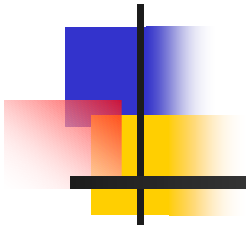


Regional Finance Workshop on Public Private Partnerships

Highway 407: Lessons Learned



Ministry of Transportation
ONTARIO

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Presentation Objectives

□ Background

- Highway 407 ETR Overview
- Traffic Statistics
- Evolution of Highway 407
- Objectives of Privatization
- Contract Highlights
- 407 ETR Actions

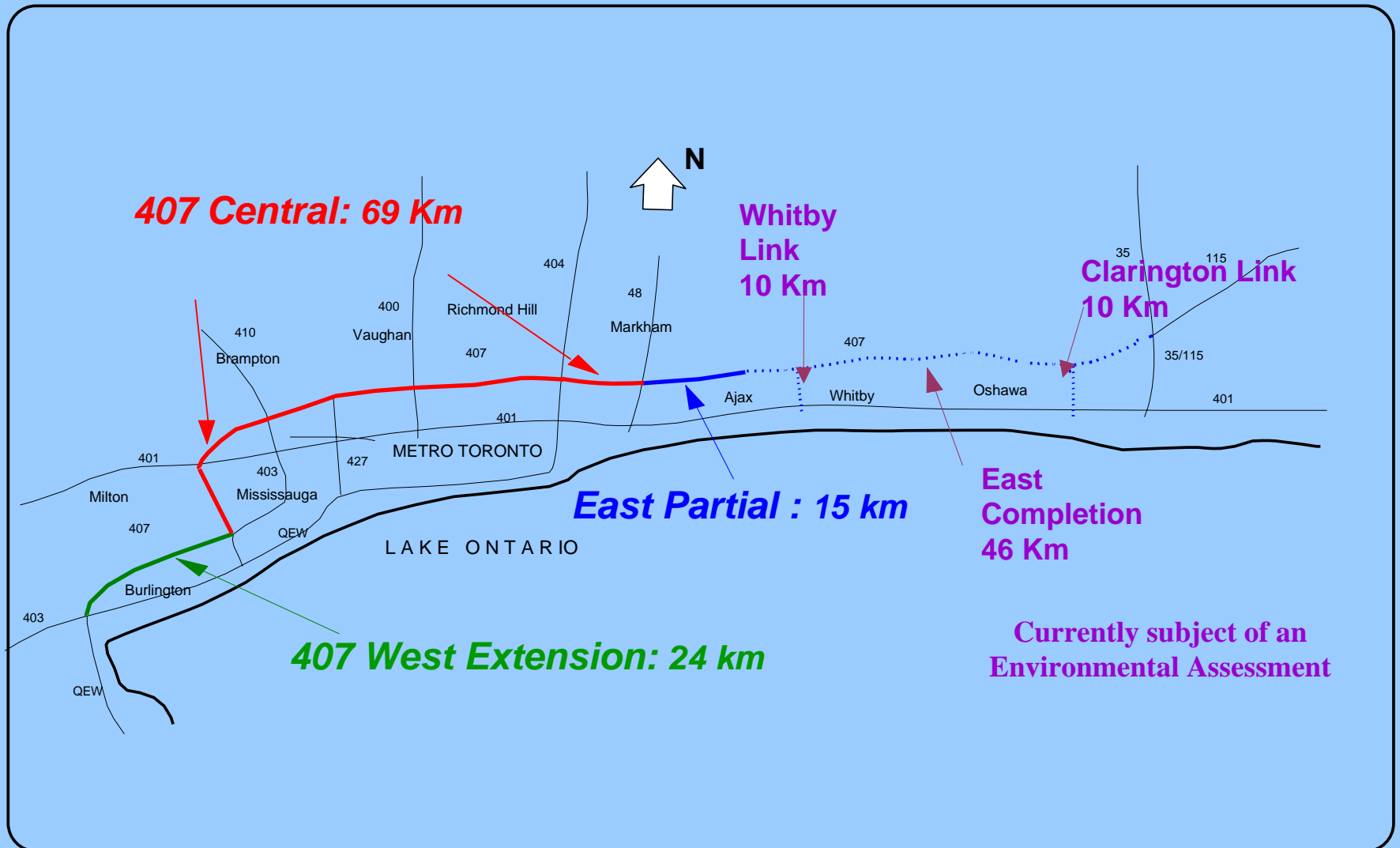
□ Experiences & Lessons Learned

- Planning
- Design & Construction
- Operation and Maintenance
- Financing
- Policy & Legislation
- Risk Management
- Governance
- Customer Service

□ Moving Forward

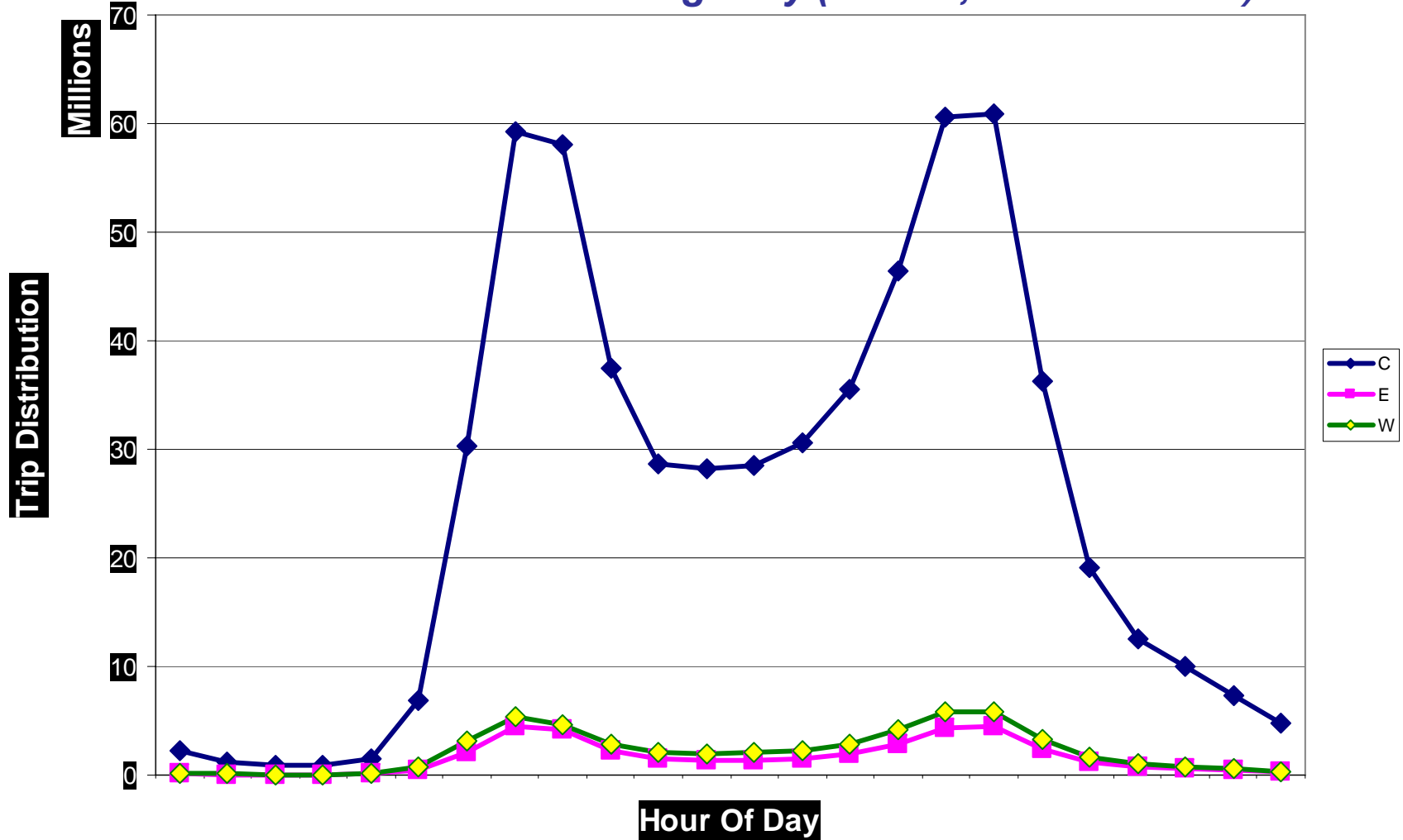


Highway 407 ETR Overview

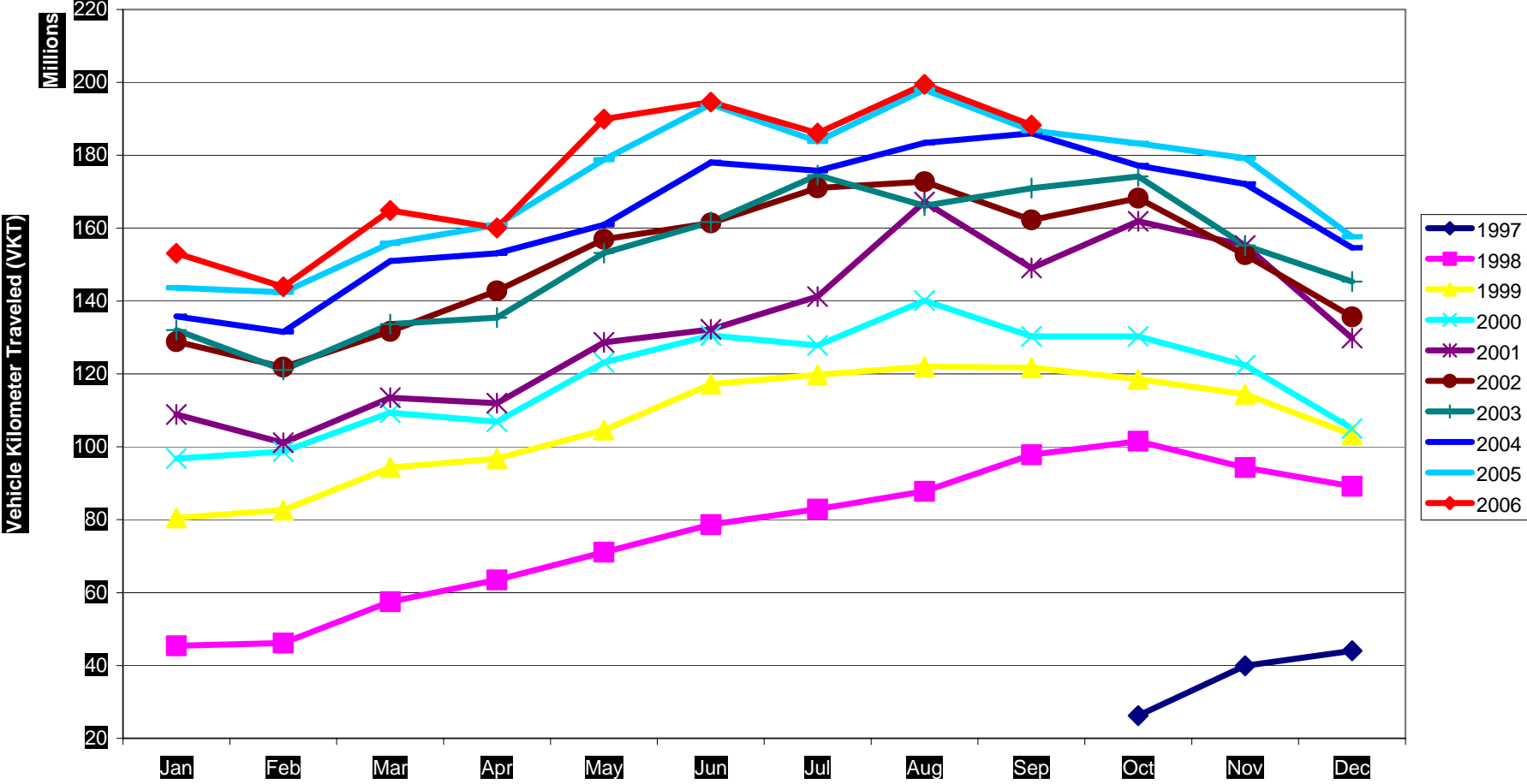


407 ETR – Traffic Statistics

on different sections of the highway (central, east and west)



407 ETR - VKT



Public Private Partnership
Workshop

Evolution of Highway 407 Governance

1980's

- ❑ MTO used traditional funding to design and initially construct several 407 interchanges between Hwy 400 and Hwy 427

1993

- ❑ Government decided to finance Hwy 407 from toll revenues because of lack of public funding and to advance its construction

1994

- ❑ A P3 model (Design-Build-Operate) was adopted and applied

1998

- ❑ 69 km was open to traffic (September 1998) in time and under budget
- ❑ New Government of the day decided to change the PPP model, using a long-term lease and concession agreement (termed 'privatization')

1999

- ❑ Sale of shares of OTCC (Highway 407 was one of its assets) to 407 ETR Concession Co. Ltd.

Objectives of Privatization

- ❑ Demonstrate the government's commitment to privatization
- ❑ Maximize value to the taxpayers/government
- ❑ Enable extension/enhancement of Highway 407 more quickly through private sector funding with no further capital investment by government



Contract Highlights

General

- Facility to be operated under a 99-year lease according to MTO safety standards
- All necessary approvals/permits/authorizations have to be obtained

Design/Build Extensions

- Construct extensions: 24 kilometres to west and 15 kilometres to east (opened in 2001), and deferred interchanges

Expansion and Congestion Relief

- Must expand (add lanes) once pre-set traffic triggers are met - typically within 2 years of trigger

Toll Rate Mechanism

- Market driven provided congestion relief met
- If relief not met – congestion payment to be made to the Province

Customer Service

- Provide a system to address and attempt to resolve issues
- Adhere to an unpaid toll, dispute process and appeal procedure
- Protect confidentiality of personal information

Grantor Obligations

- Set and approve safety standards; conduct safety audits
- Provide enforcement services on a paid basis and license plate information on a fee basis
- Ensure obligations to contracts and review reports to ensure compliance to agreement conditions

407 ETR Actions

- In response to expansion triggers in the contract, ETR invested \$90 million between 2002 and 2005 to add lanes, interchanges and widen bridges
- ETR is investing \$30 million in 2006 to widen some bridge structures
- 407 ETR invested over \$50 million to improve the billing system, introduce online services, expand its Customer Service Centre and build a 13,500 sq. ft. call centre
- \$172 million is being invested by ETR to add a lane in each direction (over 100 km of new capacity) between Highway 401 and 404 by late 2007
- ETR introduced a \$40 million customer benefit program to reward frequent users of the highway between 2007 and 2011
- A Heavy Vehicle Reward Program was also introduced in 2006 that targeted heavy usage and heavy vehicle drivers until mid-2008
- An Ombudsman was appointed to address unresolved issues and concerns related to customer service

Experiences & Lessons Learned

- ❑ Planning
- ❑ Design & Construction
- ❑ Operation and Maintenance
- ❑ Financing
- ❑ Policy & Legislation
- ❑ Risk Management
- ❑ Governance
- ❑ Customer Service



Planning

- ❑ A long-term vision with defined objectives for the infrastructure will ensure that the expectations for those assets can be met during the life cycle of the asset
- ❑ The 407 planning and delivery experience illustrated considerable value to government in protecting for the future highway corridor and expediting the approval process to implement facilities within that corridor
- ❑ Infrastructure financing should be included in the Environmental Approval process when it impacts transportation capacity and routing options (i.e., through use of Alternative Financial Procurement/Public-Private Partnership models)
- ❑ Government decision makers should be informed of all tradeoffs associated with the various AFP/PPP models

Design & Construction

- ❑ Economies of scale and significant savings in cost and time can be realized through a large contract with a private sector partner rather than through a series of small contracts
- ❑ Design and construction standards should be clear and contractually enforceable to permit the public sector to update standards over the life of the contract
- ❑ Operation and maintenance standards should be clearly established so that their requirements can be incorporated during the design and construction phase
- ❑ Government staff should have the flexibility to incorporate private sector ingenuity and innovation
- ❑ Risks should be transferred to that partner best able to handle those risks
 - ❑ Public expectations preclude the transfer of some risks and responsibilities

Operation and Maintenance

- ❑ Roles, responsibilities and obligations should be clearly defined to ensure accountability and an appropriate balance between private sector objectives and the protection of the public interest
 - ❑ A good working relationship between the respective parties will ensure that issues can be addressed appropriately and in a timely manner
- ❑ The contract needs to clearly identify monitoring, compliance and enforcement requirements and clearly bind the appropriate parties to with respect to responsibilities and costs
- ❑ Contingency plans need to be established to address the potential for risks/delays associated with deployment of state-of-the-art technologies

Financing

- ❑ Alternative funding sources enable large infrastructure projects to be completed in a more timely and cost-effective manner than is normally afforded to Government
- ❑ In Ontario's case, the adoption of two very different financial procurement models were both successful given the objectives of the respective governments of the day
- ❑ There are tradeoffs associated with each AFP/PPP model with regards to concession/asset value, potential life cycle revenues
- ❑ Each model's effect on the public interest has to be clearly identified and articulated to Government

Policy & Legislation

- ❑ The private sector generally requires governments to complete Environmental Assessments and property acquisition associated with a infrastructure development project before they are willing to bid on a project
- ❑ Contracts should be structured such that the public interest will be acceptably protected throughout the life of the contract
- ❑ Operation of a P3 infrastructure should recognize its role as part of a larger network and operate accordingly, rather than as solely as an discrete entity
- ❑ Contract provisions must permit successive governments to impact the operation of the facility when it is in the public interest, but it must be noted that can affect bid values
- ❑ There is merit to require, as have other AFP/PPPs, that the concessionaire establish a capital reserve fund to set aside sufficient monies to ensure the rehabilitation of the infrastructure prior to its return to government

Risk Management

- ❑ Transfer of risk is appropriate in circumstances where the public asset owner is unable to deliver projects
- ❑ Government should understand the relationship between risk management and potential financial return
- ❑ Business risks are more successfully manageable for private sector investors once projects are advanced to the preliminary design, construction or operation phase
- ❑ There is need to share information and establish a joint risk management process between government and the private sector to address/resolve concerns

Governance

- ❑ Government resources required to manage the contract should be acknowledged and provided for
- ❑ Contract should be performance based to ensure government's objectives are achieved
- ❑ Contract language should withstand changes in government philosophy
- ❑ The Contract should permit either the public or private sector to effect major shifts in the running of the infrastructure if profound societal changes dictate it over the concession duration
- ❑ It cannot be assumed that private sector and government interests will align:
 - ❑ A clearly defined process should ensure that public interest needs are balanced with private interests with regards to design and construction, operation and maintenance, risk management, and customer service activities
 - ❑ Government's ability to guarantee that all public policy issues can be addressed are limited to contract provisions. Government must ensure that its rights are protected and that its obligations (real and perceived) can be achieved

Customer Service

- ❑ Improved interface with the private sector with respect to government IT capabilities and the adoption of new technology is necessary to provide more effective customer service
- ❑ During an asset transfer, it may be prudent to second government staff to the new operator for a period of time to ensure that sufficient operational knowledge is forwarded to the concessionaire
- ❑ The public may expect that the government will involve itself on its behalf on billing and customer service issues regardless of the terms of a AFP/PPP contract
- ❑ The dispute resolution process should be clearly defined in order to respond effectively to public concerns
- ❑ There is value in having a customer advocate or Ombudsman
 - ❑ It should be a third party government appointee, autonomous to both parties, with clearly defined and transparent authority

Moving Forward

- ❑ Ontario has an infrastructure plan and funding shortfall that requires innovative financing solutions to ensure that sound infrastructure is in place to accommodate projected population and employment growth
 - ❑ The government and its partners intend to invest more than \$30 billion in Ontario's infrastructure over the next five years
- ❑ Ontario has established an Infrastructure Planning, Financing and Procurement Framework through Alternative Financing Procurement (AFP) and partnership strategies – ***Building A Better Tomorrow***
- ❑ The government is considering a number of possible strategies to guide their infrastructure decisions that respect its key planning, financial and procurement principles:
 - ❑ protection of the public interest,
 - ❑ demonstration of value for money,
 - ❑ preservation of appropriate public ownership and control,
 - ❑ maintenance of accountability,
 - ❑ fair, transparent and efficient processes
- ❑ Ontario ministries are interacting to identify potential AFP candidates through the annual infrastructure planning process