



Planning for Greater Akron

Leasing the Ohio Turnpike: What We Know, and What We Anticipate



An AMATS Staff Analysis



The Issue:

- Kasich administration mentioned possibility of leasing Ohio Turnpike to private company as part of budget balancing proposal
- Similar leases are for very long periods (75-99 years), with large up-front, lump-sum payment.
- Vendor operates and maintains highway and concessions; Receives rights to all tolls collected.
- Governor does not prefer long-term lease, wants to set caps on toll increases, and set payment target of \$2.4 - \$3.0 billion.

AMATS Analysis: Do the “Costs” of leasing the Ohio Turnpike outweigh the benefits?



Case Studies of Our Neighbors

Chicago Skyway

- Leased to Spanish/Australian consortium in 2004
- 7.8 mile highway leased for 99 years
- \$1.83 billion up-front lump-sum payment
 - Was first privatization of an existing toll road anywhere in the U.S. (source: www.chicagoskyway.org)



Indiana Turnpike

- Leased to Spanish/Australian consortium in 2006
- 157 mile highway leased for 75 years
- \$3.8 billion up-front lump-sum payment
 - Proceeds financed large part of “Major Moves”, the State’s 10 year transportation plan
 - Highway was not profitable prior to privatization



Benefits of Leasing the Ohio Turnpike

1. Large up-front lump-sum payment

- Could be used for projects of prohibitively high cost

2. Deal could result in operating and maintenance efficiencies

- Salary reductions – private sector employees
- Enhanced automation of tolling
- Potential efficiencies in snow plowing, ice treatment, etc.

3. Could instantly pay off Turnpike's debt

- Now stands at approx. \$600 million



Arguments Against Leasing the Ohio Turnpike

1. Trading in a profitable, long-term revenue producing asset to private entity, for a one-time windfall

- Unlike Chicago Skyway and Indiana Turnpike, the Ohio Turnpike is well managed, operated and financially self-sustaining

2. A very long-term solution to address a short-term problem

- Lump-sum payment would only address a fraction of the current deficit, yet would forego a revenue producing public asset for generations
- A solution with little correlation to the problem it's designed to address
- Would provide excuse to reduce General Fund money that would have gone to transportation in the first place – no gain (perhaps a loss?) in highway/infrastructure funding
 - Same thing happened with lottery funding to schools
 - Casino proceeds to local government funds?

Arguments Against Leasing the Ohio Turnpike

3. Roads bought and paid for by Northern Ohioans (and those doing business here) could benefit those elsewhere in the state

- Turnpike has never received federal funds
- Only state funds are a portion of the fuel taxes collected at service plaza gas stations
 - These proceeds are invested only in bridges and overpasses of state highways – not into the Turnpike itself
- Ohio Turnpike is fully funded by those who use it
- Fear that lease proceeds could be shifted to other parts of state, as occurred in Indiana
 - Administration says projects using proceeds will have a “focus on Northern Ohio”...but stopped short of saying ‘exclusively’

4. Could harm Northern Ohio transportation/logistics industry, driving them to Central or Southern Ohio

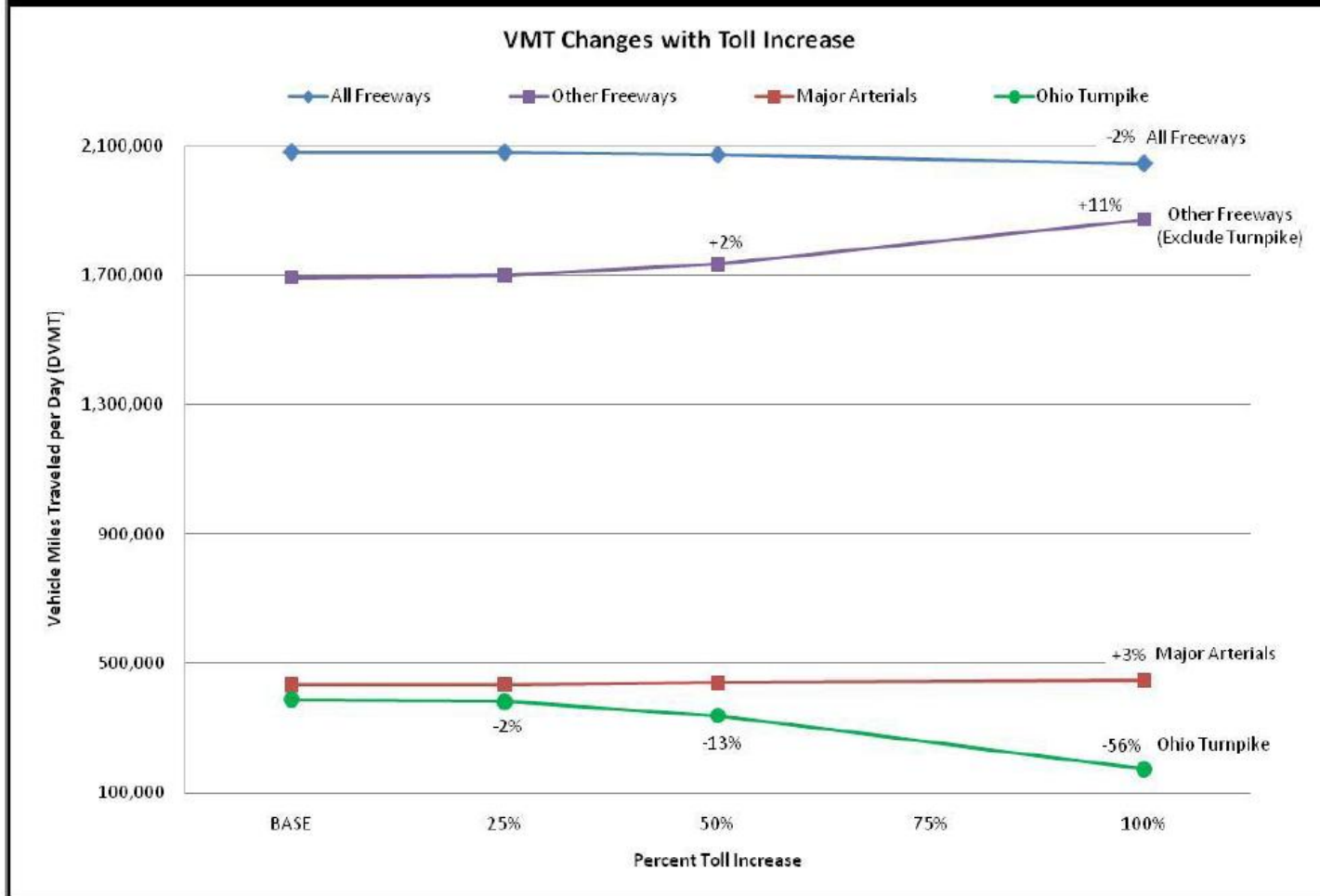
- A multi-decade lease could alter locational preferences of these companies, causing them to favor I-70, a “free” highway
- Northern Ohio could lose commerce to Columbus, Dayton, etc.

Arguments Against Leasing the Ohio Turnpike

5. Toll increases would encourage trucks and other traffic to use parallel state highways, causing increased congestion & wear-and-tear

- In all turnpike leases, tolls dramatically increased upon privatization
 - In Indiana, tolls for non-EZ Pass users doubled
 - Chicago Skyway tolls went from \$0.50 to \$2.50, and will be phased to \$5.00 by 2017
- Administration prefers caps on tolls, but would reduce up-front payment
- Research has shown that doubling the toll rate will result in 50% of Turnpike traffic shifting to non-tolled parallel routes
 - SR 303, SR 82/305, and long-haul to I-76/US 224
- Wear-and-tear on these roads would burden taxpayers, not the vendor
- Potential loss of customers does serve as a check-and-balance to limit toll increases

TOLL SENSITIVITY ANALYSIS: TRUCK



Analysis courtesy of the Northeast Ohio Areawide Coordinating Agency (NOACA).

<http://media.cleveland.com/metro/other/Ohio%20Turnpike%20Lease.pdf>

Financial Analysis

Ohio Turnpike Revenue Analysis

Operating Revenue	04 Report	09 Report	(Difference)
Tolls	\$ 189,701,000	\$ 187,278,000	
Special Toll Permits	\$ 2,750,000	\$ 2,964,000	
Concessions	\$ 13,793,000	\$ 13,616,000	
Other	\$ 1,184,000	\$ 2,058,000	
Total Operating Revenues	\$ 207,428,000	\$ 205,916,000	\$ (1,512,000)
Operating Expenses	04 Report	09 Report	
Admin & Insurance	\$ 7,982,000	\$ 8,634,000	
Maint. Of Roadways & Structures	\$ 30,957,000	\$ 35,699,000	
Services & Toll Operations	\$ 46,449,000	\$ 53,817,000	
Traffic Control, Safety, etc.	\$ 12,902,000	\$ 15,529,000	
Major Repairs & Replacements	\$ (277,000)	\$ -	
Total Operating Expenses	\$ 98,013,000	\$ 113,679,000	\$ 15,666,000
Total Profit (Loss)	\$ 109,415,000	\$ 92,237,000	\$(17,178,000)

Methodology based upon that established by David A. Ellis, Ph.D. and Ned W. Hill, Ph.D. in their 2006 report *An Analysis of the Proposed Lease of the Ohio Turnpike*. www.csuohio.edu/offices/economicdevelopment/works/turnpike.pdf

Financial Analysis

Ohio Turnpike Cash Flow Summary: What is a Fair Price?

Annual Net Revenue as of 2009:

\$92,237,000

(Source: OTC Financial Report 2009)

Annual Net Revenue vs. Up-Front Lump Sum Payment ¹

Years in Lease	Sum of Annual Net Revenue (No Toll Increase)	Fair Lump Sum Amount (NPV) at 3% Discount Rate (No Toll Increase)	Fair Lump Sum Amount (NPV) at 5% Discount Rate (No Toll Increase)	Sum of Annual Net Revenue (3% Ann. Toll Increase)	Fair Lump Sum Amount (NPV) at 3% Discount Rate (3% Toll Increase)	Fair Lump Sum Amount (NPV) at 5% Discount Rate (3% Toll Increase)
10	\$ 922,370,000	\$ 786,800,319	\$ 712,229,665	\$ 1,057,393,836	\$ 895,504,854	\$ 806,852,026
25	\$ 2,305,925,000	\$ 1,606,136,504	\$ 1,299,983,165	\$ 3,362,893,163	\$ 2,238,762,136	\$ 1,760,350,404
50	\$ 4,611,850,000	\$ 2,373,236,243	\$ 1,683,871,797	\$ 10,404,044,648	\$ 4,477,524,272	\$ 2,848,772,288
75	\$ 6,917,775,000	\$ 2,739,607,350	\$ 1,797,235,174	\$ 25,146,652,227	\$ 6,716,286,408	\$ 3,521,741,826
99	\$ 9,131,463,000	\$ 2,909,788,879	\$ 1,830,010,278	\$ 54,293,360,777	\$ 8,865,498,058	\$ 3,924,750,217

¹ Methodology courtesy of David A. Ellis, Ph.D. and Edward W. (Ned) Hill, Ph.D., as used in their report *An Analysis of the Proposed Lease of the Ohio Turnpike*. Published June 25, 2006.

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Conclusion

- Ohio Turnpike is a consistently profitable, revenue producing public asset
 - Set all-time toll receipt record of \$236M in 2010, a recessionary year
- Any lease “conditions” would reduce up-front payment
- Promises have not been historically kept
 - Turnpike was to be “returned” to taxpayers as a non-tolled road
 - Debt was once paid off, and asset was immediately borrowed against
 - Public is skeptical of long term promises
- One time payment eliminates future funding for generations
- Three ways vendor could profit from deal:
 1. Substantial increase in toll-paying traffic: not likely
 2. Raising tolls – will divert traffic to other streets/regions
 3. Reduction in maintenance expenses – everyone loses

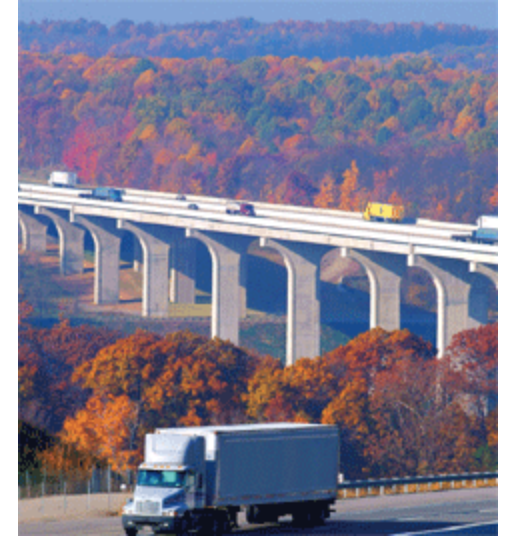




Planning for Greater Akron

Staff feels costs greatly outweigh any benefits.

Therefore, AMATS Staff is opposed to the lease of the Ohio Turnpike.



Any
Questions?

