

Boston automated fare P3, US

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26/03/2018

If you ride on the subway in Boston you are likely to use a CharlieCard to pay your fare. The contactless smartcard is named after a folk song famous in the city. It tells the tale of the unfortunate Charlie whose lack of cash means he is unable to pay the exit fare and so is trapped in the subway for eternity.

As the song goes: *“his fate is still unlearn’d, he may ride forever ‘neath the streets of Boston, he’s the man who never returned”*.

An escape route for Charlie finally seemed to be in reach on 20 March (2018) however, as a project to replace the existing CharlieCard system reached financial close.

A new all-electronic automated fare collection system which will operate across all Massachusetts Bay Transportation Authority (MBTA) services will now be implemented over the next few years.

John Laing and Cubic Transportation Systems are the developers of the new fare system. The former is providing almost all of the equity investment and will be the system’s long-term asset manager. The latter will design, operate and maintain the project – having previously delivered the Oyster Card system in London and Opal system in New South Wales.

The project is being delivered as a P3 – the first fare system to use that delivery model in the US. It is also MBTA’s first attempt at a P3.

The financing

Unusually for a US P3, the sponsors are raising bank debt but not issuing any bonds to fund construction.

The full implementation of the new fare system has been estimated at over \$700 million, but the scope of the work being undertaken under the P3 contract has a capital cost of \$275 million. The sponsors are highly leveraging the project, with a total equity investment of roughly \$27 million.

John Laing is providing \$24.3 million – or 90% of the equity – and Cubic the remainder.

The rest of the costs are being covered by a 12-year term loan from three commercial banks:

- CIBC
- SMBC
- MUFG

Each of the lenders is providing a third of the debt costs.

Most infrastructure projects in the US raise any required debt in the capital markets, which are deep and highly liquid.

Banks cannot compete with the often sub-100bp over Libor pricing or long tenors achieved through bond issuances. But a couple of aspects of this deal made bank debt the preferred option.

Firstly this type of project is not eligible for tax-exempt bonds, which would have meant undertaking a private placement instead. But the need for delayed draws and the relatively short tenor required would have pushed up the pricing for that type of instrument.

The sponsors were awarded a concession that extends over 3.25 years of construction and 10 years of operations and maintenance (with two five-year renewal options). And so 12-year bank debt was sufficient to meet their needs, giving them a small tail on the initial length of the contract. The shorter tenor meant they were able to attract competitive pricing, said to be in the region of around 100bp over Libor.

MBTA will make monthly availability payments to the concessionaire upon demonstration that contract services as outlined in the concession have been satisfactorily performed.

Procurement

MBTA formally started the procurement process in July 2016 when it issued a request for qualifications. The Cubic and John Laing team were named preferred bidder in November 2017 and they reached financial close in exactly four months.

The unsuccessful bid teams for the concession were:

- Accenture, Plenary Group
- Scheidt & Bachmann, Star America
- Conduent, InfraRed Capital Partners

Cubic and John Laing were advised by:

- Torys – legal
- Project Finance Advisory Limited – financial
- BDO – tax and accounting

The lenders were advised by:

- Norton Rose Fulbright, and later Winston & Strawn – legal
- Altus Group – technical
- INTECH Risk Management – insurance
- Mazars – model auditor

The new system

MBTA says the new system will “simplify fare collection and improve the delivery of transit services.”

The main difference for transit users will be that they will be able to pay fares across the whole Boston area by tapping contactless bank cards, mobile phones or new fare cards. The payment system will be installed on all subways, light rail, buses, ferries and commuter rail services.

Other updates to the network include:

- reduced boarding times on all buses and the Green Line by allowing entry, and payment, via any passenger door
- more ways to top-up fare cards, including at local retailers and online
- an ability for passengers to check their account balances, access travel history, and replace a lost card online
- improved accessibility to the system, with new wider fare gates
- privacy protection for all accounts

The new system will begin to be integrated in 2019, with full implementation the following year, and the retirement of the old system in 2021.

While much will change for public transport users in the city, the long-term prisoner of the Boston subway looks set to stay trapped underground. The traditional CharlieCards may be on the way out, but MBTA has confirmed it will retain the Charlie brand for its new fare cards.

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