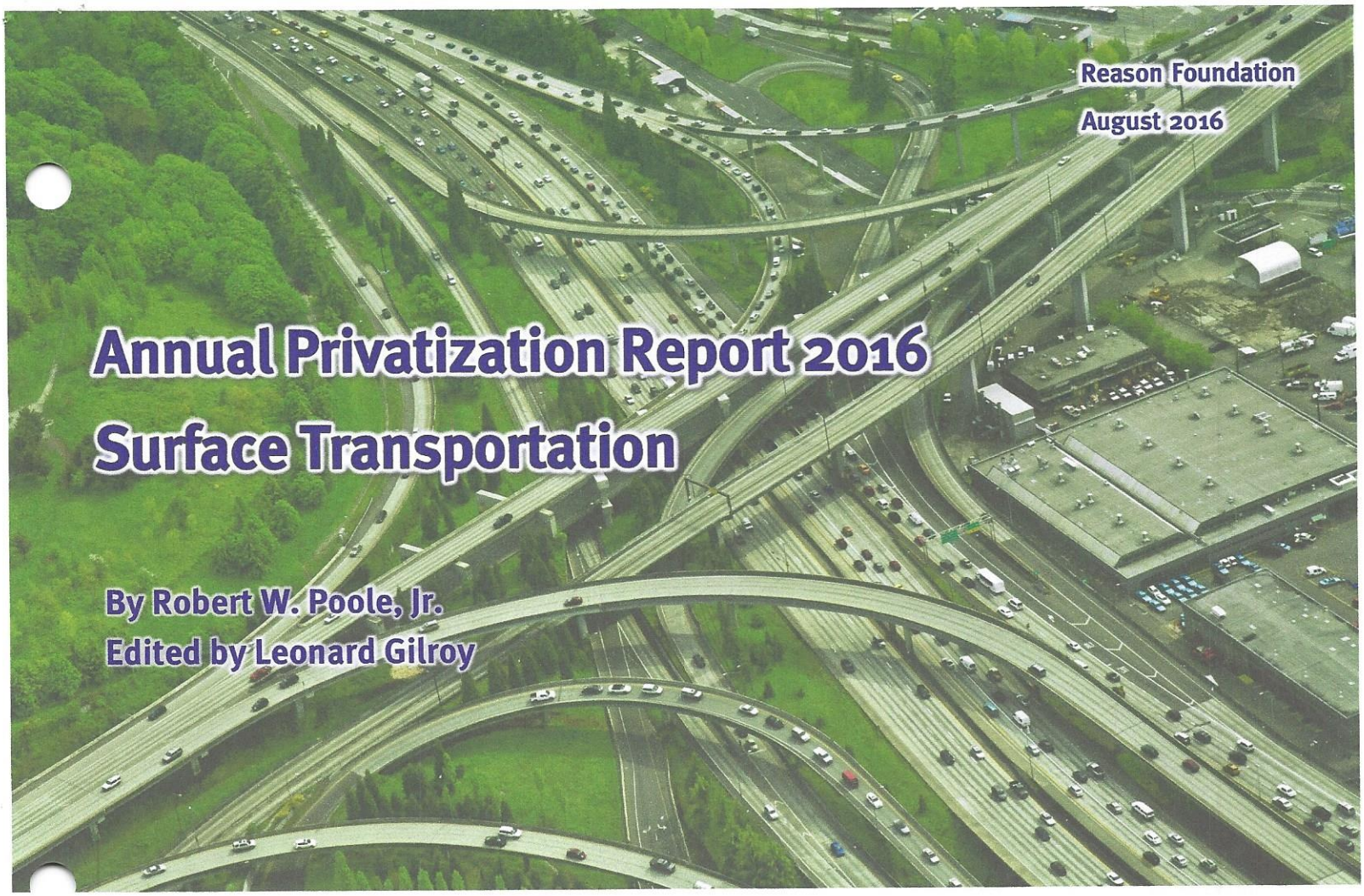

Reason Foundation

August 2016

Annual Privatization Report 2016
Surface Transportation

By Robert W. Poole, Jr.
Edited by Leonard Gilroy

Contents

B. U.S. Highway Concessions Overview

PPP concessions continued to make progress during 2015 in the United States. Four projects that had achieved financial close in 2014 entered the construction phase in 2015: the I-4 Ultimate project in Orlando, the SH 183 project in Dallas, the I-69 segment in Indiana being built via an AP concession, and the toll concession for phase 2 of the US 36 express toll lanes between Boulder and Denver. And three other concessions reached financial close during the year and began construction: the I-77 express toll lanes in Charlotte, the Rapid Bridge Replacement project in Pennsylvania, and the Portsmouth Bypass in Ohio.

But in terms of dollar volume and future impact, the biggest developments in 2015 were the acquisition of two major toll roads by consortia of pension funds. The government owners of the Chicago Skyway and the Indiana Toll Road—the city of Chicago and state of Indiana, respectively—entered into long-term leases with concession companies Cintra and Macquarie a decade ago. The Indiana concession fell victim to reduced traffic and revenues as a result of the Great Recession, and was unable to meet the debt service on its very aggressive debt financing. It filed for bankruptcy in 2014. While that process was under way, Cintra and Macquarie let it be known that they would consider offers for the Skyway. In the end, there was spirited bidding for both tollways, and in both cases the winning bids were from consortia of public-sector pension funds.

Australia's Industry Funds Management, on behalf of a group of public pension funds that included some of the U.S.'s largest, paid $5.725 billion for the remaining 66 years of the Indiana Toll Road concession. But in contrast to the highly leveraged deal structure used in the original privatization, the IFM group invested $3.2 billion of equity, for a very conservative 43%/57% debt-equity split. Several months later three Canadian pension funds—Canada Pension Plan Investment Board, Ontario Municipal Employees' Retirement System, and Ontario Teachers' Pension Plan—won the bidding for the Skyway by offering $2.836 billion for the remaining 89 years of that concession. Their bid was comparably conservative, with a 46%/54% debt-equity split. The pension funds in both cases were willing to invest far more equity than global infrastructure investment funds because the pensions are seeking more-modest long-term returns on their equity. They seek returns between 8% and 10% to diversify their portfolios and increase their average return on investments, at relatively low risk.

This development has profound implications for the future of tolling and PPPs in the United States. It suggests, first of all, that the more-aggressive *developers* of new toll projects have an exit option after the project is operational and demonstrating traffic and revenue results. Secondly, as a way to attract much-needed investment in replacing the U.S.'s first-generation, largely non-tolled, Interstate highways (which are nearing the end of their useful life), pension fund acquisition may be both (1) attractive to such funds and (2)

more politically acceptable to legislators and the public than acquisition by global investment funds seeking much higher rates of return (and hence requiring higher toll rates).

An overview of the U.S. highway concession market circa 2015 is provided in Table 2, listed in order of the investment value of each project. For existing toll roads now leased to private concessionaires, the length of each lease is provided. For projects that involve new construction, in nearly all cases the concession takes the form of DBFOM contracts, over terms ranging from 30 to 70 years. The majority of those concessions are based on toll-revenue financing, as indicated. The others are financed based on a state's agreement to provide annual availability payments (APs) over the life of the concession term. Some of those are "pure" availability payment deals, in which the state DOT uses part of its existing revenue sources (mostly federal and state fuel taxes) to meet its AP obligations. But the larger AP projects also involve toll revenue, which helps the state to afford its AP obligations, as noted in the table.

In the last few years, there has been a perception that the major trend in highway concessions is away from toll revenue-based financing to AP-based financing. Analysis of the 31 projects in the table calls this notion into question. In terms of numbers, 20 of the 31 projects were financed based on toll revenues. Of the others, only five were financed on a pure AP basis, with the six larger AP concessions all involving new toll revenues that will supplement the state's traditional fuel tax sources. The total dollar value of the 31 concessions is $38.5 billion. Of that amount, 67% was generated based on toll-revenue financing, with the other 33% financed based on the states' AP commitments. Toll revenues will assist on the large majority of those AP obligations.

Table 2: Largest U.S. Long-Term Highway Concessions, 2015

Project	Location	Value ($B)	Type	Begun	Concessionaire
Indiana Toll Road	Indiana	$5.725	66-year lease, toll	2015	IFM Global Infrastructure Fund
Chicago Skyway	Chicago	$2.836	89-year lease, toll	2015	CPPIB/OMERS/OTPP
LBJ Express	Dallas	$2.800	DBFOM, toll	2010	Cintra/Meridiam
I-4 Ultimate	Orlando	$2.323	DBFOM, AP/toll	2014	Skanska/Lane/Granite
Midtown Tunnel	Norfolk	$2.100	DBFOM, toll	2012	Skanska/Macquarie
NTE, phase 1	Fort Worth	$2.047	DBFOM, toll	2009	Cintra/Meridiam
I-495 Express	Northern Virginia	$1.998	DBFOM, toll	2008	Transurban/Fluor
I-595 Express	Fort Lauderdale	$1.814	DBFOM, AP/toll	2009	ACS Infrastructure
Goethals Bridge	New York, New Jersey	$1.500	DBFM, AP/toll	2013	Macquarie/Kiewit
SH 183 Express	Dallas	$1.415	DBF+OM, AP/toll	2014	Kiewit
NTE phase 2	Fort Worth	$1.400	DBFOM, toll	2013	Cintra/Macquarie
SH 130, segments 5-6	Austin	$1.358	DBFOM, toll	2008	Cintra/Zachry
East End Crossing	Louisville	$1.180	DBFOM, AP/toll	2013	Walsh/Bilfiger/Vinci
Rapid Bridge Replacement	Pennsylvania	$1.119	DBFM, AP	2015	Plenary/Walsh/Granite
PR 22, PR 5	Puerto Rico	$1.080	40-year lease, toll	2011	Abertis/GIP II
Grand Parkway F-1, 2	Houston	$1.007	DBOM, AP/toll	2013	Zachry/Odebrecht
I-95 Express	Northern Virginia	$0.940	DBFOM, toll	2012	Transurban/Fluor/Lane
Port of Miami Tunnel	Miami	$0.914	DBFOM, AP	2009	Meridiam/Bouygues
South Bay Expressway	San Diego	$0.773	DBFOM, toll	2003	Macquarie/Washington
I-77 Express	Charlotte	$0.635	DBFOM, toll	2015	Cintra/Ferrovial
Pocahontas Parkway	Richmond	$0.611	99-year lease, toll	2006	Transurban
Northwest Parkway	Denver	$0.603	99-year lease, toll	2007	BRISA/CCR
Portsmouth Bypass	Ohio	$0.557	DBFOM, AP	2015	ACS/Infrared/Star
I-69 Upgrade	Indiana	$0.370	DBFOM, AP	2014	Isolux, PSP Investments
Presidio Parkway	San Francisco	$0.365	DBFOM, AP	2012	ACS/Meridiam
Dulles Greenway	Northern Virginia	$0.350	DBFOM, toll	1993	TRIP II
Southern Connector	Greenville, SC	$0.191	DBFOM, toll	1998	Interwest
Jordan Bridge	Chesapeake, VA	$0.140	Build-Own-Operate, toll	2011	Figg/American Infrastructure
91 Express	Orange County, CA	$0.130	DBFOM, toll	1993	Level 3/Cofiroute/ Granite
US 36 HOT, phase 2	Denver-Boulder	$0.113	DBFOM, toll	2014	Plenary/Ames/Granite
Camino Colombia	Laredo, TX	$0.085	DBFOM, toll	1999	Camino Colombia/ Granite

Source: "U.S./Canada Transportation P3 Projects Scorecard," *Public Works Financing*, October 2015

Note:

AP=Availability Payment

DBFOM=Design-Build-Finance-Operate-Maintain

DBOM=Design-Build-Operate-Maintain