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## For an investor, a key is defining the right revenue stream

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**Terence Black, President & CEO, [Balfour Beatty Capital Group Inc.](#)**

**Question from moderator George Gabel:** How does it work from the investor's side for P3s?

**Terence Black:** Balfour Beatty Capital, the investment and development arm of the Balfour Beatty Group, has invested about three quarters of a billion dollars of our own equity in these projects. We have 23 projects and they range from roads to schools to hospitals. In fact, last year we acquired our first airport. So we are an experienced investor in infrastructure and we don't do that without the aim of making money. So I think the first thing, to make it clear, is that the private sector, when it gets into these projects, expects to make a return on its capital.

Shirley [Ybarra] made the point that public-private partnerships involve risk transfer, the transfer of risk to the private sector and to a private sector investor like Balfour Beatty Capital. And that transfer is the key, in my mind, to making a public-private partnership work. Because for our money to be attractive, we must take risk and we must offer the public sector value for money. Normally we will invest our money and we will take the construction risk, we will take development risk, and we'll take the operational life cycle risk. In other words, the public sector is transferring to us the risk of completing the project on time and to budget, because normally we will receive no payment until the project is open.

We'll be receiving payments, but we have to work out in advance whether or not those payments are adequate to maintain the road, to operate the road; whether it's enough to keep the hospital functioning properly or the school open and working. Therefore, again, we take that risk of the life cycle cost.

But there are other investors out there who have significant funds and it is available and when leveraged, that could create significant additional sources of capital. I think the key to making the public-private partnership work is that value for money equation.



**Gabel:** What kind of investors are interested in these projects?

**Black:** Patient investors. That's one of the reasons why the returns are set at the level they are; because normally you'll invest your money fairly steeply at the beginning. In a greenfield project, you'll be looking at a situation where normally construction development on a road -- "ramp up" as it's called, where traffic starts to increase -- could be anything between five and seven years before you start to see a significant cash flow off the asset. Because of the nature of the assets -- 30 to 50 years -- they're particularly attractive to pension funds and life insurance companies that are looking for longer-term investments.

And that's an area, by the way, that I think this country has just a huge opportunity to tap into. There are such huge public sector pension funds that are desperately looking for good long-term assets and yet at the same time, you have a huge need for infrastructure investment. One of the interesting things which is starting to be talked about now is about taking some of those state pension funds or public sector pension funds and investing them into public sector infrastructure assets using this type of model.

**Gabel:** Are there going to be investors interested in Jacksonville?

**Black:** Yes, there certainly will be. Ports in particular are one of the kind of hot areas. There are a large number of international investors who are very interested in the port space. They're seen as being rather attractive long-term investments. Our ports and everything that they do in terms of the economic develop and trade, etc., definitely fall into that category of essential assets.

It can also be courthouses, schools, public facilities. I would encourage people to think not just about this in terms of necessarily a transportation infrastructure, but also a whole range of public sector assets. I'm not going to go into the particular issues of the local courthouse; but right now Long Beach, Calif., is just about to put out on the street a request for qualifications for a courthouse to be done on a P3-basis, which would be to build, finance, and maintain over the long term. And that will be, I think, a very interesting first project in that sector that I'm aware of in the U.S. But that model has been done successfully in several other jurisdictions, and it certainly can be done.

**Gabel:** Do I understand you to say that this is fairly common in Europe?

**Black:** Yes, it's now become increasingly common in the United Kingdom. Ireland is using it extensively, France extensively. It's also very common in Australia. Canada now is also very much in the forefront of this with P3s and a number of others of the provinces in Canada are embracing it very actively. So as an international form of public sector investment and infrastructure, I'd say it's now embraced throughout Europe and across, actually, pretty much every continent. Because even now in India and China there's significant private investment in infrastructure.

**Gabel:** Could you have private tax-free bonds or could the government set up something similar where you were talking about the transfer of risk? Therefore, you're not transferring a hundred percent of the risk to the private sector and, therefore, you could bring down the

interest rates that you'd have to earn.

**Black:** Private activity bonds enable the private sector to take advantage of tax-exempt bonds. That's being used in a number of road projects at a significant advantage. The legislative authority for that [\$15 billion] is limited though so there is a need for further authorizations.

And certainly there are ways in which the overall cost can be brought down. Again, some of the jurisdictions that have been doing this for longer periods of time have refined that by, for example, bringing in public sector guarantees on the debt portion to lower the overall capital.

**Gabel:** Can you cite an example where one of these P3 arrangements has resulted in the investor actually losing money?

**Black:** Balfour Beatty Capital lost its entire investment in the Metronet concession on the London Underground rail system. There are numerous other examples of similar projects having gone wrong in the U.K. Each time, I think, the public sector and the private sector learn a lesson, and the next one gets smarter and better.

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