

# **Moving Ohio into the 21st Century**

*Creative funding for tomorrow's economic foundation*

## **A Position Paper**

**February 2006**

### **Introduction**

Last year marked the 50th anniversary of the Ohio Turnpike, while 2006 marks the 50th anniversary of the Interstate Highway System. In total, these investments represent the largest public works project in world history. They have proven extremely popular and valuable in enhancing commerce and economic development within Ohio and across the nation. But both systems are showing the strains of age under decades of heavy use.

Ohio lacks the funding to adequately address their condition, a situation that is projected to worsen in the future as vehicle-miles increase disproportionately to the gas taxes generated by them. Exacerbating the problem is a lack of transportation alternatives in Ohio to share the burden. A creative, alternative funding source is needed to address these issues. This position paper poses just such a funding source.

### **The challenge**

From 1990 to 2000, vehicle miles in Ohio rose 15 percent despite a less than 1 percent increase in the state's population. Nearly half of all Ohio's roads are in poor to mediocre condition, 42 percent of urban freeways are congested, and one out of four bridges are structurally deficient or functionally obsolete, according to the American Society of Civil Engineers. Highway pavement, sub-bases, culverts and bridges are in need of costly repairs or replacement for which funding is limited. Despite a recent six-cent per gallon increase in the state's gas tax, Ohio has a 10-year road and bridge funding backlog, the ASCE noted.

Coming up with more revenue from traditional sources, such as the gas tax, will be difficult if not impossible. Indeed, gas tax revenues may in fact level off or even decline as:

- Alternative fuels become more prevalent;
- Vehicles become more fuel efficient, including the rising popularity of hybrid vehicles; and
- People limit their driving in response to higher gas prices.

Petroleum industry experts universally agree that as demand for oil keeps breaking new records, oil production will peak by 2010 (pessimistic view) or by 2035 (optimistic view). This is a particularly acute problem for the transportation sector, which accounts for two-thirds of all oil used in the U.S., with 85 percent consumed by highway vehicles, according to the U.S. Departments of Energy and Transportation.

## **Diversify Ohio's transport infrastructure**

To continue Ohio's economic expansion and to provide a catalyst for greater investment in our cities bypassed by the wealth flowing along its highways, we should not limit our transportation improvements only to more pavement. Two of Ohio's principal travel corridors, Interstate 71 and the Ohio Turnpike, have already seen their capacities increased in the most affordable way -- by filling in their medians at a total cost of \$1.9 billion. Additional capacity expansions will require more costly solutions, likely involving wider rights of way that involve earth-moving and property acquisitions.

## **Keeping Ohio on track**

The American Association of State Highway and Transportation Officials emphasized in two recent reports that highways can no longer shoulder the rising transportation burden. The former highway lobbying organization said states need to pay more attention to the resurgent railroad industry when making transport policy choices. AASHTO reasoned that public investments in freight railroad infrastructure can reduce highway and bridge expenditures as well as shippers' expenses by more than \$1 trillion nationwide over the next 15 years.

However, railroads nationwide, including in Ohio, are already stretched to the limit by a 64 percent increase in traffic growth since the industry was deregulated in 1980. Some are turning away customers for lack of capacity, forcing more heavy trucks onto our roads. Railroads are using every private lending resource available to them; to increase their capacity further will require new public support. States such as Ohio are doing just that. In Texas and California, to name two, are undertaking high-speed freight rail investments, to create routes for faster intermodal freight trains hauling containers which are easily transferred between train, truck and ship. We need to meet that challenge.

Such an integrated network in Ohio will make it more attractive for businesses to locate this state, which currently ranks near the bottom in creating new jobs. Investing in rail infrastructure is a source of good paying jobs which cannot be exported overseas. Ohio's industrial tradition made it a home of railroad track and equipment manufacturing, with more than 100 such companies still located here. Preliminary economic impact studies by the Ohio Rail Development Commission show that the state's proposed \$3.2 billion Ohio Hub System for fast freight and passenger rail services could provide a return on investment of \$14 billion in new economic activity.

## **Smarter travel in a dense Ohio**

Similarly, to increase productivity and reduce costs for travelers while providing a powerful economic development magnet in Ohio's older core cities, investments in high-speed rail are called for by AASHTO. Ohio's population density can support such an investment -- its density is the seventh-greatest in the nation and compares with that of France, home to the famous TGV rail network, according to the World Almanac. Ohio's population is aging and up to half of all

households in cities like Cleveland do not own cars, limiting both groups' ability to fully participate in the economy.

On the energy side, the Union of Concerned Scientists reports that, on a per-passenger mile basis (the travel industry standard), high-speed trains are seven times more fuel efficient than cars and five times as efficient as planes. For each dollar-per-barrel increase in the price of oil, the airline industry loses \$1 billion, the International Aviation Transport Association says.

Even before oil prices began skyrocketing in 2003, airlines were pulling out of travel markets having distances of 300 miles or less -- a market where high-speed trains excel. When linked to airports, high-speed trains can fill the void left by money-losing short-haul flights, yet provide feeder traffic to longer-haul, profitable air travel. Smaller Ohio cities like Youngstown and Mansfield, which have lost all commercial airline service, can once again regain fast access to and from global markets with high-speed rail linked to airports and major cities across the region.

Already, discussions of nontraditional transportation funding sources have begun in our nation's capital in preparation for the 2009 federal surface transportation funding reauthorization. That discussion needs to happen in Ohio as well -- sooner, rather than later. This position paper is intended to help spur such conversation.

### **Funding a 21st-century transport network**

As our nation's transportation system has matured and expanded, so has its economy and standard of living. Ohio moved from a wilderness and agricultural region to a mercantile economy along the waters of a canal system, the construction of which nearly bankrupted the state. But its benefits were ultimately repaid many-fold. Built upon that foundation was a network of railroads that made possible Ohio's industrial economy. Property taxes paid by railroads were invested by local governments to pave roads and make motoring attractive, enough so that new gas taxes were sufficient enough to build highways.

It's time to evolve Ohio's transportation system yet again, this time using our investment in 20th century travel to add a new layer of transportation and commerce in the 21st century. The question often is, how?

### **Building on Ohio's investment**

In 2004, the city of Chicago leased their 8-mile Chicago Skyway to a private consortium Statewide Mobility Partners for 99 years, generating \$1.8 billion for the city. It was the first such privatization of an existing highway in the nation. In 2006, the same consortium won a bid by the state of Indiana to lease the 157-mile Indiana Toll Road for 75 years at \$3.85 billion.

Geographically, the Ohio Turnpike is the next most logical place where such a privatization might occur. Additional leases may occur for the New York State Thruway, Pennsylvania Turnpike and other publicly owned toll roads.

Whereas Chicago used their one-time lease revenues to address a budget shortfall, Indiana Gov. Mitch Daniels plans to use their state's one-time payment solely to expand the state's highway capacity, a program called "Major Moves." Other officials in Indiana are suggesting that the state use this unique opportunity to provide a "kick-start" for a high-speed rail system.

### **Build for the next century, not the last one**

If Ohio similarly considers leasing the Ohio Turnpike, as gubernatorial candidate Kenneth Blackwell suggests it should, some of the revenues need to be invested in programs like high-speed freight and passenger rail, which gubernatorial candidate Bryan Flannery says Ohio should have.

These "off-the-road" investments can provide Ohio with many benefits:

- Be a powerful, long-term, catalytic source for thousands of non-exportable jobs (from construction, maintenance and station-area spin-off impacts);
- Increase safety by providing funding for more rail-highway overpasses, full-closure gates at grade crossings and quiet zones;
- Reduce maintenance costs on highways throughout the state by tens of millions of dollars each year;
- Lower shipping costs to/from Ohio;
- Provide a more globally accessible state by linking high-speed trains with airports;
- Reduce our dependence on foreign oil;
- Provide greater mobility for people of all incomes, physical abilities and ages.

What financial implications might exist in our state if the Ohio Turnpike were similarly leased? Consider that:

- Chicago Skyway (8 miles) generates \$45 million per year in toll and concession revenues, and was leased for 99 years in 2004 for \$1.8 billion;
- Indiana Toll Road (157 miles) generates \$90 million per year in toll and concession revenues, and was offered a 75-year lease for \$3.85 billion;
- Ohio Turnpike (241 miles) generates more than \$200 million per year in toll and concession revenues.

Blackwell estimates the Ohio Turnpike might be leased for as much as \$6 billion. Turnpike revenues were used by the private Statewide Mobility Partners consortium to acquire a loan to pay their lease. A similar calculation for the Ohio Turnpike's revenues suggests the toll road and its concessions might be leased for a one-time payment of \$8 billion (75-year lease) to \$8.5 billion (99-year lease). For the sake of conservatism, this paper will use the \$8 billion figure.

### **Spending for the future**

It may be tempting to use such a large shot in the arm to pay for a wide variety of state-funded services, such as what happened to the state's share of the tobacco lawsuit settlement. But some

of those expenditures tended to increase the state's operating costs over the longer term without increasing the tax base.

A turnpike lease payment should be limited to transportation infrastructure investments and, further, be allocated where the state would reap these long-term fiscal benefits:

- ◆ Acknowledges the obsolescence of wholly depending on gas taxes in the future for maintaining roads;
- ◆ Reduce costs for highway maintenance, pavement repairs from heavy trucks, and other state operating costs by promoting investments in privately managed freight rail infrastructure;
- ◆ Reduce pressure for more gas taxes by limiting highway capacity expansions that can't be afforded;
- ◆ Reduce the backlog of road reconstruction projects;
- ◆ Enable private enterprise to operate transportation services more efficiently;
- ◆ Attract and retain employers in Ohio, thereby expanding existing, local and state tax bases;

### **Proposed uses of lease payment**

To meet the previously mentioned fiscal goals, this paper proposes distributing the \$8 billion in the following manner:

- Road/bridge reconstruction in Ohio's 17 metropolitan planning areas <sup>1</sup> . . . . . \$3.5 billion
- Develop the Ohio Hub System (high-speed freight and passenger rail) <sup>2</sup> . . . . . \$2.5 billion
- Create interest-bearing state fund for urban/rural transit/jobs access <sup>3</sup> . . . . . \$1 billion
- Rural road safety improvements and reconstruction (non-MPO counties) <sup>4</sup> . . . . \$500 million
- Short-line/regional railroad track and bridge improvements <sup>5</sup> . . . . . \$500 million

#### NOTES:

1 - This amount is proposed to be distributed to each of the state's 17 metropolitan planning organizations for projects awaiting as-yet uncommitted state funding in each MPO Transportation Improvement Plan. This will free up future ODOT revenues from traditional sources (ie: the gas tax) for additional projects, thereby increasing the total funding available for roads. Projects outside of Ohio would be ineligible.

2 - Funding would apply to only administration, engineering, property acquisition, construction and startup costs within Ohio as identified by the Ohio Rail Development Commission's Ohio Hub System plan, and further clarified by environmental analysis and preliminary engineering. State funding would comprise up to 80 percent of costs within Ohio, with the remainder provided by local, private and federal sources.

3 - This would provide for Ohio a stable, long-term funding mechanism for transit, rather than depend on the state's biennial budget process. State budgetary constraints resulted in cutting ODOT's Public Transit Division funding from \$43.35 million in 2001 to \$16.3 million in 2006. At current interest rates, the \$1 billion could yield up to \$45 million annually for ODOT's Public Transit Division. That amount could be augmented by the state budgetary process, or the state

may choose to reallocate funds previously committed to transit through the biennial budget to other needs.

4 - Funding would be distributed to ODOT districts having counties in non-MPO areas, and be distributed to those non-MPO counties using a per-capita formula. This will free up future ODOT revenues from traditional sources (ie: the gas tax) for additional road projects, thereby increasing the total funding available for roads.

5- This amount would be released to the Ohio Rail Development Commission for application by companies defined as short-line/regional railroads for track, bridge and related right-of-way capital improvements within Ohio. ORDC may choose to invest the amount to expend the interest to make grants and/or low-interest loans in conjunction with other public or private contributions.

## **Discussion**

While the state would retain ownership of the Ohio Turnpike indefinitely, its management would be privatized under the scenario posed in this paper. The turnpike is in excellent condition, having just completed a \$1.4 billion reconstruction of its right of way, service plazas and support facilities. The Ohio Turnpike Commission also achieves a small operating surplus. When a government owned transportation service is able to achieve such success, it is usually turned over to the private sector. From various political standpoints, there are arguments for and against such a move. They are presented here.

*A conservative's argument: Won't leasing the Ohio Turnpike cause tolls to increase?*

*A conservative's response:* It shouldn't, since private enterprise is more efficient than government and the turnpike already generates an operating surplus on the lowest highway tolls in the country. Legislation would have to be passed to permit the lease, and that legislation can include performance standards and possible penalties for the private operator.

Furthermore, it's ironic that communist China is building an all-new interstate highway system financed by tolls under privatization agreements while capitalist America continues to use governmental processes to build, maintain and operate highways. Ohio should wisely invest the lease revenues by improving privately owned railroad rights of way to relieve traffic pressure on and truck damage to other government-owned highways -- all without raising taxes.

*A liberal argument: Infrastructure is a government responsibility, not a private one.*

*A liberal response:* The state will continue to own the Ohio Turnpike. Plus, the revenues from leasing it will provide more investment in energy efficient, environmentally friendly rail and public transportation modes that will provide mobility for people of all incomes, ages and physical abilities. That will also provide greater economic opportunities for urban residents and serve as a magnet for jobs and economic development in core cities.

*A motorist's argument: Why should turnpike revenues be used to pay for non-highway uses?*

A motorist's response: Under this report's proposals, all of the \$8 billion would be used for transportation investments that benefit motorists, paid from a loan leveraged by the turnpike's private operator. In fact, half of it would be used specifically for better roads and free up future ODOT revenues from traditional sources (ie: the gas tax) for additional road improvements.

Also, by increasing the capacity of railroad infrastructure, railroads would no longer have to turn away business that ultimately ends up in heavy trucks that motorists have to share space with and which damage the roads they use. Motorists faced with higher gas prices would now have a lower-cost choice in how they travel with a statewide network of fuel-efficient high-speed trains available.

*A trucker's argument: I don't like the idea of my turnpike tolls being used to benefit freight railroads.*

A trucker's response: My employer already has a hard time hiring enough drivers to meet demand. They put more of their trucks and containers on trains to better utilize drivers, keep drivers closer to home and to save the company money on costs, especially labor and fuel.

*A private bidder's argument: Why should my company bid to operate the turnpike when the lease payment may be used to boost my competition?*

The state's response: Of the turnpike's total revenues, 85 percent are from tolls. Of that about 55 percent is from commercial vehicles, namely trucks. A few percentage points of that -- primarily heavier, pavement-damaging, less time-sensitive truck traffic -- is likely to shift to rail. The revenue impact on the turnpike will be very small.

Of the passenger traffic, less than five percent is likely to shift to rail, as more than 70 percent of the high-speed rail investments under the Ohio Hub System plan will be in travel corridors that don't parallel the turnpike. However, the state bid could be adjusted downward slightly to reflect the projected traffic diversions to rail.

## **Conclusion**

Ohio can dramatically improve and diversify its transportation system, which makes it less vulnerable to external influences, such as rising costs of energy, weather and man-made emergencies, including terrorism. Since transportation, like banking and communications, is a cornerstone for any economy's foundation, it's important to have a well-rounded, balanced network for moving people and their goods.

For Ohio to gain an interconnected transportation means people can easily transfer from car to train to urban transit or plane, or a container of freight can shift from truck to train to plane or ship, allows each mode to do what it does most efficiently. That translates into reduced costs and

enhanced convenience for travelers and shippers, making Ohio a more attractive place to live, visit and do business.

Using Ohio's 20th century transportation investments to build for the 21st century is the most catalytic and cost-effective job-creation program the state can undertake. That kind of approach is how successful businesses and responsible governments maximize their resources for future growth and stability. We hope state legislators, administrators, constituents and others seriously consider this approach for the sake of Ohio's economic future.

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