

SAN DIEGO BUSINESS JOURNAL

Road Operators Seek Buyer to Rescue It From Bankruptcy

TRANSPORTATION: Court Hearing Set This Week for Expressway by Emmet Pierce Monday, April 11, 2011



SOUTH BAY EXPRESSWAY L.P.

CEO: Greg Hulsizer.

Financial information: For the fiscal year ending June 30, 2009, the South Bay Expressway L.P. had revenues of approximately \$21 million and adjusted earnings before interest, taxes, depreciation and amortization, of approximately \$3 million. As of March 22, 2010, the bankruptcy petition date, the company had approximately \$640 million in book value of total assets and approximately \$570 million in book value of total liabilities. As of Dec. 29, 2010, the value of the asset was declared to be \$287 million.

No. of local employees: 50.

Investors: Macquarie Atlas Roads and Macquarie Infrastructure Partners.

Headquarters: Otay Mesa.

Year founded: The current owners financed the project in 2003.

Company description: Owner and operator of a 9.3-mile toll road, developed and operated under a public-private partnership with the state of California. It holds a 35-year lease with Caltrans to own and operate the toll facility until it returns to state ownership.

Operators of the financially troubled South Bay Expressway L.P. are optimistic that the U.S. Bankruptcy Court in San Diego soon will approve their plan for emerging from Chapter 11 bankruptcy protection.

A hearing on the matter has been set for April 14. About a year after filing for Chapter 11, the operators of the 9.3-mile toll road are talking with potential buyers. Among them is the San Diego Association of Governments, or Sandag, which administers a local TransNet half-cent sales tax fund to be spent on transportation projects, said South Bay Expressway CEO Greg Hulsizer.

“There are private sector businesses that are interested in purchasing the franchise also,” he said. “We are providing them information so they can do their due diligence.”

Marney Cox, chief economist for Sandag, confirmed that the council’s governing board is exploring the purchase of the expressway. He said the panel considers the expressway to be “an important strategic asset to the region,” but he declined to discuss details of the proposed transaction.

The public-private partnership used to create the expressway has been described as an innovative way to pay for highways. “Public-private partnerships are more prevalent in Europe, South America, Australia and other parts of the world,” Hulsizer said. They are becoming more common in the U.S. as cash-strapped governments search for funds to expand aging highway systems, he added.

“Public-private partnerships are opportunities to bring in private capital to take on the risk and obligation to develop, build and operate a road,” he said.

Otay Mesa to Spring Valley Route

The expressway is the southern portion of state Route 125. It extends from Otay Mesa to Spring Valley, passing through Eastlake and Otay Ranch in Chula Vista. After a free introductory period for drivers, the collecting of tolls started at the beginning of 2008. Each workday the toll road diverts about 26,000 vehicles from the Interstate 805 freeway and South County arterial streets, Hulsizer said. “We are like any other business or service. We have to deliver value to our customers to get them to part with their hard-earned cash.”

The bankruptcy proceedings have not disrupted traffic on the freeway, Hulsizer stressed.

Cindy Gompper-Graves, chief executive officer of the South County Economic Development Council, said the toll road is essential for the future development in the South Bay area. The inland area it serves “is where the growth has occurred and where it will continue to occur,” she added.

According to Hulsizer, a series of unforeseen problems pushed the highway into bankruptcy. The road was 13 months behind schedule and deeply indebted when it opened in the fall of 2007, he said. At their peak, contractor claims against the toll road exceeded \$700 million. Over time, the company’s legal costs continued to mount.

“It was like a perfect storm,” Hulsizer said. “We had significant claims from our contractors and we spent considerable money, \$40 million, in fighting claims.”

Troubled Times Affect Revenues

The worsening economy, high unemployment and the slowing of cross-border traffic combined to reduce toll-road revenues. Hulsizer said he still believes in public-private partnerships for building public infrastructure.

“In this case the investors will not make a profit,” he said. “They lost their investment. By filing Chapter 11, they basically walked away from their investment and the debt is being restructured. There are probably lessons here to be learned going forward.”

One of the things that slowed the project down was the difficult process of winning environmental approvals, he noted. The process took 12 years, he said.

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