

# **THE WALL STREET JOURNAL.**

WSJ.com

BUSINESS

MARCH 8, 2009, 7:14 P.M. ET

Highway Upgrade Goes Private

Florida Deal With Spanish-Led Group Serves as a Model for Cash-Strapped States

By CHRISTOPHER CONKEY

Cash-strapped Florida is paying a private contractor to fix up and operate a toll road instead of doing the work itself -- and other states might follow.

In a deal struck last week, a Spanish-led group will be paid as much as \$1.8 billion over 35 years to design, build, operate and maintain three new toll lanes along traffic-clogged Interstate 595 near Fort Lauderdale. The agreement came as something of a surprise during a period of turmoil in credit markets, and many experts called it a model for how states and private investors can work together to upgrade the nation's aging roads, bridges and other transportation infrastructure.

"This project is a harbinger of what we may be seeing over the next decade or so, as we don't have enough money for major construction," said Robert Poole, director of transportation studies at the Reason Foundation, a free-market think tank.



Mike Stocker/The Sun-Sentinel

Interstate 595 near Fort Lauderdale, Fla., will get three new toll lanes as part of a deal struck last week.





Florida, Texas, Virginia and many other states are increasingly looking to road-privatization deals to close a growing gap between their infrastructure needs and their available resources. Even with an additional \$48 billion in stimulus funds on its way to states for transportation work, many states are being forced to cut projects because traditional sources of such funding, such as gasoline taxes and levies on vehicle sales, have declined.

Some privatization deals have advanced in recent years, but many others, including an unsuccessful effort to lease the Pennsylvania Turnpike last year, have stalled amid concerns over handing key roads and transportation assets to foreign investors, which have the most experience on such projects. Transportation officials said the Florida deal, thanks to a financial model that hasn't been tried in the U.S. before, provides a new and politically palatable way forward.

Florida is shielded from the risk of cost overruns during construction. Once the road opens, Madrid-based Actividades de Construcción & Servicios SA, the leader of the consortium, will operate and maintain it, but the state will set toll rates and pocket the revenue. ACS will get paid back over the length of the 35-year contract based on performance measures tied to how well it builds and maintains the lanes. Lawyers involved in the deal said ACS could get a maximum 12% return on its investment if it meets every performance goal.

Some critics of privatization deals said the Florida 595 deal was less objectionable than many previous proposals like the Pennsylvania Turnpike lease. Phineas Baxandall, a senior analyst at the U.S. Public Interest Research Group, a consumer-advocacy group, singled out the creation of a bus rapid-transit service along the route as a positive. Still, he said, "the long-term costs would likely be lower by cutting out the private middleman."

Stephanie Kopelousos, Florida's transportation secretary, said the state couldn't have completed such a project anytime soon on its own because of its deteriorating funding picture.

"It would take us 15 years to do this," she said. "We do pieces at a time. That's all we can afford."

ACS said in a statement that it is "honored to be a part of this important project which will positively affect the quality of life of millions of Floridians."

Ms. Kopelousos said the state, which has been spending an average of about \$8 billion per year in transportation work, has trimmed its five-year spending plan by \$7.3 billion. "We've almost had to take out a whole year in our work program," she said.

### Transport Funding

Biggest active projects with Tifia credit agreements

PROJECT	CREDIT AMOUNT, IN MILLIONS
Central Texas Turnpike	\$917
I-595, Florida	603
Washington Metro Area Transit Authority CIP	600
Capital Beltway/I-495 HOT Lanes, Virginia	589
Intercounty Connector, Maryland	516
SH 130 Corridor, Texas	430
Miami Intermodal Center RCF, Florida	270

Source: Transportation Department

To compensate for the shortfall, Florida has been talking with a variety of mostly foreign investment groups to provide funding for several other large-scale projects, including a lease of Alligator Alley, the section of Interstate 75 that cuts across South Florida. The state is one of 23 that have passed legislation in recent years allowing transportation officials to partner with the private sector on innovative financing deals.

Florida's funding issue is a microcosm of a national problem, and U.S. Transportation Secretary Ray LaHood has said the government should support public-private partnerships as one way to solve it. The administration has agreed to provide Florida with \$600 million in low-interest loans to support the 595 deal under a program established by the Transportation Infrastructure Finance and Innovation Act, or Tifia. Last week, Mr. LaHood called the Florida deal "part of the Obama administration's commitment to reviving the economy and putting Americans back to work."

Lawyers involved in the matter said the Tifia loans were a key development that made the project affordable for Florida. Under Mr. Obama's recently passed economic-stimulus package, Mr. LaHood can steer as much as \$200 million in new funding into the Tifia program this year, on top of stimulus transportation funding already going to the states. Many transportation experts are urging the Obama administration to expand Tifia lending, which averages about \$1 billion per year.

The Obama administration has rejected the idea of increasing the 18.4-cent-a-gallon federal gasoline tax to raise revenue for infrastructure projects. That could lead states to pursue more private-funding options.

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