



California High-Speed Rail Authority

Update on Private and Federal Funding Strategies



**Infrastructure
Management
Group/Lehman Brothers
Team**

In Partnership with:
**Sperry Capital
Bauer & Associates
Jack Faucett Associates
CDS Consulting
Dutch Ventures LTD**

November 14, 2007

Objectives of Recommended Public-Private Partnership (P3) Strategy



In September we outlined a strategy to engage the private sector with the following goals:

- Demonstrate private sector interest in the CA HSR project
- Refine likely P3 opportunities to appeal to potential P3 partners
- Leverage private sector support in seeking other funding
- Involve one or more private sector partners in future project scoping, phasing and implementation



Overarching Themes

In 17 interviews with contractors, equipment manufacturers, financiers, and system operators the following key themes emerged:

- Private sector interest is strong and diverse
- State support is essential
- Structure and Timing of P3 Procurement

17 interviews with:
4 equipment manufacturers
8 contractors
5 financiers
4 system operators *

* Note: some operators and equipment manufacturers overlap



Private Sector Interest is Strong and Diverse

All respondents had interest in participating in some capacity.

- Size and complexity of project attracts some players, while others suggest need to “divide” for greatest efficiency and competition
- Several respondents expressed interest in pre-development approach, while others suggest value of waiting for further progress on key milestones to maximize value to Authority
- Respondents expect State to complete Record of Decision before significant private sector financial participation
- Most are willing to maintain dialogue over extended period



State Support is Essential

State political and financial support is critical to capturing private sector support.

- Political risk related to CA and national P3 environment
- Visible political support needed from State leadership will mitigate some concerns
- Bond measure is viewed as essential financial component and as a proxy for public support for the project



Timing of Private Investment

Timing of private financial participation is tied to completion of key milestones and project characteristics.

Milestones:

- Environmental Documents
- Record of Decision
- Funding commitments (State support)

Project Characteristics:

- Ability to guarantee project completion
- Timing of dividend payments
 - Duration of construction period
 - Length of ridership ramp-up



Outstanding Issues

Several topics need further review to fully understand the risk and reward tradeoffs for the Authority and potential private partners.

- Ridership and revenue risk
- Structure and timing of P3 procurement
- Construction risk and mitigation measures (DB, DBOM, DBFOM)*
- Equipment performance and O&M
- Control of fare-setting and operational scheduling

* DB - Design Build, DBOM - Design Build Operate Maintain, DBFOM - Design Build Finance Operate Maintain



P3 Next Steps

The Financial Plan Team will focus on the following steps to continue to explore private sector support.

- Complete 8-10 additional private sector interviews
- Provide completed synopsis of interviews at December 19th board meeting
- Develop recommended approaches for outstanding issues
- Develop framework for Request for Expressions of Interest



Objectives of Recommended Federal Strategy

In September we outlined a strategy to develop federal support with the following objectives:

- Demonstrate the likelihood of federal funding for the project.
- Refine assumptions about the timing and magnitude of federal funding.
- Leverage support from the California congressional delegation in seeking other funding sources.



Federal Funding Strategy Update

A critical first step has been taken to develop federal support for California high-speed rail.

- Senate passed S 294 on October 30, 2007
 - Supported by Boxer and Feinstein
 - Creates intercity passenger rail grant program
 - High-speed rail is eligible
 - Preference criteria include:
 - High levels of estimated ridership
 - Reduced trip time
 - Significant impact on traffic congestion



Federal Funding Strategy Next Steps

The Finance Team will focus on the following steps to assist the Authority's federal funding strategy:

- Continue providing needed information to California delegation and other key leadership
- Identify opportunities to increase funding for intercity passenger rail programs
- Identify opportunities to change existing legislation to support high-speed rail