

State of Ohio Senate Highways and Transportation Committee

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RE: Potential Ohio Turnpike Commission Amendment for HB 2

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Dear Committee Members:

The Ohio Legislature Transportation Task Force once recommended the Ohio Department of Transportation create a 21st Century Transportation Priorities Task Force to further investigate intermodal, economic development, and financing issues. That new task force had been meeting most of last year and now has issued its final report. I had testified to both task forces regarding my proposal to authorize the Ohio Turnpike Commission to additionally engage in "public railway turnpike" provision and issue revenue bonds to construct new and reconstruct abandoned rail segments as a means to restore Ohio's rail network that has lost ~50% of its route mileage (**Attachments #1 & #2**). The following recommendation appears on the ODOT Task Force's report pp. 50-51 -

2. Transforming the Ohio Turnpike Commission (OTC) into the Ohio Transportation Finance Commission (OTFC)

While historically they have not been particularly popular, new toll roads are today being built across the country. Because they are self financing, toll roads make it possible to build new capacity without diverting scarce funding resources from other needs. The Task Force recognizes the limitations of tolling, including the fact that not every new project lends itself to tolling. Yet, its members believe that tolling should be used in appropriate situations.

The Ohio Turnpike Commission (OTC) is an experienced toll road builder and operator, and a well known name in the credit markets. Therefore, the Task Force recommends that the Commission continue to serve as the financier, builder and operator of new toll projects. But the Task Force envisions a larger role for the OTC: the state should transform the OTC into a statewide Ohio Transportation Finance Commission (OTFC). The new OTFC would serve as the state's tolling and finance authority and a partner with other agencies and entities, including but not limited to ODOT and the Ohio Rail Development Commission (ORDC). With the new OTFC serving as the financing agency for all revenue-generating transportation projects in the state, it would be possible to use excess revenue from one project to support others that may not be self sustaining, such as a start-up facility. For

example, if ODOT wanted to construct a road, it could work with the OTFC to create a tolling plan (e.g., needed funding, pricing, term and the like) for the facility. OTFC would finance the construction of the road, collect the tolls to pay for debt service and possible maintenance costs and potentially distribute revenues to another agency such as ODOT or a local government as prescribed by the previously negotiated agreement.

This model also could be used for the construction of a state-sponsored rail line or spur where the OTFC would finance the construction of the rail line while users of the line would pay a per car fee to access it. In this example, the revenue could go to support the Rail Development Commission's operations or finance additional projects, including freight rail expansion or start-up passenger rail service.

While I generally accept the Task Force's recommendations, the following are points of concern.

- Changing the "Ohio Turnpike Commission" name into the "Ohio Transportation Finance Commission" is unnecessary, incurs additional costs, and infers they just finance projects vs. actively administering them. ODOT already has a "State Infrastructure Bank". If a change is desired perhaps it could be the "Ohio Tollway Commission" with "Ohio Turnpike" reserved for the highway's name.
- Non-profit project toll revenues should remain within OTC for closed-loop accounting vs. being distributed to ODOT, ORDC, or other agencies. Such cross-subsidization could affect OTC's debt rating.
- Proposed OTC projects should demonstrate adequate revenue generation and not rely upon cross-subsidization from successful projects, unless the State, Federal Government, etc. desires to subsidize their debt or operation.
- OTC should fund and administer only main lines and not "spurs", as those are essentially private driveways that should be financed by the shipper, or if necessary subsidized by ORDC, ODOD, commercial banks, etc.
- OTC should toll use not by "carloads" but by "ton-miles". Carload-only metering creates inequities between empty and loaded train cars and distances traveled, whereas scales and reading train car ID tags electronically could easily be networked for accurate accounting of each vehicle using a tolled rail line.

After my testimony was submitted, I updated the proposed Ohio Revised Code changes required together with a bullet point rationale (**Attachments #3 & #4**). Authorizing OTC to engage in rail, like its highway turnpike, should not require federal nor state subsidies thereby assisting both governments' budgets. Increased availability of competitive infrastructure would also help goods producers (including vehicle manufacturers) lower shipping costs to retain and

create better jobs here necessary to recover our economy. Restoration of abandoned and downgraded main rail lines across Ohio would also help ease rail traffic congestion in various Ohio regions arbitrarily caused by the railroad companies' rail network consolidations.

The additional "line of business" would help OTC capture those traffic and toll revenues shifting to rail (particularly to CSX and Norfolk Southern whose main lines within OTC's corridor are and are proposed to be state-subsidized) and offset their continuing highway turnpike losses that as announced at their February 9 meeting were down 4.5% for passenger cars and 18% for commercial vehicles for January 2009 compared to the same time last year. The following excerpts from Trains Magazine transportation reporter Don Phillips' column that appeared in the 3-2009 issue highlight the traffic shift:

Railroads are expected to remain firmly profitable while small- and mid-size truck lines are going out of business by the bushel. Major trucking firms, the ones not going out of business, have nonetheless cut back capacity 20 to 30 percent. Sales of large trucks have almost ceased to exist for the time being.

There are reports that many shippers are putting a greater percentage of freight on the rails now for two major reasons: Railroads are far more reliable and efficient than at any time in their history, and they are cheaper than trucks even at increased rail freight rates.

So far, shippers seem to agree that the future belongs to rail. The assumption is that rail freight will grow faster than truck traffic for the foreseeable future.

HB 2 would permit ODOT and TIAs to both engage in rail provision while OTC remains restricted to providing its tolled highway. Should the scenarios Mr. Phillips presented come true, OTC would unfairly encounter further losses since it cannot additionally provide the mode to where that traffic is being diverted to, and in the near future might be forced to ask the Legislature for subsidies thereby affecting its debt rating and ability to finance its administration, debt retirement, maintenance, capital expenditures, much less future projects.

Thus in light of the shippers apparently preferring rail, the desire for other rail passenger routes, and the rationales outlined in my testimony, I ask the Committee to consider my proposed legislation as an amendment for HB 2. Please contact me at your convenience for any further questions.

Sincerely,

Daniel L. Van Epps

About the Author

Daniel L. Van Epps, 43, is an Ed.D. candidate in Technology Education/Systems Analysis at West Virginia University. He holds a fiber optic certificate from Lansing (MI) Community College, a BA and MA in Telecommunications/Information Systems and Technology from Michigan State University, a Masters Certificate in Intelligent Transportation Systems from the University of Michigan, and has taken a graduate railroad business course at Carnegie Mellon University. Originally from Detroit, MI and a graduate of Dover (OH) High School, he is currently an independent researcher, lobbyist, and consultant with proposed projects ranging from restoring 3.5 miles of abandoned rail line in Mineral City, OH under the administration and operation of the new Conotton-Sandy-Tuscarawas Valley Community Improvement Corporation he helped create; an intermodal facility at Dennison, OH; the Ohio Turnpike engaging in public railway turnpike provision; and together with a new Akron-Uhrichsville, OH conduit and fiber line to help rollout backbone speed and dark fiber availability in Eastern Ohio and increased network redundancy in the Pittsburgh-Cleveland-Columbus corridor, the repurposing of an apparently abandoned Pittsburgh-Columbus military conduit and fiber line for public use by the military, Homeland Security, telecommunication carriers, universities, supercomputer centers, and lineside end users. Information on these and other proposals is online at his website <http://www.multimodalways.org>

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