

FOR IMMEDIATE RELEASE
October 6, 2008

CONTACT: Andrew McDonald
202-730-7338
Andrew.mcdonald@seiu.org

States Risk Repeat of Wall Street Bailout with Private Equity Infrastructure Deals

A major increase in responsible infrastructure investment is critical to job creation and a U.S. economic recovery

WASHINGTON, DC – Increasing investment in infrastructure projects is critical to America's economic recovery, but states that partner with private equity firms on deals risk a repeat of the Wall Street bailout, according to a draft of a policy discussion paper authored by one of the nation's largest labor unions.

As states and the federal government seek ways to create jobs, generate revenue, and fix crumbling roads and bridges, momentum is building to address America's infrastructure crisis. The policy discussion paper by SEIU, the nation's second largest union of public sector employees, outlines the risks to states of doing deals with under-regulated private equity buyout firms whose risky financial strategies could put taxpayer dollars, and valuable state assets and services at risk. The report is online at behindthebuyouts.org

Private equity buyout deals typically involve large amounts of debt, increasing the risk of default if economic conditions fail to generate the revenue needed to make debt payments. If private equity-owned infrastructure projects default, taxpayers will be forced to pick up the tab, bailing out the financiers. In addition, most private equity deals are structured to generate short-term profits for the firms and their investors, a formula often at odds with taxpayers' interest in steady, long-term state revenues and quality services.

Defaults of private equity-owned assets are on the rise. Half of the 25 defaults from January to May 2008 were products of the leveraged buyout boom, according to [Business Week](#). And a June 2008 credit ratings study found the financial health of private equity buyouts "was deteriorating more than other parts of the debt market as the economy slows," according to the [Financial Times](#).

"In a rush to generate quick cash, states shouldn't risk another taxpayer bailout," said SEIU President Andy Stern. "Investing in roads and bridges that are owned by taxpayers will create good jobs, keep America competitive, and rebuild the overall economy. But the meltdown in the markets shows that high debt, high risk, short-term profit models, like those of private equity, are the wrong approach for states. There are a lot of responsible solutions to the infrastructure crisis that don't involve leveraging our future to Wall Street financiers."

The private sector sees big profits in infrastructure. An estimated \$160 billion has been raised in the private sector specifically to invest in infrastructure, [according to Morgan Stanley](#) and JPMorgan's head of infrastructure investments [said recently](#), "Ten to 20 years from now infrastructure could be larger than real estate."

Private equity firms are actively looking for deals. In November of 2007, the Carlyle Group closed on its first dedicated infrastructure fund, valued at \$1.15 billion, and Kohlberg Kravis Roberts & Co. (KKR) recently announced its intention to raise its own \$5 billion infrastructure fund. According to Preqin, a private-equity focused research company, there are now 15 different private equity firms seeking to raise money for US focused investment funds, with a combined target of \$34 billion.

Risks to States and Taxpayers

The policy discussion paper details the multiple risks to states of private equity involvement in the ownership and management of public assets. Those risks include short-term profit models and risky debt strategies that:

- Put public assets in danger of default
- Undermine long-term state objectives
- Prioritize quick profits over quality service delivery
- Lead to more layoffs at a time when unemployment is rising
- Fail to protect against environmental damage
- Fail to protect against health and safety risks in communities

Rebuilding America the Right Way -- Responsible Solutions

SEIU supports multiple, responsible infrastructure solutions that create jobs, stimulate the economy, and protect both taxpayers and long-term state revenues. These solutions include:

- Direct, pooled infrastructure investment by public pension funds
- Reauthorizing the 2009 federal transportation bill to make sure the right projects are funded
- Creating a National Infrastructure Bank to finance projects
- Public-private partnerships with responsible private sector investors who don't harm taxpayers, day-to-day users, or long-term state revenues.

For more information, visit behindthebuyouts.org