

Generating Private Sector Finance for Rail and Transit



Partnerships in Transit
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Infrastructure Investment Funds

- According to a recent report, there are \$80 billion in Infrastructure Equity Funds that have been raised or are in the process of being raised by private funds.
- Most of this money has been raised in the last four years.

... so why has so little of this money been committed?

The Fundamentals

Private sector financing takes two fundamental forms:

- Equity investment – the “skin in the game,” which is generally considered “at risk” for performance and it requires a higher equity return for the risk, and
- Debt, which requires relative certainty for return of capital and payment of interest in return for a lower cost of capital (interest rate). Debt will provide the bulk of the private sector investment (70%-90%) and will largely drive the requirements of the project.

Recap – What is a Public-Private Partnership (PPP)?

- A contractual agreement between a public agency and a private sector entity.
- The skills and assets of each sector (public and private) are creatively combined in delivering a “best value” service or facility for the use of the general public.
- Each party shares in the risks and rewards (“partners”) in the delivery of the service and/or facility.

PPP is not privatization

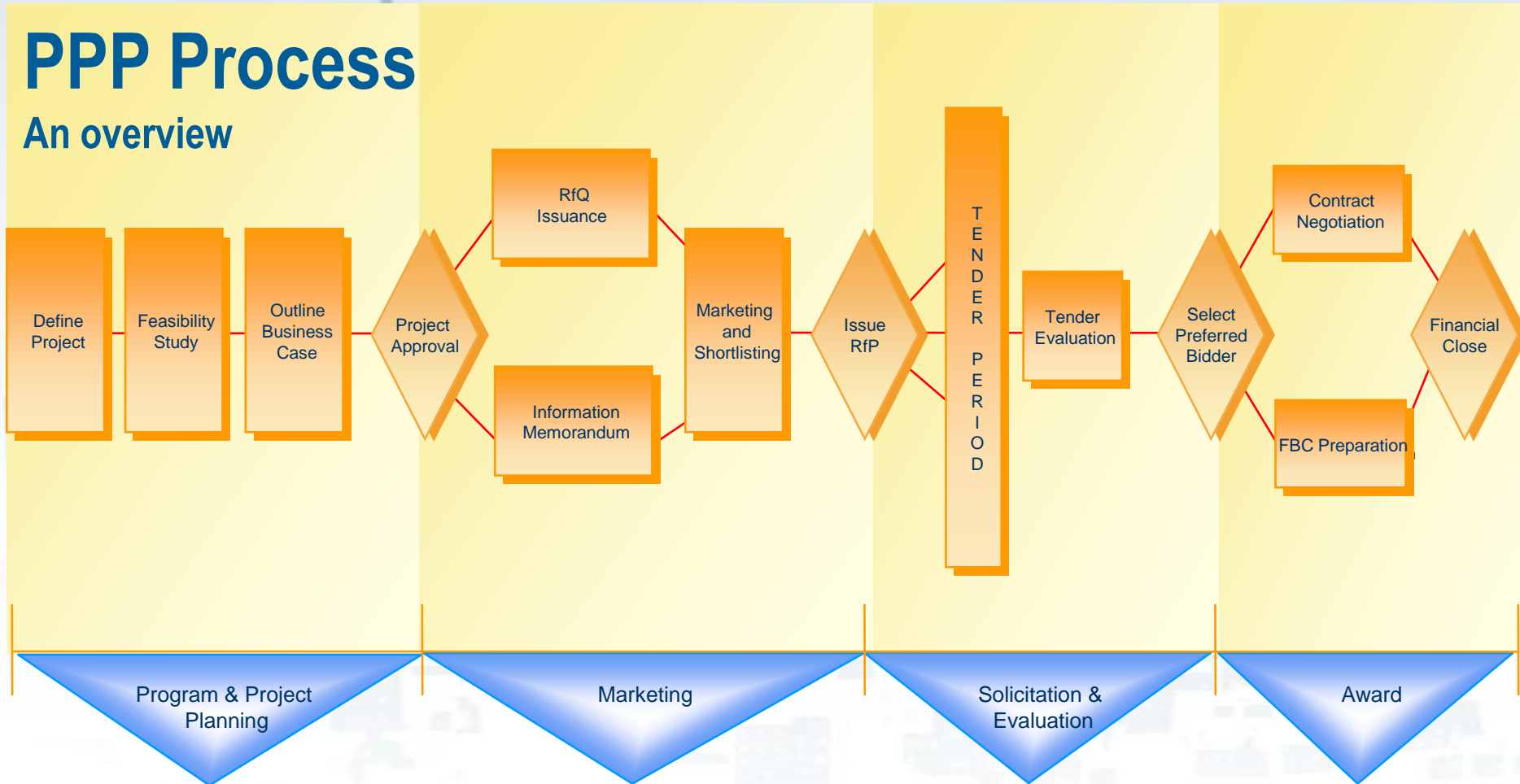
	PPP	Privatization
Asset ownership	Usually no irrevocable transfer of assets	Transfer of ownership of assets
Public responsibility	Set policy and service levels	Regulation
Level of services	Mechanism for shared services	Authorities withdraw from service
Risk/Reward	Shared	Transferred
Mode	Partnership	Self-interest

So what does all this mean for financing?

Let's examine the procurement process for a PPP...

PPP Process

An overview



Commitment from lenders will require...

- Agreed technical project scope, risk allocation and commercial terms, and
 - Bank credit commitment, or
 - Rating Agency review and assessment of the project, which can only be done when agreement is reached

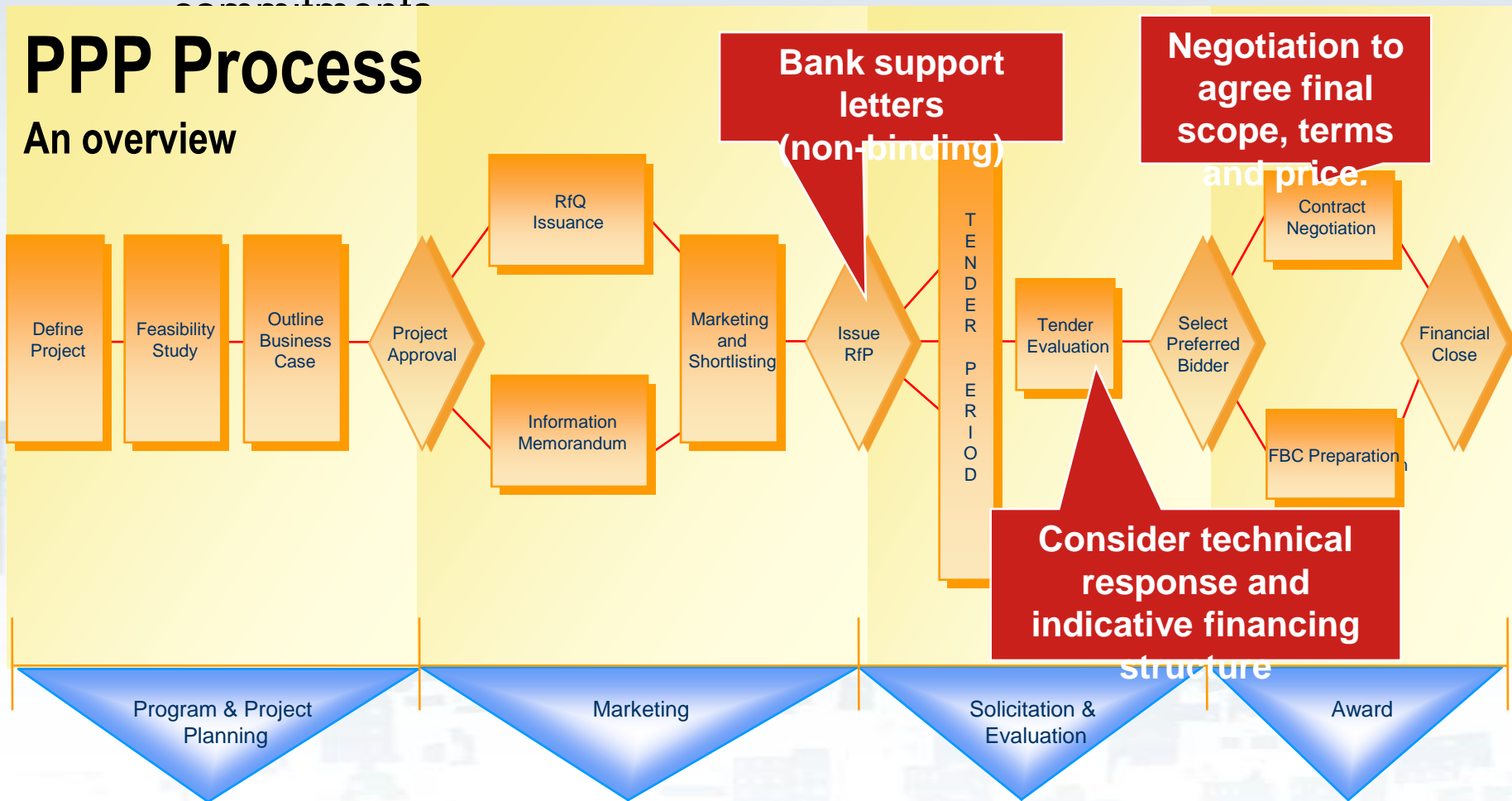
Previously, often included a bond insurance wrap to achieve investment grade (based on rating agency review, but the recent credit market upheaval means this is less likely now).

When can lender commitments be obtained?

Need for defined scope and risk allocation to obtain lender

PPP Process

An overview



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