

Get Your Shovel Ready...

Research Analysts

Nicole M. Parent
212 538 6086
nicole.m.parent@credit-suisse.com

Jamie Cook, CFA
212 538 6098
jamie.cook@credit-suisse.com

Chase Becker
212 325 9024
chase.becker@credit-suisse.com

Peter Chang
212 538 3040
peter.chang@credit-suisse.com

Sheila Kahyaoglu
212 325 5733
sheila.kahyaoglu@credit-suisse.com

SECTOR REVIEW

Stimulus Package Needs A Lot of Luck & Big Pot of Gold

- **Bottom Line: We really need a lot of luck and a big pot of gold (funding source TBD) to have the current infrastructure stimulus bill have any meaningful impact on the U.S. economy.** The total cost of the upgrade required to get U.S. infrastructure up to par (currently graded D) is estimated to be \$2 trillion (over next five years) according to ASCE. We'd point out that the current stimulus bill only addresses \$72B of the funding needed. This fact, coupled with the speed with which a solution is implemented makes the task at hand particularly daunting.
- **The level of coordination between local, state and federal governments required to make this stimulus package successful is enormous.** There is substantial risk that states backfill their own budgets with federal stimulus dollars.
- **Allocating dollars to projects does not translate into immediate spending.** Under the terms of the stimulus bill, state/local governments must allocate 50% of their funds to projects within 120 days and the balance within one year. However, the key is that allocating does not equal immediate spending. In fact, only 15% of the funding will actually be spent in 2009 and the majority will be in 2010 and 2011. The "first tranche" of money will be used for smaller projects such as basic maintenance work while the "second tranche" will fund larger projects (primarily in 2010/2011).
- **Don't believe the hype; A second stimulus package likely necessary.** The overwhelming majority of the presenters at our conference believe that a second stimulus package is necessary given this is a watered down version of the initial request. U.S. unemployment remains a key factor.
- **The reality is that the total dollars necessary to fix our abysmal infrastructure in the United States requires more than just government dollars.** Like Europe & China, the U.S. will need to look toward more creative ways to finance infrastructure upgrades such as infrastructure banks, public/private partnerships and vehicle miles traveled.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS. FOR OTHER IMPORTANT DISCLOSURES, visit www.credit-suisse.com/researchdisclosures or call +1 (877) 291-2683. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Customers of Credit Suisse in the United States can receive independent, third party research on the company or companies covered in this report, at no cost to them, where such research is available. Customers can access this independent research at www.credit-suisse.com/ir or call 1 877 291 2683 or email equity.research@credit-suisse.com to request a copy of this research.

Conference Takeaways

We had the opportunity to host several experts in the transportation and energy sectors at our *Rebuilding the Economy: Brick by Brick, Bridge by Bridge* conference last week. The Key Takeaway is that we really need a lot of luck and a big pot of gold (funding source TBD) for the current infrastructure stimulus bill to have any meaningful impact on the U.S. economy prior to 2011. The total cost of the upgrade required to get U.S. infrastructure up to par (currently graded D) is estimated to be \$2 trillion (over next five years) according to the American Society of Civil Engineers. This fact, coupled with the speed with which a solution is implemented, make the task at hand particularly daunting.

ASCE 2009 Infrastructure Report Card

As evidenced by the American Society of Civil Engineers' 2009 Report Card, the state of U.S. infrastructure is pretty abysmal. The Report Card, which was released in January 2009 highlights years of under-funding and a general lack of attention towards America's most vital infrastructure assets. The 2009 Report Card gives America a grade of "D" and estimates \$2.2 trillion in spending is needed over the next five years to move the grade to a "B" average.

Exhibit 1 provides a summary overview of the estimated five-year investment needs required to get U.S. Infrastructure up to snuff.

Exhibit 1: Five-Year Investment Gap

US\$ in billions, unless otherwise stated

| Category | 5-Year Need | Estimated Actual Spending | American Recovery & Reinvestment Act | 5-Year Investment Gap |
|---------------------------|----------------|---------------------------|--------------------------------------|-----------------------|
| Roads & Bridges | \$930 | \$352 | \$29 | \$550 |
| Transit | \$265 | \$67 | \$8 | \$190 |
| Drinking Water/Wastewater | \$255 | \$140 | \$6 | \$109 |
| Levees | \$50 | \$1 | \$0 | \$49 |
| Public Parks & Recreation | \$85 | \$36 | \$1 | \$48 |
| Hazardous Waste | \$77 | \$33 | \$1 | \$43 |
| Aviation | \$87 | \$45 | \$1 | \$41 |
| Schools | \$160 | \$125 | \$0 | \$35 |
| Electric Power Grid | \$75 | \$35 | \$11 | \$30 |
| Inland Waterways | \$50 | \$25 | \$4 | \$21 |
| Rail | \$63 | \$42 | \$9 | \$12 |
| Dams | \$13 | \$5 | \$0 | \$8 |
| TOTAL | \$2,110 | \$903 | \$72 | \$1,135 |

*Figures above not adjusted for inflation

-Assuming inflation of 3% per annum yields 5-yr need of \$2.2 trillion and gap of \$1.176 trillion

Source: ASCE

The Report Card focuses on four general categories (Water & Environment, Transportation, Public Facilities and Energy) as well as 15 sub-categories. In total, 11 of the sub-categories received a "D" while the remaining four received a "C" grade. Notably, three sub-categories (Aviation, Roads and Transit) received lower scores than the previous Report Card while only one sub-category (Energy) posted a higher grade. We highlight each of these categories and sub-categories below.

Water & Environment

The Water & Environment category includes Dams, Drinking Water, Hazardous Waste, Levees, Solid Waste and Wastewater.

- **Dams (D):** The average age of all dams in the United States is 51 years. According to the ASCE, 4,000 (5%) of the nation's 85,000 dams are considered highly hazardous.

Astonishingly, 1,819 (2%) have been deemed as deficient. Furthermore, efforts to curb the deterioration in dam infrastructure has failed to yield positive results. Over the last six years, for every deficient high-hazard dam repaired, an additional two were declared as deficient.

- **Drinking Water (D-):** Ageing water infrastructure continues to be one of the most serious problems in the country. On average, leaking pipes in the U.S. lose 7 billion gallons of treated water per day. The EPA estimates that America's drinking water systems face an annual gap of at least \$11 billion to replace aging facilities.
- **Hazardous Waste (D):** As of 2008, there were 188 U.S. cities with brownfield sites awaiting cleanup and redevelopment. However, the Government's funding for "Superfund" cleanup has steadily declined. In 2008, funding dropped to \$1.08 billion, which represents the lowest level since 1986. In total, the cost to clean up all Superfund sites is approximately \$200 billion.
- **Levees (D-):** The overall reliability of the nation's levees is unknown as over 85% are locally owned and maintained. However, many are over 50 years old and it is currently estimated that over \$100 billion is needed to repair and rehabilitate the country's levees.
- **Solid Waste (C+):** Solid waste received the highest grade of all 15 sub-categories as recycled or recovered products have increased 7% since 2000. The biggest risk going forward is the increasing volume of electronic waste, which poses a health hazard to the general public.
- **Wastewater (D-):** Each year, billions of gallons of untreated wastewater is discharged into U.S. surface waters. The EPA estimates that the nation will need to invest \$390 billion over the next 20 years to update the country's wastewater infrastructure.

Transportation

The Transportation category includes Aviation, Bridges, Inland Waterways, Rail, Roads and Transit.

- **Aviation (D):** This category has been downgraded to a "D" grade vs. the prior score of "D+" in 2005. Even in the face of high oil prices and a weak economy, the FAA is still estimating 3% annual air travel growth. The most pressing issue regarding meeting this growth surrounds the outdated air traffic control system and the government's failure to enact a federal aviation program. Until the air traffic control system is updated, travel delays are likely to persist for the foreseeable future.
- **Bridges (C):** More than one in four (26%) of the country's bridges are classified as either structurally deficient or functionally obsolete. While it is estimated that an annual investment of \$17 billion is needed to substantially improve current bridge conditions, only \$10.5 billion is currently being spent on construction and maintenance each year.
- **Inland Waterways (D-):** The reliability of locks remains a key issue as 30 of the nation's 257 locks were built in the 1800s and an additional 92 are over 60 years old. That means that nearly half of the country's locks have gone beyond their planned design life of 50 years. It is currently estimated it would take more than \$125 billion to replace the current system of locks.
- **Rail (C-):** Freight and passenger rail share the same tracks in many areas of the country. The performance of the nation's rail system is crucial as a freight train has three times the fuel efficiency of a truck. It is estimated that more than \$200 billion is needed through 2035 to accommodate anticipated growth and alleviate rail network bottlenecks.
- **Roads (D-):** This category has also been downgraded from a grade of "D" in 2005. Each year, Americans spend 4.2 billion hours stuck in traffic at a cost of \$78.2 billion

to the economy. Additionally, poor conditions cost motorists \$67 billion per year in repairs and operating costs as one-third of America's major roads are in mediocre condition. There currently is only \$70.3 billion spent each year on highway capital improvements versus the estimated \$186 billion that is needed.

- **Transit (D):** This category has also been downgraded from a grade of "D+" in 2005. Nearly half of American households do not have access to rail or bus transit and only 25% consider it to be a "good option." Despite posting a 25% increase (the fastest of any other mode of transportation) in usage between 1995 and 2005, annual spending is pacing well below required levels. In order to maintain current conditions, the Federal Transit Administration estimates that \$15.8 billion needs to be spent each year. In order to improve the current infrastructure to "good" conditions, \$21.6 billion is required on an annual basis. However, this compares to only \$9.8 billion in spending in 2008.

Public Facilities

The Public Facilities category includes Parks and Recreation as well as Schools.

- **Parks and Recreation (C-):** The National Park Service's facilities face a \$7 billion maintenance backlog. Investments in the agency's facilities are crucial as parks, beaches and other recreational facilities contribute \$730 billion per year to the U.S. economy and support nearly 6.5 million jobs.
- **Schools (D):** The country's spending on schools came in at \$20.3 billion in 2007, which is down from the \$29 billion that was spent in 2004. According to the National Education Association, nearly \$322 billion needs to be spent to bring the nation's schools into "good" condition.

Energy

- **Energy (D+):** Energy represents the only category where there was an improvement from the 2005 scorecard (up from a "D"). Still, it is estimated that electric utility investment will need to tally \$1.5 trillion by 2030 to ensure a modern power and grid system.

Common Q&A Themes

Q: Do you believe there is a level of coordination risk required for local, state and federal government to implement the stimulus bill?

A: The level of coordination between local, state and federal governments required to make this stimulus package successful is enormous. There is substantial risk that states backfill their own budgets with federal stimulus dollars. The current system for infrastructure is regulated by states. For example, the interstate highway system is not built by the federal government, that responsibility is instead delegated to the states. The federal government does the overall planning, but the allocation of contracts is done by the states. The risk with the stimulus bill is that many of these states will suffer large budget shortfalls this year and there is the chance that the states will take the stimulus money and try to backfill holes in their budgets. However, oversight in this recovery act is comprehensive. For example, governors have to certify how many jobs will be created when they request money for projects. The coordination will continue as the process moves forward with added oversight monitors to make sure the money is getting out.

Q: How has infrastructure investment in the U.S. differed from other countries over the years and are there any solutions or different financing methods that would work well in the United States?

A: The reality is that the total dollars necessary to fix our abysmal infrastructure in the United States, requires more than just government dollars. Like Europe & China, the U.S. will need to look toward more creative ways to finance infrastructure upgrade such as infrastructure banks, public/private partnerships and vehicle miles traveled.

In China, the system is a little different. For instance, when they built the Three River Gorges Dam, the government simply confiscated land and displaced 800,000 people. This is also being done with power plants, rail facilities, and roads. China finances all of these projects on its own, and not with higher taxes (as we do in the United States).

In Europe, two methodologies are used: an Infrastructure Bank and Public-Private Partnerships (P3's). A federal infrastructure bank was referenced in the Presidential Campaign, but has yet to become a reality. As for P3's, the United States has not been able to gain a lot of traction, despite trying. U.S House of Representatives Transportation and Infrastructure Committee Chairman Jim Oberstar is opposed to the use of P3's and points to the Chicago Skyway as an example as to why they are not effective or politically feasible. In the case of the Skyway, the toll had been \$0.50 for 6-7 years, but after the P3 agreement, the toll was increased to \$2.50 which was not well received by the public.

Q: How quickly will projects translate into dollars spent?

A: Under the terms of the stimulus bill, state/local governments must allocate 50% of their funds to projects within 120 days and the balance within one year. However, the key is that allocating does not equal immediate spending. In fact, only 15% of the funding will actually be spent in 2009 and the majority will be in 2010 and 2011. The "first tranche" of money will be used for smaller projects such as basic maintenance work while the "second tranche" will fund larger projects (primarily in 2010/2011).

Q: How should we think of the likelihood of a second stimulus package?

A: The overwhelming majority of the presenters at our conference believe that a second stimulus package is necessary given this is a watered down version of the initial request. U.S. unemployment remains a key factor. A second stimulus package will likely happen in the range of \$700B. We'll need to wait and see what happens here. The government wants to give the first one 3-6 months to work through, but depending on unemployment, we could certainly see another bill. The second stimulus and the surface transportation bills are separate issues.

Q: How will Public-Private Partnerships (PPPs) play a role in the build out of America's infrastructure over the next 5-10 years?

A: Right now there is strong opposition from the U.S. House's Transportation and Infrastructure Committee Chairman, Jim Oberstar, who is opposed to usage of P3's to help finance America's infrastructure. One of the key issues is that historically, transportation infrastructure has been viewed by the public as public property. However if a private entity owns the infrastructure, or the rights to operate it, will the public be gouged for the sake of private benefit? That's what the public needs to get comfortable with. In order for P3's to become a larger part of the transportation financing answer, there will have to be increased transparency and it's likely that the public will have to see improvements in the infrastructure to justify the higher prices.

Q: When will the Surface Transportation Authorization be addressed considering it expires in September, 2009?

A: Last August was the drop dead date, but it didn't get done. The process will start again at the end of the month. Congress will likely focus its attention on the bill as it is a chance to get specific projects completed for constituencies. The House wants to get something out by May/June, but it's likely that instead of a bill being passed this year, a series of extensions will be done instead until a final bill is passed before elections. There's been talk already about a \$500B bill over 6 years, but the key question is how will this be paid for?

Q: Which areas of the country require more infrastructure spending?

A: From a geographical perspective, the Northeast United States requires the most amount of spending as this area of the country is the oldest. For example, Georgetown still has wooden sewers. In New England, where there is a significant amount of snowfall, many roads and bridges have seen excessive corrosion as a result of salt applications (for deicing). This is also the case in the Northern United States and the Midwest. The West has capacity issues, though the infrastructure is much more modern than the East coast.

Q: Of the \$2.2 trillion in spending needed on the nation's infrastructure, how much of this is actually actionable? Additionally, what is the difference between the amount of funding that is needed versus what actually ends up being spent?

A: Over the next five years, ASCE estimates there will be a gap of approximately \$1.1 trillion. There has historically been a gap and looking ahead, the country will have an additional 100 million people by the 2035 or 2040 timeframe. Therefore, the gap must continue to be narrowed. Currently, the delta (in the range between what we should be spending each year) is larger than the actual amount of investment each year.

Stimulus Background

The consensus from all of the speakers is that the current state of our transportation and general infrastructure is in significant need of investment. As highlighted by Norman Mineta, former U.S. Secretary of Transportation, transportation infrastructure continues to be an issue that rarely gets the attention it deserves in Washington. For example, of the \$787 billion in the American Recovery and Reinvestment Act of 2009, only \$80.9 billion, or 10%, was allocated to infrastructure investments (excluding energy). Furthermore, of the \$80.9 billion in infrastructure spending, only \$45.2 billion (56% of infrastructure spending) was designated for "core" investments such as roads, bridges, railways and other transportation. This accounts for *only 6%* of the entire stimulus bill and represents a significantly smaller investment when compared to other "stimulative" programs such as Healthcare (\$147.7 billion, or 19%), Education (\$90.9 billion, or 12%) and Entitlement programs (\$82.5 billion, or 10%). Furthermore, it should be noted that when the Obama Administration first submitted its stimulus to Congress, it originally had approximately \$300 billion in transportation projects.

Some of the notable investment programs include \$27.5 billion for highways and bridges, \$8.4 billion for transit and another \$8 billion for high speed rail. Additionally, \$1.1B will be spent on airport improvement grants, another \$4B for clean water programs, and \$2B for drinking water programs. The money will be appropriated by the federal government to the states, and the money will go from the states to certain projects that were submitted and

approved by a federal oversight committee. As of the conference, 26 states had submitted their highway and transit “wish lists”. An added bonus regarding the highway spending, is that the spending doesn’t require that states provide matching funds (~20% of a total project’s cost for highways).

Exhibit 2 shows a breakdown of certain aspects of stimulus spending by state with California receiving the most dollars. The states will likely have to be highly reliant on private companies that they typically partner with in order to meet the transparency requirements.

Exhibit 2: States' Stimulus Aid for Transportation, Clean Water

US\$ in millions, unless otherwise stated

| State | Highways & Bridges | Transit Capital | Transit Fixed-Guideway Modernization | Clean Water SRF | T&I Comm. Infrastructure Investment Total |
|----------------|--------------------------|-------------------------|--------------------------------------|-------------------------|---|
| Alabama | \$ 513,692,083 | \$ 46,459,047 | - | \$ 43,720,677 | \$ 603,871,807 |
| Alaska | \$ 175,461,487 | \$ 41,632,703 | - | \$ 23,400,927 | \$ 240,495,117 |
| Arizona | \$ 521,958,401 | \$ 99,921,878 | \$ 640,070 | \$ 26,408,646 | \$ 648,928,995 |
| Arkansas | \$ 351,544,468 | \$ 28,409,450 | - | \$ 25,577,541 | \$ 405,531,459 |
| California | \$ 2,569,568,320 | \$ 1,002,276,804 | \$ 66,171,889 | \$ 279,639,756 | \$ 3,917,656,769 |
| Colorado | \$ 403,924,130 | \$ 102,715,664 | \$ 753,399 | \$ 31,275,981 | \$ 538,669,174 |
| Connecticut | \$ 302,053,956 | \$ 105,495,951 | \$ 32,030,396 | \$ 47,899,863 | \$ 487,480,166 |
| Delaware | \$ 121,828,650 | \$ 17,643,474 | - | \$ 19,194,714 | \$ 158,666,838 |
| D.C. | \$ 123,507,842 | \$ 111,026,519 | \$ 13,888,380 | \$ 19,194,714 | \$ 267,617,455 |
| Florida | \$ 1,346,735,003 | \$ 310,785,947 | \$ 5,410,766 | \$ 131,981,850 | \$ 1,794,913,566 |
| Georgia | \$ 931,585,680 | \$ 136,180,672 | \$ 7,380,854 | \$ 66,108,735 | \$ 1,141,255,941 |
| Hawaii | \$ 125,746,380 | \$ 43,582,582 | \$ 254,793 | \$ 30,282,417 | \$ 199,866,172 |
| Idaho | \$ 181,934,631 | \$ 18,398,968 | - | \$ 19,194,714 | \$ 219,528,313 |
| Illinois | \$ 935,592,704 | \$ 371,448,884 | \$ 96,088,797 | \$ 176,834,988 | \$ 1,579,965,373 |
| Indiana | \$ 657,967,707 | \$ 78,427,240 | \$ 5,858,540 | \$ 94,230,081 | \$ 836,483,568 |
| Iowa | \$ 358,162,431 | \$ 36,483,617 | - | \$ 52,917,876 | \$ 447,563,924 |
| Kansas | \$ 347,817,167 | \$ 30,727,408 | - | \$ 35,292,807 | \$ 413,837,382 |
| Kentucky | \$ 421,094,991 | \$ 50,295,172 | - | \$ 49,763,241 | \$ 521,153,404 |
| Louisiana | \$ 429,859,427 | \$ 63,308,870 | \$ 2,425,343 | \$ 42,982,236 | \$ 538,575,876 |
| Maine | \$ 130,752,032 | \$ 13,266,106 | - | \$ 30,266,973 | \$ 174,285,111 |
| Maryland | \$ 431,034,777 | \$ 163,996,393 | \$ 15,265,694 | \$ 94,566,384 | \$ 704,863,248 |
| Massachusetts | \$ 437,865,255 | \$ 267,355,159 | \$ 52,362,925 | \$ 132,750,486 | \$ 890,333,825 |
| Michigan | \$ 847,204,834 | \$ 134,823,341 | \$ 133,125 | \$ 168,121,008 | \$ 1,150,282,308 |
| Minnesota | \$ 502,284,177 | \$ 92,241,542 | \$ 1,851,573 | \$ 71,865,189 | \$ 668,242,481 |
| Mississippi | \$ 354,564,343 | \$ 25,466,306 | - | \$ 35,227,071 | \$ 415,257,720 |
| Missouri | \$ 637,121,984 | \$ 83,844,094 | \$ 1,289,449 | \$ 108,391,536 | \$ 830,647,063 |
| Montana | \$ 211,793,391 | \$ 15,611,710 | - | \$ 19,194,714 | \$ 246,599,815 |
| Nebraska | \$ 235,589,279 | \$ 23,309,592 | - | \$ 19,998,891 | \$ 278,897,762 |
| Nevada | \$ 201,352,460 | \$ 49,463,771 | - | \$ 19,194,714 | \$ 270,010,945 |
| New Hampshire | \$ 129,440,556 | \$ 13,164,584 | - | \$ 39,073,716 | \$ 181,678,856 |
| New Jersey | \$ 651,774,480 | \$ 447,395,727 | \$ 76,835,714 | \$ 159,778,179 | \$ 1,335,784,100 |
| New Mexico | \$ 252,644,377 | \$ 27,749,995 | - | \$ 19,194,714 | \$ 299,589,086 |
| New York | \$ 1,120,684,723 | \$ 967,435,186 | \$ 254,817,805 | \$ 431,570,997 | \$ 2,774,508,711 |
| North Carolina | \$ 735,526,684 | \$ 103,304,242 | - | \$ 70,566,210 | \$ 909,397,136 |
| North Dakota | \$ 170,126,497 | \$ 10,997,090 | - | \$ 19,194,714 | \$ 200,318,301 |
| Ohio | \$ 935,677,030 | \$ 167,035,629 | \$ 12,772,779 | \$ 220,115,115 | \$ 1,335,600,553 |
| Oklahoma | \$ 464,655,225 | \$ 39,163,565 | - | \$ 31,589,118 | \$ 535,407,908 |
| Oregon | \$ 333,902,389 | \$ 74,591,211 | \$ 1,125,728 | \$ 44,169,147 | \$ 453,788,475 |
| Pennsylvania | \$ 1,026,429,012 | \$ 263,399,365 | \$ 80,303,844 | \$ 154,879,758 | \$ 1,525,011,979 |
| Rhode Island | \$ 137,095,725 | \$ 29,488,347 | \$ 63,943 | \$ 26,254,008 | \$ 192,902,023 |
| South Carolina | \$ 463,081,483 | \$ 41,154,218 | - | \$ 40,055,697 | \$ 544,291,398 |
| South Dakota | \$ 183,027,359 | \$ 11,289,101 | - | \$ 19,194,714 | \$ 213,511,174 |
| Tennessee | \$ 572,701,043 | \$ 71,988,324 | \$ 28,040 | \$ 56,799,369 | \$ 701,516,776 |
| Texas | \$ 2,250,015,146 | \$ 371,915,095 | \$ 2,609,607 | \$ 178,709,751 | \$ 2,803,249,599 |
| Utah | \$ 213,545,653 | \$ 58,084,648 | - | \$ 20,601,603 | \$ 292,231,904 |
| Vermont | \$ 125,791,291 | \$ 5,680,572 | - | \$ 19,194,714 | \$ 150,666,577 |
| Virginia | \$ 694,460,823 | \$ 111,896,119 | \$ 4,209,386 | \$ 80,018,631 | \$ 890,584,959 |
| Washington | \$ 492,242,337 | \$ 172,347,328 | \$ 6,699,276 | \$ 67,994,982 | \$ 739,283,923 |
| West Virginia | \$ 210,852,204 | \$ 18,366,136 | \$ 309,339 | \$ 60,951,429 | \$ 290,479,108 |
| Wisconsin | \$ 529,111,915 | \$ 81,397,594 | \$ 243,232 | \$ 105,704,379 | \$ 716,457,120 |
| Wyoming | \$ 157,616,058 | \$ 9,300,398 | - | \$ 19,194,714 | \$ 186,111,170 |
| American Samoa | - | \$ 341,099 | - | \$ 3,445,800 | \$ 3,786,899 |
| Guam | - | \$ 921,976 | - | \$ 2,465,600 | \$ 3,387,576 |
| N. Marianas | - | \$ 1,114,292 | - | \$ 1,547,900 | \$ 2,662,192 |
| Puerto Rico | \$ 105,000,000 | \$ 68,295,183 | \$ 675,314 | \$ 50,996,484 | \$ 224,966,981 |
| Virgin Islands | - | \$ 1,284,112 | - | \$ 1,958,000 | \$ 3,242,112 |
| Total | \$ 26,810,000,000 | \$ 6,733,700,000 | \$ 742,500,000 | \$ 3,860,698,173 | \$ 38,146,898,173 |

*The Territorial Highway Program Receives \$45,000,000 under the HR 1 Conference Report

Source: ENR

Regarding highway funding, states are required to “use it or lose it,” meaning that there is a limited time frame in which states are able to apply for and use funds. Within the first 21 days after the laws enactment, or March 2nd, states had to have developed a list of projects and cost estimates. 120 days after this apportionment, 50% of these funds must be obligated to projects. These dollars will likely be spent on operations and maintenance type projects, or projects that have already gone through the bulk of the engineering and design process. URS estimates that only 15% of total appropriated dollars will be spent in 2009 with the bulk of the spending impacting 2010. The remaining 50% must be obligated a year after apportionment. We expect that these projects will be fewer in number, but significantly larger in scope.

Ed Mortimer of URS estimates that in April the requirements for high speed rail projects will be laid out, upon which the states will have 60 days to respond. The money appropriated for high speed rail will be available until 2013 for authorization as it is a new program in the U.S.. The most likely participants include California, the NE corridor, and parts of the Midwest.

Finally, there is a \$1.5B discretionary grant appropriation that is wielded solely by the Secretary of Transportation. The projects must range in size between \$20M-\$300M, although the minimum amount may be waived, but the max may not be.

FY10 Budget & Surface Transportation Authorization

There are other opportunities to increase the funding for transportation projects. The FY10 transportation budget is topping out at \$73 billion (up 4% y/y), which compares to \$64 billion in 2006. The increase in the budget should help to fill additional funding gaps for important infrastructure investments.

The current transportation bill, SAFETEA-LU, is set to expire on September 30, 2009. In August of 2005, then President Bush signed the Safe, Accountable, Flexible, Efficient, Transportation Equity Act: A Legacy for Users (SAFETEA-LU) into law which set aside \$286.4B to be spent over a period of 2004-2009 (including \$228B for highways, \$52B for transit and \$6B for highway safety). The act also increased the minimum rate of return on state contributions to the Highway Trust Fund, from 90.5% in 2005 to 92% in 2008.

Recent chatter in Congress has the new bill in the \$450B-\$500B range. However, it's more likely the current bill will simply be extended until Congress can agree on the framework for a new one (likely right before elections). The House Transportation and Infrastructure Committee is attempting to finish its “mark-up” by the beginning of June, and members of congress have been asked to submit their project wish lists by as soon as the end of March. While the final legislation seems like it will not be complete before the expiration of the old SAFETEA-LU (although Oberstar has said the bill should win House approval in June, and then may be slowed by the Senate), it most certainly will be a bill that garners a tremendous amount of interest from members of Congress.

The Financing Toolbox

A consistent theme we found was the need for a financing “toolbox” to support stimulus investment in infrastructure. The Highway Trust Fund estimates annual revenue of \$32B compared with required investments of \$100B of annual investment resulting in a significant funding gap. It's clear the more traditional funding alternatives such as the federal gas tax, which is not adjusted for inflation, are not working. Currently, the Highway Trust Fund is funded by an \$0.184 gas tax. The federal gas tax has experienced a loss in purchasing power of 33% since its last price increase in 1993. In fact, last year, Congress had to move \$8B from the U.S. Treasury to plug the hole in the Highway Trust Fund. As vehicles have become more fuel efficient and the American consumer clamps down on spending by driving fewer miles, the solvency of the Highway Trust Fund for fiscal 2009 is still in question and an additional \$7-8B infusion may be necessary. Several funding alternatives/enhancers are on the table, including public-private partnerships, an increase in the gas-tax and a vehicle mileage tax (VMT – which would tax motorists based upon mileage driven). While House Transportation and Infrastructure Committee Chairman Jim Oberstar (D-MN) has included VMT as a possible tool in funding the new bill, White House

Press Secretary, Robert Gibbs, has made statements that it would not be considered as an option in the Obama Administration. Still, these options are speculative to date, and its unclear whether or not there is the political capital to push through any of these.

On February 26, 2009 The National Surface Transportation Infrastructure Financing Commission released the report, *Paving Our Way A New Framework for Transportation Finance*, highlighting several different funding approaches to meet highway funding goals. The report found more direct forms of charges for each mile driven or the vehicle miles traveled as a top choice for more fee generation. The report also found that private capital can play a role in reducing the gap.

Former Secretary of Transportation, Norman Mineta, discussed the benefits of public private partnerships (P3) as a useful tool for both the public and private sector. Secretary Mineta referenced the Chicago Skyway P3 and Indiana Toll Roads which have both used private capital in the long term concession of public infrastructure. In January 2005, the City of Chicago leased the operations of the 7.8-mile elevated toll road for \$1.83B to The Skyway Concession Company who assumed responsibility for the operation and maintenance of the toll road with a right to all toll and concession revenues. This marked the first long term lease of an existing toll road in the United States. In 2006, the Indiana Toll Road, which was previously operated by the Indiana Department of Transportation, was leased to Statewide Mobility Partners, a private equity consortium comprised of Cintra and Macquarie Infrastructure Group, for \$3.85B. The 75-year concession agreement established toll rates and increases with a limit on the return on investment for the consortium. The proceeds of the lease were used by the Indiana Department of Transportation to support several transportation projects around the state. The projects are both regarded as successful from the state's perspectives as generated revenue from the lease of both toll roads which was used to fund other projects in the state.

More recently, Ray LaHood, U.S. Transportation Secretary, declared his support for P3's through his approval for a \$600 million loan to build a new express lane on I-595 in Florida. The lanes will be build as part of a public private partnership agreement between the Florida Department of Transportation and private operator, ACS Infrastructure Development.

Another alternative funding opportunity involves the National Infrastructure Bank, which President Obama strongly advocated during his campaign. The initial take on the fiscal 2010 budget includes the National Infrastructure Bank and calls for funding of \$5B per year, over 5 years, for a total of \$25B. Currently, the EU has been successful with their version of an infrastructure bank. There is some support in Congress, as Chris Dodd, the chairman of the Senate Banking Committee is on board with the idea of an infrastructure bank. Also of note, is the \$1B that is set aside for high speed rail in the budget.

Unfortunately there are still many hurdles to overcome post the initial stimulus bill regarding transportation and alternative energy investment, primarily around where the offsetting actions (spending cuts) will center around.

Energy Infrastructure

Smart Grid

Joel Kurtzman, Senior Fellow of The Milken Institute, provided a comprehensive overview of the stimulus plan as it relates to future infrastructure projects and offered his opinion on how to improve our nation's antiquated electric grid and decrease the country's dependency on foreign oil by further adopting renewable energy solutions. Infrastructure (\$81B) and Energy (\$50B) account for approximately 15% of the total stimulus bill. Historically, infrastructure spending has been an effective way to stimulate the economy as a significant amount of capital is allocated to purchasing materials and hiring new workers.

According to the Council of Economic Advisers, a permanent stimulus (1% of GDP) results in \$1.05 of total economic output (current stimulus is approx 5-6% of total GDP).

Infrastructure spending should result in increased economic output, but Mr. Kurtzman highlighted that a successful rollout is necessary to recognize the full economic benefit. The public tone from Washington is calm and confident however there seems to be lack of organization.

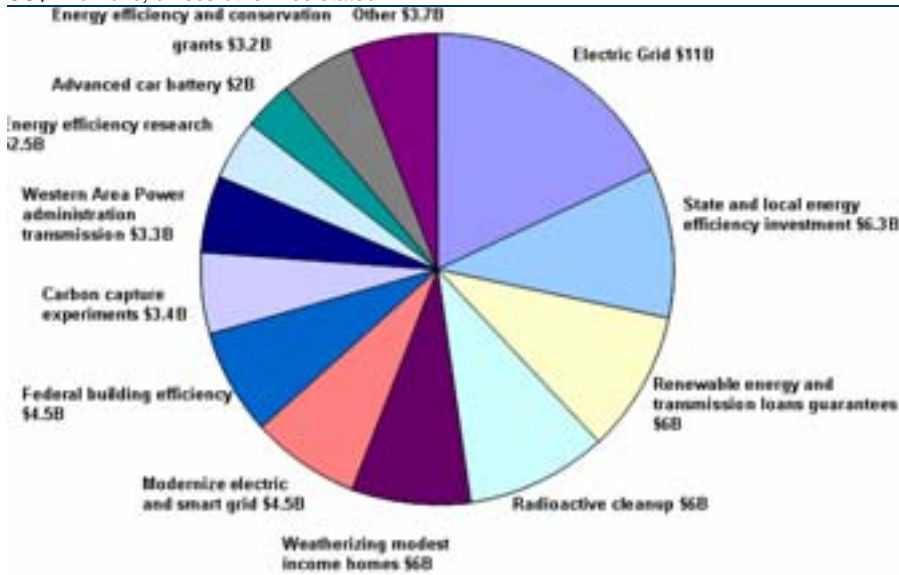
Increased stress on the U.S. electrical transmission and distribution grid driven by growing electricity demand (+25% since 1990) in addition to increased unwillingness of the public to accept power outages support smart grid investments. A majority of the electricity capacity infrastructure is over 30 years old and is in desperate need of reconditioning. The transformers spread across our grid are 42 years old on average, well past the estimated useful life. As a result, failure rates are starting to increase, which will eventually lead to costly power outages and potential blackouts. Sun Microsystems estimates that a blackout costs the company \$1M every minute. The Northeast blackout of 2003 resulted in a \$6B economic loss to the region. According to the DOE, since 1982 growth in peak demand for electricity, driven by population growth, bigger houses, bigger TV's and more computers, has exceeded transmission growth by almost 25% every year. The upward trend in electricity demand and lack of grid investment is unsustainable.

There is an overwhelming positive sentiment regarding renewable energy in Washington and on Main Street. President Obama's Renewable Electricity Standards (RES) is to get 10% of U.S power from "New Energy" by 2012 and 25% by 2025. While we support the movement to renewables, we don't see a realistic way to get this energy onto the grid as it currently is not sophisticated enough to handle such a dramatic increase in renewable production. If we think about where the new energy will be produced (solar belt, wind belt) there is virtually no infrastructure (such as high capacity transmission lines) to support the production. Furthermore, the electricity regulatory landscape will likely inhibit efficient allocation of capital. There are currently 135 regulators in place covering 50 states. Given the extent of the regulatory environment, shovel ready projects are likely to be delayed and even overlooked due to red tape. Mr. Kurtzman believes we need to "federalize" the grid and thus have a single regulator similar to the highway system. This will simplify the overall regulatory process, which will promote new investments. Absent a simplified regulatory environment, we don't see the proposed \$11B being allocated in a way that will improve the grid in any significant way.

Significant investments in the grid are unavoidable given the level of fiscal neglect and visible future electricity demand. Such investments will spur job creation, increase reliability and allow renewable energy to become a larger part of overall electricity generation. Exhibit 3 highlights exactly where the funds will be appropriated.

Exhibit 3: Energy Expenditures Breakdown in Stimulus Bill

US\$ in billions, unless otherwise stated



Source: The Milken Institute

Mr. Kurtzman believes the proposed \$11B is insufficient to bring the grid up to today's standards. Of the \$11B allocated to the electric grid \$4.5B (half of which will be allocated to R&D projects) will be spent on the smart grid while the remaining \$6.5B will be used to retrofit our transmission lines. Smart grid investments include:

- \$4.3B - \$4.4B for modernizing the grid. The DOE can disperse as much as 50% of the funding for any two-year Smart Grid Project.
- \$100M for training grid workers.
- \$80M for resource assessments.
- \$10M for the development of new interoperability standards for the grid.

The remainder of the money will be spent on additional research and development efforts, pilot projects and federal matching. Investment in the smart grid would allow for:

- Integrated 2 way communication and "live" information and control.
- Enhanced sensing and measurement technologies for more rapid and accurate responses (monitoring, time-of-use pricing decisions, and demand-side management).
- Advanced components (superconductivity, storage, power electronics and diagnostics).
- Advanced control methods to monitor essential components and allow for rapid diagnostic and flexible solutions.
- Improved interfaced and decision support, to amplify human decision-making, as operators will have greater visibility into their systems.

The \$11B of stimulus money set aside for grid improvements is a good first step, but given the size and complexity of the grid, Mr. Kurtzman believes the number is insignificant. Advancements in efficiency and IT improvements will drive immediate and quantifiable improvements to the grid. GE Energy General Manager of Marketing, Mark Dudzinski, discussed several different ways we could enhance grid efficiency with already developed technology;

- Resource Efficiency: supports high penetration of wind, distribution solar and Combined Heat & Power (CHP).

- Energy Efficiency: advanced controls to reduce transmission and distribution losses.
- Consumer Efficiency: enables consumers to manage energy usage and costs.
- Asset Efficiency: monitoring to fully utilize and extend life of existing assets.
- Operating Efficiency: remote monitoring and control to improve reliability and resource utilization.

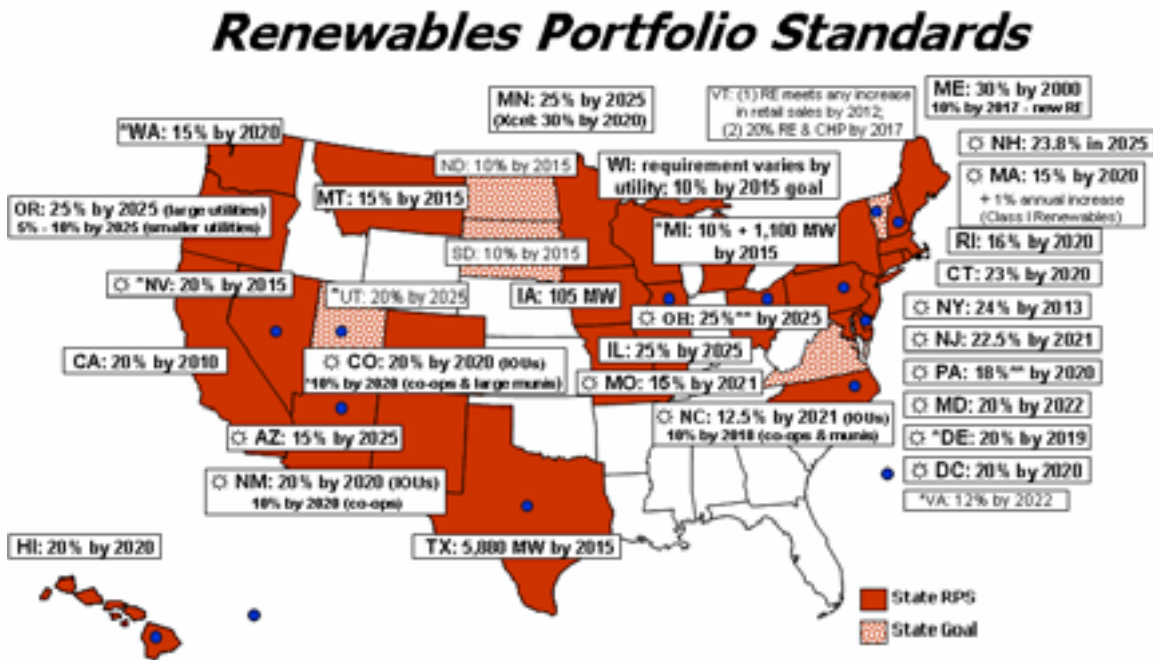
On average we lose approximately 10% of the power generated between the power plant and the home. According to the DOE, if the grid were just 5% more efficient, the energy savings would equate to permanently eliminating the fuel and greenhouse gas emissions from 53 million cars. Furthermore, if every American household replaced just one incandescent bulb with a compact fluorescent bulb, the country would conserve enough energy to light 3 million homes and save more than \$600 million annually. A mix of efficient capital allocation, a focus on energy efficiency and old fashioned American creativity will get us moving in the right direction toward solving our electricity generation problems.

GE Energy Services (2008 revs: \$10.3B or 6% of total), which includes smart grid, grid decongestion, metering solutions, automated systems and T&D projects, is also uniquely positioned to benefit from the gov't stimulus plan. GE estimates it will generate \$9-\$15B through 2012 based on the current stimulus plan. Incremental smart grid T&D revenues are expected to grow \$4-\$5B from 2010 – 2012 which includes overall modernization of the nation's electricity grid, investment in the transmission system and to extend broadband internet. Mr. Dudsinski offered up a sobering thought in that it took 120 years to build out the current grid and could take at least 20+ years to improve it. Bottom line, fixing the electric grid is a multi year process with a very large price tag, significantly higher than the proposed \$11B.

Renewables

Currently, 28 states in the U.S. have enacted legislation requiring a minimum amount of electricity to be generated from renewable sources. The requirements are mandatory in 23 of those 28 states. Exhibit 4 provides an overview of U.S. State Renewable Portfolio Standards. California has the diverse portfolio of renewable sources.

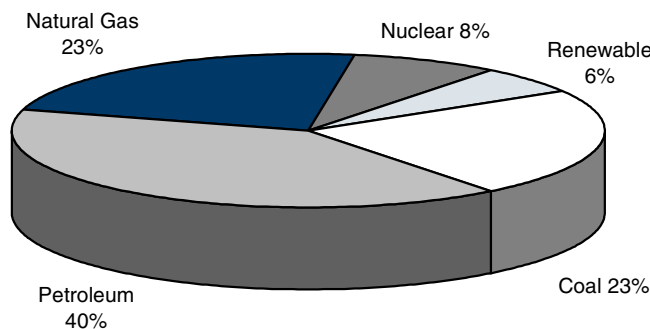
Exhibit 4: U.S. State Renewable Portfolio Standards



Source: Database of State Incentives for Renewables and Electricity

Although renewable energy is a growing part of energy consumption it comprises only 6% of total energy consumption based on the EIA. Renewable energy source include biomass (47%), hydro (45%), geothermal (6%), wind (2%) and solar (1%). Exhibit 5 below provides and outline of energy consumption.

Exhibit 5: U.S. Energy Consumption: 101.6 Quadrillion Btu



Source: U.S. Department of Energy 2007

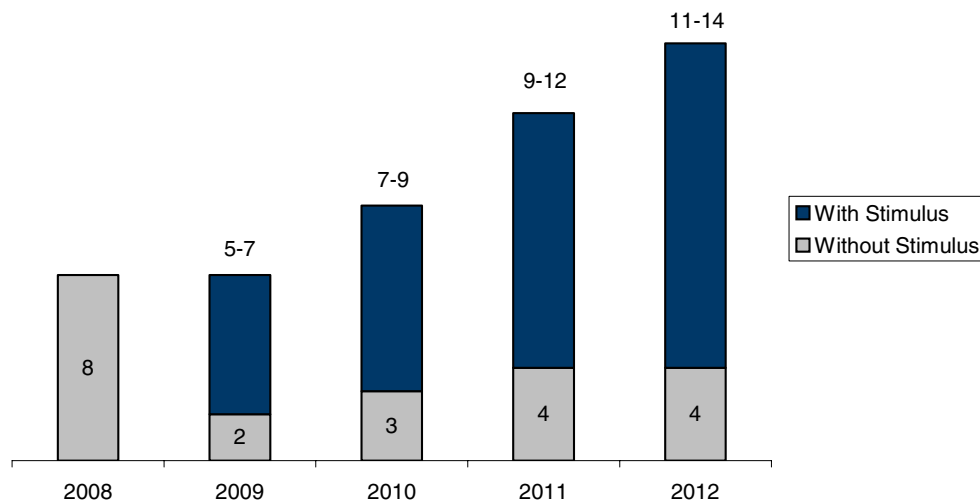
Panelist Keith Martin Partner at Chadbourne & Park, Tax/Project Finance For Energy & Infrastructure Projects noted the practice has seen an up-tick in renewable activity despite credit availability for typical power plants and toll roads drying up. Stimulus provides benefits to renewable projects with projects ready to start construction by September 2011 are getting attention as the government will guarantee up to 80% of project debt.

Wind

Wind and solar are the fastest growing sources of renewable energy growing at a CAGR of 30.7% and 29.5% from 2000-2007. Based on the Energy Information Administration, in 2007 wind capacity installations grew 45% and solar PV grew 60% year over year. GE is

the company in our universe who with the most potential benefit. GE Energy General Manager, Mark Dudzinski, boosted GE potential for an incremental \$5-\$10B revenue from 2010-2012 from U.S. stimulus. GE believes U.S. wind installs will increase three fold by 2012.

Exhibit 6: Annual U.S. Wind Installs (GWs)



Source: GE Company data

To date, wind is the most economically attractive (\$1.50-\$2.00 installed cost per KW hr versus solar at \$6.00+) and most scalable renewable energy resource. 2007 was a record year for U.S. wind development – 5,244 MW were installed, representing \$9B of new investments. Notably, ~33% of all new power capacity additions in the U.S. in 2007 came from wind. Global cumulative wind capacity is now estimated at 94 GW and is expected to continue to grow at robust rates; by 2020, according to the Global Wind Energy Council, wind is expected to supply 16.5% of the world's electricity. By 2050, at current growth rates, it is estimated wind will supply 34% of the world's electricity. Why is wind so attractive? Simply put, it has zero fuel cost and no carbon dioxide emissions (a fact that will become even more important if carbon legislation is enacted). Another obvious but sometimes overlooked benefit of wind is that it uses no water. Given the concerns over global water scarcity, this makes wind even more attractive.

The U.S. is the second largest market for wind with a 17 GW installed based. Germany is the largest market with 22 GW installed, but the U.S. is expected to overtake Germany by the end of 2009. This is particularly relevant for GE as it is the leader in the U.S. with a 45% share of new additions in 2007. Globally, GE is the 4th largest wind turbine producer (behind Vestas, Gamesa, and Enercon), but is growing rapidly and has begun to focus on larger 2.5 MW units.

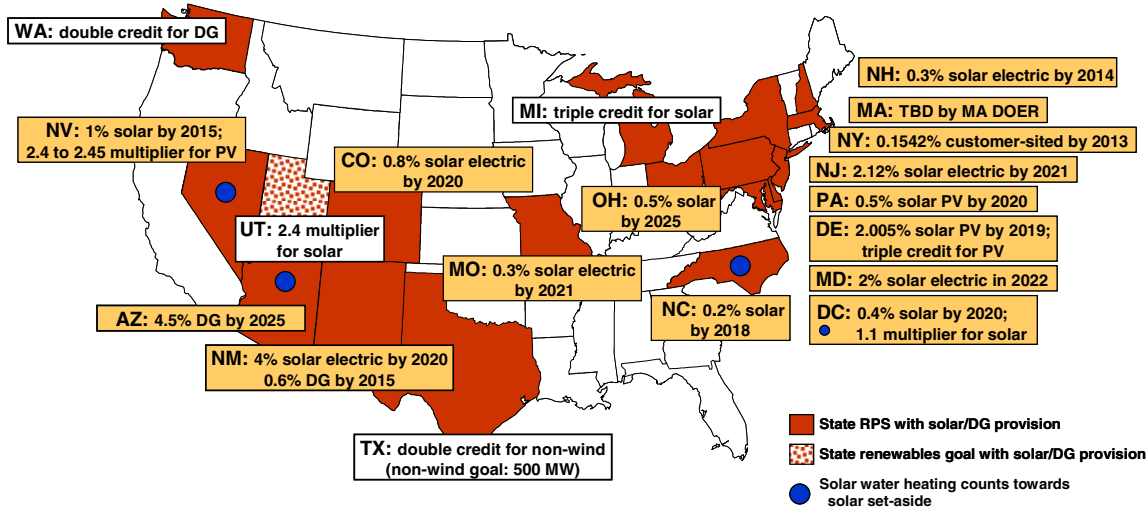
GE Wind is currently a \$7B revenue business growing at 25% annually. Recall that GE established its wind platform with the acquisition of Enron's wind business from bankruptcy in 2002 for ~\$358mm. By any metric, we believe the acquisition of Enron's wind business is one of the best acquisitions GE has done under Chairman & CEO Jeff Immelt and it continues to pay dividends.

Solar

Germany and Japan lead solar energy deployment with 2,670 MW and 1,787 MW of generation respectively while the U.S. generated 1,652 MW in 2006. This is relevant for GE as it had 11% market share in 2006 of U.S. cell production (behind Solarworld 17%, United Solar 14% and BP Solar 13%). Exhibit 4 provides an overview of U.S. State Solar Policies. California has the diverse portfolio of renewable sources.

Exhibit 7: U.S. State Solar/DG Provisions in RPS Policies

Solar/DG Provisions in RPS Policies



Source: Database of State Incentives for Renewables and Electricity

The growth of renewable energy is constrained by an outdated grid system. According to the ASCE, approximately 300,000 MW of wind projects, the equivalent of 20% of the country's electricity needs, are waiting to be connected to the grid. This lack of capacity hinders states from meeting their RPS and builds a backlog of projects. For example, as of January, the state of California had 13,000 MW of wind plants and 30,000 MW of solar plants waiting to connect to the grid. Backlogs also exist in the Midwest with over 110,000 MW of wind projects waiting to connect. Texas has 50,000 MW of projects awaiting connectivity.

Companies Mentioned (Price as of 16 Mar 09)

- Gamesa (GAM.MC, Eu9.34, NEUTRAL [V], TP Eu16.00, MARKET WEIGHT)
- General Electric (GE, \$9.62, NEUTRAL [V], TP \$13.00)
- Quanta Services (PWR, \$22.18, OUTPERFORM [V], TP \$23.00)
- Sun Microsystems Inc. (JAVA, \$4.78, NEUTRAL [V], TP \$5.00)
- URS Corporation (URS, \$40.05, OUTPERFORM [V], TP \$40.00)
- Vestas (VWS.CO, DKr251.00, UNDERPERFORM [V], TP DKr230.00, MARKET WEIGHT)

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