

Financial Evaluation of Fluor's Capital Beltway HOT Lane Proposal

Concepts in Fluor's Capital Beltway HOT Lane Proposal

Three concepts are a component of the financial plan which warrant a brief introduction:

HOT Lanes – high occupancy vehicle (HOV) lanes where non-HOV vehicles can pay a toll to ride. The price of that ride can vary depending on the time of day and the level of congestion in the lane.

TIFIA - The federal Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) is a program that provides three forms of credit assistance: secured (direct) loans, loan guarantees, and standby lines of credit. The TIFIA credit assistance cannot exceed 33 percent of the project's eligible costs. In addition, TIFIA requires an investment grade rating on the senior bonds, and the loan must be repaid within 35 years.

The public policy underlying TIFIA is that the federal government can perform a constructive role in supplementing, but not supplanting, existing capital finance markets for large transportation projects. While the TIFIA loan can be subordinate to the toll revenue bonds for repayment, they become parity to those bonds if the project sponsor becomes bankrupt, insolvent, or liquidates.

TIFIA program guidelines requires that the project sponsor demonstrate relevant experience, strong qualifications, a sound project approach, and financial stability. Other federal standards, including environmental, also apply.

Value Pricing - Section 1216(a) of the Transportation Equity Act for the 21st Century (TEA-21, Public Law 105-178) authorizes the Secretary of Transportation to create a Value Pricing Pilot Program by entering into cooperative agreements with up to fifteen State or local governments or other public authorities, to establish, maintain, and monitor local value pricing pilot programs. Any value pricing project included under these local programs may involve the use of tolls on the Interstate system.

Value pricing, also known as congestion pricing or peak-period pricing, entails fees or tolls for road use which vary by level of congestion. Fees are typically assessed electronically to eliminate delays associated with manual toll collection facilities. This concept of assessing relatively higher prices for travel during peak periods is the same as that used in many other sectors of the economy to respond to peak-use demands.

Virginia entered into a cooperative agreement with FHWA in September 2003 to examine the feasibility of HOT lanes in Northern Virginia and received \$500,741 in federal funding for that study. Assuming the EIS and the feasibility study support HOT lanes on I-495, implementation will require FHWA authorization.

Financial Evaluation of the Fluor Proposal

The PPTA Guidelines include the following evaluation and selection criteria regarding the financing of the proposed infrastructure:

Is the financial information submitted on the firms sufficient to determine the firms' capability to fulfill its obligations described in the project proposal?

Has the proposer provided a financial plan and financial guarantees which will allow for access to the necessary capital to finance the facility?

Did the proposer demonstrate evidence of its ability and commitment to provide sufficient equity in the project as well as the ability to obtain the other necessary financing?

Does the financial plan demonstrate a reasonable basis for funding project development and operations?

Are the assumptions on which the plan is based well defined and reasonable in nature? Are the plan's risk factors identified and dealt with sufficiently?

Are the planned sources of funding and financing realistic?

Does the proposer make a financial contribution to the project?

Evaluation Process

Public Resources Advisory Group (PRAG), the Commonwealth Transportation Board's financial advisor, conducted an independent review of the proposal and the financial strength of the legal entity who will sign any comprehensive agreement

The Department of Transportation's financial staff conducted an independent evaluation.

Capital Beltway HOT Lanes Detailed Proposal
Financial Proposal Summary

Spending

Project Construction Costs (in year of construction \$)	\$693.4 million
Fluor's pre-development Costs	\$ 10.0
Additional Financing Costs	<u>\$143.3</u> ⁽¹⁾
	\$846.7 million

⁽¹⁾ Includes debt service reserve fund, capitalized interest, and cost of issuance.

Sources

Toll Revenue Bonds	\$450.9 million
Federal TIFIA Program	\$246.4
Public Sector Investment	\$ 91.1
Investment Earnings	<u>\$ 58.3</u>
	\$846.7 million

What the Price Does Not Include:

- A fixed price at this time.
- On-going maintenance and operation cost.
- Toll collection and operation expenses.

Toll Revenue Bonds

Fifty-three percent (\$451 million) of the funding is proposed as toll revenue bonds by a yet-to-be-defined entity. The proposal includes a bond sale in 2005 with repayments through 2009 funded from capitalized interest. Tolling is assumed to commence in 2010 to begin funding repayments at that point. However, there is no mention of liquidated damages in the event of project delay.

The debt will be for 40 years backed solely by toll revenues. The preliminary plan of finance assumes debt will be sold without credit enhancement but if third party credit enhancement (such as municipal bond insurance) is purchased the effective borrowing cost would be lower. Fluor also believes that the bonds will receive an investment grade rating.

These bonds will have the first lien on all revenues generated from the tolls collected on the facility. According to Fluor's proposal, the minimum debt service coverage will be 1.80 times using project toll revenues, interest earnings, and release of the reserve fund in the 40th year.

Fluor's preliminary plan of finance assumes ascending debt service payments – growing from \$19.3 million in 2010 to \$53.3 million in 2043.

Federal TIFIA Program

Fluor also proposes a \$246.4 million TIFIA loan and has officially notified the U.S. Department of Transportation of its interest for such a loan for this project. Repayment of the TIFIA loan is subordinate to the toll revenue bonds but is also assumed to be paid from toll revenues. TIFIA requirements are that the toll revenues available to the repayment must be 1.10 times coverage.

While the \$246.4 million is less than 33% of its project costs, the toll revenues cannot support any additional loan amount and remain within the 1.10 times coverage requirement.

Like the toll revenue bonds, the TIFIA loan is also repaid using ascending debt service payments – growing from \$14.2 million in 2011 to 33.9 million in 2043.

Total Debt Financing

In total, debt/loan service in the 2040 decade will exceed \$81 million a year.

In total, 82% of the project will be financed with debt, with no room for additional costs based on the limited information provided in the proposal. As a result, the financial plan leaves little room for error in traffic assumptions, toll revenue collection, or adjustments in project costs.

Refined traffic and revenue studies and discussions with rating agencies are needed to determine if investment grade ratings can be obtained at the level of funding proposed.

Tolls

Because the proposal is for HOT lanes, the toll rates could vary by time of day.

The proposal states that in 2010, the year the HOT lanes open to traffic, the average toll rate is \$2.58 with the peak toll rate reaching \$4.90. These rates were established by setting the average toll rate at \$2.20 in 2005 but it is unknown what the \$2.20 is based upon.

The proposal states that the number of toll transactions would grow less than 1 percent a year on average. Toll rates are assumed to grow at least 2 percent a year. Toll revenues are \$36.8 million in 2010 growing to \$96.4 million in 2044. The number of estimate toll transactions in 2010 is 14.3 million.

The information described above was part of the "Preliminary Plan of Finance" section of the detailed proposal. However, based on traffic in the "Assumptions" section, 14.3 million may be high.

Neither VDOT nor PRAG could validate or replicate the calculations for the toll revenues and estimates prepared by Vollmer Associations LLP. It is not clear how these estimates were derived. Any recommendation to negotiate a comprehensive agreement with Fluor should not be considered until the additional information needed to conduct a preliminary validation is provided and confirmed.

If the Panel recommends and the Commissioner decides to negotiate a comprehensive agreement, detailed analysis and modeling of time-of-day traffic and revenue will be required as will a thorough examination of any value pricing strategies.

Public Sector Investment

The last component of Fluor's proposed financing is public sector investment of \$91.1 million **only for the construction of the current proposal**. Fluor stated to the Chairman of the Advisory Panel earlier this week that this investment would be required during the next two fiscal years.

Because the Beltway is part of the interstate system, the Commonwealth Transportation Board would have the flexibility to allocate interstate funds to this project as well as other flexible federal funds. However, for the next several years, Federal Reimbursement Anticipation Notes (FRANs) debt service, I-81 commitments, the Woodrow Wilson Bridge, Springfield Interchange Project, as well as on-going improvements to the interstate system in the Hampton Roads region are consuming the Board's annual allocations to the interstate system. **Based on revenues available at this time for interstate projects, the Commonwealth Transportation Board would have limited ability to meet this investment requirement in the coming biennium.**

Other public sector investment which would directly benefit this proposal are the costs of operations and maintenance of the facility. Furthermore, additional funding had to be set aside for future maintenance rehabilitation activities such as a repaving. Estimates of

operation and maintenance costs are not provided in the proposal, which makes it difficult to determine the extent of this risk to VDOT.

As a comparison, FY 03 Dulles Toll Road maintenance and operation costs were \$15 million. There were 108.5 million toll transactions on the facility. While the Fluor proposal includes “open lane” tolling which reduces the need for toll operators it increases costs for violation enforcement and continues to have electronic transaction costs. Currently, each electronic toll transaction has a 9 cent cost attached, excluding the cost of enforcement. Using Fluor’s 2010 toll transaction figure of 14.3 million, toll transaction cost alone will be \$1.3 million a year.

The proposed enforcement system, which would capture the rear license plate only, will not provide adequate data. For example, if a car is pulling a trailer and violates, capturing the license of the trailer, which is licensed separately, will not identify the driven vehicle. The cost of an enforcement system has not been provided by Fluor.

The Proposal makes the statement that “while VDOT is not assumed to be the source of all of this funding, the current plan of finance would most certainly imply looking at the option of some direct VDOT funding as part of the public-sector investment.” **No other public-sector financing partner is identified.**

Fluor’s Financial Capability

The proposal states that a corporate guarantee from Fluor Corporation will be provided. For Fluor Corporation, total average revenues for the last three years have been \$9.4 billion. The Corporation had total assets of approximately \$3.2 billion as of June 30, 2003, with current assets exceeding current liabilities 1.22 times. Fluor’s credit ratings on long-term outstanding debt of \$144 million as of June 30, 2003 are A3/A from both Moody’s and S&P.

Based on information provided by Fluor as part of the I-81 PPTA proposal, Fluor Corporation has received performance, payment and warranty bonds from its sureties on an ongoing basis and these firms have considered single projects up to \$500 million in a co-surety arrangement.

Fluor should be required to provide payment and performance bonds for this project as part of any comprehensive agreement. At a minimum, the value of these bonds should be \$230 million.

Financial Risk Allocation

It is difficult to assess financial risk at a detailed level because detailed information has not been provided by the proposal. This information includes project cash flow

and detailed traffic and revenue information. Whether the project is financially feasible is not clear.

While VDOT has entered into a value pricing pilot the agreement does not extend to the actual construction and implementation of HOT lanes. If the proposal moves forward, this will require a separate agreement and FHWA approval.

While Fluor's proposal states they are assuming \$10 million in pre-development costs, the proposal also assumes that this investment will be repaid.

While the proposal states that the public sector investment is \$91 million or 11% of the cost, the public sector is expected to pick up significant on-going costs with significant risk associated with any capability to recover those costs.

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MEMORANDUM TO: Virginia Department of Transportation

FROM: Public Resources Advisory Group (“PRAG”)

SUBJECT: Capital Beltway HOT Lanes Detailed Proposal

DATE: March 30, 2004

In June 2002, Fluor Daniel (“Fluor”) submitted an unsolicited conceptual proposal to build high occupancy toll (“HOT”) lanes within a 14-mile segment of the Capital Beltway in Northern Virginia, pursuant to the Commonwealth of Virginia Public Private Transportation Act of 1995. Upon the Commonwealth Transportation Board approval in July 2003, the Virginia Department of Transportation (“VDOT”) requested a detailed proposal and Fluor submitted its detailed proposal in October 2003. Presented below is PRAG’s preliminary analysis of the proposals from a financial perspective. The review is based on material contained in Fluor’s detailed proposal and publicly available information, such Securities and Exchange Commission (“SEC”) filings and investor and other information.

Project Overview and Project Team

Fluor proposes to add four HOT lanes (two in each direction) within a 14-mile segment of the 22-mile long Capital Beltway in Northern Virginia. The Beltway currently has four lanes in each direction but has insufficient capacity, particularly during peak travel times. The new lanes would be constructed in the median of the Beltway, extending west of the Springfield interchange to just south of the Georgetown Pike. High-occupancy vehicles with three or more passengers, public buses and emergency vehicles could use the HOT lanes without charge, while other vehicles would pay a toll that varies with the time of day, such that higher tolls would be charged during peak travel times. Tolls will be collected through an electronic toll collection (“ETC”) system, which is to be compatible with both Smart Tag and E-ZPass. The ETC system will use open tolling. The proposal does not mention whether the location where transactions and violations are processed will be an existing or a new processing facility.

The construction cost is estimated at \$693.4 million based on inflated dollars and assuming 4.0% annual inflation to the year of construction. Optional elements of Fluor’s proposal include (i) access ramp improvements totaling \$83.6 million, (ii) an asset management option through VMS, Inc. for the long-term operation and maintenance of the roadway, (iii) toll system operation and maintenance, and (iv) the future extension of the HOT lanes system. (No dollar amounts were provided for items (ii) to (iv)). Assuming development begins in 2004, the HOT lanes project is expected to be completed in December 2009.

The primary sources of project funding are to come from the issuance of toll revenue bonds, a TIFIA loan, also backed by toll revenues but subordinate to the toll revenue bonds, and public sector funding. No specific sources of public sector support were identified but some level of direct support will likely be expected from VDOT. The bonds will be secured by a gross revenue pledge, with debt service paid before operation and maintenance of the ETC system and the roadway. While toll revenues would be available for operation and maintenance on a subordinated basis, VDOT will ultimately be responsible for the cost of these functions. The projected cash flows show

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approximately \$3.65 million, in 2011, and \$4.92 million, in 2020, to be available for operations after debt service.

Fluor will be the contracting party in the comprehensive agreement with VDOT and will be responsible for the entire project. Fluor will also provide a fixed-price/guaranteed-completion date contract and its responsibilities will be backed by a corporate guarantee from Fluor Corporation. HNTB Corporation will have primary design responsibilities and Lane Construction will be responsible for construction. Other firms on the project team include, Vollmer Associates, Greenhorne & O'Mara, Inc., Wetland Studies and Solutions, Inc., Bear Stearns & Company, Research/Strategy/Management, Inc., Reed Smith LLP, VMS, Inc. and Daniel J. Edelman Company.

Plan of Finance

Project Costs: Fluor estimates the cost to complete the project to be \$693.4 million in inflated dollars, assuming an annual inflation rate of 4.0 percent and assuming environmental work begins in January 2004, final design begins summer 2005 and the project is completed in December 2009. The detailed project cost estimates are summarized in the following table.

Detailed Estimate Costs (\$Millions)

Project Component	Amount
Traffic Control/MOT	\$44.0
Structures	\$198.0
Retaining Walls	\$53.0
Clearing and Grubbing	\$11.0
Earthwork	\$42.0
Drainage	\$35.0
Erosion Control	\$3.0
Pavement	\$109.0
Guardrails/Barrier	\$16.0
Striping/Lighting/Signage	\$23.0
Sound Walls	\$14.0
ITS	\$3.5
Design/QA/Program Management	\$104.0
Toll Systems	\$15.0
Right-of-Way Acquisition	\$12.4
Utility Relocations	<u>\$10.5</u>
Total	<u>\$693.4</u>

Fluor also presents optional project components, although cost estimates are not included in the detailed proposal for most of the items. The optional elements of Fluor's proposal include:

- Access ramp improvements totaling \$83.6 million.
- An asset management option through VMS, Inc. for the long-term operation and maintenance of the Beltway improvements (no cost estimate provided).
- Toll system operation and maintenance (no cost estimate provided).
- Future extension of the HOT lanes system (no cost estimate provided).

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Sources of Project Funding: Fluor assumes that a significant portion of the financial support will come from the issuance of toll revenue bonds. (Toll and traffic assumptions are discussed later in this section.) In addition, the proposal assumes the availability of federal funding through a TIFIA loan backed by toll revenues that would be subordinate to the toll revenue bonds. Fluor assumes additional support from the public sector, and while VDOT is not assumed to be the source of all this funding, some level of direct funding from VDOT is anticipated. Earnings on invested funds also provide a source of funds. The sources and uses of funds are summarized in the following table.

Sources and Uses of Fund (\$Millions)

	Amount
<u>Sources of Funds</u>	
Senior Current Interest Toll Revenue Bonds	\$351.3
Senior Capital Appreciation Toll Revenue Bonds	99.6
Subordinated TIFIA Loan	246.4
Public Sector Investment	91.1
Investment Earnings	<u>58.3</u>
Total Sources of Funds	\$846.7
<u>Uses of Funds</u>	
Project Costs	\$693.4
Pre-Development Costs	10.0
Issuance Costs	11.3
Capitalized Interest	87.0
Debt Service Reserve Fund	<u>45.0</u>
Total Uses of Funds	\$846.7

Senior Toll Revenue Bonds: Approximately \$451 million of toll revenue bonds are assumed to be issued, including approximately \$351 million issued as Current Interest Bonds (“CIBS”) and approximately \$100 million issued as Capital Appreciation Bonds (“CABS”). The toll revenue bonds will be secured by a gross revenue pledge, with toll revenues used to pay debt service before being available for operation and maintenance of the ETC system or the roadway. The cost of operating and maintaining the project will be the responsibility of VDOT, subject to reimbursement subordinate to project debt. Fluor proposes to explore different options for the issuing entity, including a 63-20 corporation, a governmental entity or development entity.

The toll revenue bonds are assumed to be issued in mid-2005 and have a final maturity of 2044. The CIBS have an assumed borrowing rate of 5.50% and the rate on the CABS is assumed to be 6.00%. Interest is capitalized during construction through 2009 and a debt service reserve fund (“DSRF”) is funded with bond proceeds. The project fund is assumed to be invested at 3% and interest earnings on the fund is shown as a source of funds. Debt service on the toll revenue bonds is structured to maintain a debt service coverage ratio of 1.80 times. Available revenue for debt service includes projected toll revenue, DSRF interest earnings at 4% and the release of DSRF corpus in the final year. The debt service on the bonds is ascending, since toll revenues are assumed to grow over time and constant coverage is maintained.

Subordinated TIFIA Loan: Loans under TIFIA can be for up to 33% of the capital and capitalized development costs of a qualifying project. In addition pledged project revenues must

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provide debt service coverage of at least 1.10 times and any debt service senior to TIFIA loan payments must be ratable as investment grade. The Fluor proposal includes approximately \$246 million from a TIFIA loan. The assumed loan amount is less than 33% of the total uses of funds but the level of toll revenues assumed in the detailed proposal cannot support anymore given the 1.10x debt service coverage constraint. That constraint will be reviewed after completion of the detailed traffic and revenue analysis. The TIFIA loan is assumed to close concurrently with the toll revenue bonds and has a final maturity of 2044. The assumed rate on the TIFIA loan is 5.25%. The TIFIA loan is also structured with ascending debt service. Fluor has submitted to the U.S. Department of Transportation a letter of interest for TIFIA credit assistance, with the preliminary plan of finance outlined in the letter.

Public-Sector Support: The Fluor proposal assumes approximately \$91 million of public-sector funding. As noted above, VDOT is not assumed to be the source of all of the funding but it is likely that some level of direct VDOT funding will be expected. However, Fluor does not identify any other public entities as potential sources of funding. Fluor identifies options that could reduce or eliminate the need for VDOT support, including value engineering, scope reduction, optimizing revenue projections after detailed revenue analysis and identifying other capital sources.

Toll Revenue Assumptions: Revenues to support the bonds and the TIFIA loan would come from tolls on motorists using the HOT lanes. High-occupancy vehicles with three or more passengers (“HOV 3+”), public buses and emergency vehicles could use the HOT lanes without charge. Other vehicles would pay a toll that varies with the time of day, such that higher tolls would be charged during peak travel times. Fluor indicates that all HOT lanes will open in 2010 and there will not be any phased openings or interim tolls.

Vollmer Associates LLP (“Vollmer”) prepared preliminary toll revenue estimates for the Fluor proposal. However, it was not clear exactly how the estimates were derived and we were unable to replicate the transaction and toll rate results. Vollmer used 1997 traffic models obtained from the Metropolitan Washington Council of Governments (“MWCOG”) to develop their estimates.¹ The MWCOG models produce traffic results for an average weekday, and based on its experience with SR 91 Express Lanes in California, Vollmer adjusted the MWCOG results to approximate dynamic (time-of-day) pricing. They were also adjusted to assume that 5% of the traffic is HOV 3+ and not subject to tolling. Toll rate data is also inflated from assumed 1997 levels to expected levels in 2010, when tolling begins. The Fluor proposal notes that more detailed analysis and modeling of time-of-day traffic and revenue is expected before the tolling strategy can be optimized.

The table on the following page summarizes the results of the Vollmer analysis from 2010, the first year tolling is to begin, through 2025. Vollmer assumes higher growth in toll transactions in the first few years of operation as more drivers become aware of the benefits of the HOT lanes. Annual growth in toll transactions gradually declines to 0.56% by 2025, and although not shown in the following table, toll transactions are assumed to increase by 0.50% annually in 2026 and thereafter. In 2010 the average toll rate is assumed at \$2.58, with the peak toll assumed to be approximately 90% higher, or \$4.90. Toll rates are also assumed to increase between 2010 and 2025 at an annualized rate of approximately 2.47% to reflect inflationary adjustments. After 2025, the average toll rate is assumed to grow at 2.00% a year. The combined effect of increasing toll transactions and increasing toll rates results in annual toll revenue increasing from approximately \$36.8 million in 2010 to approximately \$60.2 million in 2025, an average annual rate of growth of 3.33%. In 2026 and thereafter, annual growth in toll revenues is assumed at 2.50%.

¹ Vollmer indicates that it had enhanced and refined these models over the last several years for use on other projects, including the Dulles Greenway Traffic and Revenue Study, the Dulles Toll Road Revenue Feasibility Study and the Route 28 Express Lane Study.

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Projected Toll Transactions, Rates and Revenues

Year	Annual Toll Transactions	Percent Change	Average Toll Rate	Percent Change	Toll Rate Per Mile	Peak Toll Rate	Annual Toll Revenue	Percent Change
2010	14,265,168		\$2.58	3.20%	\$0.184	\$4.90	\$36,804,133	
2011	14,444,248	1.26%	\$2.66	3.10%	\$0.190	\$5.05	\$38,363,923	4.24%
2012	14,613,365	1.17%	\$2.73	2.63%	\$0.195	\$5.19	\$39,923,712	4.07%
2013	14,773,327	1.09%	\$2.81	2.93%	\$0.201	\$5.34	\$41,483,501	3.91%
2014	14,924,858	1.03%	\$2.88	2.49%	\$0.206	\$5.48	\$43,043,290	3.76%
2015	15,068,608	0.96%	\$2.96	2.78%	\$0.211	\$5.62	\$44,603,079	3.62%
2016	15,205,161	0.91%	\$3.04	2.70%	\$0.217	\$5.77	\$46,162,868	3.50%
2017	15,335,044	0.85%	\$3.11	2.30%	\$0.222	\$5.91	\$47,722,657	3.38%
2018	15,458,735	0.81%	\$3.19	2.57%	\$0.228	\$6.06	\$49,282,446	3.27%
2019	15,576,665	0.76%	\$3.26	2.19%	\$0.233	\$6.20	\$50,842,235	3.16%
2020	15,689,229	0.72%	\$3.34	2.45%	\$0.239	\$6.35	\$52,402,024	3.07%
2021	15,796,784	0.69%	\$3.42	2.40%	\$0.244	\$6.49	\$53,961,813	2.98%
2022	15,899,657	0.65%	\$3.49	2.05%	\$0.249	\$6.63	\$55,521,602	2.89%
2023	15,998,148	0.62%	\$3.57	2.29%	\$0.255	\$6.78	\$57,081,391	2.81%
2024	16,092,530	0.59%	\$3.64	1.96%	\$0.260	\$6.92	\$58,641,180	2.73%
2025	16,183,056	0.56%	\$3.72	2.20%	\$0.266	\$7.07	\$60,200,969	2.66%

Financial Strength of the Proposer

Fluor’s responsibilities will be backed by a corporate guarantee from Fluor Corporation. As such, the financial strength of Fluor Corporation is discussed, based on information obtained from publicly available sources.

Fluor Corporation (“FC”) is organized into five main operating segments: (i) Energy and Chemicals, (ii) Industrial and Infrastructure, (iii) Power, (iv) Global Services and (v) Government Services. The table on the following page presents selected financial highlights for FC, based on information supplied with the proposal and other publicly available information. Over the last three years, FC’s total revenues have averaged approximately \$9.4 billion. In 2002, FC reported net income of \$164 million and cash flow from operations of \$207 million. While net income was higher by \$145 million in 2002 as compared to 2001, cash flow from operations was lower by \$408 million. Management reports that the change in cash flow from operations between 2001 and 2002 was in large part due to decreased advances from affiliates in the Power segment resulting from the completion of a substantial number of projects. For the first half of its current fiscal year, FC reported total revenues of \$4.32 billion and net income of \$62 million. FC also shows \$158 million of cash being used by (rather derived from) operations, which was primarily due to changes in non-cash items, such as receivables and payables.

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Fluor Corporation Financial Highlights (\$Millions)

	As of: 6/30/03 (1)	As of: 12/31/02	As of: 12/31/01	As of: 12/31/00 (2)
Total Revenue	\$4,320	\$9,959	\$8,972	\$9,423
Net Income	\$62	\$164	\$19	\$124
Cash Flow from Operations	(\$158)	\$207	\$615	\$186
Cash and Equivalents	\$584	\$753	\$573	\$22
Billed and Unbilled Receivables	\$1,211	\$953	\$959	\$970
Total Current Assets	\$2,015	\$1,941	\$1,851	\$1,231
Long-Term Assets	\$1,232	\$1,201	\$1,240	\$1,470
Total Assets	\$3,247	\$3,142	\$3,091	\$2,701
Current Liabilities	\$1,654	\$1,756	\$1,811	\$1,604
Long-term Debt	\$144	\$18	\$18	\$18
Other Long-term Liabilities	\$477	\$485	\$473	\$446
Total Liabilities	\$2,276	\$2,258	\$2,302	\$2,068
Stockholders' Equity	\$971	\$884	\$789	\$633
Current Ratio	1.22 x	1.11 x	1.02 x	0.77 x
Backlog	\$10,463	\$9,709	\$11,506	\$10,012
Stock Price, as of 11/3/2003	\$37.10			
Market Capitalization	\$3,029			

Notes:

(1) For the six-month period ending 6/30/2003.

(2) FC changed to a calendar-year basis of reporting financial results effective January 1, 2001 and for comparison purposes, income and cash flow information is for the period ending October 31, 2001.

FC reports total assets of approximately \$3.2 billion as of June 30, 2003, with approximately \$2.0 billion of current assets. Its current assets exceeded current liabilities 1.22 times. FC reports cash and equivalents of \$584 million, down from the end of the 2002 fiscal year. A factor contributing to the decrease was the use of approximately \$55 million of cash for acquisitions to strengthen FC's Government Services and Global Services business segments. FC's liquidity has improved from 2000, where the company reported using short-term borrowings to provide operating liquidity. The company also reported as of June 30, 2003 access to \$290 million in unutilized commercial paper lines of credit and a shelf registration state for the offering of up to \$300 million in long-term debt. Also as of that date, FC reported a backlog of approximately \$10.4 billion, up from \$9.7 billion at the end of 2002.

FC reports \$144 million in long-term debt as of June 30, 2003. The increase from the end of 2002 is the result of an accounting change required by FASB to report as debt the value of certain lease arrangements that previously were only disclosed in the footnotes to its financial statements. Currently, FC's long-term debt is rated A3/A from Moody's Investors Service and Standard & Poor's, respectively. Stockholders' equity was \$971 million as of June 30, 2003. FC's stock is traded on the NYSE and its stock price as of November 3, 2003 was \$37.10 per share near its 52-week high of \$40.82 per share earlier in October 2003. Based on outstanding shares of approximately 81.6 million, its current market capitalization is over \$3.0 billion.

Based on information provided to VDOT for another PPTA project, FC's has received performance, payment and warranty bonds from its sureties on an ongoing basis and these firms have considered single projects up to \$500 million in a co-surety arrangement. However, there is no discussion on whether Fluor will provide payment and performance bonds for this project.

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Allocation of Risks and Responsibilities

Before addressing the general allocation of risks and responsibilities, we discuss the risks associated with tolling.

Risks Associated with Tolling: Approximately 82% of the total financing costs are to come from debt backed by tolling on the proposed HOT lanes. (Project fund earnings account for another 7% of the total funding.) While projected toll revenues cover senior bond debt service 1.80 times and the TIFIA loan 1.10 times, the preliminary plan of finance has the debt structured with ascending debt service to match a revenue base that is assumed to grow over time. A more detailed traffic and revenue analysis will be needed to validate that time-of-day pricing will generate sufficient revenues and the demand elasticity to support revenues growing over time. If the study shows that tolling will not support 82% of the project cost, as is currently assumed, then less debt can be issued. This would shift more of the financing cost to VDOT or other public sector participants, unless the scope of the project is reduced.

Assuming bonds are issued, the risk that actual toll revenues are not sufficient to pay debt service is borne by the purchasers of the toll revenue bonds. The Commonwealth and VDOT will not have any financial or legal obligation but obviously would only want to sponsor a project with a high probability of success. Fluor’s detailed proposal does not address whether Federal and/or Commonwealth approval will be needed to impose tolls on the Beltway. Fluor states that, in order to obtain investment grade ratings, VDOT will have to agree not to add additional free lanes or other directly competing enhancements until the debt is repaid. VDOT will need to make a policy determination about whether a “non-compete” requirement would restrict the future flexibility of its transportation programs for that region of the state.

Allocation of Risks and Responsibilities: The following table summarizes the allocation of risks and responsibilities for the Fluor proposal.

Category	Risk and Responsibility Allocation
<p><i>Financing Risk:</i></p> <p>Toll Revenue Bonds</p>	<ul style="list-style-type: none"> • Traffic and revenue study needs to validate assumed bonding capacity. • Investment grade ratings needed. • Higher borrowing costs will reduce capacity. • Bondholders assume revenue risk. • Fluor willing to consider mitigating revenue risk. • “Non-compete” commitment from VDOT.
<p>TIFIA Loan</p>	<ul style="list-style-type: none"> • Assumes USDOT approval and participation. • Fluor has submitted letter of interest for TIFIA credit support. • Ability to utilize full benefit of TIFIA program depends on results of traffic and revenue study. • Federal government assumes revenue risk; not clear whether Fluor’s willingness to consider mitigating revenue risk extends to the TIFIA loan.
<p>Public Sector Support</p>	<ul style="list-style-type: none"> • Assumes some level of participation from VDOT; no other public participants identified. • The degree of public support would need to increase if projected toll revenues cannot support the planned amount of debt to be issued.

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Category	Risk and Responsibility Allocation
<p>Project Development</p> <p><u>Completion Risk:</u></p>	<ul style="list-style-type: none"> • Fluor will assume \$10 million of pre-development costs, including preliminary design, traffic and revenue analysis and project cost estimating and planning. The costs to be reimbursed if debt is issued. • VDOT to manage and fund federal NEPA/EIS process. • Fluor to provide a guaranteed fixed-price/fixed completion date contract. • Fluor Corporation to guarantee Fluor’s obligations under the contract. • Costs associated with utility relocation, right-of-way and undeterminable conditions are not a part of the fixed construction price and will be subject to negotiation of risk allocation. However, estimated costs for utility relocation and right-of-way acquisition are included in the preliminary plan of finance. • Three-year warranty and guarantee for repair, replacement or reperformance of defective workmanship, materials or services. Subcontractors, suppliers and vendors also to provide standard warranties and guarantees in favor of both Fluor and the Commonwealth. • Equipment warranties and/or guarantees for toll collection and surveillance equipment to be provided separately from those suppliers. • No discussion on liquidated damages or payment and performance bonds.
<p><u>Operating Risk:</u></p>	<ul style="list-style-type: none"> • The costs associated with collecting the tolls are subordinate to debt service. • Assumes VDOT will retain financial responsibility for operations and maintenance of the roadway and toll system. • Revenues after senior bond and TIFIA loan debt service would be available to VDOT for operations, including ETC system costs. • Fluor willing to take a risk position to mitigate revenue realization risk but only if require to obtain investment grade ratings. Also, no specific level of support identified. • An asset management option through VMS, Inc. for the long-term operation and maintenance of the roadway, although no cost estimate is provided. • At VDOT’s option, Fluor will provide a toll system operation and maintenance contract, although no cost estimate is provided.

Appraisal

Financial Strength of the Proposer: The provision of a corporate guarantee from Fluor Corporation, the ultimate parent of Fluor Daniel, is a positive security feature. Fluor Corporation is reasonably strong financially and has adequate resources to back Fluor Daniel’s performance for a project of this size. We do suggest that VDOT also require payment and performance bonds of at least \$230 million, which would represent approximately a third of the estimated cost of \$693 million. Based on information provided to VDOT for another PPTA project, Fluor Corporation should have sufficient bonding capacity. Should it move forward with this project, VDOT will want to monitor its total exposure to Fluor Corporation, particularly if Fluor Virginia, Inc. is awarded the I-81 corridor improvement project. Fluor Corporation would be guaranteeing Fluor Virginia’s work of approximately one-third of the project, where its direct exposure would be approximately \$2 billion.

Financing Plan: Approximately 82% of the total financing costs are to come from debt backed by tolling on the proposed HOT lanes, with 11% from public sector support and the remaining 7% from investment earnings on unspent project funds. The current financing plan is

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based on preliminary toll revenue projections that show a growing revenue base over time. Between 2010 and 2025, revenues are assumed to grow at an annual rate of 3.33%. The ability to implement this plan will depend on accurate traffic and revenue estimates, because if the credit rating agencies and investors do not have confidence in the plan, then less debt can be issued. That would shift a greater share of the financing cost to VDOT or another public sector participant. Fluor states that Vollmer will prepare an “investment grade” feasibility report; we believe such a report is vital to the success of the financing plan.

Another risk to the financing plan is whether USDOT will provide support through the TIFIA program. Fluor has submitted a letter of interest that outlines the proposed financing plan but there is no assurance that USDOT will approve the request for assistance. VDOT will also need to determine how much total support it can realistically expect through TIFIA, as this project could compete with other Commonwealth transportation projects and other projects in the U.S. relying on financial assistance through TIFIA. For example, one of the proposals VDOT is evaluating for the I-81 corridor improvements also includes a TIFIA loan.

The public-sector funding component, while only 11% of the current financing plan, is uncertain. VDOT is assumed to be the source of some of this funding but Fluor does not have a funding commitment from VDOT. Fluor also does not identify any other public entities as potential sources of funding. Depending on the results of the feasibility report, it is possible that additional debt could be issued, which would reduce the amount of public sector support for the project. If public sector support cannot be relied upon and there is no additional bonding capacity, then the scope of the project would need to be reduced.

Risk Allocation: Fluor is at risk for funds spent during the pre-development stage until the Comprehensive Agreement is signed. VDOT would also be at risk for its expenses on upfront development responsibilities, such as work on the NEPA/EIS process. Fluor will be taking the fixed construction price and completion date risk and will back its obligation with a guarantee from Fluor Corporation. There is no mention of payment and performance bonds and liquidated damages. As mentioned above, we recommend VDOT require bonds of at least \$230 million. We also recommend requiring liquidated damages to provide an added incentive for late completion. While Fluor provides estimates of the project cost and completion date, a firm fixed price and a completion date have not been set and many factors can change these estimates. In order to proceed, VDOT must have a basis for believing that these estimates are reasonable and feel comfortable that Fluor will negotiate a fair and reasonable fixed price and completion date.

VDOT will have ownership and maintenance responsibilities for the roadway and toll system, unless it chooses the option for extended roadway maintenance through VMS, Inc. or for operation and maintenance of the toll system by Fluor. Either way, however, VDOT is responsible for the operation and maintenance costs. There is also a potential for VDOT to be reimbursed for its operating expenses if there are toll revenues available after payment of debt service and filling required reserves. The revenue risk associated with repayment of debt service is shifted to the bondholders, including the federal government through the TIFIA program. The debt would be structured as non-recourse debt to the Commonwealth and VDOT and neither the Commonwealth nor VDOT is under any legal obligation to pay debt service. Fluor states that it will consider taking a risk position to mitigate revenue realization risk, similar to what it did in the Pocahontas Parkway transaction, but only if required to obtain investment grade ratings. However, no specific level of support was identified.

Conclusion

Fluor’s proposal to add HOT lanes to a 14-mile segment of the 22-mile long Capital Beltway is a way to relieve congestion on that roadway, particularly during peak travel times. While the

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project would be financed primarily through toll revenue bonds and a TIFIA loan, also backed by toll revenues, some of the project costs will need to be paid by VDOT or another public sector participant. VDOT would also be responsible for the ongoing operation and maintenance of the roadway and toll system, although at its option, those tasks could be outsourced to VMS, Inc. and Fluor. The PPTA Advisory Panel must decide whether the proposed project cost is competitive with a traditional procurement approach, given the advantages of transferring some of the risks and potentially having the improvements to the Capital Beltway completed in a shorter time period.