EMTAbrief

European Metropolitan Transport Authorities

Finding new resources for public transportation

Alain Meyère *IAU Ile-de-France*

EMTA organised a conference in Paris in November 2008 celebrating its tenth anniversary. Alain Meyère Director of the Transport and Mobility department at IAU (Ile-de-France institute for planning and urbanism) was the moderator of the round table on financing issues. IAU published in the quarterly review "Les Cahiers n°150" a synthesis of this round table. This is the translation in English of this synthesis with courtesy of IAU. [IAU 15 rue Falguière 75740 Paris Cedex 15 www.iau-idf.fr].

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How to finance public transportation is a concern for all large European cities. It was the main issue at the round table that EMTA the European Metropolitan Transport Authorities association organized in November 2008, when celebrating its tenth anniversary. This round table first studied the means that could provide new resources, and then focused on how to spend more efficiently.

There is not one country that considers public transportation to be a common trading activity. It is an inescapable intermediary for any economical or social activity. Its fallout on urban operation and its impact on the quality of life are such, that their financing never can depend on fare income only: among the large cities belonging to the European Metropolitan Transport Authorities (EMTA), public subventions cover between 20 and 60% of the network operation costs.

How to face State disengagement

The general trend in Europe is a financial disengagement of the State, be it central or federal. This disengagement generally puts the burden on the local communities, with the exception of Great Britain, still a highly centralised country, that rather has taken to privatisation. This trend raises specific problems in the large cities.

Indeed, in all countries, railroad infrastructure is handled by the State. In many cases, State authority will even cover railway services, in particular suburban trains. However, within the national State budget, the latter will not have the priorities that local authorities would have granted them. Thus, in Madrid, the organisational authority CRTM had to stand in for the State. It extended a suburban line by means of a connecting line possessing the same characteristics, but belonging to CRTM. In London, the British government has historically favoured rapid interurban services, rather than slower suburban ones. TfL would like greater influence over the suburban rail network. Recently it became responsible for some of the suburban rail network in north and north-west London. The context of scarcity amplified by the European convergence criteria, which limit communities possible indebtment, pushes local authorities to search for financial participation among the indirect beneficiaries of public transportation, as professionals call them: the real estate owners on the one side and the car drivers on the other.

Capturing real estate increased value

In the 90ies, London and Copenhagen when entrusting the public planner to contract for building the transportation infrastructure believed they would finance the works by selling the land that would be served by public transport when the project is completed. From the start, the public entities were endowed with land made up by closed down storehouses and land lay fallow, in the case of the London Docklands, and by areas with no construction in the case of the new Orestadt district in Copenhagen. The annual proceeds of the sale of land or real estate at actualized value were to reimburse the mortgaged loans. Recently, the Parla Township in the Madrid suburbs imagined a similar scheme to finance its tramway. Copenhagen would probably not have managed to equip itself with an underground without this mechanism, which provided for 60% of the financing needs (45% from land sale and 15% from land tax). However, accomplishment did not level with expectation: occurring at the same time, the port district renovation project competed with the new town project. For its part, the Beckton extension westwards of the Docklands light railway, starting from Canary Wharf, was to be totally financed this way. However the works were launched as the London real estate market slumped and no development in the area occurred for 10 years. Therefore, rather than the project being funded through realisation of increase in land values the project ultimately had to be funded by local authorities. Yet, today, anybody can see that the awaited urban development really did take place. More than 10 years later, a similar crisis now hits the Spanish real estate market and the debt average for the Parla tramway in the Madrid suburbs has to be renegotiated. That debt also was to be covered by real estate increased value.

What do we learn from these contrasted assessments? Copenhagen had to take the risk of exposing itself to the uncertain real estate market because of its very poor financial situation at the time, as explained Nina Kampmann, former assistant director of the development company. In fact, if none of the speakers of the round table did question the actuality of increased values streaming from such proceeds, they however did express the wish that such mechanisms capture the long-term value increase and that the related resources are protected at least partly, from the fluctuation of a very volatile market. In other words they pleaded, along with José Viegas professor at the Lisbon Technical University, for fiscal mechanisms.

According to Nicola Cox, Senior Associate on financial issues at TfL, traditional land value capture mechanisms such as sale of land after development, should be seen only as a marginal financing complement, provided that the circumstances are favourable for example with unpolluted land in the immediate vicinity of sectors already being developed. Thus, for the London Crossrail East-West express link project, budgeted above £15 bn, only £0.5 bn (i.e. about 3%) will be financed by land and property related financing. Other value capture mechanisms are being developed to fund the Crossrail project, including the Business Rate Supplement, where businesses across London will be required to pay a minor supplement to an existing tax already mandatory on the occupation of commercial premises. This will result in a stable long term income stream which will enable loans to be raised.. According to Dionisio Gonzalez, in charge of concessions at CRTM in Madrid, it would be perfectly justified to ask the townships for a stronger participation for, indeed, local tax proceeds very often allow them to benefit from these increases in value.

Resources from the car sector

Two main reasons have for years been put forward to justify calling on car users to finance public transportation. These are that car drivers by using public transportation avoid additional traffic jams; or that cars when too numerous, slow down the buses speed. In Ile-de-France, half of the receipts from the parking rules offences are assigned to the STIF, which uses the money to finance punctual quality of service operations. These receipts are considered marginal. But not so in Germany, where the special tax on fuel provides more than 3.5 bn € a year to the federal State. The money is used to finance local transportation infrastructures (mainly for public transport, but also for the township road systems).

Just like in London a couple of years earlier, the congestion charging scheme implemented

Alain Meyère:
Director of Mobility and Transport department IAU Ile de France.

Nina Kampmann:
Transport Political Manager, Metro Copenhagen.

Jose Viegas:
Professor Lisbon Technical University.

Nicola Cox:
Senior Associate TfL London.

in Stockholm was not conceived to bring in money, as recalled by Lennart Hallgren from SL, the Stockholm Transport Authority. The incomes gained are largely used to cover the cost (investment excluded) of the additional public transport services required to face the modal transfer that fortunately occurred. In London, the net revenue from the Congestion Charge is by law reinvested in transport.

Can fare incomes be raised while preventing social exclusion?

This issue raises the largest discussion. A South Yorkshire (Sheffield) representative for the transportation authority expressed the wish to extend free public transportation - currently reserved for senior citizens in the United Kingdom - first to students, and then to the whole population. On the contrary, José Viegas from Lisbon University questioned why public transportation benefits from subventions, while goods that fulfil such indispensable needs as nutrition get no public subvention at all.

Mrs Maria Krautzberger, Vice-Senator for transportation in Berlin, suggested a more strategic approach to the issue, one that aims at reducing the financing needs. And that is to first clearly separate the organizing authority functions and the operators functions; second diversify services to respond to people's expectations and, in particular, feel free to suggest less traditional services (e.g. collective cabs, buses on demand, urban bicycles); and third implement high quality norms at a European level, in order to increase the quality of the provided transport service.

Target-setting to control financing

The clarification of the shared liability between public transport authorities and transport operators has come with a progressive implementation of contracts to define the relationship between the two partners[1]. The general philosophy and the contents of these contracts reflect the influence of the heavy concern about financing. The Stockholm experience will shed light on this issue. The first contracts were introduced in the early 90ies and focalised on cost reduction: they thus belonged to the gross cost contract family. The second contract generation remained focused on cost reduction, but also set targets for quality of service to be achieved: according to whether results score below or above the targets, the transport operator receives a reward or a penalty. Quality contracts, target contracts, performance contracts… the name changes, but the provisions are getting more and more used within the contracts that frame public transport operation in Europe with a view to optimise public financing.

Public-private partnerships: yes, but…

Several European cities have resorted to public-private partnerships (PPP) to finance their public transportation. The formula is often said to smoothen financing difficulties. Yet, as it transfers risk on the private partner, it is more expensive than simply making a deal with a group of companies for the works and equipment delivery. The classic situation is that of private partner remuneration resting on commercial receipts from the operation, for which the private partner has been given the responsibility. In France, in particular, that is the way classical concessions operate. Thus, the novelty that interests public authorities is a partnership with no commercial risk transfer. In this respect, the London experience proves to be very enlightening, once more. The Croydon tram link, in the Southern suburbs of London, was dealt with by classical concession. Revenue risk was transferred onto the private operator, while the responsibility for setting fare levels which determined that level of revenue remained in the hands of the Greater London Mayor. As could have been predicted, the social management goals set by the public authorities in ticket pricing and the economic constraints of the operating transport company could not be reconciled within the frame of such a contract. TfL eventually had to take over the Croydon tram link, just as the STIF had to take over Orlyval when time was up, although for other reasons. Three separate Public Private Partnerships were also set up for the London Underground renovation, and only a couple of years after the start of the contract, the private sector party responsible for two of these contracts went into Administration. Nicola Cox gave some explanations on this subject:

> Scale and scope of the contracts was too substantial for the arrangement out in place. And as such was difficult for both the public authority and the private party to manage efficiently;

Dionisio Gonzalez:
Director of Quality department CRTM Madrid.

Lennart Halgren:
SL Stockholm.

Maria Krautzberger:
Vice Senator for Transport and Development Berlin.

Mario Aymerich:
Deputy Director for Urban Transport BEI.

[1] *Starting December 2009, the European Directive (EC) 1370/2007 will enforce concluding such contracts between the competent authority and the public service operator, whenever there are public service obligations.*

> The renovation of old or very old civil assets (tunnels and infrastructure elements), whose condition was largely unknown when signing the contract, would have made it difficult to accurately assess investment requirements;

> A highly leveraged financial structure with loans effectively guaranteed by the public sector, resulted in little oversight or enforcement of controls by the senior lending parties;

> Four review periods (every 7.5 years out of 30) as stipulated in the contract, may have led to the parties bidding on the basis of the first review period only, as prices would effectively be reset at that point.

On the other hand, TfL gives various examples of successful PPP, in particular those directing the Docklands Light Railway construction. Finally TfL's advice to other cities is to ensure that when considering such arrangements it is important to clearly specify the building programme, responsibilities and risk allocation, and the inputs and outputs expected from the contractor. It is also vital to ensure that financial discipline is enshrined in the concession company's financial structure through proper risk transfer.

To Mario Aymerich, assistant director of the EIB (European Investment Bank), the failure of some PPP shouldn't lead to condemning an investment technique that may be very useful to mobilise private capital that waits to get invested. These failures occurred whenever the parties didn't think enough of "partnership", which is the most important word. The EIB doesn't favour any particular type of contract. It is ready to get involved in any project featuring a thorough risk analysis on the operating period, naturally, but above all on the construction period.

Financing: an old issue facing new challenges

Financing public transport is an old issue, amplified by the massive spreading of motorisation in Europe during the second half of the 20th century, which already at the time produced specific answers in each country. However, the then imagined French transport tax [2] and the German special tax on fuel, share a common political vision. It is the vision of an urban public transport, where public financing remains the keystone and still will remain so in the future. The context has changed since and the needs have grown larger: updating the ageing infrastructures, meeting the expectations of a population showing a higher quality expectation, taking up the challenge of sustainable mobility with a higher respect for environment and a greater concern for social and territorial solidarity. Each large city is searching for new resources and for more efficient financial techniques. EMTA is a privileged place for the exchange of experience, witnessing not only the diversity of contexts and the variety of approaches, but also the common financing yardsticks. These bear on how to match the amount of resources with the needs, on the predictability and stability of financing, on its political and social acceptability and, further, on possible perverse effects on the behaviour of the economical actors that might be caused by implementation. Finally, European cities quite simply need robust financial solutions, which can stand changes in the economical and urban environment.

Panelists EMTA Conference Ile de France Regional Council.

[2] Tax in France levied on employers having more than 9 employees, it is a percentage of the annual total amount of salaries paid. The rate varies from 0.55% to 1.75% in France depending on population and specific transport infrastructure. In Ile de France (Paris region) it ranges from 1.4% to 2.6%.

Members 2009

PTA	City	Population	Web Site
STADSREGIO	AMSTERDAM	1,365,485	www.stadsregioamsterdam.nl
ATM	BARCELONA	4,857,000	www.atm.cat
CMTBC	BAHIA DE CADIZ	1,194,062	www.cmtbc.es
	in summer season	1,512,750	
VBB	BERLIN *MoB**	5,951,809	www.vbbonline.de
CTB	BILBAO	1,139,863	www.cotrabi.com
CENTRO	BIRMINGHAM	2,591,300	www.centro.org.uk
MRBC	BRUSSELS-CAPITALE REGION *Treasurer*	2,988,029	www.bruxelles.irisnet.be
BKSZ Kht	BUDAPEST	3,200,000	www.bksz.hu
MOVIA	COPENHAGUE	1,831,751	www.movia.dk
DTO	DUBLIN	1,535,000	www.dto.ie
RMV	FRANKFURT	5,000,000	www.rmv.de
HVV	HAMBURG	3,320,000	www.hvv.de
YTV	HELSINKI *President*	996,000	www.ytv.fi
TfL	LONDON	7,512,400	www.tfl.gov.uk
SYTRAL	LYON	1,373,300	www.sytral.fr
CRTM	MADRID *Vice President*	6,008,183	www.ctm-madrid.es
GMPTE	MANCHESTER	2,553,800	www.gmpte.com
ATM	MILAN	3,700,000	www.comune.milano.it
AMT	MONTREAL	3,596,000	www.amt.qc.ca
RUTER	OSLO	840,000	www.ruter.no
STIF	PARIS *Vice President*	11,491,000	www.stif.info
ROPID	PRAGUE	1,700,000	www.ropid.cz
CTAS	SEVILLA	1,250,597	www.consorciotransportes-sevilla.com
SYPTE	SHEFFIELD *MoB**	1,292,900	www.sypte.co.uk
SL	STOCKHOLM *MoB**	1,918,104	www.sl.se
VRS	STUTTGART	2,673,729	www.region-stuttgart.org
AMMT	TORINO *MoB**	1,531,755	www.mtm.torino.it
eTM	VALENCIA	1,732,830	www.etmvalencia.es
VOR	VIENNA	2,403,724	www.vor.at
MESP	VILNIUS *MoB**	848,008	www.vilniustransport.lt
ZTM	WARSAW	2,270,585	www.ztm.waw.pl
AML	LISBON *Observer*	2,760,700	www.aml.pt

*MoB** : Member of the Board

European Metropolitan Transport Authorities

39 bis / 41, rue de Châteaudun • F-75009 Paris
Tél. + 33 1 53 59 21 10 - Fax + 33 1 53 59 21 33
www.emta.com • contact@emta.com