

Macquarie's San Diego SBX may go to creditors - written off

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The South Bay Expressway (SBX), Macquarie's first foray into the US toll business continues to be a bear for the group. Data released to the Sydney Stock Exchange show traffic in the latest quarter (2009Q3) down 13.6% on the prior corresponding period of 2008 for average daily transactions of 22.5k, v 26.1k in the tollroad's first year.

During construction people associated with the \$650m project said the forecast average daily traffic was 62k/day in the first year.

The environmental permitting (EIS) showed projections of traffic in 2015 as ranging between 71k and 153k on different segments, apparently an average of around 110k/day. With 22k now it looks as though it will be lucky to get 35k by 2015, barely a third of forecast.

Toll revenue has been stuck around \$20m/year in its first years of operation, also a small fraction of that expected.

Freddie/Fanny/Fed bubble country

Located on the eastern fringe of the San Diego metro area this Mac pike is in the heart of foreclosure country, beset by overbuilding, with real estate values having tumbled, and a large slab of local residents in deep financial trouble. Also depressed is Mexican-US trade so the SBX's service to the Otay Mesa border crossing is not bringing the truck traffic they'd hoped for.

Forecasting was apparently based on a straightline projection upward of the 1995-on strong trendline produced by the Fannie/Freddie/Fed cheap money boom. That turned out to be bubble that began to burst just around the time the SBX opened.

Say Mac in their latest report: "traffic volumes on South Bay Expressway continue to be impacted by the weak regional housing market and a slowdown in economic activity which has also led to a decline in Mexican border crossings."

A sue-me contract

Another problem is a lot of litigation with contractors. The road transitioned from Parsons Brinckerhoff to Macquarie in early 2003 with some contracts already in place.

One source told us today the toll system procurement was "almost made-for-litigation."

He called it a "sue me contract" with terms unspecified and generalities that invited litigation.

An example he cited was a statement that the toll system contractor "shall provide a back office." That was it. (We haven't checked this out - editor)

A \$3k Home Depot storage shed (see nearby) stuck out back would have met the terms of the procurement?

Just a couple of weeks ago SBX lost a case in Superior Court of California with InTrans the toll system provider. SBX was attempting to avoid arbitration of a dispute with InTrans, but the Court sided with the contractor.

There is also potentially expensive ongoing litigation apparently with the civil contractor.

The prospectus for Macquarie Atlas Roads (MQA) is candid about SBX as a write-off:

"SBX is currently facing significant construction related litigation claims and is also dealing with a number of other major unresolved project issues.

"Given its current financial position, SBX is currently working with key counterparties (including lenders) to attempt to resolve these issues.

"Should these negotiation break down or be unsuccessful, SBX is likely to come under the control of the senior secured lenders and bankruptcy or foreclosure may follow at any

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The Macquarie Atlas Roads Prospectus (Dec. 2009)

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Contrary to the SBX map there is a road connection on the Mexican side of the border.