

# South Bay Expressway: A Failed P3

<http://www.dollarsandsense.org/archives/2012/1112bondgraham.html>

## **PRIVATE INTEREST:**

Macquarie Infrastructure  
(originally Parsons-Brinckerhoff)

## **TOTAL COST:**

\$658 million

## **PRIVATE FINANCING:**

- Bank debt: \$340 million
- Investor equity: \$130 million

## **PUBLIC FINANCING**

- TIFIA loan: \$140 million
- Donated right of way: \$48 million

San Diego's South Bay Expressway (SBX) was the second privatized highway authorized for construction in the United States after California passed the nation's first P3 legislation in 1989. The SBX was to be financed, built, maintained, and operated under a 35-year contract between California and the Parsons Brinckerhoff company.

Although P3s are said to transfer risks from the public to a private partner, which supposedly can better manage risk and reduce costs, the SBX is an example of how P3s create and multiply risks. Parsons Brinckerhoff spent much of its time fighting environmental and community opposition to the SBX, finally selling the nearly finalized plans to Macquarie Infrastructure Partners, an Australian investment bank, in 2003. During construction Macquarie also quarreled with the contractors, Fluor and URS Corp., two global construction giants, over cost overruns and delays. To make matters worse, the housing bubble was already showing signs of bursting in southern California; few of the homes planned along the toll highway were ever built, leading to far fewer drivers along the route than earlier projections.

No sooner did the toll road open to traffic than the Macquarie shell company that legally owned the road filed for bankruptcy, due to continuing disputes with construction contractors who had sought to recoup their losses, as well as the lower-than-expected traffic. This ended up costing the project's private creditors and the federal government tens of millions of dollars. As a result of the bankruptcy, the U.S. Department of Transportation was forced to cut its claims against the company by about \$80 million, a huge "haircut" for taxpayers.