



# Indiana Toll Road Case Study

April 2022



# Public-Private Partnership (PPP) Case Study: Indiana Toll Road

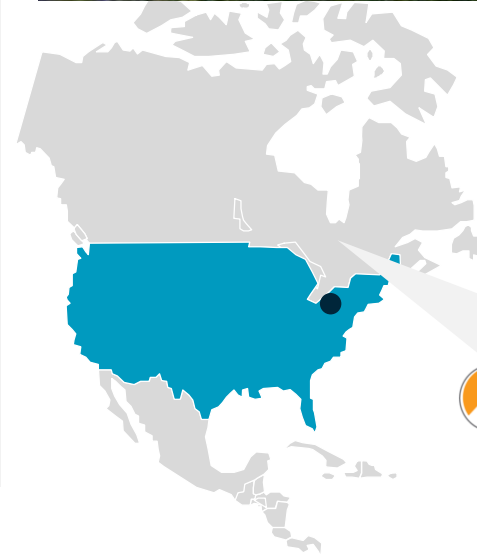


*IFM is the majority investor of the Indiana Toll Road (“ITR”) which is a critical part of the U.S. roadway network*



## Indiana Toll Road forms part of the critical transportation link between the Midwest and the Northeast

- ▶ Opened to traffic in 1956, ITR is part of the Interstate System (I-80/I-90) linking the Midwest to the Northeast, where approximately ~40% of the U.S. population lives and ~40% of U.S. GDP is generated
- ▶ Under the Concession and Lease Agreement, ITR Concession Company, LLC (“ITRCC”) has the exclusive right to operate, manage, maintain and rehabilitate ITR and to collect toll revenue and other revenue associated with the route until 2081



*ITR is an example of successful private investment in U.S. transportation infrastructure for all stakeholders*



Source: ITRCC



# ITR PPP History



*Through the lease-and-concession of Indiana Toll Road, the State of Indiana was able to fund major infrastructure initiatives without tax increases or new debt*

- In 2005, Indiana Governor Mitch Daniels launched “Major Moves,” an aggressive 10-year transportation plan to significantly improve and expand Indiana’s highway infrastructure
- Daniels planned to fund this program with proceeds from a Public-Private-Partnership (PPP) involving the ITR
- In 2006, the Indiana Finance Authority (“**IFA**”) awarded a consortium of investors, Macquarie and Cintra, the rights to operate, maintain and collect revenue from ITR for a term of 75 years for an upfront payment of \$3.85 billion
- From 2005 through 2015, with funding from the ITR privatization, Major Moves accomplished the following with no new state debt and no funding from taxpayers
  - 87 roadways completed and opened to traffic
  - 480 new centerline miles completed – 3.4% of the State’s inventory
  - 60 new or reconstructed interchanges completed
  - Indiana Department of Transportation (“**INDOT**”) obligated more than \$3.12 billion in Major Moves funds for project construction, right-of-way, and consulting/project engineering



- As a requirement under the concession, the initial concessionaire completed Mandatory Expansion Works, including \$450 million in capital expenditures for:
  - \$5 million funding for capital improvements for Indiana State Police (“ISP”) facilities on the ITR
  - Implementation of barrier-controlled electronic toll collection (“ETC”) and a new cash collection system, replacing the pre-existing one
  - Expansion of certain sections of the ITR from 2 lanes to 3 lanes, providing increased capacity

# IFM Acquisition: Role of Pension Capital



## *IFM Investors successfully acquired the asset in 2015, largely with U.S. pension capital representing millions of retirees*

- Following the financial crisis, the initial concessionaire was unable to meet escalating debt payments due to an unsustainable capital structure, despite strong financial performance. This initiated a competitive sale process for the business
- IFM was successful in acquiring the asset for \$5.725 billion through this process and placed a more sustainable, investment grade capital structure
  - Despite the bankruptcy, there was no impact on customers as the road continued to operate normally
- IFM acquired the ITR in 2015 using capital mainly from U.S. pension funds representing ~8.6 million American workers
- IFM Investors had to be approved as an operator of the asset by the Indiana Finance Authority (“IFA”)
  - IFM successfully demonstrated its extensive experience in toll road operations and presented a comprehensive plan including major capital programs to be completed. This plan covered pavement and structure rehabilitation, as well as travel plaza redevelopment
- **The type of equity owner is important – IFM represents pension funds looking for long-term, core investments**
  - Central to IFM’s investment approach is the belief that properly managed infrastructure assets are uniquely positioned to support economic growth while generating fair risk-adjusted returns to long-term retirement savers
  - This allows IFM to be a long-term partner to government and private-sector owners & operators of community assets that provide essential services, and to commit to ongoing capital programs that enhance operations, performance and safety while ensuring the lasting viability of the businesses



# Demonstrated Benefits to Stakeholders



*In the seven years under IFM stewardship, ITR has seen dramatic improvements across key elements of the business, benefitting all stakeholders*

## 1. Capital Improvements

- Major structures and pavement rehabilitation program undertaken with >\$350million spent to date
- Completed ~\$75 million travel plaza redevelopment, revamping dilapidated facilities and improving customer experience
- All major projects completed on time and under budget. Asset condition being assessed as 'best on record' by an independent engineer

## 2. Safety

- Overhauled safety culture, resulting in significant improvements in safety performance and reductions in injuries. Zero lost time injuries ("LTIs") were achieved in 2021
- Investments in customer safety technology like Intelligent Transportation Systems ("ITS") have produced clear reductions in incidents/crashes
- Innovative safety pilot programs completed, with further improvements to customer safety

## 3. Environmental, Social & Governance ("ESG")

- In 2021, ITRCC established science-based carbon emission reduction target of 50% by 2030 and carbon neutrality by 2050
- Active focus on increasing workforce diversity, with increases in female, minority and veteran representation
- Significant community support including \$100k donation to a school food relief program to support local communities during COVID-19 and providing free access to fiber network to facilitate remote learning for students in the area
- Partnership with local non-profit enabled by IFM community grant to improve user accessibility along ITR for the deaf and hard of hearing community

## 4. Negotiated Outcomes & Further Investment

- Innovative 2018 Concession Amendment allowed for \$1 billion in payments to the State, which has been used to fund planned road projects in seven Indiana counties
- As part of the transaction, ITRCC also invested \$50 million focused on initiatives to improve customer experience

# 1. Capital Improvements - PUSH Program



*The PUSH program has been instrumental in improving asset condition, resulting in better customer experience and safety*

## ***Pavement & Structure Upgrades***

- ▶ Since 2015, ITR has made major investments to improve roadway and structures condition along the roadway through its PUSH (“Pavement Upgrade for a Superior Highway”) program
- ▶ Phase I was one of the **largest capital projects on the ITR since the road was built in the 1950s (~\$210m)**
  - ▶ Included reconstruction of the mainline running lanes, shoulders and interchange ramps over a 73 mile section of the ITR from mile marker (“MM”) 20 to 93 and 53 repair packages for bridges
- ▶ PUSH 2.0 was launched and completed in 2019, covering 10 miles on the western section of the route (MM 0-10)
  - ▶ The ~\$70m project reconstructed over 45 lane miles, 16 bridges, 4 interchanges and truck parking facilities
- ▶ The third and most recent PUSH project was completed in 2021, with another ~\$70m investment covering MM 93-123
  - ▶ Project scope included 30 miles of new pavement while rehabilitating 17 structures and 4 interchanges
- ▶ All PUSH projects were completed on time and within budget
- ▶ **Since 2016, over 72% of pavement lane miles and 25% of bridges on ITR have been reconstructed**



# 1. Capital Improvements – Travel Plazas



*Under IFM ownership, ITRCC redeveloped all travel plazas along the route to improve customer experience*

## *Travel Plaza Redevelopment*

- ▶ All eight travel plazas were entirely reconstructed during 2016-2018 at a cost of \$75 million, the first major investment in the plazas since their original construction in the 1960s
- ▶ The new plazas feature a modern aesthetic, state-of-the-art sustainability and technology features, and a variety of contemporary restaurant options
- ▶ The plazas were designed with leading sustainability practices, and received Silver LEED certification
- ▶ ITRCC partnered with local governments to connect the plazas to municipal water and sewer services, removing reliance on onsite treatment plants which pose environmental risks, whilst becoming a major customer to municipal providers allowing them to extend services to local residents in a cost-effective manner
- ▶ World class operators contracted to provide tenant services
- ▶ Construction completed in June 2018 under budget

***In the decade to 2025, >\$500 million expected to be invested on ITR upgrades, which will generate an estimated 2,000 jobs and >\$1 billion of economic activity in Northern Indiana.***



*The new LaGrange Travel Plaza, opened in July 2017*



*The original LaGrange Travel Plaza, demolished in early 2017*

## 2. Safety - Employees

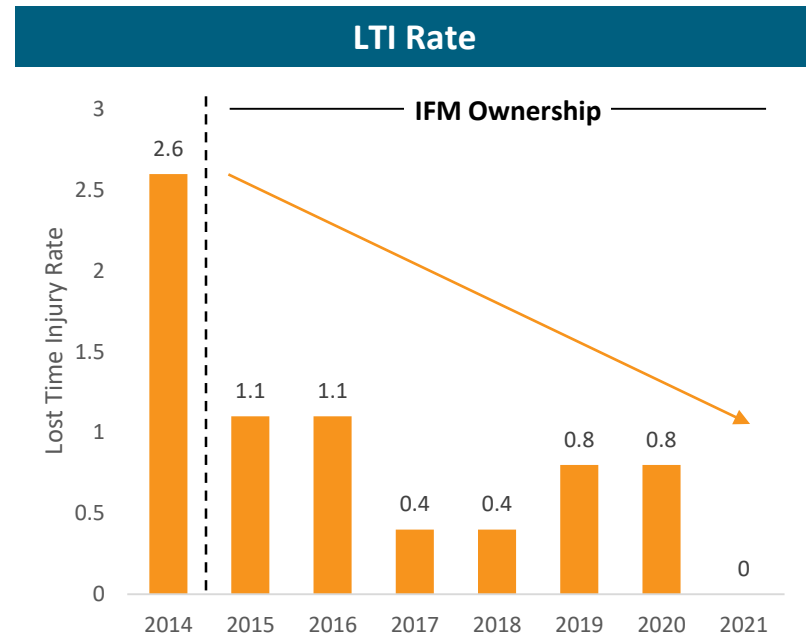
### *Safety is a key priority for IFM Investors and ITR*

#### Building a Robust Safety Culture

- Refined safety culture and increased frequency of safety training, leading to significant improvement in employee safety awareness and reduced risk of injury
- Significant capital investment in road safety through pavement, customer safety enhancements and technology, while improving working conditions for all staff required to maintain the asset
- Introduced the Safety First Plan - now in its seventh edition - to set annual safety objectives. Annual employee survey suggests that 98% of employees look to the Plan as a key component to their safety
- Established an employee-led Road Safety Committee to provide a direct focus on work zone safety
- Highly evolved near-miss program as a leading indicator to the success of the safety program. Annual submissions continue to outperform prior years
- Contractor and tolling peer group engagement allows sharing of data and best practices

#### Key Outcomes

- ▶ 73% reduction in LTI rate between 2014 (prior to IFM acquisition) and the average LTI rate achieved during IFM ownership
- ▶ 2021 was the first year on record that the company operated without a single employee lost time injury





## 2. Safety - Customers

### *ITRCC has invested heavily in enhancing customer safety and has achieved meaningful improvements*

#### Intelligent Transportation Systems Project

- Launched to improve ITRCC's traffic management capabilities to facilitate incident response and weather management
  - Included the installation of 32 dynamic message boards, 42 incident detection cameras, and development of an Automated Traffic Management System to facilitate incident response and weather management
- Project completed across the entire 157 miles of the route in 2020 and delivered an immediate improvement in customer safety
  - **84% reduction in average monthly secondary incidents** since installation

#### Safety Pilot Program Successes

- Successfully implemented targeted pilot programs to reduce customer incident frequency and severity
- Customer safety pilot programs have delivered promising results
  - Installation of LED-illuminated advanced curve signage near an area prone to accidents has **reduced average vehicle incidents by 44% and nighttime incidents by 27%**
  - Installation of static warning signs, flashing alert beacons and dynamic ramp speeds at high-ramp rollover locations has **reduced truck rollovers by 68%**
  - Automatic wrong-way driver detection warning system to alert drivers who may be traveling the wrong way has **prevented 23 wrong-way driver events**



ITS Overhead Message Board



LED-illuminated advanced curve signage



Traffic Management Center

# 3. ESG Highlights



*ITRCC has maintained an active focus on demonstrating ESG leadership*

## Environmental

**IFM has reinforced a culture of environmental preservation and a path to a greener, sustainable future**

- ▶ In 2021, ITRCC established science-based carbon emission reduction target of 50% by 2030 and carbon neutrality by 2050
- ▶ New administration building obtained LEED Gold certification. Solar panels have been installed and offset 20% of energy consumption per year
- ▶ Reducing carbon emissions from fleet vehicles and furnaces owned and operated by ITRCC as well as emissions resulting from electricity usage in operations
- ▶ EV charging stations installed at ITR travel plazas
- ▶ Multi-year tree planting program to improve biodiversity along the roadway

## Social & Governance

**ITRCC has demonstrated its commitment to being an important member of its community**

- ▶ Increased overall workforce diversity with representation of 39% women, 11% veterans, and 20% minorities
- ▶ ITR Board achieved female majority in 2021. 51% of management positions at ITR are held by women
- ▶ Since 2017, >90% of total expenditures made to Indiana-based companies with >15% spent with women, minority, and veteran owned businesses in 2020
- ▶ \$100k to a school food relief program to support the local communities during COVID-19
- ▶ \$40k IFM community grant to improve user accessibility along ITR and provide potential employment opportunity for the deaf and hard of hearing community



# 3. Environmental Initiatives - New Administration Building



- ▶ In February 2019, staff moved into the newly constructed administration building in Elkhart
- ▶ The building was designed to drive a meaningful reduction in greenhouse gas emissions and to place a stronger emphasis on employee wellbeing
  - ▶ Environmentally sustainable features include smart lighting, energy efficient HVAC and water conservation system
  - ▶ Solar panels have been installed and offset ~20% of the building's energy costs annually
- ▶ The building obtained **LEED®** Gold Certification (v4) by the U.S. Green Building Council. ITR's admin building was the first in Indiana to receive this certification

OFFSETTING  
**20%**  
OF POWER  
USAGE



U.S. GREEN  
BUILDING  
**LEED® Gold**  
CERTIFIED



**24/7**  
Traffic  
Management  
Center





*One purpose. Shared prosperity.*

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