International Association of Public Transport
Union Internationale des Transports Publics
Internationaler Verband für öffentliches Verkehrswesen
Unión Internacional de Transporte Público

PT funding and financing

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Better mobility for people worldwide

1. Introduction:

- The International Association of Public Transport
- Why funding public transport?
- Need for alternative approaches
- Distinguishing funding and financing

1. Introduction: the International Association of Public Transport

- UITP represents over 2,900 urban, local, regional and national mobility actors from more than 90 countries on all continents.
- UITP unites the entire supply chain of public transport players (operators, authorities, industry, academics).
- UITP covers all modes of transport.
- UITP has a Asia-Pacific Division with an office in Hong Kong.

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1. Introduction: the International Association of Public Transport

- The network of all mobility actors
- The catalyst for new business opportunities
- The global centre of knowledge and know-how
- The advocate for public transport and sustainable mobility
- The promoter of innovations and forward-looking solutions

1. Introduction: Why funding public transport?

Data from the Mobility in Cities Database collected in 50 cities for the year 2001 show that:

- The **coverage rate** of PT operating costs by traffic revenue is on average **60%**;
- The **dispersion** around this average is very **significant**, reflecting different fare policies.

1. Introduction:
Why funding public transport?

Fare revenues do not cover all costs because:

- Profitability is not the only objective of **fare policy**;
- Operators have to fulfill **public service requirements**;
- Private road transport does not support the **external costs** it generates.

→ Need for additional **public funding** for public transport.

1. Introduction: Need for alternative approaches

- Increasing pressure on public funds calls for proactive measures:
  - Increasing **income** and reducing **costs**;
  - Identifying **alternative ways** of financing public transport.
- Traditional alternatives tend to decrease; need for innovative approaches.
- Distinguishing between the financing of **operation** and the financing of **investment**.

1. Introduction: Distinguishing funding and financing

- **Funding** refers to the provision of new funds.
- **Financing** refers to the organisation of the supply of funds, in particular the financing of peaks of capital expenditure in the short and the long term.

2. Financing PT operations:

- The « polluter pays » principle
- The « beneficiary pays » principle
- Congestion charging
- Diversification of revenues

2. Financing PT operations: « The polluter pays » principle

- Those who cause a problem compensate for the cost imposed on the community. Revenue is used to fund less polluting forms of transport, notably PT.
- Measures based on this principle include:
  - Fuel taxes, such as the mineral oil tax in Germany, which is used to fund public transport;
  - Taxes on the ownership and use of cars;
  - Parking charges;
  - Congestion charging, such as in Singapore, London and Stockholm.

2. Financing PT operations: « The beneficiary pays » principle

- Those who gain benefit from a service meet its costs. Employers and retailers who gain from the provision of public transport services support a part of their operating costs.

- Measures based on this principle include a French transport tax (*Versement Transport*) which requires employers with more than nine staff to contribute towards the costs of public transport operation and investment.

2. Financing PT operations Congestion charging

- Various pricing mechanisms:
  - Distance based charge;
  - Cordon charge (applied at points crossing a cordon);
  - Area charge (applied to vehicles within an area).
- Distance based road pricing schemes are the most effective per monetary unit raised.
- However, with current technologies, they are difficult to implement in urban environment. Cordon (Stockholm, Singapore) or area charge (London) schemes are acceptable alternatives.

2. Financing PT operations
Congestion charging

UITP states that congestion charging is the most effective tool for demand management. It improves sustainable economic development through:

- Leading to more fluent and cleaner traffic;
- Improving Public Transport;
- Ensuring quality of life.

2. Financing PT operations Congestion charging

UITP recommendations:

- Establish a sound transport policy;
- Use strong leadership to convince the public;
- Raise awareness and involve a wide set of stakeholders;
- Be transparent an keep it simple;
- Build a sense of fairness (strong commitments);
- Mitigate the impacts on road users;
- Improve public transport and promote other transport means;
- Allocate at least a part of the income to accompanying measures.

2. Financing PT operations Diversification of revenues

- Charging third parties for advertising or property rentals (particularly shops in and around public transport stations).
- In practice, this currently remains a relatively modest source of revenues but it is clearly an area to be further explored by public transport operators (virtuous circle).

2. Financing PT operations Diversification of revenues

	STIB Brussels	Lisbon Metro	Hong Kong KCR Metro	London Underground	Teheran Metro	Glasgow Underground	Hamburg Metro	Paris Metro	Madrid Metro	Hong Kong MTR Metro
1- Catering and Food	54.68%	14.00%	30.00%	15,00%	7.00%	0.00%	32.00%	14.00%	23.00%	20.00%
2- Press / book shops	13.28%	7.00%	5.00%	30.00%	1.9%	0.00%	36.00%	26.00%	30.00%	15.00%
3- Local grocery	0.00%	6.00%	59.00%	10.00%	2.4%	100.00%	0.00%	1.00%	0.00%	50.00%
4- Services (telephony, shoe-repairs...)	17.9%	4.00%	0.00%	15.00%	0.00%	0.00%	5.00%	26.00%	10.00%	12.00%
5- Clothing & fashion (leather goods, textiles,...)	7.81%	27.00%	6.00%	10.00%	0.00%	0.00%	5.00%	25.00%	37.00%	3.00%
6. Miscellaneous	6.25%	42.00%	0.00%	20.00%	88.7%	0.00%	22.00%	8.00%	0.00%	0,00%

Source: A. Flausch (STIB)

with RATP

3. Financing PT investments

- Public-Private Partnerhip (PPP)
- Land value capture

(Information on PPPs based on G. Bruggeman, 2007, EBRD.)

3. Financing PT investments What is a PPP?

- A long-term contractual agreement between a public agency and a private sector party;
- to secure funding, construction or refurbishment, operation and maintenance of an (infrastructure) project;
- and delivery of a service that traditionally was provided by the public sector.

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3. Financing PT investments
What is a PPP?

- PPP is any medium-to-long term relationship between the public and private sectors,
- involving the sharing of risks and rewards, multisector skills, expertise and finance to deliver desired policy outcomes.

Source: Standard and Poor

3. Financing PT investments
What is a PPP?

- PPP is also a method of procurement;
- and assumes a greater role of the private sector in the design, building, finance and/or operations of public facilities and services.

3. Financing PT investments Components of PPPs

- **D** - design
- **B** - build
- **F** - finance
- **O** - operate
- **M** - maintain

3. Financing PT investments PPP and financing

- PPPs *may* include financing but this is not always the case
- Private sector financing is not a necessary condition for a PPP
- PPP is not a financing model per se but a procurement strategy with or without private financing

3. Financing PT investments
Examples of PPPs in PT

- Manchester, Croydon, Nottingham LRTs
- Strasbourg, Rouen
- Florence
- Barcelona
- Jerusalem
- Kuala Lumpur, Bangkok
- New Jersey Transit (USA)
- London Transport (various projects)
- Copenhagen Metro
- Sao Paulo Metro
- BRT South America
- St. Petersburg Nadzemniy Express (Russia)
- Astana Light Rail (Kazakhstan)

3. Financing PT investments Why PPPs?

- to make (additional) projects affordable when the public authority does not want to, or cannot, increase its levels of borrowing - *off-balance sheet financing*
- call upon private sector know-how, expertise and human resources
- to share or transfer risks
- to focus on life cycle cost

but in the end the key point is.....

- to ensure Value for Money !

3. Financing PT investments
Advantages of PPP procurement

- PPPs make projects affordable today
- PPPs maximise use of private sector skills
- Under PPPs, the private sector takes life cycle cost risk
- With PPPs, risks are allocated to the party best able to manage each particular risk
- PPPs deliver budgetary predictability
- PPPs force the public sector to focus on outputs and benefits from the start

3. Financing PT investments
Advantages of PPP procurement

- With PPPs, the quality of service has to be maintained for the life of the PPP
- The public sector only pays when services are delivered
- PPPs encourage development of specialist skills, such as life cycle costing
- PPP transactions can be off balance sheet

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3. Financing PT investments Challenges of PPP procurement

- The private sector has (in general) a higher cost of finance than the public sector
- PPP procurement can be complicated, lengthy and costly
- Does sufficient *private* sector expertise exist to warrant the PPP approach?
- Does the *public* sector have sufficient capacity and skills to adopt the PPP approach
- It is not always possible to transfer life cycle cost risk

3. Financing PT investments Challenges of PPP procurement

- PPPs do not achieve absolute risk transfer
- PPP imply a loss of management control by the public sector
- PPPs are long-term relatively inflexible structures

3. Financing PT investments Land value capture

Why and what?

3 main models:

- the company buys the land beforehand
- property taxes to recoup part of the whole investment in PT
- VIF & TIF: encourages property development close to stations (loans)

Increasing importance as a source of PT funding for future (close ties between PT and land development planning)

Thank you very much!