

Toll-Road Woes Show Risk of U.S. Loans Lawmakers Aim to Expand

By Carol Wolf and William Selway - Jan 11, 2012 9:00 PM PT Thu Jan 12 05:00:01 GMT 2012

Democratic and Republican leaders in Congress are united in pushing an eightfold boost to a loan program designed to attract private highway funding, even as revenue gaps in existing projects may cause taxpayer losses.

Of the six open highways backed by the Transportation Infrastructure Finance and Innovation Act, one reorganized in bankruptcy at an upfront cost to taxpayers of \$79.5 million; a second probably needs its debt restructured, and the rating on a third is six notches below investment grade, according to Fitch Ratings reports and government records.

A Senate panel chaired by California Democrat [Barbara Boxer](#) has approved a proposal to increase TIFIA's funding to \$1 billion a year and allow it to cover almost half of a project's costs.

Representative [John Mica](#), a Florida Republican who leads the House transportation committee, has said he plans to press for a similar measure to help offset a six-year decline in tax revenue for new roads.

"People are treating this like it's free money, but it isn't, and it's not without risk," said Robert Puentes, an analyst with the Washington-based [Brookings Institution](#), a nonprofit public-policy organization. "The risk involved here is a sleeper issue which needs to get much more attention as they move to expand the program."

TIFIA is among more than 100 U.S. programs that have provided or guaranteed \$2.7 trillion of loans, financing everything from veterans' mortgages and rural businesses to foreign airlines' purchases of [Boeing Co. \(BA\)](#) jetliners and new energy companies such as Solyndra LLC, the solar-panel maker whose bankruptcy drew scrutiny of government lending policies.

Loan Losses

While TIFIA hasn't had defaults to date, the estimated subsidy for fiscal 2012 needed to cover losses was set at 9.5 percent, according to the White House Office of Management and Budget. [U.S. banks](#), by comparison, held loss reserves of 2.69 percent as of Sept. 30, according to Federal Deposit Insurance Corp. data analyzed by Bloomberg.

Its default rate was projected at 41.4 percent, of which about 45 percent will be recovered, OMB documents show. The office defines default rate as the estimated lifetime amount of nonpayment as a percentage of loan amounts.

That compares with a 45.6 percent default rate estimated for the Energy Department program that backed [Solyndra \(SOLY\)](#).

In its 12 years of operation, TIFIA has used \$8.6 billion in U.S. funding to attract more than \$33 billion in additional government and private investment, without a missed loan payment, Chris Bertram, the transportation department's chief financial officer, said in an e-mail.

When, Not If

TIFIA's portfolio is difficult to assess, though, since investors can borrow for as long as 35 years and delay payment of principal or interest for at least five years after construction is "substantially completed," according to the program's website.

Only five loans are in the repayment stage, said Justin Nisly, a transportation department spokesman. There are 20 loans outstanding, according to TIFIA's website.

"With TIFIA projects it's generally not a question of if it will get repaid. It's more of a question of when," said Matthew Hobby, director of utility and infrastructure ratings at [Standard & Poor's](#). That makes it different than the Energy Department's program for companies like Solyndra, he said.

A loan to a joint venture between Irving, Texas-based [Fluor Corp. \(FLR\)](#) and [Australia's Transurban Group \(TCL\)](#) in December 2007 doesn't require interest payments until 2018 or principal payments until 2033. The loan was intended to help build high-occupancy toll lanes on Washington's Beltway.

'The True Question'

The department's default and reserve estimates may be too dire, said Bryan Grote, a co-founder of Mercator Advisors LLC, which advises on infrastructure projects, and the head of TIFIA from its inception until 2001.

"It's hard to say what the long-term true riskiness and cost to the government of those loans might be," Grote said.

Fifteen of the program's 20 outstanding loans are on toll roads, tunnels or bridges.

Toll-road revenue is vulnerable to a slowdown in truck traffic, increases in gasoline prices and unemployment, Brookings' Puentes said. Traffic volume on U.S. roads and streets declined 1.4 percent, or 36 billion vehicle miles, in the first 10 months of 2011 from the same period a year earlier, according to the [Federal Highway Administration](#).

With revenue under pressure, operators have been “reluctant to raise their toll rates enough to protect their financial profile,” Maria Matesanz, a senior vice president at Moody’s Investors Service in [New York](#), wrote in a Sept. 20 report.

[South Bay](#)

Revenue on San Diego’s South Bay Expressway, managed by affiliates of Australia’s [Macquarie Group Ltd. \(MQG\)](#), was half the initial projection in 2009, its second full year of operation, as anticipated construction near the road failed to materialize, according to the operators’ bankruptcy filing. They sought Chapter 11 protection in March 2010, before any payments on the TIFIA loan were due, according to court records.

New residential construction in the San Diego region declined by 83 percent to 343 starts in June 2009 from 1,985 in June 2006, according to the Construction Industry Research Board, a Burbank, California, research group.

The [bankruptcy court](#) “imposed a loss of 42 percent on federal taxpayers,” according to a report issued Jan. 9 by the [Congressional Budget Office](#). “The South Bay Expressway illustrates what can happen to taxpayers as the ultimate equity holders.”

The transportation department expects to recover 90 percent of the original loan of \$140 million by 2042, according to documents on TIFIA’s website. The recovery rate may reach 100 percent, Nisly said.

Macquarie declined to comment, said Paula Chirhart, a company spokeswoman.

Specter of Nonpayment

In [Louisiana](#), a \$66 million TIFIA loan granted in 2005 for improvements on the LA 1 toll bridge and highway near [Port Fourchon](#) was downgraded in June to B- from BB by Fitch. The new rating is six levels below investment grade.

Truck traffic on the bridge was 45 percent of initial projections, reflecting reduced offshore oil-drilling activity following the BP Plc spill, Fitch said in a June 21 statement.

A \$78.5 million state loan on the project was in violation of its covenants in 2010. Even doubling tolls wouldn’t help meet covenants beyond the short term, Fitch said.

“There is a real possibility of a nonpayment on the TIFIA debt in the next two to three years absent a debt restructuring,” Scott Zuchorski, a Fitch analyst in New York, said in the report.

Investment Grade

The transportation department's review process includes "a requirement that all loans have an investment grade credit rating and a dedicated repayment source," Bertram said.

The investment-grade rating is required only if a TIFIA loan is the senior or sole debt, according to the program's web site. When TIFIA loans are subordinate to other debt, they must have "a rating," according to the website.

The transportation department approved a \$150 million mezzanine loan initially assessed by Fitch in 2006 at BB+, one notch below investment grade, for the Pocahontas 895 parkway in [Virginia](#) to help refinance debt and build a connecting toll road to Richmond's airport. The road is operated by Melbourne-based Transurban.

Pocahontas' senior debt is rated B- by Fitch, according to a Transurban investor presentation filed Dec. 6 with the Securities and Exchange Commission.

"Pocahontas has underperformed original expectations," Michelle Holland, a Transurban spokeswoman, said in an e-mail. Revenue should improve the longer the road is open, she said.

'Sliced Bread'

Still, with fuel-[tax revenue](#) to pay for such transportation projects falling, lawmakers are looking to the private sector for additional funding. Every dollar the U.S. provides for TIFIA loans would result in about \$30 for highway, bridge and transit projects when combined with private money, according to the transportation department.

Kate Gilman, a spokeswoman for Boxer, who heads the Senate Environment & Public Works Committee, didn't respond to two voice messages and three e-mails requesting a comment. Mica declined to comment, said Justin Harclerode, his spokesman.

Republicans, including Mica, have said expanding TIFIA should be an alternative to President Barack Obama's infrastructure bank proposal and similar plans developed by the Senate. Those aren't "going anywhere" in Congress, Transportation Secretary Ray LaHood said Oct. 13.

"There is a starry-eyed political argument that you can spend without taxing," said [Phineas Baxandall](#), an analyst with U.S. PIRG, a federation of state public interest groups, based in [Boston](#). "Politicians think of this program as the best thing since sliced bread."