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Making Public Highways Private

More State, Local Governments

Consider Handing Toll Roads

To Companies to Aid Budgets

By LAURA MECKLER

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WASHINGTON -- With federal, state and local governments facing budget squeezes, an increasing number of policy makers throughout the country are looking to privatize highways, encouraged by Wall Street companies seeking lucrative fees in the deals.

The first big move came slightly more than a year ago, when a private partnership paid \$1.83 billion for the right to operate the 7.8-mile Chicago Skyway for 99 years. Since then, Indiana has leased its 157-mile turnpike for 75 years for \$3.8 billion. Other states, including New York, New Jersey and Delaware, have considered privatizing toll roads but haven't done so.

"Chicago, it is fair to say, got our attention," said Robert Eckles, the top executive in Harris County, Texas. He estimated that the county, which includes Houston, is \$15 billion to \$20 billion short of what will be needed during the next 20 years. "We have tremendous need for new capacity and very little money to pay for it."

Meantime, the federal government has a collection of pilot programs that allow states to add tolls to free federal highways, including special lanes that run alongside the free highways and cost extra because they move more quickly. Technology that allows for electronic collection of fees has made toll roads more attractive to government and drivers, too.

The moves have appeal as Washington and states face long-term budget deficits and as raising gasoline taxes -- a tempting step to generate revenue for road spending -- becomes nearly impossible with pump prices stuck well above \$2 a gallon. A federal panel convened by the National Research Council suggested that someday tolling may replace the fuel tax as the primary source of highway funding. "There's clearly quite a bit of interest in this issue across the country," said Matt Sundeen, an expert in transportation at the National Conference of State Legislatures. "It's not going to go away."

Some analysts say the shift toward private ownership of what largely has been a public infrastructure has huge risks for the quality of the nation's roads. An analysis published last month by Fitch Ratings, a credit-ratings company, concluded that "toll roads are good candidates for privatization," but cautioned that adding a profit motive to the operation of roads could lead to tolls that are so high that drivers migrate to free highways, increasing pressure on those roads. It added that use of profits to fill a budget gap or other operational needs could lead to deficits down the line.

"Ultimately, this is a one-time resource," it concludes.

Private toll roads have sustained some failures. In Orange County, Calif., a private tollway prompted a storm of criticism because in signing the original agreement, the state had promised not to improve any of the free roads that competed for drivers. Ultimately, Orange County had to buy out private investors.

In Houston, Harris County Commissioner Steve Radack is opposed to any sort of privatization and has been distributing copies of Shel Silverstein's "The Giving Tree," a children's book about the relationship between a boy and an apple tree. The tree offers -- and the boy takes -- the apples, the branches and the trunk to meet various needs, until, at book's end, there is nothing left of the tree but a stump. "I always look at it this way: If you can sell them for tremendous profit, then why is someone buying it? Because they know they can make even more," he says.

Modern toll roads were launched in the 1940s and early 1950s, when states looking to build superhighways borrowed money for construction and agreed to pay it back with tolls charged to drivers. Pennsylvania's turnpike was the first, followed by 14 other Eastern and Midwestern states.

When the federal government created the interstate highway system, funded by gasoline taxes, it barred states from imposing new tolls. In the decades that followed, some fast-expanding metro areas created their own toll roads with local or state funding. Still, they were all operated by government entities.

The federal government still generally bars tolls on interstate highways, but in recent years it has been encouraging experimentation. States are allowed to open their high-occupancy vehicle lanes, created to encourage carpooling, to cars without passengers that pay tolls. Several pilot programs allow a limited number of projects to impose tolls to pay for various highway projects. Another pilot program allows up to 15 states to experiment with congestion pricing, where tolls are set based on the number of cars on the road at any given time.

In the 1990s, California and Virginia began exploring development of new private toll roads, notably the Route 91 express lanes in Orange County and the Dulles Greenway in Virginia, which extends west from the airport. A variety of similar projects followed. In 2004, a private company agreed to spend \$6 billion to create the Trans-Texas Corridor, a north-south toll road that aims to reduce congestion on highways. The private partners are paying for construction and maintenance and giving the state another \$1.2 billion for the right to collect tolls for 50 years.

Contracting Out

Governments are increasingly turning to private firms to build, maintain and operate new toll roads. More than \$25 billion worth of projects have been proposed or are in development, according to a tally by the Reason Foundation. A sampling:

LOCATION	ROUTE	PROJECT	ESTIMATED COST, IN BILLIONS
San Antonio to Dallas	TTC-35	Build toll road	\$7.2
Virginia	I-81	Rebuild, add toll-truck lanes	7.0
Dallas	I-635	Rebuild, add HOT lanes	3.0
Atlanta	I-75/575	Add HOT and toll-truck lanes	1.8
Portland, Ore.	3 new routes	Build toll roads	1.0
Northern Virginia	I-495	Add HOT lanes	0.9
San Diego	SR 125	Build toll road	0.6
San Antonio	Loop 1604	Add HOT lanes	0.6
Fort Worth	SH-161	Build toll road	0.5
Denver	C-470	Add HOT lanes	0.4

Note: High Occupancy Toll (HOT) refers to highway lanes that are open to vehicles whose drivers pay a toll.
Source: Reason Foundation

Today, about \$25 billion in projects have been proposed or are in development, according to a compilation by Robert Poole, an expert on transportation at the Reason Foundation, a libertarian research organization. That includes projects in Virginia, California, Oregon and Texas.

Beyond simply having new toll roads built under

private ownership, officials have been taking a closer look at converting existing publicly run roads into private ones. Initially, the idea was promoted most aggressively by foreign companies, notably **Macquarie Infrastructure Group** of Australia and Cintra **Concesiones de Infraestructuras de Transporte SA** of Spain, who worked together on the Chicago and Indiana deals and had done work on privatized roads in other countries.

Appetite for such deals among U.S. investors appears to be increasing. **Goldman Sachs Group Inc.**, which also helped put together the Chicago and the Indiana deals, is creating a \$3 billion fund to invest in similar projects. The company stands to earn transaction fees for successful deals that they advise on, as well as management fees for investors backing the new ventures. Other investment banks, including **Merrill Lynch & Co.** and **Morgan Stanley**, are offering similar services.

Mark B. Florian, who is running the Goldman Sachs effort, is traveling the country promoting the idea to government officials. He estimates that he has talked with officials in 100 to 150 different offices, including about 35 state legislatures. Some are cities and states that Goldman Sachs already has relationships with; others are cold calls. He estimated that a third of the people he meets are interested. Still, he said, the deals can be politically dicey, one of many things that keeps even an interested governor or legislator from moving forward.

One place Goldman Sachs called upon was Harris County. Spurred by this and other investment banks urging privatization, the county government has decided to spend nearly a million dollars to study financing options, including outright sale and a long-term lease of the 83-mile system, as well as keeping it in public hands. A preliminary study concluded that their system could be leased long term for as much as \$7 billion. "Given the constraints on our financing through the traditional means, we are looking at other options," said Mr. Eckles, whose title is county judge.

Mr. Radack, the privatization opponent, said he is philosophically sympathetic to arguments that the

private sector can often do better than government. But he says it isn't applicable in this case. "The Harris County toll road system is an example of something government has done so well now the private sector wants to take it over. This is not a situation where government has screwed up."

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