

## Toll Road Update — December 2006

Recent developments in the toll road industry are summarized below. These developments are based on our December 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. 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. New Jersey Asset Monetization: An asset monetization report recently prepared by UBS Financial Services for the State of New Jersey identified several assets “having sound commercial viability (identified as Tier 1 Assets), and a meaningful potential value from pursuing [PPPs].” These Tier 1 Assets include the Atlantic City Expressway, development rights at New Jersey Transit Stations, the Garden State Parkway, the New Jersey Lottery and the New Jersey Turnpike. Tier 2 Assets are “characterized by a likelihood of successful PPP’s but for which only limited information is currently available,” including the Atlantic City International Airport, the state’s fiber optic network, high-occupancy toll (HOT) lanes, naming rights, newly tolled facilities and the PNC Bank Arts Center. The report recommended that after conducting further analysis New Jersey choose one or more Tier 1 Assets to be “Pathfinder Projects” of meaningful size that can be prepared for and brought to market relatively quickly. Governor Jon Corzine’s administration commissioned the report, among other things, to help the state develop ways to reduce its debt. New Jersey has more debt per capita than all but two other states and New Jersey residents pay the highest property taxes in the nation. The state is hoping that asset monetization may relieve a portion of this burden. The Corzine administration also recently advertised for engineering and traffic and revenue consultants to study the conversion of Routes 78, 80 and 95, the Pulaski Skyway, and the section of Route 440 in Middlesex County between the New Jersey Turnpike and the Garden State Parkway from free roads to toll roads. Converting free roads to toll roads would be a controversial proposal in New Jersey, but adding HOT lanes to these free roads could be an attractive option. The Pulaski Skyway connecting Newark to Jersey City is under consideration for privatization because it could cost as much as \$1.5 billion to replace. When it was built in 1932, the Pulaski Skyway, which spans the Passaic and Hackensack Rivers, was considered by some engineers to be “the most beautiful steel structure” among long span bridges.

2. Indiana Commerce Connector PPP: Governor Mitch Daniels recently announced a plan to build a 75-mile outer loop toll road, the Indiana Commerce Connector, south and east of Indianapolis as a PPP. Daniels hopes to use concession fees that will be paid by the winning bidder to the state with respect to the

Indiana Commerce Connector to complete another road, the proposed 142-mile expansion of I-69 from Evansville to Indianapolis. A PPP for the Indiana Commerce Connector, which is expected to cost approximately \$1.5 billion to construct, would require the approval of the Indiana General Assembly. Daniels plans to ask the legislature to transfer the PPP and tolling authority which currently exists for the I-69 extension project to the Indiana Commerce Connector. Indiana's lease of the Indiana Toll Road to a private consortium gave the state an initial \$700 million towards the I-69 expansion project and concession fees from the Indiana Commerce Connector could help cover more of the I-69 expansion project's estimated \$1.8 billion cost. Daniels emphasizes that the Indiana Commerce Connector would offer a faster Indianapolis bypass, create development in the areas intersecting the highway, and be attractive to out-of-state drivers passing through Indiana. Certain critics are wary of the economic and environmental impacts of the proposed road, and they question whether the outer loop will draw economic development away from downtown Indianapolis. In the recent November 7 elections, Democrats, some of whom have been critical of Daniel's lease of the Indiana Toll Road, gained control of the Indiana House, and it remains to be seen what effect this will have on the governor's PPP plans.

3. Pennsylvania Turnpike Privatization: Governor Ed Rendell has had talks with Macquarie and Goldman Sachs about a potential privatization of the 359-mile Pennsylvania Turnpike, which runs from the Delaware River in the east to Ohio in the west. Both Rendell and Pennsylvania House Speaker John Perzel have raised the possibility of leasing the Pennsylvania Turnpike to private investors to raise money for highways and mass transit. Depending on the length of the concession's term, estimates of the lease payments that would be paid to the state range from \$2.5 to \$30 billion. The state recently requested expressions of interest to advise the state on the type of services it would need to complete a privatization. These developments follow the release of the Transportation Funding and Reform Commission's final report on November 13, 2006. The report recommended that the state "aggressively explore the use of P3s as a way to reduce the need for increasing taxes," and "permit use of [P3s] for transit, as well as highways and bridges." The report however, also recommended widespread state tax increases to pay for transportation expenses. Local newspapers report that PPPs may find legislative support as an alternative to any plan for significant tax increases. Pennsylvania does not currently have authority to enter into PPPs, but the legislature is expected to consider the transportation funding recommendations of the Commission in the next session, which begins on January 16, 2007. Other highways mentioned recently as potential PPPs include I-80, which runs east-west from New Jersey to Ohio, and I-81, which runs north-south along the eastern portion of the state. The federal government would have to authorize tolls on either of these interstates.

4. Georgia, Texas and Missouri PPPs: In Georgia, four teams submitted competing proposals for the I-285 Truck Only Toll (TOT) lanes project. A Goldman Sachs-led team submitted an unsolicited proposal for the project in May. The four competing consortia are the NW Express Team (Skanska/Citigroup/Arcadis), TOTal Mobility Atlanta (Transurban/Fluor/Parsons Brinkerhoff/DEPFA Bank), Horizon Mobility Group (Moreland Altobelli/Earth Tech) and Georgia Mobility Partners (Cintra/Ferrovial Agroman/ER Snell Contractor). Babcock & Brown submitted a letter of intent to compete in July, but did not submit a competing proposal. The project involves the implementation of TOT lanes on the northwest portion of the I-285 ring road and on I-20.

In Texas, the Texas Department of Transportation (TxDOT) shortlisted four teams on November 15, 2006, to bid on the SH-161 toll lanes project. The four teams are Flour/Transurban/Babcock & Brown, Kiewit/Macquarie/Granite Construction, Skanska Infrastructure Development and OHL/S&B Infrastructure/Dexia. Six teams that submitted statements of qualification were not included in the short list. The date on which TxDOT will issue a request for detailed proposals has not been announced. The project involves the construction, financing and operation of tolled lanes on an extension of SH-161 through Irving and Grand Prairie in the Dallas area.

In Missouri, the Missouri Department of Transportation (MoDOT) shortlisted four teams on November 21, 2006, to compete for the "Safe and Sound Bridge Program" concession. The four teams are (i) Advanced Bridge Infrastructure Group (Bilfinger Berger BOT/Parsons Transportation Group/VMS/DEPFA), (ii) Missouri Bridge Partners (Zachry American Infrastructure/Infrastructure Corporation of America/HNTB Corporation/Clarkson Construction/Fred Weber/URS/CONTECH Bridge Solutions), (iii) Team United (United

Contractors/Cramer/United/Jensen JV/APAC-Missouri/RBC Dain Rauscher/Wachovia Capital Markets/LPA Group) and (iv) Partnership Missouri (Transfield Services/CH2M Hill/Macquarie Investment Holdings/DMJM Harris/AECOM/HDR/Emery Sapp & Sons/The Vandiver Group). The project involves the design, construction, financing and operation of 802 bridges in Missouri. A final version of the detailed RFP was expected on December 6, 2006, but its release has been delayed.

5. West Virginia Turnpike Privatization: The West Virginia Tax Modernization Project recently suggested that the state consider privatization of the West Virginia Turnpike in a report delivered to West Virginia Governor Joe Manchin III. The West Virginia Tax Modernization Project is a West Virginia Department of Revenue committee composed of executives from the Department of Revenue, including the Secretary and the State Tax Commissioner, as well as experts from the Center for Business and Economic Research at Marshall University and the Bureau of Business and Economic Research at West Virginia University. The mission of the Project was to prepare a comprehensive overview and analysis of West Virginia's system of state and local taxation, but in a section titled "Issues for Long-Term Study and Consideration" the Project recommended with respect to the state road fund that "the State of West Virginia should explore privatization of the West Virginia Turnpike" as other states are doing with respect to their toll road assets. The West Virginia Turnpike is an 88-mile, four lane highway providing a direct route south from Charleston, West Virginia. In our October Toll Road Update we noted that lawmakers were brainstorming about a potential privatization. West Virginia does not currently have legislative approval for PPP road projects and the state's next legislative session convenes on January 10, 2007.

6. North Carolina Toll Road: The North Carolina Turnpike Authority (NCTA) recently applied for a \$317 million TIFIA loan for the Triangle Turnpike project. The Triangle Turnpike, which is currently estimated to cost \$966 million, would be constructed in the Research Triangle area of North Carolina and would consist of three toll roads: the 12.7-mile Western Wake Parkway, the 5.2-mile Triangle Parkway and a 2.8-mile connector. The remaining costs of the project after the TIFIA loan would be funded through tax-exempt state revenue bonds and additional state funds. Private financing is not expected to be utilized for this project, but the NCTA, which was established by North Carolina in 2002, is authorized to finance, build and operate, and consider PPPs for, up to nine toll road projects. The Triangle Turnpike would be the first of these nine toll road projects. Other projects under consideration include the Gaston East-West Connector, the Monroe Connector, the Mid-Currituck Bridge, the Cape Fear Skyway and the I-74 project (<http://www.ncturnpike.org/projects/>). The NCTA may solicit proposals to develop one or more of these projects as a PPP, but the Triangle Turnpike is not considered a good candidate for private financing because excess revenue over debt payments is not expected to be significant until the TIFIA loan is repaid some time after 2030. (TIFIA, the "Transportation Infrastructure Finance and Innovation Act of 1998," provides public and private sponsors of road projects with supplemental subordinated credit, loan guarantees or loans of up to 33% of project costs from the federal government.)

7. Tennessee to Consider PPPs: State Representative Phillip Pinion plans to introduce legislation in 2007 authorizing PPPs for state highway projects. Tennessee's 2007 legislative session kicks off on January 9. In November 2005 the Tennessee Department of Transportation suggested that the state would be looking at PPPs over the next couple of years as an alternative financing solution for necessary road projects. Tennessee's long-term transportation plan predicts a deficit in transportation funding by 2008 and a \$2 billion shortfall by 2015. *P3Americas.com* recently noted the gap between Pinion's public remarks in favor of PPPs and the refusal of Tennessee Governor Phil Bredesen to rule out an increase in the gasoline tax to deal with these funding shortfalls.

*Outside the United States:*

8. Canada PPPs Moving Forward: Canadian Finance Minister Jim Flaherty announced that the Canadian government is prepared to roll out a four year plan with an estimated budget of US\$14.6 billion to improve roads, bridges and buildings. The plan is expected to encourage PPPs and private investment. One of the proposal's major projects is a new bridge over the Detroit River connecting Windsor, Ontario with Detroit,

Michigan in the United States, which would be completed in conjunction with the improvement of Ontario's Highway 401 which runs to the Windsor-Detroit border. The project will include border inspection plazas and access roads, and will aim to facilitate cross-border traffic - more than 1/4 of Canada-U.S. trade uses this crossing point. The two existing crossings in the area have suffered from congestion in recent years. Canadian Transport Minister Lawrence Cannon confirmed last week that the federal government is interested in pursuing private sector involvement to build the border crossing, but noted that the government will base its decision on whether there is sufficient accountability and value for taxpayers. The Canadian federal government along with the government of Quebec also recently pledged to finish Highway 30, a four lane Montreal bypass, with private investment. The eastern section will be extended 7 kilometers between Candiac and Ste. Catherine, and the western section will be extended 35 kilometers from Chateaugay to Beauharnois. The road will also be extended north over the Beauharnois Canal and the St. Lawrence River. The latest plans also include Highway 530, a 7-kilometer offshoot joining Highway 30 with the city of Salaberry-de-Valleyfield. The complete project will cost more than US\$1 billion. Transport Quebec and Partenariats Public-Prive Quebec (PPP Quebec) will be running the RFQ jointly. Three candidates will be selected to submit proposals in May 2007, and construction should begin in 2008.

9. Mexico's PPP Programs Advance: The Mexican Government is seeking bids for a concession for the first four of 45 existing toll road assets that it expects to lease to the private sector. The toll roads are currently owned by the government entity Fideicomiso de Apoyo al Rescate de Autopistas Concesionadas (FARAC), which renationalized the roads in 1994 following the country's economic crisis. According to *P3Americas.com*, there will be between eight and thirteen concessions, each will have a 30-year term, each will involve some improvements in addition to maintenance work, and each will contain a combination of more and less attractive assets. The first concession, which has an estimated price tag of US\$2.3 billion, includes the 309-kilometer Maravatío-Zapotlanejo toll road, the 26-kilometer Zapotlanejo-Guadalajara toll road, the 118.5-kilometer Zapotlanejo-Lagos de Moreno toll road and the 103.9-kilometer León-Aguascalientes toll road. The total FARAC package has an estimated value of US\$25 billion. As part of its real toll concession program, Mexico recently released a tender for a toll-highway connecting Perote and Banderilla and also recently awarded a 30-year, \$335 million concession for a toll-highway connecting Saltillo and Monterrey to Isolux Corsan. As part of its shadow toll program, the Mexican government recently awarded a 20-year \$150 million concession for a road connecting Tapachula and Talisman to Cointer, a subsidiary of Azvi. The tender process for both the real and shadow toll programs can be tracked at the following website: <http://dc.sct.gob.mx/index.php?id=501>. In addition to these federal programs, the central Mexican state of Estado de Mexico recently passed legislation that allows for PPP contracts to be procured at the state level and Tamaulipas and Durango are both waiting for legislation to be ratified by their state-level legislatures.

10. Sixth Phase of India's Highway Programme: The sixth phase of India's National Highways Development Programme (NHDP) received cabinet approval in November. The sixth phase involves development of 1,000-kilometers of four- to six-lane access-controlled expressways in high density parts of the country at an estimated cost of US\$3 billion. The projects are expected to involve significant private investment and will be structured on a design, build, finance and operate (DBFO) basis. According to *Infrastructure Journal* the sixth phase may include development of the following corridors: Delhi-Chandigarh, Delhi-Jaipur, Delhi-Meerut, Bangalore-Chennai, Delhi-Agra, Kolkata-Dhanbad. Also in India, Jai Prakash Industries (JPI) recently received government approval to begin work on the \$340 million Taj Expressway, a 160-kilometer six-lane highway in Uttar Pradesh which, according to JPI's website, "would considerably shorten the distance between New Delhi and Agra, thereby reducing travel time, saving precious fuel and cost of travel and transportation." JPI will construct, operate and maintain the expressway and collect tolls during its 36-year concession period. In addition, Soma Enterprise-led consortia achieved financial close for two 20-year BOT concessions: (i) a US\$170 million concession for the Bangalore-Hosur section of NH-7, which involves the construction and operation of a 9-kilometer elevated expressway connecting Silk Board Junction to Electronic City in Bangalore, and (ii) a US\$107 million toll road project in the Maharashtra region, which involves the expansion and operation of a two-lane road between Pimpalgaon-Dhule.