

## Transantiago: Long term solution

In May 2008, the Government submitted a draft bill entitled, National Subsidy for Remunerated Public Passenger Transportation<sup>1</sup>. The bill was approved by the House of Representatives last August and passed on for Senate debate.

During the legislative process, both Opposition as well as Government Coalition congresspersons filed objections to the Transantiago improvement & financing proposals, and that negotiations today are at a standstill.

Considering that the diagnosis of the errors incurred in the Transantiago transportation system, and that most short-term solutions have been analyzed by politicians, technical experts and academia and that there is a relatively ample consensus about the solutions to be adopted, we will focus on long-term measures in order to ensure that future public policies associated to the transportation sector are adequate and will prevent a problem of the magnitude of Transantiago.

We believe it is necessary to work along the lines of an agreement to ensure the long-term stability of the public transportation system of the nation's capital isolating its rate structure and inflation adjustment mechanisms from political contingencies.

### Toward a long haul solution

The problems that have affected Transantiago evidence the lack of an institutional framework to provide stability to the system in

the medium and long-term, thus freeing it from day-to-day politics. It is paramount for projects

of this size -that impact so significantly the lives of a large part of the population- are governed by laws and be debated in Congress. In turn, it is necessary for the system's operation as well as for its control & supervision to be carried out independently of economic cycles.

In the case of Transantiago, which exhibited a budgetary gap from its very outset, freezing its tariff for a 2-year period generated a deficit beyond all expectations. In contrast with the situation in the regions (where tariffs kept pace with price increases in their respective components) Transantiago generated a system of severe national inequality.

It is necessary, therefore, to create institutions that would isolate the system's design, evaluation & financing decisions from political contingencies. The Transportation Sector is governed by the Inter-ministerial Planning & Transportation Office (SECTRA, in its Spanish acronym), under the Planning Ministry (MIDEPLAN, in its Spanish acronym), which evaluates the social impact of projects, while the Ministry of Transportation is in charge of operations and start-up.

But, while road & highway administration is in the hands of the Public Works Ministry, its infrastructure is handled by the Housing & Urban Affairs Ministry and by the different municipalities. In this manner, the Transportation Authority lacks tuition over all the variables affecting the city's urban transportation conditions of the city, including the quality of public transportation.

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The draft bill that creates the Metropolitan Transportation Authority (AMT, in its Spanish acronym) does not solve these problems.

We need to concentrate the powers that are related to the transportation system; however, its operation must be territorially decentralized in order to adapt to local conditions and respond to the needs of the community affected.

According to the recommendations submitted by the Panel of Experts, the AMT must manage the execution of all public transportation investment projects, including surface transportation and urban train systems, the operation & maintenance of investments, hire services with both private & public sector entities and audit their compliance, keep updated information about the system's operation and take part in the definition of participation instruments.

Additionally, the AMT should have certain planning functions in order to design of the urban transportation system and implement me-

chanisms toward correcting externalities associated to public & private transportation applying the instruments available to that effect (i.e., market instruments, subsidies, taxes, roadway concessions as well as space for bus terminals and parking lots).

Tariff setting, on the other hand, must be performed via an objective, automatic and politically-independent mechanism. Thus, for example, it could adopt a service-efficient minimum-cost model, establishing a system of periodic restatements as a function of the system's real costs converging onto the continuous subsidy and, if possible, diminishing it.

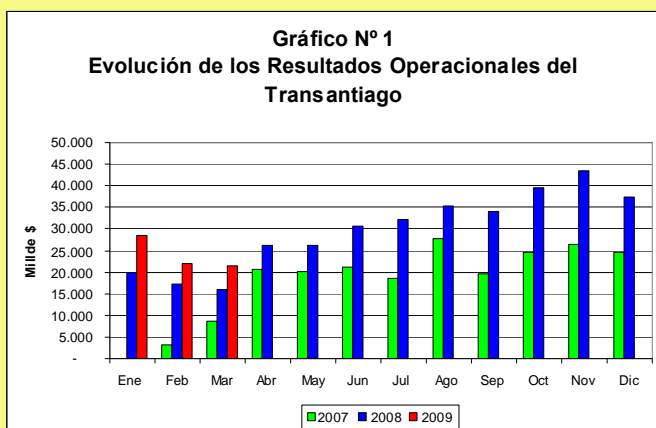
Such mechanism must be established by law, just like the adjustment of the current tariff to the long-term equilibrium rate, as previously established.

**Transantiago needs not only to improve its service to its users; but also, to do so while reducing its operating deficit - which has not occurred to this date.**

### Short term measures

The system's design & start-up errors have caused its operating deficit as of March 2009 to amount to US\$ 1,075 million; to which, another US\$ 100 million incurred during the 2007- period must be added; which were financed via the fiscal budget (See Chart N°1 – Evolution of Transantiago's Operating Results).

The Government has adopted actions toward solving Transantiago's severe problems. Nevertheless, after 2 years of operation, some of its main difficulties still persist. For example, the 65% of guaranteed income, the maintenance of exclusive zones, and the rigidities imposed on operators to manage their own businesses and reduce costs have meant prolonging inefficiencies while keeping a service that does not meet the needs of its users. And all of it at a very high cost to the country at large.



Source: Prepared in-house on the basis of information issued by the Ministry of Transportation.

Transantiago needs not only to improve its service to its users; but also, to do so while reducing its operating deficit – which has not occurred to this date.

Although improving the system requires providing more transportation options to users, in order to ensure the service in all events, it is also necessary to improve bus transit conditions and having a management system that would permit operators to optimize their management and authorities to exercise an adequate fiscal control & supervision of the contracts.

Optimizing the system would permit eliminating most of its inefficiencies, reducing the cost of providing its services.

Additionally, it is necessary to find other sources to augment the system's income and diminish its costs, so that tariff increases do not finance inefficiencies, but rather, real price increases of the service.

In order to achieve these objectives it is necessary to break up the monopoly of the exclusive zones associated to the feeder zones and eliminating the guaranteed income; so as to have more service providers all over the city, generating a network of routes that would respond to user needs and ensure the service in all events, in addition to diminishing bus transfers.

Similarly, it is necessary to advance the period for the construction of exclusive bus lanes and while such goals are being met, to establish a system to give the right-of-way to buses over other means of transportation in order to increase their transit speed; also, to build additional pre-boarding payment areas in order to expedite passenger boarding & unboarding.

There is consensus in that the variable that impacts revenue the most is tariffs. Never-

theless, in addition to tending toward an equilibrium tariff, there are other measures that entail increased revenue for the system.

Improved quality services will, undoubtedly, generate an increased demand with its consequent increase in revenue. An evasion control program (which nowadays may reach up to 30% in some low-income city outskirts areas, is another measure whose effects are not negligible.

## Deficit financing

The Ministry of Transportation projects a US\$ 2,400 million deficit for the 2009-2014 period. Another equivalent amount is considered for the regions.

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The magnitude of these sums makes it necessary to isolate them from the rest of the nation's budget. The financing that is required to finance the deficit (Law 20.206, Banco-Estado, and the Inter-American Development Bank -IDB), in addition to the subsidy required until the year 2014 plus the resources that are required in order to speed up construction of the dedicated fast lanes and the rest of the infrastructure required to improve Santiago's public transportation infrastructure, must be obtained via a 15-year-maturity Government Bond secured abroad.

That would permit not only minimizing financial costs, but also prorating such expenses over a sufficiently ample period of time.

Insofar as the IDB Loan is concerned (and given the lack of meticulousness in the Government's loan application and the declaration of unconstitutionality on the part of the Constitutional Tribunal) the Government ought to renegotiate its restitution without charge of any kind to the nation's treasury. This means that the commissions withheld and the interest

paid ought to be deducted from the capital that is to be restituted to the bank.

## Conclusions

Transantiago is a bad idea that was badly implemented. It is necessary in the future to avoid situations such as those experienced by the inhabitants of the city of Santiago during the last couple of years.

To that effect, it is necessary to create institutions so that the evaluation of large projects is performed independently from those who design them and execute them, in order to ensure their technical, economic and social viability.

Consequently, it is necessary to create a system of institutions that would concentrate the powers related with the transportation systems. On the other hand, tariff setting must be carried out on a minimum cost basis, in order to avoid generating high subsidy or tariff levels that would perpetuate system inefficiencies.

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<sup>1</sup> Mensaje N° 200-356 del 30 de abril de 2008.