High Speed Rail Finance – State of Play in the US Today

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Uncharted Territory for US Owners

- US passenger rail model is public transit
  - Design-bid-build with public taking revenue risk (and paying the subsidies) – owner control
  - Contracted operations experience in commuter rail
- Public-Private Partnership (P3) cases limited, and no successful DBFOM rail projects (yet)
  - First two availability payment P3s closed in 2009
- Private ownership of rights of way
- Fare revenue forecasts discounted heavily

Stimulus Funding Challenges

- Risks of advancing civil works ahead of system selection and commercial operations planning
- Using one-time revenues for long term needs
- Fiscal capacity of non-federal partners to:
  - Match stimulus funding
  - Absorb risks during construction and operations
- Time lag for land use changes

Real Estate Revenues are Uncertain

Bond Buyer:
Tuesday, February 2, 2010

Goldman, Sachs & Co. has pulled out of a partnership with the Related Cos. to develop the 26-acre East and West Side Rail Yards in Manhattan — also known as the Hudson Yards — the parties confirmed yesterday.

The deal was expected to raise $700 million for the MTA’s capital program over several years…

Rail P3 More Nuanced than Roads

- Integration of civil and systems
  - Risks of cost overruns, delay, performance, O/M
  - Proprietary / open systems
  - Latent defects risk
- Role of operator relative to owner control
- Maintenance of civil works over 30+ years
- Fragmented ROW ownership/ operations
  - Intermodal coordination affects ridership
- Land use decisions controlled by others
- Potentially complex payment mechanism

Can the US Build HSR in Real Time?

Changsha Rail Station - Wuhan–Guangzhou (~1,000 km, initial operations December 2009, average speed 313km/h)

Can US sponsors manage the funding, environmental, procurement, social equity, regulatory and political dimensions to produce successes?

STRATEGIES FOR SUCCESS IN THE US

Federal Funding

- Federal commitment must be sustained
  - "Down-payment" today
  - FFGA / GARVEE concept – advance future federal revenues subject to appropriation
  - Minimize regulatory uncertainty

"hsr" on Shared Corridors?

- Commuter rail cost-sharing opportunity
  - Traditional transit subsidies available
  - Track sharing can improve economics
  - More stations possible
- Partnership opportunities with freight carriers
  - Raise speeds – intermodal freight benefit
  - Improve safety – crossings, signals, curves
  - Rationalize network – alternate freight routes

Create Jobs <u>and</u> Build Properly

- Address long term system integration issues from the outset
  - Operator / system input to civil design and construction
  - Facilitate phasing
- DBFOM takes time to close, especially super-turnkey that transfers revenue risk
- Who's making decisions?
  - Are consultants not at-risk setting the future now?

Maintain Credibility

- Phasing is essential for limited budgets
  - Advance civil works with systems/ operating input
  - Find ways to allow long term supply arrangements
  - Environmental process to recognize future corridors, “independent utility” concept needs tweaking
- Truth in Advertising
  - P3 bids reveal true costs, “parade the terribles” now
  - Manage expectations for achievable service levels

Control Costs

- Maximize competition to drive pricing
  - Smaller contract packages /manage integration risk
- Does a US rolling stock industry make sense?
  - Export credits and trade agreements
- Design and construction cost benchmarks
- Allocate risk for innovative means and methods – aerial structures, tunnels, track
- Win/Win Collective bargaining opportunities

Adapt "P3" HSR Concepts to the US

- Creative role for freight carriers
- Perpignan / Figueras approach to civil works using availability payment
- Operator role in specs, inspection, acceptance, O/M & MOW, service planning, revenue risk
- Value for money with up-front federal grants?
- Multi-jurisdictional funding & governance
  - Credit and appropriation risks

THANK YOU FOR YOUR ATTENTION

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