Six Routes to a Toll Road

As business models proliferate, most new highways aren't public or private but somewhere in between.

Brendan Schlauch | July 31, 2009

When the Philadelphia and Lancaster Turnpike opened in 1794, it was the first major toll road in the United States. It also was the first thoroughfare to be constructed entirely with private money. That private model of financing toll roads held sway for more than a century. Not until 1937, with the construction of the Pennsylvania Turnpike, did government begin to take an active role in the financing and construction of toll roads. For generations of American drivers, a toll road was almost always a highway built not long after World War II and financed and run by a public authority or another arm of state government.

Now, that's changing again--and quickly. With states strapped for cash, and the nation's highways in desperate need of repair, government is once again turning to the private sector for help. But what's unfolding with toll roads is not necessarily a pendulum swinging back to an all-private model, either. Instead, states are experimenting with a wide array of business models, some of them imported from overseas. On a spectrum, some of the new facilities are closer to the late-1940s model in terms of public financing and control over how the road is managed. Others leave more control, risk and financial reward with the private sector. Many more of the new toll-road models lie somewhere in between. Although the credit crunch has slowed the momentum on new public-private partnerships, several projects already are underway and more are likely when the economy rebounds.

In other words, this is a pivotal moment in the history of toll roads. Only the future can tell whether any of the emerging models for building them will work out better than others.

Maryland
Intercounty Connector
Cost: $2.6 billion
Completion: Fall 2012
The Intercounty Connector will be the first major east-west highway in the suburbs north of Washington, D.C. Maryland is using public money to cover the road's $2.6 billion cost, and is using a variable-pricing scheme that will charge motorists higher tolls during rush hour and other busy times. Maryland will retain full ownership of the highway, control the toll rates and receive 100 percent of the toll revenue. That also means Maryland is on the hook for the road's operating and maintenance costs, as well as any increase in construction expenses.

Florida
I-595 Expressway
Cost: $1.8 billion
Completion: Spring 2014
To pay for expansion of this Broward County highway, Florida is using an "availability payment" model, the first time this financing scheme that is popular in Europe will be used in the United States. A consortium of private investors led by ACS Infrastructure Development will pay to improve 10.5 miles of the existing road and add tolled express lanes. The consortium also will cover operation and maintenance of the highway once construction is completed. In exchange, Florida will pay the investors more than $1.8 billion over the next 35 years, essentially renting the highway back from the private entity. Florida will retain a fair amount of management control, however. Payments are contingent on the contractor meeting certain performance standards laid out in the contract. And the state will maintain power to set the toll rates and keep sole rights to the revenues.

Virginia
I-495 HOT Lanes
Cost: $1.9 billion
Completion: Early 2013
Virginia is turning to private partners to expand I-495--the Washington Beltway--with express toll lanes. Virginia is responsible for less than one-fifth of the project's cost, or roughly $400 million, and is off the hook for any of the project's debt. Two companies, Fluor and Transurban, will finance the remaining costs, including future maintenance expenses, in exchange for a lengthy 75-year lease on toll revenues. The companies are allowed to charge whatever price the market will bear in order to maintain constant speeds of at least 45 m.p.h. Despite ceding wide control over toll rates to the private sector, Virginia will retain ownership of the highway and will receive up to 30 percent of toll revenues once the companies' return on investment exceeds 8 percent.

Texas
State Highway 130
Cost: $1.4 billion
Completion: 2012
Texas built the first stretch of State Highway 130 as an alternative to the congested I-35 near Austin. Now, the state is partnering with Zachry American Infrastructure and Spain-based Cintra to finish constructing the remaining 40 miles of the 91-mile toll road. The companies will finance most of the $1.4 billion project, which they will operate and maintain. ZAI and Cintra also paid Texas $26 million upfront for a 50-year lease on the right to collect and keep toll revenues. Texas maintained some public control over tolls by capping hikes at the rate of growth of state domestic product. And Texas could share in the toll revenues if certain benchmarks are reached. But there are risks: If the private company defaults on its loans or is unable to complete the project, Texas is responsible for paying off the resulting debt and completing construction itself.

California
South Bay Expressway
Cost: $840 Million
Opened: November 2007
Facing a critical need for a new highway south of San Diego, California solicited private partners that could complete a toll-road project on an accelerated timeline. In exchange for a 35-year lease, the Australian-based Macquarie Infrastructure Group put up $635 million in private funding for the $840 million project. As part of the agreement, the company must pay for maintenance and operating costs, including highway patrol services. But the company has the power to set toll rates to whatever the market will bear, independent of state oversight. The only restriction is that Macquarie's return on investment is capped at a generous 18.5 percent. If the company makes more than that, a revenue-sharing agreement with the state kicks in.

Virginia
Dulles Greenway
Cost: $350 million
Opened: September 1995
Built in the early 1990s, the 14-mile Dulles Greenway west of Washington, D.C., isn't new. But among modern toll roads, it remains the purest form of a privately owned facility in the United States; in fact, Macquarie recently bought the highway from its previous owner for $615 million. The road receives no public funding, so all maintenance and operating costs are covered by Macquarie through monies collected from tolls. Like electric companies and other utilities, the private highway is regulated by the Virginia State Corporation Commission, which is responsible for setting the rate of return for investors. As per the original agreement offering the Greenway's builder the right-of-way, the toll road is expected to revert to state control in 2056.