Collapse of Dulles Greenway spells doom for 'private' road infrastructure

by L. Wolfe

The Dulles Greenway, the 14-mile private toll road in Loudoun County, Virginia, once touted as the nation's premier private road infrastructure project, today sits on the edge of bankruptcy. The four-lane road, which runs from Dulles International Airport west to Leesburg, is already effectively bankrupt, having missed four consecutive $7 million quarterly interest payments—the last one due on March 31. If no deal can be worked out with its creditors, which include insurance giants John Hancock and Cigna, and Barclays Bank, by the time the next payment is due on June 30, then a formal bankruptcy is inevitable, sources in the financial community report.

State officials say that the creditors have already been shopping the Greenway's paper around, offering it at 20¢ on the dollar—with no takers. According to these sources, the lack of takers signals that the $258 million long-term debt, and $40 million revolving credit line on what was reported to be a $326 million project, has achieved a status lower than junk bonds. "It's one step away from the undertaker," said a source.

State and local officials report that the Greenway's revenues amounted to less than $6 million last year—reportedly about the same as its operating expenses, without any debt payments. This has led the Greenway's investor group, TRIP II, led by Middleburg millionaire and George Bush ally Magalen Ohrstrom Bryant, to ask for a moratorium on all debt payments. But the creditors, who already must approve all business decisions for the hapless project, have balked, demanding that the Greenway offer assurances that the state will go along with the plan. The Greenway wants the state to extend the point at which the road is taken over by the Commonwealth of Virginia, now some 40 years away, by several years; such an extension could cost taxpayers hundreds of millions of dollars.

Bigger implications

Because the Greenway was billed by the networks of George Bush who designed the project, as a "prototype" for schemes intended to loot the more than $400 billion interstate highway system, its collapse has broad implications. One state legislator who had originally been pulled into support for the program, said that "it certainly tarnishes the view that road privatization is some kind of 'silver bullet.' "

A glitzy brochure produced for the road's lavish grand opening ceremomies on Sept. 30, 1995 proclaimed that the Greenway was the lead project in a "new paradigm" of infrastructure privatization. "The infrastructure needs of the nation require bold new creative thinking to break the paradigms of the past," the brochure states. "This venture offers a clear and immediate answer to the problem, with the private and public sector joining together to provide necessary improvements for all citizens. . . . This pioneering effort will lead the United States toward accepting this new concept [privatization] as the best answer to meet this critical need. . . . While the Greenway is specifically an example of public-private cooperation in the development of new infrastructure, this cooperative approach is increasingly being advocated by leading-edge, progressive thinkers on many fronts, including education, the environment, and health care."

Indeed. As word of the collapse spreads, it is likely to cast a dark shadow over the ability to sell similar schemes, in this country and around the world. For example, Rebuild, Inc., a spin-off of the group that built the Greenway, last year announced that it had signed a letter of understanding to build a 50-mile private toll road-development corridor in Shandong Province in China. Now, with the Greenway project collapsing, those plans have been put on hold, and the man who built the Greenway, TRIP II's former Chief Operating Officer, Gen. Charles Williams, U.S. Army (ret.), has left the company to take a position with the District of Columbia school system.

There has been a similar effort to market private infrastructure projects in Ibero-America. Earlier in this decade, Mexico's corrupt President, Carlos Salinas de Gortari, a close friend of George Bush, started turning over his country's new road construction to private interests, giving them control over rights of way and toll concessions. The result has been a patchwork of high-toll roads and decaying public roads, that has led to a transportation nightmare. Despite the clear efforts of the government to force people onto the private toll roads, the private projects have collapsed, and the Mexican government is faced with the prospect of having to take them over, at a cost of billions—much more than it would have cost for the government to have built and operated the highways.

Virginia's Conservative Revolutionary governor, George Allen, has reportedly ordered officials to do what they can to cooperate with the Greenway and its creditors. These officials have bent over backwards, refusing to allow the state's Department of Transportation to collect debt and late-payment

The hopes of oligarchical financiers that the Greenway toll road would be a national and international model for privatizing roads and other infrastructure, are about to pop. Here, Virginia Gov. George Allen addresses the crowd at the lavish opening of the Greenway in September 1995.

penalties of more than $4 million due on a 10-year-old bill owed to the state. Allen has stated that he wants to see the privatization program succeed, but he cannot promise that the General Assembly would go along with a rescue effort.

Why privatization can't work

The Greenway scam is doomed to fail because it operates against the sound principles of American System economics. Unlike our free marketeers of today, the Founding Fathers understood that private ownership of public infrastructure was a bad idea. The profit derived from infrastructure development must be understood in its relationship to the economy of a nation, taken as whole. Infrastructure enhances commerce, making all operations of an economy more efficient, and thus more profitable. It is the proper function of government to develop and operate infrastructure at the lowest possible cost to a user; ideally, there should be no cost at all as a direct charge, and if there is a charge, it should be kept to a minimum.

The costs of infrastructure development thus cannot be recuperated from user fees, especially over a short time; efforts to do so, undermine the effectiveness of infrastructure projects, and reduce the overall profit of an economy.

This is a cornerstone of what is known as the American System of economics, as practiced by Alexander Hamilton, and embodied within the Commerce clause of the U.S. Constitution. In part, this clause was intended to stop the proliferation of private toll roads under the Articles of Confederation, which nearly choked off all commerce and destroyed the nation. As Hamilton, the nation's first Treasury secretary, proposed, infrastructure projects should be built without recourse to private borrowing, financed with Treasury-generated, low-interest credits distributed through a national bank. These credits are distributed to private contractors, who build the infrastructure; however, the contractors are not to be allowed to own it or to operate it for profit.

Thus, the American System concept of a "public-private partnership" involves government financing of the private construction of infrastructure which the government owns, and whose operation it regulates, never running it to generate "profit" in the accountant's bookkeeping sense of the term.

A little history

What became the Dulles Greenway had its origins in the mid-1980s, in the Reagan-Bush administration (see box). A former Reagan administration transportation official, Ralph Stanley, hooked up with Ohrstrom Bryant to impose a plan for a private toll road onto a state plan to extend the Dulles Toll Road (Route 267 from greater Washington to Dulles Airport) farther west to Leesburg. Local government officials, assets of the Hunt Country's powerful families, were recruited to the project, and a private toll road, replacing the state road extension, was authorized in 1988.

Originally, the argument was that the private investor group could build the road cheaper and more quickly than could the state. If the privateers had not intervened, a state road would have opened by not later than 1992, and possibly 1991. Despite receiving much of its right of way through rezoning development proffers from the Loudoun County and Town of Leesburg governments, the Greenway didn't even obtain financing until 1993, and didn't open until September 1995. Its announced cost was more than one-third higher than estimates for the original state road; and, it started out with an astounding $2 one-way, non-prorated toll.

To obtain financing, Greenway officials claimed that the road would soon be attracting 34,000 daily users, and would become profitable a few years thereafter. However, it soon became obvious to anyone with a calculator that the numbers were off by orders of magnitude. Even after the toll was scaled back, and the usage figures "massaged" (the Greenway calculates the weekend as a single day in order to inflate their daily averages), the numbers still don't go higher than 25,000 or so. At the reduced toll rate, it would take nearly 72,000 daily trips merely to pay the road's quarterly interest payments, with no money left over for operating expenses.

This has led people to speculate that the usage figures were deliberately inflated to let the Greenway's investors borrow huge sums of money. If that were the case, then the collapse of the road would have had to have been *prediscounted*. The local Loudoun paper, *EIR News for Loudoun County,* broke this story last year, charging that the Greenway was being used as a looting scheme, in much the same way that the Meyer Lansky syndicate looted various Minnesota financial and banking institutions: inflated numbers allowed investors to borrow, and then take out huge profits; when the institutions went bust, their "assets" were repackaged at a lower value, and a new round of looting began. The paper indicated that the state's taxpayers would be the ones to take the eventual hit, with a new "syndicate" put together that would buy the project, at a reduced value.

Local banking sources and state officials are now speculating that a new deal with the creditors might involve a "shill" for the Greenway investors, allowing them to pick up the project for a few cents on the dollar.

Meanwhile, there is also a question as to what happened to the original borrowing for the road. Leo Shefer, of the Washington Metropolitan Airports task force, said recently that he had been told by General Williams that the road cost only $8 million per mile to build. If so, that leaves over $150 million unaccounted for. No state official has ever looked at the Greenway's books. "They have a policy," said a legislative source of the Allen administration's officials in dealing with the Greenway, "it's 'don't tell us and we won't look.' Not very much in the way of oversight there, you know."

"We've been snookered," said a source close to Loudoun's Board of Supervisors. "This thing should be put at 'full stop' until some questions are answered." As far as the possibility of more infrastructure projects modelled on the Greenway, the source said, "You've got to be kidding, aren't you? This is a big-time bust."

Greenway officials claim that they are close to working out a deal with their creditors. But, it doesn't matter; as one local development source said in mid-May, "This thing is face down in the water. It can float about a bit, but it's dead."

The Bush connection

The Greenway project has its origins in the shadowy depths of the Reagan-Bush administration, under the Privatization Council, headed by George Bush's Japanese gangster-linked brother Prescott. As Prescott Bush made clear in published remarks and addresses, the impetus for the drive to privatize billions of dollars' worth of public infrastructure, came directly from the British Mont Pelerin Society economics gurus who ran Margaret Thatcher's disastrous policies, including her privatization of services, which have reduced the British economy to a rubble heap.

One of the directors of this Privatization Council was the chief executive officer of the Toll Road Corporation of Virginia (the Greenway's predecessor), former Reagan-Bush Assistant Secretary of Transportation Ralph Stanley, who secured most of the local and state government approval for the project. Michael Crane, Magalen Ohrstrom Bryant's son and a Greenway executive, serves on the successor group to the Privatization Council—the National Council for Public-Private Partnerships. The group has also praised the Greenway project.

While the Greenway is a state project, the Bush crowd looks to grab federal projects as well. In 1991, President Bush signed into law the Inter-Modal Rail Efficiency Act. It permitted, for the first time since 1816, private ownership of bridge, road, and tunnel toll projects. It authorized a federal subsidy of 50% or, in some cases, 80%, for private investors building roads or tunnels, and allowed the subsidized investors to keep the tolls.

On April 30, 1992, President Bush released Executive Order 12803, on "Infrastructure Privatization." This set down a procedure to: a) determine a "transfer price" that the Office of Management and Budget would calculate for various federal infrastructure or government service assets; or b) establish a competitive bidding procedure whereby the selling price would be set by the process of having different private financiers bid on the government assets. EO 12803 also ordered the OMB to "review those procedures affecting the management and disposition of federally financed infrastructure assets owned by state and local governments and modify those procedures to encourage appropriate privatization of such assets consistent with this order." This last provision would overcome the impediments preventing state and local governments from selling their infrastructure.