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Goldman, Macquarie Face Fight on Private Toll Roads (Update1)

By Angela Greiling Keane and Jonathan D. Salant

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June 11 (Bloomberg) -- The trucking industry and congressional Democrats are trying to put the brakes on state efforts to lease toll roads to Macquarie Bank Ltd., Goldman Sachs Group Inc. and other private investors.

Urged on by truckers such as U.S. Xpress Enterprises Ltd., House Democrats are considering withholding highway funds from states whose leases with companies fail to meet proposed federal standards. Critics of leasing say private investors are more likely to raise tolls than government authorities are. Private investors would also find it easier to fire toll collectors and other employees.

New federal restrictions could make investments in the \$1.7 trillion of public roadways less attractive to private interests. And the mere fact of congressional attention might have a chilling effect on such deals, says Mike McDermott, an analyst who works on toll-road transactions in the New York office of Fitch Ratings Ltd., which rates debt used to finance infrastructure.

“Those kinds of public debates would make politicians at the state level more cautious,” he says.

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- For states with heavily traveled roadways, lease agreements with the likes of Macquarie and Goldman are potential windfalls that would allow them to meet budget needs without raising taxes.

- [Bloomberg Podcasts](#) Leasing the Turnpike
- [Bloomberg Press](#) Pennsylvania, which says it faces a \$1.7 billion shortfall in transportation funds during the next 20 years, might raise as much as \$12 billion to \$18 billion by leasing the 537-mile Pennsylvania Turnpike, according to an analysis by Morgan Stanley. New Jersey Democratic Governor Jon Corzine, 60, is also looking at leasing state toll roads to raise money for highway construction and maintenance.

Such arrangements are common in Australia, Chile, Spain and elsewhere around the world. Sydney-based Macquarie, the world's largest private manager of public facilities, said last month that it raised \$10 billion to buy more infrastructure assets in Europe and North America. Those assets would be added to its existing stakes in the Indiana Toll Road -- leased in 2006 for \$3.85 billion -- and the Chicago Skyway, leased for 99 years in 2005 for \$1.83 billion.

New York-based Goldman Sachs, the biggest U.S. securities firm by market value, raised \$6.5 billion last year for a new fund to invest in toll roads and other infrastructure. Goldman is one of 48 firms interested in leasing the Pennsylvania Turnpike.

Shortchanging the Public

Alex Doughty, a spokesman for New York-based Macquarie Infrastructure Group, didn't respond to requests for comment. Goldman Sachs spokesman Michael DuVally declined to comment.

House Democrats say they are concerned the public will be shortchanged by long-term private leases. "Public-private partnerships need to take the public interests in mind," House Transportation Committee Chairman Jim Oberstar, 72, a Minnesota Democrat, said in a statement provided by his office.

Oberstar's proposed guidelines for private leasing agreements would include guarantees that states could upgrade highways parallel to leased toll roads and protection against price gouging by private companies. States that didn't comply would face the loss of federal highway funds.

Oberstar and House highways subcommittee chairman Peter DeFazio have sent letters to state officials urging them to go slow. "If public-private partnerships are abused, what you will cause is a reaction on the state and federal level that will put an end to this," says DeFazio, 60, an Oregon Democrat.

A 'Patronage Bastion'

Pennsylvania Governor Edward Rendell -- like Oberstar and DeFazio, a Democrat -- says the congressional concerns are overblown. In his state, Rendell, 63, said in an interview, much of the opposition to leasing the turnpike has come from entrenched partisan interests fearing the loss of what has been a "huge patronage bastion for both political parties."

Congressional Democrats have found unlikely allies in Chattanooga, Tennessee-based U.S. Xpress and other trucking companies, which in the last 10 years have given about 80 percent of their campaign donations to Republicans, according to the Center for Responsive Politics, a Washington-based research group.

The growing interest in road leasing shows that "someone's figured out how to make a lot of money doing these deals and also that someone, probably the users of these roads, is going to pay exponentially," says former Kansas Governor Bill Graves, 54, chief executive of the American Trucking Associations. The trade group, based in Alexandria, Virginia, represents among others U.S. Xpress and Overland Park, Kansas-based YRC Worldwide Inc., the largest U.S. trucking company.

Taxes Over Tolls

The truckers' trade group says the industry pays \$3 billion to \$4 billion a year in tolls now. Graves, a Republican, says the industry would prefer higher fuel taxes to increased tolls.

Large trucking companies typically sign long-term contracts with customers that factor in fuel-price fluctuations. Patrick Quinn, 61, president of U.S. Xpress and chairman of the ATA, said in an interview that private control of U.S. highways is "unpredictable and unknown" and could increase tolls.

Frequent toll hikes, Quinn says, would make cost planning difficult. "We feel kind of comfortable with the system" now, he says.

After Indiana signed its lease agreement, truck tolls on its 157-mile toll road rose 24 percent -- the first increase since 1985. They rose another 25 percent in April and are due to go up again in 2008 and 2009.

Benefits and Risks

For politicians, there may be both benefits and risks in such arrangements. Private control may free officials from being blamed for higher tolls, says McDermott, the Fitch Ratings analyst. They can say "it's not me that's raising rates," he says.

On the other hand, the higher charges in Indiana helped Democrats capture control of the state House of Representatives and win a congressional seat in the district that straddles the highway.

"People thought it was done in an unfair way, and they wanted someone who would stand up for it," says Democratic U.S. Representative Joe Donnelly, 51, who ousted Republican Chris Chocola, 45.

Matt Pierce, a spokesman for the Indiana Toll Road, says the lease benefits motorists. "Our primary responsibility is to the consumers who travel the road," he says. "We're selling them time. We're selling them that ease of

moving the goods."

The Bush administration is backing the states' drive to get business investment to run highways. "Public-private partnerships are vital to fixing this nation's mounting mobility crisis because private investment is based on demand and not political influence," Transportation Secretary Mary Peters, 58, told a highway group in Myrtle Beach, South Carolina, on June 1.

With Bush's backing, and given the financial needs of the states, Pennsylvania's Rendell predicts more such deals in the future. The balding governor says he'll be able to "comb my hair in a pompadour" before Congress clamps down on the trend.

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