ProGottardo-Ferrovia d'Europa

Cohen&Co. Advisers

# IL FUTURO DI AlpTransit

## Prospettive e alternative di finanziamento delle grandi infrastrutture ferroviarie

Lugano,
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Università della Svizzera Italiana (USI)/Scuola universitaria professionale della Svizzera italiana (SUPSI)

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# 1. FINANCING MEGA PROJECTS

**ALP-TRANSIT IS A MEGA PROJECT AND AS SUCH NEEDS TO BE ADDRESSED PROPERLY:**

A. All projects but particularly mega-projects and multinational projects need a strong political motivation and undertaking to move forward.

B. Without the political backing addressing the right financing strategy is a meaningful exercise both under public and private financing. Interaction, however, with alternative financing modes and strong technical and financial feasibility studies may activate or stimulate the required political backing.

C. Rail projects have been mostly financed by state budget money, while operation of rail projects have been also financed with private sector involvement.

D. The private sector could be beneficial in bringing the most advanced and innovative design systems and could commit to specific contractual budget and timely delivery. In addition, certain aspects of the project could also be managed by private investment and financing, (notably real estate around stations, transportation hubs, land value capture and TOD effects)

E. Private sector involvement in a megaproject (concession or DBFOM) without any public money support may be difficult for the size of the financing required and for the revenue stream needed to repay the debt and give an adequate return to investors.

# 2. WHY STATES MIGHT BE RELUCTANT TO COMMIT TO FINANCE MEGA-PROJECTS

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A. Lack of financial strength due to persistent budget deficits;

B. Explicit limits to borrowing capacity:

- Internal by self-imposed restrictions,
- External due to uncertain long term debt sustainability outlook of the borrowing country

C. Lack of adequate cost benefit analysis of the project to assess the sustainability of the project and its debt repayment component, including profitability of passengers and freight access fees.

# 3. ALP-TRANSIT PROJECT

## WHAT ARE THE MAIN PROBLEMS TO ADDRESS:

A. Lack of domestic government financing

(General anti borrowing legislation in Switzerland; political unwillingness to increase taxation to foster development in the Ticino area; taxation confined within the cantons;)

B. Government priorities still uncertain (linked to cantons decisions as well):

North-South vs. East-West corridors

C. Effect of competition of Brenner and TAV and road/track transition capacity in Switzerland not yet properly addressed: important to drive political decision and Switzerland competitiveness in terms of rail and logistics

D. Status of rail infra in the North (Germany) and in the South (Italy) to be further addressed.

E. Ticino and Lombardy region more likely to reach a political agreement, but Ticino without backing of Swiss central government has fewer negotiating powers to reach a viable solution on financing the southern link of the Alp-transit project.

# 4. HOW TO DEAL WITH THIS SITUATION

A. Impossible to consider the financing of such a complex project without a coordination with the other countries (Germany and Italy)

B. Need to identify section of the project more suitable for private financing (unlikely, for the overall southern link to the Swiss-Italian border)

C. Need to reach an equity intergenerational balance on handling the investment, its financing and its repayment: this will help finding suitable financing models or instruments also for a government involvement

D. Current misalignment between income generated by the project (taxation, tod effects, land value capture, increased revenues from pax and freight traffic, etc) and debt repayment

E. Ownership and state budget debt

D. Above points c, d, e imply a revision of debt policy in terms of borrowing instruments (see below slide 7) and debt financing priorities (Draghi's good versus bad debt).

# 5 . WHAT HAS BEEN HAPPENNING IN OTHE COUNTRIES OR RAIL PROJECTS

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A. Very little, as most rail project are directly or indirectly linked to government or supranational financing. but there are examples mainly in private rail operation that we may consider and draw some lessons.

(Hong Kong Transit, Italo,HS1,Freight companies in the USA) or (HSR Tours-Bordeaux DBFOM)

B. Tax Incremental Financing,TOD measures, land value capture, real estate development on one side, privatization of operation or multicountry/multilateral support on the other side

C. Dedicated legislation such as R.R.I.F in the USA or promotion of Infrastructure funds or Public-Private Real Estate Development Companies

# 6. FINANCIAL INSTRUMENTS

A. Perpetuity bonds (to be issued by states, guarantee on interest payments)

B. Contingent liabilities/guarantees

C. Shares issues of dedicated SPV (more difficult given long period to dividend distribution)

D. JV public private for real estate development( Hong Kong transit)

E. Longterm convertible bonds issued by SPV

F. DBFOM and availability payments,shortfall guarantees or other contingent liabilities, etc

G.Grants vs long term loans (RRIF in USA) (35 years maturity but could reach 75 years)

H. Privatization/nationalisation after construction

I. Role of development banks (CDP/KFW/CDC) :creation of a financial SPV deconsolidated from national budgets to borrow on the international markets and to extend construction and /or refinancing loans.

L. Role of EU institutions (EIB and EU facilities)

M. Infrastructure Funds: Equity and Debt. Promoting domestic infra funds.

N. T.I.F (Tax Incremental Financing)

# TAX INCREMENTAL FINANCING AND REAL ESTATE/LAND VALUE CAPTURE

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## DULLES METRORAIL – WASHINGTON D.C

**Introduction**

## DENVER UNION STATION

**Introduction**

The Denver Union Station project was driven by the need to create a comprehensive transportation hub integrating commuter trains, light rail, intercity trains, bus terminals, parking, taxis, and bicycles. Additionally, the private sector was responsible for developing the areas surrounding the station.

## COPENHAGEN METRO

**Introduction**

## SAN FRANCISCO SALESFORCE TRANSBAY

**Introduction**

The project aims to drive urban revitalization and territorial transformation, integrating 11 transportation systems while developing a new residential neighborhood and a high-value office tower with outstanding architectural design.

# 7. Possible Applicable Models

The constraints faced on ALP TRANSIT are not unique of Switzerland but, for a variety of reasons, the same constraints could be found in many countries.

Lack of financing and budget consolidation is common to many countries.

Current research or proposed models tend to solve this problem by creating off balance sheet vehicle and private sector participation beyond the standard PPP approach.

The suggested approach tend to take into account the fact that most benefits from project materialize several years after completion of the project and therefore the taxation and other externalities or operating revenue flows compensate debt repayment only at that stage of the operating period.

# 7. Possible Applicable Models

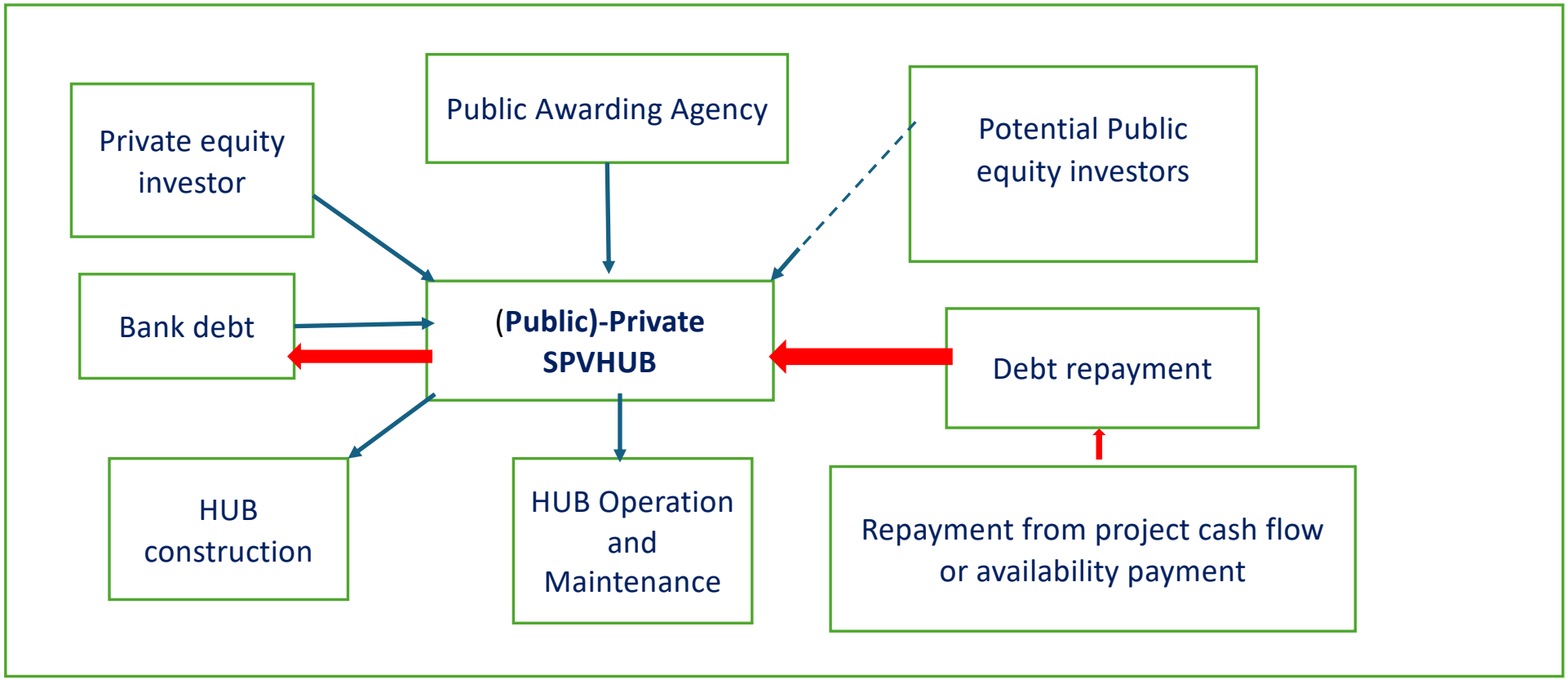
**MODEL 1** A CLASSIC TRANSIT CONCESSION MODEL

**MODEL 2** A FINANCIAL SPV MODEL

**MODEL 3** A REAL ESTATE JOINT VENTURE

*All models should consider the use of financial instruments, maybe new for project financing, but well known on the capital market.*

# Model 1: CLASSIC TRANSIT DBFOM FULLY PRIVATE OR WITH POTENTIAL PUBLIC SUPPORT



# Model 1

Model 1 is the classic transit DBFOM model of concession quite familiar within the PPP approach to infrastructure financing.

In the traditional DBFOM approach the SPV is primarily financed by equity of private investors (contractors, operators,) and by bank loans.

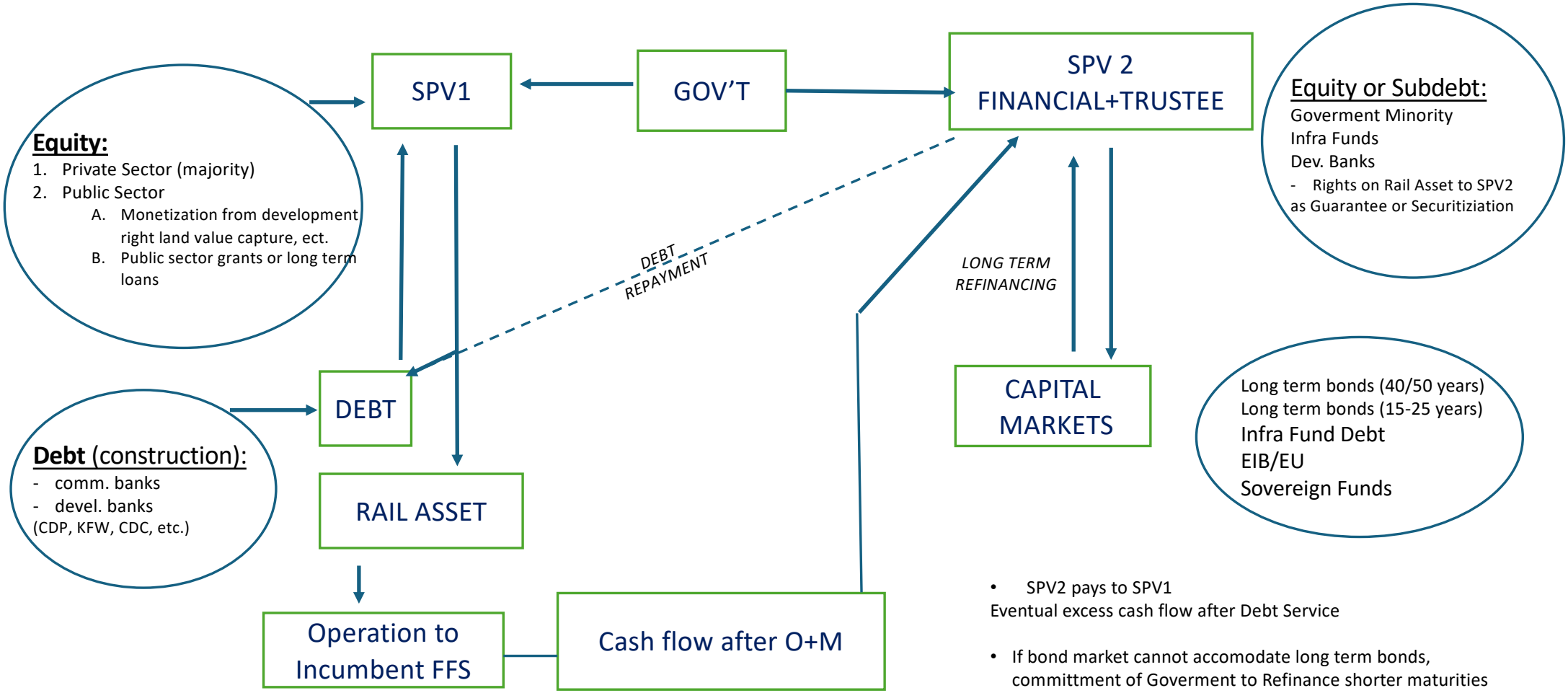
Return on investment and the debt service are covered either by the revenues of the service or product developed by the project or (most common in Transit) by availability payment mechanism. If the capex is too high, there are public grants to the SPV/project to enable the reduction of bank debt and therefore a possibility of applying a lower price/tariff and/or a lower availability fee.

# Model 1

In a mega projects, like Alp Transit, things are more complicated: the capex is very high (about CHF 8 bln) for southern link, there is an incumbent operator (SBB CFF FFS) who benefits from the access fees,still problematic for pax and freight rails; the Swiss government does not appear willing to increase borrowing to support this project. A classic DBFOM PPP is not possible, unless supported by public financing, which must be of a significant amount.

A possible solution is to convince the Government to support the project by using available borrowing tools and to look positively at the possible debt given the positive results of the project in the future. Switzerland could issue long term debt without any problem given its rating: from long term bonds to even a perpetuity tranche with interest payments starting during the first few years of operations when the externalities revenues (Taxation, Real Estate developments TOD effects) will accrue to government.

# Model 2: POSSIBLE APPROACH




- SPV2 pays to SPV1
Eventual excess cash flow after Debt Service

- If bond market cannot accomodate long term bonds, committment of Goverment to Refinance shorter maturities

# Model 2

Model 2 works on the creation of two SPV by the government: participation of the Government in the SPVs is minimal and could be activate by using as equity the monetization of development rights along the rail track area.  (LVC,TOD effects, land sales, etc). SPV1 debt will derive from commercial bank financing including development banks such as CDP,CDC,KFW.

The asset will be owned by SPV1 and thus not consolidated in the national budget.

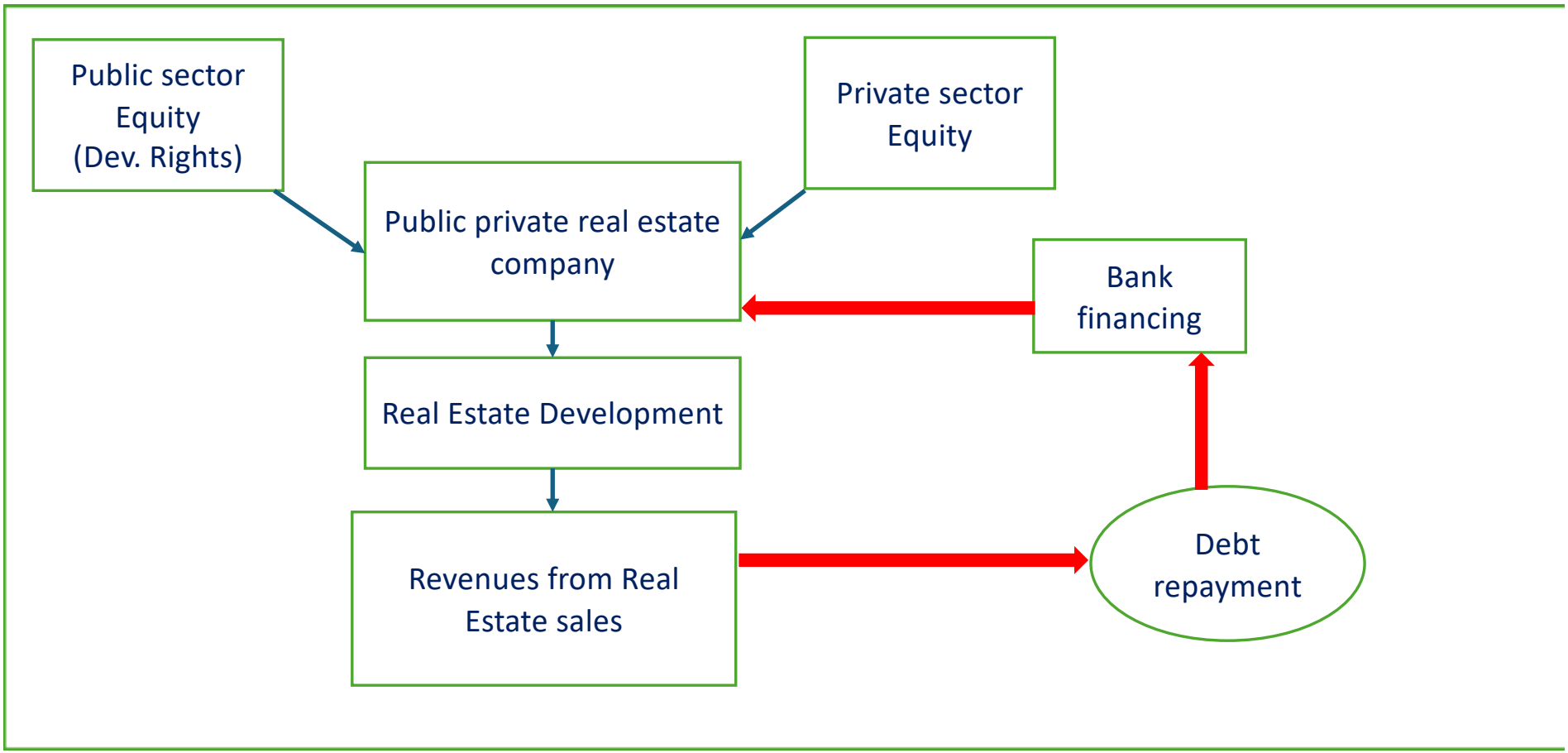
Asset will be operated by incumbent FFS and revenue after operation will flow to SPV2 to repay the SPV1 debt. Management of access fees (pax and freight) to the track to be redesigned.

# Model 2

SPV2 will be a financial vehicle again sponsored by Government, dedicated only to the financing of the project,and managed by a Trustees nominated by lenders. Equity in the SPV2 could be funded by developments banks, local governments, private investors but the vehicle does not require capital beyond normal operation, as SPV2 functions on behalf of lenders in the capital market.

Funds borrowed on the international capital market will be used to refinance the construction loan and set up a long term financing strategy for the rail asset, in order to minimize the debt service of the project.

# Model 3: JV PRIVATE PUBLIC REAL ESTATE DEVELOPMENT COMPANY



# Model 3

Model 3 gives an example of how a JV between rail company and developers could be established to benefit from the upside profit deriving from the real estate development project,along the track area. Use of the Real Estate profit could be used to participate in the Alp-transit rail project.

**Examples :**

**HONG KONG TRANSIT**

**TRANSPORT FOR LONDON**

# HONG KONG MTR

MTRC business model relies on:

1. **Government support**

2. **Integrated planning**

3. **High-quality real estate development**

4. **Strong corporate management**

HONG KONG MASS TRANSIT
Hong Kong MTR

| | | |
|---|---|---|
| Standard & Poor's | A-1+/A-1+ | AAA/AAA |

Its Rail+Property (R+P) model generates **over 60%** of its revenue from real estate, making it a financially self-sustaining public transit operator listed on the Hong Kong Stock Exchange.

# LONDON (TFL)

Transport for London (TfL) partnered with Delancey and APG in a public-private joint venture. TfL contributed its land assets, unlocking £425 million for regeneration at Earl's Court.

The project will deliver 4,500 new homes plus retail and cultural spaces.
Profits and land value uplift support TfL's long-term transport funding strategy.

TfL contributed land and air rights instead of cash

Transport for London has developed a real estate arm to enhance the property value of its real estate assets, by forming joint ventures with developers. Revenues from these development will be used to strengthen the London Transport system.

# BENEFITS

### ALIGNS INTERESTS:

The municipality benefits directly from the success of the development.

### REDUCES PUBLIC UPFRONT COST:

Instead of paying cash, the city's "investment" is its land/rights.

### LONG-TERM REVENUE:

The city receives dividends or a share of profits from the project.

### CONTROL:

Ensures that public objectives (sustainability, affordable housing, transport links) are met.

# CASE STUDIES IN RAIL OPERATION, MAINTENANCE AND MANAGEMENT

**CASE STUDIES IN RAIL OPERATION, MAINTENANCE AND MANAGEMENT**

## *7.1 ITALO*

**CURRENT SHAREHOLDERS:**

**MSC (INVESTMENT HOLDING LIMITED S.À.R.L.)**: Holds approximately 49.23%.

**GLOBAL INFRASTRUCTURE PARTNERS (GIP)**: Holds around 39.18% of the shares.

**ALLIANZ**: Holds approximately 10.04% of the shares.

**OTHER SHAREHOLDERS (Cordero di Montezemolo,Bombassei,Seragnoli)** hold 1.56%

## *7.2 HIGH SPEED RAIL 1*

THE BRITISH SIDE OF EUROTUNNEL LINK (FROM LONDON ST.PANCRAS) HS1 IS OPERATED BY A CONSORTIUM OF INFRA FUNDS INCLUDING

INFRASTRUCTURE CAPITAL PARTNERS (35%)

EQUITIX (35%)

KOREAN PENSION FUND (30%)

OWNERSHIP OF HS1 IS THE UK GOVERNMENT WHILE MANAGEMENT AND OPERATION IS UNDER CONTRACT WITH MANAGEMENT COMPANY OWNED BY THE THREE FUNDS ABOVE

HS1 WAS ACQUIRED IN 2017 FROM BOREALIS AND OTTP, BOTH CANADIAN INFRASTRUCTURE FUNDS, FOR £3 BLN

# THANK YOU

REMY COHEN

**Lugano,**
**10 ottobre 2025**