



COMMONWEALTH of VIRGINIA

Office of the Governor

Pierce R. Homer
Secretary of Transportation

P.O. Box 1475
Richmond, Virginia 23218

(804) 786-8032
Fax: (804) 786-6683
TTY: (800) 828-1120

August 9, 2005

The Honorable William J. Howell
Speaker, Virginia House of Delegates
Speaker's Room, State Capitol
Post Office Box 406
Richmond, Virginia 23218

Dear Mr. Speaker:

Thank you for your letter of July 28 relating to the evaluation of private sector proposals for transportation improvements in the Commonwealth. I am pleased to report to you that Virginia has a solid and nationally recognized program in place to evaluate such proposals, including the recent Dulles Toll Road concession proposal.

Concession-type agreements represent another tool in the partnership toolbox. Their continued success in Virginia will require our continued and collective adherence to clearly defined public policy goals, to a stable investment climate, and to transparency and accountability in all of our transactions.

Virginia is appropriately structured and staffed to address the many different types of public-private partnerships available to the Commonwealth. VDOT has established both an innovative project delivery division and an innovative finance and revenue operations division. The office of the Attorney General, DRPT, Treasury, and other state agencies have revised their structures and operations to encourage, evaluate, and implement a variety of public-private partnerships.

These partnerships include not only proposals received under the Public-Private Transportation Act of 1995, but also a whole range of specialized financing options, tolling policies, local proffer negotiations, design-build projects, and partnerships formed for the purpose of reducing costs. It is a rare month when staff of the Commonwealth is not invited to present Virginia's program and approaches at national conferences and gatherings.

Section 33.1-12 of the *Code of Virginia* authorizes the Commonwealth Transportation Board to engage financial advisors and the Attorney General's Office independently hires legal counsel on behalf of the Board.

The Honorable William J. Howell
August 9, 2005
Page Two

The Board's financial advisor is the Public Resources Advisory Group (PRAG), which has been ranked the number one financial advisor in the country for five of the last ten years by Securities Data Company. Importantly, they only represent public sector clients and are wholly owned and managed by its employees. PRAG does not engage in any form of underwriting, trading, or marketing of securities—a restriction that eliminates the possibility of conflict between marketing and advisory services. PRAG also can secure additional professional services for the complex valuation models that may be developed for many concession agreements. A general description of the firm is attached.

Anticipating the future direction that tolls may play in Virginia, the CTB in late 2003 also competitively procured independent toll consultants to evaluate the critical tolling, traffic, and revenue assumptions of various proposals. The consultants, who must have no client conflict of interest on any Commonwealth transportation project, are Wilbur Smith and IBI Group. Both have comprehensive experience in travel demand forecasting and development and operation of tolled projects in the U. S., Canada, and Europe. IBI has also included Charles River Associates (CRA) as part of their team.

Our legal advisors, through the Office of the Attorney General, include several nationally recognized firms, including Troutman Sanders and Nossaman, Guthner, Knox & Elliott. LLP. Nossaman is one of the leading international consulting firms in this arena, and, importantly, they only represent infrastructure owners, such as state highway or transit agencies. The highlights of the Nossaman qualifications are attached, including their key roles in the Trans Texas Corridor and Delaware Turnpike concession procurements.

Finally, one of the strengths of the Virginia process is its flexibility. Specialized engineering, legal, financial, or technical assistance has been and will be procured to protect the interests of the Commonwealth and to advance a particular partnership. For example, the use of private activity bonds or concession agreements, or the marketing or valuation of existing assets, may require specialized expertise in taxation, mergers, or acquisition. These services will be acquired on an as-needed basis.

While VDOT will be the lead agency in reviewing and evaluating any Dulles Toll Road proposals, it will be a multi-modal and multi-agency effort to arrive at the best conclusions on behalf of the Commonwealth. In that regard, we have taken the following steps to safeguard the interests of the Commonwealth:

- The initial Dulles Toll Road proposal was formally received and posted on the Internet on July 28. Competing proposals will be strongly encouraged through trade publications and the Internet during a 90-day competition period.

- During the competition period, we will be attempting to resolve and clarify the role and status of the Federal Aviation Administration, the Metropolitan Washington Airports Authority, and Fairfax County. All of these entities have a potential ownership or an oversight role in any evaluation process. The Commonwealth does not enjoy unilateral control over the Dulles Toll Road
- Also during the competition period, we will identify major policy issues, including: the duration of tolling; the type of any tolling in the corridor, including congestion pricing; the duration of any potential concession agreement; potential limitations on toll rates and rates of return; revenue sharing among private and public partners; long-term maintenance obligations; and future land uses in the corridor.
- It is our intent to use the revised guidelines based on legislation passed during the 2005 General Assembly to evaluate these proposals. These revised guidelines will be adopted by the Commonwealth Transportation Board in October and will allow the Commonwealth to request detailed proposals from all, some, or none of the proposers. The Commonwealth will determine the terms and conditions of any detailed proposals.

We are well aware of the strengths—and weaknesses—of long-term concession agreements. For the right project, at the right time, they can be extremely beneficial. The Dulles Greenway is a long-standing concession agreement between the Commonwealth and a private operator. We are currently considering concession approaches on the Pocahontas Parkway and the I-495 projects. Concession agreements could be implemented on the I-95/I-395 and I-81 projects. However, those determinations have yet to be made.

We are working with our financial and legal advisors to determine if there may be additional changes to our program or our PPTA guidelines to encourage or enhance the consideration of concession-type approaches to transportation improvements. The PPTA process currently promotes competition. As the Virginia PPTA program and process evolves, we will be sure to incorporate best practices from the global marketplace to ensure maximum competition and maximum value for Virginia.

As always, I will be happy to brief you and others interested in our progress on these issues and I very much appreciate your support of the privatization and partnership programs of the Commonwealth.

The Honorable William J. Howell
August 9, 2005
Page Four

Please feel free to contact me if you would like to discuss these issues further.

Sincerely,

A handwritten signature in cursive script that reads "Pierce R. Homer". The signature is written in dark ink and is positioned above the printed name.

Pierce R. Homer

PRH:es

Attachments

Copy: Members, Commonwealth Transportation Board
Richard Walton, Esquire

NOSSAMAN, GUTHNER, KNOX & ELLIOTT, LLP

Nossaman Guthner Knox & Elliott LLP is internationally recognized as a leader in assisting public agencies with the development of large transportation projects. With approximately \$40 billion in projects under advisement, our Infrastructure Group works in more than 20 states and selected foreign countries on some of the largest and highest profile transportation projects in recent years. Since 1995, Nossaman has served as Special Privatization Counsel in implementing Virginia's Public-Private Transportation Act, assisting in drafting guidelines for unsolicited proposals; in processing proposals; and drafting and negotiating resulting transactions.

The firm has offices in California, Texas and the Commonwealth of Virginia.

Nossaman is widely recognized for our work in structuring public-private partnerships for transportation project development, including the use of long-term concessions for the development of new projects and lease of existing assets. We have drafted federal and state legislation to facilitate PPPs, and developed model private development procurement contracts. Recently, Nossaman attorneys were instrumental in helping our State DOT clients to obtain innovative financing mechanisms in the SAFETEA-LU, including \$15 billion in private activity bonds for highways to facilitate private equity investments in highway projects.

Representative Transportation Lease/Concession Work

- **Texas Department of Transportation – Trans Texas Corridor Program.** Nossaman is primary counsel to TxDOT in the development of procurement and project financing strategies to implement the Trans Texas Corridor Program, a \$150 billion multi-decade program to create 4,000 miles of 1200-foot wide integrated passenger and truck highway, rail and utility corridors. The use of concession/franchises will be a critical component of the project delivery methodology to be utilized by the Program. Nossaman attorneys drafted the procurement documents, for the recently awarded I-35 High Priority Trans Texas Corridor from the Oklahoma Border to Mexico, which resulted in a \$1.3 billion offer from Cintra/Zachry for a long-term concession to build and operate the Corridor.
- **Texas Department of Transportation – Other Concessions.** Nossaman is currently negotiating a development concession between Cintra and TxDOT for SH 130 toll road, Segments 5 and 6. Nossaman has also been engaged by TxDOT for other concessions that are being individually and competitively procured including the SH 635 managed lanes, project, the SH 212 project and the SH 1604 San Antonio outer loop.
- **Delaware Department of Transportation – Concession/Leases of Delaware Turnpike, SR 1 and US 301.** Nossaman is advising DelDOT in the potential lease and concession of tollroad facilities, including the Delaware Turnpike, SR 1 Tollroad and a new US 301 toll facility. Among other activities, Nossaman helped to obtain consent from FHWA and other federal agencies to lease the facilities without any requirement to repay the substantial federal investment in these projects. We are also assisting in drafting requests for qualifications and the terms and conditions of the concession agreement.
- **Virginia Department of Rail and Public Transportation – Dulles Corridor Rail Project.** Nossaman is currently advising the Virginia Department of Rail and Public Transportation in connection with the negotiation of a design-build agreement with Dulles Transit Partners for the design, permitting, financing and construction of the \$3 billion Dulles Corridor Rapid Transit Project
- **Virginia Department of Transportation –Pocahontas Parkway.** Nossaman drafted the comprehensive agreement and design-build contract for the original development and financing of this project, and is currently helping negotiate the assignment of the comprehensive agreement to a private consortium for purposes of refinancing the project debt and constructing extensions.

- **British Columbia Ministry of Transportation and Partnerships British Columbia – Sea-to-Sky Highway Improvement Project.** Nossaman advised on the procurement to award a 25-year DBFO/concession contract for the CDN\$600 million Sea-to-Sky Highway Improvement Project between Vancouver and Whistler.
- **Transit Systems Development LLC and Las Vegas Monorail Company – Las Vegas Monorail.** We served as counsel to the developers of the \$450 million Las Vegas monorail system, the first privately financed urban-grade transit system in the United States. The project was developed under a franchise agreement with Clark County, Nevada.
- **Orange County Transportation Authority – SR 91.** We represented the Orange County Transportation Authority in its acquisition of the SR 91 Express Lanes Toll Road in early 2003 from the private developer that designed, constructed, financed and operated the project under an AB 680 franchise from Caltrans.
- **Orange County Transportation Corridor Agencies.** Nossaman is assisting the public owner of the San Joaquin Tollroad in an unsolicited proposal from an international consortium to acquire this underperforming toll facility.
- **Oregon Department of Transportation.** Nossaman is currently advising ODOT in reviewing proposals on 3 projects, at least one of which is expected to follow the concession model.
- **California SH 125.** Over the last 10 years, Nossaman as served as special counsel to the developer of SR 125, a 9.3-mile toll road project in San Diego, California. We recently assisted in the sale of the developer's equity interest in the project to Macquarie Infrastructure Group, and in obtaining the first TIFIA loan for a privately operated project.
- **Washington State Department of Transportation – Public-Private Transportation Program.** WSDOT retained Nossaman in 1992 to assist it with formulating and implementing its first, groundbreaking public-private partnership program. Our work included strategic advice for the program, legislative advice and the call for up to six demonstration projects. During 1994 to 1995, we served as lead outside counsel for six simultaneous negotiations of comprehensive development agreements, resulting in finalization of agreements for five demonstration projects, including the original Tacoma Narrows Bridge concession.

GENERAL DESCRIPTION OF THE FIRM

Independent Financial Advisors: PRAG is an independent financial advisory firm, wholly owned and managed by its employees. Headquartered in New York, with full service offices in Boston, Los Angeles and Philadelphia, the firm was founded in 1985 to provide in-depth support to state and local governments, authorities and agencies. To accomplish this goal, we have assembled a staff of finance professionals from diverse backgrounds, including issuers, advisors, credit analysts and underwriters of tax-exempt debt, who have the education, experience and commitment to provide the highest quality assistance to clients. PRAG is an independent financial and investment advisory firm registered under the Investment Adviser's Act of 1940.

Serving Sophisticated Issuers with Large Capital Programs: With this staff, we have developed our practice to serve large, sophisticated issuers for whom the debt management function is critical. This approach requires us to have a higher concentration of senior personnel compared to our competitors. By having a high ratio of senior personnel within the firm, clients are ensured that highly experienced personnel are involved in the day-to-day management of all engagements.

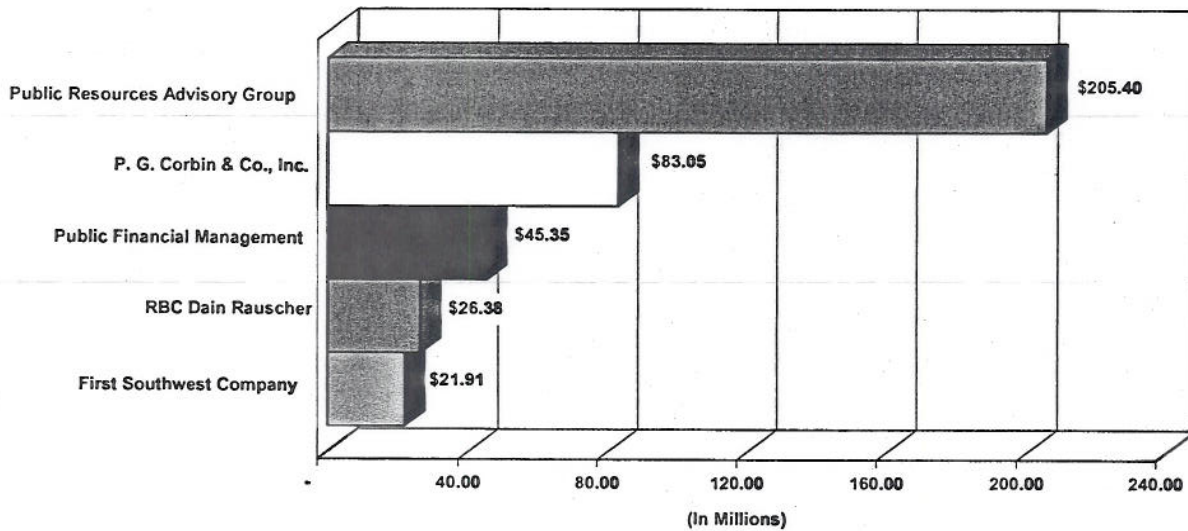
Leading Financial Advisor: The success of this approach is illustrated in the rankings compiled by the Securities Data Company. PRAG has been ranked the number one financial advisor in the country for five of the last ten years and number two for the other years, having advised issuers on over \$433.2 billion since our inception. This amount included general obligation bonds, revenue bonds, refundings of general obligation and revenue debt, certificates of participation, commercial paper, revenue and tax anticipation notes, bond anticipation notes, capital appreciation bonds, variable rate debt, asset-backed securities, leases and leasebacks, Eurodollar offerings and samurai bonds, as well as taxable municipal securities.

Quality of Advice: The firm's success is not due to the level of issuance, however, as there are advisors with a larger number of issues and bigger staff. We believe our success is based on the *quality* of service provided, resulting from our knowledge of the markets, our analytic capabilities and our credit experience as well as the involvement of senior personnel in each engagement.

Client Base: One indicator of the level of service provided by PRAG is *our client base*. PRAG serves as financial advisor to some of the largest, most sophisticated issuers in the country. Indeed, three of the largest issuers in the tax-exempt markets with the most complex debt management programs are PRAG clients -- the State of California, the City of New York and Los Angeles County -- and we have advised on two of the nation's major wastewater programs from inception, the \$4.0 billion Los Angeles Wastewater Program and the \$2.0 billion Water Reclamation and Secondary Treatment Program in San Diego. The firm has assisted numerous states -- Alabama, California, Connecticut, Florida, Georgia, Indiana, Maryland, Massachusetts, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Oklahoma, Oregon, Vermont and Virginia -- as well as some of the largest municipal governments: Anne Arundel County, City of Atlanta, Baltimore County, Chesterfield County, District of Columbia, City of Jacksonville, City of Los Angeles, Los Angeles County, Mecklenburg County, Monmouth County, City of New York, City of Orlando, City of San Diego and City of Tampa. In addition, we have served three of the largest solid waste authorities -- Northeast Maryland Waste Disposal Authority, Connecticut Resources Recovery Authority and Delaware Solid Waste Authority -- and two of the largest public power issuers, Jacksonville Electric Authority and the Los Angeles Department of Water and Power, as well as major transportation issuers including the Georgia Department of Transportation, the New York State Thruway Authority and the Virginia Department of Transportation. PRAG also served as advisor to the largest issuers of municipals asset-backed bonds, the California Infrastructure and Economic

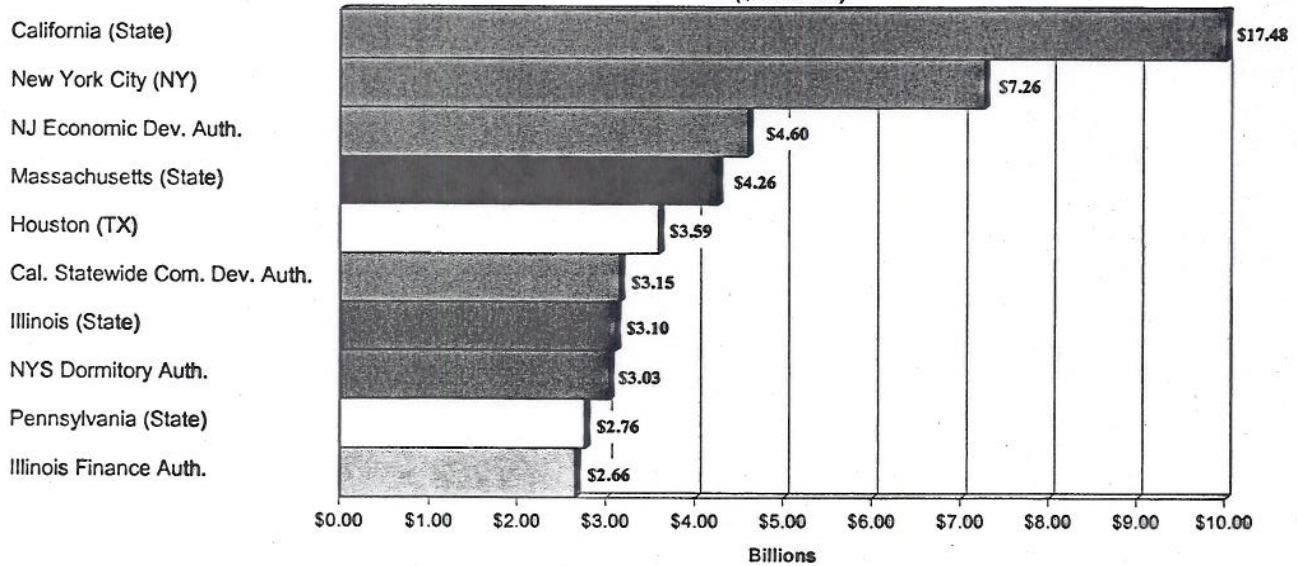
Development Bank, the New York City Transitional Finance Authority and the New York City TSASC, Inc., which was the inaugural financing secured by tobacco settlement payments. We achieved this client base by concentrating on issuers with large complex capital programs for whom the debt management function is highly important. As a result, PRAG's average transaction for the past decade has been over \$205.4 million per issue; our closest ranked competitor in terms of issue size during this time averaged about one-third of our level per issue, while the nearest competitor in average size was approximately twenty percent of that amount per issue, as can be seen below:

**Top Five Financial Advisors
Average Dollar Amount Per Issue
1995 Through 2004**



Moreover, PRAG served as financial advisor to two of the nation's top issuers in 2004, the State of California and the City of New York, on a total of \$24.7 billion in 2004, or 48% of the nations top issuers in 2004 as can be seen in the following graph. PRAG also advised the State of California, the City of New York, the Golden State Tobacco Securities Corporation and the State of Connecticut on a total of \$22.1 billion in 2003, comprising 42% of the top ten issuers for that year and advised the California Department of Water Resources, the New York City Transitional Finance Authority, the City of New York and the State of California on a total of \$24.7 billion in 2002, comprising 46% of the top ten issuers for the year.

**Top Issuers in 2004
(\$ Billions)**



Successful Completion of Complex Financings: Another measure of quality is the ability to *complete complex engagements*. These engagements typically involve development of a long-term financing plan, preparation of a debt affordability study, quantitative analysis, development of a structure for the particular issue, preparation of the offering documents, development of a rating agency strategy, selection of a marketing plan, the actual sale of securities and investment of bond proceeds. As a result of our work on advance refunding, wastewater, transportation, public power, solid waste and securitization projects, the firm has a national reputation for the successful completion of difficult financings including those listed below:

- \$574.7 million of tax-exempt general obligation bonds, new money and refunding, for the State of Maryland, sold competitively (2005);
- \$298.5 million synthetic fixed rate swap and a \$300.3 million forward starting synthetic variable rate swap for the Empire State Development Corporation; we assisted in analyzing the cost-effectiveness of the two swaps and developed and implemented a negotiating pricing process with four counterparties, then provided a series of opinions and analyses on the swaps, including a qualified hedge opinion and a memorandum supporting the fact that the variable rate swap met a State statutory constraint (2004);
- \$2.5 billion Sales Tax Asset Receivable Corporation sales tax asset revenue bonds issued to refund all the outstanding debt of the Municipal Assistance Corporation (“MAC”) of the City of New York; almost all the transaction was insured, with \$1.9 billion tax-exempt and \$682.4 million taxable (2004);
- \$850 million financing for City of Atlanta’s Water and Wastewater System to fund a new collection tunnel (2004);
- \$1.4 billion of tax-exempt fixed and variable rate debt and \$1.0 billion of interest rate swaps for the New York State Local Government Assistance Corporation (2003);
- \$752 million financing for Hartsfield-Jackson International Airport (Atlanta) that included approximately \$600 million of synthetic fixed rate bonds swapped from VRDBs and ARNs (2003);
- \$530.7 million fixed rate swap for the New York State Thruway Authority; we assisted in all aspects of the financings, including the marketing and pricing of bonds, implementing the process for the pricing of the swaps on a negotiated basis and the drafting of relevant documents; as a result of this financing, the Authority obtained \$18.7 million in present value savings of the refunded bonds (2003);
- \$11.3 billion of tax-exempt and taxable fixed and variable rate electric power revenue bonds for California’s Department of Water Resources (2002); and
- \$952.6 million of tax-exempt and taxable asset-backed bonds securitized by tobacco settlement payments for the State of South Carolina (2001); and
- \$6.0 billion taxable asset-backed bonds for the California Infrastructure and Economic Development Bank to fund the stranded assets of electric utilities (1997).

These engagements required not only the ability to develop standard financing structures and documents, but an understanding of the underlying concepts and technologies. PRAG personnel have extensive experience in designing and adapting computer models and software applications for such projects and in using this capability successfully to develop and implement financing programs. Our firm is also known for its technical expertise in capital project development, especially with respect to infrastructure needs. This expertise enables the firm to evaluate any capital financing proposal and to provide the analysis required to formulate the most innovative and cost effective programs that we completed.

Ongoing Engagements: Another measure of service is the large number of *repeat engagements*, as they indicate ongoing client satisfaction. PRAG personnel have provided financial advisory services

to the Northeast Maryland Waste Disposal Authority since 1980, Baltimore County since 1981, the Comptroller of the State of New York since 1982, the State of New Hampshire since 1983, the Connecticut Resources Recovery Authority since 1983 and the Los Angeles Wastewater Program since 1985. Client retention of PRAG over the longer term indicates appreciation of the firm's analytical skills, credit experience, market knowledge and quantitative experience.

Unmatched Quantitative Skills: Basic to the quality of our advice is our analytic ability. We have developed a call option pricing model to assist clients to analyze the efficiency of refunding proposals, the cost-benefit of various call provisions and the effect of discount and premium pricing; no other independent advisor, and few investment banking firms, possess such sophisticated analytical tools. PRAG personnel are able to develop models for analysis of rebate and arbitrage requirements, escrow structuring and restructuring, cash flow, life cycle cost, financing plan development, derivative products, investment optimization and bid optimization.

Knowledge of Markets: In general, PRAG seeks to maximize the degree to which securities are accepted by the marketplace so that clients pay the lowest possible cost. As a result of advising on such a large amount of debt issuance -- over \$9.0 billion each of the past ten years -- the firm is involved in the tax-exempt markets on an ongoing basis. Because of our independence and our frequent contact with the market, we can obtain daily pricing opinions from a wide variety of participants, with the result that our knowledge of market factors is superior to any one perspective for a particular sale. Consequently, we have found for most negotiated sales that the savings in interest rates and underwriting spreads produced by our advice more than offsets the fee for services.

Credit Experience: One of the firm's significant strengths is knowledge of credit. William Cobbs, Chairman of PRAG, has provided credit advice to a wide variety of issuers including general governments, public authorities, agencies and corporations. Under his leadership, the firm has developed an understanding of the rating agency process that we do not believe is present in any other financial advisory firm. This expertise and experience can directly benefit an issuer in formulating a credit approach to each of its projects in order to achieve the highest possible ratings and thus the lowest cost of financing as seen in our work for Baltimore County, Chesterfield County (VA) and Monmouth County (NJ). Using rating strategies developed by our firm, three counties improved their credit position from Aa/AA to AAA/Aaa/AAA, joining a select group of counties that have three triple-A ratings.

Innovators in Public Finance: PRAG professionals are known as innovators in the public finance area, having developed commercial paper programs, certificates of participation, master lease programs, off-shore financings, taxable issues and option pricing models for clients. We are also the leading financial advisor in the growing area of municipal asset-backed finance. Our breadth of experience and knowledge of the tax-exempt market allows us to provide timely information on investor concerns, rating agency issues and legal considerations as well as new developments in the field. As ongoing financial advisor to some of the biggest issuers in the municipal markets, PRAG has substantial experience and expertise in advising clients regarding the risks and rewards of using derivative products such as swaps, forward delivery, custodial receipts, variable rate instruments, hedges, caps and collars. In addition, we have been leaders in developing more efficient ways of distributing securities like retail order periods and Dutch Auction Note sales.

Unrivaled State and State-Level Experience: PRAG is the leading financial advisor, independent or otherwise, to state governments. No firm can match our experience in providing financial advisory services to states. We have assisted more than fifty states and state-level authorities and agencies on the issuance of securities. The states and state-level agencies and authorities to which we have provided advisory services include:

States	State-Level Agencies and Authorities	
<ul style="list-style-type: none"> ▪ State of Alabama ▪ State of California ▪ State of Connecticut ▪ State of Florida ▪ State of Georgia ▪ State of Indiana ▪ State of Maryland ▪ Commonwealth of Massachusetts ▪ State of Montana ▪ State of Nevada ▪ State of New Hampshire ▪ State of New Jersey ▪ State of New Mexico ▪ State of New York ▪ State of North Carolina ▪ State of Oklahoma ▪ State of Oregon ▪ State of South Carolina ▪ State of West Virginia ▪ State of Vermont ▪ Commonwealth of Virginia 	<ul style="list-style-type: none"> ▪ Alabama Highway Authority ▪ Alabama Housing Finance Authority ▪ Alabama Industrial Development Authority ▪ Alabama State Docks Department ▪ California Department of Veterans Affairs ▪ California Department of Water Resources ▪ California Earthquake Authority ▪ California Economic Development Authority ▪ California Independent System Operator ▪ California Infrastructure and Economic Development Bank ▪ California Pollution Control Financing Authority ▪ California Public Works Board ▪ Casino Reinvestment Development Authority (NJ) ▪ Connecticut Resources Recovery Authority ▪ Connecticut Transportation Infrastructure Bond Program ▪ Delaware Solid Waste Authority ▪ Golden State Tobacco Securitization Corp (CA) ▪ Indiana Transportation Finance Authority ▪ Maryland Ports Administration ▪ Maryland Stadium Authority ▪ Montana Department of Transportation ▪ New Hampshire Municipal Bond Bank ▪ New Hampshire Turnpike System 	<ul style="list-style-type: none"> ▪ New Jersey Economic Development Authority ▪ New Jersey Electronic Toll Consortium ▪ New Jersey Transportation Trust Fund Authority ▪ New York Local Government Assistance Corporation ▪ Northeast Maryland Waste Disposal Authority ▪ Oklahoma Turnpike Authority ▪ South Carolina Tobacco Settlement Revenue Management Authority ▪ University of Maryland System ▪ Virginia College Building Authority ▪ Virginia Department of Juvenile Justice ▪ Virginia Department of Transportation ▪ Virginia Port Authority ▪ Virginia Public Building Authority
		<p style="text-align: center;">Similar Entities</p> <ul style="list-style-type: none"> ▪ Government of the District of Columbia ▪ Republic of the Marshall Islands ▪ Federated State of Micronesia

Transportation Experience: To date, PRAG has assisted its clients on over \$30.4 billion of transportation-related financings for a wide variety of projects including highways, toll roads, rapid transit systems, airports and seaports. Set out below is a list of our transportation issuers:

- | | |
|---|--|
| <ul style="list-style-type: none"> ▪ Alabama Highway Authority ▪ Alabama State Docks Department ▪ Bradley International Airport (CT) ▪ Charlottesville-Albemarle (VA) Airport Authority ▪ Connecticut Transportation Infrastructure Bond Program ▪ Georgia State Finance and Investment Commission ▪ Hartsfield-Jackson (Atlanta) International Airport ▪ Indiana Toll Road ▪ Indiana Transportation Finance Authority ▪ John Wayne Airport, Orange County (CA) ▪ Las Vegas Monorail System ▪ Los Angeles County Metropolitan Transportation Authority ▪ Los Angeles Department of Airports ▪ Manchester (NH) Airport Authority | <ul style="list-style-type: none"> ▪ Maryland Port Administration ▪ New York City Metropolitan Transportation Authority ▪ New Jersey Economic Development Authority ▪ New Jersey Electronic Toll Collection Consortium ▪ New Jersey Transportation Trust Fund Authority ▪ New Jersey Turnpike Authority ▪ New Hampshire Turnpike System ▪ New York State Thruway Authority ▪ Oklahoma Turnpike Authority ▪ Pease Airforce Base ▪ Rochester International Airport ▪ Transportation Corridor Agencies of Orange County (CA) ▪ Virginia Department of Transportation |
|---|--|

Derivative Experience: PRAG is well versed in all capital market products available to governmental borrowers, including assisting with over \$25.8 billion of municipal derivatives. The firm has provided derivative advice to some of the largest and highest profile issuers in the municipal market, including the Empire State Development Corporation, the New York City Transitional Finance Authority, the State of California and the State of North Carolina, Mecklenburg County, the City of Phoenix and the City of New York, and has structured some of the largest municipal derivative transactions completed, including \$4.3 billion of interest rate swaps for California's Department of Water Resources, a \$1.9 billion notional amount interest rate swap for the State of California and \$1.0 billion of interest rate swaps for the New York Local Governmental Assistance Corporation. We have experience with all types of products--interest rate swaps, forward swaps, interest rate caps, collars and floors, swaptions and cross currency swaps. Our firm has also developed issuer guidelines for derivatives as it is important to consider how these financial products relate to overall borrowing needs. Although derivatives can offer attractive savings, the complexity and risks of these transactions require a cautious and full evaluation of the options. Our approach is to

use our substantial analytical capabilities to assess and analyze the options. We evaluate the risk of the product and describe its mechanics, with diagrams if useful. We next determine the market pricing of the product by running our models, including option pricing models with swap yield curves available on Bloomberg, and then test that pricing by obtaining indications from swap dealers in order to ensure that our clients receive a fair share of the cash flows. We also assist in determining the tax treatment of the cash flow and advise on the preparation of the documents to reduce risks and provide flexibility to the issuer. We then compare the economics to "natural" alternatives, adjusting for call features that may be available on bonds but not on swaps. Our firm has a dedicated staff of professionals, experienced with the most recently developed products and active in the market, which is unmatched in efficiently evaluating, negotiating terms and completing derivative transactions.

Independence: The independent nature of our firm differentiates its approach to advisory duties and responsibilities from those of an investment banking firm that provides ancillary financial advisory services. Unlike underwriting firms, PRAG does not engage in any form of underwriting, trading or marketing in securities. This restriction eliminates the possibility that a conflict can ever exist within our organization between marketing and advisory services. In particular, we have found that in pricing an issue the investment banking firm serving as financial advisor is much less likely to push on interest rates and underwriting spread than is the independent financial advisor. Similarly, it is important to have an independent firm rather than an underwriter as financial advisor to ensure that the issuer's issues receive maximum marketing support. This is especially critical in light of the diminution of major underwriting firms in the tax-exempt market. The loss of a single major firm means a 10% reduction in the number of such firms supporting the issuers' issues. Thus, utilization of an independent financial advisor like PRAG will ensure that the issuer receives the most efficient possible pricing.

Record of Integrity: PRAG is very proud of its record of integrity. We are not, and have never been, the subject of an investigation. None of our clients have been involved with "yield burning;" indeed, of the 150 escrows that we have developed for our clients, all but two were in SLGS or competitively bid and those two were for scarce securities, such as REFCO strips, where a competitive situation could drive up the price and lower the yield. As a result, the Securities and Exchange Commission engaged our firm to assist in evaluating the yield burning issue facing state and local governments. Similarly, none of our clients have discovered after a refunding that bonds without savings had been refunded, precluding a future refunding under current tax law, unlike certain other issuers.

Cost-Benefit, Trusted Advice: With the savings produced through our analytical skills, knowledge of credit and advice on pricing, the firm's services pay for themselves many times over. Most importantly, clients are assured that their financial objectives are accomplished at a minimal degree of risk and that their interests are always protected.