BOARD OF DIRECTORS AGENDA

Friday, August 26, 2011
9 a.m. to 12 noon
SANDAG Board Room
401 B Street, 7th Floor
San Diego

AGENDA HIGHLIGHTS

- **SANDAG INTEREST IN ACQUIRING SOUTH BAY EXPRESSWAY ASSETS AND DISCUSSION OF FINANCING OPTIONS AND TRANSPORTATION ANALYSIS FOR STATE ROUTE 125**

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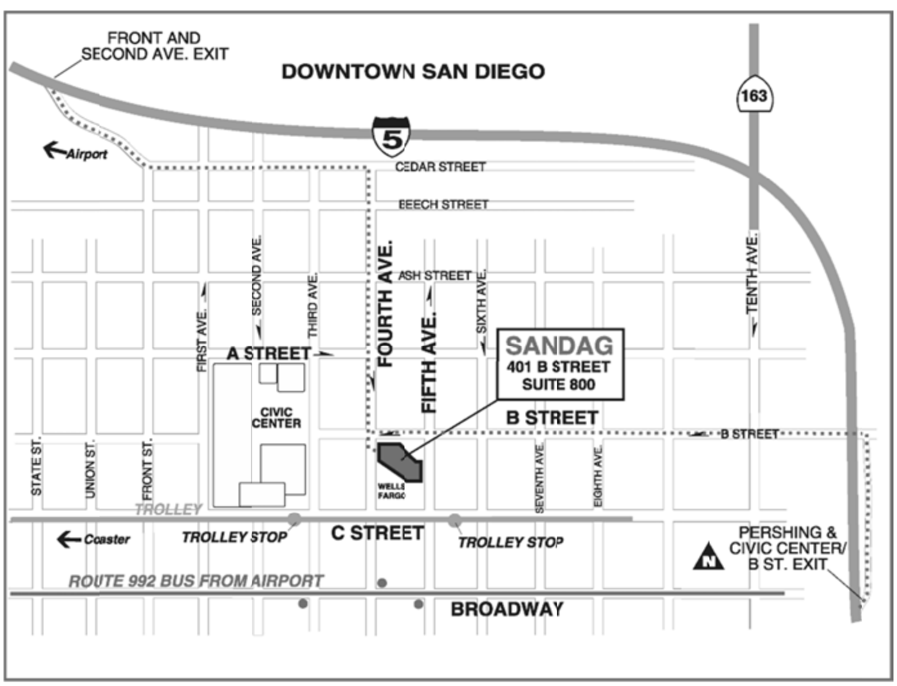

Rev. 082211

BOARD OF DIRECTORS

Friday, August 26, 2011

ITEM #		RECOMMENDATION

1. PUBLIC COMMENTS/COMMUNICATIONS/MEMBER COMMENTS

Public comments under this agenda item will be limited to five public speakers. Members of the public shall have the opportunity to address the Board on any issue within the jurisdiction of SANDAG that is not on this agenda. Other public comments will be heard during the items under the heading "Reports." Anyone desiring to speak shall reserve time by completing a "Request to Speak" form and giving it to the Clerk of the Board prior to speaking. Public speakers should notify the Clerk of the Board if they have a handout for distribution to Board members. Public speakers are limited to three minutes or less per person. Board members also may provide information and announcements under this agenda item.

REPORTS (2)

+2. SANDAG INTEREST IN ACQUIRING SOUTH BAY EXPRESSWAY ASSETS AND DISCUSSION OF FINANCING OPTIONS AND TRANSPORTATION ANALYSIS FOR STATE ROUTE 125 (First Vice Chair Jack Dale, Transportation Committee Chair; Marney Cox)* — DISCUSSION

South Bay Expressway, LP (SBX) currently leases State Route 125 (SR 125) from the state of California pursuant to a development franchise agreement. SBX filed for bankruptcy in March 2010, and beginning in October 2010, the SANDAG Board of Directors requested staff explore the possibility of a public purchase option for the SR 125 lease in a series of closed session meetings. In July, the Board authorized its negotiators to accept the latest counteroffer received from SBX agreeing to acquire the SR 125 toll road for $344.5 million, subject to various conditions and contingencies. During the August 26, 2011, meeting, the Board of Directors will hold a public meeting to review the chronology of the work SANDAG and its consultants undertook in the evaluation of the SR 125 toll road so that the Board could determine a purchase price, and to review possible financing options should the Board choose to continue its efforts to purchase the toll road following the public meeting process and completion of its due diligence efforts.

3. CONTINUED PUBLIC COMMENTS

If the five speaker limit for public comments was exceeded at the beginning of this agenda, other public comments will be taken at this time. Subjects of previous agenda items may not again be addressed under public comment.

4. UPCOMING MEETINGS INFORMATION

The next Board Policy meeting is scheduled for Friday, September 9, 2011, at 10 a.m. The next Board Business meeting is scheduled for Friday, September 23, 2011, at 9 a.m.

5. ADJOURNMENT

+ next to an agenda item indicates an attachment
* next to an agenda item indicates a San Diego County Regional Transportation Commission item

BOARD OF DIRECTORS
AUGUST 26, 2011

AGENDA ITEM NO. 11-08-2
ACTION REQUESTED – DISCUSSION

SANDAG INTEREST IN ACQUIRING SOUTH BAY EXPRESSWAY ASSETS AND DISCUSSION OF FINANCING OPTIONS AND TRANSPORTATION ANALYSIS FOR STATE ROUTE 125

File Number 7300700

Introduction

South Bay Expressway, LP (SBX) currently leases State Route 125 (SR 125) from the state of California pursuant to a development franchise agreement (DFA). SBX filed for bankruptcy in March 2010. Beginning on October 8, 2010, the SANDAG Board of Directors requested staff to evaluate the claims against SANDAG described in the SBX bankruptcy documents, and explore the possibility of a public purchase option for the SR 125 lease in a series of closed session meetings. At the conclusion of the April 8, 2011, closed session, the Board directed its negotiators to make an offer to purchase SBX assets related to the SR 125 toll road, subject to various conditions, and contingent upon settlement of outstanding claims by SBX against SANDAG and future decisions in one or more public meetings regarding financing options and operational issues. At the conclusion of the July 29, 2011, closed session, the Board directed its negotiators to accept the latest counteroffer received from SBX, agreeing to acquire the SR 125 toll road (assuming the Caltrans DFA) for $344.5 million, subject to various conditions and contingencies.

The purpose of this report is twofold: first, to provide a chronology of the work SANDAG and its consultants undertook in the evaluation of the SR 125 toll road so that the Board could determine a purchase price; and second, to provide the Board with financing options should the Board choose to continue its efforts to purchase the toll road following the public meeting process and completion of its due diligence efforts. A summary of the due diligence tasks and proposed schedule are shown in Attachment 1. A summary of the DFA between SBX and Caltrans that SANDAG would be assuming with the acquisition from SBX is included as Attachment 2. Both of these attachments will be discussed further at upcoming meetings focused on the outcomes of the due diligence process.

Discussion

The toll road portion of SR 125 opened on November 19, 2007, extending SR 125 southward from SR 54 to Otay Mesa Road. SR 125 was designed and built to help connect a growing residential section of eastern Chula Vista, a major industrial area in the City of San Diego, and the primary United States/Mexico commercial port of entry serving the region (Otay Mesa Port of Entry) to the regional transportation network. The toll road portion of SR 125 had been planned as a free road since 1959, but due to lack of funds was not going to be built for many years. The need to identify an alternative source of funding led to the establishment of a public-private partnership for development of the toll road portion of SR 125, which helped complete a missing link in the region’s transportation system. Via California legislation[1], this public-private partnership method of financing, constructing, maintaining, and operating the SR 125 was available to four California toll road projects, including the SR 91 in Orange County. Eight years after its opening, SR 91 was purchased by the Orange County Transportation Authority, which still operates it as a toll facility today.

Macquarie Infrastructure Group (MIG) held the ownership interest in SBX when Caltrans approved the DFA with SBX, under which MIG financed and built the toll road. The DFA authorizes leaseback, operations, and maintenance of the facility by SBX for 35 years (through 2042). Total development and construction costs for the 10.5-mile roadway were approximately $847.3 million[2] .

Citing lower than expected traffic and toll revenue and extensive ongoing litigation with its contractors, SBX filed for Chapter 11 bankruptcy protection in late March 2010. According to the bankruptcy documents, SBX debts consisted primarily of two secured loans, one provided by the group of 11 banks led by Banco Bilbao Vizcaya Argentina, S.A. (BBVA)**,** in the amount of approximately $341 million, and one provided by the U.S. Department of Transportation (USDOT) Transportation Infrastructure Finance and Innovation Act (TIFIA) loan program[3] in the amount of approximately $172 million, including capitalized interest. In addition, SBX owed approximately $22 million in other secured claims. Total secured loans/claims according to the bankruptcy documents were approximately $535 million. The SBX Plan of Reorganization (POR) proposed to turn ownership of the SR 125 franchise over to a new ownership group (the Senior Secured Creditors), which agreed to a reduction of their secured claim to approximately $288 million. The bankruptcy court ultimately approved the POR.

SBX emerged from Chapter 11 bankruptcy on April 29, 2011, governed by a five-person board of directors. The post-bankruptcy ownership of SBX consists of the Senior Secured Creditors. The ownership interests of these lenders consist of approximately two-thirds ownership by the consortium of 11 private (and mostly foreign banks) and one-third by the federal government due to the TIFIA loan. Any sale of the toll road franchise must be voted on directly and approved by the individual private lenders and TIFIA, prior to an action by the SBX board of directors.

Following the successful emergence of SBX from bankruptcy in late April and commencement of purchase price negotiations between the new SBX owners and SANDAG negotiators, it became clear that the private lenders and TIFIA have differing investment objectives. Should a sale be consummated, the private lenders would want a cash offer for their share, while TIFIA would be interested in remaining a lender for the term of the remaining franchise period. This could be accomplished by preserving TIFIA's current position as a lender by structuring its acquisition consideration in the form of an assumption of its current note with SBX by SANDAG, with payment secured by net revenues from tolls collected on SR 125.

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1 Assembly Bill 680 (Baker) Chapter 107, Statutes of 1989 authorized Caltrans to enter into agreements with private entities for development, construction, and operation of four demonstration transportation projects at private sector expense without the use of state funds.

2 The 10.5-mile roadway cost an estimated $847.3 million (including donated right-of-way) and consists of two sections: the northernmost 1.2 miles of the roadway, known as the "Gap and Connector," was publicly funded by SANDAG with $159.3 million in *TransNet* revenues. The southern 9.3-mile section's funding came from three main sources: $340 million in bank debt drawn from a $400 million commitment from a group of eleven commercial banks led by BBVA; project equity from MIG of $160 million; and a $140 million loan from the USDOT TIFIA program. In addition to this funding, the State of California and the City of Chula Vista donated $48 million in right-of-way land to the toll road project.

3 The USDOT TIFIA program provides federal credit assistance in the form of direct loans, loan guarantees, and standby lines of credit to finance surface transportation projects of national and regional significance.

Although the private lenders and TIFIA have different preferences in terms of form of compensation, should a sale of the toll road be consummated, both feel strongly that the asset values contained in the POR ($288 million) do not provide a good representation of the toll road's value. According to the lenders, the POR value did not take into account several incremental sources of cost savings and project revenue to which a potential third-party private investor would ascribe value. Further details regarding an acquisition valuation of SR 125 are discussed below:

I. SR 125 Acquisition Valuation

Preceding the Board decision to negotiate a purchase price for the SR 125 toll road, SANDAG advisors and consultants prepared a financial evaluation of the toll road. The evaluation identified three financial perspectives: (i) from the POR created by SBX during the bankruptcy process; (ii) from a third-party private sector buyer's perspective; and (iii) finally from the SANDAG perspective with its unique interests as the regional transportation authority. Each of these valuation methods and their applicability to SANDAG are discussed further below.

Plan of Reorganization Baseline Valuation

The POR established a baseline asset valuation of $288 million for the SR 125 asset. With cash and other customary adjustments, the total POR valuation for the estate is approximately $309 million. These estimates were developed by SBX and its financial advisor (Imperial Capital) and have been recognized by the creditors, which became equity holders post-emergence, as a fair market value for the asset and the business as a going concern.

The creditors should be considered "strategic" private investors. A strategic investor is one that would hold a view of the value of an asset (like the toll road) that is influenced by some unique connection, such as previously invested capital, expectations of future cost savings, or the complementary nature of the facility to help achieve a broader portfolio goal or objective. These unique synergies influence the strategic investor's calculation of value. These connections or synergies to the project would be less relevant to a "non-strategic" investor.

The creditors feel strongly that the POR value no longer provides a good representation of the toll road's value, because the value was, in part, driven by the outstanding construction claims that were influencing the bankruptcy process and did not take into account several incremental sources of cost savings and project revenue, which the creditors, as strategic investors, believed could be achieved. The creditors identified three items – private owner property tax exemption, private owner management efficiencies, and the potential of a private owner franchise extension to extend the term of the SR 125 lease beyond 35 years – that they believed supported a higher value in a transaction involving a private third-party strategic investor over and above a POR-based valuation that did not take any of these items into account. According to the creditors, successful implementation of these items would push the value of the SR 125 toll road to **nearly $500 million** instead of the $288 million POR value.

Private Sector Valuation Approaches

Third-party private investors evaluating a potential acquisition of SR 125 would look to develop their own view on stand-alone asset value independent of the stated POR value using one or more of the three traditional valuation approaches:

1. Discounted Cash Flow (DCF) Analysis
2. Comparable Transaction Analysis
3. Replacement Value Assessment

Further detail on each approach follows below. However, the incremental value increases, above the POR level, a major point of negotiation with the Senior Secured Creditors with respect to operational enhancements, franchise extension, and property tax exemption, are not considered below.

1. Discounted Cash Flow Analysis Valuation

This approach arrives at a value based on projected future asset cash flows. Under this methodology, forecasted net cash flows (revenue receipts net of operations and maintenance costs as well as capital expenditure needs and taxes) are discounted to a present value at a rate reflecting an anticipated third-party private investor's risk-adjusted acquisition financing costs under current market conditions. The key drivers of valuation under this methodology are the traffic and revenue forecast and the discount rate[4].

This approach yields a valuation range of **$230 million to $288 million**.

2. Comparable Transaction Analysis Valuation

This approach establishes a value by reference to amounts paid for comparable assets in the recent past by strategic as well as non-strategic private investors. In the toll road sector, these comparisons are generally made using two metrics – the gross top-line revenue multiple and the earnings before interest, taxes, depreciation, and amortization (EBITDA) multiple. These multiples are ratios of the price paid for the asset to either gross project revenues or EBITDA, as applicable.

Historically, private acquisitions of mature toll road assets and shares of toll company portfolios have traditionally occurred at multiples of 5 to 12 times (5x to 12x) revenues and 8 to 14 times (8x to 14x) EBITDA. Acquisition of an entire project by a strategic private investor with substantial near- to medium-term growth potential is consistent with transactions at the higher end of these ranges.

Using these multiples, the SANDAG consultant performed a comparable analysis for SR 125 using actual 2010 gross revenue numbers as well as stabilized "post-recovery" 2015 gross revenue numbers as provided in the SBX base case forecast used in the DCF analysis discussed above.

	Actual/Forecast	Multiple	Implied Asset Value
Revenue (2010)	$24 million	12x	$288 million
Revenue (2015)	$32 million	10x	$320 million
EBITDA (2010)	$14 million	14x	$196 million
EBITDA (2015)	$20 million	12x	$240 million

This approach yields a valuation range of **$196 million to $320 million**. Strategic private investors generally pay the multiples at the higher end of this range shown in the table above.

[4] The analysis requires certain key assumptions to be made. Barclays is the SANDAG investment banker for this project. Barclays' key assumptions include traffic and revenue numbers consistent with the base case forecast (the "P(50)" forecast) upon which the POR is based. Also, Barclays used a discount rate range derived from the assumption of a 75/25 debt to equity ratio and current market rates of 7 percent to 9 percent for private taxable debt and 13 percent to 15 percent for private equity financing for existing operating toll road assets.

3. Replacement Value Assessment Valuation

This approach assesses the value of an asset at the current cost to construct a replacement facility. This methodology takes into account current market labor and materials costs as well as any major technological changes that may alter the approach to project development.

The SANDAG investment banking consultant, Barclays, performed the replacement value analysis for SR 125 using the original development cost as a baseline. Barclays assumed that highway construction technology and best practices have remained largely the same since the original design-build contract was implemented in 2003 and that the only major change would be in price levels.

	Initial Cost (Year)	Adjustment Basis	Current Cost ($2010)
Design-Build Contract	$415 million (2003)	Caltrans Construction Cost Index	$570 million
Community Improvements	$66 million (2003)	San Diego CPI	$79 million
Land & Right-of-Way	$207 million (2003)	San Diego CPI	$247 million
Total Costs	$688 million[5] (2003)		$896 million

This approach yields a valuation of **$896 million**.

Negotiated Acquisition Price and Structure of Possible Purchase

After a series of closed session meetings, the Board directed its negotiators to accept the latest counteroffer received from SBX, agreeing to acquire the SR 125 toll road (assuming the Caltrans DFA) for $344.5 million, subject to various conditions and contingencies.

If the Board moves forward on the possible purchase of the SR 125 toll road, SANDAG would acquire the asset for a cash settlement with the creditors of $247.5 million ($231 million to the 11 banks and $16.5 million to TIFIA), while TIFIA would remain a secured creditor ($92.5 million) receiving payment from toll revenues. A "Series D" participation would be held by both the private banks and TIFIA (68% and 32%, respectively) and would be in the form of a second lien on net project revenues with a cash flow priority behind both TIFIA and any potential loan from *TransNet* (discussed below). The Series D would be similar to an equity share with a 14% coupon, subordinate to both TIFIA and *TransNet,* which would mature at the end of the franchise term (2042). SANDAG would agree to keep tolls on the facility through the initial franchise term as long as TIFIA, *TransNet*, and Series D have not been fully paid. Series D would expect to receive cash flows in the event regional growth out performs SANDAG expectations and growth in the corridor results in higher than anticipated traffic and revenue.

[5] Excludes the cost of the 1.2-mile Gap and Connector project located at the north end of the toll road, which was paid for by SANDAG at a non-adjusted cost of $159.3 million.

Structure of Proposed Purchase	
<u>(Letter of Acceptance Value)</u>	
Cash	$247.5 million
TIFIA Note	$92.5 million
Series D	<u>$4.5 million</u>
Total	**$344.5 million**

Strategic Acquisition Considerations Unique to SANDAG

SANDAG, given its responsibility to develop and maintain the transportation network in the San Diego region, is a strategic "public" investor that brings with it a unique set of interests and capabilities. SANDAG continuously searches for ways to provide the most cost-effective transportation network that meets the needs of the region. During its preliminary evaluation of the SR 125 toll road, SANDAG identified a number of latent opportunities that under its ownership and management could be realized and would provide significant transportation value to the region. By purchasing the SR 125 toll road, SANDAG would have the ability to actively manage it in a way that provides a cost-effective solution to tap the toll road's otherwise unused capacity to better serve the entire region's transportation needs and optimize network performance. Below is a list of the transportation-related benefits that the region has the opportunity to achieve with the purchase of the SR 125 toll road:

- <u>Improve Mobility</u>: Accelerate congestion relief 10 to 20 years earlier than planned for in the Regional Transportation Plan and continue scheduled progress on *TransNet* Early Action Program
- <u>Lower Cost</u>: Opportunity for providing a higher level of service at a lower cost
- <u>Elimination of Noncompete Clause</u>
- <u>Flexibility</u>: SANDAG would have the authority to decide how SR 125 operates, including the possibility of managed lanes
- <u>Lower Tolls</u>: Purchase could provide SANDAG with the opportunity to lower SR 125 toll rates

II. SANDAG SR 125 Acquisition Financing Options

SANDAG staff and its financial advisors and consultants identified three separate potentially viable approaches to financing the SR 125 toll road purchase: toll revenue bonds, a loan from *TransNet*, and exchanging an existing *TransNet* project for the SR 125 toll road purchase, or some combination of these three approaches. These three approaches and various combinations were compared against the ability of SANDAG to meet the broader regional transportation benefits listed above. Given the costs of the acquisition, the revenue potential of the asset (including if tolls are substantially reduced), and the regional goals of maximizing regional mobility at the lowest possible cost, Barclays has developed two financing options for the Board to consider should it choose to move forward with the purchase following the public meeting process and the due diligence effort. Both financing options were simulated, assuming a purchase price of $344.5 million, in the structure illustrated below.

The two financing options analyzed by Barclays for funding the acquisition of the SR 125 toll road include a toll revenue bond option and an option utilizing the combination of a *TransNet* loan and project exchange (swap) in the *TransNet* Expenditure Plan after an SR 125 operations trial period, as shown in Table 1 below. Both financing options require the participation of *TransNet*, although the toll revenue bond option would not require any cash outlay, as explained below. The financial analysis assumes that SANDAG has the willingness and ability to fund any acquisition payment, in full or in part, with a combination of *TransNet* cash on hand and sales tax revenue bond proceeds (from past *TransNet* financings).

With respect to the use of *TransNet*, the Board has the further option of financing the acquisition with cash, or using the loan provision as allowed for in Section 7 of the *TransNet* Extension Ordinance. The *TransNet* loan option would have to be repaid with interest pursuant to the Ordinance and Board policy.

Table 1: SANDAG Financing Options

Purchase Structure	Cash	TIFIA Note	Series D
	$247.5 million	$92.5 million	$4.5 million
Option A: Toll Revenue Bonds	Toll Revenues (Bond Proceeds)	Toll Revenues	Toll Revenues*
Option B: *TransNet* Loan / Swap	$55.5 million: *TransNet* Loan (Reimbursed with Toll Revenues) $192 million: *TransNet* Project Swap after operations trial period (No Reimbursement to *TransNet*)	Toll Revenues	Toll Revenues*

* Series D would be paid only if toll revenues exceed expectations.

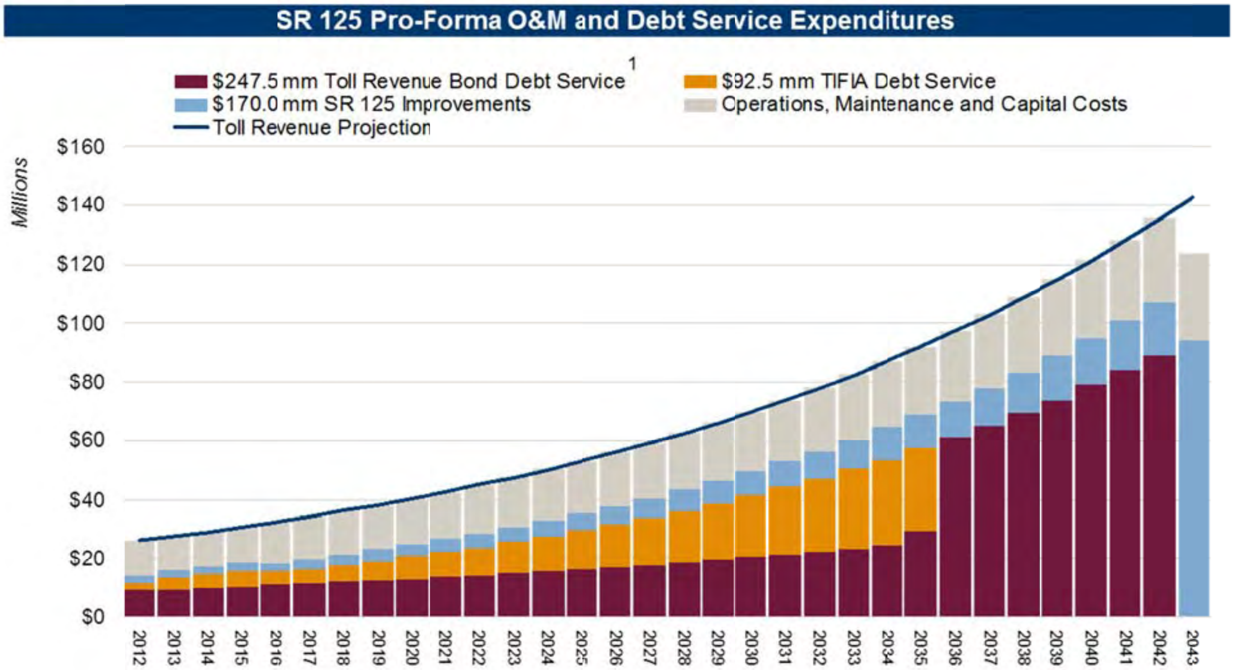
<u>*Option A – Toll revenue bonds and TIFIA loan*</u>. Under this option, as well as Option 2, SANDAG would elect to partner with TIFIA to acquire the toll road. It is important to note that the TIFIA payment obligation itself would be non-recourse to SANDAG. TIFIA would be exclusively repaid from SR 125 net project toll revenues. TIFIA would expect SANDAG to establish a covenant to set and collect tolls based on actual operating performance in an amount sufficient to preserve an agreed-upon debt service coverage ratio for as long as their refinanced loan is outstanding.

Funding the acquisition with non-recourse toll revenue bonds, coupled with the TIFIA loan and repayment schedule, would not completely eliminate the need for *TransNet* participation and would largely preclude any meaningful reduction of tolls on SR 125. Even with maintaining current toll levels and implementing revenue-maximizing increases over time, it would not be possible to structure investment grade non-recourse project revenue bonds secured solely by SR 125 toll revenues. The toll revenue bond option would likely require supplemental *TransNet* credit support. All debt, including *TransNet* debt, would be extinguished by 2043, one year beyond the end of the Caltrans DFA, requiring SANDAG to potentially extend the operations of the toll road[6]. Implementation of this option, however, would require that tolls be set in a manner that would not be expected to achieve the network level of service benefits that drive the strategic value of SR 125 to SANDAG. Much of the traffic that would be better served by SR 125 would instead use Interstate 805 (I-805) to avoid the higher tolls necessary to fund this option. Following this section is a pro-forma chart illustrating the relationship between the toll road revenue and expenditures over time if toll revenue bonds are issued.

[6] SANDAG is authorized by California Streets and Highways Code section 143.1(b) to continue to collect the toll on SR 125 at the end of the DFA term.

A. SR 125 Toll Revenue Bonds

No toll reduction



1. Toll Revenue Bonds expected to be below-investment grade, and **could** require supplemental *TransNet* credit support.

<u>Option B – Combination of TransNet/TIFIA loan and TransNet project swap after an operations trial period</u>. SANDAG would acquire the asset for a cash settlement with the creditors of $247.5 million ($231 million to the banks and $16.5 million to TIFIA), while TIFIA would remain a secured creditor ($92 million) receiving payment from toll revenues (see comments on TIFIA under Option 1). The *TransNet* Extension Ordinance provides for the ability to make loans, with certain provisions (Board approval of an agreement with repayment provisions, appropriate interest rate, and a review as part of the required 10-year comprehensive program review).

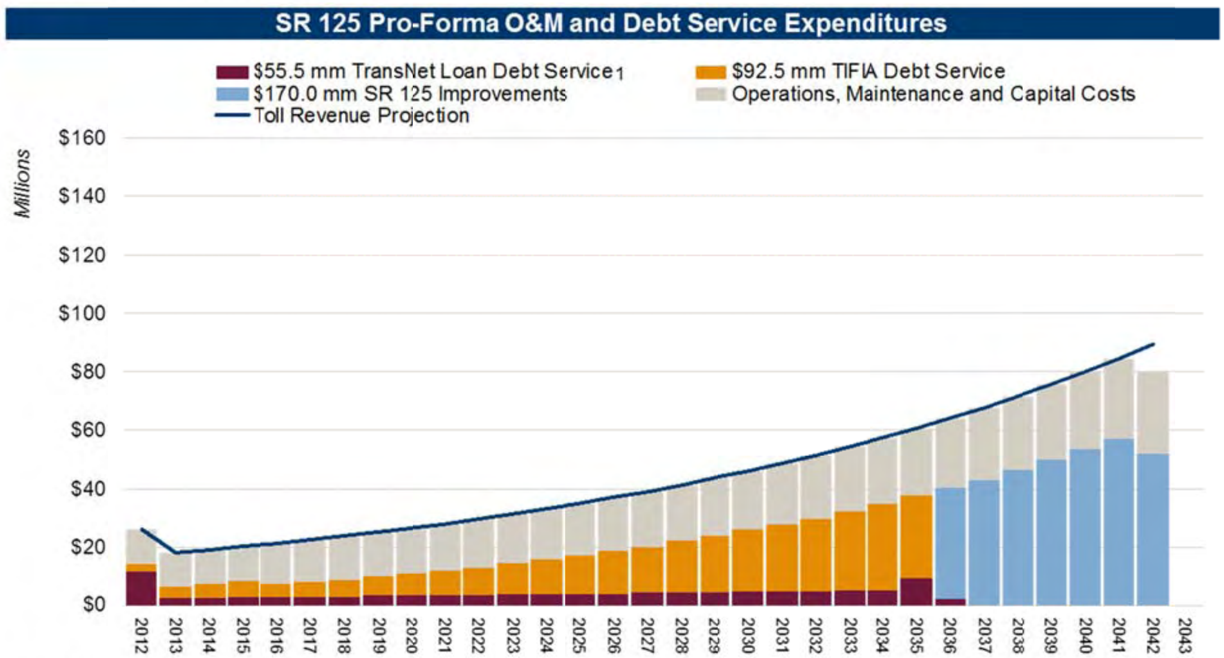
Following an operations trial period during which SANDAG could closely monitor use of the toll road under its ownership and analyze alternative tolling regimes, including an option for managed lanes, the Board of Directors would be in a better position to make a decision on a potential swap of a project currently in the *TransNet* Ordinance and Expenditure Plan for SR 125. The most likely exchange would call for swapping the two reversible high-occupancy vehicle (HOV) lanes on I-805 between SR 905 and SR 54, which is valued at $192 million[7], for SR 125. This would then leave a loan amount from *TransNet* of $55.5 million to be fully repaid with interest from toll revenues.

[7] The 2010 value of the two reversible HOV lanes project on I-805 is $212 million. This was adjusted to $192 million to account for the expenditure of $20 million for environmental and design work completed to date.

Under this option tolls could be lowered 40 percent to 50 percent and removed altogether by 2042 coterminous with the end of the initial DFA, including collecting sufficient toll revenue to build the additional four traffic lanes on SR 125 between SR 54 and SR 905 as called for in the Draft 2050 RTP. In addition, this option is expected to provide the same level of service on I-805 without building two managed lanes on I-805 at a cost of $480 million, resulting in a net savings to the region of $268 million. Following this section is a pro-forma chart illustrating the relationship between the toll road revenue and expenditures over time if the loan/swap financing method is used.

B. *TransNet* Loan / Swap

40% to 50% reduction in tolls



1. *TransNet* loans $247.5 mm million to purchase SR 125 and would be repaid $55.5 million from tolls; two reversible HOV lanes on I-805 in *TransNet* Extension Ordinance worth $212.0 million, less expenditures of $20.0 million for environmental and design work completed to date, could be swapped out to complete the funding for the purchase of SR 125 after the operations trial period.

Table 2 summarizes a comparison of financing options A and B.

Table 2: Financing Options Compared

Options	**Ability to Reduce Tolls**	**Level of Service I-805**[1]	**Level of Service SR 125**[2]	**Final Tolling Year**	***TransNet* Impact**	**Regional Transportation Expenditure Savings**
	SR 125	**2010 - 2035**	**2010 - 2035**			
Option A: Toll Revenue Bonds[3]	No (Profit Maximization)	LOS F/ LOS E	LOS A/ LOS B	2043	*TransNet* credit support required	$0
Option B: *TransNet* Loan/ Swap[4]	Yes (40% to 50% Reduction)	LOS F/ LOS E	LOS A/ LOS C	2042	$247.5 million loan, including: $192.0 million project swap after operations trial period $55.5 million loan reimbursed	$268 million

1. RTP improvements to I-805 would improve LOS from F to E.
2. A total $170 million (2010$) for four SR 125 managed lanes to be completed between 2040 and 2050 would be funded from SR 125 toll revenues under all scenarios. The Draft 2050 RTP assumed these improvements would be funded from toll revenues even if SANDAG does not acquire the road.
3. Toll Revenue Bonds expected to be below-investment grade, and could require supplemental *TransNet* credit support.
4. *TransNet* loans $247.5 million to purchase SR 125 and is repaid $55.5 million from tolls; two reversible HOV lanes on I-805 in *TransNet* Extension Ordinance 805 worth $212.0 million, less expenditures of $20.0 million for environmental and design work completed to date, could be swapped out to complete the funding for the purchase of SR 125 after the operations trial period.

Potential Financial Effects of SR 125 Purchase

To identify possible financial effects of a purchase of SR 125, SANDAG staff has evaluated the condition and status of the *TransNet* Plan of Finance, Regional Transportation Improvement Program (RTIP), and RTP; collectively these three documents organize and control the current and planned expenditures for SANDAG as the regional transportation agency. The analysis is intended to identify potential both short- and long-run financial implications for SANDAG.

From a broad perspective, the *TransNet* program will cost approximately $26 billion in year of expenditure dollars to implement. The impact of adding an expenditure of $247.5 million in *TransNet* funds represents less than one percent of the total program cost, which would not be considered significant in a program of the size and duration of *TransNet*.

In the short run, SANDAG would need to make a cash outlay of $247.5 million. Currently, there is more than sufficient cash to meet this obligation; however, SANDAG would likely need to return to the bond market during calendar year 2012 if the Board chooses to use *TransNet* cash and bond proceeds for SR 125, and all *TransNet* Early Action Program (EAP) projects maintained their current projected cash flow needs. This is not an unusual occurrence, as SANDAG actively manages the *TransNet* EAP, including periodically returning to the bond market to fund ongoing transportation planning and project development activities approved by the Board.

In the mid-to-long run, SANDAG staff evaluated the impact of the proposed acquisition on the *TransNet* Plan of Finance. Depending on which financing option is selected, the impacts on *TransNet* would vary. Using *TransNet* would be the quickest way for SANDAG to proceed with a purchase, because the other financing option would first require a bond issuance or loan transaction with a third-party.

Under the toll revenue bond option, there would be no cash impact; however, *TransNet* would likely need to increase its cash reserves to support the debt service coverage on the revenue bonds. This requirement is not expected to cause any disruption in the ability of SANDAG to carry out its planning and development responsibilities identified in the Plan of Finance, RTIP, or RTP.

The *TransNet* loan/swap option requires a $247.5 million upfront outlay from *TransNet*. This would be treated no different than other transportation project expenditures. The annual debt service that *TransNet* revenue would be paying on the $247.5 million cost is about $14 million through 2042, reducing the region's flexibility to incur additional debt by that amount.

It is not anticipated, however, that this additional debt would have a detrimental effect on the region's ability to finish the projects identified in the *TransNet* EAP. To the extent that this additional debt is assumed, the start date for other non-EAP *TransNet* projects would need to be evaluated to determine an appropriate course of action. The potential impacts of an SR 125 acquisition as well as other factors, including continued current construction cost environment, increased sales tax revenues, status of federal transportation reauthorization, among other issues, will be reviewed during the annual *TransNet* Plan of Finance update, currently scheduled to be completed by end of the calendar year.

III. Transportation Analysis of SR 125

SANDAG hired Stantec, a nationally recognized transportation consulting firm with significant experience in evaluating toll roads[8], to assist with forecasting SR 125 toll revenues. Stantec's methodology for forecasting traffic and revenue relies in part on toll diversion algorithms that it has used on dozens of tolled facilities throughout the country. Initially, these curves were empirically developed from stated preference surveys, and as part of Stantec's process, they have been refined and adjusted to account for the socio-economic variations of our particular area. Stantec has applied these algorithms to the base year and used the SANDAG regional transportation networks and modeling information being used to develop the Draft 2050 RTP.

[8] Stantec traffic and revenue financing studies have been the basis for the sale of over $25 billion in revenue bonds. With over 30 years of experience in the toll facility industry, Stantec provided SANDAG with expert advice on evaluating SR 125 toll revenue capabilities now as well as under different types of management and levels of stress.

Current Conditions – Traffic Counts

Stantec was tasked with conducting a comprehensive, independent traffic counting program throughout the South County on Caltrans, local facilities, and the SR 125 toll road during the week of March 7, 2011, with the intent to provide a more focused and accurate picture of current traffic related to the SR 125 study area. Stantec used two counting techniques. The first relied on radar technology to collect traffic volumes, average speed, vehicle class information by travel lane, and detailed congestion analysis. Traditionally, this information would be collected by Caltrans through the performance monitoring system detection system, but Caltrans does not have any detection equipment on the toll road facility. The second technique relies on anonymously tracking personal Bluetooth devices (e.g., cell phones, handheld videogames, iPods) to collect detailed origin-destination information; this information is extracted to assess the corridor travel patterns throughout the South County related to SR 125.[9]

Current Conditions – Market Analysis

One of Stantec's initial tasks was to review existing SANDAG modeling related to toll road usage and toll sensitivity. Using SANDAG transportation model outputs, Stantec analyzed the trip patterns on SR 125 and I-805 and identified four major geographic market areas that are responsible for generating most of the trips on the toll road, identified as follows:

1. Local SR 125: area of 1 to 2 miles around the middle of the SBX facility;

2. Local West: area immediately west of the "Local SR 125";

3. Local North: area north of the "Local SR 125"; and

4. Otay Mesa: area along SR 905 south of SR 125, including the Otay Mesa border crossing.

An analysis of these market areas shows that a majority of the traffic using the southern section of SR 125 originates or ends in the Local SR 125 area with less than half of the trips on the southern portion of the toll road ever reaching SR 54. The analysis also indicates nearly half of all trips between the Otay Mesa area and the Local SR 125 area will drive ten miles on SR 905 and local roads to avoid paying the toll on SR 125.

On the northern section of the toll road, the majority of traffic is from the Local SR 125 area to points north of the toll road. In addition, approximately 17,000 trips each day travel west using local arterials and travel north on I-805 compared to 2,200 trips northbound on the SR 125 northern section. This 10 percent to 20 percent capture rate for the toll road is far below expectations for local trips using the north end of the toll road, which reflects potentially both the toll avoidance as well as congestion on SR 54.

The analysis shows that SR 125 is only capturing a small portion of the potential roadway users. There is a clear potential for additional traffic to shift from both local roads and the highways to SR 125 at lower toll levels.

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[9] The anonymous nature of this technique is due to the use of MAC addresses as identifiers. MAC addresses are not associated with any specific user account (as is the case with cell phone probes) or any specific vehicle (as with automated toll tags). The MAC address is not linked to a specific person through any type of central database, thus minimizing privacy concerns. MAC addresses are assigned at the Bluetooth electronic chip manufacturers, and are not tracked through the sales chain. Additionally, people can control whether their Bluetooth enabled device can be detected. Users concerned with privacy can set options in their device (referred to as 'Discovery Mode' or 'Visibility') so that the device will not be detectable. Traffax Inc. implements Bluetooth traffic monitoring technology in full compliance with the IEEE international standards. The method of detection and information recorded does not circumvent any security or privacy protocols.

Impact of Planned Improvements to I-805

The draft 2050 RTP Revenue Constrained Transportation Network accepted by the Board on December 17, 2010, with phasing discussed on January 28, 2011, includes five improvements on I-805 between SR 905 and SR 54. Each of these improvements may have a traffic and revenue impact on the SBX facility. The HOV and Managed Lanes improvements on I-805 are scheduled to be completed in four phases. First, the improvements between SR 54 and Palomar Road are scheduled to be completed in two phases by 2020. Between 2021 and 2030, the improvements between Palomar Road and SR 905 are scheduled to be completed in two phases (these improvements are in the current 2030 RTP and are in the Draft 2050 RTP) with the HOV lanes added first, followed by the Managed Lanes. In addition to the HOV and Managed Lane improvements, the Draft 2050 RTP network also includes a direct access ramp (DAR) from Palomar Street to the Managed Lanes by 2014. The preliminary cost estimates for these improvements are shown in Table 3.

Table 3: Estimated Cost for I-805 Improvements

Improvement	Estimated Cost ($millions)
HOV Lanes from Palomar St to SR 54	$43
HOV Lanes from SR 905 to Palomar Rd	90
Managed Lanes from Palomar St to SR 54	220
Managed Lanes from SR 905 to Palomar St	260
Direct Access Ramp at Palomar St	55
Total	**$668**

The DFA between SBX and Caltrans includes a non-compete clause. The intent of the clause is to protect SBX from toll revenue losses caused by the construction of a competing facility in the SBX franchise area. An amendment to the DFA states that competing facilities, not included in the 2020 RTP adopted by the Board on February 25, 2000, are a potential trigger of the noncompete clause. Based on this definition, potentially competing infrastructure includes the Managed Lanes on I-805 between SR 905 and SR 54 (but not the HOV lanes that were in the 2020 RTP "Nonrevenue Constrained" Network) and other facilities on Caltrans right-of-way that would run substantially parallel to SR 125.

The noncompete clause in the DFA requires Caltrans to compensate SBX for potential lost toll revenue associated with the construction of the I-805 Managed Lanes between SR 905 and SR 54, provided that SBX could prove an economic impact from the construction of such lanes. Since the funding for these improvements would be provided by SANDAG, any compensation that needs to be paid to SBX under this clause would likely be a project cost for SANDAG. The final value of the compensation paid to SBX, if any, would need to be negotiated by Caltrans and SBX, or else be determined in a dispute resolution process, based on current and projected revenues at the time of construction of the I-805 Managed Lanes.

Baseline Traffic and Revenue

The baseline traffic and revenue information serves three important purposes. First, it provides information to be used in analyzing the potential revenue generating capacity of the roadway, which directly impacts the value of SR 125. Second, the baseline information provides a basis against which comparisons can be made to judge the traffic and revenue alternatives described in detail in the next section. The key statistics used for these comparisons are total potential revenue, toll transactions, average daily traffic on key segments, and level of service on parallel facilities. Finally, the baseline information most closely reflects traffic and revenue on the toll road under continued private ownership for the duration of the existing franchise agreement, which is assumed to be set at amounts intended to maximize toll revenues on SR 125 in isolation from the rest of the regional transportation system. The SBX transportation consultant predicted annual toll revenues at a higher compounded average growth rate than the SANDAG consultant.

For the baseline, SANDAG staff calculated projections of traffic and revenue using the same networks as the Draft 2050 RTP. Under this baseline, the transportation model projects future traffic volumes and revenues using the most recent 2050 Regional Growth Forecast and transportation network information combined with a toll rate schedule provided by SBX. Each traffic and revenue alternative includes a base year of 2010 from observed traffic and revenue. These base year traffic volume forecasts were produced by Stantec and SANDAG and differ from those produced by the SBX transportation consultant. A summary of the baseline traffic and revenue information is included in Table 4 below.

Table 4: 2050 RTP Baseline

	SR 125		**I-805**	
	2010	2035	2010	2035
Total Daily Toll Transactions	23,100	42,000	N/A	N/A
Potential Annual Revenues ($1,000)	$22,300	$92,000	N/A	N/A
Average Daily Traffic (midpoint)	10,500	16,700	155,000	241,000
Level of Service	A	B	F	E

Traffic and Revenue Alternatives

As discussed above, SANDAG staff working together with the project's team of consultants has developed two financial alternatives for SANDAG to purchase SR 125. Each financial alternative, would require the toll road be managed in a different manner that affects traffic and revenue. The traffic and revenue results from each alternative are compared below against the baseline case to determine the impact to the region.

Option A: Toll Revenue Bond Option

The Toll Revenue Bond option does not allow tolls to be reduced from the baseline, and requires the toll road be operated similar to, if not exactly as, it would under private ownership. As a result there is no discernable difference from a traffic and revenue perspective from the baseline. As discussed under the financial alternatives, however, there are significant financial risks and other conditions that define this alternative. Table 5 below summarizes the key statistics from this alternative.

Table 5: Toll Revenue Bonds

	SR 125		I-805	
	2010	2035	2010	2035
Total Daily Toll Transactions	23,100	42,000	N/A	N/A
Potential Annual Revenues ($1,000)	$22,300	$92,000	N/A	N/A
Average Daily Traffic (midpoint)	10,500	16,700	155,000	241,000
Level of Service	A	B	F	E

Option B: TransNet Loan/Swap Option

In the *TransNet* Loan/Swap option, it would be possible for SANDAG to reduce the tolls on SR 125 by 40 percent to 50 percent from the baseline. Under this option, it is assumed that only two of the four HOV/Managed Lanes (currently in the Draft 2050 RTP) on I-805 south of SR 54 would be constructed[10]. Table 6 below provides some information upon which this alternative can be evaluated against the Toll Revenue Bond alternative. For example, under the *TransNet* loan/swap option, daily transactions on SR 125 are projected to increase by 38 percent in 2035 (58,100 vs. 42,000) compared to the baseline while toll revenues would decrease by 35 percent ($92,000 vs. $59,800). Also, under this option the level of service (LOS) on I-805 is equal to the baseline (LOS E) despite having not built the two managed lanes on I-805 that are in the Draft 2050 RTP. It is the attractiveness of SR 125 at the lower toll that is responsible for the LOS E on I-805. This shift in traffic patterns would take advantage of the available capacity on SR 125 avoiding the more costly improvements on I-805 to achieve the same LOS.

Table 6: *TransNet* Loan/Swap

	SR 125		I-805	
	2010	2035	2010	2035
Total Daily Toll Transactions	23,100	58,100	N/A	N/A
Potential Annual Revenues ($1000)	$22,300	$59,800	N/A	N/A
Average Daily Traffic (midpoint)	10,500	32,700	155,000	234,000
Level of Service	A	C	F	E

GARY L. GALLEGOS
Executive Director

Attachments: 1. SR 125 Toll Road Potential Purchase Due Diligence Effort – Schedule
2. SBX Franchise Agreement: Executive Summary

Key Staff Contact: Marney Cox, (619) 699-1930, mco@sandag.org

[10] Although for purposes of discussion in this report it is assumed that the value of the HOV improvements on I-805 would be swapped for SR 125 due to the expected improvement to the LOS on I-805, the Board would not be asked to decide on what changes to make to the Expenditure Plan in *TransNet* until after it has the opportunity to operate the SR 125 toll road for a sufficient period of time to gather information and make a more informed decisions on what changes it may want to make to the Expenditure Plan or toll road operations.

SR 125 Toll Road Potential Purchase Due Diligence Effort - Schedule

Task Number	Tasks	7/29	8/5	8/12	8/19	8/26	9/2	9/9	9/16	9/23	9/30	10/7	10/14	10/21	10/28	11/4	11/11	11/18	11/25	12/2	12/9	12/16	12/23	12/30
1	Preliminary TransNet Plan of Finance Assessment																							
2	TransNet Early Action Program Cash Flow Assessment																							
3	Traffic Modeling																							
4	Infrastructure Assessment																							
5	Roadway Assets																							
6	Toll Collection and Traffic Management Assets																							
7	Operations and Maintenance Analysis																							
8	Financial Due Diligence																							
9	Review Financial Audit Results (Period Ending June 30, 2011)																							
10	Financial Performance																							
11	Review Planned Capital Expenditures																							
12	Assess Revenue Violation, Collections and Uncollectible Accounts																							
13	Review SBX Fixed and Variable Operating Expenses																							
14	Review SBX Balance Sheets																							
15	Review IT/Financial Systems																							
16	Investment Banking																							
17	Assess Financial Feasibility																							
18	Evaluate SANDAG Financing Options																							
19	Legal Due Diligence																							
20	Franchise Agreement Summary																							
21	Preliminary Legal Document Assessment																							
22	Preliminary Existing SBX Contracts Assessment																							
23	Review Legal Documents																							
24	Review Existing SBX Contracts																							
25	Review and Prepare Documents to Close Transaction (Pending Authorization)																							
26	Prepare Management and Operations Plan Post Acquisition																							
27	Board and PAC Communications																							
28	BOD - Authorizes SANDAG to Begin Due Diligence Effort (July 29, 2011)	X																						
29	BOD - Evaluation of Potential Purchase of SR 125 Toll Road (Aug 26, 2011) (90-day Due Diligence Effort Begins)					X																		
30	ITOC - Review of Financing Options (Sep 14, 2011)								X															
31	ITOC - Draft Due Diligence Report (Nov 9, 2011)																X							
32	BOD - Draft Due Diligence Report (Nov 18, 2011)																	X						
33	BOD - Request Recommendation from the Board to Proceed (Dec 2, 2011)																			X				
34	Finalize Transaction (Pending Authorization)																							X

M E M O R A N D U M

TO: SANDAG Board of Directors

FROM: Lindborg & Mazor LLP

RE: SBX Franchise Agreement: Executive Summary

DATE: August 16, 2011

On or about August 11, 2011, SANDAG and SBX signed a Letter of Acceptance ("LOA") which contemplates the transfer of SR125 from SBX to SANDAG. Given that an assumption by SANDAG of the Development Franchise Agreement ("DFA") under which SBX operates SR 125 will be a centerpiece of that transaction, a more detailed summary of the DFA pursuant to the Board's request is provided below.

Chronological Background to Execution of DFA:

- In 1989, the legislature passed Assembly Bill 680, codified at Streets and Highways Code (S&HC) § 143. The statute authorized two public demonstration transportation projects to be constructed under a Build-Operate-Transfer ("BOT") delivery system. Under the BOT model envisaged by the statute, the state, through Caltrans, would enter into a franchise agreement with a private entity which, in turn, would take the following action: (1) build the project using private funds, (2) convey the project to the state upon completion of construction, (3) lease the project back from the state, and (4) operate the project on a tolled basis for the term of the lease with the entire project reverting back to the state at the end of the lease term.

- On December 31, 1990, Caltrans entered into the DFA with SBX's predecessor-in-interest pursuant to S&HC § 143 for development and operation of SR 125 under the BOT model discussed above. The franchise agreement specifically contemplates a lease term of 35 years.

- During the 2006 legislative session, the legislature passed Senate Bill 463, codified at S&HC § 143.1. This statute applies solely to SR 125 and states that SR 125 shall be subject to tolls for up to 45 years - - but only if: (1) the extension of the DFA is agreed to by SBX and Caltrans prior to February 1, 2010, and (2) SANDAG, the County and City of San Diego and the City of Chula Vista concur with the extension.

Notably, these conditions were not satisfied. The statute further provides that whether or not such extension is agreed to by January 31, 2010, *then SANDAG,* subject to certain terms and conditions, may operate the facility and collect tolls to pay for projects within the SR 125 corridor at the end of the franchise period.

- In November 2007, SBX and Caltrans executed a Lease for a 35 year term, which essentially incorporates the terms of the DFA into the Lease.

Summary of the DFA and Potential Impact to SANDAG If it Assumes the DFA:

Term and Fees: The DFA grants SBX the right, and the obligation, to operate SR 125 within Caltrans' standards until 2042 in exchange for an annual payment of $120. Caltrans is additionally entitled to a percentage of profit above 18.5%, after deduction of all debt repayment, maintenance, operating and required expansion costs (calculated on the basis of annual financial reports which SBX is required to send to Caltrans). Whether the profit level necessary to trigger any additional fees due Caltrans is ever realized will largely be a function of revenue levels and operating standards established by SANDAG after closing the purchase.

Tolls: SBX has the right to set tolls for the use of SR 125, with limits imposed on its discretion by the terms of its loan documents. Toll collection may not be done by Caltrans. The right to set the tolling regime would be transferred to SANDAG upon purchase and the operations would be done by employees or contractors selected by SANDAG.

Expansion: SBX must expand the capacity of SR 125 if traffic on the roadway reaches an "E" level of service for two consecutive hours per day for 150 days per year over a two-year period. Information regarding if and when this provision would be triggered under SANDAG ownership using various operating assumptions will be discussed further with the Board in future meetings, including estimated costs associated with such improvements.

Interconnecting Facilities: Obligates Caltrans, to the extent of available resources, to construct and maintain facilities that connect SR 125 "to and from" other roads. If SANDAG assumes the DFA, this provision would be consistent with the approach SANDAG and Caltrans already take on connecting regional infrastructure.

Airspace Leases: SBX has the right to enter into "Airspace [Sub]Leases" for facilities (except for billboards) on, under or over SR 125's right of way. The rental payment due Caltrans is $1 per year per Airspace Lease. SBX has the right to set the rental amounts of the subleases. This term would provide a potential source of revenue to SANDAG.

Non-compete Clause: Prohibits Caltrans from constructing competing transportation facilities or airspace improvements within 6 miles of the centerline of SR 125, without payment of compensation assuming SBX could prove an economic impact. Under the proposed transaction, SANDAG would have the ability to waive this clause.

Maintenance and Operation: Obligates SBX to pay for maintenance and operations costs and permits SBX to enter into maintenance service and traffic management agreements with Caltrans (Caltrans must supervise, at SBX's cost, any non-Caltrans provider of these services). SBX must also contract with CHP (or other governmental entity) for the provision of police services on SR 125. If SANDAG assumes the DFA, it could work with Caltrans on finding the most cost effective methods for maintaining SR 125.

Insurance: SBX must carry $50 million in liability insurance. Revenues from the toll road would pay for any additional insurance costs SANDAG would incur for maintaining insurance required by the DFA.

Indemnities: The DFA contains numerous cross-indemnities between SBX and Caltrans addressing a variety of potential claims based on the design, construction and operation of SR 125, the existence of hazardous materials and other situations. In general, these indemnities are even-handed and impose ultimate liability on the party causing, or responsible for, the situation underlying the claim. On April 11, 2011, SANDAG entered into a settlement agreement with Caltrans, among other parties. To the extent that any future claim for indemnity under the DFA between SANDAG and Caltrans is based upon events which occurred before the confirmation of SBX's bankruptcy plan (April 14, 2011), the indemnity obligations under the DFA may be affected.

Real Property: Grants SBX and Caltrans certain rights regarding real property acquired in connection with the project, such as a right of first refusal in favor of Caltrans with respect to the disposition of two parcels of real property and a repurchase right in favor of SBX with respect to other parcels of property held in Caltrans name. SANDAG will be able to work with Caltrans regarding future ownership of the parcels effected by this provision.

Lenders: Permits SBX's lenders, including TIFIA, which will be a lender to SANDAG under the proposed transaction, the right to cure defaults by SBX and enter into a new franchise agreement with Caltrans upon early termination of the DFA.

Assignment: Prohibits assignment of the DFA without Caltrans' consent except to a SBX-related entity or certain governmental agencies, which potentially includes SANDAG, assuming that Caltrans would find that SANDAG is qualified to operate SR 125.

EOMPOA

East Otay Mesa Property Owners Association

August 25, 2011

Mr. Gary Gallegos
Executive Director
San Diego Association of Governments
401 B Street, Suite 800
San Diego, CA 92101

Dear Mr. Gallegos:

The East Otay Mesa Property Owners Association (EOMPOA) supports the San Diego Association of Government's (SANDAG's) purchase of the South Bay Expressway Operating Lease as long as this purchase does not negatively affect SANDAG's ability to support the construction of the OTAY II Port of Entry and the SR-11.

East Otay Mesa's border location and availability of land for industrial development make it an important area for job creation and international trade. SANDAG's purchase of the South Bay Expressway should be seen as only one link of the required infrastructure that includes the completion of the 905 freeway and the development of the OTAY II Port of Entry and the SR-11.

We support your efforts and urge your continuing support to complete all the important transportation links that will help East Otay Mesa realize its full potential.

Sincerely,

Ricardo Jinich
Chairman
EOMPOA

cc: County Supervisor Greg Cox
Mario Orso, CALTRANS

1050 Rosecrans Street, Ste. B ❖ San Diego ❖ CA 92106
619.222.8155 ❖ 619.222.8154

South Bay Expressway Acquisition Considerations

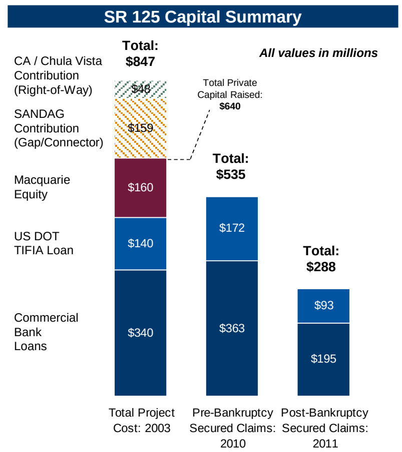
Board of Directors Meeting
August 26, 2011

Table of Contents

SR 125 History

The toll road portion of SR 125 extends southward from SR 54 to Otay Mesa Road and was built to help connect eastern Chula Vista and the Otay Mesa Port of Entry to the regional transportation network

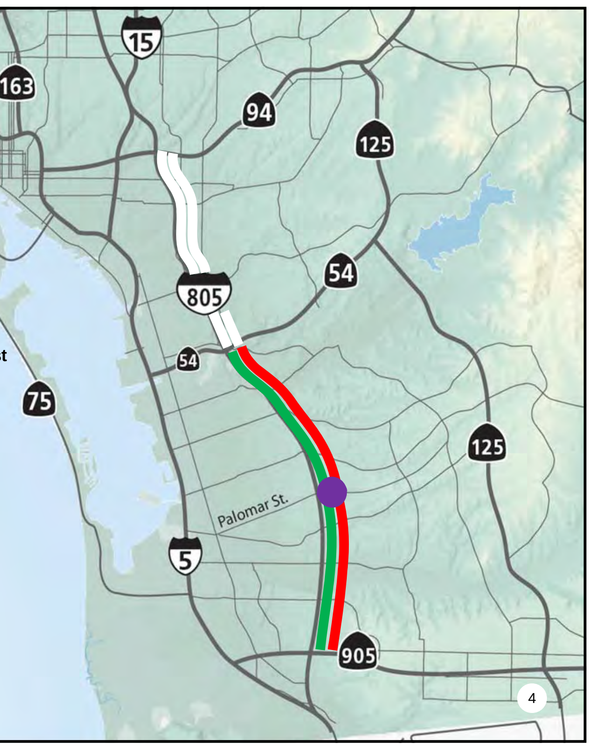
- SR 125 was developed pursuant to a long-term Franchise Agreement between Caltrans and South Bay Expressway (SBX), a private entity owned by Macquarie Infrastructure Group
- After opening in 2007, SBX faced two challenges:
  - Lower than anticipated traffic and revenue levels
  - Litigation related to construction cost overruns
- The combination of these factors drove SBX to file for Chapter 11 bankruptcy in March 2010
  - Macquarie lost 100% of its investment
  - The banks and TIFIA became “owners” of the project
- Just prior to the SR 125 bankruptcy secured claims totaled $535 million
- SBX emerged from bankruptcy in April 2011
  - The banks and TIFIA elected to remain as “lenders” in the transaction with $288 million in loans outstanding
  - They also own the new “equity” in the roadway, managing the facility and collecting all excess revenues once the loans have been repaid

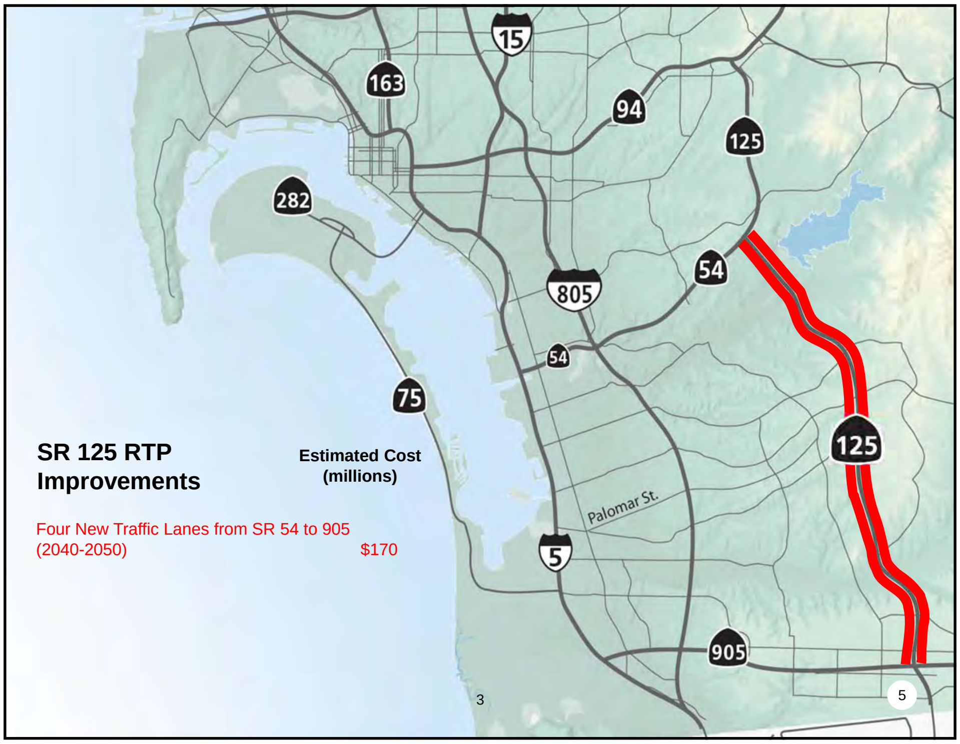


SANDAG

I-805 RTP Improvements

I-805 RTP Improvements	Estimated Cost (millions)
HOV Lanes from Palomar Street to SR 54 (2012)	$43
Direct Access Ramp at Palomar Street (2012)	$55
HOV Lanes from SR 905 to Palomar Street (2012)	$90
Managed Lanes from Palomar Street to SR 54 (2020)	$220
Managed Lanes from SR 905 to Palomar Street (2030)	$260
Total	**$668**





Project Evaluation Goals for the Region

Purchasing the SR 125 toll road provides significant "transportation value" to the region

- **Improve Mobility:** Accelerate congestion relief 20 years earlier than planned for in the RTP and continue scheduled progress on current and planned transportation projects
- **Level of Service / Lower Costs:** Opportunity to provide a higher level of service at a lower cost
- **Lower Tolls:** Purchase could provide SANDAG with the opportunity to lower SR 125 toll rates
- **Flexibility:** SANDAG would have the authority to decide how SR 125 operates, including managed lanes
- **Eliminate Non-Compete Clause:** Part of Caltrans Franchise Agreement

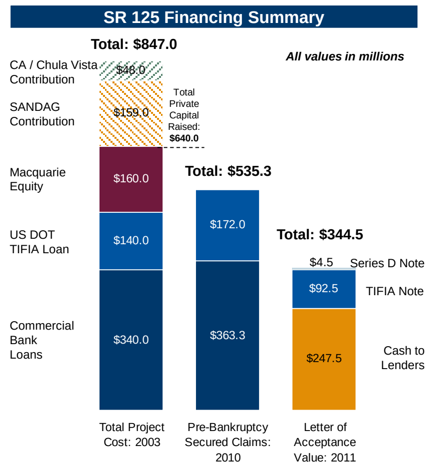
SANDAG 6

SR 125 Proposed Acquisition Terms

SANDAG has agreed to a purchase price of $344.5 million for SR 125 subject to certain conditions

Letter of Acceptance Value	
Cash	$247.5 million
TIFIA Note	$92.5 million
Series D Note[1]	$4.5 million
Total	**$344.5 million**

- **Terms and Conditions**
  - Public meeting and decision process
  - Successful completion of due diligence
  - Settlement of any outstanding legal claims
  - Absence of any adverse change in financial condition of the business prior to closing
  - Goal to close prior to calendar year-end 2011



1. Series D Note will be paid only if toll revenues exceed projections

SANDAG Financing Options

SANDAG has at least two options for funding the acquisition of SR 125 including using toll revenues, *TransNet* funds, or a combination of funding types

Purchase Structure	Cash	TIFIA Note	Series D Note
	$247.5 million	**$92.5 million**	**$4.5 million**
A. Toll Revenue Bonds[1]	Toll Revenues (Bond Proceeds)	Toll Revenues	Toll Revenues[2]
B. *TransNet* Loan/Swap[3]	$247.5 Million Loan in Cash to Close Deal $55.5 Million Reimbursed from Toll Revenues $192.0 Million Project Swap After Operations Trial Period	Toll Revenues	Toll Revenues[2]

1. Toll Revenue Bonds could require supplemental *TransNet* credit support to secure investment grade ratings.
2. Series D Note would be paid only if toll revenues exceed projections.
3. *TransNet* loans $247.5 mm to purchase SR 125 and would be repaid $55.5 mm from toll revenue; two reversible HOV lanes included in *TransNet* Extension Ordinance for I-805 worth $212.0 mm, less expenditures of $20.0 mm for environmental and design work completed to date, could be swapped out to complete the funding for the purchase of SR 125 after the operations trial period.

Financing Options Compared

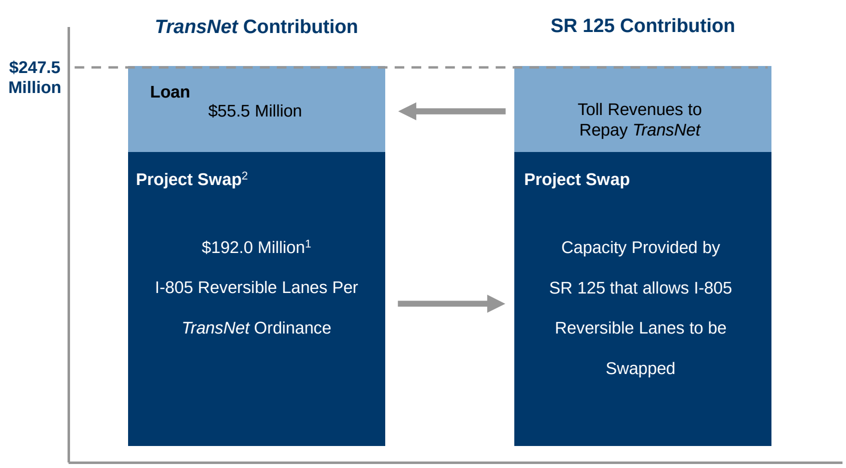
Each financing option is capable of purchasing the SR 125 toll road

	Ability to Reduce Tolls	Level of Service I-805[1]	Level of Service SR 125[2]	Final Tolling Year	*TransNet* Impact	Regional Transportation Expenditure Savings
	SR 125	2010 / 2035	2010 / 2035			
A. Toll Revenue Bonds[3]	No (Revenue Maximization)	F / E	A / B	2043	*TransNet* Credit Support	**$0**
B. *TransNet* Loan/Swap[4]	Yes (40% to 50% Reduction)	F / E	A / C	2042	$247.5 Million Loan: $192.0 Million Not Reimbursed; $55.5 Million Loan Reimbursed	**$268 million**

1. RTP improvements to I-805 are expected to improve LOS from F to E.
2. A total $170 million (2010$) for four SR 125 managed lanes to be completed between 2040 and 2050 would be funded from SR 125 toll revenues under all scenarios. The Draft 2050 RTP assumed these improvements would be funded from toll revenues even if SANDAG does not acquire the road.
3. Toll Revenue Bonds expected to be below-investment grade, and could require supplemental *TransNet* credit support.
4. *TransNet* loans $247.5 mm to purchase SR 125 and would be repaid $55.5 mm from toll revenue; two reversible HOV lanes included in *TransNet* Extension Ordinance for I-805 worth $212.0 mm, less expenditures of $20.0 mm for environmental and design work completed to date, could be swapped out to complete the funding for the purchase of SR 125 after the operations trial period.

SANDAG 9

TransNet Loan/Swap



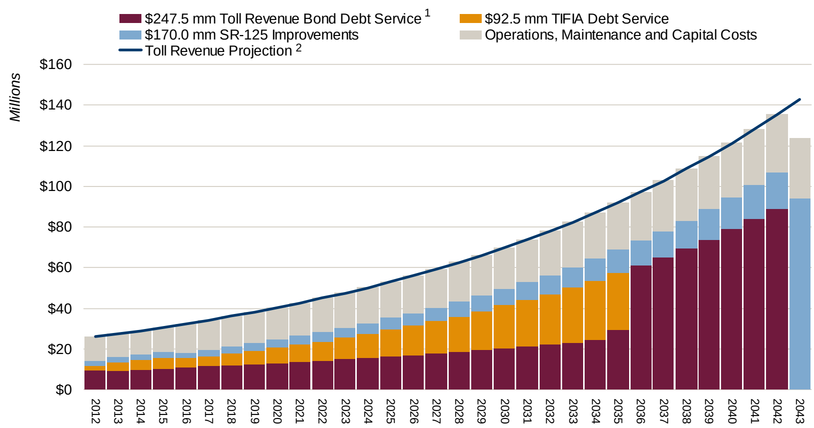
1. Equals the cost of two reversible HOV lanes in *TransNet* Extension Ordinance less prior expenditures of $20 million for environmental and design work completed to date.
2. The Board would not be asked to decide on what changes to make to the *TransNet* Extension Ordinance & Expenditure Plan, if any, until after it has the opportunity to operate SR 125 toll road for a sufficient period of time to make informed decisions.

SANDAG 10

A. SR 125 Toll Revenue Bonds

No toll reduction

SR 125 Pro-Forma O&M and Debt Service Expenditures



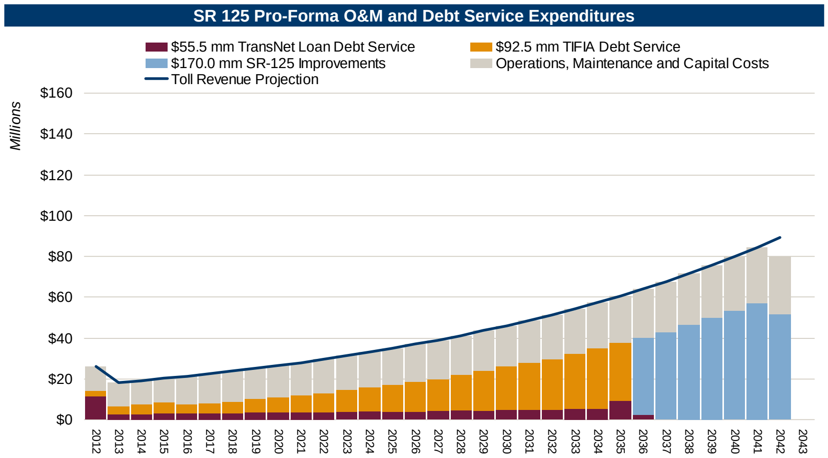
1. Toll Revenue Bonds expected to be below-investment grade, and could require supplemental *TransNet* credit support .
2. Source: Stantec P70 revenue forecast

SANDAG 11

B. *TransNet* Loan / Swap

40% to 50% reduction in tolls

SR 125 Pro-Forma O&M and Debt Service Expenditures



1. *TransNet* loans $247.5 mm to purchase SR 125 and would be repaid $55.5 mm from toll revenues; two reversible HOV lanes on I-805 in *TransNet* Extension Ordinance worth $212.0 mm, less expenditures of $20.0 mm for environmental and design work completed to date, could be swapped out to complete the funding for the purchase of SR 125 after operations trial period.
2. Source: Stantec P70 revenue forecast

SANDAG 12

Project Value to the Region

Purchasing the SR 125 toll road provides significant "transportation value" to the region

- **Improves Mobility:**
  - Achieves same level of service that is in the draft 2050 RTP 20 years earlier than planned
  - Continues to make progress on regional projects both currently underway and planned
  - Saves the region $268 million that can used to meet regional transportation needs
- **Flexibility:** SANDAG would have the authority to decide how SR 125 operates, including managed lanes
- **Lower Tolls:** Opportunity to lower SR 125 toll rates 40% to 50%
- **Eliminates Non-Compete Clause:** Part of Caltrans Franchise Agreement

Next Steps

Board has elected to move forward with the acquisition of SR 125 subject to specific terms and conditions; an outline of next steps is shown below

- **Continue public meeting process**
  - Finalize meeting dates and publish required notices
  - Presentation to Independent Taxpayer Oversight Committee
  - Decisions by Board in public meetings
- **Commence / complete due diligence evaluation**
  - Technical / Physical – HNTB
  - Legal – Lindborg & Mazor, Buchanan Ingersoll
  - Accounting / Financial – TBD
  - Traffic and Revenue – Stantec
  - Monthly progress reports
- **Select a financing option**
  - Secure necessary approvals
  - Prepare financing documents
- **Negotiate acquisition documentation**
  - Purchase agreement
  - Restated TIFIA loan agreement
  - Series D Note documentation
- **Develop takeover operating plan**
  - Seamless transition of ownership
  - Management team in place
- **Outline of transition plan**
  - Identify short-, mid-, and long-term objectives
  - Formulate transition logistics, including employee arrangements
  - Address operating changes
  - Consider integration with I-15 operations
- **Complete transaction**
  - Goal is end of calendar year 2011