How Risky Are Start-Up Toll Roads?

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One factor that is not fully appreciated in the debates over the private sector's role in developing new ("greenfield") toll roads is risk transfer. In a well-structured long-term concession agreement, the toll road company takes on not only completion risks (cost to construct, keeping to the schedule) but also traffic and revenue risk. Thanks to a couple of recent procurements in Texas, both of them new urban toll roads in relatively affluent Dallas suburbs, the impression exists among many pundits, reporters, and public officials that a start-up toll road is a pot of gold. I was reminded of that when I read a relatively recent report on the state-of-the-practice in toll road traffic and revenue forecasting.

The report is another in the series of synthesis reports from the National Cooperative Highway Research Program of the Transportation Research Board. This one is titled, "Estimating Toll Road Demand and Revenue," 2006, and you can download it from the TRB website (or just google "NCHRP Synthesis 364"). While much of it is fairly dry and technical, Tables 1 and 2 tell a striking story. *Most U.S. start-up toll roads in the past 20 years have been financial duds*.

The report's Table 1 lists data comparing actual and forecast toll revenue for 26 such toll roads, for each of their first five years of operation. As an example, here are some figures for second-year results, for the 25 toll roads with Year 2 data. Only two of these 25 exceeded 100% of forecast revenue by the end of their second year. Another four exceeded 90%, one exceeded 80%, and another two exceeded 70%. Thus, only about one-third achieved better than 70% of projected revenues by the end of their second year. The average for all 25 start-up toll roads was just 62.8% of projected revenue.

That is pretty dismal, but it's consistent with other recent studies, including ones discussed in NCHRP 364 that were carried out by bond rating agencies Standard & Poor's and Fitch Ratings. A 2002 J. P. Morgan study parsed the data a different way, looking for patterns as to which types of toll road did better or worse at matching actual with forecast traffic and revenue in their first five years. The analysts grouped them into four categories, in order of best performance:

1. Toll roads in high-congestion suburban areas (e.g., Georgia 400 [GA] and George Bush Expressway [TX]);
2. Toll roads in outlying portions of metro areas (Veteran's Parkway [FL] and Creek Turnpike [OK]);
3. Toll roads in developed corridors with many alternatives (Hardy [TX] and San Joaquin Hills [CA]);
4. Toll roads in least-developed areas (Pocahontas Parkway [SC] and Greenville Connector [SC]).

These groupings are based only on the first five years of operation, and some of these toll roads have done much better in later years. But some have not, and some of the worst

performers have been rescued by toll road companies, under very long-term (75 to 99-year) concession deals.

The point I want to leave with you is that the pot-of-gold start-up toll road is the rare exception, not the general rule. In general, greenfield toll roads are high-risk propositions, especially in their early years. That is why the traditional municipal (tax-exempt) toll revenue bond market has been so conservative in how much it will finance, based on what is called an "investment-grade" traffic and revenue forecast. Experienced global toll road companies, global capital markets, and the new breed of infrastructure investment funds are willing to take on greater risk, in exchange for a longer-term deal and the possibility of double-digit returns. That prospect should be welcomed by those seeking to expand the funding available to build much-needed highway capacity.

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