

Toll Road Update — February 2007

Recent developments in the toll road industry are summarized below. These developments are based on our February 2007 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. Please also contact us if you know of anyone else that would like to be on our distribution list.

Regards,

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In the United States:

1. [Pennsylvania Governor Backs Turnpike Lease](#): Governor Ed Rendell of Pennsylvania announced on February 6, 2007 that Pennsylvania will move forward with plans to lease the Pennsylvania Turnpike to the private sector. According to the Governor's press release, preliminary estimates show that a lease could be turned into an annual revenue stream of \$965 million for Pennsylvania transportation needs. Governor Rendell asserted that any lease would require adequate protections for the public, including constraints on toll increases and "excellent operations and maintenance standards". Pennsylvania received 48 expressions of interest with respect to the potential lease in December 2006. The 531-mile Turnpike runs east-west from the Delaware River to Ohio and is an important highway for both commercial and local traffic. Expressions of interest were received from construction and engineering companies, financial institutions, consultants and from the existing Pennsylvania Turnpike Commission. Pennsylvania has not set a timeline for the privatization and may decide to proceed with the privatization of only select portions of the Turnpike. Pennsylvania does not currently have legislation authorizing PPPs, but on November 13, 2006, the Pennsylvania House Select Committee on Toll Roads released its final report to the Pennsylvania General Assembly recommending that the Commonwealth "aggressively explore the use of P3s as a way to reduce the need for increasing taxes." According to *The Associated Press*, the Chair of the Pennsylvania House Transportation Committee, Rep. Richard Geist, responded enthusiastically to the private sector response to the potential privatization of the Turnpike and remarked that "There's some awfully good transportation projects in Pennsylvania out there waiting to be done ... There's just no money to do them."

The Pennsylvania Turnpike Commission, which is a public entity that reports to the Governor, submitted one of the 48 expressions of interest for the potential privatization. The Turnpike Commission asserted that if given the opportunity by the legislature it could provide services that are competitive with those that would be provided by a private sector partner. According to *The Pittsburgh Post-Gazette*, the CEO of the Turnpike Commission said that the Commission could compete if it is given the authority to raise tolls and if tolls are instituted on I-80, a federal interstate running parallel to the Turnpike across the state. As long as this interstate remains free, the CEO contends, raising tolls on the Turnpike will simply divert traffic to I-80. Toll on

I-80, and on I-81, which cuts across Pennsylvania from north to south, could be an appealing option for Pennsylvania because of the large number of trucks and other out-of-state vehicles that use these roads. Federal laws generally prohibit tolls on interstates, but the federal government has a number of new programs pursuant to which states can apply for authority to toll interstates.

2. Florida Reveals Future Corridors Action Plan: The Florida Department of Transportation (FDOT) may consider constructing an approximately 30-mile beltway around Jacksonville as a PPP. *P3Americas.com* reported that FDOT may also consider PPPs for the Suncoast Parkway 2 and Wekiva Parkway projects. In addition to these potential PPPs, the Florida Turnpike Enterprise, which is a separate business unit of FDOT that is responsible for all FDOT-owned and operated toll facilities, may be considering the construction of two major toll road projects, the approximately \$4 billion, 150-mile Heartland Coast-to-Coast project that would connect Florida's Gulf and Atlantic coasts north of Lake Okechobee, and the approximately \$3 billion, 110-mile Heartland Parkway connecting Kissimmee in the north with Fort Myers in the south. Going forward, these and other potential PPP and toll road projects are likely to be evaluated as part of Florida's Future Corridors Action Plan. The plan, which was adopted by FDOT on December 29, 2006, will provide a framework for "identifying statewide transportation corridors that will be significantly improved, transformed in function or design, or newly developed over the next 50 years," to support Florida's growing population and economy. The plan provides general guidance regarding the corridors that Florida intends to develop and also asserts that "the development of new corridors will be financed with user fees to the maximum extent possible" and that "public/private partnerships can play a key, and, in some instances, an essential role in the development and operation of new corridors." FDOT also notes that it is going to assemble PPP expertise, work to better define public and private sector roles and establish structured PPP processes. The plan is available at: <http://www.dot.state.fl.us/Planning/corridor/plan.htm>.

3. Alaska Bridge PPP: A Request for Qualifications for the proposed Knik Arm Bridge was recently issued by Alaska's Knik Arm Bridge and Toll Authority (KABATA). The project would be the first large scale PPP in Alaska. The winning bidder will design, build, finance, operate and maintain a toll bridge for a maximum concession period of 55 years. The bridge will provide the only highway connection between Anchorage and the Matanuska-Susitna Borough (Mat-Su Borough) across the Knik Arm of Cook Inlet. The inlet is a 35-mile long and 2 to 4-mile wide waterway on the west side of Anchorage (a map is available at: <http://www.knikarmbridge.com/documents/RegionalConnection.PDF>). Anchorage is the most populous city in Alaska and is running out of developable land while Mat-Su Borough on the other side of the Knik Arm has become the nation's 28th fastest growing county with many residents that commute to Anchorage. The state legislature authorized the use of a PPP to finance the bridge. The Federal Highway Administration is expected to issue the final environmental record of decision in the spring of 2007 and construction could commence as early as 2008. The project is expected to cost between \$400 million and \$600 million and \$129 million in state and federal funding has been allocated for the project. KABATA hosted a pre-statement of qualifications workshop in Anchorage, Alaska on January 17, 2007 and in New York City on January 23, 2007 to introduce the project and the geographic and demographic factors that could contribute to the success of a PPP.

4. Indiana and Illinois Toll Road Study: The Indiana and Illinois Departments of Transportation recently agreed to study the feasibility and alignment of a new 63-mile expressway connecting Interstate 94 in Indiana with Interstate 57 in Illinois. The new road, called the Illiana Expressway, would create a bypass south of Chicago - roughly parallel to the Indiana Toll Road and Chicago Skyway corridor, which runs from northwest Indiana to downtown Chicago. Indiana Governor Mitch Daniels would like Indiana's portion of the Illiana Expressway to be a publicly owned road built with private funds and operated through a toll road concession. A spokesman for the Illinois Department of Transportation noted that at this time Illinois has only agreed to study the feasibility and alignment of the proposed road and has not made any decisions regarding funding mechanisms, including tolls. The project would need state and federal approval prior to construction. The Illiana Expressway would be expected to relieve truck traffic on US-30 and the Borman Expressway, each of which is a main artery for the movement of freight from Chicago's rail yards to Indiana and points east. The number of trucks using the Borman Expressway is expected to increase by 50 percent over the next 20 years and there will not be enough land for further expansions once the current expansion is completed. The Illiana Expressway study will cost between \$5 million and \$10 million and will

be completed by Indiana and Illinois within three years. The study will include an evaluation of truck-only lanes and technology to facilitate efficient traffic flow.

While the Illiana Expressway is the second major PPP highway proposed by Governor Daniels in the last three months (in November the Governor proposed a PPP for the construction of the Indiana Commerce Connector, a 75-mile outer loop toll road south and east of Indianapolis) democratic lawmakers in the state are moving to increase legislative oversight over the Governor's powers to privatize state assets. One proposed bill would create a 15 member oversight committee to hold hearings, gather public input and make recommendations to the Governor regarding any privatization proposal of more than \$15 million. Another bill would require state agencies to publish details of potential cost savings and the effects of privatization on state employees and state assets prior to any privatization. Yet another bill would require state agencies to publish a cost-benefit analysis for any contract of \$50,000 or more.

5. Wyoming and Nebraska Consider PPPs: State legislators in Wyoming and Nebraska recently proposed converting their respective portions of I-80 from free roads into toll roads to help pay for rising costs of operation and maintenance. In Wyoming, State Senator Michael Von Flatern raised the possibility and while he acknowledged that tolls would be controversial he argued that commuters would get more lanes and better maintenance, including more snow plows. Von Flatern also argued that while southern-Wyoming commuters would be hit hardest by the user fees, that region "currently enjoys considerable economic benefit from a highway supported by taxpayers across the state." Nebraska State Senator Tom Baker agrees that tolls should be considered for I-80 and suggested that tolls on I-80 could generate revenue for the state from out-of-state drivers who are passing through. I-80 is one of the main east-west corridors in the US connecting downtown San Francisco, California to Teaneck, New Jersey four miles west of New York City. Portions of I-80 are already tolled, including the Indiana Toll Road and the Ohio Turnpike. The highway runs for more than 400 miles in each of Nebraska and Wyoming. Baker also suggested that Nebraska, Iowa, Colorado and Wyoming should create a committee to explore tolls on I-80 (the highway doesn't actually pass through Colorado but runs within a mile of the Wyoming-Colorado border). Federal laws generally prohibit tolls on interstates, but the federal government has a number of new programs pursuant to which states can apply for authority to toll interstates.

6. Texas PPPs: The Texas Department of Transportation (TxDOT) received detailed proposals for the SH-121 toll road concession on January 26, 2006 from three teams: (i) Skanska Infrastructure Development/Skanska USA Civil/Granite Construction/Parsons Transportation Group/Morgan Stanley, (ii) Macquarie Infrastructure Group/DMJM Harris/TCB Team/Gilbert/Abrams JV/ Kiewit/Macquarie Securities/Maunsell Australia and (iii) Cintra/Webber Group/Ferrovial Agroman. TxDOT also recently solicited statements of qualifications for the North Tarrant Express and the DFW Connector projects. For the North Tarrant Express, TxDOT released a request for proposals and qualifications to develop, design, construct, finance, operate and maintain toll lanes along portions of I-820, SH-183 and I-35W in the Fort Worth area through a comprehensive development agreement. Statements of qualifications are due on March 1, 2007. For the DFW Connector, TxDOT released a request for proposals and qualifications to develop, design, construct and, at TxDOT's option, maintain improvements, including tolled managed lanes, on SH-114 north of the Dallas Fort Worth International Airport in Tarrant County. Texas has identified significant sources of public funding for this project, and is not asking for private financing. Statements of qualifications are due on April 17, 2007.

7. Arizona Considers PPP for I-10 Bypass: The Arizona State Transportation Board, which advises the director of the Arizona Department of Transportation, recently reported that it may study a PPP for a bypass project on I-10 around the cities of Tucson and Phoenix. According to *The Arizona Daily Star*, the study "would analyze the traffic effects on Phoenix and Tucson, the possibility of limited access to the roadway, the possibility of a public-private partnership to pay for the project, a toll road and several other issues." I-10 runs east-west from Florida to California and Tucson, Arizona is the only major city along the route that does not currently have an I-10 bypass. Arizona is looking to limit the traffic that runs through downtown Tucson to necessary traffic and remove the trucks and other interstate traffic that are beginning to congest I-10 in the Phoenix and Tucson metropolitan areas. Of the approximately 150,000 vehicles traveling on I-10 in Tucson every day, approximately 50,000 vehicles are out-of-state or other non-local vehicles and about

8,000 vehicles are trucks; the approximately 8,000 trucks are estimated to create as much traffic as another 40,000 to 95,000 passenger cars would create, according to one of the Board members.

8. PPP Initiatives at USDOT: The United States Department of Transportation (USDOT) recently launched two programs that solicit innovative approaches to congestion and transit which could provide opportunities for private sector involvement. Under the first program, launched in December 2006, the USDOT is soliciting applications from metropolitan areas to enter into Urban Partnership Agreements (UPAs) as part of the USDOT's ongoing congestion initiative. The USDOT will agree to provide preferential treatment to the selected metropolitan areas under certain discretionary programs administered by the USDOT (including the Intelligent Transportation Systems Funding Program, the Value Pricing Pilot Program and others) and in exchange the metropolitan areas would agree to pursue "Four Ts," Tolling, Transit, Telecommuting and Technology & Operations, each of which has proven to be a successful strategy for reducing congestion in urban areas. "Tolling" includes congestion pricing or variable toll demonstrations (congestion pricing is identified as: "charging drivers a user fee that varies by traffic volumes or time of day, thus managing highway resources in a manner that promotes free-flow traffic conditions on highways at all times"). "Transit" includes bus rapid transit (BRT) or other innovative approaches to providing commuter services. "Telecommuting" would require the urban partner to secure agreements from major local employers to expand telecommuting and flex scheduling programs. "Technology & Operations" refers to cutting edge technological and operational improvements to transportation system performance. Congestion pricing is a primary focus of this program and in the Federal Register Notice introducing this program the USDOT pointed to three successful express lane projects, including California's SR-91 express lanes project, a PPP completed in 1995, as examples. Express lanes, BRT and other innovative commuter solutions could provide opportunities for innovative private sector involvement.

The second program, launched by the USDOT in January 2007, is the Public-Private Partnership Pilot Program to be administered by the Federal Transit Administration (FTA). The purpose of the program is to demonstrate the advantages and disadvantages of PPPs for certain new fixed guideway capital projects funded by FTA. Generally, fixed guideway projects are projects which have vehicles operating on rails or tracks. Three projects will be selected for this pilot program. While no funds have been authorized specifically for this pilot program, projects selected for participation will be eligible for funding and an accelerated review and approval process under the discretionary New Starts program. The New Starts program provides funding for selected fixed guideway transit system projects and is the primary vehicle by which the federal government supports major transit capital investments. SAFETEA-LU (the 2005 federal transportation funding act) authorized more than 330 transit projects to compete for an authorized \$6.6 billion of New Starts funding through 2009. Selection for the new pilot program could help a project obtain the ratings it needs to receive funding from the New Starts program and to have its New Starts review process accelerated. The eligibility criteria for the pilot program include, among other things, that a schedule and finance plan for the proposed project has been submitted to FTA, that an analysis of the costs, benefits and efficiencies of the PPP agreement for the proposed project has been submitted to FTA (the agreement should allocate risks and provide incentives in a way that protects FTA's interest in having the proposed project completed in accordance with its budget and schedule), that relevant state and local laws authorize PPPs, and that the proposed project cannot currently be advanced because of fiscal constraints.

Outside the United States:

9. Polish PPP Roads: Poland has pre-qualified bidders for two new PPP road projects, according to *P3Americas.com*. Poland pre-qualified bidders for the Strykow to Pyrzowice section of A1, including (i) Bilfinger Berger BOT, (ii) Brisa, (iii) Bank Millenium, (iv) MSF, (v) Macquarie Bank, (vi) Autostrada Poludnie/Budimex, (vii) Cintra/Ferrovia Agroman, (viii) Autostrada Cintraina/A-WAY, (ix) Strabag, (x) EGIS Projekt, (xi) Hochtief PPP Solutions, and (xii) Mota Engil SGPS. Poland also pre-qualified bidders for the Strykow to Konotopa section of A2, including (i) Bilfinger Berger BOT, (ii) Brisa A-EdP, (iii) Bank Millenium SA, (iv) MSF, (v) Macquarie Bank, (vi) Autostrada Poludnie/Budimex, (vii) Cintra SA/Ferrovia Agroman, (viii) Autostrade/Stalexport/Dolnocelska. The Polish General Directorate for National Roads and Motorways is

hoping to have concession agreements signed by the end of 2007.

10. Israel PPPs: Israel has awarded the build, operate, transfer (BOT) concession for the 22-kilometer Red Line of the Tel Aviv Metro to the MTS consortium. The MTS consortium is made up of Africa Israel, Siemens, Egged (the Israeli bus cooperative), CCECC, Da Costa Soares and HTM. The MTS consortium bid approximately US\$1.71 billion for the 32-year concession, which makes this the biggest tender ever held in Israel. A light rail project for the Tel Aviv area was originally proposed by Prime Minister Golda Meir in 1973, but a tender for the Red Line, the first line of the project, was not released until 2001. Construction is expected to begin in 2008 and to be completed by 2013. Israel also recently released a request for proposals for the greenfield Road 531 project, which is expected to cost approximately US\$712 million. *Infrastructure Journal* reported the pre-qualified bidders as: (i) Shafir Eng - Roichman, (ii) Shikun Ovdim - Ashtrom, (iii) Electra - Arenson, (iv) Harel Insurance - Rolider, and (v) Danya Cebus. The east-west Road 531 will connect the Cross Israel Highway (Road N6) with the coastal road (Road N2).

11. Turkish Tunnel PPP: Turkey recently released the tender documents for a highway tunnel under the Bosphorus strait connecting the European and Asian sides of Istanbul. The tunnel is being procured on a build, operate, transfer (BOT) basis and no state funds will be contributed. Toll rates will be set at US\$3.00 and the concession will be awarded based on the shortest proposed operating period. Turkey is prepared to provide a minimum revenue guarantee of US\$75 million annually. The tunnel will have two levels with two lanes and the underwater portion of the tunnel will be 3.3 kilometers in length. Turkey already has two bridges connecting Istanbul over the Bosphorus strait and has begun construction of a rail tunnel under the Bosphorus strait, but needs another crossing to deal with rising vehicle traffic. The Railways, Harbors and Airports Construction Agency (DLHI) will oversee the project. Proposals are due on June 12, 2007.

12. International Finance Corporation Guidelines: The International Finance Corporation (IFC), which is the private sector arm of the World Bank Group, closed the public comment period for its new Environmental Health and Safety Guidelines with respect to road projects on January 26, 2007. The new guidelines for road projects are part of an IFC effort to replace its current general and industry-specific environmental health and safety guidelines. The IFC guidelines contain the performance levels and measures that IFC generally expects for new facilities. In addition to their relevance for IFC transactions, the guidelines are incorporated by reference in transactions involving other multilateral and export credit lending institutions and in other private lending and investment transactions throughout the world. The draft Environmental Health and Safety Guidelines are available at:

[http://www.ifc.org/ifcext/policyreview.nsf/AttachmentsByTitle/EHS_Draft_Roads/\\$FILE/IFC+DRAFT++Roads+-+17Nov2006.pdf](http://www.ifc.org/ifcext/policyreview.nsf/AttachmentsByTitle/EHS_Draft_Roads/$FILE/IFC+DRAFT++Roads+-+17Nov2006.pdf); and the full list of industry specific guidelines being updated by IFC is available at: http://www.ifc.org/ifcext/policyreview.nsf/Content/EHSGuidelines_Update_Comments.