[ms-0398.031.012.001]

AIRPORT PRIVITIZATION: A BRIEF PRIMER

Toronto Dominion (TD) is pleased to provide a brief overview of the status of airport privitization efforts around the world. TD has been a strong supporter of privitization efforts in North America, as evidenced by a number of projects mentioned throughout this report. Our intent is to identify the relevant financial considerations important to the success of such a project, and to review some of the questions that need to be addressed before deciding on an appropriate strategy for successfully financing a private airport facility.

A Brief History of Airport Privitization

Airport Privitization is not a new concept. Here in California, Los Angeles' main airport throughout the 1950s was Burbank International. This airport facility was privately owned and operated by a subsidiary of the Lockheed Corporation (the airport has since become publicly owned), and even today that airport is operated and maintained by this private organization. The British have also gone quite far in their airport privitization efforts. Both Gatwick and Heathrow Airports are owned and operated by a private company, British Airport Authority (BAA). A privately developed airport is presently being evaluated in Turkey.

North American Privitization initiatives

The decision whether to allow the development of an airport is beyond the scope of this review. Clearly our area of greatest expertise rests in Canadian initiatives in privitization, which have for a number of reasons outpaced U.S. efforts to date. Let us briefly review some of the completed and the ongoing evaluations being made by TD, which may help shed some light on similar issues affecting your decisions.

Lester B. Pearson International Airport, Toronto Canada

In the years leading up to 1986, Lester B. Pearson International Airport in Toronto had seen rapid passenger traffic growth. The need for a third International Terminal to complement the existing Terminals 1 & 2 was becoming increasingly clear to both the public and private sector. Government assessments of the new terminal project assumed a construction schedule that would have left the existing terminals at substantial undercapacity by the proposed completion date. Private Canadian developers then offered to construct and operate this proposed terminal in a much shorter time frame, and at a lower total cost. After analyzing the alternatives of public vs. private development, the Government decided that private initiative would allow the terminal to be built faster, at a lower cost, and allow it to be operated more economically than if built under the more traditional method. A consortium was awarded the right to develop the project, and in 1988 construction financing was obtained. (A project consortium is typically composed of a developer, an airport management firm, an Engineering and Architecture firm, an Airport Consulting firm, and a financial advisor to the owners). In the case of Pearson Terminal 3, this successful Public/Private partnership allowed the new facility to open in February of 1991.

Given the success of this effort, proposals have been made to privitize the existing passenger Terminals 1 & 2 at Pearson. A number of groups have formed to seek this mandate, including one which includes Toronto Dominion as Financial Advisor. TD has in the recent past also presented proposals on varying forms of airport privitization to review boards in Quebec, Edmonton, Alberta and to other regional Canadian airport authorities. While these opportunities are still being evaluated, the level of interest in allowing private sector initiatives to help build needed transportation infrastructure is continuing to grow.

A Proposed BiNational Airport

While it is too early to assess what forms of financing might be available if a decision to move forward with this airport were made, a number of factors necessary for its financial success are clearly present. A number of U.S. and International banks, investment banks, and other financial institutions have already shown a keen interest in road, rail and airport privitization efforts of many kinds throughout North America, and could be expected to closely evaluate the opportunities presented here.

The Role of the Financial Advisor

A financial advisor to an airport privitization project must show a keen understanding of the nature of the risks being borne by all potential stakeholders. TD assembles a team of professionals selected from our Corporate Finance, Real Estate, and Capital Markets groups. Specialists from other areas of the bank are made available as necessary.

Our assistance and advice might typically include:

* assisting in the research and development of the operating plan of the project, including airport operations and any proposed retail or office space;

* assisting in the marketing, presentation and negotiating effort required to gain government approval(s) and to win a mandate;

* assisting in the development of economic and/or financial models;

* advising on a financial structure currently attainable in the international financial markets, including interim and permanent financing;

* preparing Valuation and equity holder Return on Investment analyses and;

* endorsing the project and advising on the public relations aspects involved.

Initial equity funds used to study and prepare a mandate proposal are often supplied by the members of the consortium bidding to be awarded the right to develop the project. After the group has been awarded this right, additional funds are sought. Traditional sources of additional funds include the Public debt and equity markets, the Private Placement market, and the Commercial Bank financing market. Each marketplace may find the specific characteristics of some part of the project agreeable or objectionable, and these preferences eventually determine the market that provides the best method of placing the interim and long term financing.

Toronto Dominion in Perspective

Toronto Dominion is primarily a North American bank, with 95% of its assets located in the United States and Canada. TD is the fourteenth largest bank in North America on the basis of Total Assets, eighth in terms of Common Equity at book value, and fourth on the basis of Market Capitalization. TD is also the most conservatively capitalized of the major North American banks, surpassing 1992 targets for capital adequacy set by the Bank for International Settlements. The bank and its subsidiaries, including Toronto Dominion Securities (U.S.A) Inc., offer a broad range of credit, non-credit and financial advisory services, with particular emphasis on capital markets products, to businesses, multinational corporations, governments, and correspondent banks in major financial centers around the world. TD has acted as Financial Advisor to Canadian Federal and Provincial governments on numerous occasions.