

INFRASTRUCTURE CASE STUDY:

Indiana Toll Road

SUMMARY

PROJECT TYPE	YEAR	DEAL STRUCTURE
Toll Road	2006	Long-term operating lease

TOTAL COST

\$3.8 billion payment to the state

FINANCING

Private equity and senior bank debt

FUNDING

User-paid toll

PUBLIC BENEFIT

Significant upfront payment to the state and long-term maintenance of the roadway



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Background

Located on the northern edge of the state, the Indiana Toll Road (ITR) was privatized in an agreement between the State of Indiana and the ITR Concession Company (ITRCC) LLC., owned by Spanish infrastructure company Ferrovial SA and Australian investment bank Macquarie Group Ltd. In the agreement, the ITR, a 157-mile east-west toll road that directly connects the Chicago Skyway to the Ohio Turnpike was leased to the concessionaire for a period of 75 years.

Project Description

In 2006, Macquarie subsidiary and Ferrovial affiliate Cintra Infraestructuras (an international toll road operator) paid \$3.8 billion to the State of Indiana for the right to operate the road for 75 years. The winning bid brought in twice the value that state-paid consultants had calculated for the lease, state records show.

Lower-than-anticipated use of the road resulted in insufficient toll revenue to service the company's debt. Even though earnings increased yearly from 2008 to 2013, they were lower than projected, forcing the company to devote an ever-greater share of operating income to debt service. The significant increase in debt, largely due to the financial structuring used, caused bankruptcy for the private consortium. The original financing package was structured as a nine-year, interest-only bullet loan hedged with a 20-year accreting interest rate swap whose rates were preset at 3 percent to 11.3 percent by 2023. While revenue and operating cash flow improved substantially from 2006 to 2011 and traffic patterns were stable, total project debt nearly doubled, from \$3.4 billion at acquisition to \$6.0 billion in 2011, a consequence of declining interest rates creating mark-to-market losses on the swap. This prevented an early refinancing from happening and increased the project's debt load and effective interest cost. In September 2014, ITRCC announced it had filed for Chapter 11 bankruptcy protection from creditors, and that a sale process for the asset would commence. On March 11, 2015, IFM Investors announced that it had entered into a purchase and sale agreement for \$5.7 billion for the right to operate the Indiana Toll Road and collect toll revenue. IFM inherits the remaining 66 years of the Concession Lease Agreement.

Benefits and Criticisms

The privatization of the ITR overcame intense critique from citizens, who worried that the "prospect of transforming a 50-year-old public road into a profit-making entity." In addition, the political opposition argued that the deal would just "outsource profits." Then-Governor Mitch Daniels defended the deal, stressing the importance of attracting foreign investment to help create jobs and wealth in the state.

In the end, no public employees lost their jobs. All of the public employees were adopted by ITRCC or other state departments without reducing compensation or pensions. Further, the sale process had little to no impact on the customer experience.

Takeaways

There are key lessons to be learned from this project. First, efforts should be made to ensure accurate projections of the revenue stream; however, this case also reflects the difficulty of making projections. Second, contingencies should be made for setbacks like an economic recession. Third, the downfall of the first private partner did not hurt the public interest. The public benefited from the initial overpayment, and the road remains available for public use.

Endnotes

1. Sara Randazzo and Patrick Fitzgerald, "Indiana Toll Road Operator Files for Bankruptcy," Wall Street Journal, September 22, 2014. <http://www.wsj.com/articles/indiana-toll-road-operator-files-for-bankruptcy-1411395866>.
2. Ibid.
3. Angie Schmitt and Payton Chung, "The Indiana Toll Road and the Dark Side of Privately-Financed Highways," StreetsBlog USA, November 18, 2014. <http://usa.streetsblog.org/2014/11/18/the-indiana-toll-road-and-the-dark-side-of-privately-financed-highways/>.
4. Michael Bathon, "Indiana Toll Road Seeks Bankruptcy as Traffic Declines," Bloomberg, September 22, 2014. <http://www.bloomberg.com/news/articles/2014-09-22/indiana-toll-road-seeks-bankruptcy-as-traffic-declines>.
5. Michael Cembal, JP Morgan Investment Insights, "The road not taken: pitfalls and opportunities in infrastructure investing," 2014. https://am.jpmorgan.com/blobcontent/913/816/1383181077005_11_1135_IE_4-22-14_WP_RoadNotTaken.pdf.
6. Ibid., Exhibit 13.
7. Ken Daley, "Indiana Toll Road CEO's Message," EZPassin, 2016. <http://www.ezpassin.com/ceos-message-2/>.
8. Theodore Kim, "Indianans suspicious of toll road deal," USA TODAY, February 26, 2006. http://usatoday30.usatoday.com/news/nation/2006-02-27-indiana_x.htm.
9. Ibid.
10. Ibid.
11. Robert Puentes and Patrick Sabol, "The Indiana Toll Road: How Did a Good Deal Go Bad?," Brookings Report, October 9, 2014. <http://www.brookings.edu/research/opinions/2014/10/09-indiana-toll-road-puentes-sabol>.



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1225 Eye Street NW, Suite 1000 | Washington, D.C. 20005

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