



# Private Roads, Public Costs

## The Facts About Toll Road Privatization

**A**cross the country, cash-strapped states are struggling to plug gaping holes in their budgets. At the same time, America's roads and bridges are increasingly congested and in desperate need of repair.

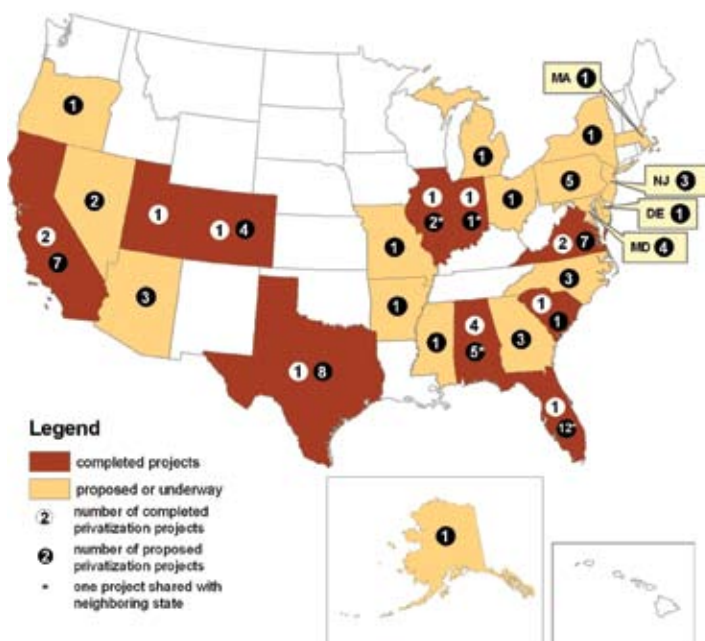
Enter global private infrastructure companies and their backers in the world of investment banking. Touting the benefits of "public-private partnerships," these companies are seeking to build new private highways or offering upfront cash for existing roads ... all in exchange for the right to charge 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 there are hidden costs to privatization ... and big potential downsides for the public.

### Road Privatization Is on the Rise

Rare just a decade ago, road privatization is on the rise in the United States. As of the end of 2008, 15 highways had been privatized – including major routes such as the Indiana Toll Road and Virginia's Dulles Greenway. And another 79 road privatization projects were underway or under consideration in 25 states.

### Completed, Underway and Proposed Privatization Projects



### 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 prohibited improvements on a nearby road.
- Contracts sometimes *provide financial incentives for bad transportation policy*. In Texas, one toll road contract provides the state with a financial incentive for increasing the speed limit on the toll road from 70 to 80 miles per hour. Another deal in Colorado required adjacent municipalities to add stop lights and reduce speed limits on local roads as a way to reduce potential competition for the toll road.
- States must often *pay private toll road operators if public 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 it *drives traffic onto congested local roads*. One study found that private operation of toll roads could lead to increased accidents and maintenance on nearby public roads as drivers, particularly truckers, seek to dodge higher tolls.



## Not Enough Bang for the Buck

Government agencies have big advantages that enable them to build toll roads more cheaply than private entities. Governments pay lower interest rates to borrow money than private companies. And public toll roads don't have to divert toll revenues to pay shareholder profits.

- The public *can't be sure of getting full value for selling off toll roads*. An analysis of the Chicago Skyway and Indiana Toll Road privatization deals found that private investors would likely recoup their investments in less than 20 years – even though the private operators can charge tolls for 99 and 75 years, respectively.
- Private toll road deals require *higher tolls or provide less up-front money* for states than deals without privatization. An analysis of the proposed privatization of the Pennsylvania Turnpike, for example, found that the state could generate nearly twice as much revenue for the same toll rates as it could by privatizing the road.

## 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 the long duration of private road deals can leave the public dependent on the private operator for decades.

- Private toll road operators in Texas and Virginia have already experienced bankruptcy. In Texas, the state was forced to pay an inflated price to buy back the failed Camino Columbia Toll Road after the company that bought the road out of bankruptcy closed it to all traffic.
- Private toll road deals often last for 50 years or more, potentially leaving the public stuck with a bad deal for generations.

- The complexity of private toll road deals requires states to pay 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 are most often negotiated behind closed doors and with no explicit criteria to ensure that the public interest is protected.

## Protecting Against Bad Road Privatization Deals

To protect the public interest, state and local governments should avoid privatization of existing roadways, and allow for private construction of new roadways only under the following conditions:

- The public should retain control over decisions about transportation planning and management.
- The public must receive fair 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.
- There must be complete transparency 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, U.S. PIRG 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," available at [www.uspirg.org/road-report](http://www.uspirg.org/road-report).**

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