Problem Set 4

Please read and study KSG case: “The Tribasa Toll Road Trust” and respond to the following:

1. Diagram the principal agents and the flow of funds for this transaction to trace how toll road revenue received by the Trust is used to pay taxes and operating expenses and to make interest and principal payments as required by the terms of the offering. (1 page)

2. What did the parties involved have to gain from this scheme?

3. What risks to investors are inherent in this financing scheme?

4. How was the transaction structure designed to minimize investor exposure to project risk?

5. The Mexican government's decision to float the peso was unanticipated at the time of the offering. How would you expect the devaluation to affect the performance of the Notes?

11.487 Problem Set 4 ANSWER GUIDE:

Question 1:
The sample diagram will invariably vary between students but the main agents to note include:
Tribasa Construction
Tribasa Trust
US banks
international capital market shareholders
SCT

Students diagrams should also note the priority of payouts from general revenues for SCT royalties, operating expenses and debt service, debt service reserve, maintenance fund, and then finally the dividends to Tribasa.

Question 2: The parties were able to align mutual rewards for the parties involved
* construction company frees up their equity, while retaining control of road and possibly getting dividends
* government gets a privately managed road and royalties and tax revenues
* international capital holders get an investment that has a proven revenue stream

Question 3:
Major risks to this scheme discussed in your answer should include the following:
-Currency exchange risk
- international capital holders have no recourse in the case of default
- and at least two others discussed in class: political risk, toll rise risks, natural disaster, increases cost increases, labor disputes, tax increases, etc.

**Question 4:**
Since investors have limited recourse to anything except the revenue streams, the contracts need to be sufficiently specified in order to balance risks and rewards among the parties which is aided by the involvement of intermediaries:

a) **created contractual mechanisms to mitigate risks**
   * contracts specified order of how revenue expended, flow of funds – dividends last
   * debt service reserve fund
   * dual amortization schedule specified
   * blockage triggers specified

b) **Used the help of other intermediaries to mitigate risks**
   * used an independent consultant to study revenue streams
   * US bank to do the handling of the currency exchange

**Question 5:**
A devaluation of unexpected magnitude, which did occur, could derail the project since the project is vulnerable to exchange rate risks: the operational revenues is in pesos and they must pay in dollars.