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When the buck stops

For next governor, it's end of the line for Toll Road lease money

Niki Kelly | The Journal Gazette

INDIANAPOLIS – When the next governor takes office in January, he will have just a few months before the money from the Indiana Toll Road lease is effectively gone.

Some of the $3.8 billion will still be in the bank earning interest, but it all will be virtually awarded, via contract, for major ongoing highway projects finishing up in the next two years.

That leaves the new governor – likely either Republican Mike Pence or Democrat John Gregg – with a cliff in highway funding to deal with, and few options on the table.

"I'm concerned with that kind of drop and figuring out what's next," said Dennis Faulkenberg, president of APPIAN – a respected transportation consulting firm based in Indianapolis. "We don't have any other toll roads to lease so there are only certain things we can do.

"My big question is what needs to be done and that tells me how concerned I should be. There are needs out there."

As Gov. Mitch Daniels' tenure winds down, it's unclear what exact financial situation he is leaving his successor. But it's not good.

When he came into office in 2005, his administration announced it had discovered that Indiana had $2.1 billion worth of road construction projects on tap that weren't covered by federal and state gas taxes.

The Indiana Department of Transportation doesn't have a current project-specific, long-range plan, so no similar calculation of what is on the board can be made for comparison.

Daniels' answer then was to lease the Indiana Toll Road for 75 years in exchange for billions of dollars to fund a massive 10-year highway construction plan running from 2006-2015.

In recent years, INDOT has been spending more than a billion dollars annually on highway needs – some from the lease proceeds and the rest from federal and state gas taxes.

But that level of spending will drop dramatically when the Toll Road money is gone.

Rep. Win Moses, D-Fort Wayne, said he isn't sure what the state's remaining critical highway needs are, but noted road construction projects are cyclical and won't stop just because the money has. He said it will most certainly be an issue in the upcoming election.

"We have built some important roads. But we did so by mortgaging heavily the future and allowing the tolls to go up quickly," he said. "This was not a clear win-win. And now we are back where we started."

As of Jan. 1, the state had $1.7 billion still in the Major Moves Construction Fund.

But Will Wingfield, spokesman for INDOT, said several major projects are being awarded this year and next – obligating most of the money to be paid when construction is done in the next two years.

That means all the money should be spoken for at the end of June 2013.

There is a trust fund with $527 million in it, but legislative authority is needed to tap it. Right now it just siphons off interest to INDOT every five years.

Counties along the Indiana Toll Road who also received one-time payments of $40 million have much of the money remaining. LaGrange still has $26.8 million; Steuben has almost $22 million.

So just where does Indiana stand in terms of road funding?

First off, INDOT Commissioner Michael Cline talks about the enviable position the state has been in the past five years or so – spending billions of dollars to build, repair or improve hundreds of roads and bridges.

"A lot of Hoosiers are going to work and we are making good on a lot of large projects that have been on the books for many, many years," he said.

But he does recognize the extreme drop in funding that is coming.

He estimated INDOT receives about $500 million a year from Indiana's gas tax. Most of that is used for debt service on road construction bonds and the operating budget of the agency, including snow removal, engineering and other major items.

The money coming from the federal gas tax is in flux right now. The federal transportation bill expired two years ago and is operating on its ninth extension. And the federal highway trust fund is nearly bankrupt.

Cline says a conservative estimate of what Indiana can expect from the federal government in the future is between $850 million and $900 million a year.

But he concedes that most of that – about $500 million a year – would have to be dedicated solely to maintaining existing infrastructure, calling it a "basement" for preservation spending. That would leave only a few hundred million dollars a year for new projects.

"Because of the lease of the Toll Road, we eliminated many congested areas and solved an awful lot, but we know it's a dynamic activity and we'll continue to have needs," he said.

Jack Basso – director of Program Finance and Management at the American Association of State Highway and Transportation Officials – said Indiana will soon find itself in the same financial fix as other states.

"The next governor is going to have to face the reality that the money isn't going to materialize out of the air," he said. "There really aren't other options. The two big revenue generators for transportation are the fuel tax and vehicle registration fees.

"There is no free ride."