



Intermodal Terminals

A glimpse into opportunities from financing options and deal structuring

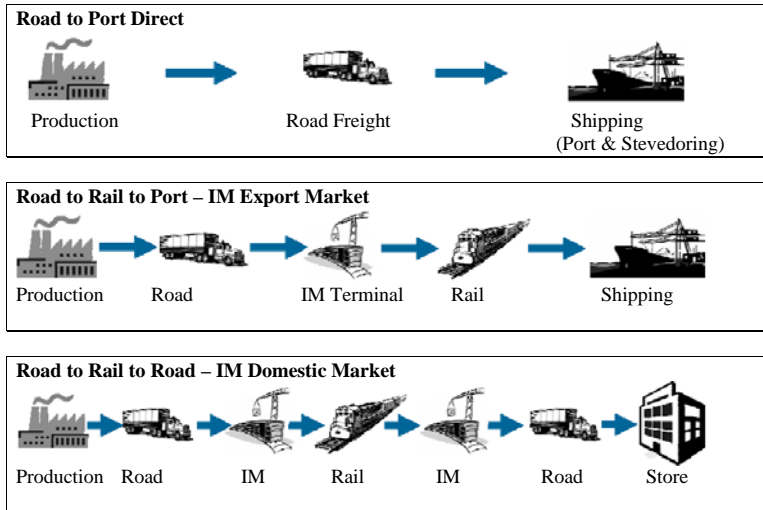
Associate Professor **Colin Duffield**

28 October 2009



Outline

- 1. What do I understand Intermodal (IM) terminals to be?**
- 2. Why have governments turned to the private sector to finance and provide public infrastructure? Could this be a model for Intermodal Terminals?**
- 3. Who traditionally finances & funds IM terminals**
- 4. Ownership / management / operation mixes**
- 5. PPPs and other joint ventures**
 1. *The history of legal changes necessary to facilitate private sector participation*
 2. *The history of tax changes necessary to facilitate private sector participation*
 3. *How governments reorganised the ministries and bureaucracies to facilitate the provision of infrastructure)*
- 6. Risk and project implementation**
- 7. Where to from here?**



Metropolitan intermodal terminals

Locality	Operator
Altona	CRT Group (Queensland Rail)
Laverton	Specialized Container Transport (SCT)
North Dynon	VicTrack
Dynon	VicTrack/P&O
South Dynon	Pacific National
East Swanson Dock	Patrick Corporation
West Swanson Dock	P&O Ports
Somerton	P&O Ports

Regional intermodal terminals

Locality	Operator
Bandiana	CRT Group (Queensland Transport)
Donald	Pea Growers Co-operative
Horsham	Wimmera Container Lines
Merbein	Wakefield Transport
Shepparton	Patrick Corporation
Tocumwal	Gray's Transport
Warrnambool (Dennington)	WestVic Container Lines

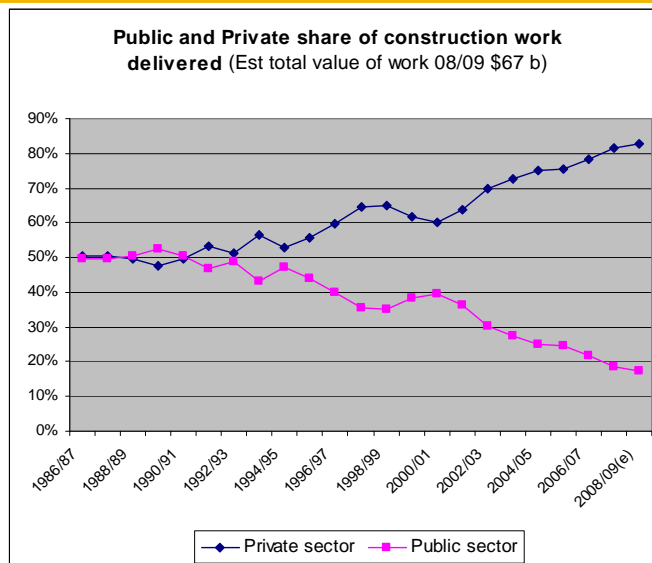


- - - Existing Rail Line
- Proposed Dynon Port Rail Link
- Existing at grade level crossing
- Proposed Footscray Road, Appleton Dock Road and Enterprize Road Grade Separation

DoT webpage,
<http://www.transport.vic.gov.au/Doi/Internet/Freight.nsf/AllDocs/85A7C6B1FBF8D51CA25716A0080B4D2?OpenDocument>,
 accessed 28.10.09

The intermodal terminal network in New South Wales





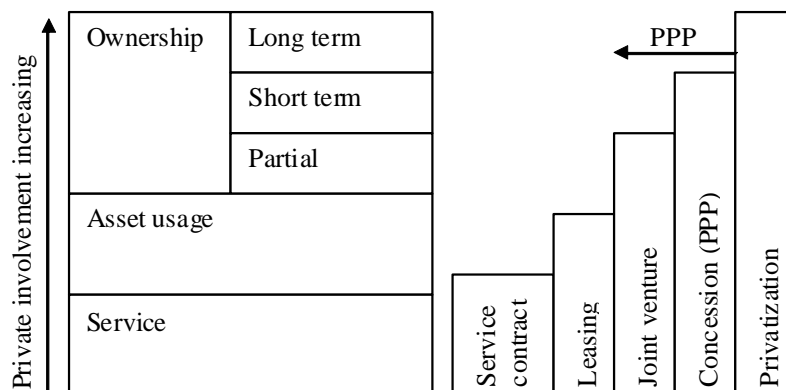
ABS data May '09

A Public-Private Partnership is a contractual agreement between a public agency (federal, state or local) and a private sector entity.

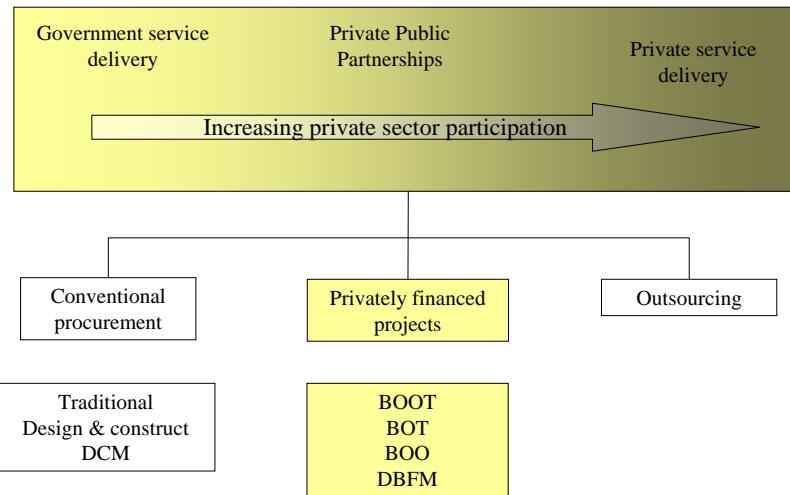
Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility.

United Nations 2006

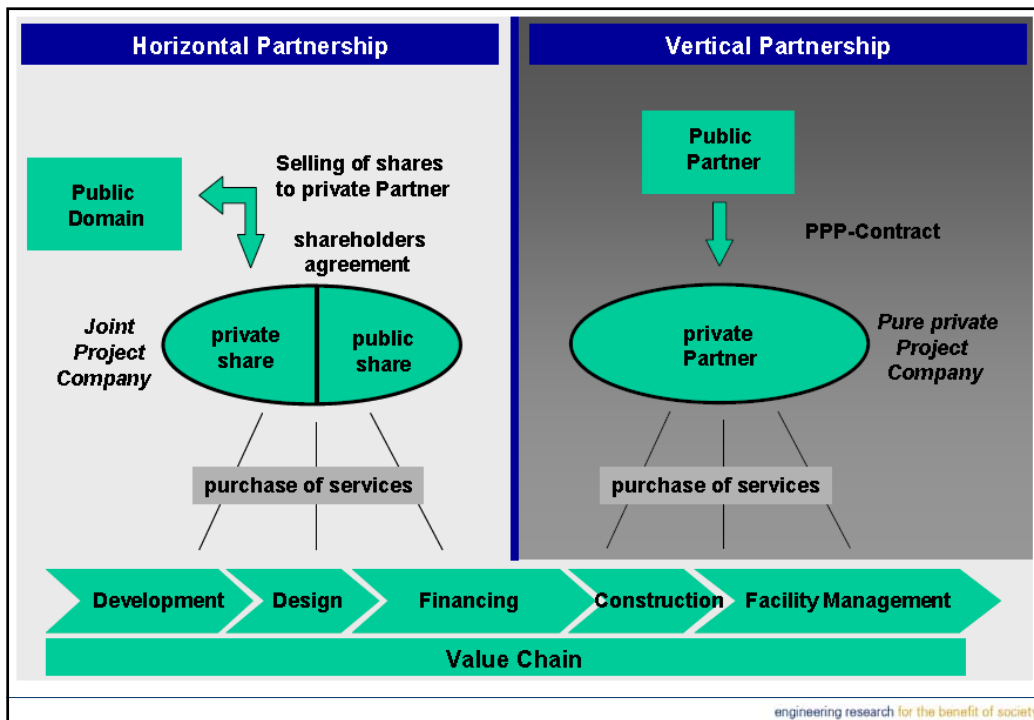
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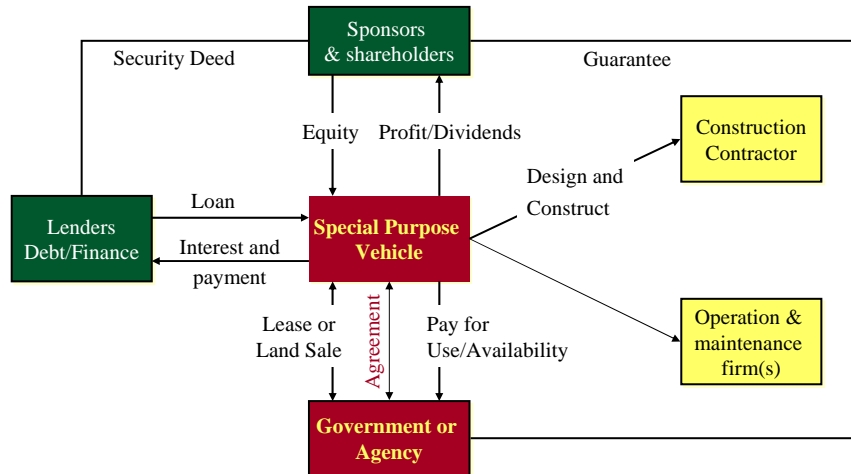


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(NSW: Working with Government: Guidelines for Privately Financed Projects (2001): 2





Early Australian projects:

- Shortage of finance led to:
Outsourcing, asset sales and then PPPs
- The concept of 'off' balance sheet debt was frequently used but this is a fallacy as PPP debt is considered by rating agencies in assessment of governments

Mature application of PPPs:

- Achieving best value for money
- Risk sharing to achieve efficiency

- *functional requirements* - includes demand forecast and technical solution
- *political motivation*- need is influenced by perceived or real voter sentiment
- *commercial investment* - a positive, and acceptable, financial return is possible from the investment
- *econometric* - influence of infrastructure investment on external returns, merit for investment based on productivity impacts.

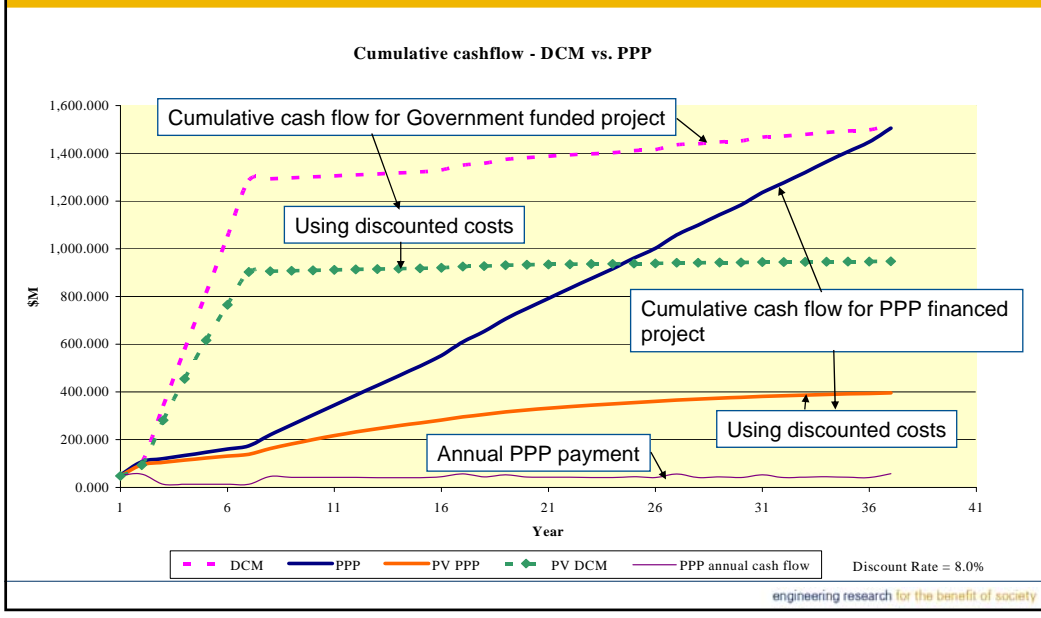
- The private sector invests in infrastructure and provides related services to government
- The government retains responsibility for the delivery of core services
- Arrangements between government and the private sector are governed by a long-term contract(s)
- Government specifies the services to be delivered and their standard via output specifications
- Value for money and public interest tests are conducted
- Genuine (and appropriate) risk transfer
- Payment depends on performance
- Whole of life asset performance

- Private sector responsible for service delivery, payment conditional on performance, quantity & quality
- Private sector bears bulk of risk on service quality & quantity provision
- Private sector bears primary risk of design, build, operate, obsolescence, residual value
- Government bears risk of changing it's services, standards

Private partner gets suitable Return On Investment (ROI)

Government gets services without capital outlay (usually) at fixed or known price

**Asset future is defined after service contract ends:
e.g. Transfer back to government (or not).**



- Change in payment timing
More projects can be commenced early
(Provided no borrowing problem)
- Change in funding mix
(Budget vs user pay)
- Improved project choice
(Commercial test & less political interference)
- Innovation and efficiency
- Ensure appropriate asset management



Efficiency

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- Commercial opportunity
- Price surety
- Risk management
- Potential for improved management
- Broader access to available finance
- Innovation
- Tax
- Corporate structure

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Subtle control

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- Policy
- Service understanding (output spec)
- Contractual agreement
- Business acumen
 - Project appraisal
 - Deal structure
 - Bid negotiation
 - Contract management
- Regulation
- Performance pressure via: contract, financiers, company & government

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- Establishment of project specific authorities
- Streamlining of project specific activities requiring approvals, e.g. the interface with planning, community, environment etc
- Accounting requirements
- Ownership obligations
- Private sector access to land
- Operational agreements that detail key requirements of service requirements.
- Interface and communication issues
- The right to charge and/or have access to confidential community and user details, e.g. collection of tolls.

Issues:

- anti-avoidance provisions
 - intended to prevent States from providing tax benefits to private sector at Commonwealth expense (tax "shelter")
- deny tax deductions to private sector owners where asset "controlled" by tax exempt entity e.g. government

1. Who has 'effective control of use' ?
2. Who has 'predominant economic interest'?

Mechanisms:

- Special Purpose Vehicle
- Corporate structuring
- Use of Trusts
- Alignment of structure with Tax provisions

Benefits

- Depreciation
- Taxed at final point
- Timing of cash flow
- Tax rates

Who provides the funds?

- Direct payment
- Taxes (Grants and budgets)
- Subsidies

Financing

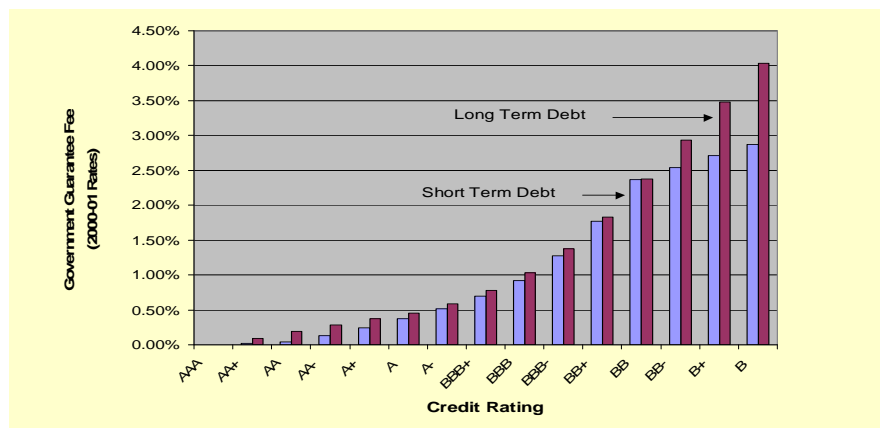
- Debt
- Equity

- Potential Debt Providers
 - Bank Debt
 - Capital Markets
 - Other
- Financing imperatives
 - “Rent” adequate to service debt
 - Stable rent and buffer against downside risks, eg) for projects: Abatement; Extension
 - “Rent” to survive change of actors, eg) constructor

Range of domestic and international banks

- Bank debt
- Capital markets
 - Eg) Macquarie, Westpac, RBS
- Monoline insurers (Gone post GFC)

Cost of debt - Guarantee fee policy: Standard & Poors or Moodys



Range of domestic and international investors

- Passive Investors
 - Super funds
- Trade Investors
 - Overseas examples include Laing
- Other investors
 - Plenary

- Demand
- Service outcomes – performance (KPIs)
- Innovation as it relates to:
 - Functionality
 - Finance
 - Efficiency and optimisation of value chain
- Whole of life outcomes
- Capital; maintenance; upgrades & operational
- Long term responsibility

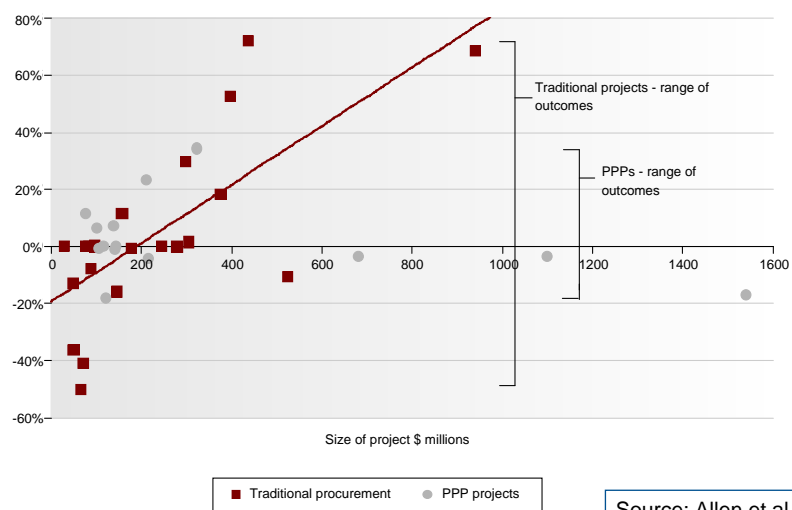
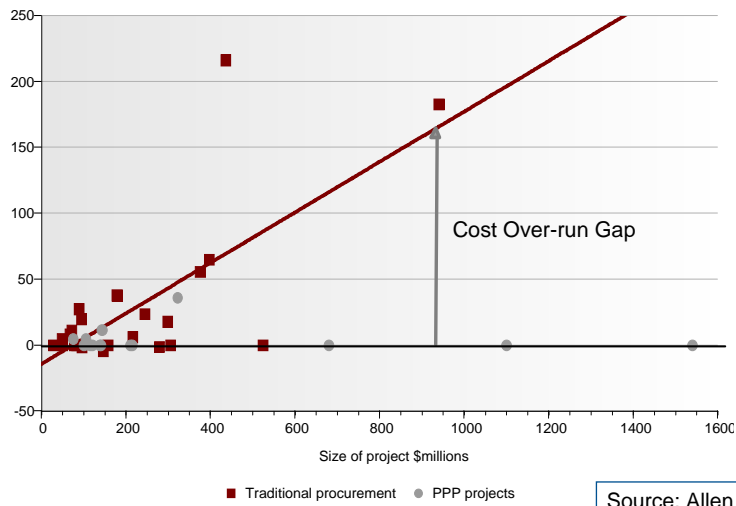
- Vertical versus horizontal integration of business

Procurement	Operation	Management efficiency	Financial robustness	Political emphasis
<ul style="list-style-type: none"> • Consortium risk profile and expertise • Technical risks 	<ul style="list-style-type: none"> • Change (variations) • Service standards • Abatements and KPI adjustments • Cashflow 	<ul style="list-style-type: none"> • Resources • Systems • Private sector • Public sector • Interagency 	<ul style="list-style-type: none"> • Debt cover ratios • Loan life • Equity stakeholders and organisational structure • Liquidity analysis 	<ul style="list-style-type: none"> • Elections • Power • Incentives • Reporting (AG; Budget review etc)

- High bidding costs
- Lack of competition/deal flow resulting in inefficiency
- Site specific issues
- Quality of construction
- Environment
- Network – particularly difficult for operating environment
- Interface – particularly difficult in ‘Brown field’ cases; access regime
- Interagency - approvals

Risk Category	Description	State	Private Sector	Risk Category	Description	State	Private Sector
Site risk	The risk that unanticipated adverse ground conditions, excluding known existing site contamination, are discovered which cause construction costs to increase and/or cause delays.		✓	State and Federal legislation changes	These risks include changes in State or Federal tax, changes to legislation, other rates and charges (with the exception of discriminatory legislation)	✓	✓
Environmental	The risk that the Project Site has pre-existing contamination and requires remediation.	✓		Interface risk – core services	Risk that the delivery of core services by the State in a manner that is not specified/ anticipated in the Project Agreement adversely affects the delivery of contracted services.	✓	
Scope risk	Risk that the output specification does not meet the requirement for the services to be provided.	✓		Interface risk – contracted services	Risk that the delivery of contracted services adversely affects the delivery of core services in a manner not specified / anticipated in the Project Agreement.		✓
Design	Risk that the hospital design is incapable of delivering the functional specifications and defined service delivery policies.		✓	Force Majeure	Risk that inability to provide any aspect of the Project is caused by a force majeure event.	✓	✓
Construction and Commissioning	Risk that events occur during the construction period that prevent the facility being delivered on time and on cost.		✓	Operating risks	All risks associated with the provision of contracted services by the Operator, including the risks that operating costs change over the term of the Project.		✓
Maintenance risk	Risk that maintenance costs differ from expected or that agreed service standards cannot be achieved.		✓	Changes in Public Hospital Patient Demand	Variations in the demand for the hospital’s services, which impact expected revenue and cost estimates.	✓	
State initiated variations	Risk that DHS changes the design, construction, commissioning requirements or output specifications.	✓		Requirements for additional services / facilities at DHS’s request	The procurement or provision of additional equipment or facilities to provide additional requested services.	✓	
Finance risk	Risk that the Operator will not be able to obtain financing for the Project or by reason of a non-discriminatory change in law, policy or other event, additional funding is needed to rebuild, alter, reequip etc. the facility, which cannot be obtained by the private sector.		✓				

Risk matrix





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