



CONFIDENTIAL

# ILLINOIS TOLLWAY SYSTEM PRELIMINARY VALUATION ANALYSIS

August 29, 2006

PRELIMINARY | SUBJECT TO FURTHER REVIEW AND EVALUATION

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# Overview of the Report

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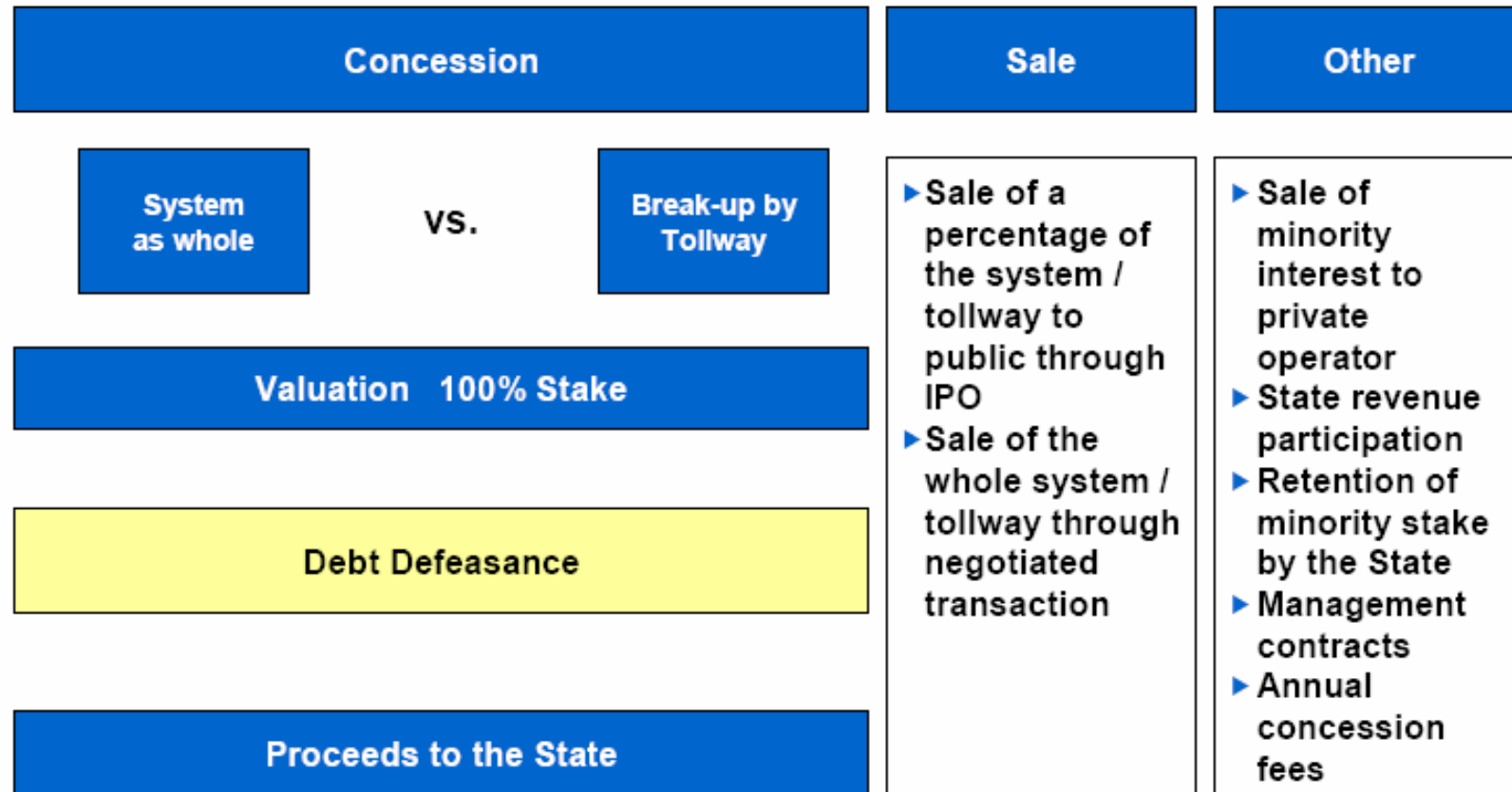
**Credit Suisse Securities (USA), LLC (“Credit Suisse”) has prepared this preliminary Valuation Study Report (the “Report”) to determine potential monetary valuation ranges of a public-private partnership (“PPP”) with the existing Illinois Tollway System (the “System”) for the Commission on the Government Forecasting and Accountability (the “Commission”)**

- ▶ This Report includes a discussion on
  - Selected privatization structuring options
  - Valuation analysis
  - Key business issues, policy and regulatory framework
  
- ▶ The preliminary analysis included in this Report is limited to calculating potential valuation ranges of the existing assets and South Extension to the North-South Tollway if the State of Illinois (the "State") were to enter into a long-term concession and lease agreement with a private entity in which the private entity would lease all or a portion of, and manage the operations of, the State’s toll highway systems in return for toll revenues at the current toll rates or an adjusted rate structure
  
- ▶ In preparing this report, we relied on information obtained from public sources or provided by or on behalf of the Commission



# Potential Privatization Methodologies

Our preliminary analysis reflected the following privatization methodologies



- ▶ In evaluating the options identified, the State can pursue a dual track process, considering both a sale / concession and an IPO, for example

# Privatization Methodologies vs. State's Core Objectives

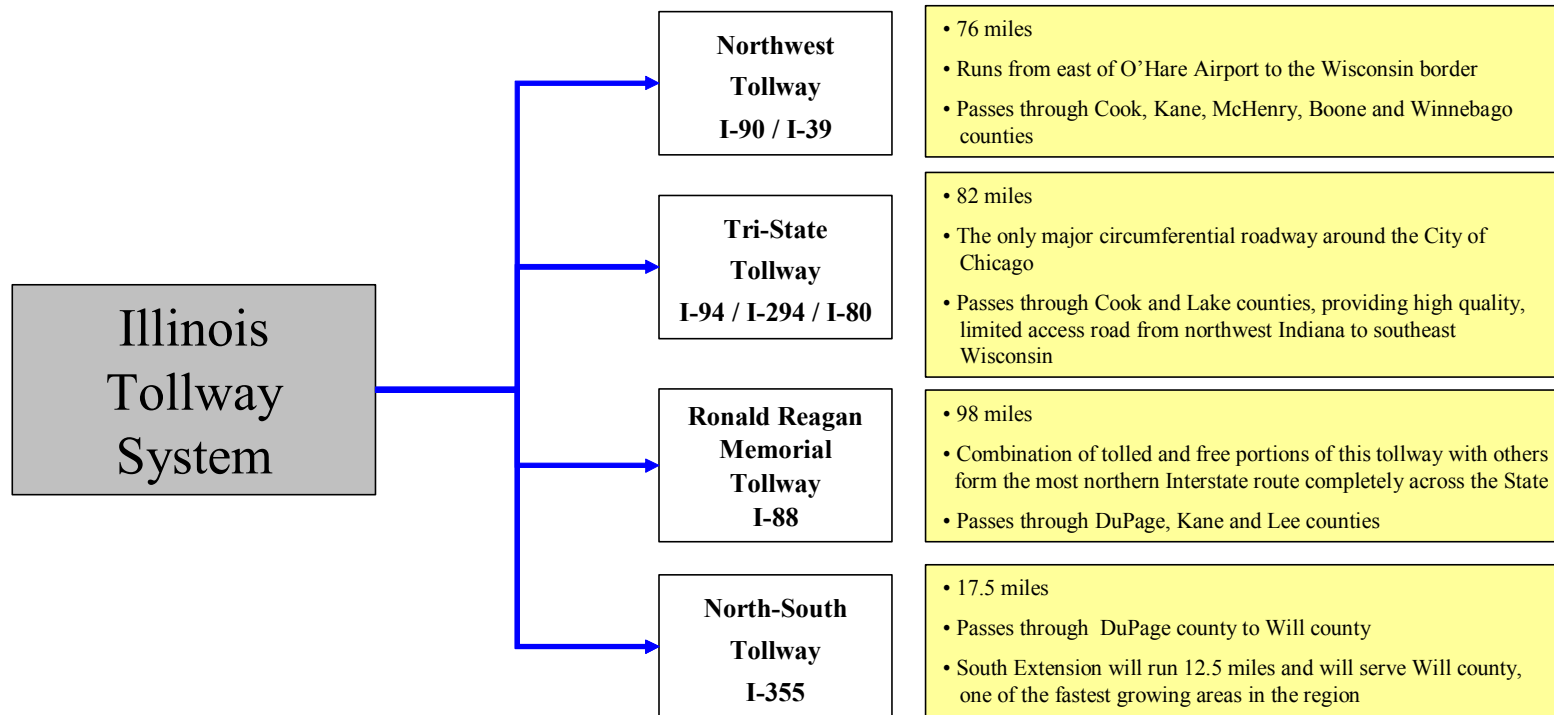


The following is a summary snapshot of the alignment of some of the core objectives of the State with the methodologies outlines

CORE OBJECTIVES			
Transaction Method	Maximize Upfront Proceeds	Receive Proceeds in a Timely Manner	Exposure to Residual Risks
Concession of the System as a Whole	√	√	
Concession Through Break-Up		√	√
Sale of the System as a Whole	√	√	
Sale Through Break-Up		√	
IPO			√



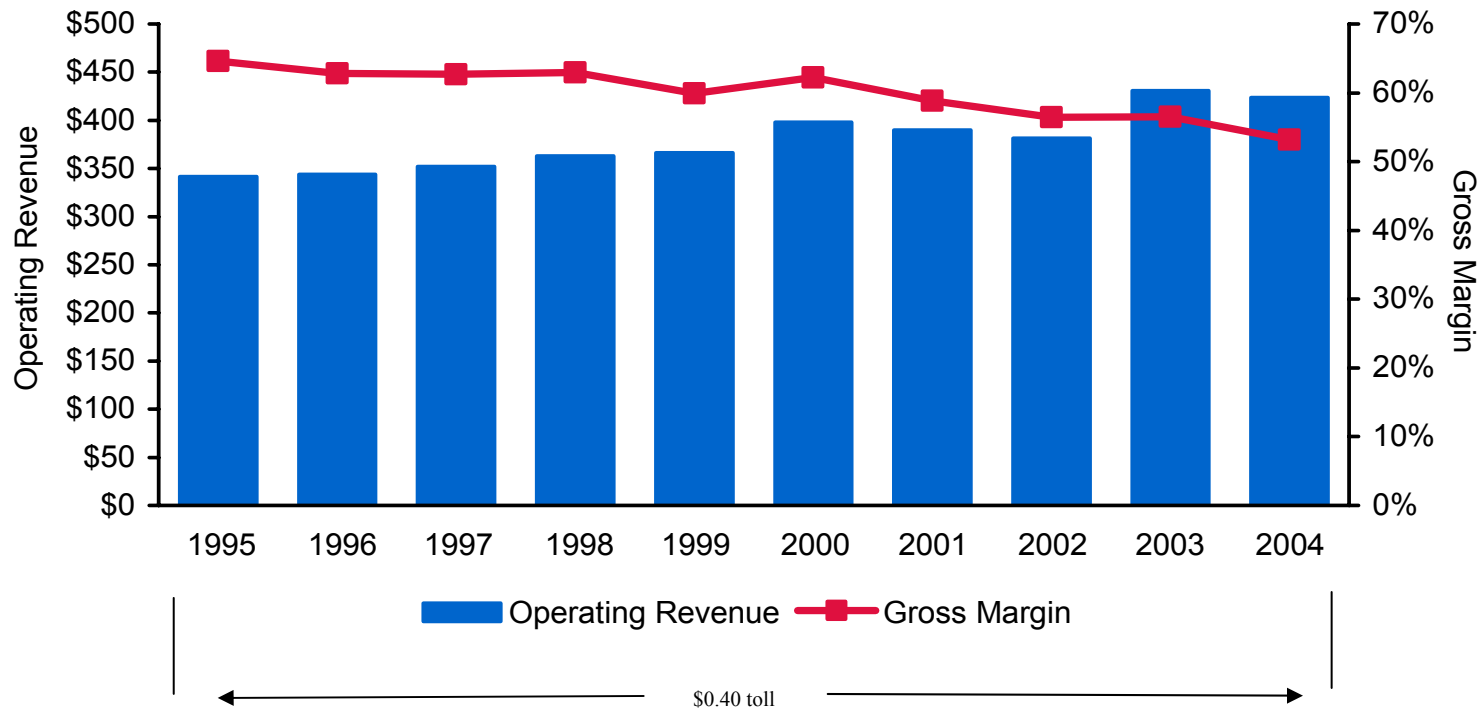
# Assets Included in the Analysis



- ▶ Additional assets associated with the Tollway, but not included in the analysis are
  - 274 miles of fiber optic network
    - The network was installed in multiple stages and consists of counts of 72 to 864 fiber strands
  - Administrative building

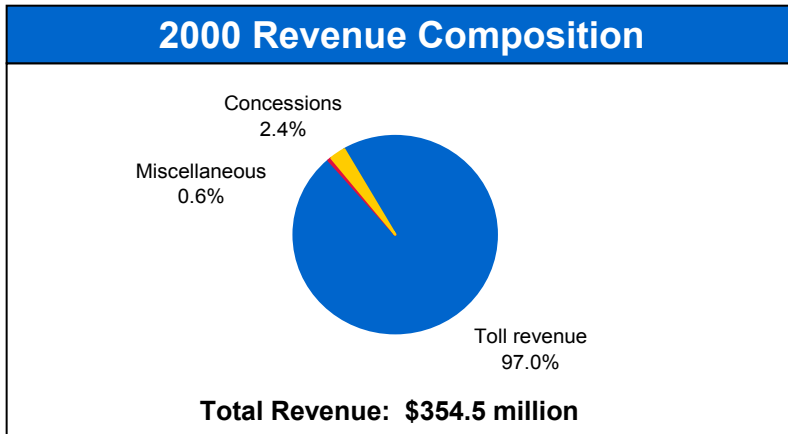


# The System - Historical Performance

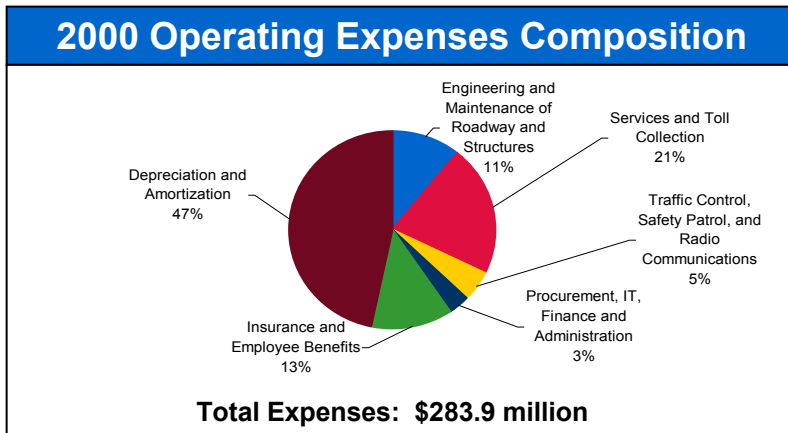
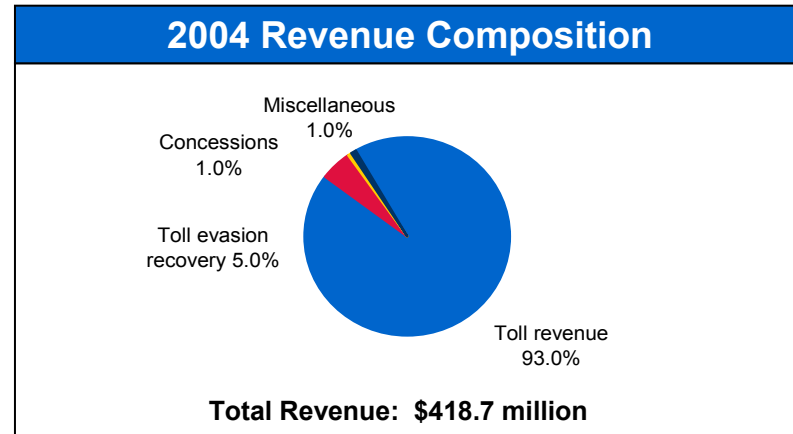




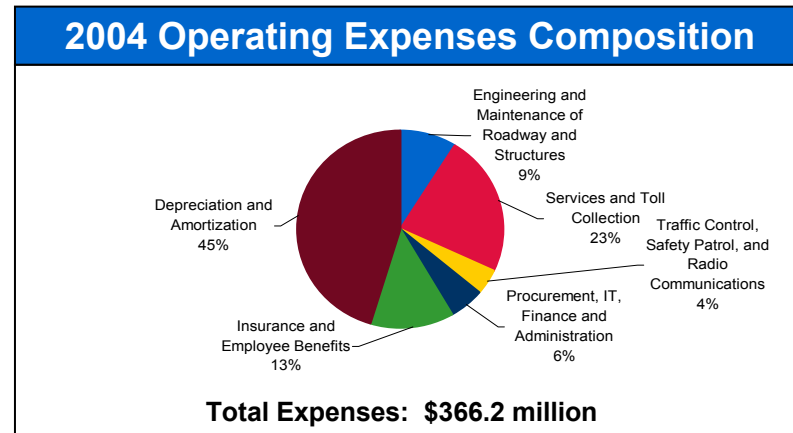
# The System - Historical Performance (cont'd)



Source: CAFR 2001 / 2004.



Source: CAFR 2001 / 2004.





# Regional Factors to Consider

## The System is an important part of the transportation infrastructure in Northern Illinois

- ▶ The System serves twelve counties that have a combined population of over 8.5 million people (over 70% of the State’s population)
- ▶ The area has in general experienced a high level of population and economic growth with much of the development occurring on land in the service areas of Illinois Tollway facilities

10 Fastest-Growing Illinois Counties 2004-2005		
RANK	COUNTY	PERCENT CHANGE
1	Kendall County	9.4%
2	Grundy County	6.5%
3	Boone County	4.2%
4	Will County	4.1%
5	McHenry County	2.6%
6	DeKalb County	2.5%
7	Kane County	2.0%
8	Monroe County	1.8%
9	Ogle County	1.4%
10	Lake County	1.4%

10 Slowest-Growing Illinois Counties 2004-2005		
RANK	COUNTY	PERCENT CHANGE
1	Alexander County	-3.3%
2	Pulaski County	-2.2%
3	Pope County	-1.7%
4	Washington County	-1.3%
5	Henderson County	-1.2%
6	Hamilton County	-1.1%
7	Hancock County	-1.1%
8	McDonough County	-1.0%
9	Mason County	-0.9%
10	Knox County	-0.9%





# Congestion-Relief Program

To support regional growth and provide for relief of existing congestion and addition of new capacity to accommodate future traffic growth, the \$5.3 billion Congestion-Relief Program (the “CRP”) was launched

- ▶ It is a 10-year capital program to
  - Rebuild / reconstruct 90% of the system, where some roads are more than 45 years old
  - Widen /add lanes to nearly half the system
  - Convert 20 mainline toll plazas to barrier-free, non-stop Open Road Tolling by 2006
  - Extend I-355 south to I-80 to serve Will County , one of the fastest-growing areas in the state

YEAR	ESTIMATED PROGRAM DRAWS
2005	\$425,700,000
2006	1,046,200,000
2007	775,000,000
2008	990,300,000
2009	928,400,000
2010	206,800,000
2011	369,100,000
2012	325,900,000
2013	185,900,000
2014	100,700,000
<b>Total</b>	<b>\$5,354,000,000</b>

# Valuation Analysis - Basis for Financial Projections



	INPUT	GROWTH ASSUMPTIONS	INFO SOURCES
Toll Revenues	<ul style="list-style-type: none"> <li>▶ 2006-2030 projected revenues by tollway</li> <li>▶ 2008-2030 South Extension revenues</li> </ul>	<ul style="list-style-type: none"> <li>▶ 3% annually thereafter</li> </ul>	<ul style="list-style-type: none"> <li>▶ WSA May 2006 report</li> </ul>
Other Revenues	<ul style="list-style-type: none"> <li>▶ 2006-2027 concession payments, allocated by total traffic volumes through the oases</li> </ul>	<ul style="list-style-type: none"> <li>▶ 3% annually thereafter</li> </ul>	<ul style="list-style-type: none"> <li>▶ 2006 bond prospectus</li> <li>▶ 2004 CAFR</li> <li>▶ 2004 WSA traffic study</li> </ul>
Revenue leakage and recovery	<ul style="list-style-type: none"> <li>▶ Historic rates               <ul style="list-style-type: none"> <li>▪ 3.8% revenue leakage</li> <li>▪ 3.2% revenue recovery with a 12-month lag</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ Fixed</li> </ul>	<ul style="list-style-type: none"> <li>▶ 2006 bond prospectus</li> <li>▶ 2004 CAFR</li> </ul>
OPEX	<ul style="list-style-type: none"> <li>▶ 2004 &amp; 2005A</li> <li>▶ 2006 Budgeted</li> <li>▶ System-wide OPEX through 2020, allocated by lane miles</li> </ul>	<ul style="list-style-type: none"> <li>▶ 3.2% annually post 2020</li> </ul>	<ul style="list-style-type: none"> <li>▶ 2004 CAFR</li> <li>▶ 2006 Budget</li> <li>▶ 2006 CTE report</li> </ul>
D&A	<ul style="list-style-type: none"> <li>▶ 2004 depreciation rates by asset class</li> </ul>	<ul style="list-style-type: none"> <li>▶ Fixed</li> </ul>	<ul style="list-style-type: none"> <li>▶ 2004 CAFR</li> </ul>
Property Taxes	<ul style="list-style-type: none"> <li>▶ 7% property taxes, with 33% allocation factor</li> </ul>	<ul style="list-style-type: none"> <li>▶ Fixed rate</li> </ul>	<ul style="list-style-type: none"> <li>▶ Credit Suisse Tax consultant</li> </ul>
CAPEX	<ul style="list-style-type: none"> <li>▶ 2005-2014 CRP</li> <li>▶ System-wide CAPEX outside the Program</li> <li>▶ Annual maintenance CAPEX</li> <li>▶ 2004 D&amp;A rates fixed over time</li> </ul>	<ul style="list-style-type: none"> <li>▶ For concession term over 85 years, CAPEX program of CRP magnitude, approximated at compounded inflation rate 45 years after the completion of CRP</li> <li>▶ Maintenance - \$175MM through 2011, \$200MM through 2020. Thereafter – 3% annual growth</li> </ul>	<ul style="list-style-type: none"> <li>▶ CTE 2006 report</li> <li>▶ WSA 2006 report</li> <li>▶ 2004 CAFR</li> </ul>
Interest rates	<ul style="list-style-type: none"> <li>▶ Current market rates for investment grade and sub-investment grade capital markets financing and bank facilities</li> </ul>	<ul style="list-style-type: none"> <li>▶ Fixed at refinancing</li> </ul>	

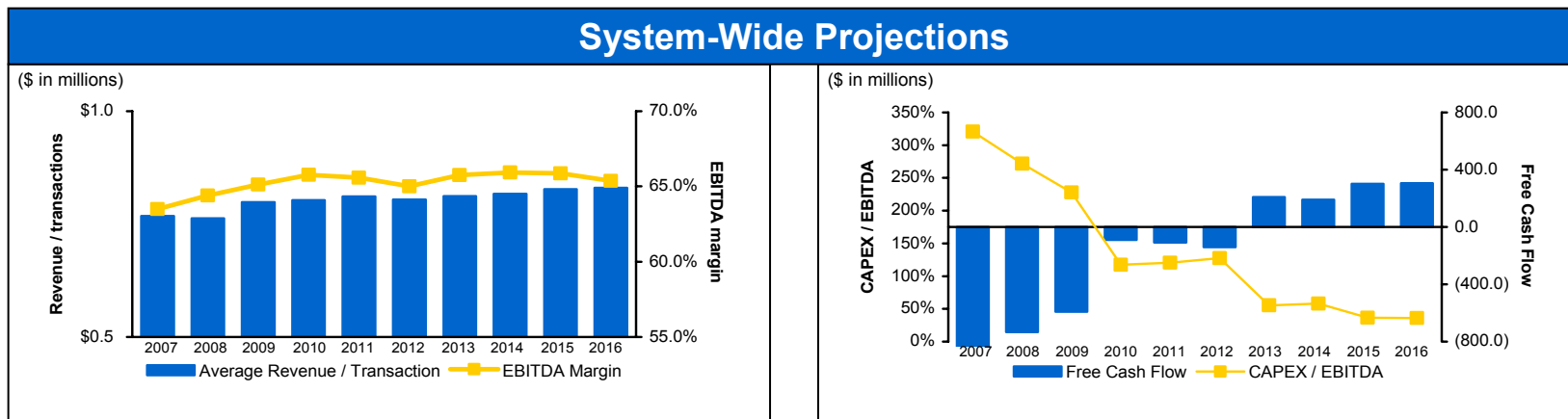


# The System - Projected Performance

## Summary Financial Projections – WSA case

(\$US)

Year:	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total System Transactions	776,525,000	802,357,000	830,593,000	855,953,000	892,526,000	903,338,000	922,263,000	967,222,000	992,759,000	1,007,890,000
Total System Revenues	\$599,062,000	\$615,994,000	\$633,434,000	\$683,692,000	\$716,879,000	\$733,010,000	\$741,863,000	\$785,104,000	\$811,193,000	\$833,994,000
Revenue Leakage	(\$22,764,356)	(\$23,407,772)	(\$24,070,492)	(\$25,980,296)	(\$27,241,402)	(\$27,854,380)	(\$28,190,794)	(\$29,833,952)	(\$30,825,334)	(\$31,691,772)
Revenue Recovery	19,169,984	19,169,984	19,711,808	20,269,888	21,878,144	22,940,128	23,456,320	23,739,616	25,123,328	25,958,176
Concession revenues	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000	\$4,000,000
Total OPEX	(\$219,800,000)	(\$224,627,000)	(\$225,161,000)	(\$236,702,000)	(\$244,024,000)	(\$251,345,000)	(\$258,885,000)	(\$266,723,000)	(\$274,725,000)	(\$282,967,000)
EBITDA	\$379,667,628	\$391,129,212	\$407,914,316	\$445,279,592	\$471,491,742	\$480,750,748	\$482,243,526	\$516,286,664	\$534,765,994	\$549,293,404
EBITDA Margin	63.4%	63.5%	64.4%	65.1%	65.8%	65.6%	65.0%	65.8%	65.9%	65.9%
Total D&A	(173,131,024)	(296,095,147)	(399,035,725)	(475,272,925)	(533,344,068)	(535,668,527)	(540,407,004)	(548,546,116)	(519,797,062)	(496,732,385)
EBIT	\$206,536,604	\$95,034,065	\$8,878,591	(\$29,993,333)	(\$61,852,326)	(\$54,917,779)	(\$58,163,478)	(\$32,259,452)	\$14,968,932	\$52,561,019
EBIT Margin	34.5%	15.4%	1.4%	(4.4%)	(8.6%)	(7.5%)	(7.8%)	(4.1%)	1.8%	6.3%

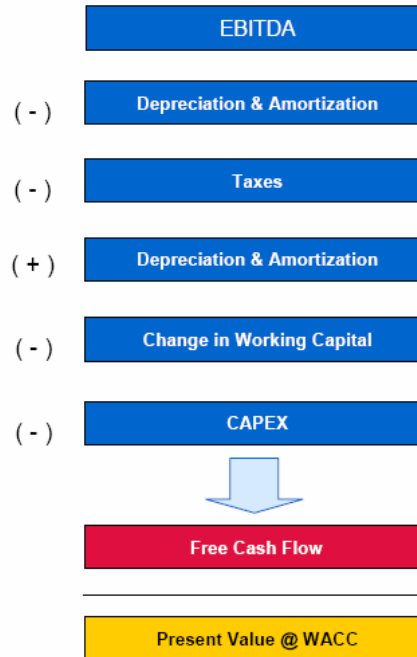
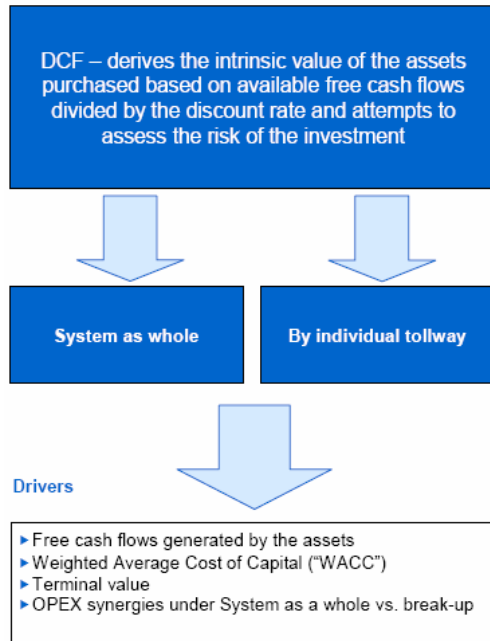




# Valuation Methodologies Utilized

To derive potential valuation ranges based on projected financial performance, we have utilized the following valuation techniques

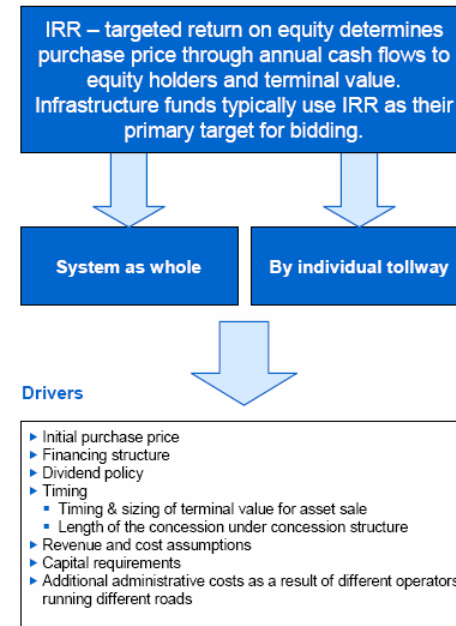
## DCF Methodology



### Assumptions

- ▶ WACC range of 6.0% - 6.9%, depending on the following factors:
  - Cost of equity
    - Beta
    - Equity risk premium
  - Cost of debt
  - Leverage
- ▶ Concession: 25, 50, 75 years

## IRR Methodology



### Assumptions

- ▶ Targeted IRR range of 8.5-12% with a 75% debt / 25% equity structure
- ▶ Permanent capital markets financing at closing
- ▶ Under break-up analysis, each individual tollway assumes additional administrative costs
- ▶ Concession: 25, 50, 75 years



# Valuation Sensitivities

## The cost of debt will differ among potential bidders

- ▶ We derived WACC as follows
  - Compared betas across industries and toll road companies
  - Looked at comparable transactions for typical leverage amounts
  - Took the average historical equity risk premium
- ▶ WACC range utilized: 6.0% - 6.9%
- ▶ WACC has a significant impact on valuation, as seen in the table below

<b>System DCF (\$'000)</b>	
6.0%	1,946,227
6.1%	1,824,838
6.2%	1,708,772
6.3%	1,597,759
6.4%	1,491,543
6.5%	1,389,884
6.6%	1,292,554
6.7%	1,199,339
6.8%	1,110,035
6.9%	1,024,450

- ▶ Valuation is highly dependent on the interest rates prevalent at the time of a transaction



# Preliminary Valuation Results (1)

## WSA Case

- ▶ 75 year concession
- ▶ WSA transactions and revenue projections till 2030
- ▶ 3% annual toll increase after 2030
- ▶ 1% traffic increase after 2030

Note: For the System, Reagan, and Northwest, IRRs don't reach the targeted range.

## WSA Case

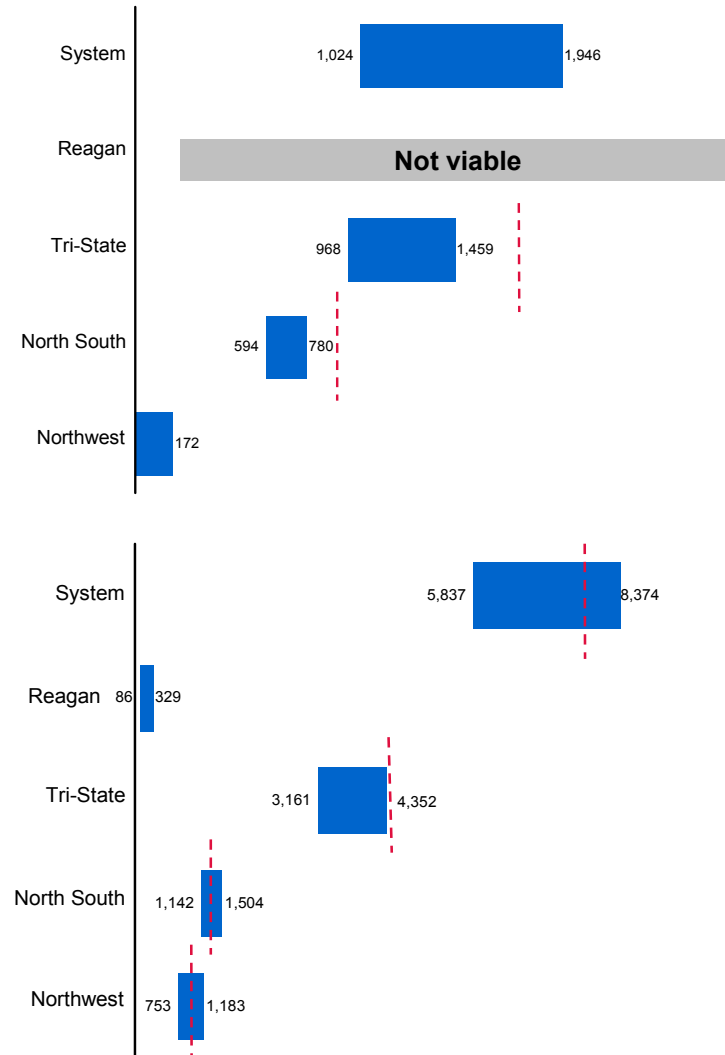
with inflation-linked toll increase only

- ▶ 75 year concession
- ▶ 3% annual toll increase, starting 2007
- ▶ WSA traffic assumptions until 2030, with a 1% increase thereafter

Note: For Reagan, IRRs don't reach the targeted range.

(1) Before accounting for debt defeasance costs.

(\$ in millions)





# Valuation Results (cont'd) (1)

## WSA Case

with inflation-linked toll increase and traffic increase

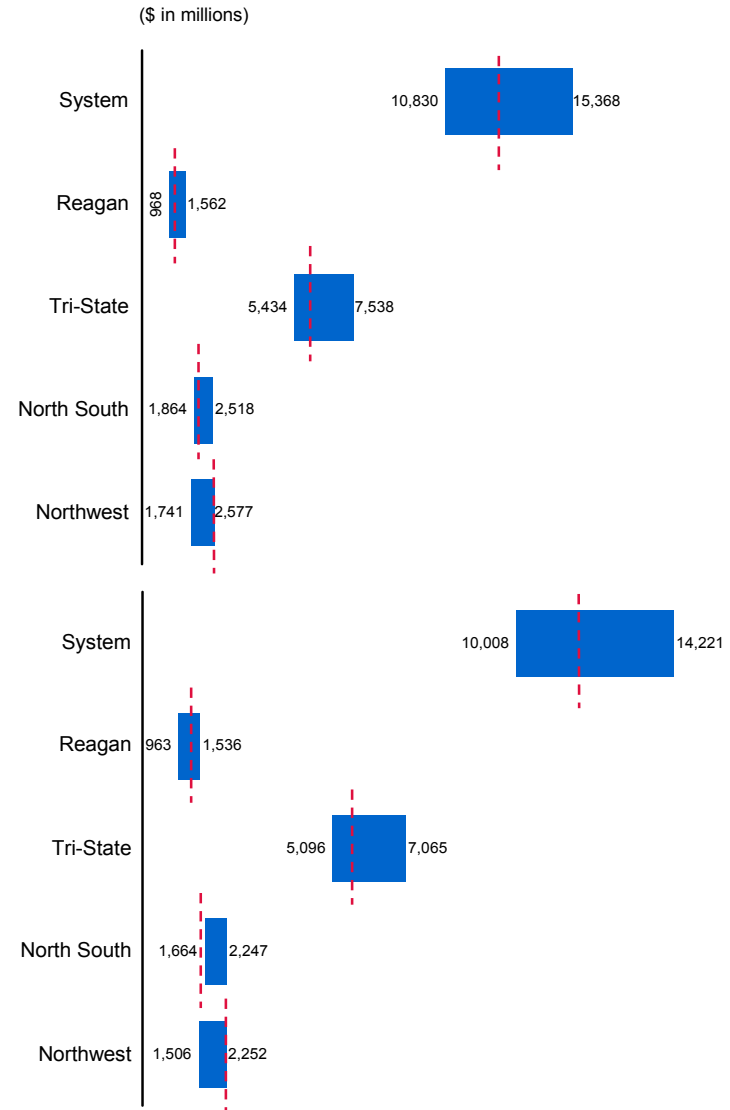
- ▶ 75 year concession
- ▶ 3% annual increase, starting 2007
- ▶ Annual traffic grows at 1.5% annually above WSA projections starting 2008

## WSA Case

with 25% toll increase

- ▶ 75 year concession
- ▶ 25% toll increase every 20 years, starting 2007
- ▶ 3% annual toll increase in all other years, starting 2008
- ▶ WSA traffic assumptions until 2030, with a 1% increase thereafter

(1) Before accounting for debt defeasance costs.





# Valuation Results (cont'd) (1)

## WSA Case

with 50% toll increase

- ▶ 75 year concession
- ▶ 50% toll increase every 20 years, starting 2007
- ▶ 3% annual toll increase in all other years, starting 2008
- ▶ WSA traffic assumptions until 2030, with a 1% increase thereafter

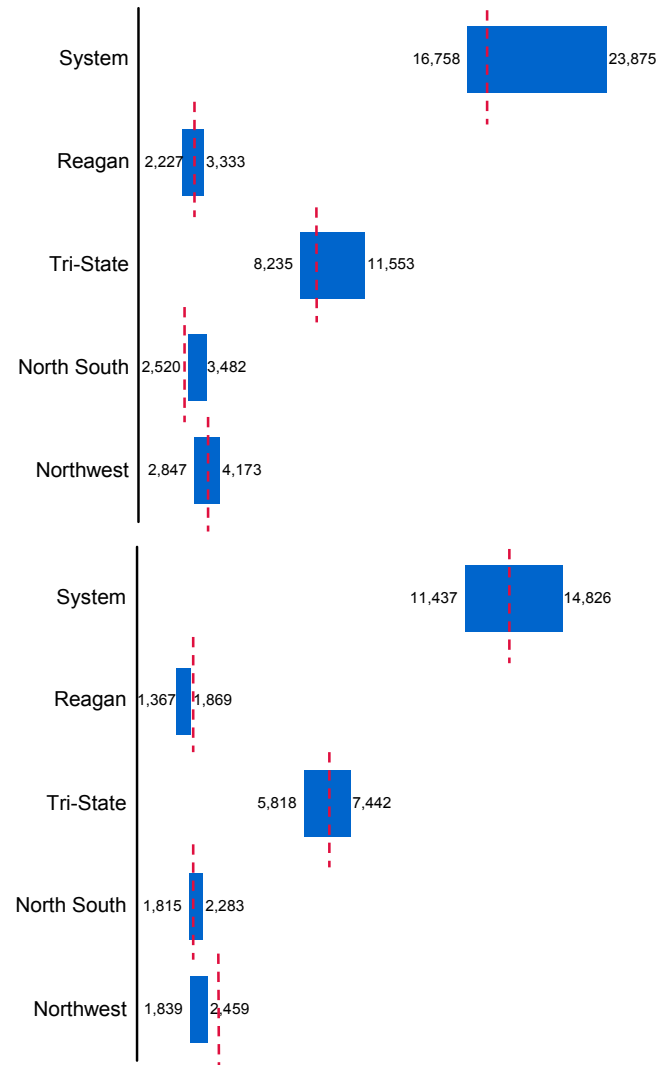
## WSA Case

with 50% toll increase and shorter concession length

- ▶ 50 year concession
- ▶ 50% toll increase every 20 years, starting 2007
- ▶ 3% annual toll increase in all other years, starting 2008
- ▶ WSA traffic assumptions until 2030, with a 1% increase thereafter
- ▶ A reserve account can be set aside to absorb the increase in tolls for end users in earlier years

(1) Before accounting for debt defeasance costs.

(\$ in millions)







# Valuation Results (cont'd) (1)

## WSA Case

with inflation-linked toll increase

- ▶ 25 year concession
- ▶ 3% annual toll increase, starting 2007
- ▶ WSA traffic assumptions until 2030, with a 1% increase thereafter

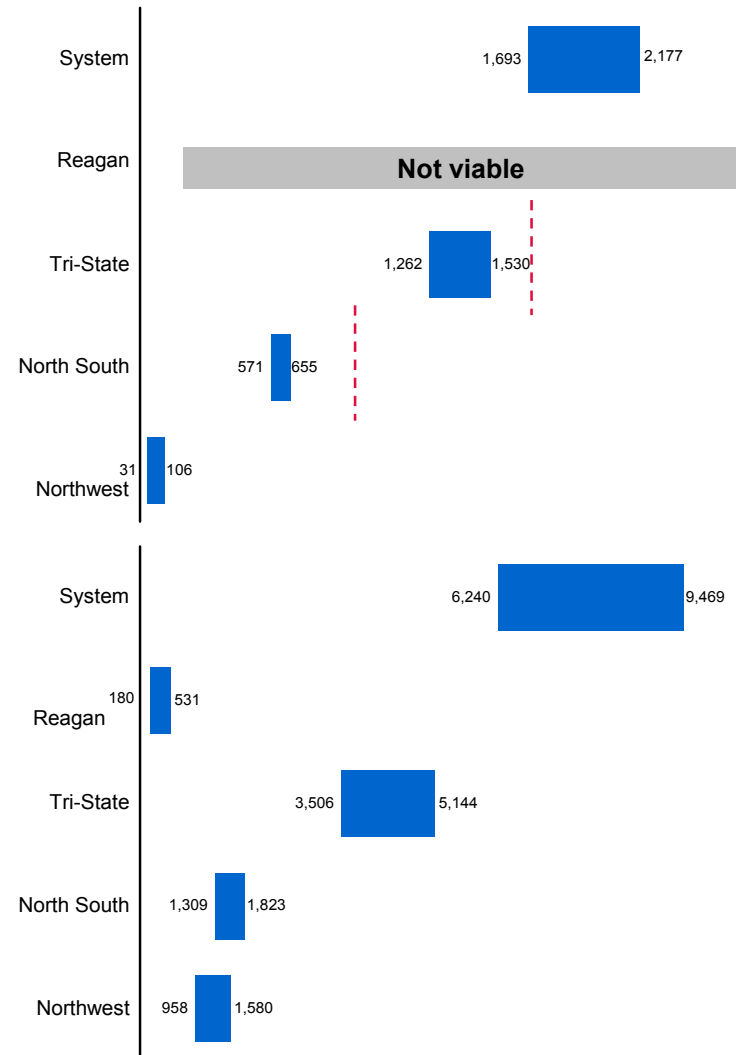
Note: For the System, Reagan, and Northwest, IRRs don't reach the targeted range.

## System-wide Sale under WSA Case

- ▶ Terminal value calculated at 2015 to account for the completion of the CAPEX program
- ▶ WACC of 6.0%-6.9%
- ▶ 2015 EBITDA in perpetuity at 3.0% - 3.9%

(1) Before accounting for debt defeasance costs.

(\$ in millions)





## System-wide Sale Sensitivities

- ▶ Per the table below, valuation for the sale of the System as a whole or in parts will depend on WACC and perpetuity rate assumptions

		PERPETUITY RATE			
		2.00%	3.00%	4.00%	5.00%
WACC	6.0%	\$15,109,442	\$9,468,522	\$6,648,062	\$4,955,785
	6.1%	\$14,967,604	\$9,374,353	\$6,577,728	\$4,899,752
	6.2%	\$14,827,120	\$9,281,092	\$6,508,077	\$4,844,269
	6.3%	\$14,687,977	\$9,188,728	\$6,439,103	\$4,789,329
	6.4%	\$14,550,159	\$9,097,252	\$6,370,799	\$4,734,926
	6.5%	\$14,413,655	\$9,006,656	\$6,303,156	\$4,681,056
	6.6%	\$14,278,449	\$8,916,929	\$6,236,169	\$4,627,713
	6.7%	\$14,144,529	\$8,828,064	\$6,169,831	\$4,574,891
	6.8%	\$14,011,881	\$8,740,050	\$6,104,134	\$4,522,585
	6.9%	\$13,880,493	\$8,652,880	\$6,039,073	\$4,470,790



# Impact of Freezing Toll Rates

- ▶ A reserve fund could be set aside to subsidize toll rates
- ▶ The cost of the fund will depend on the number of years of the subsidy
- ▶ The discount rate will also affect the cost

## Cash Available for Debt Service (in '000s)

	2007	2008	2009	2010	2011	2012	2013	2014
<b>Case 5 - WSA Case w / 50% toll increase</b>	\$607,854	\$685,797	\$731,632	\$797,250	\$838,598	\$885,520	\$963,647	\$1,026,649
(-) <b>Case 1 - WSA case</b>	379,082	411,962	450,992	477,317	486,808	487,906	522,043	541,836
<b>= Cash differential</b>	\$228,772	\$273,835	\$280,639	\$319,933	\$351,790	\$397,614	\$441,604	\$484,813

	2015	2016	2017	2018	2019	2020	2021	2022
<b>Case 5 - WSA Case w / 50% toll increase</b>	\$1,076,082	\$1,124,672	\$1,174,176	\$1,225,282	\$1,277,174	\$1,330,361	\$1,383,160	\$1,436,802
(-) <b>Case 1 - WSA case</b>	554,201	559,283	563,225	565,980	567,639	569,114	576,151	582,341
<b>= Cash differential</b>	\$521,881	\$565,389	\$610,950	\$659,301	\$709,535	\$761,247	\$807,009	\$854,461

## Reserve Fund Estimates

Interest Rate	Number of Years		
	5	10	15
4.75%	\$1,557,781	\$3,277,239	\$5,249,643
4.90%	\$1,549,632	\$3,246,926	\$5,180,113
5.05%	\$1,541,545	\$3,217,000	\$5,111,811
5.20%	\$1,533,521	\$3,187,456	\$5,044,713
5.35%	\$1,525,560	\$3,158,286	\$4,978,793
5.50%	\$1,517,660	\$3,129,486	\$4,914,029



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