Should States Privatize Toll Roads?

by

Robert W. Poole, J r.

Director of Transportation Studies,
Reason Foundation

www.reason.org/transportation
Chicago Skyway Lease as a Paradigm Shift

- $1.8 billion proceeds caught the attention of public officials
- Brought (some) awareness of global private-sector role in tolling
- Stimulated half a dozen other possible U.S. sale/lease deals
- Focused global companies and capital on US toll marketplace
What We Will Explore:

- Recent overseas experience with privatizing toll roads
- State of play, USA, post-Skyway
- Does privatization make sense—fiscally and as transportation policy?
- Addressing legitimate concerns
Recent Overseas Toll Road Privatizations

- 1999 IPOs of Autostrade ($6.7B) and BRISA ($2B)
- 1999 trade sale of Toronto 407 ($2B)
- 2003 sale of ENA ($1.8B), Spain
- 2005 sale of 3 French toll companies ($17.8B)

All involved creating long-term concession agreements (i.e., were actually leases,
U.S. Toll Road Leases, Post-Skyway

Completed deals:
- Chicago Skyway—99-year lease, $1.83B
- Dulles Greenway—sale of concession, $615M
- Indiana Toll Road—75-year lease, $3.8B
- Pocahontas Parkway—99-year lease, rev-sharing

Proposed leases (pending legislation):
- Pennsylvania Turnpike
- Illinois Tollway
- New Jersey Turnpike
But Existing Toll Roads Aren’t the Main Arena: New Toll Roads Are

- FHWA estimates annual highway investment shortfall of $70B, for projects with B/C ratios >1.0
- Urban congestion relief is one urgent need.
- Another major need is widening key Interstates for growing truck traffic
Case for Concessions Is the Same, for Existing or New Toll Roads

- Over 50 to 99 years, construction, expansion, and reconstruction needed, in either case.
- Construction risk and traffic risk in both cases, just different magnitudes.
- Lease payments can be all up-front, only annual, partly profit-shared, or a combination.
What Does the Private Sector Have to Offer?

- Why not continue with public toll agencies?
- Private concession model offers:
  - Large pool of new capital
  - Ability to raise more for a given project
  - Risk transfer
  - Multi-state potential
  - A more commercial approach
  - Innovation
Long-Term Concession Model vs. U.S. Toll Agency Model

- More complex financial structures:
  - Sponsor equity
  - Shareholder equity
  - Bank debt
  - Several tiers of other debt

- Access to new pools of capital
  - Pension funds
  - Insurance companies
  - General public (IPOs)

- Can raise larger sums from a given traffic base
  - Longer terms
  - Depreciation write-offs
  - Certainty of annual toll increases
## Risk Transfer
*(from Taxpayers to Investors)*

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Long-Term Concession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funding Source</td>
<td>Highway trust funds</td>
</tr>
<tr>
<td>Toll revenue bonds, equity</td>
<td></td>
</tr>
<tr>
<td>Procurement Process</td>
<td>Design-Bid-Build</td>
</tr>
<tr>
<td>Design-Finance-Build-Operate</td>
<td></td>
</tr>
<tr>
<td>Cost Overruns?</td>
<td>Taxpayers</td>
</tr>
<tr>
<td>Investors</td>
<td></td>
</tr>
<tr>
<td>Schedule Slips?</td>
<td>Drivers</td>
</tr>
<tr>
<td>Investors</td>
<td></td>
</tr>
<tr>
<td>Traffic Risk?</td>
<td>Taxpayers</td>
</tr>
<tr>
<td>Investors</td>
<td></td>
</tr>
<tr>
<td>Maintenance Funds</td>
<td>Annual appropriations</td>
</tr>
<tr>
<td>Toll revenues</td>
<td></td>
</tr>
<tr>
<td>Maintenance Incentive</td>
<td>Public complaints</td>
</tr>
<tr>
<td>Asset value</td>
<td></td>
</tr>
</tbody>
</table>
Multi-State Toll Truckways
A More Commercial Approach:

- Replacing patronage with professionals
- Unlocking in-house talent
- Paying for top talent
- Controlling costs
- Integrating new technology (ideal fit for ITS)
Innovation to Solve Difficult Problems

- Value pricing (91 Express Lanes)
- Value engineering (Beltway HOT lanes)
- Missing links (A86 tunnel)
- Elevated expansion (Tampa)
- Noise solutions (CityLink)
91 Express Lanes,
Orange County, California
Value-engineering the Washington, DC Beltway HOT Lanes

- VDOT plan to add 2 lanes each way to SW portion of Beltway: $3B, opposition
- Private concession proposal:
  - Eliminated a pair of breakdown lanes
  - Reduced number of access points
  - Replaced Jersey barriers with pylons
  - Slashed number of property takes
- Bottom line: $1B + community support
Missing Link on Paris A-86 Ring Road: Double-Deck Toll Tunnel
Tampa’s Elevated Express Toll Lanes
Elevated Tollway with Sound Tube (Melbourne)
New Federal Support
via SAFETEA-LU

- Companies in PPP deals can now use tax-exempt toll revenue bonds, same as state toll agencies;
- Two pilot programs for building/rebuilding Interstates with tolls;
- Continuation of Value Pricing Pilot Program (15 states);
- New Express Toll Lanes pilot program (15 projects, any state);
- No limits on converting HOV to HOT;
- TIFIA credit support.
Concession Agreement Protects the Public Interest

- Length of term
- Toll rate caps (formula)
- Performance requirements/penalties
- Buyout provisions
- Default provisions
- Amendment provisions
Concerns and Misconceptions about Toll Concessions

- Foreign companies?
- Too long a term?
- Huge up-front payments—wasted?
- Excessive toll rates?
- Private company seizing land?
- Non-compete provisions?
- Termination/buyout provisions?
Outlook for Toll Road Concessions:

- Underlying case very strong.
- Political backlash has happened before (Arizona, California, Minnesota, Washington in 1990s).
- More, better educational outreach is crucial.
- States that get it right will compete better for business.
Should States Privatize Toll Roads?

by

Robert W. Poole, Jr.

Director of Transportation Studies,
Reason Foundation

www.reason.org/transportation
bobp@reason.org