SPUTNIC – Third Working Group Meeting, 17/18 April 2008, Leipzig, Germany
Cluster: Market Organisation
Topic: Innovative funding and financing of urban PT

Participants

Name	Company	Profile	City	Country
Paticipating experts:				
Krzysztof Szyszko	EIB	IFI	Luxemburg	LU
Guido Bruggeman	Independent transport consultant	Consultancy	Amsterdam	NL
Sebastian Emig	UITP	EU funding	Brussels	BE
Angeles Echevarria	Equipo de Técnicos en Transporte y Territorio S.A. (ETT)	Consultancy	Madrid	ES
Arne Beck	BSL Management Consultants	Consultancy	Berlin	DE
Michel Quidort	Veolia	PTO	Paris	FR
Metodi Avramov	Public Transport Company Sofia	Organising entity	Sofia	BG
Zdenek Dosek	Transport Operator of Prague	PTO	Prague	CZ
Kvetoslav Havlik	KORDIS	Tarrif Ass.	Brno	CZ
Branko Mikinac	Zagrebački Električni Tramvaj	PTO	Zagreb	HR
Stanislaw Jedlinski	City of Warsaw	Authority	Warsaw	PL
Rudite Revelina	Riga City Council, Traffic department	Authority	Riga	LV
Participating SPUTNIC Working Group Partners:				
Bertil Hylen	VTI	Consultancy	Stockholm	SE
Martin Ruesch	Rapp Trans AG	Consultancy	Zurich	CH
Dieter Egger	Rapp Trans AG	Consultancy	Zurich	CH

Total of 15 participants whereof

- 12 experts, 3 SPUTNIC partners
- 4 authorities or PT organising entities, 3 PT operators, 1 International Finance Institution, 1 UITP, 6 consultants
- 7 from CEEC, 8 from western Europe

Sebastian Emig attended the workshop on Friday afternoon only.

Minutes

Note: The abbreviations in brackets refer to the initials of the participants' names

Part 1: Introduction, Thursday, 17 April 2008, 14:45 - 15:30 (Moderation: Martin Ruesch)

Martin Ruesch (MR) welcomes all participants and gives a short introduction (see slides on www.sputnicproject.eu). He introduces the cluster partners (Rapp Trans, VVO, vti) and the challenges and topics addressed within the cluster market organisation.

In a short introduction round each participant introduces himself (name, organisation, background, interests).

MR gives a short summary of the background paper that had been sent to the participants in advance (document available on www.sputnicproject.eu). He defines the objectives of the workshop and the main questions to be addressed (see agenda in annex 1). MR gives an overview on the program of the workshop and the communication rules.

The important questions regarding funding and financing PT are:

- What are the most pressing problems with respect to funding and financing PT?
- What are the most promising alternative funding and financing solutions in urban areas?
- How to devise operators' internal strategies for generating additional revenues by offering additional services creating new market potential?
- How to tap additional sources of funds for PT?
- How to lobby towards the government for more resources or indirect support?
- How to make use of all available financing possibilities?
- What are the possibilities and risks of relying on International Finance Institutions?
- How to access EU funding?

MR summarises the main problems with respect tot funding and financing that have been mentioned by the experts in the questionnaire. From 11 questionnaires sent out, 7 have been returned (Riga, Zagreb, Brno, Prague, Warsaw, Sofia, Berlin). As main problems for funding were mentioned:

- low fare revenues/cost coverage,
- restricted municipal budgets and
- no or little state aid.

With respect to financing main problems mentioned were

- lack of public resources,
- limited possibilities for commercial bank loans
- lack of operator's own funds (savings).

The experts generally agree on the mentioned problems and priorities.

According to Metodi Avramov (MA), the list covers 99% of the problems. MA mentions that in India PT is 100% profitable. In Sofia it is difficult to increase fares, just recently plans to do so have been stopped by the mayor in view of the upcoming elections and the quality level of PT in Sofia. The EU restricts state aid to a certain extent for competitive reasons. However, support to PT is generally acceptable provided that EU Regulation 1370/07 is not violated.

Warsaw after 8 years of constant fare level finally managed to increase fares to offset inflation. Before this a single ticket in the capital Warsaw was cheaper than in a medium sized city of Poland (Stan Jedlinski, SJ).

For Krzysztof Szyszko (KS) the list presented by MR is complete with respect to the funding of operation, but when it comes to investment an important element is missing: the support of the municipality, which for the EIB is crucial. This might be seen as a difference between eastern and western countries: in western European countries the municipal support for urban PT is generally higher than in the new MS.

MR shows a list of the main challenges identified by the SPUTNIC partners in the background paper (see also Annex 1).

For Michel Quidort (MQ) the list contains the main challenges; however, cost reductions and fare increases are also very important. By giving priority to PT in the city (e.g. bus lanes) you can increase the efficiency of PT (higher travel speed, less costs, more attractive services, more customers). Productivity can be increased by 20-30% .by such measures which might be more effective than financial measures but political support is necessary

For KS it is difficult to increase cost coverage if the fare level is kept constant for 10 years. In order to implement innovative solutions the PTO should have the freedom to decide on the fares.

MA was astonished to see that in Leipzig the buses are allowed to use the tram tracks. This would not be possible in Sofia, first for physical reasons (the way the tram tracks are built they are not usable for busses) and second because all the private cars would follow the buses and use the tram tracks too. [Joint use of road space for buses and trams is common in many countries.]

Stanislaw Jedlinski (SJ) mentions the example of Bialystok city in northeast Poland where the efficiency of bus use was increased by counting passengers with technical devices (less vehicles needed for the same amount of passengers). Long term investments will be more effective once city operators will be awarded with several years contracts.

Part 2: Opportunities and risks of creating additional commercial revenues, Thursday, 17 April 2008, 15:30 - 18:00 (Moderation: Martin Ruesch)

Martin Ruesch (MR) gives a short introduction into the topic. He summarises the corresponding part of the working paper and gives some examples for different sources of side revenues (advertisement, renting of facilities, additional services, sales of products, freight transport), including Stockholm (telecommunication services), Dresden (sight-seeing tours), London (merchandising) and Finland (freight transport, although rather more regional than urban PT).

MR gives an overview of the experts' answers to the corresponding questions in the questionnaire:

- The relevance of side revenues varies largely (2-22 Mio. EUR per year, 1-13% of operational costs)
- The same goes for the revenues from advertising (0.6-12 Mio. EUR per year) which is the most common source of additional revenues. Also quite common are additional services and renting of premises/facilities.
- 4 out of 7 experts that answered the questionnaire think that side businesses can contribute to the funding of PT, and 5 out of 7 think that it should do so.
- Main barriers for the creation of side revenues are strategic reasons (to be defined more closely) and missing entrepreneurship

Branko Mikinac (BM) points out that in Zagreb only one third of the vehicles are available for advertising for reasons of corporate design (strategic reasons).

Dieter Egger (DE) presents the case of the Verkehrsbetriebe Zurich (see slides on www.sputnicproject.eu). In Zurich side revenues create 8% of total turnover. This includes advertisement (32%), services (mainly vehicles and infrastructure maintenance, 27%), renting of premises and parking spaces (17%), extra rides such as the party/dinner tram (6%) and sales (spare parts, vehicles and merchandising products, 9%). Innovative services often include co-operations such as the one with the waste disposal company for the Cargo tram (collecting garbage). All side businesses presented are profitable and contribute to the funding of PT. They use the extensive know-how of the PT operator and create synergies with PT operation. However, there are also risks such as conflicts with image/corporate design or the risk of neglecting the core business. Certain restrictions apply to advertising.

Arne Beck (AB) presents examples from Germany (see slides on www.sputnicproject.eu). Many examples are similar to the ones presented for Zurich. They seem transferable, but the key question is how to do it successfully. Controlling is crucial.

Models for funding PT in Germany are very complicated. More than 50% of PT in Germany is funded by tax money. Without revenues from selling assets or revenues from penalties etc. the actual side revenues of a German PT operator are 2-4% of total turnover. AB presents examples from the transport sector such as advertisement (should be outsourced to media professionals), real estate management (shopping centre in Leipzig main station), maintenance works to improve capacity utilisation (risk: the restructuring potential might be neglected -> controlling needed), co-operations that also offer added value to the PT customer (hairstyling during the train ride to work, letter boxes on a tram) and the cabrio tube in Berlin (always sold out despite of the high fares). AB also presents examples from other industries (airports, petrol stations, retail business) which are however quite difficult to transfer. There is a potential to increase side revenues to a maximum of 5-10%, but not more. Therefore the focus of a PT operator should be on maximising passenger revenues as they are much more relevant than side revenues. An operator should first optimize his main business at the corresponding revenues before optimising the side businesses.

Ask about the cross utility funding practised in Germany, AB states that this model is more and more under pressure but so far it has been politically protected. Cross subsidies from energy production profits can probably not continue in a deregulated energy market.

Michel Quidort (MQ) presents experiences from an international operator (see slides on www.sputnicproject.eu). Veolia has contracted their advertisement business to large professional companies which ensures them guaranteed revenues of up to 200'000 EUR depending on the fleet size. (1 000 – 1 500 € per year/bus) Like this all commercial risk is with the contracting partners. Veolia generates side revenues of 2-3% of the commercial revenues (about 1500 Euro per bus and year) and 0.5 to 1 % of the operational expenses. Other side businesses are on board catering, cross selling (packages combining transport services with entrance fees to tourist attractions etc.), maintenance, and sales or – a rather exotic example – the auctioning of station names in Dubai. The key to success is to find new services that are linked to PT and PT know-how but that are outside the classical PT model. This needs imagination and customer orientation. MQ shows the example of the Connex village concept where PTO's staff sell tickets but also convenience products and postal services. Like this the operator can make better use of the personnel at stations instead of having to close down small stations for efficiency reasons. Another example is the supershuttle for taxi connections between airports and CBD of US-cities where Veolia brings in their PT know-how for the brokerage of the taxi services (integration between PT and Taxi Services). MQ stresses that it is important to develop new services according to the strengths of PT; with respect to advertising professional marketing companies should be involved and care taken to avoid activities that possibly collide with the PT image.

Discussion:

There might be a conflict of interests: is Leipzig a railway station with a shopping centre or is it a shopping centre with a railway station? (BH) The shops must not impede the railway customers (MA). In the Connex village model, PT customers were treated with priority against other customers. Railway stations with many shops are simply adopting the successful business model of airports (MQ).

The "revenue" from fare dodger penalties can flow either to the operator or to the Transport Authority, policy and sometimes also legislation varies (BH).

In Germany, many very small PT operators (e.g. family businesses) apply the opposite model: for them, PT is the side business, their main business are e.g. tourist coaches (AB). Side revenues today are seldom higher than 3-5% of total turnover. On the other hand, the LVB here in Leipzig is building trams – I do not know if that is really a business (MQ). The LVB case is a rather special one – in general, I agree that PT operator should focus on PT operation (KS). The Sofia case is similar to Leipzig: we also run a tram workshop, but it is rather to keep the know-how inside the company than to generate additional revenues (MA). In Ostrava, a company used to produce trams but it was forced out of the market because it competed with another Czech tram manufacturer (KH).

In Zagreb, we use mainly two options: advertising generates only revenues of 0.5% of total turnover whereas maintenance services generate revenues up to 13% of total turnover. In some parts of the town the city council has the exclusive right for advertising (BM).

Side revenues might be a competitive advantage when bidding for a tender (MR).

Are there any fundamental differences between Eastern and Western Europe with respect to side businesses (DE)?

In Prague, side revenues are only 3% of total revenues, revenues of advertising are less than 1% of total turnover. There would be a large potential to increase these revenues, but the rights for advertising have been sold years ago to a third party at a very cheap price that has been fixed for the whole duration of this long term contract. There is no lack of entrepreneurship (SD).

In Poland there was an idea of co-funding a tram night service by night club owners but they were not willing to to participate to payment for the service (SJ).

In some rural areas in Germany a PT shuttle service is successfully organised and funded by night clubs of the region (AB).

PT Night Services are very successful in Switzerland, where a supplementary night ticket at a flat rate of about 3.2 Euros generates additional revenues (MR).

Summary of the discussion: yes to side revenues, but not at any cost (MA).

Part 3: Financing issues, Friday, 18 April 2008, 09:30 - 12:00 (Moderation: Bertil Hylén)

Bertil Hylén (BH) opens the second day of the working group meeting by summarising the experts' answers on the financing questions given in the questionnaire (see slides on www.sputnicproject.eu). Infrastructure is usually owned by the operator and/or the city and is financed through general public budget (86%), the operator's savings (71%), bank loans (57%), EU funds or dedicated funds (43%), International Finance Institutions (IFI, 29%) or other sources. Equipment is usually owned by the operator and financed through the general budget (100%), the operator's savings and bank loans (71%), EU funds or dedicated funds (43%), International Finance Institutions (IFI) or leasing models (29%). Main problems mentioned were lack of public resources, limited possibilities for commercial bank loans and lack of operator's own funds (savings). Innovative financing solutions mentioned in the questionnaire included PPP, leasing schemes, EU funds and the emission of bonds.

Guido Bruggeman (GB) starts his presentation on financing of PT projects by the EBRD (see slides on www.sputnicproject.eu) by a short history of the EBRD which was founded in 1991 and works in 29 countries between central Europe and central Asia. Within PT, the EBRD finances investments into rolling stock/equipment and infrastructure (mainly rehabilitation projects in order to improve travel speed and reduce maintenance costs). Examples include Belgrade, Krakow, Dubrovnik and several Romanian cities as well as an investment into a 35%-equity stake of Veolia Transport Central Europe. The Kaunas project was the first loan to be given directly to the PT operator without any municipal or state? guarantee. In general, the EBRD prefers loans to the operator for equipment and loans to the municipality for infrastructure. Loans are granted under certain conditions, which usually include:

- a clear business plan for at least 10 years
- restructuring measures of the PT sector
- the existence of a Public Service Contract (PSC)

The EBRD demands reforms and a PSC and other proof of reform makes the operator creditworthy. It is usually combined with a support agreement from the city where the municipality guarantees that they will keep the PSC. However, 4 years ago only 10% of PT operators in CEEC had a PSC. Money is usually the least problem, it is abundant. What is missing is the commitment of municipalities and operators to change the framework conditions (e.g. introduce transparent payment mechanisms, adopt the EBRD's procurement rules). Influence of politics is a problem. Instead of focusing on the customer and on soft skills, PT operators in CEEC often focus on technical issues. Often, PT operators lack implementation capacity. PPP might be a promising solution to overcome the problem. The example of the Nadzemny Expres in St. Petersburg (www.nadex.info) will show whether it works. One of the largest barriers for EBRD loans is weak and sometimes contradictory legislation (e.g. Romania, Lithuania). Central government should support a framework for urban transport and revise their corresponding legislation. They should stay out of fares policy as long as they do not pay the bill. Local government should develop a long term vision on PT and introduce fair, transparent and sustainable models for service payments instead of interfering with daily business management. PT operators should think and act as a company, develop project management skills and focus on the customer rather than on the product.

Metodi Avramov (MA) presents the Sofia experience with financing rolling stock by International Finance Institutions (see slides on www.sputnicproject.eu). Sofia knows a gross cost PSC based on vehicle-kilometres and the municipality also compensates the operators for preferential passes. However, as all the money is spent on operation, a loan was needed for financing investment. There have been two large projects involving loans of International Finance Institutions: the Sofia metro extension project financed by the Japan Bank for International Cooperation (JBIC) and the Sofia Public Transport Project financed by European Bank for Reconstruction and Development (EBRD). The latter consisted of a 30 Mio. EUR loan to the municipality of Sofia for the purchase of over 100 buses and the refurbishment of trams. Another 80 Mio. EUR has been provided for Metro upgrading. Financing costs have been reduced after 2007 when the credit rating of the city of Sofia was raised by the rating agencies. The fact that the EBRD as lender differs from an ordinary commercial bank is considered strength (better loan conditions etc.) as well as a weakness: as the lender and the borrower both are political bodies, decision processes were sometimes too long and complicated.

Krzysztof Szyszko (KS) presents funding and financing solutions of the European Investment Bank (EIB, see slides on www.sputnicproject.eu). The EIB works mainly in the EU. They finance up to a maximum of 50% of total project cost (also to leave room for commercial banks). The EIB does not only consider commercial aspects; the EIB is policy driven, they finance infrastructure and equipment which are in line with and support EU policies. In the last 10 years, the EIB has lent 15 billion EUR for urban PT projects. The focus is rather on rail based transport (rail/trams/metro) than on busses. Products include standard loans for homogenous projects of at least 50 Mio. EUR. A group of smaller and quite different projects can be financed within a framework loan. The EIB lends both to operators and to Authorities but demands to see a strict definition of the parties' responsibilities. Like with the EBRD the existence of a PSC is a condition for loans for PT projects. However, local PT actors and EIB sometimes do not have the same understanding of the contents of a PSC. KS shortly presents the case of Gdansk where 50 mio. EUR have been used for the modernisation of tram infrastructure (including the construction of a new line) and rolling stock, resulting in substantial savings in operation costs (1.3 Mio. EUR per year) and other economic and social benefits. Furthermore, KS briefly presents the possibilities of accessing the capital market by issuing revenue bonds for PT projects. Important criteria for EIB investments are economic viability, multimodal integration, support of EU policies, proper environmental protection and credit quality.

Guido Bruggeman (GB) makes clear that for some smaller cities the missing credit rating might be a barrier to a loan, but in general there is nearly always a solution to overcome this barrier as the EBRD helps the cities to improve their creditworthiness by restructuring measures (provided the city is willing to do so). Krzysztof Szyszko supports this view: there is only one condition to success: public authority commitment.

Angeles Echevarría (AE) presents funding and financing solutions for urban PT in Madrid (see slides on www.sputnicproject.eu). Problems include rising equilibrium fares, decreasing degree of cost coverage by fares (metro: 46%, bus network: 64%), legal obstacles for increasing supplementary revenues and non existence of specific taxes for the funding of urban PT. AE presents the following examples from Madrid:

- West light rail: mix of PPP and PFI; Build – Own - Operate (30 year concession) - Transfer
- Las Tablas light rail: PPP initiative; Build – Own - Operate (30 year concession) – Transfer
- Parla Tram: PPP initiative; Design - Build - Operate (40 year concession) – Transfer; part of the construction costs are funded by indirect revenues generated by new urban developments near the tram (value capture)
- Metro Line 8 to Barajas Airport: PFI; Concessionaire builds and maintains infrastructure for 20 years and provides the extra vehicles needed; operated by Metro de Madrid; commercial revenues from single tickets (2 EUR per ride instead of the usual 1 EUR) cover both costs of concessionaire and operator.

AE shortly presents other PPP initiatives in Spain including the Velez Malaga light rail, the Sevilla underground network, the Tenerife light rail and the Barcelona light rail sections. Conclusion: PPP and PFI are the most innovative sources of financing urban PT in Spain in the last years. There are several mixed forms available, each adapted to the needs of the particular case.

Krzysztof Szyszko points out that in all successful cases that have been presented the support of the public sector has been very strong.

Arne Beck (AB) presents the case of Pforzheim in Germany (see slides on www.sputnicproject.eu) a rather small town with 83 buses. Due to the new EU regulation and economic as well as political developments German PT operators and/or municipalities find themselves under strong pressure for reorientation. The city of Pforzheim wanted to reduce the need for subsidies while ensuring the quality of PT and the city's sovereignty in along term perspective. The guiding principle for reorganising urban PT was to generate benefits exceeding the in-house awarding while keeping full power of decision. This was implemented in a four step approach:

1. Separation of contracting authority and operator
2. Introduction of a PSC
3. Transition to a competitive level of wages while considering the social needs of employees
4. Establishment of a PPP by contracting a new operator owned 51% by a private partner (Veolia) and 49% by the city of Pforzheim. The public equity stake secured the city's owner-interests while the private partner by contract committed itself to the city's social concepts.

The implemented solution resulted in net savings for the city of a total of 19 Mio. EUR during the contract period of 10 years while assuring the quality of urban PT. Ownership risk is shared and social needs are considered. Put and call options to sell or buy shares at fixed price assure the desired flexibility. The Pforzheim PPP model offers new opportunities of financing and minimizing risks while assuring complete sovereignty for cities. In general it should be transferable but the political commitment is crucial (strong political opposition encountered against the involvement of global private players such as Veolia).

Discussion:

In Czech Republic we lack the legal framework conditions for PPP. There are no long term PSCs. (SD)

In Spain, concession terms and PSC terms are very strong: the authorities are prepared to overtake quite a substantial part of risks – in exchange they receive very cheap financing term for a 30 years period (KS). Commercial banks are very reluctant to contracts of that length (GB).

Prague is interested in PPP models for the extension of their metro network (SD).

What I like about the Spanish examples is that they apply PPP models while fully integrating these new services into the existing networks (KS).

PPPs have to be tendered by law – in all countries, even in Russia. Spain has excellent examples of PPP, also the Pforzheim case is very interesting. Why are PPP models not implemented more often? It seems that private companies are sometimes considered evil. There is a lot of misunderstanding about these issues. Public authorities fear to lose control (on fare levels etc.), but this is not the case - on the contrary. It is all about commitment and politics. (GB)

The Pforzheim case was the biggest privatisation process in German PT so far. Pressure on politicians was high; we had to wait until after election to get political approval. The lack of authority control is much more a problem with public operators than with private ones (no clear contracts - no transparency). (AB)

Lunch break (12:00 – 13:15)

Discussion (continuation):

In the new MS governments have sometimes difficulties in understanding the concept of PPP. Another reason for reluctance against PPP is the fear to loose control on PT. In Poland, legislation is impeding PPP as it requires the public authority to exclude all possible risks (which is never possible); but laws are being changed now (KS). At least, the Polish have certain legislation in this field; we do not even have one in Bulgaria (MA). In Germany, legislation is not the problem, but the attitude of politicians. PPP is no panacea; sometimes the public sector can also finance projects cheaper than the private sector (AB). PPP should not be reduced to financial issues. The financing benefits are often only a marginal part of overall benefits, the larger part is the risk sharing and the use of know-how, e.g. the management competencies of the private partner (GB).

Are public funds for PT really decreasing? Due to the economic development some cities also get richer. Is there a danger that public authorities will become reluctant to fund PT if they think everybody can afford a car? (BH)

In Prague, public authorities do dispose of more funds (SD). In Poland, public authorities are legally obliged to provide PT (SJ). The same applies for Bulgaria; budgets of CEEC municipalities will grow. But how can we protect the interests of PT in this? (MA). Sustainability issues will be a driver for the public support of PT; there is a political need for investment into PT because of sustainability reasons such as CO2-emission targets etc. (MQ). The growing negative impact of car congestion will increase the pressure to support PT (GB). France is a good example as they require each city with more than 50'000 inhabitants to have an urban transport plan "Plans de déplacements urbains" (BH). In Czech Republic, planning is not very popular for historic reasons; it is considered as an old fashioned instrument which is at odds with market economy (SD).

Important success factors for PPP's are political commitment and minimisation of legal risks in the contract (AB).

Guido Bruggeman points out that all five presentations of this morning had one thing in common: the importance of Public Service Contracts (PSC). PSC are an extremely important issue. It is important to discuss what a good PSC should look like *[author's note: the topic of PSC will be part of our next SPUTNIC workshop in autumn].*

Part 4: Alternative sources for funding urban PT, Friday, 18 April 2008, 14:00 - 15:30 (Moderation: Dieter Egger)

Dieter Egger (DE) gives a short introduction into the afternoon's topic: the non-commercial sources for funding urban PT (see slides on www.sputnicproject.eu). He summarises the corresponding answers from the questionnaires. Main problems for funding PT are low cost coverage from fare revenues in combination with limited municipal budgets and little or no state aid. In the average city of the 7 experts that answered the questionnaire approx. 40% of operation costs are covered by fare revenues and approx. 6% by side revenues. More than 50% of the costs are usually covered by the general municipal budget; other funds (from region, state) are rare or limited. Infrastructure is most commonly funded jointly by the operator and the municipality. 43% also use state funds for infrastructure, 29% EU funds. When is comes to equipment, the operators play a slightly more important role for funding compared to infrastructure, but the overall picture is similar, joint funding of operator and municipality being the most common practice. Innovative funding solutions mentioned were EU funding, parking fees, PPP and supplementary revenues.

DE gives a short systematic overview on non-commercial sources for funding urban PT. The most common source is general budgetary resources. Indirect support by tax exemptions are known in Ireland and the UK (fuel tax) and in Switzerland and Germany (corporate taxes). Cross subsidy from utilities profits is still widespread practise in Germany. Specific taxes earmarked for funding urban PT are justified by taxing indirect beneficiaries of urban PT. Depending on the taxed subjects they can be differentiated as follows:

- car users: In Italy fuel taxes were increased by 3% in 2003 for the purpose of funding PT; at London Heathrow airport parking fees are used for funding PT improvements; in central London the congestion charge generates 120 Mio. Pounds per year of net revenues whereof approx. 100 Mio. Pounds have been spent on measures improving urban PT.
- employers/employees: the "Versement de transport" in France (a certain percentage of the wage bill) has been introduced by 180 cities since 1971; in the Paris metropolitan area it generates more revenues for PT than any other source (including fare revenues). In Vienna a similar tax is levied for funding the metro ("Dienstgeberabgabe").
- Property owners: The Spanish example has been mentioned, the example of Copenhagen will be presented by BH (see below). It is not a new model: in the beginning of the 20th century it was common practise for tramway or railway companies to buy up land adjacent to new lines before their construction and to use the profits from selling the land after the construction for funding the project.
- Shopkeepers and other industry: supplement to sales tax but also tourism tax in Switzerland (see presentation of MR below)

For funding infrastructure there exist other approaches such as dedicated funds (see Swiss example below) or EU funds (see presentation of Sebastian Emig below).

Guido Bruggeman and Metodi Avramov point out the large potential of parking fees in CEEC. For instance in Bucarest, there are currently no parking fees levied at all. By earmarking parking fees for funding PT you can kill two birds with one stone: you generate funds for PT and give Pt a competitive advantage over the car.

Bertil Hylen (BH) presents the example of the Ørestad metro in Copenhagen (see slides on www.sputnicproject.eu) where 3.5 sqkm of undeveloped land were given to a consortium for free under the condition that they build a metro. The consortium could sell the land at market prices using the profits for funding the metro (selling of land started before the construction of the metro and is still ongoing). During the construction period the design of the project was changed. Several stations of the metro proved much more complicated to build than foreseen. There has been a delay of 2 years in construction and serious cost overruns. However, land could be sold much better than expected. Interest rates (financing costs) were much lower than expected by the consortium. The metro today is operating punctually and reliably, but ridership is much lower than forecast and there are disputes about revenue sharing. The metro project is a political hot potato, but probably more metro (city ring) will be built. The example shows that land revenues can be used to improve PT – and vice versa (PT can increase land value). It also shows the risks of using untried technology. The total revenues of the land sale do cover the construction costs of the metro, but it is not known which share of the land revenues is due to the development of the PT infrastructure.

For the Sofia metro extension project a study predicted to increase land values of adjacent land by +20% (MA).

In Germany law obliges the owners of land adjacent to a street to pay part of the costs for street renovation (AB).

In Zagreb the construction of a new tram depot at the city borders is paid for by selling the land of the old depot which is situated closer to the centre and thus more valuable (BM).

Sofia faces a dilemma: the authorities want to sell a tram factory situated on very valuable land but the (political) condition that the factory has to continue to be operational for a certain period of time fences frightens off potential buyers (MA).

Martin Ruesch (MR) presents two examples of innovative funding models in Switzerland: the tourism tax in the Upper Engadine Area and the Swiss infrastructure fund (see slides on www.sputnicproject.eu).

The Upper Engadine is a touristic area with 85% of GDP depending on tourism; in high season the number of inhabitants quintuple. 4 PT operators run a highly sophisticated integrated network (rail and bus) with integrated tariffs. National and regional (cantonal) authorities pay for the basic regional PT services. The district itself is responsible for additional PT services due to tourist demand and touristic lines whereas the municipalities are responsible for local PT and Skibuses in winter (together with the mountain cableways). Those costs of these PT services on top of the basic services which are not covered by fare revenues amount to 3 Mio. EUR per year. These costs are born as follows: 16% by the private mountain cableways (according to their benefit), 42% by the general budgets of the involved municipalities, 28% by a local tourism tax (approx. 20 Eurocent per overnight stay) and 14% by the regional budget. The tourism tax is based on a regional law that was accepted in a public voting in 1999. Cost distribution between municipalities is based on the number of inhabitants, the economic possibilities and the local PT supply of each municipality. The example shows that it is possible to get additional funds for PT from private parties (mountain cableways) or specific taxes (tourism tax). However, the process is a lengthy one and highly political, the approach only partly being a scientific one. In principle, the approach is considered transferable with the necessary adaptations to local circumstances.

Swiss conurbations face severe capacity problems in transport infrastructure (road and rail, private and public transport) that go beyond the financial possibilities of the cities themselves. Based on the insight that national support is needed the Swiss Conurbation Programme was launched in 2001 in order to Initiate strategic spatial and transport planning in the conurbations. In 2006 a national law was adopted that creates the national special purpose infrastructure fund for funding the completion of the national motorway network, contributions to main roads in rural areas and measures to improve the transport infrastructure in cities and conurbations. For such conurbation measures the fund disposes of approx. 200 Mio. EUR each year from 2011 until 2030. The national fund only covers a maximum of 50% of project costs. Eligibility of projects depends on high requirements regarding organisation, environmental/economic/social impact analysis, implementation and monitoring. In the Zurich metropolitan area the funds will be used for improvement of the rail network (with benefits for urban and regional transport) and for new urban tram lines. The example shows that national funds can solve funding problems in conurbations given the political will and good preparation. For investments in urban transport infrastructure a long term approach is important. A key success factor was the preceding conurbation programme which motivated the conurbations to develop an integrated transport/urban planning strategy (short, medium and long term).

Guido Bruggeman attributes the fact that dedicated funds are common in a number of Western European countries but unknown in CEEC to the strong decentralisation process the CEEC have faced since 1991. In CEEC urban PT is

considered a completely local problem (in total contrast to the national conurbation fund presented by MR). In Poland, the national ministry of transport with about 500 employees has not a single person responsible for urban PT. This lack of interest in PT by national authorities is also mirrored in the usage of EU funds: Poland is the only country within CEEC using money from the cohesion fund for PT (Krakow tram extension), all other CEEC use it for road projects. At least the national authorities should co-fund PT projects in order to give the regions and cities an incentive to invest in PT infrastructure.

The national indifference towards urban PT is confirmed by several other experts from CEEC (MA, RR, SD).

Krzysztof Szyszko (KS) pleads for more patience. Obviously urban PT is not the top priority for CEEC, but maybe building highways is simply more urgent for them than improving urban PT. It is a question of priorities and these might well be different for CEEC and western European countries.

In Bulgaria there is a special purpose fund alimented from the privatisation of formerly state owned companies that can be used for funding PT infrastructure (MA).

Sebastian Emig (SE) presents the possibilities of EU funding (see slides on www.sputnicproject.eu). EU funds for urban PT are available from 3 sources: the 7th Framework Programme (FP7), the Competitive & Innovation Programme (CIP) and the Structural Funds (SF). The FP7 disposes of 50 billion EUR (2007-2013) for research projects that are awarded on the basis of calls for proposals. The CIP disposes of 4 billion EUR (2007-2013) aimed at encouraging the competitiveness of European SME. It consists of the Entrepreneurship and Innovation Programme, the Information Communication Technologies Policy Support Programme and the Intelligent Energy Europe Programme (the main one for PT projects). Within the CIP there is no direct funding by the EC (only through financial intermediaries). The SF disposes of 346 billion EUR (2007-2013) aimed at closing the gap between different development levels of EU MS and regions. The SF consists of the Cohesion Fund, the European Regional Development Fund and the European Social Fund. Within SF there is no direct funding by the EC. The MS select the projects, control and assess them; the EC only approves the Operational Programmes (OP) proposed by MS and allocates the resources. An example of SF funding is the tram extension in Krakow (Poland) which was 50% funded by the European Regional Development Fund. At the moment conditions are favourable for complementary funding between FP7, CIP and SF. At http://cordis.europa.eu/fp7/consultation_en.html a practical guide to EU funding exists including a step-by-step eligibility checklist and a scorecard to easily identify access to EU funding.

Discussion:

Guido Bruggeman is extremely negative about EU funding for PT: there are all these European environmental study programs, but when it comes to implementation it is all spent on roads. However, from the project election structure this is no surprise, as the projects for the OP are proposed by the national authorities who want their projects co-funded (to relieve their budget) and not urban ones.

Dieter Egger summarises that due to the procedures and mechanisms in practice there is no money from the EU available for urban PT in new MS.

Sebastian Emig confirms. There is room for lobbying in the process of designing the OP, but lobbies other than for PT are very strong (e.g. Trans-European-Network).

In the Czech Republic there is money from the EU also available in the regions (KH). This holds true for Poland too; in these two countries the regions get more money from central government than in other CEEC (KS).

Krzysztof Szyszko doubts the transferability of some of the presented approaches. For instance, the case of the Swiss tourism tax would never be accepted in a public voting in Poland. The appropriate funding mechanism and the sharing of responsibilities between different administrative levels strongly depend on the way the local government gets its money. Is local government allowed to levy its own taxes? How much of the tax money stays with the city, how much has to be passed on to the national government? There is neither a general answer nor a copy paste solution. We have to pick what is suitable from each model.

Metodi Avramov thinks that Sofia retains too little of the taxes the city collects.

Western European cities spend 5% of their municipal budget on PT, for Eastern European cities it is 20%. In the Netherlands the national government supports the cities with 100 EUR per inhabitant per year – only for PT! (GB)

Guido Bruggeman suggests that the presented examples and models should be categorized according to the administrative level they apply to. Most financing issues have to be tackled on a national level. Nevertheless the involvement and commitment of the city is decisive.

Part 5: Conclusion round and outlook, Friday, 18 April 2008, 15:30 - 16:00 (Moderation: Martin Ruesch)

In a short statement round each expert gives his main conclusions of the workshop:

Many of the presented ideas are transferable in principle. PSC is a very important issue. In this context we have to look at the steering mechanisms for authorities. (AB)

It was interesting to see the different models of PT organisation in place. PSC are important. The financing is in place, this is not the problem. (KS)

Solutions can be local or national, but they must be in a suitable legal framework. For instance in Spain a new concession law is going to be established that considers our PPP experience. Before the funding model is determined there must be sophisticated transport planning. (AE)

I realise that the position of the city of Warsaw is not that bad in terms of financing and funding. Finally Warsaw's lobbing for purchasing a rolling stock with EU funds support was successful. Nevertheless we should make use of different solutions presented. The city of Warsaw is quite independent of the national government. The case of Krakow city trams co-funded with EU SF also indicates that a wise lobbing can be successful. (SJ)

Key issues are: clear rules, long term planning, PSC and side revenues (but not at all cost). We should do our best at the local level instead of complaining about the national government. (MA)

A lot of good examples have been presented, some of them easier to transfer than others. We have to teach our politicians about all this. (KH)

In many countries, it is the local level that is responsible for urban PT. There are many ways to fund urban PT. For us, the use of an EBRD loan for the provision of new rolling stock was not possible because our own tram manufacturer according to the EBRD procurement conditions would not have been allowed to participate in the tendering procedure. For me the PSC is a technical way to reach the goals. (BM)

In Riga, the interference of politics with PT planning is huge. (RR)

The background paper on the topic prepared by the SPUTNIC partners is very useful. We can translate it and use it as a good discussion base with stakeholders and professionals in our country. We have seen many good practice cases. There seems to be abundant money from International Finance Institutions but it is linked to sound framework conditions and PSC. For the city of Prague there is still a lot of room to improve these issues. Our main challenge is: how do we share our knowledge with politicians, the public and other professionals. (SD)

The EBRD has offered loans of 200 Mio. EUR or more to the cities of Zagreb, Prague or Warsaw. They all refused because they did not like our conditions (procurement rules, PSC etc.). EBRD was not allowed to participate in the financial tender of Riga as they are no commercial bank. With EBRD and EIB money for financing PT is available, but the cities are reluctant to the linked conditions (transparency, structural changes etc.). I liked this afternoon's examples of alternative sources of non-commercial revenues. We need case descriptions to inspire political decision makers *[author's note: a collection of good practice descriptions will be produced by SPUTNIC]*. But the PT operators can also do something by themselves as shown by the example of Dubrovnik where the local operator has adapted its service and prices for tourists, thereby raising its cost coverage from 35% to sensational 80%. Sometimes the solution is quite simple but effective. PT operators have to become more customer oriented. A more entrepreneurial attitude of all PT actors is needed. (GB)

Martin Ruesch (MR) presents the available and planned output of the working group "Market Organisation" (see slides on www.sputnicproject.eu). All output will be available on the SPUTNIC website (www.sputnicproject.eu). Background paper, inquiry results, good practice case descriptions and workshop minutes of the last two workshops on "Integration and Tariff systems" and on "Framework conditions and co-operation" will be uploaded by the end of May. The outcome of this workshop will follow. For the collection of good practice examples on funding and financing the SPUTNIC partners will

contact selected experts for contribution until June 08. Checklists and Guidelines for all four topics treated will be produced at a later stage.

The next working group meeting is dedicated to “Contracts, Incentives and Monitoring”. It will take place October 9/10 2008 (venue to be decided).

Martin Ruesch thanks all experts for their active participation and closes the working group meeting at 1600.

Friday, 18 April 2008, 16:30-17:30 (Plenary session)

Martin Ruesch summarises the discussions and findings of the meeting on funding and financing solutions (see slides on www.sputnicproject.eu):

Main **problems and challenges** related to funding and financing:

- low fare revenues / cost coverage
- small municipal budgets for PT
- no or little regional or state funds for PT
- no transparent and clear legal framework hindering long term investment planning
- unclear roles and responsibilities (no PSC)
- limited possibilities for commercial bank loans (credit rating, stability)
- financial means of IFI available but linked to conditions perceived as too strong

Supplementary revenues:

Additional commercial revenues (besides fare revenues) today typically account for 3-5% of a PT operator’s turnover, in some cases less, in others more. In most cases there is potential to increase these revenues, thus generating additional money for PT. However, this potential is estimated to be limited to 5-10% of total turnover, depending on the specific circumstances. Advertisement is the most common business to create additional revenues. Other businesses include the provision of additional services (mostly maintenance, infrastructure works), the renting of facilities, merchandising/sales or catering on board. Innovative approaches often combine PT know-how with non-PT services, in the best case not only creating extra revenues for the PT operator but also extra services for PT customers. Examples include the combination of ticket sales and shopping, the integration of taxi or postal services.

Side businesses offer the opportunity to improve PT image and benefits/cost coverage. On the other hand they contain the risk of potentially damaging the PT image (if not performed with due diligence) and of neglecting the restructuring potential. Therefore, professional staff is needed (in-house training or co-operation with partners) and strong controlling mechanisms have to be in place.

New services/businesses should be developed according to the strengths of PT, but not at all cost. Considering the limited potential of supplementary revenues, other measures to increase fare revenues (tariff measures, bus lanes, etc.) or to tap alternative sources of revenues (e.g. parking fees for PT funding) might be more effective.

Financing issues:

There exist a broad range of possibilities to finance infrastructure and equipment, from loans to bonds to PPP. In general, financing should not be a major problem. For instance, International Finance Institutions (IFI) such as the EBRD or the EIB are prepared to give loans in CEEC at attractive conditions and they also offer consulting how to access these funds.

However, IFI usually require business plans, Public Service Contracts, a long term strategy and sound funding models for operation. This often requires measures to reorganise or restructure the PT market, which in turn may create political resistance. Sometimes the public authorities lack the commitment which is needed to make use of these options.

PPP can be another attractive option as has been proved by examples from Spain and Germany, but it too requires strong commitment of the public authorities. Often, the principle of PPP is not understood by politicians who fear to lose control over urban PT – although the contrary may be the case. The involvement of global private players can also create resistance of the public. It is important to consider PPP not only as a means of financing a project but also as a means of improving the whole project by efficiently using the strengths of public and private partners each in terms of risk and know-how sharing (e.g. by making use of the management know-how of private partners). For PPP to be successful long term security in the form of concessions are important as well as integrating the PPP project into the existing PT system.

Non-commercial sources of revenue:

Apart from the general public budgets and indirect support by tax exemptions for PT there is a broad variety of possible models practised. Options that can be implemented on the local level include the use for PT of parking fees, tourism tax and road pricing revenues or value capture mechanisms. Still, these options all require the necessary legal framework which usually has to be approved on the national level. Options that are rather implemented on the national level include the use for PT of fuel taxes or infrastructure funds. On EU level the Structural funds in theory offer additional funding options especially for CEEC. In practice however, these funds are mostly not available for urban PT due to the diverging priorities set by the national governments.

Not all good practices are directly transferable in a copy-paste-approach. The national and local framework conditions have to be considered. Strong regional/local (fiscal) power favours the funding of urban PT; due to the decentralisation process in the CEEC this power is missing. The support of national governments for urban problems (including PT) is stronger in Western countries than in CEEC. Lobbying and education towards local and national politicians is needed. The issue of climate change might bring PT back on the political agenda (extra funds).

Main Conclusions

In summary, the following main conclusions can be drawn:

- Central governments should support a framework for urban PT including appropriate legislation
- Local governments should recognise that high quality urban PT does not come for free
- They should be committed to support PT (politically as well as financially)
- They should establish a fair, transparent and sustainable model for service payments (Public Service Contract)
- They need a long term strategy on PT, instead of interfering into daily management business
- PT operators need a more entrepreneurial behaviour (customer orientation, side businesses)
- They should acquire management and implementation skills
- More commitment of all actors to reforms and changes is needed

30.4.2008 / de / MSR / BH

Annex 1: Programme

Problems and challenges addressed

Problems relating to funding and financing of PT:

- shrinking public budgets and less public resources for PT
- declining PT patronage and thus decreasing cost coverage by fare revenues
- missing operation funding models that are reliable and sustainable
- the already small public PT budget is often entirely used for financing operation. Usually there is little money left from public sources for direct investment in infrastructure and equipment
- given the instable regulatory framework and the unreliable loss-coverage operators are reluctant to long-term and even mid-term investments
- the lack of financial means and severe need to upgrade the ageing rolling stock leads to a vicious circle where reduced service levels deteriorate the bad image of PT and lead to declined patronage resulting in rising fares which cannot be justified as the service levels are ever declining.

Main challenges regarding funding and financing of PT include:

- creating acceptance for the fact that in most cases fare revenues alone cannot fund a PT system
- setting-up of reliable and sustainable funding models enabling PT operators to work within fair framework conditions
- offsetting the increasing constraints of public budgets by innovative financing models and alternative sources of revenues
- identifying alternative ways to fund infrastructure and operation
- identifying measures and options to generate additional commercial revenues
- finding ways and means to finance the urgent renewal of neglected infrastructure, rolling stock and creation of new services to meet changing mobility needs
- identifying alternative ways to finance infrastructure and equipment

Objectives of WG Meeting

- To identify and validate main problems/challenges, trends and challenges in CEEC related to funding and financing of PT
- To exchange information, experiences and know how and information on funding and financing between CEEC and other European cities/urban areas
- To present and discuss good practices examples from operators and authorities from CEEC and other European Countries
- To derive conclusions on challenges and need for action

Important questions to discuss

- What are the most pressing problems with respect to funding and financing PT?
- What are the most promising alternative funding and financing solutions in urban areas?
- How to devise operators' internal strategies for generating additional revenues by offering additional services creating new market potential?
- How to tap additional sources of funds for PT?
- How to lobby towards the government for more resources or indirect support?
- How to make use of all available financing possibilities?
- What are the possibilities and risks of relying on International Finance Institutions?
- How to access EU funding?

Preparatory documents

Working paper "Innovative funding and finance solutions" including

- State of the art and problems/challenges in the field of funding and financing
- Overview on general models / solutions
- Overview on specific topics

17th April 2008

12:00 – 13:00	*Lunch*	
13:00 – 14:00	Opening session (Plenary)	UITP
14:00 – 14:15	*Coffee break*	
14:15 – 15:00	**Working Group Session Part 1: Introduction**	Rapp Trans
	Introduction by cluster leader - scope of the workshop / topics addressed - self-introduction of participants - Objectives / expectations for the meeting - Questions to be discussed - Programme for the WG Meeting - "Communication Rules" - main trends and challenges in CEEC / other countries - validation incl. statements from experts & discussion	
15:00 – 18:00	**Working Group Session Part 2: Opportunities and risks of creating additional commercial revenues**	VVO
	Introduction by VVO incl. results from inquiry	
	Presentation: The case of the Verkehrsbetriebe Zurich (VBZ) by Dieter Egger, Rapp Trans	
	Presentation: Creating additional commercial revenues - a bouquet of possibilities - some German cases by Arne Beck, BSL Management Consultants	
	Structured group discussion	
16:30 – 17:00	*Coffee break*	
	Presentation: Experiences from an international operator by Michel Quidort, Veolia	
	Structured group discussion	
	Conclusions	
20:00	*Dinner*	

18th April 2008

9:30 – 12:30	**Working Group Session Part 3: Financing issues**	VTI
	Introduction by VTI incl. results from inquiry	
	Presentation: Financing PT projects by the EBRD by Guido Bruggeman, independent transport consultant (former EBRD transport specialist)	
	Presentation: Financing by International Finance Institutions - the Sofia case by Metodi Avramov, Public Transport Company Sofia	
	Presentation: Financing PT projects by the EIB by Krzysztof Szyszko, European Investment Bank (EIB)	
	Structured group discussion	
11:00 – 11:15	*Coffee break*	
	Presentation: Funding and financing solutions for urban PT in Madrid by Angeles Echevarria, Equipo de Técnicos en Transporte y Territorio S.A. (ETT)	
	Presentation: Equity finance and risk sharing via PPP - the Pforzheim case by Arne Beck, Metropolitan Consulting Group	
	Structured group discussion	
	Conclusions	
12:30 – 13:30	*Lunch*	

13:30 – 15:30	**Working Group Session Part 4: alternative (non-commercial) sources for funding PT**	Rapp Trans
	Introduction by Rapp Trans incl. results from inquiry	
	Presentation: Land value capture in Copenhagen by Bertil Hylen, VTI	
	Presentation: PT funding examples from Switzerland - tourism tax and infrastructure funds by Martin Ruesch, Rapp Trans	
	Presentation: EU funding of PT by Sebastian Emig, UITP	
	Structured group discussion	
15:30 – 16:00	**Working Group Session Part 5: Main findings & outlook**	Rapp Trans
	Conclusions and main findings	
16:00 – 16:30	*Coffee Break*	
16:30 – 17:30	Closing session (Plenary)	UITP
20:00	*Dinner*	