

Financing Fundamentals 'Value for Money'

Innovative Financing Workshop for Ohio Transportation

Thursday June 5, 2008

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Achieving Value for Money



Value for Money – The Problem

Private finance costs more than public sector borrowing
+
Increased bid costs
+
Private sector profit

Therefore how can it offer value for money?

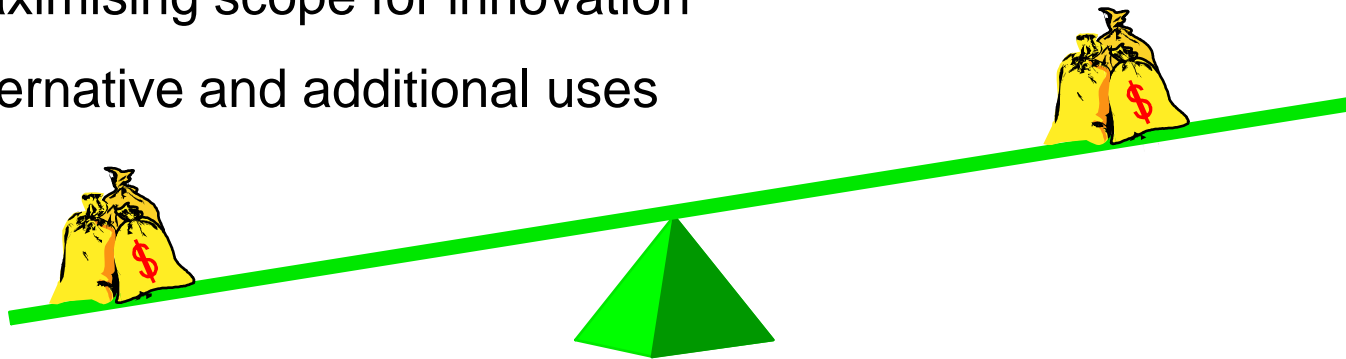


Achieving Value for Money

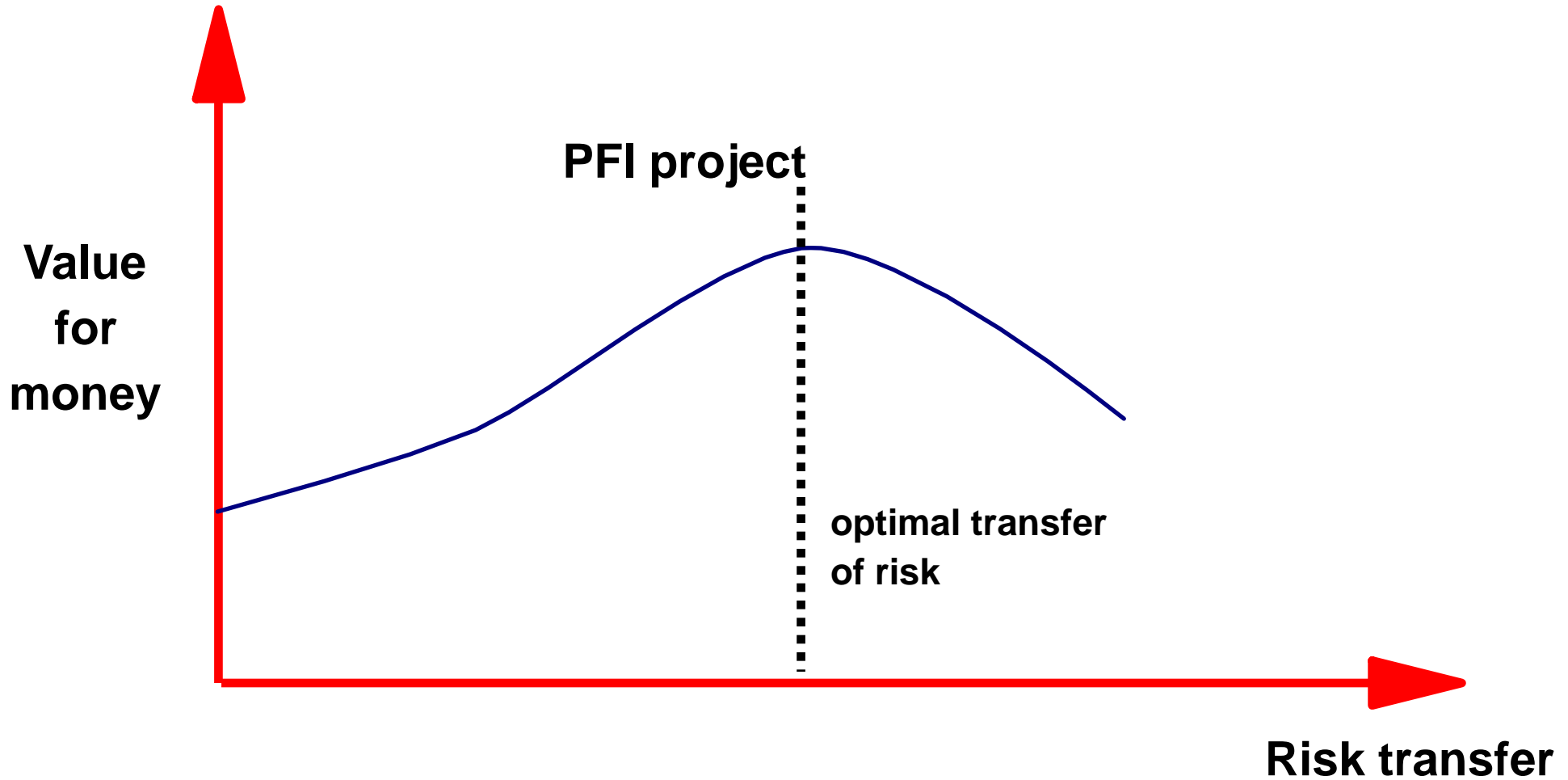
- Appropriate risk transfer
- Use of output specifications
- Integrated design, build and operation
- Benefits of “whole life costing”
- Competition in procurement
- Linking management with performance incentives
- Maximising scope for innovation
- Alternative and additional uses/surplus assets

The VFM Balance

- Optimum risk allocation
- Use of output specification
- Integrated DB&O
- Benefits of “whole life costing”
- Competition in procurement
- Linking management with performance
- Maximising scope for innovation
- Alternative and additional uses
- Profit
- Bid costs
- Borrowing costs



Value for Money and Risk





How Private Finance can be good value

- Assume:
 - public cost of capital: 4.75%
 - private cost of capital: 7.5%
 - \$100m capital cost
 - \$20m pa operating costs over 20 years
- PPP with private capital would deliver better value if:
 - the same service quality
 - 7% higher efficiency

Normalized Base Case

	NTTA	CINTRA
Upfront Payment	\$2.4B	\$2.1B
Annual Repayment	\$0.6B - \$0.7B	\$0.7B
Revenue Share*	-	\$0.0B
Public Benefit*	\$0.2B - \$0.3B	-
Sub-Total	\$3.2B - \$3.4B	\$2.8B
TSA NTTA (Interoperability)*	-	\$0.5B
Sub-Total	\$3.2B - \$3.4B	\$0.0B
Tax (Federal)*	-	\$0.1B
Estimated Financial Value Capture	\$3.2B - \$3.4B	\$3.4B

*The financial value associated with these items is a function of the traffic and revenue numbers achieved in the project.

Revenue and Inflation Scenario Analysis

	NTTA*	CINTRA
Non-Normalized Base Value to Region/USA	\$3.2B - \$3.4B	\$3.8B
Normalized Base Case	\$3.2B - \$3.4B	\$3.4B
Normalized Revenue Scenario Upside Case	\$3.5B - \$3.7B	\$3.6B
Normalized Revenue Scenario Downside Case	\$2.8B - \$3.0B	\$3.3B



Thank You

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