

## Toll Road Update — January 2006

Recent developments in the toll road industry are summarized below. These developments are based on our January 2006 research. If you would like any additional information regarding this research or if we can be of any assistance to you, please let us know.

Regards,

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*In the United States:*

1. Indiana Legislature to Consider Governor's PPP Plan: Governor Mitch Daniel's plan to lease the Indiana Toll Road to the private sector for 75 years will be debated by the Indiana legislature, which reconvened on January 4, 2006 for a short session scheduled to end by March 14, 2006. Proposals for the lease were solicited and short-listed by Indiana last summer and while details of the short-listed proposals have not been released the deadline for submitting detailed proposals is January 20, 2006. The concession needs legislative approval before it can go forward and while the governor is optimistic that the deal will be approved many lawmakers still feel that a number of questions remain to be answered. Indiana House Minority Leader Patrick Bauer (Democrat) reportedly opposes the lease, but the governor appears willing to compromise to earn the support of skeptics. The governor has apparently earned the support of the Indiana Motor Truck Association by agreeing to spread over the next several years an increase in truck tolls on the Indiana Toll Road instead of implementing the increase all at once this spring. The governor has also agreed that certain revenue from the deal would be used to jump-start improvements to the I-31 corridor, which had been delayed until 2011. One state senator stated that prioritizing the I-31 corridor is the "carrot we need to even consider this deal". Not surprisingly, there has also been some indication from state lawmakers that they want to see the proposals, and specifically the amount of money which would be paid to Indiana upfront, before making any decisions. The governor indicated that once the detailed proposals are submitted the state will move quickly on the lease.

2. Virginia to Make Decision on Dulles Toll Road Concession: The Metropolitan Washington Airports Authority has submitted a competing proposal to operate the 14-mile Dulles Toll Road, which connects Washington, DC with the Dulles International Airport. An unsolicited proposal was submitted in the summer of 2005 for the operation of the toll road and four competing proposals were submitted shortly thereafter. The concession would be Virginia's first concession of an existing toll road. In late December 2005 the competing proposal submitted by the consortium of Urban Engineers and certain private landowners was eliminated and the public proposal submitted by the Airports Authority, which operates the Dulles International Airport, was added to the list. The Airports Authority's proposal relies on toll and bond revenue and does not contemplate any private involvement. One of the strengths of the Airports Authority's proposal is that it provides for toll revenue to fund most of the cost of a proposed approximately \$3.8 billion Metrorail line linking Washington, DC with the Dulles Airport, a sweetener the private proposals may have difficulty matching.

The Airports Authority also owns the land under the Dulles Toll Road. One of the weaknesses of the Airports Authority's proposal is that the Airports Authority has never been in the business of operating toll roads or building rail lines.

3. Virginia Considering Privatization of Chesapeake Bay Bridge-Tunnel: A Virginia lawmaker has suggested that the state study the privatization of the Chesapeake Bay Bridge-Tunnel. The 17.6-mile bridge-tunnel connects the Norfolk-Virginia Beach area with the state's eastern shore for a toll of \$12.00 each way. The cash-rich bridge has a surplus of \$90 million and its commissioners reportedly plan to build an additional tunnel. Critics claim that the high toll is unjustifiable and that the additional tunnel does not need to be built. Questions have also been raised about certain travel expenses attributable to the bridge's commissioners. Certain lawmakers have suggested that the bridge commission be merged into a regional or statewide bridge commission that would be able to allocate toll revenue to other priority projects, but Tom Gear, a Republican state lawmaker from Hampton has suggested that the state consider selling the bridge to a private operator. Gear is reportedly planning to propose a study of the potential privatization during the current session of the Virginia General Assembly, which reconvened on January 11, 2006.

4. Virginia Legislature Focusing on I-81 PPP: In addition to stating that most Virginia legislators agree that the 2006 General Assembly session "will define Virginia's transportation picture for the next 20 years," The Roanoke Times recently reported that the proposed PPP for the widening of I-81 in the western portion of the state is drawing lots of legislative attention. The Virginia Department of Transportation (VDOT) has been negotiating with a private consortium for widening the interstate from two to four lanes in each direction and adding truck-only toll lanes. Local lawmakers are concerned about the effect that plan would have on business in the corridor and have suggested that adding one lane in each direction might be sufficient. Final approval of a contract with the private consortium will not happen until all environmental studies are complete which appears to be at least two years away. The questions surrounding the I-81 project are linked to the General Assembly's hopes of finding a permanent revenue source for the state's transportation needs, which may be any one or a combination of gas taxes, sales taxes, tolls and/or privatization.

5. California Back on Track to PPP Roads?: In his second annual state of the state address on January 5, 2006, Governor Arnold Schwarzenegger outlined a Strategic Growth Plan for leveraging \$70 billion in bond revenue to pay for \$200 billion worth of infrastructure development over the next ten years. Schwarzenegger would like to add 1,200 miles of new highway and HOV lanes in congested areas and 600 miles of mass transit. Schwarzenegger is convinced that leveraging the state's bonding capacity will attract federal and local funding, and will also attract private investment. Schwarzenegger's efforts earlier this year to attract private investment for transportation projects, including assembly bill 850 for PPP road projects, which was part of the governor's "Go California" plan, were unsuccessful; but noting the failure of certain of his legislative initiatives the governor asked the people to "Work with me on harnessing private sector investment." Analysts noted that the state of the state speech may signal a shift in the Republican governor's policy towards the center and away from partisan politics, and at least one prominent California Democrat, Senator Dianne Feinstein, has welcomed the plan noting that it is "a major step in remedying the [untenable infrastructure] situation." California previously had legislation authorizing private investment in roads, but that legislation expired in 2003. While additional legislation authorizing PPP road projects has been introduced since the expiration of the earlier legislation political wrangling has prevented any such bill's passage.

6. Utah Considering PPP Roads: Utah State Senator Sheldon Killpack has sponsored a bill authorizing PPP road projects. The bill is being drafted for Utah's upcoming legislative session. Killpack has indicated that the first road that will be considered as a PPP may be the Mountain View Corridor, which will run approximately 35-miles from the Salt Lake City International Airport to Pleasant Grove. With funding a major issue, Killpack has identified the decision as that between a toll road or no road. Utah estimates that it will need \$16.5 billion over the next 25 years to complete necessary road projects and because gas taxes do not provide the necessary funding lawmakers have begun using money in the general fund to pay for road projects. Utah's entire congressional delegation recently joined the governor and lieutenant governor at a transportation summit focusing on PPP toll roads around the country.

7. Georgia Northwest Corridor PPP Moving Forward: On December 15, 2005, after a 30-day public comment period, the Georgia State Transportation Board voted unanimously to approve a Letter of Intent to Negotiate (LOI) for the approximately \$1.8 billion Northwest Corridor Project, which will be Georgia's first PPP project. The Northwest Corridor project contemplates adding managed lanes and barrier separated truck only lanes north of Atlanta on I-75 from Akers Mill Road to Hickory Grove Road and on I-575 from the I-575/I-75 interchange to Sixes Road in Cobb County. A bus rapid transit system servicing downtown Atlanta is also contemplated along I-75 from Cobb County. The LOI was entered into with a Bechtel led consortium and describes the details of the project, the terms and conditions for its implementation and its proposed schedule. The approval of the State Transportation Board allows Georgia to proceed with the negotiation of the final public private initiative contract, which will be recommended to the state's transportation commissioner and the governor.

8. South Carolina May Consider PPP for I-73: *Infranews.com* recently reported that South Carolina is understood to be considering developing its portion of Interstate 73 as a PPP tolled highway. Environmental studies are currently underway and the South Carolina Department of Transportation is considering various funding options. I-73 is a proposed new interstate highway, which will stretch from South Carolina to Michigan. The I-73 corridor was designated as a portion of the interstate highway system by various federal laws, but the only portion currently existing is a 26-mile stretch in North Carolina. South Carolina has statutory authority to develop PPP projects.

9. Illinois Not Ready for PPP Roads: The Chicago Tribune recently reported that despite the difficulty the state may have paying for the proposed widening of I-55 and the Governor of Illinois' recently announced \$5.3 billion, 10-year plan for rebuilding the state's toll road system, neither the state tollway authority nor the state department of transportation is currently thinking about PPPs. The chairman of the tollway authority noted that the authority has its hands full with successfully completing its current congestion-relief plan and the state's transportation secretary stated that while he is well aware of other states' use of PPPs to fill funding gaps he is going to try to push through a traditional bond deal for the widening of I-55 because the project needs to move forward quickly and Illinois does not currently have statutory authority in place for PPPs (the Chicago Skyway was leased under special home-rule authority given to the City of Chicago by the Illinois Constitution). The secretary did mention that PPPs could be looked at by the legislature in the 2007 time frame.

*Outside the United States:*

10. France Toll Road Privatization Closes: France recently completed its sale of majority stakes in three state-controlled toll-road operators for a total price of \$17.8 billion. Vinci purchased France's 50 percent stake in Autoroutes du Sud de la France, which operates roads in southwest France. Eiffage and Macquarie Infrastructure of Australia purchased France's 70 percent stake in Autoroutes Paris-Rhin-Rhone (APRR), which operates roads in southeast France. A consortium led by Abertis bought a 75 percent stake in Societe des Autoroutes du Nord et de l'Est de la France (Sanef), which operates roads in northern France. Analysts note that these deals, which were very competitive, underline the attractiveness of investments in European infrastructure, specifically toll roads, but also note that even though France is putting most of the proceeds towards reducing its debt, the country has a long way to go to restore fiscal order, and privatizations are not likely to amount to much more than a drop in the bucket.

11. Germany A Model PPPs Moving Forward: Tender notices for the third and fourth of an expected twelve "A Model" road projects to be tendered by Germany were recently released. The third A model project will cover the 59.8-kilometer A5 toll road, which will be widened from four to six lanes between the southeastern cities of Malsch and Offenburg. The fourth A model project will cover a 74-kilometer stretch of the A1 motorway between the northern cities of Hamburg and Bremen and will entail its widening from four to six lanes. The tender notice for the A5 project closes for pre-qualification on February 12, 2005 and the tender notice for the A1 project closes for pre-qualification on March 28, 2005.

12. Canada PPP Highway Tendered: The Ministry of Transport for Quebec has requested proposals for the operation and maintenance of a 7.2-kilometer portion of the A25 highway between Henri-Bourassa

Boulevard in Montreal and Highway 440 in Laval, including a 1.2 kilometer six-lane bridge. The concession includes the implementation and operation of an electronic toll system. For more information please see the following government sites: [http://www1.mtq.gouv.qc.ca/en/affaires/partenariat/a25\\_appel.asp](http://www1.mtq.gouv.qc.ca/en/affaires/partenariat/a25_appel.asp), and <http://www.seao.ca/OpportunityPublication/avisconsultes.aspx?ItemId=bfcdb903-e0d9-4452-b8e1-82c8accd9c40&COpp=Search&SubCategoryCode=&callingPage=2>

13. China Toll Road Concession: Chinese Future Corp recently acquired the 25-year concession of the 100-kilometer Hangzhou Ring Road Expressway for 7.8 billion yen. The ring road has recorded traffic growth of more than 20% since operations began in 2003 and it collected \$96 million in toll revenue during the first ten months of 2005. Chinese Future Corp was formed two months ago by the mainland tycoon Yuk Kwok-cheung. The acquisition was financed with 10-year high-yield bonds listed in Singapore, bank loans and a private equity placement.

14. Bulgaria to Investigate Trakia Concession: The Bulgarian Competition Commission has ordered an investigation into the controversial Trakia highway PPP which was reportedly awarded in a no-bid, unlawful concession. As noted in the May 2005 Toll Road Update, earlier this year the European Investment Bank withdrew its financing of the 450 kilometer, approximately \$792 million Trakia highway and called for the consortium that was awarded the concession to withdraw from the project. The Competition Commission's investigation appears to be prompted by Transparency International, an anti-corruption agency, other public interest groups and certain Members of the Bulgarian Parliament.