



South Bay Expressway Reorganization Update March 31, 2010

On March 22, 2010, South Bay Expressway (SBX) applied for reorganization under Chapter 11 of the United States Bankruptcy Code. This action will allow us to reorganize our business and restructure our debt in a timely manner; making us stronger financially and better able to focus our efforts and resources on the needs of customers and other stakeholders. I can assure you that the decision to file for reorganization was not taken lightly and that a variety of alternatives were considered before deciding on this course.

Most importantly, our customers will see no change in service. They continue to experience a fast, reliable drive and their FasTrak accounts continue to operate normally. Our vendors and suppliers are being paid in a timely manner for goods and services provided after the filing and going forward, we will continue to meet the obligations under our agreements with our public partners.

Two things caused this to happen. First, the economic meltdown hit San Diego hard, right as we opened SBX. No one could have predicted the length or depth of the recession. Unemployment in excess of 10%, unprecedented foreclosure rates, a virtual shut down in residential development and a 25% reduction in cross border traffic to and from Mexico significantly reduced the amount of traffic on all San Diego roads, including SBX. Second, we have also been involved in protracted litigation with the contractor hired to build the road. The contractor is currently pursuing more than \$745 million in claims filed against us, Caltrans and other public partners, on contracts originally awarded for \$350 million. To date, we have spent more than \$40 million to defend ourselves, Caltrans and other partners from these claims. If we had been hit by only one of these impacts, we likely could have avoided filing for reorganization. Being hit by all of this at the same time was too much to take.

While the project is certainly not performing as we anticipated, there is no denying the benefits created by this public-private partnership.

- Without this public-private partnership, there would be no north-south corridor east of I-805. The 25,000 drivers each weekday who use SBX would have to travel out of their way to get to where they need to go. This would cost them time and money and would further clog the adjacent freeways and arterials.
- During the four years of construction, SBX paid for the equivalent of 25 full time Caltrans employees and provided jobs for more than 4,500 union employees.
- SBX spent \$64 million in contracts with disadvantaged businesses; exceeding its Disadvantaged Business Enterprise goals.
- SBX has invested more than \$34 million for environmental mitigation and community improvements that have benefitted San Diego residents. SBX continues to invest regularly in the community through its annual Drive For Charity and other philanthropic activities.
- Today, SBX employs 50 local residents to operate the toll road and customer services. These are well paying jobs that wouldn't exist without this public-private partnership.

What does this mean for public-private partnerships in California? It means they work.

- The State and commuters got a new road decades earlier than if the project had to wait for public funding to become available. Ongoing maintenance (provided by Caltrans) and law enforcement (CHP) services are paid for by tolls; not tax dollars.
- The financial risk on the project was transferred to the private sector. We and our lenders took the risk that things wouldn't work out as planned. They haven't, but the State isn't on the hook for that. It's up to us to work it out.
- The construction claims are unfortunate, but in no way are attributable to the project being a public-private partnership. It is not uncommon for claims to be filed by contractors against Caltrans (and other public entities) on publicly-funded projects. As for future projects, in 2009, the State strengthened California's public-private partnership law to reduce Caltrans claims liability exposure.
- Fortunately, our equity commitment provided an economic buffer for the project. If the project had been built entirely with public-sector toll road revenue bonds, given the same economic and litigation impacts, the bond repayment schedule and required debt coverage ratios would have put the project underwater even sooner.

What's next for SBX? It could take 9-12 months for us to reorganize. During that time, we will continue to serve our customers, invest in our community and meet our contractual obligations. Since we announced the filing, we have continued to add new FasTrak customers and our traffic counts are higher than they were a year ago. Vendors are being paid for their services. We are under construction on \$4 million of improvements to Sweetwater Summit Park as part of our environmental commitments. We are completing upgrades to our toll collection system. We are communicating with our customers, suppliers and stakeholders to make sure they stay informed. We have set up a website with additional information (www.southbayexpressway.com/news) and a ph one number (877-772-6185) that customers and others can call for additional information.

Perhaps the San Diego Union Tribune editorial ([click here to view](#)) said it best when it described our recent Chapter 11 filing as a "speed bump". Speed bumps may slow you down, but you recover and move forward. That is what you can expect from us.

As always, I'm happy to discuss these recent events or other issues with you at your convenience.

Regards,

Greg Hulsizer
Chief Executive Officer

southbayexpressway.com

