

U.S. Infrastructure Market Update

January 27, 2012

U.S. Infrastructure Market Outlook

2011 Recap

Conditions Seemed Ripe for P3s...

- Fiscal year 2011 U.S. state budget deficits totaled \$160 billion ⁽¹⁾ ⁽²⁾
- The American Society of Civil Engineers gave a “D” grade to U.S. infrastructure, with an estimated 5-year investment need of \$2.2 trillion
- Infrastructure fundraising was robust in 2010 and in H1 2011 was strong at \$8.4 Bn ⁽³⁾
- 2010 successes such as Indianapolis parking and Long Beach Courthouse provided strong precedents

...But Few Deals Were Completed

- A number of high-profile deals were pulled from the U.S. market in 2011
 - Cancellation of Florida High Speed Rail Project
 - Legislative failure of Detroit River Tunnel Project
 - Georgia’s sudden rejection of the \$1.3Bn West by Northwest Project occurred toward the end of the process
- In addition, transactions such as the Presidio Parkway were challenged in court by political opposition
- The \$1.1 Bn Puerto Rico PR-22/PR-5 toll roads privatization was the only closed brownfield deal

Lack of Political Will Provided the Primary Headwinds

- Because the primary cause of transaction suspension was political in nature, bidders focused on political will
- The Ohio State University (parking) and Puerto Rico (toll roads and airport) both attracted significant bidder interest given clear path to political approval

2012 Anticipated Activity

Continued Municipal Challenges – Few Options for Funding

- Fiscal year 2012 budget deficits totaling \$103 Bn, with average deficit of \$2.5 Bn ⁽¹⁾
- Limited cures include budget cuts, tax increases, and tapping reserves – all require significant sacrifices
- Cities facing combination of lower state funding and lower tax receipts are looking to other options
- U.S. is still struggling with high unemployment and infrastructure projects could be a good political solution (e.g. Governor Cuomo’s plans in NY)

Fundraising Has Been Strong, With New Market Entrants

- A number of funds are wrapping up fundraising, and consequently are shifting attention to investment opportunities
- In addition, U.S. pension funds are providing new sources of capital (e.g. TIAA-CREF acquired a 50% stake in Florida’s I-595 project in October 2011)

Bank Debt May be Challenged Given European Headwinds

- Twelve banks participated in the \$750 MM financing for the \$1.1 Bn, 40-year Puerto Rico toll road concession, starting at L+250 bps
- Given continued challenges in Europe, banks are hesitant to devote significant resources to U.S. projects
- We expect smaller deals to continue to be funded

Near Term Outlook

- Potential opportunities to pursue processes with limited competition
- Ability to bridge with or fund with all or primarily equity could be a significant differentiating factor

Notes

1. Center on Budget and Policy Priorities, June 17, 2011
2. Fiscal year ending June 30
3. Probitas Partners

U.S. Infrastructure Opportunities Overview

Toll Roads / Highways

- Need and appetite for both brownfield and greenfield toll road investment
 - A concession of **Puerto Rico's toll roads** generated \$1.1 Bn in upfront proceeds
 - High congestion driving projects like TX's Grand Parkway
 - Projects like HOT/HOV lanes are also increasing as concessions, such as Virginia's I-95 Hot Lanes
 - **The Ohio Turnpike is contemplating a concession process**
- While historically popular internationally, use of availability payments in the U.S. is just beginning to gain traction
 - California's **Presidio Parkway** uses this structure, and is expected to close in 2012

Airports

- The FAA slots designated for airport privatization have shuffled in the past year
 - New Orleans' Airport withdrew its application
 - GA's Briscoe Field delayed its process
 - Chicago mayoral candidates have publicly opposed Midway privatization
- **Luis Muñoz Marin International Airport** (LMM) in Puerto Rico is the closest candidate to an airport concession
- However, depending on what occurs Chicago's Midway Airport, **there could be both an additional large hub and an additional medium hub slot available**
- LA's Ontario Airport also evaluating potential privatization

Maritime / Ports

- While some investors soured on the port sector during the crisis, overall there remains high infrastructure buyer interest in the sector
 - Underlying thesis of outpaced industry growth in the medium term
 - Need for capital investment at U.S. port facilities
- Baltimore Seagirt concession with Highstar Capital closed financing with more than \$250 MM of tax-exempt debt
- While most municipal port opportunities are greenfield, **some infrastructure funds are contemplating divestiture of their port assets**
- APM Terminals Virginia represents most near-term actionable U.S. opportunity

Parking

- Increasingly viewed as infrastructure assets
- Potentially higher rates of return from technology improvements and low ongoing capital expenditures
- **Morgan Stanley served as sell-side advisor for the recently closed Indianapolis parking system concession**
- In addition, Morgan Stanley advised Pittsburgh on the \$452MM bid for its parking system
- Other cities and government entities are considering parking concessions
 - Morgan Stanley is sell-side advisor to Ohio State University on a concession of its parking system

Other

High-Speed Rail

- Growing government focus on high-speed rail
- Most advanced projects include California High-Speed Rail, DesertXpress and the Northeast Corridor

Transit

- Denver RTD FasTracks Eagle concession closed in August 2010
- Veolia €5Bn divestment program

Water/Wastewater

- Citizens Energy acquired the City of Indianapolis water and wastewater system for \$1.7 Bn
- Nassau County, NY is currently pursuing a transaction involving its sewer system

Morgan Stanley's Role in Precedent U.S. P3 Processes

2006 - 2011

- As the market leader in P3 advisory, Morgan Stanley has extensive experience working with governments and bidders on U.S. P3 transactions
 - 7 out of the 9 announced brownfield P3 transactions ⁽¹⁾ over the last 5 years
- Most recently, Morgan Stanley successfully closed a P3 for the City of Indianapolis parking system, advised Citizens Energy on its \$1.8 Bn acquisition of Indianapolis' water and wastewater system and advised a bidder on the Puerto Rico PR-22 / PR-5 toll road P3 process**
- Morgan Stanley worked on the largest deals such as sole advisor to the Commonwealth of Pennsylvania on the Pennsylvania Turnpike in 2008, and advised a bidder for the Indiana Toll Road

Precedent U.S. Public-Private Partnerships ⁽¹⁾

2006 - Present ⁽²⁾

Target	Acquiror or Winning Bidder	Date	Size	Morgan Stanley Role
Puerto Rico PR-22 / PR-5 Toll Roads	Goldman Sachs / Abertis	June 2011	\$1.1 Bn	✓ Advisor to Bidder
Pittsburgh Parking System	JPMorgan / LAZ	Sept 2010	\$452 MM	✓ Advisor to Government
Chicago Metered Parking	MSIP / LAZ	Dec 2008	\$1.2 Bn	✓ Investor and Bookrunner ⁽³⁾
Chicago Midway Airport	Citi / John Hancock / YVR	Sept 2008	\$2.5 Bn	✓ Advisor to Bidder
Pennsylvania Turnpike	Citi / Abertis	May 2008	\$12.8 Bn	✓ Advisor to Government
Northwest Parkway	Brisa / CCR	May 2007	\$603 MM	
Chicago Downtown Parking	MSIP / LAZ	October 2006	\$563 MM	✓ Investor and Advisor to Bidder
Indiana Toll Road	Macquarie / Cintra	June 2006	\$3.9 Bn	✓ Advisor to Bidder
Pocahontas Parkway	Transurban	June 2006	\$522 MM	

Notes

- Reflects U.S. brownfield P3s that awarded a binding bid greater than \$250MM
- Through August 2011
- Worked with Chicago Parking Meters as bookrunner on debt financing (\$600MM senior secured notes)