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Toll-road backer says public should be bullish on I-77 expansion

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Nicolas Rubio believes the many critics of the toll roads under construction in Charlotte are missing part of the story. They hear bits and pieces, but lack the full details that would convince them the 26-mile project being built on Interstate 77 has merit.

And yet Rubio, who leads the U.S. division of Cintra, the Spanish transportation firm that is also the majority investor in local toll lane developer I-77 Mobility Partners, knows the difficulty of arguing the point. During a trip to Charlotte this week, Rubio, who is based at Cintra's U.S. headquarters in Austin, patiently explained why the \$650 million privately funded expansion of I-77 makes sense.

Given the controversy over the project, including calls by some state lawmakers to kill the contract and rebuttals from the governor and his aides that doing so would be a costly mistake, Rubio told me he believes there likely is only one remedy left when it comes to convincing critics they're wrong.

"We understand the challenges of public opinion," he said. "We are trying to address that the best we can. (The most important way) is to deliver better service. If we do it well and build a nice road (people will respond)."



MELISSA KEY

Nicolas Rubio, president of Cintra's U.S. division.

Construction started in November 2015. Two lanes requiring drivers to play fluctuating toll rates will be added on each side of 77 starting north of uptown at the 277 loop and ending at Exit 36 in Mooresville in south Iredell County. The lanes are scheduled to open in 2018. Existing lanes will remain free for all drivers. Buses and other transit vehicles will be able to use the toll lanes at no charge, as will commuters with three or more people in a car.

Opponents point to a range of likely problems, from what some predict will be excessive toll rates to flawed design unlikely to improve the short commutes along Lake Norman that clog 77 every day. Disputes also linger over a lack of access for 18-wheelers and other large vehicles. Frustration over the toll roads cost then-Huntersville mayor Jill Swain and some other candidates their political lives last fall.

And dissension over the project has led members of the Mecklenburg delegation of the General Assembly to publicly call for Gov. Pat McCrory, a Republican and former Charlotte mayor, to end the contract. Mecklenburg county commissioners Jim Puckett and Pat Cotham, a Republican and Democrat, respectively, have also been vocal critics of the toll lanes. With the state's finances in better shape of late, some opponents want the state transportation department to instead pay for expanding 77 using traditional public funding, making the new lanes free for all drivers.

Rubio's visit was no coincidence. Last week, developers of another Cintra investment, a 41-mile portion of State Highway 130 outside Austin, filed for bankruptcy protection. That filing came two years after another Cintra-backed toll road in Indiana went into bankruptcy protection.

Gov. McCrory responded by sending NCDOT chief Nick Tennyson to Austin to meet with Texas leaders to learn why the project there has struggled. Tennyson, during an appearance in Charlotte last week, said he doubted the Austin bankruptcy would impact the Charlotte toll lanes, but said McCrory was right to ask for a full vetting to be certain.

Politicians and business groups have embraced toll roads and so-called public-private partnerships — embodied by Cintra's approach of privately funding roads and securing long-term management contracts to recoup their investment — as

government budgets shrink. Greater fuel efficiency in cars and an aversion to raising taxes on fuel and other services has made toll roads an attractive alternative.

Questions remain about whether toll roads and private road management match their rosy descriptions. In a 2014 report by the nonpartisan Congressional Budget Office, findings raised doubts about the often repeated contention that public-private roads eliminate risk for taxpayers and save money over all.

“The cost of financing a highway project privately is roughly equal to the cost of financing it publicly after factoring in the costs associated with the risk of losses from the project, which taxpayers ultimately bear, and the financial transfers made by the federal government to states and localities,” the report stated. “Any remaining difference between the cost of public versus private financing for a project will stem from the effects of incentives and conditions established in the contracts that govern public-private partnerships.”

Concerns in financing for public-private projects cited by the CBO include government-secured lower interest rates, tax-exempt bonds, depreciation allowances that lower a developer’s income tax burden and transaction costs, including monitoring terms of the deal and legal costs associated with those duties. Of the \$650 million construction cost, federal and state government money accounts for \$95 million, with the rest coming from private sources. Cintra is the majority backer; three infrastructure funds are also partners.

Financing includes \$100 million worth of bonds at a rate of 5%, maturing in 2054, and \$189 million in federal loans, maturing in 2053. Cintra maintains a controlling interest of 50.1% in I-77 Mobility Partners.

Rubio, while sipping a Coke at the uptown location of Amelie’s, told me why he remains confident in the Charlotte project and illustrated his points with charts and company-produced bullet points. He even tore a page out of a recent issue of *The Economist*— “Jam today: To get the world’s biggest cities moving, stop subsidising driving” — and handed it to me as a reminder of the infrastructure crisis plaguing commuters everywhere.

He became head of U.S. operations in 2009 and has worked for Cintra and its

parent company Ferrovial since 1987. Cintra has invested \$8 billion in five projects across the U.S., including I-77. The company has three more in Canada. Worldwide, its portfolio encompasses 27 projects worth \$24 billion.

Below are some of Rubio's thoughts from our discussion of Charlotte, toll lanes and whether Cintra will consider future projects in North Carolina.

On Cintra: It's a toll road investor, a toll road developer. It's pretty much like how a real estate developer does business. We look for opportunities for roads, we invest and then we build something and then we run it for a long time and we get back our investment through the tolls. We've been doing that for almost 50 years. We're one of the very few companies in the world that has completed the whole cycle. Our first project was awarded in 1968 (the Bilbao-Behovia toll road in Spain). The way we structure our debt is as independent companies.

We have a large basket of assets. Worldwide, on four different continents, we have 27 different roads. (Rubio is in charge of the roads in the U.S. division.)

In our basket of assets, we have some that perform very well and some of them, through the financial crisis, have been under-performing. When they under-perform, obviously, we are not making any profit on our investment. In some cases, we are having to restructure (loans) with our lenders. But because the companies are completely insulated from one another, the fact that one turns out as not such a good investment is not affecting the other roads.

The important thing is that over all we have a very successful portfolio. For Cintra in 2015, dividends accounted for \$300 million, so it's a very healthy and financially strong company.

On the impact of the Texas bankruptcy last week: I'm not going to provide any details on (State Highway) 130 because it is a legal situation. I can tell you there are a number of projects that have been suffering from two challenges.

One of them is traffic has not been showing up. You have in this group Indiana (and others). And the other one is that the financial markets today are very different than where they were in 2006 and 2007, when some of these deals were

financed.

When you look back at the pre-crisis deals, you will find that normally they are highly leveraged, leveraged on the order-of 80% debt, 20% equity. Not only that, but the debt is normally had the interest covered through a swap. Those swaps, with lower interest rates, have gone through the roof and that has been a financial challenge.

Indiana (and others) are very successful projects — they may not be successful investments, but they are very successful projects. People tend to get confused with those two things. The (developer) is not able to pay or has to seek to restructure its debt, it's going through trouble. But the project is perfectly healthy, operating without any difficulty, the traveling public is using it; however, the owners, the investors are having to renegotiate the debt and the loans.

On I-77: If something were to happen (financially), the traveling public is protected and the state is protected. ... In general, the deals post-crisis are being financed differently. The leverage is not 80-20, it's closer to 50-50.

The basically reduced (the pressure). To the point that in the case of I-77, if our revenue is 70% below expectations, the debt (will still be paid back).

So, I think the answer is, if something happens, it's not a problem for the citizens because the road is going to be successful. Let's not mix the success of the investment with the success of the project.

The funds are fully committed, there is no doubt of that. And we believe this is going to be a great investment. We don't see an economic crisis on the horizon like the one we went through. It was the worst crisis since 1929.

It is not by chance that we are investing a half-billion dollars in North Carolina. We believe that Charlotte is a thriving city, that the Lake Norman area has strong potential for economic and employment growth. We want to be good partners, we want to be investors and have a long-term relationship.

We know that North Carolina is one of the most successful states for economic growth and business environment.

On discussions with NCDOT: I've had a very brief conversation (with Nick Tennyson) and I'm not (going into specifics).

On how the I-77 lanes are viewed: It was not us who proposed (a toll road). This came from the state. We read in a magazine that North Carolina is willing to do this. ... We are not the ones who are defining the rules.

We are only going to be successful if we are seen as providing a valuable service to the public. Otherwise, we will never see our money back (because drivers won't use the lanes). And, believe me, we want to see our money back (laughs).

So the traveling public has a number of options. They can use the free lanes, they can carpool, they can take a transit bus, they can use the (toll) lanes, they can decide to travel in off-peak times.

Unless we are very reasonable with the toll (rates), nobody is going to use the lane. And the contract has a number of protections for the state. Suppose that we start making more money than what we expected — everyone seems to be very concerned with us making money — there is a mechanism for revenue-sharing. It increases (for the state) to the point where the state gets 75% of every additional dollar.

On his confidence the state will move ahead with the project: Very high. I have no reason to think or believe that it's not going to go forward. It's now three years since we filed our proposal. What we are seeing out there is matching what we expected in terms of how the economy's growing. It's a thriving region. The financing was closed very successfully. Construction is ongoing. As times goes by, you have a lower risk as it's moving forward.

On the reaction in Charlotte: The controversy is a common feature of toll roads. I acknowledge that the I-77 project is on the higher end. But, look, let me take a step back. From 1980 to 2000, traffic on American roads grew by 80% and the lanes grew by 2%. Those are Federal Highway Administration numbers. There is a huge transportation and highway capacity problem in this country.

That transportation problem is having a negative impact on the economy. ... There are only two ways of adding capacity: one is raising taxes and the other is charging user fees. (The last opinion poll) I saw, people were asked would you

prefer to increase capacity through taxes or a user fee and the support for user fees was two times (higher). There's a clear opinion more things should be done with user fees.

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