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Reason Foundation Assesses Surface Transportation Privatization Efforts

The Reason Foundation recently released its annual privatization report, which assesses privatization efforts at all levels of government in 2010. A section on surface transportation concludes that projects based on a binding commitment by the government sponsor to yearly payments over the life of a private concession (such as the Port of Miami Tunnel) proved easier to finance than those that were tied to toll revenues.

"During 2009-10, the global infrastructure finance community struggled to recover from the credit market crunch of 2008-09," according to the foundation's report. Consequently, fewer large-scale initiatives were financed. Those that did receive funding had a higher proportion of equity compared with debt.

Some toll concession initiatives such as the LBJ Freeway Express Lanes in Dallas and the North Tarrant Express in Fort Worth, however, did get financed last year.

As the Reason Foundation also documents, financial markets coping with the disappearance of bond insurance found credit enhancement through other means such as the federal government's Transportation Infrastructure and Innovation Act all the more important.

"Public-sector pension funds continued to move into infrastructure in the United States as they had previously done in Canada and Australia," according to the report. "By mid-2010, the pace of fund-raising by infrastructure equity funds had picked up considerably, suggesting gradual recovery in the infrastructure finance market."

Further evidence of this recovery can be seen in figures reported by Probitas Partners. According to that global investment bank, \$10 billion was raised for infrastructure during the first half of 2010 -- just slightly less than the total for all of 2009.

In addition, a survey released in mid-2010 by the international financial firm J.P. Morgan found that North American institutional investors expected to see the infrastructure category undergo the largest percentage increase in portfolio allocations -- jumping from 4.3% to 5.7% over the next several years.

The largest share of infrastructure development and operational expertise comes from European firms, but the majority of the capital can be attributed to North American and Australian investment funds.

"Those who raise political concerns about foreigners 'buying our toll roads' seem to have missed the

difference between those who are building and operating concessioned infrastructure projects and those who are financing them," the Reason Foundation report states. "It may help proponents to point out that more than half of all the equity investment is coming from North American funds."

The Reason Foundation encourages federal and state governments to do more to encourage public/private partnerships to expand highway capacity. The report summarizes PPP enabling legislation enacted at the state level last year. It also provides an update on major projects undertaken by states in conjunction with private companies. These include various "managed lane" projects in major metropolitan regions nationwide.

The 32-page "Annual Privatization Report 2010: Surface Transportation" is available at bit.ly/Reason0211.

Governor Proposes Leasing Ohio Turnpike

Ohio Gov. John Kasich has recently talked about leasing the Ohio Turnpike for \$3 billion to a private operator as means of helping the cash-strapped state with pressing needs.

"I can take that money and I can put a billion dollars in infrastructure," the Republican governor said to the Ohio Newspaper Association earlier this month in Columbus. "Wouldn't that be fantastic instead of having an asset that's under-utilized in the state at a time when we are in a crisis? I think so. But change is hard."

Ohio lawmakers will begin next month to iron out the next two-year operating budget. A deficit of as much as \$8 billion is being forecasted, and Kasich has already ruled out tax increases to fill that gap. He instead favors such measures as privatizing public entities such as the 241-mile turnpike to raise money.

Questions regarding this article may be directed to editor@ashtojournal.org.