

# Infrastructure Privatization: The Indiana Toll Road



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# New Administration's Problem

- Economy underperforming the U.S.
- Manufacturing-based economy
- State budget was in deficit; cash surplus from \$2B to \$500M
- Objective to transform economy
- Cash required for infrastructure improvement



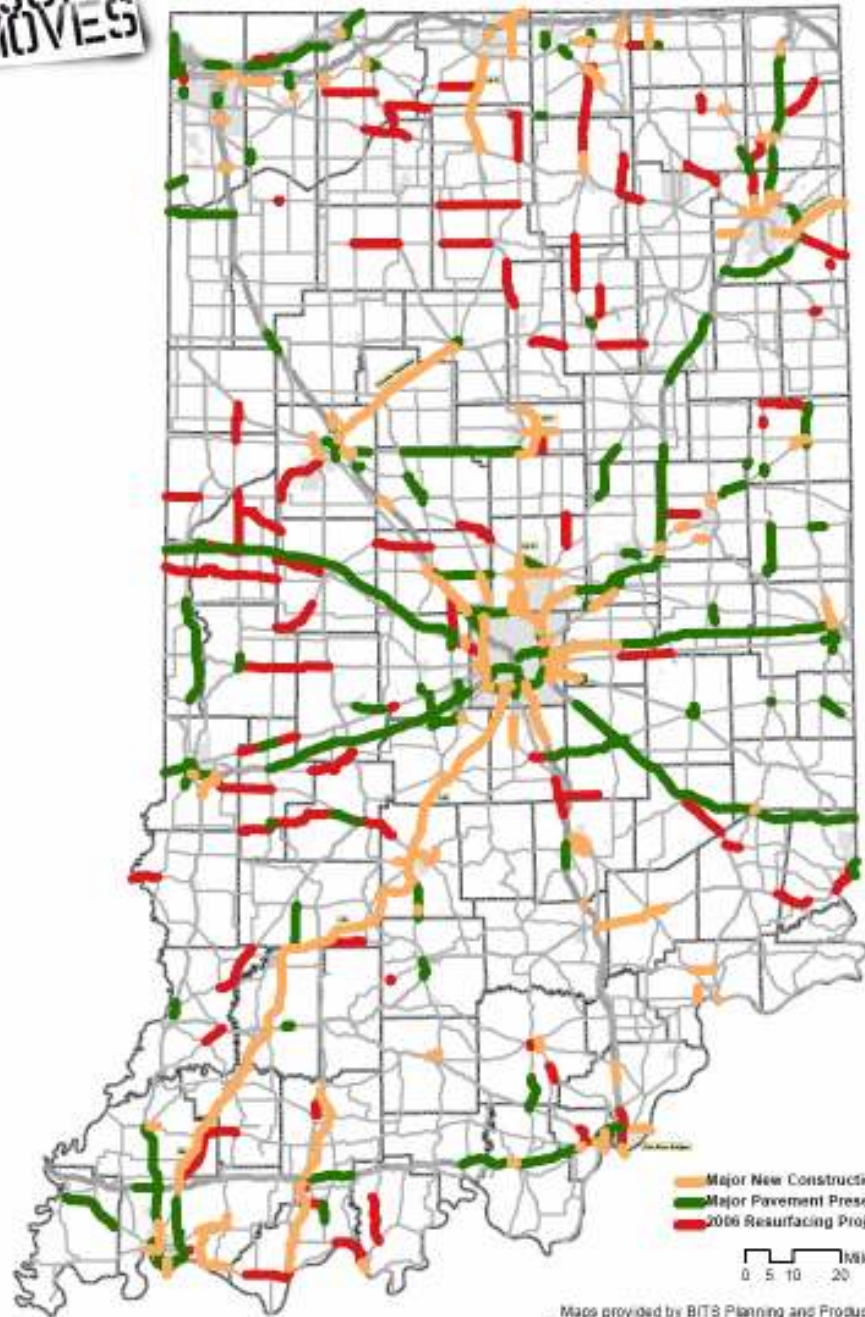
# Infrastructure Issues

- Current Indiana highway budget funded only 1/2 of priority projects
- Highway funding gap exceeded \$2.8B in current dollars
- No funding for I-69 expansion
- Indiana Toll Road lacked capital for badly needed improvement projects



MAJOR MOVES

# Major Moves Projects 2006 - 2015

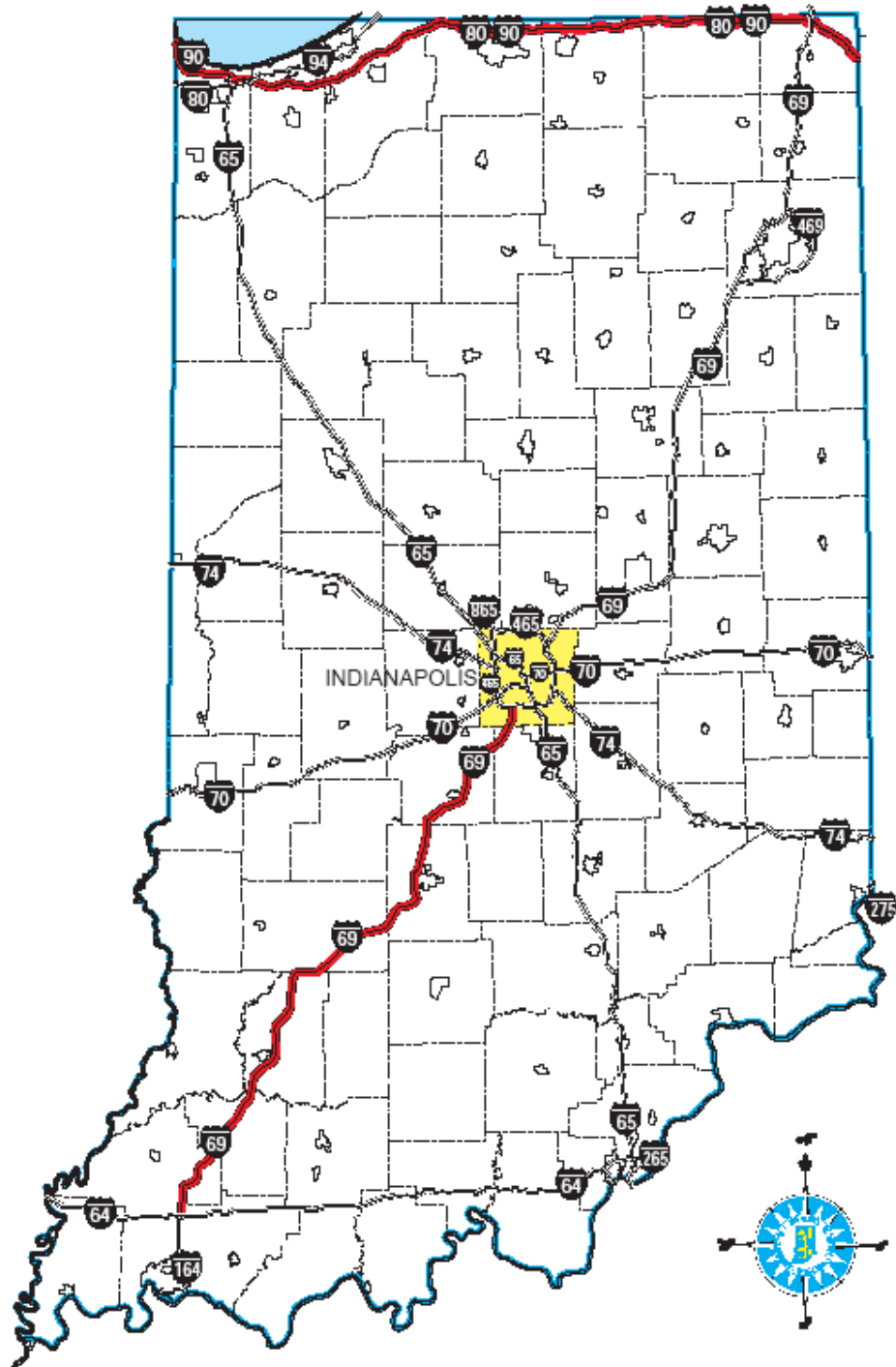


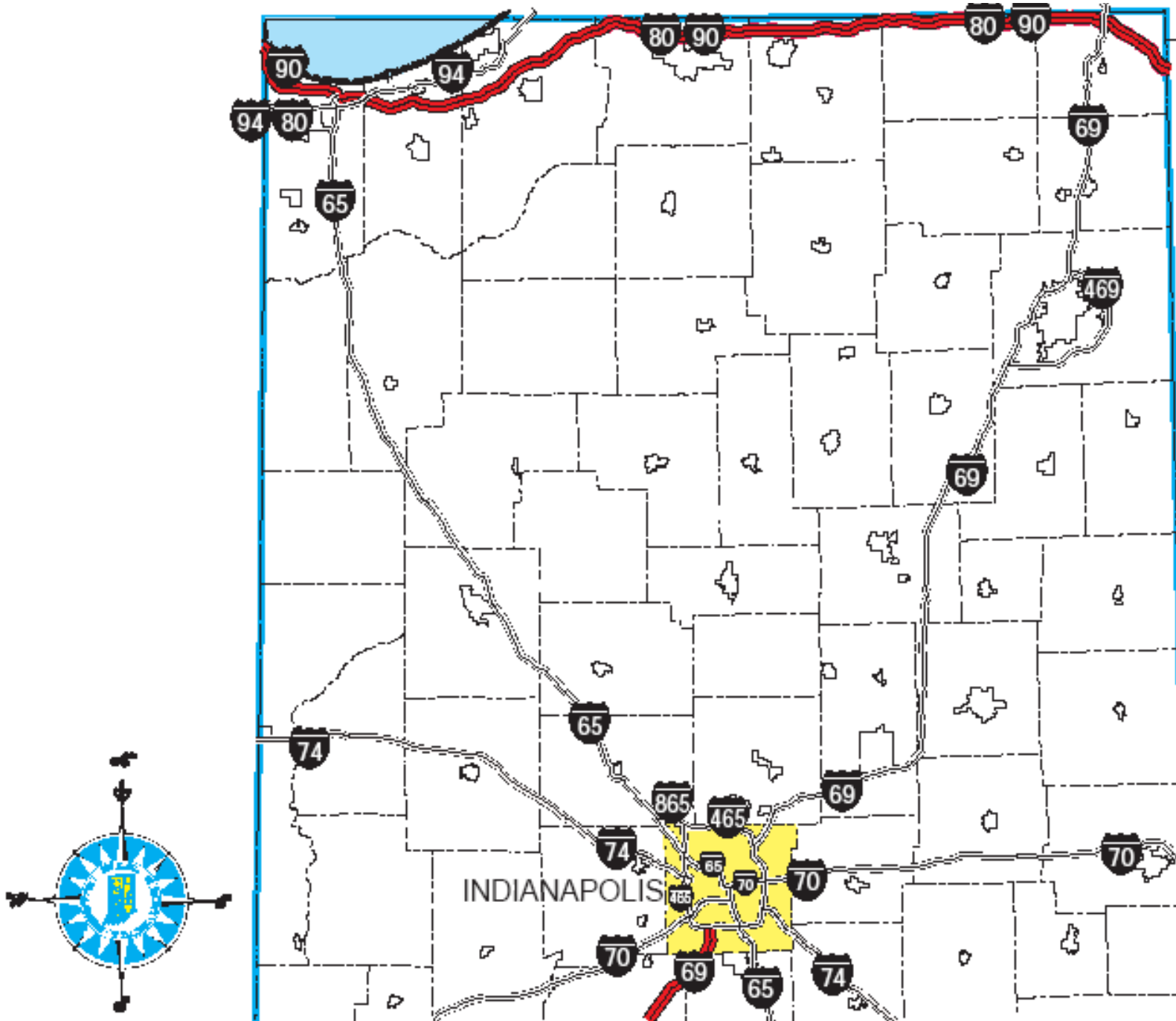
Major New Construction  
Major Pavement Preservation  
2006 Resurfacing Projects

0 5 10 20 Miles

Maps provided by BITS Planning and Production Support  
Data provided by INDOT Division of Planning and Production  
Map Printed May 2006







# Funding Plan - \$2.8B Gap + I-69

- Gasoline tax funds current highway projects
- No legislative willingness for higher state taxes
- P3 transactions – Chicago Skyway Lease
- Administration determined to explore Indiana toll road lease



# Asset Overview – Indiana Toll Road

- 157 mile, 4-6 lane toll road
- Opened to traffic in 1956
- Located along the northern border and runs the full length of Indiana
- Adjoins Indiana-Illinois state line (and Skyway) in the west
- Adjoins Indiana-Ohio state line (and Ohio Turnpike) in the east
- Designated 'I-80/90' for most of its length
- FY2005 weighted AADT of approximately 46,000 on barrier system (western end) & 25,000 on ticket system (eastern end)
- Toll rates unchanged since 1985; among lowest \$/mile in U.S.
- Significant spare capacity





# Asset Performance\* - Indiana Toll Road

FY05 toll revenue of \$88.0 million

FY05 total revenue of \$95.8 million

FY05 operating expenses of \$35.2 million

FY05 EBITDA of \$60.6 million

63.3X EBITDA margin

Over the long term, revenue growth expected to be substantially driven by toll growth rather than traffic growth.



\*Financial year ended 30 June 2005. Current and prior year financial statements available upon request.

# Toll Road Lease Process

- Began serious consideration Summer '05
- Required legislative approval
- Indiana Legislature only meets January to March '06
- Had less than 6 months to complete bid process



# Lease Process Followed

- Driven by January 10 target whether to proceed
- Selected an auction process
- Modifications:
  - Very expedited process
  - Had bidders comment on draft lease
  - Required commitment to capital improvements
  - Set traffic & operating standards
- Contacted over 100 potential participants worldwide



# Lease Process Followed (cont.)

- 117 days from Request For Qualification (RFQ) to bid opening
- 11 RFQ responses, 9 qualified, 4 bids
- Bids on one page:
  - Agree to sign provided contract
  - Include \$75M Letter of Credit
  - Fill in price
- Winning bid of \$3.85B from Statewide Mobility Partners



# Toll Road Lease Agreement Summary

- Term of the Lease = 75 years to maximize depreciation for operator and payment to the IFA.
- Operator may not sell or assign lease, or hire third-party operator of the Indiana Toll Road without the approval of the IFA.
- Operator is responsible for all costs and expenses of the Indiana Toll Road including: operation, maintenance, restoration, resurfacing, reconstruction, and tax liabilities.



# Toll Road Lease Agreement Summary

- Tolls
  - Operator will collect all tolls through the end of the lease.
  - The tolls will be locked into the current rate structure through 2010.
  - Future toll increases will be limited to the greater amount of 2%, the annual increase for CPI or the annual growth in per capita GCP.
  - Electronic Tolling must be installed at the Operator's expense within two years.



# Toll Road Lease Agreement Summary

- The 263-page Operating Standards Agreement requires the Indiana Toll Road to be maintained and operated at or above current INDOT standards.
- Areas covered include (but not limited to):
  - Safety, maintenance and repairs
  - Engineering and capital improvements
  - Traffic management and emergencies
  - Environmental issues
  - Landscaping and other matters related to operations
- Examples:
  - Removal of dead raccoon from road – 8 hours after reported
  - Snow/Ice: bare pavement within 4 hours and shoulders clear within 8 hours after storm ends
  - Pothole repair: temporary repair 24 hours after report and permanent repair within one month



# Toll Road Lease Agreement Summary

- Operator was mandated to interview all existing employees interested in employment.
- Operator shall give a hiring preference to qualified Indiana workers.
- Operator will adhere to “Buy Indiana” 90% guidelines for maintenance and construction contracts.
- Workers assured of 24 months additional service credit if close to retirement.





# Toll Road Lease Agreement Summary

- Policing
  - Indiana State police continue jurisdiction of the Indiana Toll Road.
  - Operator will pay the State \$6 million annually for the State Police, adjusted annually for inflation.
  - Operator funding allows Indiana State Police to fully staff the Toll Road with 70 officers (up from the current 45).
  - Operator will pay the State \$5 million upon closing for construction on new State Police Post and new vehicles and equipment to be used on the Indiana Toll Road.



# Toll Road Lease Agreement Summary

- Traffic Congestion
  - Operator is required to provide the IFA annual traffic and engineering studies starting in 2007.
  - Operator is required to take action to remedy congestion when approaching unacceptable levels, according to Federal Traffic and INDOT guidelines, and act proactively when forecasts show mounting problems.
  - Capital improvement projects to relieve congestion can be requested by the operator or the IFA.



# Toll Road Lease Agreement Summary

- The IFA has the right to audit information.
- Operator will pay the IFA up to \$150,000 annually to reimburse the IFA for costs incurred to oversee the Operator and make sure the road is kept up to State standards.
- Both the IFA and the Operator have the ability to terminate the Agreement if the other party breaches the Agreement.
- The State cannot construct a new controlled access highway longer than 20 miles within 10 miles of the Toll Road without compensation for lost revenue.

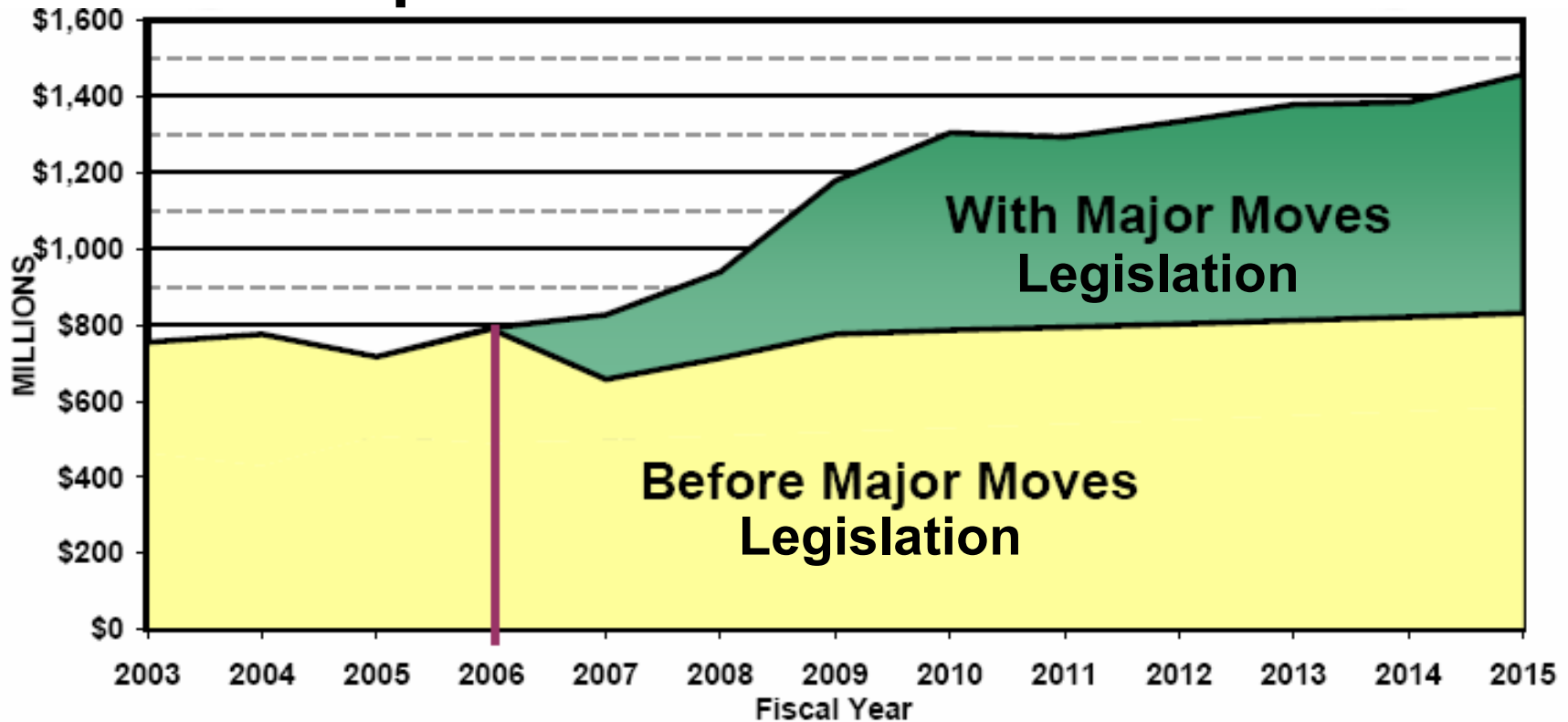


# Toll Road Operator Takes the Risk

- IFA gets to keep the cash even if the revenue does not come in as projected.
- Operator must expand the road when conditions require – INDOT must have funding.
- Operator must fund required capital expenditures.
- Operator must pay State Police, IFA, and vendors; even if income falls short.
- Operator takes risk of gasoline crisis, force majeure, or alternative transportation methods for 75 years.



# Impact of Transaction



- Record Construction Every Year
- More Than Quadruples New Construction
- Accelerates Projects by 70 Years
- \$12 Billion Highway Construction Program



# Impact of Transaction (cont.)

- 47,000 construction jobs for each \$1B spent
- Money for infrastructure to every county and city
- Indiana Toll Road capital projects expected to exceed \$4.4B during lease
- Concessionaire takes revenue risk
- I-69 and 200 other state projects built



# Conclusions / Learnings

- Existing toll roads have high market value (63x 2005 EBITDA; 38x projected first full year EBITDA).
- Currently, more market demand than supply for high quality assets.
- Indiana's 117 day process challenged bidders.
- Controlled auction process maximizes lesser value.
- Obtaining public support will be key where legislative approval required.



# Summary

This was an exceptional transaction for Indiana:

- Projected \$8.2B+ for infrastructure/roads
- Operator takes the risks
- Toll Road has been losing money
- Needed Toll Road improvements unfunded
- After 50 years of operation, \$200M still owed on Toll Road
- Indiana has the only fully funded 10-year highway plan in the country

