Chapter Six
Macquarie and the Privatization of Highways in the United States

Privatization of highways through long-term concession deals represents a new and important phenomenon for U.S. transportation finance and operations. As its first investment in the United States, in 2002 the Macquarie Infrastructure Group (MIG) acquired a majority interest in a Southern California greenfield project, the South Bay Expressway, which it built and opened in 2007. Although, the United States had a long history of private toll roads in the nineteenth century, the privatization of existing American highways began in 2005. In that year, a Macquarie-led group leased the Chicago Skyway. Then in 2006, a Macquarie-led joint venture obtained the concession to operate and maintain the Indiana Toll Road. In addition to leasing these two publicly funded toll roads, previously, in 2005, MIG took over an existing private toll road, the Dulles Greenway, in Northern Virginia.

America, however, lags far behind the rest of the world in the privatization of greenfield and brownfield highways. As considered in this chapter, the public sector—federal, state, and local—lacks the resources to maintain and construct all the U.S. road and bridge projects that need to be funded. The nation faces ever worsening urban traffic congestion, fast-growing truck traffic, and an inability of fuel taxes to fund much more than maintenance of the existing highways and bridge systems. All of this adds up to an enormous and growing highway and bridge funding gap between investment needs and what that available funding sources will produce. Based on Macquarie’s initial success in the United States, this chapter concludes that given the magnitude of spending required, private capital markets will increasingly become a realistic source of funds through infrastructure privatizations and various types of public-private partnerships. Private sector participation can help ensure that infrastructure planning, construction, and operation are rooted in sound cost-benefit analysis.

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The History of U.S. Highways: A Brief Overview

Private enterprise has a long history of owning and operating highways in the United States. Following independence from Great Britain, there began a great push to develop the interior of the United States and a significant expansion of interstate trade, with the private sector dominating the financing of highways in the eighteenth and nineteenth centuries.¹

In this era of private turnpikes, road building and operation by for-profit investors dwarfed corresponding governmental efforts. From 1792, when turnpikes were first chartered by states, until 1902, some five thousand companies built and operated between thirty to fifty-two thousand miles of highways nationwide.²

Private toll roads went through two basic phases. From 1792 to 1845, over eight hundred private turnpikes were built, mainly in the northeast, but also in Virginia, Maryland, and Ohio. The next phase focused on California and the more mountainous areas of the west, where there were many places railroads could not reach. Toll regulation in the west was more favorable than in the east. From 1850 to 1902, over one thousand toll roads were incorporated in the west, particularly in California and Colorado.

Nationwide, some private turnpikes prospered, while others struggled. Ultimately all private turnpikes either succumbed to competition from the railroads, which offered travelers a faster route to distant points, or were taken over by the public sector.

During the twentieth century, roads and interstate highways extended auto and truck transportation across the continent. With the popularity of automobiles, modern American toll roads were launched in the 1940s and 1950s. States looking to build limited-access highways borrowed funds for construction and agreed to pay interest and repay the principal with the tolls charged to motorists. Connecticut took the lead by opening the Merritt Parkway, an auto-only toll road, followed by Pennsylvania, which opened the Pennsylvania Turnpike to auto and truck traffic in 1940. Thereafter, a number of states in the East and Midwest, including New York, New Hampshire, New Jersey, Indiana, Ohio, Kansas, Illinois, and West Virginia, built toll expressways. In the ensuing decades, some fast-expanding metropolitan areas created their own toll roads, with municipal or state funding. Governmental entities built and operated all of these toll roads.

Private toll roads did not reappear until the last decade of the twentieth century. In the 1990s, two new private toll roads were developed,