IBTTA: Transportation Finance and Mileage-Based User Fee Symposium

Latest Trends in Innovative Financing

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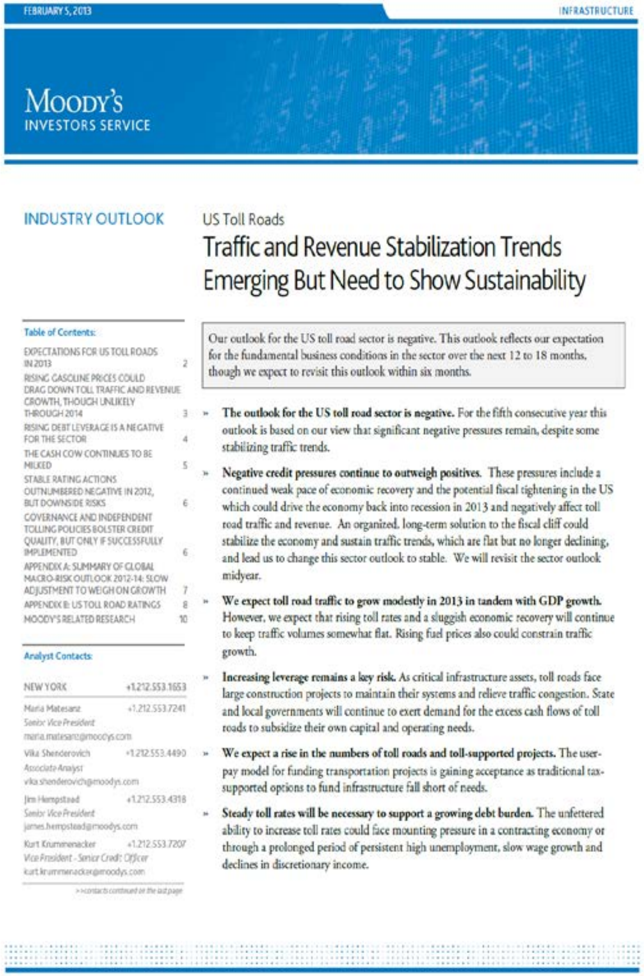
Government Owned Toll Road Sector Outlook



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MOODY'S INVESTORS SERVICE

INDUSTRY OUTLOOK

US Toll Roads

Traffic and Revenue Stabilization Trends Emerging But Need to Show Sustainability

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Our outlook for the US toll road sector is negative. This outlook reflects our expectation for the fundamental business conditions in the sector over the next 12 to 18 months, though we expect to revisit this outlook within six months.

- **The outlook for the US toll road sector is negative.** For the fifth consecutive year this outlook is based on our view that significant negative pressures remain, despite some stabilizing traffic trends.
- **Negative credit pressures continue to outweigh positives.** These pressures include a continued weak pace of economic recovery and the potential fiscal tightening in the US which could drive the economy back into recession in 2013 and negatively affect toll road traffic and revenue. An organized, long-term solution to the fiscal cliff could stabilize the economy and sustain traffic trends, which are flat but no longer declining, and lead us to change this sector outlook to stable. We will revisit the sector outlook midyear.
- **We expect toll road traffic to grow modestly in 2013 in tandem with GDP growth.** However, we expect that rising toll rates and a sluggish economic recovery will continue to keep traffic volumes somewhat flat. Rising fuel prices also could constrain traffic growth.
- **Increasing leverage remains a key risk.** As critical infrastructure assets, toll roads face large construction projects to maintain their systems and relieve traffic congestion. State and local governments will continue to exert demand for the excess cash flows of toll roads to subsidize their own capital and operating needs.
- **We expect a rise in the numbers of toll roads and toll-supported projects.** The user-pay model for funding transportation projects is gaining acceptance as traditional tax-supported options to fund infrastructure fall short of needs.
- **Steady toll rates will be necessary to support a growing debt burden.** The unfettered ability to increase toll rates could face mounting pressure in a contracting economy or through a prolonged period of persistent high unemployment, slow wage growth and declines in discretionary income.

» Sector outlook remains negative for the fifth year in a row despite selective signs of recovery

» Main factors weighing on the outlook are:

  » Slow pace of economic recovery ; Moody's maintains negative outlook for state and local governments

  » Increased levels of debt load and/or support of other entities

  » Toll rate pressure

» Expect toll supported projects will continue as the financing mechanism of choice

Key Factors in Rating Methodology

Government Owned Toll Roads

Broad Rating Factors	Factor Weighting	Rating Sub-Factors	Sub-Factor Weighting
Market Position	40%	Asset Type	10%
		Operating History	10%
		Competition	10%
		Service Area Characteristics	10%
Performance Trends	30%	Annual Traffic	5%
		Traffic Profile	5%
		5-Year Traffic CAGR	5%
		Ability and Willingness to Raise Rates	15%
Financial Metrics	20%	Debt Service Coverage Ratio Debt to Operating Revenue	10% 10%
Capacity, Capital Plan and Leverage	10%	Capital Needs Limitations to Growth/Operational Restrictions	5% 5%
Total	100%	Total	100%

- Ability and Willingness to Raise Rates has the most weight of all of the factors
  - Why?
  - Opportunities and Challenges:
    - Seeing a slow growing trend to set toll rate increase policies, which provide more visibility for toll raising ability
    - Toll rate fatigue
    - Impact on historic assumptions regarding elasticity?
- Toll roads under concession schemes generally have more predictability but less flexibility in this arena

Innovative Trends: Managed Lanes

- From a policy perspective considered best solution for a certain types of projects:
  - Urban, densely populated and heavily congested areas prime for this managed lanes
- From an operating perspective:
  - Project not entirely 'greenfield', even if new construction is involved, given the established user patters
  - Diversion assumptions are critical
  - Provide reliable trip time and travel time savings
- From a financing standpoint, more challenging:
  - Pricing generally higher per mile than other area toll roads
  - Free alternative easily accessible, hence use is more volatile than typical toll road
  - VOT shifts with traffic patterns throughout day, less predictable revenue picture
  - Pricing is designed to meet speed and congestion threshold, not revenue maximization.
  - Modelling and sensitivities are more complex than traditional toll roads
  - Active asset management is key

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