

**Civic Federation Position on the Illinois Toll Highway Authority's Proposed  
"Facing Future Needs: Toll Initiative 2002"**

**Position Statement**

The Civic Federation **supports** the Illinois Toll Highway Authority's express need to reconstruct its aging system of roads, but recommends a phased-in increase beginning with 10¢ rather than the proposed 35¢ currently being considered by the Toll Authority. The toll roads must be rebuilt, and the time to act is now. Since the only alternative to increasing tolls is a substantial tax subsidy, The Civic Federation believes that the best method of funding for the reconstruction project is user fees or tolls, and that increases must be limited by using bond financing and reasonable construction schedules.

Although The Civic Federation recognizes the need to raise tolls to rebuild a 40-year-old system of roads, we are concerned that the current proposal does not adequately address the following issues:

- The plan does not guarantee that the money raised by the toll increase will be used first for reconstruction and not diverted to build new extensions.
- The plan does not take into account the benefits of issuing debt to lessen the current toll increase and take advantage of current low interest rates.
- The Toll Authority must establish an independent mechanism for auditing the condition of its roads, adequacy of its revenues, and efficiency of its management.

The Civic Federation and the general public have a right to be stunned by the magnitude of the proposed 35¢ (87%) increase, since as recently as 1998, the Toll Authority had pledged in documents related to a bond issuance that the Toll Authority's roads were in good condition.

The Civic Federation's analysis of this issue has resulted in the following conclusions:

Toll Increase Issues

- Reconstruction is Necessary
- User Fees are Preferable to Tax Subsidies
- A Toll Increase is Unavoidable
- Increased Revenues Should Be Placed in a Lockbox

Borrowing Issues

- Borrowing Spreads Cost Over Life of Roads
- Borrowing Facilitates Gradual Toll Increases
- Existing Bonds Must Be Refinanced

## Management Issues

- Toll Authority Must Become More Transparent
- Implement Toll Enforcement and Congestion Management Strategies
- Provide Independent Verification of Revenues, Conditions, and Management

## Analysis

The prospect of increased fees for access to the roads operated by the Illinois Toll Highway Authority (Toll Authority) has generated considerable controversy in the recent weeks. The Civic Federation has analyzed the Toll Authority's "Facing Future Needs: Toll Initiative 2002." This proposal is a 15-year, \$5.5 billion capital plan designed to completely rebuild the crumbling toll highways with funds generated by increasing tolls from \$0.40 to \$0.75 through 2010, with an additional toll increase necessary in later years. The Civic Federation **supports** a phased-in toll increase beginning at \$0.10, in combination with issuing bonds for part of the plan and instituting management reforms.

## **Toll Increase Issues**

### **Reconstruction is Necessary**

The toll roads must be rebuilt. The original sections of the Toll Authority roads were opened 44 years ago. Today, 57% of the existing Toll Highway roads are over 40 years old; another 28% are over 25 years old. Continuing to repair, rather than replace, the roads will only increase the cost of maintaining the Toll Highways in the long run. Constant traffic over time inevitably causes the foundations of these roads to wear down. A temporary solution is to patch the surface of the roads, but eventually the roads need to be completely rebuilt. Furthermore, the 1.2 million motorists who use the Toll Authority roads daily are in need of congestion relief. Rebuilding will allow lanes and tollbooths to be expanded to accommodate motorists more quickly and efficiently.

### **User Fees are Preferable to Tax Subsidies**

Opponents of increasing the tolls question whether or not the tolls should be raised at this time. The Civic Federation answers this question firmly in the affirmative. The Civic Federation supports governments' use of fees and user charges instead of raising general taxes because user fees allow governments to link those who directly benefit from a service to payment for the service. The alternative is a tax subsidy, paid for primarily by non-users of the service. The Toll Authority estimates that a \$0.20 to \$0.25 per gallon gas tax increase or a \$48 vehicle registration fee increase would be needed to generate the money needed to fund the reconstruction project. Such an approach would force residents throughout the state of Illinois who own a car to pay for the Toll Authority's capital plan, regardless of whether or not they use the Toll Authority roads. Meanwhile, out of state drivers and commercial vehicles would not be contributing their fair share to the Toll Authority's reconstruction plan.

### **A Toll Increase is Unavoidable**

Quite simply, a toll increase is unavoidable. The 2002 budget of the Toll Highway Authority estimates \$374 million in revenues. Of that amount, \$354 million is generated by tolls. If over the last 20 years, the Toll Authority had annually adjusted the tolls at the rate of inflation, the current tolls would be \$0.72 and the estimated 2002 revenue would be over \$500 million. Yet the tolls have not been increased since 1983. The result is that the Toll Authority now finds itself incapable of funding either its Operations & Maintenance budget beyond 2004 or funding the necessary rebuilding contained in the proposed capital plan. Should the Toll Authority be unable to pay for its repair costs, bondholders can utilize clauses in the bond agreements to sue for a toll increase in order to protect the integrity of the roads, which are the collateral for the bonds. Thus, The Civic Federation concludes that a toll increase is unavoidable. Even if the State of Illinois took over the Toll Authority as some have suggested, a toll increase would still be the best way to repair the current Toll Authority system without a massive gas or other tax increase.

### **Increased Revenues Should Be Placed in a Lockbox**

The Toll Authority must make assurances and establish mechanisms to guarantee that funds from the proposed toll increase are spent first to repair and reconstruct the existing toll roads and not diverted to build new extensions. The Civic Federation takes no position on the merits of a south extension of I-355. We merely recognize that any proposed financing must not further the deferral of maintenance on existing roads; and we accept the Toll Authority's assurances that any new extensions will require a separate financing program.

## **Borrowing Issues**

### **Borrowing Spreads Cost Over Life of Roads**

The Toll Authority must consider borrowing the funds necessary to complete the capital projects outlined to date. Modern highways have a useful life of approximately 40 years. Issuing 40-year bonds would allow the Toll Authority to spread the cost of the reconstruction over the useful life of the roads. Rather than forcing the current generation of motorists to fully fund the reconstruction, borrowing would ensure that all motorists who benefit from the reconstruction contribute to its cost. The other advantage of borrowing is that it creates a virtual lock box on the revenues generated by a current toll increase. Because the debt proceeds are only available for a specific purpose, the Toll Authority would not be tempted to fund non-reconstruction projects with the new money. As a result, if the debt service on the 40-year bonds equals the amount of money generated by the toll increase, auxiliary projects not included in the current proposal would effectively be prohibited without a separate financing proposal.

### **Borrowing Facilitates Gradual Toll Increases**

Issuing bonds now for the entire \$5.5 billion capital plan is also not feasible. It is impossible for the Toll Authority to effectively manage \$5.5 billion in construction projects in a short period of time. In addition, \$5.5 billion in bonds would require an annual debt service of approximately \$350 million over thirty-five years, and a \$0.75 toll

would only generate approximately \$265 million per year. A better option would be for the Toll Authority to divide its capital plan into 3 five-year projects. The cost of each stage is below:

- Stage 1 (2003 - 2007) \$1,115,700,000
- Stage 2 (2008 - 2012) \$2,474,100,000
- Stage 3 (2013 - 2017) \$1,402,700,000

The Civic Federation estimates that the Toll Authority could make the annual debt service payments of \$68 million per year over forty years on Stage 1 by increasing tolls by only \$0.10 to \$0.50. Several smaller toll increases could be phased in over the course of the project, thereby decreasing the public's shock resulting from such a large initial toll increase.

### **Existing Bonds Must Be Refinanced**

Even in the absence of the capital plan the Toll Authority should exercise its option to refinance its existing bonds in 2003. The Toll Authority is currently not in favor of borrowing because the current outstanding bonds have trust indentures requiring the Toll Authority to guarantee that it will be able to pay the debt service on its bonds for five years after completion of the project. However, the Toll Authority has indicated that it may be unable to meet that guarantee because of the predicted revenue shortfall. According to the current Toll Authority proposal, a revenue shortfall of \$500 million is projected to occur between 2007 and 2012 even with a \$0.75 toll increase. By taking advantage of the current financial market conditions and a call provision of the current bond agreements, the Toll Authority could refinance its existing bonds in 2003 and negotiate a less onerous indenture. At the same time, a new indenture would allow the Authority to consider any reforms needed relative to the governing board or legislative oversight review process.

## **Management Issues**

### **Toll Authority Must Become More Transparent**

Before the Toll Authority can adopt a toll increase or begin a capital plan, it must regain the public trust. The first step in the process is for the Toll Authority to be forthright concerning its intent to implement future toll increases and its plans to construct future extensions of the system. The current toll increase must be dedicated to the rebuilding of the existing system. A lock box must be created to protect the new revenues from being used for anything but the reconstruction of the aging Toll Authority roadways. Any surpluses generated from a toll increase should also be dedicated to specific projects. Furthermore, if the revenues generated by the current toll increase are insufficient to cover the entire cost of the capital plan, then the toll increase necessary in 2010 to finish the reconstruction should be disclosed now so that the public can make an informed judgment concerning the whole plan. Without disclosing the projected toll increase in

2010, the Toll Authority is not providing essential details necessary for an evaluation of their capital plan.

### **Implement Toll Enforcement and Congestion Management Strategies**

The second step is to implement an independent audit of the Toll Authority's operations. The goal of this audit must be to improve the efficiency of the organization's operations. In addition to examining the management of the Toll Authority, the auditors should address two types of strategies. First, the audit should consider solutions to the loss of revenue caused by toll dodging. The Toll Authority has stated in meetings with The Civic Federation that an estimated \$8 million is lost annually as a result of toll dodging. Despite efforts to deter toll dodging, the Toll Authority is still the victim of what amounts to theft of approximately 3% of the Toll Authority's revenues. Second, the feasibility of congestion pricing should be evaluated. Congestion management measures are highly favored by many transportation experts as a means of addressing traffic congestion issues. Congestion pricing often charges higher fees for users of the system at peak traffic times and creates economic incentives to encourage the public to voluntarily adjust their travel patterns to decrease congestion. It also ensures that the heaviest users of the system contribute the most to its maintenance.

### **Provide Independent Verification of Revenues, Conditions, and Management**

Finally, the Toll Authority must provide independent verification of both its revenue projections and the condition of its organizational infrastructure. Independent consultants should be brought into the process. The Civic Federation has no basis to question the validity of the Toll Authority's revenue projections and construction costs, and Wilbur Smith and Associates and Consoer Townsend Envirodyne Engineering Inc. are both well-respected consultants. However, in 1998 the Toll Authority issued revenue bonds 1998 Series A & B. The public offering statements of these bonds certified that the roads were in "acceptable condition." Now, four years later the Toll Authority is in the inconsistent position of arguing that most of the current toll roads are beyond repair without a massive \$5.5 billion reconstruction project. The Civic Federation recommends that an independent evaluation of the Toll Authority's financial and capital conditions be done every three years to verify the feasibility of the plan and begin to rebuild public confidence in the Toll Authority. It must also implement an objective review process to insure that improvements necessary to maintain the condition of the highways are achieving the scheduled improvement plan.

### **Conclusion**

The Civic Federation recognizes the need to rebuild the highways of the Toll Authority. The question is how to achieve that objective in the current political climate. Tolls must be the primary source of revenue for this project because it is imprudent to subsidize the reconstruction with scarce state tax dollars. Additionally, some of the reconstruction should be financed through the issuance of debt. The Toll Authority must regain public confidence by making its operations transparent before it implements either the toll increase or the capital plan. Finally, the Toll Authority must recognize the advantages of borrowing. If it does not pursue a debt issuance, it must at the very least provide

persuasive arguments against doing so. There is no advantage to delaying the resolution of this issue. The time to act is now.