Availability Payment Mechanisms For Transit Projects

ADVISORY

Agenda

- **Availability Payments**
  - Overview
  - Structure
  - Financial Implications
- **Case Study**
- **Additional Considerations**
- **KPMG Infrastructure**

What is an Availability Payment Agreement?

- **Long-term agreement with fixed periodic payments to Private Sector partner for DBFOM of facilities and services**
- **Unlike a full concession, the scope of services for the Private Sector would not include:**
  - Ridership and demand risks
  - Fare collection

Availability Payments provide an alternative, flexible way to allocate project risks

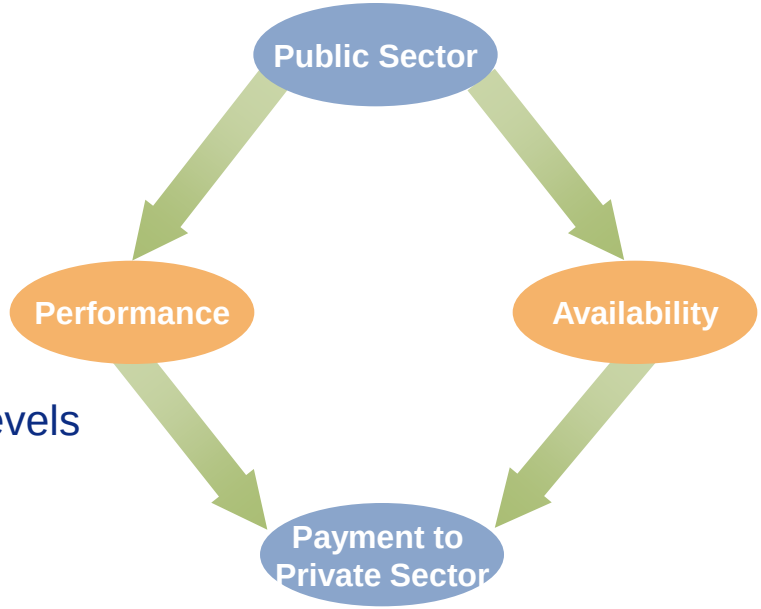
	Design	Construction	Operations	Maintenance	Financing	Ridership	Collection
Design Build Bid	○	○	○	○	○	○	○
Design Build/Maintain	●	●	○	○	○	○	○
Design Build Operate/Maintain	●	●	●	●	○	○	○
Design Build Finance Operate (Availability Payment)	●	●	●	●	●	○	○
Design Build Finance Operate (Real User Fee)	●	●	●	●	●	●	●

○ - Responsibility of the Public Sector

● - Responsibility of the Private Sector

How do Availability Payments work?

- **Public sponsor pays the private partner a pre-established, maximum periodic payment for DBFOM of project facilities**
- **Payments typically do not begin until the facility is completed and commences operations**
- **Availability Payments compensate private partner for both capital and operating costs**
  - Lenders will also monitor private sector performance
- **Private partner is evaluated each period on**
  - Availability of facilities and services
  - Performance of private sector partner
- **Each periodic payment is adjusted to reflect**
  - Deductions for non-compliance with pre-established service levels
  - Credits for enhanced performance



Follow the money…

- **Funding to the Public Sponsor**
  - Farebox revenue
  - General tax revenue allocation
  - TIFs and TODs
  - Grants, other intergovernmental transfers
- **Public Sponsor makes availability payments to Private Partner**
- **Private Partner finances (debt and equity) against payment stream**
- **“Funding is not the same as financing”**

Availability structures are widely utilized

Recent examples include:

- Port of Miami Tunnel, Florida
- I-595, Florida
- Golden Ears Bridge, Vancouver, Canada
- Sea-to-Sky Highway, British Columbia, Canada
- Trans Canada Highway, New Brunswick, Canada
- Ostregion Roads, Austria
- Alberta Schools, Canada
- A13 Thames Gateway, London, UK
- A92, Scotland

Key Benefits

Challenges	Benefits
• Project lacks stand-alone financial viability	• Allows use of PPP model and reduces project risk profile
• Public Sector specific policy requirements – Fare affordability – Competing facilities – Control over operating and safety standards	• Public Sponsor retains control over user fees • Provisions against competing facilities are not necessary • Performance Requirements allow Public Sponsor to control operating outputs
• Public Sector needs to control project cost exposure	• Payments do not start until facilities are completed and operating • Public Sponsor's total payment obligation is capped

Key Benefits (con't)

Challenges	Benefits
• Public concerns over long term concession projects	• Availability structures make shorter contract periods more feasible
• Need to attract robust competition from private bidders	• Availability deals tend to attract a wider group of investors and contractors
• PPP approach needs to provide Value for Money in transferring risk to Private Sector	• Encourages whole life approach to design, construction and operations • Economic drivers are more within the control of the private developer

Developing and Implementing

Planning

- **Design specifications** are defined
- **Operational requirements** are developed
- **Handback requirements** are defined
- Design specifications and other requirements are translated into **Service Level Requirements** (output/point based) for **Availability** and **Performance**

Procurement & Contract Negotiation

- **Availability Payment** is structured
  - **Base/Maximum payment**
  - **Deductions** for non compliance
  - **Compensations** for relief events
  - **Performance Credit**
- Concession Agreement is finalized
  - Availability Payment structure
  - Service Level Requirements
  - Hand-back requirements

Design Construction

- **Delays** in construction directly **delay and/or reduce Availability Payments**

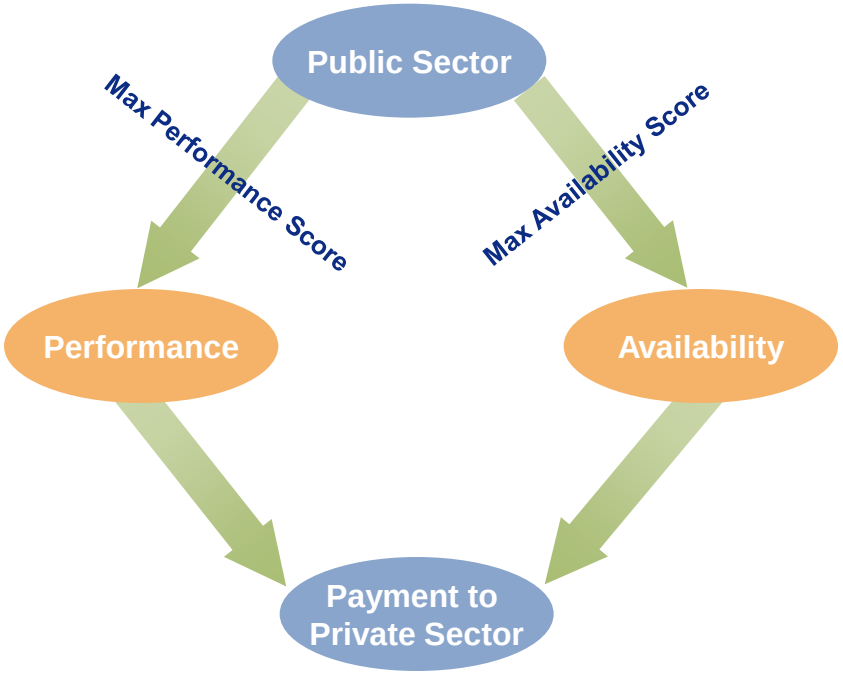
Operation Maintenance

- **Private sector sponsor performance is measured against Service Level Requirements**
- Non-compliance is assessed and monetized
- **Payment is made to private** sector net of any contractual deductions

Transfer Re-Tendering

Provisions associated with asset hand-back must be included to ensure the private sector is incentivized to fulfill the obligations of the agreement at the end of the term of the concession

Evaluation Metrics



Performance Metrics

- Security
- Response to emergencies
- Lighting and cleanliness
- Customer satisfaction
- Staff morale

Depending on severity of performance deficiencies, non compliance with agreed metrics can result in non-availability of facilities

Availability Metrics

- Availability of facilities
- Availability of services
- Safety
- Condition of the assets

Financing Implications

- **The project risk profile for Availability Payment-based agreements is typically lower when compared with full concession structures**
  - Project cash flow may receive higher credit ratings as it is based on
    - Public sponsor credit rating
    - Private partner ability to meet requirements
  - Private Sector can achieve higher gearing, lower weighted average cost of capital (WACC)

- **Availability projects are typical shorter term (25 – 35 years) than full concessions (50+ years)**
  - Availability payments typically have been done with minimal debt "tails"

- **Availability structures are widely accepted by infrastructure developers**
  - Increased number of potential contractors and investors increases competition and generates efficiencies

Financing Tools for Transit PPPs

- **Private Activity Bonds**
  - Authorized under SAFETEA-LU
  - Tax-exempt financing for projects with private involvement

- **Bank debt**
  - Typically requires a “club” deal involving multiple lenders
  - Current bank market is challenging: shorter tenors, higher pricing, less availability

- **TIFIA Loans (Transportation Infrastructure Finance and Innovation Act)**
  - Flexible, long term loan program administered by US DOT
  - Rates are competitive with tax-exempt debt

- **Equity**
  - Higher cost, but willing to take risks other sources of capital will not
  - Patient capital with long term investment horizon

Case Study
Dublin Metro

Project	• Metro North, Dublin
Project Scope	• Urban light rail linking the North of Dublin to Dublin Downtown through the airport • 12 miles, approximately 8 of which under ground
Project Status	• Currently in the final stages of procurement; 4 bidders originally submitted proposals and 2 consortia have been short-listed to the BAFO stage
Commercial Structure	• PPP structure (Construction Period plus 25 year concession) • Contract structure includes one contract to design, build, finance and maintain the infrastructure and the rolling stock and a separate contract for the operation of the rail system. • The project utilizes an Availability Payment mechanism that was designed around the innovative contract structure to maximize the project bankability; it includes two separate payment mechanisms for the Infrastructure and the Operator
Infrastructure Payment Mechanism	• The Contractor is entitled to Capital Contribution Payments during the Construction Period • The Contractor is entitled to receive the following payments following commencement of operations: – A Base Availability Payment – An Operational Flexibility Payment to compensate for rolling stock and infrastructure maintenance if RPA request higher service patterns than base – A specific payment in relation to energy costs • The Availability Payment is subject to deductions for service failures
KPMG role	• KPMG is the financial adviser to Railway Procurement Agency, the public sponsor of the project • KPMG was directly involved in the development the project contractual approach and in designing the innovative Availability payment mechanisms

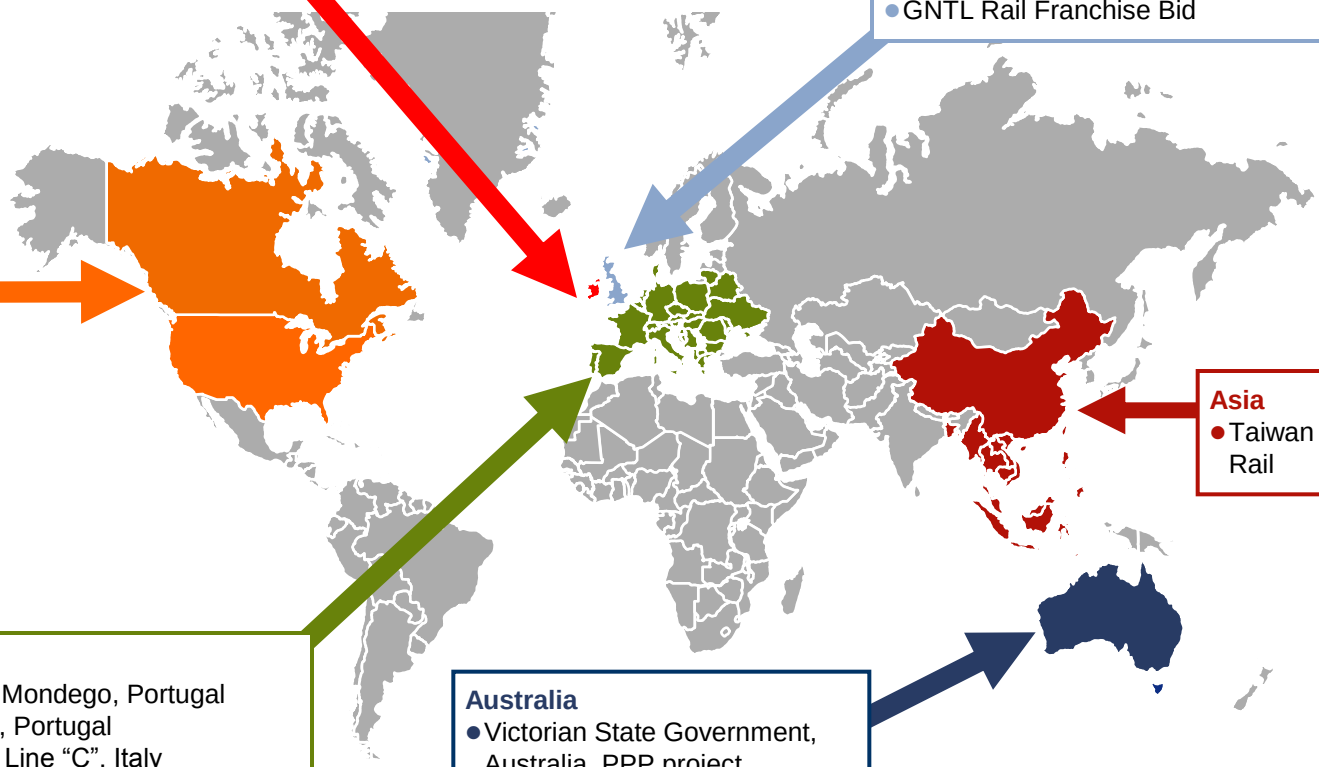
Additional Considerations

- **Service level requirements need to be defined early in the project lifecycle**
  - Need to be in line with Public Sector objectives
  - Drive Private Sector behavior (incentive vs. penalties)

- **Availability Payment mechanisms need to be transparent, legally enforceable, and practical**

- **Contract monitoring and administration**
  - Public Sponsor has oversight and monitoring role
  - The Private Sector sponsor can self regulate
  - Performance requirements need to include reporting and self-regulation

KPMG in Infrastructure
Extensive global experience in transit



Ireland
- Dublin Metro Rail System, Republic of Ireland

Great Britain
- Edinburgh Light Rail Scheme, Scotland
- Manchester Metrolink
- Strategic Rail Authority
- London Underground
- GNTL Rail Franchise Bid

North America
- Evaluation of Transit Information System, Canada
- Downtown Toronto and Pearson International Link
- City of Ottawa – Light Area Rapid Transit, Canada
- Toronto Waterfront Revitalization Corporation Transit System
- Region of York, Rapid Transit System, Canada
- Shepperd Subway Rapid Transit System, Toronto, Canada
- GO Transit, Canada
- Virginia Dulles Corridor Metrorail Project, USA
- Richmond Airport Vancouver (RAV)
- LA Metro, PPP Program

Asia
- Taiwan High Speed Rail

Europe
- Metro Mondego, Portugal
- RAVE, Portugal
- Rome Line “C”, Italy
- Athens Metro, Greece
- Kereva-Lahti Rail link, Finland
- Munich Maglev Train, Germany

Australia
- Victorian State Government, Australia, PPP project

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