



## Civic Federation Position Statement

September 24, 2004

### **The Illinois State Toll Highway Authority's proposed "Open Roads for a Faster Future" 10-year, \$5.3 billion capital plan**

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#### **Position**

The Civic Federation **supports** the Illinois State Toll Highway Authority's 10-year, \$5.3 billion capital plan to rebuild the existing toll highways and construct a new I-355 south extension.

The Civic Federation has historically opposed previously proposed toll increases because of significant concerns about the proposed funding structures and a great deal of confusion related to the Toll Authority's evaluation of the condition of both the existing roads and the practicality of the planned improvements.<sup>1</sup> In 2002, the Civic Federation expressed significant concerns regarding the Toll Authority's proposed toll increase and capital plan for two primary reasons:

- the plan unnecessarily burdened and shocked users with a 35 cent toll increase and did not take into account the benefits of issuing debt to spread the financial burden over future as well as current users of the toll roads
- the plan did not guarantee that the money raised by the toll increase will be used first for reconstruction and not diverted to build unspecified and unjustified new extensions

The Civic Federation believes that the current proposal addresses these problems and demonstrates the Toll Authority's commitment to greater transparency in the presentation of its finances and capital projects.

#### **Analysis**

##### **Improved Financial Planning**

The Civic Federation opposed the Toll Authority's 2002 proposal to fund capital improvements entirely on a "pay-as-you-go" basis, and instead urged the Toll Authority to consider borrowing in order to distribute the financial burden over both present and future beneficiaries of the capital improvements. Modern highways have a useful life of approximately 40 years, so bond financing is an effective way of spreading the cost of reconstruction over the life of the road.

Borrowing also ensures that debt proceeds are available only for a specific purpose, reducing the possibility of toll funds being diverted to new projects. The Civic Federation is pleased that the Toll Authority now proposes funding \$2.9 billion of its \$5.3 billion plan through long-term borrowing. In addition, the Toll Authority has clearly earmarked \$730 million, or 14% of the total capital plan, for the new I-355 south extension. The Civic Federation takes no position on the need for the extension, but defers to community and regional planning groups such as the Metropolitan Planning Council and Chicago Metropolis 2020, which have endorsed its construction.

Under the plan, \$1 billion in bonds will be issued in 2005, another \$1 billion will be issued in 2006, \$800 million will be issued in 2008, and \$135 million will be issued in 2010. These 25-year bonds will reach maturity in 2030, 2031, 2033, and 2035, respectively. The early infusion of bond proceeds will allow for \$3.8 billion in capital expenditures before 2010. In addition to the bond proceeds, there will be an average of \$256 million per year in revenues (net of operating expenses and debt service) available for the capital program on a “pay-as-you-go” basis over the next 10 years. Annual debt service is expected to reach a maximum of \$270 million.<sup>2</sup>

The Toll Authority’s debt service estimates assume an annual interest rate of 5.25%. The Toll Authority had debt service coverage of 3.1 in 2003, and the current proposal projects average debt service coverage of 2.23 from 2006 through 2030, with coverage always exceeding 2.0. The Toll Authority had strong 2003 bond ratings of A1 from Moody’s, AA- from Standard & Poor, and AA- from Fitch.<sup>3</sup> However, Fitch noted in 2003 that the Toll Authority would need to make major capital reinvestments soon in order to retain its high bond rating:

The deferral of major capital improvements creates concern for the management of future expenditure and debt levels.... While the current rating level anticipates the need for additional debt issuance, toll rate increases and a lower debt service coverage from recent levels, it does not anticipate the continued absence of long-term capital investment.<sup>4</sup>

According to toll road data compiled by Merritt Research Services, LLC, the average age of the Illinois Tollway’s net fixed assets in 2003 was 13.5 years, which is almost two years older than the 11.8 year median average age of net fixed assets for tollways with AA+ to AA- bond ratings.<sup>5</sup> There is clearly a need for reconstruction of the aging Illinois Tollway.

The “Open Roads” plan was designed using toll revenue projections from Wilbur Smith Associates and financial advising from Scott Balice Strategies, both of which have worked with several other U.S. toll roads.

Toll revenue projections modeled by Wilbur Smith Associates include expected increases in I-PASS usage as well as diversion of some traffic away from toll roads. Wilbur Smith projects that I-PASS usage will increase from 46% of automobiles and 48% of trucks in 2004 to 80% of automobiles and 85% of trucks in 2030. According to the Toll Authority, I-PASS usage on other toll roads nationwide has not exceeded 75%, but it believes the 85% maximum usage rate provides greater security in case of extraordinary migration to I-PASS.<sup>6</sup> Wilbur Smith also estimates that 16.8% of trucks will choose to avoid the toll roads in 2005 due to higher toll rates, 15.2% will be similarly diverted in 2006, 13.5% will be diverted in 2006 and 2007, and 17.3% will be diverted after 2009 when the non-peak hour I-PASS discount for trucks sunsets.<sup>7</sup> The Toll Authority asserts that these projections, likewise, are conservative in comparison to diversion rates nationwide.

Toll transactions on the Tollway increased an average of 2.7% each year from 1994-2003, rising from 632.2 million total transactions in 1994 to 801.6 million total transactions in 2003. The Toll Authority estimates that total transactions in 2004 will reach 819.6 million, a 2.2% increase over 2003. The Toll Authority forecasts a 3.0% decline in total transactions for 2005 due to toll increases and road construction. This includes a 17.7% anticipated drop in truck traffic, 16.8%

of which would be diverted due to increased tolls and 0.9% due to construction. Following this initial decline, transactions are projected to climb again at an average annual rate of 2.9% a year through 2015, with a slight dip again in truck traffic when the I-PASS off-peak discount sunsets in 2009. Most major construction will be completed in 2011 and many added lanes will already be available for use.

Illinois Tollway Vehicle Transactions: 1994-2015								
	1994	2003*	Average Annual % Change 1994-2003	2004 (est.)	2005 (proj.)	% change 2004-2005	2015 (proj.)	Average Annual % Change 2006-2015
<b>TRANSACTIONS (Thousands)</b>								
Passenger	565,601	693,507	2.3%	709,111	703,763	-0.8%	940,574	2.9%
Commercial	66,693	108,096	6.1%	110,528	90,960	-17.7%	120,877	2.9%
<b>TOTAL</b>	<b>632,294</b>	<b>801,603</b>	<b>2.7%</b>	<b>819,639</b>	<b>794,723</b>	<b>-3.0%</b>	<b>1,061,450</b>	<b>2.9%</b>

\*Some passenger traffic was reclassified as commercial traffic in late 2002

Sources: Illinois State Toll Highway Authority Comprehensive Annual Report For the Year Ended December 31, 2003 and information provided by the Illinois State Toll Highway Authority

Total toll revenues increased an average of 3.1% each year from 1994-2003, rising from \$287.4 million in 1994 to \$377.4 million in 2003. The Toll Authority estimates that 2004 toll revenues will reach \$385.5 million, an increase of 2.1% over 2003. The Toll Authority forecasts a 62.7% increase in toll revenues for 2005 following the toll rate changes, a 0.9% decrease in 2006, and subsequent average annual increases of 3.0% through 2015.

Illinois Tollway Vehicle Revenues: 1994-2015								
	1994	2003	Average Annual % Change 1994-2003	2004 (est.)	2005 (proj.)	% change 2004-2005	2015 (proj.)	Average Annual % Change 2006-2015
<b>REVENUES (Thousands of \$)</b>								
<b>TOTAL</b>	<b>\$ 287,407</b>	<b>\$ 377,454</b>	<b>3.1%</b>	<b>\$ 385,500</b>	<b>\$ 627,165</b>	<b>62.7%</b>	<b>\$ 844,260</b>	<b>3.0%</b>

Sources: Illinois State Toll Highway Authority Comprehensive Annual Report For the Year Ended December 31, 2003 and information provided by the Illinois State Toll Highway Authority

Although some critics of the plan have expressed concern that users' conversion to I-PASS combined with anticipated diversion of traffic away from the toll roads will result in insufficient toll revenues, the Toll Authority's plan is based on an expected initial 3.0% decline in Tollway users and gradual increases as construction projects are completed. If the Toll Authority is not successful in reaching its projected transaction and revenue targets, it may be faced with the need for additional revenue in the future.

### Effective User Fee Structure

The Civic Federation supports governments' use of user fees instead of general tax increases for non-essential services because user fees create a direct link between those who pay for a service and those who benefit from that service. The Tollway system eases congestion on the region's state highways, which are free to users but are financed through state and federal tax dollars. Only users of the Tollway system pay for the toll roads.

The proposed toll increases would take effect January 1, 2005. Rates for I-PASS automobiles would remain the same, while cash automobile rates would double.

Typical Plaza Toll Rates for Autos: Current and Proposed		
Current	Proposed	
	I-PASS	Cash
\$0.40	\$0.40	\$0.80

Truck rates would double or triple depending on number of axles, time of day, and I-PASS usage. Trucks using I-PASS would have discounted rates during weekends and non-peak weekday hours until 2009, when the majority of construction is expected to be completed.

Typical Plaza Toll Rates for Trucks: Current and Proposed					
Truck Size	CURRENT	PROPOSED			
		Peak (6AM-9AM & 3:30PM-6:30PM)	Overnight (10PM-6AM)	Daytime Non- Peak (weekdays non-peak & weekends daytime)	
		I-PASS & Cash	I-PASS & Cash	I-PASS*	Cash
2 axles	\$0.50	\$1.50	\$1.00	\$1.00	\$1.50
3-4 axles	\$0.75 to \$1	\$2.25	\$1.75	\$1.75	\$2.25
5+ axles	\$1.25 to \$1.50+	\$4.00	\$3.00	\$3.00	\$4.00

\*On December 31, 2008, the Daytime Non-Peak discount for I-PASS trucks will sunset and I-PASS rates will revert the same rates as cash

The proposed toll increases would not affect non-Tollway users and would reward I-PASS users, most of whom are frequent users of the Tollway. The burden of the toll increase would be borne by trucks, which do the most damage to the toll roads,<sup>8</sup> and by cash users. However, the Toll Authority notes that truckers would benefit from reduced congestion on the toll roads, which could ultimately save them an estimated \$25 for every 15 minutes less travel time,<sup>9</sup> and discounted truck toll rates are available at night.

The Illinois Toll Highway Authority has not raised tolls since 1983. If over the last 20 years, the Toll Authority had annually adjusted the tolls at the rate of inflation, the typical toll would now be 74 cents. The proposed increase to 80 cents for cash-using automobiles would roughly equal what tolls would have been had the Toll Authority raised toll at the rate of inflation, and Illinois' toll rates would still be among the lowest in the nation for automobiles. Tolls for small and medium trucks would remain below the national average in cost per mile after the toll increase.<sup>10</sup>

### Independent Analysis of Road Conditions

Two years ago, The Civic Federation expressed concern that the Toll Authority lacked credible independent analysis of its road conditions and finances.<sup>11</sup> In the public offering statements for revenue bonds 1998 Series A & B, the Toll Authority had certified that the roads were in "acceptable condition," but in 2002 the Toll Authority argued that its roads were beyond repair without a massive reconstruction project. This inconsistency eroded public confidence in the Toll Authority's self-assessment process. The Civic Federation urged the Toll Authority to commission periodic, independent evaluations of its capital needs and finances in order to rebuild public confidence in the Toll Authority. Although there has recently been much greater transparency regarding the Authority's financial condition and there is substantial evidence that the majority of the existing toll roads need to be rebuilt, The Civic Federation continues to recommend independent analysis of road conditions and finances in order to rebuild and maintain public trust in the Toll Authority. Periodic updates on the system's physical and financial condition will allow the public to better understand the condition and cost of this important transportation asset.

## Conclusion

The Civic Federation recognizes the need to rebuild the aging toll roads and relieve congestion. The Civic Federation supports the Toll Authority's 2004 "Open Roads" capital proposal as a reasonable plan for rebuilding and improving the system's 274 miles of road. The plan effectively utilizes debt financing to spread the cost of reconstruction over current and future beneficiaries of the improved roads. The proposal also clearly designates which dollars will be used for reconstruction and which will fund a new south extension of I-355.

The 2004 proposal also makes significant improvements over the earlier proposals in terms of the transparency of financial planning and the proposed user fee structure. However, The Civic Federation continues to believe that the Toll Authority and the public would be well served by continued independent analyses of the Authority's finances and periodic evaluation of its road conditions. Although The Civic Federation is pleased that the Toll Authority has developed a reasonable plan for rebuilding the system, much of the reconstruction should have been undertaken years ago. Greater transparency is needed to avoid again waiting until the entire system must be rebuilt.

The Civic Federation is pleased that the Toll Authority has developed congestion pricing plans that reward I-PASS usage and off-peak travel. It is our hope that the Toll Authority will continue in these efforts and emerge as a leader in promoting greater coordination across transit and transportation agencies to address Northeastern Illinois' many unmet transportation needs in a timely manner.

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<sup>1</sup> The Civic Federation, "Civic Federation Position on the Illinois Toll Highway Authority's Proposed 'Facing Future Needs: Toll Initiative 2002'," May 13, 2002. Available at: [http://www.civicfed.org/articles/civicfed\\_107.pdf](http://www.civicfed.org/articles/civicfed_107.pdf)

<sup>2</sup> Illinois State Toll Highway Authority, *Open Roads for a Faster Future: Cash Flow Projections*, September 2004.

<sup>3</sup> Illinois State Toll Highway Authority, *Comprehensive Annual Financial Report For the Year Ended December 31, 2003*, June 24, 2004, p. 21.

<sup>4</sup> Fitch Ratings, "Fitch Ratings Affirms Illinois Tollway Revenue Bonds at 'AA-',", January 3<sup>rd</sup>, 2003.

<sup>5</sup> Data provided by Merritt Research Services, LLC, Cedar Rapids, Iowa.

<sup>6</sup> Illinois State Toll Highway Authority, *Open Roads for a Faster Future: Long-Range Capital Plan Financial Overview*, September 2004, p.2, and information provided by Michael Colsch, Chief of Finance, Illinois State Toll Highway Authority, September 23, 2004.

<sup>7</sup> Information provided by Michael Colsch, Chief of Finance, Illinois State Toll Highway Authority, September 22, 2004.

<sup>8</sup> The American Association of State Highway and Transportation Officials estimates that one truck does the damage of 10,000 cars. Illinois State Toll Highway Authority, *Open Roads for a Faster Future: Truckers Will Save Time and Money*, September 2004.

<sup>9</sup> The Midwest Truckers Association estimates that truckers save \$25 for every 15 minutes reduction in travel time. Don Schaefer, Midwest Truckers Association, telephone conversation, September 20, 2004.

<sup>10</sup> Illinois State Toll Highway Authority, *Open Roads for a Faster Future: Long-Range Capital Plan Financial Overview*, September 2004.

<sup>11</sup> The Civic Federation, "Civic Federation Position on the Illinois Toll Highway Authority's Proposed 'Facing Future Needs: Toll Initiative 2002'," May 13, 2002. Available at: [http://www.civicfed.org/articles/civicfed\\_107.pdf](http://www.civicfed.org/articles/civicfed_107.pdf)