



Toll Roads Tip *to*

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Indiana's 'Major Moves' May Signal a Trend
for Maintaining Some State Highways

Chicago's decision in 2004 to lease the Skyway Bridge for 99 years to a private corporation introduced the notion of toll road privatization in the United States. It was the first example of privatization of an existing United States toll road.

It also raised questions for state officials to consider. Is the private sector emerging as a viable alternative to state operation of toll roads? Will leasing toll roads benefit motorists? What will be the fiscal impact on states? In return for \$1.82 billion in upfront cash, the city turned the eight-mile Skyway Bridge and toll road over to the Spanish-Australian consortium of Cintra-Macquarie beginning in January 2005. Cintra operates and maintains the bridge and has the flexibility to raise tolls.

The Evolution of Highway Funding

While the discussion about privatizing highways has recently hit the political forefront, toll roads have existed in the United States since the late 18th century.

By the mid-1950s, most limited-access highways in the eastern United States were toll roads. At the same time, the U.S. Interstate Highway System was established. The program financed the construction of new limited-access highways with 90 percent federal dollars and 10 percent state funds, which limited states' motivation to expand their toll systems.

The main source of federal highway funding was the Highway Trust Fund and most of that money came from fuel taxes specifically directed toward highways. There was a tight linkage between the source of funds and projects, including highway construction and maintenance. That linkage, however, has broken down over the years, according to Sujit CanagaRetna, senior fiscal analyst with CSG's southern region, the Southern Legislative Conference.

"There has been a diversion of funds toward general projects—mass transit, and so-called 'pork' projects—instead of purely highway projects," said CanagaRetna. "And with fuel taxes becoming inadequate to deal with the rising need for additional roads and highways, you had a bit of a lopsided equation where demands for roads were increasing steadily. On the flip side, the source of funds was dwindling."

States had problems raising additional revenue, and Congress consistently refused to raise gas taxes—the last time those taxes were raised was in 1993. Those factors, said CanagaRetna, have spurred the notion of toll roads as a potential source of additional revenues.

By Laura Coleman

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State Privatization Plans

Indiana Gov. Mitch Daniels is possibly the person most responsible for the emergence of the privatization issue in state capitols. Daniels' plan, Major Moves, would use revenue for the lease of the Indiana Toll Road to fund the Indiana Department of Transportation's 10-year road plan, which includes developing new infrastructure across the state.

Cintra-Macquarie, doing business as Statewide Mobility Partners, won the bid for the 75-year lease for \$3.85 billion upfront and \$4.4 billion in improvements along the 157-mile Indiana Toll Road. The contract recently has passed Indiana's legislature.

Under Major Moves, Indiana would spend \$150 million over the next three years to help local communities pay for road maintenance and repair. Daniels has also pledged to oppose any attempt to divert Major Moves revenues to other areas of the state budget. Without privatization, the state would make an estimated \$7.5 billion in the next 75 years, but would also remain responsible for highway maintenance and upgrades.

Indiana has an estimated \$2.8 billion in road projects pending, and the state says it can afford only about half those projects. Daniel expects privatization to make those projects possible and alleviate the need for increased gas taxes. However, the proposal allows an increase in the cross-state passenger car toll from \$4.65 to \$8, with future increases pegged to inflation.

Survey Says...

Although the public has been slow to come around to the idea, many transportation experts agree privatization is sound policy. However, Bob Poole, director of Transportation Studies for the Reason Foundation, warns that windfall amounts of revenue provided by public-private partnerships can be a double-edged sword.

"Large sums of money can lead to spending on ill-advised projects. But privatization leads to more professional, business-like management. It's useful for people to step back and take a different look at this phenomenon," said Poole. "Think about

how we accept privately-owned utilities—gas, water, telecommunications. In a fundamental way, limited access highways that lend themselves to charges would be similar to these infrastructures. It is not really different in terms of the kinds of expertise required to build, manage, market and finance. They are all long-lived infrastructures that serve a vital public need."

Experts also project better customer service as a result of privatization. Peter Samuel, a journalist and researcher specializing in toll roads, wrote a report that contends privatization allows for the management of toll roads "to be free to take initiatives to market the toll road, hire and fire staff, and adjust services provided according to what customers are prepared to pay for."

State toll authorities tend to leave toll rates frozen for many years, said Samuel, and then suddenly drastically increase those rates. This so-called "price earthquake" leads to unnecessary disruption, he said.

"Traffic, particularly trucks, tends to divert onto local roads, at least for some months or a year or two after the big toll rate hike," he said. "There is great local annoyance, there are more accidents, and transport efficiency is reduced with trucks traveling on much slower roads."

Private companies monitor and adjust prices more regularly and in smaller and less disruptive increments, according to Samuel. Most companies adjust rates in line with inflation.

Poole agreed the key difference between privatization and keeping toll roads in state hands is that the private sector is more diligent about keeping tolls in sync with inflation. "Toll roads went from being in a position to generate surplus revenue to failing because of not raising tolls," he said. "Placing the roads in the hands of a private company depoliticizes business management decisions. This is difficult to do in the public sector."

Privatization Critics

Some critics of leasing toll roads consider the practice symbolic of America being sold, piece by piece. Others are con-

Privatization in Other States:

←**Virginia:** The 14-mile Dulles Greenway is owned by TRIP-II, a company owned by local investors. In the past five years, traffic has increased to such an extent that the Greenway is being widened.

←**California:** SR 125-South, a 9.3-mile toll road along the eastern fringe of the San Diego metro area, is owned by the Australia-based Macquarie Infrastructure Group. It will connect area freeways and provide an alternative for international traffic. It is expected to cost about \$650 million.

←**Texas:** A CINTRA-led group has been chosen by the Texas DOT to build 316 miles of new toll road, The Trans Texas Corridor-35. Construction is likely to begin in the next two years.

—Peter Samuel, "Should States Sell Their Toll Roads?" Available in PDF at www.reason.org/ps334.pdf



cerned that if the private company goes belly up, the state will be left to repay bonds. Still others wonder about the future of state highway employees.

In general, the idea of imposing tolls often is unpopular because the public believes it already funds roads with gas taxes and vehicle registration.

Furthermore, Carl Ohrn of the Metropolitan Council in Minnesota indicates that each plan's goal is a key factor in determining how beneficial privatization can be. "Many metro areas want to manage traffic, so they charge a toll based on demand. Money is not as much an issue as providing a congestion-free alternative." According to Ohrn, these are conflicting goals or different goals, depending on the area of the country.

Some people believe it is bad policy to divest public assets, said CSG's CanagaRetna. However, most opponents of toll road privatization see a more immediate drawback: privatizing will increase tolls. "Tolls can become cost-prohibitive to some" regardless of who maintains the roads, he said.

As far as the job security of state highway employees whose jurisdiction faces privatization, the details—terms of the lease—make the difference.

Debra Minnott, director of Indiana State Personnel, said the state's plan will offer other positions in state government at the same pay and benefits to those employees who choose not to work for the private company. Employees who are vested by the time they leave state employment will still receive state benefits. "In addition," said Minnott, "there are several pieces of legislation currently pending which could assist employees by purchasing additional service credit for those who are near vesting or near normal or early retirement age."

Poole suggested those opposed to privatization peruse lease terms. He commended Indiana for making the documents so accessible to the public—they are available on the state's Web site. "These decisions were based on 30–40 years of other countries' experience," said Poole. "We're not dealing with something behind closed doors where terms are hidden. It's all out there in the open. Everything is publicly documented."

Poole also suspects if American companies were the main players in the lease agreement, the issue would not be as controversial. "But we live in a global economy," said Poole. "We have foreign investment in banking, real estate and everything else."

The New Wave in Toll Roads?

So is privatization a trend? According to most experts, it is too early to say. But they agree that priced highway facilities, regardless of who operates them, will become more prevalent.

The push toward alternate forms of energy could also play a role in the future of toll roads, according to CanagaRetna. "Unless officials change the formula so that alternate energy is taxed also, there will be dwindling revenue from fuel taxes," he said. "That will put even more pressure on state and local governments to meet expenditures on highways. It will make the necessity for tolls even greater."

And while Poole won't call privatization a trend just yet, he sees more of it on the horizon. "There are four bona fide bids for the Dulles Toll Road in Virginia and three linked in Houston. There are discussions in Delaware and New Jersey," said Poole. "By our reckoning we have totaled active proposals at \$20 billion in discussion stages, not including existing toll roads. This is just the tip of the iceberg for what is to come in the next 10 years."

—Laura Coleman is associate editor of *State News* magazine.

Major Moves Lease Agreement Summary

- ← Statewide Mobility Partners (SMP) may not sell or reassign lease, or hire third-party operator of the Indiana Toll Road without the approval of the State of Indiana.
- ← SMP is responsible for all costs and expenses, including operation, maintenance, restoration, resurfacing, reconstruction and tax liabilities.
- ← Example of Operating Standards Agreement: snow/ice—bare pavement within 4 hours and shoulders clear 8 hours after storm ends.
- ← SMP is mandated to interview all existing employees interested in employment. Those not hired will be provided opportunities elsewhere in state government.
- ← SMP shall give a hiring preference to qualified Indiana workers.
- ← SMP must adhere to "Buy Indiana" 90 percent guidelines for maintenance and construction contracts.

—Major Moves information available at <http://www.in.gov/gov/majormoves/>.

