likelihood of achieving investment grade ratings and insurance. A guarantee of O&M would allow CTE to pledge the gross revenues of the Project, resulting in substantially greater bonding capacity at the Senior Lien level (the cheapest funds) and higher debt service coverage. As shown in Column L of Attachment B, while we have targeted a 1.30x coverage level for subordinate lien debt, the amount of debt required to fully fund the Project actually results in a significantly higher coverage level of approximately 1.50x. The benefit of higher coverage levels is that it provides comfort to the rating agencies that the Project has financial flexibility which is extremely important as discussed above. Additionally, the higher coverage levels also mean that the Project could support the issuance of more debt, either upfront or in the future.

The O&M guarantee would commit CDOT to pay operating and maintenance expenses only in the event Project revenues were insufficient. Attachment B shows that the projected toll revenues after the payment of debt service would be sufficient to cover O&M and major maintenance costs and capitalize a renewal and replacement fund. Therefore, while the guarantee would provide the security the Project needs to achieve investment grade ratings and access to the capital markets, based on estimated revenue projections, no contributions from CDOT would be required. Again, excess toll revenues could be used to fund additional projects after providing for renewal and replacement expenditures.

This financial structure and security would result in the lowest cost of capital for the Project while providing a significant level of financial flexibility and potential future bonding capacity.

Alternative Financing Options

Other options to finance the Project include the privatization of the facility. There is an extremely high level of interest from non-US concessionaires to invest in assets in the U.S. and we would expect that should the CTE Board elect to explore this option further, this would be viable option. The disadvantage of this funding mechanism is that CTE may not own the project and would therefore have little control over financial decisions.

CONCLUSION

In summary, the revenue projections and a conservative approach to the finance plan indicates that C-470 could be financially viable and a self-supporting managed lanes project.