Presale Report

I-77 Mobility Partners LLC

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Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Private Activity Bonds	BBB	New Rating — Provisional	Stable
TIFIA Loan	BBB	New Rating — Provisional	Stable

Note: All amounts in U.S. dollars unless otherwise indicated.

Rating Rationale

DBRS Limited (DBRS) has assigned provisional ratings of BBB with Stable trends to the $[100.0] million Private Activity Bonds (PABs) and $[189.0] million loan to be issued under the Transportation Infrastructure Finance and Innovation Act (TIFIA) to fund the design and construction of the I-77 managed lanes project (the Project). I-77 Mobility Partners LLC (Developer or ProjectCo) will be responsible for the design, construction, financing, operation and maintenance of the Project as per the terms of a 53.6-year Comprehensive Agreement (CA) with the North Carolina Department of Transportation (NCDOT).

The Project involves the conversion of existing high occupancy vehicle (HOV) lanes to high occupancy toll (HOT) lanes along a portion of the I-77 corridor between Charlotte and Mooresville, in the State of North Carolina. The construction task includes the design and build of roughly 71 lane-miles of new highway across the 26-mile alignment, adding between two and three HOT lanes in the middle of the alignment. After completion of construction, there will be seven contiguous HOT segments adjacent to general purpose (GP) lanes that motorists may use free of charge. DBRS notes that much later in the concession, the GP lanes in the northern section of the highway may be expanded from two lanes to three lanes, although NCDOT will offer compensation for lost revenues if such expansion occurs.

The responsibility for design and construction has been passed down to Sugar Creek Construction LLC (the DB Contractor), a limited liability company comprised of FA Southeast, LLC and W.C. English Incorporated (English). With the exception of the design, implementation and commissioning of the tolling infrastructure and a limited amount of right-of-way (ROW) acquisitions, ProjectCo's construction phase responsibilities will be performed by the DB Contractor. A security package, including a payment bond for 100% of the contract price, a performance bond of 50% of the contract price and parent company guarantees will support the DB Contractor's obligations. The construction phase will span 43 months, with a target substantial completion date of October 31, 2018. The DB Contractor's obligations under the DB Contract will be backed by joint and several parent company guarantees from Ferrovial Agroman, S.A., Ferrovial Internacional, SLU and W. C. English, Incorporated.

During the 50-year service phase, ProjectCo will be responsible for making the road safely available and for determining the level of tolling fees in order to keep traffic on the managed lanes flowing as prescribed by the CA and to service the debt. Not uncommon for road projects, ProjectCo will retain the operating and maintenance (O&M) and lifecycle risks, although break-even resiliencies are more than adequate to support the rating.

An investment-grade traffic forecast has been developed by C&M Associates. The toll revenue forecast calls for $5.1 million in nominal revenues in 2018 (partial year), $24.6 million in revenues in 2019 and $34.5 million in revenues in 2020, once ramp up is complete. Thereafter, revenues are originally estimated to grow fairly briskly although growth will taper off gradually. While DBRS believes that these growth rates are fairly aggressive, it nonetheless takes comfort from the fact that nominal revenue growth is forecast to drop to 3.9%, or 1.4% on a real basis in the outer years.

Volume risk is a key differentiator of the Project from many other public-private partnerships (PPPs) and ProjectCo will be responsible for determining the level of toll to be charged to vehicles using the HOT lanes under a free-flow tolling regime. An analysis of the traffic forecast notes that the Project can withstand a 64% drop in traffic on the managed lanes throughout the life of the Project without breaching a 1.0x debt service coverage ratio (DSCR, which includes PABs and TIFIA principal and interest), after the taking into account of the $75 million Developer Ratio Adjustment Mechanism (DRAM) and deferral of scheduled TIFIA principal repayment as is permissible per the terms of the TIFIA loan. DBRS views this as an adequate mitigant for the uncertainty related to the traffic risk on the managed lanes and as supportive of the rating.

Issuer Description

I-77 Mobility Partners LLC is the special-purpose entity contracted by the North Carolina Department of Transportation to design, build, finance, operate and maintain a the I-77 High Occupancy Toll Lanes project in Charlotte, North Carolina, under a 53.6-year Comprehensive Agreement with the North Carolina Department of Transportation (NCDOT).

Rating Considerations

Strengths

1. Capable construction contractor
The DB Contractor will assume all design and construction risks, with the exception of tolling infrastructure and some remaining ROW acquisition. Sugar Creek Construction LLC is a joint venture of two experienced firms, whose contractual obligations are joint and several and supported by a parent company guarantee from Ferrovial Agroman, S.A., Ferrovial Internacional, SLU and W. C. English, Incorporated up to the DB Contractor's liability cap of 50% of the contract price.

2. Affluent and growing service area
I-77 is a key north-south corridor serving the Charlotte area. Population growth and the growth in the number of households have outpaced that of North Carolina and national averages. In particular, Mecklenburg and Iredell counties, located at either end of the project's alignment, have seen their population increase by 2.9% and 2.6%, respectively, between 1990 and 2012 on a compound annual growth rate (CAGR) basis. These two counties are the primary catchment areas for traffic that is expected to use the highway and represent about 16% of the State's total employment; median household incomes for the region ($52,000 in 2010$) are in excess of those in the rest of the State.

3. Developer Ratio Adjustment Mechanism
Under the terms of the CA, NCDOT has made available up to a $75 million public subsidy (the DRAM), which may be used in order to pay for debt service until the earlier of the maturity of the TIFIA loan or the occurrence of a non-exempt refinancing. In the event that the forecast debt service for the next debt service payment (including PABs and TIFIA) is below 1.0x, subject to an annual cap of $12 million, NCDOT will transfer the shortfall in debt service to ProjectCo, which provides the Project with substantial flexibility to weather a traffic downturn.

4. TIFIA loan provides debt servicing flexibility
During the first 20 years of operation, TIFIA allows for a portion of debt servicing obligations to be deferred in the event that toll revenues are insufficient to pay for scheduled debt service. This flexibility enhances the Project's ability to weather a traffic downturn.

5. Fee-setting autonomy
With the exception of the first six months of operations during which tolls will be charged according to a schedule, ProjectCo will have virtually unlimited fee-setting autonomy. The CA gives ProjectCo the ability to change tolls at five-minute intervals in order to keep vehicles in the HOT lanes flowing at a minimum speed of 45 miles per hour or 80% of the posted speed limit. In order to do so, the toll will set at an appropriate level that is high enough to discourage usage during periods of heavy congestion, but low enough that users outside of peak periods will still be incentivized to use the HOT lanes. This is superior to some other projects that have limited or no fee-setting autonomy.

Challenges

1. Exposure to volume risk
Unlike projects that receive availability payments to cover operating, rehabilitation and capital costs, bondholders are exposed to traffic volume risk. Should traffic materially underperform projections, there is a risk that insufficient funds will be available to pay for debt servicing.

2. Economic cyclicality
Traffic on the managed lanes will be highly dependent upon economic conditions, especially regional employment. As such, economic weakness in the region, such as the closure of a major employer or will result in pressure on managed lanes traffic volumes. Fuel prices can also negatively affect traffic levels, as evidenced in the past. Nonetheless, stress testing indicates that ProjectCo has adequate room to weather traffic volatility.

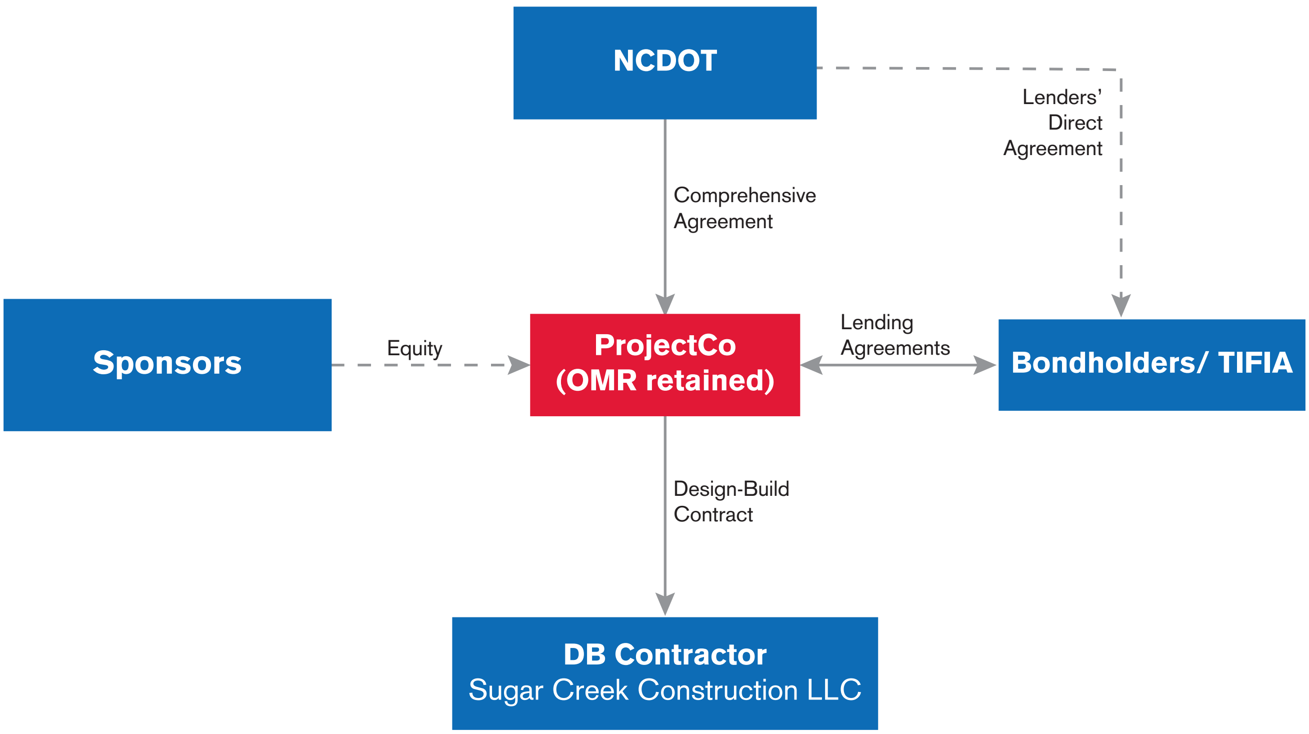
3. Traffic forecasting error
Despite the corridor's traffic history as a non-tolled facility and the investment-grade traffic study conducted by a reputable forecaster, considerable uncertainty prevails with respect to the demand for the managed lanes, more particularly regarding traffic conditions on the corridor in the first year of operation, commuters' sensitivity to the toll and the perceived value provided by the managed lanes. This uncertainty is enhanced by the location of the managed lanes next to the toll-free alternative, providing drivers real-time information that will allow them to choose which lanes to use, likely resulting in more sensitive user demand than for a traditional toll highway.

4. Complex contractual structure
The contractual structure of the Project is standard for a PPP but complex and cumbersome relative to other non-PPP infrastructure credits. This exposes ProjectCo to potential uncertainty with respect to the interpretation of the agreements should a dispute arise among the parties

5. Back-ended principal repayment
While not unusual for PPPs with patronage risk, the amortization profile of the PABs and TIFIA is highly back-ended, which allows for substantial equity distributions prior to meaningful principal repayment occurring. While this affords the Project flexibility in the early years, after ramp up it also compounds the effects of traffic levels that are below expectations.

Contractual Framework

The Project's contractual framework is customary for a PPP project and is familiar to the Sponsors and the Construction Contractor. DBRS has reviewed the principal agreements and views the contractual structure as reasonably tight, with the documents adequately complementing each other and capturing key risks and responsibilities in a comprehensive fashion, while allowing for timely resolution of breaches and potential disputes. DBRS notes that the Construction Contract is not a standard drop down agreement but does incorporate respective sections of the CA as necessary and adequately captures the DB Contractor's responsibilities under the CA, with the exception of those tasks that are retained at the ProjectCo level.



ProjectCo

Affiliates of Cintra Infraestructuras, S.A. (Cintra) will form a limited liability company that will be created solely for the Project. ProjectCo will be responsible for the traditional responsibilities of general management, financial reporting and the provision of insurance and will pass down design, construction and commissioning responsibilities to the DB Contractor, with the exception of ROW acquisition and tolling system installation and integration. ProjectCo will also retain the risks pertaining to O&M and lifecycle, which is not uncommon in road projects. Cintra has over 40 years' experience in owning and operating toll roads in the United States, Canada, Spain, Portugal, Greece, Ireland and the United Kingdom. As a limited liability company, ProjectCo will be a non-taxable entity.

DB Contractor

Sugar Creek Construction LLC, a limited liability company comprised of FA Southeast, LLC and English with ownership stakes of 70% and 30%, respectively. The DB Contractor will be responsible for the DB work except for the remainder of the right of way acquisition and tolling. FA Southeast, LLC is a subsidiary of Ferrovial Internacional, SLU. The obligations of the DB Contractor will be jointly and severally guaranteed to a liability cap of 50% by Ferrovial Agroman, S.A. (FASA), Ferrovial Internacional, SLU and W. C. English, Incorporated. Ferrovial Agroman S.A. is a global construction firm with revenues in excess of EUR 8.8 billion in 2014, while English is a regional firm with over 100 years of experience working in eight states in the southeastern United States and will provide local expertise to the project.

NCDOT

North Carolina Department of Transportation is the public sector counterparty to the CA. NCDOT employs more than 14,000 employees and has an annual operating budget greater than $4 billion drawn from three primary sources of funding: the Highway Fund, the Highway Trust Fund and federal funds. NCDOT's operations are led by the Secretary of Transportation and NCDOT is overseen by a 19-member board that approves funding and allocation.

Key Agreements

Comprehensive Agreement

This is the master agreement through which the NCDOT transfers to ProjectCo all responsibilities for the design, construction and financing of the Project during a 43-month construction phase and the operations, maintenance and rehabilitation of the highway during a 50-year service phase. Under the CA, ProjectCo agrees to design, build and commission the Project in accordance with the output specifications by the Scheduled Substantial Completion Date, but no later than the Longstop Date. The CA passes down to ProjectCo all risks pertaining to inferable site conditions, permits and approvals, weather conditions and cost overruns. The CA also outlines all responsibilities for the service phase, which include performance monitoring and reporting, routine and lifecycle maintenance of the Project, and the notification of emergency services providers, as necessary. Clear processes are also outlined in the event of scope changes, disputes among the parties and step-in by NCDOT or the Collateral Trustee if ProjectCo or a subcontractor fails to perform.

During the Service Phase, ProjectCo will be responsible for determining the level of tolling fees charged in order to keep traffic on the managed lanes flowing as prescribed by the CA and the repayment of debt while making the road safely available. The CA may be terminated on the occurrence of fairly customary ProjectCo and NCDOT events of default, generally following a reasonable cure period. In the event of termination of the CA for ProjectCo default, lenders will not be made whole and in certain circumstances will not receive a termination payment, although bondholders will be made whole in the event of termination of the CA for an Extended Relief Event, NCDOT default on its obligations under the CA or where NCDOT terminates the CA at its discretion.

DB Contract

The DB Contract is a fixed-price, date-certain agreement between the DB Contractor and ProjectCo for the design, construction and commissioning of the Project under which ProjectCo transfers the majority of its construction-related responsibilities under the CA to the DB Contractor on a back-to-back basis. ProjectCo also passes down its rights of access to the site, and any potential relief, compensation and penalties from NCDOT, and commits to exercising its rights and claiming those defenses under the CA that are for the benefit of ProjectCo or the Construction Contractor. The price of the Construction Contract is $444.9 million and is payable through monthly progress payments in accordance with a pre-established drawdown schedule and subject to certain conditions. The Project has three Scheduled Substantial Completion Dates: April 15, 2018; May 19, 2018; and the CA Longstop Date of March 30, 2020, which is 113 days shorter than the July 21, 2020, deadline specified by the CA.

The Construction Contract is somewhat unique in that it is not a drop down agreement but it does incorporate respective sections of the CA, as necessary, and adequately captures the DB Contractor's responsibilities under the CA, with the exception of those tasks that are retained at the ProjectCo level. In the event of a delay in reaching substantial completion caused by the DB Contractor or a party for whom it is responsible, the DB Contractor will pay liquidated damages (LDs), subject to a cap of 15% of the DB price, sufficient to cover ProjectCo's administrative and financial obligations. The DB Contractor must also post security for its performance, which consists of a performance bond equalling 50% of the contract price, a payment bond of 100% of the contract price and a performance guarantee up to the contract liability cap of 50% of the contract price. Once completed, the DB Contractor will provide warranty security of 2.5% of the contract price in the form of a performance bond or letter of credit and will continue to be liable for latent defects for six years under North Carolina State law.

Lenders Direct Agreement

Exhibit 10 of the CA, the Lenders' Direct Agreement, is between NCDOT, ProjectCo and the Collateral Agent. It acknowledges the security interest granted by ProjectCo to the Collateral Trustee, asserts that NCDOT may not transfer or assign the CA without the consent of the Collateral Agent and sets out the powers available to the Collateral Trustee in the event of a default of ProjectCo under the CA. NCDOT and the Collateral Trustee shall each give the other prompt notification of any ProjectCo default. Prior to termination of the CA, the Collateral Trustee may step in and cure the ProjectCo default or nominate a suitable substitute upon prior notice to NCDOT. The Collateral Trustee shall have the ability to extend the Project's Longstop Date by two additional 90-day periods. NCDOT will only be entitled to terminate the CA during a step-in period if ProjectCo fails to comply with the terms of the remedial plan or if a new ProjectCo default occurs during the step-in period.

Dispute Resolution Procedure

As detailed by Section 17.8 of the CA, the dispute resolution procedure provides a framework for NCDOT and ProjectCo to resolve disputes at the lowest possible level of escalation. Where any dispute is not resolved within 30 days to the mutual satisfaction of all parties, the dispute shall be submitted administratively to non-binding mediation. Non-binding mediation will generally be scheduled within 45 days of notification of the submittal of the dispute to mediation. Where the dispute has not been settled within 45 calendar days or such other period as may be agreed to in writing by the parties, the dispute may be submitted to litigation.

Project Overview

The Project involves the conversion of existing HOV lanes to HOT lanes along a portion of the I-77 corridor between Charlotte and Mooresville, in the State of North Carolina. The construction task includes the construction of roughly 71 lane-miles of new highway across the 26-mile alignment, adding between two and three HOT lanes in the middle of the alignment. After completion of construction, there will be seven contiguous HOT segments adjacent to GP lanes that motorists may use free of charge. DBRS notes that much later in the concession, the GP lanes in the northern section of the highway may be expanded from two lanes to three lanes, although NCDOT will offer compensation for lost revenues if such expansion occurs.

Volume risk is a key differentiator of the Project from many other PPPs. The Project will feature free flow tolling and ProjectCo will be entirely dependent upon the toll revenues collected to fund operating, maintenance and lifecycle expenses, debt repayment, as well as any equity return.

Eligible carpool vehicles (three or more passengers), buses and motorcyclists will be allowed to use the HOT lanes free of charge. Vehicles with one or two passengers may use the HOT lanes for a fee that will vary based on demand and congestion (an approach known as congestion pricing.) Tolls will be displayed on overhead, digitized billboards. During the first 180 days after the substantial completion date, ProjectCo will be required to charge fees according to a schedule pre-agreed with NCDOT. After this date, ProjectCo is free to change the tolls applicable to any particular segment (but not more frequently than once every five minutes) and will have unfettered authority to set tolls with no upper boundary. ProjectCo is permitted to discount any toll, but prior to giving or cancelling a discount it is required to provide NCDOT with 60 days' notice and 30 days' notice to the general public. Heavy trucks will be prohibited from using the HOT lanes.

The toll applied to the HOT lane will be managed so as to keep the vehicles in the lanes flowing at a minimum speed of 45 miles per hour, or 80% of the posted speed limit. In order to do so, the toll will set at an appropriate level that is high enough to dampen usage during periods of heavy congestion, but low enough that users outside of peak periods will still be incentivized to use the HOT lanes. ProjectCo will undertake real-time monitoring and also utilize predictive software to manage the traffic flow on the HOT lanes and GP lanes.

Vehicles entering and exiting the HOT lanes will pass beneath an overhead gantry where their license plate information will be recorded, and if a vehicle is equipped with a transponder its signal will be registered. NCDOT will provide fee-based electronic toll collection services to ProjectCo and will pass along all toll payments received net of transaction fees. Although collection risk (i.e., bad debts) ultimately rests with ProjectCo, North Carolina has a process in place to ensure that prior to annual license plate renewal an individual's account must be fully paid. The I-77 transponders are prepaid, which also reduces collection risk, although video accounts are invoiced in arrears by NCDOT. ProjectCo will be free to offer discounts to transponder users in order to encourage their adoption, although tolls are fairly commonplace in the United States and several states are currently operating HOT lanes, including Texas, Colorado, California and Virginia. Despite the Project being the first HOV toll road in the state, polls have suggested that there is more support for tolling the lanes than for a gasoline tax. Moreover, the level of congestion on the current road makes for long commute times, making the route a logical candidate for tolling. The transponders are required to be interoperable with the NC Quick Pass and E-Z Pass systems already in use in the region.

Project Overview (CONTINUED)

To be exempt from paying a toll, eligible HOV users (vehicles carrying three or more occupants) must have a transponder, and will self-declare their exempt status by way of a smartphone application. HOV violation carries a fine of between $50 and $300 depending on the location under state law, as well as two demerit points on the driver's record. Accumulation of points can lead to license suspension upon accumulation of 12 points within a three-year period. HOV enforcement policing will be done at all enforcement locations during peak hours as these are the times the GP lanes have the most traffic and when HOV violations are most likely. The level of enforcement will be much higher during initial years of operations in order to get the public used to the concept. Over this time the traffic and revenue team would have been able to collect the data regarding HOV usage over different times of the day, and while these trends usually do not vary much over the term of a concession, should ProjectCo believe that possible HOV violations are increasing, the level of policing will be immediately enhanced during such periods. ProjectCo intends to use this strategy to balance the expense of around-the-clock policing against the loss in revenues due to HOV violations. We have been advised that the corridor will also be enforced for speeding, which should help keep violations down.

Construction Phase

ProjectCo will pass down the majority of its design, construction and commissioning obligations on to the DB Contractor on a date-certain basis at a cost of $441.6 million. The Construction Contract agreement is not a back-to-back contract in the traditional sense, although DBRS has reviewed it against the requirements of the CA and notes that risks have been passed down appropriately, although certain risks remain with ProjectCo, including land acquisition risk and tolling systems installation and integration.

The DB Contractor's construction security package will contain a 100% payment bond and a 50% performance bond. The Project features a liability cap of 50% of the construction price, better than typically seen for a low complexity road construction project, although DBRS notes that it may effectively be reduced by a 10% advance payment that would, if provided, count against its liability cap. However, DBRS notes that the 40% limit of liability is considered sufficient for the project. The DB Contractor's obligations under the DB Contract will be backed by joint and several parent company guarantees for Ferrovial Agroman, S.A., Ferrovial Agroman Internacional, SLU, and W. C. English, Incorporated.

The 43-month construction phase involves adding a total of two to three HOT lanes (i.e., northbound and southbound) to the project, the widening and rehabilitation of the existing GP lanes and HOV lanes, the construction of three new on/off ramps, the construction of two new bridges, the replacement of six bridges and the widening of 18 existing bridges. Most of the bridges will be overpasses although two of the new bridges will be constructed with 18 and 19 spans, respectively, and one existing 15-span bridge will be widened. However, the work will make use of typical construction techniques. The major Project elements essentially consist of construction and adaptation of a controlled-access, at-grade highway with lane separation, the installation of tolling equipment and construction/widening of low bridges. The Project will be constructed in three sections — north, central and south — each with separate acceptance deadlines. The lender's technical advisor (LTA; Arup) has noted that the construction schedule is compressed. While no float is currently identified in the schedule, the LTA has opined that the individual work items do contain some contingencies and that adequate time remains to accelerate progress either by working on evenings or weekends. The schedule has generally been developed using a five-day week with eight or nine hours of work assumed daily, although some activities are based on a six-day week.

In general, the soil conditions are considered to be good, although there is one section in the south end of the Project where some pre-loading may be needed. Bridge foundations proposed are either H-piles or drilled shafts socketed into bedrock, both considered to be standard techniques. No soil contamination or remediation is expected. Few environmental challenges are expected and there are no endangered species or windows within which in-water works are prohibited. We note that the bridge work occurring in the Lake Norman section will occur within the existing ROW.

While there are approximately 720 potential utility conflicts for which the DB Contractor bears the risk, the design team is first trying to minimize any interference with the utilities and, if unable to do so, will allocate sufficient time for any necessary relocations. The Project will encroach on two railroads and the DB Contractor will need to liaise regarding approval rights for intermediate and final permits for bridges over the affected areas. However, a memorandum of understanding is already in place between NCDOT and the railroad, and the DB Contractor will tap specialist consultants who have experience in dealing with CSX and Norfolk Southern Railway Company.

The DB Contractor has developed a traffic management plan to address construction staging and traffic issues expected to be encountered during construction. Construction will occur in three phases: phase one will be undertaken offline, on the outer edges of the mainline; phase two will shift the traffic to the outer edges of the highway, while construction work gets underway on the median; and in phase three, traffic will be moved to its ultimate configuration. The amount of LDs arising from traffic mismanagement can be quite high. However, the LTA has noted that the majority of the lane closures will be for the purposes of line painting and lane realignment, and can be undertaken at night without incurring penalties. Furthermore, the LTA considers that appropriate allowances have been made and expects that the DB Contractor will be paying close attention to the challenges.

Project Overview (CONTINUED)

Once work is completed, the DB Contractor will provide warranty security of 2.5% of the contract price in the form of a performance bond (or letter of credit) and will continue be liable for latent defects for six years under North Carolina State law.

Risks Retained By ProjectCo

The risk of ROW acquisition rests with ProjectCo. This is unique in that land acquisition risk is typically retained by the public sector counterparty, with the exception of any extra land that a bespoke solution might require. However, the Project will be constructed mainly in the existing ROW and the CA offers cost-sharing protection outside of the first $5.4 million of baseline costs, which have been reserved for in the financing structure. NCDOT has also done preliminary work and ProjectCo can request NCDOT's assistance in the condemnation (eminent domain) process, although ProjectCo cannot compel NCDOT to acquire the land on its behalf. Cintra has retained THC Inc., an experienced ROW acquisition firm, to provide advice with respect to property valuation and any subtleties of North Carolina eminent domain process. Moreover, Cintra has successfully retained ROW acquisition risk in other projects, which were without incident. There are 33 identified parcels although only 11 of these are residential (which would require takeover of the entire parcel), whereas the remainder of parcels can be subdivided and would only require partial takes. The LTA has noted that time contingencies to make the ROW available are reasonable and that, in general, the number of parcels is small. DBRS understands that the land acquisition process will be undertaken shortly after financial close is achieved although the process has already been socialized with affected landowners.

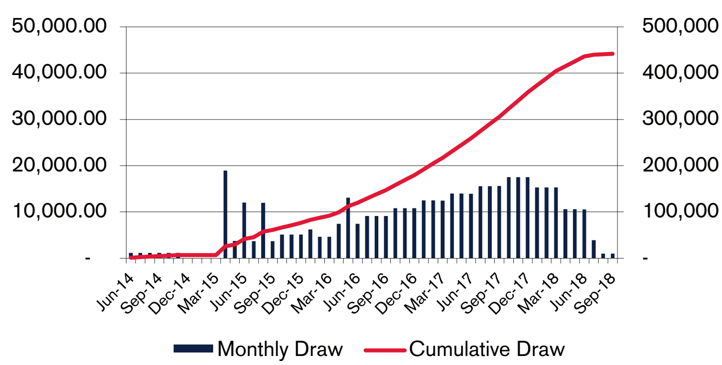
Tolling systems installation and integration has been subcontracted by ProjectCo to a joint venture comprised of affiliates of Cintra and Ferrovial (collectively, the TSI). Cintra Toll Services will partner with a subsidiary of Ferrovial (Dirección General de Sistemas de Informacion é Innovación) to perform the duties of tolling systems integrator. The two firms have worked together on four other open road-tolling projects, and the solution that they are proposing for I-77 is essentially in line with previous works. The TSI have produced a tolling plan, which includes the locations of the seen proposed tolling gantries and the location of the HOV enforcement zones (essentially, areas for police cruisers to wait and that will provide the necessary shoulder room to pull HOV violators/speeders over.) The seven toll segments will range between 2.5 miles and 6.5 miles in length, for a total of 14 segments both northbound and southbound. TSI will in turn subcontract responsibilities to third-party contractors at a future date, with the obligations ultimately backed by payment and performance bonds of roughly 50% of the subcontract price. DBRS notes that the tolling systems contract falls outside of the security package provided by the DB Contractor, and ProjectCo is retaining risks amounting to roughly 10% of the proposed construction price.

However, there is good alignment of incentives between the Toll Systems Integrator and both the equity interest and the DB Contractor, as each has affiliates working in the Toll Systems Integrator. Given the rating proposed and the standard nature of the equipment, DBRS is comfortable with this risk being retained at the ProjectCo level.

O&M work during construction is also being retained by ProjectCo, as it will ultimately retain responsibility for OM&R obligations during the service phase. Some repair work on existing bridges will be required during construction, although those being retained are generally believed to be in good condition.

The draw curve is featured in the diagram at the right. We note that the first two spikes represent advance payments that are to have security posted against them if drawn. Thereafter, funds will be disbursed for work completed, as is typically the case.

Construction Draw Curve ($000)



LTA Risk Assessment

Overall, Arup has noted that there are no unusual technical challenges with respect to the design and construction of the bridge structures and that the structural elements are typical and available in the local market. Rather, the LTA believes that the main challenge for the DB Contractor will be the proper staging of construction to ensure that traffic is not disrupted outside of the permitted windows. Arup has also opined that the DB Contractor has the requisite skill and demonstrated experience to construct structures of similar or greater complexity under similar constraints.

Arup notes that overall the risks identified during the construction period are manageable. For example, the railroad has approval rights for intermediate and final design of bridges over railroads. This is limited to a couple of locations (one active and one abandoned railroad). The DB Contractor has minimized much of the bridge widening work over the railroad incorporated in to the design. Based on this, Arup does not foresee any significant risk pertaining to railroad coordination.

Project Overview (CONTINUED)

With respect to geotechnical risk, Arup has indicated that, in general, the soil profile is not considered challenging or unsuitable; however, risk of encountering different materials remains. In some areas, soil stabilization may be required, which is a standard practice for treating soil. Arup has performed risk assessments in the risk categories of ROW, utilities and environmental and has indicated that there are no significant risks on the Project and no risks that the DB Contractor is not able to manage.

Service Phase

During the service phase, ProjectCo will retain responsibility for the operations, routine maintenance and lifecycle of the infrastructure as these are detailed per the terms of the CA. The service phase begins after substantial completion and will span 50 years from the target substantial completion date.

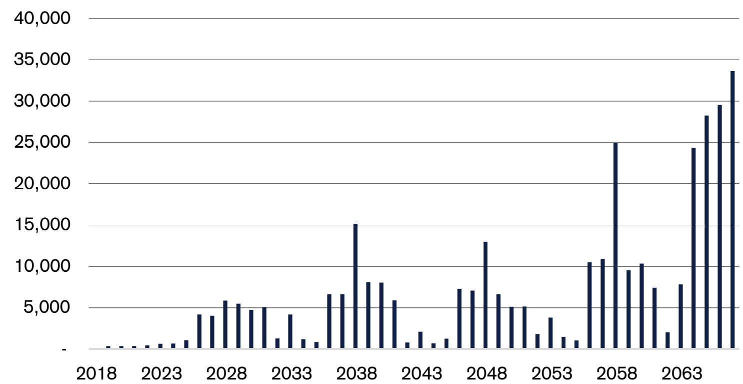
ProjectCo will largely self-perform the O&M work, although it will be required to subcontract certain specialized tasks, such as routine bridge inspection. The O&M task will largely entail oversight of roadway operations, management and administration, as well as the tolling system operation, including back office support. Concerning the roadway, Cintra will perform its obligations in accordance with the renewal work plan, which will specify the schedule of rehabilitation works, the results of independent third-party inspections and the status of bridges.

In developing its costing approach, Cintra has listed out the required tasks, and ascribed the amounts of labour, equipment costs and compared that to its experiences in operating other toll roads. It anticipates employing a team of 45 personnel on a full-time basis, supplemented as necessary with contracted staff. Operating and maintenance costs are budgeted to be $1.6 billion over the term of the concession.

ProjectCo has developed its rehabilitation model by identifying the expected useful life for each of its assets and has planned replacement and refurbishment activities accordingly. It will be subcontracting nearly all lifecycle work. As seen in the lifecycle profile noted below, major interventions are in general planned at ten-year intervals, spaced across three years, although there is a four-year cycle planned prior to maturity of the concession in order to meet handback specifications.

To help plan paving interventions, Cintra has retained PSI, a specialist highway engineer and commissioned a pavement analysis report, which noted that the existing pavement is generally in good condition. PSI conducted tests at 1,000 foot spacings along the alignment to ascertain the structural capacity of the pavement and also undertook some core sampling. The first four paving interventions are expected to encompass mill and overlay/microsurfacing, although the last intervention contemplates a full repaving. Additional major maintenance work will encompass work on structures (most prevalent at Year 20 and Year 40), including bearing replacement and concrete overlay, as well as any necessary concrete repairs. The budget for lifecycle work is valued at $350 million.

Nominal Lifecycle Profile $000



The handback requirements specified under the CA are generally aligned with a typical PPP, with some elements being somewhat more permissive. Remaining useful lives of elements will stem between two years for striping and markings to 20 years for drainage, although bridge structures will only need to have five or six years of remaining useful life. As per the requirements of the CA, ProjectCo will be required to fund a handback reserve beginning five years prior to expiry of the concession with 27.5% of the lifecycle costs for the next year and up to 100% of the lifecycle costs if the work is to be completed in the last year of the concession. ProjectCo's intention is to fund this with retained dividends, although DBRS notes that the existing debt will be paid down well before this requirement occurs.

While there is no formalized dynamic lifecycle look forward and reserving mechanism, this is considered acceptable at the target rating given the very solid lifecycle break-even demonstrated. The Project will feature a five-year look-forward major maintenance reserve account (MMRA) structured as follows: (1) 100% of next year's major maintenance costs, (2) 80% of major maintenance costs two years hence, (3) 60% of major maintenance costs three years hence, (4) 40% of major maintenance costs four years hence and (5) 20% of major maintenance costs five years hence. This is better than typically seen, as major maintenance reserves typically encompass only three years.

Lenders' Technical Advisor Review

The LTA has opined that the services to be provided present a low risk to ProjectCo and are in line with other comparable open tolling roads. It has opined that the handback requirements are standard and that there are no unusual items, and that the approach to the provision of services and the staffing plan are feasible.

Project Overview (CONTINUED)

The LTA has performed a review of ProjectCo's analysis of the probable deductions and performance penalties and has opined that the risk of ProjectCo default due to non-compliance is low. Arup notes that there are several qualified companies on NCDOT's vetted contractor list that may be used as O&M and lifecycle subcontractors and that the local market is fairly well stocked and competitive.

Arup has performed a bottom-up analysis and looked at how the costs are developed and the underlying assumptions; the LTA has advised that they found this approach to be reasonable and that the costs determined are fair. It has also conducted a comparables analysis that lists O&M costs and lifecycle costs per lane-mile against that of other projects and found them to be roughly equivalent on an adjusted basis. Furthermore, Arup has opined that ProjectCo has proposed a reasonable tolling plan that TSI has been preapproved by NCDOT. Capex and Opex assumptions for implementing and operating the proposed tolling solution are based on ProjectCo's previous experience and in the LTA's opinion are reasonable and are also in line with similar projects, which minimizes the risk of deviation from projected costs.

Tolling Forecast

ProjectCo has commissioned C&M Associates Inc. (C&M), a firm with over 25 years of U.S. and Latin American traffic forecasting experience, to provide the Lenders' traffic forecasts for the period of 2018 through the term of the concession.

C&M made use of the Metrolina Regional Model as a part of an industry standard "Four-Step Travel Demand Model" for its analysis, which also included a fairly extensive review of the surrounding region and its underlying economics. DBRS has also conducted an independent verification of the underlying assumptions used in the developing the traffic forecast. In general, near-term economic growth assumptions are somewhat aggressive, although over the longer term, the assumed economic growth of 1.8% is generally reasonable. Traffic is assumed to ramp up to its full capacity over a three-year period between July 2018 and December 2020, achieving 65% of steady state in the first year, 90% in the second year and 100% in the third year. The ramp-up assumptions are somewhat less aggressive than seen in other managed lanes projects. The base case tolling forecast supports an average DSCR of 5.91x, with a minimum DSCR during ramp up of 1.0x (including funding of the TIFIA DSRA) and a minimum DSCR post ramp up of 2.50x.

C&M notes that the I-77 is a key north-south corridor within the state and that over the past 25 years, the population growth of the Charlotte area has greatly outpaced that of the state and the nation. In particular, Mecklenburg and Iredell counties, located at either end of the Project's alignment, have seen their population increase by 2.9% and 2.6% between 1990 and 2012 on a CAGR basis, respectively. However, C&M notes that the pace of growth has slowed in recent years. The two counties, which are the primary catchment areas for traffic that will be using the highway, represent about 16% of the state's total employment and median household incomes for the regions ($52,000 in 2010 dollars) are in excess of those in the rest of the state. Some key assumptions that C&M believe will support above-average growth over the next few years include the extent of development of a mixed-use community (Langtree at the Lake) located on the shores of Lake Norman, that will house not only large homes catering to affluent buyers, but 500,000 square feet of office and retail space within the development. C&M also note that Lowe's Home Improvement, which has its head office located in Charlotte, has recently completed an expansion of its corporate headquarters. Prior to the expansion the head office employed approximately 1,500 people, but is expected to employ 8,000 after completion of the expansion. C&M also note that while there is some future expansion forecast for other routes in the vicinity, these are complementary routes, rather than substitutes.

The toll revenue forecast calls for $5.1 million in nominal revenues in 2018 (partial year), $24.6 million in revenues in 2019 and $34.5 million in revenues in 2020, once ramp up is complete. Thereafter, revenues are estimated to grow fairly briskly although growth will taper off gradually. While DBRS believes that these DSCRs are fairly robust, it nonetheless takes comfort from the fact that nominal revenue growth once debt begins to amortize is 3.9%, or 1.4% on a real basis.

A unique feature of the Project is the DRAM. In the event that ProjectCo finds itself unable to support debt service (both PABs and TIFIA), NCDOT will supplement revenues by an amount sufficient to achieve 1.0x total debt service coverage, up to $12 million per year, capped at $75 million in aggregate. Incorporating the DRAM as a source of cash and deferring scheduled debt service as is permitted, DBRS notes that the structure can withstand a traffic drop of 64% throughout the life of the Project, without breaching a 1.0x DSCR, which compares favourably with other managed lanes projects viewed by DBRS. Without making any use of the DRAM, toll revenue growth of 3.0% will give a minimum 1.0x DSCR. That is, starting at the sponsor's base case, Year 1 ramp up traffic is 65%, or 35% below target, with increasing toll revenues by 3% annually throughout the life of the debt. Alternatively, assuming traffic ramp up materializes as planned, toll revenues must grow by a more modest 0.6% annually throughout the life of the concession in order to maintain a DSCR of 1.0x, without making use of the DRAM. DBRS has also run a sensitivity that notes that if toll revenues are missed by 25% for the first year road opening (2018), the structure will

Tolling Forecast (CONTINUED)

use the DRAM until 2021, but thereafter, DSCRs will be once again above 1.0x, and will reach 1.5x DSCRs relatively quickly, and be above 1.8x briefly in 2023, 2025 and 2026.

Population growth assumptions for the primary catchment areas that are being used in the traffic forecast model for of Iredell and Mecklenburg counties are shown in the table.

County	2010–2015	2015–2025	2025–2035
Mecklenburg	1.9%	1.6%	1.2%
Iredell	1.9%	2.2%	2.3%

The numbers generally appear to be conservative and the Iredell figures are driven by the fact that the Lake Norman area is not as populated and contains more desirable real estate.

Capture rate assumptions for the HOT lanes assume that 4% to 6% of daily traffic will use the [original] lanes, rising to 10% by 2035 as a result of the increased congestion. While this is somewhat high in relation to other managed lanes projects viewed by DBRS, DBRS notes that the additions of any GP lanes will be a compensation event.

Project Risk Allocation

The following table summarizes the allocation of key risks and responsibilities for the construction and services phases, as apportioned among the major Project participants:

Primary Risk & Responsibility Allocation Mattrix

	NCDOT	PCo	DBC	Remarks
Construction Phase				
Schedule overruns		*	✓	DB pays PCo for delay but PCo at risk if delay > 12 months
Cost overruns		*	✓	Liability capped at 50% of contract price
Permits & approvals	*		✓	Delay in obtaining Wetlands and Water Quality permits is a Relief Event
Land acquisition	*	✓		PCo responsible for right of way acquisitiion but can request NCDOT exercise eminent domain. Cost sharing above ROW Acquisition Baseline Costs
Environmental issues	*		✓	Relief event if hazardous materials discovered that are not described in the Reference Information
Geotechnical issues	*		✓	Relief Event under if subsurface conditions materially vary from those described in the Reference Information
Weather conditions			✓	LDs payable to PCo for weather-related delays
Design			✓	
Industry strike	✓		✓	A national or state-wide strike not specific to PCo is an event of Force Majeure
Force Majeure	✓			Relief Event
Archaeological finds	✓			Relief Event
Insurance maintenance		*	✓	-
Replacement of contractor		✓		-
Service Phase				
Cost inflation		✓		
Performance standards		✓		
Lifecycle & handback		✓		five-year MMRA; LTA has opined handback standards are reasonable
Structural defects	*		✓	PCo responsible after expiry of 2-year DB warranty; NCDOT responsible for latent defects in existing assets
Maintenance of insurance		✓		Policy premium is pass-through
Force Majeure	✓			
Change in Law	✓			Relief Event

✓= main responsibility for risk; * = partial exposure to risk.
PCo = ProjectCo; CC = Construction Contractor.

Project Risk Allocation (CONTINUED)

Financing Structure

Based on cash flow projections, approximately $[651.3] million will be required to bring the Project to substantial completion. This includes $444.9 million of construction costs, $[16.7] million in interest charges, $[37.4] million for bidding costs and fees and $[26.8] million for the funding of reserves and working capital. Acquisition costs for the remaining ROW and tolling system installation costs are expected to total $[5.9] million and $[51.2] million, respectively.

Construction Cash Flow Table ($millions)

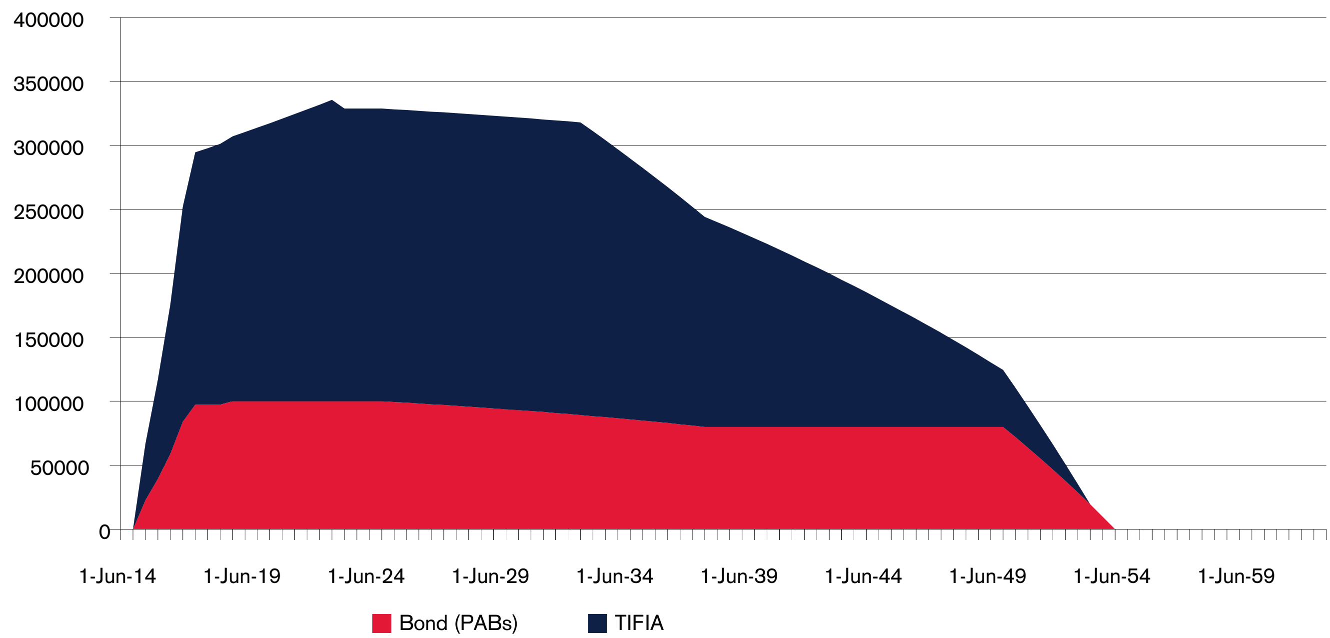
Uses of funds ($ millions)		% of total
Construction Costs	$444.9	68.3%
Right of Way Acquisition	$5.9	0.9%
Tolling System Installation	$51.2	7.9%
TIFIA Interest Capitalized	$16.4	2.5%
SPV Costs	$52.0	8.0%
Interest During Construction	$16.7	2.6%
Funding of Reserves and Working Capital	$26.8	4.1%
Bidding Costs and Fees	$37.4	5.7%
Total	**$651.3**	**100.0%**

Sources of funds ($ millions)		% of total
Equity	$252.8	38.8%
Senior Debt (PABs)	$100.0	15.4%
TIFIA Debt	$189.0	29.0%
TIFIA Interest Capitalized	$16.4	2.5%
Government Funding	$91.4	14.0%
Interest Income	$1.7	0.3%
Total	**$651.3**	**100.0%**

Permanent debt capital will be provided by the 39-year PABs and the 38.5-year TIFIA loan, which will have tails of 14.3 years and 15.7 years, respectively. As the Project bears revenue risk, the gearing is much lower than typically seen in an availability-based PPP and will comprise 53.3% of the permanent capital structure. The amortization schedules for the PABs and TIFIA are represented below. The PABs, and, particularly TIFIA principal repayments are very back-end loaded, commencing in 2038 and featuring an interest-only period of 20 years, which is atypical for availability-based PPPs but standard for longer-dated concessions and volume-risk projects. Other sources of funds during construction include public funds from NCDOT totalling $[91.4] million and interest on reserves.

Project Risk Allocation (CONTINUED)

Debt Outstanding ($000s)



The PABs will be issued in seven serial bonds with maturities ranging from 2025 to 2054. Proceeds of the PABs will be lent by NCDOT to ProjectCo under by the Senior Loan Agreement, and first deposited in the Construction Proceeds Account. Funds in the Construction Proceeds Account and the TIFIA loan will be drawn simultaneously, on an approximately pro rata basis. Once exhausted, public funds will be drawn, followed by equity. In the event that the DB Contractor is late achieving the construction milestones that trigger the public funds, it will pay LDs sufficient to cover the LDs payable to NCDOT and PABs interest, as well as other SPV costs.

The financing includes a number of features that are superior to a typical PPP transaction. In contrast the standard six-month debt service reserve, the Project will feature two separate 12-month debt service reserves, one for PABs debt and one for TIFIA debt. A key feature of the financing is the DRAM. As detailed by the CA, NCDOT has agreed to provide a contingent public subsidy of up to $75 million that will be available to ProjectCo. The DRAM effectively takes the place of a ramp up reserve fund and affords the Project considerable flexibility in the event of a revenue shortfall. While there is a requirement to repay any DRAM funding utilized under the cash flow waterfall, failure to fully repay the DRAM is not an event of default.

The financing terms under the TIFIA loan agreement are generally typical of road projects although some features have been added that enhance the Project's creditworthiness and robustness. The TIFIA loan will not be required to pay interest until June 2023 and interest will capitalize until this time, adding $[46.6] million to the principal balance. The first scheduled principal repayment on the TIFIA loan will occur in June 2033 and the loan will be fully retired in 2053. Moreover, the TIFIA loan affords the Project with substantial flexibility in that failure to pay scheduled debt service will not result in an event of default under the TIFIA loan. However, this flexibility in the earlier years of the Project is balanced against a unique event of default clause, in that failure to fully fund the TIFIA debt service reserve account for two consecutive six-month periods results in an event of default unless the sponsors fund the shortfall, which is not typical in bond indentures. Note that cross-default may occur under material Project contracts unless the replacement DB Contractor is of similar or greater creditworthiness and experience as the Principal Project Party being replaced or is otherwise acceptable to TIFIA.

Unlike availability-based PPPs, leverage will be relatively low at the first years of operations. Total debt-to-CFADS at the end of the first year of operations will still be fairly high at 14.5x, although this reflects ramp up revenues of 65% of target during the first year, and is projected to decline quickly thereafter as cash flows increase. However, as noted above, principal repayment is quite back ended and improvement in the debt metrics will be as a result of growth in CFADS. The minimum DSCR (PABS and TIFIA) during ramp up is projected at 1.0x in December 2019 (including funding of the TIFIA DSRA), whereas the minimum DSCR thereafter is projected at 2.5x, occurring in December 2025.

Project Risk Allocation (CONTINUED)

Pro Forma Projections

	Year 1	Year 5	Year 10	Year 20	Year 30	Year 36
Total Debt-to-CFADS (times)	14.5	4.3	3.3	1.1	0.3	nm
DSCR (times)	2.8	2.7	3.7	6.1	10.6	nm

Sensitivity Analysis

DBRS's analysis indicates that ProjectCo could withstand a revenue drop of 64% without defaulting on its debt obligations. This figure makes use of the DRAM and also the ability to capitalize a portion of TIFIA debt service in the event that Project revenues are insufficient to fully fund cash flows. DBRS has also run a second sensitivity with a five-year ramp up with an additional 54% drop in revenue and traffic increasing by 2.5% per year on a real basis afterwards throughout the life of the concession without incurring a default under either the PABs or TIFIA financing.

Contrary to availability-based projects and particularly those featuring large completion or milestone payments from the government authority, the Project exhibits very high resiliencies in the event ProjectCo faces unexpected O&M and lifecycle needs or in the event that additional debt was needed to fund the replacement of a defaulted DB Contractor. As calculated by DBRS, ProjectCo could sustain any of the following price shocks while maintaining a DSCR of at least 1.0x at any time: (1) a [493]% re-pricing of the lifecycle budget, (2) a [119]% re-pricing of the O&M budget or (3) a [26.8]% re-pricing premium of the DB Contract. The Project is also capable of withstanding inflation in excess of 10%, as well as deflation below of -10%. DBRS notes that the breakeven calculations do not take into account use of the DRAM.

Sensitivity Analysis (for 1.0x Total DSCR)

Events	Maximum Shock
Maximum re-pricing of lifecycle budget	493.0%
Maximum re-pricing of O&M services budget	119.0%
Re-pricing of DB Contract due to contractor replacement	26.8%

Termination and Compensation

The events of default and the termination framework under the CA are somewhat more granular than typically seen. Most events of default that can be remedied have a cure period of between five and 30 days, although DBRS notes that failure to achieve Final Acceptance for a particular Project segment will have a 120-day cure period, as will failure to achieve final completion. While this is shorter than typically seen, the DB Contractor is intending to complete the work well in advance of these dates, and the Lenders' Direct Agreement provides an opportunity for the trustee to step in and cure any breach before the CA can be terminated, and can also extend the relevant cure period by 180 days in the event of non-completion. Some events, such as the bankruptcy of ProjectCo, can lead to immediate termination of the CA.

Should a termination occur, ProjectCo is generally entitled to a payment from NCDOT under the CA, which is a distinctive feature of PPPs. The size of such payment would depend on the party responsible for the event and the circumstances leading to the termination. If ProjectCo is not the cause of the termination, compensation is generally expected to be sufficient to at least repay Senior Debt and cover accrued interest, makewhole premiums and ProjectCo's costs resulting from the termination. In the event of termination for ProjectCo insolvency or for events of bankruptcy of ProjectCo, no termination payment will be received.

Cause of Termination	Senior Debt	Equity	Other Adjustments
NCDOT Default or Convenience ǂ	- principal - accrued interest - make whole	May receive some compensation in a FMV valuation after Senior Debt and TIFIA repaid	plus: staff termination costs, contractor breakage costs, etc. less: bank balances, insurance proceeds and other items that NCDOT is entitled to set off
Extended Relief Event (includes Force Majeure) or Insurance Unavailability	- principal - accrued interest - make whole	Contributed Unreturned Equity payable if NCDOT terminates	plus: staff termination costs and contractor breakage costs. less: bank balances, insurance proceeds and other items that NCDOT is entitled to set off
ProjectCo Default	Voluntary/Involuntary Bankruptcy of PCo, or where Trustee has entered into a new CA with NCDOT: Nil Otherwise: the lower of 80% * (senior debt principal plus accrued interest and makewhole, less borrowed cash and credit balances); OR 80% * (senior debt principal plus accrued interest and makewhole plus refinancing gain minus borrowed cash and credit balances minus compensation payments previously paid to PCo); OR Fair Market Value minus Distributions minus in-the-money breakage costs plus interim return (if in operations)		

ǂ Compensation paid will be greater of Fair Market Value and Senior Debt Termination Amount.

Termination can be requested by either party for reasons that include but are not limited to the following:

- ***By NCDOT:*** For convenience or for an unremedied ProjectCo event of default, which includes, among other things, bankruptcy proceedings, failure to begin work within 30 days of NTP 2, abandonment, failure to achieve Final Acceptance of a section by its relevant Final Acceptance deadline, failure to achieve final completion of a section by the final completion deadline, failure to achieve the CA Longstop Date, closure of a material portion of the Project except as permitted by the CA or as is beyond the control of ProjectCo or the DB Contractor, default or disbarment of the DB Contractor unless replaced in a timely fashion, false or materially misleading representation and warranty, covenant default, accruing 505 noncompliance points in a rolling one-year period or 1,120 non-compliance points in a rolling three-year period or prohibited assignment or change of ownership.
- ***By ProjectCo:*** For a limited set of events of default unremedied within the allowed cure period, including failure to pay ProjectCo sums owing to ProjectCo (except where such sum is being disputed under the dispute resolution procedure), false or materially misleading representation or warranty, covenant default, expropriation all or a material part of ProjectCo's interests, for delayed notice to proceed or in the event NCDOT orders the suspension of work where not as a result of any ProjectCo failure or safety issue and such suspension continues for 180 days or more.
- ***By Either Party:*** For an Extended Relief Event (including events of Force Majeure) continuing for 180 days or for insurance unavailability.

Key Features of the Financing Documents

- ***Private Activity Bonds (PABs):*** $[100.0] million senior secured North Carolina Department of Transportation Tax-Exempt Private Activity Revenue Bonds, Series 2015. The PABs will be issued in seven series and secured by all Project accounts with the exception of the Rebate Fund and any Defeasance Escrow Account. A portion of the proceeds of the PABs will be deposited to the PABs Sub-Account of the Construction Proceeds Account while the balance will be deposited to the PABs Interest Reserve Account.
- ***TIFIA Loan:*** $[189.0] million second-lien secured loan made available by the United States Department of Transportation, acting by and through the Federal Highway Administrator.
- ***Ranking:*** Prior to an enforcement event the PABs will rank senior to the TIFIA loan except upon a Bankruptcy Related Event. There will be an inability of TIFIA to accelerate the loan unless a Bankruptcy Related Event has occurred or the Senior Debt has been accelerated. The springing senior ranking of the TIFIA loan upon a Bankruptcy Related Event is only valid if the loan is held by TIFIA or a governmental entity.
- ***PABs Security:*** The PABS will have first-ranking Security interest in all property of ProjectCo and most Project accounts. The Collateral Trustee will hold all Security for the equal benefit of the senior lenders, hedge providers and short- and long-term bondholders, except for the Substantial Completion Payment Account, which is for the sole benefit of the lenders, hedge providers and short-term bondholders, and for the Bond Funding Account, the Bond Payment Account, the True-Up Collateral Account and the debt service reserve account (DSRA), which are for the sole benefit of the bondholders, whereas the Security in respect of the Rehabilitation Deficiency Account and the Rehabilitation Payment Account are for the security of the long-term bondholders only. The Security also includes a first-ranking security interest in all of ProjectCo's rights under all major Project agreements and related performance security, licences and bank accounts and in all property of the General Partners and in the shares of ProjectCo and its General Partners.
- ***Key Accounts***
  - Construction Proceeds Account: Account subject to the control of the Collateral Trustee [before and after an event of default] into which all net proceeds of the PABs will be remitted, as well as all net proceeds of additional Senior Debt raised to finance construction prior to the Final Substantial Completion Date, all Project revenues received including toll revenues from the toll revenue account, as well as the proceeds of equity contributions made prior to the Final Substantial Completion Date. Amounts in the Construction Proceeds account may be used to pay for Project Costs, including interest on the PABs on a monthly basis.
  - Proceeds Account: Account subject to the Collateral Trustee's control upon an event of default and after the Final Substantial Completion Date will hold all Project revenues. Funds will be released from the Proceeds Account in the following order: (1) monthly, to pay amounts due and payable to NCDOT relating to the Revenue Payment Amount; (2) monthly, payments to the Rebate Fund; (3) monthly, payments of O&M expenses and reimbursements to NCDOT in respect of the DRAM; (4) monthly, payments of required capital expenditures and major maintenance costs (except to the extent there are sufficient funds in the MMRA to cover such costs); (5) monthly, payments of fees due under the financing documents; (6) monthly, senior interest and amounts due under the hedging obligations; (7) monthly, principal payment on Senior Debt and hedging termination obligations; (8) monthly, TIFIA mandatory interest; (9) monthly, TIFIA mandatory principal repayment; (10) on each semi-annual calculation date, Senior DSRA top-up; (11) on each semi-annual calculation date, TIFIA DSRA top-up; (12) on each semi-annual calculation date, MMRA top-up; (13) monthly, the scheduled TIFIA interest; (14) monthly, TIFIA scheduled principal; (15) on each calculation date, discretionary capital expenditures; (16) on each calculation date, prepayment of the TIFIA loan, as required; (17) [monthly]/[semi-annually] to fund the Handback Requirements Reserve as required by the CA; (18) on each calculation date, voluntary prepayments; and (19) on each calculation date, dividends to the equity sponsors if and only if the Restricted Payment Conditions are met. In the event that Restricted Payment Conditions are not met, remaining funds will be deposited to the Equity Lock-Up Account.
  - Operating Account: Account subject to the Security and that may be used to pay for the payment of O&M expenses, required capital expenditures, major maintenance costs and discretionary capital expenditures. Funds are transferred to the Operating Account from the Proceeds Account in accordance with the cash flow waterfall.
  - Senior DSRA: Account funded Project Final Substantial Completion Date (October 31, 2018) by a portion of the equity contribution and containing $10 million, reducing after the Final Substantial Completion Date to the next 12 months of scheduled Senior Debt service. Funds in the Senior DSRA will be for the sole benefit of the holders of the PABs. Amounts on deposit in the Senior DSRA may be replaced by a letter of credit that is non-recourse to the borrower from a creditworthy counterparty.
  - TIFIA DSRA: Account funded with the next 12 months of TIFIA debt service. Funds in the TIFIA DSRA will be for the sole benefit of TIFIA and may be replaced by a letter of credit that is non-recourse to the borrower from a creditworthy counterparty.

Key Features of the Financing Documents (CONTINUED)

- Major Maintenance Reserve Account: Account subject to the Security and funded at the Final Substantial Completion Date with $15 million. Henceforth, the MMRA will be funded with a percentage of that particular year's major maintenance expenses, as follows: 100% of the current year, 80% of two years hence, 60% of three years hence, 40% of four years hence and 20% of five years hence. Amounts on deposit in the MMRA may be used to pay for capital expenditures relating to major maintenance. Funds on deposit in the MMRA may be replaced by a letter of credit that is non-recourse to the borrower from a creditworthy counterparty.
- DRAM Contributions Account: Account subject to the Security into which all DRAM contributions received from NCDOT will be paid. Funds in the DRAM contribution account may be transferred to the Proceeds Account in the event that there are insufficient funds available to maintain a DSCR of 1.0x, after the application of the cash flow waterfall.
- TIFIA Sinking Fund Account: Account subject to the Security but for the sole benefit of the TIFIA lender. The TIFIA Sinking Fund Account will be funded from the amounts on deposit in the Distribution Lock Up account in the event that the TIFIA LLCR is less than 1.35x, in order to notionally restore the TIFIA LLCR to 1.35x. Where the TIFIA LLCR is below 1.35x for a rolling three-year period, amounts on deposit in the TIFIA Sinking Fund Account will be used to prepay the TIFIA loan. Conversely, if after a transfer of funds to the TIFIA Sinking Fund Account the TIFIA LLCR is greater than 1.35x, any amounts on deposit may be transferred back to the equity lock-up account.

- ***Additional Senior Indebtedness:*** Additional senior indebtedness is permitted under a limited number of circumstances, as follows. Prior to substantial completion and in order to complete construction, additional senior indebtedness of up to $[5.0] million may be raised. Following the end of the capitalized interest period, additional Senior Debt may be raised to refurbish, upgrade, modify or expand the project, so long as the following conditions are met: the Additional Senior Obligations have an investment-grade rating, after giving effect to such issuance the Senior DSCR is not less than 3.0x, the Total DSCR is not less than 2.0x and the TIFIA LLCR is at least 2.75x; the aggregate principal amount of Additional Senior Obligations relating to Additional Works is not greater than $5 million, plus including any additional senior indebtedness raised to complete the construction prior to substantial completion; the proceeds of issuance are used to refinance the Senior Debt, with no impairment to the Senior DSCR; or 50% of the net proceeds (after repayment of Senior Obligations and funding of reserves) are used to replace TIFIA debt, with no impairment to the Senior DSCR, the Total DSCR and the TIFIA LLCR. Loans for working capital are permitted, subject to repayment at least annually and do not exceed $5.0 million, indexed. Under certain circumstances, additional Senior Debt is permitted in order to accommodate Change Orders or Safety Compliance Orders as required by NCDOT.
- ***Equity Lock-Up Test:*** Dividends are permitted semi-annually only if, among other things, substantial completion has been achieved; all other project costs have been paid and reserves are fully funded in accordance with the cash flow waterfall, no event of default has occurred and the borrower is not insolvent; the forward-looking and trailing 24-month TIFIA DSCR is at least 1.30x; the trailing 24-month Senior DSCR is at least 1.50x; the LLCR is at least 1.35x; and, the DSRA is fully funded. If the test is failed, the funds that would be otherwise available for distribution shall be transferred to the Distribution Lock-up Account.
- ***Key Negative Covenants:*** (1) No modification or termination of material project agreements without the consent of the Collateral Trustee, (2) no new encumbrances other than Permitted Encumbrances, (3) no new debt except for Permitted Indebtedness, (4) no asset sales except for Permitted Disposal, (5) no new business other than the Project, (6) no equity distribution except if the Equity Lock-Up Test is met and (7) no amalgamation, merger or reorganization or lines of business.
- ***Key Events of Default for PABs*** (Grace Period)
  - Termination of the CA due to a ProjectCo event of default (nil).
  - Failure to pay principal (nil) and interest (ten business days) when due.
  - A TIFIA event of default shall have occurred and be continuing or a Bankruptcy Related Event shall have occurred with respect to the Issuer (nil).
  - An event of default shall have occurred under the Senior Loan Agreement and be continuing (nil).

- ***Key Events of Default under TIFIA Loan (Grace Period)***
  - Failure to pay principal or and any mandatory prepayment but excluding TIFIA scheduled debt service, the payment of which is capitalized or deferred (nil).
  - Covenant default (30 days, extendible to 180 days).
  - Failure to complete the Project or diligently prosecute the work related to the Project (nil).
  - False representation/warranty (nil).
  - Cross-acceleration of Senior Debt or other indebtedness ($1.0 million threshold) (nil).

Key Features of the Financing Documents (CONTINUED)

– Cross-default to material Project contracts, including the DB agreement (60 days), provided that the replacement DB Contractor is of similar or greater creditworthiness and experience as the Principal Project Party being replaced or is otherwise acceptable to TIFIA.

– Project abandonment.

– Following the end of the capitalized interest period, the TIFIA DSRA is below the required balance for a period of two consecutive payment periods. This may be cured by way of an equity contribution provided that the borrower shall be limited to two semi-annual equity contribution top ups in a two-year period.

Related Research

- Rating Public-Private Partnerships, March 5, 2015.

Notes:
All figures are in U.S. dollars unless otherwise noted.

This report is based on information as of April 29, 2015. Subsequent information may result in material changes to the rating assigned herein and/or the contents of this report.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.