

HIGHWAY 407



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Presentation Outline

1. The 1st Privatization - Highway 407

- Background
- Decision to Privatize
- Policy Framework
- Roles and Responsibilities
- 407 Usage

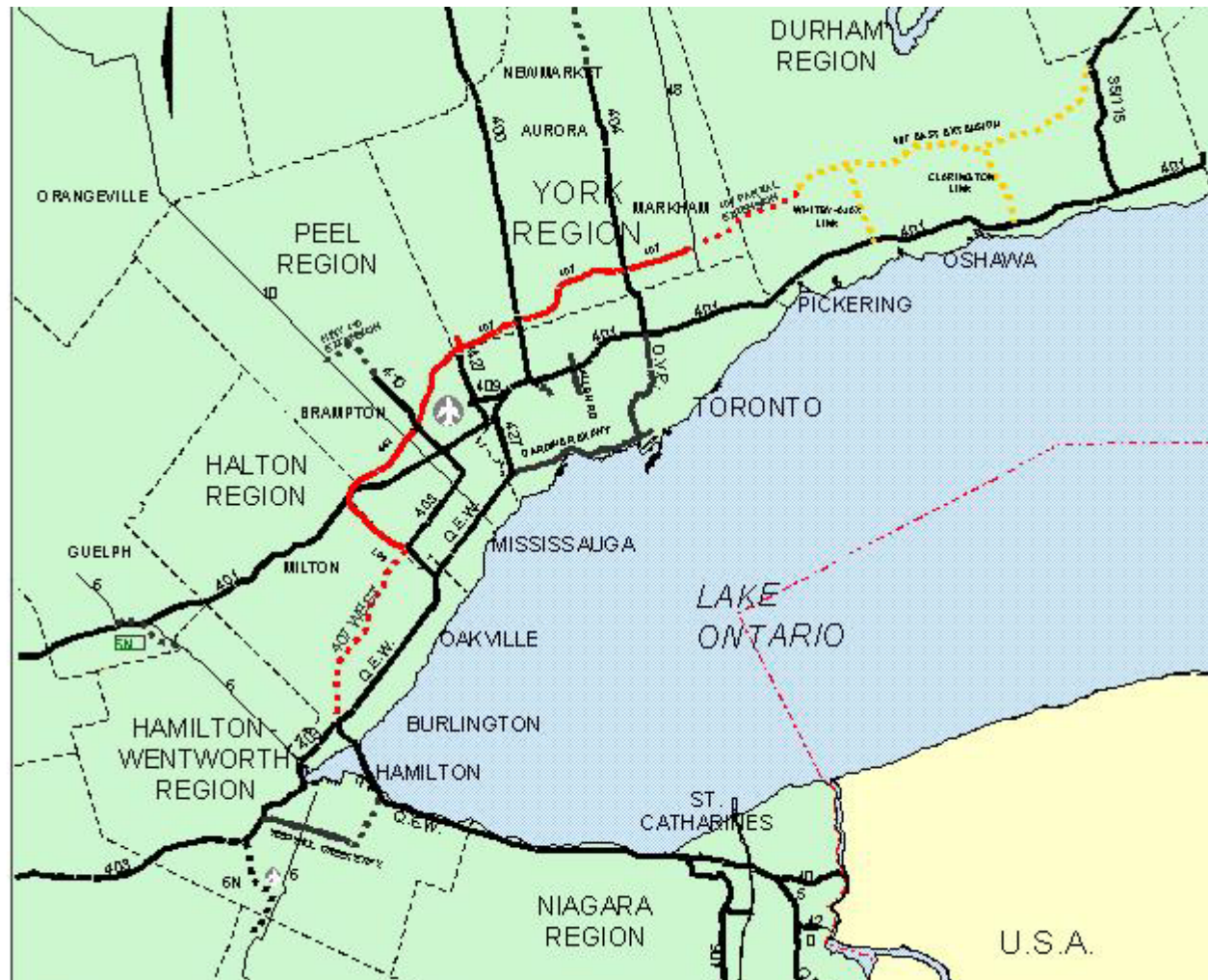
2. Construction

3. Lessons Learned

4. Summary

5. Next Steps

Map of GTA



Highway 407 - History

- **Need for Highway 407 identified in the early 1950's**
- **Route designated during the 1970's and 1980's**
- **First 9 km section started in 1987**
- **Early 1993 - decision to toll due to lack of public funding**
- **April 1994, Design - Build contract to CHIC (\$930M)**
- **Mid 1994 - Toll Supply Contract to Bell Canada, Bell Sygma, Hughes Aircraft Co and Mark IV Industries (\$102M)**
- **Late 1998 - Expression of Interest sought for the sale of Hwy 407**
- **May 5, 1999 - Highway 407 sold to 407 ETR Concession Co.**

Highway 407 - Central

- **69 km**
- **36 km opened Toll Free in June 1997**
- **Revenue Operation began October 1997**
- **Complete 69 km open to traffic in September 1998**
- **28 Interchanges with 7 freeway to freeway connections and 128 entry/exit ramps**
- **7 full and partial interchanges were deferred**

Today, the highway is 108 km long

Highway 407 -Tolling System

- **State of the art tolling system - fully electronic - no toll booths**
- **Primary tolling system is transponder-based**
- **Secondary, licence plate recognition system ensures full accessibility to highway**
- **Links to Ministry's vehicle license plate database**
- **Fully automatic processing of transactions**
- **All weather capability**
- **Tolls calculated based on:**
 - ⊗ **Distance travelled**
 - ⊗ **Time of day**
 - ⊗ **Type of vehicle**
 - ⊗ **Transponder or video**

Transponder Equipped Vehicles



Highway 407 - Sale Process

- **Decision to offer Highway 407 for sale - February 1998**
- **Dual process identified - goal was to sell the highway but also included design build process for extensions (if no buyer)**
- **Request for Expressions of Interest (EOI) issued - October 1998**
- **EOI bidders evaluated - December 1998**
- **RFP's issued to successful bidders - December 1998**
- **Bids submitted March 1999**
- **Sale announced - April 13, 1999**
- **Financial closing - May 5, 1999**

Deal Highlights

- **Purchaser:** Cintra (Grupo Ferrovial) and SNC-Lavalin
- **Sale Price:** \$3.107 Billion
- **Transaction:** Purchased shares of 407 ETR Concession Co.Ltd. (formerly OTCC)
- **Term of Lease:** 99-year land lease
- **Construction:** SLF (SNC-Lavalin and Ferrovial-Agroman)
J-V

Privatization Objectives

- **Maximize value to the taxpayers**
- **Demonstrate the governments' commitment to privatization**
- **Protect key public interests**

Transportation Consideration

- **Ensure timely expansion of Highway 407**
- **Protect public safety**
- **Ensure Highway 407 continues to operate as an integral part of Ontario's highway network**
- **Retain ability to integrate, plan and expand Ontario's transportation network**

Identified Policy Interests

- **Public Safety** - road safety and enforcement
- **Toll rate controls**
- **Expansion triggers**
- **Plate denial/access to vehicle licence registration**
- **Municipal tax treatment**
- **Corridor control and right-of-way issues**
- **Property acquisition**
- **Federal environmental approvals (CEAA)**

Legislation and Contracts

- **Bill 70, the Highway 407 Act (1998)** : allowed transfer of Highway 407 to a private sector purchaser
- **Share Purchase Agreement**: provides the framework for selling the former OTCC assets
- **Concession and Ground Lease Agreement**: provides for ground lease and identifies obligations and rights of both parties

Concessionaire Obligations

General:

- Operate and maintain facility
- Meet all of MTO safety standards with verification through 3rd party and MTO random audits
- Obtain all necessary approvals/permits/authorizations
- Construct extensions and deferred interchanges
- Enforcement
- Access to vehicle licence registration data base

Concessionaire Obligations

- **Expansion and Congestion Relief**
 - **Must expand (add lanes) once pre-set traffic triggers are met**

- **Toll Rate Mechanism**
 - **Principles:**
 - **mainly interested in peak hour rates**
 - **based on toll rate and traffic volume thresholds**
 - **Congestion payments or damages**

Grantor Obligations

- **Safety** (Article 6 and Schedule 20)
 - set standards and approve equivalencies
 - review selection, assignment and qualifications of **independent auditors**
 - receive safety audit reports and respond to non-compliance only
 - conduct random audit of safety process and safety compliance (design, construction, operations)
 - **conduct pre-opening safety audits**

Grantor Obligations (continued)

- **Toll Rate and Congestion:** review reports to ensure compliance
- **Expansion Triggers:** review traffic reports and statistics
- **Corridor Control:** review development proposals

- **Land Assembly:** assemble property for Highway 407 and update land regulation
- **Drivers and Vehicle/Enforcement:** continue to provide enforcement services on a paid basis, license plate information on a fee basis and transponder distribution

Traffic Statistics

Based on 407 ETR's 2004 third quarter summary:

Volumes:

- Total trips - 26,254,000
- Average Workday trips - 344,484

Transponders:

- 619,000 transponders in circulation

Management Issues

- **Provincial commitment and recognition of resources** required to manage contract should be identified during the privatization process
- **Owner should be responsible for all costs of monitoring, compliance and enforcement** whether carried out by Ministry staff or a third party (third party to have same powers as Ministry staff)

Management Issues (continued)

- **Identify areas of key provincial interests up front**
 - **Need to ensure the balance between business autonomy and protection of public interest (plate denial process, customer service standards and system integration)**
- **Define roles for all provincial entities and obtain their buy-in.**
- **Strong working relationship required - partnership v.s. privatization**
- **Clearly defined roles and responsibilities to ensure accountabilities**

Contract Issues

- Agencies require a good **understanding of contractual agreement** with the owner
- Need for **clear, defensible design and safety standards**
- Identify appropriate method of monitoring, auditing, and **enforcing compliance with provincial standards**
- Representations, warranties and indemnifications should be carefully considered
- Provisions for realistic “levers” in contract to manage emerging issues
- Have a range of **options for resolving disputes**

Policy & Statutory Issues

- **Clear Identification of provincial assistance in toll enforcement**
- **Re-examination of dispute process for toll charges**

- Ontario developing options for the selection of the most appropriate financing and procurement models for transportation infrastructure.

- Document entitled *Building a Better Tomorrow, an Infrastructure Planning, Financing and Procurement Framework for Ontario's Public Sector* outlines five key principles that will guide the government's infrastructure decisions:
 - The public interest is paramount,
 - There must be appropriate public control,
 - Value for money must be demonstrated,
 - Accountability must be maintained and;
 - All processes must be fair and transparent

Questions ?

