Bottom-line view of privatizing the Toll Road

By Geoffrey Segal

Now that the dust has settled on the lease of the Indiana Toll Road, Hoosiers should be all smiles. To put it simply, Indiana got a great deal.

Last week when Macquarie-Cintra took over the road they handed the state a check for $3.85 billion. If nothing else, this will finance the ambitious 10-year transportation investment plan called "Major Moves."

Nearly half of the Indiana projects that otherwise would have been left on the drawing room table will now be completed. In all, more than 200 vital transportation projects will now be paid for.

In addition, the deal results in direct cost avoidance for the state, and on multiple fronts:

•The state was expending millions of dollars in operating and maintaining the road each year. While these costs were generally offset by toll revenue, debt obligations and capital costs often exceeded available revenues. Those costs, and associated risks, have now been transferred to the contractor. That cost avoidance allows those resources to be shifted to other priority projects around the state.

•The Toll Road faced a significant maintenance and capital backlog resulting from a lack of investment. This, too, has been shifted to the contractor and should be viewed as a direct saving to the state of Indiana.

million on capital Indeed, the contractor has pledged to spend more than $200 billion during upgrades in the first three years of the deal and upwards of $4.4 the life of the lease, bringing the total value of the lease to more than billion. $8 Further, the large cash payment enables the state to earn interest, increasing the value of the lease even more. Indeed, the state will retire more million in debt and stop paying interest, but it will begin earning than $225 interest on the cash payment while it is spent down on other transportation projects.

This is significant because the Toll Road rarely, if ever, turned a real profit when capital expenditures were included. Assuming the Toll Road did turn percent, while a profit, its return on investment would have been less than 1 debt obligations were paid at much higher percentages. Clearly, the state is better off with the cash, earning interest rather than paying it.

million in interest, In fact, Indiana can expect to earn upwards of $800 billion. bringing the value of the lease to around $9

Beyond the obvious fiscal implications, there are significant benefits to the Indiana commuter as well. The deal enables new capacity to be put in place many 69 financed and built by 2015 rather years faster. It means getting Interstate than 2035. Countless other projects will not have to wait for money to become available – it will already be there. Projects to strategically connect the state, enabling greater mobility of goods and people, will become realities.

Safety will also improve as improvements will be made to many of Indiana's rural highways.

Concerns about risk are understandable given the newness of the deal; however, Hoosiers should rest assured that the state is fully protected.

First, all of the money was paid up front. Even if there are cost overruns or billion, the concessionaire and not the inadequate revenues to justify the $3.85 state is on the hook for any losses. Taxpayers are not at risk.

Second, a detailed 263-page concession agreement protects other public interests. In it, toll rates and possible increases are established as well as limits on the return on investment for the concessionaire.

Further, it has spelled out all kinds of “what-ifs” and established well-defined performance levels that the contractor is legally required to meet or face penalty. Dead animals, for example, need to be cleared off the road within eight hours and potholes need to be filled within 24 hours. These standards often go beyond traditional Indiana Department of Transportation requirements, something that could not have been done except through a private-lease agreement.

Most important of all, the state of Indiana can revoke the contract at any time. The concession agreement and lease sets the conditions for the state to cancel the contract and resume operations of the road should the contractor fail billion payment. All risk is to perform. In any event, the state keeps the $3.85 assigned to the contractor.

All told, the lease of the Toll Road, plus the state’s 10-year investment program, will produce a windfall of benefits to Hoosiers. Indiana has become a leader on transportation policy. Other states have already taken notice and will begin to emulate many of the strategies outlined in here.

Montgomery Newspapers Jul. 05, 2006