Service Plaza Initiative

Department of Transportation
Commissioner Joseph F. Marie

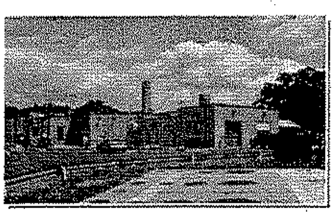
Office of Policy and Management
Secretary Robert L. Genuario

Presentation Topics

- Why a new agreement?
- Existing conditions & prior operations
- Preliminary activities
- Procurement goals & process
- Value offered by Project Service to State
- Economics & financial benefits to State
- Unique Protections to State
- Environmental considerations
- Accomplishments to date

Why a new Agreement?

- Existing contracts were due to expire
- All plazas needed significant capital investment to improve outdated facilities



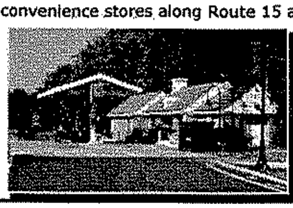
Existing Conditions

- Limited food offerings
- Deteriorating facility conditions
- Considerable environmental concerns
- Unacceptable traffic patterns (safety)

Prior Operations

Two distinct contracts with State for operation of Service Plazas: ExxonMobil and McDonald's

- ExxonMobil
  - Fuel provider from Oct. 1, 1988 - Dec. 10, 2009
  - Sold fuel and sundries at 23 service plazas
  - 13 convenience stores along Route 15 and I-395

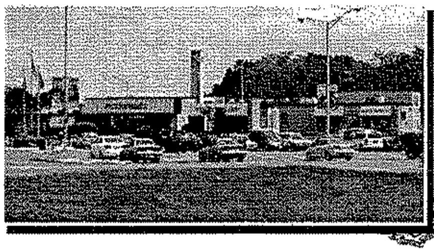


Prior Operations

- 2008: ExxonMobil corporate announced it was exiting its retail business operations
- No option for ExxonMobil to remain
- Contingency plan in place

Prior Operations

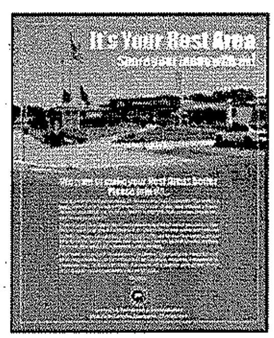
- McDonald's
  - Operated food venues at all 10 locations on I-95 and gift shops at 8 out of 10 locations from February 24, 1985 through December 7, 2009



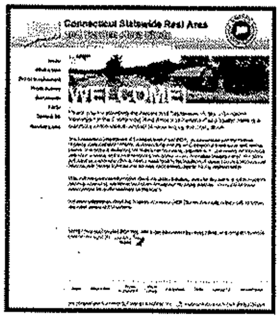
Preliminary Activities

- Internal research & discussions
- Rest area and service plaza study conducted (2005 – 2007)
  - Evaluate shortcomings / needs
  - Solicit input from stakeholders – Advisory Committee comprised of:
    - Impacted municipalities
    - Regional planning organizations
    - Trucking, travel industry
    - BESB, Tourism, State Police, DMV, FHWA
  - Focus groups & plaza user surveys
  - Benchmarked other states' plazas
  - Website & newsletters
  - Posters located at plazas
  - Regional public informational meetings

Preliminary Activities



Preliminary Activities



Preliminary Activities

Preliminary Activities

- Reviewed NY, NJ, PA, MA, ME, DE Agreements (range in dates, 2000-2008)
  - Required different levels of investment (some construction, some operations only)
  - Separate food and fuel contracts; multiple vendors at plazas
- Example: PA (Sunoco – 2007/2008) Minimum rent: $450,000 per year or
  - C-stores: 1% Gross Sales until one year after opening then 3% Gross Sales
  - Fuel: 1 cent up to 60 million gallons
    - .015/gallon between 60-65 million gallons
    - .02/gallon over 65 million gallons

Goals

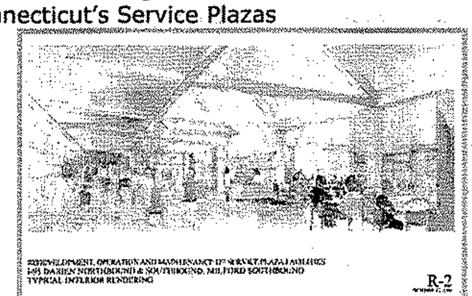
- Value – Fundamental Transformation
- Seamless transition
- Attract significant private capital investment
- Provide a greater and healthier variety of food offerings
- Safety improvements
- Improve convenience of the facilities and the level of service they provide to the traveling public (21st Century appearance)
- Increase car and truck parking capacity
- Institute a pilot program using truck idle reduction technology
- Incorporate the principles of sustainable design and operations and energy efficiency
- Provide stand-by power at all facilities for fuel availability during power outages
- Enhance the welcome centers at Greenwich N/B (Route 15) and Darien N/B (I-95)

Goals

- "Prime Contractor"
  - One Stop Shopping
    - Increase accountability
    - Develop a unified approach for redevelopment
- Provide highly recognized fuel and food offerings at all I-95 locations and convenience stores at all locations
- Fair and equitable return to State that is commensurate with level of investment
- Job creation & retention

Goals

Add Value & Change the Face of Connecticut's Service Plazas



Procurement Process

Steps in the procurement process:

- Strategy sessions to determine goals of the project
- Review of similar projects in other States
- Development of detailed and extensive "solution-oriented" RFP
- RFP issued (July 18, 2008)
- Evaluation procedures & scoring sheets approved by Evaluation Committee (November 19, 2008)
- Proposals submitted (December 22, 2008)
- Rigorous, lengthy and thorough proposal evaluation process with multi-agency, multi-disciplinary team (December 2008 to April 2009)
- Negotiation period (April to November 2009)

Procurement Process

- Collaborative effort among CTDOT, OPM and Attorney General's office
- Highly complex and specialized best value procurement process – external expertise
- Independent third party analysis
- Appropriate and necessary communications with SPRB

The Result

- Preferred Proposer
  - Doctor's Associates/Paul Landino (DAI) selected April 8, 2009
- Project Service LLC
  - Joint Venture with equity contributions from DAI, Carlyle Infrastructure Partners CT Plaza LP, and Subcon
- Significant CT presence:
  - DAI (Subway), Subcon, Centerplan, BL Companies and OR&L

Evaluation Metrics

	CTDOT EXISTING	HOST	DAI/PSLLC
• SQUARE FEET	167,854	150,292	209,625
• CAR PARKING	1,270	1,222	1,552
• TRUCK/BUS PARKING	201/25	306/24	321/34
• INITIAL CAPITAL EXPENDITURES	0	$125.3MIL*	$178.0MIL

Value to the State

- Fundamental transformation of all 23 Service Plazas
  - Additional space with improved efficiency, layout and design
  - Convenience stores in all locations
  - Fresh food options in all locations
  - Improved safety and traffic patterns at fueling islands

Value to the State

- Risk transferred from State to Project Service
  - Private capital vs. public financing
  - Includes the initial $178 million of private capital and the additional $52 million in reinvestments
  - State ***not liable*** for any increases to operational or construction costs
  - State no longer incurs operating costs – parking lot lighting, snow plowing, paving, etc.

Value to the State

- Single Prime Contractor = Clear Accountability
- The burden of successful performance is borne by Project Service
- Performance Incentive = Private Capital Investment
- Approximately $500 million in overall benefits to the State
- Retention of 750 jobs
- Creation of 100 construction jobs and approximately 250 permanent jobs

Value to the State

- Environmental Benefits
  - Improved control of storm water runoff & impacts
  - Air pollution benefits: truck idle-reduction technology
  - Alternative fuel and energy options
  - Recycling
  - Septic system improvements
  - LEED Silver equivalent construction

Value to the State

- Emergency power generators added to all 23 Service Plazas
  - No backup power exists today for disasters
  - Supports governmental emergency needs
  - Provides availability of services to general public
    - Food
    - Fuel
    - Other conveniences (restrooms, ATMs, etc.)
- Public safety improvements with the provision of space available for State Police at larger plazas

Transformation

- Redevelopment completion by 2015
- Three I-95 knockdowns and 20 remodels (total increase of between @ 42,000 – 45,000 sq. feet)
- Increase of 282 car, 9 bus and 120 truck spaces, including 82 truck spaces with idle reduction technology
- All I-95 fueling islands will be reconfigured for dive-in pumps; most Route 15 fueling islands will be relocated to enhance safety

Transformation

- Project Service
  - Manages all aspects of redevelopment, operations and maintenance under CTDOT oversight
- Alliance Energy
  - Sells fuel and operates convenience stores
- Subway and Dunkin' Donuts added at all locations
- McDonald's remains at 8 out of 10 of the I-95 locations
- Variety of other food and retail venues at the larger I-95 locations
- Competition between food venues = better value for customers

Economics

- $178 million investment in facilities in first 5 ½ years with $52 million in reinvestment in later years
- Revenue stream is lower during construction and gradually increases over time
- 35-year term – includes approximately $17 million investment during last 5 years, including replacement of a significant number of tanks, which enables CTDOT to identify any environmental issues when tanks are removed
- The significant reinvestment over the term will create jobs

Financial Benefit to the State

- The State will receive a percentage of non-fuel sales (food, beverages, convenience store goods, etc.) at the Plazas, as well as cents per gallon of gas sold
- Throughout the term of the Agreement, the percentage of sales and the cents per gallon that the State receives increases

Financial Returns

Guaranteed Minimum Payment to State

OR

	Gross Receipts	plus	¢ per gallon
2010-2014	1.25%		1 ¢
2015-2019	2.00%		1.5 ¢
2020-2024	3.00%		2 ¢
2025-2029	3.75%		2 ¢
2030-2034	4.50%		2 ¢
2035-2039	4.50%		2.25 ¢
2040-2044	5.50%		2.25 ¢

Is this a Good Deal for the State?

- **YES**
- Economics scrutinized internally with OPM
- Independent third party analysis performed by Matrix Capital Markets Groups, Inc.

State Bonding Alternative

- In these economically challenging times, the State is able to avoid the direct necessary expense of funding such redevelopment
- If the State issued $178 million in bonds, the average annual debt service would be $13.6 million over 20 years.
- This does not include the additional $52 million in reinvestment over the life of the agreement

MATRIX CAPITAL MARKETS GROUP

- ***National Leader.*** Matrix's Energy and Multi-Site Retail Group is the national leader in providing transactional advisory services to petroleum marketing & convenience store companies in U.S.
- ***Experienced.*** Advise clients on sophisticated merger and acquisition transactions, private debt and equity raises, corporate restructurings, corporate valuation and long term planning engagements
- ***Specialized Knowledge & Expertise.*** Corporate focus on convenience store chains, petroleum marketers, fuels distributors, terminal operators, fuels transportation companies, hospitality companies, and other specialty retail chains.

MATRIX Conclusions

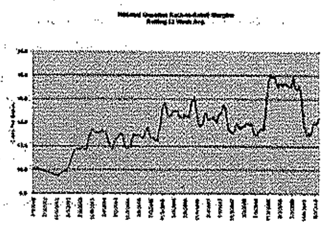
- Prior contract with ExxonMobil "unlikely to be replicated with any fuel retailer"
- Prior ExxonMobil contract "should not be used as a base" for 2009 deal
- The Project Service Agreement is projected to yield the State on average, a greater economic return per year than the prior arrangement

What MATRIX Evaluated

- The RFP
- Historic financial results for the 23 facilities as well as costs related to managing the state's existing contracts
- Financial terms and royalties received from the state's existing contracts with ExxonMobil and McDonald's
- Project Service's submissions to CTDOT
  - RFP response
  - Improvement schedule and budget
  - Operating budget
- Multiple concession agreement Minimum Annual Guarantee and participation payments proposals between Project Service and CTDOT

Current Fuel Economics

- Average historical retail fuels margins in cents per gallon (CPG) for a gallon of gasoline sold in the US, on a rolling 52-week basis (Source: Oil Price Information Service)
- These gross margins are prior to retailers' credit card fees expenses, which average over 2% of transaction dollars (over 6.0 CPG at $3.00 per gallon) for debit and credit transactions



Projection Model & Returns

- Integrated projection model forecasted each facility's sales and profitability for 35 years, using historical site level results as the base
- The projections were based on gross margin and expense assumptions from the research of industry associations and publications and Matrix's industry knowledge and experience
- Projection model showed that the expected returns on Project Service's investment were lower than targeted returns on equity of private equity funds and that the economics the State was receiving, and the structure, would be difficult to replicate with any other potential partner

Conclusions by MATRIX

- Contract allows State to share in the economics of the facilities' performance at a higher proportion than other partners would have allowed, and without having to spend $1 of the $230 million in initial and future investment in the sites
- State shares in the upside if facilities outperform and have downside protection in the form of minimum annual payments
- Based on projected payments to State and investment into facilities by Project Service, the State will receive direct and indirect benefits of almost $15 million per year from contract

Unique Protections for the State

Financial safeguards protecting the state *during construction*:

- Subscription Agreements
- Escrow Account
- Bonds
- Recognition Agreements

Subscription Agreements

- Subscription Agreements provide that each of the equity investors (Subway, SubCon and Carlyle) are obligated to fund their portion of the equity of Project Service
- Through the Subscription Agreements, CTDOT has the right to enforce the subscription obligations against the equity investor to ensure that Project Service is capitalized
- *Protects the State in the event of Termination*

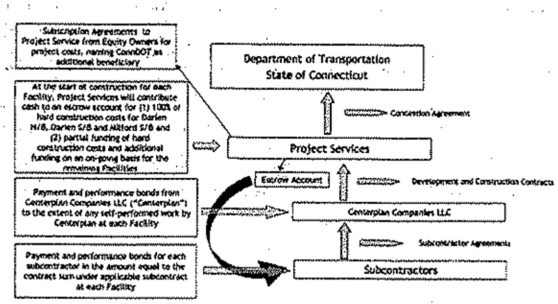
Escrow Agreement

- Mechanism to ensure that construction dollars are immediately available and *Liquid*
- Project Service funds an amount equal to the hard construction costs for each plaza into an escrow account before any construction begins:
  - For the "scrape and build" service plazas (Darien N/B, Darien S/B and Milford S/B), 100% of the construction budget is prefunded
  - For all others, there will be a partial funding of applicable construction budget at the beginning of the project and additional funding on an on-going basis.
- Escrow is a single purpose account, unencumbered by liens
- *Protects the State in the event of Termination*

Payment & Performance Bonds

- Required for ***ALL*** construction
- Project Service and CTDOT named as additional obligees
- Separate bonds for each of the plazas
- Provided upon the commencement of work on a plaza and will be in an amount equal to the contract sum under the applicable subcontract

State Protections



Recognition Agreements

- All major subcontractors to Project Service recognize the State directly as a contracting party
  - McDonald's, Alliance, Centerplan and OR&L
- In the event of Termination, the State can:
  - seamlessly take over the operation of the Service Plazas
  - complete the construction/redevelopment of any facility not yet completed
- Each major subcontractor required to comply with various State contracting requirements even though they are not in direct "privity" with CTDOT.

Operational Safeguards

- The Agreement provides performance standards and a scoring system to quantify monthly performance, which includes fines for non-performance, as well as a default provision
- Performance Bonds – Project Service is be obligated to maintain at all times during the term a $5 million performance bond or letter of credit securing its performance of covenants under the Agreement
- Termination - Recognition Agreements provide State with "step-in" rights
  - State takes over the plazas and receives the cash flow directly from the retail outlets
  - Draconian result for Project Service (potential loss of capital investment - $178 million)

Environmental Issues

Context: All 23 sites have some level of environmental pollution

- Contamination - managed and treated by ExxonMobil under former ExxonMobil contract
- Phase I, II, IIIs (environmental investigations) on all sites by ExxonMobil

The RFP

- Sought "Innovative Solution" for addressing historic environmental contamination during reconstruction
- Sought Prime Contractor to assume complete responsibility for managing historic contamination and to work with ExxonMobil on transition
- Neither proposer would assume such a role
- Both proposers *unequivocally and clearly* stated that the State would have to manage historic contamination

Remediation Agreement with Project Service

- Project Service not responsible for historic contamination
- Between CTDOT and Project Service, CTDOT is to address historic contamination
  - Prior to the effective date of the Agreement, in order to establish a "Baseline," CTDOT performed additional site investigations which supplemented ExxonMobil's existing environmental data
  - CTDOT pays for the remediation work required as part of redevelopment and performs any long term monitoring
  - Goal: Clean the sites following applicable DEP remediation standard regulations
    - Implement remedy during redevelopment to disturb site only once and to integrate remedy with redevelopment
    - Common practice

Isn't ExxonMobil Responsible?

- ***YES***
- ExxonMobil is currently performing remediation and monitoring at the plazas
- CTDOT is negotiating an agreement with ExxonMobil regarding a remediation exit strategy
- Negotiations ongoing – resolution subject to review and approval by OPM, DEP, Attorney General and Governor's Office

Accountability

- Dedicated Project Manager
  - Focus on compliance, oversight, and holding Project Service accountable
- Performance standards and a scoring system to quantify performance, which includes fines for non-performance, as well as a default provision
- Fines for failure to meet the outside completion date and events of default provisions for unjustified delays
- Track and update project progress on website

Accomplishments to Date

- Successful transition to Project Service (between midnight & morning commute)
  - Food transition – transparent to public
  - Fuel transition to Alliance – very brief down time to swap business systems / settle inventory
  - Employee transition – employees retained and union contract honored
- Replaced underground storage tanks in Greenwich

Accomplishments to Date

- Project Service took over snow removal operations at parking areas of Route 15 and I-395 locations (previously performed by CTDOT)
- Project Service also took over snow removal at I-95 locations (previously performed by McDonald's)
- Project Service took over repair of parking lot lighting at all locations (previously performed by CTDOT)

Accomplishments to Date

- Community outreach process underway
  - January 26, 2010 - Presentation to Regional Planning Organizations
  - January 27, 2010 - Presentation to the Merritt Parkway Advisory Committee
  - February 11, 2010 - Meeting with the Town of North Haven
  - February 25, 2010 - Presentation to South Western Region Metropolitan Planning Organization
  - March 12, 2010 - Meeting with the City of Milford
  - April 1, 2010 - Presentation to the Board of Selectmen, and general public in the Town of North Haven
  - Presentation to the Darien Land Trust (TBD)

Accomplishments to Date

- Website being developed to provide more information to the traveling public
- Early construction design process underway
  - CTDOT reviews all designs (30%, 60% and Final)
  - CTDOT oversees all construction

Best Value

- Change the face of the Service Plazas
- Significant private investment
- Single prime contractor
- Improve safety
- More choices for the traveling public
- Jobs created and sustained
- State benefits directly from tremendous incentive for Project Service and partners to increase sales