

Evaluation and future of road toll concessions

Results of the ASECAP Study

ASECAP Event

**" Concession model, an
efficient tool to foster growth
across Europe: how to build a
level playing field to attract
private investors "**

Brussels, 30 March 2015

Summary

***I** Road toll concession model*

***II** Issues and risks affecting road toll concession schemes*

***III** Forms of funding*

***IV** Conclusions and recommendations*

Road toll concession model

1. What is a road toll concession
2. Typical operating cash flow
3. Road toll concession network in Europe

I

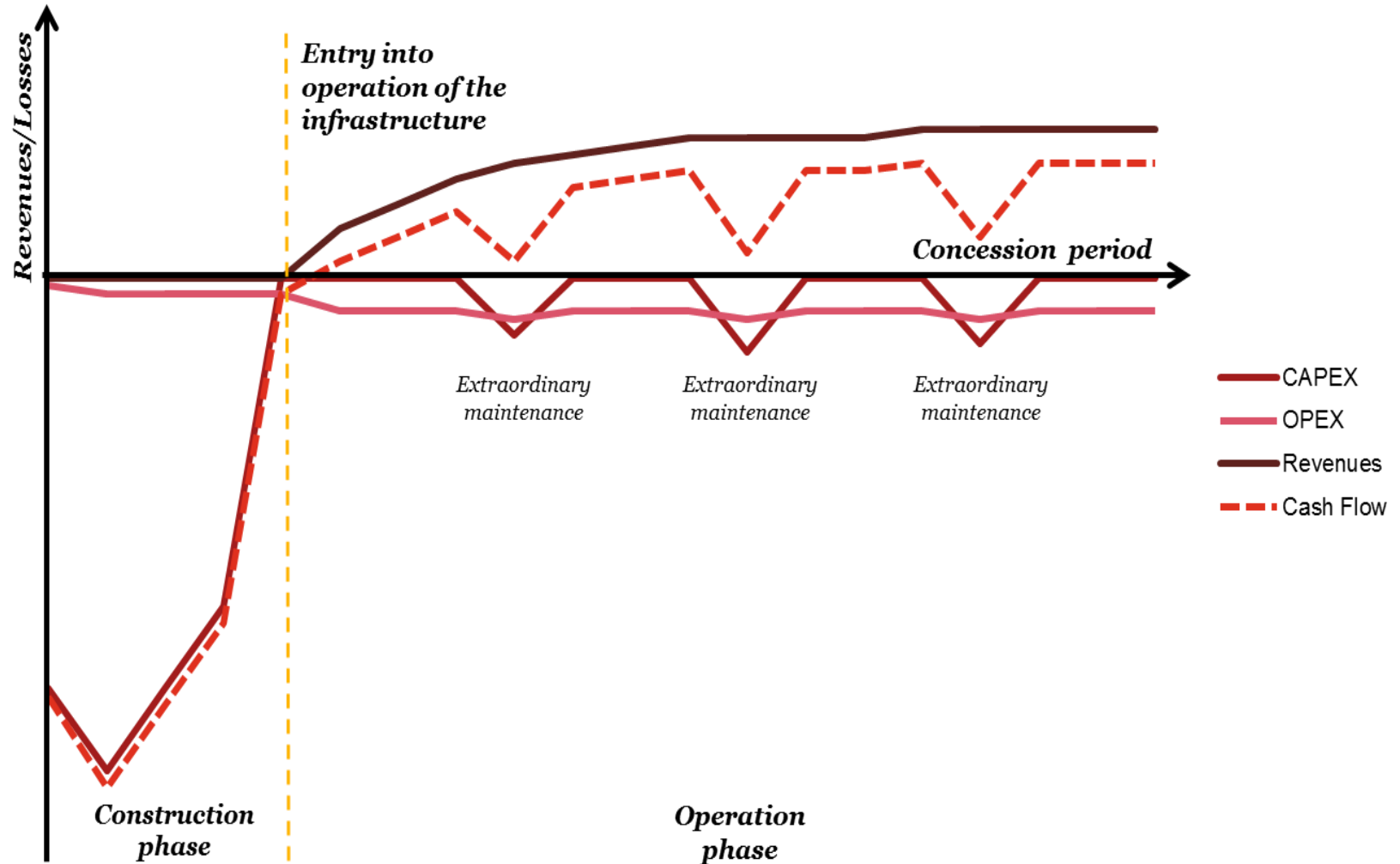
Road toll concession model

What is a road toll concession

In general, a concession is a kind of public–private partnership (PPP) under which a public authority (Concession Authority) grants specific long term rights to a private or semi-public organisation (Concessionaire), to construct, overhaul, maintain and operate an infrastructure. On the basis of the agreement between a government or its entities and a private firm, the Concessionaire is committed to use all utility assets conferred and has the responsibility for all operations and investments, while asset ownership remains with the authority and the assets revert to the authority at the end of the concession period.

Road toll concession model

Typical operating cash flow



Road toll concession model

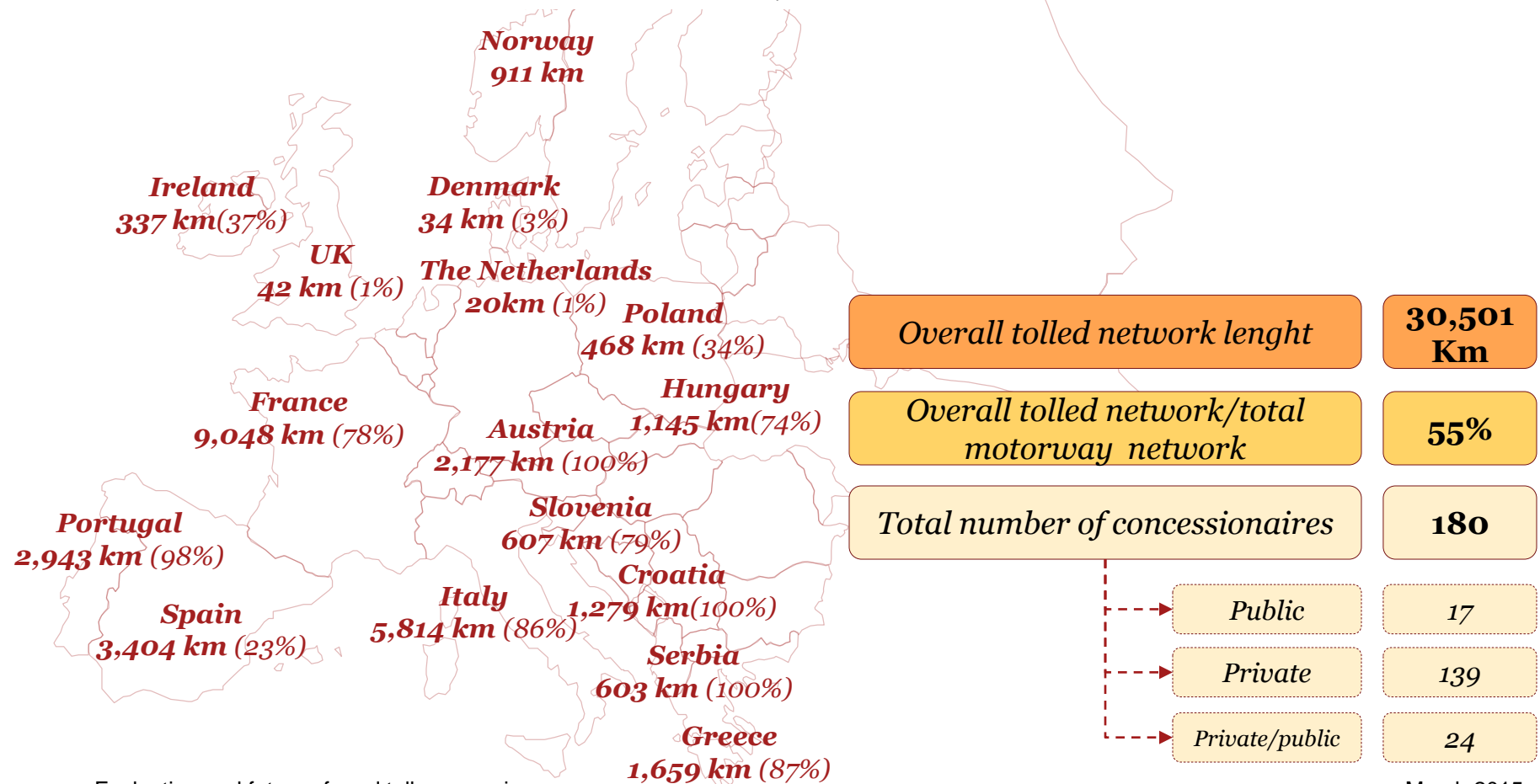
Road toll concession network in Europe

LENGHT OF THE TOLLED MOTORWAY NETWORKS*

&

* Managed by ASECAP members

% ON TOTAL MOTORWAY NETWORK BY COUNTRY)



Issues and risks affecting road toll concession schemes

1. Categories of risk
2. Political and legal risks
3. Economic and financial risks
4. Technical risks: construction-related risks
5. Further risks

II

Issues and risks

Categories of risks



- **Political and legal risks:** i.e. natural phenomena, force majeure, war or civil disturbance, legislative changes and changes in government policy



- **Economic and financial risks:** i.e. uncertainties concerning economic growth, inflation rates, convertibility of currencies and exchange rates, difficult access to the financial market



- **Technical risks:** i.e. construction-related risks: i.e. completion of the work, quality of the work, completion dates, cost of postponement and modification of the project



- **Further risks:** i.e. increase of tax share on tolls, commercial risks (e.g. traffic decreases), operational risks (e.g. interruption of lanes due to accidents)

Issues and risks



Political and legal risks


Types of risk

- Natural phenomena
- Force majeure
- War or civil disturbance
- Legislative changes
- Changes in government policy

Typical risk allocation model


Most risks borne by the Authority 

Most risks borne by the Concessionaire 

Risks shared by the Authority and the Concessionaire 

 *Very frequent*

 *Common*

 *Seldomly applied*

Issues and risks



Economic and financial risks

Types of risk

- Uncertainties concerning economic growth
- Inflation rates
- Convertibility of currencies and exchange rates
- Difficult access to the financial market

Typical risk allocation model

All risks borne by the Concessionaire



All risks, with very few exemptions, borne by the Concessionaire



Very frequent

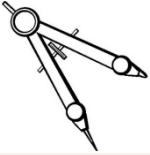


Common



Seldomly applied

Issues and risks



Technical risks: construction-related risks

Types of risk

- Completion of the work
- Quality of the work
- Completion dates
- Cost of postponement and modification of the project

Typical risk allocation model

Most risks borne by the Concessionaire



All risks borne by the Concessionaire



Very frequent



Common



Seldomly applied

Issues and risks



Further risks

Types of risk

- Increase of tax share on tolls
- Commercial risks
- Operational risks

Typical risk allocation model

All risks borne by
the Concessionaire



Most risks borne by the
Concessionaire



Very frequent



Common



Seldomly applied

Forms of funding

1. Mechanisms for obtaining revenues

III

Forms of funding

Mechanisms for obtaining revenues (1/2)

- **Direct road tolling:** the public authority delegates the construction, funding and management of a road to a managing company, which carries out the work at its expenses. The company collects tolls from the users (distance-based charge) to reimburse the investment and to cover maintenance costs
- **Indirect road tolling:** the public authority delegates the construction, funding and management of a road to a managing company, which carries out the work at its expenses. Users pay a toll to the public authority, usually on the basis of a “vignette” (time-based charge). The operator is remunerated by the public authority, typically on the basis of availability payments
- **Shadow toll system:** the public authority delegates the construction, funding and management of a road to a managing company. The company collects no toll from the users, for whom the infrastructure is free. The company is directly remunerated by the public awarding authority.

Forms of funding

Mechanisms for obtaining revenues (2/2)

Direct tolls	Indirect tolls	Shadow tolls
Advantages		
<ul style="list-style-type: none">• User-payer principle• Road maintenance and new investments are guaranteed• Zero cost to the Government	<ul style="list-style-type: none">• Absence of traffic/ revenue risk simplifies project• Lower level of due diligence needed• Reduces risk on Concessionaire – making project cheaper• No consumer resistance	<ul style="list-style-type: none">• Appropriate where environment is perceived to be hostile to real tolls• Mechanism of traffic risk transfer may reduce the complexity of project and the level of due diligence required
Disadvantages		
<ul style="list-style-type: none">• Due to high capital construction costs, the projects traffic volumes may result in insufficient revenue stream to meet debt service and equity return for sponsors• Potential consumer resistance to paying for road use	<ul style="list-style-type: none">• No revenue generation device: total cost of project falls on public purse• Concessionaire is not concerned on the quantity of traffic volume and so do not transfer traffic or revenue risk• Limited price signals (affecting traffic behaviors)	<ul style="list-style-type: none">• No revenue generation device – total cost of project falls on public purse• If traffic volumes are significantly exceeding forecasts, government may have to pay higher “toll” than it budgeted for• No price signals (affecting traffic behaviors)

Conclusions and recommendations

1. Advantages of road toll concession models
2. Recommendations

IV

Conclusions and recommendations

Advantages of road toll concession models (1/2)

- **Bringing forward the beginning and reducing duration of the road construction works**, without waiting for the availability of public funding;
- **Sparing of public funds** (i.e. tax money) so that they can be allocated to other social or investment priorities;
- **Transferring risks** to dedicated counterparts: mainly those related to construction costs and traffic demand;
- Generally **cheaper construction costs**, especially if private financing is sought;
- Thanks to earmarking of toll revenues, it guarantees **proper maintenance and upgrade of the facility** during the whole concession period, committing both human and monetary resources, and it also brings excellent safety records;
- Enabling the **control of traffic demand** and the **internalization of external costs** of transport;

Conclusions and recommendations

Advantages of road toll concession models (2/2)

- **More flexibility to react to changes** in overall economy situation and to adapt to a new environment from legal, technological, financial point of view as long as the new objective requirements does not breach the original contractual arrangements and are in line with the available cash flows;
- Being an highly adaptable infrastructure, it may **foster new sustainable mobility services and usages**: HOV lanes, mass transit services through express buses and coaches, carpooling;
- **Fiscal return** to the general budget through taxes;
- **Neutral impact of concessions on public accounts**. Investments have no impact on public deficit and the debts of the concessions have no impact on public debt, which is a key issue for Governments and their effort to reach the European fiscal consolidation goals.

Conclusions and recommendations

Recommendations (1/4)

Huge and urgent investments are needed:

- adding capacity when needed and completing the road network is still of uttermost importance to support European integration and economic growth;
- achieving missing links, helping integrating remote territories and building a more resilient network;
- developing and optimizing road networks in urban areas to reduce congestion while enhancing sustainable mobility;
- putting an end to years of underfunded maintenance leading to increasingly decaying infrastructures.

Conclusions and recommendations

Recommendations (2/4)

Alternative funding solutions due to scarcity of State finances:

- maintenance and upgrades on the existing network are due to become an increasing burden on State budgets;
- delayed maintenance works resulting from budget adjustments only lead to increased costs of repairs or worst, ailing infrastructure;
- public funds for new investments are scarce: self-financing schemes involving private investors should be favored.

Concession is compliant with the “users pay principle” and “polluters pay principle”:

- earmarking of funds collected from users guarantees a fair level of pricing and a sustainable management of the infrastructure;
- Concession as efficient tools of congestion management practices.

Conclusions and recommendations

Recommendations (3/4)

Concession as a powerful tool to help building and maintaining roads:

- leveraging the investment capabilities of mature concessions to avoid passing costs on tax payers;
 - backing of new concessions of highway stretches to mature network
 - flexible approach of contract management to finance investments and upgrades
- concession is a highly flexible and adaptable tool which may fit different objectives related to local contexts.

Conclusions and recommendations

Recommendations (4/4)

Concession scheme should be optimized to attract private investors:

- Promote the legal security and predictability of the concession schemes;
- Promoting innovative contractual tools to attract private investors;
- Promote revision of general risk allocation schemes to alleviate the position of the Concessionaire, clearly define the cases that should imply a contract rebalance and optimize the procedure to run those rebalances (avoiding long processes on courts, role of arbitration...).