

American Transportation: Do we really need toll roads?

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Global Research, December 19, 2008
19 December 2008

Region: [USA](#)

Theme: [Global Economy](#)

The U.S. and Other States on the Road for Tolls

Here in Texas Gov. Rick Perry, Lt. Gov. David Dewhurst, and House Speaker Tom Craddick Texas will get more toll roads even if they have to kill Texas taxpayers/drivers financially to do it.

According to the governor and his “Lieutenants” in the Texas Department of Transportation (TxDOT) and legislature, they are trying to finance toll roads from a ‘new creative’ approach in taking tax dollars and retirement funds to ensure that their special interests make a fortune from toll roads.

This sort of “creative thinking” also is a force throughout the U.S. For many years the Bush administration has been trying to push for the Trans-Texas Corridor (TTC) [leading from Mexico through Texas and up to Canada]. Currently President-Elect Obama also is considering implementing toll roads to raise tax revenue to build and maintain roadways. Bad idea.

The number one fact about toll roads remains that they are NOT cost-effective over time and they generate long-term debt to the state, drivers and taxpayers. Furthermore, toll roads often create other problems.

There are reasons governments push for toll roads. Some governments throughout the world “...have introduced tolls in pursuit of a general policy to increase the extent of ‘use related payment’ or with the goal of reducing road use and internalizing the negative effects of road usage (e.g., congestion related prices). This is central to a ‘sustainable’ transport policy. In the Netherlands tolls are levied with the express intention of directing road users to other means of transport, both to ease road traffic conditions and to encourage use of the railways and inland waterways.”

In addition, there is little accountability and/or oversight re: toll costs and revenue of the toll roads once they are built. During the past decade Texans have seen how TxDOT has manipulated and bullied the legislature and taxpayers with fear tactics in order to push-through pro-toll legislation and have succeeded in developing and implementing toll roads in some areas. In the past several years watch-dog groups have sprouted to fight more toll roads and have shown some success in that effort.

Furthermore, most of the time, toll roads are infinite forms of taxation and costs of the tolls frequently are raised and/or manipulated by the toll management depending on dates, days and range of hours in a day [peak and off-peak hours]. Seldom are tolls removed once the roads have been paid for because it would be a loss of never-ending tax revenues.

Frequently, states attempt to implement tolls on “free” roads — those roads that already have been paid for via road taxes.

In most states the gasoline tax had been developed and implemented to help pay for the building and maintenance of roadways; however, the tax has remained frozen for more than 1 decade. In addition, gas taxes also have become “slush funds” whereby the gas tax revenues have been diverted to other interests. Currently, there is sufficient concern about this at the national and state levels and legislators will have to modify and/or eliminate the gasoline tax and search for better source of road financing.

Raising toll costs has occurred frequently in the past; consequently, it will happen more often with future toll roads. Toll roads become private roads for those wealthy who can afford to drive on them. Often, poorer residents must use the toll roads because there are few comparable options open to them.

The rationale for toll roads is that there is a need by governments to remove themselves from providing the means of transportation. They cannot manage and operate such systems professionally as can private industry. Consequently, huge contracts are awarded road conglomerate privateers. Among these U.S. firms are Bechtel, Fluor, Kiewit, Parsons Corp., Parsons Brinckerhoff, Shirley Construction, Washington Group International, and Zachry Construction.

Government does not have an endless financial resource to continue providing transportation unless it markets or leases from private industry, so these conglomerates have become more desirable. Frequently state governments will sign a 70-year contract with a road company in which 80-percent of the toll revenue collected goes directly to the managing conglomerate. To attain such a contract a road conglomerate will provide a state upfront money in the millions.

A transportation system based on a pay for use plan continues to be the mold of the future. Truly, these toll roads are NOT in the best interests of the entire neighborhood communities, nor for all drivers.

Now that the bail-outs of various financial institutions is in vogue, the government is sure to push harder for toll roads as its holdings of our tax dollars dwindle — but don’t believe it!

It is another ploy along with the push to privatize various government programs and services, e.g., Social Security, Veterans Administration, Medicare and Medicaid, etc.

In truth, there are other methods of building roadways that must be researched that are more cost-effective. We as a nation must think “out of the box” when it comes to future transportation needs; however, currently our leaders at the national and state levels continue to view toll roadways as the solution. Unfortunately, toll roads are NOT the solution — they remain part of the problem — the problem is greed and profiteering.

Nowhere is this more evident than in review of the following world road management conglomerates who are making their mark in the U.S.

From the Reason Foundation:

?? Abertis: Headquartered in Barcelona, Spain, Abertis comprises

some 60 companies which own, manage and operate toll roads, car parks, warehouses, airports and telecom backbone. It was created in 2003 via the merger of three longstanding Spanish toll companies Acesa Infraestructuras, Aurea Concesiones de Infraestructuras, and Iberpistas. Abertis has a stock market capitalization \$10.4 billion, 6,000 employees, and, 10,000 shareholders. It manages 915 miles of toll road and 90,000 parking spaces, the majority in Spain. It also has toll road interests in Latin America and was an unsuccessful bidder for the Chicago Skyway. Toll revenues are about \$1.5 billion per year.(see www.abertis.com)

?? ACS: By absorbing Dragados in October 2003, ACS became one of the largest European infrastructure development groups with a toll road portfolio. In 2003 it had overall sales of \$14 billion, profits of \$650 million and 33,000 employees. Market capitalization at the end of 2004 was \$7.7 billion. ACS owns gas pipelines, electric power plants and lines, telecommunications, water systems, landfills, and toll roads. It has interests in toll roads in Spain, the United Kingdom, Ireland, Argentina, Chile, and South Africa.

(see www.grupoacs.com)

?? Autostrade: Italy's largest toll motorway operator is also the largest in Europe. Autostrade has 2,080 miles of tollways, about half of Italy's national motorway network. As a state enterprise it built the first motorways in Italy in 1925 and the longest: the A1 from Milan to Naples. It has major shares in other toll companies. It collects 4 million tolls each day and its annual revenues are \$3.2 billion. Its international activities include a share in the Dulles Greenway in Virginia (which it subsequently sold but continues as contract operator) and M6 Toll in Birmingham, United Kingdom. Autostrade designed and now operates the GoMaut open road electronic tolling system for trucks operating on the entire 1,240-mile motorway system of Austria. It was a pioneer in electronic tolling and operates Telepass, a nationwide system in Italy, both on its own motorways and on those of the other dozen toll companies of that country. It is actively seeking and securing new toll concessions including toll beltways, and has a \$12.6 billion program focused heavily on widening and modernizing its older motorways. This includes construction of some of the largest tunnels in the world through the Appennine Mountains between Bologna and Florence. Autostrade was privatized, with most of the switch to investor ownership occurring in 1999.

(see www.autostrade.it)

?? BRISA: Portugal's largest toll company has 610 miles of toll road in operation, including the backbone north-south A2 and the main east-west Lisbon-Spain A6, belt routes around the Lisbon metro area and some east-west spurs. With a market capitalization of \$4 billion, it is the fifth-largest listed company in Portugal. It claims a 48 percent share of motorway revenue in the country. Revenues are \$610 million.

BRISA has a 17 percent stake in CCR, the largest toll operator in Brazil. Its S&P rating is A+, Moody's A3. BRISA was founded in 1972 as a state toll authority. It was set up as a corporation with all its shares held by IPE, a state-owned holding company. It was

privatized in stages between 1997 and 2001 with majority investor ownership achieved in 1998. It has undergone major reorganization since then.

(see www.brisa.pt)

?? CINTRA: The name is a Spanish acronym for concessions in transport infrastructure. A creation of the Ferrovial construction group headquartered in Madrid, CINTRA was for a short while jointly owned by Ferrovial and Macquarie. In June 2004 CINTRA was spun off as a public company on the Madrid stock exchange with an initial public offering of \$2 billion, although Ferrovial retains a majority stake.

Ferrovial is one of Europe's largest construction groups with capitalization of \$7.8 billion and 45,000 employees. CINTRA's largest toll road investment is its interest in 407 ETR in Toronto Canada. It is also the lead partner in the Chicago Skyway concession and in the Trans Texas Corridor 35 (TTC-35) project (CINTRA has 85 percent and Texas construction firm Zachry has 15 percent of a 50-year concession to develop and operate up to 800 miles of north-south road, rail and possibly utilities between the lower Rio Grande (McAllen) and the Oklahoma state line—a relief road for I-35). The potentially \$30 billion project will be built in many stages. The contract with Texas DOT gives the CINTRA group the preferential right to develop five sections of toll road totaling 315 miles and estimated to cost \$5.96 billion. These will extend the SH-130 toll road in the Austin area northward to and around Dallas and south to San Antonio. CINTRA is studying toll road concession projects mainly in Europe (Portugal, Ireland, Greece, Italy and Poland) and the United States. Ferrovial has 35 years' experience in the infrastructure market since it obtained the Bilbao-Behobia toll road concession through a consortium in 1968. Through CINTRA it has \$2.4 billion euros in 16 toll roads covering about 1,000 miles in Spain, Portugal, Ireland, Chile and Canada. It also owns 13 airports under concessions (in Australia, the United Kingdom, Mexico and Chile), and over 180,000 parking spaces (most in Spain).

Already CINTRA has joined forces with American company Zachry Construction and are in the middle of a partnership in Texas to build and maintain Texas toll roads.

(see www.ferrovial.com)

?? Cofiroute: This is a fully investor-owned toll road company in France. Founded in 1970 by a group of construction companies and banks, it operates 577 miles of toll motorway, about one-eighth the French toll road network. It is now a subsidiary of the Vinci group of companies, which are heavily involved worldwide in construction and management of buildings. Cofiroute developed the A10 and A11 motorways to the west and southwest of Paris. It has since added the A71, A81, A85 and A28. It was a pioneer in developing a radio service dedicated to motorists (Autoroute FM.) Its most ambitious and novel project is the A86 West, the missing link in an outer beltway around the Paris region. Almost entirely in deep-mined tunnel, this project is the largest public works project currently under construction in Europe. The full \$2.2 billion cost of the project is being borne by Cofiroute shareholders in return for the 70-year tolling concession. Cofiroute was a partner in the 91 Express Lanes in California and its U.S. subsidiary now operates

the Express Lanes for Orange County. It is a partner with DaimlerChrysler and Deutsche Telekom in the Toll Collect GPS-based truck toll system operating on 7,460 miles of German motorway. It owns Britain's largest toll concession, the M25 Thames Crossing east of London at Dartford, consisting of two tunnels and a high-level bridge. The group owns one of Chile's largest toll roads, the 100-mile long Chillan-Collipulli motorway. It has smaller toll operations in Brazil, Benin, Mexico, South Africa, Greece, Ireland, Norway and Russia. With 2,000 employees worldwide the company last year earned revenues of \$1.08 billion.

(see www.cofiroute.fr)

?? Macquarie: The Macquarie Group, with 6,000 employees spread over 23 countries, is a product of the 1980s' financial deregulation in Australia, which allowed investment banks to thrive. Founded in 1992 it is heavily involved in developing, financing, and owning properties of all kinds. Most of its toll properties are held by Macquarie Infrastructure Group (MIG), which reports assets worth \$9.5 billion and liabilities of \$4.7 billion for net stockholder interest of \$4.8 billion.⁸⁷ Market capitalization is \$5.5 billion. Its biggest single holdings are a majority interest and rights to purchase the whole of Midland Expressway Ltd., operator of the M6 Toll, Britain's first toll road in the automobile era (opened in December 2003,) and a 45 percent interest in 407ETR in Toronto Canada. It holds major interests in six private toll roads in the metro areas of Sydney and Melbourne Australia, two toll bridges in Lisbon, Portugal, two toll roads in Spain, and a toll tunnel in Germany.⁸⁸ MIG owns San Diego Expressway Partnership, which is building the only private toll road currently in construction in the United States: the California SR 125 South. It has a 30 percent interest in the Chicago Skyway Concession Company.

In December 2004 Macquarie launched Macquarie Infrastructure Company registered in the United States and trading on the New York Stock Exchange. MIC is investing in airport services, district energy, water, telecommunications and motorways. It has a 50 percent interest in Connect M1-A1 Ltd, a 19-mile shadow toll operation on the south side of Leeds, England.

The Macquarie Group is unusual in the degree to which it engages the local investing public by public share offerings in local subsidiaries and by establishing trusts. This is helpful in providing large injections of patient equity capital when borrowing would make a project financially fragile. Its most common mode is to partner with a local company, though it has several wholly owned toll properties.

The company is named after Lachlan Macquarie a British governor in the early 19th century who is regarded as something of a cross between George Washington and Alexander Hamilton for his encouragement of nationalism and economic development in what was previously just a convict settlement.

(see www.macquarie.com.au/mig/index.html)

?? Sacyr Vallehermoso: Known as SyV, this major Spanish construction company has an active concessions division. This division operates toll roads in Spain (682 miles), Chile (360 miles),

Portugal (146 miles) and Brazil (421 miles) for a total of 1,609 miles. Toll revenues in 2004 were \$420 million. It recently acquired a major share in the 37-mile San Jose-San Ramon toll road project in Costa Rica. SyV acquired three toll roads and a major share in two others from the government of Spain in 2003 when that government divested itself of ENA, the major state toll company. The group itself is the result of the merger of an old housebuilding firm Vallehermoso with Sacyr, which has specialized in heavy construction. The company says: "The Group intends to continue to grow in infrastructure concessions both in Spain and abroad, moving into new markets such as Greece, Ireland, Mexico and Italy, besides taking part in the coming tenders in Spain."

(see www.gruposyv.com)

Table: Major Global Toll Road Players

Company Market Capitalization* Miles of Toll Road**

Abertis \$10.4 billion 915

ACS \$ 7.7 billion See note***

Autostrade \$10.4 billion 2,080

BRISA \$ 4.0 billion 610

CINTRA \$ 2.0 billion 1,000

Cofiroute \$ 1.5 billion 577

Macquarie \$ 5.5 billion 930

SyV \$ 4.3 billion 1,609

*Market capitalization is for the most recent available year and is for the whole company. In some cases, toll road activity is a small part of the total while in others it is the major or total business activity. Euros are converted to U.S. dollars at \$1.30

= E1, and Australian dollars at A\$ = \$0.80.

**Many private toll roads have multiple owners. The list presented here is the miles of toll road in which the company reports some share of ownership; hence, there is some degree of double-counting.

***ACS does not break out mileage numbers, but reports that it has "more than 50 toll concessions."

The U.S. is in a perilous economic downfall and we must be very careful about forming partnerships with any of these overseas road conglomerates. Toll roads are not cost-effective over the long haul and are not in the best interests of U.S. communities. We must not provide such lucrative contracts to outside companies. A public works project under the oversight of our government and managed by U.S. businesses could be the means for developing, building and maintaining our roadways and other infrastructures [e.g., bridges, tunnels, harbors, etc.]. Doing so could provide millions of new jobs for U.S. citizens and

permit our own American road corporations to make reasonable profits. We need to start “in-sourcing” our jobs and contractual obligations. We need to rebuild our own nation and strengthen our economy. We owe it to our grandchildren’s children.

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