

# Toll Project Bankruptcies Demonstrate Risk Transfer

By **Bob Poole** • May 27th, 2011 • Category: **Feature**, **Transportation**

*Publisher's note: As Virginia considers the expansion of privately financed toll roads in the state (partial or total financing); one expressed concern is "what happens if the owners of the private toll roads go bankrupt?" – an issue confronted in this article.*

The bankruptcies of two major PPP toll projects – one in Australia and the other in California – are unfortunate for their investors, but have a silver lining for motorists and taxpayers. In both cases, these important new links in urban transportation networks have remained in operation. And in both cases, there were no taxpayer bailouts.

The first of these is the Clem Jones Tunnel project in Brisbane, Australia. This 4.25-mile-long project, including 3 miles of tunnel beneath the Brisbane River, cost \$2 billion—nearly twice the original estimate of \$1.2 billion. Its twin tubes, each with two travel lanes and 7 feet of shoulders, were constructed using massive tunnel boring machines of 40.5 feet in diameter. The project opened in March 2010 (eight months ahead of schedule) but went into receivership in February 2011, due to traffic running at only one-quarter of projections and revenue below even that. The combination of much higher construction cost and much lower traffic and revenue than forecast led to the bankruptcy.

So who is left holding the bag? A consortium of 24 banking firms provided \$1.3 billion in short-term loans, and individual investors put in \$715 million buying shares at \$1 each. Those shares are now worthless, and the receivership process will sort out how much the banks get paid, probably from the proceeds of selling the 45-year concession to a company willing to make a go of it based on a much lower acquisition cost. Queensland premier Anna Bligh summed up the public policy lesson as follows:

"The taxpayers won't be out of pocket here. All of the risk has been borne by the company. The tunnel will stay open, and it's a good example of why governments, including the Brisbane City Council, have chosen to go down this path. The commercial risk is not being borne by the taxpayer, and that's a good thing."

Closer to home, the 9-mile South Bay Expressway (SR 125) in San Diego County emerged from bankruptcy at the beginning of this month. It filed for Chapter XI in March 2010, after the great recession cut traffic to levels far below forecast, making it impossible to make debt service payments. A complicating factor was a large cost overrun by the design-build contractor, which led to costly litigation. Under the terms of the settlement, owner Macquarie lost all its \$150 million equity investment. A group of 10 banks that held \$363 million in debt settled for \$210 million in new loans (58 percent of the previous amount) and a 68 percent ownership stake. The federal TIFIA program, suffering its first-ever default, wrote down its \$172 million loan to \$93 million, while gaining the remaining 32 percent ownership stake. The company is now exploring a sale, and queries have been received from several private groups as well as the San Diego Association of Governments.

Here again, the Expressway has remained in operation, serving its customers, throughout the bankruptcy process. No taxpayer bailout has occurred. The TIFIA program has suffered a modest loss, but – consistent with the program’s rules – its secondary debt received equal treatment with the senior debt during the bankruptcy process.

The bottom line here is that start-up toll projects are inherently risky. They are not for the faint-hearted or for well-meaning amateurs. The best way to deal with that riskiness is to shift it from general taxpayers to sophisticated investors who are prepared to balance the occasional loss in exchange for solid long-term returns in other cases.





**Bob Poole** is the Director of Transportation Policy for the Reason Foundation  
**Email this author** | All posts by **Bob Poole**

## One Response »

1. *LarryG* on **May 27th, 2011 at 12:42 pm**:

Interesting observation especially given the fact that if not mistaken Reason and colleagues have been big on toll roads over publically-funded as of late and especially so with HOT.

So NoVa and I-95 are soon to be HOT.... and down Fredericksburg way, the MPO is pursuing a toll road and got about \$15 million to do a study to include NEPA an a toll analysis.

Who are the folks in North America that can perform substantiative analyses?

## Leave a Reply