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Turmoil raises questions about toll road

On Aug. 28, the investment bank UBS downgraded its rating on the Australian investment bank, Macquarie Group. UBS noted that Macquarie faced the threat of a declining asset base, which it leverages to fund Macquarie's dividend payments. UBS also posited that Macquarie may be inadequately capitalized.



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Commentary

Macquarie Group should be familiar to Hoosiers as one of the two entities that leased the Indiana Toll Road in April 2006 for 75 years. To lease the toll road, Macquarie invested \$385 million alongside Cintra, a part of Grupo Ferrovial of Spain, for a total lease payment of \$3.9 billion.

The lease of the Indiana Toll Road preceded the lease of the Chicago Skyway. In that instance, Macquarie Group was the winning bidder, with a bid 2.6 times higher than the next highest bidder. Macquarie bid almost 1-1/2 times higher than the next-highest bidder for the Indiana Toll Road. Macquarie was willing to pay significantly more to acquire infrastructure assets than any other bidder. In 2005 and 2006, the capital markets were dynamic enough to support Macquarie's bids.

Details regarding the Chicago Skyway lease, such as the specific toll increases and terms of the debt used to finance the lease payment, are readily available.

However, it is more cumbersome to find comparable details on the terms of the \$3 billion debt Macquarie and Cintra secured to finance the lease of the Indiana Toll Road.

The lease of the toll road may benefit the state. The monies secured by the lease have been invested and are being used to fund road and bridge investment needs. Indiana is one of a few states that have secured funding for most of its highway projects.

However, the long-term leasing of public assets should be accompanied by complete disclosure at the onset, as well as throughout the term of the lease. For example, the terms of the \$3 billion loan package secured by Macquarie/Cintra should be readily available. The investments made with the dollars earned by the state from the lease and the investment performance of those dollars should also be made publicly available.

The UBS analyst report raises some questions about Macquarie's performance. What would happen to the toll road and its operations if one or more of the investors were to declare bankruptcy? More broadly, should dollars earned from the lease be directed toward mass-transit projects first and road construction and maintenance second?

The current turmoil in the capital markets should cause policymakers to carefully consider the implications of leasing vital state assets for terms as long as 75 years. Private ownership of infrastructure assets were the norm long ago. Successful East Coast canal ventures inspired entrepreneurs and governments to pursue pub-

lic-private partnerships to develop more canals. Unfortunately, in Indiana those partnerships proved to be poor investments and the state went bankrupt in 1839.

Indiana and other states therefore concluded that public ownership and maintenance of infrastructure were preferable to private ownership or public-private partnerships. Leaders realized that America's economic strength depended upon its ability to build a network of transportation systems, and that the government was best positioned to secure the land, construct the infrastructure, and maintain that network.

Multiple studies have acknowledged that the interstate highway system is decaying and traffic congestion worsening. Several analyses have also shown that funds from federal and state gasoline taxes that pay for roads are falling further behind the need, and little political will is evident to support increased rates. The part of the federal Highway Trust Fund devoted to roads is projected to run out of money for the first time in history in 2009.

Gov. Mitch Daniels has a capable team who surely contemplated these scenarios and many others. However, without a continuing effort to ensure public awareness of the lease, what may have been a sound management decision could be overwhelmed by unfounded public concern. •

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