# Private Roads, Public Costs

## The Facts About Toll Road Privatization

Across Pennsylvania, cash-strapped governments are struggling to plug gaping holes in their budgets, scarred by the impacts of the economic crisis. At the same time, Pennsylvania's roads and bridges remain congested and in desperate need of repair.

Enter global private infrastructure companies and their backers in the world of investment banking. Touting the benefits of public-private partnerships, these companies are seeking to build new private highways or offering up-front cash for existing roads … all in exchange for the right to charge and collect tolls on motorists for decades to come.

Road privatization offers a hard-to-resist "quick fix" for state budget and transportation challenges. But poorly done privatization can have hidden costs and big potential downsides for the public.

## Is Road Privatization on the Rise in Pennsylvania?

In 2006, Governor Ed Rendell proposed leasing the Pennsylvania Turnpike to generate money for transportation projects. Proponents touted that a deal could pay out as much as $30 billion. A private consortium headed by Citigroup and a Spanish investment firm offered $12.8 billion for a 75 year lease of the toll road. The consortium, which withdrew the bid in September 2008 when the legislature refused to approve the deal, has indicated that it intends to rebid.

In June 2008, the state Senate passed a bill that would allow state agencies to obtain private bids for the construction of new express toll lanes and high occupancy toll lanes to expand highway capacity. Legislators pointed to the need for these types of projects on I-95 and the Schuylkill Expressway.

Additional proposals for private toll projects include:

- The Mon Fayette Expressway connecting Pennsylvania Route 51 in Jefferson Hills to I-376 in Pittsburgh, and

- The Southern Beltway, a proposed link between the Mon Fayette Expressway and Pittsburgh International Airport.

## Handing Over the Keys to Transportation Policy

Private toll road operators seek to maximize their profits. But what's good for business isn't always good for motorists, or for transportation policy in general. For example:

- Toll road contracts often include *non-compete clauses* that prevent states from making transportation improvements that would cut into the toll road's business. For example, a government agency was forced to buy out the private operator of California's State Route 91 express lanes because its contract with the private company forbade improvements on a nearby road.

- Contracts can *financially encourage bad transportation policy*. One toll road contract in Texas provides the state with a financial incentive for increasing the speed limit from 70 to 80 miles per hour.

- States typically *must pay private operators if policy decisions reduce toll revenue*. For example, the state of Indiana was forced to pay the private operator of the Indiana Toll Road more than $400,000 for waiving tolls to speed evacuations after a flood.

- Private toll road operators can keep raising tolls, even if increased tolls *divert traffic onto congested local roads*. One study found that private toll roads can increase accidents and maintenance costs on nearby public roads because drivers, especially truckers, seek to dodge big toll hikes.




## Not Enough Bang for the Buck

Typically the biggest expense for a private road operator is the cost of borrowing upfront money from lenders and investors. But government agencies have big advantages in this area. Governments pay lower interest rates to borrow money than private companies. And public toll roads need not divert toll dollars to cover shareholders' profits.

- The public *can't be confident of getting full value when selling off toll roads*. An analysis of the Chicago Skyway and Indiana Toll Road privatization deals found that private investors will likely recoup their investments in less than 20 years—even though the private operators will charge tolls for 99 and 75 years, respectively.

- Private toll road deals require *higher tolls* to provide the same payoffs that would be possible without privatization. Based on the same schedule of toll hikes that would have been offered to a private entity, Pennsylvania could generate nearly twice as much revenue by keeping, rather than selling off the Pennsylvania Turnpike.

## Risky Schemes and Lack of Accountability

Private infrastructure deals are often characterized by the same leveraging of debt, conflicts of interest, and reckless shifting of risk that triggered the recent financial crisis. And contracts can often last for 50 years or more, potentially leaving the public stuck with a bad deal for generations.

- Privatization deals can lack accountability. In Texas, the state was forced to pay an inflated price to buy back the failed Camino Columbia Toll Road after a company that bought the road out of bankruptcy had closed it to all traffic.

- The complexity of private road deals requires states to pay dearly for high-priced consultants and attorneys to monitor companies' performance—and to file litigation when the companies fail to fulfill their responsibilities.

- Private toll road deals have largely been negotiated behind closed doors and with little explicit criteria to ensure that the public interest is protected.

## Protecting Against Bad Road Privatization Deals

To protect the public interest, Pennsylvania and its local governments should avoid privatization of existing roadways, and allow for private deals to construct new roadways only under the following conditions:

- The public should retain control over decisions about transportation planning and management.

- The public must receive full value so future toll revenues won't be sold off at a discount.

- No deal should last longer than 30 years because of uncertainty over future conditions and because the risks of a bad deal grow exponentially over time.

- Contracts should require state-of-the-art maintenance and safety standards instead of statewide minimums.

- Complete transparency and public disclosure are needed to ensure proper public vetting of privatization proposals.

- There must be full accountability in which the legislature must approve the terms of a final deal, not just approve that a deal be negotiated.

**As a nonpartisan public watchdog group representing everyday citizens, PennPIRG Education Fund works to prevent road deals that harm the long-term public interest. For detailed information on road privatization, please see our report, "Private Roads, Public Costs: The Facts About Toll Road Privatization and How to Protect the Public."**

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