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Yes, we can

As 2009 draws to a close, deals backed by Highstar and Carlyle are demonstrating that private equity firms can play a constructive role in public-private partnerships.

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Much has been written this year about the role private equity can play in infrastructure. Worries about misalignments of interest, huge piles of debt and "quick flips" of vital infrastructure assets have naturally made many observers wary about the pools of private capital building up to invest in the asset class.

"Can private equity play the infrastructure game?" asked the April 2009 cover of The Deal magazine, followed by the semi-skeptical answer, "with buyouts moribund, new players have poured into some of the longest-term, low-return, politically sensitive assets out there. This will be interesting". Interesting it has been, certainly, with high-profile collapses of deals such as Midway and anti-climactic conclusions of sales processes such as Florida's 78-mile-long "Alligator Alley" toll road. But as 2009 draws to a close, it is also possible to point to a few successes in how private equity can constructively engage with the public sector via public-private partnerships. The Carlyle Group's agreement to upgrade and manage 23 highway stops in Connecticut and Highstar Capital's contract award for a 50 year concession on the Seagirt Marine Terminal at the Port of Baltimore in Maryland are both cases in point. In interviews with senior executives at both firms as well as the public sector counterparties to each deal, we heard the same refrain: this deal's different. "Here is a deal where the private sector is investing private sector dollars to make critically needed public sector improvements. They're getting huge benefits as opposed to if we just came in and privatised the toll road and all you're doing is increasing tolls," says Highstar Capital founder and managing partner Chris Lee, adding: "That's not privatisation in my book. That's just indirect taxation." In his deal, a Highstar affiliate will commit equity toward the development of a new $105 million berth at Seagirt Marine Terminal, which will be leased to Highstar portfolio company Ports America Chesapeake for the next 50 years. Private Activity Bonds – municipal securities which can be used for private sector-backed projects – are also being considered for the berth financing, according to Maryland Port Administration Executive Director James White. In addition, the port will receive a $100 million or more upfront payment for the lease, which may be covered by a combination of equity and third-party debt. Those proceeds will go toward making improvements in the port's infrastructure, such as roads and bridges. There is also a revenue sharing component to the deal: once port container volumes hit 500,000 – which White expects to happen after the Panama Canal widening project is complete in 2014 – the authority will receive $15 for each container Ports America moves at the terminal above that threshold. As previously reported by InfrastructureInvestor, Carlyle has also agreed to a revenue-sharing agreement in its deal with Connecticut. Both deals also create union jobs. In Baltimore, local unions support the deal because it will create 2,700 permanent jobs once the new berth is complete. In Connecticut, Carlyle will partner with a local chapter of the Service Employees International Union to provide custodial services for the service stations. Carlyle also expects the deal to create approximately 340 jobs. Ultimately, the public sector will judge these partnerships' success by promises kept, not promises made, just as Highstar's and Carlyle's investors will judge them by returns realised, not returns promised. But the fact that private equity firms, often depicted as greedy asset-strippers and quick-flippers of businesses, are striking these deals is worthy of note. It's an indication that, contrary to perceptions, yes – private equity can play the infrastructure game.