

INTERNATIONAL VIEWPOINT: TURNKEY AND JOINT DEVELOPMENT

*Pierre Laconte, Secretary General
Union International des Transportes
Brussels, Belgium*

Mr. Laconte noted that a survey of international transit developments reveals substantial numbers of turnkey projects and joint development experiences. For this workshop he applied the following criteria to selected cases for consideration:

- A minimum one hundred percent fare box recovery ratio;
- The private sector assumption of one hundred percent of the operating risk;
- High levels of auto ownership, as is characteristic of the United States.

Applying these criteria resulted in many international examples of very successful turnkey transit projects. Among these are the Istanbul, Turkey Light Rail Line (possibly the most successful LRT in the world); the Hong Kong Twin Moon Line which exemplifies high fare box recovery and very successful property profits; and several examples of recent French projects involving public-private partnerships and urban renewal. In these instances, the degree of fare box recovery could not be documented adequately for further consideration.

Mr. Laconte said that recent institutional developments in Great Britain, notably the 1986 deregulation of the nation's transit industry, provide the means to verify the fare box recovery of privatized systems. As a consequence of the 1986 deregulation, approximately seventy-five percent of transit services are currently provided through private entities and twenty-five percent through public agencies. There are confirmed examples of one hundred twenty percent fare box recovery of recently privatized systems in Britain. The British deregulation provides an environment favorable to private sector involvement in transit, without the downside of inadequate services to marginal markets. This is achieved by allowing individual lines to be contracted with private entities through a bidding process. Where no party bids to operate a line without subsidy, lowest subsidy bids are tendered and contracted.

The British deregulation has achieved extraordinary success with management and employee takeovers of existing systems and lines. Financial backing is provided by banks and other financial institutions. Three examples were selected by Mr. Laconte for consideration:

- The Greater Manchester Metrolink;

- The London Subway Northern Line renewal, and
- The Croydon Light Rail in London.

The Greater Manchester Metrolink is a twenty mile light rail project involving the reuse of existing abandoned track with some on-street segments. In 1989 the Manchester Transit Authority bid the project as a build, operate and maintain project. The performance specifications were general and involved architectural utility, time of service, availability performance, and reliability performance. Non-compliant bids were encouraged. There were no vehicle specifications. As contracted in 1990, the successful private consortium provided \$10 million (U.S.) or fifteen percent of the total investment and assumed full operating risks for fifteen years. The total bid cost was \$200 million. In the fourth year of the agreement, the consortium experienced a one hundred percent fare box recovery and a \$5 million operating profit. The transit authority in 1996 exercised an escape clause available to both parties in the original agreement. The transit authority is rebidding the project to extend the network and to provide terms more favorable for the authority.

The London Subway's Northern Line renewal was bid by the London Underground for manufacturers to design, build and maintain a fleet of trains for twenty years. An unfavorable government disposition relative to transit projects necessitated the privatization of the line's renewal. After fifteen years, the train fleet reverts to the manufacturer at a price fixed in the contract. The bid specifications were general and emphasized performance specifications including the number of service hours, reliability, availability of rolling stock and the mean downtime for failures. Payments were exclusively for service with financial incentives to the manufacturer to maintain an adequate car fleet reserve. Agency workshops were transferred to the manufacturer for the period of the agreement. The London Underground remains totally responsible for the operations of the line. The Underground operates each of its lines as a decentralized performance center with each line manager fully responsible for the total performance of the line. For the year 1994-95 the London Underground had a system surplus equivalent to \$250 million (US). That surplus does not include bus operations which were privatized and sold for a surplus of \$200 million.

The Croydon project involves an agreement between the London Transport Agency, several municipalities, and a private consortium for the consortium partnership to design, build, operate and maintain the Croydon Light Rail

Line (CLRT). The CLRT services Croydon, a suburb of London, and has a \$300 million project cost, including a \$40 million private tract owner payment. The evolution of the project involved informal consultations between the public agencies and a number of private companies involved in transport operations, manufacture and civil engineering. The informal consultations resulted in a project development group (PDG) involving one firm from each of the aforementioned categories to develop the performance specifications, design and the terms of the concession. It was agreed that if the PDG partners were not successful in bidding the project they would be compensated for the costs they incurred during project development. The successful consortium, which did not include all the PDG participants, will invest \$125 million (40 percent of the capital) and is taking full responsibility for the operations of the CLRT. These agreements were reached in July 1996. The success of the chosen consortium can be attributed in part to their use of an existing vehicle, which was facilitated by performance specifications which did not specify a vehicle.

Several other successful public-private partnerships were briefly considered. Mr. Laconte highlighted a number of

reasons for the success of these turnkey and joint development projects noting:

- Important roles for the authority include: defining which risks are to be taken by the private sector (especially the safety requirements); design and marketing studies; assembling a talented negotiating team, and gaining public support.

- General performance specifications and uncomplicated project requirements.

- Orient services to the user and incorporate multi-modality to enhance the users convenience.

- Clearly define boundaries and flows of income. Incorporate a single ticket acceptable for all operators

- Keep private participants independent from public sector practices, liabilities and restrictive trade practices.

- The operator must be involved from the beginning of the project.

- There must be equal public and private talent levels involved in the negotiations.

- A change of culture is required to implement all of the prerequisites.