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ENERGY 10/28/2015 @ 9:45AM 646 views

Private Investment in Infrastructure - American Style

Just before the Global Financial Crisis, Goldman Sachs and Macquarie, along with Spain's Cintra, brought a pair of large public-to-private transportation infrastructure assets to market. The Chicago Skyway and Indiana Toll Road transactions were like alarm bells for the primarily European and Australian cast of experts—advisors, lawyers, engineers, accountants, financiers and others—who flew to the United States with the thought that the world's largest economy had just become an “emerging” infrastructure investment market, expecting to teach the Yanks all about public private partnerships called “PPPs” based upon the UK Private Finance Initiative, Australia's aggressive pension scheme's historic appetite for long-dated assets and the expertise of Spain's mighty road builders, fresh out of new routes back home in the Iberian Peninsula. Americans were instructed to study best practice models promulgated by multilateral institutions such as the Organization for Economic Co-operation and Development, the OECD.

Wall Street took notice and the idea of infrastructure investment in the United States became a “thing” as billions of dollars were capitalized in investment funds before the market tried to figure out what private America infrastructure investment would actually look like, many presuming that the global PPP model would become the established norm. The financial downturn may have even fueled this enthusiasm as investors swore off “products” and sought refuge in real assets, infrastructure seeming to be the realest of all.

But while American cross-border investors are always admonished to learn the culture and business practices of the country into which they are trying to invest, foreign players coming into the US somehow missed that lesson, expecting 50 various states and thousands of regional and local governments and agencies to somehow all march to the same tune, even though that has never been the way things have worked here. There was much that sleepy civil servants and caffeinated elected officials around the country learned from their global counterparts, and “leveraging private investment” became a talking point for many American infrastructure investment initiatives, but the pure PPP model, which is the gold standard worldwide, has been slow to take in the US for a variety of reasons, not the least of which being the generous federal tax subsidy long provided to the robust municipal bond market, the historic source of American infrastructure funding.

Another reason may be that the business culture of the land of free enterprise and entrepreneurship may not entirely hue to the top-down government controlled investment model that the global experts were promoting. Perhaps they could have made a greater effort to learn how private investment in civil infrastructure had already been happening in America for decades—to learn the local culture and customs of the country.

Perhaps they should have had a chat with James Cohen, the grandson of the founder of Hudson News, as I had the opportunity to do recently, to understand how private enterprise can and has effectively intersected with major civil infrastructure in the United States.

James' grandfather Ike Cohen founded a local newspaper deliver company in Hudson County New Jersey in 1918, carrying papers for William Randolph Hearst, and grew it to become the largest wholesale distributor of newspapers in the New York City metropolitan area by the time his son Robert took over the business and expanded to magazines, growing the business from a \$5 million a year company to \$100 million a year to become the largest wholesale magazine distributor in the United States.

When James joined the business in 1980, he took notice of the fact that terminals—bus, rail and air—were among the biggest retail customers of the business, so in an effort to stimulate growth in the increasingly low margin magazine wholesale business, he spearheaded a move to vertically integrate into retail distribution, and won a bid to take over the news concession at New York's LaGuardia Airport. The Hudson News retail brand, well known to air travelers around the world, was born.

By focusing on nuts and bolts retail issues, including investing in showcases and increasing the variety of offerings in the stores, business grew 2x in the first year and soon Hudson News became a profitable retail business on its own, with Love Field in Dallas being the first location out of the New York Metropolitan area. An acquisition of W.H. Smith's US operations brought them LAX, O'Hare and Terminal 4 in JFK where they increased sales by 20% in the first year.

By 2008, when the family sold a majority interest in the company to Advent International, a private equity firm, annual revenues were over \$650 million. Today Hudson News is part of Dufry AG, which is publicly traded in Switzerland with gross annual sales of about \$8 billion. Hudson News flourishes as a "duty paid" outlet while other divisions run duty free stores. James Cohen remains as a director of the company.

James and his family's story is quintessential American entrepreneurship. It is also a story about how American private enterprise can invest in the most basic civil infrastructure, building a business model, improving service to the public, and generating revenue to help offset the cost of the public service. Hudson News didn't build airports, but they applied deep industry knowledge about their specialty sector, retail panache and private risk capital to a business opportunity which was presented within a government owned and operated facility.

As we listen to the presidential candidates talk in the coming months about leveraging private investment in infrastructure, let's hope that the advisors to whomever lands in the White House will be studying the Cohen family model and not just the OECD model.