



## Making the Case for Public-Private Partnerships in Illinois

FEBRUARY 2006

### Executive Summary

*To keep the Chicago area competitive, our rails, roads and airways need regular investment in their maintenance and sensible expansion. However, without money to nourish the system, the whole region weakens. Recent passage of federal legislation to finance transportation improvements in Illinois and around the country provides a much needed funding infusion. But even with the new federal dollars, the state and northeastern Illinois still lack the money to complete critical transportation improvements.*

*Given our troubled budget climate, Business Leaders for Transportation urges the State of Illinois to use Public-Private Partnerships aggressively to build and maintain vital transportation infrastructure. Specifically, we recommend that, in the 2006 legislative session, the state adopt legislation that would enable Partnerships to play a strong role in transportation investments. Chicago's Skyway transaction and numerous other national and international projects have shown that Public-Private Partnerships are a sound method for building and maintaining vital transportation infrastructure. Creative use of private capital can minimize the need for governments to raise new revenue and take on new debt, thus freeing up limited resources for other priorities.*

*To illustrate their viability, Business Leaders for Transportation conducted an evaluation of Public-Private Partnerships using the proposed Elgin-O'Hare Extension/O'Hare Bypass project as a case study. Our preliminary analysis demonstrates that a Public-Private Partnership for this project could generate sufficient toll revenues to attract private investors at a level that would finally make the long-desired project achievable.*

Since the late 19th century, railroads, waterways, public transit, and roads have helped catalyze economic growth in our region. Ongoing investment in critical transportation infrastructure has been essential to metropolitan Chicago's emergence and continued status as a leader in the national economy and as a global transportation hub.

To make the region work and maintain our position as a global commerce center and tourism destination, we must be prepared to invest in the transportation systems that have made us so successful.

#### **The Fiscal Crunch**

The combination of current funding methods is not sufficient to fully maintain the

existing transportation system, let alone keep pace with increased demands. Money is scarcer at every level of government, and critical sources of transportation funds are not keeping pace with needs.

State motor fuel taxes have not matched inflation, and have lagged increased highway use by 20 percent since

### *Public Private Partnership Committee*

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*John Gates, Former Board Chair, Metropolitan Planning Council*

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1990. Overall, state and local governments have increased their reliance on general sales, income and property taxes to fund transportation, because the traditional sources of funding are not keeping up with demand.

The State of Illinois has not dedicated funds to invest in infrastructure since Illinois FIRST expired in 2004. Approved by the governor and General Assembly in 1999, Illinois FIRST dedicated funds over five years to update infrastructure, including \$6 billion for railways and roads. This commitment helped secure federal transportation funding that would have been unavailable without the state matching funds. As impressive as Illinois FIRST was, by June 2004, the funds were exhausted, and the state has limped along without a capital funding program for the past two years. Without a new source of revenue, the state does not have sufficient funds to maintain the existing system, much less pay for needed new service or match funding that Congress has authorized for many new projects.

The Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), passed by Congress last summer, included substantial increases in federal funding for Illinois public transportation, roads and bridges through 2009. Federal funding certainly helps, but it will not be enough to meet all of the region's transportation needs. In addition to providing general funding to maintain and rebuild roads and transit, SAFETEA-LU "earmarked" funding for a large number of specific projects. But SAFETEA-LU money is no guarantee that projects will ever be built. In many cases, projects authorized in SAFETEA-LU include no construction funding or only a small portion of the total project cost, leaving the state and local governments to raise funds to complete them.

In short, the Chicago region currently has insufficient state, federal and local funding to complete needed transportation system improvements, expand service, or launch federally authorized projects. New funding sources must be developed to guarantee a long-term, viable solution to funding our infrastructure needs.

**Federal Funding: Just a Small Piece of Pie**

Illinois' congressional delegation was able to secure dedicated funding for a number of significant projects in the most recent federal transportation bill, but there is no guarantee that they will be built because state and regional agencies do not have the funds to complete them. In many cases, projects authorized in SAFETEA-LU include no construction funding or only a small portion of the total project cost, leaving the state and local governments to raise funds to complete them.

**Examples:**

- \$100 million for the **Chicago Regional Environmental and Transportation Efficiency plan (CREATE)** to improve road and commuter rail networks by decreasing freight rail bottlenecks in northeastern Illinois. **Projected cost: \$1.5 billion**



- \$25 million for the completion of the **Wacker Drive Reconstruction Project**. **Projected cost: \$350 million**
- \$140 Million for the **Elgin-O'Hare Extension/O'Hare Bypass**, which includes extending the current Elgin-O'Hare Expressway east of I-290 to O'Hare Airport, and creating a new toll road connecting the western side of O'Hare with I-90 to the north, I-294 to the south, and I-290 to the west. **Projected cost: \$1.345 billion**

### An Innovative Solution

Public-Private Partnerships can fill the funding gap. Given the tremendous capital shortfall in addressing the future development and maintenance of our transportation infrastructure, the State of Illinois must actively pursue innovative funding solutions. One such innovative approach, common in Europe, Canada, South America, Asia, and Australia is to create Public-Private Partnerships. Partnerships can take many forms. Sometimes, they involve attracting private sector capital, raised in the debt and equity marketplace, to replace or fill the gap left by public funding shortfalls. Partnerships can also take the form of long-term operating and maintenance contracts that transfer risks and costs to the private sector. Many types of infrastructure assets have been funded utilizing the Partnership concept, both new projects and upgrades or enhancements to existing infrastructure.

Mayor Richard M. Daley and the Chicago City Council implemented the first Partnership of its kind in the United States by leasing the Chicago Skyway to a private company for 99 years. This transaction provided \$1.83 billion for the City of

Chicago, and has spurred the consideration of similar proposals in Indiana, Delaware, and many other states. But Illinois remains hindered by its failure to pass legislation enabling Public-Private Partnerships, even though other states are rapidly adopting such legislation.

Aside from the successful Chicago Skyway agreement, Public-Private Partnerships have successfully financed numerous infrastructure improvements around the world. In Italy and Australia, the majority of toll roads are owned by the private sector.<sup>1</sup> The public, government and private sectors support Partnerships in those countries because they serve everyone's interests. By combining resources and incentives and sharing risks between the public and private sectors, the public's needs can be served while a large portion of the costs are absorbed by the private market.

### Legislation Needed

The U.S. Dept. of Transportation has recently taken administrative action that will make it easier for states to move forward with Partnerships. States that have approved legislation authorizing Partnerships are now better positioned to take advantage of federal

incentives to use Public-Private Partnerships for maintenance and new construction of their infrastructure. As of February 2004, 23 states — not including Illinois — have enacted legislation that would allow Partnerships to be used for transportation infrastructure.<sup>2</sup> As a result, the list of Public-Private Partnership projects in other states is growing, and includes projects like Minnesota's Hiawatha Light Rail, Colorado's E-470 Tollway, New Jersey's Hudson-Bergen Light Rail, Nevada's Las Vegas Light Rail, Massachusetts Route 3 North, Virginia's Dulles Greenway and Pocahontas Parkway, California's SR 125, and Alabama's Folly Beach Express.

Business Leaders for Transportation urges Illinois to move forward aggressively by adopting legislation authorizing Partnerships to play a role in transportation investments. Public-Private Partnerships are a sound method for building and maintaining vital transportation infrastructure while minimizing the need for additional public revenue, lessening the need for new hefty debt, and freeing up limited resources for other priorities. Public-Private Partnerships can help deliver the quality

multi-modal transportation infrastructure that the public needs despite current funding challenges. Business Leaders for Transportation looks forward to the valuable impacts Partnerships will have on the future of Illinois' transportation network.

### Footnotes

<sup>1</sup> The Heritage Foundation, 2005. Retrieved February, 2005, from [www.heritage.org/Research/SmartGrowth/tsto60704a.cfm](http://www.heritage.org/Research/SmartGrowth/tsto60704a.cfm)

<sup>2</sup> U.S. Dept. of Transportation, Federal Highway Administration, 2005. Retrieved February, 2005, from [www.fhwa.dot.gov/Partnership/legislation.htm](http://www.fhwa.dot.gov/Partnership/legislation.htm)

## Case Study: Elgin-O’Hare Extension/O’Hare Bypass as a Public Private Partnership

To illustrate the potential of a Public-Private Partnership to finance transportation improvements in Illinois, Business Leaders for Transportation has analyzed the feasibility of attracting private sector funding to accelerate the construction of the Elgin-O’Hare Extension/O’Hare Bypass project. The expressway — included in the long-range plans of the Chicago Area Transportation Study, Northeastern Illinois Planning Commission, DuPage County, Chicago Metropolis 2020, O’Hare Modernization Plan, and other planning bodies for many years — would extend the current Elgin-O’Hare Expressway east of I-290 to O’Hare Airport and create a new toll road connecting the western side of O’Hare with I-90 to the north, I-294 to the south, and I-290 to the west. In 2004, the Illinois State Toll Highway Authority approved a 10-year, \$5.3 billion capital plan that commits \$139 million to fund a portion of the cost to construct the O’Hare Bypass piece of the project. Congress has helped by earmarking \$140 million in federal funding for the project as part of SAFETEA-LU.

Given the relative consensus among political leaders and the great amount of study the project has received from the Ill. Dept. of Transportation (IDOT), Illinois Toll Highway Authority, and others, detailed engineering and construction of the expressway could move forward quickly after the state secures full funding. IDOT has secured most of the land right-of-way for the Elgin-O’Hare Extension. At this point, the major impediment to breaking ground is the lack of adequate funding for this \$1.345 billion project.

The lack of adequate funding has become especially problematic in the last few months as plans for the expansion of O’Hare Airport have moved rapidly

forward, albeit with a noticeable lack of clarity around western access. Transportation infrastructure west of O’Hare is a key part of modernizing the airport. It is expected that once the modernization program begins in earnest, even more businesses that depend upon access and proximity to the airport will locate to the west. The development of a transportation link will provide the backbone for significant economic growth that will occur around O’Hare and benefit all of northeastern Illinois.

Business Leaders for Transportation compiled and analyzed several critical variables to assess the feasibility of attracting private sector debt and equity to fund the Elgin-O’Hare

Extension/O’Hare Bypass: construction cost of the project, status of environmental approvals, expected duration of the construction, commercial and passenger vehicle traffic expected to use the new highway, and potential revenue generated from tolls. Using these data, the study team developed a range of private capital that could be attracted based on similar projects.

Business Leaders researched and updated the projected construction cost of the various expressway options (Table 1). In addition, the coalition retained the firm of Vollmer Associates LLP to project traffic counts and associated revenues assuming several toll options (Table 2). This analysis, assumes the

### A Public-Private Partnership for the Elgin-O’Hare Extension/O’Hare Bypass – the Sensible Solution

#### Give people what they want

The Elgin-O’Hare Extension/O’Hare Bypass has been widely supported for many years due to its more direct connection to O’Hare and beyond, as well as its potential to improve freight movement and support business development around the airport.

#### Create jobs and expand the local economy

The construction, maintenance and management of the road will create both temporary and permanent jobs for Illinois residents. It will also expand travel choices, improve freight movement, and create new opportunities for business investment.

#### We can’t build it any other way

Though the expressway has been on the region’s wish list for many years, Illinois hasn’t been able to afford to build it using public money or current tolls. We’re unlikely to be able to afford it in the foreseeable future without the use of a Public-Private Partnership.

**TABLE 1: Project Cost (2006 dollars)**  
*(Key assumption - Elements not shown are paid by others or not done)*

	<b>O'Hare Bypass (North Segment)</b>	<b>O'Hare Bypass (South Segment)</b>	<b>Elgin-O'Hare Extension</b>	
<b>Major Items</b>	a) West Bypass Mainline (2.82 miles) b) New Interchanges at I-90 and Touhy Avenue	a) West Bypass Mainline (3.83 miles) b) New Interchanges at I-294, York, and Elgin-O'Hare	a) Extension Mainline b) New Interchanges at I-290/IL 53 Prospect Ave., Wooddale Road, IL 83	<b>Totals</b>
Construction	\$250,000,000	\$400,000,000	\$350,000,000	<b>\$1,000,000,000</b>
Utility Relocations	\$38,000,000	\$60,000,000	\$46,000,000	<b>\$144,000,000</b>
Right-Of-Way*	-	\$56,000,000	-	<b>\$56,000,000</b>
Phase I Engineering	\$7,500,000	\$12,000,000	\$10,500,000	<b>\$30,000,000</b>
Design Engineering	\$15,000,000	\$24,000,000	\$21,000,000	<b>\$60,000,000</b>
Construction Engineering	\$22,500,000	\$36,000,000	\$31,500,000	<b>\$90,000,000</b>
<b>BASE SUB-TOTAL</b>	<b>\$333,000,000</b>	<b>\$588,000,000</b>	<b>\$459,000,000</b>	<b>\$1,380,000,000</b>
Add 3 Toll Plazas	\$25,000,000	\$25,000,000	\$25,000,000	<b>\$75,000,000</b>
<b>FUNDED BY OTHER SOURCES</b>				
York Road Interchange	\$0	(\$60,000,000)	\$0	<b>(\$60,000,000)</b>
Touhy Avenue Interchange	(\$50,000,000)	\$0	\$0	<b>(\$50,000,000)</b>
				<b>\$1,345,000,000</b>

\* Other segments assumed donated; valued at \$3,000,000

Source: O'Hare Bypass with Elgin-O'Hare Extension Systems Planning Study, 12/1997

mid range toll rate of \$.80 I-PASS and \$1.60 cash, lower than the Chicago Skyway. (Though these toll rates are higher than current adjacent toll road rates, by 2011 — when the roads would first open — these rates are expected to be consistent with rates on the rest of the Illinois' toll roads.) Finally, industry benchmarks were used to determine the amount of private debt and equity a Partnership would command on the market (Table 3).

**Key assumptions in the Business Leaders study included the following:**

**1. Construction Cost: \$1.345 billion** - Traffic planners have well-documented cost estimates for the expressway in numerous reports associated with the O'Hare Modernization Project, IDOT, and the Illinois Tollway Highway Authority. Assuming tolls will be a necessary component, the cost for toll plazas was added to these estimates. All but \$56 million of the right-of-way bulk of

which is publicly owned, is assumed donated. The total estimated project cost in 2006 dollars is \$1.345 billion.

**2. Toll Revenue Projection: \$148 million per year by 2030** - Once the expressway opens to drivers, assuming five years of construction, daily traffic volumes would top 65,800 cars. This traffic estimate means that, with a toll of \$.80 I-PASS and \$1.60 cash per car, the expressway would generate over \$33 million in its first year.

(Again, these toll estimates are higher than current toll road rates, but are expected to be in line with Illinois toll road rates in 2011, when the roads would open.)

Revenue will steadily climb as traffic volumes increase along with regional population and economic development growth, and as toll rates increase based on the Consumer Price Index (see Table 2 for toll estimates and Appendix I for traffic assumptions). In five years, the traffic volume is expected to increase to more than 132,000 cars per day, gen-

**TABLE 2: Traffic and Revenue Estimates**

Assumption: Traffic to and from the local streets do not pay to access airport<sup>3</sup>

Year	Total Daily Transactions (000s)	Total Annual Revenue \$1.60 toll (millions)
2011	65.8	\$33.08
2012	85.6	\$42.81
2013	106.0	\$52.73
2014	120.5	\$65.21
2015	132.0	\$71.05
2016	137.4	\$73.54
2017	140.1	\$81.11
2018	145.8	\$83.94
2019	151.1	\$86.53
2020	152.7	\$95.68
2021	157.7	\$98.23
2022	162.8	\$100.86
2023	164.3	\$110.83
2024	169.6	\$113.77
2025	175.2	\$116.81
2026	177.1	\$127.85
2027	182.8	\$131.24
2028	188.1	\$134.19
2029	189.7	\$145.54
2030	194.3	\$148.23

Source: Vollmer Associates LLP

See Appendix I for a complete list of assumptions for traffic and revenue model.

**TABLE 3: Revenue and Cost Comparison**

Revenues	\$millions
SAFETEA-LU	\$140
Toll Authority	\$139
Private financing	\$905
Other public funds	\$161
Subtotal	\$1,345
Costs	
Total Project Cost	\$1,345

erating \$71.05 million in revenue; by 2030, traffic volume is expected to increase to over 194,000 cars per day, yielding \$148 million.

**3. Estimate of Potential Private Capital: \$905 million** – In late 2004, the Chicago Skyway transaction attracted \$1.8 billion from the private debt and equity markets. Several months ago, the new owners of the Skyway refinanced and raised \$1.1 billion from global debt markets. While these figures may be higher than what could be attracted given the additional construction risks of the “greenfield” Elgin-O’Hare Extension/O’Hare Bypass, they do serve as a reliable benchmark given the remarkably similar revenue-generating capability of the Skyway and the

expressway. Using other recent Public-Private Partnership transactions of similar roadways in the U.S. and Canada, Business Leaders conservatively estimates the Elgin-O’Hare Extension/O’Hare Bypass has the potential to generate an estimated \$905 million in private equity. Factoring in \$140 million from the federal transportation bill and \$139 million from the Toll Highway Authority, and excluding potential revenue from ancillary sources (concessions, marketing, etc.), this analysis concludes that a \$161 million gap might exist to be filled by other public funds (Table 3). Funding for interchanges, including the York Road and Touhy Avenue interchanges, would also come from other public and private sources. (See appendix II.)

**Conclusions**

Business Leaders for Transportation’s analysis of the feasibility of using a Public-Private Partnership to finance the construction and maintenance of the Elgin-O’Hare Extension/O’Hare Bypass shows that it would be a cost-effective and expedient way to build the road. Without the added benefit of the private dollars, Illinois would have to contribute \$905 million more to build the project and millions more to maintain it in the future. These precious capital dollars could be used as a match for other needed improvements in the state such as those already receiving federal funding through SAFETEA-LU.

The Chicago region should build on its experience with Public-Private Partnerships and look to this innovative structure to help fill the gap in the state’s infrastructure funding. Business Leaders analysis of the expressway shows that Partnerships can add substantially to the available financing for vital transportation infrastructure and would help fulfill a critical and timely infrastructure need. The Illinois state legislature should immediately enact legislation making it possible to use public private partnerships to build qualified projects like the Elgin-O’Hare Extension/O’Hare Bypass.

**Appendix**

**Appendix I**

**Traffic and Revenue Model Assumptions**

**Growth Rates**

- Background 1.3%
- Congestion Driven (2% additional)
- Toll Inflation Factor (1% additional)

**Capacity Constraints**

- Elgin-O’Hare Extension/O’Hare Bypass
  - For 120,000 vehicles per day (VPD) to 150,000 VPD, reduce congestion driven growth by 1%
  - Over 150,000 VPD, reduce growth to background growth only
  - Cap volume at 170,000 VPD
- Roadways feeding Elgin-O’Hare Extension/O’Hare Bypass
  - No constraints on I-294 – traffic diverted from I-290 will be able to use I-294 for access
  - No constraints on I-90 to the north where bypass connects
  - All ramps to and from the proposed roadway will have sufficient capacity

**Western Terminal Access**

- All traffic pays toll to enter the western terminal

**Toll elasticity**

- 33% reduction in traffic for doubling of toll

**Ramp up**

- 5 years for road construction
- 3 years for western terminal

**Electronic Toll Share (I-PASS)**

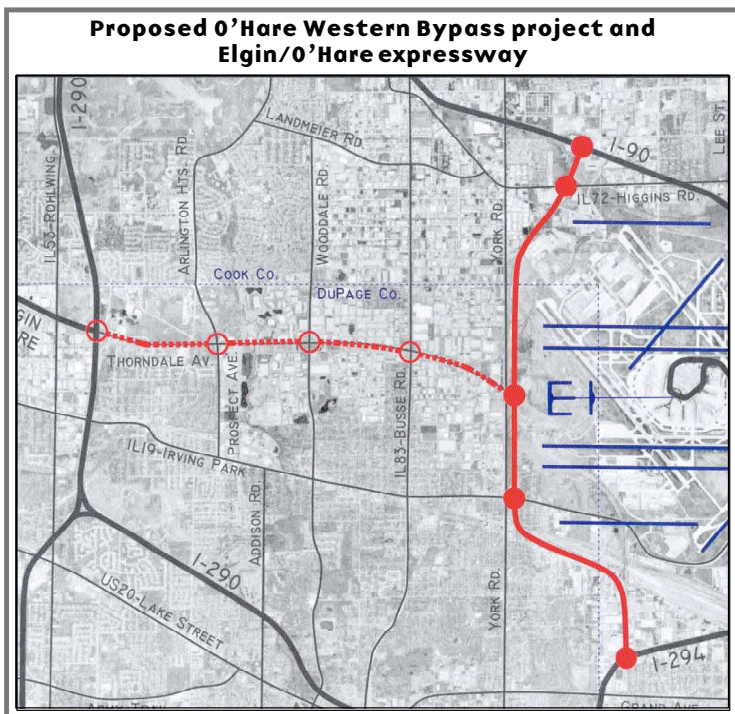
- 60% opening day
- Escalate to 80% in 2030

**Toll Rates**

- 3% annual growth rate based on CPI rounded to the nearest nickel
- Tolls increase every 3 years

**Appendix II**

Cost of Additional Interchanges	
Interchange	Cost
Touhy Avenue	\$50 million
York Road	\$60 million
<b>Total</b>	<b>\$110 million</b>



**Business Leaders for Transportation**

Business Leaders for Transportation, a broad coalition of business and civic leaders that operates as a collective voice for Chicago-area employers, has worked since its inception in 1997 to develop solutions to complex transportation issues. Business Leaders for Transportation advocates for full funding for regionally significant surface transportation investments, and promotes policies that enhance the development and maintenance of an effective transportation system to support sensible growth. The Chicagoland Chamber of Commerce, Chicago Metropolitan 2020, and Metropolitan Planning Council co-lead Business Leaders for Transportation.

**For More Information..***about Public-Private Partnerships, contact Peter Skosey, VP of External Relations, Metropolitan Planning Council, phone: 312.863.6004, e-mail: pskosey@metroplanning.org. Amy Kish, Metropolitan Planning Council Research Assistant contributed to this report.*

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