

# *Should States Privatize Toll Roads?*

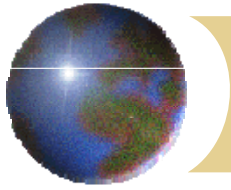
by

Robert W. Poole, Jr.

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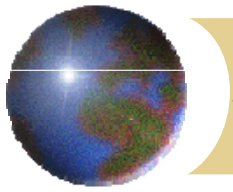
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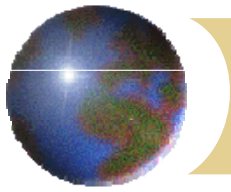
## *Chicago Skyway Lease as a Paradigm Shift*

- \$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:*

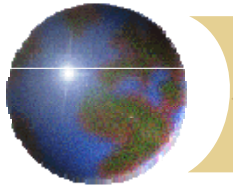
- Recent overseas experience with privatizing toll roads
- State of play, USA, post-Skyway
- Does privatization make sense—  
fiscally and as transportation  
policy?
- Addressing legitimate concerns



# *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,



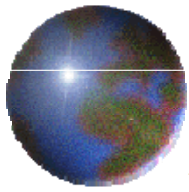
# *U.S. Toll Road Leases, Post-Skyway*

## 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

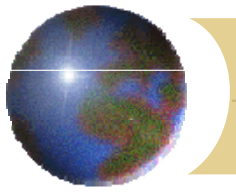
## Proposed leases (pending legislation):

- Pennsylvania Turnpike
- Illinois Tollway
- New Jersey Turnpike



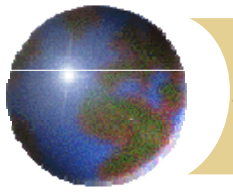
## *But Existing Toll Roads Aren't the Main Arena: New Toll Roads Are*

- 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*

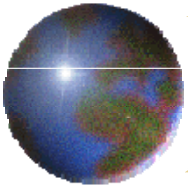
- Over 50 to 99 years, construction, expansion, and reconstruction needed, in either case.
- Construction risk and traffic risk in both cases, just different magnitudes.
- Lease payments can be all up-front, only annual, partly profit-shared, or a combination.



# *What Does the Private Sector Have to Offer?*

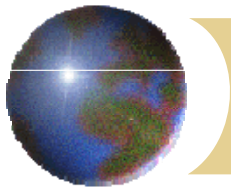
- ❶ Why not continue with public toll agencies?
- ❷ Private concession model offers:
  - ❑ Large pool of new capital
  - Ability to raise more for a given project
  - ❑ Risk transfer
  - Multi-state potential
  - ❑ A more commercial approach
  - ❑ Innovation





# *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



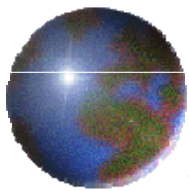
# *Risk Transfer*

## *(from Taxpayers to Investors)*

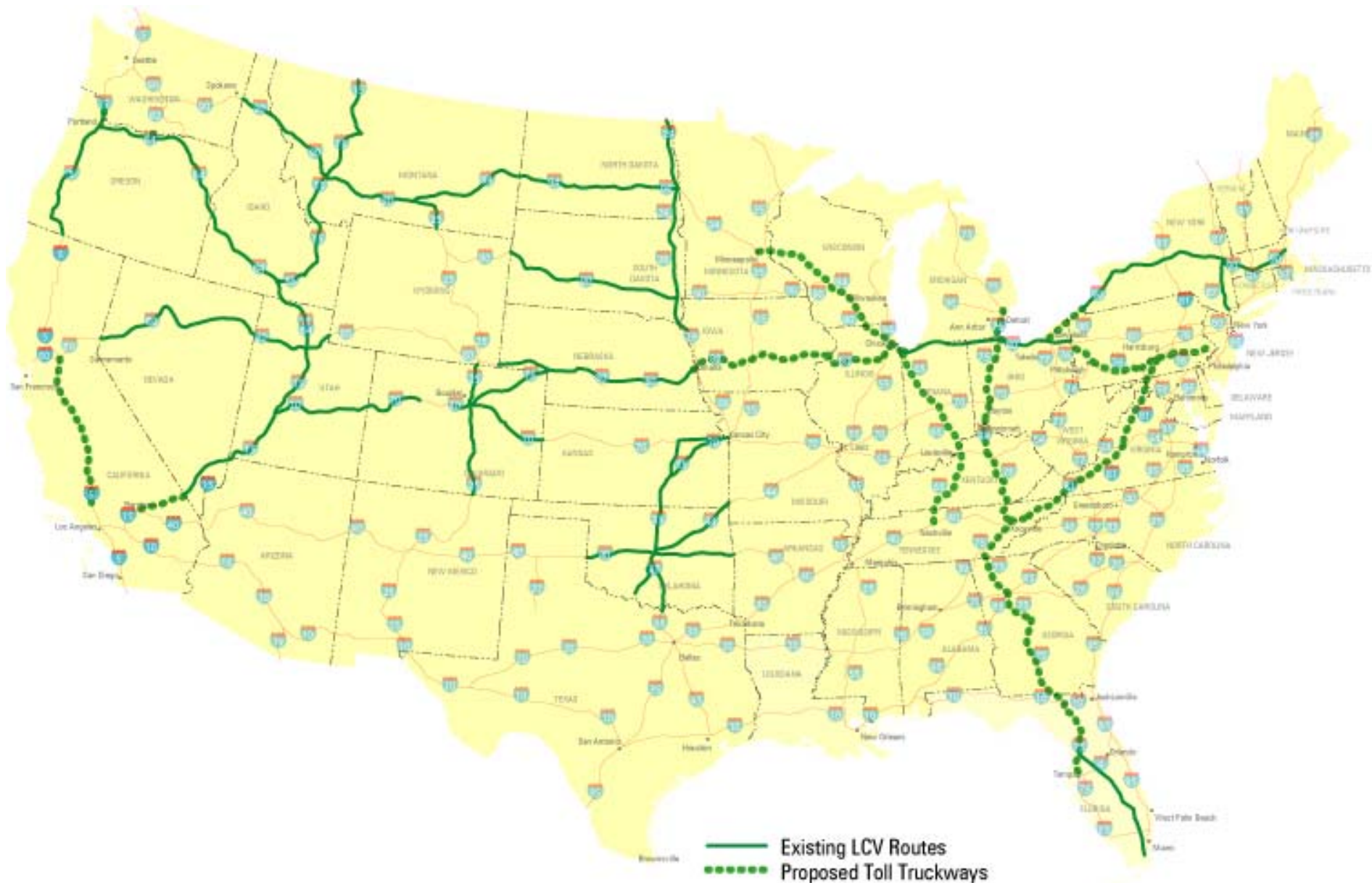
### **Traditional**

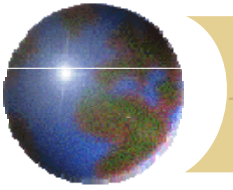
### **Long-Term Concession**

<b>Funding Source</b>	<b>Highway trust funds</b>	<b>Toll revenue bonds, equity</b>
<b>Procurement Process</b>	<b>Design-Bid-Build</b>	<b>Design-Finance-Build-Operate</b>
<b>Cost Overruns?</b>	<b>Taxpayers</b>	<b>Investors</b>
<b>Schedule Slips?</b>	<b>Drivers</b>	<b>Investors</b>
<b>Traffic Risk?</b>	<b>Taxpayers</b>	<b>Investors</b>
<b>Maintenance Funds</b>	<b>Annual appropriations</b>	<b>Toll revenues</b>
<b>Maintenance Incentive</b>	<b>Public complaints</b>	<b>Asset value</b>



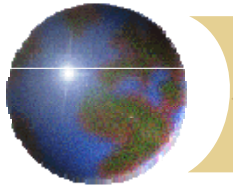
# *Multi-State Toll Truckways*





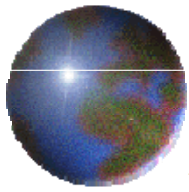
## *A More Commercial Approach:*

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

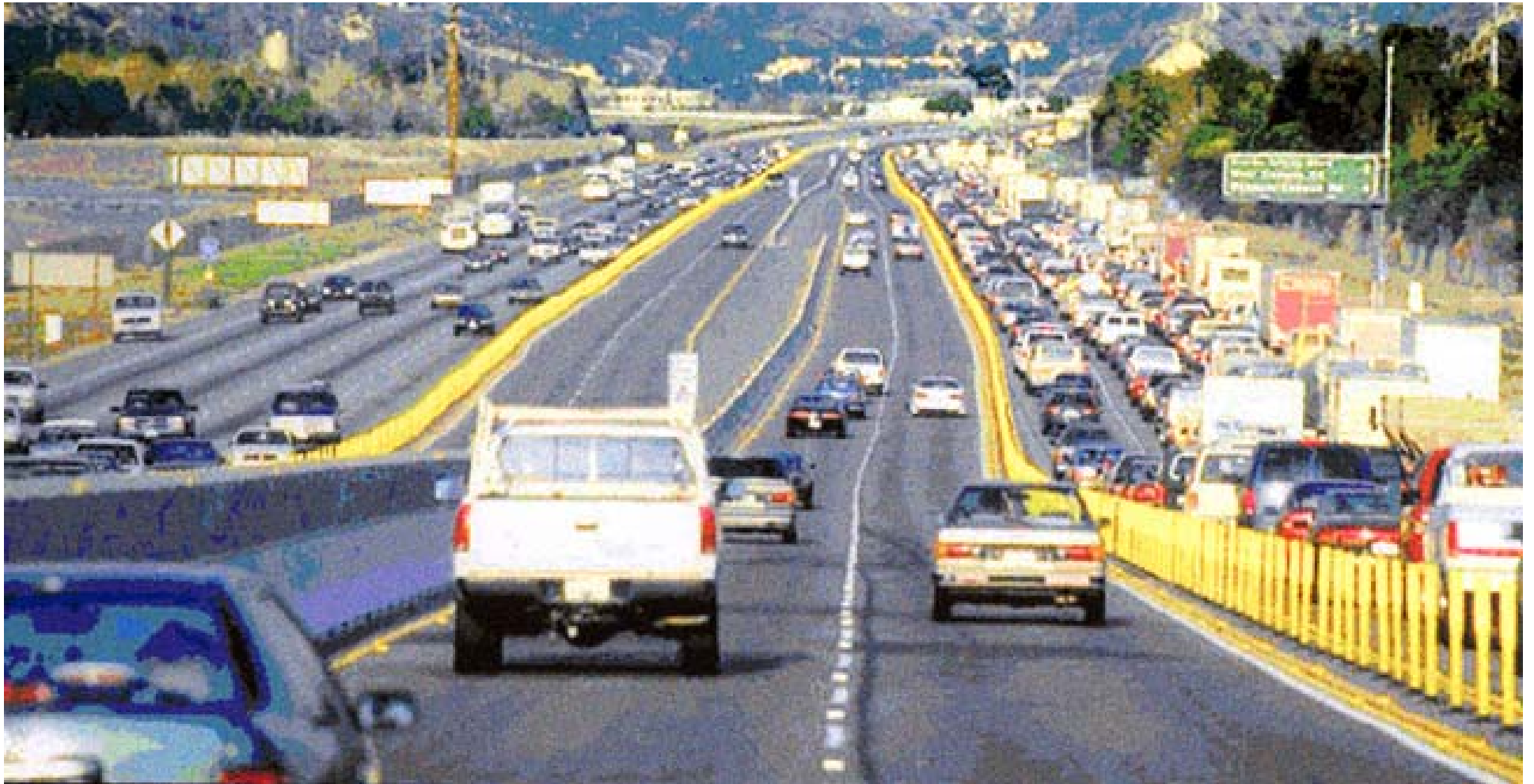


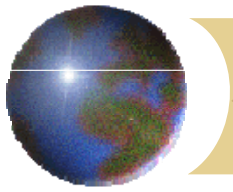
# *Innovation to Solve Difficult Problems*

- 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*

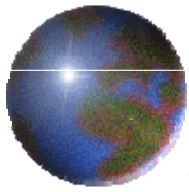




# *Value-engineering the Washington, DC Beltway HOT Lanes*

- 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

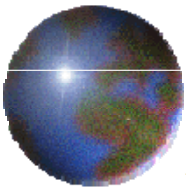




# *Missing Link on Paris A-86 Ring Road: Double-Deck Toll Tunnel*

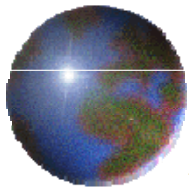






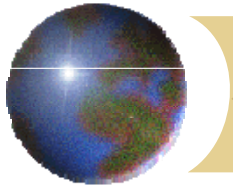
# *Tampa's Elevated Express Toll Lanes*





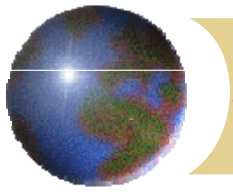
# *Elevated Tollway with Sound Tube (Melbourne)*





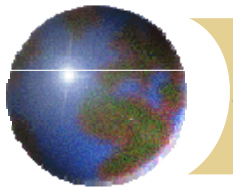
## *New Federal Support via SAFETEA-LU*

- 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*

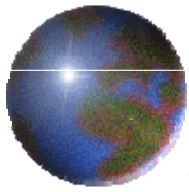
- Length of term
- Toll rate caps (formula)
- Performance requirements/penalties
- Buyout provisions
- Default provisions
- Amendment provisions



# *Concerns and Misconceptions about Toll Concessions*

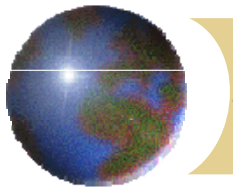
- Foreign companies?
- Too long a term?
- Huge up-front payments—wasted?
- Excessive toll rates?
- Private company seizing land?
- Non-compete provisions?
- Termination/buyout provisions?





## *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.



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