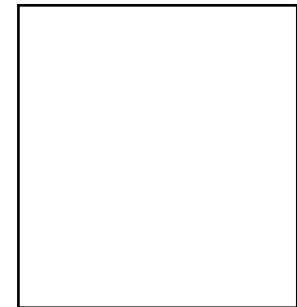
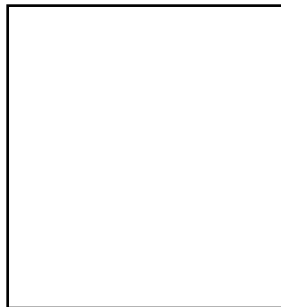
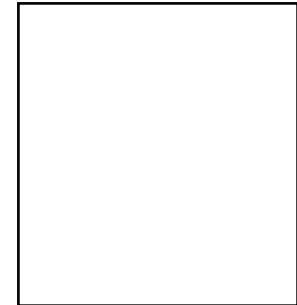




Privatization & Best Value: Are They Synonymous?

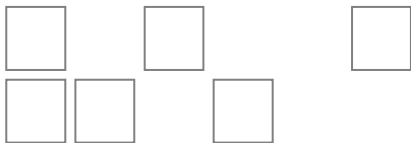
Cherian George, Senior Director
Fitch Ratings

PPP Conference, TEAM Florida
Jan. 4th, 2006



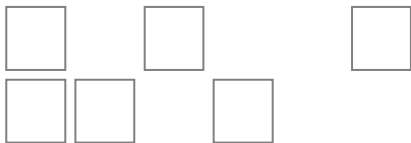
Why Privatize Public Assets?

- > Greater Efficiency
- > Savings
- > Better Value



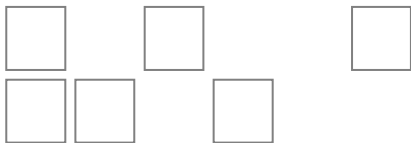
The Value Proposition

- > Competition
- > Strong Basis for Valuation
- > Periodic Reassessment



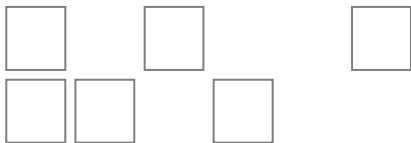
The Chicago Skyway Deal

- > Not Clear on all three counts
- > Competition – bids could argue otherwise
- > Valuation – uncertain proposition
- > Reassessment – sure, in 2104



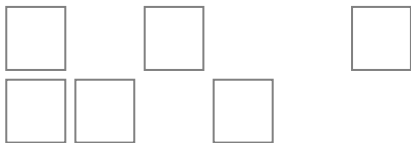
The Pluses

- > Large upfront payment
- > Efficient operations, maintenance & reinvestment
- > Concession could distance city from toll increases; minimize related political risk
- > Strong, clear concession agreement
- > Clearly recognizes lenders rights



The Minuses

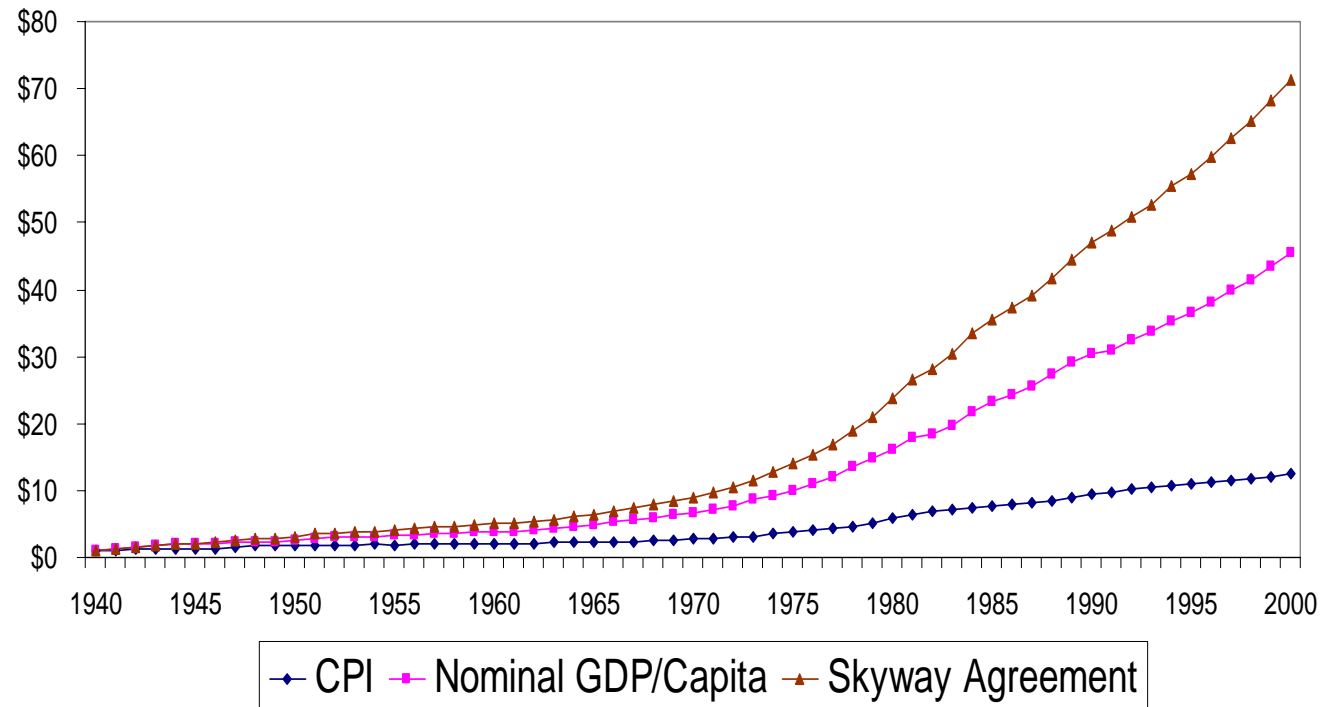
- > 99 year lease limits future flexibility for changes in public policy
- > With upfront payment, city gives up any upside potential
- > Greater equity returns than expected may increase political risk
- > Termination by city could be expensive



A Valuation Perspective

\$1.00 Toll Rate Growth Based on Historics

<u>1940</u>	
Base:	\$1.00
<u>2000</u>	
CPI:	\$12.40
NGDP/C:	\$45.47
Agmt:	\$71.36



A Valuation Perspective (Contd.)

Range of Avg. Ann. Growth Rates:

CPI	–	1940-2000	= 4.3%
		Lowest (Last 20 Yrs)	= 2.7%
NGDP/C	–	1940-2000	= 6.6%
		Lowest (Last 20 Yrs)	= 4.1%
Agmt	–	1940-2000	= 7.4%
		Lowest (Last 20 Yrs)	= 4.3%

Skyway Actual Rev Growth 1994-2003 = 5.9%

Note: “Lowest” refers to 10 Yr rolling averages for the last 20 yrs

A Valuation Perspective (Contd.)

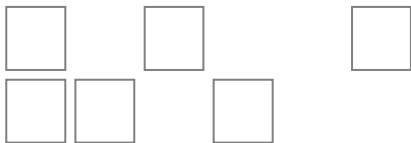
Analysis based on avg. ann. growth in revenue thru traffic and/or toll increases:

Agmt	–	1940-2000	= 7.37%
		Lowest (Last 20 Yrs)	= 4.25%
		Conservative	= 2.00%
Skyway Actual Rev Growth 1994-2003			= 5.9%

A Valuation Perspective (Contd.)

Key assumptions:

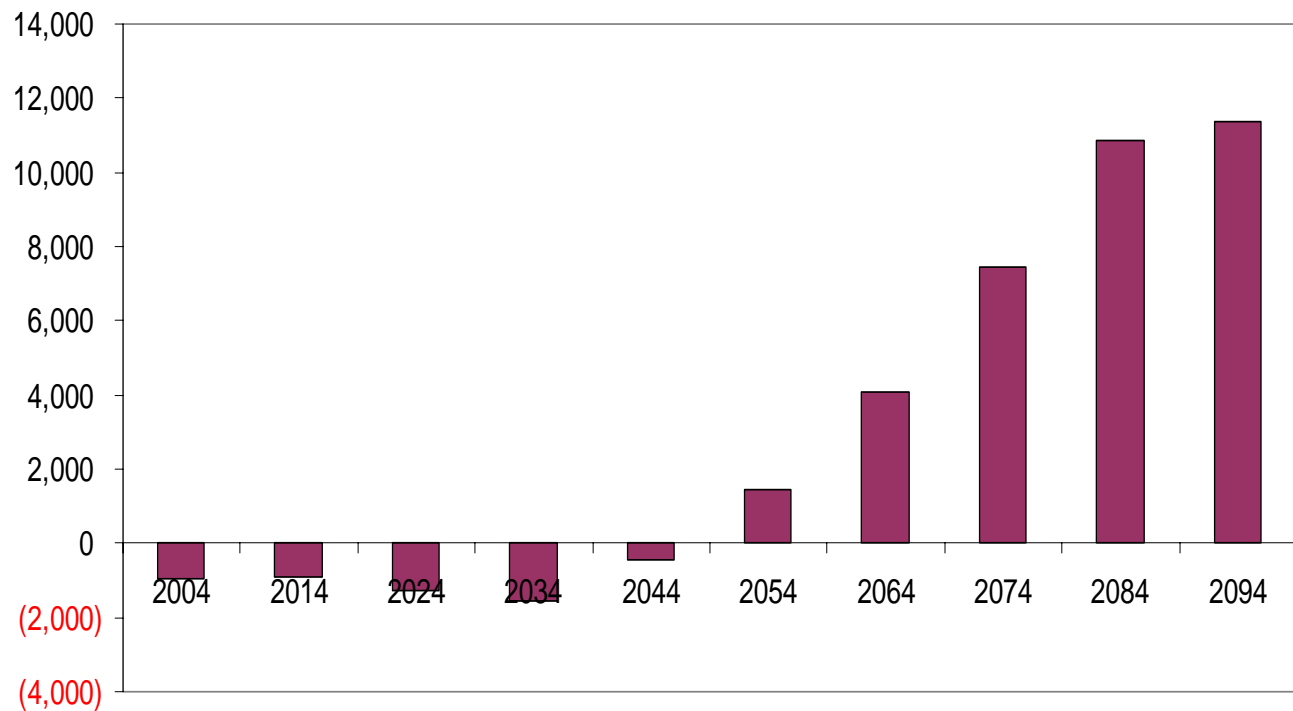
Outstanding Debt	= \$1.0 billion
O&M escalation	= 3.50%
Mandatory CapEx	= 3.33% of \$300mm
CapEx escalation	= 3.50%



A Valuation Perspective

Skyway Valuation At Different Future Points In Time
(dollars in millions)

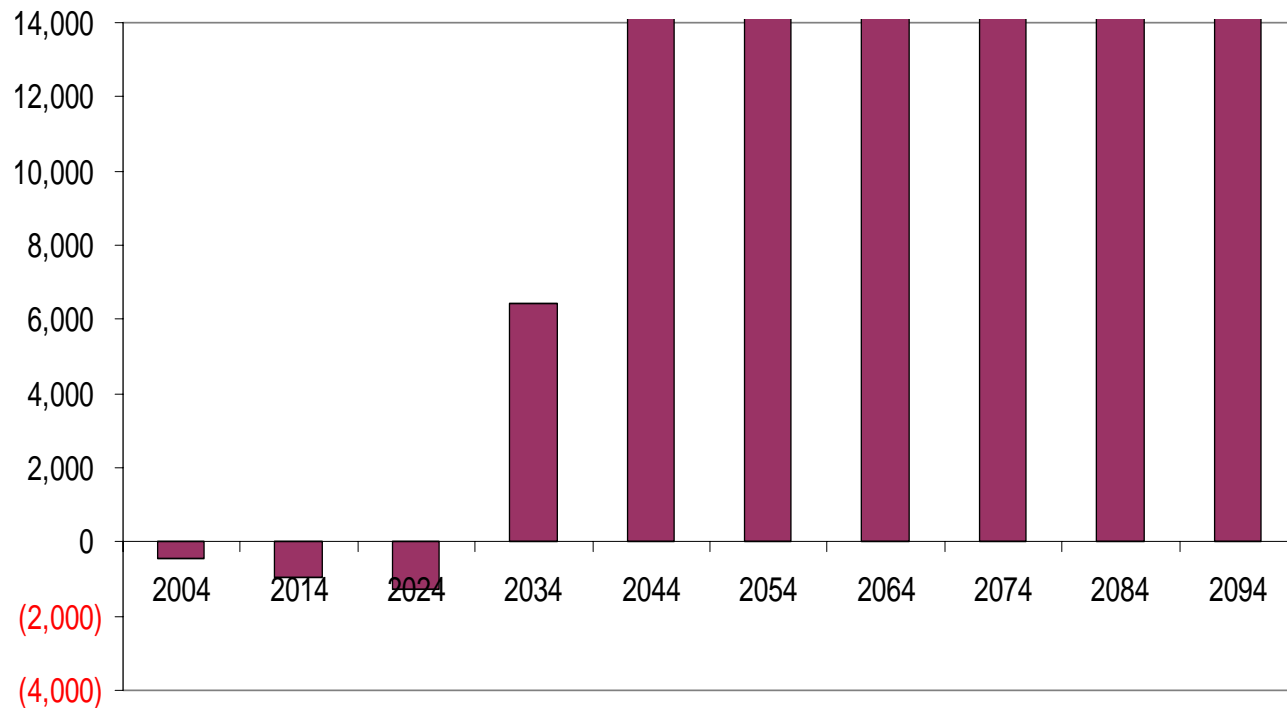
Rev growth rate = 4.25%
Discount rate = 10.0%



A Valuation Perspective

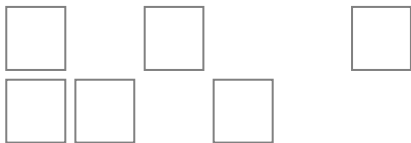
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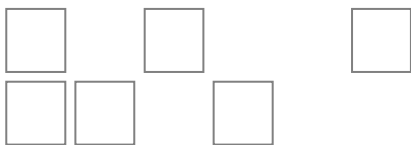
Privatizations

- > U.S. model needs to reflect U.S. interests
- > In extracting value, each jurisdiction needs to tailor solutions to local needs
- > Costs vs. benefits associated with very long-term leases are unclear
- > Today's decisions need to consider maintaining the flexibility and control of future generations



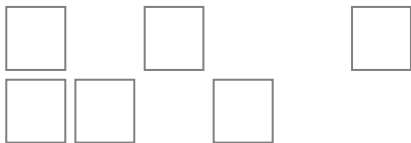
Privatizations

- > Public sector may gain from reducing upfront benefit and requiring an equity stake so as to benefit from upside
- > Retaining private sector commitment through retention of adequate levels of equity is important
- > Early termination cannot be ruled out and compensation may be required, so use of upfront proceeds needs to be carefully managed



Key Issues in Pursuing Best Value

- > Primary goal should be efficient transport of people and goods
- > Local decisions may have national implications
- > Fair Value
- > Changes in Public Policy



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