The current International Financial Crisis and its impact on the Viability of Toll Roads

Bill M. Halkias, PE, F. ASCE, F. ITE
CEO, Attica Tollway Operations Authority
Athens, Greece
Land Transportation and Economic Development

Comparison of Passenger Km’s (in billion PKm) and GDP in Sweden (1950-2005)

Source: Estimating Traffic Demand Risk: A Multiscale Analysis, N.A. Krüger, Karlstad University, Sweden
International Financial Crisis

The 2007–2012 global financial crisis is considered to be the worst financial crisis since the Great Depression of the 1930s.

World map showing real GDP growth rates for 2009. Countries in brown were in recession.
In the 1990’s. Mexico and Toll Roads

• The financial crisis of 1995 resulted in the failure of the Mexican Toll Road privatization program.
• Banks and construction companies suffered large financial losses.
• Banking sector did not finance infrastructure projects until 2005.
• Reasons for failure:
  ✓ Unrealistic revenue forecasts
  ✓ Lack of thorough financial and economic analysis
  ✓ Inappropriate sharing of risks
  ✓ Public resistance (willingness to pay not assessed)
In the 2000’s. Argentina and Toll Roads

• A severe economic downturn hit the country in late 1990’s beginning of 2000’s.
• Currency devaluations were applied and a law modifying the original Concession Contracts was passed.
• Significant reductions to toll tariffs and compensation to the Concessionaires were imposed.
• As a result of political changes, original Toll Road Concessions were either failed or drastically changed.
• Reasons for failure:
  ✓ Fixed Dollar Tariffs
  ✓ Short concession periods
  ✓ No traffic guarantees
  ✓ Public resistance to paying tolls
In the 2010’s. The impact of the current financial crisis on Toll Roads

• The recession is having severe consequences for the economic performance of the toll highways, especially concessions.
• Traffic levels are declining at a much greater rate than the decline of GDP.
• Conditions imposed by the financial markets on borrowers are becoming much stricter due to liquidity crisis.
The Recent Downturn of Toll Traffic & Revenue in Europe’s “PIIGS counties”

Definition of 'PIIGS'
An acronym used to refer to the five euro zone nations, which were considered weaker economically following the financial crisis: Portugal, Italy, Ireland, Greece and Spain. Since the nations use the euro as their currency, they were unable to employ independent monetary policy in order to help battle the economic downturn.

More on: http://www.investopedia.com/terms/p/piigs.asp#ixzz22Ojx2oyI

Indicative traffic reductions on various Toll Roads (Year 2011 vs. Year 2009)
• Portugal : 5% to 10%
• Italy : 1% to 3%
• Ireland : 1% to 5%
• Greece : 25% to 40%
• Spain : 15% to 25%
Implications on Toll Roads

A new threat has emerged.
Its name: “Opposition to paying Tolls

Greece

South Africa

Spain
Toll Opposition in Greece
Toll Opposition in South Africa
Toll Opposition in Spain
Greek Toll Road Concessions

1st generation vs. 2nd generation

- Fuel price increases, vehicle taxation, salary cuts and other austerity measures increased unemployment, reduced disposable income and they altered dramatically “trip generation” in the country.
- 1st generation projects (Greenfields) were fully operational, when crisis arrived. Traffic and revenue drops started low, increased lately (up to 30% reduction in last 3 years)
- 2nd generation projects (Improving of Brownfields) are experiencing higher traffic and revenue drops (up to 40%) with significant variations between real and anticipated traffic, which though was counted and confirmed at the time of the bid.
- Since toll revenue was used to finance construction, traffic risk can no longer be borne by the Concessionaires.
- Overall Risk Assessment Deficiencies (country risk, bank devaluation, opposition to paying tolls, difficulty in issuance of guarantees, traffic forecasts, reduced DSCR).
- Lack of public funds resulted in expropriation delays which in turn resulted in slow down of activities and restricted flow of borrowed money.
- The dramatically altered scenery in Greece resulted in imposition of “draw stops”.
- Last but not least, construction has stopped on 4 out of 5 Toll Roads.
A new trend on Financing of Toll Road Infrastructure emerges in Europe

- Extending the application of P3’s.
- Transfer of O&M activities to private sector.
- Creation of a Risk Sharing Finance Facility (RSFF) between the State and the European Investment Bank (EIB).
- Provision of funding from EIB with collateral of National Strategic Reference Framework (NSRF) funds and other European Institutional guarantees.
- Introduction of Project Bonds, in parallel with issuance of State and EU guarantees.
Lessons Learned

• Long Term Project Lending by Banks is effective only under normal financial conditions.
• Long Term financing shall need flexible terms.
• Contract renegotiations and risk assessment shall be feasible.
• New funding regimes, such as Project Bonds and RSFF’s should be used to finance projects.

The P3 approach and the user finance principle can be a solution to maintaining aging infrastructure and to boost development of new Projects.
Thank you!

Contact:
Bill M. Halkias, PE, F. ASCE, F. ITE
CEO of Attica Tollway Operations Authority
E-mail: bhalkias@attikesdiadromes.gr
www.aodos.gr