

# **Bond Case Briefs**

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## **Drivers Decry Rise of Toll Lanes as Texas's LBJ Expressway Opens.**

The 13 miles of rebuilt Interstate 635 in North Dallas offer something for everyone: express lanes for those who want to pay to bypass traffic, toll-free lanes for those who don't, no maintenance costs for the state and, officials hope, less congestion.

For investors in \$615 million of private activity bonds sold for part of the \$2.7 billion cost of the highway, also known as LBJ after former President Lyndon B. Johnson, all that matters is whether enough drivers use the express lanes to pay principal and interest coming through 2040. The road, which re-opened last week, is one of a handful in the country that charges tolls that adjust based on traffic volume, assuring those willing to pay as much as \$9 during peak times to move quickly on a road that was once a parking lot at rush hour.

"The biggest risk from our perspective is the amount of traffic it will carry," said Robert Amodeo, head of municipals for Western Asset Management Co., which has \$452.5 billion under management, including LBJ bonds. "How many cars are going to jump on the road during peak pricing?"

The opening, which came ahead of schedule and below budget, will test a partnership between government and the private sector. The project only cost the state \$496 million from gas tax collections, allowing it to improve traffic flow in a congested corridor nearly a decade earlier that it would have otherwise. But the tolling has sparked anger by some residents tired of seeing roads that were once free now have tolls.

"It's offensive to make us pay to use roads that are being built with our tax dollars," said Terri Hall, founder of Texans Uniting for Reform and Freedom, in San Antonio, which opposes new toll roads. "They're letting a private company decide who gets to travel fast and who doesn't."

The new highway has four free lanes, as it had previously, in each direction, but in its new configuration it has two or three tolled express lanes each way. It's those lanes that will pay back investors, cover maintenance costs and, officials said, reduce congestion for drivers who don't want to use the tolled lanes.

The highway, part of a loop around Dallas, cuts a swath across the top of the city, linking businesses such as Texas Instruments Inc. and Brinker International Inc., parent of Chili's Bar & Grill, the Galleria Dallas and some of the city's wealthiest neighborhoods. The highway is a crossroads for people heading to Dallas-Fort Worth International Airport and downtown.

### **Equity Investors**

"Dynamic pricing gives users a choice of paying extra to cruise through or not pay," said Michael Wilson, director of transportation for the North Central Texas Council of Governments. "The LBJ model is being looked at as the way to go because there isn't enough money to build all the roads needed."

The company that has been rebuilding the highway and will operate and maintain it is LBJ Infrastructure Group LLC, owned by the private-equity investors: Cintra Infraestructuras S.A., Meridiam Infrastructure Finance S.à.r.l. and the Dallas Police and Fire Pension System. The equity investors put \$665 million into the deal. The rest of the financing comes from a \$850 million Transportation Infrastructure Finance and Innovation Act loan from the Federal Highway Administration.

The tolls will generate revenue to repay bond holders, the federal loan and the private equity investors over the 52-year life of the agreement.

## **Failed Projects**

Sometimes public-private projects don't work out so well. For many failed highway projects, including some privatized toll roads, the cause is a lack of traffic. ITR Concession Co., operator of the Indiana Toll Road, sought to reorganize in bankruptcy last year after dwindling traffic undermined its \$3.8 billion bet on a 75-year lease of the road. South Bay Expressway, a 10-mile toll road near San Diego, and the 16-mile Southern Connector in Greenville County, South Carolina, each filed for bankruptcy in 2010 after experiencing low traffic.

So far during construction of LBJ, the bonds have performed well, said Bill Delahunty, Boston-base director of municipal research for Eaton Vance Management, which also owns the bonds. Initially priced in 2010 with tax-exempt yields of more than 7 percent, the series maturing in 2040 traded Sept. 15 at 17 percent over par. The bonds were initially priced at almost 3 cents under par.

## **Cash Flow**

"This has been an absolute home run so far," said Amodeo.

Over the life of the securities, the net cash flow available for payments on the bonds and the federal loan, after other expenses, is projected to increase to about \$624 million in 2040 from an estimated \$96 million in 2016, according to bond documents. Traffic is expected to increase 36.7 percent in that period, according to feasibility study by Arup North America Ltd.

Since the early 1990s and until construction began, most segments of the highway have carried more than 200,000 cars per day through North Dallas, according to data contained in bond documents.

"This is a very congested area," said Delahunty. "The Dallas-Fort Worth area is doing very well from a demographic standpoint."

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