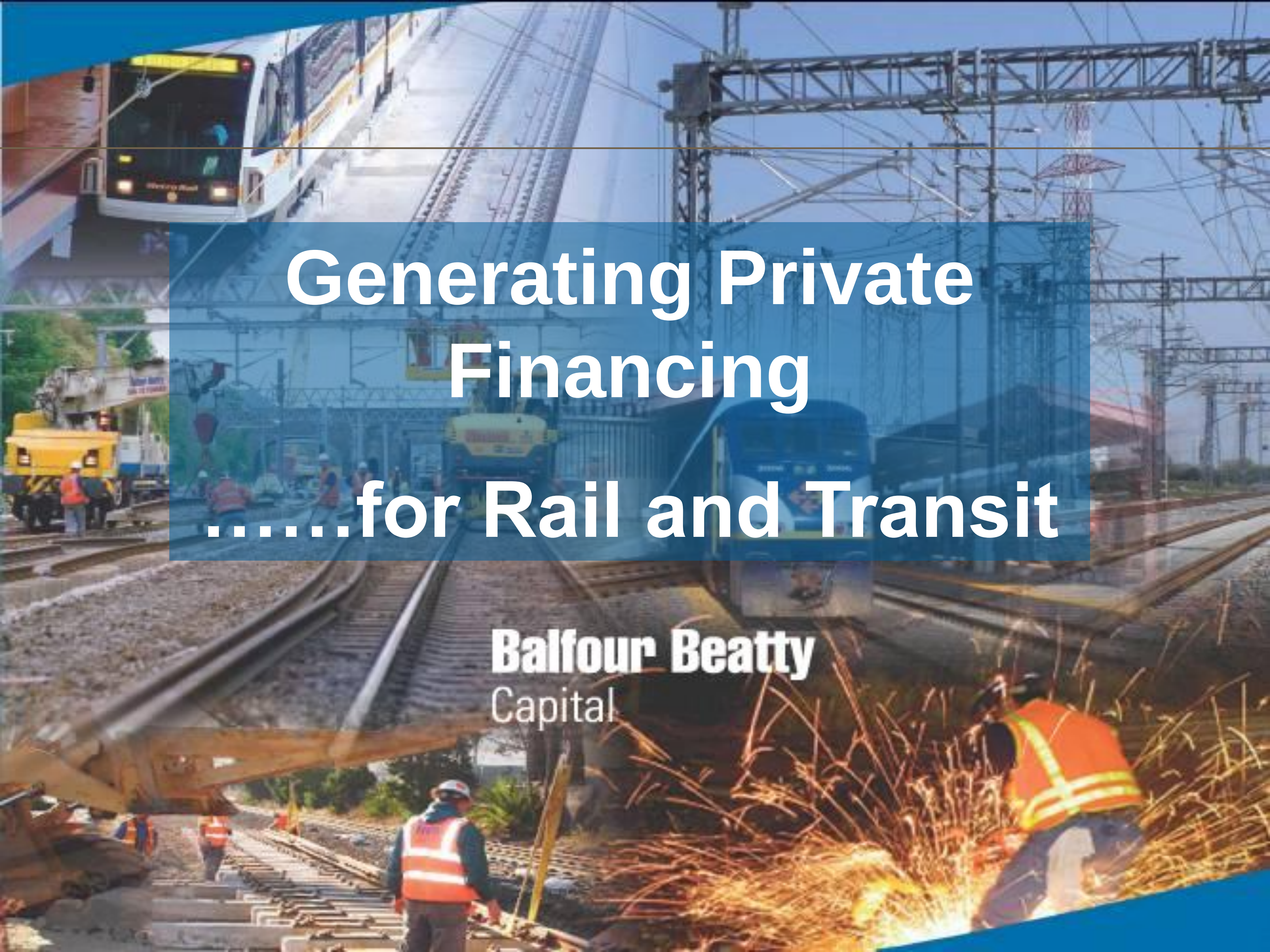

Generating Private Financing

…..for Rail and Transit

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Infrastructure Investment Funds

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- 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…

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Private sector financing takes two fundamental forms:

- **Equity investment** – the "skin in the game", which is generally considered "at risk" for performance, and 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.*

What is a Public Private *Partnership*?

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- 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.

Balancing Risk with Costs

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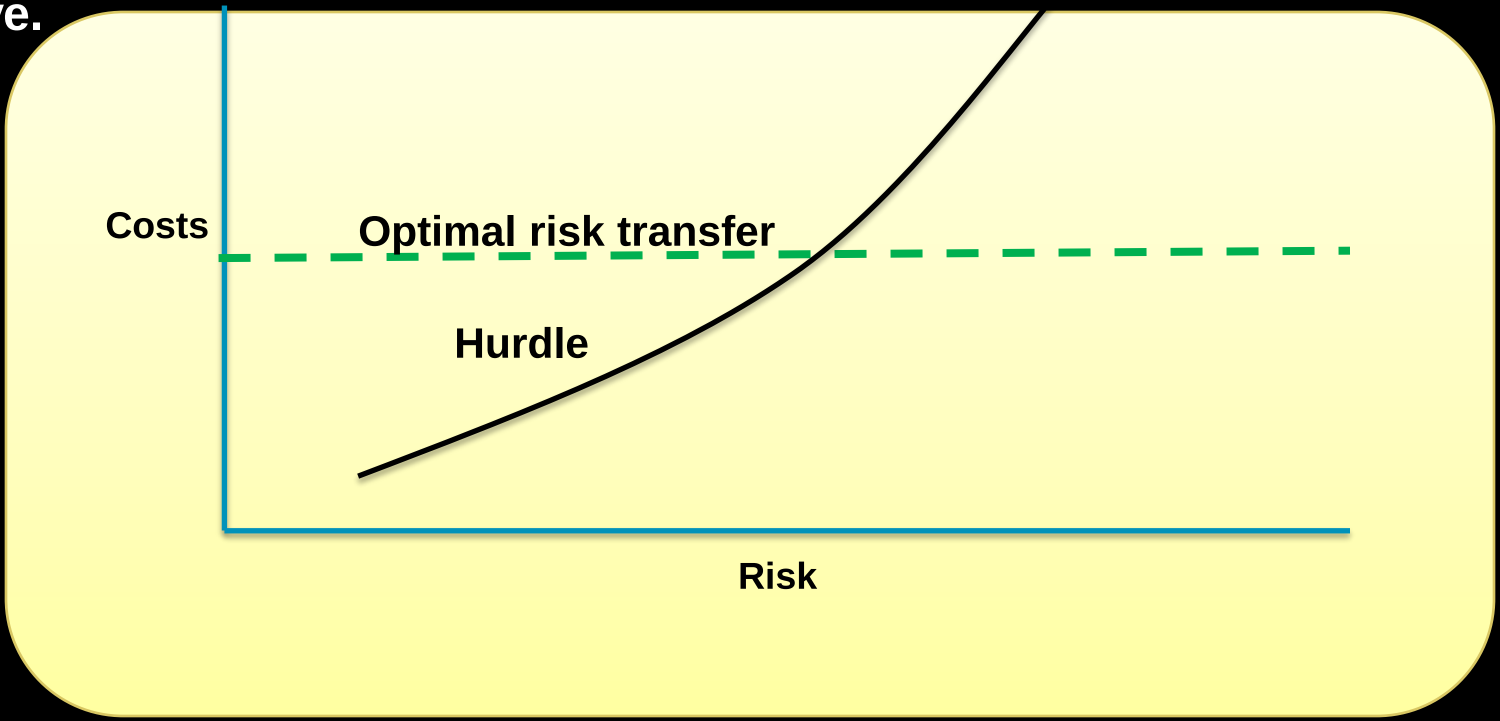
PPP approach viable only if "value for money" associated with risk transfer is positive.



- The greater the transfer of risk, the higher the price
- If all risk is transferred…
  - Project costs will grow and become prohibitively expensive (not efficient!)
- Transfer risk when it makes good economic sense

Types of Private Participation

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The evolution of PPPs

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Joint Ventures &
Strategic Partnerships

PPP
contracts

Design &
build, O&M
contracts

Outsourcing

Input-orientation Output-orientation Outcome-orientation

Cost Value

Operational Focus Strategic Focus

PPP is not privatization

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	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?

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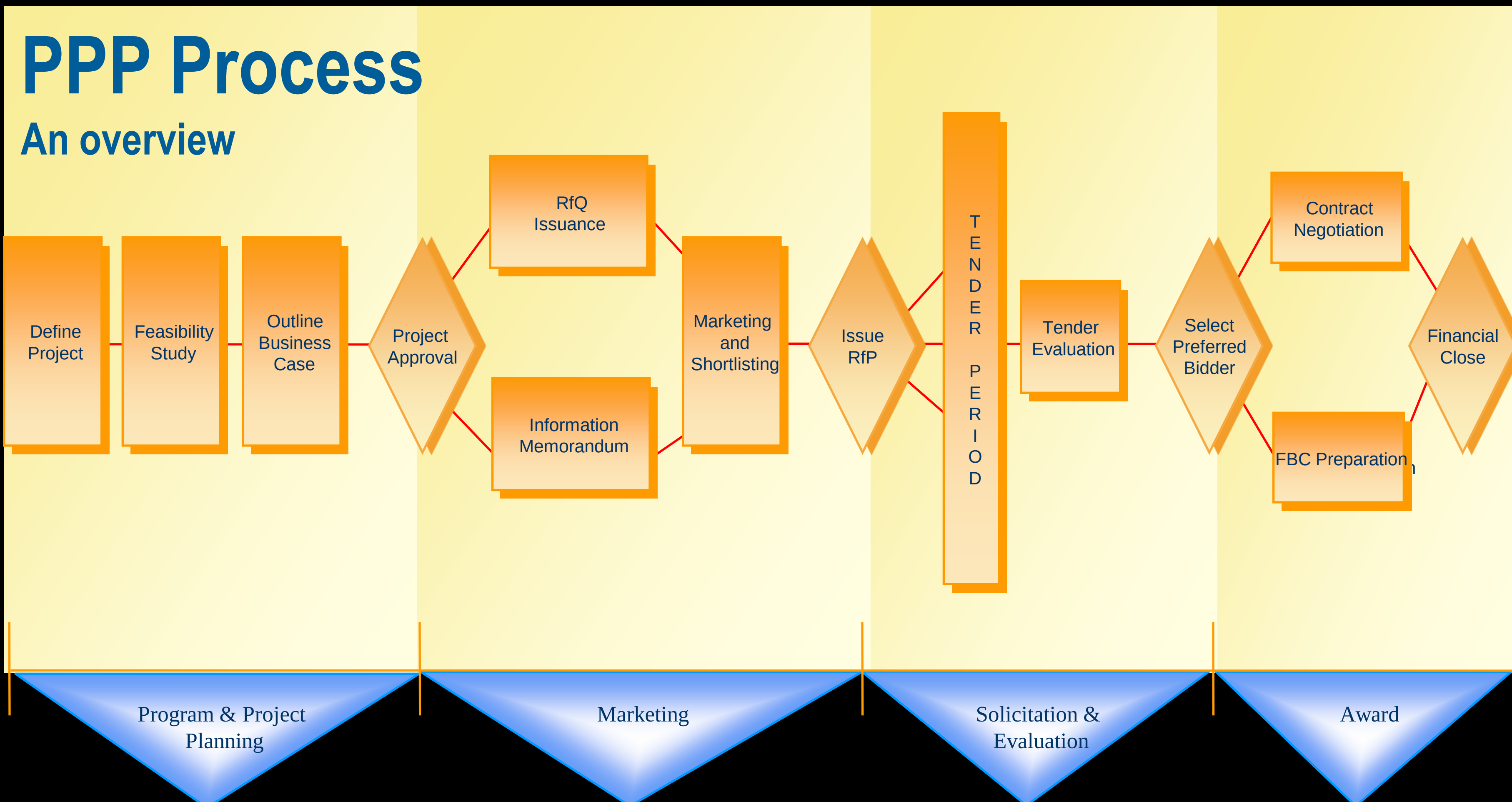
Let’s examine the procurement process for a PPP….



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Commitment from lenders will require…

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- **Agreed technical project scope, risk allocation and commercial terms, and**
- Bank credit commitment, or
- Rating Agency review and assessment of project, which can only be done when agreement is reached - $$$$
  - Bond insurance wrap to achieve investment grade (based on rating agency review) - $$$$

When can lender commitments be obtained?

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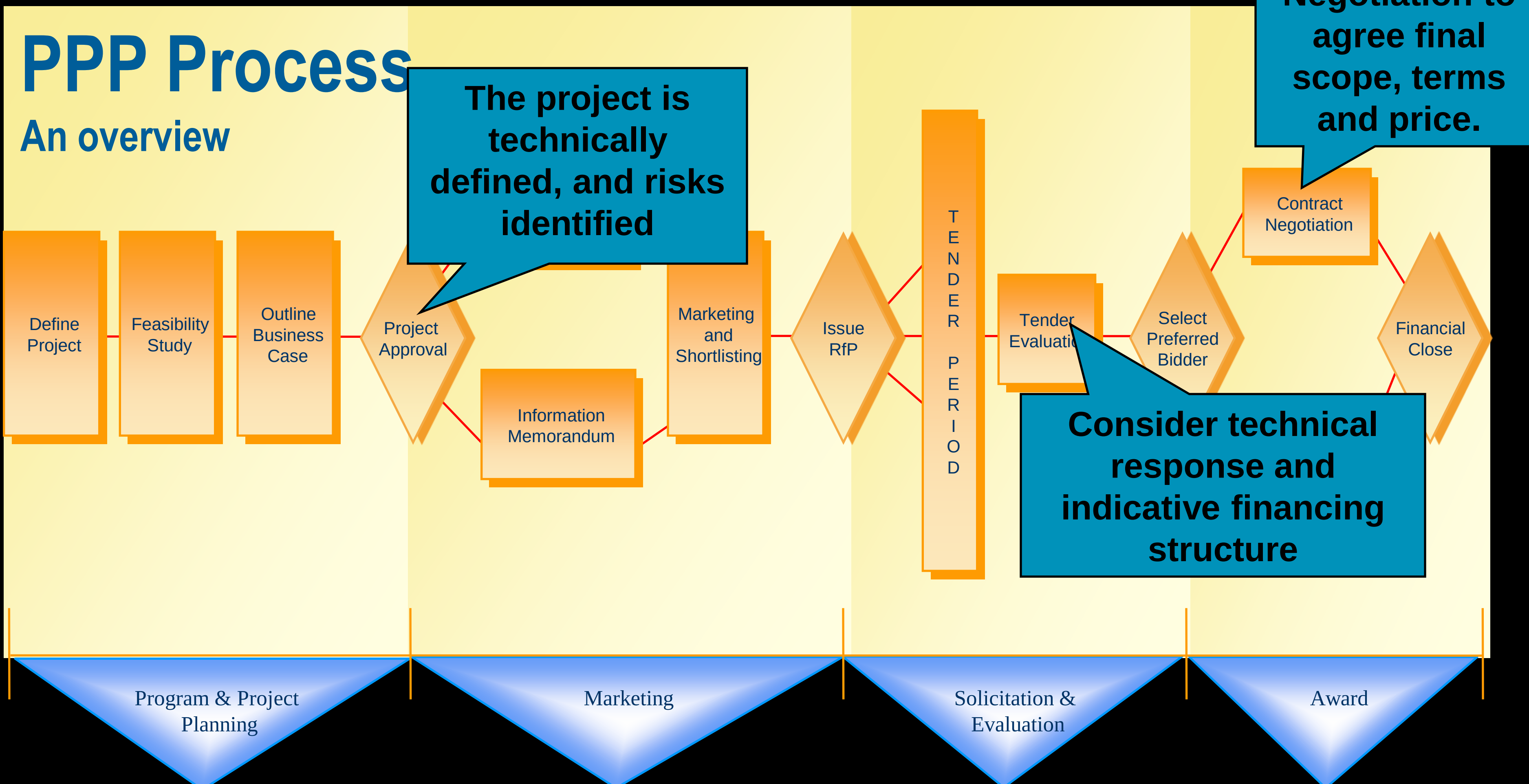
Need for defined scope and defined risk allocation to obtain lender commitments.



Infrastructure Investment

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….so why has so little of this money been committed, despite huge infrastructure needs?

- **Lack of political support for a true P3 approach**
  - Inadequate value for money analysis (to justify P3 approach)
  - Opposition by public sector unions
- **Inappropriate/inadequate risk definition or risk allocation.**
  - Lack of definition or sufficient certainty around revenue sources
  - Inadequacy of revenue sources
  - Improper structuring of payment or performance mechanisms

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