By Tom Schuman

Making Major Moves

State Seeks Transportation Funding Solution Through Private Partnerships, Tolls

In the short-term world of politics and government, long-range needs are often not at the top of the agenda. A $2.8 billion road preservation and construction funding shortfall will change that.

The Indiana Department of Transportation (INDOT) does not have enough money. It's not a problem unique to this state. But for one known as the Crossroads of America and highly dependent on its roadways for moving products and people, it's a serious one.

Most discussion about transportation issues involves new roads and bridges – or major renovations. Witness the Interstate 69 extension to southwest Indiana, upgrading U.S. 31 from Indianapolis to South Bend, completing the Hoosier Heartland Corridor, constructing the Fort to Port link from Fort Wayne to the east and building new Ohio River bridges in the Louisville area.

While these and other high-profile projects gather the headlines, preservation comes first. The 10-year, $10.6 billion administration plan (titled Major Moves: Creating a Top-Tier Economy Through Top-Tier Transportation) announced in late September is evenly divided between maintenance ($5.3 billion) and new construction ($5.3 billion). The entire preservation funding and $2.5 billion of new construction is part of INDOT's existing budget. Raising the remaining $2.8 billion is the focus of Major Moves and legislative debate this session.

Changing course

Gasoline taxes (18 cents in Indiana) have been the traditional funding source – with state taxes sent to Washington and returned via the federal government's multi-year transportation plans. It's been recognized for some time, however, that this is one tradition that requires updating.

"Our highway system is 50 years old. It costs more and more to maintain," explains INDOT Commissioner Tom Sharp, who enjoyed a 26-year management career with ALCOA Aluminum before entering the public sector. "You always need that base (of funding), but it's a real strain to lay that off on fossil fuels. Every other DOT is saying that. The federal government is saying that.

"The last transportation bill opened up the doors to pilot projects. This bill (SAFETEA-LU, approved in 2005 and signed by President Bush) opened the door farther – you could almost say it opened up the floodgates."

The floodgates are in the form of public-private partnerships. Two such pairings form the basis for Major Moves, with additional funding coming from tolls – both on the existing Indiana Toll Road and the proposed I-69 extension. The key elements of the plan presented by Gov. Mitch Daniels and Sharp offer:

- More than $2 billion from the long-term lease of the Indiana Toll Road
- Between $900 million and $1.5 billion by constructing I-69 as a public-private partnership and operating it as a toll road

Road Funding Economic Impact

- For every $1 invested in roads, $2 generated in economic activity
- For every $1 invested in roads, 25 cents in annual cost savings to businesses
- For every $1 billion invested in roads, 47,000 Hoosier jobs created
- Historically, nearly every major economic development project in the state occurs within close proximity to a state highway

Sources: U.S. Department of Transportation, Federal Highway Administration, Indiana Chamber of Commerce

As highway usage continues to increase, so do the financial demands for preservation of existing roadways.

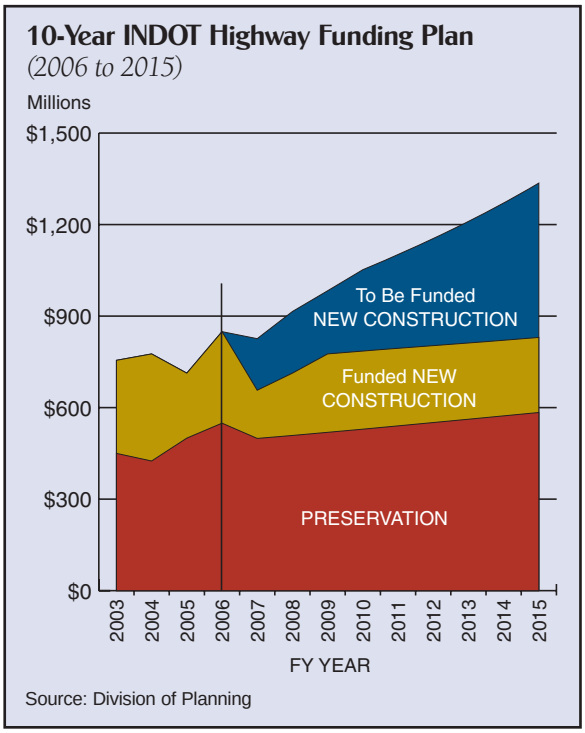
General Assembly leaders Brian Bosma (left) and Robert Garton discuss transportation funding options at the Indiana Chamber's Central Indiana Legislative Preview.

- Toll increases scheduled to become effective this spring on the Indiana Toll Road that would generate $770 million over 10 years
- Project redesign that would save an estimated $400 million

INDOT listed 20 other alternatives under the heading of "funding options explored but not currently recommended." Sharp categorized those as requiring high amounts of energy in order to gain approval and implement in exchange for a minimal return. The top two items recommended in Major Moves require legislative approval.

Brian Bergsma, Indiana Chamber director of small business and economic development, acknowledges that the primary initiatives in Major Moves are necessary. He adds, however, that it would be appropriate to address other issues smaller in dollar value but still important, including the approximate $121 million (3.75 cents of the gasoline tax) a year that is currently diverted (to the Bureau of Motor Vehicles, State Police and the Department of Revenue among others) instead of being used for road projects.

Daniels has made clear that he will not advocate for a gasoline tax increase. Dennis Faulkenberg, former CFO with INDOT and a private sector leader in Indiana's transportation funding efforts, says GARVEE bonds (up-front money now in exchange for future federal transportation dollars) will be discussed, "but I don't think any of us are crazy about it. Maybe for certain projects in certain amounts, that's possible."



Taking a toll

The Indiana Toll Road, a 157-mile roadway between the Ohio border and the Illinois state line near Chicago, opened to traffic in late 1956. Between 1985 and 1997, its revenues allowed the state to provide funds to local communities to assist with transportation improvement projects. Current funds cover operating expenses, but not future maintenance or capital projects.

The most immediate issue is the increases in tolls, which were last raised in 1985. For vehicles traveling the entire 157 miles, the car toll would go from $4.65 to $8, while the cost for a truck would increase from $14.55 to $32. According to INDOT, 66% of 2004 Indiana Toll Road revenues came from out-of-state vehicles, 18% from in-state cars and 16% from in-state trucks.

Kyle Hannon, public policy manager for the Greater Elkhart Chamber of Commerce, acknowledges the 20-year time span in rate increases and the fact that Indiana's tolls are far less than in comparable states.

"I think people here understand the rates need to go up, but that much that quickly is what is being questioned," he states. "There are still people in this area who remember when the Toll Road was created, that they were promised it would become a freeway when the bonds were paid off. That comes up in public meetings, more often than you would think."

Part of the concern is that truckers will vacate the Toll Road and use local arteries such as Indiana 20. Such activities are currently taking place, according to Hannon. With funding of local road needs a major issue and traffic already a worry in some areas, that is the last thing city and county officials want.

Sharp points out that the toll increases will allow for completion of numerous state projects in the Toll Road counties, as well as delayed improvements to the Toll Road itself and grants for local road projects. He

(millions)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	TOTAL
Total Preservation	$489	$499	$509	$519	$529	$540	$551	$562	$573	$584	$5,354
Funded New Construction	$300	$158	$204	$257	$257	$254	$252	$250	$248	$246	$2,426
To be Funded New Construction	$0	$169	$202	$207	$266	$308	$351	$398	$450	$506	$2,857
Annual Total Construction	$789	$826	$915	$982	$1,053	$1,101	$1,154	$1,210	$1,271	$1,336	$10,637

believes the arguments are more emotional than practical.

Calling the Toll Road the "umbilical cord for the economy up there," Sharp says, "There is a reason people are on the tollway today; it's efficient. Maybe if you're going one or two exits (you will opt for local roads instead), but for the two-thirds running across the state, this is probably not applicable to them."

Sharp adds that half of the new construction projects in the state are currently not funded. With the toll increase, all the state projects in the Toll Road counties will be funded.

Let there be lease

Leasing is the second part of the Toll Road proposal. It is what Sharp was referring to when he mentioned pilot projects as part of the federal transportation bills. Eighteen states currently have the authority to pursue such public-private partnerships.

Faulkenberg, currently a member of the public affairs group with Indianapolis-based law firm Ice Miller, reports that Indiana is joined by a number of Eastern toll road states in exploring leasing options.

"The Toll Road is a very known commodity. Potential investors will do an engineering analysis and look at traffic projections," he details. "Investors will know what they're going to get."

That process was taking place in late November, according to Sharp, with six to eight teams (engineers, as well as financial and safety experts) spending anywhere from $1 million to $2 million to determine the viability of a possible investment. The state's goal is to have a financial figure for leasing (to compare to the traditional bonding method) to present to legislators in early January.

Why would leasing be expected to bring in a premium compared to bonding?

"Concessionaires (another term for those doing the leasing) may be able to run the road more efficiently," Sharp says. "They're allowed to take depreciation against their tax bill, and they're more aggressive/optimistic on their view of revenues and traffic. We're very conservative when we do our numbers."

The most recent high profile lease project was a 99-year, $1.83 billion agreement with a Spanish-Australian conglomerate for operation of the 7.8-mile Chicago Skyway. There have been others across the country, with mixed success.

Faulkenberg says Indiana has the benefit of learning from what others have experienced.

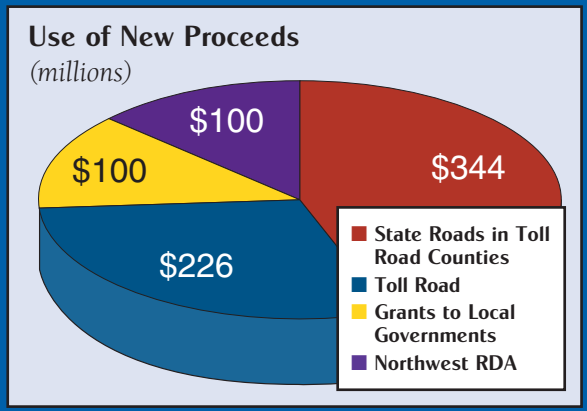
"You want to be very thorough in the deal, make sure all the bases are covered," he explains. "You want to know how much the tolls will be, how much they can be increased, the level of maintenance and how it will be taken care of."

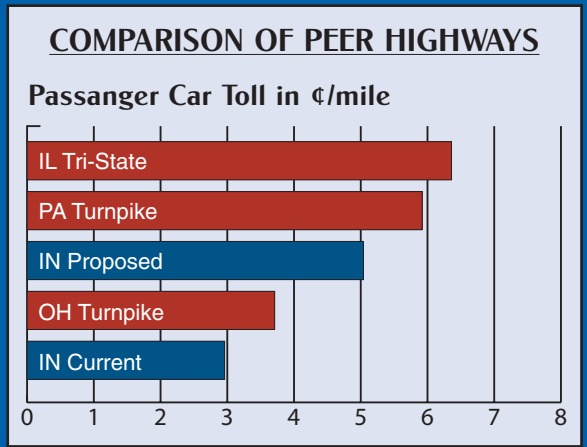
Sharp confirms that any lease would be very specific, with significant penalties for non-compliance and procedures for the state to revoke the contract if necessary. The potential lease period has not been defined, although he ventures that "we're probably not going to go 99 years."

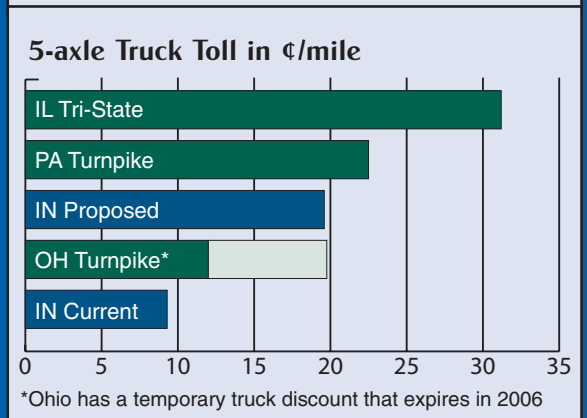
Hannon terms leasing "a whole another issue" compared to toll increases. He notes that the Elkhart chamber has a policy that dates back 20 years against direct Toll Road proceeds going away from "this corridor." If a long-term lease goes into effect, he questions what happens with the funds from the toll increases.

Although business leaders in the area are vocal about their concerns, Hannon says, "I don't think anybody wants to take the

Toll Modernization







Source: Indiana Department of Transportation

position and just stand back and criticize anything put forward. We have concerns about the lease of **our** road in **our** neighborhood. We want to help make it a better deal or point out if it is not a good deal. We're willing to sit at the table and be a part of that."

Leasing — Part II

While the leasing of the existing Toll Road may be a less complicated process, Indiana had a willing host in Texas for learning more about a public-private partnership for the construction and toll road operation of I-69. The beneficiary of mixed results in other states is Texas, which is in the early stages of building the I-35 Trans Texas Corridor.

"Fifty people (Texas public and private sector leaders) spent 2½ days with five of us. They told us everything," Sharp recounts. "We wanted to walk out of there with a real plan of what we could do and a timeline. We would come up with a plan, and they would tell us it was too aggressive. So we came back with a different plan. We were able to do what we wanted. We can start this in June 2008 and toll it as a public-private partnership."

Defining a Partnership

Public-private partnerships, referred to as P3s, are a mechanism for financing large public works projects such as highways. P3s increase the private sector's role in designing, constructing, operating and maintaining public facilities. Expanding their role allows public agencies to tap private capital, as well as technical and management resources that are not attainable through traditional means.

Several states and many countries contract with private companies to construct and manage portions of their highway system. In these arrangements, the private entity provides money at the beginning of the project for some or all of the construction costs. The company hires a design firm and a general contractor to build the road to the state's specifications and agrees to maintain the facility to the government's standards.

In return for financing, constructing and maintaining the facility, the company operates the highway as a toll facility for a limited time period. The length of the contract can vary, but typical lengths are 40, 50 and 99 years. The public agency always retains ownership of the highway.

Sharp says I-69 was what caused the INDOT funding shortfall for the next 10 years to increase from $2.1 billion to $2.8 billion. A funding source was not previously identified. Under those plans, construction would not have started until 2017 with completion projected for 2035.

For the new Texas project, Faulkenberg says the power of the Sun Belt came into play. "Investors saw it to be so valuable that they'll build the road for $6 billion, plus give the state a $1.2 billion check to boot. When someone will incur all the costs and give you extra money, that's the ideal situation."

No one is expecting similar results in Indiana. The Texas project includes freight and high-speed commuter railways, as well as meeting a broad range of utility infrastructure needs. The overall estimated state cost for I-69 is approximately $2 billion. A partnership could, however, significantly reduce the state's cash outlay and allow the project to proceed in a timelier manner.

Two areas of hesitation for Hoosiers – bringing the private sector into the mix and working with companies in foreign countries – are simply part of doing business in today's world, states Sharp, who worked in Brazil, Germany and China during his ALCOA career.

"The airport (in Indianapolis) is a public-private partnership. When I got here in 1990, the airport was under its own management. To a person, I think people would say the airport is better now than it was," he claims. "We need to debunk this (theory) that things go to hell when the private sector comes in, because they have this thing called profit and having to pay off equity investors."

Sharp calls home mortgages another simplistic form of a partnership as a private bank, believing the borrower will work and pay back his loan, gives the person the money up front to purchase the residence.

A little history is needed to understand why foreign companies are dominating in the transportation leasing field. "The government owned all the infrastructure; that's how the infrastructure was built throughout Europe," Sharp extols. "They found out private enterprise could run some of their infrastructure more efficiently. People with the expertise, who know what they're doing in this area, are coming this way."

Providing some answers

Faulkenberg says Major Moves has the potential to end, at least for awhile, the traditional up-and-down funding cycle. Crossroads 2000 was a bonding program that brought additional funds to the state. That was followed by a one-cent increase in the gasoline tax in 2003.

"I've felt a bit like a broken record over the years – point me at the Statehouse and I ask for money. It's an age-old problem that has been addressed on a short-term basis instead of long-term," he analyzes. In addition to the funding recommendations, he says INDOT's inclusive prioritization process in the summer of 2005 brought some certainty to an uncertain industry.

"For right now, today, all of this has to be considered a draft. It can be finalized in April (after the legislative session)," Faulkenberg asserts. "You may not like where your project ended up in the 10-year plan, but at least you know it will be

Continued on page 64

Making Major Moves

Continued from page 14

done (if the funding mechanisms are approved). That certainty and clarity is something I keep hearing from legislators."

But in the legislative world, a project scheduled for completion in 2011 seems "a lifetime away," while 2008 is "pretty close." Faulkenberg says legislators seeking an earlier time frame for a project in their district in exchange for a tough vote is not out of the question.

Sharp concurs. "That's certainly in play. But I'm pleased so far with the general willingness of people to learn more about the public-private partnerships." He adds that if solid funding mechanisms are not approved, legislators will have the difficult task of going home and explaining why a certain project is not happening at all.

Of the state's major projects, Faulkenberg labels the two new Ohio River bridges the "golden boy" as they are paid for out of the existing budget. Other major construction requires funds generated from either the leasing or tolling options.

An area to watch, he says, is the preservation budget, which he terms "pretty flat." An additional concern is the "crisis" in local funding for roads and streets.

"That's another glaring need that is out there. There is not a solution here for local roads," (which a Purdue study several years ago estimated at an additional $2 billion shortfall). We've got to take this seriously. I don't see how we can separate it (local from state efforts). It's all about economic development."

Sharp doesn't know how the next few months will play out, but he did see an encouraging sign at a Northwest Indiana transportation forum in late November. In a hand vote of approximately 600 people, nearly half approved of leasing the Toll Road and 40% agreed that the money could be spread around the state to meet infrastructure needs.

"That's pretty promising," he concludes. He thinks the message about the advantages of partnerships and foreign investments can be effective. "We just need to get around and talk to enough people."

INFORMATION LINK

Resources: Tom Sharp, INDOT, at (317) 232-5525 or www.in.gov/dot

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Kyle Hannon, Greater Elkhart Chamber of Commerce, at (574) 293-1531